THE IMPACT OF GLOBALIZATION ON SMALL AND MEDIUM-SIZE ENTERPRISE (SMEs) SUPPORT IN GHANA

BY

IDDI KASSIM

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IDDI KASSIM

Thesis submitted in partial fulfilment of the requirement for the Master of Arts degree in International Development Studies

at

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Dedication

This study is dedicated to the everlasting memory of my Father Baba Kassim

Acknowledgement

I wish to express my profound sense of appreciation and gratitude to my supervisor, Dr Henry Veltmeyer of the International Development Studies program at Saint Mary's University, Halifax for his patience, supports, encouragement ,devoted ,timeliness and incisive comments. While I appreciate the extent of Dr. Henry Voltmeter's incisive comments and support, I am highly amazed by the effective and human way in which those contributions were made.

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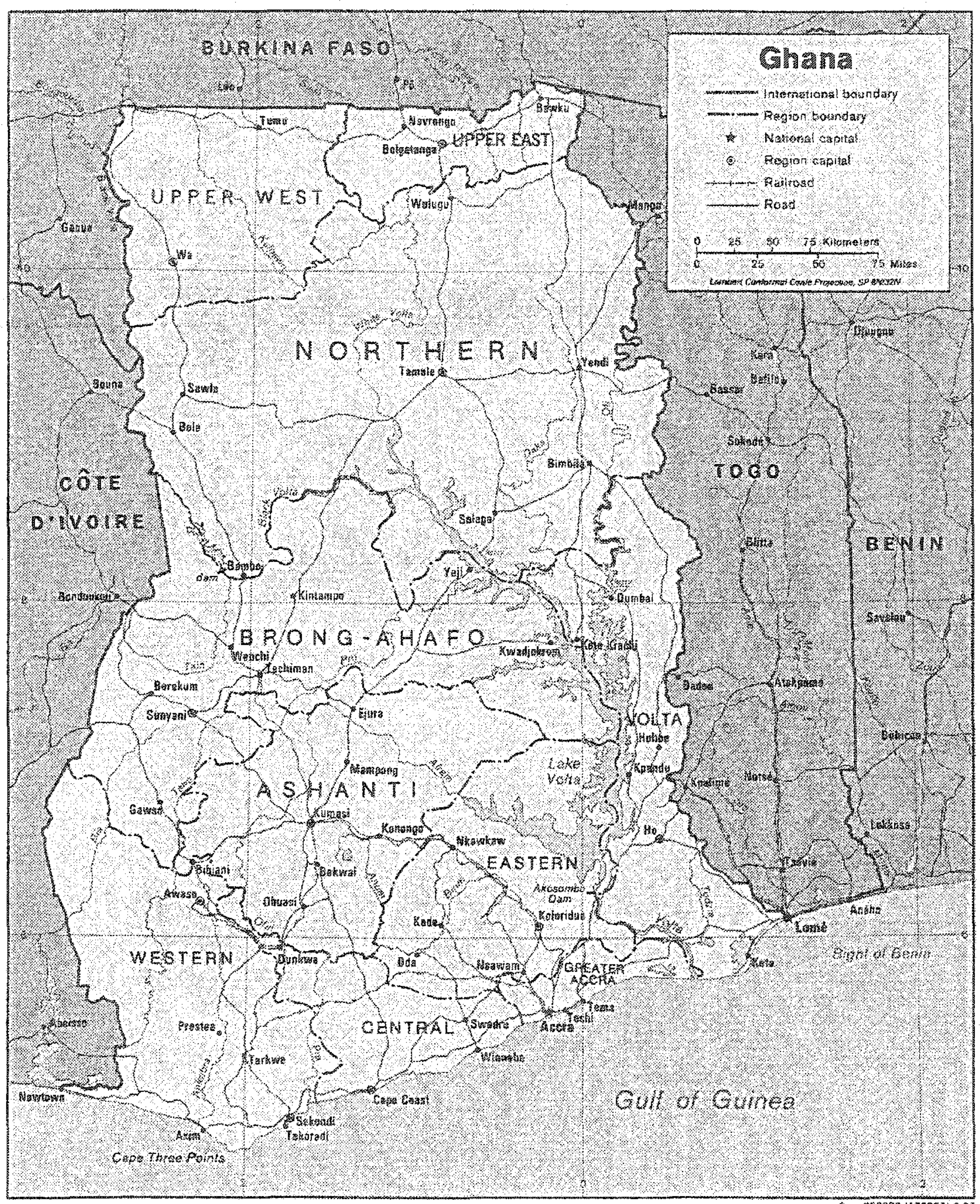
If, in spite of all efforts, there are any shortcomings in this study; the members of this thesis are exonerated from blame. Any omission and oversights are entirely mine.

Abbreviation

SME	Small and Medium-size Enterprise
IMF	International Monetary Fund
IFIs	International Financial Institutions
SAP	Structural Adjustment Program
NBSSI	National Board for Small Scale Industries
PNDC	Peoples National Defense Council
UNCTAD	United Nations Commission For Trade and Development
(NEM)	New Economic Model
TTTR	Third Technological Revolution
SSA	Sub-Saharan African
ECLA's	Economic Commission for Latin America
GDP	Gross Domestic Product
ISI	Import Substitution Industrialization
INGOs	International Non Governmental organizations
TNCs.	Transnational Corporation
IDA	International Development Association

Map



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Abstract

The Impact of Globalization on Small and medium-size Enterprise Support in Ghana

By

Iddi Kassim

October 2003

This thesis, entitled "The Impact of Globalization on Small and medium-size Enterprise Support in Ghana, written by Iddi Kassim, submitted on October 7, 2003, to the Faculty of Graduate Studies and Research, Saint Mary's University, Halifax. It investigates the indirect impact of globalization on small and medium enterprises via government policy. Specifically, in terms of the globalization agenda it analyzes the impact of deregulation and liberalization of trade and finance, and privatization on availability, accessibility and adequacy of SME support programs in Ghana, and its impact on effectiveness of the role of SMEs in Ghana's development

Under the right or favorable conditions, SMEs clearly can, and do, make significant contributions to development process and no less so in the case of Ghana where it is 95% of registered firms and, associated with implicit social and economic benefits. Prior to SAP it was thought then that reform program and the globalization process would broaden opportunities for enterprise development in Ghana, especially, as regards to the need for SMEs for finance, advanced technology and skills from abroad. However, this project has been seriously challenged.

Using data from the International Financial Institutions(IFI), SMEs organizations , and Ghana government and its public institutions, and other relevant organizations , the study concluded that while the agenda somehow improved general enterprise environment, it exposed domestic SMEs to intense constrains that offset the former.

Chapter One

Introduction

1.1 Posing the problem

Small and medium sized enterprises (SMEs) are a significant factor in any development process and no less so in the case of Ghana. For a number of reasons owing to its special nature, an economic enterprise or 'business' cannot be formed or operate effectively in without some level of initial support and an environment conducive to its development. For this purpose, governments the world over in the past have tended to directly or indirectly support the enterprises formed within their jurisdiction, initially to provide them air to breathe and to grow and eventually to help them achieve competitive edge over their competitors in the market. However, under conditions of a 'new economic model' (NEM) of 'structural adjustment and globalization', designed to integrate economies across the world into an emerging global economy, it has become almost impossible politically, if not fiscally for nation-states and their governments to continue to directly support the sector. Indeed under the NEM business enterprises are accorded a critical leading role of driving the engine of economic growth (the world market) and such public support to promote the private sector in either its big, medium or small enterprises is simply not on the agenda.

This fact by itself suggests that the trend towards globalization, seen by many as ushering in 'epoch defining' changes in the way societies and economies across the world are organized (Petras and Veltmeyer, 2002), will have had a significant impact on the way business or economic enterprises operate. Needless to say, business enterprises are not alone on regard to this issue. All type of organizations and the groups of individuals connected to them will be similarly affected both negatively and in positive terms. In fact, the debate on this issue—the positive and negative impacts of globalization: who benefits and who bears the costs?—is ongoing and quite unsettled. This study engages this debate in a limited way—in regard to the impact of globalization on medium and small economic enterprises—and in a specific context: Ghana. This study investigates the indirect impact of globalization on small and medium enterprises via government policy. More specifically, in terms of the globalization agenda it analyzes the impact of deregulation and liberalization of trade and finance, privatization and/or reduced role of the state in management of the Ghanaian economy on the availability, accessibility and adequacy of SME support programs in Ghana, and its impact on effectiveness of the role of SMEs in Ghana's development.

Under the right or favorable conditions, SMEs clearly can, and do, make significant contributions to development process in both developed and developing countries (Becatini, 1990). This is especially relevant in Africa where SMEs are associated with diverse implicit social benefits, especially, employment generation, industrial decentralization, and provision of resiliency against external shocks. Daniels et al. (1992) and Daniel (1994) have reported that, given the right conditions and an appropriate scenario, SMEs provide a seedbed for indigenous entrepreneurship and technological development in Africa.

For most SMEs in Ghana, these promises are virtually illusory, because their operations are hindered by series of internal and external constrains. For instance, while SMEs constitute about 95 percent of all registered firms, they employ only about 15 percent of Ghana's labor force (Parker et al, 1994). Operations of SMEs in Ghana are constrained by lack of access to credit and intense external competition caused by the over liberalization of the economy (Boapeah, 1993). Indeed, a World Bank study (World Bank, 1996) identified the constraints on SMEs in Ghana to include an inadequate policy framework; inadequate financial mechanisms and incentives; and an inadequate knowledge of markets, investments and technical know-how.

Traditionally, governments in Africa pursued diverse intervention policies at different times to protect and promote the sector. In Ghana such policies include protective trade barriers, subsidies, preferential interest rates, and public marketing institutions. In 1983 when Ghana implemented the structural adjustment program, mostly to conform to the dictates of globalization, these policies were reversed. Globalization represents a confluence of a series of economic phenomena including liberalization and deregulation of markets, privatization of public assets, retreat of state functions in economic affairs, (World Bank Development Report, 1987). It involves a cross-national distribution of manufacturing, production, and integration of capital markets. Generally, it is imposed by the International Monetary Fund (IMF) and other International Financial Institutions (IFIs) on poor countries (Stiglitz, 2002).

In Ghana, globalization has taken the form of a prescribed series of structural adjustment reforms, including liberalization of the economy, deregulation of Ghanaian market, reduced government expenditure and privatization and reform of public enterprise, and the abolition of subsidies. The dynamics of this reform process reshaped and reoriented SME policy from protection to market-led or -friendly policies aimed at removing market distortions to create a level playing field between enterprises of all sizes irrespective of their weakness. Hence, the re-orientation exposed SMEs that had previously enjoyed protection in Ghanaian markets to new forms of competition from international firms (UNCTAD, 1990).

Reactions to effect of globalization on small and medium enterprise promotion have been mixed. First, it was argued that a market–based approach would broaden the access of SMEs to foreign inputs and international finance, and streamline SME promotional policies. On the other hand, it has been argued that globalization would only intensify the constraints on SMEs and undermine their viability by exposing them without mitigation and an opportunity to adjust and too soon to unfair or excessive competition from cheap imports from abroad. With reference to this and other such issues under debate, this thesis presents and analyses data from diverse sources—the World Bank, the IMF, the government and business association—to argue that globalization: (i) has indeed improved the macro-environment in Ghana but in so doing exposing SMEs to intense unequal competition from cheap imports and limiting their ability to acquire business support; and (ii) weakened the capacity of the Ghanaian state to initiate appropriate policies in support of the sector. In fact, in regard to this latter issue, it is argued the state to all intents and purposes lost its capacity to determine national policy, a serious breach and diminution of its sovereign power as a nation-state.

In most cases, analysis involving micro-level impacts of 'global' macroeconomic policy is revealing. But such a study is usually unclear and difficult to undertake (Sachs, 2000). Globalization policy involves deregulation, privatization, and liberalization and is usually formulated at the global level such as the decisions arrived at during the Washington Consensus. On the other hand, small- and medium-size enterprise support policies encapsulate the promotional policies adopted by national and local governments to support and promote SME growth. Typically SMEs policies include Small business Advisory Services, Technical training, and Finance. This study will examine the impact of globalization on small and medium-sized enterprises in Ghana in such terms.

As suggested by Veltmeyer, and Petras (2002), and Hirst and Thompson (1996), globalization is a highly controversial topic. However, most of the controversy has little to do with contentious issues such as the spread of new information-rich technologies (the theory of the Third Technological Revolution or TTTR) or the sensitive topic of 'cultural globalization' viz. a clash between the 'West' (or Anglo-American culture) and the 'East' (Islamic culture). The most controversial issues relate to the process of economic globalization (Stiglitz, 2002).

In recent years, there has been increasing concern about the potential impact of economic globalization on a growing economic divide within and among nations, especially within sub-Saharan Africa and the rest of the world. At issue here is the normative belief that economic globalization will stimulate a 'trickle-down' effect from the rich to the poor and lead to some degree of convergence between developed and developing countries or sharing in the prosperity that globalization is expected to bring about. However, the existence of a trend in this direction is refuted by all the evidence to the contrary (Petras and Veltmeyer, 2001). The trend appears to be the growth of highly concentrated islands of prosperity within a growing sea of poverty and misery—a 'development' that is, moreover, sowing the seeds of a discontent and political instability, not to speak of violence, that is also growing on a global scale. (Kapstein, 2000). And then there is the issue that we have raised of enterprise development, or to be more precise, of the impact of globalization on the economic enterprises formed in a private sector that has experienced the supposedly liberating effects of privatization, liberalization and deregulation—and the general retreat of the state from the economy. In this regard, Ghana has been very much on the centre-stage of a global process, having implemented and experienced a structural adjustment program (SAP) that for a number of years was regarded by the World Bank and other international development associations' model for other countries in the region to follow (World bank, 1994). As in so many other cases, the SAP in Ghana has implemented by successive regimes since the early 1980s in the context of conditions (conditionalities of) attached to improved or continued access to 'overseas development assistance'.[1] It is in this context that the issue of government support of Ghana's SMEs must be understood.

Ghana has consistently implemented a series of structural adjustment policies programs that was designed by World Bank and IMF to integrate the Ghanaian economy into the overall globalization process. The specific agreements negotiated with the international financial institutions in this regard varied, but as John Toye (1994) notes,

[1] On the dynamics of this process (SAP/IOD) see, inter alia, Levitt (1992), Mosley (1987), Petras and Veltmeyer (2001) and the World Bank (1994).

they have a strong "family" resemblance. Generally, they include the following: (a) cuts in government expenditure, especially in the service sector; (b) removal of import controls and subsidies to allow the free market to determine prices; (c) devaluation of local currencies which were deemed to be maintained at artificially high exchange rates; (d) tight monetary control to burn out inflation; (e) high interest rates to encourage savings; and (f) privatization of government enterprises.

The reason or reasons why Ghana subscribed to the policy adjustment reform program remains and is still under debate but many have agued that government compliance, even enthusiasm in some cases, was based on the expectation that such policies would speed up Ghana's economic development. This was certainly the view of the World Bank itself (World Bank, 1994). Therefore, these measures were meant to solve the fiscal and trade imbalances and improve the capacity of the governments to service their debt obligations. Under these reforms, government spending and its intervention in the economy were to decrease sharply, leaving a reinvigorated private sector to push development forward. This was the theory promulgated by the World Bank and the ideologues of neoclassical reform (Rapley, 1996) at every opportunity in diverse policy forums.

In fact, Ghana's adherence to the globalization process has been well acknowledge and appreciated by various interest parties including the globalization think tanks: the IMF, the World Bank and the Western Government (World Development Report, 1997).

Apart from the implicit objective to seek access to the global market and greater integration into the global economy (as well as international development assistance—loans at concessional rates), it was also argued by Bank officials –and believed by government officials—that globalization would eliminate the inherent imperfections in the Ghanaian enterprise sector, creating thereby an 'enterprise enabling environment necessary to stimulate economic development'. Hence, it was thought then that reform program and the globalization process would broaden opportunities for enterprise development in Ghana, especially, as regards to the need for SMEs for finance, advanced technology and skills from abroad. However, to say the least this project has encountered a serious challenge in the discovery that SME have had far greater access to the real costs of adjustment and globalization than they have had to its expected benefits.

We provide evidence on this point below. But the evidence is fairly clear. For one thing, there is evidence that structural adjustment policies have directly, and adversely, affected SMEs through trade liberalization, devaluation, and restrictive monetary policies. In this connection, the cost of imported inputs and servicing of foreign debts shot up drastically in line with the devaluation mandated by the IMF and the World Bank as part of their package of stabilization and adjustment measures. Similarly, the implemented policy of trade liberalization increased competitive pressures on many if not all SMEs to the point of forcing many of them into bankruptcy, with serious indirect impact on both employment and incomes. Under these conditions innumerable small and medium enterprise owners and their families lost their status as productive members of their communities and pushed them into the swelling ranks of the poor. Several studies on this question of poverty suggest that SMEs not only provide for many a way out of poverty but under conditions of structural adjustment the collapse of so many SMEs has fueled the rising rate of impoverishment and immiseration.

Apart from the general policies of trade liberalization and privatization, the development of explicit and coherent industrial policies receives little attention in the SAP. SMEs are merely expected to adjust to the increased competition in the liberalized markets (Peter de Valk, 1994: P. 227). Therefore, there is a need to examine the effect of globalization on micro policies in Ghana, to situate the dynamics involved and address the concerns. Such an analysis will have a multiplying positive effect on Ghana's economic development. For example, SMEs entail high implicit social and economic benefits in Ghana's economic development. On the social side, they are crucial to the attainment of the country's socioeconomic development (*Business News*--Ghana web. 2003). They help create employment and distribute income more broadly and in a way that includes groups of individuals that even the World Bank regard as 'vulnerable' (to the negative effects or social costs of adjustment). Elsewhere, research indicated that the sector generate employment and provide a safety net, especially at times of economic structural reforms (Tendler, 2000). This makes the SME sector very important, especially within contemporary globalization where many people in third world are increasingly becoming vulnerable to global forces.

On the economic side, SMEs contribute to export income and serve as an entrepreneurial training ground. Thus they contribute about 60 percent of export revenue in China, South Korea, and Italy (OECD, 1997).

Exemplified in the case of China, South Korea and Italy, under appropriate conditions SMEs can contribute both socially and economically to economic development. Yet, in most cases the benefits and/or operations of SMEs are constrained by an unfavorable business environment and operational constraints. In particular, because of its nature and size, SMEs are mostly unable to attract resources from the traditional market sources compared to the resources rich Multinational and traditional corporation (Knight, 2000). This has almost always affected their capability to fund research, attract modern technology and management experience, especially without initial public support. Hence, in the absence of public support, SMEs are highly vulnerable to competition from external sources (UNCTAD, 1996)

Various governments and public institutions , especially in Africa, have initiated and instituted specific policies to support the sector meet its operational constraints and as well as to protect it from competitions from high resource and technologically advance foreign competitors, especially multinational or transnational corporations and cheap foreign imports. These policies provide among others, finance at low interest rates, wage and export subsidies, and trade barriers to protect the sector and stimulate its operations. But in 1980s, owing to the combination of diverse external and internal economic problems encountered by most countries including Ghana, and the insurgence of neoliberal advocates in major Western countries, Ghana was subjected to the adjustment process to integrate into the globalization process. In fact, while Ghana has sought support from the World Bank and the IMF to address its problems, the IMF, maneuvered the scenario and imposed the 'Washington Consensus' policies (i.e., deregulation, liberalization and privatization) in form of structural adjustment programs.

These policies required that Ghana abolish all trade and investment barriers, eliminate agricultural and enterprise subsidies, privatize all state enterprise and trim the state's involvement in the economy. This policy posed serious consequences—and changes in the role of the state in economic development. Numerous studies on the impact of globalization on the state and its ability to initiate favorable development policies and inequality have been conducted (Hirst and Thompson, 1996; Stiglitz, 2002; Petras, 2000). Similarly, various researchers have explored the potential contribution of SMEs in economic development in developing and developed countries especially the constraints that impede the effective contribution of SMEs. However, little is known about the impact of economic globalization on SMEs in Ghana, aside from the study by UNCTAD (19970) on the impact of globalization on enterprise development in Ghana.

SMEs have had to deal with demand- and supply-side constraints. On the demand side, constraints developed because they were producing mostly for the domestic market. The supply-side constraints relate to access to finance, imported inputs, foreign exchange, and training in technical and entrepreneurial skills.

On the issue of trade reforms, Peter de Valk (1994: 230) indicated that liberalization had gone too fast and too far. The tight monetary regime of the structural adjustment program led to credit constraints that affected most enterprises. For domestic SMEs, the timing was too abrupt for them to face up to the intense competition. Even the most successful firms suffered during the structural adjustment process. In a similar way, studies have been conducted to determine the impact of globalization on SMEs Ghana. As yet, no analysis has been done to determine the impact of globalization on Small and Medium-size Enterprise Support in Ghana.

The available literature does not account for the reason why SMEs are unable to access SME support, the incompatibility of trade reform with SME support policies under structural adjustment. Investigations of the subject have treated domestic SMEs as if they were in fact in a competitive position vis-à-vis the transnational corporations. Despite the implementation of structural adjustment programs in the 1980s, the domestic SMEs support of most African nations has declined. However, studies by the World Bank and IMF have tended to assert that structural adjustment program have been successful.

This research has sought to explore the effect of economic globalization policy on small and medium sized enterprise support in Ghana. It examines the impact of liberalization, deregulation and privatization policy and SME support. In particular, it reports on the threat posed by economic globalization for the availability of SME support, and its accessibility to finance, SME business services (training advice, research, etc.).

Evaluating the impact of globalization on SME support is crucial issue in Ghana's development. It will help understand the danger posed by economic globalization, and provide the parameters for policies that will reduce the social vulnerability of SMEs in Ghana. Globalization policies have led to the removal of all public interferences and rent -seeking activities in Ghana and subsequently created enabling conditions for enterprise development. In other words, are the SMEs capable of generating or attracting foreign capital, technology and the expertise needed to improve local industry in Ghana and subsequently contribute to, if not lead, Ghana's economic development?.

2. Thesis Statement

Ghana, like other Sub-Saharan African (SSA) countries, faced a severe economic crisis in the 1970s and early 1980s that pressured her into a search for a solution. The crisis attracted diverse diagnoses. Most critical scholars attribute the problem to unfavorable external problems and natural catastrophes. But the IFS and Western government attribute the crisis to internal mismanagement and excess government interference in economic affairs (World Bank, 1981; Samir, 1979; Konado-Agyeman, 1999). Neoliberals argued that the protective trade regime had encouraged inefficiency; therefore, once competition was introduced through trade liberalization, efficiency would be restored. Consequently, structural adjustment policies intended to create enabling Conditions for private enterprise development, rationalize the incentive system and improve the competitiveness of domestic enterprise.

Using Ghana's economic crisis in the 1970s and early 1980s as pretexts, the Western Governments and IFIs pressured Ghana into accepting trade liberalization, deregulation and privatization under SAP, and for over 22 years Ghana has consistently adhered to the policies (World Bank, 1997, Konado-Agyeman1995).

The thesis of this research is that despite the lip service advocates of SAP give to justify structural adjustment, the policy was at best designed to implement the neoliberal globalization project in the economies of developing countries, especially in sub-Saharan Africa, by facilitating their increased integration into the global capitalist system.

Therefore, the creation of conditions that will support and promote domestic SMEs is not the priority of the adjustment policy in Ghana; it is the integration of the Ghanaian market into the global market that is given priority so that transitional corporations and investors and foreign goods will have access to the local Ghanaian market where the domestic SMEs have privileges. Hence, the policies somehow helped improved macroeconomic policies. But in creating enabling conditions economic, globalization has generated series of constrains that offset the positive outcome. Thus, rather than helping to improve the accessibility and availability of SME support, it has increased the competitive problems of the SMEs, making it increasingly difficult for SMEs to acquire the finance, business advisory services, and necessary skills to contribute to Ghana's economic development. In addition, the ability of government to support SMEs competes against cheap foreign import by using the policy instruments at their disposal has dwindled away.

3. Research Methodology

The analysis of the micro impacts (small and medium-size) of global macroeconomic (globalization) must take into account the forces that influence the severity and vulnerability of decisions at the national level. The study therefore analyzes data on small and medium enterprise support policies available from official sources—governments and international organizations—as well as nongovernmental organizations, business associations and academia.

From a register of manufacturing firms in Accra, Tema and Kumasi, a categorization of small, medium and large-scale industries was made on the basis of the number of persons employed. Small-scale enterprise refers to enterprises with 1-29 workers, while medium-sized enterprises have 30-99 workers. Large-scale manufacturing industries comprise firms with over 100 workers. Following the industrial classification schema firms employing 29 or fewer people are defined as small, 30 to 99 workers as medium-sized firms and 100 or more workers as large-scale.

In this research data was collected from both secondary and primary sources. The secondary research involved collection of data from library research, and internet sources of various international governmental organizations, especially the World Bank, and the IMF. Since the inception of the structural adjustment program in 1983 the IMF and the World have interfered in Ghana's macro- and micro-economic policies to the extent that they set normative prescriptions and policy standards for Ghana (Harris, 2000). For this reason data was collected from the international financial institutions web sites' to determine the policy standard and requirement regarding SME Support in Ghana, globalization and structural adjustment policies.

To determine how adjustment policies were implemented in Ghana, and how it affected Ghanaian government's Small and Medium Enterprise support program, especially the Ghanaian government's policy aiming to minimize the vulnerability of SMEs to global forces, data were collected from Ghana government department and its related public institutions that are in charge of administering SME affairs in Ghana. These included in particular the National Board for SME industries, the Ministry of private sector development and Ghana export promotion council. The pertinent public institutions consisted of the Ministry of Finance, Ministry of Trade and Industry, Ghana Export Promotion Council, National Board for Small-Scale Industries, Ghana Standards Board, Ghana Gateway Project, Ghana Free Zones Project, Customs, Excise and Preventive Service. The others included the Ghana National Chamber of Commerce, Ghana Institute of Management and Public Administration, the Institute of Statistical, Social and Economic Research, the Management Development and Productivity Institute, the Centre for Economic Policy Analysis, the Registrar General's Department, the Ghana Statistical Service, the National Council on Women and Development, the 31st December Women's Movement and the Ghana Enterprises Commission.

To determine how accessible SME support programs would requires me to contact a sample of small business operators across Ghana. However, owing to distance, time and budgetary constrains, this was beyond me. Instead, I conducted a survey of websites and materials of the following organizations: private organizations that comprise the Private Enterprise Foundation; the Association of Ghana Industries; the Association of Ghanaian Exporters; the Export Finance Company; the Ghana Association of Women Entrepreneurs; the Enterprises Support Services of Africa; the Association of Small-Scale Industries; the Impresario Technological (EMPRETEC); the Ghana Union of Traders Associations and the Women's World Banking of Ghana Limited.

In addition to the above sources, data was collected from various internet sources of nongovernmental and intergovernmental organization in Ghana. This was helpful because Ghana is one of the few countries that implemented the adjustment program consistently. For this reasons, many writers and analysts published their research on structural adjustment in Ghana. Hence the secondary sources of data have been very useful in triangulating public sources of data.

4. The Theoretical and Conceptual Framework

The centre of analysis is the orthodox (or neoliberal) paradigm of the free market in the context of its supposed operations in the context of sub-Saharan Africa. This paradigm serves as the normative basis of globalization. To place the thesis in a theoretical context, the study makes use of the neo-Marxist diagnosis to check and triangulate the normative projection of the mainstream approach. However, my own thought and guiding idea is that due to situational and cultural differences, it is inappropriate to assume that economic globalization will pose an equal threat to the state in Africa as in Europe or North America. In this sense, the argument for this thesis is predicated on the idea that while the IMF and the World Bank, in their neo-liberal ideology and operations, might indeed pose an insignificant threat to the state in North America or Western Europe, it significantly interferes in affairs of African states to the extent that the intrusion amounts to an abuse of sovereignty of the African state--Ghana for instance.

5. The Analytical framework

An extensive body of literature exists on globalization and the impact of structural adjustment in Africa. Some studies are very specific in dealing with the impact of the many aspects of structural adjustment polices. For the most part, the various studies have come to conclusions that are mutually contradictory. To an extent, the differences in analysis arise from the ideological methods used. Classified in accordance with the normative fundamentals, the studies fall into three main groups: Orthodox, Critical analyst and liberal analysts. The Orthodox seems to advocate for globalization as means of global prosperity while the critics view it as mechanism of exploitation. The critical analyst tends to debark globalization and it adjustment policies as strategic tools of exploiting poor countries for the rich countries. The approach in this thesis is critical approach .It investigate claims of the mainstream regarding globalization, SAP and SMEs Support. It does this by analyzing the roles of all those global institutions that have traditionally been involved in the decision-making processes connected with the formulation and implementation of SAP in Ghana. It adopted a political economy approach as the overarching framework. The essence of this approach is to link globalization policy with that of SAP, and its effect on micro decisions in Ghana.

6. The Political Economy Approach

A major premise of the political economy approach is that the impact of a policy instrument is derived from a deliberate process involving specific expectations. The expectations were that: (i) all policies, in this case, the globalization and adjustment policies had a transmission mechanism, which were institutions; (ii) the importance of a policy depended on the extent to which the transmission institutions (international financial institutions and the WTO) were sensitive to policy goals; (iii) institutions were sources of power distribution and were not neutral in as much as they transmitted incentives for cost and benefits; and (iv) participation, inclusion and exclusion are all outcomes of power relations. Through the adoption of the political economy approach, the key goal of the research was to analyze the political (Western Governments) and institutional structures (IFI and WTO) as well as the processes that shaped policy decisions and impact. The main interest lay in understanding the complex relationship between globalization policies, the intermediating institutions and the outcomes at the national level, and, to the extent possible, establish direct causality.

The aim of linking the evidence of policy impact at the macro level with that at the micro level was to help facilitate the identification of those institutional mechanisms, processes, as well as other intervening structures that shape policies and their outcomes at each level, across sectors and among groups.

The study sought to link explicitly macro-, meso- and micro-level changes withal focus on outcomes and behavior at the level of the SME. It tries to link SAP with the globalization policy, as derived at the Washington Consensus. The main concern of the research was to find out: First. Whether or not the policy objectives outlined in SAP documents were achieved with reference to SME support; second, for whom the policies were beneficial, neutral or negative. Thirdly the socioeconomic and political factors that contributed to the success or \otherwise of trade reform policies at the global level and for specific groups or sectors.

7. The Analytical Model

(i) *Privatization:* In its broadest sense it is the transfer/sale of assets or services from the tax-supported and politicized public sector to the entrepreneurial initiative and competitive markets of the private sector the ending of subsidies and all the red tape and regulations that came with them. It includes the outright gift or sale by government of a physical asset (a piece of equipment or a building, perhaps) to a private entity;

(ii) (*Liberalization:* The liberalization of markets implies the elimination of the rules and regulation in many developing countries that are designed to stabilized the flow of volatile money into and out of the countries (STIGT, 2001);

(iii) *Small and Medium-sized Enterprise (SMEs):* In Ghanaian Official Circles, the number of employees is the common criterion used to classify firms by size. The National Board for Small-Scale Industries (NBSSI), the main governmental institution charged with the responsibility of small enterprises development, defines small enterprise as one that employs not more than twenty-nine persons, while firms employing between 30-99 people as Medium (NBSSI, 1990, Boapeah et al., 1993).In this study I will use the term Small and Medium-sized Enterprise (SMEs) to refer to enterprises that has paid employees ranging from 99-1. This is consistent with the NBSSI classification.

(iv) *Small and Medium Enterprise support*: Refers to appropriate mix of Small and medium-Size Enterprise financial services, Advisory services and Training service required to stimulate SME contribution to economic development. In addition, the degree of SME credit, training, and etc available to SMEs relative to the competitive pressure SMEs have to deal with provided a good indication of the adequacy of SME support.

8. Structure of the Thesis Argument

In addition to this chapter, the thesis is organized into five chapters, the first two of which represent the introduction and literature review respectively. Chapters three and four deal with country profile, structural adjustment and the profile of SMEs in Ghana. Chapter Four discuss the studies and chapter five provides the impact of globalization on small business support institution, i.e. credit institutions, training, business support infrastructure etc.

Chapter one is the introductory part of the thesis. It poses the problem addressed in the study and presents the thesis statement as well as a chapter-by-chapter outline of the thesis argument. Chapter Two places the thesis within a theoretical framework via an examination of the contemporary literature on SMEs, structural adjustment and Globalization. The chapter is divided into three sections. The first section discusses globalization. It first provides a conceptual analysis of literature of radical reformers, liberal reform and neoliberal theory (largely doctrinal). The second part discusses the implicit benefits of SMEs to economic development as well as its constraints. Chapter Three presents a case study of structural adjustment in Ghana and the profile of SMEs and SME Support. It starts with a brief country background with an emphasis on the state of development in Ghana in the period prior to and after the turn towards the SAP. Globalization resulted into a cut in subsidies to public enterprises, abolishing of price controls; decontrolling of interest rates; reduction in tariff and abolishing of import licensing; revision of the investment code; It will evaluate how these has affected the access of SMEs to credit from the public sources, and ability of government to provide adequate support. It also identifies types and adequacy of credit obtainable by SMEs.

Chapter Four analyzes the effect of SAP on SME support including SME finance, training, and business environment. Chapter Five presents the conclusion drawn from my review and analysis of the evidence.

Chapter Two

Globalization and Enterprise Development

1.0 Introduction

This chapter explores the contemporary literature on globalization and its dynamics vis-à-vis small and medium enterprises. It seeks to identify the major assumptions, explanatory ideas and policy prescriptions relevant to this research. Under the right conditions, SMEs make a significant contribution to development in both developed and developing countries. However, far from creating conditions that facilitate or promote small and medium enterprise development policies of structural adjustment and globalization create conditions that expose SMEs to a decidedly unfavorable competitive environment and constrained the ability of governments to provide adequate support to allow SMEs to become a critical factor in a country' development. This chapter reviews the literature in the search of relevant findings and ideas related to the thesis of this study.

The chapter is arranged in two parts. Part One discusses the current literature on globalization, with an emphasis on its economic dimension. It is divided into three. The first part explores the current state of the literature on the conceptualization of economic globalization. It explores the assumptions, diagnoses and policy prescriptions advanced alternatively within the framework of the dominant paradigm and the paradigm used by the critics of globalization project. The object is to review the evidence provided in support of the two sets of propositions about the globalization-enterprise development nexus. In exploring the causes of globalization much emphasis is laid on the link between the policies derived from the Washington consensus (deregulation, liberalization, privatization, downsizing of the state) and globalization.

The second part of the chapter explores the literature on the dynamics of enterprise development and on the SAP-conditioned government policies. It is argued that under the conditionalities of structural adjustment and globalization the capacity of governments in developing countries to formulate and implement its sovereign power to make national policy is seriously compromised to the point of constituting both a threat to sovereignty and an inability to provide SMEs the support they need to survive and prosper. The purpose of establishing the link between globalization and SMEs is to determine the micro-level impacts of globalization, especially on governance and provision of services to the poor and the vulnerable.

2.0 Controversies and Conceptualizations of Globalization

Globalization is a contentious and controversial phenomenon (Gilpin, 2000: 293). It is popular in use but its meanings and implications, especially in developing countries are 'far from clear' (Bhalla, et al.: 2000). According to Anna Leander (2001), it is 'invoked to explain just about everything'. In this sense, Jan Aart Scholte (1995) referred to it as 'a large public spread across the world, as one of the defining terms of late twentieth century social consciousnesses. Following this broad and unspecific theme, Anthony McGrew (1998) suggests that globalization redefines relationship between territoriality and authority, thereby shifting authority from the level of the state to supranational and sub national units. Cerny's definition signifies the characteristics of global macroeconomic decisions in the sense that offers substantial operational meaning, yet little in causal terms.

Generally, globalization is broad, In addition to the 'economic globalization'; it has noneconomic features, for instance, cultural globalization, and technological globalization. Bhalla (2002) and Bissa (2000) affirmed that while the economic features include growth in trade, investment, finance, and technological flows, the noneconomic features include uniformity in social values resulting in part on harmonization of consumer tastes and loss of national sovereignty (Bhalla, 2000). In the same perspective, Stiglitz (2002) asserted that, fundamentally globalization is 'the integration of countries and people of world, which has been initiated by a reduction of cost in transport and communication, and breakdown of artificial barriers to the flow of goods, services, capital across borders' (Stiglitz, 2002). Notwithstanding, most scholars tend to narrow their analysis to the economic dimension (Anna: 2001). Reaffirming this point, Stiglitz (2002) stressed that most of controversies around globalization focuses on its economic dimension. This is certainly the view of the World Bank: 'Globalization is about an increasingly interconnected and interdependent world; it is about international trade, investment, and finance that have been growing faster than national incomes' (Wolfensohn, 2001).

3.0 Economic Globalization

Economic globalization describes inter related economic processes, including liberalization and deregulation of markets, privatization of assets, retreat of state functions from economic activities, cross-national distribution of production, and integration of capital markets (UNCTAD, 1996; Walker, 2000; Griffin, 1995, 2000; World Bank, 2000; Petras and Veltmeyer, 2002). According to UNCTAD globalization is the 'increasing interaction of countries in world trade, foreign direct investment and capital markets' that is abetted by technological advances in transport, telecommunication, and rapid liberalization and deregulation of trade and capital flows both internationally and nationally (UNCTAD, 1996). Similarly, for Kennes it 'consists of the widening of the scope of economic activities in forms of trade in goods, provision of services, direct portfolio investment across national boundaries' that is initiated a by combination of technological progress and economic policies (Walter Kennes, 2000). Kennes' definition is significant in the sense that besides the global market pursuit nature of globalization, the definition put into context the use of both technology and adjustment policy to seek access to global market. For instance, Kennes (2000) asserted that global market accessibility is attain through technological advances in information technology and telecommunication and supported by increased openness of economic policies, i.e. investment and trade barriers that have been removed at accelerated pace'. This, however, is disputed by many scholars.

While Wolfensohn (2001), Kennes, (2000), UNCTAD, (1996) determined the significance of technological, liberalization, and deregulation policy, in accelerating globalization, others think otherwise. For instance, Stiglitz (2002) stressed on the importance of deregulation and liberalization policy in deepening integration. Accordingly, international corporations not only drive globalization through the movement of capital and goods across borders it does so through controversial rules imposed on developing countries. Stiglitz's definition puts into context the normative assertion that rather than technological dynamics, structural adjustment policies are not only the significant; it is key force use to operationalize globalization across developing countries.

Contrary to Stiglitz's arguments, Eden (2001, 2000) emphasizes the force of technological change. For Eden (2001) globalization is an irresistible paradigmatic shift from industrial capitalism to post industrialism. It transcends national borders, extends across and moves between many locations around the globe simultaneously. It is a global change in political ideology, technological advancement (postindustrial advancement), and a sociocultural reorientation. It exhibits new characteristics that differentiate it from 18th century 'merchantalizing' (Eden, 2002). Hence, Eden and Higgot (2001) called it a socioeconomic and cultural force.

Economic globalization is not a new process; however, in the past decades various factors have contributed to its acceleration. Most important of these factors are the liberalization and adjustment policies, and to an extent technological advancement. Contemporary economic globalization has three main features: the breaking down of national economic barriers; the international spread of trade, financial and productive activities; and the growing power of transnational corporations. The external liberalization of national economies involves breaking down of national economic barriers to economic activities, resulting in greater openness and integration of countries into the world market.

3.1 Perspectives on Economic Globalization

Globalization is a multifaceted process but this thesis focuses on the economic issues involved. The disagreement on economic globalization corresponds to the existence of opposing schools of thought or contending paradigms. Piggott (1999: 5) identified four different approaches while Gilpin (2002) classified the opposing schools into three categories: 'orthodox, liberal reform and radical reform' (Gilpin, 2000: 296). The orthodox school includes many economists, business leaders, and political leaders who relate globalization to free market ideology and thus are supportive of perceived current trends; advocates of radical reform, however, oppose globalization in theory and practice, viewing it as an ideology designed to as a means of advancing the agenda of global corporate capital. Like the advocates of liberal reformers the radicals generally have a nationalist orientation, according the state rather than the market the major role in the allocation of productive resources and the distribution of income. Like liberals they also advocate restrictions on free trade and the operations of the multinationals, which they tend to view as agents of economic neoimperialism (Gilpin, 2000, 296). Between these two can be found the liberal reformists who are generally skeptical of globalization, probably due to concerns over globalization's growing and increasingly evident social, economic and political ills (Gilpin, 2000: 296).

3.2.1 Orthodoxy / Neoliberalism

The orthodox agree that *globalization* is naturalistic, inevitable, and that via international markets and international governmental organizations, it imposes an external limitation on governments, international and domestic politics, and social policies (Nicola, 2002). *Neoliberal* theorists and development practitioners contend that economic liberalization and privatization lead to increased private sector productivity.

The orthodox perspective on globalization put into context some controversial normative understanding. First, it argues that globalization will make cheap products available for consumer's worldwide. Especially, it will open new markets for agricultural products and manufactured goods from the developing countries. For them, in the long run, free trade practiced by everyone benefits everyone. In this sense, the integration of the less developed economies of the south into the world economic will lead to increases in their rate of economic growth. Especially, for instance, the farther behind an economy is the fastest that economy could grow until it catches up with the more advanced countries (Gilpin, 2002). However this normative fundamental have been challenge in various ways by scholars and skeptics. Rather than bridging the gap, the critics argue that increased in trade between rich and poor countries, any form can exposed poor countries to the vagaries of the external shocks and competition which may impact on the poor nations negatively (Bhalla, 2001). Following this theme, they argued that globalization will lead to exploitation that can be harmful at the country level (Streeten and Berrry, 2001; Gilpin, 2002; Bhalla, 2001). This analysis brings forward the notion of potential effect of global macroeconomic adjustment policy in country level policies, especially at the micro level.

3.2.2 Radical Reform

Notwithstanding the agreement that economic globalization involves increased integration, increased trade and investment, and 'break down of national barriers to economic activities' (Petras and Veltmeyer, 2002; Hirst and Thompson; 1996; Martin Khor, 2000) refute the notion that technological force determines globalization. Modern information and communication technology facilitate globalization. Technological changes, especially as relates to computers and telecommunications, are key factors shaping the speed of capital. But the scale and scope of capital and commodity movement is directed more by political changes than by technological change (Petras, 1999). For instance, the effect of policy is more significant than technology in the collapse of socialism in Eastern Europe and Asia. Similarly the reorientation of countries in the region, and nationalist regimes in Africa, Asia and Latin America, to deregulated capital and the end of welfare state in the west are indeed not the issue of technology but that of policy (Petras, 1999; Petras and Veltmeyer, 2002; Knor, 2000). In this sense these critics questioned and in fact affirmed the Streeten and Berrry (2001) notion that increased trade and foreign investment poses negative consequences for developing countries. For example, Gilpin argues that economic globalization; increase inequality and high unemployment within industrial countries, causes shrink or demise of social programs and destruct national political autonomy, etc. (see Gilpin, 2000: 297)

Globalization is the triumph of capitalism and the hegemony of United States (Veltmeyer and Petras, 2001: 1). It is a 'political agenda' invented by US to mask their drive to dominate and the nature of their domination. Accordingly, the US designed it in order to disguise its exploitation and domination of the world economy. The real term refers to a mutually and beneficial 'process of economic and cultural integration" among interdependent economies. To the contrary, contemporary globalization favors the US and its imperial allies in the North at expense of poor countries in the global South. It shares similar characteristic to mercantilism—neomercantilism, according to Petras and Veltmeyer (2001).

Aside the stark challenge to the normative fundamental of economic globalization as outlined by UNCTAD (1996), Walker (2000), Wolfensohn (2001), Griffin (1995, 2000), the World Bank (2000), critics such as Petras (2000) challenged the argument that globalization threatens state autonomy and dwindled its potential to pursue economic development policy.

Indeed Petras agreed that the contemporary world is 'open and the speed of trade, finance, and information flow is greater than the period prior to the 1970s'. But, he disagree with the assertion that globalization is inevitable (Petras, 1999). Thus, some of the ideological basis of globalization are untrue. First it is not new. In most cases it is similar to the earlier phase of globalization and like its precursor; it is driven by forces centered in the imperial state and multinational corporations and international financial institutions' (Petras, 1999). Petras argues that globalization program was implemented was initiated in order that the "first world would" restore profits. For Petras the structural adjustment program is thus a strategy used to penetrate and dominate the Third World Countries. This argument is appealing because by it nature the adjustment policies, especially, the deregulation policies tends to open Sub-Saharan African countries markets to goods from industrial countries. In Ghana, for instance, the Ghanaian association of Industrialist has variously complained about this problem (Ghana web.com).

Stressing the link to capitalism Noam Chomsky (2001) reiterates that globalization represents a new strategy of capitalist development. For him, it represents a network of power that represents corporate interests and financial institutions that direct flow capital in order to promote the financial interests of those on power at detriment of all others.

3.3 Globalization—Critical Issues

Globalization has economic and noneconomic features. While the economic features include growth in trade, investment, finance, and technological flows, the non economic features include uniformity in social values resulting in part on harmonization consumer tastes and loss of national sovereignty (Bhalla, 2000).

The issues in globalization are diverse. The significance, scope it covers, the forces driven it, novelty, state autonomy, and its policy-making capacity, especially, the question of its impact on the state, development/income distribution, and developing countries, are serious issues under debate. The following will review the literature on these issues, with particular reference to the forces behind globalization—that drive the process forward.

3.3.1 Agents of Globalization

To a large extent, it is unproblematic that the contemporary world economy is characterized by increased international trade; foreign direct investment and technological flow (see Tabb, 1997; Hirst and Thomson (1996 ; Petras and Veltmeyer (2002); UNCTAD, 1996). But the exact nature and significance of factors that drives globalization remains contentious. The contention is generally around the significance of technology, the political influence and deregulation policies, and the role of multilateral organizations, especially the World Bank, the IMF and the WTO. Three contrasting arguments are identified from current literature.

First, Eden, 2001, Bhalla, 2002,) argued that contemporary globalization is driven by technological innovation, in communication, telecommunication and transportation. It is process driven, it is neither ideological driven, nor does it constitute strategy designed to benefit a particular area. For them technological advancement constitutes the driving force of contemporary globalization while policies of deregulation, liberalization and the reliance on market forces are facilitating factors. However, the impact of these policies, other wise political influence is secondary compared to the role of technology.

Further to disagreement above (see Hirst and Thompson 1996, and Petras and Veltmeyer (2001), the exact nature and to an extent the significance of factors that drives globalization remains contested by several researchers (Petras and Velmeyer,2002, Bhalla, 2000, Hirst and Thompson, 1996).The disagreements are mostly but inclusively on extend and strength of technology, and political influence, and / or between technology and the role of multinational organization (i.e. World Bank, IMF, WTO, and technology.

Eden (2001) and Bhalla (2002) attached greater strength to technological innovation in transportation and telecommunication. For them, though political forces and adjustment policy may influence the spread and speed of globalization, such effects are supplementary to that of technology. In order wards, it is not process driven. It is neither ideological oriented nor is it a program used to satisfy the interest of Western industrial countries. In contrast to being ideology driven, Eden and Bhalla argued that globalization is a process designed with potential to benefit every country that participates in the process. In this sense globalization will benefit all, but the extend of benefits however will depend on the extent of each county's participation. Therefore according to this argument, African countries that are lacking substantial benefits of globalization are lacking because of their low exposure to the process.

But Petras and Veltmeyer among other analysts present evidence that contradict Eden's analysis. For instance Petras and Veltmeyer (2002) agreed that, somewhat technological innovation affects globalization, but any such influence is minimal. For them, the spread scope and speed at which globalization spread is much explained by political influences, imperial states and in fact international organizations. In a blatant affront to Eden's arguments, Stiglitz (2002) asserted that the IMF and the World Bank implement globalization by conditioning credits made to African developing countries with adjustment policies (i.e. privatization, deregulation, liberalization and trimmed role of the state in Economic Affairs). Consciously, therefore the adjustment policy is designed to implement globalization in developing countries, imposing it where and when necessary in the interest of opportunities and deals for transnational corporations from industrial countries (Stiglitz, 2002). Thus, rather than acting a public institution that benefit all of its members, the IMF and the World Bank act as agents of the industrialized countries, as channels through which adjustment policies are pushed on reluctant poor countries that are in need of loans and grants from the international intuition

Stiglitz (2002), in the same context, asserts that structural adjustment reforms are imposed on poor countries by the IMF and the World Bank in order to satisfy the requirements of their sponsors. In exchange for access to development finance and assistance the IMF and the World Bank require of the aid-or-finance recipient countries the adoption of policy reforms involving stabilization (austerity measures leading to lower inflation and balanced accounts) and structural adjustment—the privatization of state or public enterprises, deregulation of markets and economic activity, the liberation of trade and the movement of capital, and reliance on the private sector for economic development. The sets of conditions and rules imposed by the Bank and the Fund are the key drives of globalization in the poor countries, designed to seek opportunities / contracts and concession from developing countries for the transnational corporations that are, for the most part, based in the North, primarily the US and the EC (Stiglitz, 2002).

Thus the IMF can be viewed as 'the new missionary institution through which adjustment policies are pushed on reluctant poor countries that badly need loans and grants' from the international financial institutions. In the same way the IMF and the World Bank has available sanctions for those countries that fail to pursue the globalization policies. Stiglitz (2002) argues that the IMF, in particular, pursues the interests of the US in imposing structural reforms and the globalization agenda on the poor countries; and he further argues that on balance these policies favor the rich and the well-to-do and hurt the poor. The IMF is a public institution formed by contributions from nations and their governments. In return the governments assert control on IMF through a complex voting process based on the economic power of countries at the end of World War II. The US in this system exercises a virtual veto power, having control by itself of over 25 percent of voting power.

Gilpin, another liberal reformer like Stiglitz also notes that the entire globalization agenda is controlled by the World Bank, the International Monetary Fund and the transnational class of elite experts that make up the 'international financial and development community'. This control powers set the norms for behavior and relations within the system, norms based on values consistent with the American variant of liberalism and capitalism to other parts of the world.

These writers have argued that similar to imperialism, globalization represents a political agenda (Gilpin, 2000). In this sense they appear to lend support to the claim made by radical or Marxist critics that the globalization agenda is controlled by powerful interests in the North and rigged against the South, constituting in effect a form of neoimperialism. However, unlike these critics both Gilpin and Stiglitz are of the view that the system can be reformed and that a more equitable form of capitalist development is possible within the institutional confines of a liberal new world order, an alternative more humane form of globalization and a more level playing field in which the rules are not all stacked in favor of the rich and powerful (Stiglitz, 2002). What would be required Stiglitz adds is a new institutional architecture to regulate the volatile flow of unproductive and speculative capital and better forms of global governance as well as more balance in the role of the market and the nation-state.

Similarly Farazmand (1999) argues that globalization is driven by a combination of technological innovation, multilateral financial and development institutions, deregulation policies, political force and more economic aid. Accordingly, the World Bank, the IMF and the WTO, and even the operational agencies of the UN, are viewed as conduits through which multinational corporations and globally dominant nation-states are able to impose their policy choices on developing and less developed nations to serve their purposes of global surplus accumulation and political control (see Farazmand, 1999a; Hankock, 1989; Korten, 1995; Gill and Law, 1991; Brown, 1992). Further the United States and most European governments for similar reasons promote globalization by economic aid if possible and military intervention if necessary (Farazmand, 1999).

Globalization, Farazmand (2000) argues, is supported with a variety of expertise 'in civilian and military technological advancements' as a means of dominating the world and to accumulate capital on a global scale (Farazmand, 2000). This process, he adds, is facilitated by the globalizing agendas of the postmodern state, innovation technologies, and the globally interventionist military might of the US (Scholte, 1997; Waltz, 1999; see Farazmand, 2000).

Between those who think globalization is driven by technological innovation and those who see it a product of political force is a third group. In contrast with the two groups of analysts discussed above, these analysts argue that globalization is driven by a combination of both technological force and adjustment policies. For instance, Farazmand (1999) argues that it is driven jointly by technological innovation, multinational institutions via deregulation policies, political force and economic aid. Accordingly, the interplay of trade, foreign direct investment (FDI), and technology and adjustment policies drives globalization (UNCTAD, 1996; Bhalla, 2002). According to Bhalla, the new information technology contributes to the accessibility of services and goods, both of which make demand and competition global. For instance, new technology has made more services tradable across national boundaries. Also, according to Streeten (2000), both advancement in technology and technological innovation mutually reinforce each other. Thus, while adjustment policies enhance the worldwide spread of free market, technological innovations especially computer electronics has enabled the corporate pursuit of higher rate profits. But it is unclear whether liberalization is the cause or the effect of globalization. For instance, financial deregulation and globalization is initiated by various countries though deregulation. New technology has made more financial services tradable across national boundaries and also facilitates the rapid pace globalization. Collectively these factors allowed an around-the-clock cross border flows of capital and financial data (Bhalla, 2000).

According to Paul Streeten (2002) advancement in technology and globalization mutually reinforce each other. It is enhanced by the spread of worldwide spread of the free market and technological innovation. This development has made it impossible for the state to control or even to manage the process. It has also made it difficult for governments to regulate the flow of finance and preventing the marginalization of large regions and groups of people (Streeten, 2000: see Bhalla, 2000). According to Bhalla information technology makes information accessible and contributed to the globalization of demand and competitions (Bhalla, 2000). Global production increases global competition among the producers and the suppliers of goods.

Although, many factors that have spurred and in turn have been reinforced by globalization, two have played a particularly important role in contributing to its accelerating pace in the 1980s and 1990s. The first is technical progress, especially in information technology, international communication and Global transportation. Not only goods but also services and knowledge can flow much more easily because of innovations such as the Internet. The second major development is the shift in policy orientation as governments everywhere have reduced barriers that had curbed the development of domestic markets and their links to the international economy.

Indeed there are serious controversies about supranational institutions and their role in operationalizing globalization, particularly the IMF and the World Bank (Stiglitz, 2002). Advocates of global institutions, especially the IMF, the World Bank, and the WTO argue that those institutions act as important mechanisms to lessen financial volatility, maintain currency stability, negotiate trade disputes in an orderly fashion, and provide essential technical advice to countries facing serious economic downturns. However other analysts argued that the institutions are used to pursue world wide opportunities for its sponsors.

This argument in its diverse permutations has a number of theoretical—and political—implications. First, the analysis is at odds with that of globalization advocates. In fact, it justifies the skepticism of Veltmeyer and Petras (2000). Second, it discredits the role of the IMF as a public institution because of its use to pursue US priorities. More so the IMF is a public institution formed by contributions from various nations and governments. The governments are supposed to assert control but according to its contribution. However, because the formula of contribution was determined by an old agreement made after the World War, by which the US and other Western countries contribute more, the Western countries therefore have used the IMF to pursue their own interests.

According to Gilpin (2000) the World Bank and the IMF and the transnational class of elites use the pretext of globalization to set and imposed their policies on the Third World. Finally Gilpin (2000) affirms the position of the skeptics, and in fact extended the debate by establishing the link between globalization and international organizations and the transnational class and transnational corporations. Gilpin (2000) also offers a supporting analysis to the skepticism that globalization is a strategy that is used to father the objectives of transnational corporations.

Technological innovations, especially computer electronic and other communication capabilities also enabled the corporate pursuit of higher rate of absolute profit. According to Paul Streeten growth of technology and globalization mutually reinforce each other. This has made it difficult for government to regulate the flow of finance and related transaction

In conclusion, while the arguments above indicate disagreement between scholars about the forces which drives globalization, it is evident that political influence of Western countries have been are the key force used to imposed adjustment policies on African countries. Much as technological innovation has improved communication and transportation between Africa and other parts of the world, it is apparent that that such contributions are insignificant when compare with political forces. Therefore, the analysis of Veltmeyer and Petras and other critics and skeptics provides a logical explanation of the factors that drive globalization.

3.3.2 The Nation-State and Economic Globalization

The effect of globalization on the nation-state is complex and controversial. It can constrain, enable or influence the nation state in a variety of ways. Despite the disagreements aside, there is wide acceptance among scholars that the role of state has somehow been reoriented in this contemporary globalization (UNCTAD, 1996; Petras and Veltmeyer, 2002; Petras 1999; Hirst and Thompson 1996; Cerny, 1996). According to UNCTAD (1996), the role of state has shifted from active participation in economic affairs in nation-states to facilitation in the creation of appropriate enabling conditions necessary to stimulate private enterprise to attain economic development It has been refocused to spurring entrepreneurship, development and maintenance of internationally oriented infrastructure and guarantee of the free flow of information (UNCTAD, 1999). These are perhaps limited to creating appropriate macro economic environment; i.e. maintaining appropriate mix of inflation and unemployment, creating conditions attractive to foreign investment; i.e. low crime rate, political stability, and liberalized economy. In similarly way, Walters and Blake, (1992: 206) reiterate that the new role of state is confined to 'matching the structure of the domestic economy to imperatives of international economic developments' (Walters and Blake, 1992: 206). This put into context the significance the changes has on state, and corresponding narrow responsibility assigned it in the new global era. Stressing on Walter and Blake's theme, Cerny argues the changes is necessity to avoid risk of capital flight out of nation state. It redefines the relationships between territory and authority, and in fact shifts authority from the state to supranational units and transnational corporations (Cerny, 1996).

The critics and skeptics of globalization have acknowledged the changes in the role of state in economic development (Petras and Veltmeyer, 2002). Petras and Veltmeyer (2001: 23), for example, argue that globalization has captured, reoriented and confines the state to three roles: (i) adopting fiscal and monetary policies to ensure macro economic stability; (ii) providing of the basic infrastructure necessary for global economic activity; and (iii) ensuring social control, order and stability.

Apart from the consensus there has been disagreements regarding the significance of such changes on the coherence and capability of the nation-state to pursue economic development and specific policies to reduce the micro-vulnerability of global macro policies. On this issue, however, there are serious divisions both between Marxists and orthodox theorists and among Marxist scholars. On the one side, the Orthodox approach, evident in the work of Cerny, is to argue that that the changes meant decreased autonomy and relevance of the state in policy formulation Cerny, 1996, sees Gilpin, 2002). In these perspectives the changes, represents the triumph of the market over the nation-state and affront to national sovereignty. Further, the ability of TNCs and IGOs to maneuver the sovereignty of the nation-state as the signal of a weakened state with reduced autonomy. Globalization, it is argued, strips governments of their capacity to formulate national policy and their control over the economy; and it restricts their ability to increase taxes, particularly on business' (*The Economist*, 1995). Taking the same view Esping-Anderson argues the changes undercut the viability of the state and in fact threatens the existence of national economy, forcing governments to cutback social expenditure (Esping-Anderson, 1996: 4). Accordingly, globalization empowers the transnational corporation and creates a 'borderless world' where national economic planning is irrelevant. Yet Friedman (1999) refers to it as an unstoppable 'herd' (Friedman, 1999: 93; cited in Farazmand). Further, retreat in power and authority of state (Strange, 1996) referred to it as a transition 'from the welfare to the competition state', in 'response growing international political economic interpenetration' (Cerny, 1995), to 'the hollow state' (Milward, 1994), or 'the corporate welfare state' (Farazmand, 1997b,). Further, Third World governments' domestic policies are influenced by the neoliberal approach (Miliband and Panitch, 1994; Moses, 1994; Notermans, 1993; Panitch and Leys, 1997). According to Wallerstein, economic globalization 'curtailed state autonomy so much so that nation-states are but super structural appendages aiding the spread of globalization' (Biswas, 2002). In this context, the changes brought by globalization have resulted in a restructuring of the state and a reshaping of the public policy around the world. Nations and their governments have restructured their policies to accord with adjustments in the global corporate power structure (Waltz, 1999; Farazmand, 1999a).

Similarly, Cerny (1996), Holloway (1994) and Cox (1997) refer to it as affront to state autonomy and a sign of the state's weakness. For instance, deregulation, has deemphasized national economy and 'compelled governments to cut back on social expenditures' (Esping-Anderson, 1996: 4). It has threatened the territorial sovereignty of the state, converting many governments into subsidiary agents or 'practical colonies' of powerful economic interests (Vernon, 1971).

The critics, particularly the Marxists, argue that contrary to above the state has either retained its autonomy and power or has become much stronger in its pursuit of the globalization agenda of what Sklair (2000) defines as a 'transnational capitalist class'. Hirst and Thompson argue that the 'end of era' arguments and the notion of the incapacity of state to manage TNCs are flawed. The critics disagree that globalization is either new or inevitable. In other words the effects of globalization have been exaggerated.

Indeed a number of critics such as Hirst and Thompson (1996) argue that under economic globalization nation-states have become stronger rather than weaker, particularly as relates to shaping economic changes and investment at local, national and international level. For instance, Petras and Veltmeyer (2001, 2002) argue that it is not possible for transnational corporations to have expanded their operations in developing countries or countries 'in transition' (from communism to free market capitalism) without the proactive support of the imperial state system and its adjunct—the complex of 'international financial institutions' (IFIs) that dominate the global economy. In this connection we need look no further than the World Economic Forum (WEF) that brings together CEOs of major TNCs and the economic and political elite of the countries at the centre of the world capitalist system with the self-appointed guardians of the 'new world order' (NWO). In this NWO and the associated globalization process the officials of the nation-state, political leaders who derive their authority and power from the state, retain their capacity to make policy in regard to both domestic issues and the global allocation of productive resources and wealth. The only difference that globalization has brought about is an increased tendency of these officials and leaders to identify their national interests with those of the transnational capitalist class. Indeed more often than not this class has secured a predominant influence or dominant position in, if not direct or indirect control over the nation-state. In this context, the state continues to function as a powerful instrument for making policy both in the domestic sphere and as relates to international or global issues. On this point see, among others, Boyer and Drache (1996), Gilpin (2000), Hirst and Thompson (1996), Veseth (1998), Wade, 1996; and Waltz (1999) and Zysman (1996), all of whom have argued that the nation-state, especially in the developed world, has not only actively supported the globalization process but it remains the substantial partner for its continuity. Thus, it is inaccurate to argue that states and domestic political economies are increasingly irrelevant. The state remains the focus for regulating and measuring economic activity. Sovereignty, national boundaries has been strengthened rather than weakened (Krasner, 1993: 318; Farazmand (1997).

Obviously the effect of globalization is complex. To the extent that division exists within and among the Marxist approaches over the question of the extent to which the supranational character of the capitalist mode of production constrains all modern structures versus the extent to which the state plays a direct role in promoting economic globalization (Hirst and Thomson, 1996; Espin-Anderson, 1996; Walters and Blakes, 1996; Ohmae, 1990; Farazmand, 1997; UNCTAD, 1996; Harris, 2000; Vernon, 1971; Friedman, 1999).

This has led to various interpretations. Economic globalization limits state capacity to control and influence domestic national economies and thus weakens state autonomy over its national apace. Globalization of finance has led to an enormous flow of capital with increasing rapidity; this has increasingly curtailed the ability of the state to control monetary and fiscal policy. In general, it has been argued that in the face of economic globalization, state autonomy is considerably reduced, as the state becomes simply a facilitator of globalization. It is the weakening of the welfare state occurring in the wake of the globalization of economic liberalization that is seen to limit state competence and authority all over the world. The welfare state has grown in the post-World War II industrial societies in both developed and developing countries. But the decreasing appeal of Keynesian macroeconomic management in the post industrial society coupled with cutback in public provision of social services threatens the legitimacy of the state as it increasingly finds itself with control over the economy and unable to meet the expectations of it's the people for securing property. In Africa, the disintegration of the developmentalist state resulting from the increasing adoptions of IMF / World Bank-sponsored market liberalization is also a potential threat to state legitimacy as the state is unable to deliver on the promise of basic needs provision and serve as a vehicle for social justice.

UNCTAD has also argued that the changes in the role of the state under globalization need not—and should not—entail an abandonment of its traditional role in promoting and advancing the process of economic development (UNCTAD, 1996). True enough globalization exposes countries in the developing world to financial and trade instability, and it narrows the policy options of governments in the world, implying a diminution of autonomy if not sovereign state power. The threats to sovereignty and the capacity of governments in developing countries to make domestic policy, UNCTAD (1996) points out—in agreement here with the critics of globalization and the skeptics in regard to its supposed ability to being about mutual benefits—originate in the obligations that these countries are compelled to undertake with the bilateral and multilateral organizations of development finance and assistance. Increased financial openness and dismantled barriers to capital flows considerably strengthen the links of these governments and the financial markets of national economies with the global economy, reducing thereby the ability of national governments to use macroeconomic policy instruments to influence objectives such as the volume of output, the level of employment and the rate of inflation (UNCTAD, 1996: 24). However, in spite of all these threats the changes brought by globalization, according to UNCTAD, constitute a modification of rule rather than a weakness.

3.3.3 Globalization and Inequality

The effects of globalization on the global income divide and the social inequalities (and inequity) in the existing distribution of the world's productive resources is another contentious issue in the globalization debate. On the one side, the advocates of globalization argue that increased integration between the developed and developing countries will lead to unprecedented prosperity in various ways. Gilpin (2000), in this connection argues that (i) integration will cause the flow of capital, cheap products and technology from developed to less developing countries; (ii) it will open new markets for agricultural products and manufactured goods from the developing countries; and (iii) combinations of these two factors will lead to an improvement in the rate of economic growth and productivity in developing countries. Moreover, Gilpin argues, the further behind an economy is the faster it will grow until it catches up with advanced countries. Similarly, the World Bank reports (see its periodic *Research Reports* as well as its annual *World Development Report*) that globalization has helped to reduce poverty in many developing countries. It has also facilitated the connection and coordination among peoples, organizations, governments, and nongovernmental organizations.

On the other hand, many, if not most, scholars in the area of international political economy and development disagree with the assertion above. As we have shown above, many of these critics, both those in a radical mold (Petras and Veltmeyer) and a liberal mold (Bhalla, 2000; Streeten and Berry, 2001), believe and argue that globalization tends to reproduce relations and conditions of exploitation—both between the North and the South and between capital and labor. For Bhalla (2001) the integration of trade between developed and less developed countries will expose developing countries to the vagaries of external shocks and unfair competition. Gilpin (2000) in this connection argues that globalization perpetuates high unemployment and leads to a dismantling or the demise of social programs and a general weakening of the welfare and developmentalist state in the name of international competitiveness. Similarly Farazmand (1999a) argues that increased integration between developing and developed countries will perpetuate economic inequality and increase the gap between the rich and the poor both within and among nations. In effect, globalization creates a hierarchical international economic and political system composed of a rich core of developed economies and the exploited, impoverished periphery of less developed economies

The poorest, least developed countries (LDCs) are impoverished by globalization, and are in danger of being largely excluded from its benefits and a presumed 'general prosperity'. From 1980 to1997 the share of developing countries in world trade was reduced by more than 0.4 (see World Bank development report, 2000). Similarly, the inequality between countries is characterized by two divergent trends in recent decades. First, the gap between the richest and the poorest countries has widened—in fact, doubling as regards the top 20 and bottom 20 percent of countries (UNDP, 1996;). Income distribution between countries on the North and South of the growing global divide has also worsened over the past two decades of structural adjustment and globalization. In this connection, even proponents of globalization agree that globalization has led to a concentration of economic power and a widening of the North-

South gap between the rich and the poor. The difference is that the neoliberal advocates of globalization believe this to be temporary and transitional state in a long-term development process while radical critics see it as intrinsic to capitalist development and liberal critics see the need for fundamental reforms in the system or an alternative more humane form of globalization.

At issue in the question of an alternative form of globalization is (i) the need for a new social policy that would protect the most vulnerable groups of individuals and countries .(ii) a new form of global governance that broadens the process of decision-making (Falk, 1999); a new international financial architecture to regulate the volatile flows of global capital (Stiglitz, 2002; Soros, 2002); and a new way of regulating the freedom and power of transnational corporations to operate without due and responsible regard for its direct and indirect impact on the society, economy and the environment (UNDP, 1989l). In this connection, large corporations tend to merge with one another, engaging in takeovers and agreements to avoid competition and manage global trade, a major source of capital accumulation. In this connection UNCTAD (1994) points towards a tendency towards intra-firm transfers (accounting now for around 50 percent of all international 'trade') and corporate concentration via mergers and acquisitions. This concentration of corporate power within and across national boundaries is seen by liberal reformers and critics to be a serious problem of globalization. Even the World Bank recognizes concentrated corporate power to be a potential problem but like the liberal reformers (Gilpin 2002, Stiglitz, 2002, etc.) the Bank takes the view that the problem can be dealt with by a strict enforcement of antitrust and competition laws. Above all, it is argued (by both World Bank officials and others in the context of the WTO); the problem should not be dealt with in the form of erecting trade and other economic barriers to free trade. Such barriers would impede globalization, which remains the best path towards ensuring the 'wealth of nations' (to quote Adam Smith) and a 'general prosperity' (to quote the bank itself).

In regard to SMEs, trade liberalization generally has both negative and positive outcomes. Positive outcomes occur when liberalization improves the access of SMEs to scarce material imports, capital equipment and technology. But if finished goods are imported at below-cost-prices (dumping) with which the SMEs cannot compete then the end-results are negative (Bhalla, 1999).

Notwithstanding a general agreement that globalization is or could be a major productive force as well a source of improved economic conditions and prosperity, it is clear enough that not all states and peoples have benefited equally from globalization or have been affected in the same way. Both advocates and critics agree with this. As the World Bank, sees it 'globalization is about risks as well as about opportunities' (Wolfensohn, 2001). But what determines different outcomes for different groups of countries? One view is that globalization has 'left out' so many, if not most; developing countries because they have been unable or unwilling to take advantage of existing opportunities and thus reap its benefits. A contrasting view (often advanced together with the former observation) is that there has been 'too much globalization and that this has been detrimental to the poor' (World Bank, 2000).

Stiglitz (2002) affirms that globalization has indeed brought about positive development and has done a lot of good. Trade liberalization, for example, has led to significant rates of economic growth and increased productivity growth in parts of the developing world, particularly in the rapidly-growing countries of East and South East Asia. Indeed the World Bank (1993) in this context has written about the 'Asian miracle', attributing historically unprecedented rates of rapid growth in the region to an outward-oriented policy of 'openness and trade liberalization as well as success in 'getting prices right' and sound policies in regard to 'the fundamentals'. Although this interpretation of developments in East Asia has been criticized as seriously flawed (and totally inaccurate regarding the assumption of trade liberalization), both critics and proponents of globalization acknowledge that it opens up for developing countries opportunities for accessing the productive resources of the world economy—technology, new markets, development finance and assistance.

Notwithstanding this wide agreement on the possible benefits of globalization, it is clear that the proponents of globalization have greatly exaggerated the benefits and understated its economic and social costs, viewing them as 'transitional' and manageable if not un avoidable. This position is encapsulated in the phrase 'short-term pain for long-term benefits'. However, as Levitt (1992) points out the experience of many developing countries has been the reverse—'short term gain for long-term pain'. After all, many countries such as Ghana, Jamaica and Mexico the 'pain' has been experienced for close to or more than two decades with scant evidence of any 'gains' attributable to globalization and structural adjustment.

First of all, globalization for many developing countries has not fulfilled the promise of 'progress' (economic growth) let alone participation in a general trend towards 'prosperity'. Instead, it has led to increased unemployment and poverty in the Third World, leading many people—from 14 to two billion people, or a quarter of the world's population—to live or subsist on less than a dollar a day (Stiglitz, 2002: 5). Even countries that introduced stability and balanced the market and the state with new 'market friendly' economic policies have been unable to attract private investment for their sustainable development, In addition Stiglitz asserts that globalization has generally been harmful for local industries and the countless micro- and small (and even medium-sized) enterprises connected to them (Stiglitz, 2002). The policy of adjustment has resulted in an excessively high social cost and great damage for developing countries. For instance, the high interest rate has forced the bankruptcy of countless productive local firms or SMEs that could not meet the suddenly increased cost of servicing their debts (Stiglitz, 2002). Further, the compulsory and unprepared liberalization had, mostly wiped out domestic industry in developing countries, which is not yet ready to compete (Stiglitz, 2002).

On the financial side, Stiglitz argues that financial liberalization has failed to improve weak financial institutions. In most cases foreign banks have been slow to finance development in African countries even those that were tagged as cases of successful adjustment or, as in the case of Ghana, as models of 'sound' or 'correct' policy (globalization and structural adjustment). In fact, larger foreign banks drive local banks out of business because most developing countries neither have financial systems capable of handling such transactions, regulatory systems capable of preventing harmful behavior of privatized firms nor systems of corporate governance capable of monitoring the new management.

In fact, liberalization has exposed African SMEs to stiff competition from the international market (Wangue and Musanda, 2000 see Bhalla, 2000: 149). For instance, devaluation of currencies has dramatically raised the prices of imported good and services, increasing the cost of production. Hence, liberalization increased the problems of domestic enterprise mostly the SMEs. Further, cheaper imports from technologically advanced countries, especially East Asian countries have made rapid inroads in the African basic consumer goods market (Bagachwa et al, 1995; UNIDO, 1996). In fact manufacturing associations in Ghana, Nigeria and Zambia have protested of dumping and unfair competition. Hence the increase in competition has threatened the profitability of SMEs and in some cases resulted in plant closures, especially in the area of less competitive SME activities such as soap making, shoe making, textiles and tire and dye cloths industries.

In seeking to explain why African countries have lagged and are lacking behind, Stiglitz (2002) complains that IMF ignored the inherent constrains in Africa. But African countries are constrained by incomplete information, inadequate markets, and unworkable institution. In the same vein, Wangue and Musanda (2000: see Bhalla,2000 149) affirm that SSA lacks infrastructure, including telecommunication linkage with and within the outside world and within SSA, low level of technological innovation, low expenditure on research and development and in adequate social services (Wangue and Musanda, 2000). The weakness of SSA in global integration is evident in its failing share of world trade, and investment. The share of SSA in world trade is generally declining and it remains highly concentrated in the production for the export of primary products, such as cocoa, palm oil and coffee and the importation of non-primary products. Within this traditional global division of labor, African countries are not only dependent on the export production of goods for which there is a declining demand but, as shown by UNCTAD (2001), that are also subject to fluctuating prices and deteriorating terms of trade. In addition, the SSA countries have also lost market share in the export of their traditional commodities.

Finally, the reforms failed to diversify the African economies while SAP failed to effectively integrate Africa countries into the global economy. Appropriate measures are required from government to support SMEs to correct the loss of market share and to restructure their production.

4.0 Small Business and Development

4.1 What Are SMEs? Definitions and Concepts

There is no consensus on definition of a Small and Medium Enterprise (Storey, 1994). Definition of what constitute small and/or medium enterprise depend on various factors, including the level of development in the country in which the enterprise is located, the level of capitalization of the enterprise, the sales turnover and number of employers in the enterprise. For instance, an enterprise in a country like Canada and the US may be referred to as small enterprise while the same is referred to as large enterprise in Ghana. Further, definitions of small and medium enterprises vary according to the sector the enterprise in involved in. Enterprises defer in the level of capital require for investment, and employment. Thus, definitions that employ measures of size (number of employees, turnover, profitability, etc.) when applied to one sector like Manufacturing, could lead to all firms being classified as small, while the same size definition when applied to a different sector like tourism could lead to a different result.

Various attempts have being made by agencies, government academicians to put the definition of SMEs into context but any such attempts have led to further confusions. One of the first attempts to overcome the controversies was by the Bolton Committee in 1971. The committee formulated what it termed as an 'economic' and a 'statistical' definition of enterprises.

Under the economic definition, an enterprise is regarded small if it meets three specific criteria:, hitherto, it relatively controls small share of their market place; managed by owners or part owners in a personalized way, in contrast to formalized management structure; and it is independent, in the sense of not forming part of a large enterprise. On the other hand, the Committee devised a 'statistical' definition to be used in three main areas: (i) quantifying the size of the small firm sector and its contribution to GDP, employment, exports etc.; (ii) comparing the extent to which the small firm sector's economic contribution has changed over time; and (iii) applying the statistical definition in a cross country comparison of the small firms' economic contribution.

The Bolton committee's attempt is significant not only because it represents one early attempt to develop a consensus on the definition of SMEs but because it added to the confusion and controversies that have surrounded the issue. In other words, the committee's attempt was important but inherently flawed. The committee's sectoral definition of a small firm and associated categories are presented in Table 2 below.

Several comments about this definition are in order. First, the economic definition which states that a small enterprise is managed by its owners or part-owners in a personalized way, and not through the medium of a formal management structure, is incompatible with the statistical definition of small manufacturing enterprise which could have up to 200 employees. As enterprise size increases, owners no longer make principal decisions but devolve responsibility to a team of managers. For example, it is unlikely for an enterprise with hundred employees to be managed in a personalized way, suggesting that the `economic' and `statistical' definitions are incompatible.

Another shortcoming of the Bolton Committee's definition is that it considers small enterprises to operate in a perfectly competitive market. However, the idea of perfect competition does not apply here (if it applies anywhere); many small enterprises occupy `niches' and provide a highly specialized service or product in a geographically isolated area and do not perceive any clear competition, not talk of proportion of market it holds (Wynarczyk et al, 1993; Storey, 1994).

The Bolton Committee Definitions of a small firm

Sector	Definition
Manufacturing	200 employees or less
Construction	25 employees or less
Mining & Quarrying	" " " "
Retailing	Turnover of 50,000 pounds or less
Miscellaneous	" " " " "
Services	" " " " "
Motor Trades	Turnover of 100,000 pounds or less
Wholesale Trades	" " " 200,000 pounds or less
Road Transport	Five Vehicles or less
Catering	All excluding multiples and Brewery – managed houses

Source: The Bolton Committee (1971)

Alternatively, Wynarczyk *et al.* (1993) identified small enterprises by characteristics other than size. For them, there are three factors relevant to definition, including the uncertainty associated with small enterprise, its limited customer and product base, and uncertainty associated with greater diversity of objectives as compared with large firms best distinguishes Small and medium enterprise from other enterprises.

Using a similar logic, Storey (1994) identified three key features that distinguishing SMEs from large enterprises. First, the greater external uncertainty of the environment in which the small enterprise operates and the greater internal consistency of its motivations and actions. Secondly, they have a different role in innovation (this does not mean large firms do not innovate; small firms are able to adapt quicker to customer demands than do large firms); small enterprise are able to produce something marginally different, in terms of product or service; this differs from the standardized product or service provided by large enterprise. A third area of distinction between small and large enterprise is the greater likelihood of evolution and change in the smaller enterprise; small enterprise that become large undergo a number of stage changes.

At best the statistical definition failed to define small. It failed to put into perspective the suitable criteria for the categorization of SMEs (number of employees, turnover, ownership and assets were used instead). Three different upper limits of turnover were specified for the different sectors and two different upper limits were identified for number of employees, making it difficult for cross-country comparisons.

The European Commission (EC) defines 'Small and Medium Enterprises (SME) on the basis of the number of employees. Categorizing enterprises into three, it defined enterprise with between 0 to 9 employees as micro enterprises, 10 to 99 employees— small enterprises, and 100 to 499 employees - medium enterprises. Using these criteria, the EU defined SMEs as enterprises that employ fewer than 500 employees. This is significant in diverse sense. First, the EC definition is based solely on employment rather than a multiplicity of criteria. Secondly, the use of 100 employees as the small firm's upper limit is more appropriate given the increase in productivity over the last two decades (Storey, 1994:13). Finally, the EC definition did not assume the SME group is homogenous, that is, the definition makes a distinction between micro, small, and medium-sized enterprises.

However, the EC definition is too all embracing for a number of countries. Researchers would have to use definitions for small firms that are more appropriate to their particular `target' group (an operational definition). Further, the definition is not appropriate for developing countries including Ghana. Therefore the definition cannot be treated as common definition across the world, although it puts into perspective the need to distinguish between definitions of small and medium enterprise.

Since 1976 the World Bank defines enterprises with fixed assets (excluding land) less than US$ 250,000 in value as 'Small Scale Enterprises'. This definition only uses the amount of capital available to the enterprise, a definition that is exposed to a number of flaws. Currently the World Bank, via the 'SME Department is working with the following definitions: micro enterprise-up to 10 employees, total assets of up to $100,000 and total annual sales of up to $100,000; small enterprises—up to 50 employees, total assets of up to $3 million and total sales of up to $3 million; medium enterprise-up to 300 employees, total assets of up to $15 million, and total annual sales of up to $15 million'.

While these definitions are admittedly subjective, they are broadly consistent with those used by most other international financial institutions.

The United Nations Industrial Development Organization (UNIDO), on its part distinguished the definition of SMEs between developed and developing countries (Elaian, 1996). For developing countries, it identified enterprise employing minimum of 100 employees as, large, enterprise employing between 20 and 99 employees as Medium enterprise, between 5 and 19 as Small enterprise and that employing maximum of 5 employees as Micro enterprise. On the other hand, for industrial countries, it defined large firms as that employing over 500 employees, Medium enterprise as that employs between 100 and 499 employees and Small enterprise as that employing less than 99 employees.

UNIDO's definition is more useful in regards to the global scenario. It reflected the differences in level of development in developed and developing countries. For instance the definitions for developed countries match that put forward by the EU. In the same way the definition for developing countries provided the framework for specific definition of SMEs in SSA.

In Malawi attempts were made since 1992 to define SMEs. However, unlike that of UNIDO, the definition was customized to the multidimensional nature of African societies and the multifaceted nature of SMEs. In other words the definition is based on three criteria, viz. the level of capital investment, number of employees and turnover. An enterprise is defined as small scale if it satisfies any two of the following three criteria, that is, it has a capital investment of US$2,000-55,000, employing 5-20 people and with a turnover of up to US$110,000 (using 1992 official exchange rate). For manufacturing enterprises, capital investment is taken to mean the cost of plant and machinery, including working capital and the cost of land and buildings. It may be observed that since this official definition was given in 1992, the economic situation in the country has changed drastically, with the value of the kwacha falling from an official rate of MK3.60 to US$1 in 1992 to MK15.30 to US$1 in 1996 and to MK43.15 as of January 1999. The implication is that the existing official definition is out of date and needs to be revised. Over all, the case of Malawi especially frequent devaluation of the national currency indicates that it is inappropriate to define SMEs in terms of capital, because doing that will mean constantly changing the definition as and when the currency devalues.

In Ghana, attempts have been made to define operational meaning of SMEs. Similar to that of Malawi multiple criteria have been used, but "the most commonly used criterion is the number of employees of the enterprise. The Ghana Statistical Service (GSS) considers enterprise with fewer than 10 employees as Small Scale Enterprises and their counterparts with more than 10 employees as Medium Enterprises.

However, the National Board of Small Scale Industries (NBSSI) in Ghana applies both the `fixed asset and number of employees' criteria. It defines a small-scale enterprise as one with not more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Cedi (US$ 9506, using 1994 exchange rate).

The Ghana Enterprise Development Commission (GEDC) on the other hand uses a 10 million Cedi upper limit definition for plant and machinery. A point of caution is that the process of valuing fixed assets in it poses a problem. Secondly, the continuous depreciation in the exchange rate often makes such definitions out-dated.

Steel and Webster (1990), Osei et al. (1993) in defining Small Scale Enterprises in Ghana used an employment cut off point of 30 employees to indicate Small Scale Enterprises. The latter however disaggregated small scale enterprises into 3 categories, micro -employing less than six people, very small, those employing 6-9 people, and small—between 10 and 29 employees. Apparently, inconsistency characterized definitions of SMEs in Africa and Ghana. However, trends in the general literature indicate that definitions of SMEs converge around enterprise employing between one and one hundred persons.

Notwithstanding this problem of definition, various studies have identified the special role that SMEs play in economic development in both developed and developing countries (Thomas et al 1991; Liedholm and Mead 1999). SMEs have both social and economic significance. A viable SMEs sector in developing countries will create more employment opportunities, and lead to a more equitable distribution of income (Steel and Webster, 1991). English and Henault (1995) and King and McGrath (1999) have identified that SMEs create jobs and help to alleviate poverty in Africa. It is estimated that SMEs employ 22% of the adult population in developing countries (Daniels, 1994; Daniels and Ngwira, 1992; Daniels and Fisseha, 1992; Fisseha, 1992; Fisseha and McPherson, 1991; Gallagher and Robson, 1995).

However, the efficacy of SMEs is contingent upon existence of appropriate infrastructure and enabling conditions. In a difficult business environment, most SMEs find it hard to actualize their potential as well as contribute to economic development. In contrast, a supportive business environment and local economic development forms the infrastructure upon which solid private sector development is built. While this is just as true in the developed world, the imperative is even more compelling in the developing world, where SMEs face a disproportionate burden of legal, financial and regulatory barriers. Becatini (1990) reported that SMEs becomes effective when they operate under ideal conditions. Hence in appropriate conditions, SMEs plays their vital business role, and also offer social benefits such as new jobs, help to decentralized industry and provide resilience against external economic shocks. In Ghana SMEs are recognized as the engine through which Ghana will attain its growth objectives (Ghanaweb.com, 2003). They employ about 15.5 percent of the labor force in Ghana (Parker et al, 1994).

Nevertheless, most of the implicit promises tend to be illusory for most SMEs in Ghana because their operations are hindered by a number of constraints (Mead, 1994: 14). Indeed, Boapeah (1993) categorized constraints faced by small business as a lack of access to credit, intense competition from cheap import brought about by over liberalization of the economy, and difficulty to obtain advisory services. In a related study, the World Bank identified SME constraints in Ghana to include inadequate policy framework; inadequate financial mechanisms and incentives and inadequate knowledge of markets. The role and actions of government are significant for successful enterprise development (McCormick, 1997a: 30).

4.2 SME Support Policy Approaches

Efforts to promote SMEs are not a recent phenomenon. However, both the reasons for and the type for support change over time. Generally, as evident in Douglas (2000), two reasons are use to justify small and mediums size business support. These are the either welfare-related and efficiency related reasons (Tendler, 2002). The efficiency rationale for SME support has to do with creating economically viable and self-sufficient enterprises that can serve as the engine of economic growth (Tendler, 2002). The concern is to improve the efficiency and productivity of productivity of SMEs (i.e., output per unit of capital and labor employed) rather than providing across the board SME sector support. The efficiency approach is use to break important infrastructure bottleneck, or link local producers to out side buyers through trade fairs. Whichever way it is used the efficiency approach brings strategic benefits that may affect many firms (Tendler, 2002).

On the other hand, welfare-related support is designed to protect existing enterprise from competition as well as to relieving them from operational and environmental burdens, so that they can provide a safety net for the vulnerable. For example, it is used to mop up the unemployed resulting from structural reforms. In this sense, this instrument is for preserving and creating jobs rather than creating opportunities to stimulate economic development. In any case, this analogy is unclear because it turns to decipher between the provision and maintenance of employment from economic development. However, in most case they are related. Perhaps the differences, if any, between the efficiency and welfare rationales for SME support is the trend of SME support. Efficiency-related support is not broad but is industry specific. Nevertheless, the welfare-related support tools includes according targeted tax breaks, wage subsidies, loan guarantees or outright grants that are generally designed to create small business climate (Holtz-Eakin, 2000). Tendler (2000) included in the list of as cheap credit and blanket credit amnesties, blanket tax exemptions, etc.

The burden reduction approach helps to redistribute income but unlike the strategic approach, it does not lead to development and employment generation. In the case of Ghana, prior to 1983 the government introduced sector-specific policies to support the sector and, to revert the constraints. Some of these include managerial and technical support, special credit, and subsidies to promote SMEs. These policies, related to the welfare policy, were practiced during periods prior to the inception of Ghana's Economic Recovery Program (ERP). Generally, it was designed to protect the SMEs from international competitions. In 1983, these policies changed to 'development policies' and efficiency-related policies. The reorientation of the policy was necessary because Ghana implemented ERP program, to conform to the dictates of globalization imposed by the IMF and other international organizations on poor countries.

4.3 SME Policy Approaches in Perspective

The arguments presented about the types of policy approaches that should be used to develop the small enterprise sector have varied, but can be put into perspective of development theories. Close analysis of development in recent years allows us to place the policies into two juxtaposed categories, i.e. the neoliberal free market and structuralist perspectives.

First, there is the approach that relies principally on market forces and efficiency-oriented or related policies (see Douglas, 2000), Underlying this approach is the notion that previous policies pursued in developing countries have led to a bias in favor of the development of larger-scale enterprises. This has principally occurred through government intervention in pricing policies, for example over credit and imports, and through the extensive use of nonmarket mechanisms to allocate resources. Policies of these kinds were linked to import substitution strategies. Initially the remedy was to intervene to counteract the bias. Much of the support that developed for small-scale industry was of a direct kind and at the micro level (Schmitz and Musyck, 1994). Principally, these involved forms of managerial and technical support through training, credit provisions and a range of site and service type of facilities. Later this was replaced by structural adjustment policies aimed directly at removing the so-called market distortions to create a level playing field in which enterprises of all sizes have access to resources. It was argued that a market-based approach would reduce the scope for arbitrary decision-making and lessen the opportunity for privileged access to resources through bribery and patronage. In part, the decision by the World Bank in 1991 to terminate directed lending to SMEs reflected a movement away from direct towards indirect support for the sector.

This approach is based on the wrong assumptions that SMEs possessed equal competitive strength to compete with multinational and transnational organizations. But to assume that is flaw. The point is that SMEs by its nature are at disadvantage to compete with transnational and Multinational Corporation. In particular, the case and conditions of SMEs in Africa and other developing countries are poor compared with that in advance countries where infrastructure is highly developed (see the World Bank development index).

In SSA and other developing economies, weak governmental and regulatory policies often preclude a full-scale actualization of SME goals and for that matter embrace of the entrepreneurial culture (See Stiglitz, 2003). In fact, the lack of an overarching policy framework prevents many businesses from moving beyond the good idea stage. In the absence of an improved business and policy environment, individual SME interventions are unlikely to fully succeed (World Bank, 2002).

While governments in many developing countries have liberalized their economies in recent years, the focus has been on larger policy and institutional issues, such as freeing up foreign exchange markets, rationalizing taxes and tariffs, establishing investment and export incentives, and stabilizing the macroeconomic environment. Less attention has been paid to reform on the regulatory level and enforcement of competitive and antitrust rules. In other words, while, the liberalization policies have exposed the domestic SMEs to bad practices of multinational firms, SMEs are left to adjust to constraints create by such policies. These constraints require SMEs to navigate a landscape strewn with enough unequal competitive and administrative red tape. In addition to constraints brought about by adjustment policy, SMEs in Africa also face problems of barriers to accessing information, insufficient internet access, official and unofficial levies, expensive and time-consuming regulatory, licensing and permit requirements, Lack of legal framework for commercial transactions and dispute resolution, Inadequate protection of business and intellectual property, Government procurement procedures that discourage successful bidding by SMEs.

Therefore, to expose SMEs to unequal competition from transnational and multinational competitions in the name of creating a 'level playing field' is to create conditions that lead to the bankruptcy of SMEs and impede their potential to provide employment and subsistence income to the poor and the vulnerable in developing countries. It may stifle the SME sector and hence poses a serious threat to the sector's existence (Quartey, 2001; also see Cook, 2000).

The second approach has been associated with the structuralist school of thought: it advocate for the continuance of forms of intervention to assist small enterprise development (Dijsktra, 1996; Lal, 1995). The general difference between the two approaches is not in questioning the importance of the appropriate macro-environment for small-scale development but in the nature of the types of changes that are required to bring about improvements. In fact this and other neoliberal theorists have acknowledged the significance of appropriate 'enabling conditions' for the SMEs. Notwithstanding, the infant industry argument underlies the second approach and envisages forms of intervention that are contradictory to the neo-liberal analysis. The consensus in the structuralist approach retains the need to improve the overall policy environment for small-scale industry and, in particular, to remove the bias towards large-scale industry (Liedholm and Mead, 1987; Stewart, 1990). Removing the bias, however, is not merely one of eliminating price distortions but is related to devising overall micro-level approaches that cope with the specific problems facing small-scale entrepreneurs and are compatible with the general direction of industrial and macroeconomic policy. This approach, more than the other, comes with a clearer recognition that previous and existing policies are the result of a complex set of factors, within which vested interests play an important role. It also recognizes that the neoclassical view of how the competitive process works through markets that is embodied in the first approach is overly simplistic. As a consequence, the second school stresses that the process of policy reform cannot rely on market principles alone; therefore, there need for specific support for SMEs.

In most SSA countries, especially Ghana, SME policies prior to SAP seems to fit the structuralist analysis. 'Prior to the IMF and the World Bank sponsored Economic Reforms in developing countries, a majority of SMEs were sheltered from competition' (Quartey, 2001). But the SAP precipitated attempts to reduce and to encourage efficient markets in developing countries through various policy reforms. This includes the withdrawal of subsidies and the removal of protection from local industries, in addition to the trade and exchange rate liberalization policies. These policies have jointly or partly led to the closure of many firms, which could not face competition from local producers as well as imports. Trade liberalization has encouraged the importation of cheaper locally manufactured substitutes into developing countries (Quartey, 2001).

5.0 Conclusions

In my review of the literature I identify three different schools of thought on contemporary globalization: the neoliberal, the critical reform and liberal reform. Almost all of the orthodox and neoliberal free market analysts agree that globalization is naturalistic and inevitable and that via international markets and international governmental organizations development will trickle down to developing countries (Nicola, 2002). They also believe that under conditions of globalization and structural adjustment the domestic private sector in developing countries will be revived or activated and able to propel African countries into the development process They further argue that any effective development 'require[s] liberalized trade, and getting the price right. Essentially, once the government gets out of the way market would produce efficient allocation (Stiglitz, 1998). Consciously or unconsciously they interpret the facts about globalization and adjust them to fit their ideological predispositions. While this view has its appeal and many supporters it has considerable difficulty in accounting for the known facts about existing trends.

In pursuing the liberal agenda, they argue that globalization is naturalistic. But the fact is that it is not. Globalization is a strategy designed to integrate developing countries into a global market and economy where developing countries are at a clear disadvantage. There is no level playing field; rather the global economy is structured on the basis of relations of economic—and political—power. Ideologically, globalization is predicated on the what Williamson (1990) termed the Washington consensus of the 'political'

Washington (the US Congress/the Administration), the 'technocratic' Washington of the IMF and the World Bank, and the right-wing foundations, think tanks and policy forums), which, as Stiglitz (1997, 1998, 2002) observes, has already broken down and being superseded by an emerging and quite different new consensus. Under the Washington Consensus, the globalization project entails an alliance between neoclassical theorists, transnational corporations Western developed countries to force developing countries to provide a favorable environment and legal security for investment capital, ensure their capacity and willingness to pay their debts and allow unhindered access to their domestic markets.

Of course, controversies abound on the issue of Washington Consensus, and its link to globalization and structural adjustment (SAP). The point is not that a Washington Consensus did not exist. It certainly did and to some degree does. The point is that it embodies a rigid set of ideas targeted at integrating developing countries into the global market. Although Stiglitz points towards the need for a new consensus, there is no question that throughout the 1980s and 1990s the basic elements of the Washington Consensus have persisted and is still very much on the political agenda. The elimination of obstacles to international trade and investment that fueled much of the economic integration associated to globalization certainly owes a lot to the influence of the Washington Consensus on many liberalizing countries. For instance, deregulation, liberalization and privatization are at the core of the Washington Consensus and they remain the pillars of the reform process to which the World Bank, Wall Street, the IFIs and the US administration are still very much committed.

Within neoliberal academic and policy-making circles it is generally argued that globalization is not imposed on countries nor directed by its agents. However, this view does not accord well with the facts. The evidence is that most countries, especially in Africa, have been either forced or deluded into accepting the Washington Consensus policy of globalization (Amin, 1994). For instance, the belief that a less developed country could not really benefit from freer international trade and investment is widely held in these countries but policy makers and governments in these countries are not able to act on this belief. The prescription that government-imposed barriers to imports and exports, to foreign investment, and to foreign currency transactions should to be lifted is sharply at odds with the strongly-held conviction of many politicians and intellectuals in developing countries that their economies have to be protected from an unfair and exploitative international system that is rigged against them. On this issue we need only point towards Julius Nyerere's notion of 'autonomous development', Samir Amin's notion of 'de-linking, arguments in favor of a 'basic-needs' approach and ECLA's conception of a 'comprehensive' form of 'social development' (productive transformation with equity). All of these ideas are connected to the notion of another form of development, an alternative paradigm predicated on development from below and within rather from above and the outside—a form of development that is the antithesis of globalization.

The issue is: what has led the developing countries over the past two decades to fall into line with the Washington Consensus—to implement national policies consistent with this consensus and against the advice and thinking of their own intellectuals and many of their own policy-makers? To this question various answers have been given, including the leverage gained by institutions such as the IMF and the World Bank with the debt crisis of the early 1980s. Clearly there was a convergence of diverse structural, ideological and political factors at play (Veltmeyer, 1997, 2000). In any case, this convergence of objective and subjective factors left many developing countries with little to no choice but to fall into the welcoming but stern arms of the Washington Consensus. This, in turn, meant the discovery of orthodox macroeconomic policies and the dismantling of the protectionist structures that had been put in place. This was especially true of the highly indebted countries desperate to seek some form of respite from the weight of their massive foreign financial obligations, a respite that was offered in exchange for the adoption of economic reforms. Because of these inconsistencies neoliberal analysis does not offer any basis or a framework for critical analysis of the issues at the centre of this thesis—the micro-impact of globalization and the question of SME Support (See Stiglitz, 2002).

In contrast, the liberal reformist literature acknowledges the link between economic globalization, structural adjustment and the policies of Washington Consensus (Stiglitz, 1998, 2003). By implication the liberal reformist, as represented by Stiglitz, affirms that globalization has its source in an ideology traced to the US government and the IFIs (Stiglitz, 2003).

Further, the liberal reformist literature agrees that globalization cum the policies of the Washington Consensus hardly offers a platform for addressing micro problems in developing countries. Stiglitz asserts that 'the policies advanced under the Washington Consensus are hardly complete and sometimes misguided because they 'ignored financial regulation, competition policy and policies involved in the transfer of technology to developing countries. In other words, privatization, deregulation and privatization, provide a misguided and highly inappropriate policy and institutional framework for the SSA in regard to economic development, particularly as regards to the micro-dynamics of the system vis-à-vis the SMEs.

To put this into theoretical perspective, although the liberal reformist literature does pinpoint flaws in the neoliberal globalization policy agenda, its disagreement with the Washington Consensus is merely operational or tactical. For instance Stiglitz asserts that while the Washington Consensus policies were 'hardly incomplete' and sometimes 'misguided', it offers an excellent evolutionary framework for attaining development via free market system (Stiglitz, 1998). Therefore with a little 'cosmetic surgery' it will work out in developing countries. The question for me is whether this position offers any useful principles or working ideas to argue my thesis. At this point I will leave this question in abeyance.

In contrast to the liberal reformists, the critical or radical reformists rejects the Washington Consensus and for that matter globalization. For these critics, the normative assumptions and diagnosis of the neoliberal theorist are inherently flawed and inappropriate as an analytical or a policy framework for developing countries. Policies of globalization and structural adjustment are not effective to address problems in developing countries, because they were never intended to do so but rather to pursue the interest of the international capitalist class in a free market form of capitalist development.

For the purpose of this thesis, both the critical analyst literature and that of the liberal analysts offer elements of an appropriate theoretical framework. For example, both school of thoughts refute the notion that globalization is new, inevitable or desirable. This provides one of the presuppositions of this thesis, as well as several working ideas.

The neoclassical or neoliberal model of globalization does indeed offer an idea as to what policies might be prescribed so as to lower inflation and to achieve macroeconomic equilibrium—preconditions for a stable and sustainable process of economic development and conditions for creating a favorable environment for attracting foreign investors and arresting a trend towards economic decline. However, what the Washington Consensus does not provide is a set of policies that would enable reforming countries to better cope with the consequences of globalization, especially in the domestic enterprise sector. It '[does] not take into account social objectives and [it] exclude[s] many forms of protection for [the] poor' (Jeeon, 1996). At best globalization can be associated with conditions of economic collapse and social exclusion—and a negative impact on SMEs in developing countries (Stiglitz, 2003).

However contrary to the analysis of some Marxists, the argument that globalization has led to a reduction in the power and autonomy of the state is not entirely unfounded, especially in SSA. In reality, globalization appears to have reduced the role and scope of the state vis-à-vis the capacity to pursue development programs. This is evident in the case of Ghana.

In conclusion, my review of the literature leads me to assume that globalization is a strategy initiated under the Washington Consensus to benefit countries in the North at the centre of the world capitalist system. Neither by design or in its effects does globalization benefits developing countries like Ghana, the object of this thesis. It is implemented through the agency and power of the IFS, although the form of its implementation depends in part on the position of the client country in the global market. However, in pursuit of a globalization agenda—to integrate the developing country into the global economy—there may very well occur some development in developing countries, but such a positive effect will be outweighed by the social and economic—and political—costs involved. These costs include conditions of socials exclusion and exploitation—the denationalization and privatization of the country's productive resources and public assets and the private expropriation and international transfer of these resources and the wealth that they generate. This is a radical conclusion but the literature provides sufficient evidence for me to take it as a working idea.

The relationship between the Washington Consensus and globalization-supportive policies such as deregulation, privatization and liberalization contradicts the neoliberal view of globalization as naturalistic, and in fact it conforms to the critical view of globalization as ideological, strategic and exploitative. Again, the available evidence appears to support this view and I use it as a working idea to construct this thesis of this study.

Chapter Three

Neoliberalism and the Global Economy

1.0 Introduction

In the last chapter, I identified three main theories and ideologies used to explain globalization and mobilize policy action towards it. These are the neoliberal, critical or radical and liberal reformists. As for the first, its main advocates can be found in certain policy-making and academic circles as well as in the 'international financial community', the governments of the major capitalist countries, and the transnational corporations, all of whom and which have promoted the 'structural adjustment program' in Ghana in order to facilitate its increased integration into the global capitalist economy.

These SAPs and the mutual interests of this alliance are cloaked in the contemporary ideology of 'neoliberalism', which found its political conditions in the Reagan-Bush administrations in the US and the Thatcher-Major governments in the US (Friedman, 1999). This ideology (and associated theory) includes the concepts of the 'the free market' and 'free trade' and the idea that market forces will cause the world's great corporations to bring about development and prosperity to all the world (Korten, 1999).

Neoliberals also believe that 'the more you let market forces rule and the more you open your economy to free trade and competition, the more efficient and flourishing your economy will be'. Globalization, in this ideology, is equated with the 'spread of free market capitalism to virtually every country in the world' (Friedman, 1999). This formula is part of the contemporary ideology of the transnational corporations as well as the international financial and trade organizations and the foreign policies of the governments of the major capitalist countries—particularly the United States, most of the member states of the European Union, and Japan.

From a critical political economy perspective Chapter Two concluded that globalization is a project designed by IFS and Western governments to integrate developing countries into the global market under conditions that clearly favor countries at the centre of the system and that lust as clearly place developing countries at a disadvantage. Therefore, irrespective of the claims by its proponents SAP was a mechanism use to operationalize globalization and increase the integration of developing countries into the global economy. This position is adopted conscious of the fact that it contradicts the neoliberal theorist analysis. Structural adjustment programs dominated economic policy in the 1980s. A considerable number of authors have shown concern about the paucity of research on the impact of structural adjustment on economic or business enterprises in Africa, particularly as relates to SMEs (Mkandawire, 1988; Pack, 1988; Helleines, 1990; Stein, 1992).

This chapter follows the analysis of the previous chapter and discusses the operational mechanism of globalization in Ghana. The objective of this chapter is to identify how Ghana is recruited and/or integrated into the global market by the IFIs and the WTO. It discusses structural adjustment policy in Ghana. To do this it first traces the dynamics of globalization in Ghana, including the periods prior to SAP conditions, role of IMF and World Bank in implementing the globalization agenda. Finally, it discusses the literature on the impact of structural adjustment policies on domestic SMEs in African countries.

2.0 The SAP in Ghana

For Ghana, like most African countries striving for development, the 1970s and early 1980s represented a period of socioeconomic crisis. During the period, Ghanaian economy experienced stagnant economic growth, high debt burdens and declined investment flows (Charles, et. al.). While causes of this crisis varied from internal dynamic, external interference, natural calamities to unfair terms of trade, generally, Neo liberal analysts attributed it to inappropriate domestic policy, and mismanagement, administrative constraints, and market inefficiency (See the "Berg Report", World Bank, 1982, also see Jeong 1996, Konado-Agyeman, 2000).

In 1983, as a condition for receiving financial assistance from the IFIs, Ghana subscribed to the World Bank and IMF designed structural adjustment program (SAP) (Kanado-Agyeman, 2000). Generally, the SAP has been used by the IFIs, the Western capitalist governments and other 'aid' donors as a lever (a set of conditions) to promote, if not require, policy reforms desired (and mandated) by these organizations (Kraus, 1999; Osunsade, 1993). As part of SAP conditionalities, the Overseas development Associations (ODAs) connected to the IFIs and Western Governments, direct countries to slash government expenditure, reduce or eliminate subsidies on essential items and introduce user fees for social services. In addition, under the structural reforms insisted on by these ODAs key sectors of the economy are privatized and the domestic economy is liberalized—opened up to the forces of the world market, which is ostensibly 'free' (from government interference and constraint)(Konado-Agyeman, 2000).

Adjustment was aimed at correcting Ghana's socioeconomic crisis, ensuring macroeconomic equilibrium (stable foreign exchange), reducing trade and investment restrictions, initiating tax reforms, improving agricultural output, and rationalizing state controlled enterprises as well as boosting expansion in the private sector. But many critics disagree. For them, conditions such as cuts in government expenditure and removal of import controls and subsidies, devaluation of local currencies, high interest rates, and Privatization of government enterprises, were intended to curtail Ghana government's influence in the economy and stimulate conditions that will integrate Ghanaian market into global market. Since 1983 when it subscribed to SAP, Ghana has removed all forms of market control and exchange regulation, sold and/or 'diversified' over 300 state enterprises, and scrapped subsidies and domestic enterprise protection policies. The moves, affected virtually every sector of the economy, especially, the enterprise and development sector. In order to understand the impact of the policy change, it is necessary to briefly describe the conditions prior to that year to put into context the scenario that led to the SAP.

First, it should be noted that IMF and World Bank involvement in Ghana dates back to the period immediately following independence, in May 1965, when Nkrumah, unsuccessfully, approached both organizations for assistance in financing a program to diversify the Ghanaian economy and to facilitate the shift from a primary product export economy to one based on import substituting industrialization (ISI). During the period, price of Cocoa, the main foreign exchange earner for Ghana, was failing at the world market, while the government pursued a development program designed to improve the medical and educational facilities as well as the country's road and rail network. This program included the building of the Akosombo hydroelectric dam and construction of the Tema harbor and related industrial facilities (Frimpong-Ansah, 1991).

Until the second advent of Rawlings onto the Ghanaian political scene, and his paradigmatic U-turn to the IMF for financial assistance, other Ghanaian leaders had from time to time received funding from IMF and World Bank but any interactions with these institutions, especially in regards to the insistence of these institutions on certain 'conditions' (stabilization and adjustment measures), had been used by the government as a pretext for military intervention, as was the case in 1972, or they provided the political opposition with the ammunition to foment trouble, as happened during the Third Republic in 1979-81.In this context, the government's dealings with the World Bank and the IMF generated in Ghana conditions not of economic prosperity but of political instability.

However, contrary to the situation in recent years, funding conditions in these years did not entail the policy program and the conditions of long-term structural reform characteristic of the SAP today. The IMF and World Bank began to attach such rigid adjustment conditions to loans disbursed as of the early 1980s, at which point they also began to assume more control over the planning, implementation and monitoring in the development process of borrowing countries.

Explanations as to why the IFIs and ODAs changed their funding policies vary according to ideological background of the analyst. Most World Bank analysts attribute the change to extensiveness of economic crisis in Ghana during the period. For them the severity of Ghanaian economic crisis indicated a failure and/or inappropriateness of earlier economic policies. In other words, the crisis in Ghana was evident of failure of ISI program and the general development strategies, and therefore the need to reorient Ghana's development strategy. For instance, IMF researchers and other analysts argued that the problem was caused by interventionist policies including price controls on foreign exchange, prices and credit, quantitative restrictions on imports, corruptions and rent seeking activities of state officials ('Berg Report': World Bank, 1981; see Konado-Agyeman, 2000).

To be sure, from 1970 to 1980, Ghana was undeniably in crisis. Inflation and cost of productivity was high. The import substitutions industries were characterized by under capacity utilization, while productivity in the agricultural sector declined. The downturn was further exacerbated by severe drought in 1983 and falling cocoa prices. The Crisis above have indeed pressed the Ghanaian government for solution. But whether this signifies a sufficient explanation of why Ghana subscribed to SAP, however, is doubtful. Much doubtful is if this caused the change in policy (Konado-Agyeman, 2000).

To start with, external factors, for instance, failing cocoa prices that befall Ghana, discrimination and reluctance on part of international financial institution to lend credit to support Ghana's development plans, as evident from IMF refusal to support Nkrumah's development program, in May 1965, contributed to the crisis. In addition, political influences, especially the resurgence of neo-conservative in government in the US, UK, and Germany, and their desire cum determination to implement globalization agenda has been found to play a significant role in Ghana's subscription to adjustment program (Harris, 2000, Agyeman-Konado, 1999). At the same time, internal constrains including political instability and drought contributed to the crisis. Therefore, the combination of internal and external factors, and natural calamities accounted for Ghana's crisis but its subscription is best explained by external economic and political influence. This chapter will discuss circumstances around Ghana's subscription to SAP, and the specific measures associated with adjustment conditions.

3.0 Setting the Stage: A Period of Pre-adjustment

At independence, Ghana was considered to be relatively developed in the context of Sub-Saharan Africa (Sarris, 1992; Younger, 1989). It had highest per capita income in sub-Saharan Africa (50 pounds in 1957, and 70 pounds in 1960); with most educated, skilled and experienced workforce. It was the world leading producer and exporter of cocoa, exported 10 percent of the world's gold, and had external reserves of about 200 British Pounds, equivalent to three years of imports (IMF Survey, Ewusi, 1989). Further, Government institutions were relatively well developing (Huq, 1998; Roe and Schneider, 1992; Werlin, 1994). By all criteria, Ghana was probably among the middle income countries, almost a par with South Korea (Werlin, 1994). But the boom did not last long.

In the middle of 1960 and early 1970s, its economy begin to experience persistent decline in GDP, production and export revenue. GDP fell to 0.4 percent while the external reserve dried up to a debt of about US$1 billion. The industrial earning fell by

25% (Huq, 1989; Rimmer, 1992). This trend led to economic crisis as 'the lower half' of Ghanaian 'income earners shared one-third of the national income' as compared with one-half in 1957.The downwards trend continued. By the early 1980s per capita income had fallen by a third, and inflation was persistently high and running at over 100 percent. In addition, illegal activities and political instability increased and culminated into decrease in per capital income. Collectively, these problems reflected into increased incidence of absolute poverty, worsening income distribution, and growing unemployment. Further, between 1970 and 1983, export earnings declined 52 percent, imports by 33 percent. To add to the problem, large number of Ghanaians—artisans, teachers, and medical professionals as well as unskilled workers left the country in search of opportunities abroad. In addition to these problems Ghana suffered one of the worst droughts and famine in its history. To add to the increasing crisis, the Nigeria government deported over a million Ghanaians from Nigeria (Konado-Agyeman, 2000). Consequently, the socioeconomic problems intensified (Huq, 1989; Chazan, 1991; Rimmer, 1992; Werlin 1994; Brydon and Legge, 1996). Undeniably, the economic situation in Ghana' during the period was severe. Loxley (1999) has argued that economic growth was virtually stagnant from 1970 to 1980 and that it fell 20 percent between 1980 to1983.

Researchers have suggested a number of causes. Some of these include economic mismanagement, overregulation of the economy, inflation, productivity disincentives, over-subsidization of social services such as education, business support services, agricultural subsidies, an over valued currency, political instability, corruptions etc. Collectively, neoliberal analysts associated it with the failure of the development strategies pursued in Ghana since independence, and hence they justified their prescriptions for change in development strategy (Konado-Agyeman, 2000).

Without a doubt, these issues contributed to the crisis. Even so it may be inaccurate to conclude that the failure is related to the inappropriateness of the development strategy.

4.0 The Dynamics of Crisis in Ghana

The conditions that caused Ghana's economic development problems and the reasons why it subsequently adopted SAP are varied. Critically, these include but not limited to unsustainable development policies, frequent political instability, external economic shock, and natural calamities.

4. 1 The Development Policy Failure

First, after independence, Ghana pursued ISI strategy that focused on development of large-scale state-owned enterprises that will diversify the predominantly agricultural economy. Under the ISI Ghana established industries that will manufacture goods which otherwise have to be imported. This was peculiar with most Africa countries. For example, in the 1970s, Nigeria built a giant steel factory at Ajakuta. Also in the 1980s, Tanzania's government builds a shoe-manufacturing factor that would provide all of

Tanzania's footwear needs, and export the remainder. Unfortunately, the result was unsustainable because of various constraints.

In any case, the government administered variety of system of trade controls to promote and protect domestic industries. Specifically, firms pursuing ISI were protected from foreign competition through a restrictive trade policy regime, complemented by an array of subsidies serving as incentives. On trade policy, protective instruments included quantitative import restrictions, foreign exchange rationing, high tariffs on imported consumer goods, import licensing and domestic price controls. Other measures included the administrative fixing of minimum wages, rents and interest rates. Specifically, the control system involved:

- a licensing system for the allocation of foreign exchange resources;
- maintenance of an overvalued currency to stimulate the importation of capital and intermediate goods
- High tariffs on imported finished consumer items to protect the domestic market for the established import-substitution industries.

On the other hand, the system of incentives included:

- a tax holiday of up to 10 years for newly established industries;
- reduction of or exemption from taxes on imported inputs;
- tax concessions of 40 percent on assets for owners of industrial plants;
- exemption from property taxes on construction, capital and other fees such as scientific research deductions; and

- Subsidies on investments by borrowing from the Ghana Government at rates below the domestic and internal market rates.

For most of the 1960s, import substitution industrialization led to high rates of growth and additional employment opportunities. There was a growing independence from imported items especially with respect to consumer goods. By the end of the 1960s, however, growth rates slowed down and gains of the strategy started dwindling away. (UNIDO, 1986:14).

4.2 Political Instability and its Impact on Development Policy

The frequency of political interruptions during the period 1970-1983 can be cited as one of the key factors responsible for the failure of Ghana to formulate and implement a consistent policy for industrial development. Briefly, Colonel I.K. Acheampong overthrew the government of Dr. K.A. Busia in 1972 and set up the National Redemption Council (NRC), which ruled until 1975. In that year, internal power struggles led to some new personnel at the top as the NRC was changed into a Supreme Military Council (SMC), still chaired by Col. Acheampong. In 1978, General F.W.K. Akuffo replaced Col. Acheampong as head of state and chaired a reconstituted Supreme military Council (SM.C II). In June 1979, Flight-Lieutenant J.J. Rawlings overthrew that government and ruled as Chairman of the Armed Forces Revolutionary Council (AFRC) for a few months and handed over in October 1979 to an elected civilian government with Dr. Hilla Limann as President. On December 31, 1981, Rawlings came to power again through a coup and ruled as Chairman of the Provisional National Defense Council (PNDC). During this period of political instability, only two development plans were formulated and launched. These were the One-Year Development Plan, 1970- 1971 and the Five-year Development Plan 1975/76-1979/80. Over the period, government development policies were presented in the form of white papers and budgets

The political instability led to various inconsistencies and discontinuities in Ghana's diversification program. Any time that plans were set for policy reorientation and implementation the political instability disrupted the programs, because whenever there was a change in government, the new government discredited the development plans of the previous government. Since no plans succeeded, the problems associated with ISI persisted and even worsened year by year.

4.3 The Fall in Agricultural and Industrial Output

During the period, Ghana suffered continues fail in productivity in the agricultural sector and under capacity utilization in the ISI industries. Cocoa production declined steadily and reached a record low in 1984. This affected the quantity of export. For instance, Cocoa export that normally accounted for sixty percent of Ghana's foreign revenue declined from 557000 tones in 1964/65 crop year to 185000 long tons in 1980/81. This resulted in a net deficit in the budget in 1981 and 1982 (Ewusie, Kodwo, see Legon, Ghana: ISSER, 1999). Consequently, it affected the revenue projection, and Ghana suffered a balance of payments deficit that led to a depletion of foreign exchange reserves and culminated in the accumulation of external payments deficits of about

US$580 million by the end of 1982 (IMF, 1991). Various factors contributed to this. Most common are the severe drought which Ghana experienced in between 1970 and 1980; and a fall in prices of its principal exports commodities; cocoa, gold and timber suffered at the world markets. The three major commodities—gold, cocoa, and timber—contributed over 70 percent of Ghana's foreign exchange earnings (Konado-agyeman, 2000).

4.4 An External Shock

While Ghana was battling with a fall in productivity and under capacity utilization, it suffered four severe external shocks in 1973: First, in 1973-1974 OPEC's quadrupled the price of oil. This was followed by the oil shock of 1979-80 in which the price of oil tripled. Second, a collapse in the price of various export commodities from Ghana. Third, an interest-rate shock in 1981-2, when most rich countries raised interest rates in order to combat inflation. While the world price of Ghana's leading exports plummeted the world price of crude oil soared. The combination of these economic shocks dealt Ghana a severe a blow. It devastated the balances of payments, brought the rapid economic growth of the post-independence to a dramatic and painful end, and the country's politics into decades of turmoil. It raised the prices for imports of energy and petroleum based products. Consequently Ghana had to redirect much of its income to pay for oil imports. Almost half Ghana's budget was used to pay of oil and petroleum related import bill. In addition, Ghana had to pay a higher cost for manufactured imports from the Western Industrial goods to meet the cost of price increases in the West. At the same time, while Ghana was facing a growing bill for its imports, the world market prices of its exports were declining, resulting in a big rise in the trade deficit for Ghana. All in all Ghana found it extremely difficult to adjust to the exogenous shocks of the 1970s (Konado-Agyeman, 2000).

In the 1970s and early 1980s, because of the large and sudden deterioration in the trade balance and the availability of loan capital Ghana borrowed from the Western banks to pay for the trade imbalance. However, internally the dynamic led to real wage cut between 1975 and 1985, with a resulting shift in economic activity to the informal sector, a marked increase in contraband, and a severe contraction in the tax base. The deficit prompted sharp cuts in government spending, leading to deterioration in the country's economic and social infrastructure (Jeong, 1996; Kanado-Agyeman, 2000).

4.5 Ghana's Inability to Move towards Export Diversification

By the 1970s, it had become clear that Ghana was unable to diversify its economy from primary product export to industrial economy. Various factors accounted for this. First, the ISI industries found it hard to penetrate international markets because of various trade barriers in other countries. Protectionist barriers in industrialized countries left little opportunity for Ghanaian exports in the world market.

Notwithstanding, Ghana imported, virtually every key commodities ranging from oil petroleum, machinery, and manufactured goods to other intermediate capital goods; from abroad. Hence, the reliance on export of primary products and import of manufacturing and consumer goods placed the Ghanaian economy at a highly vulnerable sport, especially to price hikes on imports in the international market. For instance, in 1998 when crude oil price rose threefold, inflation went high, while the exchange rate depreciated. Therefore the resultant high inflation affected the ISI industries that over relied on import of capital equipment, machinery, semi-processed materials, and technical and managerial skills (*IMF Survey*, October 1993: 13-15; Kanado-Agyeman, 2000).

Further, the decline in export revenue reduced the government tax base and caused declined in government revenue. Therefore the government had to rely on external sources of funding including economic aid from Western donor countries that were, from on set, hostile to the ISI program. Many researchers have affirmed that lack of donor support for credits, accounted for ISI constrains (United Nations, 1970: 9-10; Darkoh, 1977: 33). Agreeably, decline in productivity was partly due to policy inconsistency, and bureaucratic mismanagement; i.e. overstaffed and inefficient parastatals, poor infrastructure, low producer prices, and budgetary imbalances (Rothchild, 1991)

Yet the oil crisis of the 1970s took much of Ghana's foreign exchange earnings leaving very little for development projects (IMF, 1993). Consequently, the Ghanaian government was unable to provide adequate jobs for its youth; this triggered a 'brain drain' or the flight of intellectual capital and other human capital resources to other parts of the world.

5.0 Ghana's SAP and the Washington Consensus

Ghana's adoption of SAP and globalization program was anomalous in light of the well-known tendency of countries to resist reform (Fernandez and Rodrik 1991, Drazen 1996, Alesina and Drazen 1991, and Nelson 1994). In particular, the abrupt change of the, somehow, nationalist policies of the then Ghana government, to free market is very questionable. This Section put Ghana's subscriptions to adjustment into theoretical context. The three main arguments explaining economic reform in the LDCs focus on external pressures, political leaders and their ideas, and economic crisis.

5.1 Change in Political Leadership

Some scholars, including, for example, Edwards (1995), Bierstecker (1995), Krueger (1997) and Sikkink (1997), attribute economic reform to changes either in the political leadership or in the ideas leaders hold about economic development. For them, decisions to change from one development policy or another occur in two ways: either there is a change in the entire leadership of a country or there is a voluntary change in beliefs and ideology on existing leadership. Those who take this view argue that democratic change and/or military take over, or any means of change that brings about new leaders with different ideas or from old leaders with new ideas, prompts reform in developing countries.

While this analysis, to an extent make some sense, the analysis on its own does not explain the circumstance of Ghana's subscription to SAP because there was never a change of leadership in the first place. And there was never a change in ideology of Ghanaian leadership during the period. In fact the Ghanaian leadership headed by Rawlings was a nationalist and sufficient events prevails to support the argument that till date Rawlings remains so. Therefore, whatever prompted the Rawlings government to subscribe to SAP clearly had little or nothing to do with a change in ideology or government.

5.2 Economic Crisis

For other scholars, including Stallings and Kaufman (1989), Nelson (1990, 1994a), Haggard and Kaufmann 1995), Edwards (1995), Drazen and Grilli (1993), Tornell (1998), Drazen and Easterly (2001), economic crisis best explains reasons for reform in developing countries. For these scholars, economic failure/crisis either absolute or relative, and/or both prompts leadership to give up on ISI and embraced more market-friendly economic policies. In order words, crises underscore the failure of old policies and creates environment in which radical new policies can be tried. The crisis argument, of course, is related to claims about new ideas, and to an extent, the external pressures argument (as discussed below). Explaining this view, Rodrik (1996), Drazen and Grilli (1993), and Alesina and Drazen (1991) noted that the more distorted the policy in place is the worse off the economy is, and therefore the more likely that all groups in leadership will be able to agree on reform to reverse the distortion. Hence, an economy in crisis should facilitate reform (e.g., Nelson 1994a: 11) and increase its reliance on external benefactors, such as private investors or the IMF.

This analysis is in a way relevant to Ghana's case, and it is consciously or not used by most neoliberal analysts to explain why Ghana subscribed to SAP (World Bank, 1981; Konado-Agyeman, 2000; Joang, 1996). As will be seen in the next section, Ghana was actually in deep economic crisis in the period shortly prior to adjustment. Notwithstanding this crisis situation it is not a sufficient explanation as to why Ghana succumbed to the SAP. The argument that Ghana subscribed to the SAP because of its crisis assumed the popular argument that there was no alternative to SAP. Although, the limit of this thesis does not allow extension of the analysis to whether there as an alternative or not (according to Margaret Thatcher 'There is No Alternative'). It is my view that the reason why Ghana subscribed to SAP extends beyond the economic crisis argument.

5.3 Pressure from the Outside

Many scholars have argued that a variety of pressures external to the developing countries have forced them to change their policies and join the global economy. Although those who hold this view acknowledge the part played by pressure of economic crisis, they argued that external pressure from Major Western governments, International organizations, and groups compels developing countries to subscribe to reform. Some of these arguments focused on US hegemony associated with the end of the Cold War, others on the role of private investors and countries' desire for foreign investment, and others on pressures from international institutions such as the IMF, World Bank and

WTO (e.g., Kahler 1986 and 1989; Stallings and Kaufman, 1989; Haggard and Kaufman, 1992; Nelson 1990, 1994a; Stallings, 1995).

This argument offers appropriate explanation of why Ghana, a typical African country, subscribed to SAP. It explains why Ghana's subscription to SAP coincided with increased pressure from Western governments, International Financial Institution and WTO, on African Governments to adopt adjustment reform. Most importantly, it acknowledges the intensity of Ghana's crisis and the use of stabilization, adjustment/restructuring and shock measures, as conditions for receiving financial assistance to address Ghana's economic crisis.

5.4 Washington Consensus

The 'Washington Consensus' set a platform for the pursuit of 'neoliberal' and globalization policies that have been imposed on developing countries including Ghana by the Washington-based international financial institutions. The liberalizing economic reforms of the past two decades were imposed by the Washington-based institutions (for example, see Stewart 1997). The policy formulated in the consensus is what was transform into SAP and implemented across developing countries, especially, Africa. The elimination of obstacles to international trade and investment that fueled much of the economic integration associated to globalization certainly owes a lot to the influence of the Washington Consensus on many liberalizing countries The Washington Consensus' prescription that government-imposed barriers to imports and exports, to foreign investment, and to foreign currency transactions had to be lifted was sharply at odds with the long-held conviction that developing countries had to protect their economies from an unfair and exploitative international system rigged against them .

To an extent the belief that a less developed country could not really benefit from freer international trade and investment was, widely held in African countries. For instance the Tanzania's Julius Nyerere's 'autonomous development', Samir Amin's 'de-linking', the 'basic-needs' approach, Francois Perroux's 'development poles', ECLA's 'comprehensive social development', were but few. Therefore the advocates of the consensus saw the need to force developing countries to accept the policies. The debt crisis and the end of the Cold War made it impossible for governments to sustain its resistance to the policies. Consequently, Ghana like other developing countries had little choice but to fall into the stern agenda of the Washington Consensus. This was especially true of highly indebted countries desperate to seek some form of respite from the weight of their massive foreign financial obligations; a respite that was offered in exchange for the adoption of economic reforms. This, in turn, meant the discovery of orthodox macroeconomic policies and the dismantling of the protectionist structures that had been put in place. These policies were:

- Fiscal discipline
- A redirection of public expenditure priorities toward fields offering both high economic returns and the potential to improve income distribution, such as primary health care, primary education, and infrastructure
- Tax reform (to lower marginal rates and broaden the tax base)
- Interest rate liberalization
- A competitive exchange rate

- Trade liberalization
- Liberalization of inflows of foreign direct investment
- Privatization
- Deregulation (to abolish barriers to entry and exit)
- Secure property rights

For some, the Washington Consensus as a policy manifesto that its adherents supposedly believed to be valid for all places and at all times. Hence the policy goals became precondition for assistance. Although new tactical or minor goals were constantly added to the list of requirements for an acceptable performance. Since its adoption, only a few adjustments were made to it. For instance, Dani Rodrik argues, that the consensus forms that main policy goals with a minor adjustment. He argued that there now exists an 'augmented' Washington Consensus, which in addition to the items listed above, adds: corporate governance, anti-corruption, flexible labor markets, WTO agreements, financial codes and standards, 'prudent' capital-account opening, non-intermediate exchange rate regimes, independent central banks / inflation targeting, social safety nets, targeted poverty reduction (Rodrik, 2001) Some of today's policy discussion, however, might still be understood by using the term as a reference point.

While, the debate continues about the Washington Consensus, its definition, its link to globalization and adjustment policies, and whether it even exists. As many of the Washington Consensus' policy components—however it is defined—relate directly to liberalization, neoliberal markets and the on-going adjustment policies. In other words, it explains the source of pressure on Ghana's recruitment into the SAP.

The next section develops this argument by analyzing Ghana's circumstances prior to adjustment.

6.0 Circumstances and Reasons for the Adoption of the SAP

While the three explanations above are interrelated, apparently the circumstances explaining Ghana's adoption of SAP fits the pressure from external agencies, especially the IFIs, the WTO and Western governments. First, Ghana' economic crisis coincided with the ascent to political power of series of neoconservative regimes in North America and Western Europe. In Britain, Margaret Thatcher was elected to power and Ronald Reagan in the US. The Reagan and Thatcher neo-conservatism and the political ideology of neoclassical development theory led to the widespread implementation of the neoliberal economic doctrine in the 1980s in the form of the SAP. This ideological reorientation coincided with Ghana's crisis, weakening Ghana's initial resolve against SAP. The new power of the IFIs allowed them to push the government into or impose a market-led development strategy and market-led policies aid / assistance (Harris, 2000). Thus flow of external loans/aid not only became increasingly contingent on Ghana's readiness to restructure its economy and align it with the New World economic environment, but also to allow for a perpetual rigid monitoring, surveillance and enforcement activities. This process gave impetus to the adjustment program and globalization.

In response to combination of the crisis situation described above and the pressure from IMF, World Bank and Western Capitalist governments, Ghana signed up to SAP in

1983. As a result of the debt and financial crises experienced by Ghana, during the 1980s, the IFI have helped impose structural adjustments which the Ghana government have been obliged to undertake in order to refinance its international debts, ensure that it dedicate sufficient funds to the payment of these debts and open up its economy to direct foreign investment (Petras and Morley, 1999).

In fact, SAP as implemented in Ghana represents a set of conditions that systematically accompanied agreement between the international financial institutions and the government of Ghana to provide Ghana with financial resources and technical expertise aimed at eliminating growing internal and external financial disequilibrium in order to create the context for sustained economic development (Forbie, 2001).

Although the advocates argued that it sought to reduce budget deficits and create a market-friendly environment. In reality, it sorts to integrate the economy into global market. Consequently it emphasized the elimination of price controls, privatization of state industries, removal of subsidies, free trade, and other orthodox liberal economic measures. The first phase of the programmed covered four years, 1983-1986. It focused on stabilization, which was to be followed by a phase of rehabilitation. This is followed by a second phase (ERP II) that proceeded to 1991. To justify its viability, the advocates argued that due to the crisis nature Ghana had no alternative strategy.

In response to this crisis, and the coercion from the IFS, in 1983 the government adopted a stabilization program consisting of two stages. The next section discusses the IMF and the World Bank and the specific measures and conditions stated in their adjustment prescription to Ghana.

6.1 Why SAP?

Ideally, the IMF provides loans to countries experiencing balance-of-payments problems so that they can restore conditions for sustainable economic growth, rebuild their international reserves, stabilize their currencies, and continue paying for imports without having to impose trade restrictions or capital controls. IMF funding is done through a complex 'lending process. IMF loans are usually provided under an 'arrangement', which stipulates the conditions the borrowing country must meet in order to gain access to the loan. The arrangements are approved by the Executive Board, based on economic programs formulated by donor countries and the IMF. Loans are then released in phased installments as the program is carried. The Funds lending facility are categorized into 'concessional' and 'nonconcessional lending'. Depending on the specific political and economic circumstance of a particular country, the Fund may loan money to it through either of the two lending terms. (Official IMF Website, 2003)

Traditionally, Low-income countries may borrow at a concessional interest rate through the Poverty Reduction and Growth Facility (PRGF). But in 1999; however, the ESAF was replaced by the PRGF. Loans under the PRGF are based on a Poverty Reduction Strategy Paper (PRSP), prepared by the country within framework of development partners, in particular the World Bank.

On the other hand, countries may borrow from any of the five the Non-concessional loan facility: Stand-By Arrangements (SBA), the Extended Fund Facility

(EFF), the Supplemental Reserve Facility (SRF), the Contingent Credit Lines (CCL), and the Compensatory Financing Facility (CFF).

To start with, countries facing short-term balance-of-payments problems may borrow from the Stand-by Arrangements (SBA) to address short-term balance-of-payments problems. Second, for countries that face protracted balance of payment, caused by structure of its economy, the fund lends them money through the Extended Fund Facility (EFF). Arrangements under the EFF are thus longer that that of SBA.

Third, for countries in need of Short term funding, the fund operate a Supplemental Reserve Facility (SRF), to meet their needs on a large scale. Traditionally, this facility is offered to countries that required loans on a much larger scale for projects like road construction. Fourth, the Contingent Credit Line (CCL) is designed for countries implementing sound economic policies, which may find themselves threatened by a crisis elsewhere in the world economy. This facility is used to rectify problems like budgetary short falls. In contrast to other facilities, the CCL aims to help members prevent crises. Five, a Compensatory Financing Facility (CFF) assists countries experiencing either a sudden shortfall in export earnings or an increase in the cost of cereal imports caused by fluctuating world commodity prices. Finally, the IMF provides emergency assistance to countries that have experienced a natural disaster or are emerging from conflict.

To provide this loans the IMF requires that it provides technical assistance ranging from: national accounts, money and banking statistics; monetary control, forecasting foreign exchange markets; banking supervision, including prudential regulations;

financial sector legislation; tax structure; and measures to improve the timeliness and quality of statistics in borrowing countries.

Accordingly, IMF uses the above-described policy conditions to adjust and restructure the economic system of the borrowing country in order to restore fiscal and monetary discipline through stabilization. It also seeks to liberalize the foreign exchange system, monitor financial restraint and providing credit to the borrowing states. Hence, for Ghana, the provision of credit to it was subject to Ghana government's commitment to economic and fiscal policies to reduce inflation and honor its transfer of payments obligation.

The World Bank, on the other hand, provides long-term loans and technical assistance to borrowing country (Ghana). In order to provide it loans, the set various conditions aim to promote international trade. For instance, in the case of Ghana, the World Bank will provide Ghana with funds only if it agrees to the Bank assisting the Ghanaian authorities in the following areas: cocoa sector reform; implementation of an expenditure control system; effective delivery of social services; development and implementation of a public service restructuring plan; banking supervision; divestiture of parastatals; private participation in infrastructure; and reform of the management and maintenance of the road network. For the Bank its involvement is intended to facilitate sustainable growth within the fiscal environment facilitated by IMF.

6.2 The SAP in Ghana

As outlined in the last two sections the IMF and the World Bank operate various facilities depending upon the situation of borrowing countries. In any case, the specific agreements negotiated with the international financial institutions varied, but had a family resemblance (Toye, 1994: 29). Also, Friedman notes that adjustment policy has a 'one size fits all' standards. It 'narrows the political and economic choices of those in power' so that their political choices get reduced to 'slight nuances of policy, slight alterations' in desire to account for local traditions, but never any major deviations from the core golden rules (Friedman, 1999).

Generally, the SAP includes the following prescribed policy measures:

- Cuts in government expenditure, especially in the service sector;
- Removal of import controls and subsidies to allow the free market to determine prices;
- Devaluation of local currencies which were deemed to be maintained at artificially high exchange rates;
- Tight monetary control to burn out inflation;
- High interest rates to encourage savings; and
- Privatization of government enterprises.

These measures are meant to solve the fiscal and trade imbalances and improve the capacity of the governments to service their debt obligations. The first phase of the program, both as a model and as implemented in Ghana (Ravi, 1994, Konado-Agyeman, 2000; Jeong, 1996) focused on stabilization and liberalization. It aimed to establish a new macroeconomic policy framework to reverse the downward trend of the economy and to put it back on the path of growth. The program centered on monetary and fiscal reform to reduce the level of inflation, rationalized of exchange rates to stimulate exports, 'getting the prices right' in order to redirect resources towards the more productive sectors of the economy. The first stage (1983-1986) included fiscal reform, price liberalization, monetary reform and currency devaluation. To reduce government spending, public employment was reduced; Government spending sought to rehabilitate the economic infrastructure and aid the most vulnerable sectors of society. Subsidies were gradually eliminated.

Key Economic Reforms in Ghana

Stabilization (1983-1986)

- Cuts in public employment and elimination of subsidies
- Tax reforms to increase revenues remove distortions
- Tightening of monetary and credit policies
- Gradual currency devaluations, introduction of flexible exchange rates and liberalization of trade

There were advantages to this program. For one thing, it put the rehabilitation of the ruined productive and social infrastructure high on the agenda. On the other hand, the second stage of reforms (1987-1989) consisted of further liberalization and tax reform, including the relaxation of trade and payments controls, price deregulation, and the introduction of greater competition in the operation of public enterprises. The two-tier exchange rate was abolished; restrictions on consumer goods imports were relaxed, and import licensing requirements were abolished. A privatization program placed 32 state enterprises up for sale.

Structural Adjustment (1987-1989)

- Relaxation of trade and payments controls, including restrictions on consumer goods imports and import licensing
- Price deregulation
- Greater competition in operation of public enterprises
- Two-tier exchange rate abolished
- Cuts in income and property tax rates
- Financial sector reforms; interest rate deregulation

The structural adjustment policies could therefore be categorized into two broad groups: policies for the promotion of economic efficiency and resource allocation; and policies for the expansion of the productive capacity of the economy (Ewusi, 1987: 9). Specifically between 1983 and 1989, Ghana agreed to five IMF programs: three standby loans in 1983-1986. Extended Fund facility EFF and ESAP loan in 1988. 1983-1989: three standby loans in 1983-1986, simultaneous extended fund facility (EFF) and structural adjustment Facility (SAF) loans in1987, and an enhanced SAF (ESAF) loan in 1988.

6.3 Critical Dimensions of Ghana's SAP

The conditions that the IFIs have imposed on Ghana in return for SAP and other loans have various purposes. First, they were intended to remove restrictions on foreign investments so that local industries and banks in the developing countries would no longer be favored or protected against foreign companies and banks.

The recommendations of the IFIs involve the deregulation of local (national) capital and commercial markets in Ghana so that it will be more attractive to transnational capital. At the same time related measures are intended to make it easier for foreign capital to flow into the country. Considering the fact that Ghana needs foreign capital one might think that this would be beneficial to the Economy.

Second, under the SAP it is recommended that Ghana reduces government spending on health, education, and welfare so that in combination with wage reductions these developing countries would be able to control inflation and ensure that all available funds are channeled into increasing the production of exports and paying off their debts. This policy has had mixed interpretations. On the one side it encourages measures that intend to boost saving and investment. Indeed Ghana needs sufficient investment in capital goods to develop. But, in attempting to implement fiscal 'austerity measures' aimed at reducing public services and privatizing many of the public utilities and state-owned enterprises, it ignores the socioeconomic dynamics of development in Ghana. In other wards it ignores the poverty, under development, and unemployment in Ghana. These socio economic and poverty related issues make large part pf Ghanaian population vulnerable and therefore dependent on the subsidization of public services.

Of course the austerity measures were intended to divert public funds from public services for the payment of the international debt and to sell off the more profitable public enterprises and utilities to the transnational corporations and their allies among the local business elites (Teichman, 1995). In response the Ghanaian government has reduced its expenditures on education, health, and other social services so that it can service the combined private and public sector debts of their countries. It has also eliminated tariffs. These measures have adversely affected the income and living standards of the lower classes in Ghana as well as important sectors of the middle class owners of the SMEs.

Notwithstanding these problems, the IMF specifically stated the objectives of SAP in Ghana in the following terms:

- An enhancement of economic growth;
- A reduction of the fiscal and balance of payments deficits;
- Lowering and stabilizing Ghana's external debt; and
- Attracting foreign investment, technology, skills, etc.

Following these normative fundamentals and the crisis that engulfed her, Ghana subscribed to the adjustment program since 1983. In fact, to attract foreign investment, Ghana has deregulated its economy and introduced so-called free market economic policies to attract transnational corporations.

On the revenue side, reforms improved tax administration, broadened the tax base and rationalized the structure of taxation to remove distortions and increase incentives to save and invest. Average personal and corporate income tax rates, the withholding tax on dividends and the capital gains tax were all reduced. Monetary and credit policies were tightened to bring inflation under control. Income and property tax rates were slashed from 68.5 to 17.3 percent, and the tax thresholds were raised on a number of goods. A three-tier corporate tax system was introduced, with rates ranging from 45 to 55 percent.

Second, the external sector was improved through flexible exchange rates and a gradual liberalization of the exchange rate and trade regimes. The cedi was devalued in several discrete steps and the parallel foreign exchange market was legalized.

Third, institutional and financial reforms, including interest rate deregulation, strengthened the domestic banking system, and the government expanded investment in the economic and social infrastructure

Despite the effective policy reforms put into place, investment remains too low to generate an internal process of economic growth. From the onset of the reforms in 1983 through 1988, investment peaked at 12.3 percent of GDP (1988). Economists generally regard an investment level of 20-25 percent of GDP as necessary for an economy to resume sustainable growth. Critics of the Ghanaian program note that this investment gap has been financed largely by foreign aid, which enabled the economy to post solid rates of

GDP growth during 1985-1988. Whatever the success of the foreign investment, one might expect that it would benefit the sectors of the economy that need it most, especially the SMEs. However, our finding (see below) is that this is not at all the case.

The IFIs have consistently and insistently agued that the low tariffs recommended via the SAP would facilitate global competition and encourage Ghanaian domestic industries to become competitive. But other analysts and our own researchers disagree. Joseph Stiglitz (2002), former head economist at the World Bank but a trenchant critic of IMF policies, for one asserts that the reduction of tariffs associated with liberalization will undermine local industries because those industries are not in a position to compete freely against multinational conglomerates. To the contrary, Lower tariffs are likely to promote imports and discourage self-sufficiency (Stiglitz, 2002).

In addition, Stiglitz argues that the high interest rates as recommended in the adjustment program the potential to cause inflation and consequently forced the bankruptcy of countless otherwise productive companies that could not meet the suddenly increased cost of servicing their debts.

7.0 Conclusion

This chapter seeks to explain how Ghana was recruited into the neoliberal free market system via the structural adjustment program, and the IFIs as the channel. Various reasons were used to explain why Ghana adopted SAP. Close analysis indicates that explanations of the reasons for the adoption of the SAP falls along ideological lines of the following approaches: (i) neoliberal believers in the magic of the free market and the inevitability of globalization: (ii) liberal reformers who subscribe to globalization and structural adjustment but seek to give the process a social dimension and a human face; and (iii) radical reformists whose analysis, for the most part, is informed by a Marxist understanding of the dynamics of capitalist development and who are oriented towards systemic transformation rather than institutional and policy reform.

The liberal reformists on this ideological-theoretical spectrum attribute the SAP to Ghana's intensive economic problems more than IFI. For these scholars, the crisis that confronted Ghana in 1980s pressured the government into a search of solutions that had only one answer—the adoption of Washington consensus policies in the form of the SAP On the other hand, most critics and African analysts attribute the acceptance of SAP to excessive, extensive external political interference of Western Governments and IFS.

Notwithstanding this ideological division in analysis, it is possible to identify three basic explanations as to why any country would take a U-turn towards neoliberal policy reform. To some extent these explanations cut across the ideological divide. First a country might accept the need for reform because of a change in political leadership and/or change in the ideas held by political leaders. Second, Kaufman (1989) and others argue that countries that adopt reforms in fact respond to conditions of economic crisis, conditions that greatly restrict the options of policy-makers. Most neoliberal reformists attribute Ghana's SAP to such conditions and a lack of options (World Bank, 1981). African scholars, on the other hand, generally attribute the adoption of the SAP to the leverage achieved by the IMF and the World Bank over policy-makers and to external pressures exerted by stronger nations, influential INGOs and TNCs.

In the case of Ghana a number of analysts recognize the complexity of the situation confronted by the country and the conjuncture of diverse conditions both domestic and external, subjective and objective, ideological/political and structural/economic. However, theories of a domestic economic crisis and external pressures theories are generally stressed by the World Bank and its critics respectively (World Bank, 1981; Hutchful, 1989; Konado-Agyeman, 2000).

Ghana undeniably faced an economic crisis which pressured it to seek a solution from the few options available. The impact of this crisis placed Ghana in a somewhat desperate situation, weakening the forces of opposition and the resistance of the government to pressures exerted by the World Bank and the IMF to adopt the SAP as a conditionality of offered overseas development assistance and access to development finance in the form of a concessional loan. In other words, the strategic pressure and blackmail exerted by the IFS and Western governments pressured Ghana to concede to the SAP as in a form of blackmail. While the leadership resisted at first, conditions of a severe economic crisis reduced the capacity of the government to maneuver among possible options. In the end they succumbed to external pressure rather than ideological conviction, agreeing reluctantly to the SAP.

Because the SAP was designed in Washington and not a specific response to Ghana's crisis, its policy recommendations were not tailored to local conditions. It focused on macro level adjustments intended to facilitate Ghana's recruitment to globalization. Accordingly the SAP ignored the micro effects of the prescribed policy reforms. As we will show in the next chapter these were serious and severe, particularly as relates to SMEs. The SAP did lower inflation and help the government achieve a measure of macroeconomic stability, a presumed precondition for placing the country on the path of economic growth and national development. It also resulted in a drastic cut in government expenditures vis-à-vis social programs and subsidies to local producers. Under conditions of a mandated devaluation imports were reduced and exports were increased, ensuring his capacity of the government to service its foreign debt and assume its responsibility towards its overseas. In addition, over 350 profitable public institutions were privatized and turned over to foreign investors who were able to acquire these assets on the cheap because of the devaluation of the local currency. The overall outcome of these and other stabilization and structural adjustment policy measures was macroeconomic equilibrium—lowered inflation and balanced accounts. But in line with its agenda, the benefits of this macro achievement failed to trickle down to the local micro sector. Rather, as I will show in the next chapter, it exposed local SMEs to intense competition, the bankruptcy of numerous small and medium-sized enterprises oriented towards the domestic market and a dramatic increase in the rate of unemployment, fueled by the downsizing of the public sector and the collapse of so many small, businesses. While liberal reformists are generally of the view that the failure of macro-benefits to trickle down to the micro level was because of tactical mistakes or misguided actions, the radical critics argued that the problem went much deeper. As they see it, structural adjustment and globalization are very much part of the problem and no solution. In fact, the problems that they generate are systemic, an argument that I will make in the next chapter in regard to the relationship between the SAP and SMEs in the case of Ghana.

Chapter Four

Small and Medium Enterprises in Ghana under Structural Adjustment and Globalization

1.0 Introduction

Having reviewed SAP and its conditions in previous this chapter analyzes the effect of adjustment conditions, especially, fiscal Austerity measures, trade liberalization, and capital market liberalization, privatization, on SMEs support (availability and accessibility of SME Support). This study reveals that while the reforms associated with SAP conditions stimulated the creation of an enabling environment for SMEs it exposed them to a situation that intensified their need for finance and service support, and it simultaneously resulted in reduced access to SME support. Consequently many SMEs were unable to take advantage of the changed environment while the constraints of increased competition and financial difficulties caused the bankruptcy of large number of the firms.

Notwithstanding these developments, the government has not been able to intervene in support of these firms because the agreement it undertook with IFS and WTO curtailed its power to intervene with direct policy to support the enterprise. Therefore, I conclude that in spite of the claim that SAP will lead Ghana to development through private sector and enterprise, the reality is different. It only succeeded in integrating Ghana into global market where the country's enterprises are unable to compete. Therefore, my analysis contradicts neoliberal theory and affirms the critical advocate's suspicion that the SAP is designed to perpetuate exploitation of Africa.

In this chapter, I examine SME support institutions, including both government and non-governmental organizations' contribution to the development and promotion of SMEs. These institutions include the National Board of Small-Scale Industries (NBSSI), the Ghana Enterprise Development Commission (EGDC) and Ghana Appropriate Technology Industry Service (GRATIS). I also examine the trends of donor funds given as credit to the central bank and commercial banks.

2.0 SMEs in the Context of Ghana: A Question of Definition

In Ghana, the number of employees is the common criterion used in official circles to define SME enterprise. The Ghana Statistical Service (GSS) for instance, in its industrial statistics, (classifies) enterprises with ten or more employees as medium -scale, and companies engaging nine or fewer persons as small (Boolean et al., 1993). Dalitso and Peter (2000) reported that the Ghana Statistical Service (GSS) considers firms with less than 10 employees as Small Scale Enterprises and their counterparts with more than 10 employees as Medium and Large-Sized Enterprises

The National Board for Small-Scale Industries (NBSSI), the main governmental institution charged with the responsibility of small enterprises development, uses multiple criteria of fixed assets and employment size to distinguish small-scale industry from medium and large-scale industries. The NBSSI defines a small enterprise as one that employs not more than twenty-nine persons, with plant and machinery value (excluding land, buildings and vehicles) not exceeding 10 million cedi (NBSSI, 1990).

Further, Steel and Webster (1990) and Osei et al (1993) in defining small-scale enterprises in Ghana used an employment cut off point of 30 employees. By this definition, however, small-scale enterprises are disaggregated into three categories: (i) *micro*—employing fewer than six people; (ii) *very small*—those employing 6-9 people; and (iii) *small*—between 10 and 29 employees.

In this study, enterprises with fewer than thirty employees (1-29) are defined as *small* (SSE); 30-100 as *medium* and with 100 or more as *large*. This is regardless of the amount of capitalization. SMEs in Ghana are involved primarily in textiles and garments; wood and wood processing; food and food processing and packaging.

3.0 SME Support in Ghana

SMEs are frequently the only realistic employment opportunity for millions of poor people throughout the world. It is an essential part of Ghana's domestic private sector and their development is a priority, for development. SME sector is a key source of job creation and sustainable economic growth in the developing world (WB). Small and Medium Enterprise creates jobs and incomes that promote and enhance poor people's livelihoods and enables them to participate fully in the economy. In particular, the SME most visibly impact on poverty through providing work and income for poorer households, enabling them to pay for housing, food, healthcare and school fees. It helps to fight poverty by creating private sector jobs and strengthening local small businesses and support institutions. For an impoverished family in a developing country, establishing a small- or micro-enterprise often represents the first tentative step toward self-sufficiency.

The overwhelming majority of companies (as well as the majority of employment) in Ghana is found within the SME sector. The SME sector as a whole can galvanize an entire economy, creating jobs and spurring growth (World Bank, 2002). In Ghana like much of the developing world, the private economy is almost entirely comprised of SMEs. For example, 95 percent of all private companies have no more than 50 employees.

Even so SMEs in Ghana and elsewhere face many obstacles as they struggle to compete in difficult local business environments. To grow SMEs require a complex support network. The Support ranges from encouraging policy reform to building up financial intermediary sectors, from facilitating access to best-in-class global industry, knowledge to developing very basic business skills.

SMEs are characterized by a high degree of informality, opaque financial reporting, inappropriate ownership and management structures, and weak corporate governance mechanisms. Such Characteristics limit their ability to attract outside investments for further growth. Further hampered by the frequent denial of credit by banks, the high costs of business registration, enforcement of debt security, and interest rate controls.

SMEs face problem of Inadequate physical infrastructure especially in power, telecommunication, insufficient access to finance (given the high interest rates, lack of term lending for SMEs, land titling and contract enforcement difficulties, and little equity capital or other suitable financial instruments) and uncertain business environment (plagued by corruption, red tape, a lack of physical and personal security, and a need for appropriate small business support institutions). Because of these problems, government imposed several measures to protect SMEs.

3.1 Organization of SME Support Activities

The idea of SME promotion has been in existence since 1970. During the pre-adjustment era, Key institutions were set up to assist SMEs and prominent among them is The Office of Business Promotion, the present Ghana Enterprise Development Commission (GEDC). It aims at assisting Ghanaian businessmen to enter into fields where foreigners mainly operated but which became available to Ghanaians after the `Alliance Compliance Order' in 1970. GEDC also had packages for strengthening small-scale industry in general, both technically and financially. This was aim to reduce the dominance of foreign nationals in the country

3.2.0 Post-Reform Measures

The NBSSI was established in 1981 as an apex body for development of SMEs in Ghana. The Board became operational in 1985 (Boapeah, 1993). Following the reform the National Board for Small-Scale Industries (NBSSI) was repositioned to adequately transform the micro and small-scale enterprises from subsistence orientation to a commercially attractive and dynamic sector capable of making a substantial contribution to the growth of the economy ("NBSSI To Assist SME Business," *Ghanaian Times*, 12 March 2003). According to Saeed Owusu-Brobbey it provides the umbrella and it is responsible for the management and administration of the small-scale industry sector in Ghana. It also deals with SME business networks such as organizations of field extension network for the identification of projects, data collection, and, encouraging the formation of cooperatives, the building of industrial estates and other infrastructure for small-scale Industry development.

The Board carries out the Communication of SME support programs in Ghana, the dissemination of information and the provision of feedback. Further, it promotes entrepreneurship programs for the development of new and existing industries. In addition, it deals with the implementation of SME support programs as well as the implementation of all policies in relation to small-scale industries as approved by the government, seeing also that the infrastructure needed for small-scale industry development is established. In this context, the Export Development Investment Fund (EDIF) has provided over ¢60 billion to firms, creating about 2,000 jobs. Also 10 additional Business Advisory Centers have been established in various districts to promote rural entrepreneurship, create employment opportunities, reduce rural-urban migration and increase the income level of the rural population.

3.2.1 SME /Support Delivery

Delivery of most of SME programs are assigned by NBSSI to subsidiary organizations, including the Policy Planning, Monitoring and Evaluation, Women Enterprises Development Department, Entrepreneurship Development Department. The Policy Planning, Monitoring and Evaluation (PPME) department's activities are among others, to improve the enabling environment within which micro and small enterprises operate with regard to generation of new business and improvement in productivity. Entrepreneurship Development. The Entrepreneurship Development Department (EDD)'s main objective is to develop the capacity of individuals and groups, to enable them start their own business and successfully manage them. In reaching this objective, the EDD organizes training programs to prospective and practicing entrepreneurs through its Business Advisory Centers (BACs).

The Women Enterprises Development Department was established in 1996 to act as a focal point to cater for the special concerns of women entrepreneurs (NBSSI, 1996). Specifically this department aims to: Provide the basis for gender-based programming of women in small enterprise development activities, build a comprehensive information flow and exchange mechanisms that relate to gender and small enterprises; and establish a forum or centre for networking small enterprises and its collaborators through workshops, exchanges and visits. The Investment and Credit Department (ICD)'s objective is to ensure a continuous flow of credit to micro and small enterprises. Through the Business advisory Centre (BAC), the Board arrangers seminars to assist micro and small scale businesses to expand their activities and assist participants to improve upon their entrepreneurial and managerial skills to enhance the profitability of their businesses and to ensure their growth and survival.

In an attempt to strengthen the response of the private sector to economic reforms the government undertook a number of measures in 1992. Prominent among them was the setting up of the Private Sector Advisory Group and the abolition of the Manufacturing Industries Act, 1971 (Act 356), which repealed a number of price control laws, and the Investment Code of 1985 (PNDC—Law 116), which seeks to promote joint ventures between foreign and local investors. In addition to the above, a legislative instrument on Immigrant Quotas that grants automatic immigrant quota for investors has been enacted. Also, certain Technology Transfer Regulations have been introduced.

In a bid to improve trade and investment, particularly in the industrial sector, trade and investment facilitating measures have been put in place. Visas for all categories of investors and tourists were issued on arrival at the ports of entry while the Customs Excise and Preventive Service at the ports was made proactive, operating seven days a week.

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

In 1987, the industrial sector also witnessed the coming into operation of the Ghana Appropriate Technology Industrial Service (GRATIS). The Ghana Regional Appropriate Technology Service (GRATIS) was established in 1987 with branches in all the regions to offer technical and managerial support through training to small and medium-scale enterprises (Boapeah, 1993). Training being offered by GRATIS includes engineering, masonry, soap making, carpentry, food processing and preservation, and metal fabrication.

It was to supervise the operations of Intermediate Technology Transfer Units (ITTUs) in the country. GRATIS aims at upgrading small-scale industrial concerns by transferring appropriate technology to small scale and informal industries at the grassroots. ITTUs in the regions are intended to develop the engineering abilities of small-scale manufacturing and service industries engaged in vehicle repairs and other related trades. So far, six ITTUs have been set up in Cape Coast, Ho, Kumasi, Sunyani, Tamale and Tema.

The government also provided equipment leasing, an alternative and flexible source of long-term financing of plant and equipment for enterprises that cannot afford their own. A Mutual Credit Guarantee Scheme was also set up for entrepreneurs who have inadequate or no collateral and has limited access to bank credit. To complement these efforts, a Rural Finance Project aimed at providing long-term credit to small scale farmers and artisans was set up.

In 1997, the government proposed the establishment of an Export Development and Investment Fund (EDIF), operational under the Exim Guarantee Company Scheme of the Bank of Ghana. This was in aid of industrial and export services within the first quarter of 1998.

The reform has led to formation of partnership with INGOs. For instance, the NBSSI pursue schemes such as establishment of the NBSSI/GTZ promotion of a micro and small-scale entrepreneurs fund, the export development fund and other technical assistance to the sector. Identified constraints include lack of technical and managerial skills, finance. Marketing opportunities and poor quality and design of products as some of the problems facing the sector (Owusu- Brobbey, 2003).

Although the reform has led to formation of many SME support institutions it is limited to the national capital. However, the activities of SMEs are spread around the country.

SME support programs are ad hoc and generally not coordinated. SME support was not coordinated for long-term benefits. They are set in place to mitigate the constraining operational environment that has developed since the inception of the reform. The Program of action to mitigate the Social Costs of Adjustment (PAMSCAD) was evidence of this. The PAMSCAD Credit line for small-scale enterprises was meant to soothe the adverse effect of the programs (ERP and SAP). The main objective of PAMSCAD was to generate employment projects including a credit line for target group, especially the redundant workers and unemployed who require credit to establish small businesses. It was also intended to support existing SMEs (PAMSCAD, 1989). The interest rate chargeable in PAMSCAD credit line was 20 percent—far below commercial rates at the time when they were available or extended to SMEs.

The Bank of Ghana obtained a US$ 28 million credit from the International Development Association (IDA) of the World Bank for the establishment of a Fund for Small and Medium Enterprises Development (FUSMED) is yet another ad hoc policy

3.2.2 The Business Assistance Fund (BAF)

The BAF was launched in 1995 with an initial capital of 10 billion cedi from the government's budget. The facility was introduced to restore the productive capacity of enterprises and industries of proven potential but which because of the vagaries of ERP could not perform satisfactorily.

Access to credit has been one of the main bottlenecks to SME development. Most SMEs lack the necessary collateral to obtain bank loans. To address this issue, the Central Bank of Ghana established a credit guarantee scheme to underwrite loans made by Commercial Banks to small-scale enterprises. But this failed.

External donors, with the government, central bank and commercial banks acting as mere intermediaries, fund most of the lending in this category. In this case, donors will identify the specific business enterprise category to benefit, provide guarantors to the bank to minimize credit risk exposure, provide funds to cover administrative costs and subsidize funds for further lending to the target SMEs usually banks are asked to contribute part of the fund to be lent out (Adza-Gidi, 1998). The banks that have been involved in this type of lending are the Ghana Commercial Bank (GCB) and the Social Security Bank (SSB).

In 1970, the Bank of Ghana (central bank) established a credit guarantee scheme with funds from International Development Agency (IDA) to underwrite loan to small-scale businesses made by the commercial banks. This scheme did not work out (Boapeah, 1993). Further, in 1985, the Bank of Ghana obtained a US$ 28 million credit from IDA to establish the Fund for Small and Medium Enterprise Development (FUSMED). FUSMED was to provide financial services through some participating financial institutions to SMEs in all sectors.

For many years Ghana was the star performer in West Africa, with up to eight percentage annual growth. But in some ways it became a victim of its own success. Many international donors shifted their attention elsewhere, and the Ghanaian government showed less and less commitment to poverty reduction and economic growth. External shocks such as the drop in gold and cocoa prices exacerbated the problem.

Most External donors withdrew when the SME institutions that were established were not developed to access and solicit support from abroad. While the reform led to a reduction of government activities, the Institutions that were established after reforms were not developed and equipped to be able to source resources abroad.

NGOs became involved in SME Support delivery in Ghana. Currently there are about 415 NGOs operating in Ghana (www. Africa online.com.gh/nghanet/). Most of them have strong links with foreign NGOs that are usually the parent organization. These NGOs are extremely dependent on donor support, as most of them will not survive without its support (Adza-Gidi, 1998). Most NGOs in Ghana begin as community welfare associations, although over the years many of them come to include credit provision in their operations. NGOs in Ghana run a whole range of credit schemes including revolving loan funds, seasonal credit schemes, small enterprise development schemes, loan guarantee schemes and individual credit schemes (Adza-Gidi, 1998). NGOs of late are emerging as a promising source of extra household funds used in small enterprise development. While some NGOs focus exclusively on female entrepreneurs, others have no gender focus.

3.3 Institutional Constraints

The role of the Registrar General's Department (RGD) in facilitating business registration and commencement and compliance with the Companies Code would be overhauled. The role of the RGD had not been properly exercised anyway due to new policies. The RGD do not have offices across the country to keep track of SMEs in

Ghana. It currently has offices only in Accra although plans are underway to open three other offices in regional capitals, especially Kumasi, Takoradi, and Tamale. The result is that a sizeable number of companies do not file annual returns while others ignore the requirement to renew the registration of their business names annually. This undermines the role of RGD in 'facilitating good corporate governance', The RGD has poor monitoring and enforcing the provisions of the Companies Code, The operations of RGD are not modernized so as to track enterprise operations. The activities are not computerized It has poor PR measure and therefore do not sensitize the business communities on their obligation under the companies code to register with IRS.

There are no institutions conducting 'policy advocacy' and 'advisory services' studies to support and influence legislative or other measures that are considered relevant to the SME sector. None exist to lobby for policies supportive of SMEs.

While the Association of Ghana Industries tries to provide such services, its role is too broad and unspecific and mostly tends to focus on the medium and large enterprise. Association provides facilities for consultation, communication and the interchange of views with the Central Government, Government Departments, Public Boards, Inter-Governmental and Business Organizations in Ghana and abroad.

4.0 Analysis of Data: The State of SME Support in Ghana

As required by the lending conditions of the IFS the government agreed to a program of policy change, a timetable and an implementation procedure. In line with the reform requirement Ghana undertook extensive macroeconomic reforms and liberalization of markets during the late 1980s. Ghana privatized and/or sold off over 300 government owned enterprise, liberalized trade by eliminating tariffs, quotas, subsidies and other barriers to free trade; and deregulated the financial, banking sector and floated interest rates. In addition Ghana pursued Fiscal austerity policies, cut government spending, raises taxes, and pursued a balance budget. Ghana's implementation of these policies were extensive. But the impact of these conditions on Ghana's development drive is mixed and on balance negative.

While the reforms led to some improvements at the macro-level (inflation, GDP growth, improved investor and donor confidence in Ghana economy) they have exposed SMEs to extensive constraints and intensified their need for support (in the form of business credit, training, information consulting services etc.), limited SME access to SME support, and consequently resulting in bankruptcy and close up of most SMEs in Ghana. In other words, the achievement at the macro-level has failed to trickle down to the micro-level, especially as regards enterprise support and development. Notwithstanding the negative consequences of these results for SMEs and the fact that SMEs account for over 95 percent of registered enterprises in Ghana, the government has not been able to intervene with policies to protect the sector because of the constraints of its loan agreements with the IMF and the World Bank. This study finds that the situation inevitably threatens Ghana's sovereignty.

To start with, the study found that reform policies created an enabling macro environment that facilitate and support the promotion of SME's contribution to Ghana's development. Compared to the years preceding the reform, the basic macro-environment was improved and the economy stabilized. Between 1983 when the policy was adopted, and 1986, annual inflation declined from over 123 percent to under 20 percent while the GDP grew from a negative rate to about five percent. This result is not unexpected. From the start, the reform was oriented to the free market system and was initiated by neoliberal advocates of neoclassical economic theory. Both orthodox theories tend to advocate development promoted through private enterprise and economic growth. Neoliberal development policies, similar to its neoclassical counterpart, tend to be preoccupied with GDP growth in and as a means of development. The post reform improvement in GDP and the rate of inflation appeared to affirm the neoclassical theory and model of the economy.

The reforms also reoriented the government's economic development strategy away from the state towards the free market, a move that emphasized the role of market and enterprise as agents of development. It also enhanced the role of market forces and promoted individual entrepreneurship relative to economic role of the state. In a similar trend, the reforms generated donor confidence, and to an extent, attracted foreign investors to Ghana (World Bank, 1995b, 1996).

For SMEs, this trend is significant. Compared to the pre-adjustment period, these are the best times and best macro economic times for SME promotion. First, the renewed interest in private sector winded off and/or reversed the animosity and suspicion that characterized the relationship between Ghanaian politics on one hand, and industry on the other, thereby creating an attractive environment for enterprise development in Ghana. Prior to the reform, relations between the Rawlings administration, the Peoples National

Defense Council (PNDC) and the enterprise sector were those of hatred, suspicion, and mutual mistrust. The PNDC was a radical-populist government that prior to reform held an anti-capitalist ideology. During its brief tenure in 1979 and during the first fifteen months of the 'second revolution' that began in 1982, it reviled the private sector as the root of Ghana's development problems, blamed entrepreneurs and the capitalist for Ghana's political and economic decline. Consequently, it pursued series of programs to stifle the growth of the entrepreneurial and private sector. Thus by refocusing the Ghana economy to private sector oriented development, it reversed the confrontation and mistrust that characterized relation between the government and private sector, to that of partnership, thereby laying the ground for policy that facilitate the growth of SMEs.

Second, the reform eased business operation, by reducing state monopolies and price controls. Following the reforms, Ghana abolished and/or lowed import and export tariffs, abolished import license, and phased out trade protection policies. This accorded enterprise, including SMEs, a 'freer rein' to obtain resource abroad and from the Ghanaian markets. Considering that the initial refusal of Ghana's government to liberalize the import and export sector (to allow domestic enterprises to import from abroad) was cited among problems causing Ghana's economic crisis, it is expected that liberalization will address and/or attract materials and capital, and other needs of SMEs that will enhance the sector's operation.

Contrary to this view, this study finds that while some SMEs increased their use of foreign inputs, large number, especially small enterprises, still lack raw material and equipment, business credit and modern technology. The results have two dimensions. On one hand, it contradicted neoliberal analysts' claim of Free Market and trickle down effects of globalization. Indeed, for neoliberal advocates these results are unexpected because the IFS, together with neoliberal analysts, argued that once Ghana liberalizes its economy, technology, management skills and foreign investment will automatically trickle down to boost development in Ghana. In this sense, it was expected that SME support tools (technology, management skills and finance) would flow to Ghana during and/or after liberalization. However, our findings do not support this expectation. The findings tend to support the conclusions of most liberal and critical analysts in this regard (Stiglitz, 2002, and Harris 2000). Liberal reformists such as Stiglitz (2002) argue that liberalization will not automatically benefit developing countries such as Ghana because they lack the appropriate infrastructure to attract foreign investment. In similar, but ideologically different, the neo-Marxist analysts refute the claims by neoliberal free market advocate. For them, the argument that trade and finance liberation will result in flow of SME support from developed countries to Ghana is inherently flawed. Instead such a move would perpetuate exploitation of Ghana (see Amin, Frank and other 'dependency' or 'world system' theorists in this regard).

Further, in line with the neo-Marxist analysis and, to an extent, that of the liberal critics, the reforms caused a huge devaluation of the Ghanaian currency, which squeezed the SMEs relying mainly on foreign inputs. As of April 30, 2003, the exchange rate for the Ghana's currency was 8600 Cedi to US$1.00, compared to 2.75 cedi per US$1.00 in 1983 when the ERP was launched. For those firms that depend on raw material from abroad, devaluation led to increased cost of import and reduced their ability to import. Hence, although liberalization gave SMEs freer scope to obtain resources abroad, the reforms did not improve their capability to access those resources. This finding is also significant in that it exposed the contradiction inherent in the analysis that devaluation of Ghanaian cedi will boost productivity and therefore export from Ghana. Yet it exposed the multiple dimensions of the development process.

This study of the evidence finds that the reforms intensified the constraints on SMEs in terms of increased competition but also intensified the need of SMEs for business loans and services and information to combat pressure from competition.

The reform exposed SMEs to intensified competition from cheap imports from abroad, especially from Europe, Asia and North America. Trade liberalization lowed the cost of imports and attracted imports from competitive industries from abroad. Interestedly, operations of most of these foreign firms are subsidized from their home countries. Coupled with their technological sophistication and almost nonexistent and/or negligible tariffs, enterprises from abroad are able to sell at prices below what the domestic firms can offer. In this sense, imported products are able to outplay local enterprises in the local market. Similar results were found by UNCTAD (1996) and Stiglitz (2002). According to Stiglitz, deregulation will cause bankruptcy of countless otherwise productive SMEs that cannot meet the suddenly increased cost of servicing their debts and competitions. In fact, Ghanaian industrialists have variously protested against foreign imports for this reason. The Anum Valley Cooperative Rice Growers Society, one of the few organize groups of rice farmers in Ghana complained to government about lost of market to incredibly low priced imported rice in Ghana. In a similar scenario, the market women association of Ghana (MWAG) requested for government intervention against cheap priced textiles import. The case of MWAG is significant not only because women constitute a large proportion of SME owners in Ghana—and therefore problems affecting them, symbolizing the constraints across Ghanaian SMEs—but the price difference between imported textiles is incomprehensible. For instance, The MWAG reported that while a 12-yard of locally produced textiles cost 385 000 Ghana Cedi, a similar length of imported cloth costs only 125000 Cedi, almost half the cost of local textiles on the Ghanaian market in 2003.

First, the case certainly neither supports SMEs nor promotes productivity in Ghana. On the contrary, it leads to the loss of the local market by local SMEs and subsequently bankruptcy. Indeed the Volta River Estates Limited, one of the SMEs that produce Bananas in Ghana, had to layoff over 28 workers in 2002 without appropriate compensation due to such competitive pressures.

In addition to an increased need for SME support, our findings are that SMEs lack appropriate support infrastructure to help them compete against the foreign firms. In particular, business consulting institutions, information and communications services are either unavailable or too expensive for SMEs to patronize and thus inaccessible. These findings, together with the extensive scope of the policy of adjustment, suggest that SMEs are placed at a serious disadvantage vis-à-vis foreign imports, stimulating the collapse of many, if not most, SMEs in Ghana.

From the perspective of the widespread criticisms of SAP provided by critics, these results are not unexpected. It lends support to and reaffirms the view of these that the structure of North-South trade invariably places the developing countries at a disadvantage.

Trade might well be a positive factor in the development process if industries in developing economies were able to export their products into other economies as well as maintain their competitiveness in local markets. But this is not the case with the adjustment program in Ghana. For instance, at the peak of reforms, a number of industries were established to take advantage of the opportunity offered by trade liberalization but an influx of cheap imported finished goods undermined the growth of these and other local manufacturing firms, especially those in the textile and garment sector. This has had a seriously negative impact on small and medium enterprises.

Given the change in the world trading system towards freer trade, and the economic problems that confronted it, Ghana has little choice other than to pursue a free trade policy. But trade policy would have to be complemented by government support to local industries to provide brighter prospects for industrial development. This would require support to industries in the form of higher import tariffs, tax rebates, adequate credit and the provision of efficient services by the Public Sector. In addition, SMEs required a sustained micro and macro economic stability, access to credit, efficient infrastructure and low cost and reliable utility services. Without these, Ghana will be unable to develop her enterprise sector to take advantage of the New World trading system, not less create employment and raise per capita incomes." In order words, "Local industries must be supported so as to sustain their operations at least within the local market.

To the contrary our finding is found that the reforms transform SME support from general and direct support to sectoral support such as export business support. Anyhow, while the constraints facing SMEs intensified, its access to support decreased. Also, while reforms led to increased SME demand for bank loans and an increase in the number of financial institutions operating in Ghana, and therefore avenues of funding, the access of SMEs to long and medium term credit decreased. In addition we find that although a large number of SMEs did receive some sort of bank assistance most indicates a lack of credit and inadequacy of credit as major problems facing them. This finding is also not unexpected, because while the reform advocated efficiency, SMEs exhibit special problems and risks.

First, the financial deregulation recommended in the reforms means a withdrawal of government intervention in finance and therefore the freedom of financial institutions to float interest rate at market rate. It also ends the government's ability to direct a special lending rate and flexible award lending criteria for SMEs as prevailed in pre reform period. Because the government's hands are tied in this regard SMEs are confronted with commercial lending rates up to 48 percent. Needless to say, for SMEs, a 48 percent lending rate is totally unrealistic. Besides, in order to qualify for interest at this market rate, SMEs are expected to offer collateral that guarantees 100 percent repayment. But a majority of SME owners in Ghana are poor women, and unemployed, retrenched and/or laid-off government workers in the adjustment process, and therefore unable to raise collateral that meets requirements of private banks and other foreign finance companies. Again, the banks require SMEs to present up-to-date financial statement, and other business documents. To start with, most of these SMEs in Ghana do not prepare financial statements; neither do the owners have the skills and knowledge to prepare one. Consequently, most of the SMEs are refused credit irrespective of whether they are willing to accept credit at market rates. This explains the inverse relationship between the increase in financial institutions and increased loan applications among SMEs and decreasing access to loans.

For example, out of 260 billion Cedi earmarked for SMEs credit in Ghana by Export Development and Investment Fund (EDIF) only 30 billion Cedi were extended to SMEs, though out of 82 SMEs applicant only eleven SMEs applicants were successful. In the same incidence, between 62 to 90 percent surveyed indicated a serious lack of access to credit. Therefore, the problems of SMEs in Ghana extend beyond availability of finance and support to that of inaccessibility.

On the other hand, the operation of foreign financial institutions contributed to SME's financial constraint. These institutions are not only unwilling to offer credit on ground of risk, they are also inflexible in regard to SMEs. A significant finding is that while some foreign banks and funding agencies aligned their services with public institutions, those organizations decline to adapt to the unique cultural needs of SMEs in Ghana. As an example, while ADF collaborates with the National Board for Small Scale Industries and EMPRETEC (both public institutions) the ADF failed to tailor its selection criteria to the needs of Ghanaian SMEs, especially with respect to collateral requirement. This finding is also not unexpected, because the normative fundamental of adjustment process tends to be wholesale. It is usually not tailored to local needs. Friedman notes that the adjustment policy has a 'one size fits all' standard (Friedman, 1999).

As noted above, the reforms de-emphasized the role of government and public institutions in economy. Consequently, the government withdraws most of its support services to domestic firms. It may be recalled that during the pre-reform period, Ghana government established different institutions to support domestic enterprise. This includes development banks, state market institutions and research centers. Services of public institutions were designed to meet the local need of domestic industries as well as protect them from international competition. However, the reforms reversed the entire trend.

Secondly, the reform agenda pressured the government to adopt stringent monetary policy, including a high prime rate, currently at 25 percent, and a cut in public, welfare and social spending. While the high prime rate contributed to a high interest rate for SMEs, cuts in public spending led the government to phase out educational programs and services that help small business. For instance, the government cut its funding of universities from 100 to 52 percent, impacting negatively on the affected universities' operations and thus SME training and consulting activities in Ghana.

At the same time, the reform has led to biases in the provision of SME support in preference to export-related SMEs over domestic SMEs. For instance while government and other international organizations established special credit facilities that enable exporters borrow on concessionary terms, domestic trade is not given the same focus. In addition, while a Free Zone Board has been established to promote exports. Domestic SMEs are not so well served. This uncoordinated situation has created a gap in the ability of SMEs to adjust to external shocks.

5.0 The SAP and National Sovereignty

The study finds that while SMEs are exposed to intense competition and dwindling access to enterprise support services, the government is unable to intervene so as to protect them. The ability of government to intervene in support of SMEs has been curtailed and in fact control by the IFS, to the extent that it is unable to pursue independent policies to support SMEs.

The IFIs exercise control over Ghana through what they euphemistically call 'policy conditionality'. Under adjustment lending, IFS provided financial assistance to the Ghana governments on the condition that it undertake certain specific reforms policies. For the IFIs, the conditions are carefully selected to allow it to perpetually shape both the external and domestic economic policies of Ghana and other countries that receive loans from them. To release credit, the fund negotiates the lending program, with an agreed-to timetable of implementation and monitoring procedures. Friedman (1999) argues that once a country agrees to this program and abides it, thereby qualifying for 'assistance'. In effect it adopts the underlying ideology.

The program was accepted by Ghana because of intensity of political pressure and severity of economic crisis that confronted Ghana, (see Chapter Three). However, such conditionality inevitably raises questions of government sovereignty. This study finds that the conditions and the agreements signed between Ghana and the IFS serve as a platform for controlling Ghana's economy. Again Friedman notes that adjustment policy has a 'one size fits all' standards. It 'narrows the political and economic choices of those in power' so that their 'political choices get reduced to 'slight nuances of policy, slight alterations' in design to account for local traditions, but never any major deviations from the core golden rules' (Friedman, 1999).

Therefore, the IFS have turned Ghana into integral components of a global economic regime that is dominated by the presence of the IFIs, the WTO, the governments of the major capitalist countries, as well as the growing number of transnational corporations. The reforms led to the increasing integration of Ghana and other developing countries into the global capitalist economy not as equal players but as 'captive markets' and the source of cheap human and natural resources for the transnational corporations (David, 1993).

For an example of this point, the IFS in recent years have influenced Ghana to the extent that they have compelled the government to undo budget statements that are deemed to be unfavorable to its partners. This is evident in the 2003 budget when Ghana imposed additional import taxes on poultry products in order to protect SMEs in the sector. But the World Bank saw the tax increment as contradictory to conditions enshrined in the reform package signed with Ghana It therefore commanded Ghana to reverse its policy of higher tariffs on imported poultry products and to pursue a policy against higher import duties or risk losing moneys voted it.

Not daring to lose the money Ghana succumbed to this external pressure from the Bank and in withdrew the taxes on imports, exposing the industry to severe foreign competition and the threat of bankruptcy and collapse.

Although the World Bank Country Director for Ghana, Mats Karlson, denied the Bank's direct role in this policy reversal, blamed it on the IMF instead, many analysts and practitioners accuse the World Bank of pressurizing the government to reverse the policy. Either the pressure originated from the IMF and /or the World Bank, its consequences underscores the predicament of Ghana government. In particular, the implication of this extends beyond enterprise development to issues bordering the sovereignty of the nation, if interest groups can pressure the government to suspend a major policy, as with case of poultry tariff, then the country's sovereignty is undermined. At best this gives credence to the argument that the government is being pressured by bilateral and multilateral agencies.

The findings further show that among the reasons why Ghana is unable to pursue policy to protect its SME sector is the fact that foreign donors contribute over 40 percent of government revenue. Therefore, while the policies proposed to it by IFIs affect the survival of its industries and benefit the transnational corporations that originate from the West, the government remains indifferent. Hence this study concludes that the SAP and globalization have curtailed the state's power to pursue development policies.

6.0 Conclusions

The findings of this stud in regard to SMEs in Ghana point toward a circle of declining business credit, rising corporate taxes, slow economic growth, shrinking consulting and training services. In addition the post-reform period is characterized by intensified competitive pressure as well as lack of access to credit and SMEs services. Local SMEs have suffered from competition from subsidized imports from European countries that continue to cripple local investors. The Association of Ghana Industries reports widespread closure/bankruptcy of businesses around the country amidst a rising assortment of fees, levies, tariffs, and national and local taxes. But Ghana is unable to change these conditions or change the policies that create them because of the leverage attained by the IFIs over the government and its policies—a leverage that not only places undue constraints on its ability to make policy but that undermines national sovereignty in regard to national policy.

The social consequences of this vicious circle are also becoming increasingly apparent even though the government remains apparently indifferent. As SMEs fold or fail to expand because of expensive and/or inaccessible credit, the ranks of the unemployed and the working poor continue to expand, especially among women who make up large percentage of SME owners in Ghana.

Ironically, this brings Ghana's development drive into question. Ghana's current economic growth rate of five percent cannot eliminate widespread poverty or ensure sustainable national development. (Ernest Ayittey: Ghana web, 1 January 2003). Despite

IFI reassurance of Ghana being on the path of development through the SAP, Ghana is currently a member of HIPIC. SAPs have left a huge debt overhang. Ghana's foreign debt rose from about US$1 billion in 1983 to about US$6 billion in 2000. Among many developing countries, Ghana has been identified as a Heavily Indebted Poor Country (HIPC) by the IMF and the World Bank in order for them to qualify for some debt relief. A requirement in the HIPC initiative is that accrued savings from debt relief be directed towards poverty alleviation and investment in the social sector. This will invariably assist the SMEs. As much as this is welcome news, it is an admission by the financial institutions that SAPs have disproportionately affected the poor, and have had a negative impact on the social sector in developing countries.

Therefore the adjustment policies recommended by the IFIs and supported by key Western governments and Japan have only succeeded in integrating Ghana and all other African countries who accepted the IFI's recommendations into the global economy under conditions that work to their disadvantage. The Claim that the SAP will initiate development in countries that accepted the policy is flawed at and at worst a gross misrepresentation of truth. To be sure, the policy may create an enabling environment for business. But it has a strong likelihood to expose domestic SMEs to unfair competition from cheap imports and to stimulate bankruptcy among SMEs. Therefore, the SAP is not an appropriate policy framework for the development of SMEs in developing countries—and SMEs could (and should) be the backbone of the country's economic development. Rather it integrates developing countries into the global system under unfavorable conditions and over-exposes un-established domestic SMEs to competition from better established, and technologically advanced transnational corporations.

The significance of this is that it contradicts neo-liberal policy and affirms the neo-Marxist analysis of some critics of the IFIs that further integration between developed and developing countries places the latter at a disadvantage. In short, globalization is inappropriate for development of Ghana and all African countries.

Chapter five

General Conclusions

1. Preamble

Ghana like other SSA countries faced a severe economic crisis in the 1970s and early 1980s that pressured the government into a search for a solution. The crisis attracted diverse diagnosis. Most critical scholars attribute the problem to unfavorable external problems, and natural catastrophes. But the IFS and Western government attribute the crisis to internal mismanagement and excess government interference in economic affairs (World Bank, 1981; Amin, 1979; Konado-Agyeman). The neoliberal advocates argued that the protective trade regime had encouraged inefficiency; therefore, once competition was introduced through trade liberalization, efficiency would be restored. Consequently, structural adjustment policies intended to create enabling conditions for private enterprise development, rationalize the incentive system and improve the competitiveness of domestic enterprise.

Using Ghana's economic crisis in the 1970s and early 1980s as a pretexts, the Western Governments and IFS pressured Ghana into accepting trade liberalization, deregulation and privatization under SAP, and for over 22 years Ghana has consistently adhered to the policies (World Bank, 1997; Konado-Agyeman, 1995).

The thesis of this study is that despite the explicit claims the advocates of the SAP give to justify structural adjustment the policy was designed to implement the neoliberal globalization project in the economies of developing countries, especially in sub-Saharan Africa, by facilitating their increased integration into the global capitalist system. Therefore, the creation of conditions that will support and promote domestic SMEs is not the priority of the adjustment policy in Ghana, it is the integration of the Ghanaian market into the global market that is given priority so that transnational corporations and foreign goods will have assess to the local Ghanaian market where the domestic SMEs have privileges. Hence, the policies somehow helped improved macroeconomic policies. But in creating enabling conditions economic, globalization has generated series of constrains that offset the positive outcome. Thus, rather than helping to improve the accessibility of SME support, it has increased the competitive problems of SMEs, making it increasingly impossible for SMEs to acquire finance, business advisory services, and necessary skills to contribute to Ghana's economic development. In addition, the ability of government to support SMEs competes with cheap foreign imports by using the policy instruments at their disposal has dwindled away.

In support of this thesis, this study analyzed the micro impact of the adjustment policy with emphasis on the impact of globalization and structural reforms on SMEs in Ghana. It examines the impact of IMF/World Bank's sponsored structural adjustment on SME support in Ghana. It specifically analyzed the impact of deregulation, liberalization and privatization on the availability and accessibility of long and medium -term finance for SMEs, the creation of an enabling environment and business support services, including affordable consulting, training, and general services.

On the basis of the findings derived from the research, the text of this chapter has two parts. The first part presents a summary of the findings and indicates their policy implications. The second part outlines a conclusion, recommendations and the directions for future research.

2. Summary

This study analyses the impact of globalization on SME support in Ghana. Chapter One introduces the problematic of the study and states my thesis argued with evidence. It introduces the political economic perspective on issues of global and national development. Chapter Two places the thesis of the research into theoretical perspective. Three schools of thought on the problematic of this study are identified. Each provides an alternative framework of possible ideas to analyse the problem addressed in this study. They entail the neoliberal free market approach dominant in some academic and many policy-making circles; the alternative liberal reformist approach favoured by many academics and some policy-makers; and the critical or radical transformative approach taken in academic circles committed to a political economy perspective and a structuralist method of analysis. The latter is informed by what might be termed a neo-Marxist analysis of the dynamics of capitalist development on a global scale.

The neoliberal theorists argue that globalization is naturalistic and therefore not designed to benefit any particular group. For them the free market is beneficial to both developed and developing countries. Neoliberals advocate the integration of developing countries like Ghana into the global economy, arguing that economic globalization and structural adjustment provides the only path and best option for developing countries to participate in a trend towards economic development and general prosperity (World Bank, 1981). The argument is that increased integration into a global economy based on the principles (and operation) of laissez faire capitalism and free trade will generate outcomes and benefits in which the developing countries can participate once the transitional costs are borne—long-term gains for short-term pain.

Of particular importance to the neoliberal advocates of globalization is the structural adjustment program of policy reforms—stabilization, deregulation, privatization, liberalization, labour market flexibility, and modernization of the state crates mutual benefits to countries North and South. However, these assumptions and associated propositions are contested by liberals with a reformist orientation towards change and development. From this reformist perspective, both structural adjustment and globalization needs to be redesigned to give the entire process a human face—to create a more equitable and inclusive form of national development.

Liberal reformists agree with the core assumptions that free market and increased integration will lead to development in developing countries, but they caution against the excesses of liberalization and privatization in developing countries. For them, developing countries lack the appropriate infrastructure and other conditions to take full advantage of the opportunities presented by globalization. Under conditions available to them they are not likely to equally participate in the benefits of globalization and most likely forced to bear a disproportionate share of the transitional costs of adjustment. The solution is a more balanced mix of state-led and market-friendly policy measures designed to broaden the participation of countries in the world's productive resources and sharing the benefits in a more equitable way. The answer is another form of globalization and a redesigned structural adjustment program—to make globalization workable for all countries.

The critical literature asserts that the inappropriateness of both orthodox (neoliberal and heterodox (reformist) policy prescriptions for developing countries is not only an issue of omission but that these policies are inherently designed to benefit the rich and powerful in the North at the expense of the poor who are concentrated in the developing countries in the South. As they construct it, the 'Washington Consensus' on the 'correct policies' is based on a coincidence of economic interest within the transnational capitalist class. The governments and states in the rich developed countries, the IFIs and the TNCs all share in this interest and serve to advance it at the expense of the poor. In this context both globalization and structural adjustment are nothing moiré than ideology, designed to mask the real interests at play and to obfuscate the forces of global development. In short, globalization is a strategy designed to take advantage of and exploit the developing countries.

Following this analysis Chapter Two concludes that both the radical critics and the liberal reformers advance ideas that are relevant to the thesis of this study—and that will be used as workable assumptions and guiding principles vis-à-vis the thesis of this study.

Chapter Three examines the issues in this debate on globalization and structural adjustment in the specific context of Ghana. The focus of the chapter is on the dynamics involved in the process of recruiting Ghana into the globalization agenda under conditions of structural adjustment. This process involved in this agenda has unfolded, as it were, over two decades, sufficient time to allow us to analyze its dynamics retrospectively on the basis of data available from official sources and relevant academic studies. Analyzing the situation of Ghana over three periods (pre-adjustment, adjustment and post-adjustment), Chapter Three concludes that the crisis that engulfed Ghana during the late 1970s and early 1980s was used by the IFIs and the governments of the western capitalist countries as a means of pressuring Ghana into accepting the Globalization agenda. He need for development assistance and finance was another means to this end.

Notwithstanding his issue of how the government was levered into the adoption of the SAP, the chapter concludes that resulting reforms helped Ghana attain macroeconomic benefits; indeed for many years, Ghana was the star performer in West Africa, with annual growth rates up to eight percent. In fact between 1983 and 1985, the SAP helped offset a propensity towards crisis and stabilized the economy, establishing the preconditions for a process of sustained economic growth (Konado-Agyeman). But in some ways it became a victim of its own success and the growth process was not sustained in the long run. Many international donors shifted their attention elsewhere, and the Ghanaian government showed less and less commitment to poverty reduction and economic growth. With privatization and liberalization government involvement, in the economy was seriously reduced, especially as regards the provision of service to the poor and the vulnerable who were victims of the policies. Chapter Three concludes that the macro-level 'benefits' of the reforms, designed as a means of integrating Ghana into the global economy—to facilitate its development along a neoliberal capitalist path—were outweighed by their heavy social—and political—costs and that in fact very few economic and social sectors of Ghanaian society managed to participate in the benefits of the globalizing reforms. The record as regards to enterprise and economic development over the past two decades has been very mixed at best and has not provided an institutional or policy framework to launch the country on a sustainable development path. Two decades of reform and Ghana is still awaiting the promised gains from a protracted and painful adjustment process.

To put the issues back into theoretical perspective, Chapter Four raises and addresses the question as to whether the macro-level benefits of structural adjustment and policy reform have translated into benefits at the micro-level and helped reduce the poverty level as promised by orthodox neoliberal theory. The focus of the chapter is on the impact of globalization and structural adjustment on SMEs both directly in terms of economic conditions and indirectly at the level of government support. That is, the issue is the effect of globalization on the capacity of the government to create a supportive environment and enabling conditions form the growth of SME as a factor of national development. SMEs contribute the largest number of enterprises in Ghana— about 95 percent of registered enterprises. It is also the largest employer of the poor and women. In fact, it was used as a contingency tool to absorb the large number of Ghanaian workers who lost their jobs as a result of the privatization of about 350 public institutions in Ghana.

Chapter Four concludes that while the reform policies led to some improvement on basic macroeconomic variables, including inflation, GDP, enterprise friendly policies and investor and donor confidence, it failed to transform and/or trickle down to the Meso or micro level. In particular, the reform program did not improve the access of SMEs to finance and business services. The reform attracted foreign interests in Ghana, yet external funding remained a problem to domestic SMEs because they lack the collateral to access credit from finance companies whose standards do not reflect the local situations of the SMEs. In effect, the adjustment and globalization process left the MSE sector vulnerable and exposed to forces that tended to undermine it. The problem is that the new economic model of free market capitalist development is geared to benefit only those enterprises with sufficient productive capacity to compete in the world market. Under this model, the majority of enterprises, generally small and oriented towards the domestic market, are viewed as having marginal productive capacity, allowed to twist in the winds of change. The employment and income generating capacity of these enterprises, as well as their development potential, is ignored. Without government support there is no way that the SMEs can become a productive factor in a process of national development. The data presented in Chapter Four bears this out.

The neoliberal reform generated did interest in the enterprise sector and led to creation of several institutions. But the post reform SME support programs have all been ad hoc and uncoordinated. In most cases, the government institutions established to provide support to SMEs engaged in a partnership agreement with INGOs, becoming a subsidiary of the foreign firm. The relationship between the Ghana National Board for small-scale industry and the German GTZ provides evidence of such subordination.

While the activities of SMEs spread across that country, the SME support institutions established after reformed are mostly confined to the national capital Accra. This has made the institutions ineffective in providing support to SMEs. For instance, the Registrar General's Department (RGD) facilitates business registration and commencement and compliance with the Companies Code. Yet it does not have offices across the country to keep track of SMEs in Ghana except in Accra. Besides, like the Registrar General's Department (RGD none of the government support institutions operations are modernized with the capacity to track the operations of enterprises across the country. Activities are not computerized. The result is that a sizeable number of SMEs are not even informed of the availability of SME support. This situation also undermines the role of the government in facilitating good corporate governance.

3. Conclusion

The study indicates that over twenty years of SAP its benefits have been few, or highly concentrated, and its costs have been high and its negative impacts broad, particularly as regards to SMEs. The SAP did improve some of the macro indicators, especially the rate of inflation, the growth of GDP and the flow of investment. During SAP, inflation dropped from an average of 123 percent in 1983 to 20 percent in 1997, while GDP increased from negative growth in previous years to 5-4 percent in 2001. In addition, SAP generated investor interest in Ghana and generally renewed interest in enterprise development in Ghana. These improvements helped stimulate an enabling environment that supported Enterprise and SME development. However, the macro-benefits of adjustment have not trickled down to the micro level.

The advocates of globalization and structural adjustment have argued and continue to do so notwithstanding the contrary evidence the Registrar General's Department (RGD that Ghana's reform program will put Ghana on the path to development via the private sector and enterprise development, the engine of economic growth, which is a precondition for a broader process of economic and social development. However, our findings do not support this view. Analysis of the available data in chapter four indicates that SMEs did not substantially benefit from the achievement in the macro sector. In fact the improvement in the enabling environment for SMEs has been offset by significant constraints associated with increased competition from imports.

Contrary to boosting its development and contribution to Ghana's development, SMEs have suffered significantly from unfair competition from cheap imports, decreasing and dwindling access to long- and medium -term credit and dwindling public support services, especially in the domestic sector (although there has been a significant increase of support for SMEs re export trade). At the same times external donors have turn the much of their focus to other countries, leaving the poor in the level playground with the transnational corporations.

The reforms in Ghana did indeed improve the confidence of donors and foreign investors in Ghana, and it attracted limited additional financial institutions and service institutions to Ghana. But most SMEs lack the collateral, business records and appropriate skills to access the services of the foreign enterprise. In particular, SMEs in Ghana have been able to access credit and consulting services of foreign firms because of inadequate resources and to do so and/or unable information about the services of those firms. Yet the reforms increased pressure and problems of SMEs. For instance, the reforms attracted foreign banks into Ghana, yet large foreign banks were less interested in extending credit to SMEs. However, the foreign banks drove the few local markets that were tailored to extend credit to SMEs. As a result, the foreign banks caused bankruptcy of most local banks and blocked a general access of SMEs to bank credit. Few SMEs that were able to access credit were not able to pay back their loans because of the high interest rates charged by the banks. This has affected the SMEs' ability to generate employment for the poor. Steele (1991) in his survey discovered that under ERP, particularly from 1983-89, employment fell rapidly in the medium enterprise. Further, liberalization attracted cheap imports while a massive cut in social services and stringent monetary policy adopted by government curtailed government ability to intervene to protect the SMEs and or initiate a special credit program. Liberalization and deregulation increased competition pressure on SMEs and decreased their access to support. Subsidy removals increase domestic cost of production while abolishing of tariffs and reduction of import duty decrease costs of import. Import liberalization exposes SMEs to a very difficult task of competing with technologically advanced and productively efficient foreign industries, stringent monetary policy and privatization curtailed ability of Ghana government to intervene on behalf of domestic SMEs. Most domestic industries in Ghana are currently operating at less than 50 percent capacity, while markets in Ghana are flooded with imported consumer goods.

Twenty years after its acceptance of SAP, it has succeeded in integrating SME into global market but it has not directed the flow of resources from the West to Ghana as predicted by neoclassical and neo-liberal Free Market advocates. If anything, SMEs have not grown nor has the gap between them and TNCs narrowed. Rather, this gap has widened, in line with neo-Marxist theory that postulates that market oriented development almost invariably leads to socioeconomic exploitation of developing countries. We did not analyze this issue of 'exploitation' but one of its mechanisms is unfair trade, that is, the hidden transfer of resources via control of the market institutions. It is quite possible that the SAP created an enabling environment for such exploitation. In any case, it has left the SMEs in a position of acute vulnerability to global forces that they could not control or, in much case, cope with. The SMEs as a sector were not among the beneficiary of the SAP, if there were any.

While the implementation of the SAP directly and negatively affected the SMEs, the IFIs wield a pervasive influence in formulating the policies that shape the economic and social structure of Ghana to extent that the government has not been in a position to intervene in support of the SMEs. Therefore the SAP has not helped SMEs to contribute to Ghana's development. Notwithstanding that the methodology of this research did not involve field interview with cross-section of SMEs owners in Ghana, the findings are relevant in concluding that the SAP will not lead Ghana and other African countries who accepted the IFI policy, to develop. It will only stimulate their integration into the economic globalization process under unfavorable conditions.

4. Recommendations

On the basis of my general conclusion I suggest that the current reliance on the private sector and the world market, on international development finance conditioned on policy reforms, and on globalization as national development strategy, is misplaced. Under conditions that prevail in Ghana and the world is appropriate and necessary to enhance and strengthen the role of the government in the development process. The negative effects of the SAP on a large and important sector of the economy and society have to be compensated for and counteracted. As to what precise policy program this might entail is not clear. What is clear is that the SAP not only is not a panacea; it is an instrument for underdevelopment and continued dependence. The only way to break the vicious circle of dependency and underdevelopment is for Ghanaians to gain greater control over their own economy and the capacity to make national policy in regards to it. This will require a stronger state as well as a willingness to stand up to the forces of global capital. Above all, it dictates an alternative strategy focused on the productive capacity and social functions of the SMEs. These enterprises provide the key to unlock the door of national development both in Ghana and elsewhere in the developing world.

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