

Alternative Tenure and Enterprise Models in Ghana

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KEY FINDINGS

■ In Ghana, SMEs (small and medium-sized enterprises) in the furniture and the cane and rattan industry could significantly strengthen Ghana's economy if a number of factors are in place, such as a resource allocation system that provides a secure supply of raw materials at fair prices, a participatory approach for resource development and forest management, improved market opportunities, officially established trade standards, public acknowledgment of SMEs, and the provision of adequate financing mechanisms.

potential to contribute to a strengthening of the domestic economy; they also investigate under which circumstances this potential could be fully developed.

Radeb Enterprise Limited

Radeb Enterprise Limited is an LLC in Ghana's High Forest Zone which lies at the center of Ghana's wood industry. Initially, the company mainly produced doors and windows, but in response to market trends, Radeb has diversified its production to include furniture. Radeb's production level has steadily risen since the mid 1990s and the company hopes to increase sales further by 30 percent over the next year. Sales are currently limited to the domestic market, but the company is aspiring to branch out into regional and international markets.

Radeb operated with a 40 percent profit margin in 2007. This is a healthy margin – comparable to a legally recognized operation in the formal sector – and shows that such carpentry operations create significant value-addition, unlike the export wood sector. Radeb's wages and other incentives constitute 70 percent of the gross profit, indicating that the business provides a reasonable wage rate relative to returns. Labor inputs generate 60 percent of the business's total value, which would change if its wood supply came from legal auction sources, but still indicating that labor-intensive technologies in the forest sector can contribute substantially to improved livelihoods and economic growth.

In Ghana, economic and political developments in the past century have heavily focused on commercial timber and have brought the industry's technical capacity to 5 million m³ in the past century, compared to an annual sustainable resource limit of 1 million m³. Plantation development has not been able to meet its set goals, so that natural forest timber is now scarce. Large-scale businesses have continued to dominate the sector, and SMEs (small and medium enterprises) have been excluded from the market, the management of forests, and from macroeconomic policy implementation. The following two case studies of two SMEs in the furniture, and cane and rattan industry¹ show that these developments have undermined their

1. Alternative Tenure and Enterprise Models: A Ghana Cane and Rattan Case Study. Prepared by Hamilton Resources and Consulting. August, 2008; Alternative Tenure and Enterprise Models: From Rudimentary Carpentry to Small-Scale Formal Wood Processing. Prepared by Hamilton Resources and Consulting. August, 2008.



PARTNERS



VALUE-ADDED ANALYSIS OF RADEB ENTERPRISE (2007; IN GHC)

Revenue	23,250
Non-factor costs:	
Wood	10,000
Consumables	1,200
Production expenses (50% = depreciation)	2,100
Administration (Management Salaries)	0
Total Non-factor cost	13,300
Economic value added	9,950

stone-quarrying activities and illegal chain saw operations have caused the natural vegetation in this region to be degraded to secondary forest; in some regions, partly due to the procurement of wood as raw material, major deforestation has caused the forest to give way to savanna conditions and has led to the non-availability of primary wood species, making the economic growth of forest-dependent industries unsustainable.

The enterprise has no tenure over or access to forest lands and therefore needs to obtain its wood supply from the open market. Timber firms, although required to supply 20 percent of their production to the local market, prefer to export their wood products at higher prices, so that frequently buyers have to resort to chain-sawn lumber; this is considered illegal, since in 1998, Timber Resources Management Regulations, L.I. 1649 imposed a ban on chainsaw-lumber operations. The procured raw materials now often come from suppliers far away or from the National Teak Plantation through a bidding process, which results in higher prices and requires cash at the time of the auction. The government has been slow to invest into substituting technologies or fairer payment methods and value distribution.

Radeb's competition comes from producers that manufacture higher-quality products and have been in the market longer and from carpenters who

produce at a lower cost and sell at lower prices.

While the company has been able to grow production and increase product quality, it does not yet have the equipment or infrastructure to train artisans to produce products fit for the international market. Competition also comes from the extensive use of doors, windows and furniture made of other materials. Also, the owner has no documentation for his purchase of the land on which the enterprise is located and therefore has no ownership rights. In addition, the area is demarcated as nature reserve and as a result, the enterprise does not have an official permit to operate in its current location.

Amoo Cane Works

Amoo Cane Works (ACW) specializes in the manufacturing of cane and rattan furniture; it is a family business and produces a wide range of cane, rattan and bamboo-based products. It has only two permanent employees and hires contractor as needed when the volume of work increases. The company owns no assets, and is almost exclusively dependent on family capital. The company currently offers its products only on the domestic market, but would like to branch out into regional and global markets as well.

Current production is only at about 20 percent of capacity, reflecting a business downturn since 1999, partly due to the move to a new location and partly due to a general downturn in the industry. In 2007, the company made a 20 percent profit. Labor incentives accounted for 51 percent of the profits and wages and incentives accounted for 57 percent of the market value of the products sold. It is evident, that ACW is a company that can contribute to economic growth while helping to alleviate poverty.

CHALLENGES

The procurement of raw materials is a major challenge for ACW. The company does not have tenure over any forest land and therefore relies on independent harvesters for the procurement of raw

HOWEVER, THEIR FUTURE SUCCESS WILL DEPEND ON A NUMBER OF FACTORS, INCLUDING TENURE POLICY, INSTITUTIONAL SUPPORT AND MARKET OPPORTUNITIES.

materials who also have no tenure, but need to get harvesting permits from the Forestry Commission (FC). The process through which these permits are obtained is a complicated, costly, non-transparent, and time-consuming process. In addition, permits are usually not issued for the time it takes to harvest the material, and harvesters have to resort to different means to secure the raw materials, including illegal and risky activities that could damage the harvest. All of this increases the costs of harvesting the resources.

In addition, cane and rattan resources have not been managed sustainably and some regions have been depleted; this is not necessarily the fault of harvester-suppliers, but of local dwellers who also collect the material. In addition, the FC lacks the adequate resource management capacity. Harvesting is now mostly concentrated in the distant Western region which has affected the market price of resources.

ACW has strong competition from larger manufacturers but also from similar smaller companies and other countries (Indonesia, India, and China), as well as from an increased use of imported plastic substitutes and synthetic wood products.

RECOMMENDATIONS

SMEs in the furniture and the cane and rattan industry could significantly strengthen Ghana's economy as they have the potential to both generate employment and secure livelihoods. Estimates show that these companies are capable of generating large numbers of employment opportunities if they have a guaranteed supply of raw materials; they also secure employment for companies in related sectors, e.g. lumber

processing, transport and marketing sectors. However, their future success will depend on a number of factors, including tenure policy, institutional support and market opportunities.

A resource allocation system is needed that provides a secure supply of raw materials at fair prices to SMEs. In the case of furniture enterprises, export of raw materials needs to be prevented and plantation material needs to be reserved and allocated fairly and transparently; chain-sawing needs to be legalized and technically improved, so that off-reserve timber resources are managed responsibly and can be verified as having been legally harvested. In the case of cane and rattan weavers, tenure arrangements are needed that grant access to portions of degraded forest reserves where raw materials can be harvested and that establish sharing arrangements with prospective future harvesters, landowners, and the FC.

A participatory approach to cane, bamboo and rattan resource development and forest management is needed that takes advantage of resource owners' traditional knowledge about sustainably managing resources and that allows SMEs to take part in negotiating forest management objectives.

Market opportunities need to be improved, e.g. by developing business partnerships, better



transportation options, and more financing opportunities. In addition, SMEs will need assistance with the development of marketing strategies and skills to enter into regional and international markets and also to gain access to the Ghana Export Promotion Council. The Council is a major contact point for overseas buyers; it offers skill training, can assist with the pre-financing of exports, place advertisement, and establish market contacts. In addition, SME trade associations need the government's political and financial assistance to build strong and competitive domestic markets for raw wood materials and processed wood products, but also to assist enterprises with entering into regional markets.

Government assistance will also be required to establish **trade standards** for domestic, regional and international markets, to control prices, and to develop a collective and collaborative approach to dealing with the consequences of environmental pollution.

Any seeming or real **discrimination of SMEs** in the market place needs to be overcome, e.g. by publicly acknowledging SMEs' contributions to the national economy, and by devising a fair and transparent tendering process for orders by potential buyers. This should also include the development of

appropriate financing mechanisms that take into account the circumstances of SMEs and that include micro-credit financing strategies, credit advances, and start-up funds for business partnerships. The Ghana Poverty Reduction Strategy (GPRS) has the potential to play an important role in this context, if it is redesigned to place more emphasis on the growth of SMEs.

Finally, most SMEs would greatly benefit from additional training opportunities in the handling and processing of raw materials and from assistance with securing permanent officially authorized locations.

LEARN MORE

This is part of Rights and Resources Initiative's work on Alternative Tenure and Enterprise Models (ATEMs) program, which aims to identify and promote alternative models to forest ownership and management that alleviate poverty among forest peoples in Central and West Africa. More information is available at www.rightsandresources.org.

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The Rights and Resources Initiative is a global coalition to advance forest tenure, policy, and market reforms. RRI is composed of international, regional, and community organizations engaged in conservation, research, and development. For more information, visit www.rightsandresources.org.

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