



Graduate School of Development Studies

**MESO-INSTITUTIONS AND ENDOGENOUS DEVELOPMENT IN GHANA
THE CASE OF AJUMAKO-ENYAN-ESSIAM DISTRICT**

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Dedication

Dedicated to my dear wife, Matilda Addison, her children, Nana Abena Kuma-Baisie, Kwamina Kuma-Baisie, My dear Mother, Comfort Asabea

and

My brother, James Buabeng and Sister Mama

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List of Acronyms

AEEDA	Ajumako-Enyan-Essiam District Assembly
AfDB	African Development Bank
AGOA	Africa Growth and Opportunities Act
BA	Business Association
BDS	Business Development Service
BDS	Business Development Studies
BOPP	Benso Oil Palm Plantations
CED	Community Economic Development
CG	Central Government
CRED	Centre for Rural Enterprise Development
DA	District Assembly
DADU	District Agricultural Development Unit
DCE	District Chief Executive
DPCU	District Planning Co-ordinating Unit
FAO	Food and Agricultural Organisation
FFA	Free Fatty Acid
FDI	Foreign Direct Investment
GDWPP	Ghana Decent Work Pilot Programme
GDWCP	Ghana Decent Work Country Programme
GLSS	Ghana Living Standard Survey
GOG	Government of Ghana
GOPDC	Ghana Oil Palm Development Company
GPRS	Ghana Poverty Reduction Strategy

LED	Local Economic Development
LESD	Local Economic and Social Development
LG	Local Government
ILGS	Institute of Local Government Studies
ILO	International Labour Organisation
ILO/GDWCP	International Labour Organisation/Ghana Decent Work Country Programme
MMDA	Metropolitan, Municipal and District Assemblies
MSE	Micro and Small Enterprises
MMYE	Ministry of Manpower, Youth and Employment
MOU	Memorandum of Understanding
NGO	Non-Governmental Organisation
NHIS	National Health Insurance Scheme
PSDS	Private Sector Development Strategy
PSI	Presidential Special Initiative
RCC	Regional Co-ordinating Council
RPCU	Regional Planning Co-ordinating Unit
SBA	Small Business Association
SME	Small and Medium Enterprise
SIF	Social Investment Fund
SPEED	Support for Enterprise Empowerment and Development
SPGE	Sub-Committee on Productive and Gainful Employment
TOPP	Twifo Oil Palm Plantation
UNDP	United Nations Development Programme
SWOT	Strengths, Weaknesses, Opportunities and Threats

Abstract

This paper describes proactive local strategies adopted by Ajumako-Enyan-Essiam District, a less endowed locality focusing on institutions to transform the oil palm chain. The case typically demonstrates the potency of endogenous initiative of oil palm processing to turn around the fortunes of a district with low capabilities.

The study confirms that the initiative has transformed the small and medium enterprises (SMEs) in the oil palm industry and injected dynamism into the district economy. The study demonstrates that the process has not only brought on target groups that were originally underserved with low capabilities but created gainful employment for members of those groups. The underserved SMEs have enhanced production, improved productivity and product quality for better market prices and high sales. However, the use of sector-based institutions such as business associations to reach the SMEs and develop the BDS market led to the exclusion of a greater number of SMEs.

The study further reveals that meso-institutions such as sector-based and territorial ones were catalysts for the growth and development of SMEs. It confirms that improved business environment; access to credit, business support services and membership of business associations correlate with higher productivity and strong enterprise performance. Additionally, it reveals that micro-level enterprise strategies and meso-level interventions were not sufficient to transform SMEs. It stresses influences from the broader regulatory environment for the total transformation of SMEs and even proper functioning of meso-institutions.

It has also been confirmed that the development of less endowed localities depends on their development potential and accessibility to markets. It further establishes that their sustainability, however, lies in the proper functioning of the drivers of local development: the organisation of the productive system, the diffusion of technology and the enabling space for adaptation of institutional arrangement. The study finds that these drivers govern the economic growth and development process, generate externalities and reduce transaction cost.

Keywords: Local economic development (LED); enterprise development; meso-institutions; economic development; decentralisation; local endowments; endogenous development; productivity; technology; business environment.

Relevance to Development Studies

The study contributes specifically to theoretical knowledge on LED in Ghana and adds new theoretical knowledge to the local and regional development programme. The study also contributes to a more comprehensive understanding of policy development on small enterprise development and to the on-going debate on private sector development as a tool for economic growth and poverty reduction.

Chapter 1

Introduction

1.1 Background

Local economic development (LED) is ‘a process by which local government and/or community-based groups manage their existing resources and enter into partnership arrangement with the private sector to create jobs and stimulate economic development in a defined territory’(Blakely, 1989:58). Helming (2003:69) argues that the LED approach ‘emphasizes local control, using the potentials of human, institutional, physical and area natural resources’. To Blakely (1994), LED is process-oriented. The process involves the formation of new institutions and improvement in the capacity of existing employers to produce better products. Besides, it involves the identification of new markets, the transfer of knowledge and the nurturing of new firms and enterprises (ibid). In the researcher’s view, these processes build on the existing capabilities which result in employment creation and economic growth.

However, in most poor countries especially Sub-Saharan African, structural changes are hindering the efforts of localities to utilise the opportunities created by globalisation (Knorringa and Meyer-Stamer, 2008 and Helmsing, 2003). Literature on new development policy asserts that low demand, weak capacity and/or lack of meso-institutions and disabling environment are some of the structural problems hindering the effort of localities to manage local resources to stimulate local development for job creation (ibid). To Helmsing (2003:2), this ‘deters investment responses by enterprises and households’ and has resulted in overdependence on external resources for local development.

Ghana as a country is no exception to these structural problems and it faces widespread poverty characterised by a low quality and quantity of employment opportunities (GLSS, 1999). Given the lack of opportunities for employment and income generation, almost 40% of the population is living below the poverty line. This is particularly evident in the two ‘hotspots’ of poverty; agriculture and the informal economy (ibid). The economy of Ghana is dominated by the activities of micro and small enterprises and said to constitute 60% of the private sector with the employment generation capacity of 93.1% whilst the large formal sector accounts for 6.9 % (Boeh-Ocansey, 2005). Yet both workers and employers are caught up in a vicious cycle of low job quality and capacity leading to low productivity, lower profits, low product quality and greater poverty (ILO, 2006:8). This situation has negative impact on competitiveness of SMEs in the local economy (ibid).

The Ajumako-Enyan-Essiam District (AEED) is a typical locality with low capabilities and has no 'advanced factor endowments' to serve as a catalyst for rapid economic development (DPCU, 2006 and Porter, 1990). Besides, it is one of the poorest of the seventeen (17) administrative districts in the Central Region with low degree of economic insertion. The district is land locked and predominantly rural with micro and small enterprises, focusing on agro-processing, services and subsistence farming. The district has poor infrastructure and weak institutions to support its economic development drive (ibid).

Oil palm processing is the predominant manufacturing activity occupied by the micro and small enterprises that use labour intensive technology for oil palm extraction (CRED, 2005:8). The micro and small enterprises process palm fruits into palm and palm kernel oil. Palm and kernel oil are used for diverse products such as laundry and personal washing soaps, fat and margarine, refined cooking oil and edible oil (ibid). A study conducted by PSI (2004) indicates that the oil palm sector has the potential of employing more people, improving their standard of living and transforming the local economy, given the high demand in the internal and external markets.

In the quest to confront the high unemployment rate and the worst poverty situation, the Ajumako-Enyan-Essiam District Assembly with the support of ILO introduced LED as an alternative to market led development to stimulate employment generation and economic activities for local development (ILO, 2006). Since 2003, the initiative in the district has resulted in the creation of meso-institutions at both the sector and territorial levels with the mandate to providing business support services to local producers and to improve the business environment. The institutional arrangement is a joint initiative between local and external stakeholders (ibid).

The oil palm sector, in spite of being unstructured, deficient in technical capabilities and in production and marketing, was selected through a consultative planning process and prioritised for upgrading to generate employment and income (CRED, 2005:8 and ILO, 2006:14). ILO (2006:15) asserts that the process was collaboration between the district assembly and the social actors and that the process became visible because of enhanced capacity of stakeholders. To them, the capacity building programmes have equipped the actors with new knowledge and skills to appreciate local development and that attracted both local and external resources to develop the sector (ibid).

According to ILO Impact Assessment Report (2007:17), the initiative introduced in the district has resulted in significant improvement in the economic situation of people especially processors in oil palm processing. It also asserts that the business climate has

improved; collective efficiency has improved production and marketing, enhanced income and improved working conditions for workers and employers (ibid). Consequently, the oil palm processing sector has transformed thereby becoming the most economically viable manufacturing sector in the district. According to CRED (2006), the oil palm processing sector has offered employment to many people and stimulated other economic activities in the district because of its backward and forward linkages. On transformation of the SMEs, CRED Report indicates that the SMEs in the sector have secured market for their products, producing high quality products, increased their production yield and productivity, enhanced their managerial skills and expanded their businesses (ibid).

This study seeks to examine the extent to which the creation of meso-institutions has contributed to the transformation of SMEs in the oil palm processing sector in AEED.

1.2 Justification

‘The importance of small enterprise economy and business development to economic and social development in Africa is almost undisputed’ (Rogerson, 2001:115). ‘There is a shift from promoting big companies to emphasizing small and medium enterprises’ (Knorringa and Meyer-Stamer, 2008:18). This has created both an opportunity and necessity for regional and local governments to champion LED (ibid). There is abundant evidence of increased sharing of LED experiences and practices across regions, cities and localities. Helmsing (2000:293) emphasizes that ‘few studies on localised learning and innovations in lower and middle income countries have been done’.

The study contributes specifically to theoretical knowledge on LED in Ghana, adds new theoretical knowledge to the local and regional development programme and contributes to policy development on small enterprise development and finally the on-going debate on private sector development as a tool for economic growth and poverty reduction.

1.3 Research Objectives

In the light of the above, the study seeks to achieve the following objectives: Identify the actors involved in the creation of meso-institutions and describe their role in the process in the AEED; Identify and describe the activities of meso-institutions for the transformation of the SMEs in the oil palm processing sector; Examine the extent to which the activities of meso-institutions have contributed to the transformation of SMEs in oil palm processing

sector; Examine the contextual factors that influenced the creation of the meso- institutions and give a reflection on LED theory.

1.4 Research Questions

The study seeks to address the following questions: To what extent has the creation of meso-institutions transformed SMEs in the oil palm processing sector in AEED, who are the actors involved and what have been the outcomes?

1. What were the roles of the various actors in the creation of meso-institutions?
2. What activities are performed by meso-institutions in the transformation of the SMEs in the oil palm processing sector in AEED?
3. In which ways have the activities of meso-institutions contributed to transformation of SMEs in the palm oil sector?
4. How have contextual factors influenced the creation of meso-institutions?

1.5 Research Methodology

In order to answer the research questions above, the research undertook both desk and field studies. The fieldwork was conducted in the month of July 2008, covering a period of one month. The AEE District was purposefully selected as case for the study for the following reasons; firstly, it was one of the two districts in the Central Region to pilot LED initially. Secondly, the impact assessment report of the ILO indicates that there was considerably transformation of the SMEs due to the success of the programme in the district (ILO, 2007). Finally, its economy is dominated by oil palm processing which has been the main export base.

In the field, an in-depth individual interviews and discussions were used to collect information from the District Chief Executive (DCE), the SPGE Focal Person and Chairman, the ILO National Co-ordinator, CRED Executive Directive and the President of the Association of Oil Palm Producers(Refer to Annexe for details). Finally, the study interviewed some processors, oil palm farmers and local soap makers. The choice of this sampling method was important because it helped the researcher to handpicked key respondents who were deemed fit to provide relevant information for the study.

Besides, direct observations were made during visits to oil palm factories to have first hand information about the operations of the processors in the district and pictures were taken on their operations.

On secondary data, the research reviewed project reports, policy documents and working papers. The following documents were consulted during the research: SPGE Action Plan, ILO Impact Assessment Report, District Medium-Term Development Plan, ILO LESD Operational Guide on Ghana, ILO terminal reports, Growth and Poverty Reduction Strategy (GPRS) 1&11, Local Government Act, CRED BDS report and Policy Document on PSI on Oil Palm. Relevant books, journals and articles were consulted.

1.6 Structure of the Paper

The research consists of seven chapters. Chapter one gives a systematic sum-up of 'results' or impacts and raises research questions. Chapter two discusses theory and other related concepts. It also provides the framework for theorising and analysing the oil palm development. Chapter three examines contextual factors that influenced the change process in the AEE district. Chapter four discusses and analyses the state of the oil palm chain in the district before the intervention. Chapter five presents the main actors and institutions in the process, Chapter six outlines the main results and their explanations and the last chapter gives a reflection of the theories and draws conclusions.

Chapter 2

Theoretical framework

2.1 Introduction

This chapter reviews literature on key theories and concepts of LED which form the basis for analysing and assessing the endogenous initiative undertaken by AEE District Assembly in upgrading the oil palm processing sector. It also focuses on enterprise development issues and challenges of building the competitiveness of SMEs.

2.2 Local Economic Development

Blakely (1989:58) contends that the central feature of locally-based development is its emphasis on ‘endogenous development policies using the potential of human, institutional and physical resources’. Helmsing (2003:69) postulates that for localities to achieve LED objective of creating new jobs and stimulating the local economy for economic development, it must ‘mobilise actors, organisations and resources, develop new institutions and local systems through dialogue and strategic actions’. This development, according to Helmsing (2001:7) has brought about substantial re-alignment of relationships and interactions between state and society, which have manifested itself in a wave of decentralisation reforms.

To Awortwi (2003:84) the political enablement of central governments creates the accommodative space for local governments and non-state actors to promote local development. In the case, the local government legislation gave the opportunity to the district assembly to engage stakeholders to participate in local development. To Helmsing (2001:4) this contributes to creating favourable conditions for local and regional development. Knorringa and Meyer-Stamer (2008:26) assert that LED can make some difference. To them, ‘LED can turn a given location into a place where it is easier to do business (ibid). In the case, the sector and territorial institutions facilitated business support services to SMEs which contributed in enhancing their capabilities (CRED, 2006).

Helmsing (2003:69) has categorised LED into three main approaches. These approaches are community economic development (CED), enterprise development and locality development. To him, CED facilitates household diversification of economic activity as a principal means to improve livelihood, reduce poverty and vulnerability’. By his definition, enterprise development consists of initiatives that directly target and involve (cluster(s)

enterprises. Lastly, he refers to locality development as the overall planning and management of economic and physical development of an area (ibid).

In contrast, Knorrington and Meyer-Stamer (2008:22) argue that the currently dominating 'planning approaches to LED are intrinsically limited in their potential to make a significant impact' on local development. They explained that the impact is rather 'thin' and that the planning approach is not informed by the reality of business especially SMEs' (ibid).

To Helmsing (2003:68) LED is being influenced by the wave of forces of globalisation, liberalisation and structural adjustment programmes. 'Globalisation has exemplified the growing mobility of firms, capital and people. This mobility has increased competition and created the impetus for territories to compete with one another to attract inward resources in order to create local employment and income. Dickens (1998) puts it 'new geo-economy' has created a new set of opportunities for cluster of SMEs to adopt a new set of technology and innovations to seize market opportunities arising from globalisation (ibid).

According to Helmsing (2003:74), it is out of this that 'localities and regions are pushed to take responsibility for their own development'. To Nel et al. (2001:355) local governments and communities are better positioned to devise local innovative strategies to 'encourage economic growth and employment generation'. Many authors contend that localities know their problems and have better solutions than any external actors have.

2.3 Markets and Economic Co-ordination

Dorward et al. (2005:3) assert that 'low levels of economic activity can themselves lead to thin markets, inadequate co-ordination, high transaction costs and risks and high unit costs for infrastructural development'. In an attempt to trace the causes of the low levels of economic activity, various schools of thought have identified three structural factors responsible for the poor performance of local firms to generate the much desired economic prosperity for employment generation and economic growth. These structural constraints are attributed to weak and/or absence of meso-level institutions, micro-level strategies and poor regulatory environment (Dorward et al., 2005; Helmsing, 2003; Porter, 1990 and UNDP, 2004). Bartlett and Bukvic (2001:180) argue that these 'set of barriers hinder the growth of SMEs which have the greatest capacity to generate jobs and introduce innovations and new technologies'. To them, the barriers are both internal and external to the firm. In their research, they distinguished between the various factors responsible for the slow growth of SMEs which include 'weak legislative framework, position of firms in the market, availability

and cost of capital and finance, low managerial capacity and lack of support from local actors and agencies'(ibid.).

Dorward et al. (2005:4) maintain that right institution environment implies formal institutional arrangement to improve communication, property rights, good macro environment and access to information to support competitive markets. Albu and Griffith (2005:12) contend that the institutional environment is beyond the immediate direct control of economic actors and those have both transformative and transaction cost effects on the growth of SMEs. Helmsing (2003:67) argues that neoliberal agenda has resulted in the implementation of adjustment programmes in poor countries with the objective of creating enabling business environment for economic growth and poverty reduction. He further explains that the neoliberal policy has called for the re-definition of the role of the state, which, among other things, includes policy development, capacity building and improving regulatory environment. To him the much publicized neo-liberal policies have failed to provide the right institutional environment to attract private sector investment to stimulate economic growth for employment creation and poverty reduction (ibid). For example, Ghana's adoption of adjustment reforms has failed to achieve the desired goal. According to many authors the failures has to do with high cost of finance, corruption, lack of business support services and funding for research and development. To Dorward et al. (2005) the failures outlined above have resulted in market co-ordination problems. Consequently, transaction cost has become very high, thereby affecting the expansion and attraction of new enterprises.

To Dorward et al. (2005:8) the failure of neo-classical policy to address critical constraints to development of SMEs have called for the adoption of 'non-market institutional arrangement'. They explained that this institutional arrangement operates more effectively and efficiently in addressing market failures and co-ordination problems. Helmsing (2003) argues that institutional creation assists to harness local resources and actors to overcome market failures and co-ordination problems. Dorward et al. (2005:6) contend that 'economic development entails the emergence of appropriate transaction-enabling and cost-reducing institutional arrangements as well as improvement in the institutional environment'. Helmsing (2003:67) maintains that 'economic institutions help to reduce the cost of doing business. He defines institutions as 'practices and norms and standards that is specific to products and industries'. He further explains that institutions regulate, spread information, reduce risks and in general contribute to lower transaction cost (ibid). North (1994:360) also defines institutions as 'rule of the game'. Many authors have

explained that there are various kinds of institutions. To North, institutions could be public and private (ibid). Doward et al. (2005) cautioned that ‘the effectiveness of institutional arrangements also depends upon their demands on their institutional environment and must be appropriate to their environment’.

Bartlett and Bukvic (2001:183) assert that small firms need an institutional support network to overcome some of the barriers to growth. They cited local enterprise agencies and sector-based associations as some of the ideal meso-institutions that can provide support to new and growing enterprises in the form of ‘real services’. They argue that a public-private partnership is the best approach to overcome market failures and coordination problems (ibid). Helmsing (2001:9) contends that public-private partnership can only work if there is institutional and legal framework which creates the enabling space for non-state actors to participate in local development. The argument raised by Bartlett and Bukvic is very critical in that exclusively initiated activities of either the state or the market with the objective to building the competitiveness of SMEs have failed to achieve the desired objective. For example, in Ajumako, the district assembly exclusively set up a Productivity Improvement and Income Generation Fund to assist SMEs to overcome the challenge of limited access to credit (DPCU, 2006). The non-participation of stakeholders including the SMEs in the design and implementation of the Fund accounted for the failure of the Assembly to respond and effectively address the credit needs of the SMEs. The Fund was finally misapplied and its objective of providing credit to SMEs was defeated (ibid). Meyer-Stamer (2003:5) maintains that LED is ‘about creating favourable conditions for business and alleviating local market failure’ and also based on strong local networking and trust among local stakeholders’.

2.4 Upgrading

World Bank Report on LED (2002:5) argues that globalisation increases both economic and political competition for investment. It further indicates that it offers opportunities to local businesses to develop new markets (ibid). Schmitz (2004:209) acknowledges that micro and small enterprises are facing ‘challenges arising from the increasing globalisation of product markets’. He explains that for micro, small and medium enterprises to participate and gain from globalisation, it must ‘reposition itself’ in the local economy (ibid).

According to Knorringa and Schmitz (2000:1), ‘upgrading means enhancing the relative competitive position of a firm’. To Meyer-Stamer, (2003:328) upgrading implies producing better products and producing them in more efficient way. Knorringa and Schmitz (2000:1)

argue that upgrading can be achieved in different areas. Firms can upgrade their processes (doing things better) or products (making better things), or they can aim to move into higher value-added stages in the chain like design or marketing. They affirm that the various types of upgrading build the competitiveness of producers (ibid). To Schmitz (2004:209) upgrading can be incremental and radical. He explains that efforts in radical upgrading are different from routine production. He holds the view that radical upgrading requires new knowledge and this can be attracted through 'the use of cluster dynamism or value-chain ties'. To him upgrading requires substantial resources and involves trade-offs between the search for new knowledge and effective exploitation of existing knowledge. He further argues that this comes as a result of 'joint action amongst private actors and between public agencies and private enterprises and organisations' (ibid). To Meyer-Stamer (2003), the issue of private interest governance, collective action and location policies reinforce upgrading.

2.5 Meso-Institutions

According to Helmsing (2001:5) 'one of the key features of third generation regional development policy is the central role of meso-institutions'. These are institutions at the sector, region or district level. He argues that these institutions come 'partly in the wake of strategic conceptions of competitiveness'. He explains that 'competitiveness of a firm does not only depend on its efforts to continuously improve methods, processes and products but also depends on its suppliers and on the local business environment in which it operates'. To Helmsing (2001:6) 'institutional and infrastructural endowments of the local business environment are created over time through inter-firm cooperation and through public policy'. He explains that the economic meso-institutions are centred on supporting enterprise development through BDS (ibid). Schmitz (2004) indicate that meso-level institutional support such as BDS can help SMEs to overcome their constraints.

2.6 Clusters and Collective Efficiency

According to Schmitz (1990) 'cluster is a group of producers who are engaged in making the same or similar things in close proximity to each other'. To Rogerson (2001:122), this definition has two types of concentration; namely spatial and sectoral cluster. Clusters can range from micro, small, medium and large-scale enterprises. Clustering enables firms especially micro and small enterprises to grow and upgrade more easily (ibid). For instance, clusters of SMEs create positive externalities which help to build competitiveness through collective action, common market and pooling of resources (Meyer-Stamer et al., 1990). To

Schmitz (2004) clusters have become attractive to policy makers because of the opportunities for collective efficiency. To Meyer-Stamer et al. (1999:1694) clustering creates joint action and backward and forward linkages which are essential for creating locational advantages and innovative milieu.

Schmitz (2004:313) indicates that ‘clustering can facilitate innovation and adoption of new ideas and promote localised technical upgrading’. He further argues that collective efficiency can potentially accelerate compliance of product quality standard and quality control for the SMEs. Product certification and labels promote the reputation of firms (ibid). Another benefit of collective efficiency is joint action (Meyer-Stamer, 2004). This joint action includes ‘cooperation between firms as well as local private and public institutions such as trade associations, technology centres and local government institutions’ (Schmitz, 2004). Many authors argue that such bodies and arrangement play an important role in the dissemination of information and diffusion of technology. In the case, the small business associations apply their bye-laws to improve the quality of palm oil. Schmitz (2004:314) maintains that ‘they provide managerial and technical services to smaller local producers who lack such resources.

2.7 Value Chain, Innovation, and Learning

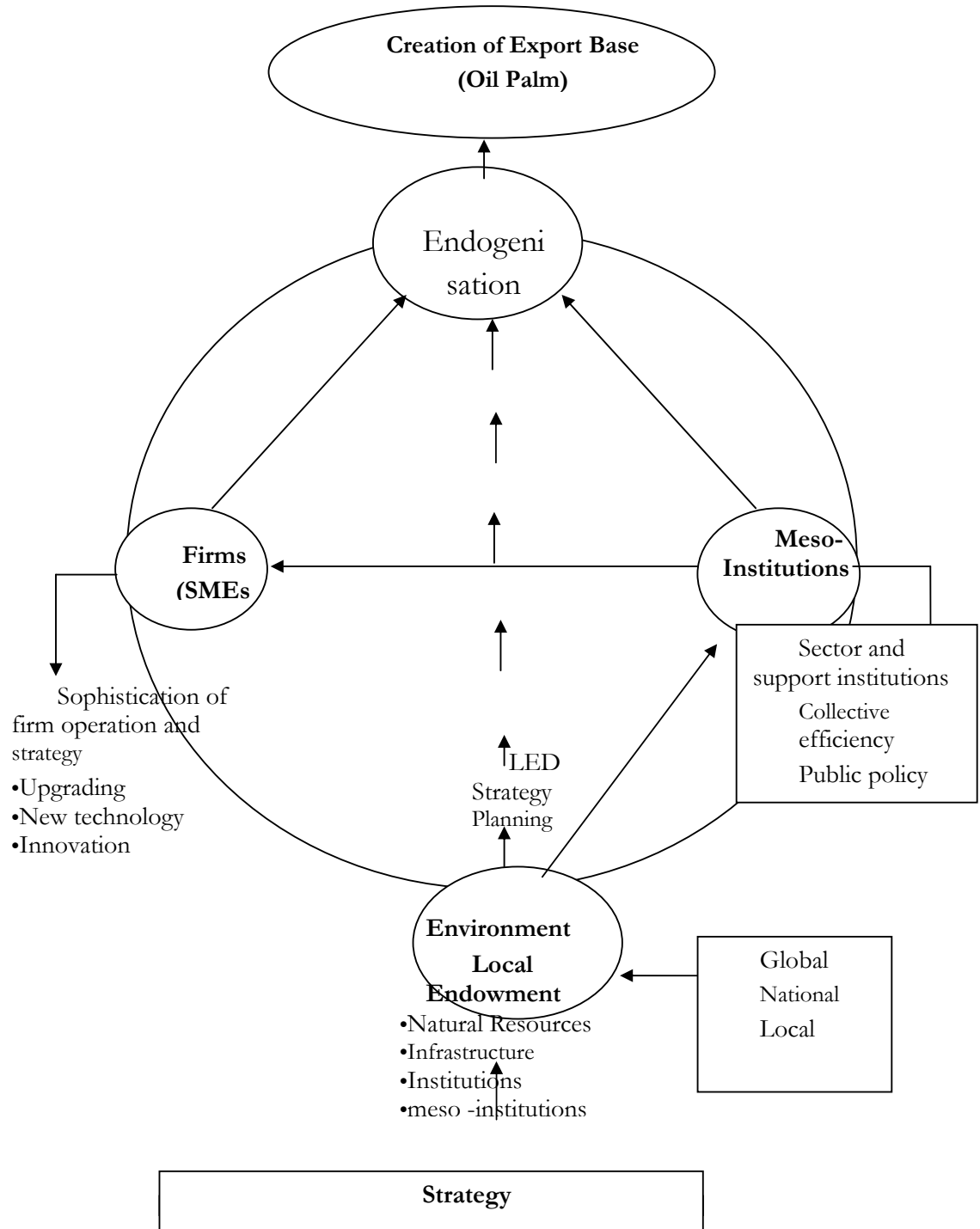
Meyer-Stamer (2003:17) observes that the integration of local firms into the national and international market is through the value chain. To Schmitz (2004) value chain is the ‘sequence of activities required to make a product or provide a service from design to the final consumer’. Knorringa and Meyer-Stamer (2008:29) argue that value chain interventions help producers in better identifying their core competence or niche and position themselves to build alliance and networks. In positioning themselves for the benefits of value chain, local firms ‘increase their competencies in terms of production, quality, technology, human resources and management to manufacture products of acceptable quality at competitive prices with the hope to attract recognition from global buyers’ (ibid).

To Helmsing (2003) collective efficiency through cooperation and joint action contributes to learning and innovations among local firms. Knorringa and Schmitz (2000) note that the exchange of information between buyers and local firms enhances transfer of knowledge and technology. Helmsing (2001:11) prescribes that for local firms to attain competitiveness, they must build competencies through learning and innovation. He indicates that learning takes place at the level of the firm and at the level of the locality or region. Learning and innovations are achieved through joint action and cooperation (ibid).

Many authors have noted that achieving innovation and learning is difficult among SMEs since most of them lack the capacity and competencies to generate ideas. Helmsing (2001:9) contends that effective private governance and provision of BDS can make a significant impact on abilities of firms to upgrade.

Knorringa and Meyer-Stamer (2008:34) assert that ‘for more peripheral localities, with lots of low-potential SMEs but without local champion firms with export potential, entry into (attractive) global value chain is likely to remain a remote option’. In contrast, evidence from Ajumako indicates that though there were no champions firms in the district, local firms were able to have access to the market through the support of meso-institutions.

2.8 Analytical Framework



Source: Adopted and modified from Rodriguez-Pose (2001)

Below is the explanation of the above diagram for the transformation of SMEs in the oil palm sector. The creation of meso-institutions and utilisation of local endowments have improved the functional capabilities of SMEs leading to their transformation in the district.

Local Endowments

The local endowment factors can be divided into two. Porter (1990) referred to these factors as 'basic and advance factors'. He defines the 'basic factors' to include natural resources, location, unskilled and semi-skilled labour. Secondly, by definition 'advance factors' include infrastructure, highly educated personnel and specialised institutions (ibid). In furtherance, Rodriguez-Pose (2001) gave three interpretations which include 'hardware, software and orgware'. He defines hardware as infrastructure, which includes road, water, power, transport and communication network and industrial space. Software includes improvement of the competitiveness of local firms, attraction of inward investment, upgrading of labour skills and institutions. Orgware refers to improvement of the organisational and institutional capacity to design, implement and monitor the whole strategy. It also includes creation and strengthening of institutions to govern relationship and partnership. It also facilitates vertical and horizontal co-ordination of different levels of actors.

The Environment

In the researcher's view, the environmental factors, which are both internal and external, enhance and can improve the competitive advantage of SMEs. They can enable entrepreneurs to craft strategies to innovate, upgrade and build networks geared towards improving their competitiveness to ensure the success of their business.

Meso-Institutions

These are territorial and sector-based institutions created to assist local producers to overcome their managerial and technical constraints and that of regulatory environment. Territorial-based meso-institution is created through public-private partnership arrangement under regulatory framework and funded by public resource. They have mandate to serve as the 'mouthpiece' of business associations and SMEs and provides business support services to local producers through their associations (ILO, 2007:28).

On other hand, sector-based associations made up of local producers are formed and strengthened with support from the territorial-based institution. They are interest-based associations and employ private interest governance to regulate membership and deliver services. These institutions complement each other and plays direct and indirect role to assist SMEs learn, innovate, upgrade and ensure collective efficiency. Activities of these institutions include facilitation and provision of BDS, financial services, market linkages, technology improvement, partnership building and networking and co-ordination.

Firms (SMEs)

The SMEs engage in process, market and functional activities to upgrade and transform. These process and functional factors enhance the competitiveness of the firms. They include knowledge and technology exchange, innovation, quality control, management, and technical skill upgrading, branding and joint marketing. The territorial and sector-based institutions reinforce the internal strategies of SMEs and influence the improvement of business environment.

Endogenisation

Endogenisation means ‘expanding the base of local producers, creating conditions for production and market upgrading, diversification and creation of mass and agglomeration advantages’ (Helmsing, 2008:12). Whereas endogenous development is an ‘initiative that encourages local actors within defined sub-national territories to get together to analyse their economies, identify what needs to be done, mobilise local and external resources and take joint actions aimed at stimulating economic growth, increasing number of jobs, increasing incomes and taxes and, by these means, reducing poverty and exclusion’(Hindson, 2007:1). This means facilitating area level interaction between local government, local producers and knowledge centres (Helmsing, 2008:14). It also means strengthening local firms to improve knowledge and skills to become competitive. In endogenisation process, local actors are the initiators, drivers and champions but are supported by external agents with resources and technical know-how (ibid)

Chapter 3

Context

3.1 Introduction

This chapter analyzes key contextual factors such as the socio-economic characteristics of the district, the Decentralisation Policy, the Growth and Poverty Reduction Strategy 1&11, the Presidential Special Initiative on Oil Palm (PSI) and Market opportunities for Palm Oil that influenced the change process in AEED. These key contextual factors helped create a suitable environment for the creation of meso-institutions leading to the change process in the district.

3.2 The Socio-Economic Characteristics of the District

The AEE District is located in the north-eastern part of the Central Region of Ghana (DPCU, 2006). It has a population of 91,965 with a growth rate of 2.5%, which is lower than that of the national and regional population growth rates. This demographic success was attributed to planning and high incidence of migration to urban centres. The district abounds in natural resources particularly forest and water resources, minerals and fertile land used to produce cash and food crops. However, technical and financial constraints have hindered the efforts of the DA to fully harness these resources for local development. ‘The district has the climatic conditions for the development of a viable oil palm industry’ (PSI, 2004:3). The district has relatively good transportation system and road networks, which facilitate movement of goods and services (DPCU, 2006). It also has a relatively reliable source of power and good drinking water. Agriculture is the mainstay of the district economy and about 80% of the total population depends directly or indirectly on it. However, farming is largely carried out on a small-scale basis. The oil palm extraction is the most viable agro-processing activity, which constitutes the export base of the district (ibid). A survey conducted by the district assembly revealed that there were about 500 oil palm processors and 3,200 farmers engaged in oil palm cultivation and processing in the district (AEEDA Survey report, 2004 and PSI, 2005)

3.3 Changes in Public Policy

Ghana's return to constitutional and democratic rule in 1992 has witnessed a lot of policy changes aimed at improving the regulatory environment for business development (Ghartey, 2004:304). Among these policies were the GPRS 1& 11 and the Private Sector Development Strategy. These policies have generally contributed to good governance and improvement in the business environment. To Ghartey (2007) 'the improvements in the business environment and strong economic fundamentals have encouraged the private sector respond positively to the opportunities in the economy'. For example, the government was to provide support for the private sector through reduced bureaucracy (ILO, 2006:4). It also highlights the need to improve the regulatory environment and empower people with demand-driven technical skills and entrepreneurial training for self-employment and small enterprises to increase competitiveness (GPRS, 2003).

The policies further provide incentives to local governments to develop productive infrastructure and connect the private sector to business support services (ibid) However, development planning remains rather centralized and local government has little capacity and means to respond to these new responsibilities (ILO, 2006:6).

3.4 The Decentralisation Policy

Local governments in Ghana have been very weak until the introduction of decentralisation reforms in 1988(Ayee, 1997). This situation confirms Helmsing's assertion that ' many LGs lack technically competent staff, in important areas such as finance, physical planning and LED and that CGs in most countries do not provide systematic active support'(2005:18). The strength of Ghana's decentralisation policy stems from its clear institutional and implementation framework as defined in the 1992 Constitution and the Local Government Act (Ayee, 1997)). Since the introduction of the Decentralisation Reforms, 167 Metropolitan, Municipal, and District Assemblies (MMDAs) have been created to promote local development. Through this reform, responsibilities, resources, powers, and functions have been conferred on District Assemblies to improve the business environment for local development. It has also offered opportunities to DAs to involve the private sector and the civil society in decision-making and development planning. It has been ascertained that the Central Government has set up a Development Fund for district assemblies to implement their budget and development plans (ibid).

However, district assemblies lack human and financial resources to initiate and support implementation of LED strategies (Helmsing, 2005).

3.5 Presidential Initiatives on Oil Palm (PSI).

Over the past twenty years, Ghana's economic performance has been inconsistent with slow rates, averaging 4.6 % generally (PSI, 2004). The main reason has been Ghana's over reliance on two key commodity exports (cocoa and gold) and aid /grants from the donor community to fund investment and growth. It has been ascertained that the main challenge facing Ghana, therefore, is how to find new pillars of growth. An official of PSI disclosed that it was against this backdrop that the President in 2002 created the Presidential Initiative on Oil Palm. An action following the South African Presidential Initiatives to develop the oil palm sector. Data collected from PSI revealed that oil palm has been selected to be the new driver of Ghana's local economic development because of its potential to create many businesses in agriculture, industry, and services. This initiative encouraged public-private partnership to attract investments to the sector. It was found that DAs were facilitating access to land, improve roads to farming communities, supplied improved seedlings to the farmers, and provided extension services to the farmers.

It has been revealed that a three-prong strategy has been developed to engender the development and promotion of oil palm sector. These include establishment of oil palm nurseries, development of oil palm plantations and setting up of oil palm processing mills for value addition. The programme had also induced the formation of farmer-based organisations to champion the initiative in the district (ibid).

3.6 Market Opportunities for Palm oil

The increase in oil prices and the quest to diversify to bio fuel have witnessed a significant increase in the local and international demand for palm oil for both domestic consumption and industrial use (TOPP, 2008). Besides, increase in the consumption of secondary goods and liberalisation have increased the demand for palm oil both locally and globally (PSI, 2004).

In Ghana, oil palm processing is dominated by three large processing plants and a number of medium and small operators (ibid). The large plants were Ghana Oil Palm Development Company (GOPDC), Twifo Oil Palm Plantations Limited (TOPP) and Benso

Oil Palm Plantations Limited. Unilever Ghana and PZ Ltd were main consumers of industrial palm oil (ibid).

The demand and supply for palm oil in Ghana has been studied by the World Bank, FAO, Unilever and others. All these studies stressed the unreliability of available data. There exists in Ghana, West Africa and the rest of Africa and EU a huge market for palm oil and value added palm-oil based products (PSI, 2004). According to a research conducted by the PSI on Oil Palm in Ghana in 2004, there was a market supply gap of 240,000 metric tones of crude palm oil for industrial use. Ghana currently produces a little below 100,000 metric tones. Besides, in the rest of West Africa; there was a market for approximately 1.8m metric tones of palm oil. The region currently produces 800,000metric tones of palm oil (ibid).

The USA-based African Growth and Opportunity Act (AGOA) is another broad market avenue (Ghartey, 2004). Under AGOA, palm oil and palm nut can be exported to the US market without duty (PSI, 2004). Table 3.1 indicates the demand for oil palm

Table 3.1 Demand for Palm Oil Related Products and Required Palm Oil Products.

Product	Demand for Palm Oil Related Products		Palm Oil Requirements	
	Ghana (M/T)	West Africa (M/T)	Ghana(M/T)	West Africa (M/T)
Laundry Soaps	90,000	620,000	54,000	373,000
Personal Wash	12,000	84,000	8,5000	58,0000
Fat and Margarine	21,000	170,000	17,000	134,000
Refined cooking oil	32,000	330,000	53,000	550,000
Edible Palm Oil	106,000	730,000	106,000	730,000
Total	2,610,000	1,934,000	240,000	1,800,000

Source: PSI Oil, 2004

In sum, key contextual factors such as market opportunities, enabling space of policy policy and local endowments played an important role in facilitating the institutional arrangement and the change process in the district.

Chapter 4

State of the Oil Palm Chain in the District before the Intervention

4.1 Introduction

This chapter discusses the situation of oil palm production and processing in Ajumako-Enyan-Essiam District before the ILO development intervention in the sector and outlines the key challenges that confronted the operators in the industry and its implications on their competitiveness. It further highlights the process, key strategies adopted and instruments used to upgrading the sector.

4.2.1 Oil Palm Production and Processing Technology

According to FAO (2002:6), the primary unit of production of oil palm industry is the farm where the oil palm tree is cultivated to produce the fruits. Data collected from DADU revealed that the district has about 841.3 hectares of land under oil palm cultivation and produces about 2,691 tones of fruit bunches (DPCU, 2006). The oil palm farm units in the district were of different sizes and were classified as micro and small. It explained that a small-scale farm ranges 7.5 hectares while the micro farm is very small and substance. It has also been revealed that there were wild groves of oil palm and that some farmers used these low seedlings of this oil palm for planting which affect processors' output (ibid). According to FAO (2002:6) hybrid varieties of oil palm were 'Pisifera' and 'Tenera' which were much better for industrial and economic purpose because of its high yield. However, it was found out that the farmers had not embraced the 'Tenera' because the seedlings for planting were very expensive (CRED, 2005). It was also found that lack of extension services to farmers had failed to position the 'Tenera' as high yielding industrial oil, a situation which has motivated farmers to use low yielding oil palm seedlings for planting and this affected yields and quality of palm oil.

The study again learned that the processors in the oil palm processing were using traditional methods for oil palm and kernel extraction (ibid). To FAO (2002:25) the traditional manual methods were referred to as 'low technology' production. They used a manual spindle-press to pound the palm fruits to extract the palm oil (CRED, 2005 and FAO, 2002). The activities found in the production process includes steeping the pounded fruit mash in hot water, removing fibres and nuts in small baskets and hand squeezing and

filtering out residual fibre. For example, it was found that some processors soaked fruits in large wooden or concrete mortars with wooden pestle to extract the oil (ibid). One of the processors at Onwane remarked '*the traditional method of extracting the oil palm is tedious, laborious and slow and that affects our output and efficiency*'. *We work for longer hours under poor conditions and endured very low productivity*' (ibid). FAO (2002:34) has established that standing by the open fire during this operating period is not only a health hazard but also inefficient, as a lot of oil is left trapped in the mixture as an emulsion.

Studies conducted by CRED (2005:18) also revealed that the processors lack the appropriate technical knowledge and the know-how to produce good quality palm and kernel oil. Besides, infrastructural facilities such as shed, water, electricity, transport and good roads were inadequate and inaccessible. In addition, the cost of processing machines was also very expensive and beyond the reach of the processors. The study further revealed that the processors had the following challenges: poor preservation of fruits; less efficient production processes; poor product quality; use of outmoded technology; lack of proper workplace and use of low yielding fruits, a situation, which affected the competitiveness of the SMEs (ibid).

4.2.2 Market Access and Competition

In-depth interviews with the SMEs in the oil palm processing has shown that they lack/or had little information on the current market trends, product quality, pricing and sales. When asked whether they had certification and licensing from either Ghana Standard Board or Food and Drugs Board, their response was in the negative. Undoubtedly, this state of affairs had negatively affected their market opportunities. In the researcher's view, this development had not only created space for middlemen to exploit them but also thwarted their effort at expanding their businesses in order to compete favourably with other players in the industry. However, as portrayed above, middlemen are always not so, Helmsing (2008), in a study on the wool case in South Africa, revealed that middlemen also add value: not only intermediation itself but also selecting qualities in the product and applying quality standards.

Undoubtedly, the liberalisation of the Ghanaian economy and policy incentives of government attracting foreign direct investment (FDI) had brought in key players such as Unilever Ghana Ltd, BOPP Ltd and Ameen Shangri Ltd into the oil palm industry (CRED, 2005:24). This had not only injected a healthy competition into the industry but also created market opportunities for the farmers. One Oil palm farmer at Ochiso asserts '*now buyers of*

palm fruits always chase us to the farm gate just to purchase the fruits; we no longer carry the fruits to the market'. It has been discovered from interviewees that Unilever had provided incentives such as rice, loans, and cutlass to motivate and entice them to produce palm fruits for their purchase.

4.2.3 Access to Credit and BDS

A study conducted by CRED (2005:24) revealed that SMEs in the sector hardly saved and operated bank accounts, which could give them collaterals to borrow from banks and other micro finance institutions. As a way of getting over the problem of credit, they had resorted to moneylenders and family members to secure loans where interest rate could be as high as 120% per annum (ILO, 2007). These were small credits, which could not help them procure new machinery and inputs to enhance production. A source from the DA revealed also that all the processors had no business registration from the district assembly and Registrar General Department (DPCU, 2006). This, state of affair, prevented them from accessing loans in commercial and rural banks and even business support services (ibid). What often broke the camels back at the time was the delay in payments for goods purchased and this did cripple producers the more. *'The producers at times risked never seeing their money again, though not often, it did impede severely businesses to expand'* (An official from the DA).

It was found that both farmers and processors received no management and technical training from either the district assembly or BDS providers to enhance their skills and knowledge (CRED, 2005). Most of the processors only had informal education and had no knowledge of how to keep financial records or how to effectively manage their production and businesses (ibid).

4.2.4 Voice and Representation

From CRED (2005), the oil palm processors operate as individuals in their homes and in groups but do not share common equipment and knowledge. It was ascertained that existed weak groups operated as entrepreneurs associations but not as co-operatives. When questioned as to why they were not operating as co-operative, an executive member of one of the groups at Abasaa remarked *'we are entrepreneurs in for profit and that co-operatives breed laziness and conflict'*.

It was again learned that the associations lack capacity and effective leadership to deliver services to their members (ibid). In the words of one processors *'some business associations exist,*

but they only attend funerals and wedding ceremonies of members' (A processor at Essiam). This illustrates Meyer-Stamer's (2003:11) assertion that 'business associations in developing countries often are little more than clubs of businesspeople, with little in terms of professional capabilities and services for member companies'. It was found out that these associations were not represented in decision-making processes and had no power and capacity to negotiate their interests with the public sector (ILO, 2006).

4.3 The Process

This section outlines the planning process, key strategies and interventions adopted by the stakeholders to develop the oil palm sector as a pillar of growth for the local economy.

4.3.1 Strategic Planning and Analysis

The district assembly, together with local and external actors such as ILGS and ILO undertook territorial analysis to identify economic base of the district (Baffour, 2005). According to ILO (2006:10) this process became necessary in view of the high unemployment, low economic activities and poverty level in the district. It was again ascertained that the local stakeholders undertook this planning process to unearth the economic base of the district for local development (ibid). The analysis took the form of SWOT. It was discovered that the process enabled actors to identify key sectors such as oil palm processing, local soap manufacturing, garment and textiles and grasscutter rearing as export base of the local economy. The SWOT analysis critically examined all the strengths and weaknesses of the key sectors. Based on the outcomes of the process, oil palm processing was selected for development. Table 4.1 gives the details of the outcome. However, it was found that the other sectors such as garment and textiles and local soap making had marketing challenges as result of cheap imports from China and also lack the potential for income and employment generation (CRED, 2005).

Below is the outcome of the SWOT analysis on the oil palm processing industry

Table 4.1 SWOT Analysis of Oil Palm Processing Industry

STRENGTH S	WEAKNESS	OPPORTUNITIES ES	THREATS
<ul style="list-style-type: none"> • Availability of raw materials(<ul style="list-style-type: none"> • Outmoded technology 	<ul style="list-style-type: none"> • Favourable Government 	<ul style="list-style-type: none"> • Competition from Key oil palm

- | | | | |
|--|--|--|---|
| <ul style="list-style-type: none"> • palm fruits) • Availability of labour(skilled processors) • Availability of local and external markets for palm oil • Availability of local production technology • Availability of credit facilities from rural banks and micro finance institutions | <ul style="list-style-type: none"> • Seasonality of raw material base • Absence of a well established associations | <ul style="list-style-type: none"> • policy • Availability of both local and foreign market • Availability of donor and local support interventions | <ul style="list-style-type: none"> • players in the industry (i.e.TOPP, BOPP etc). • Competition with other refined products • Limited access to financial support and micro credit. |
|--|--|--|---|

Source: SPGE, 2004.

4.3.2 Sectoral Business Development Studies

The district assembly, with support from ILO, conducted a study to validate the viability of oil palm processing for employment and income generation (Baffour, 2007). The political and administrative leadership of the DA pushed the process. This was conducted along side with other sectors such as local soap manufacturing, textiles and garment and grasscutter rearing. The outcome of this study finally led to the selection of oil palm processing for upgrading. Other sectors such as soap making, textles, and garments, which lack potentials for employment and income generation, were not selected for upgrading (ibid). Table 4.2 gives details of the outcome of the study.

Table 4.2 Outcome of Study on Oil Palm Sector in AEED

1	Production	<ul style="list-style-type: none"> • Availability of Raw Materials • Established Production Technology • Availability of Skilled Labour • SMEs in oil palm processing operations cover the entire district
2	Marketing	<ul style="list-style-type: none"> • There is demand for the products in Ghana and abroad • Established distribution networks
3	Management and Organization	<ul style="list-style-type: none"> • There are identified weak processing groups and individuals

4	Economic and Social Benefit	<ul style="list-style-type: none"> • High level of employment creation • Have Income generation potential • Can improve standard of living for producers and their dependents
5	Gender	Both men and women have equal access to resources for production

Source: CRED, 2005

4.3.3 Stakeholders forum and Implementation of Action Plan.

The district assembly, in collaboration with ILO, CRED, ILGS, FIT, EMPRETEC and entrepreneurs associations, organised a stakeholder’s forum to discuss the implementation strategies for upgrading oil palm processing (ILO, 2005). The event brought together all relevant organizations, institutions, groups and individuals working in the field of LED and business development. The outcome of the forum was the implementation action plan, which spelt out interventions and activities such as product certification and licensing, technical and management training, technology upgrading, access to credit and provision of infrastructure to make SMEs competitive (ibid).

4.3.4 Sector and Territorial-Based Institutional Development.

Vazquez-Barquero (2002:107) contends that ‘institutional development and change is one of the main processes in economic growth and structural transformation’. He further asserts that ‘institutions facilitate interactions among firms and actors and reduce risk and uncertainty in exchanges, thus contributing to a good performance of the economic system’ (ibid). It was found that stakeholders adopted institutional development as the principal driver for promotion of LED in the district (ILO, 2006). The institutions were sector and territorial-based (ibid). Why the creation of both sector and territorial-based institutions? From the perspective of new-institutionalist thought, ‘the governance of local development involves a process of co-operation and co-ordination integrating the strategies of public and private actors, their investment decisions and the exchanges they establish with each other’ (Vazquez-Barquero, 2002:101). Responses from interviews confirmed that the two set of institutions were to be created to promote both private and public interest governance. The DCE disclosed that the institutions to be established were the Small Business Associations of entrepreneurs (SBAs) and the Sub committee on Productive and Gainful Employment

(SPGE) of the district assembly. According to ILO (2006), sector institutions were important vehicles to reach out to the great number of the SMEs. Besides, these institutions could contribute to shaping policies and removing institutional barriers (ibid). However, it was found out that a greater number of the SMEs and the local actors lacked the capacity and capability to appreciate the benefits of this institutional arrangement (CRED, 2005).

4.3.5 Financial and Business Development Services

Vazquez-Barquero (2002:147) asserts ‘that a differentiating feature of the new development policy can be found in those initiatives that aim to stimulate the creation and development of the non-tangible and qualitative aspects of local development’. For him, examples of these initiatives are measures that influence factors such as start-up and development of firms and technological know-how and its diffusions for local development (ibid). It was again ascertained that the SMEs were to be provided with both financial and BDS services (CRED, 2006). These services were to be provided and financed by both local and external actors (ibid).

Chapter 5

Actors and Institutions

5.1 Introduction

This chapter describes the role of the various actors in the change process, examines their performance and brings out the challenges encountered. The various actors identified were the district assembly, ILO, ILGS, SIF, BDS providers, RCC and Ministry of Employment. Additionally, it presents the activities of meso-institutions, their strengths and weakness and instruments used to overcome its weakness and their effects on the change process.

5.2 ACTORS

Ajumako-Enyan-Essiam District Assembly

Meyer-Stamer (2003) contends that local governments have been in the centre stage in the promotion of LED initiatives. In South Africa, where the LGs were funded to do so, but also elsewhere 'in Sub-Sahara Africa, local governments have limited autonomy and limited actual responsibilities for service delivery' (Helmsing, 2005:20). The district assembly had mobilised resources (i.e. financial and human) to support the creation of SPGE (ILO, 2006). For example, it was found that budgetary allocation had been made from the Common Fund to assist SPGE implement its action plan. The DA provided the platform for the awareness creation among local stakeholders. Besides, the technical staff of the District Planning Coordinating Unit provided advice, information and referral (ibid). A similar study conducted by Hindson (2007:20) revealed that 'in terms of improvements in the regulatory environment, for example, local governments were best placed to take the lead, but needs the inputs of business to better deliver services'.

However, this research reveals that the assembly's budgetary allocation to the SPGE had kept on reducing (AEEDA Budget, 2008). When questioned as to why that development, the District Budget Analyst attributed the problem to delays in releasing the central government grant, reduction in the grant as result of deductions in Accra and competition from other donor projects for the assembly's Common Fund. In the researcher's view, this amounts to stabbing the back of the DA. Besides, it was found that between 2005-2006 six technical staff of the assembly were transferred with replacement of two staff (AEE Report,

2007). This undoubtedly had debilitating effect on the implementation of SPGE action plan. This confirms Helmsing (2005:20) assertion that 'LGs lack sovereignty as other actors can infringe on its functions without due process'. This raises questions about the role of LGs in driving LED initiatives.

ILO/Ghana Decent Work Country Programme (GDWCP).

The GDWCP is an initiative of the ILO, Social Partners (i.e. TUC and Ghana Employers Association) and the Government of Ghana (Baffour, 2007). The programme started in 2003. The programme aimed at reducing decent work deficits and promoting employment and income opportunities in the informal economy (ibid).

It came up that ILO played important leveraging role: politically, helping to marshal sufficient political support from government agencies; financially: resources were leveraged to get additional resources (i.e. SIF and SPEED); organizationally: galvanized and mobilized external actors such as GOG, RCC, ILGS and service providers to participate in the process (ILO, 2006). For example, ILO mobilized US\$ 30,000 as leverage fund; contracted consultants to develop SBA manuals; trained and strengthened the capacity of SBAs executives to deliver services to their members. Evidence from the study revealed that the interventions of ILO have enhanced the capacity of local actors to identify employment as a central objective to poverty reduction (ibid). This confirms Helmsing (2001:9) assertion that 'participation of external stakeholders in LED initiative may be critical especially when local institutions lack capacity and that external actors can play an important complementary and enabling roles.

However, the study revealed that ILO had no exit strategy and therefore actors were unaware of its exit in the district. It was found that ILO entrepreneurship training was 'one size fits all' intervention to the SMEs (Affadu, interview, 2008).

Institute of Local Government Studies

This is specialised training and research school set up by the Ministry of Local Government and Rural Development to train the staff of local governments (<http://www.ghanadistricts.com>). The institute has the legal mandate to provide training, disseminate information and research in the areas of LED and local governance (ibid). The institute provided inputs for the development of training manuals for the training of SPGE and also trained the local actors involved in the process (ILO, 2007). According to ILO

(2006:13), the training delivered by the institute dealt with general issues, such as strategic planning, programming, resource mobilization and advocacy. The result revealed that the training programmes had enhanced and built the capacity of the local actors to identify local development potentials and drew up action plan for its realisation. It also revealed that the advisory services offered had improved the governance structure of the SPGE (ibid).

Central Regional Co-ordinating Council (RCC)

The RCC is a regional government authority under the Ministry of Local Government and Rural Development (LG Act, 1993). The Council has the oversight responsibility of supervising the implementation of government policies and programmes in the districts. It carried out its duties by undertaking periodic monitoring and supervision of district assemblies (ibid). The RCC participated in the decision-making on the selection of the pilot districts in 2003 (ILO, 2007). It was ascertained that the RCC invoked the relevant provisions in the Local Government Act to provide the legal framework for the establishment of the SPGE. Besides, it was found that RCC had to be involved to enable the arrangements in the DA funds to create a specific budget for the operation of the SPGE (ILO, 2007). It also provided the platform at the regional level for the awareness creation. This confirms Helmsing's (2001:10) assertion that 'vertical co-operation with national agencies or higher government level played a central role in local development initiative'. However, the report revealed that the SPGE performance largely depends on the local district dynamic (ILO, 2007).

Ministry of Manpower, Youth and Employment (MMYE)

According to ILO (2007), the MMYE is the core partner in ILO's GDWCP. The Ministry was directly involved in the set up of SPGE but its main involvement was in the provision of guidance and political support and legal framework for the setting up of the SPGE (ibid).

However, the Ministry could not exert political influence on the central government to make budgetary allocation to support the process (ILO, 2006). Interviews with some experts suggested that the ministry lacks capacity especially staff and financial resources needed to carry out its assigned functions. This situation, however, compelled ILO to champion the process without active support from central government.

Weak Entrepreneurs Associations

Helmsing (2001:9) contends that 'local producers and their associations are key actors in enterprise and local business development'. There were five existing weak entrepreneurs associations in the district (CRED, 2005). These associations had no constitution, not registered with the assembly and also lack the capability to deliver services. The associations were made up of SMEs in the palm oil processing, garment and textile, handcraft and woodcarving and hairdressing. Arrangements are that these associations appoint representatives to serve on the SPGE and strengthen their organisations. They also participated in the awareness creation campaigns and mobilised their members to participate in the process. They assisted in the re-organisation of the entrepreneurs associations and mobilised them to participate in training programmes.

However, investigations have revealed that the low capacity of leadership and bad governance within these associations inhibited their ability to influence public policy and this undoubtedly obstructed the smooth process of the set up of the SPGE (ibid).

Social Investment Fund (SIF)

The SIF was established in 1998 through the concerted effort of the Government of Ghana (GOG), the African Development Bank (AfDB) and UNDP (<http://www.sif.org>). The project has the objective of providing targeted and sustainable assistance to Ghana's urban and rural impoverished communities. Since, its inception, it has provided and enhanced the access of the poor to financial services by increasing the availability of micro-finance to SMEs (ibid).

The SIF signed MOU with ILO to provide microfinance to entrepreneurs whose business plans had been endorsed by the SPGE and had received relevant training from the SPGE (ILO, 2007). This research revealed that although the MOU amounts to 500,000USD, in practice only \$50,000 was released to the entrepreneurs as micro credit (ibid).

However, other commonly cited impediments to the initiative were the use of group guarantee as collateral which excluded a greater number of the SMEs who were not members of the associations. This was confirmed by ILO impact assessment report which revealed that only entrepreneurs trained had access to the loan facilities (2007:40).

Business Development Service Providers

On BDS providers, both civil and private sector organisations such as EMPRECH, FITT Ghana and CRED were contracted to deliver services to SMEs, entrepreneurs associations and SPGE (Baffour, 2007). They developed guidelines and manuals for SPGE, SBAs and for training of SMEs. For example, it was found that CRED had facilitated SMEs access to equipment such as presser, digester and boiler to improve production. The participation of local service providers in the process was necessary because it guaranteed sustainability, as services were likely to be delivered by providers after the exit of ILO. More so, the participation of local service providers had built the BDS market (ibid). Interviewees from the associations confirmed that *after the exit of ILO, we had on our own contracted local service providers such as CRED to deliver BDS to our members*. This was confirmed by ILO impact assessment report which revealed that the involvement of civil and private sector organisations in the process had a clear impact on the delivery of services to beneficiaries in other programmes in the district (ILO, 2007). The executives, however, complained that services provided by the BDS providers were too expensive.

5.3 Institutions

This section describes the activities of meso-institutions, their strengths and weakness and their implications on the change process. It also looks at the synergistic effects between the two institutions. The institutions were SPGE and the Association of Oil Palm Producers in AEED.

5.3.1 Sub-Committee on Productive and Gainful Employment (SPGE)

The SPGE was created as one of the optional statutory Sub Committees under the District Assembly to operate under the Local Government Act, Act 462 (Baffour, 2007:24). This research further revealed that SPGE is embedded in the national legislative framework through the local government legislation. The SPGE had 15 Members including six (6) SBAs representatives, four (4) technocrats from the district assembly and five elected local councillors and representatives of civil society. The findings indicated that the SPGE is important within the public sector as it is not simply a public subcommittee but a hybrid: part public part private or even tripartite. The mission of the SPGE was to ensure a broad based dialogue on locally owned, integrated and comprehensive strategies towards the creation of decent work. Its objective was to propose and implement concrete interventions within the framework of LED to promote enterprise development. Besides, it also ensures

co-ordination between the stakeholders in local development as well as fostered strategic partnership between the public and private sector. It was discovered that the SPGE plays the role of interface between the public and private sector at the local level and provided the platform for co-ordination and consultation. It was found that the district assembly, ILO, central government, CRED, RCC and ILGS, supported the SPGE.

It was found that the SPGE had initiated activities and programmes such as registration of businesses, connecting groups of entrepreneurs to business support programmes and credit fund, provision of training to SMEs and SBAs, facilitation of access to market and technology upgrading (ibid).

Strengths and Weaknesses of SPGE and Its Coping Mechanisms

Endogenous development theory asserts that the complex interactions between organisations of productions, technology, institutions and city in the process of economic dynamics help to adapt institutions to make economic growth more efficient and also encourage local response to the challenges of increasing competition (Vazquez-Barquero, 2002:157). Experiences in local development policy also show that management and implementation of development initiatives is most effectively carried out through intermediary organisations whose executive boards include representatives from entrepreneurs associations, civil society and territorial public administration but their efficiency is conditioned by the institutional context where changes comes about gradually and slowly (ibid). It has been ascertained that the district assembly and ILO funded the SPGE (Baffour, 2007). For example, it was found that the SPGE received considerably stable budget for its operations (ILO, 2007:30). The yearly budgetary allocation to the SPGE was about 8,600USD. This was confirmed by ILO impact assessment report, which revealed that the SPGE meets very regularly, much more than any other of the district assembly sub-committees. Besides, the research revealed that ILO had provided 30,000 USD as leverage fund to source additional funding. The findings revealed that the financial support from DA and ILO enabled the SPGE to implement its action plan (ibid). However, reduction of budgetary allocation by the assembly to the committee had major constraints on the implementation of its activities (DPCU, 2006).

The SPGE enjoyed considerably support from the district assembly, ILO and CRED; politically: helping to marshal sufficient political support from central government agencies and organizationally: galvanized and mobilized external actors to participate in their

activities. It was found out that the enhanced capacity of the SPGE enabled it to secure additional resources from other donors to implement its activities (ibid). However, regular transfers of technical staff of the assembly constrained its ability to implement fully its activities because of capacity gaps (AEE Report, 2007).

Literature from new institutional theory suggested that ‘changes in the demand for services by firms and local productive systems require a change of direction on the part of intermediate organizations who are, no doubt, rushing to provide the new products and services (Vazquez-Barquero, 2002:147). In spite of its major weakness, the SPGE was able to offer support services to SMEs as mandated. It was also found out that the SPGE was able to cope notwithstanding its weakness. The factors that enabled it to cope were the political and administrative support from the DA, SPGE leadership commitment and commitment from local actors as result of tangible achievements of the committee and provision of consultancy services to generate revenue (ILO, 2007).

ACTIVITIES OF SPGE

The section describes the activities of the SPGE. The key activities identified were capacity building, provision and facilitation of micro credit, technology upgrading and product quality improvement, registration of businesses, market linkages and formation and strengthening of business associations.

Capacity Building

From literature, Vazquez-Barquero (2002: 149) asserts that ‘training policy plays a strategic role in the promotion of endogenous development because it attempts to respond to the needs arising from the rapid obsolescence human resources on one hand , and new demands of entrepreneurs and workers ,on the other’. The SPGE with financial and technical support from ILO and the district assembly was able to offer technical and management training to 50 executives of the ten (10) SBAs in the oil palm processing and 100 processors (Baffour, 2007). The training topics covered were processing methods, quality control and improvement, packaging and hygiene at work for the technical aspect while the managerial aspect includes marketing and customer care, bookkeeping, product pricing and entrepreneurship. In addition, the SPGE with CRED periodically organised guidance sessions to the SMEs on the best practice of quality standards and packaging (CRED, 2006).

ILO impact assessment report (2007:16) confirms that the ‘former participants of the training programmes clearly remember and appreciate the two aspect of the training: technical knowledge and skills and managerial knowledge and skills’. Field visit to the working locations of the processors also confirms that the processors were applying the knowledge and skill in the daily practice of their business. For example, it was found that the greater number of the processors keep records, were aware of market prices of their products and had bank account (ibid). Vazquez-Barquero (2002:149) confirms that the attitude of the local population with respect to development and the economy must be changed through animation actions.

However, it was found that inadequate funds had hindered the extension of the capacity building programmes to all the processors (CRED, 2006:6). This undoubtedly had excluded greater number of the processors in the process. Besides, the low education levels of processors had affected diffusion of new skills and knowledge, thus undermining their functional upgrading (ibid)

Technology Upgrading

Vazquez-Barquero (2002:149) contends that ‘initiatives oriented towards the diffusions of innovations and knowledge is always a part of the local development strategies’. It came up that the SPGE secured 50,000USD from SPEED Ghana to establish a Product Quality Development Clinic at Ajumako Ownane to upgrade the production technology of the processors (CRED, 2006:3). The Clinic had the state of modern machinery for oil palm and kernel oil extraction. The Clinic also served as a learning Centre for 300 processors through its weekly guidance sessions. It was also found that institutions such as CRED and Gratis Foundation had a service contract with SPGE to offer BDS and maintenance service to the clinic (ibid). This confirms Schmitz’s (1999:478) assertion that ‘specialised workshops which can repair and upgrade existing machinery further help to reduce technological discontinuities’. The findings revealed that the acquisition of processing equipment had improved the quality of the products and increase production yields (Baffour, 2007). In the words of a processor at Onwane ‘the *Clinic has helped us to acquire new knowledge and skills in oil palm processing and that the knowledge acquired has contributed to improving the quality of our product*

The following sets of machines which were procured by the SPGE for the processors.

Table 5.1 List of Processing Machines

Machinery	Capacity (KG FFB/HR)	Extraction Efficiency (%)	Detail function of Machine
Striper	1000	65	For removing the fruits from the bunches
Steamer	350	100	For steaming the palm fruits
Multi Purpose Digester with Hydraulic System Complete	1000	67-78	For digestion and extracting sap from steamed or boiled palm fruits.
Palm oil Press	50	77	To further squeeze sap from nut-fibre mixture
Clarifier	50	77	

Source: CRED and Gratis Foundation, 2005

However, a greater number of the SMEs were still using the traditional methods of production (CRED, 2006). Besides, transportation cost and distance also had prevented some of the processors from using the new technology. The SPGE also lack sufficient funds to provide additional clinics to cover all the ten groups. SMEs which are not members of the producer associations had no access to the processing machinery (ibid). Literature on local development policy confirms that the ‘main barriers to diffusion of innovation and knowledge are lack of firm funding to invest in new products and processes, lack of accessibility to strategic information, and lack of skilled human resources’(Vazquez-Barquero, 2002:181).

Market linkages

The study revealed that the SPGE periodically organised trade fairs to link SMEs up to companies, shops and distributors (Baffour, 2007). Additionally, the SPGE had signed a contract on behalf of the Oil Palm Processors Association with Oil African, an Italian firm to supply palm oil (Contract Paper, 2008). It had assisted the processors to package and label the palm oil with common brand called 'Adepa' (CRED, 2006). For example, it was found that Ghana Standard Board and Food and Drugs Board had temporary certified the palm oil produced by SMEs in the associations. The SPGE had also assisted the processors to advertise their products in the local radio stations and developed advertisement posters (ibid). However, it was found out that some of the SMEs could not have market for their products because of their inaccessibility to new production technology.

Business Registration

The SPGE conducted a survey to register 2,200 micro and small enterprises and 42 SBAs in the district (DPCU, 2006 and ILO, 2007). It was found that the database on the SMEs contain complete inventories of all SMEs and their respective associations (ibid). It was revealed that the registration assisted the district assembly to design and target interventions for the SMEs. Information from the study revealed that the database had assisted the assembly to roll-in the SMEs into its tax network (ibid).

Access to Micro Credit

It came up that seven out of the ten Business Associations in oil palm processing with membership of 175 processors had benefited from the SIF loan (CRED, 2006). For example, it was found that averagely, a processor was granted an amount of 200USD with the interest rate of 14.5%.

Besides, it was learned that the SPGE had assisted 25 SBAs to set up Co-operative Credit Union for SMEs in the district. The credit union was formed because of the inaccessibility of long-term capital for investment (ibid). Further enquiry also revealed that commercial banks were reluctant to lend and rural banks often lack the capital (ILO, 2006). The manager of the scheme disclosed that it had provided both short and long-term loans to 300 SMEs including some processors.

However, the loans disbursed by the credit union to members had not been paid back and staff attributed their inability to monitor to lack of means of transport and inadequate

staff and also weak capacity of the board members to formulate policies to make the scheme viable (Adjei, interviews, 2008).

Strengthening of Business Associations (BA)

It has been ascertained that the SPGE assisted SMEs to form and strengthen 25 entrepreneurs associations out of which 10 were from the oil palm sector (CRED, 2006). Besides, the associations were supported with capacity building to improve their governance structures to deliver services to their members (Baffour, 2007). In all, 250 executives had benefitted from association building and management training programme offered by the SPGE with financial and technical support from ILO and the district assembly (ibid). In the words of one of the executives of the SBAs in Ajumako, *'the training programme has sharpened our managerial and technical skills and we are equipped with new knowledge ever than before to provide leadership to the associations'*.

However, the SPGE could not extend the training to all members of the associations because of inadequate funds (ILO, 2006).

Enterprise Development Fund

An Enterprise Development Fund had been set up by the SPGE with financial and technical support from district assembly and ILO (Baffour, 2007). The Fund had a seed capital of \$30,000 as a leverage fund to attract additional resources (ibid). It was also discovered that the assembly had complemented the Fund with a budgetary support of \$ 35,000 from its share of the Common Fund (AEEDA Budget, 2006). Since 2005, the SPGE had used the Fund to match many donor projects. For example, \$3,000 was used to attract a funding of \$50,000 from SPEED Ghana to support the development of the Product Quality Clinic for oil palm processing. Besides, part of the Fund had also been used to offer training to SMEs, business associations and SPGE members, procure office equipment for the credit union and implemented its action plan to develop the private sector (ibid).

5.3.2 Association of Oil Palm Processors in AEED

Established in 2005 as an apex body for the ten business associations in the oil palm processing (CRED, 2006). The association had the mission of collectively articulating the interest of members by providing voice, services, and representation. The association so far had membership of 250 constituting 80% of oil palm processors in the district. Each of the

ten associations has an average membership of 25. The association had duly registered with the district assembly. The SPGE provided the platform and supported in the formation of the apex body (ibid).

Association's Strengths and Weaknesses and Its Coping Mechanisms

New local development theory asserts that LED is about creating favourable conditions for business (Meyer-Stamer, 2003:5). From the interviewees, the extensive capacity-building programme offered enabled the association to participate in fora and made their inputs. Besides, it was found that the enabling space provided by the district assembly and SPGE in terms of provision of BDS services and representation in DAs committees had facilitated their activities.

However, as was indicated by Meyer-Stamer (2003:5) 'business associations are hardly reliable, competent partners in LED initiatives: they have little to offer in terms of resources, and their representatives cannot rely on their members to comply with the commitments they agree upon'. A Field report confirms Meyer-Stamer's assertion. It was found that the association had no reliable source of finance as membership dues and fees were too small and even that payment was a problem. Besides, the low level of education among the leadership and members affected the quality of service delivery leading to low commitment of members and even some deciding not to join the association. As put by Helmsing (2005:22), 'Business associations (BA) thrive in an environment that is susceptible to their role'. It came up that the association relied on mechanisms such as constant contact and network with SPGE and DA to cope with their weakness (DPCU, 2006). The section below discusses the key activities of the association.

Training and Counselling Sessions

New-institutionalist theory asserts that BAs can play a more significant function in assisting local producers to ease their internal and external constraints (Nadvi, 1999:6). The association had requested the SPGE to provide technical and managerial training to the processors (CRED, 2006). The training topics covered includes book-keeping, quality control, safety at work place and leadership. Besides, they used the SBA Training Manuals donated by ILO to provide monthly guidance sessions for the associations. The 50 trainers of trainees from the SBAs had been trained as trainers to offer training to SMEs (ibid). However, field report revealed that non-payment of dues by members affected service delivery to members.

Participation in Public Fora

Nadvi (1999:5) contends that 'lobbying government has tended to be the most common activity undertaken by associations within developing countries'. He further explained that 'through lobbying activities, associations seek to defend the interest of their members, to influence the policy-making process to the benefit of their members by providing informed interventions at the various levels of government' (ibid). Investigations proved that the Executives of the Association attend District Development Planning and fee fixing resolution sessions to make their inputs and influence the policies of the assembly (DPCU, 2006). As result, a greater number of the enterprise development interventions in the District Medium-Term Development Plan were in the area of oil palm chain (ibid). However, low capacity of leadership of this association affected their negotiation and bargaining power (CRED, 2006).

Access to Credit

Baffour (2007) revealed that the association had facilitated SMEs access to micro credit. Investigations also proved that, apart from facilitating their members' access to credit facilities, they also undertake monitoring to ensure repayment of loans. The proactiveness of the association had lead to 95% of loans repayment of SIF loans for the palm oil groups as compared to other sectors who were still facing problems with the repayment.

Interview with the Credit Union Manager revealed that the apex body was instrumental in the establishment of the credit union for the SMEs.

Though the apex body had a representative on the Board of the Credit Union, it was discovered that only members of four (4) associations out of the ten (10) had picked up membership with the scheme.

Encourage Patronage of Product Quality Clinic

Most recent evidence from new competition theory indicates that 'associations are now engaged in the promotion of a wider range of standards raising activities to conform to international quality standards and to upgrade to meet such standards' (Nadvi, 1999:20). It has been found that the association encouraged their members to patronise the Product Quality Clinic to ensure good quality and high market price for their products (CRED, 2006). For example, it was found that it organised monthly working visits to the clinic for members. Visit to SMEs confirmed that the utilisation of the clinic services had enabled SMEs to improve the quality standard of their product.

However, it was found that greater number of SMEs could not patronised the Clinic because of distance and transportation problems as the association lack the financial resources to cover all groups (ibid).

5.3.3 Synergistic Effects

According to ILO (2007), there was a cordial relationship between the two institutions. There was improved co-operation and communication between the two institutions. It was found that the SPGE used the SBAs as vehicle to reach the SMEs whilst the SBAs also used the SPGE to reach the district assembly. ILO (2007:34) report confirms that the mutual co-operation between the two institutions improved their administration and management contributing to the reinforcement of their internal strategies. However, it was found that the weak governance structures of the SBA negatively affected the SPGE internal structures and strategies (Affadu, interview, 2008).

5.3.4 Non-Association SMEs

It came up from the interviews that SMEs who were not members of the SBAs were excluded from the change process (Affadu, interview, 2008). One of the SMEs at Ochiso reveals '*we are struggling to survive as we have no access to support and services*'. This confirms ILO impact assessment report (2007:29) which revealed that large parts of the SMEs were not yet targeted because they had not been organised.

Chapter 6

Results and their Explanation

6.1 Introduction

Knorringa and Meyer-Stamer (2008:26) contend that 'LED can make some difference and that it can turn a given location into a place where it is easier to do business'.

This chapter focuses on the concrete achievements of the meso-institutions which have led to the transformation of the SMEs in the oil palm processing sector in AEE District. It also outlines some of the key weaknesses and gaps that need further attention.

6.2 New jobs created

Evidence from the study revealed that the process has created employment for the processors in oil palm and kernel oil extraction, people in the community where the clinic is located and those in metal fabrication and community development work. This confirms ILO impact assessment report (2007:26) which revealed that '70% of SMEs interviewed indicated that they now employ workers, while they did not in 2003'. Officials of the District Assembly, CRED and ILO Impact Assessment report confirm that the initiative had created about 1,500 direct and indirect jobs within the oil palm value chain (ibid). However, this could not be substantiated since there was no proper baseline data on employment in the district. The SPGE Focal Person explained that those in the metal fabrication within the district have received contracts from the processors to build processing equipment. Besides, they have employed others. The Managing Director of Oil Africa also revealed that their company had created 56 jobs for people ranging from managers, machine operators, purchasing officers, security men and drivers to labourers living in the catchment area. However, this study revealed that the greater number of the people recruited by the company were casual workers and that they had not been registered with formal pension institutions.

The research ascertained that the initiative had not only created jobs for the processors but has put farmers into gainful employment. *We now have ready market for our fruits and this has improved our income status (a farmer at Ocbis).*

Evidence from the study revealed that those processors who were underemployed because of the use of traditional methods of production were now gainfully employed. *'The new oil palm machinery has made us productive and now we are gainfully employed. We now work throughout the week and that our sales levels have improved over the previous ones and now we have better prices from the markets'* (a processor at Onwane). It was disclosed that operators in the local soap making, retailers of palm oil and machine repairs had benefitted from the development of the oil palm sector in the district. Raw materials to manufacture soap and those in repair service did render services to the processors, which had kept them in employment. Visits to the processors confirmed that there were chain of retailers and middlemen engaged in the distribution and trading of palm and kernel oil.

However, empirical evidence from the study suggests that processors become unemployed during the lean season of the oil palm fruits. One of processors at Abassa remarked *'we become unemployed during the lean season because of the shortage of oil palm fruits and that makes us to eat into our working capital'*. In the researchers's view, this might be due to the growth of demand for palm oil and increased productivity of the processors which results in a faster processing of the harvest.

6.3 Secured market

Literature on value chain asserts that firms need to 'increase their competencies in terms of production, quality, technology, human resource and financial management to produce product of acceptable quality at competitive prices to attract global buyers' (Meyer-Stamer, 2003:17). Evidence from the study revealed that the introduction of new methods of production and technical training for SMEs had improved the quality of their products and that had boosted the skills and knowledge capabilities of processors to observe quality control. The researcher learned that palm oil produced by processors in SBAs had been given temporary certificate by Food and Drugs Board, which authorises them to sell to supermarkets and open markets. What was evident from the findings was that the SPGE and SBAs had signed contract with Oil Africa, an Italian company to procure the palm oil of the processors. This confirms Knorringa and Schmitz (2000) assertion that the exchange of information between buyers and local firms enhances transfer of knowledge and technology. In the words of one processor, *'the market arrangement has saved us from the middlemen who were buying the palm oil on credit and not paying'* (A processor at Onwane).

However, the exclusion of some SMEs because of their non-membership to the associations has affected their product quality leading to market problems. *We are not allowed to join SBAs because they think we will take away their market* (a processor at Ochiso). This confirms Helmsing's (2003) assertion that 'local producers were very often individualistic and therefore found it difficult to combine competition with co-operation.

6.4 Increased Production and Productivity

Schemitz (2004:209) asserts that 'upgrading requires substantial resources and involves trade-offs between the search for new knowledge'. By introducing new technology of processing and improving on the oil palm farm management, the processors have increased yield over 100% of the previous production, which was less than 10 % (Affadu, interview, 2008). Researcher's visits to their working sites had confirmed that the SMEs had over doubled their yield which was originally less than 10% and that they were currently producing at 19%. One of the SMEs at Onwane remarked *'now we are able to extract more palm oil from the same quantity of fruits used previously'*. This study also reveals that processors had improved their productivity. A processor asserts that: *'we used to spend one full week producing two tins of palm oil and even the two tins; we had had to struggle before we could get access to labour'*. This is a clear manifestation of underemployment, which hitherto, made it difficult for them to produce to meet market targets and even to feed themselves. In the words of one of the SMEs, *'low productions had affected our income and business expansion leading to poverty and low productivity. But now the application of new technology and machinery has significantly improved our productivity and production yields'* (a processor at Mando). *Now on average we are able to produce ten (10) tins of palm oil a week (ibid)*. This confirms Schmitz's (2004) assertion that 'meso-institutional support such as BDS and technology upgrading can help SMEs to overcome their constraints'. Evidence from the study suggests that they could have even produced more if they had not faced competition from TOPP and BOPP for the purchase of palm fruits.

However, evidence from the study reveals that some processors were excluded from applying the new method of production. Another gap identified during the study was the inaccessibility to the clinic because of distance and transportation. This confirms Bartlett and Bukvic (2001:183) assertion that 'small firms need an institutional support to overcome some of the barriers to growth'.

6.5 Production of High Quality Products

Knorringa and Schmitz (2000) contend that ‘exchange of information between buyers and local firms enhances transfer of knowledge and technology’. It was ascertained from the interviews that the adoption of new production technology had improved the quality of palm and kernel oil and that the products were free from impurities, fatty acids and low moisture content and had very good aroma. This undoubtedly had improved the market prices of the SMEs with the resultant increases in sales compared to those of their counterparts who were still using the traditional methods of production. *‘We now can boast of high quality products; thanks to the SPGE for their intervention’ (a processor at Onwane)*. This evidence confirms Owusu-Frimpong et al. (2007:64) studies on Ghana exports which reveal that ‘high product quality reduce buyer uncertainty by conveying seller creditability and enables the firm to attract a better agent’. Information collected from the open markets at Ajumako, Essiam, Mankessim and some supermarkets had all proved that good quality palm oil had better market prices. For example, it was discovered from the market that 1.5 litre bottle of good quality palm oil was selling at GHC 3 (US\$ 3) compared to GHC 1 (US\$1) to less good quality palm oil on the same market. *‘We have improved our profit margins significantly’ (a processor at Onwane)* However, they could not give figures to buttress their statement. *‘I am being chased by palm oil buyers from Accra for my palm oil’ (a processor at Ochiso)*

Some consumers in the district could not, however, afford the good quality palm oil, which was selling at GHC 3.00 (US\$ 3), but it commanded high demand outside the district (i.e. in the cities of Accra and Cape Coast). This illustrates Owusu-Frimpong et al. (2007:64) assertion that ‘product strength might be even more than it is for performance in the domestic market’. However, the danger, in the case, is that the poor are being denied quality.

6.6 Increased income and Secured Livelihood

The new technology has also increased the income levels of the SMEs. However, it was difficult to measure the income levels of the SMEs; evidence from the study suggests that a greater number of the processors had appreciably increased their income levels. One of the SMEs asserts that *‘our products have attracted good market prices hence our high profit margins contributing to the improvements in our incomes’ (a processor at Onwane)*. This was confirmed by ILO impact assessment report (2007:27) which revealed that ‘the availability of credit for individual producers supported the growth of enterprises’ income and employment’. The report further revealed that 40% of SMEs currently taking loans while 60% are not. Besides,

the ILO study confirms that between 78% of SMEs are saving money while 64% indicated that they were making profits (ibid). Evidence from the study again suggests that a greater number of SMEs had registered with the District Health Insurance Scheme and invested some of their profit in the education of their children and housing projects. A processor at Onwane remarked : *'this time, we are able to buy more palm fruits and kernel during the bumper season, processed and stored for better market prices and that has drastically boosted our income levels.*

6.7 Expansion of Business

Helmsing (2001) contends that 'effective private interest governance can make a significant impact on the abilities of firms to upgrade to be part of value chain'. Evidence from the study suggests that majority of the SMEs in the oil palm processing had indeed expanded their working capital and asset base of their enterprises by investing accumulated profit in procuring working equipment and inputs. It has also been found that SMEs had registered their businesses with the assembly. This was confirmed by ILO Impact Assessment Report, which reveals that some of the enterprises invested their profit in expanding their businesses (2007:19). Explaining the secret behind the successes, the SPGE Focal Person disclosed that *'initially SMEs had difficulty in accessing loans but the establishment of credit union and arrangement for credit from SIF had now given them the financial backing to buy enough palm fruits, process and sell in the lean season at better prices'*. This confirms Nadvi (1999) assertion that 'there appears to be a relationship between increasing joint action through business association and improved firm performance in recent times'. For example, empirical studies conducted by Knorringa on Agra shoe cluster confirmed that 'there was a clear and positive association between strong performance and use of the business association'. His studies revealed that 'firms with strong performance in sales, profits, output and employment was much more likely to have used the association compared with average or poor performance' (ibid). The establishment of credit union and member's access to SIF loan are likely to be lasting solution to members' seasonal unemployment.

It came up from the study that some of the processors were not keeping records of revenues accrued from their business. This might be attributed to low levels of their formal education and their inability to internalise support services offered them.

Evidence from the study revealed that all the processors in the district had not registered their businesses with the Registrar General Department, an agency responsible for the

formal registration of businesses. An issue, which questions the level of formality of the SMEs.

6.8. Implications on Business Environment and District Economy

Helmsing (2001:5) contends that ‘competitiveness of a firm does not only depend on its efforts to continuously improve methods, processes and products but also depend on its suppliers and on the business environment in which it operates’. From the study, the SPGE provided the platform for public-private sector dialogue and advocacy. This confirm ILO report (2007) that the SPGE serves as the ‘mouthpiece’ of the SMEs identifying issues, problems and solutions bothering on enterprise development for debate and decision-making in the District Assembly’. The study also reveals that establishment of SPGE and SBAs had improved the business climate thereby enabling SMEs to access business support services and financial services such as credit (ibid).

Neo-classical theory asserts that ‘institutional environment has both transformative and transaction costs effects on the growth of SMEs’ (Dorward et al. 2005). Evidence from the study has supported the above that the provision of infrastructure such as water, electricity, and roads by the district assembly had reduced the operational cost of SMEs thereby making them competitive. Besides, the assembly granted tax holidays to SMEs to serve as incentives to improve the sector. This move was in response to a policy directive of the Government as contained in the 2004 Budget Statement. Further evidence from the study revealed that the provision of infrastructure such as water, good roads and electricity had actually opened up the district to external firms, a situation that had forced local producers to improve their management system and this positively affected their operational cost. This confirms Helmsing’s (2003:73) position that ‘small and medium enterprises, however, often have to gain access to external resources and rely on specialist business services to obtain market and production information, tools and technologies, skills etc’.

It was however discovered that, the tax incentives granted the processors by the assembly had subsequently affected Assembly’ internal revenue mobilisation.

Chapter 7

Theoretical Reflections and Conclusions

7.1 Introduction

This chapter gives a theoretical reflection on the intervention theories that were used by the various actors which stands the test of relevance in the case. Besides, it outlines relationships that were not foreseen in these theories, which turned out to be important. Finally, it brings out new questions or items emerging and draws conclusions.

7.2.1 Contextual Drivers

Five key contextual drivers did help to create the enabling environment that facilitated the change process in AEE District. These factors are as follows:

I). The decentralisation reform has created the incentive and legal framework for the district assembly to engage and involve the private sector and development organisations in decision-making, formulation and implementation of productive and gainful employment plans. The establishment of the District Assemblies Common Fund by the central government has enabled and equipped the district assembly with financial resources to initiate LED programmes to tackle issues of employment and income generation. From the case, it was clear that the CG transfer grant played a critical role in the change process. The enabling space has also boosted the confidence of the private sector and the civil society to collaborate with the assembly. Helmsing (2005:19) asserts that ‘LGs can enable other actors to make a more effective contribution towards solving LED problems’.

However, the drastic reduction of DA budgetary allocation to SPGE has undermined the mandate of the institution to live up to expectation. This vividly confirms Hemlsing’s assertion that ‘LGs should not be in the driving seat but must provide the right mix of local public goods and enable actors such as the local producers and their associations, CBOs and supporting agencies to make their most productive contribution’.

II).The Government’s policy of poverty reduction through ‘the Golden Age of Business’ and improvement in the business environment played a critical role in the process. One of the policy incentives of the GPRS was the motivation of local governments to enter into partnership with the private sector to initiate pro-growth and employment generation programmes for poverty reduction. For the case, the private sector participation in the

process was seen as critical in that it brought on its expertise, which other actors lack, for employment generation.

III). Motivated and encouraged by the policy incentives of the Presidential Initiative on Oil Palm ,the DA and the local actors selected the oil palm sector for promotion as a driver for the growth of the local economy. This demonstrates that endogenous initiatives build on existing innovation and provides the opportunities for local actors to share resources and strategies.

III).The market opportunities of palm oil also influenced the change process. The study reveals that opportunities such as market cannot be utilised if there are no localised capabilities. For example, the existence of local knowledge and skills in oil palm processing and good climatic conditions for the development of a viable oil palm industry triggered the change process. The huge market for palm oil both locally and globally motivated the actors to invest in the sector. This confirms Helmsing's (2005:8) assertion that 'those areas that have suitable local capabilities can better serve the needs of local producers and thereby give them a better chance of survival'.

The combination of the above conditions triggered the change process.

7.2.2 New Local and Regional Development Theory

Lessons from the case suggest that LED initiatives cannot be exclusively local and that could be limiting. It further demonstrates that each of the actors has a specific role to play based on their specific skills and capabilities. From the study, it came up that the LG should focus on improving the business environment to allow the private sector to thrive. Besides, the private sector and civil society should articulate their interest and commit themselves to the creation of employment and income. The active involvement of ILO and national actors in the process demonstrated that 'horizontal co-ordination among a range of actors needs to be complemented by vertical co-ordination. This sum-up Hemlsing's (2001:1) assertion that 'new policies cannot be exclusively local but must take into account the position and the positioning of territorial production systems within a global context'. This reinforces the notion that exogenous initiative complement endogenous development.

However, there is no gainsaying that the presences of some foreign investors can and do, at times, have a negative impact on local producers. From the case, it was discovered that the Italian company was competing with the local processors to have access to the machinery at the Clinic. Evidence from the study suggests that SMEs were facing fierce competition from the Italian company for the acquisition of raw materials, which was in

limited supply in the district. This has made it difficult for the small producers to have access to raw materials, a situation, which is likely to push them out of employment. This confirms Helmsing's (2003:71) position that 'intense competition yields very low incomes and that makes poor producers vulnerable to unequal market exchanges'

Besides, the dominance of ILO in the process could undermine the sustainability and ownership of the initiative. In the researcher's view, this is likely to make the local actors inactive and dependent.

Evidence from the study suggests that LED initiatives should be driven by local actors with minimal support from external actors. It is further suggested that external agents in endogenous initiatives should have a clear exit strategy.

7.2.3 Economic Base Theory

In this case, through planning process, key potential sectors of the district economy were identified for development. This study has shown that strategic planning process plays a central role in unearthing the economic potentials for local development. Besides, the planning process offered actors the opportunity to identify challenges which were, hitherto hidden from them. The study has also revealed that through the process the issue of possible sources of support and institutional linkages were addressed. This confirms World Bank's (2002:1) assertion that 'Practising LED means working directly to build the economic strength of a local area to improve its economic future and the quality of life of its inhabitants'.

However, there was evidence of exclusion of some of the SMEs from the process because of channelling business support interventions through sector-based associations and prioritization of key economic sectors. Indeed, while it opens opportunities for organised producers, it excludes unorganised ones. From the study, it became obvious that the selection process had debilitating effect on the growth potential of SMEs in the sector and BDS market.

7.2.4 Upgrading

Lessons from the case indicate that if micro and small enterprises could benefit from business support services such as new technology, managerial training and market linkages then the intervention should be continuous. This implies investment in training, innovation and provision of BDS services.

This study has shown that one time intervention or one off programme may not achieve any desirable impact. Further, the study came up with the evidence that many of the processors lack the capability in terms of knowledge and skills to radically absorb reforms to innovate. It became obvious, from the study, that upgrading should be continuous at all levels including process, product and function to create the opportunity for the weaker SMEs with low capabilities to learn and innovate. From the study, it was discovered that continuous upgrading would eliminate factors that might obstruct SMEs to adjust to new changes.

However, it has shown that economic upgrading alone could not tackle problems of poor working conditions and use of child labour in work places. The issue of decent work could create opportunity to the poor producers to overcome poor working conditions.

ILO (2006) cautioned that ‘upgrading strategies need to be co-ordinated with and supported by enabling regulatory and policy environment’. It is perhaps necessary in the case of small and micro enterprises.

7.2.5 Value Chain

Literature on value chain reveals that vertical linkages through the supply chain can create opportunities for firms to innovate in the production process. In this case, it was evident that the SMEs lack financial resources to upgrade their process and product to meet market standards. It therefore became mandatory for the part of SMEs to establish linkages with the Oil Africa and the SPGE to maximise the market potentials. Besides, it was also necessary to organise SMEs into business associations to collectively engage other actors in the value chain. The case demonstrates that for SMEs to explore the opportunities in the value chain, they need the support of meso-institutions to reinforce their strategies. The study also reveals that the selection of key sectors with backward and forward linkages contributed to the realisation of higher income and employment for the SMEs.

In this case, it was evident that the introduction of new technology has increased productivity and production yields of SMEs, which have also results in high product quality. This has increased their share in the total value added.

However, from the case, high productivity, coupled with competition has created seasonal unemployment for the SMEs as result of a faster processing of the harvest (i.e. palm fruits).

7.3 Conclusions

This paper describes proactive local strategies of Ajumako-Enyan-Essiam District, a less endowed locality that focused on institutions to transform the oil palm chain. The case typically demonstrates the potency of endogenous initiative of oil palm processing to turn around the fortunes of a district with low capabilities.

Undoubtedly, the initiative has transformed the SMEs in the oil palm industry and injected dynamism into the district economy. The observed transformation and competitiveness of the SMEs have created many direct and indirect jobs for the people in the district. The study reveals that the process has generated and developed backward and forward linkages in the district economy. It also reveals that the process has built in target SMEs that are traditionally underserved and created gainful employment to these originally underemployed people. The underserved SMEs have enhanced production, improved productivity and product quality for better market prices and high sales. The process has improved the livelihood of beneficiaries SMEs. New technologies, knowledge and skills have been introduced and acquired by SMEs.

The process has ushered in the public-private partnership leading to improvement in the business environment that is flexible and responsive to the needs of the private sector. The study confirms that multi-actor initiatives guarantee successful endogenous development. It also confirms that various actors in endogenous initiatives (i.e. private sector, LG and NGOs) have their unique roles, skills and capabilities. The process has opened up the economic potentials of the district and attracted the resources of both local and external actors to invest in the local economy.

Meso-institutions such as sector-based and territorial ones were catalysts for the growth and development of SMEs.

Improved business environment; access to credit, business support services and membership of a business association, from the study, correlate with higher productivity and strong enterprise performance.

Micro-level enterprise strategies and meso-level interventions were not sufficient to transform SMEs. Importance of influences from the broader regulatory environment for the total transformation of SMEs and even proper functioning of meso-institutions were stressed.

However, the use of sector-based institutions such as business associations to reach the SMEs and develop the BDS market led to the exclusion of a greater number of non-association SMEs. This created gaps in the process and this emanates from the selection of the key sectors.

This study establishes that the development of less endowed localities depends on their development potential and accessibility to markets. However, their sustainability lies in the proper functioning of the drivers of development: the organisation of the productive system, the diffusion of technology and the enabling space for adaptation of institutional arrangement. For, these drivers govern the economic growth and development process, generate externalities and reduce transaction.

Future research should focus on the important question that has not been addressed that is the extent to which the process has contributed to poverty reduction and how the meso-institutions were governed and upheld?

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Annexes

A. Interviews

NO	NAME	AFFILIATION	OCCUPATION	PLACE	DATE
1	Ablo, M	MMYE	Civil Servant	Accra	10 TH July, 2008
2	Adjewa , S	Enyan Denkyira Oil Palm Processors	Processor and Executive Member/SPGE Member	Enyan Denkyira	10 th July,2008
3	Affedu, S	Ajumako-Enyan- Essiam District Assembly	District Budget Analyst /SPGE Focal Person	Ajumako	4 th July, 2008
4	Agyawiaa, A	Onwane Oil Palm Processors	Processor/Executive Member	Onwnane	3 rd July, 2008
5	Amoasi- Andoh, K	ILO/GDWPP	National Programme Co-ordinator	Accra	4 th July,2008
6	Annan, L	National Board of Small Busines Industries(NBSSI)	District Head/SPGE Secretary	Ajumako	8 th July,2008
7	Appiah, F	AEE District Health Insurance Scheme	Scheme Manager	Enyan Denkyira	4 th July,2008
8	Asiedu, S	CRED	Executive Director	Ajumako	3 rd July,2008
9	Bentil, J	A processor	Processor	Onwane	5 th July,2008
10	Mensa, K	Enyan Denkyira Oil Palm Processors	Processor	Mando	5 th July, 2008
11	Morton, P	EMPRETEC,Ghana	Former General Manager	Accra	10 th July,2008
12	Natali, M	Oil Africa	Chief Exective Director	Ajumako	10 th July,2008
13	Nsiah, R	FIT , Ghana	National Co-ordinator	Accra	7 th

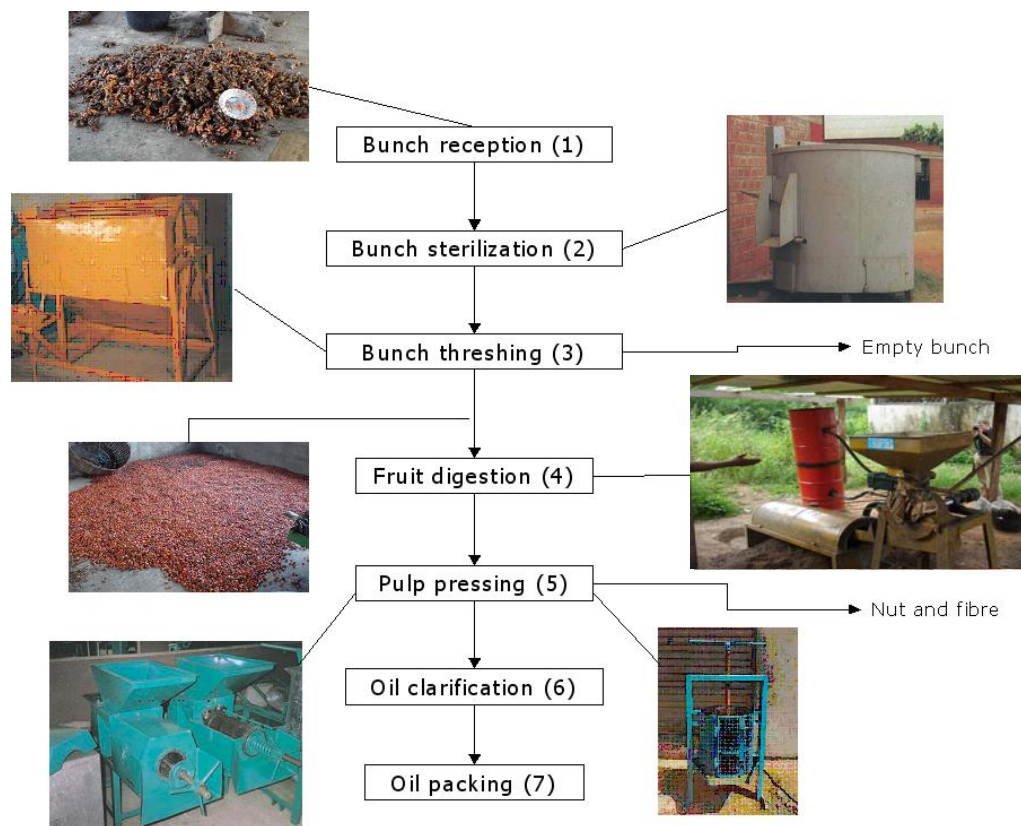
					July,2008
14	Obempong, K	Ajumako-Enyan-Essiam District Assembly	District Chief Executive	Ajumako	11 th July,2008
15	Ofei-Aboagye ,E	Institute of Local Government Studies(ILGS)	Director	Accra	20 th July, 2008
16	Rahman,A	AEED Tailors and Dressmakers	President/SPGE Member	Ajumako	26 th July, 2008
17	Opoku-Boamah	Central Regional Co-ordinating Council(RCC)	Former Chief Regional Planning Officer	Accra	3 rd July, 2008
18	Karikari, H	Social Investment Fund(SIF)	Programme Officer	Cape Coast	25 th July, 2008
19	Mensa, A	Ochiso Alata Semina Association	Local Soap maker/Executive Member	Ochiso	26 th July, 2008
20	Ampiah, J	SPGE	Chairman/Farmer	Abaasa	30 th July,2008
21	Ekua, D	BDS Expert	SPEED Ghana	Accra	27 th July, 2008
22	Adje,S	Edwumapa Co-operative Credit Union	Scheme Manager	Ajumako	8 th July, 2008
23	Afari, H	SPGE	Assembly member/SPGE Member	Ajumako Techman	5 th July, 2008
24	Appiah, J	PSI Secretariat	Advisor to PSI Co-ordinator	Accra	5 th July, 2008
25	Sisii, K	PSI Secretariat	District Co-ordinator	Mankessim	14 th July, 2008
26	Owusu, K	BDS Manager	Gratis Foundation	Cape Coast	15 th July, 2008
27	James	Oil palm Farmer	Farming/Processor	Ochiso	17 th

	Donkor				July,2008
28	Efuwa Takyi	Processor	Processor/Farmer	Enyan Abaasa	17 th July,2008
29	Beatrice Mensah	Association of Oil Palm Producers in AEED	President/SPGE Member /Processor	Essaman	18 th July,2008

B. Oil Palm Processing Technique

In the tropics the palm tree gives the highest yield of oil per unit area in comparison to any other crop. Under good climatic conditions and good management the palm trees are able to produce up to 20 tones of bunches/ha/yr. Usually a palm fruit bunch weights between 23 kg and 27 kg and the optimal oil content is 21 to 23 % (Poku, 2002).

The technical description below of the palm oil extraction concerns all sizes of processing units (Bock, 2005). But the main differences between the traditional technologies, small, medium and large scale are the level of mechanization of each operation unit, the quantity and quality of oil produces and the interconnection between the operation units (Poku, 2002).



Sources: Poku, 2002

The harvesting, transportation and the handling of bunches which precede the bunch reception (1), have to be conducted carefully. If the fruit is bruised the amount of free fatty acid (FFA) present in the oil would increase which would spoil its quality. In order to respect international quality standards, the crude palm oil cannot contain more than 5 per cent of FFA. When the fruit is freshly cut and un-bruised they contain around 0.3 per cent of FFA. It can increase rapidly up to 60 per cent if they are damaged.

The sterilization (2) means the use of hot water or pressurized steam in order to stop the oil deterioration by destroying enzymes. It also facilitates the threshing and the oil extraction. Frequently, the simplest sterilizer is a metallic container where the fruit is disposed on a grid and steam water goes through.

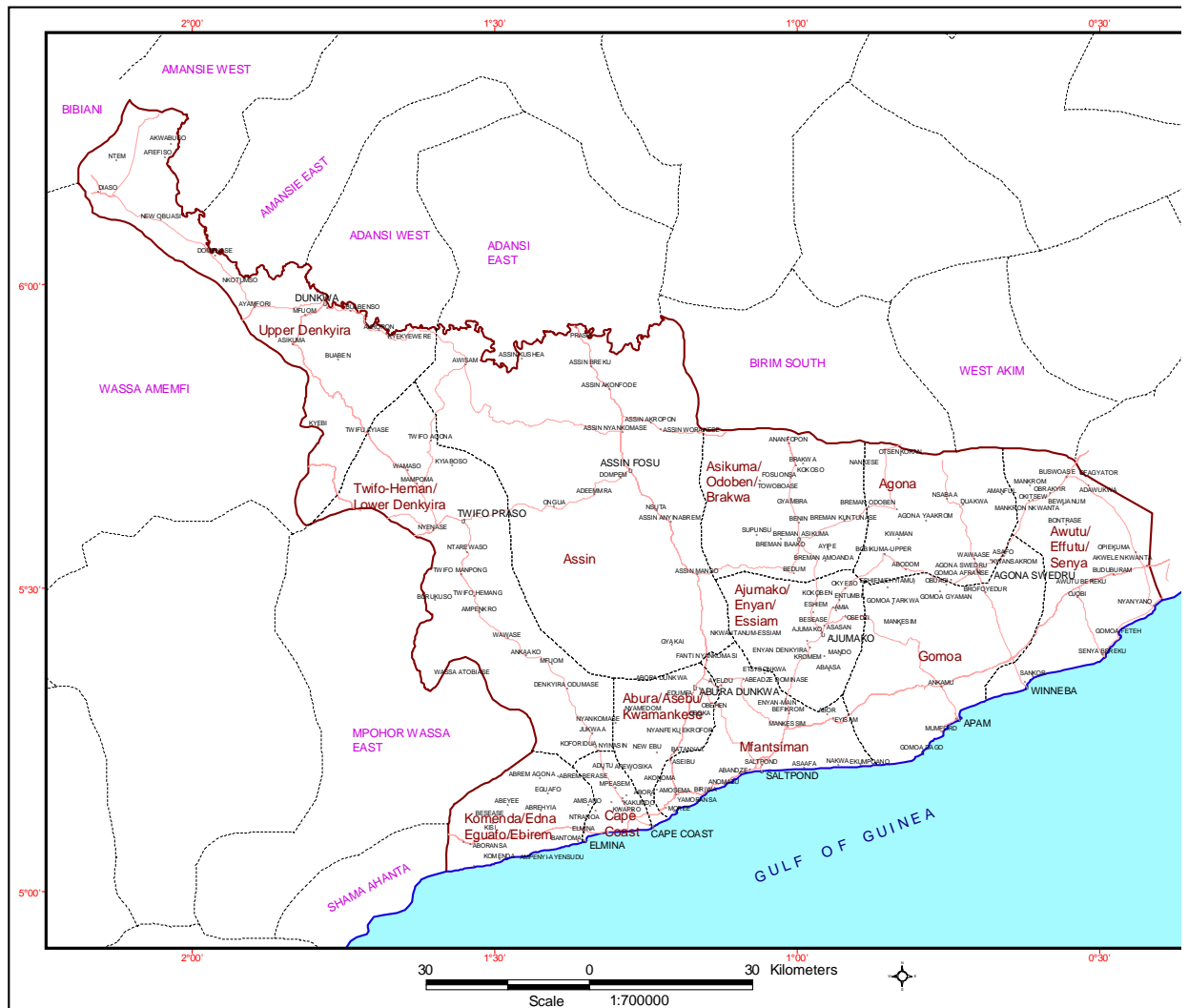
The bunch threshing (3) corresponds to the removal of fruit from the bunches. It can be done manually or mechanically with a rotary drum or a fixed drum set with gyratory beater bars.

The digestion (4) breaks the oil bearing cells. A digester consists of a rotating shaft carrying beater into a vessel that pounds the fruit. If steam is used it will improve the extraction yield by reducing viscosity and helping the rupture of the oil cells.

The pulp pressing (5) phrase let the oil flows out of the fruit. It can be done with (wet method) or without water (dry method).

The clarification (6) aims to separate the palm oil from impurities, like water and non-oily solids, by decantation or filtration. The final step is to store (7) the palm oil in good conditions to avoid oxidation, solidification and fractionation.

C. Ajumako in the Regional Context



Source: ILO, 2005