



## **Empowering e-waste entrepreneurs in Ghana – a policy brief on access to finance for MSMEs in the e-waste sector**

### **Key Messages**

With the upsurge of green enterprises, MSME financing strategies have received a higher priority in the political and financial landscape. Especially in the e-waste sector access to finance is regarded as a key enabler in mobilizing e-waste entrepreneurs all over Ghana.

However, field research indicates that access to finance is oftentimes considered an idealistic notion for the realities of e-waste MSMEs. In order to empower e-waste entrepreneurs, it requires a cohesive strategy that aims to:

- Address barriers on behalf of both MSMEs and financiers
- Facilitate exchange between MSMEs and financiers by offering SME training for financiers, establishing dedicated SME divisions, and organizing exchange forums with regional stakeholders
- Actively engage MSMEs to determine their monetary needs and communicate their needs effectively to financiers
- Support financiers in the conception of financing innovative instruments adapted to MSME needs and diversify the associated financial risks

### **Managing financial barriers**

Access to finance is a major obstacle for MSMEs worldwide. In Africa in particular, MSMEs face severe difficulties in acquiring the necessary financial capital to fund their operations effectively, with Ghana being no exemption. A 2013 World Bank survey found that 72 per cent of small enterprises and 52 per cent of medium-sized enterprises in Ghana cited access to finance as the main obstacle to their growth. These findings are in line with an estimated financing gap for MSMEs of 13 per cent of the country's GDP, which accumulates to approximately US\$6.1 billion in 2017 (The World Bank 2019).

The sector is severely affected by this financing gap, as e-waste management in Ghana is dominated by informal collectors, dismantlers, and recyclers with a very limited number of employees. MSMEs operating in the sector are often unable to make the necessary investments in processing facilities, capacity building measures and sustainable treatment practices, ultimately hampering their expansion, formalization and efficient management of the e-waste value chain. This policy brief provides an overview of the current financing framework for MSMEs in the e-waste sector, identifying existing financing options as well as barriers and bottlenecks in accessing financial resources, from both the perspective of MSMEs and financial institutions in Ghana.



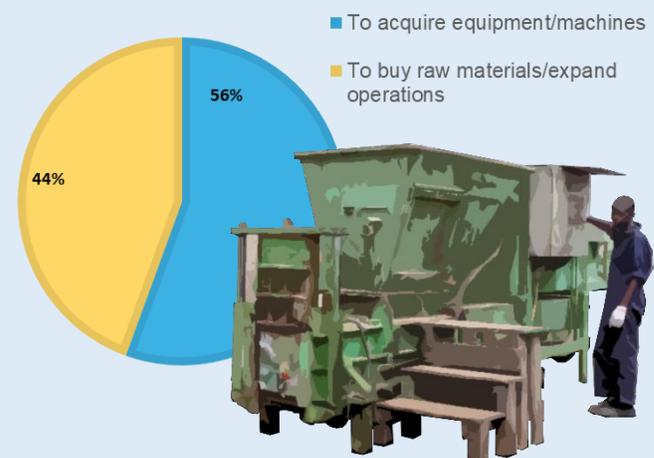
## Approach

Based on a detailed analysis of both secondary literature and primary data, including a series of short interviews with financiers and e-waste businesses, the policy brief provides recommendations, that may guide stakeholders to improve access to financial products and services for MSMEs in the Ghanaian e-waste sector.

## Background

Ghana's financial sector has grown rapidly over the past decade, growing from 37 percent of GDP in 2010 to about 59 percent of GDP (or about US\$ 34 billion) in 2017. This growth is among other things reflected in the licensing of several new financial institutions (banks and non-banks). In particular, the number of specialised deposit-taking institutions (SDIs) has increased rapidly since 2011. SDIs include microfinance institutions, rural and community banks, savings and loan associations, finance houses and credit unions, among others; all of which play a key role in Ghana's financial sector (The World Bank 2019). Despite the continued growth of the financial sector, lending to the private sector in Ghana has been consistently low. In 2018, loans to the private sector accounted to a mere 35 percent of total bank assets and 13 percent of Ghana's GDP (The World Bank 2019). Especially for small enterprises access to finance remains difficult. According to a 2016 study by the Öko-Institute e.V. 80% are struggling to acquire bank loans or credit lines compared to 50% of the large enterprises (Bleher 2016).

**Figure 1: What do MSMEs need financing for?**



Source: E-MAGIN survey, 2021

This is underlined by a survey conducted by the E-MAGIN Project team during which most of the participating MSMEs stated that they have not been successful in acquiring financing, despite having the need for it. To acquire the necessary finances, MSMEs therefore often resort to alternative informal or semi-formal financing options including, including for instance local money lenders, loans from family and friends, NGOs or credit unions (Trombetta et al. 2017). Most MSMEs that participated in the survey indicated financing needs in the range of GH¢ 15,000 to 500,000.

Government institutions have in the recent years taken steps to address the increasing financing gap of the private sector. One of the most recent developments in in this regard is the transformation of the National Board for



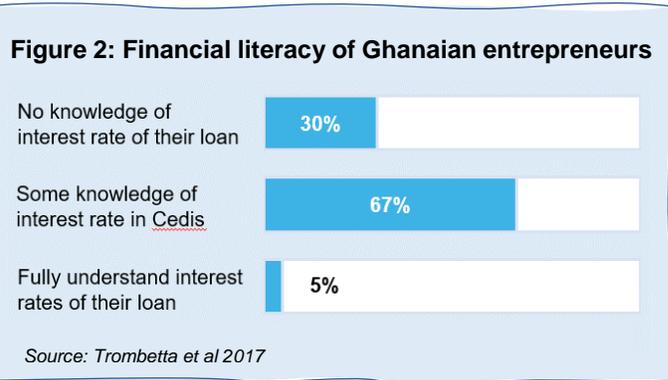
Small Scale Industries (NBSSI) to the Ghana Enterprises Agency (GEA) in 2020 with the aim of strengthening its mandate in the development of MSMEs. The Agency, which seeks to improve access to finance for MSMEs, operates a number of Business Advisory Centres (BACs) across the country and provides access to a range of low-cost funding options, as well as expert financial advice for MSMEs (GEA 2021). Furthermore, there is a growing interest from financiers to provide “green” finance to Ghanaian MSMEs, which, together with the emergence of several new “green” financiers, including impact investors, commercial banks and multilateral development banks, have already contributed to a steady improvement of the underlying conditions for MSME financing. With regard to the e-waste sector financiers such as Wangara Green Ventures, Norfund, GrowFin, Cal Bank and the Venture Capital Trust Fund have reported to target circular economy activities including waste management enterprises (Deh, 2019).

**Barriers and bottlenecks**

A commonly reiterated sentiment during the EMAGIN's e-waste Policy Roundtables and the Access to Finance Forums in Ghana from 2019-2021 was not that there was an acute lack of funds or financial resources, but that these resources failed to reach MSMEs effectively. Both the attending financiers and recipients extensively elaborated on the complications of negotiating with their respective counterparts. The following review of the shortcomings on the demand side and the supply side for MSME financing reveal the existing barriers and bottlenecks for access to finance.

**DEMAND SIDE: MSMEs PERSPECTIVES**

When applying for loans/credit lines, Ghanaian companies are often confronted with high interest rates of around 21% (Bank of Ghana 2021), a rate that due to the small size and limited profitability of most MSMEs in the e-scrap sector, is too high to afford. This problem becomes more pressing as a majority of entrepreneurs in Ghana show high risk aversity, being less resilient to minor income shocks and therefore needing to avoid adverse events, that would lead them to deplete productive assets, withdraw their children from school or even reduce their own food intake (Trombetta et al. 2017). This is in line with the results of the E-MAGIN project field survey; where high interest rates were mentioned as a main obstacle in loan applications. The high lending rates are usually also associated with high requirements for the value of the collateral needed for a loan. These can reach up to 200-245% of the loan amount for small and medium-sized enterprises (WB 2019; Bleher 2016). As most MSMEs in the e-waste sector only have collateral in the form of movable assets such as machinery or equipment (which are not accepted by most banks), this represents a significant barrier to accessing finance.





Besides the financial barriers presented by high interest rates and the need for collateral, the inaccessibility of external finance to MSMEs in Ghana is also connected to non-financial barriers. For example, MSMEs applying for bank loans must meet certain requirements and usually prove the viability of the business to the banks by presenting relevant documents such as a business plan and/ or a feasibility study. However, most MSMEs in the e-waste sector lack the financial literacy necessary to prepare such documents (International Labour Organization 2017). Figure 2 shows the results of a survey conducted by Trombetta et al., which found that, of those Ghanaian entrepreneurs who have successfully borrowed money in the past, 30% didn't know the interest rate of their loan or how it was calculated while 67% knew the amount in cedis but not the rate (Trombetta et al. 2017).

In this context, the informal character of most enterprises in the e-waste sector also represents a challenge, as many banks do not provide loans to enterprises without an official registration. Formalization on the other hand is not progressing at the necessary pace and as such entrepreneurs, without an existing support platform, are having severe issues of attaining the necessary documents, licenses, studies or business plans.

#### **SUPPLY SIDE: BANKS & FINANCING INSTITUTIONS PERSPECTIVES**

On the supply side, the barriers to accessing finance for MSMEs in the e-waste sector is mainly due to the high risks associated with investing in sector. This partly stems from the fact that many banks in Ghana do not have credit appraisal and monitoring processes

specialised for MSMEs. Hence, they have only limited insight into the respective business models and are thus often confronted with information asymmetries in the credit appraisal process. In the case of the e-waste sector, the lack of insight of financiers into respective business models also leads to a neglect of the positive externalities of an effective e-waste management system and thus hinders the development of CSR incentive-based financing models (WB 2019; Bleher 2016; WEF 2021). Additionally, financiers also note a low digital uptake of MSMEs as barrier of investment.

Moreover, Ghanaian banks often conspicuously lack a reliable approach to risk mitigation, such as a reliable framework for secured transactions and contract enforcement, which could mitigate the potential risks of strategic defaults by borrowers (The World Bank 2019). Allocating financial support to MSMEs is also associated with higher transaction costs for banks since in the collection and analysis of the relevant financial data – especially in the e-waste sector – is often a very complex task (Bleher 2016). Taken together, the above-mentioned barriers on the part of banks result in them frequently opting for collateral-based lending, usually associated with high interest rates, instead of cash-flow-based lending.

#### **Designing effective measures**

In order to improve the access to finance for MSMEs in Ghana's e-waste sector and Ghanaian MSMEs in general it is important that the above-mentioned barriers – both on the demand and on the supply side - are properly addressed by policy makers.



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### ON THE DEMAND SIDE...

it is particularly important to improve the financial literacy of MSMEs, enabling them to document and present their entrepreneurial activities in a format that is acceptable and comprehensible to banks. To this regard business development services such as those provided by the GEA BACs should be further expanded and replicated. Furthermore, it is important to effectively track the success of these capacity building measures in order to adjust and improve them in a targeted manner.



In order to inform MSMEs about available options for external financing and financial institutions suitable for their purposes, capacity building and business development measures that aim to improve financial literacy, should be complemented by appropriate awareness raising efforts. In addition to promoting formal banking institutions, these awareness-raising efforts should increase the visibility of non-banking financing options, such as those offered by GEA.

### ON THE SUPPLY SIDE...

efforts should be made to create a better understanding of the specific needs of MSMEs, for example through targeted training programmes for bank employees or microfinance institutions. The available financial products should subsequently be reevaluated and aligned with MSME specific needs. In order to decrease the risks connected to providing loans to MSMEs, financial institutions should also complement their MSME specific credit lines with business development services that support MSMEs to operate successfully to be able to pay back their loans. These services could further be complemented by developing a reliable rating service or database for MSMEs active in the e-waste sector (International Labour Organization 2017). The 500,000+ applications for MSME support that have been received by the NBSSI/ GEA could serve as a basis for such a service.

As proposed in Ghana's Country Financing Plan for the SDGs, high-risk investments in necessary infrastructure improvements - such as the formalisation of the e-waste sector- could also be supported through the establishment of innovative financing instruments such as for instance a first-loss fund that would cover first losses up to a certain threshold (World Economic Forum 2021). It could be explored if funds generated from the advanced eco-levy on EEE under ACT 917 could be used for funding purposes. To improve the access to finance for e-waste businesses at a very early stage of development, it is important to provide suitable micro-finance options, that allow for small loan sizes at a reasonable risk for start-ups and entrepreneurs. Micro-finance options could be further promoted by the increased usage of cashless services such as mobile banking.



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## Conclusion

Access to finance is a key enabler in mobilizing e-waste entrepreneurs all over Ghana. Field research indicates a similar sentiment, as MSMEs continually mention access to finance as a key challenge for their businesses. With the upsurge of smaller green enterprises, MSME financing strategies have received a higher priority for political and financial stakeholders. However, for the e-waste sector in particular, policies have to specifically address the underlying causes of MSMEs inaccessibility to financial support. Through capacity building, business development measures and support structures that closely cooperate with financiers, e-waste MSMEs can be empowered to apply for financial products that suit their specific business model.

A strong involvement of the financiers will be essential, in order to gain a comprehensive understanding of the financial needs of the e-waste MSMEs at the various stages of their development. At the same time legislators could assist in the financial risk mitigation for financiers through the options mentioned in the previous section. Involvement from policy makers will be essential in bridging the gap between MSMEs and financiers. The most recent developments indicate that Ghana's adopted strategy seeks to address these existing asymmetries and overall provide a promising outlook. Nevertheless, further efforts will be needed to ensure access to finance is not a hindrance, but an entrepreneurial opportunity for e-waste MSMEs.

## Recommendations

- 1. In conjunction with the Ghanaian Banking Sector, GEA should develop capacity building courses on financial literacy for e-waste MSMEs
- 2. Establish a financial advisory unit for financiers which provides business advice for MSMEs requesting finance
- 3. Facilitate exchange between MSMEs and financiers by offering SME training for financiers' SME divisions as well as organizing exchange forums with regional scrap dealer associations and regionally active financiers
- 4. Construct appropriate financing instruments, such as first-loss funds, through such exchange platforms
- 5. Develop a digitalization strategy for MSMEs, which incorporates aspects of bookkeeping and accounting
- 6. Organize training programmes for bank employees or microfinance institutions to communicate the needs of MSMEs
- 7. Complement MSME specific credit lines with business development services that support MSMEs to operate successfully and hence are able to pay back their loans
- 8. Develop a reliable rating service or database for MSMEs active in the e-waste sector



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