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Coping with corruption: Small and medium enterprises in Ghana

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Small and medium-sized enterprises are important for employment and development, but they face corruption challenges. In Ghana, a survey of small business owners showed that they use different coping strategies and perceive different obstacles to anti-corruption. Small firms seem to be more compliant when exposed to international standards and regulations as partners to multinationals. This is the aim of some donor-supported programmes such as the Supply Chain Development Program, which seems to have worked well in Ghana.

Main points

- In Ghana, small and medium enterprises (SMEs) account for 99% of all businesses, and micro-businesses are nearly 80% of the total. The number of SMEs is growing rapidly, especially in the service sector and in wholesale and retail trade.
- Ghana has a comparatively strong legal and institutional framework against corruption, but there are still corruption pressures on enterprises in Ghana and reported weaknesses in the legal and institutional business environment.
- An opinion survey among owners and managers of SMEs in Ghana indicated that many used bribes to avoid taxes and undervalued revenues in order to reduce tax. Access to public utilities such as water and electricity posed the greatest corruption risk.
- Small and vulnerable SMEs in the private consumer market felt the most pressure to use corruption as a survival strategy. SMEs working with multinationals in the export market and SMEs seeking government contracts were generally bigger and stronger, and more often sought to avoid corruption and work together.
- An approach that has sought to change behavioural incentives and create virtuous market incentives for SMEs is the Ghana Supply Chain Development Program, which offers anti-corruption training and certification.
- Most SMEs in Ghana that have enrolled in this programme have reaped benefits and found no drawbacks. However, some reported that other businesses were reluctant to work with SMEs that have anti-corruption certification. Others noted that costs were high in terms of long and cumbersome certification procedures.

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An economy of micro-enterprises

Small and medium enterprises (SMEs) increasingly populate the business landscape in Ghana. There is no universally accepted definition of an SME, and the term is used interchangeably with ‘small business’ or ‘micro, small and medium enterprise’.¹ In Ghana, an SME is understood to be a firm with one to 99 employees and assets in the range of US\$10,000 to \$1,000,000. These firms are mainly Ghanaian-owned and owner-managed. They may be organised as sole proprietorships, partnerships, or private limited companies.

According to a 2015 report by the Ghana Statistical Service, SMEs accounted for about 99.7% of all businesses in Ghana, with micro-sized businesses making up the largest share (79.8% of the total). Since 2005, Ghana has recorded a significant increase in the number of SMEs, predominantly in the service sector and in wholesale and retail trade. The large number of small and micro businesses springing up suggests that most are young and are either in the seed stage or at an early stage of growth. The people engaged in SMEs are largely males, except for micro-enterprises (one to five employees) in the Greater Accra Region, where women predominate. In general, SMEs tend to be informationally opaque relative to large firms.²

Ghana’s anti-corruption framework

Ghana has a relatively strong legal framework against corruption, although there are deficiencies in compliance and enforcement. Article 35(8) of the 1992 Constitution stipulates that ‘the State shall take steps to eradicate corrupt practices’. The Anti-Money Laundering Act (2020) specifies this by criminalising money laundering; the Code of Conduct for Public Officers and the Civil Service Act provide guidelines on conflict of interests for civil servants; and the Public Financial Management Act (2016) aims to strengthen accountability and transparency in the management of public funds. The Financial Administration Act, the Public Procurement Act, the Customs, Excise and Preventive Service (Management) Act, the Political Parties Act, the Office of the Special Prosecutor Act, and a host of other legislative instruments also contribute to the legal framework.

1. Berisha and Pula 2015.

2. Berger and Udell 1998.

In addition to the law, Ghana has a broad institutional framework to address corruption. It includes, among other entities, the Commission on Human Rights and Administrative Justice, the Economic and Organised Crime Office, the Ghana Police, the Attorney General's Office, the Financial Intelligence Centre, the Ghana Audit Service, the Internal Audit Agency, the Public Procurement Authority, the Controller & Accountant-General's Department, the Bureau of National Investigations, and the Public Accounts Committee of Parliament.

This elaborate yet comparatively efficient regulatory framework has helped Ghana hold corruption to moderate levels. Ghana scored 43/100 on Transparency International's Corruption Perceptions Index 2021, ranking 73rd, or just slightly more corrupt than the median, among 180 countries. The regulatory framework has also helped petroleum-producing Ghana withstand the pressures of the resource curse.³ At the same time, there are still corruption pressures on enterprises in Ghana and reported weaknesses in the legal and institutional business environment.⁴

Institutional weaknesses

SMEs in Ghana, like any other small and medium enterprises operating in contexts marked by corruption and institutional constraints, must find strategies to cope.⁵ However, most anti-corruption measures targeting the business sector have been devised with developed-country contexts and large multinational corporations (MNCs) in mind.⁶ The expectation that SMEs in a developing country will be able to implement an advanced corruption risk management standard, due diligence measures, and zero tolerance of corruption is highly unrealistic. Such measures may even hurt an individual business's ability to survive, although corruption overall has a braking effect on a country's development. Corruption may be the norm to which most SMEs have to adapt in a systemically corrupt environment.⁷ It is reasonable to assume, therefore, that effective implementation of anti-corruption measures by SMEs in many developing countries will be impossible to operationalise and/or impose unacceptable costs.

3. See, for instance, Amundsen 2013.

4. See, for instance, the U4 Helpdesk answer Overview of Corruption and Anti-corruption in Ghana (Rahman 2018), the Ghana Corruption Report (GAN Integrity 2020), and the World Bank's Doing Business legacy data (now replaced by the Business Enabling Environment project).

5. Maksimov, Wang, and Luo 2016; Khoury and Prasad 2016; Stam, Arzlanian, and Elfring 2014.

6. Khaghaghordyan 2014; Bruhn, Karlan, and Schoar 2010.

7. Mungiu-Pippidi 2015.

In order to cope with institutional constraints and business insecurity, SMEs sometimes nurture close relations with personnel in relevant government agencies. This strategy implies using informal institutions and social relationships that can complement or work around ineffective, obstructive, or inaccessible formal institutions. Another strategy is to focus on export markets, which have different standards and require different resources, partnerships, and skills.⁸

Need for research

Certain market segments, business types, and partnerships can provide opportunities for SMEs to increase business growth through the implementation of anti-corruption measures. Nonetheless, the barriers to doing so are considerable. They include lack of knowledge, implementation costs, collective action problems, and perceived and actual consequences in terms of lost business opportunities and profits.

Little is known about the obstacles that prevent SMEs in developing countries from implementing anti-corruption compliance regimes. A greater knowledge of these obstacles would increase our understanding of the benefits and drawbacks of various anti-corruption measures and point to reasonable objectives and measures. Both the business sector and development partners need information on which blanket policies are likely to fail, which policies may cause harm, and which complementary or alternative measures are reasonable and ought to be prioritised.

Toward this end, an opinion survey of 41 directors, managers, and other senior staff of SMEs in Ghana was conducted in 2017 by a researcher commissioned by U4. The remainder of this Brief is based in large part on the findings of this survey, and the quotes are drawn from comments by survey respondents.

Perceptions of corruption

The opinion survey revealed noteworthy differences between SMEs operating in the export market, as suppliers to MNCs in the oil and gas sector, and SMEs operating in the domestic private consumer and public procurement markets.

8. Jütting et al. 2007; Maksimov, Wang, and Luo 2016.

These differences extended to what their staff saw as the main corruption problems.

All categories of businesses reported corruption in taxation as a principal issue. Although these taxes are legally established, some SMEs consider them to be exorbitant, while others think of them as merely unnecessary. Respondents reported that besides offering bribes to avoid taxes, businesses also feel compelled to engage in tax fraud by undervaluing revenues in order to reduce tax.

Furthermore, across all the categories of businesses, the greatest risk of corruption was said to be related to the complex process of accessing public utilities such as water and electricity. Installation of meters, payment of electricity bills, and resolving service problems all involve burdensome bureaucracy. One respondent remarked:

‘The more difficult you make the process, you might push people to either give up or find ways around it.’

Examples of ways around the difficult process involve paying large bribes to officials to do what they are supposed to do with little or no charge.

In addition, some respondents from firms in the domestic market noted that bank officials may solicit bribes to expedite loan applications. A larger number, about half, indicated that the risk of corruption is quite high when businesses seek to access licenses and certificates from public regulatory bodies like the Registrar General’s Department and the Environmental Protection Agency. The licencing agencies cause delays through cumbersome, bureaucratic, and unautomated procedures, and to expedite the process, SMEs may resort to offering bribes.

Likewise, SMEs in the domestic public procurement market noted a general lack of compliance with the procurement laws in Ghana, leaving space for businesses to pay bribes to access government contracts.

Some respondents noted that politicians sometimes meddle in the contracting process by presenting their favourite suppliers for a contract, and that these contracts tend to be awarded. Government officials who lobby for private businesses to help them secure contracts and tax rebates directly breach the rule-of-law principle of impartiality, as well as, most likely, their official

mandates. Should they also secure benefits from those businesses in return, this becomes outright corruption.

‘The politicians can bring their own people to bid for the contract and it is given to them, but if the procurement law is followed these things won't happen.’

On the other hand, respondents from engineering firms that act as agents for MNCs referred to the corruption risk related to noncompliance with sector-specific business requirements such as environmental and safety standards. Respondents from this group also perceived the risk of corruption to be high in handling imports. Illegal payments are used to fast-track the importation of goods, imported goods are undervalued, and other figures are manipulated to reduce import duties.

SMEs subcontracted by the larger MNCs noted that the risk of corruption associated with these kinds of contracts is low. Competitive tendering processes with multinational oil and gas companies are generally followed to the letter, leaving little or no window for corruption. However, when middlemen manage the contacts with MNCs, the risk tends to be quite high.

‘Clients are mostly MNCs and hence go through a competitive tendering process. However, when individuals come in, they impede the work (and sometimes demand 10% kickbacks).’

Coping strategies

In the same opinion survey, the directors, managers, and other senior staff of SMEs in Ghana had different views on how to overcome corruption problems.

SMEs in all categories reported that anti-corruption policies established by the businesses themselves are important. A disciplined and competent staff can secure a company's adherence to corruption policies and standards and minimise the risk of falling prey to corruption. Respondents said that being compliant with applicable rules, regulations, and standards reduced their vulnerability to corruption.

‘If you adhere strictly to legal compliance issues, you don't have any problem.’

Thus, training on anti-corruption compliance was regarded as useful. This suggests policy measures to increase knowledge, for instance through targeted

information campaigns. Some survey respondents felt that greater knowledge of corruption and anti-corruption practices would help them understand which practices to follow and which to avoid.

‘When people don’t have a good understanding of what they need to do or what they shouldn’t do, they can make many mistakes.’

Other respondents disagreed, suggesting that people in business know enough about corruption and its consequences but still engage in such activities. It is not an issue of ignorance, they claimed, but more of a conscious choice to engage in corrupt practices.

Some respondents said that when private companies come together to ensure a more transparent way of doing business, the risk of corruption can be reduced. Company associations can be good for SMEs, helping them gain access to joint ventures that enhance small business growth. Informal partnerships or relationships can turn into formal relationships that can generate mutual benefits. Establishing such relationships is, however, conditioned on the partners’ willingness to move away from corrupt practices, as some respondents pointed out.

Additionally, respondents from SMEs operating in the private consumer market stated that one way to avoid corruption is to minimise reliance on government and instead build networks with private business institutions that are credible and comply with regulations. Some SMEs ran checks on the companies they would be working with to ensure their credibility.

Respondents from SMEs operating in the oil and gas market together with MNCs stated that working with foreign or multinational companies reduces the risk of corruption. In their view, MNCs comply with anti-corruption standards, and SMEs that wish to partner with them must also comply with these standards.

Barriers to anti-corruption

There are, nonetheless, obstacles to these and other anti-corruption compliance strategies. SMEs that operated in the domestic private market and the domestic public procurement market reported that corruption has become a norm among businesses, making it difficult to comply with anti-corruption standards. A

general feeling was that one has to conform to the entrenched, established corrupt practices to thrive as a business.

For instance, most respondents believed that forming relationships with government officials is necessary for stability and to protect the business, but at the same time they noted that entering into such relationships – whether formal or informal – exposes a business to high corruption risks. One respondent noted that although 90% of their business dealings were with private entities, the 10% that involved governmental organisations had more issues with corruption than the other 90% combined.

‘Government officials and politicians owe much allegiance to their political parties, their funding agents, as well as constituents, which undermines their ability to be reliable supporters of SMEs.’

In situations where one cannot find ways to execute a transaction without corruption, some respondents stated that they would exit the deal. However, others pointed to an alternative coping strategy when faced with unavoidable corruption: to play along with the ‘rules of the game’. That is, the fear of losing business or being denied certain privileges or even rights may cause SMEs to go along with corrupt practices in some circumstances. They may see submitting to corruption as something they must do to survive as a business. Especially in settings where law enforcement is not the norm, corruption may appear to be a rational and easy choice, particularly if it means better business.

One respondent noted the dilemma that businesses face when corruption becomes the norm.

‘We create corruption ourselves if we have a status quo that we go by. Our next generation will follow it. It is our perception. We have made corruption become a norm and businesses will just play along.’

Across all categories, respondents expressed a strong feeling that the lack of effective complaints and reporting systems is a major barrier to anti-corruption compliance. Some noted that these systems are weak, while others claimed that they are largely unavailable. Some said that the lack of response to complaints deters people from reporting anything, as they think it is a waste of time. People are also afraid to report corrupt practices because perpetrators are not dealt with and there are no protective systems for whistle-blowers.

‘They have put down the procedures, but it is the culture of our officials and even the service providers: everyone in this country is corrupt. So, you can [have] laid down procedures but if that culture is not changed, if that attitude is not turned around, corruption will still remain.’

An innovative partnership programme

It is crucial to enlist private sector actors as allies and to use their power of contestation and influence when seeking to change the ‘rules of the game’ so that corruption is no longer the norm. In settings characterised by systemic corruption, the mobilisation of the private sector is essential to compensate for the weaknesses of public sector approaches based on regulation and law enforcement. But this will require innovations that can change behavioural incentives and create ‘virtuous market’ incentives.

One such approach is the Ghana Supply Chain Development Program, supported by the United States Agency for International Development (USAID) and Invest in Africa. This programme seeks to increase the participation of Ghanaian small and medium enterprises as business service providers in contracts with the oil and gas sector in Ghana. It offers anti-corruption training and partners with TRACE International to offer an internationally recognised anti-corruption compliance credential called TRACE Certification (now Tcertification).

In addition to becoming Tcertified, Ghanaian SMEs in the programme have been exposed to MNCs as project partners and to the different and much stricter regulations in other jurisdictions. This has encouraged them to become more transparent and compliant. Some SMEs are even advancing transparency and have been considered ‘champions for change’; as such, they have become market leaders and valued business partners for multinational companies.

Benefits and drawbacks of certification

So far, through the Supply Chain Development Program, Ghanaian SMEs have won over 78 contracts with oil, gas, and power companies. As suppliers to MNCs on the export market and holders of an anti-corruption compliance certificate, they have benefited in terms of profit and contract values. Indeed, the benefits are considerable compared to operating strictly in the domestic private

consumer market or the public procurement market. This is a strong incentive to others to pursue training and certification.

At the same time, gaining an anti-corruption certificate can have some negative consequences for SMEs. Some respondents said they found that other businesses were reluctant to work with SMEs that have certification because they ‘didn’t pay up’ or because potential partners feared being reported for questionable practices. Another issue was cost. Some SMEs noted that the costs of attaining certification are exorbitantly high and the procedure for doing so quite cumbersome.

However, most certified businesses found no drawbacks associated with anti-corruption certification. The long-term benefits of obtaining the credential outweigh the short-term drawbacks, and respondents from certified businesses confirmed that the certificate provides them with an improved level of credibility when dealing with other companies, especially multinational corporations. They noted that the anti-corruption certificate implies a level of transparency that reassures potential partners that they will conduct business in an honest and trustworthy manner.

‘It gives us the credibility to deal with multinationals. People make sure you know what you are about. It helps put you and your business on your toes.’

In addition, they reported that when their SMEs are seen to be compliant with anti-corruption regulations by other companies that are also compliant, this expands the universe of compliant business partners. The recognition of compliance, particularly by MNCs, serves as a confidence booster for the SMEs as they can use their certificate to gain an advantage over competitors.

Policy implications

In sum, the opinion survey indicated that Ghanaian SMEs with primary customers in the private consumer market have a greater tendency to succumb to corruption and use it as a survival strategy, probably because they are smaller and more vulnerable. SMEs working with multinationals in the export market and SMEs seeking government contracts are generally bigger and stronger, and are more likely to maintain their integrity and work together. They are also more likely to exit from a deal when faced with corruption.

Further research could explore gender differences in compliance between female-owned and male-owned SMEs, as well as other social factors such as ethnicity or education level that may play a role in corruption and compliance among SMEs.

Anti-corruption certification schemes, like the one implemented by TRACE International under the Supply Chain Development Program for businesses in the oil and gas industry, were largely seen in a favourable light. By providing knowledge and changing attitudes and practices, such schemes are thought to have long-term positive effects.

Several implications for development policy and programming can be noted:

- Regular compliance training could be a way to nudge SMEs towards behaving with integrity.
- Compliance certification enhances transparency and accountability and has benefits for SMEs' bottom line. Facilitating their efforts to obtain certification will promote anti-corruption and boost businesses.
- Building coalitions and associations and entering joint ventures can provide SMEs with strength in numbers, enabling them to resist corruption and promote integrity norms.
- Identifying allies in the political and bureaucratic class who are willing to support SMEs' compliance efforts could help to address the perception of high taxes and high utility costs. Dialogue could help to identify reasonable rates that would result in win-wins for both the government and SMEs.

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