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**Assess the Financial Challenges that Confront Small and Medium Entities  
Located in Rural Areas such as the East Mamprusi Municipal Assembly of Ghana**

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**Abstract**

The research sought to evaluate the difficulties which Small businesses as well as and Medium Enterprises in the East Mamprusi Municipality face which limit them from growing and flourishing so as to lend a support to the progression needs of Ghana. The research made use of a structured questionnaire to obtain data from owners of small and medium entrepreneurs on the issues outlined above. This information was processed and examined to draw conclusions and suggest solutions to the difficulties. It was realized that for SMEs to thrive, they have to rely on loans and other facilities from credit institutions and individuals. Those that did not have the opportunity of obtaining these facilities have to always rely on their personal small resources. This is a cause for them to be studied in details. It was further discovered that some SMEs are able to access credit to enable them start up, though the challenge of access to credit still persists for most of them. Many of those engaged in this sector fall within the active labor force of 15-64 years. The major challenges the research discovered is that SMEs in the Municipality have a massive potential to reduce unemployment but have not been expanded to cover many more businesses. Moreover, SMEs face challenges like high demand of collateral, little training given to business owners on how to manage their businesses and limited access to credit.

**Keywords:** financial challenges, SMEs, rural areas, East Mamprusi Municipal Assembly, Ghana

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## INTRODUCTION

The acronym 'SME' is often used by the European Union and such international organizations such as the World Bank, the United Nations and the World Trade Organization to refer to Small and Medium Scale Enterprises. In some jurisdictions, they are also known as Little and Medium-sized Ventures (LMVs). Small enterprises outnumber large companies by a wide margin and employ many more people. Small and medium-sized Enterprises (SMEs) are frequently alluded to as the foundation of the European economy, giving a potential source to occupations and monetary development.

SMEs are characterized by the European Commission as having under 250 people hired. They ought to likewise have a yearly turnover of up to EUR 50 million, or an accounting report aggregate of close to EUR 43 million (Commission Recommendation of 6 May 2003). The Ghana Statistical Service (GSS) describes small businesses as initiatives that engage below ten (10) workers whereas entities that hire above 10 staff are categorized as average and big-sized entities. According to the National Board for Small Scale Industries (NBSSI), SMEs are those with not more than 9 workers, having a plant and machinery (excluding land, buildings and vehicles) and not exceeding 10 million Cedis, old Ghana Cedis, (US\$ 9,506 according to the exchange rate as at 1994) are considered as SMEs (Quartey, 2000).

The importance of SMEs in a country cannot be over emphasized. There is a global general consensus of the importance of SMEs for the growth of the economy. They are seen as propellers of growth and development of any economy because they are able

to create jobs, promote entrepreneurship, and provide depth to the industrial base of the economy (Ahmad, Nenova, & Niang, 2009). Further, the state banks of Pakistan (SBP) in their report revealed the utmost importance of SMEs for social and economic development. Some special features that can be readily mentioned of SMEs based on their ability to generate employment, contribution to poverty alleviation, accelerated growth, bridging the gulf of income inequity and the formation of forward and backward linkages. The Asian development bank purports that, "SME Development in Pakistan and Asia in general" emphasizes the key role of SMEs for the growth of the country and other parts of Asia.

In June 2011, John Ackah and Sylvester Vuvor in their master's thesis paper, inquired into the difficulties encountered by Small and Medium Enterprises in getting credit in Ghana. The focus of that study centered on the issues confronting SMEs in Ghana in their journey to getting bank credit (advances) from money related foundations (banks and non-banks) to embrace different opportunities; be it general business activities or doing development venture all for the sake of satisfying the targets as being work makers and lessening poverty. They found that generally, businesses such as the young one's face lots of challenges in securing advances including high interest rates, unavailability of credit institutions and collateral problems (Ackah and Vuvor, 2011).

Further, in Ghana, SMEs serve as the workable path to the nation's production sphere. The sector offers the main source of employment especially in the area of manufacturing. The percentage is about 85% of the total employee base of the informal manufacturing terrene (Aryeetey, 2001). Their role in the economy's forward march cannot be over emphasis. For instance, not only do they constitute 92% of the Ghana entrepreneurial body, they also make about 70% input to the economy's Gross Domestic Production.

Some challenges confronting rural entrepreneurs according to Saxena, (2012) identified four (4) main categories of challenges that confront SMEs. They are financial problems, absence of infrastructure, marketing challenges and difficulties of getting the right management to man their businesses.

Allotey (2008) identified that insufficient loans management is the main cause of the failure of repayments which results in low loan recovery of financial institutions. Due to the absence of enough protection, a lot of the SME owners feel reluctant to process credit facilities from banks since they are unable to satisfy the terms and conditions thereon. Many small-scale businessmen lack collateral security such as land, house, etc. which makes it difficult for them to have access to bank loans. Nationally, the SME sector has not been given enough attention as it should be given even though its growth means a lot to an economy. There are several reasons why there should be an urgent national interest in the growth and development of SMEs in an economy like Ghana.

Enterprises are faced with the difficult challenges of engaging the right personnel and retaining a suitable workforce, acquiring the right capital and being able to manage the blend of all these resources for maximum output. Further, Coleman, 2000 asserts that poor reporting and recording systems on the status of their businesses or loan repayments discourage MFIs from supporting SMEs. Faced with this type of uncertainty, a lender may deny credit, sometimes to the firms that are creditworthy but unable to report their results. This is not only a challenge for large enterprises, but also small and medium-sized enterprises. Researchers have again, attempted many times in the past to find out solutions to aid the growth of SMEs in economies. However, the problem still seems to exist. Evidence of it is also seen in the East Mamprusi Municipality of Ghana where there are lots of identifiable potentials. From the above discussion, it is more obvious that there is an urgent need to identify the

challenges and prospects of SMEs and solve them to give the country a positive and vibrant direction and thus, the purpose of the study. It is on this that the researcher explores to identify and suggest solutions to the challenges faced by SME owners particularly in the East Mamprusi Municipality of the country.

### **Research Objectives**

The main objective of this study is to assess the financial challenges that confront Small and Medium Entities located in rural areas such as the East Mamprusi Municipal Assembly of Ghana, and; to determine how these challenges impact the financial performance of these entities.

To attain this objective, the following specific objectives are set:

- 1 To examine the financial challenges SMEs face in the East Mamprusi Municipality.
- 2 To ascertain how the challenges, limit the financial performance of these SMEs.
- 3 To determine solutions to these challenges if any

### **4 Research Questions**

Based on the research objectives above, the following research questions will be posted.

- 1 Are there any financial challenges that SMEs in the East Mamprusi Municipality face?
- 2 How do the challenges of SMEs limit business growth?
3. How can these challenges resolved?

### **LITERATURE REVIEW**

The developed and developing nations have definitions for the businesses that can be categorized as SMEs. The sizes of economies from the developed and developing world have variations of great proportions. These range from the staff strength, the

size of manufacturing plants, the type of enterprise activity as well as the operational capital. The income at the end of a production period is used in determining whether an entity can be categorized as an SME or not.

An SME can be defined as any business which is not a subsidiary and does not dependent on other businesses which engages less than a certain employee strength. The employee strength fluctuates across statistical systems of different countries. "The SMEs are generally those with fewer than 50 employees, while micro-enterprises have at most ten, or in some cases five workers. They can also be defined using their financial assets. With the European Union, to qualify or fit into the definition of an SME, the firm must have an annual turnover of EUR 40 million or less and/or a balance-sheet measure not exceeding EUR 27 million" (OECD,2000).

The informal sector contributes to the economies of the developed and developing world. In the developed world SMEs may contribute to a lesser fraction of the enterprise base if compared with the developing nations. SMEs in the developed world are owned by sole proprietors and individuals who come together to form partnerships. They make use of available technology to produce in small amounts to contribute to Gross Domestic Product (GDP). "Informality in the developed world is estimated at 18.4 per cent of GDP in 2013 in the European Union and 8.6 per cent on average in Australia, Canada, Japan, New Zealand and the United States" (International Labor Conference, 103rd Session, 2014).

There are varied definitions as to what constitute an SME in Ghana. The 'Ghana Statistical Service (GSS)' defines small businesses as "enterprises that employ less than 10 persons while those that employ more than 10 people are classified as Medium and large-sized enterprises". According to the National Board for Small Scale Industries (NBSSI), "SMEs are those with not more than 9 workers, having a plant and machinery

(excluding land, buildings and vehicles) and not exceeding 10 million Cedis (US\$ 9506, using 1994 exchange rate) are considered as SMEs”.

The above definitions of the acronym establish that those engaged in the sector may be individuals who venture in to small scale production to meet demand within a community. Traders who make and sell locally made soap, local restaurant operators, carpenters, barbers, kente weavers and beauticians fall within this domain. These small business establishments can prove to be of immeasurable support to high numbers of unemployed youth in a developing country like Ghana. According to Bastiat Ghana report 2104, it is estimated that about 85% SMEs offer employment to people in Ghana.

The SME sector contributed a significant 70% to GDP according to Steven Essien, Chief Business Officer for Tigo Ghana in 2017. This highlights great potential for economic growth if the sector is enhanced to expand and increase productivity. The larger economy stands to gain in terms of easing the burden of unemployment for the ever-increasing number of youth and revenue mobilization as a precondition for economic self-reliance.

The developed nations of the world have initiated strategic steps to integrate informal SMEs in to large manufacturing firms. The intention to achieve this is underpinned on policy alignment to gradually transit them by providing financial and technical support for increased production

“Micro, Small and Medium Scale Enterprises contribute a colossal percentage to Gross Domestic Product (GDP) in ensuring growth, employment and income stability of a country” (Sarpong, 2012). Notwithstanding the tremendous contribution of the enterprises to Ghana’s development, the financial challenges encountered by them in their quests to grow are intimidating. The situation poses an adverse effect on SMEs progress and also inhibit their ability to move the economy as envisaged (Ackah &

Vuvor, 2011). There is the need to create an enabling environment that supports these businesses to thrive. Through this, their contribution to the Ghanaian economy will be optimized for greater economic gains.

Owners of credit institutions are not willing to take risks of lending to them as there is a great risk of inability to repay in the event of default. This has limited the establishment of SMEs in the locations where their potential in reducing poverty is obvious.

Poor reporting and recording systems on the status of their businesses or loan repayments discourage MFIs from supporting SMEs. Faced with this type of uncertainty, a lender may deny credit, sometimes to the firms that are credit worthy but unable to report their results (Coleman, 2000). This is because many individuals engaged in SMEs are not literate or do not have adequate training on record keeping.

### **Strategy measures for young enterprises growth**

Various procedures have been set up to advance little scale ventures improvement in Ghana (NBSSI, 1997). These encompass financial helps through activities like, Funds for Small and Medium Enterprise Development (FUSMED); institutional help, for example, building up big business affiliations and networks and the formation of NBSSIs as the pinnacle establishment liable for little and medium endeavor advancement; institutionalization and quality control of items and supporting ideas to enhance non-conventional exports; advancing the growth of indigenous technical knowhow to improve the nature of local made products and supporting the adjustment of existing innovations to address the very immediate issues



## **Financial support**

There is financial assistance given to little entities in the form of temporal advances. This is by courtesy of few organisations such as the German Development Services. The terms of these facilities in terms of interests and other collaterals are usually very friendly as compared to local ones. The UNDP's Capacity Building Project also co-ordinates a funding support system under a temporal term system. This is under the administration of EMPRETEC who does it in a five-fold centre basis. These are Accra, Kumasi, Takoradi, Tamale and Koforidua. This fund and others are meant to help entrepreneurs acquire needed skills to manage their businesses such as basic accounting records keeping and administrative documentations.

## **Prospects: Funding and support programs available to the SME Sector**

Though there is a factual that they lack funds as indicated to be a major challenge in many writings, there are many windows of funding opportunities and financing models available which could be explored through the use of guarantees to support SMEs. Education and publicizing these chances to potential beneficiaries has not been encouraging and thus, many are still ignorant of them (DTI, 2008). There are several literatures published, peak of which can be read on the "dti Website", that afford insights on the countless backing programs presented to SME by government. These include the "dti's annual reports, A Guide to the dti Incentive Schemes (2011), the dti Medium Term Strategic Plan 2011-2014 and the dti's National Directory of Small Business Support Programs. In addition to these publications, information is also available on the respective implementing entity's websites". The "National Directory" is perhaps the greatest detailed and reliable of the pamphlets as the Manual is a step by the dti to touch all SME funding programs, mutually government besides non-government, that are presented. Backing programs can be ordered into three expansive areas namely: "access to finance, market access and business support. South

Africa has a wide range of support schemes that target small business owners in the areas of research and development, business and marketing support, exports and support for setting up manufacturing, tourism and co-operatives”.

## **METHODOLOGY**

The evaluation study design was employed in this study. This enabled an assessment of the financial challenges that confront SMEs and to discover their prospects as well. The respondents of the research were vendors of the SMEs in the East Mamprusi Metropolis and the Microfinance Associations (MFIs) which support the owners of SMEs with finance and other resources to startup and to operate at profitable levels.

Purposive sampling and simple random sampling technics were used in selecting the respondents. The essence was to identify the owners of SMEs who were conversant with the challenges and benefits that accrue as a result their operation and management of the businesses. Creswell (2002) stated that, in terms of purposive sampling, researchers deliberately handpick individuals and locations to acquire or appreciate an occurrence. According to Cohen, Manion and Morrison (2003) purposive sampling enables researchers to select the instances to be encompassed in the illustration on the foundation of their meticulousness and typicality.

Further a semi-structured questionnaire was employed to obtain vital statistics to be examined and processed for interpretation. It was through this that the interpretations and conclusions were drawn. The study made use of statistical tools and other models and graph.

## **RESULTS AND DISCUSSIONS**

The bio-data comprises information about the age, sex, and marital status of the respondents. The large numbers of married people in this research affirm that returns from investments are more likely to be used to meet family needs.

## Age of Respondents

Table 1 below is an illustration of SME owners according to age ranges. Based on the responses, 8% are below the age of 20 years (teenagers) who are classified as minors by the researcher. They are either school drop outs who are struggling to survive or students who are selling door to door domestic items just to support themselves while in school. A sum total percentage of 83 are between the ages of 20 and 49 years who are considered to be those who can take viable business decisions and execute them well. The aim of this bracket is basically to grow their businesses to that competitive levels that will make them giants. The 9% respondents fall within the ages of 50 years and beyond. They are considered those who aged and are only engaging themselves with an activity just to occupy themselves. They are mostly small kiosk operators which are established for parents or grandparents to keep them busy. These do not have the mind of growing to competitive levels.

It can therefore be deduced that many of the respondents fall within the economically active age brackets (15-64) which also confirms the findings of the Ghana Statistical Service 2010 population and housing census. An “economically active population is made up of all employed and unemployed persons of working age population (15 years or more). Economically not active population (not in the labour force) is the working age population who are neither employed nor looking for employment. (E.g. students, retired and home-makers)”, (National Housing Population census, East Mamprusi District analytical report, 2010).

In a case study by Louknaan Joseph, (2010) on the topic, “promoting micro and small-scale industries for local development in Ghana, a case of East Mamprusi District”, he found among others that, 73% of the sample size were energetic and young entrepreneurs. It is therefore evident that majority of the entrepreneurs are within the active population of the municipality. If these are supported through training and

financially, they can contribute tremendously to the GDP of the economy and raise their living standards.

**Table 1 Age of respondents**

AGE	FREQUENCY	PERCENT
Below 20	8	8
20-29	12	12
30-39	30	30
40-49	41	41
50+	9	9
TOTAL	100	100

**Source: Fieldwork, 2019**

### Sex of Respondents

Table 2 below illustrates that 77% of respondents are women. It is clear from the statistics that female SME owners dominate in the municipality than males. The finding goes to support Louknaan Joseph's related study at the same municipality which revealed that 92% of entrepreneurs interviewed were women. It also "confirms the assertion that Small Scale Industries (SSIs) play an important role in female employment, (NBSSI, Vol. 4 1998)" (Louknaan, 2010). They are engaged in either bread baking, hairdressing businesses, provision shop operations, open market selling of vegetables, grains and the like, food vendors, etc. dominate in the municipality. Most of these women in explaining the benefits of Microfinance stated that they use the profits that accrue to meet family needs like food, payment of fees, purchasing clothing and paying health and utility bills. The male percentage of 23 comprises owners of fitting and mechanic shops, barbering shops and local peasant farmers. This

is more evident in table 4 which classified the respondents into the types of businesses they operate.

It was further explained that in the East Mamprusi Municipal setting, many males within the SME sector are also engaged in peasant farming and only use their businesses as a second resort to support their families. Less attention is given to their businesses during the farming season. If credits are given to men to support their businesses in the farming season, those resources will be diverted to support their farming activities. This explains why only 23% of males engage in the SME sector within the East Mamprusi Municipality from the survey conducted. These men do not commit so much time and energy to ensure that their businesses grow, thus their inability to pay loans on schedule as most women do.

**Table 2 Sex of respondents**

SEX	FREQUENCY	PERCENT
FEMALE	77	77
MALE	23	23
TOTAL	100	100

**Source: Fieldwork, 2019**

The finding could also be interpreted with regards to the fact that females are more than males in the real Ghanaian population sense (Ibid, 1998)

### **Marital status of respondents**

Table 3 below shows that 92 percent of the respondents are married including widows and widowers. The singles comprise the minors and divorced. Women are generally seen as those who spend most of their income on the needs of the family. Women dominated in the respondents who are married. They explained that to be a virtuous

woman, one should be responsibly married and hardworking with a trade to support the family, hence, why a lot of the SME owners are women.

**Table 1: Marital status of respondents**

MARITAL STATUS	FREQUENCY	PERCENT
MARRIED	92	92
SINGLE	8	8
TOTAL	100	100

**Sources: Fieldwork, 2019**

These married women indicated that their survival in their various families depend largely on what they generate from their businesses.

**Table 4. Types of business categories surveyed**

TYPE OF BUSINESS	FREQUENCY	PERCENT
Hairdressers	15	15
Barbers	8	8
Farmers	16	16
Service providers	5	5
Manufacturing	17	17
Restaurant	16	16
Sellers of provisions	15	15
Exporter of Shea nuts	10	10
TOTAL	100	100

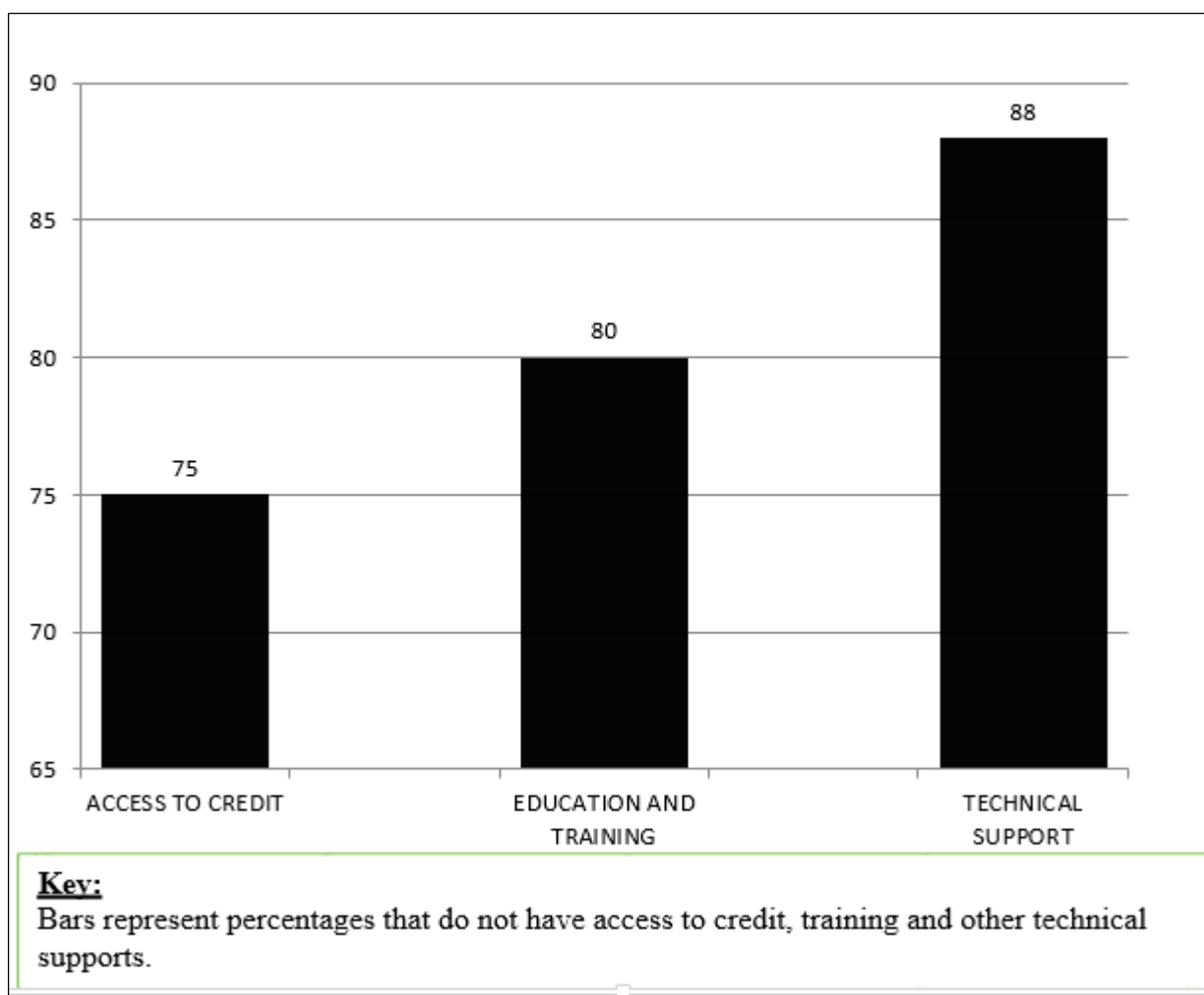
**Sources: Fieldwork, 2019**

Table 4 above summarises the categories of respondents visited. It is noted that the highest number of respondents were those that engaged in local manufacturing such

as soap makers, weavers, blacksmiths, etc.; others are farmers, restaurant, chop bars or local food sellers; and provision shops operators. These were businesses that dominated in the municipality. The rest were barbers, exporters of shea nuts and service providers like medical laboratory owners, hotel services, chemical sellers, mobile money venders and credit card sellers. They formed the minority in the municipality hence their low rates of percentages. Again, it can be deduced that most of the males who fall under the working class are into farming. They are however not into commercial farming but rather peasant farming and hence, turn to channel their business resources including time to their farming activities in the wet season. The table also confirms table 2 above which illustrates that majority of the business owners in the municipality are females who are into dressmaking, hairdressing, provision shop operators, etc.

### **Responses on access to credit, Training and Technical Support to SMEs owners**

The research discovered that SME owners were limited in accessing some vital things for the establishment and growth of their businesses. These include access to credit, technical support, and training on how to manage their finances in order to expand their businesses. For businesses to survive and render goods and services to society and create employment to the economy, all the components should be available. Louknaan, (2010) discovered from the same study field that these SME entrepreneurs generally depend on their own capital to start up their businesses and as well for growth. The main sensitive problem faced by SMEs according to Thomi and Yankson (1985) is lack of finances. Table 1 below shows a general picture of adverse responses as to whether the SME owners have access to credits, have access to technical support or are trained on how to manage their businesses for success.



**Figure 1: Responses on non-access to credit facilities, training and technical support**

**Source: Fieldwork, 2019**

The following sub-headings give detailed comments on these challenges.

### **Access to credit facilities**

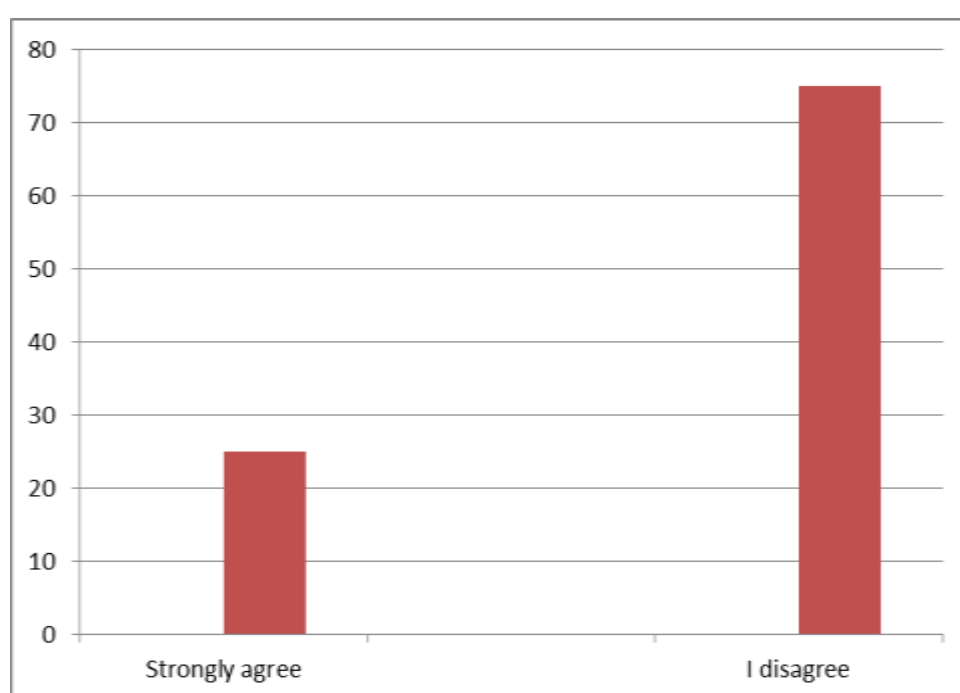
It is noted that Small businesses are limited with lots of limiting factors in their daily dealings which surpass those encountered by bigger firms due to the hardships faced especially as starters, (Ackah and Vuvor, 2011). Also, in a study by Schiffer and Weder (1991), it was revealed that, the stages of difficulties encountered by businesses vary depending on the levels of the firms in the industry. For instance, smaller firms tend



to have more eminent limitations in terms of access to capital, raw materials and labour as contrasted with medium firms. In the same vain, the difficulties in obtaining the same factors turn to be grainer if medium firms are compared with larger ones. It therefore presupposes that larger firms meet lesser problems with regards to finding inputs as contrasted with the small businesses and medium ones. That also means that larger enterprises stand better competitive advantage over the former ones. Ackah and Vuvor, (2011) therefore concludes that in creeping economies such as Ghana, to loaning to enterprises that are smaller makes the loaning institution a bit skeptical because the financial institutions will not like to take risks by loaning to firms that may not stand the test of time. These are businesses classified under the apex risk zones and thus, costly to deal with. Therefore, the low returns by financial institutions thus, explains why financial institutions are reluctant to not cite their operations in these areas.

Access to credit facilities within the East Mamprusi Municipality has proven to be difficult as shown on figure 2 below. Out of the hundred (100) of SME owners who were surveyed, only 25% had could assess loans. However, there was also a 75% of the respondents who could not get loans from the loanable institutions. Only a few have had supports from some financial institutions and the others did not. The reason was that there are few credit houses in the municipality. This means they have difficulty in accessing credit facilities. Their inability to access credit facility has a tendency to limit business growth potential. This is because firms will not be able to expand or venture in to other profitable investments. Inability to access credit also limits the establishment of new SMEs. Individuals who intend to set up and manage their own businesses with the aim of making profit and creating employment will be limited from pursuing such. This kills the drive of young and old potential entrepreneurs. The availability of financial resources in a business determines the type

of infrastructure the business can have, the caliber of employees to be engaged and the sort of resources that can be committed into the business. The entrepreneurs as indicated depend largely on self-finances to their businesses. It therefore explains why their growth is usually retarded and why the SME owners of the municipality mostly engage family members, uneducated or unskilled personnel and maintain the same sources and type of resources over a long period of time.



**Figure 2: Easy access of SMEs to credit facilities**

**Source: Field work 2019**

### **Benefits of Loanable Institutions to Small Businesses and Medium Enterprises**

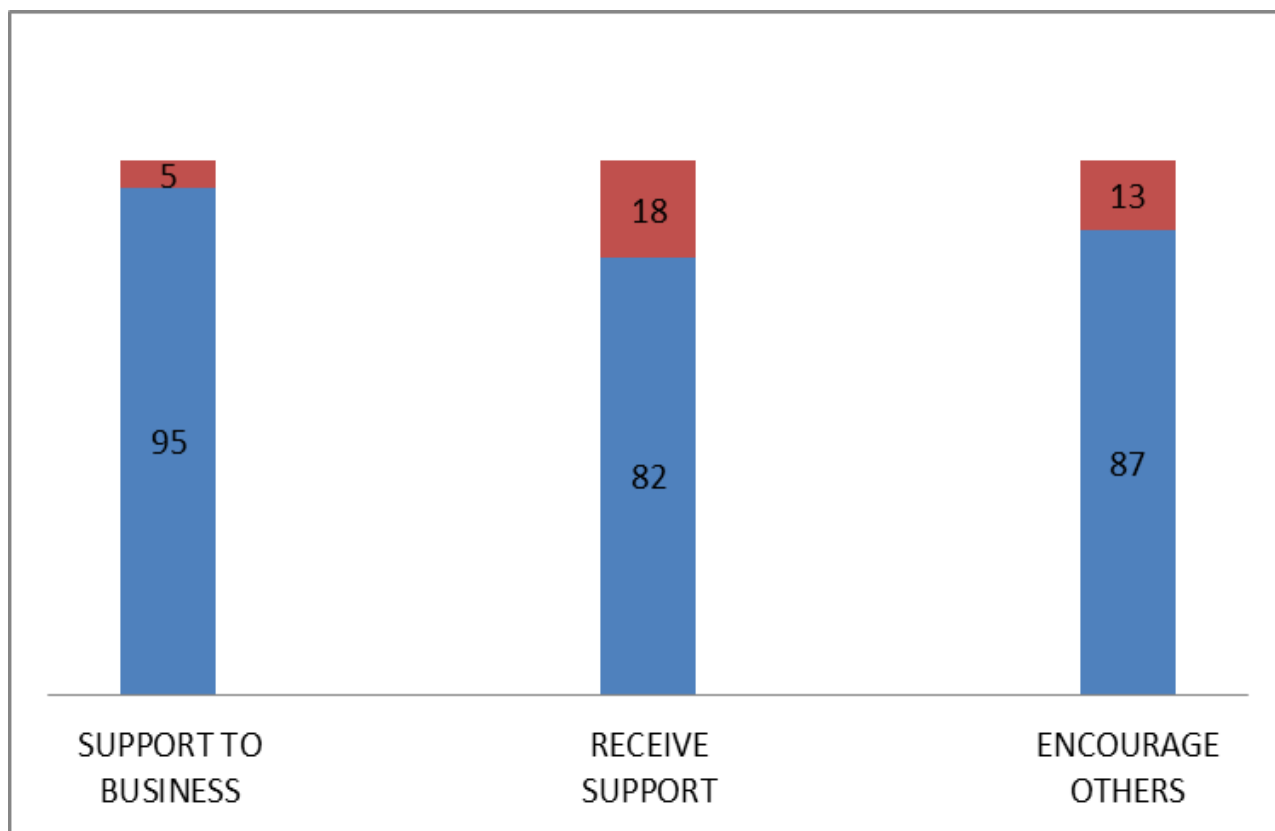
Though owners of SMEs could not easily contact loanable establishments to help them with credit facilities, the few that are able to access them are able to tell whether they have benefited from the facilities they obtained from microfinance institutions or not. The various levels of benefit are contained in figure 4 below:

On the subject of support for their businesses, 95% of beneficiaries agreed that microfinance facilities have enabled them establish and manage them better. Due to

the available credit facilities they did not find it challenging to start their businesses. Though these loans are hard to access the respondents agreed that they render enormous support to their businesses. Only 5% did not see any positive impact they obtained from accessing credit facilities from financial institutions. It can therefore be drawn that generally; the businesses have a very fat benefit in their financial performances if they can easily obtain loans.

In the light of this positive impact, many owners of SMEs are willing to receive credit from microfinance institutions. An overwhelming 82% are willing to receive more credit from Micro Finance Institutions (MFIs) if they are available. They believe accessing more credit will support their businesses to grow and maximize profits and to employ more people. Only 18% of respondents would refrain from accessing credit. This may be as a result of the fact that their businesses may be enjoying some level of profit or that they are risk averse.

The table 4 also shows that SME owners are willing to encourage others to venture into borrowing from MFIs if there is available credit. A large percentage of up to 95% will encourage potential traders to venture into credit borrowing. Only 5% will not encourage others.

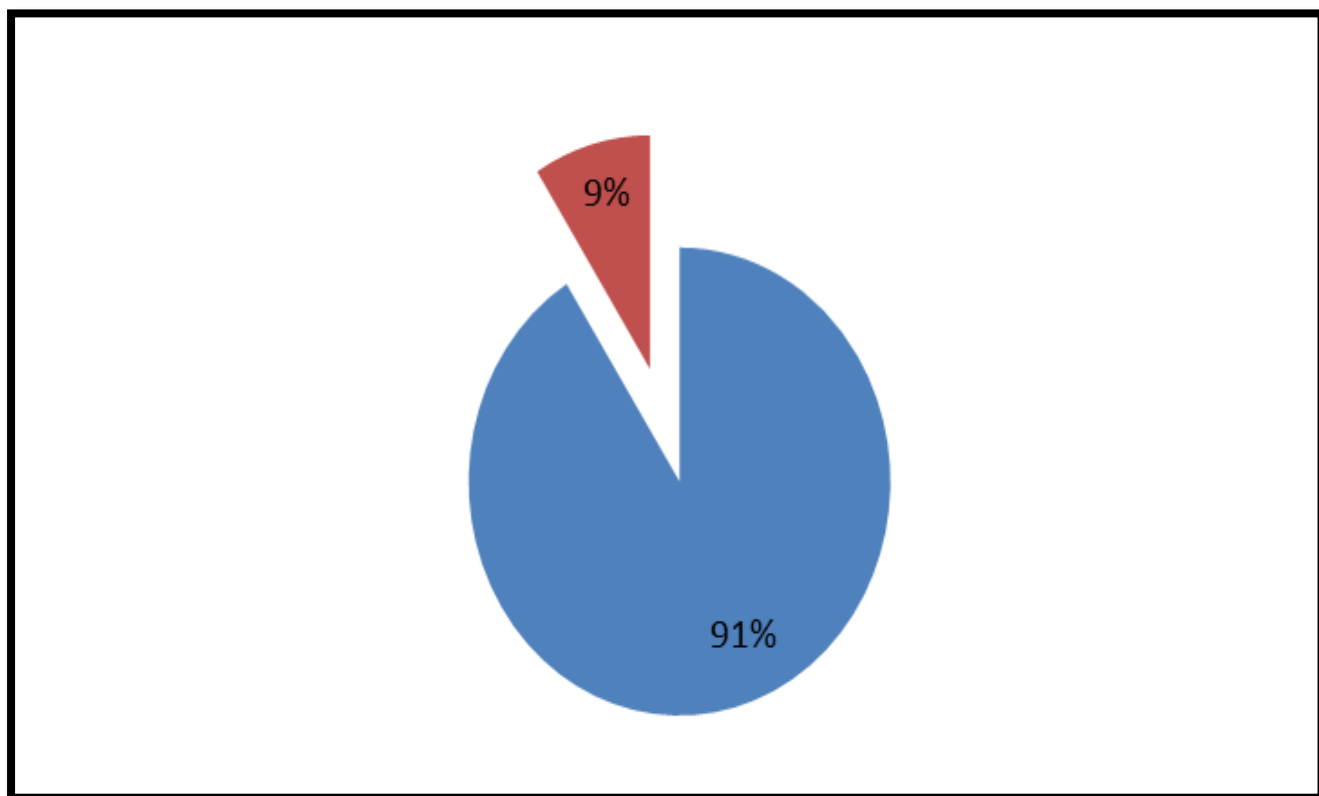


**Figure 3: Benefits experienced by Small and Medium Scale Enterprises**

**Source: Field work, 2019**

### **Judicious use of income from business**

As many as 91% of the respondents admitted that they have used the proceeds from their businesses beneficially. Their explanation emanated from the fact that they are able to meet basic family needs like purchasing foodstuff, paying medical bills, and meeting other family demands.



**Figure 4 Distribution showing the use of income**

**Source: Field work, 2019**

Notwithstanding the fact that a very appreciable percentage of the participants of the study indicated that resources or incomes generated from their businesses are used judiciously, there were yet other who did not see any benefit arising from their businesses that impact them positively. They are of the opinion that though they are into business, their businesses do not satisfy their basic needs. This they explained was as a result of low capital to expand and compete with other enterprises. They form 9% of the total population.

However, the general impact is that SMEs in the municipality form an integral part of boosting the standards of their living. The simple interpretation of figure 4 above is that out of every ten (10) SMEs, at least nine (9) of them are able to apply the positive earnings resulting from their businesses to solve personal and family problems while

about one (1) out of the ten (10) will not be able to use income generated from his business to address private needs. This presupposes that if businesses are supported to grow, they will be better positioned to solve the problems of poverty among the people of the East Mamprusi Municipality.

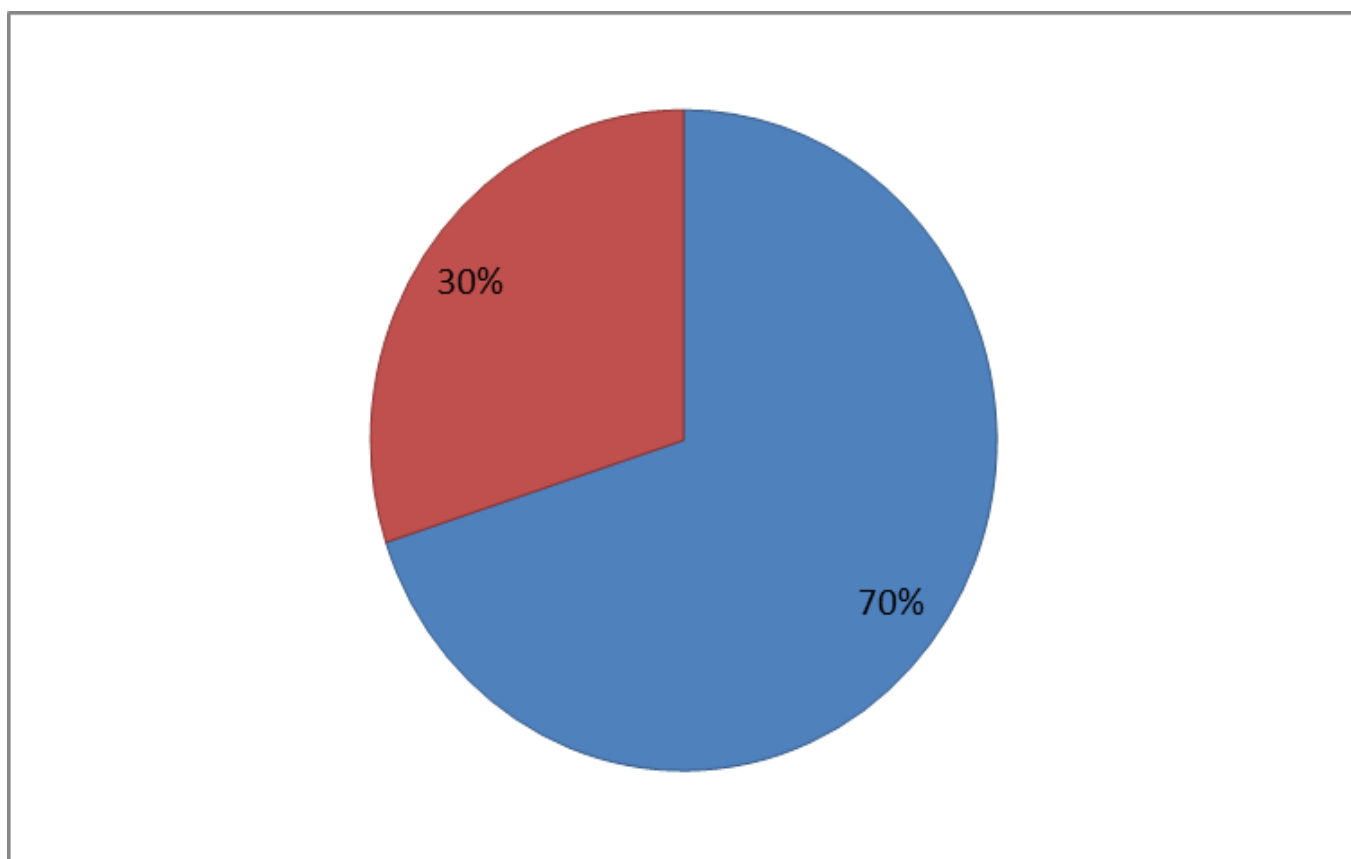
### **Other challenges of SMEs**

#### **Needed collateral for credit facilities**

For loaning institutions to confidently advance credit facilities to applicants, they need to have the surety that such institutions can repay their amounts advanced. They do this by asking for collaterals from the borrowing agents to serve as guarantees that in case of default in payment, such collaterals could be used to set off their loans. Collaterals also serve as means of evidence that the applicant has a known location, can be traced at any time needed and that the business is legally operating under the relevant Act or regulation of the country. Some of the collaterals demanded for by loaning institutions at the East Mamprusi Municipality are physical assets like buildings documents, cars documents, motor bikes documents, or certain identified assets of the business. At times, guarantors made up of neutral good standing persons of society and high profiled businesses or institutions are required to guarantee one to access a loan. Other legal documents like operational permits, land title documents, utility bills, etc. may also be required.

The respondents agreed that MFIs need to be sure that their funds advanced are safe and can be retrieved with the needed profit. From the analysis in figure 5 below, only 30% consider the collateral as too high among which some may still be able to afford to borrow. Their response was based on the fact that, they usually end up not being able to meet the conditions and hence, do not usually have the opportunity to access the credits to help in their businesses. They were of the position that there should be a review of the collateral needs since they are not cited in cities and towns where they

can easily meet them. On the contrary, a convincing 70% consider the collateral needed to borrow as moderate and affordable. They are ready to borrow at such prevailing conditions even though they still find difficulties meeting all the conditions to qualify them for a loan.



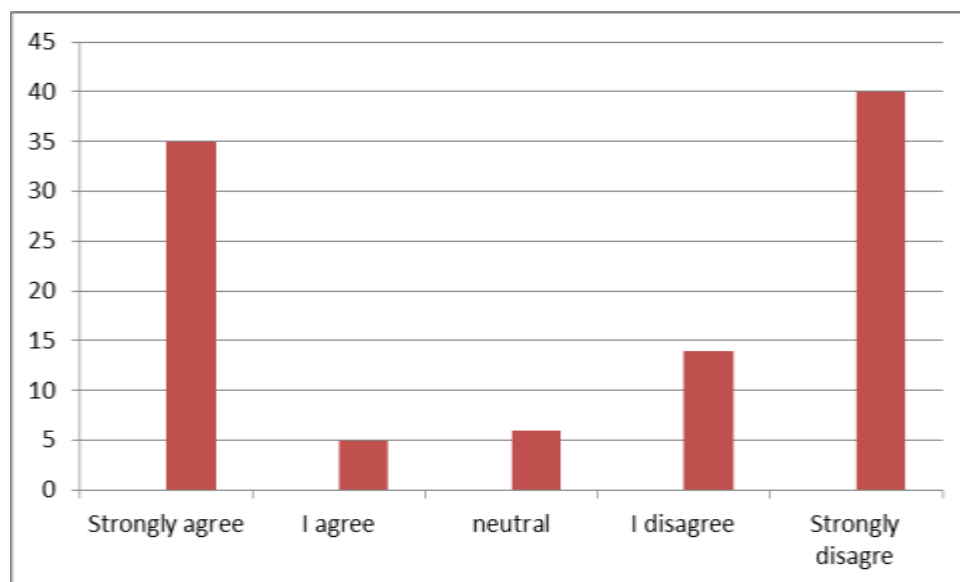
**Figure 5: Opinions on collaterals for credit facilities**

**Source: Field work, 2019**

### **Interest rates**

The SME owners are mindful of the need for lending institutions to make profit or breakeven. Thus, they agreed that loaning houses ought to bill some interest on loans offered to business men and women. All respondents agreed that interest rates are necessary because they know borrowing comes at a cost which they are willing to pay for. However, opinions on appropriateness of the rates charged by loaning institutions

was fairly distributed. While some entrepreneurs considered cost of borrowing as moderate, others were of the opinion that it is high. Their various responses were based on the individual impact borrowed funds played in their businesses.



**Figure 6: Opinion on Interest Rates**

**Source: Field work, 2019**

Figure 6 above indicates that 35 % SMEs consider the prevailing interests on loans as too high for borrowing to invest. They explained that with the kind of businesses they operate, borrowing at high interest rates like those in the cities and other lucrative areas will not yield any good returns for them. They rather preferred to look elsewhere for financial support since they face lots of challenges in repaying their loans. The high interest costs therefore scare them off from accessing credits to expand their businesses. The long run effect is that, such business will not be able to obtain high profits nor employ many others due to their unwillingness to borrow from credit facilities. A contrary opinion to this is that 40% of the participants of the study strongly disagreed that the cost of borrowing is usually high. Many of these businesses were established from the loans and facilities procured from existing financial institutions.



The description of such interests as moderate by this category was also confirmed by the success stories they shared. Aside these two categories, there was another set of respondents that were neutral about the inquiry of whether the borrowing cost were high or low. They formed 6% of the population.

### **Solutions to SME problems**

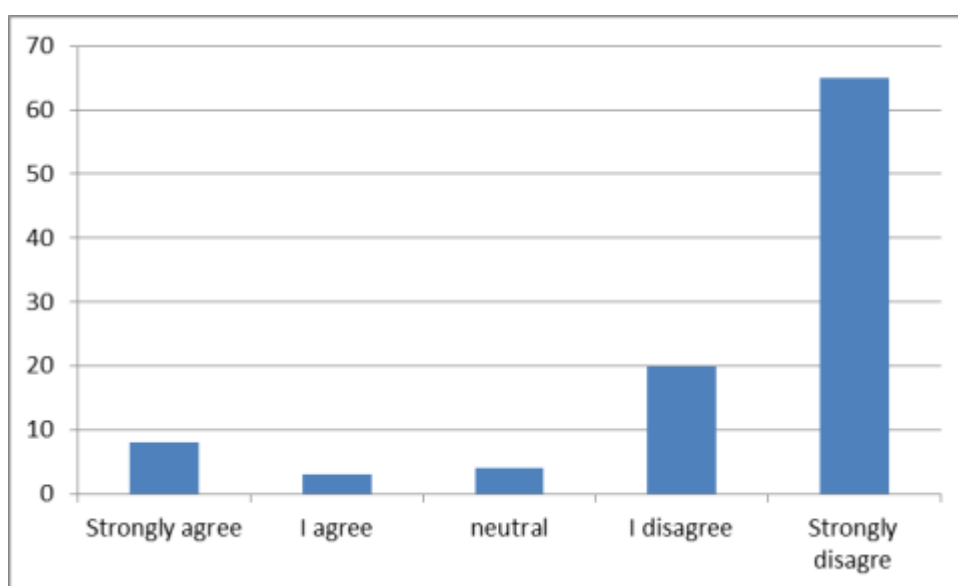
#### **Alternative sources of support**

Another major challenge to SMEs is that despite the high interest rates from the available financial institutions, they are unable to receive any alternative sources of support from either the government or other NGOs. This has served as a major challenge to the flourishing of businesses as is the case of businessmen and women of the municipality.

Some of the respondents argued that they knew of the efforts of government over the years to support entrepreneurs like them but are yet to have them help their businesses. In July 2003, the government with collaborations from the International Fund for Agricultural Development (IFAD), and the African Development Bank (AfDB) launched the Rural Enterprise Project (REP). The chief target of this initiative is to support the growth and development of rural enterprises, AfD, (2003). It was formed as a step to help alleviate rural poverty and eliminate unfavourable living conditions of rural places of Ghana. The specific target was on women and vulnerable groups. Other NGOs like the Partnership in Rural Empowerment and Development (PARED), Care International, Technoserve, SPEED Ghana, and many other local and foreign groups and individuals' arrangements are all available institutions that have at least, a component of their objectives to serve and encourage the growth and development of Rural Enterprises. Unfortunately, the people cannot rely on these for alternative supports. This is evident from the responses on the specific question that

sort to identify whether SMEs owners have alternative sources of support aside the credit facilities they obtain from financial institutions.

In figure 7 below, it is evident that about 8% of respondents agree that they have benefited from other sources to support their businesses. These may be from the Livelihood Empowerment Program (LEAP), which has been used to complement their businesses, or some NGOs. Further, 20% of the respondents disagree that they have received any support. However, an overwhelming number of 65% strongly disagree that they have received versatile forms of assistance from either the government or the NGOs. This suggests that SME owners obtain very little external help apart from the high interests lending financial institutions.



**Figure 7 Responses on alternative source of support to SMEs**

**Source: Researcher's Fieldwork, 2019**

### **Forming Susu groups and VSLAs**

Savings are very integral to the growth of every business. Setting aside funds or excess funds from a business enterprise constitutes an essential means of funding to such enterprise. It relieves it of a rainy-day trouble, Longenecker et al. (1994). Personal

reservation of business proceeds is also a sure way to mobilise other income from different sources. Ackah and Vuvor (2011) in their paper, highlights that, if a firm is able to make a substantially enough resources to the growth of itself, it boosts the self-assurance level of that establishment and likely people who wish to invest. Further, Kuriloff et al. (1993) highlights that savings enables one to use others' resources which includes borrowing and utilizing one's funds. It can also serve as collateral for other financial assistance. These above theories show that personal savings of business owners is very essential to their survival and the realization of their goals and objectives.

The problems of the SMEs are many and seem insurmountable. However, from the data gathered, it is noted that there are quite a number of strategies that could be of immense support to uplifting the growth of the SMEs especially in rural areas. Two of such interventions as the research identified are the formation of Susu groups and the encouragement of the establishment of Village Savings and Loans Associations (VSLAs). With the Susu groups, it can be done by encouraging a number of SME owners to team together and have periodic contributions where members are entitled to a lump sum at the end of a period in turns. With the Village Savings and Loans Associations, it is a more formalized Susu project where members pull contributions together monthly and do an "annual share out" of interest from savings and contributions. These are ways that can help inculcate the culture of saving with these entrepreneurs and as well help serve as support to one another.

### **Formation of Susu groups**

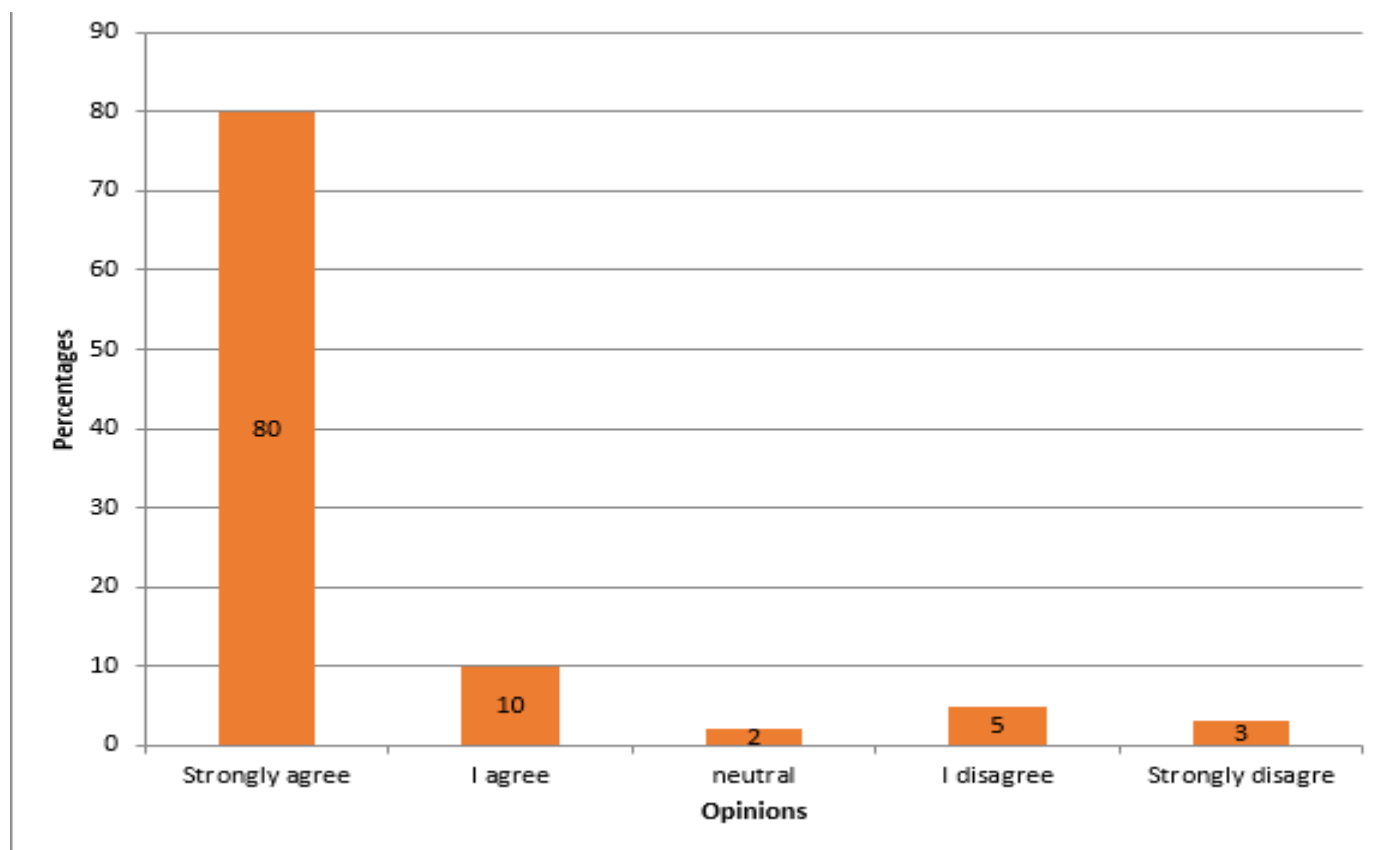
The Susu groups are potentially viable options to ameliorate the challenge of access to credit and the high interest rates thereof. This is because they encourage savings among small business holders and afford them the opportunity of interest free loans.

There are several ways to do Susu by business persons. Among the ways are the following two basic and commonly used ways:

- i. Where the participants of a group of usually between 3 to 5 persons will make periodic (usually monthly) contributions of a certain amount each and give to each other in turns until the last one gets. They could repeat the process over and over. This is a very fast way of securing loans from among themselves to grow their businesses. It is usually informal and need no detailed documentations since the members always know and trust themselves. Neither collateral nor interest rate is involved.
- ii. The second way is where a particular institution is involved and carries it out as a business. Here the MFIs have employees who visit shops and business centers to receive deposits from the traders daily or weekly. Each depositor is given a pass book into which the collector keeps record of all moneys deposited and withdrawals made out of it. The depositor has access to withdraw either partially or fully, his or her money at any point in time. He or she may also get a loan as long as he or she still operates with that institution. This is usually more formal than the first method. The savings made are used for personal expenditure or reinvested in to the businesses.

It is enormous that Susu is one sure alternative source of finance to businesses especially those in rural areas. Figure 8 below illustrates that 80% of the respondents strongly agree to the formation of Susu groups especially the first option. This is because they envisage the potential gain that will inure to them as a result. Another 10% agree to their formation. The neutral opinion to their formation represents a meager 2%, those who disagree and strongly disagree form 5% and 3% of the respondents respectively. The reasons for these vastly divergent opinions emanated from the fact that the respondents who agree to their formation

have previously benefited from such and are willing to maximize their gains while the meager disagreements were risk averse.

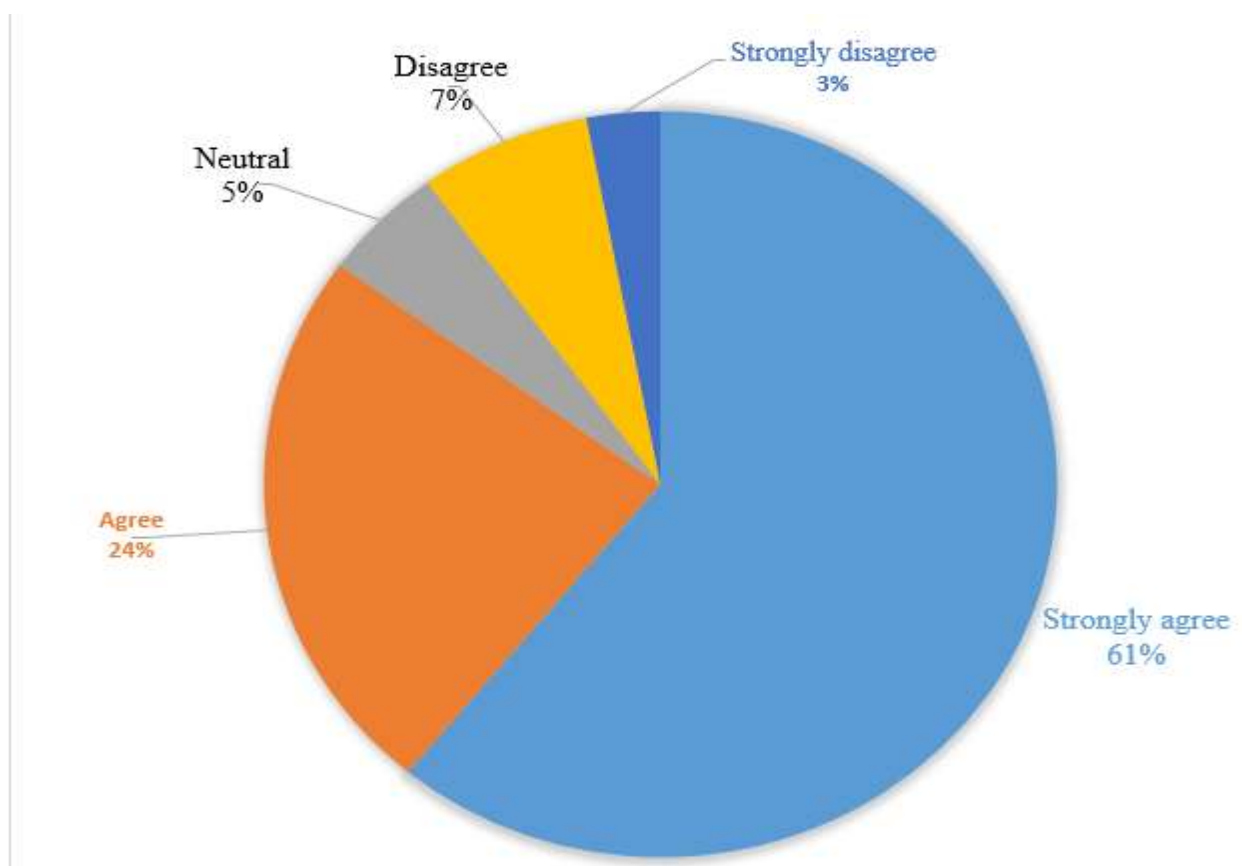


**Figure 8 Opinions on the formation of Susu groups**

**Source: Field work, 2019**

### **Formation of Village Savings and Loans Associations (VSLAs)**

The VSLA model presents many benefits to the SME business set up. This module is constituted by people who are engaged in diverse income generating activities. These groups agree to meet on weekly or some daily intervals to make contributions. There is a yearly share out where amounts received can be ploughed back in to the businesses. Figure 4.10 and explanation below highlights a vivid explanation on the opinions of the SME owners in the municipality.



**Figure 9: Opinions on the formation of VSLA**

**Source: Field work, 2019**

In the figure 9, it reveals about 61% of participants of the questionnaire mentioned the VSLA as a viable alternative to high interest rates by stating that they strongly agree. Another 24% also agree with the option of forming the VSLAs. As a new concept, 7% and 3% of the respondents disagree and strongly disagree respectively. However, 5% of the respondents are neutral. This was due to the fact that they have little knowledge about the concept and are unwilling to venture there in it.

### **Summary**

It was established that the SMEs in the study field have lots of financial challenges. They could neither make high profits nor have access to credit facilities to help grow

their businesses. They were depending so much on their businesses for personal activities. This was due to their low-level enlightenment on the need to observe the “business entity rule”. Most of them especially the male entrepreneurs would take loans and use them for their peasant farming activities or to attend funerals and or other local or social occasions. They need education on the need to ensure that they treat their businesses separate from themselves as owners. This will make them gather enough from their operations to plough back for expansions. Separation of businesses from their owners is one sure way to make a business thrive well. There were no alternative sources of funds for them. The study noted that while the financial or loaning institutions were few on one aspect, the other aspect was that majority of the people did not even know about their existence or their task of helping businesses financially to grow.

The problems were interlinked with regards to their impact on the financial performance of these businesses. For instance, small and medium business institutions in the municipality remained stagnant in financial growth and expansion for the period. This was caused by the inability of these business institutions in the municipality to obtain credit facilities. This was also due to their inability to keep proper financial records of their businesses to enable the loaning institutions gather confidence that they could retrieve their moneys. The inability of maintain proper books of accounts was also caused by the lack of experienced personnel. This problem too was as a result of lack of training and the engagement of low level educated persons due to high cost of experienced labour which such small ventures could not pay.

## **RECOMMENDATIONS**

The government should create a national a policy that will encourage more MFIs to locate in these remote areas. Special incentives can be given to them and lesser legal

regulations on them. Their purpose should solely be to assist the SMEs grow. These MFIs should have motivating savings packages like high saving interest, different and enhancing options of saving, etc. The business men and women should readily have access to their savings to grow their businesses if they so need. If there are bureaucratic processes involved in accessing their savings, it will demotivate them to save. There should also be enough campaigns and sensitization processes to create the awareness of savings. The amount of loans given to SMEs should be increased. The credit facilities given to SMEs are small and not able to support the businesses adequately. Many of these SME owners are able to pay back loans on schedule or even before the due date for repayment. This suggests that an increase in the amount of money loaned to them will boost their businesses. The reasons why the loanable institutions are reserved in giving huge amounts of loans is the businesses owners is that they do not have confidence on recouping their money. To resolve this, entrepreneurs should in addition to the preparation of the financial statements, be encouraged to have them audited. There could be a special provision in the enterprise development policy which mandates this move. Again, business men and women of these small establishments should endeavor to delve into new ways of running their businesses. This can however be a mirage is they are not trained and continuously updated on their skills. Refresher courses and resource commitment are very vital to the achievement of this recommendation. This requires upping the skills of owners of SMEs through training and resource allocation with the goal that they can without much of a stretch adjust to new technics and technical growth. This expands their odds of approaching credit.

Another thing that SME owners can do to boost their ability of obtaining credits from the bank and other loaning institutions is to register their businesses to become legal and official. Most credit institutions are reluctant of loaning to them since they cannot easily trace such businesses to any legal existence. In ensuring this, government has to



relax the cumbersome processes involved in registering them. Also, the cost of registration should also be checked to enable them have flexibility.

The formation of cooperative groups will increase their credit worthiness to repay the loans from the banks that shy away from loaning money to individuals. Through cooperative groups, other formal financial institutions may be motivated to lend to informal SMEs.

It is anticipated that if these policy perspectives, suggestions and strategies are carried out, it would go a long way to promoting micro and small-scale industries for local development in the district and Ghana as a whole. The successful implementation of these recommendations however requires effective mechanism for co-ordination between government's efforts and that of the private sector including financial institutions and other stakeholders who are contributing towards providing finance to SMEs. An enabling regulatory framework is essential to sustain and significantly improve access to credit in Ghana.

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