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THE ECONOMIC TAPESTRY: SMALL ENTERPRISES' INFLUENCE IN GHANA AND SOUTH AFRICA

Prof. Anna Sophie Wagner and Dr. Maximilian Friedrich Schmidt
PhD Student, Teaching and Research Assistant, University of Siegen, Unteres Schloß 3, Siegen, Germany

Abstract
Small and medium-sized enterprises (SMEs) are pivotal to economic growth, job creation, and fostering innovation, which in turn enhance overall well-being. The impact of entrepreneurship on economic growth is widely acknowledged, although it is influenced by institutional context and economic development levels. This paper explores the multifaceted role of SMEs in developing countries, particularly in Sub-Saharan Africa, a region characterized by a diverse SME landscape.
Africa boasts the world's highest rate of new business start-ups, with 22 percent of the working-age population engaged in entrepreneurial activities. SMEs account for over 95 percent of all enterprises in the region, contributing to its economic heterogeneity. With varying experiences of economic growth across countries, understanding the growth patterns and drivers of SMEs in Sub-Saharan Africa is essential.
This study focuses on two countries, Ghana and South Africa, both of which have undergone significant economic and political transformations in recent decades. Ghana has evolved into a stable democracy since 1992, while South Africa has undergone substantial economic and societal changes post-Apartheid (1948-1994). In both countries, SMEs are increasingly recognized as essential tools for fostering economic growth and development.
Our comparative analysis sheds light on how these two nations have come to acknowledge the pivotal role of SMEs in their economic landscapes and how SME policies have evolved as integral components of broader economic development strategies.

Keywords: SMEs, entrepreneurship, economic growth, Sub-Saharan Africa, Ghana, South Africa.

1 Introduction

The small and medium-sized enterprises (SME) sector is considered as the backbone of the economy. This means that the SMEs could be a key engine of employment, job creation, stimulation of innovations, and tend to be contributed to economic growth and improve the well-being of a population. In the economic literature, entrepreneurship is broadly recognized as a driver of economic growth (Thurik and Wennekers, 2004; Audretsch et al., 2006; Beck et al., 2005; Ayyagari et al, 2014). However, the dynamics of entrepreneurship may largely depend on the institutional context and level of economic development (Acs et al. 2008). Moreover, the Program of the Sustainable Development Goals (UNDP, 2017) points out that there are two statements on the role of SMEs in developing

countries. On the one hand, the development of the SME sector in the economy can be seen as an effective instrument for poverty alleviation. On the other hand, the development of SMEs via the implementation of innovation encourages to sustainable growth.

It needs to note that there is a wide broad discussion about the important role of SMEs in the Sub-Saharan African region. For example, African Economic Outlook 2017 highlights that 22 percent of Africa's working-age population is starting new businesses, and it is the highest rate in the world. According to Fjose et al (2010), SMEs comprise more than 95 percent of enterprises of all sizes in the Sub-Saharan African region, and at the same time the region is pretty much heterogeneous that leads to different SME landscapes. Furthermore, in this region countries have a diversity of experience with economic growth (Ndulu et al., Vol. 1. 2008). In more detail, Thorbecke and Ouyang (2018) examine that the current structure of growth in SSA within the period from 1986 to 2012 differs significantly from the period between 1960 and 2000 in the region as well as from the global growth pattern. It could be explained by the specific initial country conditions that combined effects of globalization and development strategies will generate and lead to different paces of growth and different structures of growth from exclusive to inclusive.

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

In general, the concept of structural transformation is associated with various dimensions such as industrialization, agricultural transformation, demographic transition and urbanization (Chenery et al, 1986). Following Dietrich (2012), the analysis of economic growth is associated with the phenomenon of structural change in the three main sectors such as agriculture, industry and services. Therefore, De Vries et al (2015) stress that structural change places high in the debate on economic growth in Africa. However, economies in the Sub-Saharan African region strongly differ from other developing economies in terms of the impact of international integration and institutional conditions on structural change (Chenaf-Nicet, 2019). In the line of the discourse, the importance of understanding the structure of economies in this region and the process of structural change is a crucial subject in the literature at present time (Fosu, 2018).

Based on the evidence on structural change literature, there is a strong relationship between economic growth and structural change, our analysis focuses on why small and medium-sized enterprises may become a key tool for enhancing economic growth in both countries. Several questions could be

addressed: What is the nature of the SME sector in the Sub-Saharan African region, particularly in Ghana and South Africa? How has the structure of the economies been changed over the study period? The purpose of this paper is to investigate the nature of small business development, the nature of structural change and the process of economic growth in Ghana and South Africa based on country-study, also to contribute to the understanding of how SMEs may be incorporated into processes of structural change. After the introduction, the paper is organized as follows. Section 2 provides the country profile of Ghana and South Africa with own calculation of economic growth trends, employment trends by sectors of the economy. In addition, recent literature on structural change is discussed. Section 3 describes the SME sector based on national statistic surveys. Section 4 focuses on proSME policies in Ghana and South Africa in the context of private sector development. Section 5 concludes.

Section 2 Country Profile: Evidence from Ghana and South Africa

This section provides evidence of economic growth trends, social-economic processes and structural change over 27 years using the World Development Indicators. Based on three analyzing blocks, it will be shown that the economic processes which have occurred during a study period demonstrate similarities and differences between Ghana and South Africa simultaneously.

2.1 Economic Growth Indicators

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

It is important to explain what is real GDP? As stated in the paper by Feenstra et al. (2015), the concept of real GDP means GDP estimated at constant prices over time. In other words, constant series are employed to measure the true growth of a series by adjusted for the effect of price inflation. Furthermore, the World Bank Indicators report data for real GDP in the “constant” term. Particularly, recent data of GDP from the World Development Indicators are constant 2010 U.S. dollars. This means that dollar figures as common currencies for GDP are converted from domestic currencies using 2010 official exchange rates, and then it allows making a comparison across countries (Report World Bank, 2019).

Figure 2.1.1 and Figure 2.1.2 present comparative development indicators such as real GDP per capita, the growth rate of real GDP and the growth rate of real GDP per capita to help to examine the facts about Ghana and South Africa in comparison with Sub-Saharan African countries.

As shown in Figure 2.1.1 between 1991 and 2017 GDP per capita in Sub-Saharan African countries rose from 1266 to 1662 U.S. dollars and in Ghana from 834 to 1738 U.S. dollars, respectively. South Africa has the highest GDP per capita in the region and it increased from 5852 to 7482 U.S. dollars. Besides, during a study period GDP per capita in SSA increased 31 percent, in South African and Ghana, on 30 percent and 108 percent, respectively.

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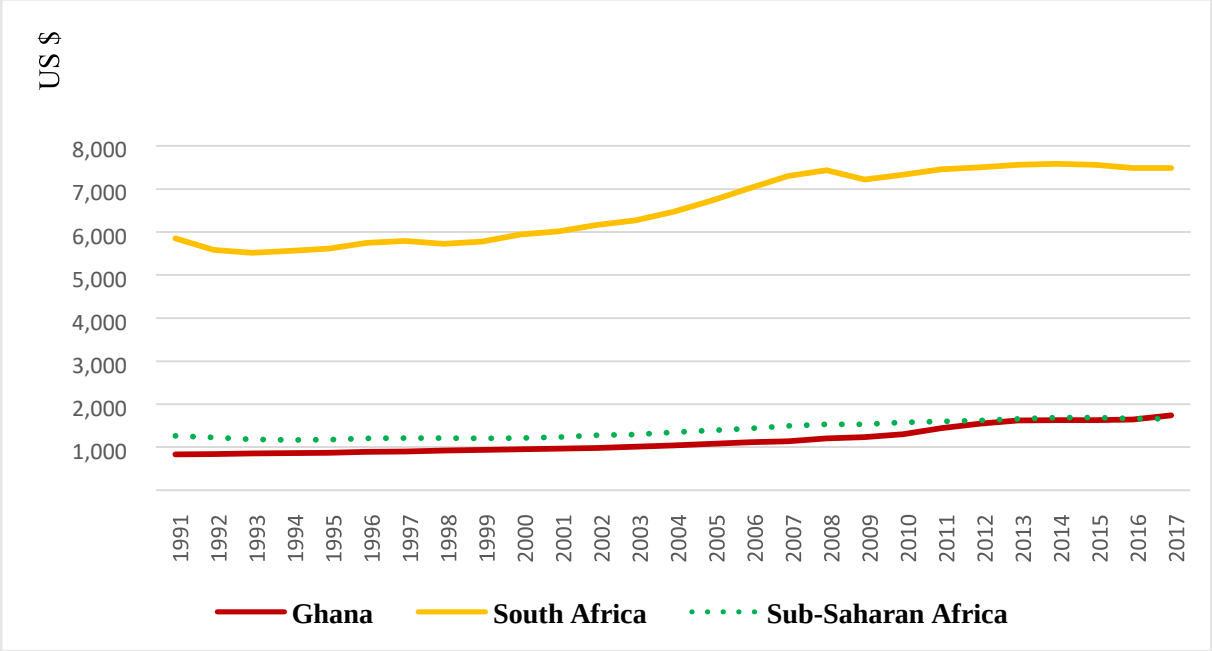
Figure 2.1.1: Economic Performance in Sub-Saharan Africa, 1991-2017, GDP per capita, constant 2010 US $



Source: Own calculations based on the World Development Indicators, (WDI, 2019)

It should be noted that Ghana is one of the fastest-growing economies among Sub-Saharan African countries. As the United Nations Development Programme states that Ghana is the first country in this region to achieve the Millennium Development Goal 1, which is "the target of halving extreme poverty" (UNDP, 2017). Aryeetey and Fosu (2008) have analyzed economic growth in Ghana during the period between 1960 and 2000 and have underlined that Ghana plays a pioneering role in the political and economic transition in the Sub-Saharan African region approximately four decades of independence period.

Figure 2.1.2 reflects that the trends of economic growth such as growth rate of real GDP and growth rate of real GDP per capita in Ghana were positive between 1991 and 2017, on the one side, and had a higher growth rate of both indicators compared with other Sub-Saharan African countries, on the other side. The comparison between South Africa and Sub-Saharan region shows that in South Africa growth rate of real GDP was less than in Ghana and the whole region. Finally, per capita growth track is close to track of real GDP growth for all three cases because it could be suggested the population growth has been rather stable. However, it could be believed that acceleration in growth of population occurred so that explains the larger gap between tracks of per capita GDP and growth GDP.

Figure 2.1.2: Trends of economic growth in the Sub-Saharan African region, 1991 – 2017

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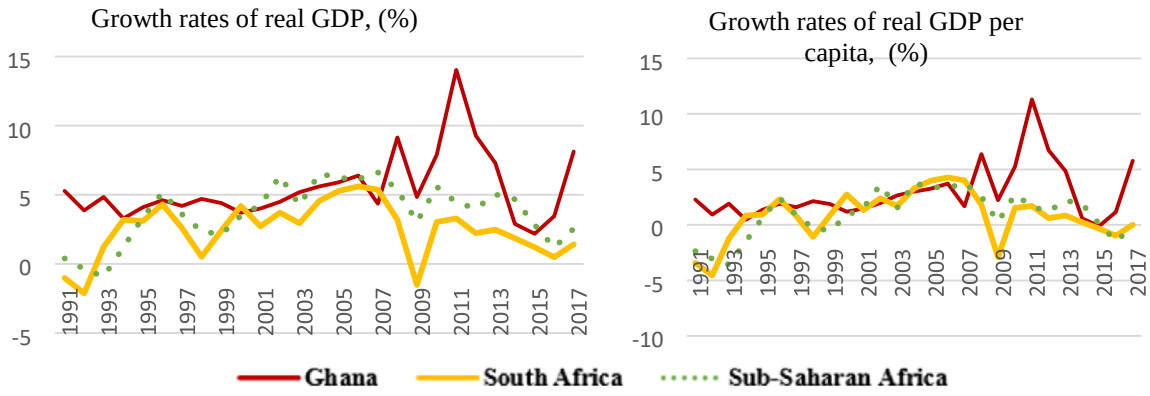
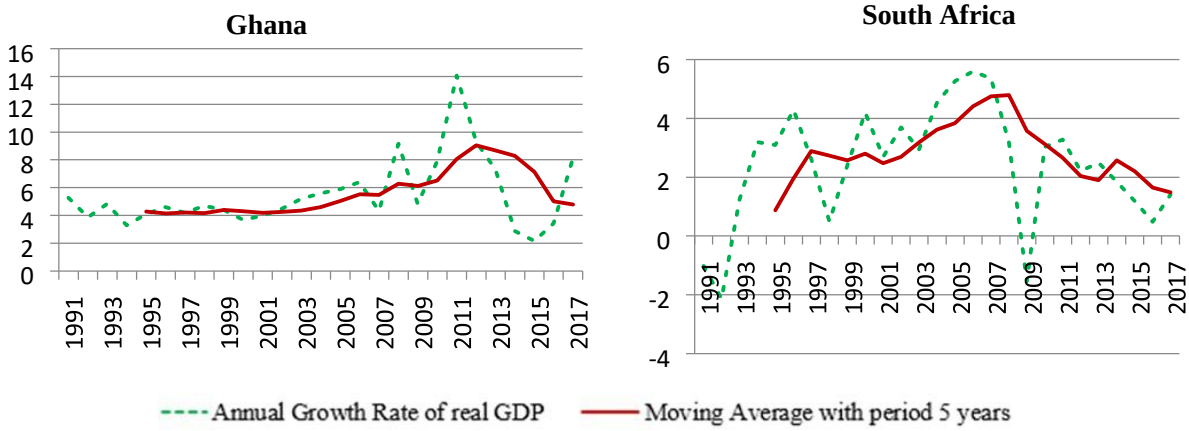


Source: Own calculations based on the World Development Indicators (WDI, 2019)

To better understand the trends of growth, simple moving averages are used to smooth out short-term fluctuations and reveal long-run trends. To note that the received value of the simple moving average refers to the last point of the interval window so that the curve of moving average is shifted the graph to the right to the last value of the interval. This means that the moving average is set between 1995 and 2017.

Figure 2.1.3 and Figure 2.1.4 show trends of growth GDP and per capita GDP growth together with simple moving averages in Ghana and South Africa.

Figure 2.1.3: Trends of average growth rates of real GDP of Ghana and South Africa, 1991 – 2017



Source: Own calculations based on the World Development Indicators (WDI, 2019)

Between 1991 and 2017 the Ghanaian economy presented up-warding growth trends, but some strong fluctuations have occurred. For example, during a study period annual GDP growth rate increased from 5.30 percent to 8.10 percent. The highest peak was recorded in 2011 and accounted for approximately 14.00 percent. It should be noted that the favorable period of GDP growth was recorded between 2008 and 2012 with average growth rate approximately 9.05 percent (Figure 2.1.3). In 2014 growth spurt could be explained by starting production of oil at the end of 2010 and also aided by the significant export performance of cocoa and precious metals as gold (AFDB Ghana, 2013).

Figure 2.1.4: Trends of average growth rates of real GDP per capita of Ghana and South Africa, 1991 – 2017

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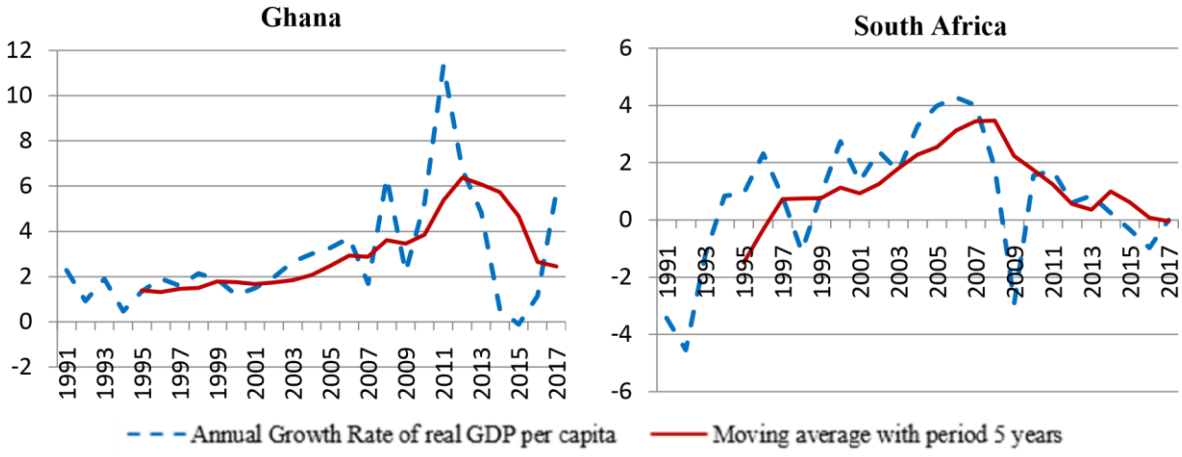

Source: Own calculations based on the World Development Indicators (WDI, 2019)

Based on the own calculation of the smooth average, the more successful growth period of GDP per capita in Ghana took place between 2008 and 2012 with an average growth rate of approximately 6.40 percent, respectively. Moreover, the annual growth rate reached a peak in 2011 and was 11.3 percent (see Figure 2.1.4).

Therefore, between 1991 and 1993 real GDP growth in South Africa was negative close to zero due to the Apartheid era. Since 1994 economy in South Africa started the rapid process of trade liberalization so that has become full re-entry into the global economy. The positive economic growth was observed during the period between 1994 and 2017. For except, in 2009 growth was negative and was – 2.9 percent (see Figure 2.1.3). According to the paper by Bhorat et al. (2014), the sharp decline of growth was caused by the global financial crises, one the one side, and during the following years after the strong slowdown of growth economy of South Africa tries to recover.

As shown in Figure 2.1.3, more successful period of GDP growth in South Africa was between 2004 and 2008 with an average growth rate approximately 4.80 percent, with the highest value recorded in 2006 of around 5.60 percent. In addition, the growth of GDP per capita reached a peak in 2006 with approximately 4.30 percent. The favorable growth of GDP per capita was recorded between 2004 and 2008 with an average growth rate approximately 3.48 percent (see Figure 2.1.4).

The post-1994 period in South Africa has seen mixed results. The economy experiences pressure from the global economic slowdown together with internal structural bottlenecks, such as high level of unemployment, inequality, not a sufficient level of productivity improvement and racial imbalance. However, the economy of South Africa is characterized by a globally competitive financial and business services sector (Bhorat at el., 2014). As highlighted by Rodrik (2008), slow economic growth was likely to connect with structural change in South Africa.

Evidence from recent literature on economic growth in the SSA region reflects several important findings. Thorbecke and Ouyang (2018) suggest that starting 2000, the speed of growth in SSA has experienced “a quantum jump” and growth pattern has become more inclusive. Another view is presented in the paper by Rodrik (2016) that recent GDP growth in Africa should be interpreted with

caution. In this line of Rodrik's statement, Fosu (2018) concludes that the "African growth miracle"' could simply be pre-mature. The key question is what factors may influence economic growth in Sub-Saharan African countries. The first is associated with the endogenous factors such as "the improved treatment of agriculture", the general improvement in the quality of institutions and the emergence of a middle class, according to Thorbecke and Ouyang (2018). The second group of factors is exogenous factors which include high global commodity prices and the favorable external environment based on the view of Rodrik (2016).

To summarize, the economies of Ghana and South Africa are not on the same macroeconomic trajectory, they do not have the same pace of growth. However, Ghana and South Africa demonstrate some improvement of economic growth over a study period. There are different reasons which could explain it. As mentioned above, it needs to consider social-economic trends and structural change process that will be analyzed in the following subsections.

2.2 Social-economic indicators

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

Figure 2.2.1 illustrates a continued rapid population growth in Ghana and South Africa during a study period. In Ghana population grew from 14.8 million in 1991 to 29.1 million in 2017. In the case of South Africa, the population increased from 36.8 million in 1991 to 57.0 million in 2017. Overall, during a study period population growth in Ghana was 96.6 percent, and in South Africa 54.9 percent, respectively. As shown in Figure 2.2.2, the trend of annual population growth rate in Ghana fluctuated between 2.90 and 2.22 percent and South Africa from 2.47 percent to 1.41 percent, respectively. Trends of annual growth rate resulted in positive population dynamics.

A comparison between population trends led to two facts. First, population growth in Ghana was faster than in South Africa and the Ghanaian population increased approximately double times. Second, in both countries, the annual population growth rate declined gradually. In line with population dynamics, a share of the rural and urban population should be taken into consideration. Figure 2.2.3 and Figure 2.2.4 show that process of urbanization occurs in Ghana and South Africa. For example, in Ghana, the urban population rose from 37 percent in 1991 to 55 percent in 2017, and the rural population declined from 63 percent to 46 percent, respectively (see Figure 2.23). In 2009 it is recorded that the urban population started to prevail on the urban population in Ghana. Then, Ghana deals with the rapid urbanization. Figure 2.2.4 illustrates that in South Africa the urban population increased from 53 percent to 66 percent between 1991 and 2017, while the rural population reduced from 47 percent to 34 percent, respectively.

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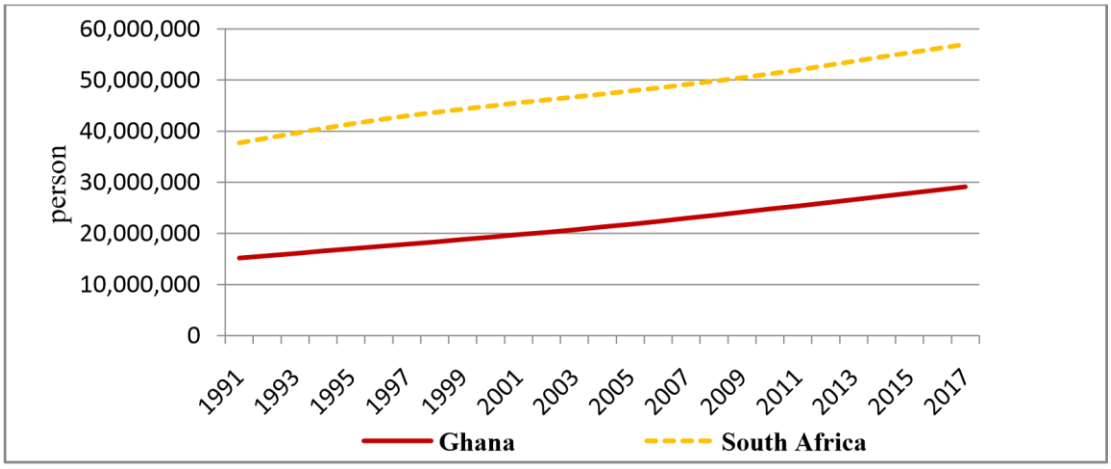
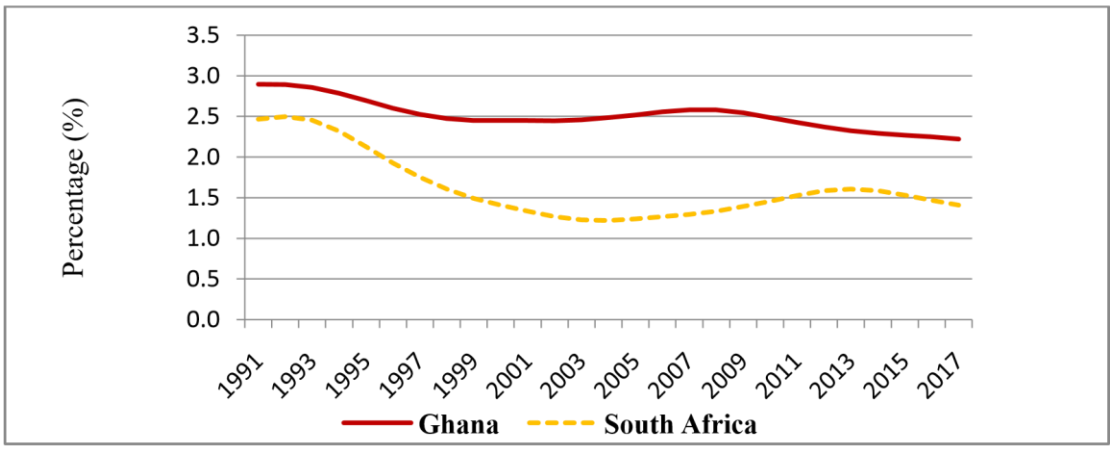
Figure 2.2.1: Trends of population in Ghana and South Africa, 1991– 2017



Source: Own calculations based on the World Development Indicators (WDI, 2019)

Figure 2.2.2: Population annual growth in Ghana and South Africa, 1991 – 2017



Source: Own calculations based on the World Development Indicators (WDI, 2019)

Figure 2.2.3: Structure of population in Ghana, 1991– 2017

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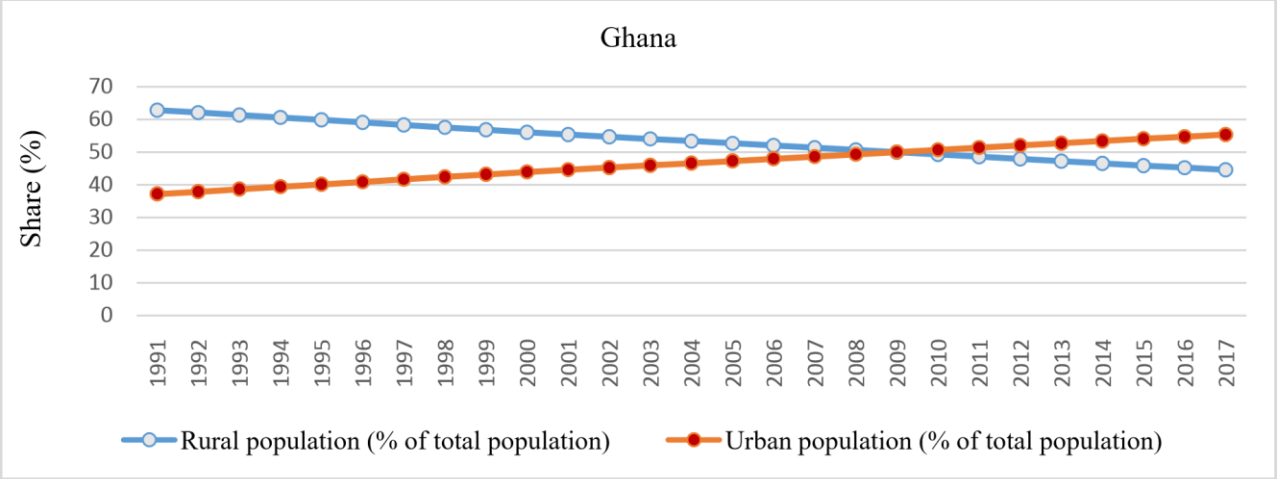
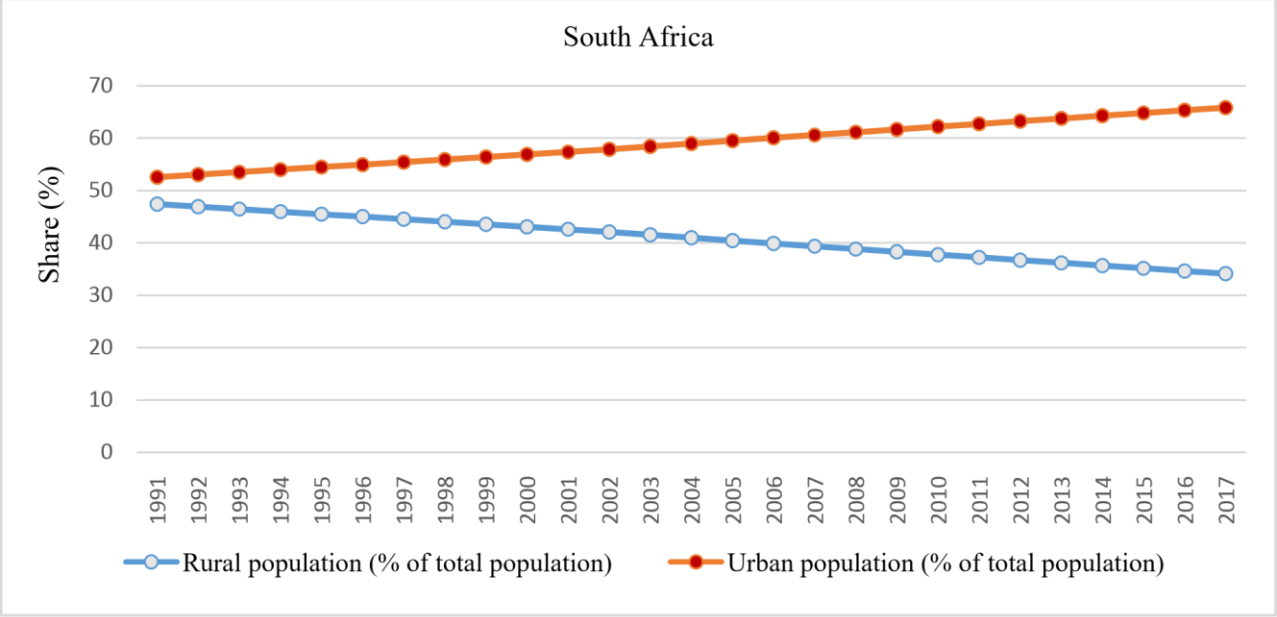


Source: Own calculations based on the World Development Indicators (WDI, 2019)

Figure 2.2.4: Structure of population in South Africa, 1991– 2017



Source: Own calculations based on the World Development Indicators (WDI, 2019)

Having considered the distribution of population between urban and rural areas during 1991 and 2017, allow us to recognize that the urbanization process in Ghana and South Africa has been slightly different. On the one hand, in countries, urban population continued to grow and rural populations continued to decline modestly. On the other hand, during a study period more than half of the population in South Africa already lived in urban areas.

One may assume that the process of urbanization is driven by different factors. Moreover, it could be related to the structural transformation of the economy such as movement labor force between sectors, on the one hand, and external factors as climate change, on the other hand. For example, Henderson et al. (2017) have found that the adverse climate change and urbanization in Sub-Saharan Africa have a strong relationship. Authors suggest that climate change will influence structural transformation so

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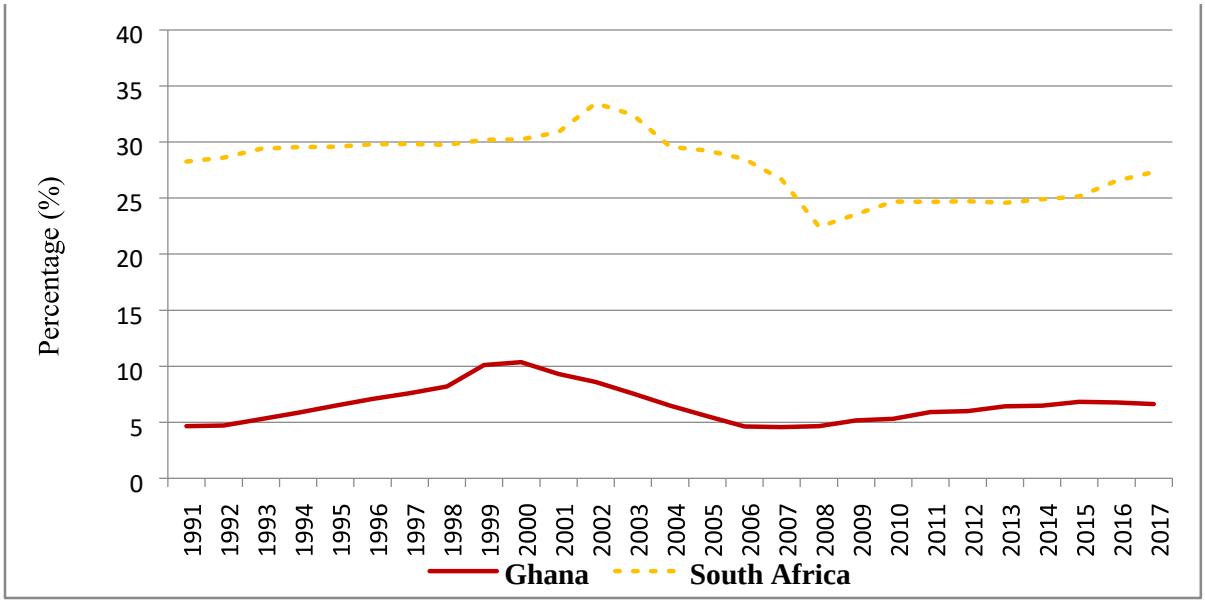
that it may be two scenarios. The successful scenario will be where cities may absorb the excess force of labor from agricultural rural areas. The second scenario is likely to be challenging in less industrialized cities in this region. The main result provided by the paper of Henderson et al (2017) is that further migration from rural to urban areas will continue due to persistent climate change.

One of the important indicators of the macro-economic process is unemployment. In this context it needs to know what share of the labor force without work, but available for and seeking employment. As stated in the paper of Rodrik (2008), the economy of South Africa strongly suffers from a high level of unemployment, one of the highest in the world. The results of this trend derived from shrinkage of the non-mineral tradable sector (among them manufacturing). Figure 2.2.5 illustrates that level of unemployment fluctuated from 28 percent to 27 percent during a study period. It reached its highest point in 2003, and it was approximately 34 percent. The lowest value of unemployment in South Africa was recorded in 2008 and it was approximately 23 percent. Moreover, the highest rate of unemployment in South Africa is mostly associated with the young and unskilled population (Rodrik, 2008; Bhorat et al., 2014). As shown in Figure 2.2.5, unemployment in Ghana increased from 4.6 percent to 6.6 percent. Unemployment peaked above 10 percent during two years, namely 1999 and 2000 and then fell moderately until 2006.

Figure 2.2.5: Trends of unemployment rate, (% of total labor force) (modeled ILO estimate) in Ghana and South Africa, 1991-2017



Source: Own calculations based on the World Development Indicators (WDI, 2019)

To conclude, South Africa and Ghana are characterized by an increasing urbanization process and the rapid growth of the population. The trend of unemployment in Ghana is different in comparison with the situation in South Africa.

2.3 Structural Change

This subsection examines the process of structural change in Ghana and South Africa where structural change is measured in terms of employment and output. We use data on value added and sectoral employment for both countries over 27 years. Furthermore, recent research papers covered the "nature" of structural change in SubSaharan Africa are discussed.

Economic development deals with structural change (Jedwab and Osei, 2012) and structural transformation (industrialization) (McMillan et al., 2011). Oseia and Jedwabb (2013) state that structural change is a heterogeneous process and could appear in different forms that depend on the experience of different countries. Moreover, structural change is associated with moving from the agriculture sector to the manufacturing and services sectors (Jedwab and Osei, 2012). According to McMillan et al. (2017), structural change can appear in two forms such as growth-enhancing and growth-reducing. Former means that labor force shifts from the low-productive sector to the high-productive sector.

Latter suggests that general productivity reduces under the condition if the labor force moves towards lowproductive sectors. For this reason, recent literature draws special attention to the following questions: How does structural change occur in Africa? Is structural change growth-enhancing in Ghana and South Africa?

Several studies stress that the "nature" of structural changes in Sub-Saharan Africa stays different in comparison with other developing regions (Rodrik, 2016; Diao et al., 2017; Osei and Jedwabb, 2013). For example, Rodrik (2016) points out that the pattern of structural change in African countries looks different "from the classical pattern" that took place in Asia countries and performed high growth due to labor flow towards higher-productive sectors (manufacturing and services). In the case of Sub-Saharan Africa, rural migrants moved from the rural agriculture sector to the urban service sector characterized by low-productivity and also operating under informal activities (Rodrik, 2016). Diao et al. (2017) report that between 1990 and 1999 structural change was growth-reducing in most Sub-Saharan African countries due to lower labor productivity growth which was closed to zero. Between 2000 and 2010 labor productivity growth occurred, and as a result, structural change became growth-enhancing for some African countries (Diao et al., 2017).

Mostly stylized facts of structural change are associated with changes in the sector shares of GDP, sector employment shares, labor productivity. To get insight into the main trends of structural change in Ghana and South Africa, two key indicators such as the relative share of value added in GDP and the relative sectoral employment share are considered in this paper.

Based on the International Standard Industrial Classification of All Economic Activities (ISIC Rev.4, 2008), the industry covers mining and quarrying, manufacturing, construction, electricity, water, and gas (divisions from 5 to 43). To study value added, the World Bank reports often manufacturing as a separate group. For this reason, economic activities in mining, construction, electricity and gas divisions are presented as one group and called "other industry".

Figure 2.3.1 shows the processes of structural change in the Ghanaian economy between 1991 and 2017 in terms of the sectoral distribution of real GDP. The first important stance is that the structure of the economy reflects a shift in dominance from agriculture to services. In more detail, the share of

Multidisciplinary International Journal of Finance and Accounting
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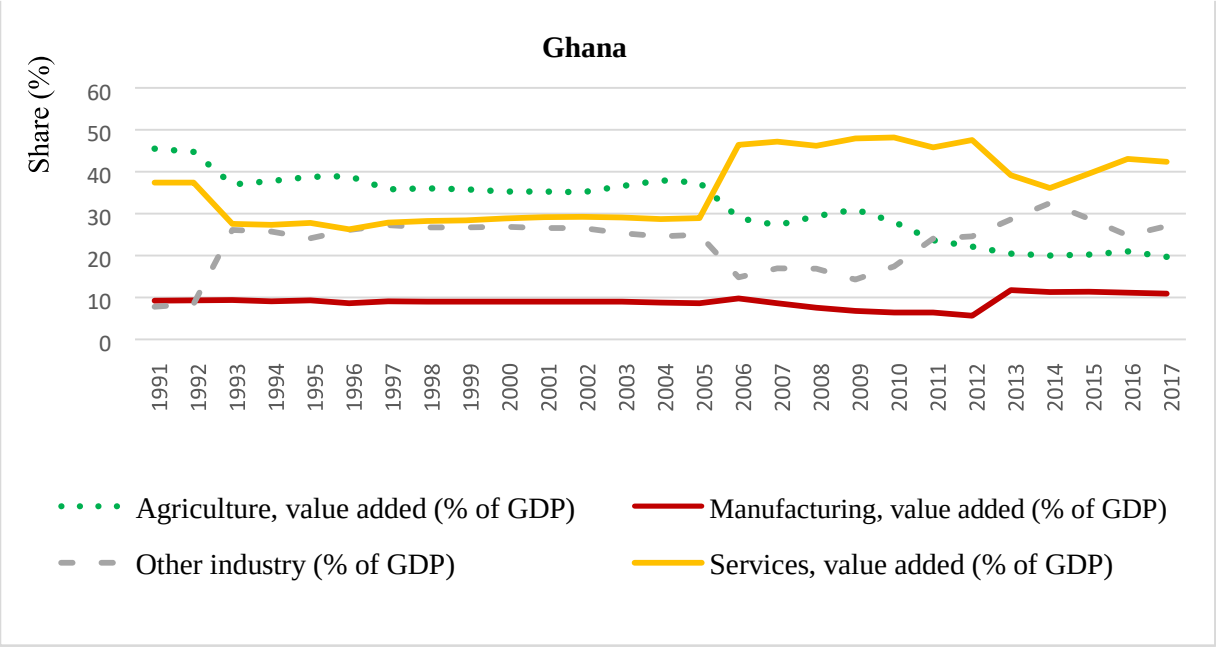
agriculture over the study period has reduced significantly from 46 to 19 percent. However, the share of services has increased steadily from 37 to 42 percent. It should be noted that there was a modest fluctuation in the contribution of service to GDP during the period 1993 to 2005. Then, between 2005 and 2006 a steep rise took place from 28 to 46 percent, and it kept the same level with slight fluctuations during the period from 2006 to 2012. Despite the declining share of service until 36 percent in 2014, the contribution of service to GDP remained as dominant compared by other sectors. In 2017 value added from the service sector made a substantial contribution to GDP and accounted for 42 percent.

Figure 2.3.1: Share of Sectors in Value Added (Percentage of GDP) in Ghana, 1991-2017



Source: Own calculations based on the World Development Indicators (WDI, 2019)

The second important stance is that the manufacturing sector remained at the same level with little changes. Between 1991 and 2017 the share of manufacturing contribution to GDP increased from 9 to 11 percent. During the estimated period other industrial sectors have grown significantly from 8 to 27 percent (see Figure 2.3.1). In 2014 it reached its highest point, approximately 32 percent. In the context of the Ghanaian economy, it means that this expansion has come from mining and quarrying as one of the divisions of other industries. The structural change in Ghana occurred without the manufacturing sector. The same results have been provided by Aryeetey and Fosu (2008).

Figure 2.3.2 highlights the following results. Firstly, during 1991 and 2017 the structure of the economy of South Africa connected with the dominant contribution of service to GDP from 52 to 61 percent, respectively. Secondly, there was a declining trend in agriculture over the period from 4 to 2 percent. This means that over the study period the relative share of agriculture sector in value added to GDP has been much smaller compared with service and industry sectors. Thirdly, there is a significant reduction in the share of contribution of the manufacturing sector to GDP from 21 to 12 percent, respectively. Fourthly, the share of other industrial sector increased modestly from 22 to 25 percent over the period under study.

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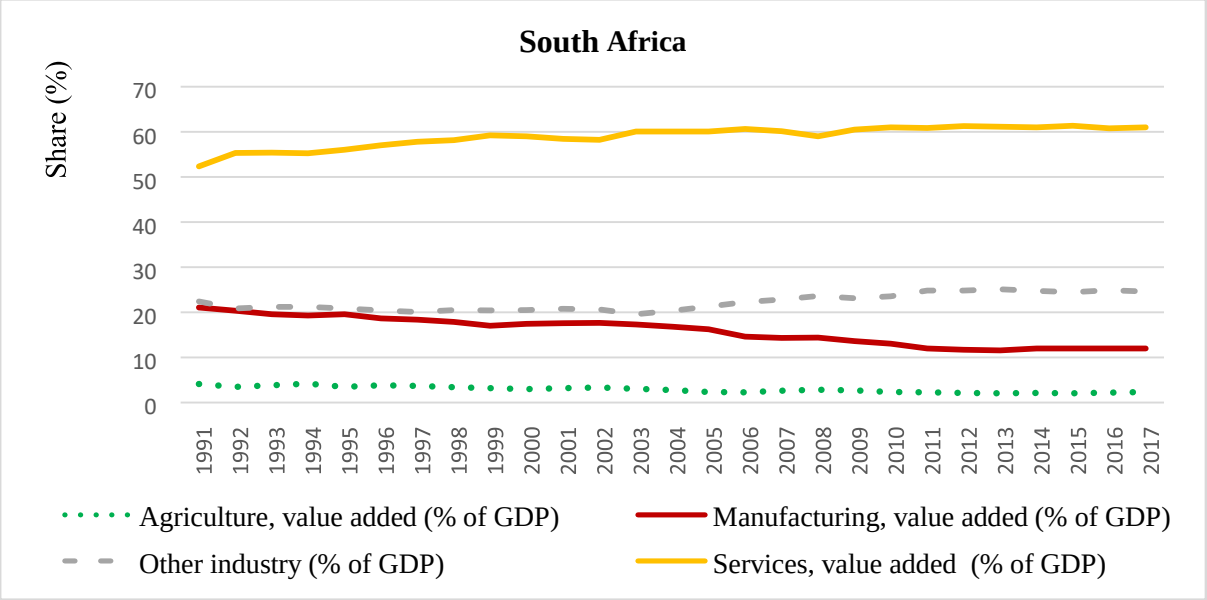
Figure 2.3.2: Share of Sectors in Value Added (Percentage of GDP) in South Africa, 1991-2017



Source: Own calculations based on the World Development Indicators (WDI, 2019)

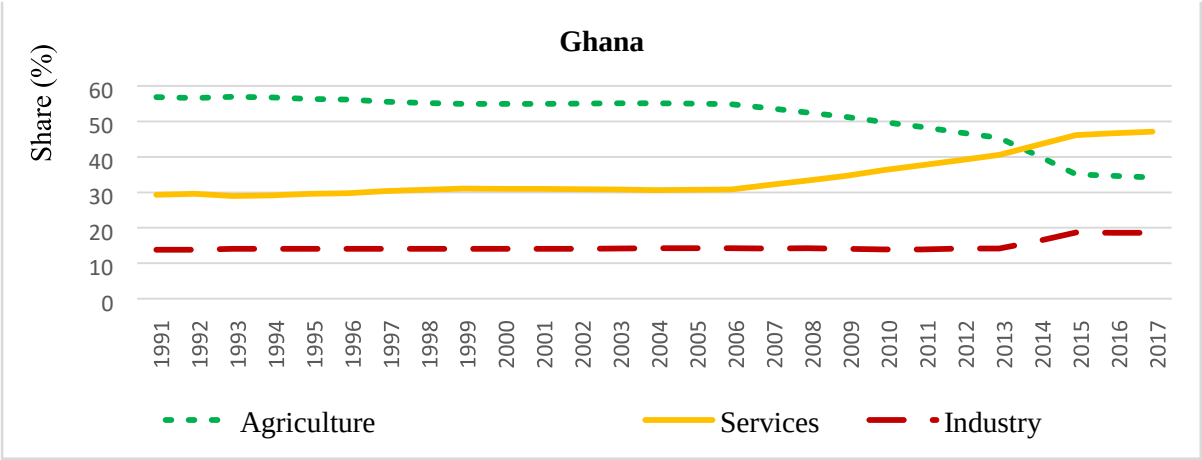
Another key indicator of structural change in the economy is the changes in the relative share of employment by sector from total employment over time. To compare it in Ghana and South Africa during 1991 and 2017, sectoral composition in Ghana and South Africa are presented in Figure 3.3.3 and Figure 3.3.4. Note that data of share of employment in the industry provided by the World Bank Development Indicators are available as one group including all divisions (from 5 to 43) of ISIS.

Figure 2.3.3 shows that in Ghana sectoral composition of employment shows a steady growth of service sector over the study period from 29 to 47 percent, one the one hand, and a significant reduction of agriculture from 57 to 34 percent, on the other hand. It should be noted that trends of the share of employment in agriculture and service sectors intersected in 2014. This means that until 2013 a large part of the labor force worked in the traditional sector and then employment shifted to the modern (services) sector. It is stated that Ghana had surplus labor in the agriculture sector and then it was drawn to other sectors when urban wages became to grow (Oseia and Jedwabb, 2013). Thus, the agriculture sector stays the second source of jobs. Additionally, cocoa as the non-food agricultural sector is the largest agricultural export commodity in Ghana, and production of it influences shaping employment structure (Kolavalli and Vigneri, 2011). The data from Figure 2.3.3 confirmed the statement from the paper of Oseia and Jedwabb (2013), structural change was determined by a significant expansion of services.

Particularly, the service sector, namely the new technologies of information and communication involved making a rapid rise since 2005 and the tourism sector kept booming. Between 1991 and 2013 the share industry sector including manufacturing fluctuated slowly from 13 to 14 percent and between 2014 and 2017 grew from 14 to 19 percent.

Figure 2.3.3: Sectoral Composition of Employment (Percentage of Total Employment) (modeled ILO estimate),

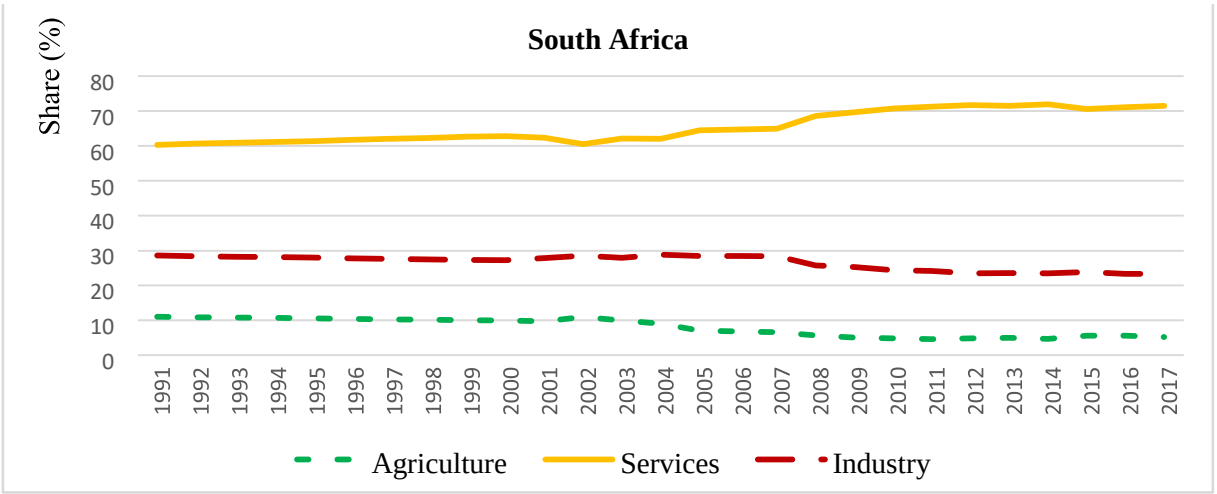
in Ghana, 1991-2017



Source: Own calculations based on the World Development Indicators (WDI, 2019)

As shown in Figure 2.3.4, structural change in the employment sectoral composition of South Africa does not undergo significant change compared to Ghana. During the study period the service sector remained the largest source of job, the industry took kept the second position and agriculture was the third position. In more detail, the relative contribution of agriculture to the total employment declined steeply from 11 to 5 percent. This continued reduction can be explained by the employment growth in service sectors along with the adoption of production technologies and the regulatory environment (STATS RSA, 2019). Between 1991 and 2017 the relative share of employment increased from 60 to 71 percent. The industry sector continued to decline during the study period from 29 to 23 percent.

in South Africa, 1991-2017



Source: Own calculations based on the World Development Indicators (WDI, 2019)

Figure 2.3.4: Sectoral Composition of Employment (Percentage of Total Employment) (modeled ILO estimate),

In line with the considered empirical trends, it should be highlighted a few papers in terms of change in employment and sector output in Ghana and South Africa. Oseia and Jedwabb (2013) use the data from 1960 and 2010 for analyzing structural change in Ghana and obtain the following key findings: (i)

economy with limited industrialization; (ii) economy remains agricultural; (iii) since 1992 employment has increased "relatively more in the private service sector"; structural change happened without Green Revolution, an Industrial Revolution, and a Service Revolution as occurred in Asian countries; (iv) it is suggested that structural change became growth-enhancing after 1992. By contrast, the paper of Mc Millan et al. (2017) provides other results after considering period between 1990 and 2000 and compares structural change in Ghana and Vietnam. Thus, authors derive the following conclusion that there are significant improvements in governance, but structural change have comparatively poor records compared to Vietnam (Mc Millan et al., 2017). The paper of Sparreboom and Gomis (2015) investigates the relationship between structural change and employment in Ghana, and concludes that a shift of labor force the agricultural sector to services that occurred by productivity gains. Nevertheless, the expansion of the share of employment in services is associated with the low quality of job creation. This means that the share of vulnerable employment in services does not decline.

Structural change and industrialization processes in South Africa have been studied by Rodrik (2008), Tregenna (2008) and Bhorat et al. (2014). For example, Rodrik (2008) suggests that South Africa had experienced the transformation since 1994. Nevertheless, the weakness of the export-oriented manufacturing sector leads to constraint growth opportunities and job creation. Bhorat et al. (2014) point out that transformation in South Africa that has taken place since 1994 has been below expectations.

In the paper by Tregenna (2008), the connections between the manufacturing and services sectors and their contribution to employment and growth in the context of South Africa have been investigated. The decreasing trend of manufacturing or its replacement by services is likely to have negative effects on medium- to long-term growth and employment prospects in South Africa. Tregenna (2008) puts the question: could be the process of reducing the relative employment share of manufacturing can be regarded as premature deindustrialization in South Africa.

The key question could be why the service sector absorbed the large flow of the labor force. De Vries et al. (2015) suggest that market-oriented policy reforms, which conducted in the 1990s in the SSA region, probably increased demand for wholesale and retail services. In more detail, the liberalization of trade fostered the imports of large a number of consumer goods and investment good parts, and also encouraged the expansion of foreign retail chains via FDI. Furthermore, the more recent period starting from the 2000s was likely to be driven by rising incomes and a relatively larger share of domestic demand is shifting to the consumption of services.

In addition, Dietrich (2012) has investigated that the direction of causality either economic growth causes structural change or conversely in terms of employment and also the real value added. Dietrich (2012) provides us the important two messages about the causal direction. The first result of the study on the causal relationship between economic growth and structural change demonstrates that "economic growth slows down structural change in the very short term". However, in the long term, this causal relationship has an accelerating effect. The second result connected to the causal direction from structural change to economic growth shows that structural change effect positively or has "at least a non-negative impact on economic growth".

Note that there are many different scenarios of how rapid economic growth may occur in Sub-Saharan African countries. According to Rodrik (2016), high-growth scenarios for African countries could realize through four scenarios. The first option is to renew the manufacturing sector so that it focuses on industrialization. The second option is suggested to diversify non-traditional agricultural products due to generation agricultural-led growth. The third option is to improve productivity in services in order to generate rapid growth. The final option for growth is based on natural resources if a country has it. Moreover, enterprises are considered as a tool to enhance growth. However, it requires creating an enabling environment for the private sector and supporting domestic entrepreneurs. Hence, the next step should be consideration of political initiatives for the SME sector in Ghana and South

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

Section 3: Description of SME landscape

In this section, the landscapes of SME sectors in Ghana and South Africa are described based on several surveys and the main tendency of the composition of the SME sector will be revealed.

It is important to underline that there is no universal definition of small and medium-sized enterprises due to distinctions between countries and sectors of the economy. Note that the definition of SMEs is widely disseminated and is based on three main criteria broad-based on three main criteria: number of employees, turnover and balance sheet total (ILO, 2015). However, many countries also have their definitions of SMEs.

In Ghana, the definition of SMEs has mostly defined by the number of employees in the enterprise. For example, in the Integrated Business Establishment Survey (IBES Reports, 2015) conducted by Ghana Statistical Service in 2014 adopted the following classification: micro-sized enterprises (up to 5 employees), small-sized enterprises (up to 30 employees) and medium-sized enterprises (up to 100). Large enterprises are a business entity in which more than 100 employees have engaged. In South Africa, the official definition of a “small business” is set up in Section 1 of the National Small Business Act of 1996. It is said that “small business” means a “separate and distinct business entity, containing cooperative enterprises and non-governmental organizations”, which managed by one owner or more, which, including its branches or subsidiaries (Berry, 2002).

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

depending upon industry) enterprises which may have variations, according to industry sector (Seda, 2019).

Note that the statistical survey terms "small, medium and micro-enterprises" (SMMEs) is used in South Africa, while in Ghana is implied micro, small and medium Enterprises" (MSMEs). Thus, in this paper, SMEs as key term is used for both countries. We work with the definition of SMEs which is associated with the employment dimension. Table 3.1 shows that in the period from 1985 to 2014, the number of establishments by year of commencement has grown, especially small and micro-enterprises. Additionally, the majority of establishments have belonged to Micro, Small and Medium Enterprises (SMEs). In all the periods, the highest share of enterprises in the economy of Ghana during 1985 and 2014 was provided by SMEs. Despite the decrease in the relative share of large enterprises in the overall structure, the absolute value has increased from 450 to 498 large enterprises between 1985 and 2014. The largest relative share of SMEs has been presented by micro-enterprises. The main tendency is that the number of enterprises of all sizes has grown significantly.

Table 3.1: Distribution of Micro, Small, Medium and Large Enterprises by year of commencement in Ghana, 1985-2014

	1985199	4	1995-2004		2005-2014	
	Number of establishments	% of Total	Number of establishments	% of Total	Number of establishments	% of Total
Total	41588	100.00	116008	100.00	428332	100.00
Large	450	1.08	485	0.42	498	0.12
Medium	1304	3.14	1677	1.45	1918	0.45
Small	11612	27.92	20853	17.98	36204	8.45
Micro	28222	67.86	92993	80.16	389712	90.98
SMEs	41138	98.92	115523	99.58	427834	99.88

Source: Own calculation based on IBES (2015)

Having taken into consideration several surveys with respect to the South Africa SME sector, two points should be mentioned. On the one side, the diversity of statistical sources and different measures could not provide accurate information about the dynamics of the SME sector over the last three decades. On the other side, we consider shorter period inside of this main time period and reveal key tendencies SMEs in South Africa.

Table 3.2 highlights the distribution of enterprises by size from 1997 to 2007. The data come from two statistical sources as Ntsika Enterprise Promotion Agency (seen from Berry et al., 2002) for 1997 and Department Trade and Industries of South Africa for 2004 and 2007.

The data by Ntsika 1997 should be carefully interpreted while micro-enterprises consist of formal and informal entities. Data 2004 and 2007 focus only on formal entities. For this reason, it is not easy to

make a comparison between three-time slots. However, the data of Ntsika is the first data concerning the SME sector in South Africa and it should be taken into consideration.

According to Edited Review of Small Businesses in South Africa (2014), the composition of formal SMEs in South Africa in 2014 was presented by 60 percent of small enterprises, 36 percent of micro and 4 percent of medium enterprises, respectively.

Table 3.2: Distribution of enterprises by size in South Africa, 1997-2007

	1997 (1)		2004 (2)		2007 (2)	
	Number of enterprises	Percent of Total (%)	Number of enterprises	Percent of Total (%)	Number of enterprises	Percent of Total (%)
Total	906690	100.00	426240	100.00	553491	100.00
Large	6017	0.66	4596	1.08	17251	3.12
Medium	11322	1.25	6748	1.58	20750	3.75
Small	238851	26.34	202735	47.56	315113	56.93
Micro	650500	71.74	212161	49.78	200377	36.20
SMEs	900673	99.34	421644	98.92	536240	96.88

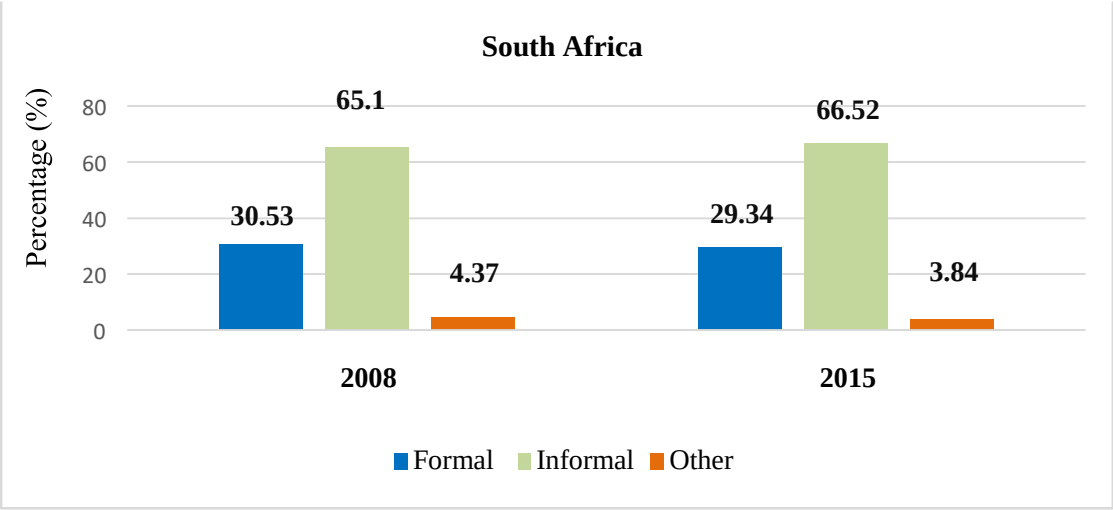
Sources: Own calculation based on (1) Berry et al. (2002) and (2) DTI (2008) Annual Review of Small Business in South Africa

2005-2007

As mentioned in section 2, South Africa strongly suffers from a higher rate of unemployment. This phenomenon reflects in a relatively large share of SMEs belong to the informal sector. Figure 3.1 illustrates that in 2008 and in 2015 approximately 65 percent of SMEs were in the informal sector. It should be stressed that the formal sector is the main indicator of the formal entity are related to taxable

sectors. That means the firm has been registered with the appropriate government agency, and then the firm is authorized to do business.

Figure 3.1 The distribution of SMEs by formal and informal sector, in 2008 and 2015



Source: Own calculation based on Seda, Report 2016

However, the categorization of enterprises as formal or informal does not determine any indication of the legality or not of their business activities (Desai, 2011). Based on the paper by Valliere and Peterson (2009), in developing countries, the positive effects of any high-expectation entrepreneurs are weakened by constrained access to the formal economy. As shown in Figure 3.1, the SME sector is vulnerable. Thus, it requires further improvement in the business environment.

Section 4: Pro-SME policy in the context of private sector development

In this section small business development based on SME policy is discussed. In more detail, the focus is on national SME programs and their objectives. Furthermore, the comparison between Ghana and South Africa in terms of initiatives to support the SME sector is described.

As noted in African governance report II, since the late 1980-s many African countries have taken the first steps to create an enabling environment for development private-sector and consider SME as the tool for economic development and economic growth (AfGReport, 2009). The work for the establishment of new specific institutions has conducted and also launched programs to encourage entrepreneurial activities.

Table 4.1 compares the process of establishment government agencies and institutions which are responsible for the development SME sector in Ghana and South Africa. The private sector promotion began early in Ghana under the Structural Adjustment Program (SAP) and the Economic Recovery Program (ERP). In more detail, Arthur (2006) points out that since 1983 Ghana launched both programs the private sector became an integral element of economic development strategy. The National Board for Small Scale Industries established in 1985 is the first institution that coordinates and develops the micro and small enterprises sector in Ghana (Arthur, 2006). To build a bridge between university and industry, particularly micro-, small- and medium scale enterprises in line with

innovative technology the Science and Technology Policy Research Institute was established in 1988, (CSIR, 2019). In 2001 Ghanaian government created the Ministry of Private Sector Development so that the role private sector increased and it needed to coordinate the implementation of different programs. To provide training, support new entrepreneurs and their initiatives in different industries from e-commerce, healthcare IT and digital media, Meltwater Entrepreneurial School of Technology has been established (Services, 2019).

Since the democratic transition in 1994, the Government of South Africa has established several agencies to promote and support SMEs, also enhancing technological and non-technological innovation activities in enterprises of all sizes. There are six main government agencies as National Empowerment Fund (it was established in 1998), Small Enterprise Development Agency (2004), Technology and Innovation Agency (2008), National Youth Development Agency (2009), Small Enterprise Finance Agency (2012), the Ministry of Small Business Development (2014) (RSA, 2017). It should be noted that the Small Enterprise Development Agency (Seda) is the key organization that coordinates the implementation of national programs for different issues about sustainable development of SMEs (see Table 4.1).

Table 4.1: Agents and institutions encouraging pro-SME policy and supporting entrepreneurial and innovation
activities in Ghana and South Africa

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

Source: Own illustration based on "Services Ghana" (2019), Arthur (2006), Rogerson (2004),Seda (2019), DTI (2019).

Generally, SME policy is determined as public initiatives designed to enhance existing enterprises in terms of a certain size. In this line, SME programs refer to an integral part of SME policies (ILO, 2015). The consideration of programs for the SME sector allows us to reveal that the objectives of programs cover different target groups (Table 4.2 and Table 4.3).

Table 4.2 Economic policy of Ghana to encourage entrepreneurship and support SMEs

	Programme	Objective
1	Science, Technology and Innovation Development Programme (STIDEP I)	Stimulate competitiveness. Increase productivity. Expand industrialization. Enhance the quality of life through innovation.
2	National Entrepreneurship and Innovation Plan of Ghana (NEIP)	Provide an integrated national support for startups and small businesses.
3	Rural Enterprises Programme	Improve the livelihoods and incomes of rural poor micro and small entrepreneurs.
4	Private Sector Development Strategy 20102015	Increase formal jobs and create opportunities for higher incomes.
5	Ghana Shared Growth and Development Agenda (GSGDA) II, 2014-2017.	The one of the goal is enhanced competitiveness of Ghana's private sector.

Source: Own illustration based on CSIR (2019), GSGDA (2014), AfDB, Ghana (2011), Services Ghana" (2019), UNCTAD, Ghana (2019).

For example, survivalist entrepreneurs, who mostly operate under the informal economy, are the target group in Rural Enterprises Programme in Ghana (see Table 4.2) and the National Informal Business Upliftment Strategy in South Africa (see Table 4.3). Note that the Seda Technology Program and Incubation Support Program have considered business incubators as strategic tools to facilitate entrepreneurship and to help reducing high rate failure of technology-based small enterprises (see Table 4.3). Moreover, the Seda Technology program focuses on the development of innovative technology and increase competitive SMEs on the global market.

Table 4.3 Economic policy of South Africa to encourage entrepreneurship and support SMEs

	Programme	Objective
1	White Paper on National Strategy for the development and promotion of small business in South Africa (1995)	The SME development policy for creation an enabling environment for small enterprises.
2	The National Small Enterprise Act (NSEA) (No. 192 of 1996), (No. 26 of 2003) and (No. 29 of 2004)	The SME development policy for creation an enabling environment for SMEs.
3	The Seda Technology Programme (STP) (2006)	Promote transfer of technology to small-scale enterprises. Improve the competitiveness of small enterprises. Stimulate entrepreneurial activities in target groups, particularly among women and young.
4	The Incubation Support Program under the Department of Trade and Industry (2012)	Improve business development services, provide technology and communication support for SMEs.
5	Black Business Supplier Development Programm	Assist to enhance competitiveness and sustainability in black-owned small enterprises.
6	The National Informal Business Upliftment Strategy (NIBUS)	Support survival entrepreneurs who operate in informal economy.

Source: Own illustration based on Rogerson (2004), Seda (2019), DTI (2019), Berry et al (2002), ILO (2016).

Hence, to support small business development, the government of Ghana and South Africa conducts the number of programs and establishment of certain institutions. As discussed, these programs include a broad range of policy objectives such as job creation; poverty reduction; increase the competitiveness of domestic entrepreneurs in the global market. It seems that South Africa introduced more actively different SME programs than Ghana. Despite a broad range of the implemented programs for the development the SME sector in Ghana and South Africa, SME sector is still vulnerable and needs further support. It could be suggested that a range of other economic policies could have an impact on SME sector development.

5 Conclusions

The goal of the paper has been to explore the nature of the SME sector in Ghana and South Africa and to highlight how SMEs may be incorporated into the processes of structural changes. Having considered country profiles based on the World Development Indicators, we found that rapid population growth, rapid urbanization and structural changes occurred in Ghana and South Africa. In both countries,

economic growth has fluctuated over the study period and real GDP growth rates mostly were positive and increasing.

The analysis of structural change based on employment shares and sectoral value included in GDP shows that the result of changes in economic structure in Ghana and South Africa have some similarities but they do not go at the same pace. For example, both economies experience an expanding services sector. Based on the studied literature it has found out that the shift from other sectors to the service sector has not been provided by increasing labor productivity. In the case of Ghana it could be suggested that structural change reveals itself less agriculture and more services, but less agriculture and more industry. In the case of South Africa, structural change is strongly linked to continued economic challenges such as a higher rate of unemployment and unstable economic growth. Thus, structural change is a comprehensive process that includes many aspects.

The description of the SME landscape allows for obtaining the following findings. Firstly, the data confirmed that the majority of enterprises are SMEs. Secondly, limitations of data for the period 1990-s to 2017 restrict detailed analysis of the SME sector in both countries. To understand the nature of small business development in two countries, the national SME programs and its objectives have been considered. The review of key programs helps to find out the main target program and directions of development SME sector in Ghana and South Africa. All in all, political initiatives to support and improve the SME sector have grown in both countries.

As examined in this paper, SME policies are key instruments to shape the sustainable SME sector. However, it needs that SME policies are reinforced by supportive macroeconomic, industrial, investment and physical infrastructure policies. Under these conditions, the SME sector could become sustainable.

Future researches would require a further detailed study of the increasing role of SMEs in the economies in the SSA region and on how the SME sector could be embedded into the process of structural changes under rapidly changing economic conditions.

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