

**WSUP**

Water & Sanitation  
for the Urban Poor

# Creating a stronger non-market environment for Sanitation SMEs in Ghana

The Opportunities and Challenges

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Introducing the work: Aim and Scope



The non-market environment for small and medium scale sanitation enterprises in Kumasi and Accra

What are the barriers and opportunities?

Conclusions and lessons learnt from elsewhere

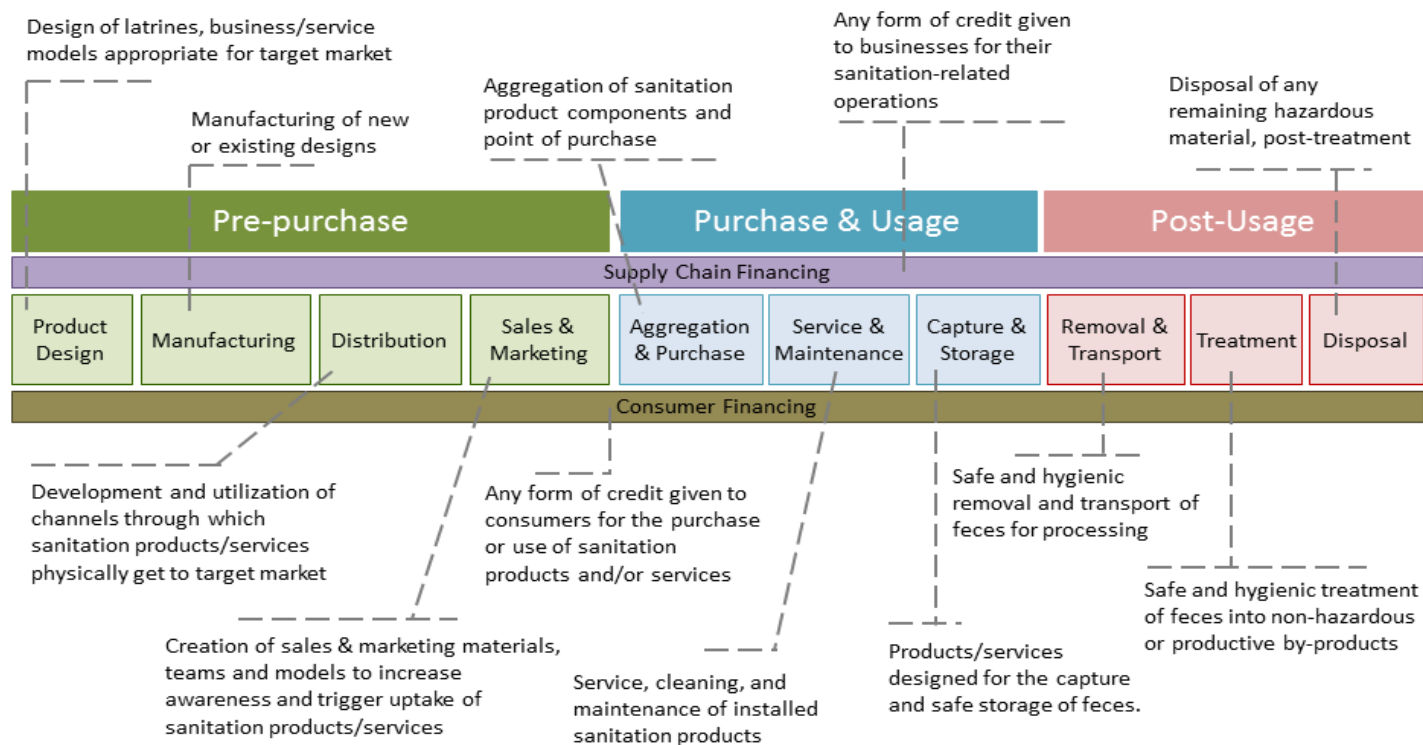
Opportunity Areas for WASH Sector Actors : Practical next steps

# **1. Aim and Scope**

## Aim of this study

- **To understand the non-market barriers and opportunities facing small & medium scale sanitation (SME) businesses and their impact on the businesses themselves as well as on their ability to reach Low Income Urban Communities (LIUC) with appropriate products and services.**
- Aimed at leveraging and encouraging a more substantive role for SMEs in the sector.
- Particular interest in the advocacy potential in the outputs of this work towards the fiscal, regulatory and policy aspects of the non-market context.

# The sanitation service chain



Sanitation Business Models

3

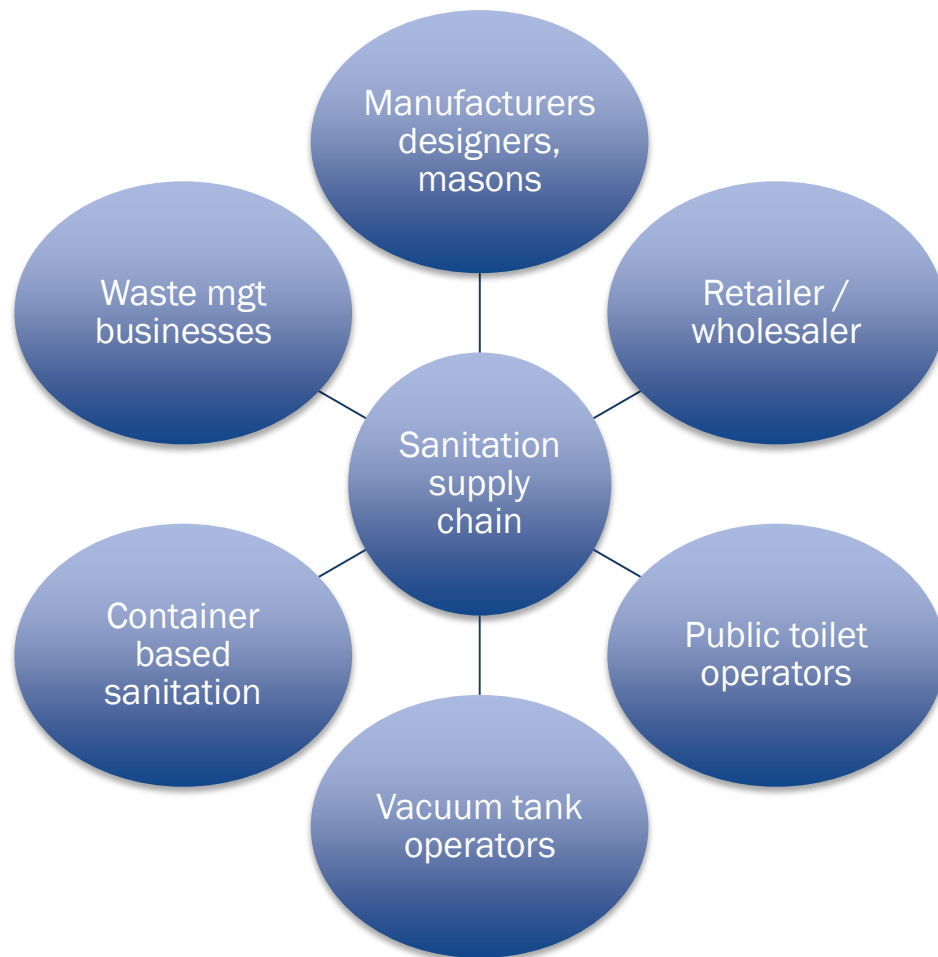
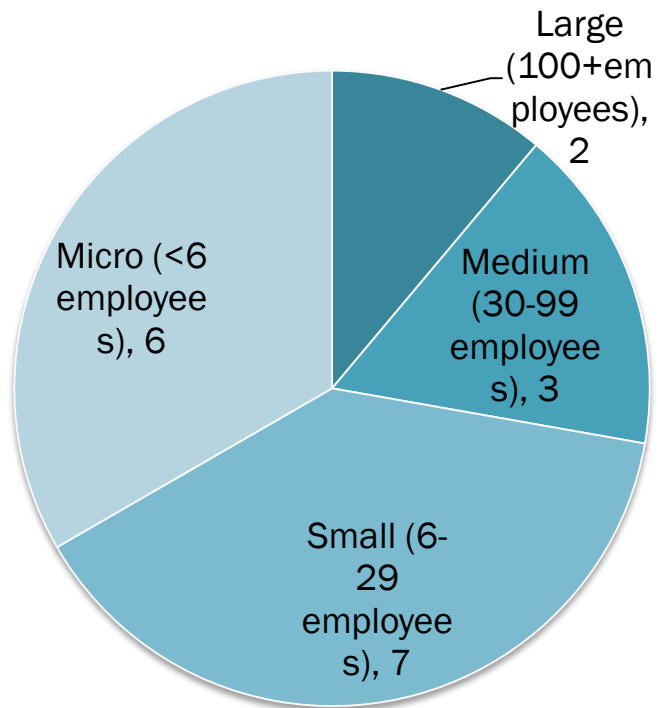
## What is the non-market environment?



## Importance of SMEs

- Most important sector in Ghanaian economy
- Representing 60 % of the labour force
- 70% of all industry
- 22% to the Gross Domestic Product (GDP)
- 92% of businesses in Ghana
- In sanitation we can also talk of micro enterprises

## The Study: SME Interviews

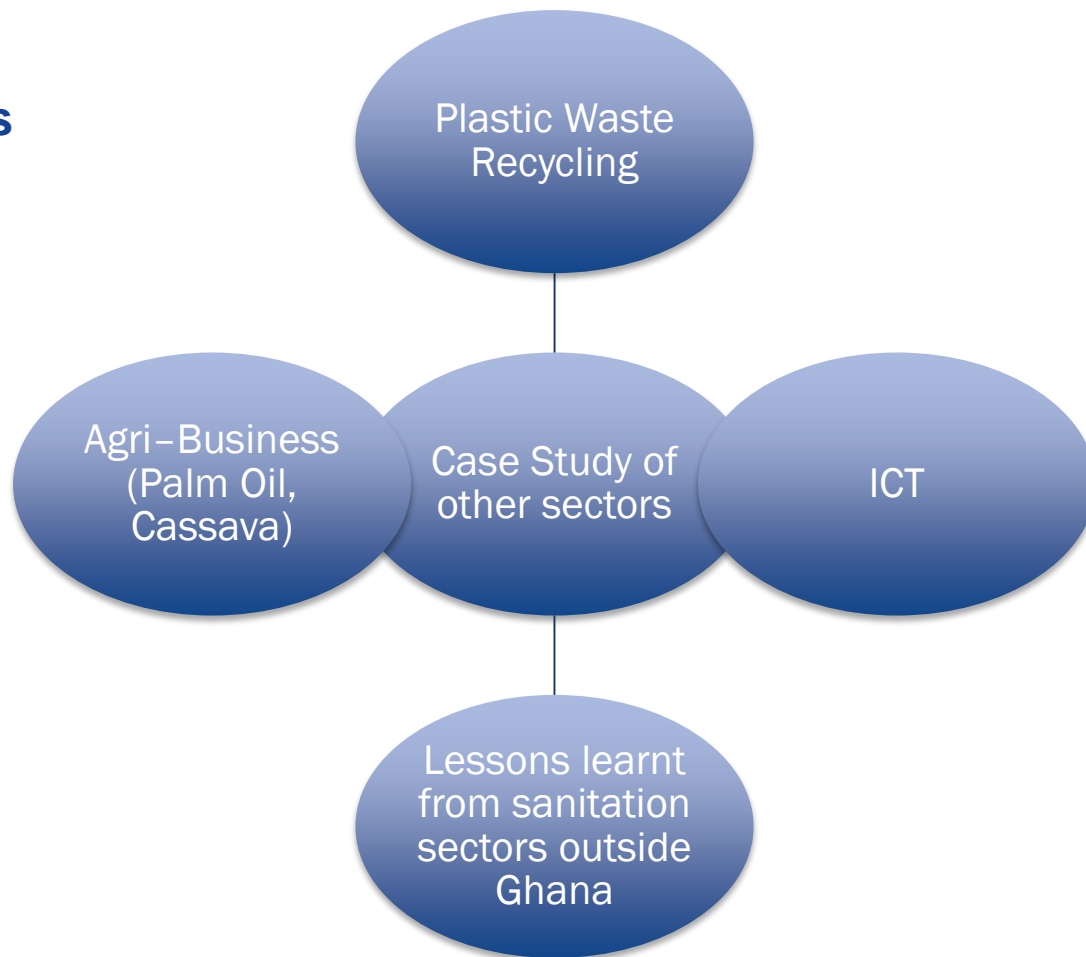


## The Study: Key Informant Interviews





## The Study: Case Studies



## **2. The non-market environment for small and medium scale sanitation enterprises in Kumasi and Accra**

**Ministry of  
Sanitation and  
Water Resources**

EHSD

MMDA

**Relevant Ministries for  
sanitation SMEs**

MoF

MoTI

MWRWH

MoH

MLGRD

MESTI

Ghana Central Bank  
interest rate of **25.50%**  
is the highest globally

**16-36%**  
Range of interest rates from

NBSSI loan at 5% interest for  
manufacturing, services and agric

GIPC list utilities as 1/10 investment  
opportunities for Ghana

Front-end (supply)

Back-end (emptying, waste mgt)

Chamber of Commerce

Association of Ghana Industries

ESPA

Social Entrepreneur Association

Local waste associations

### **3. What are the barriers and opportunities?**

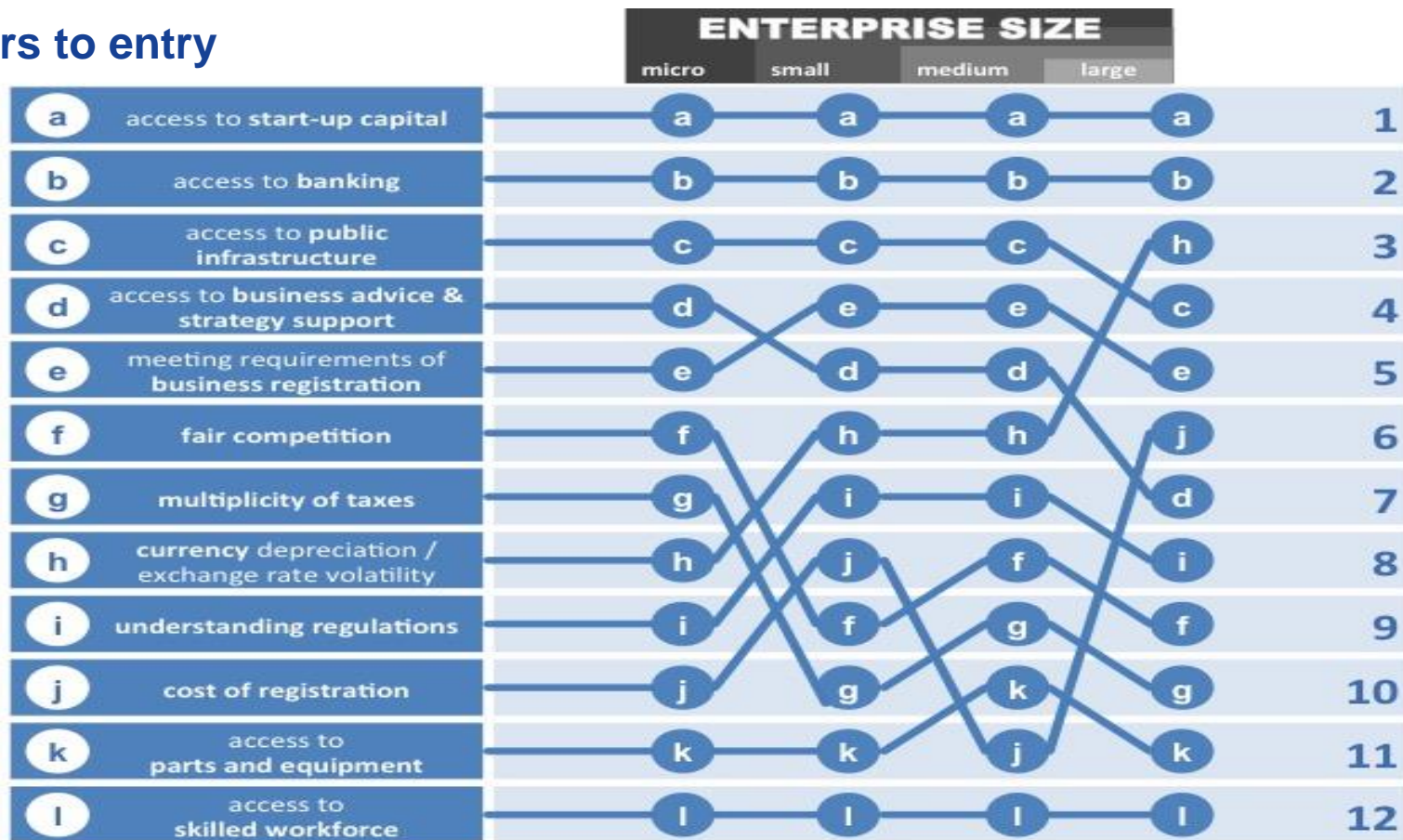
# Starting a business in Ghana

	Ghana	Regional Comparison
<b>EASE OF DOING BUSINESS</b> with other economies <i>(rank of 190 countries)</i>	<b>108</b>	-
<b>“Doing Business Distance to Frontier”</b> score	<b>59</b>	Kenya (61), Cote d’Ivoire (52), Mali (53)
Number of <b>PROCEDURES TO START A BUSINESS</b> <i>(2007)</i>	<b>12</b>	-
Number of <b>PROCEDURES TO START A BUSINESS</b> <i>(2017)</i>	<b>8</b>	Regional Avg. (7.8)
Number of <b>DAYS TO START A BUSINESS</b> <i>(2007)</i>	<b>81</b>	-
Number of <b>DAYS TO START A BUSINESS</b> <i>(2017)</i>	<b>14</b>	Regional Avg (27)
<b>COST TO START A BUSINESS</b> <i>as % of income / capita (2017)</i>	<b>20%</b>	Regional Avg (54%)
<b>Number of tax payments per year</b>	<b>33</b>	
<b>EASE OF PAYING TAXES</b> <i>(rank of 190 countries)</i>	<b>122</b>	
Number of hours annually to <b>prepare, file &amp; pay taxes</b> <i>(hours per annum)</i>	<b>224</b>	
<b>TAX RATE</b> <i>(as % of annual profit)</i>	<b>32.7%</b>	

**Ghana ranks better than the average African countries concerning ease of doing and starting business.**

**The situation has improved during the last 10 years**

## Barriers to entry



## Barriers to operation: challenges to influence public policy

### Start-up Capital

- Lack of access to start-up capital

### Banking Services

- Lack of access to banking services

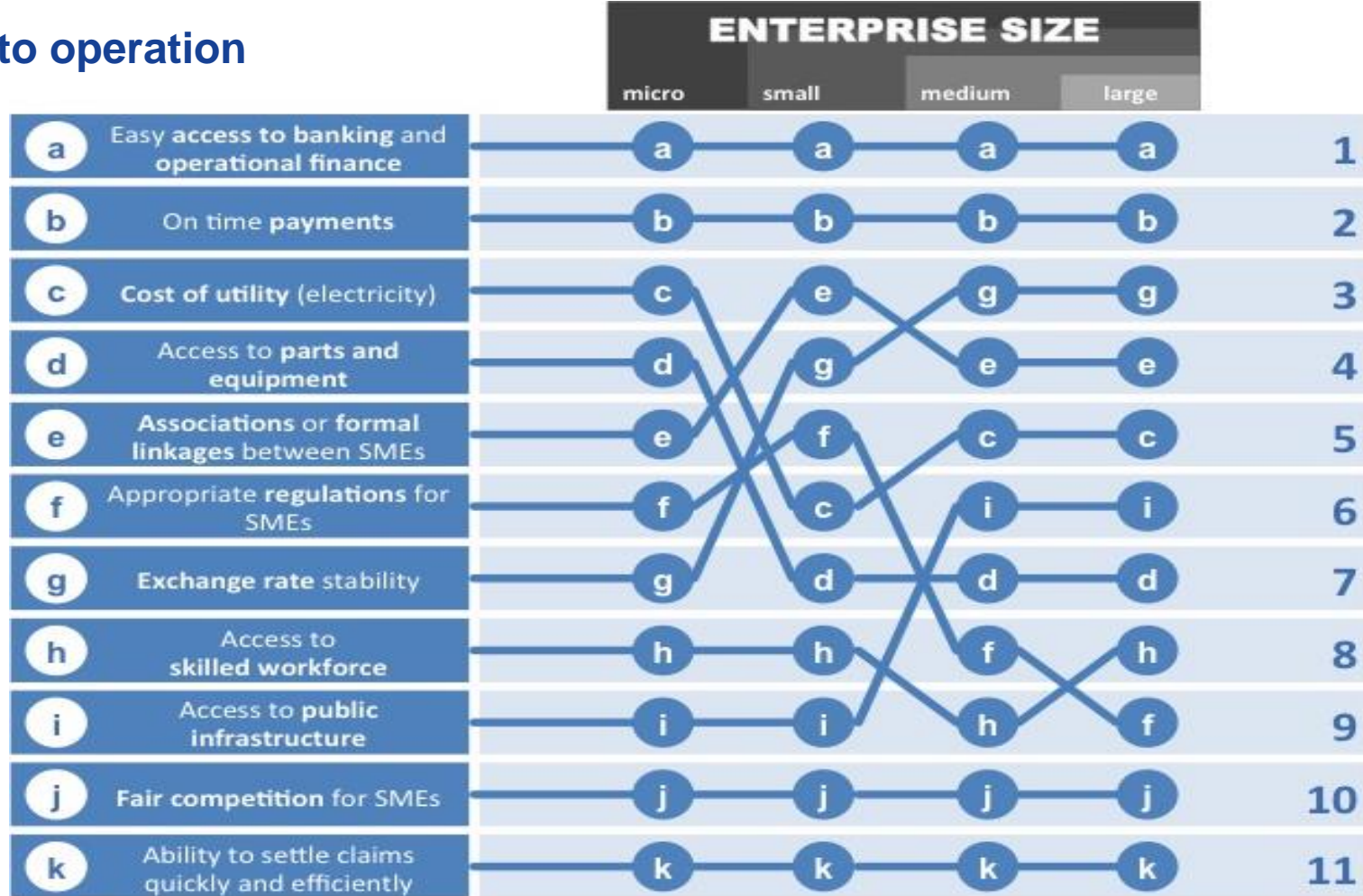
### Business advice

- Business advice is crucial for start-up businesses

### Access to public infrastructure

- Public infrastructure
- Roads
- land

# Barriers to operation





Access to  
banking services

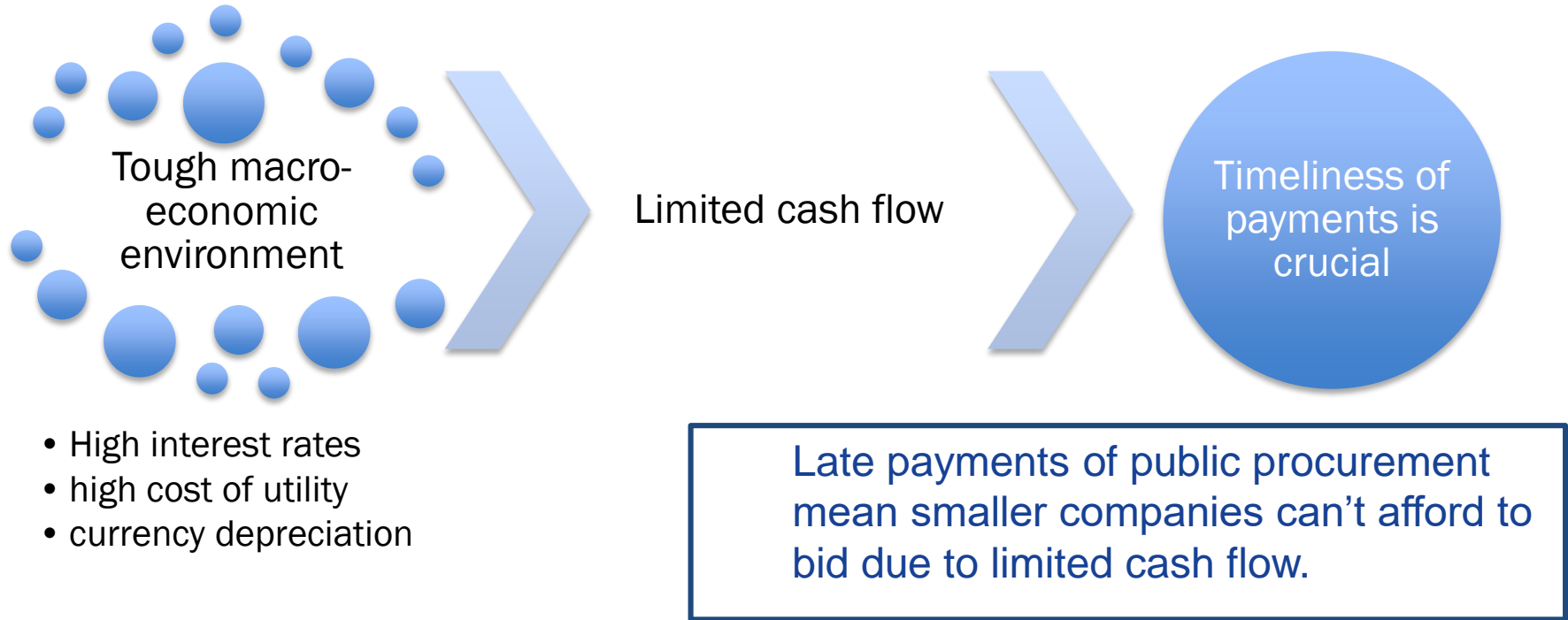
On time  
payments

Cost of utility

Access to parts  
and equipment

No collective  
voice or  
association for  
sanitation SMEs

## Barriers to operation: Tough Macro-Economic Environment



## Barriers to operation: No formal links or association for sanitation SMEs

Association	No. *	Type of sanitation enterprise (size, business area)
ECBA	1	A large treatment works

Associations act as the interface between government and the small scale providers

They provide a 'formal' umbrella for the very small and micro enterprises that fall outside the formal system to come together.

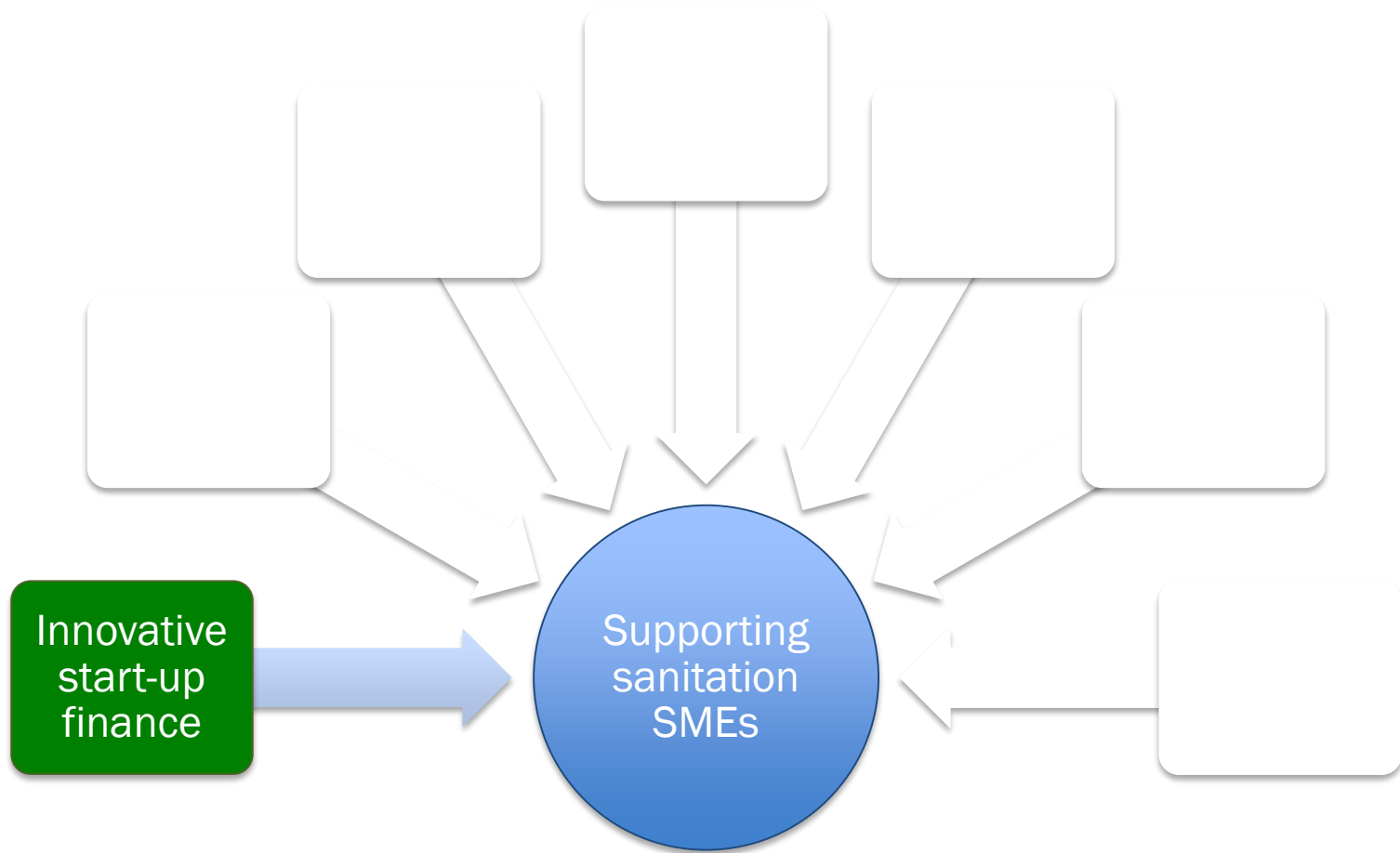
No sanitation association? Barrier to the ability of actors in the sanitation value chain to influence policy.

## **4. Conclusions and lessons learnt from elsewhere**



How can we  
support  
sanitation  
SMEs?

# Interventions to support SMEs in Ghana



## Intervention: Innovative start-up finance

### Equity Finance

precedence both within  
and outside the  
sanitation chain

### Guaranteed loans

Historically, under the  
PSI Agri-business SMEs  
profited from financial  
start up loans

### Microfinance & Micro credit

Fidelity Bank; HFC  
Boafo

### Subsidized credit

NBSSI loans at 5%  
1-3yr \$3K-10K to  
manufacturing, services  
and agri-processing

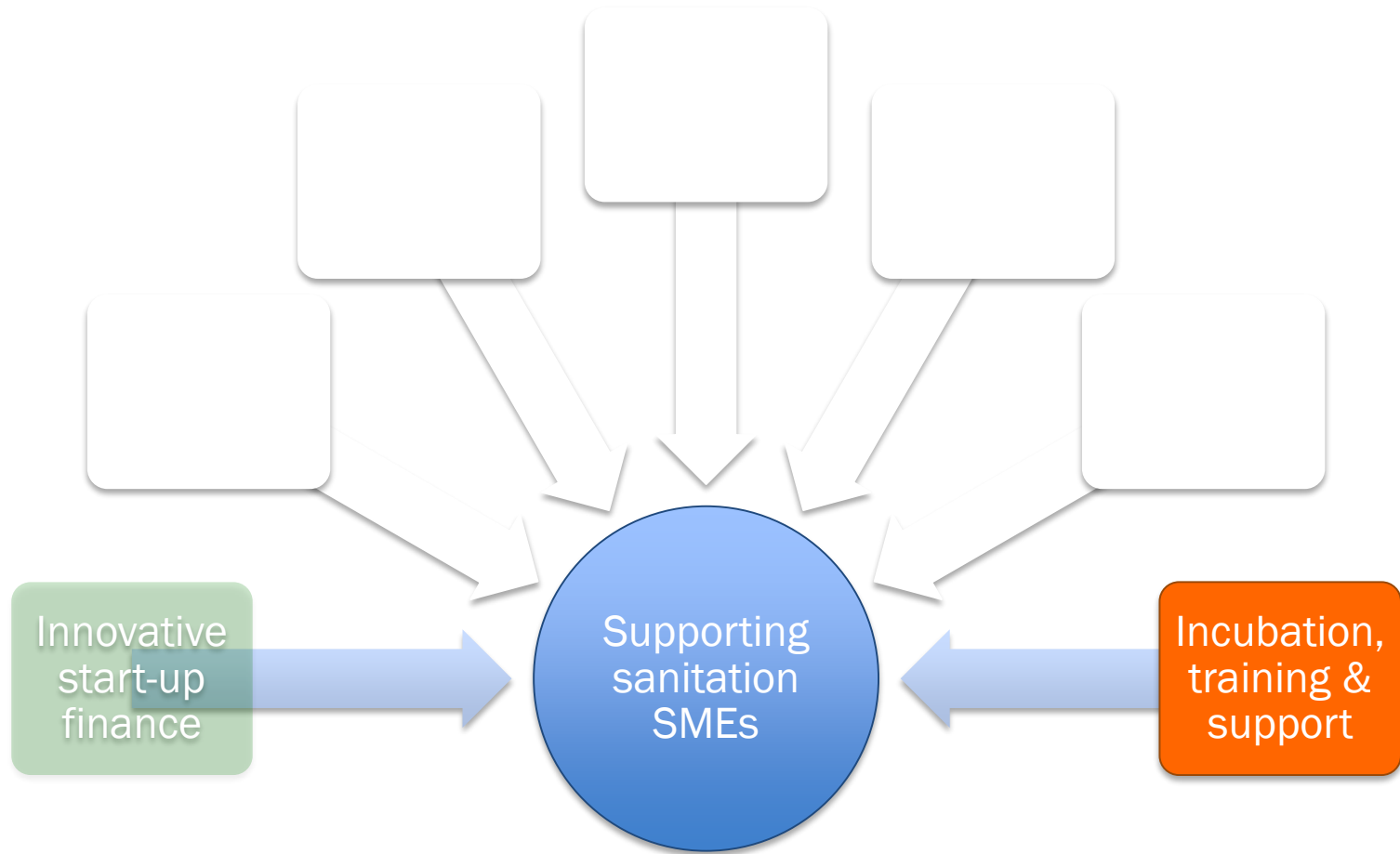
### Interest from investment of community funds

Association of Water and  
Sanitation Development  
Boards

### OBA Indonesia

Revolving fund for SMEs  
boost working capital –  
increasing rate SMEs  
can build toilets

# Interventions to support SMEs in Ghana





## Intervention: Incubating, training and support for sanitation start-ups

### Training and capacity development

ICT Ghana  
President Special  
Initiatives

### Access to parts or equipment

Historically, under the  
PSI Agri-business SMEs  
profited from equipment

### Vacuum truck operators in Senegal

Business skills  
training \$350K guarantee  
fund to buy vehicles

### Govt Initiatives

National Board for Small  
Scale Industries (NBSSI)  
National  
Entrepreneurship and  
Innovation Plan (NEIP)

### Incubators in Ghana

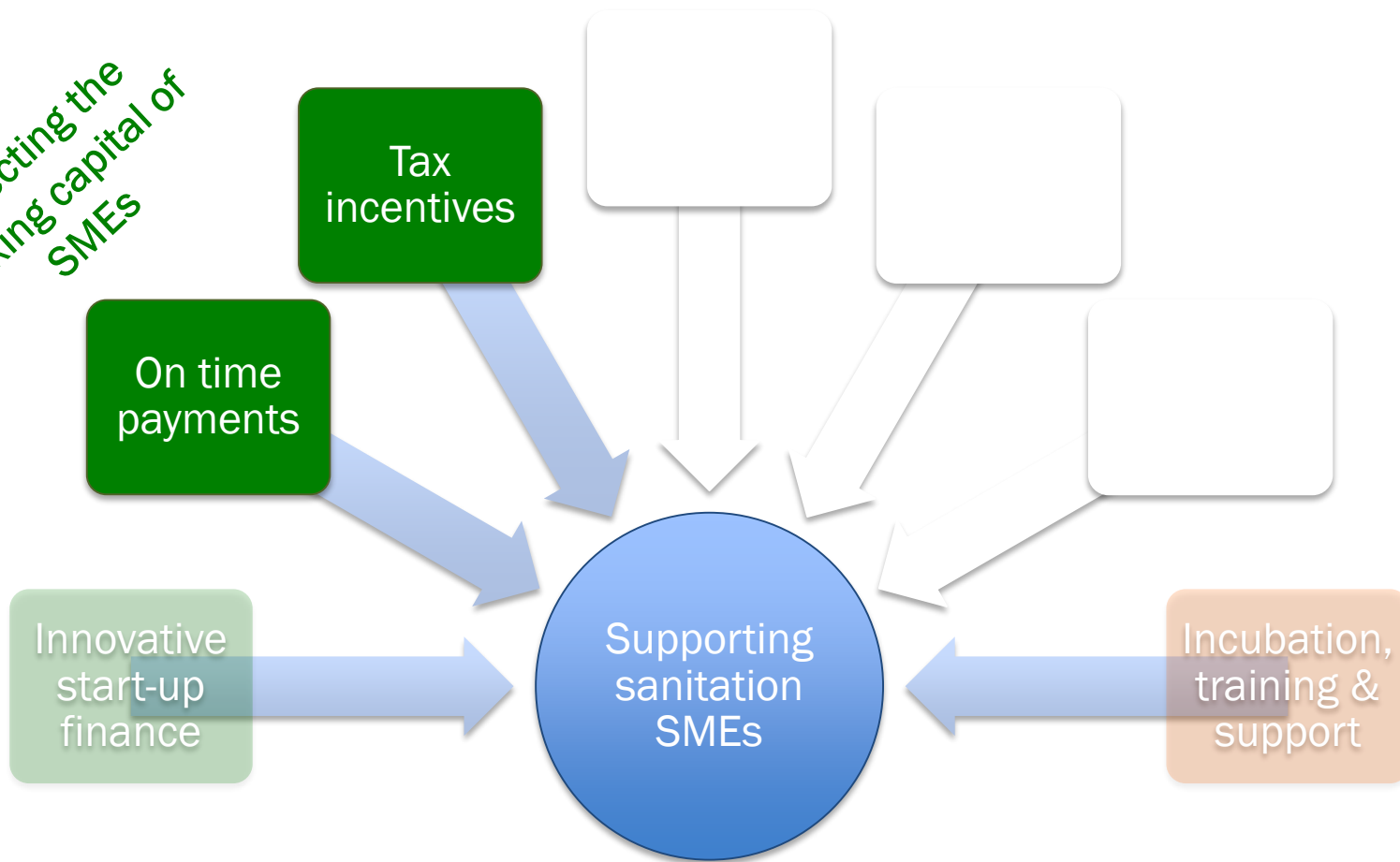
Growth Mosaic; MEST;  
Hub Accra; ServLed  
Accelerator Programme;  
Impacthub; Mfriday;  
Reach for Change.

### International incubators

Cewas; Aqua for All;  
The Toilet Accelerator

# Interventions to support SMEs in Ghana

Protecting the  
working capital of  
SMEs



## Intervention: Tax incentives

### Income Tax Holidays

10-25% more operating capital for registered start-ups for 5-7 years

### Refunding VAT

Historically PSI  
Agriculture (Ghana)  
SMEs: Czech Republic, France, Spain

### Vacuum trucks

#### Senegal

reduced import duty (5%); 50% insurance road tax exemption

### Import tax exemption

Reduction of up to 25% of import duties on parts, products and machinery.

### Thresholds of income tax

Specific turnover brackets can be targeted

### Vietnam Water Supply

Phased income tax reductions: 100% for 4 years; 50% for 4 years; 10% for 12 years

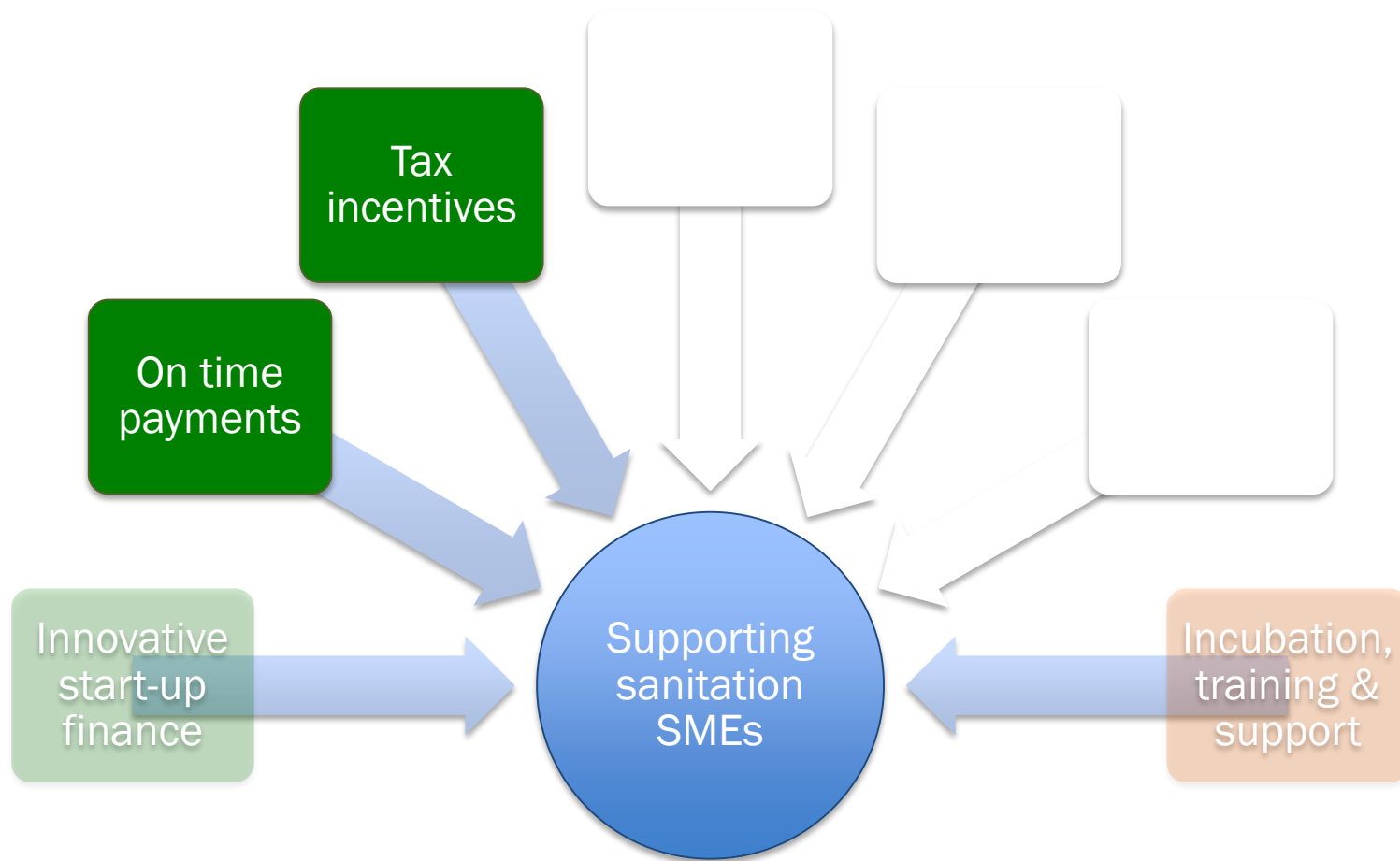
# Income Tax Act 2015 – industry concessions

Industry	Income tax concession period in years
Farming tree crops	10
Cash crops or farming livestock (other than cattle or fish)	5
Farming livestock (cattle)	10
Agro processing business	5
Cocoa by-products	5
Waste processing companies (a business where the principal activity is the processing of waste)	7
Rural banking	10
Unit trust or mutual trust scheme	10
Venture capital	10
Low cost housing	5
Free zone company	10

## Potential impacts of fiscal incentive packages

Fiscal incentive	Potential impact for sanitation MSMEs
<b>Income tax holiday</b>	10-25% more operating capital for formally registered start-ups for a defined period (i.e. 5-7years)
<b>Waived import duties</b>	Reduction of up to 25% import duties and fees for MSMEs who are importing goods (for example those who import vehicles or machinery or materials)
<b>Thresholds of income tax</b>	<p>This is a mechanism whereby specific bands of income can be favourably targeted for fiscal exemption, for example smaller companies with lower turnovers can pay a lower tax rate.</p> <p>NB: There is already a graduated banding of income tax for self-employed persons in Ghana (see table 3). It may be the case that these thresholds are raised to allow for more businesses to fall under the thresholds.</p>
<b>VAT refunds</b>	VAT pushes the operating costs of MSMEs higher and these costs are often transferred to the customers. VAT exemptions could be targeted at specific segments of the sanitation value chain (for example in the construction, sale and installation of toilets and hardware OR for the smaller companies by turnover). Theoretically, a VAT reduction or refund could mean lower cost of services for the customers but this is not guaranteed.

# Interventions to support SMEs in Ghana



## Intervention: On time payments

### Faster invoicing and mobile payments

ICT sector

### Shortening payment delays

for public procurement  
10 days in the UK

### Easing tendering & procurement

Australia, France,  
Netherlands, New  
Zealand, UK

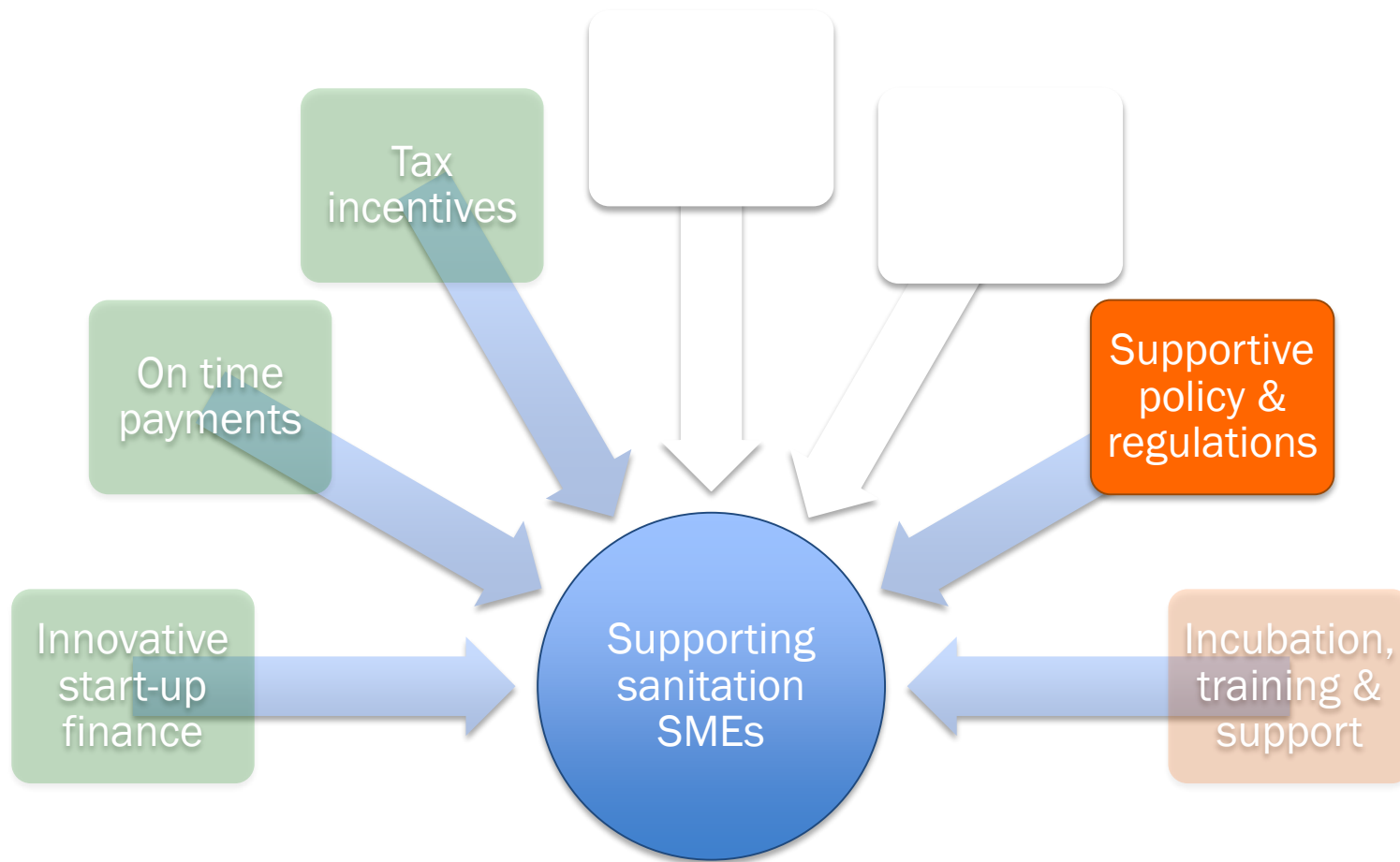
### **Govt Initiatives**

National Board for Small  
Scale Industries (NBSSI)

National  
Entrepreneurship and  
Innovation Plan (NEIP)

### Giving wage subsidies to SMEs OECD

# Interventions to support SMEs in Ghana





## Intervention: Supportive policy and regulations

### The National Environmental Sanitation Strategy and Action Plan (NESSAP) 2010

#### Comprehensive policy

e.g. ICT4AD

legal, institutional &  
regulatory frameworks,  
bodies, reforms; distribution  
mechanisms; standards

#### Enabling environment

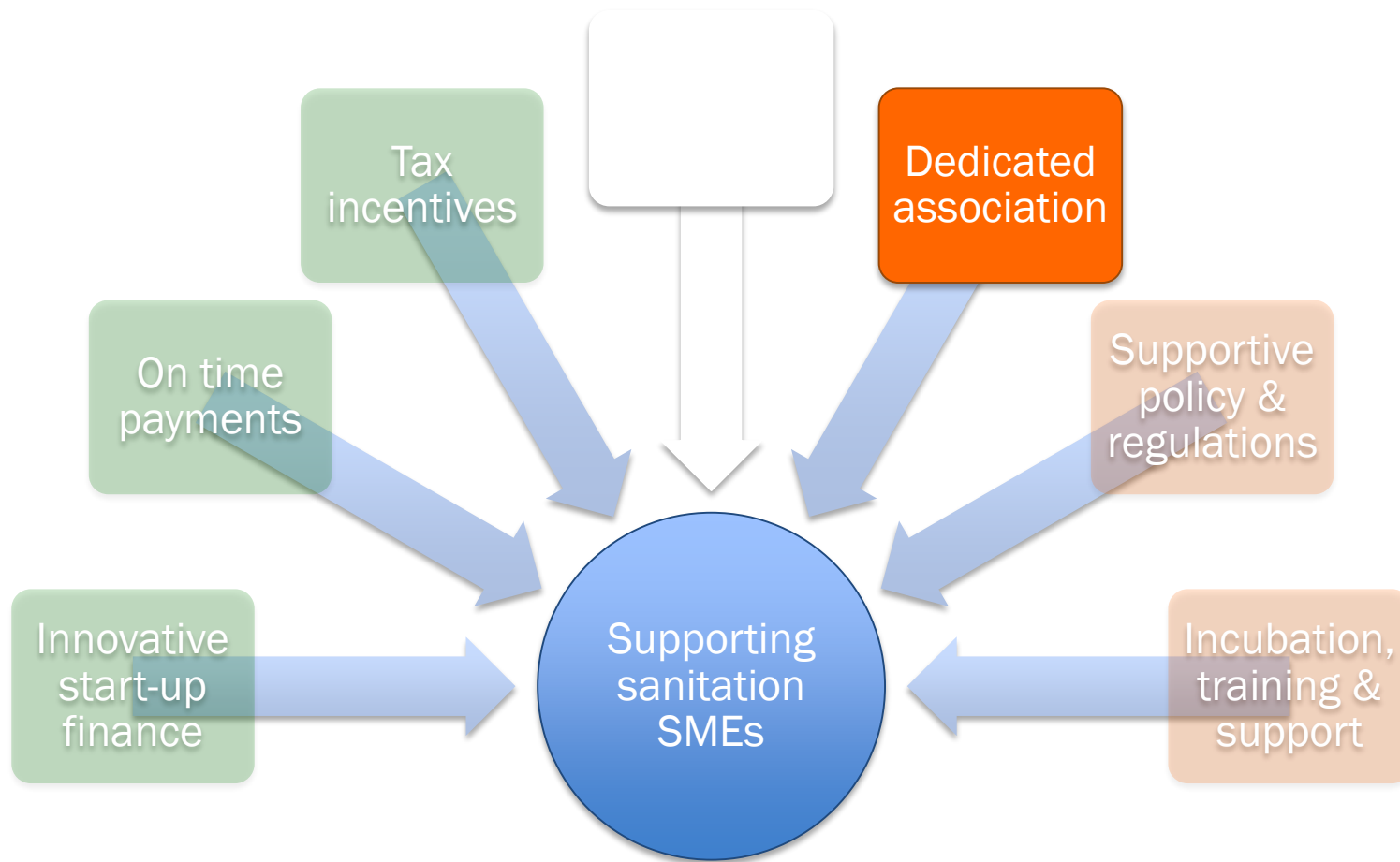
e.g. Plastic Waste  
Taskforce; Sensitization  
campaign; incentives to join  
sector; business support;  
Association (5000+  
members)

#### Favouring SMEs

e.g. India

Tax concessions  
Simplified procedures  
Items are reserved for SMEs  
Preferential govt purchase

# Interventions to support SMEs in Ghana



## Intervention: Creating (or reinforcing) dedicated association(s)

### Existing Associations

Environmental Service  
Providers Association  
Ghana Plastic  
Manufacturers Association

### Influencing policy and public discourse

ESPA engaged in policy and  
public discourse around  
environmental issues

### WASAZA Zambia

Association for WASH  
businesses (300 members)  
Training; links to incubators;  
networking opportunities

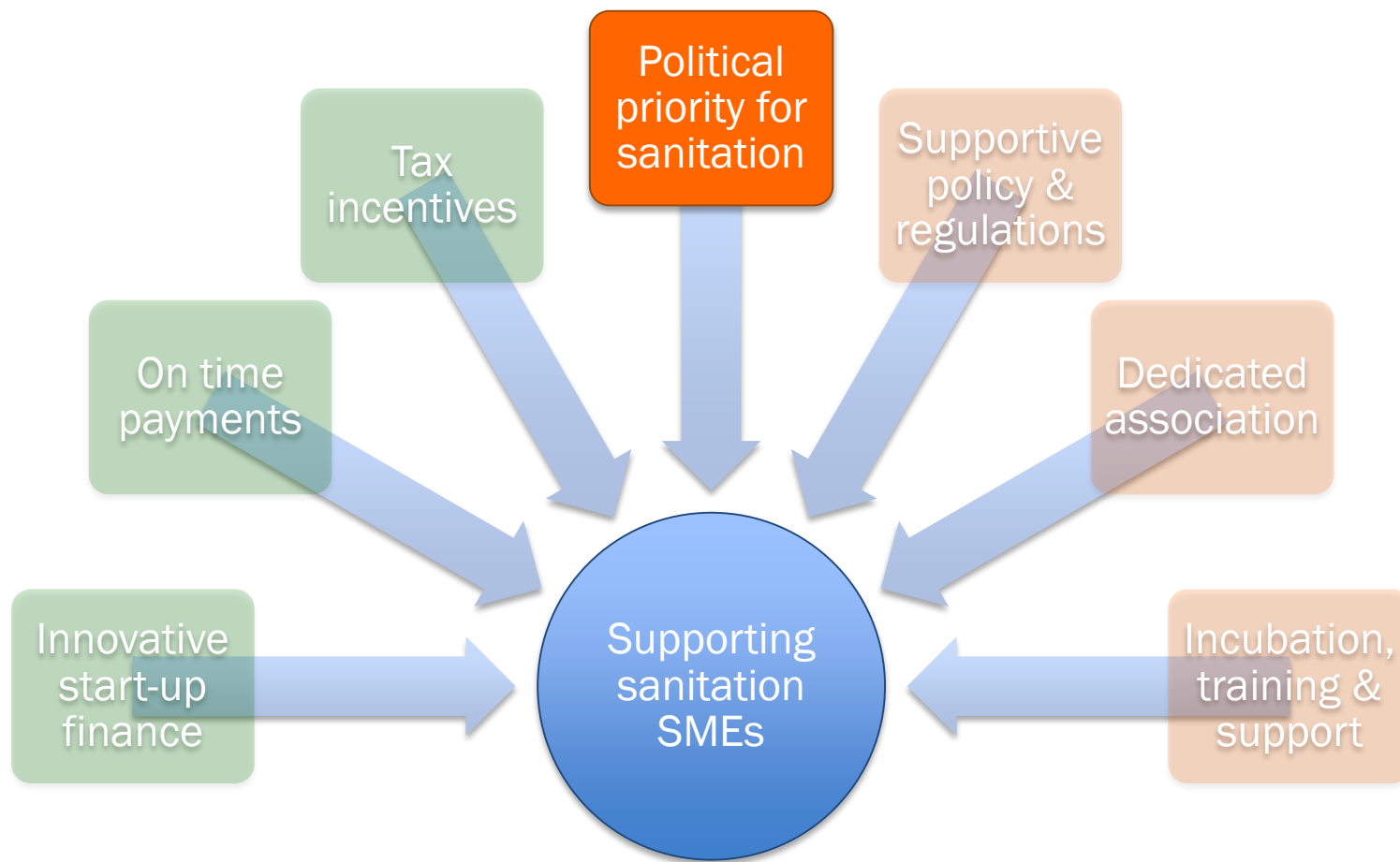
### Improve procurement

ESPA inputs to Public  
Procurement Act 2003  
Franchise agreements  
with local government

### Lobby for funding, equipment, tax exemptions

Plastic Waste Collectors

# Interventions to support SMEs in Ghana



## Intervention: Building a supportive political environment for sanitation SMEs

### The Ministry of Sanitation and Water Resources

### The Swachh Bharat (Clean India) campaign

toilet construction;  
awareness & enforcement  
National - bilateral funds

### Rural Water Supply in Vietnam

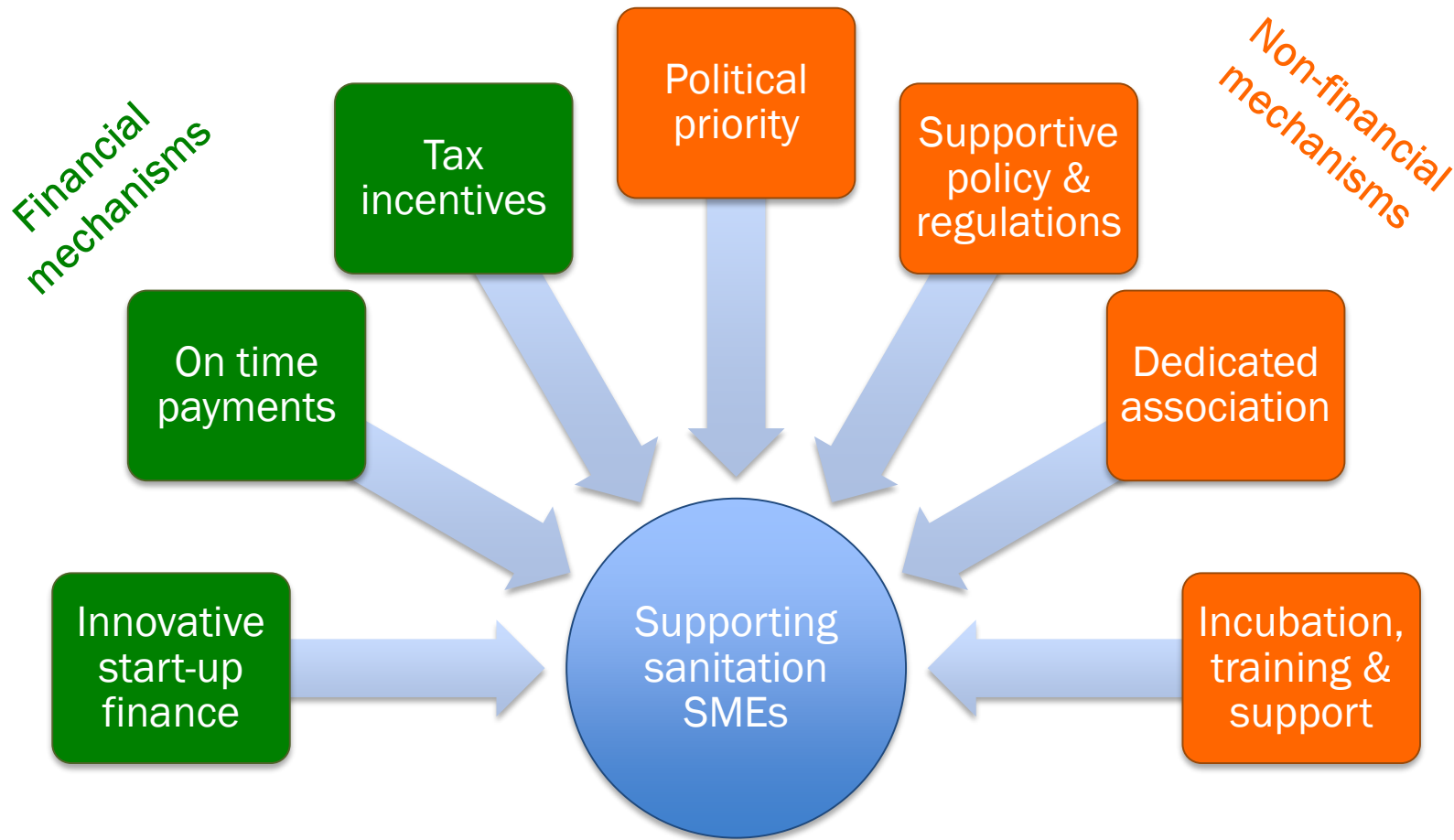
Prime Minister decision to  
improve rural water supply  
land; tax; funding; subsidy

### Lessons in Ghana

ICT  
Plastic Waste  
President Special  
Initiatives  
Prioritising SMEs

Political support can help shift focus  
and rally efforts BUT can be  
unsustainable if not underpinned by the  
right measures

# Package of Interventions to support SMEs in Ghana



# **5. Opportunity Areas for WASH Sector Actors: Practical next steps**

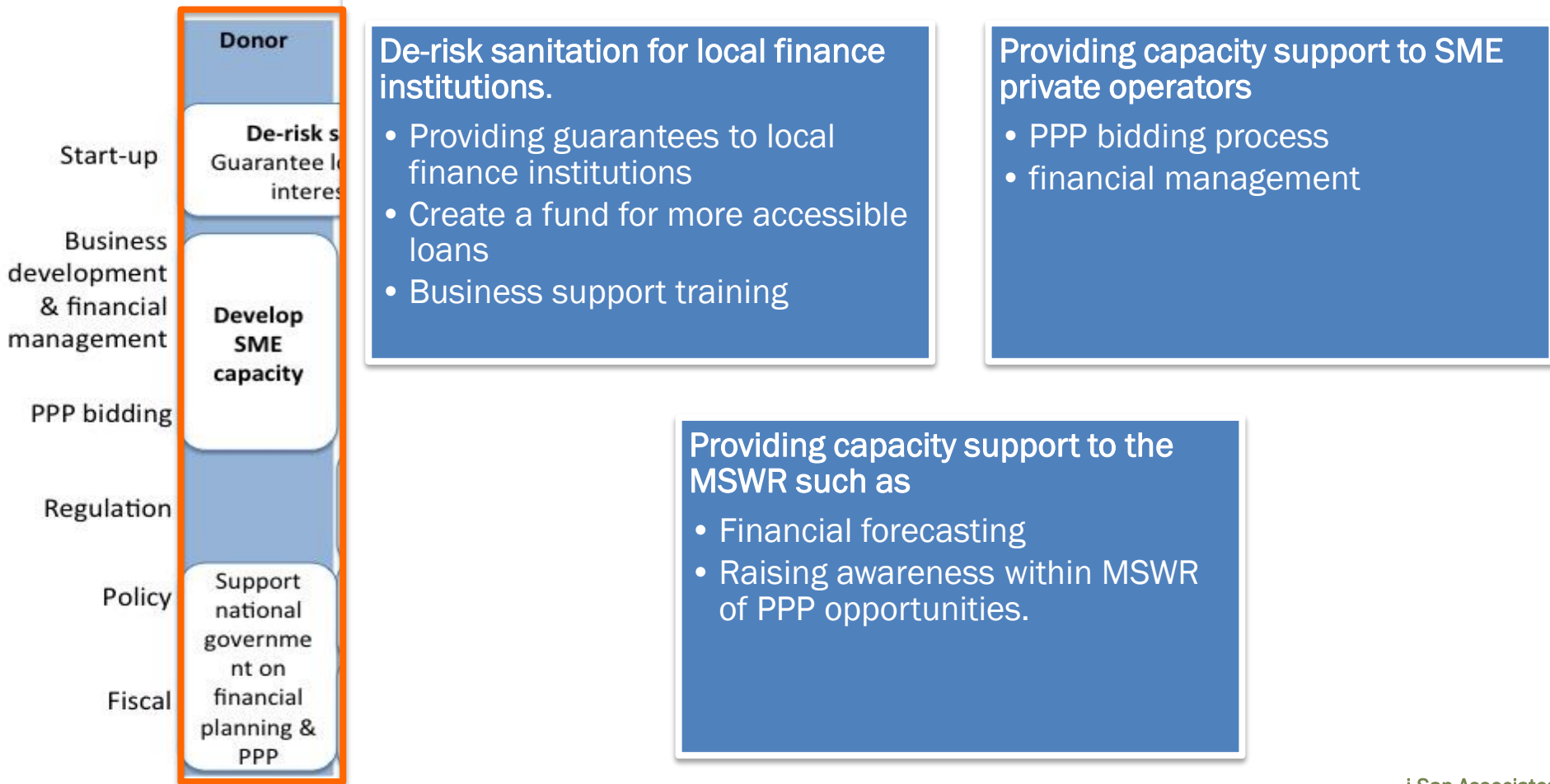
Priority areas for key actors to support sanitation SMEs

## Priority areas for action

	Donor	National Gvt.	Local Gvt.	Local Financial	Supporting institutions	NGOs
Start-up	De-risk sanitation Guarantee loans; reduce interest rates			Affordable access to credit	Broker partnerships finance institutions – MSMEs)	
Business development & financial management	Develop SME capacity			Develop SME capacity	Broker partnerships for comprehensive fiscal; technical; management support package	
PPP bidding			Easier tendering	faster payments & finance	Develop SME capacity	Articulate the need Engage with national dialogue
Regulation		Clear policy and regulatory framework	Positive enforcement		SME Association to broker between actors and influence policy	Advocate on behalf of LUICs and providers
Policy	Support national government on financial planning & PPP	Engage with other Ministries				Support under resourced actors
Fiscal		Fiscal incentives for sanitation				



## Priority areas for action: donors



## Priority areas for action: National Government

	Donor	National Gvt.	Local Gvt.	Local Financial	Supporting institutions	NGOs
Start-up		<b>De-risk sanitation</b> Guarantee loans; reduce interest rates		Affordable access to credit	<b>Broker partnerships</b> finance institutions – MSMEs)	
Business development & financial management		<b>Develop SME capacity</b>		Develop SME capacity	<b>Broker partnerships</b> for comprehensive fiscal; technical; management support package	
PPP bidding			Easier tendering	faster payments & finance	Develop SME capacity	<b>Articulate</b> the need <b>Engage</b> with national dialogue
Regulation		Clear policy and regulatory framework	Positive enforcement		SME Association to broker between actors and influence policy	<b>Advocate</b> on behalf of LUICs and providers
Policy	Support national government on financial planning & PPP	Engage with other Ministries				<b>Support</b> under resourced actors
Fiscal		Fiscal incentives for sanitation				

# Priority areas for action: National Government



## Create the right package of financial arrangements

- Mobilise dedicated funding and resources specifically for sanitation
- Ring-fence the dedicated sanitation fund
- Access to credit for SMEs

## Policy and regulatory framework

- helps to ensure a stable and business friendly environment that can encourage investment in the sanitation sector
- Sector dialogue around policy and regulations that help not hinder sanitation SMES

## Work with other Ministries

- Lever capacity of other Ministries such as the MoF, MOTI, MOH and MoE

## Targeted fiscal incentives

- Targeted to SMEs
- Sanitation products better suited to LUICs (i.e. SatoPan)
- VAT refunds for selected sanitation businesses or sectors

## Priority areas for action: Local Government

	Donor	National Gvt.	Local Gvt.	Local Financial	Supporting institutions	NGOs
Start-up	De-risk sanitation Guarantee loans; reduce interest rates			Affordable access to credit	Broker partnerships finance institutions – MSMEs)	
Business development & financial management	Develop SME capacity			Develop SME capacity	Broker partnerships for comprehensive fiscal; technical; management support package	
PPP bidding				Easier tendering	faster payments & finance	Develop SME capacity
Regulation		Clear policy and regulatory framework		Positive enforcement		
Policy	Support national government on financial planning & PPP	Engage with other Ministries			SME Association to broker between actors and influence policy	
Fiscal		Fiscal incentives for sanitation				

# Priority areas for action: Local Government

Local Gvt.

Easier  
tendering

Positive  
enforceme  
-ent

Creating easier tendering and procurement procedures and policies,

- develop PPP agreements that are specifically tailored to SMEs.

Improve accountability and performance management at MMDA level

- time payment and efficient procurement of MSME services.

Legal framework and enforcement mechanisms that incentivise good behaviour

## Priority areas for action: Local Financial Institutions

	Donor	National Gvt.	Local Gvt.	Local Financial	Supporting institutions	NGOs
Start-up	De-risk sanitation Guarantee loans; reduce interest rates			Affordable access to credit	Broker partnerships finance institutions – MSMEs)	
Business development & financial management	Develop SME capacity			Develop SME capacity	Broker partnerships for comprehensive fiscal; technical; management support package	
PPP bidding			Easier tendering	faster payments & finance	Develop SME capacity	Articulate the need Engage with national dialogue Advocate on behalf of LUICs and providers Support under resourced actors
Regulation		Clear policy and regulatory framework	Positive enforcement			
Policy	Support national government on financial planning & PPP	Engage with other Ministries				
Fiscal		Fiscal incentives for sanitation			SME Association to broker between actors and influence policy	

# Priority areas for action: Local finance institutions

## Local Financial

Affordable  
access to  
credit

Develop  
SME  
capacity

faster  
payments  
& finance

Provide banking and affordable credit services to SMEs in sanitation.

Provide appropriate training and business development support packages

Support SMEs with **faster payments** and **operational finance** services

NB: This needs to be in partnership with other actors to incentivise financial institutions and de-risk the sanitation businesses.



## Priority areas for action: Business Support Institutions

	Donor	National Gvt.	Local Gvt.	Local Financial	Supporting institutions	NGOs
Start-up	De-risk sanitation Guarantee loans; reduce interest rates			Affordable access to credit	Broker partnerships finance institutions – MSMEs)	
Business development & financial management	Develop SME capacity			Develop SME capacity	Broker partnerships for comprehensive fiscal; technical; management support package	
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Policy	Support national government on financial planning & PPP	Engage with other Ministries				Support under resourced actors
Fiscal		Fiscal incentives for sanitation				



# Priority areas for action: Business support institutions

## Supporting institutions

Broker partnerships  
finance institutions  
MSM

Broker partnerships  
comprehensive  
technical; management  
support

Develop  
SME  
capacity

SME  
Association  
to broker  
between  
actors and  
influence  
policy

### Broker partnerships

- Between local finance institutions and SMEs
- Between SMEs and regulatory and policy actors to inform policy

### Develop SME capacity

- Incubation and acceleration support for new SMEs
- Specifically for the micro and smaller SMEs

Support and develop sanitation SME associations to influence policy

## Priority areas for action: NGOs

	Donor	National Gvt.	Local Gvt.	Local Financial	Supporting institutions	NGOs
Start-up	De-risk sanitation Guarantee loans; reduce interest rates			Affordable access to credit	Broker partnerships finance institutions – MSMEs)	
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Fiscal		Fiscal incentives for sanitation				

# Priority areas for action: NGOs

## NGOs

Partnerships  
institutions –  
SMEs)

Partnerships for  
inclusive fiscal;  
management  
package

**Articulate**  
the need

**Engage**  
with  
national  
dialogue

**Advocate**  
on behalf  
of LUICs

and  
providers

**Support**  
under  
resourced  
actors

## Articulate

- The sanitation need and solutions for low income areas
- The value of sanitation SMEs
- The parallels between solid and liquid waste management
- The need for business support

## Engage

- With the policy, regulatory and fiscal dialogue
- With existing national structures (i.e. the NBSSI, NEIP, GIPC...)
- With on-going consultations (i.e. MoTi SME policy)

## Advocate

- for LUICs and pro-poor products and services future revisions of policy, regulatory or fiscal strategy.
- for all actors of the sanitation value chain to be considered as contributors to improving sanitation

## Support

- Local government (regulation and enforcement mechanisms, performance monitoring)
- Associations for sanitation enterprises
- Brokering between actors

## Priority areas for action

	Donor	National Gvt.	Local Gvt.	Local Financial	Supporting institutions	NGOs
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Fiscal		Fiscal incentives for sanitation				
					SME Association to broker between actors and influence policy	



We thank you for listening.

## Policy and Regulatory Environment (Sanitation)

- **National Environmental Sanitation Policy (2010):** This provides the general framework for delivering sanitation services. This is currently being revised and updated under the mandate of the Ministry of Sanitation and Water Resources.
- **Criminal Code, 1960 (Act 29):** In this regulation, three sections make references to issues that relate general sanitation services
- **Local Government Act 462 (Section 52-56 hosts the Building Regulations):** This makes provisions that relate to 9compound toilets, and
- **Public Health Act 2012 (Act 851):** This mentions of the responsibilities of authorities re removal and safe disposal of wastewater; and defines open defecation as a public nuisance.
- **Local Environmental Sanitation Byelaws.**

## Policy and Tax reforms

- **The National Policy on Public Private Partnerships (2011)** to encourage the provision of a wide variety of quality and timely public infrastructure and services. This will be achieved through faster project implementation, maximum leveraging of public funds, enhanced accountability and a shift to whole-life cycle costing and infrastructure management by the private sector.
- **Renewable Energy Act 2011 (Act 823)** is to develop and promote renewable energy with a view to achieve 10% renewable energy by 2020. The production of biogas from organic waste and faecal matter means this is of potential significance to the WASH sector.
- **Public Procurement Act, 2003 (Act 663)** and the Public Procurement Amendment Act, 2016 (Act 914) – to streamline public procurement processes and secure judicious, economic and efficient use of state resources; and to ensure that public procurement is fair, transparent and non-discriminatory.
- Several other initiatives to **improve the competitiveness of SMEs**

## Fiscal reform

- **Value-Added Tax:** In 1998 Ghana successfully introduced VAT at 10% after a failed attempt in 1995. It has subsequently risen to 15% and is combined with a National Health Insurance Scheme Levy at 2.5% (VAT Act 2013, Act 870). The Internal Revenue Service (IRS) and the Custom Exercise and Preventive Service (CEPS) were merged into the Ghana Revenue Authority (GRA) to enhance the payments of taxes and to improve efficiency in tax systems (act of Parliament, 2009 (Act 791)).
- **The e-government project (2011)**, the e-government project was introduced in November 2011 by the government of Ghana to link the GRA to the Registrar General's Department (RGD) in order to electronically keep tabs on the payment of taxes from registered businesses.
- **Income Tax Act 2015 (Act 896)**, which replaces the Internal Revenue Act, 2000 (Act 592) includes a 7 year tax holiday for Waste Processing Businesses (inserted by the Internal Revenue (Amendment) Act, 2004 (Act 669)); tax deductions for employing graduates. See annex 2 for income tax holidays granted to different industry sectors in Ghana.