RAISING PRODUCTIVITY AND REDUCING THE RISK OF HOUSEHOLD ENTERPRISES

Ghana Country Study

Policy Note

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Introduction

Ghana has had a history of developing and sustaining the growth of the informal enterprises because of a broad recognition of their pivotal role in job creation and in poverty reduction. The Government of Ghana has established some of the most developed institutions for supporting informal sector activity, including the National Committee on the Informal Economy (NCIE) tasked with leading and coordinating the process of designing policies and interventions in support of the informal sector, and the National Board for Small Scale Industries (NBSSI) that promotes the development of micro- and small enterprises (MSEs), many of which are informal. Moreover, the Government has supported a large private apprenticeship program, and a national network of banks and microfinance institutions (MFI) that cater to the needs of both the formal and informal sectors. It has facilitated the formation of national and local level associations, which advocate for informal enterprises with local and national governments.

With such key institutions at the national level already in place, the challenge is to expand coverage, improve coordination and quality of interventions, and deepen the range of existing structures in support of informal enterprises. Reaffirming its commitment to promoting these enterprises, the NCIE has requested for a study of household enterprises (HEs), which is the most common form of informal enterprise in Ghana. HEs are small businesses engaged in nonfarm activity, and are operated by a single individual (the owner) or with the assistance of family members or no more than five non-family workers on a casual basis. Despite the small scale of their operations, HEs have been an important livelihood source for rural and urban households for many years. Yet little is known about the dynamics of HEs, as well as the constraints they face during start-up and operations. Addressing these constraints can unleash their potential to play a much bigger role in fostering growth and reducing poverty in the country. For this reason, the NCIE requested a study of HE to aid in developing its policy framework to promote the growth and productivity of MSE informal enterprises.

This policy note presents the main findings of the full two year study of household enterprises in Ghana. This study was undertaken by the World Bank on behalf of the NCIE. The lead consultant and author was Aba Quainoo of MEL consultants, Accra, Ghana. MEL consultants undertook all the field work for this study as well (discussed in sections II and III). The World Bank provided the analysis of the GLSS and other data for section I. The note is organized as follows: Section I provides an overview of the importance of HEs in the country’s economy, and presents a profile of those who operate them; Section II analyzes the main constraints to their growth and productivity; Section III reviews existing policies, programs, and projects that are relevant to HEs and that affect their performance; and the last section concludes with policy recommendations with the end in view of raising the productivity and reducing the risks of HEs, thereby enhancing their role in economic development and poverty reduction in Ghana.
I. Why Do Household Enterprises Matter and Who Operate Them?

Ghana’s sustained GDP growth during the period 1991 to 2006 created substantial private wage employment, averaging about eight percent per year. Yet despite the rapid growth in wage employment, agriculture remained Ghana’s largest primary employment sector, with household enterprises a close second. Between 1991 and 2006, about 2.8 million new jobs were created; approximately 1 million of these were created by HEs (World Bank, 2009).

The importance of HEs comes out more strongly when viewed from the livelihood perspective. The most recent Ghana Living Study Survey1 (GLSS 5) shows that there were about 3.6 million non-farm enterprises operated as self-employment, and 92.6 percent of these were HEs. The vast majority of them (72 percent) are operated by a single individual without the assistance of family members. GLSS5 also reveals that close to half of all households (46.4 percent) reported having an HE. HEs are more common in rural areas, often as a complement to family farming.

**Figure 1: Rapid expansion in private wage jobs from 1991 to 2006, yet agriculture and HEs still provide the bulk of employment**

Distribution of labor force 1991-2006  
Annual rate of growth in labor force 1991-2006  

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HEs were more common in middle-class households in both rural and urban areas in 2006. Although available data do not allow for the direction of causality between HE ownership and wealth to be determined, international evidence in general shows that running a HE increases household income (Barrett et al. 2001).

When asked about their motivation for starting their own HE, respondents during focus group discussions (FGDs) convened for this study in 2010 cited their desire to increase their income as a key factor. Others mentioned their experience in the field or their personal interest in running their own business as their main reason for engaging in an HE activity. Some, however, reported life events, such as loss of a job, dropping out of school, or inability to find alternative jobs, as the “push” factors that drove them into starting an HE.

As of 2005/6, the predominant activity among HEs was trading, followed by manufacturing. However, the share of HEs engaged in trade fell from 55 percent in 1991/2 to 40 percent in 2005/6, indicating a shift out of this activity, especially in the rural areas. In these areas, HEs were more likely to engage in manufacturing using local materials, such as charcoal making, beer brewing, shea butter processing, and brick making. Urban HEs, which made up a little less than half of all HEs (47 percent) in 2006, were engaged more in services, e.g., repair of vehicles and small machines, transport, shoe repair, and personal services, such as barbering and hairdressing.

By 2005/06, only a few of Ghana’s HEs had been in operation for less than one year (9 percent). A much larger share (46 percent) had been operating for more than five years. While HEs in rural areas were less likely to run their HE year-round owing to the seasonality of demand for their products and the need for agricultural labor at harvest time, over time, there had been a large increase in HEs working year-round in all localities (from 56 percent in 1991/2 to 66 percent in 2005/6).²

Ghana’s labor force is young, and so are HE operators, but youth under 24 are not very well represented in the HE sector. More than 30 percent of the labor force (excluding HE workers) is between 15 and 24, while among HE operators only 10 percent belong to this age group. In part, this is because many of those in the labor force at this age are still in school. Young people are also less likely to start a business, as they may lack experience, assets, and/or

² There is no data on HEs which went out of business, hence there is no information on permanence.
access to credit to be able to do so. They are therefore more likely to be helpers than owners of HEs.

HE owners are not likely to have enough education to qualify for wage employment, which usually requires at least a completed secondary education. Typically, HE operators have completed primary education, and they tend to be at least five years out of school. As the labor force gained more education, so did HE owners, and current HEs owners are more educated than 20 years ago.

Women make up half of the labor force; but in the HE sector, over 70 percent are women-owned and operated in both urban and rural areas, with little change over time. This is in part related to the educational gap between men and women. Men are generally more educated, i.e., a higher share of men in the labor force completed secondary education or above, so they have better access to wage and salary jobs. However, this is only part of the reason since, for any given educational level, women are more likely to operate an HE than men, and men are more likely to have a wage job than women. A partial explanation could also be discrimination or occupational segregation along gender lines. Another explanation is the role of women as primarily responsible for child rearing and household chores, leaving them less hours for wage employment. However, there is limited evidence to support this contention because the reported number of hours worked among HE owners in the GLSS5 is roughly the same for males and females. Female HE operators on average worked seven hours a day in rural areas and eight hours a day in urban areas. This is only an hour less than what is observed for male HE operators, and not very different from the required hours of work in a wage job. But women may still find it easier to combine and HE with household duties, so part of the tendency for women to own and operate HEs may be on the supply side (i.e. their own, unconstrained, choice).

Apprenticeship is by far the most common type of training in Ghana. Other types of training (e.g., vocational training) are rare and concentrated among those with completed secondary or higher education. Only about 20 percent of the labor force has gone through an apprenticeship. Among HE operators, however, 30 percent has done this type of training, and four out of five HE operators who have undergone some kind of training have done so through apprenticeship.

Although a large majority of HEs are women-owned and operated, apprenticeships are more common for male HE operators. There is also a clear segregation along gender lines when it comes to apprenticeship. Two-thirds of male HE owners who underwent apprenticeships did so in the highly male-dominated areas, such as construction, automotive repair, transportation, and electrical and mechanical work. Tailoring, dressmaking, and shoe repair were the only areas in which a substantial share of both men (26 percent) and women (62 percent) apprenticed, although women were more heavily represented. Personal services (e.g., hairdressing) and food preparation and processing were the most female-dominated areas of apprenticeships.
Many HE owners successfully started their HE after an apprenticeship. Unfortunately not all who underwent apprenticeship succeed in the field for which they are trained. Indeed, over a third of apprentices end up in trading, which does not involve any apprenticeship as such. This is especially a problem for apprentices in tailoring, dressmaking and shoe repairing, where over two-thirds of former apprentices were not working in this sector post-apprenticeship – instead they worked in trading. Part of the reason could be low standard and/or quality of training. Another possible reason is a mismatch between supply and demand for skills – tailoring is not a sector of expanding demand in Ghana. But owing to occupational segregation, almost all the women who had completed an apprenticeship by 2005 did so in sewing and tailoring. The lack of start-up capital might also be one of the reasons why many HE entrepreneurs with apprenticeship end up working in trade, a sector with low entry requirements, instead of the business for which they are trained.

Consistent with informal sector stereotypes, most of the HEs in Ghana are unregistered. Note, however, that registration is optional, and is used for the purpose of obtaining a business name and/or license. It is legal to do business in one’s own name without registration, which many HEs prefer. However, over time, there has been a significant movement among HE

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6 There are a few industries, classified as trade according to ISIC 3.1, that do have apprenticeship, as for instance repair of household goods. This is however a minority of those found in trade.
operators in Accra to register (Figure 4). Microenterprises are more likely to have a business name and register, both in Accra and outside the capital.

A common perception is that HEs do not pay taxes, but since many HEs are actually registered with the Registrar General or the District Assemblies (DAs), these HEs have paid a registration fee, and are also paying regular market fees, presumptive income tax, and other fees for specialized licenses. Their payments help strengthen the revenue base of the local government authorities. In 2009, for example, the Kumasi Metropolitan Assembly (KMA) reportedly raised about GHc450,000 per month from HEs, and a significant proportion of the total metropolitan revenue in Kumasi came from trader fees (King 2006).

II. Constraints to Household Enterprise Growth and Productivity

According to HE operators and the BAC officers interviewed for this study, as well as the survey results of the GLSS5 and GMES, the most important constraint to HE start-up, operations, and expansion is lack of capital. Unlike in many other Sub-Saharan African countries, however, the problem of inadequate capital is not due to the lack or inaccessibility of financial institutions (from which formal credit can be obtained) as 33 percent of HEs had a savings account in 2005, and almost all (91 percent) lived in an area where they had physical access to a bank. Rather, the problem is rooted in the lack of business skills and/or financial literacy among HE operators, as well as their lack of confidence in their ability to pay back a loan, indicating a perception that their business strategy might not be good enough to warrant additional investment. Lack of appropriate banking products for HEs, and high interest rates were also reported to be problems.

The GLSS5 also shows that only 11 percent of HEs had applied for formal credit in 2006, of whom around half were successful. For their start-up capital, most HEs relied on their personal savings (61.6 percent) or friends and relatives (20.3 percent). Other common reasons given for not applying for a loan were the cumbersome application procedures, inability to provide the right documentation, and lack of collateral or initial deposit required.

Lack of workspace in designated markets and light industrial zones for HEs is another important constraint faced by HEs: In urban areas, lack of access to good market locations is one of the most frequent sources of tension between the Metropolitan, Municipal and District Assemblies (MMDAs) and HEs. Urban bylaws restrict the operations of HEs in central business districts and other designated areas, often leading to conflict when local authorities attempt to evict informal enterprises from these areas, especially those engaged in hawking and activities considered noisy or polluting (e.g., vehicle repair, metalworking, and carpentry). In a number of cases, there is poor collaboration between MMDAs and HEs in the planning and development of

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3 Most of the material for this section came from FGDs carried out all over Ghana for this study. See the Field Report (MEL consulting, 2011).

8 Frazer (2006) reported that, of apprenticed workers questioned in the Ghana manufacturing enterprise survey (GMES), 77 percent stated that they would prefer to be self-employed. Of these workers, 99.5 percent were unable to become self-employed because of lack of capital.

9 A HE is assumed to have access to a bank if at least one household in the local area (survey enumeration area) has a bank account (World Bank, 2011).
new markets or light industrial zones, leading to inadequate service provision on these sites or worse, to new markets set up at locations that are not easily accessible to potential customers. A case in point is the hawkers’ market located at the Kwame Nkrumah Circle in Accra, which is currently not being used by informal traders for whom it was intended.

In many cases, the relationship between the MMDAs and HEs is contentious at best, with HE operators voicing concerns about harassment, corruption, and arbitrary taxation, to which they are subjected. The MMDAs, on the other hand, perceive HEs as tax evaders or a nuisance, reflecting a general lack of understanding of the informal sector and how it operates.

Another constraint most frequently cited by HEs is their lack of management and technical training, which negatively affects their ability to run their business effectively and /or to adapt their operations to changing technology or new ways of doing business. Record-keeping is poor and hinders HE owners from making informed decisions concerning their business, or from providing adequate information to financial institutions for credit applications. In both the FGDs and key informant interviews, respondents mentioned their desire to build their capacity in technical and management skills. An overwhelming majority (93.5 percent) were aware of changes in technology and increasing global competition, and wanted additional training to improve their performance on the market. When asked to determine at what level of success they would like to attain, most respondents said that if they could make enough sales to cover their business as well as household expenses, then they could expand their HE.

III. Policy, Institutional, and Regulatory Environment for HEs

Several central government ministries and agencies have policies and programs that are relevant to HEs and that affect their performance. The NCIE was created specifically to coordinate the process of policy and program formulation related to the informal sector, including micro-, small, and household enterprises (MSEs/HEs). In implementing their informal sector-related programs, national ministries and agencies work with the MMDAs at the local level, through which they channel funds or technical assistance targeted at HEs.

i. Local Economic Development (LED) and Infrastructure Institutions and Programs

The business environment for HEs is largely determined by the Metropolitan, Municipal and District Assemblies (MMDAs), which are the local authorities made primarily responsible for zoning and other regulations in their respective jurisdictions. Hence, the MMDAs determine whether HEs have access to workplaces, as well as to support infrastructure (i.e., roads, water, electricity, and stalls, among others) at designated markets in their areas. Most MMDAs have a number of HE-targeted programs, some of which are central government programs, such as the rural enterprise sector component of the Community Based Rural Development Program (CBRDP) and the Rural Enterprise Projects (REP II and III), as well as various sustainable livelihood projects and poverty alleviation funds that are channeled through them.

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4 Henceforth, references to HEs also apply to MSEs, as most informal sector programs and policies under discussion are directed at MSEs in general, including HEs.
Most MMDAs undertake local economic development initiatives aimed at building the capacity of HE operators through training in such activities as shea butter extraction, handicrafts making, grasscutter rearing, among others. Many have set up or are planning to set up light industrial zones meant to facilitate clustering of certain trades in designated locations for easier delivery of support services and for taxation purposes. In some cases, the primary motivation is to remove certain activities from the central business districts; in others, associations of HEs themselves have requested for a secure, serviced site to reduce the costs of finding or moving locations for their operations. A number of MMDAs have established Micro- and Small Enterprise Committees, with representatives of HE trade associations and the Business Advisory Centers (BACs) among their members. These Committees provide a forum for negotiations between the local authorities and the HEs on issues, such as setting market fees, provision of facilities and services, and establishment of new industrial zones and markets.

In general, MMDA projects for HEs have a mixed track record. The light industrial zone in Bechem is one successful model for relocating and supporting HEs. In collaboration with HE associations and with support from private companies, the GIZ, and the Social Security and National Insurance Trust (SSNIT), the local authority, through the Ghana Industrial and Commercial Estates Limited (GICEL) in Accra, developed and completed the project, including access roads, and electricity installation. The plan included sheds and stalls designed for HEs, which were successfully rented out to HE operators after completion. In some cases, however, industrial zones were developed with inadequate service provision, or new markets were constructed at poor locations. Even worse, some MMDAs do not adequately involve the HEs and/or their associations in the planning and construction of markets and industrial zones, which in many cases lead to HE operators rejecting the facilities.

Furthermore, the rapid growth of the urban population and the concomitant growth of informal enterprises have outstripped the capacity and resources of many MMDAs to adequately provide for the needs of HEs. As a consequence, existing facilities (markets and industrial zones) could not accommodate the increasing number of new HE operators, and new facilities could not be developed.

**ii. Financial Support Institutions and Programs**

Programs to build the capacity of rural and microfinance institutions over the past decade have broadened access to formal credit for many. Outreach to HEs, however, is constrained by nonperforming loans, inability of HEs to meet loan requirements, and/or unsuitability of financial products for them. These problems are due to a number of factors, viz.: a) ineffective mode of appraisal, approval, and disbursement, b) lack of qualified staff, c) lack of market research and product development, and d) weak monitoring and evaluation. These weaknesses affect the deposit base of these financial institutions, limiting their credit portfolio and margins which are needed to support outreach activities.

A number of national projects, such as the REPs, have a financial support component. However, many HE owners do not access these funds either because the funding institution does not consider the projects put forward by HE operators (or local politicians) for financing to be
creditworthy, or because the project implementers lack the capacity to adequately appraise credit applications and monitor credit use. Hence project funds go undisbursed.

iii. Business Development Support Institutions and Programs

The Business Advisory Centers (BACs) encourage HEs to form their own associations, and provide support to them in the form of training and counseling in such areas as preparing for the National Vocational Training Institute (NVTI) professional tests, record-keeping, and exchange visits with other HEs. In consultation with HE associations, the BACs design their training program for specific activities required by members. Many BACs facilitate skills acquisition (in soap-making, grasscutter rearing, beekeeping, etc.) to encourage trainees to start their own HEs, or tailor their training programs (both for specialized skills and general business and financial management) to the needs of local trade associations.

The BAC activities are periodic and are heavily dependent on availability of funds. Part of the reason is because the BACs could not charge its target groups – the youth and HEs/MSEs - the full cost of training. Some activities are funded by the MMDAs, NGOs, or through central government projects like the REPs, in which the project covers 80 percent of the cost, and the trainee pays the rest in cash or in kind. Cost-sharing differs by project, with the trainees’ share typically ranging from 10 percent to 50 percent (the latter usually borne by larger MSEs). Under REP II, the BACs monitor the progress of HEs from start-up or survival phase, to normal or rapid growth stages.

Also as part of the REPs, Rural Technology Facilities (RTFs) have been set up, through which the GRATIS Foundation (the implementing agency) provides master craftsmen and traditional apprenticeship graduates with additional specialized training, tools, and/or equipment to help them start their own business. In some cases, RTFs set up as part of industrial zones in some districts to bring them close to their target HE operators.

In addition, the Council for Vocational and Technical Education and Training (COTVET) works through and with the trade associations in promoting new technology transfer to HE operators (e.g., in operating and repair of fuel injection and microchip technology in new models of vehicles). A few FGD respondents did mentioned some training programs provided by the NBSSI as useful, but like the BACs’ activities, these training programs are also not held regularly because of lack of funds.

iv. Associations of Informal Sector Workers

At the national level, affiliation with the Trade Union Congress (TUC) has helped raise the effectiveness of some trade associations representing informal enterprises. The Ghana Union Traders Association (GUTA) has been instrumental in the enforcement of the investment laws and the introduction of a flat VAT rate, although it is not very active outside Accra. Other associations, such as the Ghana Association of Hairdressers and Beauticians (GHABA), have greater representation within smaller towns throughout the country. About a third of HEs get information about support services for their businesses through their trade associations.
At the local level, where associations of HEs are well organized, dialogue with local authorities and assessment of needs for required services have proven much easier. It is common for HE workers engaged in the same activity (e.g., artisans) to organize into local associations. However, only a few of such associations in rural districts are affiliated with national associations. Among FGD respondents and key informants interviewed for the study, about 49 percent are trade association members. However, most of these associations are reported to be weak, and their leadership lacks the necessary managerial and lobbying skills to effectively run them. When leadership is weak, members tend not to comply with their own association’s rules, thereby weakening it and its bargaining position with MMDAs. The informal sector trade associations are therefore vulnerable organizations, which can collapse easily.

v. Social Protection

Ghana is a leader in sub-Saharan Africa in developing and implementing social insurance programs for the informal economy. The social insurance programs available to HEs are the National Health Insurance Scheme (NHIS) and the SSNIT Informal Sector Fund. Awareness and use of NHIS by HE operators are high, especially among women and children, even though the quality of its service delivery at healthcare facilities can be poor, according to FGD respondents. By contrast, HE operators are generally not aware of the SSNIT Informal Sector Fund’s pension program, and rely more on their savings and their children and to look after them during old age.

IV. Conclusions and the Way Forward

The above analysis shows that household enterprises are an important part of Ghana’s economy and are likely to remain so for the foreseeable future. With its rapid expansion and its growing significance as a livelihood and employment source, HEs can play an even bigger role. However, their full potential can be fully realized only with the removal of the major constraints to their growth and productivity, i.e., lack of finance, workspace and service provisions, and business and technical skills.

Results of the study also suggest that major factors influencing the productivity and growth potential of HEs are local: the local economy, which provides the market for HEs’ goods and services, and the local governments, which facilitate HE activity through the provision of locations for them to operate, access to markets and light industrial zones, as well as support infrastructure and services. Ghana’s decentralization policy, which focuses on local economic development, provides a framework for local partners to work together in creating a conducive environment for HE growth and sustainability.

The national government also plays a major role in setting policies, funding investments, and coordinating programs and initiatives, including donor support, through the NCIE. Yet there is a widespread view among all stakeholders – the HEs themselves, the Government, donors, and NGOs - that more can and should be done. The HE study explored with them the major issues confronting HEs, and identified opportunities for action. The next step is for the main Government actors within the NCIE, their key partners at the local level (the MMDAs), and the
HEs with their associations, to articulate the needs and priorities of household enterprises in Ghana’s economic growth and poverty reduction strategy. In doing so, the following policy recommendations in several key areas should be considered.

**Regulatory environment for HEs at the local level:** A clear objective should be to improve the dialogue mechanisms between MMDAs and HEs. The current practice by some MMDAs of establishing Micro- and Small Enterprise Committees with representatives from trade associations representing HEs and BACs should be extended to all districts. The Local Economic Development framework could provide an effective platform on which to enhance collaborations between MMDAs and HEs. A first step would be for MMDAs to hold public hearings on their plans as the law requires. Guidelines on the development of infrastructure for new light industrial zones and markets would also be useful for MMDAs. Local government authorities and other stakeholders must be given sensitization training on all matters concerning the nature, dynamics, and importance of the informal sector in general, and HEs in particular, to change their negative perception of the sector.

**HE Associations:** A prerequisite for HEs to ensure that their interest and priorities are sufficiently considered in policy and plan formulation and implementation is to be better organized. The need to support trade associations at the local level in negotiating with local government authorities on behalf of its members should be emphasized. Trade organizations representing HEs could also ensure self-regulation to minimize, if not avoid, conflicts with MMDAs. To strengthen existing associations, capacity-building support is needed in such areas as governance, leadership, lobbying, and advocacy. The recently established Skills Development Fund (SDF) could spearhead training programs for trade associations, with priority given to those with limited financial resources. Channeling information, technology transfer, and other support services through HE associations would not only strengthen their organizations, but will also encourage new membership.

**Access to Finance:** Government and donor-supported programs should continue to build the capacity of financial and insurance institutions to extend their outreach to HEs and develop savings, loan, and other financial products suitable for them. Training in financial literacy, business management, and bookkeeping are key to improving the ability of HEs to manage their business better and qualify for loans when warranted. Application of mobile phone technologies and expanding their coverage should be promoted to improve access of HEs to financial services and reduce their transaction cost. A review of the existing legal and regulatory framework governing mobile banking and mobile financial service provision to facilitate their adoption should be given priority attention. In addition, the improvement in the house numbering system, provision of national identification cards, and establishment of credit reference bureaus should help improve access to credit. Financial intermediation among financial institutions should also be improved to allow easy access to wholesale on-lending funds to microfinance institutions that serve the needs of HEs.

**Training:** The traditional apprenticeship system could be strengthened with higher quality training. This would require registration or certification as well as additional training for master craftsmen, and providing them with equipment, tools, and /or technology support. To improve and strengthen Ghana’s apprenticeship system, the COTVET and the NVTI have started efforts
to standardize various trades, and creating a database of all master craftsmen. These initiatives should be scaled up, in partnership with trade organizations and other key stakeholders, to ensure relevance, ownership, and support from the private sector. The use of better equipment and technology by HEs to improve their productivity could be achieved through the NVTI, BACs, GRATIS Foundation, and RTFs. Including financial literacy and business management in all vocational and technical programs would give young graduates the much needed knowhow and tools for setting up their own business, and enhance the chances of them using their acquired skills in their HEs.

Social Protection: Improvements in access and quality of health care services under NHIS would have a direct positive impact on HEs productivity and would reduce their vulnerability. Outreach programs to promote awareness of the benefits and importance of preparing for retirement and ill health during old age, as well as of the risks of over-reliance on ones’ own children, is an important first step for HEs to avail of services under the SSNIT Informal Sector Fund. On the part of providers, adaptation of technology, such as mobile phones, would allow for easier access and encourage participation of HEs. SSNIT may need to review their product lines to tailor them to the specific needs of HEs. This could be done as part of an overall review of old age security and safety net programs in the country.
References

Background reports


Other references


GLSS5 Ghana Living Standard Survey, 2005

