

PROCEDURES FOR STARTING A BUSINESS IN GHANA

*"A journey of a thousand miles must begin with a single step."
- Lao Tsu*



Success Spotlight

Megaforce Security Services

ELLEN BUDU-LARBI is a woman that knows how to take on a challenge. Operating in an industry dominated by men and a staff of mostly men employees keeps her on her toes. She started her professional career working for an Italian company in Accra.

Not happy with the working conditions, and dreaming of owning her own business, she was inspired by the growing number of domestic and international firms in the country. Perceiving that these firms will need private security services, she started her business first in Accra then moved to Takoradi.

The very task of starting the business was cumbersome. "The laws affecting this sector were enacted very recently here and there have been changes and an introduction of codes due to a lot of unscrupulous security firms.

Government established a list of firms that should be in practice. Licenses were seized and they had to start renewing them at a fee and this procedure has to be carried out every year. So just starting up and dealing with the government officials was not easy." That did not deter Ellen. "Tax registration was also an issue because I didn't have a qualified accountant, and so had to do everything myself." Unable to secure affordable financing, Megaforce started by using pre-paid payments from clients to expand. With management training from Empretec and the International Finance Cooperation (IFC), Ellen has been able to improve her ability to negotiate with clients and service providers so now enjoys a comfortable profit margin. In addition, the company is focusing on becoming the security company of choice for corporate Ghana and building a brand name in the sub region by 2010.

At present, the company has a wide range of clients, ranging from big international and domestic firms to smaller firms in Takoradi.

Source: Voices of Women Entrepreneurs in Ghana, This report was prepared by the IFC/World Bank Investment Climate Team for Africa in collaboration with IFC Gender Entrepreneurship Markets (GEM).



In Brief

When starting a new business, there are many important decisions to make and many rules and procedures that must be addressed. This section identifies the bureaucratic and legal hurdles an entrepreneur must overcome to incorporate/and or register a new firm.

One of the first decisions that you will have to make as a business owner is how the company should be structured. This decision will have long-term implications. The legal forms of ownership refer to the form of business organization you are going to register your business in.

An entrepreneur, irrespective of nationality, can set up a business enterprise in Ghana in accordance with the following legal forms of business:

- Sole Proprietorship under the Business Name Act, 1962 (Act 151)
- Partnership under the Incorporated Private Partnership Act, 1962 (Act 152)
- Cooperative business under the Co-operative Societies Degree, NLCD 252 of 1968
- Companies under the Companies Code, 1963 (Act 179)



Cross Reference:

Read details on how businesses are organized in Ghana from the Legal and Ethical Environment of Business Section of this Toolbox.



Choosing Your Business Name

For some people business names come easily, for others finding the right one is a major challenge. There are multiple "rules-of-thumb" that tend to be contradictory. Some insist that a business name should be descriptive of the business; others suggest being unique is the best way to be remembered.

Keep in mind that your business name is an important part of your marketing effort. It is a major component of how customers' perceive your business. Your business image is based on this perception. So, it is critical that it reflect the image that you want customers to have of your business.

My tendency is to go with what your inner voice (also referred to more primitively as "your gut") says is right for you. You are the one who has to live with this business day and night for a long time to come. So choose something you feel good about. One test might be to think about the name being splashed across a major headline (how about "Your Business Reports Phenomenal

Profits"?). How does it feel to see that name in print representing your business? If it feels good, go with it.

If all else fails, there are businesses available that will help you find the right name and even provide an overall branding image for you. If you decide to go this route, look for a good fit for you. A positive first impression helps. How does their website fit with how you would like to be perceived? While not definitive, it certainly expresses their "style." Also, take time to think through what are the critical components of the name for you before approaching any business name vendor. You want this to reflect your concept, not someone else's. Keep in mind this is one of the most important decisions you will make about our business. It will determine how others perceive your business from now on.

As part of naming your business, you may also want to design a logo for your business. Again, if creativity is not your long suit, many of the businesses that help in naming will also design a logo. While all this may seem excessive, you will never regret the time you have spent on this part of setting up your business. This is the first piece and most critical part of marketing your business. Do it right and your future marketing will be much easier to plan and implement.

Of equal importance is finding out whether your name or a very similar name is being used by another business, and if so, what rights they may or may not have to use the name in the area where you do business. Keep in mind that some businesses only file trademarks within their locality, so it's possible that the same name can be used elsewhere.

Trade names can be registered at the Registrar General's Department.



Choosing a Logo for Your Business

A good logo is what helps your public remember your business. The right one can be one of your strongest marketing tools.

To choose a logo for your business:

1. Give some thought to what you want your business to represent in terms of quality, creativity, and value.
2. Check out your competition. What type of logos are they using? You don't want to be similar or your logo will not differentiate you from them.
3. Colors and shapes need to be evaluated. Are there any that would provide negative or positive effects in your industry?
4. Locate one (or more) good graphic artists.
5. Providing them with the information about



Insider Tips:

- Always add the name of the business under the logo. That helps customers in associating it with your business.
- Logos do not necessarily need to be a graphic icon. Graphically customizing your business name can also be quite effective.
- When using a graphic designer, be certain to acquire all legal rights for present and future use.

- your business, its name, and any other relevant information, contract with them to design you a number of possible logos.
6. Test market the logos with family, friends, and potential clients.
 7. Ask the graphic artist to revise the logo based on the input you have received.
 8. Test market and revise one more time.
 9. If desired, trademark the logo.
 10. Have your letterhead, business cards, signs and packaging printed!



Which Form of Business to Establish?

You should consider varieties of conditions before deciding which form of business to establish. Assistance of others may be needed to select and register your business. But make the selection by yourself and try to understand why you should select that form and what consequences it will have in the future.

Sole Proprietorship

The Sole Proprietor business is the most common for micro and small enterprises in Ghana. The registration procedure for a sole proprietor business is less complicated and costly than for a company limited. The sole proprietor must register at the Registrar General's Department.

Advantages of a Sole Proprietorship

- Easiest and least expensive form of ownership to organize.
- Sole proprietors are in complete control, and within the parameters of the law, may make decisions as they see fit.
- Sole proprietors receive all income generated by the business to keep or reinvest.
- Profits from the business flow-through directly to the owner's personal tax return.
- The business is easy to dissolve, if desired.

Disadvantages of a Sole Proprietorship

- Sole proprietors have unlimited liability and are legally responsible for all debts against the business. Their business and personal assets are at risk.
- May be at a disadvantage in raising funds and are often limited to using funds from personal savings or consumer loans.
- May have a hard time attracting high-caliber employees, or those that are motivated by the opportunity to own a part of the business.

A Partnership

A partnership is an arrangement whereby two or more persons combine some or all of their resources, skills or industry with the objective of making profit which will be shared by the partners. Forms of Partnership are non-trading partnership, commercial partnership, and limited partnership.

Non-Trading Partnership

Firms of Lawyers, Chartered Accountants, Architects and other professional practitioners.

Commercial or General Partnership

All partnerships engaged in trading, manufacturing and other commercial activities.

Limited Partnership

This is a special type which is very rare. A limited partnership consists of general and limited partners. A limited partner is liable to the firm or its creditors to the amount of the capital he has agreed to contribute, but not more. He may share in the profits according to the partnership agreement, but must take no part in the management of the business or he becomes a general partner.

Partnership Agreement

It is customary for the partners to execute a signed agreement covering such matters as the purpose of the business, name of the firm, duration of the agreement, place of business, capital to be contributed by each partner, division of profits and losses, books of accounts, rights of management of partners, and procedure for termination or re-organization of the partnership.

Advantages of a Partnership

- Partnerships are relatively easy to establish; however time should be invested in developing the partnership agreement.
- With more than one owner, the ability to raise funds may be increased.
- The profits from the business flow directly through to the partners' personal tax returns.
- Prospective employees may be attracted to the business if given the incentive to become a partner.
- The business usually will benefit from partners who have complementary skills.



Insider Tips

Five Qualities to Look for in a Partner

1. Loyalty to the business idea.
2. Honesty, including the ability to acknowledge errors and mistakes.
3. Versatility to focus on more than one aspect of the company.
4. Connections and the ability to attract talent to the team.
5. Flexibility in the face of changing circumstances.

Disadvantages of a Partnership

- Partners are jointly and individually liable for the actions of the other partners.
- Profits must be shared with others.
- Since decisions are shared, disagreements can occur.
- Some employee benefits are not deductible from business income on tax returns.
- The partnership may have a limited life; it may end upon the withdrawal or death of a partner.

Limited Liability Company

A company is considered by law to be a unique entity, separate and apart from those who own it. A company can be taxed; it can be sued; it can enter into contractual agreements. The owners of a company are its shareholders. The shareholders elect a board of directors to oversee the major policies and decisions. The company has a life of its own and does not dissolve when ownership changes.

Advantages of Incorporation

- The shield of limited liability permits a person who invests in a venture to be assured that in any event he cannot lose more than the amount of capital he agreed to contribute.
- A company has many ways of raising capital by the issuance of shares, while the partnership is restricted to loans or contribution by the individual members.
- The company having a legal existence apart from its shareholders, is not affected by bankruptcy, insanity or death of a shareholder or other events which would terminate a partnership.
- A shareholder may easily transfer his shares (except in a private company) but a partner cannot transfer his interest without the consent of all partners.

Disadvantages of Incorporation

- A limited liability company is normally the most expensive form of business enterprise to organize and maintain.
- A limited liability company enjoys the least privacy because it is required to file many statutory forms and returns to the government authorities.
- It must pay corporate taxes and registration fees considerably greater than would a partnership doing the same business.
- Minority shareholders are at the mercy of majority shareholders, because generally speaking, the rule of majority goes.



Choosing a Business Partner

There's no way to guarantee a potential business partnership will work. However, there are some things you can do that should help you avoid a repeat of the serious problems. If you decide to give partnership a try, you'll be able to share responsibility and commitment with a partner, as well as benefit from your partner's hard work, capital contribution, and unique skills and strengths that should complement your own. Here are some expert tips on choosing a partner:

Be coldly objective. Try to evaluate potential partners without regard to emotional ties or friendship. Draw up a set of criteria that you are looking for and simply judge how well a potential partner lives up to it. Think about the skills you need in a partner and the personality traits you can and can't work with, and dig for answers to those types of questions before you take the plunge into business. Most importantly, pick someone who is as excited and as driven as you are to make this business idea a success.

Don't duplicate yourself. If you are a great idea person but have no head for numbers, join up with a financial wizard rather than another creative type. In other words you should share a sense of vision and values but not have overlapping skills. The biggest mistake is for two people who are very much alike getting into business together. They may both be skilled technically, but neither is a door-buster or a rainmaker, and that's what they need to create a business.

Take your time. You can't get to know someone in one conversation, or even in several conversations over three or six weeks. It may take months to thoroughly understand and professionally vet another person, but the more you can discuss up front, the better. Starting your business a few months later than planned will be worth it if you are able to make a better choice of partner.

Share financial commitment. Don't go into partnership with someone who doesn't put money, or something of equivalent financial value, into your deal. An equal capital commitment "decreases the chance of a partner suddenly walking away from your business, leaving you with all the responsibilities.

Institute legal safeguards. Whatever agreement you come to, put it in writing in a formal partnership agreement. A lawyer can help you build important information into such an agreement, such as how the work will be divided, what will happen if more startup money is needed, and how decisions will be reached. Having noncompete agreements in place is another good safeguard. Partners need to enter into a legal "buy-sell agreement." Such agreements are typically backed up by life insurance policies and allow one partner to buy out the other in the event one partner dies, becomes disabled, or leaves the business for any reason.

Do background checks. All potential partners should submit to a background check that will turn up any past dishonesty, substance abuse problems, or

criminal violations before they go into business together. Each should also provide a list of professional and personal references the other can talk to before entering into any agreements. Partners should be forthcoming about their financial situations, creditworthiness, assets, and debt.

Assign roles and stick to them. When you do choose a business partner, clearly define the function each of you will fulfill in the company. This way, you'll have clear definitions for what each of your roles and contributions will be within the business. Stick to what you know, and let your partners take charge of what they know and are good at.

Source: Excerpted from BusinessWeek.



Procedures for Starting a Business

Procedure 1: Prepare for business registration

Check for availability of company name and obtain registration forms from the Registrar General's Department, Accra. A search is conducted for the proposed business name and, if it is available, a reservation is made. The forms can also be purchased from selected post offices in Ghana.

Procedure 2: Register a business

The registration forms and regulations must be typewritten. After the incorporation documents are assessed, the payment is made in cash or by a banker's draft payable to the Registrar General. The tax identification number is usually obtained by the Registrar General's Department on behalf of the incorporated company. Four or five copies of the company regulations and Forms 3 and 4 are required (auditors, banks, solicitors, company secretaries may each require a copy). For companies, you would be required to pay prescribed fee and duty on stated capital (0.5% of the stated capital).

Official time frame: it takes three days for business names registration (Sole proprietorship) and five days for partnerships and companies.



See an Expert:

The various forms required for registration of companies are obtainable from the Registrar-General. Prospective entrepreneurs and investors should obtain competent professional advice on the type of legal form which may best meet their needs.



Cross Reference:

Minimum Capital Requirement for companies and the contact address of the Registrar General's Department are included in Section Four: Government Regulatory Agencies.

Procedure 3: Open a bank account

The following documents must be presented to deposit paid-in capital in a bank account: copies of company regulations; the certificate of incorporation and the certificate to commence business; and signatures of the authorized company representatives.

Procedure 4: Obtain a company stamp (if necessary)

A company stamp is necessary for day-to-day company operations. As company letterhead and signatures of company officials can usually be forged, the rubber stamp is used to authenticate all company documents and correspondence. Because rubber stamps are also easily forged, the company may opt to purchase a company seal as well.

Procedure 5: Apply for business licenses at the District/Municipal /Metropolitan Assembly

The cost to apply for a business license at the Metropolitan, Municipal or District Assembly depends on the type of business, the category in which it falls and the district where the business is to be sited. Documents to be submitted depend on the type of enterprise (for example, restaurants must have permits from the fire department of the Town and Country Planning Authority—and, among other documents, an inspection certificate from the Ghana Tourist Board).

Procedure 6: Apply for social security for employees

To apply for social security, the company must attach the list of employees, their respective salaries and social security numbers, and the company's certificate of incorporation and certificate to commence business.

Procedure 7: Obtain environmental certificate and other industry specific licenses.

See Section Four of this Toolbox for contact details of regulatory agencies.

**Selecting the Right Infrastructure**

If you are going to be an entrepreneur and set up your own enterprise, one of the most important decisions you have to take is the selection of the right location and appropriate infrastructure. Entrepreneurs need appropriate and adequate infrastructural facilities to run their enterprises smoothly. These include land, building, utilities like power and water, transportation and communication facilities, etc. The location of a business is done to ease off the major constraint of the two basic business activities – Production and Marketing. Therefore if access to raw materials for production is the major constraint then the factory has to be sited close to the source of raw materials, other things being equal. On the other hand if access to customers (marketing) is the major constraint, then the location has to be where it will be easy to get to customers.

Land

If you are to build a factory, you need land. Once you have considered the availability of all the facilities needed for your unit, you can identify the location. However, the purchase of land is not determined solely by price - there are

other aspects as well. One such question is, 'How much land should I purchase?' The answer to this depends on:

- Present needs for construction and extra area for future expansion
- Availability of own funds for investment
- Amount of loan available from financial institutions
- Storage and equipment requirement outside the building

In the acquisition of land it is recommended that the maximum current construction should be of 25% of the land to be bought. However, if the price of land is high or if your own funds are not adequate for the purchase, you can lease the land or, better still, acquire the required premises (together with building) on rent.

Building

With regard to the building requirements, you can consider the following options:

- Outright purchase of ready shed/building in an industrial estate
- Having a building constructed as per one's own specific requirements
- Constructing it oneself

The first option is often resorted to by entrepreneurs unless the project has some special construction requirements. Industrial estate provides facilities like roads, electricity, water, transportation, etc. But for a new entrepreneur, especially if availability of funds is low, it is advisable to rent a shed/building and thus avoid blocking scarce funds, especially in the initial stages.

Other infrastructure facilities

Once you have selected the site of your unit, ensure that all other needed facilities are available. Here are some important considerations

- Availability of reliable water supply and electricity for industrial purposes
- Provisions for storage of water for industry, if needed
- Accessibility of special facility for transportation of product (like chemicals), if needed
- Availability of effluent disposal arrangements and /or pollution control equipments or treatments
- Availability of telephone connection

These are all basic equipments. But in today's high-tech and competitive industrial scenario one also needs internet facilities.

Buying machinery

The choice of machinery for your enterprise is based on long term decisions about your project. These decisions, like the design of the factory building or location of the unit, are irreversible and their outcomes have a long term impact on your projects. So be very careful while making these decisions. Specifically, some of these decisions relate to the machinery you should buy, suppliers of the machinery, prices of the machinery, payment terms, delivery schedule, etc. The first thing to do is to list the exact specifications of the machines you want. Write down the specifications in the following manner:

1. Features of the equipment that are a 'must': You should not compromise on this aspect under any circumstances. For instance, machine specifications (e.g., installed capacity) which ensure that you get machine output as per your projections for productions and sales belong to this category. Price of the machinery also belongs to this category of 'must' – it should not exceed the value estimated and planned for by you and on which your cost of fixed assets is based.
2. Features which are desirable, but not essential: For example, you might have to make a choice between a manually operated machine and a semi-automatic machine which yields more output with less labour. You should make the choice based on price. If the price of the semi-automatic machine is considerably higher than that of the manually operated machine you should not buy it, but if it is marginally higher then it would be advisable to purchase it.
3. Features that you would like to have but which you can certainly do without if they are beyond your budget: For instance, a digital readout that tells you how many plastic bags have been manufactured during a given period takes away the hassle of counting the bags. But what if this machine comes at a price that is a luxury to you? Then, it becomes a 'no-no' choice.

Armed with clear concepts of what your machines' must have and should have in terms of output, price, specifications etc., you can now approach the manufacturers of the machines for their offers.

Create the image of a serious buyer who does not tolerate nonsense and is likely to enforce his rights to get value for the money that he pays.



Insider Tips:

Before You Buy a Machine

- Technical specifications – identify essential, desirable and 'like to have' categories in these specifications.
- Spare parts, consumables, and their availability and prices – find out the effect of this cost on operating expenses.
- Details of taxes, transport cost, packaging and forwarding charges, etc.
- Cost of installation and electrification – does it tally with your financial estimate?
- Does the supplier offer assistance in training workers to operate the machine or send his expert to commission the machine after installation? Does he/she guarantee the productivity of the machine for a specific time? What are the guarantees and warranties that he offers? Make an attempt to get the maximum benefit from the supplier in such areas.

Sources of technology

Sources of technology often differ from project to project. In most cases, the equipment normally brings with it a major part of the technology. The following table summarizes some sources of technology.

Technology Source	Example
Machinery manufacturers/vendors GRATIS Foundation Agricultural Engineering Services Division Cottage Italia	Injection moulding machine for plastic products and agricultural processing machinery
CSIR Laboratories including Institute of Industrial Research (IIR), Food Research Institute (FRI), etc.	Current Issues in processing and production technologies
Internet	Foreign Technology

**Check List: Startup Checklist**

Starting your business is a busy time in any entrepreneur's life. Critical steps can be easily overlooked until you are well into the process. To help budding entrepreneurs in getting their businesses set up efficiently, legally, and soundly, here is a checklist of primary steps that every business needs to include. This checklist assumes that you already have an idea for a business and are ready to make it real:

Items to Be Completed	Check if Completed
Decide on the Legal Form for the Business	
Choose & Register a Business Name	
Write a Business Plan	
Set Up a Relationship with a Banker	
Set Up Other Professional Relationships (e.g., an audit firm, legal firm, etc.)	
Meet Legal Requirements for Operating a Business including Licenses and Permits	
Set the Price for Your Product or Service	
Determine the Financing You Will Need and How You Will Get It	
Obtain Office Space, Equipment and Suppliers	
Plan for Risk & Insurance	
Set up Recordkeeping Systems	
Set up a Financial Management System	
Develop a Marketing Action Plan	
Hire Employees	
Develop a Day-to-Day Managerial Plan	



Picking a Good Location: What You Need to Know

The well-worn but nevertheless accurate maxim, "location, location, location," holds very true. While you might be able to survive a bad employee, surviving a bad location is very difficult. So think through before picking a location.

But remember this, not all businesses need to pick a dynamite location. For example, a janitorial/cleaning services business don't need to worry about their location because drop-in business is not in their business model. But a restaurant needs a good location.

If applicable, the first thing to do is speak with your franchiser. One of the best aspects of buying into a good franchise operation is that you should get plenty of advice and help from the franchiser. The franchiser will know what you should look for and what works best. In your case, a restaurant business, it is very likely that the franchiser has the right to disapprove of your site location. The good news is that you can expect them to give you considerable help when picking a location. Businesses should consider the following when choosing a location:

- **Traffic.** Ideally, you would like the site to be near some centers of activity. My father owned a chain of carpet stores when I was growing up, and he loved to be across the street from malls. He figured that he got the benefit of the mall's advertising and traffic, but without the high rent of actually being in the mall.
- **Competition.** Where is your competition located? Fast-food restaurants often like being bunched together, but print shops usually like to be the only one in the neighborhood.
- **Visibility.** Businesses need to be seen. Make sure your potential location is visible from major roads.
- **Signs.** You need to be sure that there are no restrictions in the lease or the law that will limit your ability to post adequate signs for your new business.
- **Zoning.** The spot, obviously, needs to be zoned for your type of business.
- **Appearance.** Is there adequate parking? Is there a bathroom for the public? Make sure the place has adequate outdoor lighting, and has appropriate businesses nearby.



Insider Tips:

Four Deadly Sins you should never Commit!

1. **Overpayment.** Rent should be no more than 4 to 6 percent of total operating costs.
2. **Over improvement.** Resist the temptation to renovate an existing space or splurge on furniture and fixtures.
3. **Over commitment.** Assume that your first office is temporary. Try to avoid signing a lease for longer than 24 months.
4. **Over optimism.** Plan conservatively. Short-term overcrowding is less troublesome than paying for unused space.