



## Ghanaian Small and Medium-Scale Enterprises (SMEs') Readiness for African Continental Free Trade Area (AfCFTA) Implementation

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### Abstract

*This paper seeks to assess Ghanaian Small and Medium-Scale Enterprises (SMEs') readiness for the African Continental Free Trade Area (AfCFTA) Implementation. The research instrument used to collect data was questionnaires and the study employed descriptive research design. The study randomly selected 250 SMEs from a population of 480 SMEs that were registered members of the Ghana National Chamber of Commerce and Industry, Cape Coast Branch and operating within manufacturing, pharmaceutical, herbal, tourism, hospitality, food and beverage, agribusiness, garment, leather, and textiles. Data collected from the SMEs was analysed using SPSS, version 28. The findings from the study shows that, there is a significant gap between Ghanaian SMEs' readiness for AfCFTA implementation. The study finds out that although majority of SMEs are capable of innovation and developing new products, they also have limited knowledge of export documentation, trade information and infrastructure, trade finance, and funding for expansion. They also have low knowledge and lack a basic understanding of the benefits of AfCFTA, its advantages, components, protocols, and Rules of Origin. The study again revealed that the obstacles facing Ghanaian SMEs exportation are high cost of production, border delays, poor infrastructure, high inflation, difficulty in accessing credit, and language problems. Based on these findings, the study recommended that SMEs needs to be retooled particularly in the area of AfCFTA Rules of Origin, its objectives, components, and Ghana's trade policy to improve their readiness for AfCFTA implementation. Again, businesses should concentrate more on value addition, and be dedicated to looking for ways to enhance their current or existing products to outperform comparable products from other African nations.*

### Introduction

Small and medium-scale enterprises (SMEs) in developing nations, including Ghana, play a key role in generating income, creating jobs, and reducing poverty. They also contribute to corporate human resource development and skills training and are regarded as the cradles of innovation and entrepreneurship. Across countries at all levels of development, SMEs have an important role to play in achieving the Sustainable Development Goals (SDGs) by promoting inclusive and sustainable economic growth, providing employment and decent work for all, promoting sustainable industrialization and fostering innovation, and reducing income inequalities (OECD, 2017). According to Appiah-Nimo (2018), SMEs constitute the vast majority of businesses in Ghana providing services and goods to large organisations, hence contributing to expanding output, providing value-added activities and widening Ghana's export base (Appiah-Nimo, 2018). According to data from the World Bank, Ghanaian SMEs are responsible for more than 70% of industrial activity and have been named as key drivers of global economic expansion (Kusi, Opata, & Narh, 2015). Reports from BASTIAT Ghana (2016) and National Board for Small Scale Industries (NBSSI) indicate that, SMEs account for about 92 percent of businesses in Ghana and constitute about 70 percent of the private sector's contribution to the GDP of Ghana in terms of corporate taxes, export duties, and import taxes (Appiah-Nimo, 2018).

Despite being crucial and making a substantial contribution to the nation's socioeconomic growth and development, SMEs face many obstacles that limit their ability to produce and export, which prevents them from fully engaging in international trade (Dampsey & Obeng, 2021). Over recent decades, several developing countries established national trade and export promotion organizations with the purpose of helping SMEs overcome export barriers (Carballo & Volpe Martincus, 2010).

Many SMEs are ready to begin export while others want to increase their exports and expand into new markets. However, most of the SMEs are not able to absorb and implement export duty activities and others do not meet the demand specifications for export markets. Although there are export promotion interventions from agencies which has increased in popularity in recent years, there is still a scarcity of rigorous data to assess their impact and benefits to the SMEs growth (Cadot et al., 2015; Atkin et al., 2016). SMEs which hold the key to greater intra-African trade and can bring a great significant change to the African development, must be ready and prepared to benefit and seize the opportunities brought about by African Union's Agenda through African Continental Free Trade Area (AfCFTA).

The AfCFTA is a model for achieving sustainable, inclusive development across Africa and is a flagship project of the African Union's Agenda 2063. The agenda is to establish a thorough and mutually advantageous trade agreement among the member nations that addresses trade in products and services, investment, intellectual property rights, and competition policy. The AfCFTA is an ambitious trade agreement with a well-defined principle poised to help the small and medium scale enterprises to become major winners in intra-African commerce. The AfCFTA will increase trade throughout Africa by coordinating and harmonising trade liberalization and facilitation measures across several regional economic communities (Asman, 2022).

The new market created under AfCFTA agreement is believed to harmonise as many as 1.3 billion people in Africa and have a combined gross domestic product (GDP) of \$3.4 trillion, according to the World Bank (World Bank, 2020). Also, up to 30 million Africans would benefit from AfCFTA and be rescued from abject poverty (World Bank, 2020). AfCFTA would give countries in the African region a rare opportunity to competitively integrate into the global economy, combat poverty, and foster inclusion. Many expenses would be reduced thanks to the substantial pledges made under the AfCFTA. Members of AfCFTA would benefit from lower consumer and production costs, less bureaucracy, and fewer compliance expenses. Consumers would pay less for imported items due to the drop in tariffs, as well as companies that use intermediate inputs. Non-tariff barriers (NTBs) would not include onerous administrative processes and a variety of technical specifications. Technical or sanitary standards would be in place to safeguard consumers' welfare and safety. Similar to tariffs, consumers of final and intermediate items would benefit from NTB reductions (World Bank, 2020).

With the implementation of trade facilitation reforms, including improving border infrastructure and reducing the cost of administrative procedures, the price of exports and imports would decline, and transporting a unit of exports or imports would require fewer trade and transportation services. Overall, there would be lower trade costs which would result in lower import unit costs, and also raise the competitiveness of local production, employing imported inputs that are either sold domestically or exported. In addition, production would subsequently move to the most competitive industries, resulting in productivity increases, increased trade, and quicker economic growth in the AfCFTA regions. Also, commerce with non-AfCFTA countries would be subject to cost reductions, leading to somewhat faster growth in trade with those countries as well (World Bank, 2020).

In order to take advantage of all these benefits AfCFTA presents, Ghana as AfCFTA Secretariat must be strategically prepared to capitalize on the trade and investment opportunities to hasten the expansion and growth of its economy. The majority of SMEs in Ghana still lack the manufacturing capacity, export potential, and ability to add value to their products, as well as the ability to expand and diversify their product lines (Dampsey & Obeng, 2021). An essential component that demonstrates the internal and external resources used by businesses. The country continues to have strong trade barriers and statutory tariffs for sensitive industries are still high. Inadequate institutions, such as customs management to ease trade, nontariff barriers in services and other sectors, weak and fragmented rules intended to promote investment and competition, and many other obstacles are preventing continental economic integration (Dampsey & Obeng, 2021).

SMEs hold the key to Ghana's growing intra-African trade in the future as AfCFTA takes shape. Given that SMEs contribute significantly to economic activity in the country, AfCFTA gives them a chance

to export to other African nations, hence promoting intra-African commerce. Without a doubt, AfCFTA offers SMEs the chance to expand their economic reach. More than 1.2 billion people, a burgeoning middle class, and a combined GDP of more than US\$3.4 trillion will be brought together by the single market (World Bank, 2020).

For these reasons, it is imperative that SMEs fully understand and be ready to leverage on AfCFTA for expansion opportunities. To do this, it is necessary to pinpoint industries with export potential for Ghana, taking into account competitive advantage. The government and groups from the private sector have to play a part in creating an enabling environment. There is the need to develop an evaluation method that can help determine the readiness of the Ghanaian SMEs. It is also important for SMEs to understand how the trade agreement works and how they can leverage the opportunities it presents and help them make the best use of the business opportunities that comes with it.

SMEs operations, business models, competition, and technology are definitely set to change as AfCFTA takes shape. SMEs that will prosper under AfCFTA can only do so by exploiting new markets, attracting foreign direct investment, sourcing for reduced input costs, and preparing themselves for continental trade. The majority of businesses in Ghana are SMEs, yet they seem to be unprepared and ready to grab AfCFTA opportunities (Human Capital International, 2021). Based on these, the study aims to assess the Ghanaian SME's readiness for AfCFTA implementation. To achieve the above objective, the study specifically seeks to examine Ghanaian SME's level of perception of AfCFTA implementation, Ghanaian SMEs' level of readiness for AfCFTA implementation and the challenges facing Ghanaian SMEs for AfCFTA implementation.

This study is relevant because it would help find out and presents the concerns of the private sector which is the key player in the implementation of the AfCFTA agreement and would also generate the evidence-based debate needed for advocacy at both local and national levels. This study will provide government and other stakeholders with adequate and updated information on the level of preparedness and the interventions SMEs need to take advantage of AfCFTA. This study will inform the various stakeholders of the need for a national implementation strategy and action plan that will ensure AfCFTA implementation as far as the private sector is concerned. Finally, researchers who wish to carry out further studies on the topic can use the findings as a guide to carry out their study.

## **Literature Review**

Despite the popularity of SMEs development programmes and policies, theoretical frameworks that outline SMEs and link SMEs and their growth are not always well developed (SSG Advisors, 2019). The study of entrepreneurship leading to SMEs draws from multiple academic disciplines, including economics, management, and psychology (SSG Advisors, 2019). Understanding the relationship between SMEs and their growth necessarily involves analysing the level of the individual entrepreneur, the level of the firm (formal or informal), and the level of institutions and enabling environments. This study adopted the theory of change (Weiss, 1995) to link SMEs and their growth (export promotion and support).

The theory suggests that SMEs' identification of and adaptation to external markets increased their production which leads to exports and subsequently improve their profits and employment creation (Cravo & Piza, 2016). However, SMEs face a variety of obstacles and barriers when entering export markets which includes quality upgrading, technical skills, efficiencies, and information asymmetries being the most frequent and severe (Atkin et al., 2016). To address these obstacles, there should be an export promotion intervention such as training on the export process, co-financing, technical assistance for market prospection, export plan development, product development, firm development, information on market opportunities, market intelligence, and counseling services for SMEs.

The theory suggests that these export promotion interventions and activities are effective in helping SMEs to change and increase their exports by expanding their extensive margin (the number of types of products exported and the number of countries served) but does not have a consistent significant impact on SMEs' intensive margin of exports (the volume of products exported) (Carballo & Volpe Martincus, 2010). These suggest that export promotion is most effective in helping firms break into new markets with new products. In the contrary, with absent assistance, SMEs are likely to face more significant information gaps when they attempt to enter new export markets abroad versus exporting to countries that are already among their destination markets.

### *SMEs Development in Ghana*

Small and Medium Scale Enterprises play a pivotal role in the economic development of any country. Prior research highlights the importance of SMEs in employment creation, poverty alleviation, and economic development in both developed and developing economies (Mabhungu & Van Der Poll, 2017). SMEs have become the backbone of every economy since they generate more opportunities in today's economies that encounter critical challenges in employment creation (Rustantono & Ani, 2013).

For developing economies, SMEs are increasingly being recognised as productive drivers of economic growth and a major source of job creation (Bouazza, 2015). According to Harvie (2019), SMEs are essential across African economies. They are crucial because they provide a flexible and skilled production base that draws multinational corporations.

National governments in every country have devised policies to support SMEs because of their contribution to the growth of the economy throughout the world. SMEs account for the majority of businesses worldwide and are important contributor to global economic development. They represent about 90% of businesses and create more than 50% of employment worldwide (World Bank, 2017). Formal SMEs contribute up to 40% of national income (GDP) in emerging economies (World Bank, 2017). These numbers are significantly higher when informal SMEs are included (World Bank, 2017). Most formal jobs are also generated by SMEs, which create 7 out of 10 jobs (World Bank, 2017). According to World Bank estimates, 600 million jobs will be needed by 2030 to absorb the growing global workforce, which makes SMEs development a high priority for many governments around the world (World Bank, 2017).

It is estimated that in Ghana, SMEs represent about 92% of businesses, largely within the private sector, and contribute about 70% of Ghana's gross domestic product (GDP) (International Trade Centre, 2016). SMEs activities in Ghana, according to Osei et al., (1993), include making of soap and detergent, fabrics, clothing, tailoring, textile and leather making, blacksmithing, ceramics, beverages, food processing, bakeries, furniture, electronic repairs, mechanics among others. They engage in such ventures partly because of the ease of entry in terms of size of capital and technology, reliance on local resources, family-owned and managed, and the labour intensiveness nature of these activities (Gartner, 2004).

In Ghana, the Office of the Registrar General Department combines fixed assets, turnover, and number of employees as criteria to define SMEs. According to their criterion, micro enterprises are those that employ between 1-5 people with fixed assets or turnover not more than 25,000 USD excluding land and building. Small enterprises employ between 6 - 30 with fixed assets or turnover not exceeding 1,000,000 USD, excluding land and building. Those between 31 and 100 employees are classified as medium-sized firms with fixed assets or turnover not exceeding 3,000,000 USD. However, whatever the definition and regardless of the size of the economy, the growth of SMEs throughout the country is crucial to its economic growth.

### *Export in Ghana*

With an estimated number of 27.6 million people and a \$42.8 billion GDP, Ghana is considered as a lower-middle-income country (International Trade Centre, 2017). Goods and services make up 65.2% and 34.8% respectively, of Ghana's exports, according to data from the International Trade Center (ITC) (International Trade Centre, 2017). Since 2017, Ghana's international exports have steadily increased. Ghana's exports in 2019 totalled \$16.7 billion, a 12% rise over the previous year. This include China (\$2.8 billion) which receives 16.7% of Ghana's exports worldwide, being the top destination market for the country, Switzerland (\$2.5 billion), India (\$2.4 billion), South Africa (\$1.97 billion), and the Netherlands (\$0.97 billion).

In Africa, Ghana exported \$2.96 billion in 2019, making up 18% of all exports globally and 75% of all commerce with the continent. The top 5 biggest export destinations of Ghana in Africa are South Africa (\$1.97 billion), which accounts for 67% of Ghana's exports, Burkina Faso (9%) (\$0.28 billion), Nigeria (6%) (\$163.8 million), Togo (5.4%) (\$159.58 million), and Cote d'Ivoire (1.8%) (\$52.49 million) (International Trade Centre, 2016). Ghana continues to be a significant exporter of agricultural goods. After Côte d'Ivoire, it is the second-largest producer of cocoa in the world. According to the World Trade Organization (2014), Ghana is also the continent's second-largest producer of gold, oil, and other minerals. Primary goods like cocoa, precious stones, and mineral fuels continue to dominate Ghana's trade, with precious stones becoming more significant in terms of export value. The first oil produced in Ghana was in December 2010, and since then, oil production and export have ranked among the top activities and exports over the past five years (International Trade Centre, 2016), which helps to illustrate the growing significance of mineral fuels.

It's interesting to see how Ghanaian exports revealed high comparative advantage index (RCA). Although, the RCA for Ghana's agricultural and food items has fallen, the RCA for fuels and precious stones has dramatically increased (International Trade Centre, 2016).

Furthermore, Ghana's gold also has an unrealized export potential of around \$1.4 billion to Asia, \$228 million to Europe, and \$101 million to the Americas (ITC, 2017). Other products with unrealised potential in Ghana include cocoa paste and fresh or dried cashew nuts. Regarding new export products, Ghana has diversification opportunities in beverages, chemicals, and processed food with products such as rum and other spirits obtained by distilling fermented sugar-cane products, vegetable waxes, oilcakes, and other solid residues. Other products identified for diversification include juice of fruit or vegetables, methanol "methyl alcohol" and manioc starch (Royale Sphere Consult Services, 2021). The production of these products shows a relatively strong representation of SMEs.

### *AfCFTA's Implementation*

AfCFTA creation and implementation was a result of discussions by African Heads of State and Governments in 2012 at the 18th session of the African Union (AU) held on January 29–30 in Addis Ababa, Ethiopia, that "the promotion of intra-African trade is a fundamental factor for sustainable economic development, employment generation, and effective integration of Africa into the global economy." (African Union, 2018a).

According to reports, the AfCFTA agenda was to establish the largest free trade area in the world in terms of the number of participant nations. Through the agreement, 1.3 billion people in 55 different nations are to be connected, and their combined gross domestic product (GDP) would worth US\$3.4 trillion. AfCFTA's creation of a sizable regional market presents a significant chance for African nations to diversify their exports, speed up growth, and draw foreign direct investment. The report shows that the AfCFTA agreement has the power to save 30 million people from the depths of severe poverty (African Union, 2018a).

The AfCFTA agreement mandates members to gradually eliminate tariffs on at least 97 percent of tariff lines, which represent 90 percent of imports into intra-Africa. In accordance with AfCFTA procedures, tariffs on intra-continental commerce should be gradually eliminated as follows: 90% of tariff lines will be removed over 5 year or 10-year term for least developed countries (LDCs) beginning in 2020; 7% of tariff lines will be removed over another five years or eight years for LDCs beginning in 2025 (African Union, 2018b). By the end of 2030 or 2033 for LDCs, up to 3% of tariff lines with a maximum 10% share of intra-African imports will be exempted from liberalisation (African Union, 2018b).

According to the Most-Favored Nations (MFN) principle, nontariff trade barriers for both commodities and services are to be lowered with a cap of 50 percentage points (Maliszewska & Ruta, 2020). Additionally, it is anticipated that NTBs on exports will be further reduced. A trade facilitation agreement (TFA) will be implemented alongside AfCFTA to facilitate trade (World Bank, 2020).

Furthermore, AfCFTA implementation would improve incomes and job prospects for unskilled employees, as well as contribute to the reduction of the gender wage gap. The percentage of individuals that would be employed in the manufacturing sector that would require a lot of energy would rise on the continent. In 60% of the countries, agricultural employment would rise, and wages for unskilled labor would rise more quickly in areas where agricultural employment rises (World Bank, 2020). By 2035, salaries for unskilled labor would be 10.3% higher than the baseline; for skilled labor, the increase would be 9.8%. As output increases in important industries where women work hard, wages for women would rise a little bit quicker than for men. Women's salaries would rise by 10.5% relative to the baseline by 2035, while men's wages would rise by 9.9% (World Bank, 2020).

In addition, 90% of nations will experience an increase in service volume under the AfCFTA, which would be partly due to the increased demand for services as Africa's economy expands (World Bank, 2020). Similar to this, 60% of nations would experience increases in the value of their manufacturing and agricultural output (World Bank, 2020). A re-allocation of resources across sectors and nations would result from the AfCFTA agreement, which would also increase regional output and productivity. The continent's entire output would surpass the baseline by nearly 212 billion US dollars by 2035. Natural resource and service output would climb by 1.7%, while manufacturing would enjoy a 1.2% increase (World Bank, 2020). According to Maliszewska and Ruta (2020), the services sector would see the largest benefits with \$147 billion, while manufacturing and natural resources would see lower improvements of \$56 billion and US\$17 billion respectively. Agriculture will produce \$8 billion less in production by 2035 than it does today. With the exception of North Africa, which is moving toward manufacturing and services as a result of the AfCFTA,

agriculture is expanding more quickly across all of Africa in comparison to the baseline year of 2035 (World Bank, 2020).

#### *Readiness of Ghanaian SMES for AfCFTA Implementation*

A report by the World Bank (2020), on the African Continental Free Trade Area: economic and distributional effects estimate that implementing the AfCFTA agreement would contribute to lifting an additional 30 million people from extreme poverty and 68 million people from moderate poverty. Real income gains from full implementation of the agreement could increase by 7 percent, or nearly US\$450 billion. AfCFTA would significantly boost African trade, particularly intra-regional trade in manufacturing. By 2035, the volume of total exports will increase by almost 29 percent relative to business as usual. Intra-continental exports would increase by more than 81 percent, while exports to non-African countries would rise by 19 percent. This would create new opportunities for African manufacturers and workers. The report estimates that compared with a business-as-usual scenario, implementing AfCFTA would lead to an almost 10 percent increase in wages, with larger gains for unskilled workers and women.

Another report by RoyaleSphere Consult Services (2021), on the preparedness of local businesses participating in the AfCFTA agreement implementation in Ghana shows that, though some level of progress is being achieved, there is much more work required at the policy level, implementation level, resources level, and the knowledge (advocacy) level. Even as participating countries prepare and take appropriate measures in preparation for the full operationalization of the Agreement, Ghanaian businesses must be well-positioned for the various opportunities available under the AfCFTA.

Policy brief prepared by Damptey & Obeng (2021), CUTS International, Accra (Ghana) on positioning the Ghanaian MSME to take advantage of the AfCFTA shows that the AfCFTA presents an incredible opportunity for Ghanaian MSMEs to scale up activities and expand into African markets. The report shows that AfCFTA opens Ghanaian MSME up to a market of 1.2 billion people across the continent and provides endless possibilities for the socio-economic growth of the population. However, to unlock the potential for economic transformation, the various challenges that MSMEs are confronted with must be addressed by the government to create an enabling environment favourable to their activities. At the same time, MSMEs should focus on improving their internal mechanisms to make the most of the agreement. The study concluded that more preparation is needed for MSMEs towards the implementation of the AfCFTA. Some key challenges identified include but are not limited to; high utility costs, high cost of credit, high cost of raw materials, high cost of importing basic equipment for production, and an influx of fake products on the market.

A study by Obeng and Adomako (2020) on the assessment of Ghanaian private sector readiness for the AfCFTA implementation shows that Ghanaian businesses are confronted with challenges including power reliability, difficulty of trading across borders, access to ICT and the use of ICT, difficulty of starting a business, financial constraints among others and these affect their capacity to produce and export to other African countries. The finding showed that with regard to the competitiveness of the Ghanaian private sector, Ghana is competitive when compared with its neighboring countries. However, the country will find it difficult to compete with the likes of South Africa, Egypt, Morocco, and Kenya in light of AfCFTA implementation and would need an additional push before they can compete effectively since they are confronted with some challenges, notably high cost of production, poor finishing and packaging, inadequate skilled personnel, unavailability of raw materials, etc.

## **Methods**

The study is based on a quantitative research approach together with the descriptive cross-sectional research design. This involves analysis of data collected from the population sample at a given time. The descriptive research design involves obtaining information concerning the current status of phenomena to describe what exists concerning variables or conditions in a situation (Kothari, 2010). Thus, the study collected data from SMEs about their readiness for AfCFTA implementation. The study was carried out in Ghana and the target population was 480 SMEs that were registered members of the Ghana National Chamber of Commerce and Industry, Cape Coast Branch and operating within manufacturing, pharmaceutical, herbal, tourism, hospitality, food and beverage, agribusiness, garment, leather, and textiles. Using the Krejcie and Morgan (1970) sample size determination table for finite population, a minimum sample size of 234 was needed out of the 555 SMEs. However, in order to cater for non-response rate and sample representativeness, a sample of 250 SMEs was selected to represent the sample size. To obtain a representative sample for the

study, the study used a stratified sampling method to group the SMEs into their various categories and then used a simple random sampling technique to select 250 SMEs.

Structured questionnaires were used to collect primary data from the SMEs. Data was collected using close-ended and Likert scale questionnaires designed in accordance with the objectives of the study. The respondents were given several alternatives from which they selected options they considered appropriate. Statistical Package for Social Sciences (SPSS, version 28) was used to analyse the data. Data on the background characteristics of the respondents and the objectives of the study were analysed using descriptive statistic tools such as simple frequencies, percentages, means, and standard deviation.

Cronbach Alpha which measures internal consistency (reliability) was used and it measures the degree to which all items on a scale measure an underlying construct (Pallant, 2013). According to Pallant (2013), the individual consistency reliability should be 0.7 or higher. The Cronbach alpha performed for the variables shows that SMEs' perception towards AfCFTA implementation is 0.996, SMEs readiness towards AfCFTA is 0.991 and challenges facing SMEs towards AfCFTA implementation is 0.889. This implies that all constructs and the scales used to measure the variables under study were reliable.

For ethical purposes, permission to conduct the study was sought with an introductory letter from SME owners explaining the research purpose and ethical considerations. Informed consent was sought from the SME owners before selecting them for the data collection. SME owners were made aware that information given would be confidentially kept and not exposed to individuals or groups who are not expected to have access to the information collected from them. The names and other demographic characteristics of respondents that identify them were not disclosed to any third party without their permission.

## **Results and Discussion**

The summary of the data gathered and results are presented using descriptive statistic tools such as simple frequencies, percentages, means, and standard deviation. The study targeted 250 SMEs and at the end of data collection, all the 250 completed questionnaires were retrieved from the SMEs. This results in 100% retrieval of completed questionnaires.

### *Background Characteristics*

This section deals with the background information of the respondents and the data was analysed using a frequency table and percentage distribution. To capture the background information of the respondents, issues such as gender, age, educational background, nature and type of business, and number of years in business were all addressed.

Table 1 presents the background of the respondents based on gender, age, and level of education. It was observed that the majority of the respondents were males representing 71.20% whereas females represented 28.80%. Therefore, the study findings confirmed that there is a large disparity in gender in entrepreneurship with females getting very few chances.

With regards to the age of respondents, the study found that the majority of the respondents were within the age range of 31-40 years which represented 34.80%, followed by 41 - 50 years (30%), those in 20-30 years were 21.60% and the remaining 13.60% of the respondents were between 51 - 60 years. The implication is that the implementation of AfCFTA is likely to benefit majority of the youth in Ghana and this would reduce unemployment and rescue a lot of people from extreme poverty as projected in the AfCFTA policy document.

For the level of education, it can be observed that most of the respondents are diploma holders representing 38.40%, followed by 27.60% of the respondents who have secondary education. However, 23.20% indicated they are degree holders and the remaining 10.80% of the respondents stated that they have master's degree. The implication is that many of the operators of SMEs in Ghana (about 66%) do not have tertiary education. This may have a negative impact on their ability to understand and appreciate the policy benefits of AfCFTA.

Furthermore, it was observed on nature and type of business that the respondents that have the highest response are manufacturers representing 44.80%, followed by merchants/trading with 28% and service with 18.80%. The remaining respondents indicated construction (8.40%). The implication is that since majority of these SMEs are into manufacturing and trading, they stand to gain so much from the export opportunities that come with the implementation of AfCFTA.

The next presentation was on the number of years the respondents have been in business. The table depicts that 30.80% of the respondents have been in business for more than 10 years now, followed by respondents who have been in business for 1 - 5 years now representing 27.60%. Other respondents also

indicated they have been in business for 6 - 10 years now representing (22%) and the remaining 19.60% have been in business for less than 1 year now. The implication is that many of these SMEs (about 52.8%) have survived local competition for more than 6 years and above. It means that they are resilient and have what it takes to expand beyond their national boundaries if only they are well positioned to take advantage of the opportunities presented by AfCFTA.

**Table 1**

*Background of respondents by gender, age, and level of education*

Variable	Frequency	Percentage (%)
Gender		
Male	178	71.20
Female	72	28.80
Age of respondents		
20 – 30 years	54	21.60
31 - 40 years	87	34.80
41 – 50 years	75	30.00
51 – 60 years	34	13.60
Educational Background		
Secondary	69	27.60
Diploma	96	38.40
Degree	58	23.20
Masters	27	10.80
Nature and type of SME		
Manufacturing	112	44.80
Services	47	18.80
Merchants/Trading	70	28.00
Construction	21	8.40
Number of years in business		
Less than 1 year	49	19.60
1-5 years	69	27.60
6-10 years	55	22.00
More than 10 years	77	30.80
<b>Total</b>	<b>250</b>	<b>100</b>

Source: (Fieldwork, 2023)

## Results

Table 2 presents SMEs' level of perception towards AfCFTA implementation. This analysis shows SMEs' knowledge of AfCFTA implementation. From Table 2, a list of questions was presented to the SMEs to indicate their knowledge of AfCFTA implementation. When asked whether they knew Ghana's trade policy, the majority (89.60%) of the SMEs indicated they did not know Ghana's trade policy. They were again asked if they understand the role of AfCFTA on Ghana's trade policy, another 92.40% of the SMEs indicated they do not understand the role of AfCFTA on Ghana's trade policy. Also, 54.80% agreed that they have attended meetings on AfCFTA before but 79.60% stated they do not know how AfCFTA would affect businesses. SMEs were asked if they knew Ghana's negotiation on AfCFTA, 88.40% stated no, and another 67.60% also indicated they did not know AfCFTA Rules of Origin. Some of the SMEs (30.80%) stated they understand the objectives of AfCFTA whilst the remaining 47.60% stated they do not understand the objectives of AfCFTA. Finally, 95.20% of the SMEs stated they do not have knowledge and understanding about the components of AfCFTA.

**Table 2**

*SMEs Perception Towards AfCFTA Implementation*

Statements	Yes (%)	Somehow (%)	No (%)
Know Ghana's trade policy	4.40	6.00	89.60
Understand the role of AfCFTA on Ghana's trade policy	2.80	4.80	92.40
Ever attend any meeting on AfCFTA	54.80	0	45.20
Know how AfCFTA would affect businesses	8.00	12.40	79.60
Know about Ghana's negotiation on AfCFTA	2.80	8.80	88.40
Know AfCFTA Rules of Origin	19.60	12.80	67.60



Understand the objectives of AfCFTA	30.80	21.60	47.60
Have knowledge and understanding of the components of AfCFTA	2.00	2.80	95.20

Source: (Fieldwork, 2023)

Table 3 presents SMEs' level of readiness towards AfCFTA. The data collected from the SMEs shows that SMEs do not have export certificates/documentation as 86.40% of them disclosed. However, concerning the source of raw materials and place of production activities, all (100%) of the SMEs indicated they have a source of raw materials and place of production activities. That notwithstanding, 88.40% of the SMEs indicated they have market access. Meanwhile, 92.40% of the SMEs stated they do not have access to trade finance and funding for expansion. This is followed by another 91.60% of the SMEs who stated that they do not have access to trade information and infrastructure. On the contrary, 54.80% agreed that they have access to skill expertise and personnel and 72.40% indicated they can research, develop, and innovate. Finally, all (100%) of the SMEs agreed they can add value to existing products.

**Table 3**  
*SMEs Readiness Towards AfCFTA*

Statements	Yes (%)	No (%)
Do you have an export certificate/documentation	13.60	86.40
Do you have a source of raw materials and a place for production activities	100	0
Do you have access to the market	88.40	11.60
Do you have access to trade finance and funding for expansion	7.60	92.40
Do you have access to trade information and infrastructure	8.40	91.60
Do you have access to skill expertise and personnel	54.80	45.20
Do you have the ability to research, develop, and innovate	72.40	27.60
Do you have the ability to add value to existing product	100	0

Source: (Fieldwork, 2023)

In order to determine the challenges facing SMEs towards AfCFTA implementation; questions were asked regarding the challenges SMEs are facing towards AfCFTA implementation. The study employed a 5-point Likert Scale on a scale of strongly disagree, disagree, neutral, agree, and strongly agree and the result was analyzed using mean and standard deviation. Mean statistics was used to help examine the central tendency of the various constructs adopted for the study.

Table 4 illustrates the analysis of the data collected. To achieve the objective of the study, the data for each of the study variables were analysed on a mean scale of 1 to 5 with 1 to 2.9 indicating low levels (strongly disagree and disagree) and 3 to 5 indicating high levels (strongly agree and agree).

It can be observed from the table that all the variables have a mean score of more than 3 except two (2) of the variables which are different currencies used across the African continent (1.89) and product finishing (2.72). This means that the SMEs disagreed that different currencies used across the African continent and product finishing are challenges facing them towards AfCFTA implementation. On the contrary, the SMEs agreed that challenges facing them towards AfCFTA implementation are poor infrastructure (4.11), competition with cheaper but lower quality products (3.88), high inflation (3.72), lack of information on AfCFTA (3.64), language barriers (3.11), difficulty in accessing credit (3.69), high cost of raw materials (3.16) and difficult port procedures (3.06) respectively.

**Table 4**  
*Challenges Facing SMEs Towards AfCFTA Implementation*

Statements	Mean	Std Deviation
Language barriers	3.13	0.78
High inflation	3.72	1.30
Different currencies used across the African continent	1.89	1.17
Lack of information on AfCFTA	3.64	1.35
Competition with cheaper but lower quality products	3.88	1.08
Product Finishing	2.72	1.13
Poor infrastructure	4.11	0.83
Difficulty in accessing credit	3.69	1.23
High cost of raw materials	3.16	1.13
Difficult port procedures	3.06	0.90

Source: (Field Survey, 2023)

### *Discussion of Findings*

The findings from SMEs' perception towards AfCFTA implementation revealed that the majority of the SMEs do not know about AfCFTA implementation. The findings indicated that SMEs do not know Ghana's trade policy, the role of AfCFTA on Ghana's trade policy, how AfCFTA would affect businesses in Ghana, Ghana's negotiation on AfCFTA, and AfCFTA Rules of Origin. Some of the SMEs also indicated that they do not have knowledge and understanding about the components of the AfCFTA agreement. This finding is reflected on the low level of education of most of the SMEs owners since about 66% of them had either secondary or diploma education (See Table 1). The implication is that most of them either do not follow policy developments and discussions in the business landscape or have difficulty in assimilating these policies. The finding shows that just a handful of SMEs have attended meetings on AfCFTA before or have an understanding of the objectives of AfCFTA. This finding is found to be consistent with the report by RoyaleSphere Consult Services (2021) on the preparedness of local businesses participating in the AfCFTA agreement implementation in Ghana which shows that, though some level of progress is being achieved, there is much more work required at the policy level, implementation level, resources level, and the knowledge (advocacy) level.

The findings from SME's readiness towards AfCFTA revealed that some of the SMEs are ready for AfCFTA implementation and have put some preparations in place. Based on the findings, most SMEs have sources of raw materials and a place for production activities, have market access, and add value to existing products. Most of the SMEs also do research, develop, and come out with innovative products on their own and also have access to skill expertise and personnel. This finding does not agree with a study by Obeng and Adomako (2020) and Dampety and Obeng (2021) who found evidence that the various challenges that MSMEs are confronted with AfCFTA implementation are high utility costs, high cost of credit, high cost of raw materials, high cost of importing basic equipment for production, an influx of fake products on the market. The only challenges some of them are confronted with are access to trade finance and funding for expansion, access to trade information and infrastructure, and export certificates/documentation. One significant finding worth noting is the absence of export certificates and other documentations. This is because, majority of these SMEs are into manufacturing and trading. Hence, their inability to obtain export certificates and other documentations does not seem to position them ready for AfCFTA implementation.

The findings from the study show that the challenges facing SMEs in Ghana towards AfCFTA implementation are poor infrastructure, competition with cheaper but lower quality products, high inflation, lack of information on AfCFTA, language barriers, difficulty in accessing credit, high cost of raw materials, and difficult port procedures. This finding is consistent with previous studies by Dampety and Obeng (2021) who found evidence that the various challenges that MSMEs are confronted with AfCFTA implementation are high utility costs, high cost of credit, high cost of raw materials, high cost of importing basic equipment for production, an influx of fake products on the market. Another study by Obeng and Adomako (2020) also identified similar challenges that SMEs are confronted with AfCFTA implementation.

### **Conclusion and Recommendation**

According to the study's findings, there is a significant gap between Ghanaian SMEs' readiness and AfCFTA implementation that needs to be dealt with for successful AfCFTA implementation in Ghana. If the AfCFTA agreement would contribute to lifting an additional 30 million people from extreme poverty, and 68 million people from moderate poverty, significantly boost African trade, particularly intra-regional trade in manufacturing by 2035, increase the volume of total exports by almost 29 percent relative to business as usual and create new opportunities for African manufacturers and workers (World Bank, 2020), then the various challenges that SMEs are confronted with must be addressed by the government to create an enabling environment favourable to SMEs business activities. Although the majority of SMEs are capable of innovation, developing new products, adding value to their existing products, having sources of raw materials and a place for production activities, and market access, others also have limited knowledge of export certificate/documentation, access to trade information and infrastructure, access to trade finance and funding for expansion, and access to skill expertise and personnel. Ghanaian SMEs also have low knowledge and understanding of the AfCFTA's benefits, advantages, components, and protocols. The majority of SMEs do not know AfCFTA Rules of Origin, how AfCFTA would affect businesses, and the role of AfCFTA on Ghana's trade policy. The results also indicated that SMEs face various obstacles in their efforts to export, which lowers their enthusiasm to export and indicates that they need more competition before they can compete successfully. High cost of production, border delays, poor infrastructure, competition, high inflation, lack of

information on AfCFTA, language barriers, difficulty in accessing credit, high cost of raw materials, and language problems are just a few of these obstacles.

Based on the findings, the study has made several recommendations: The study recommends that SMEs needs to be retooled to improve their readiness and awareness of the implementation of the AfCFTA, particularly in the areas of AfCFTA Rules of Origin, AfCFTA objectives, components, and Ghana's trade policy. The study again recommends that major stakeholders such as the Ghana Enterprises Agency (GEA) needs to intensify their advocacy and training programmes for SMEs owners in order to educate them on the benefits of AfCFTA and help them prepare for AfCFTA implementation in Ghana. It is also recommended that SMEs should concentrate more on value addition, such as enhancing packaging and finishing, and be dedicated to looking for ways to enhance their current or existing products to outperform comparable products from other African nations and also have skill expertise and personnel to help them. As a result, they will be able to endure the new competition from AfCFTA to some extent. Finally, SMEs owners should acquire adequate knowledge in financial management, including good bookkeeping and cash management, to establish their creditworthiness for obtaining bank loans.

#### *Theoretical and Practical Implications*

Theoretically, the results of this study support the theory of change in relation to export promotion and support as adopted in this study. The theory suggests that SMEs' identification and adaptation to external markets generates exports as part of increased production, which in turn, may improve SMEs' profits and employment creation (Cravo & Piza, 2016). The findings from SME's readiness towards AfCFTA revealed that some of the SMEs are ready for AfCFTA implementation and have put some preparations in place. Based on the findings, most SMEs have sources of raw materials and a place for production activities, have market access, and add value to existing products. Despite several challenges confronting them, most of the SMEs also do research, develop, and come out with innovative products on their own.

With respect to the study's practical implication, the findings of this study would assist the government in developing a national implementation strategy and action plan that would offer methodical procedures for implementing AfCFTA. The study would also help the government to increase public education about AfCFTA's objectives, components, Ghana's trade policy, and Rules of Origin. The study would also help some important stakeholders, such as the Ghana Enterprise Agency and others to develop a thorough Stakeholders Sensitization Programme that would inform the public and businesses about the various stages of the AfCFTA negotiations. The Sensitization Programme would also help businesses to put in their input on unresolved issues, and educate and train SMEs, particularly on potential export markets and market access requirements. Finally, the study would help the government decide whether to engage in AfCFTA negotiations with the leadership of trade associations, academia, private associations, and a small number of trade practitioners at the national level.

#### *Limitation and recommendation for future studies*

The study was limited to SMEs in Central Region, Ghana who were registered members of the Ghana National Chamber of Commerce and Industry, Central Region, Ghana. Therefore, it would be helpful to replicate this study with SMEs in other regions in Ghana as well or Ghana as a whole. The study also adopted a quantitative approach to data gathering and analysis. Future studies may replicate the study using either a qualitative approach or mixed methods approach.

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