

Challenges and Opportunities of SME's in the NJM



Beads from Koforidua

AFRICA DEVELOPMENT AND RESOURCE RESEARCH INSTITUTES (ADRRI)



ON

**CHALLENGES AND OPPORTUNITIES OF SMALL AND MEDIUM SCALE
ENTERPRISES (SME's) IN THE NEW JUABEN MUNICIPALITY**

BY

AFRICA DEVELOPMENT & RESOURCES RESEARCH INSTITUTE (ADRRI)

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ADRRI DRAFT WORK

ABSTRACT

Small and Medium Scale Enterprises contribute to the major percentage of every economy. As a result of their contributions to the economy, they however face some challenges that hinder their contributions and growth to the development of an economy like New Juaben Municipality. It is with this concern that the researchers see the urgent need to undertake this study. The study used a total sample size of four hundred and sixteen (416) respondents and a purpose sampling technique was however chosen to collect data in which both quantitative and qualitative analysis were done. It is due to the challenges identified by the researchers that, some recommendations have been made to policy makers to help curb these problems so it can make the growth and smooth operation of SME's a reality.

Keywords: Challenges, Opportunities, SMEs, Growth, New Juaben Municipality, Ghana.

INTRODUCTION

Small and Medium Enterprises (SME's) is a division of economy that needs Ghanaian government concentration and other developing nations as a result of the role it plays in the job creations and economic growth in the nation's economy. The governments of developed as well as developing countries have acknowledged the reality that Small and Medium Enterprises (SMEs) form the focus of any economy (Green, 2003 [cited] in Blossom C., et al 2014).

Small and medium enterprises (SME's) in Ghana are said to be a characteristic feature of the production landscape and have been noted to provide about 85% of manufacturing employment of Ghana (Steel and Webster, 1991; Aryeetey, 2001).

There has been a lot of discussions and written about challenges faced by SME's, many interventions have been made by the government through its formulated policies aimed at facilitating and empowering the growth, development in performance of the SME's. Some of the government efforts relate to focus on assisting SME's to grow through soft loans and other physical incentives through support from international agencies and organizations like World Bank and United Nations Industrial Development Organization (UNIDO, 1990).

SME's are also believed to contribute about 70% to Ghana's Gross Domestic Product (GDP) and account for about 92% of businesses in Ghana. SMEs therefore having a crucial role to play in stimulating growth, generating employment and contributing to poverty alleviation, given their economic weight in African countries. SME's development can encourage the process of both inter and intra-regional decentralization; and, consider force in catching up with economic superpowers of larger economies in the developed world. More generally, the development of SME is seen as accelerating the achievement of wider socioeconomic objectives, including poverty alleviation (Cook and Nixon, 2000).

According to Akande and Ojokuku (2008), SMEs have greatly contributed in the creation of jobs, innovation and to economic growths which has been given a global acknowledgement and recognition. They further stated that, SMEs all over the world accounts for a greater percentage of industries build up which are mostly in advanced countries. They argued that the capital needed, creation of jobs and nature of operations of SMEs have portray them to be the focus

point of the developmental efforts in less developed countries most especially in their capacity as the nucleus of developing.

OBJECTIVES OF THE STUDY

The main objective of this study is to find out the challenges facing SME's from meeting their expectations in the New Juaben Municipality and proposing ways to eliminate those challenges.

Specific Objective

In order to achieve the above objectives, this study will attempt the following;

- To find out why SME's are not getting access to bank loans.
- To identify the challenges which hinders the SME's from playing their vital role in the Ghanaian economic growth and development.
- To assess the contribution of SME's to the developemnt of New Juaben Municipality.
- To make the neccessary recommendations for solving of the identified challenges of SME's.

ROLE AND CONTRIBUTIONS OF SME'S IN DEVELOPED COUNTRIES

According to NUTEK (2004), Swedish industrial policies have traditionally focused on large enterprises and individual sectors. Earlier, policies regarding industry mainly supported sectors that experienced problems due to structural changes in the economy. Policies regarding small enterprises and entrepreneurship have grown over the last two decades and we have seen a shift in perspective from existing enterprises to an increased interest in the processes that contribute to the creation and survival of enterprises. There are several reasons why the focus of industrial policy has shifted more towards small enterprises. The main reason is that small business enterprises have become an increasingly important source of employment and growth.

Levy & Powell (2005) asserted that, SME's are thought to be flexible and innovative organizations that are able to respond quickly to customer and market demands.

The production technologies of many manufacturing SME's may inhibit flexibility (Gupta & Cawthorn, 1996), while Carrie et al. (1994) believe that it is people rather than technology that provides flexibility.

SMEs contribute to a country's national product by either manufacturing goods of value, or through the provision of services to both consumers and/or other enterprises. This encompasses the provision of products and, to a lesser extent, services to foreign clients, thereby contributing to overall export performance. In Ghana and South Africa, SMEs represent a vast portion of businesses. They represent about 92% of Ghanaian businesses and contribute about 70% to Ghana's GDP and over 80% to employment. SMEs also account for about 91% of the formal business entities in South Africa, contributing between 52% and 57% of GDP and providing about 61% of employment (CSS, 1998; Ntsika, 1999; Gumede, 2000; Berry et al., 2002).

From an economic perspective, however, enterprises are not just suppliers, but also consumers; this plays an important role if they are able to position themselves in a market with purchasing power: their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demands of their clients. Demand in the form of investment plays a dual role, both from a demand-side (with regard to the suppliers of industrial goods) and on the supply-side (through the potential for new production arising from upgraded equipment). In addition, demand is important to the income-generation potential of SMEs and their ability to stimulate the demand for both consumer and capital goods (Berry et al., 2002 [Cited] in Cofie, A.A., 2012).

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LITERATURE REVIEW

Definitions of Small and Medium Enterprises (SME's) vary from country to country, depending on one or more of verges outlined in respect of investment, employment, turnover etc.

The issue of what constitutes a small or micro enterprise is a major concern in the literature. Different writers have usually given different definitions to this category of business. SME's have indeed not been spared with the definition problem that is usually associated with concepts which have many components. The definition of firms by size varies among researchers as well as writers. Others define SME's in terms of their legal status and method of production (Adjei, D.S., 2012).

The role of finance has been viewed as a critical element for the development of small and medium-sized enterprises. Previous studies have highlighted the limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their growth and development (Levy, 1993).

Despite the potential role of SMEs to accelerated growth and job creation in developing countries, a number of bottlenecks affect their ability to realize their full potential. SME development is hampered by a number of factors, including finance, lack of managerial skills, equipment and technology, regulatory issues, and access to international markets (Anheier and Seibel, 1987; Steel and Webster, 1991; Aryeetey *et al*, 1994; Gockel and Akoena, 2002).

Finance is one of the life wires of every economic activity. Access to finance will provide start-up capital for the business as well as funds to meet operational costs. Not neglecting the fact that entrepreneurs may face lack of start-up financing as one of the difficulties in assessing start-up finance, there are other factors that come into place such as ignorance of sources of finance and lack of a saving culture. It is quite unfortunate that the problem with access to financial capital has been long due though there seems to be a little improvement (Adjei, D.S., 2012).

Infrastructure as it relates to provision of access roads, adequate power, water, sewerage and telecommunication has been a major constraint in the development of SME's (Bokea, Dondo & Mutiso, 1999).

Physical infrastructure is the totality of basic physical facilities upon which all other economic activities in the system significantly depend (Ukpong and Iniodu, 1991).

Infrastructures are those services without which primary, secondary and tertiary production cannot function. These infrastructures can be extended to include education, public health to transportation, communication, power and water supply. Infrastructure therefore, can be seen as both a final good providing services directly to consumers and intermediate input that enter into the production function of other sectors and raises the productivity of the factors employed (Hirschman, 1958).

Small business enterprises do not only face competition from their fellow small and medium businesses but from multinational corporations and imported goods from overseas by large scale enterprises. This situation has posed a big treat to small business enterprises since they cannot withstand these large scale enterprises in terms of their quality and quantity of products. It is important for the government to protect this important sector of economy. Lack of political will to implement local content and technical know-how policies, non-existence of institutional monitoring and technological support and paucity of trained artisanal skills; fakes, counterfeit and smuggled or substandard products; financial and information management systems and practices and under-developed payment system; absence of an effective and efficient postal services; insecurity of life and property (Aiyedun 2004).

Poor management and accounting practices have hampered the ability of smaller enterprises to raise finances. Information asymmetries associated with lending to small scale borrowers have restricted the flow of finance to smaller enterprises. In spite of these claims however, some studies show a large number of small enterprises fail because of non-financial reasons (Liedholm, MacPherson & Chuta, 1994).

IMPORTANCE OF THE STUDY

This study was thus purposed to identify crucial challenges militating against the growth of SME's and also make appropriate recommendations for resolving and eliminating them so that the SME's could occupy their value in the Ghanaian economy, particularly in the New Juaben Municipality and hence play the essential role they are expected to play in the economic growth and development of Ghana.

The findings of the study would however help policy makers to see the need to support SME's, which would create employment avenues for the youth and also equip them with a more current infrastructure. It would also help target groups to have solutions to some of the problems facing SME's in Ghana, especially in the New Juaben Municipality.

METHODOLOGY

This study is a cross sectional survey which is aimed at finding the challenges and opportunities of SMEs in the New Juaben Municipality (NJM). The New Juaben Municipality (NJM) is the study area. The study area is located in the Eastern Region of Ghana and its capital town is

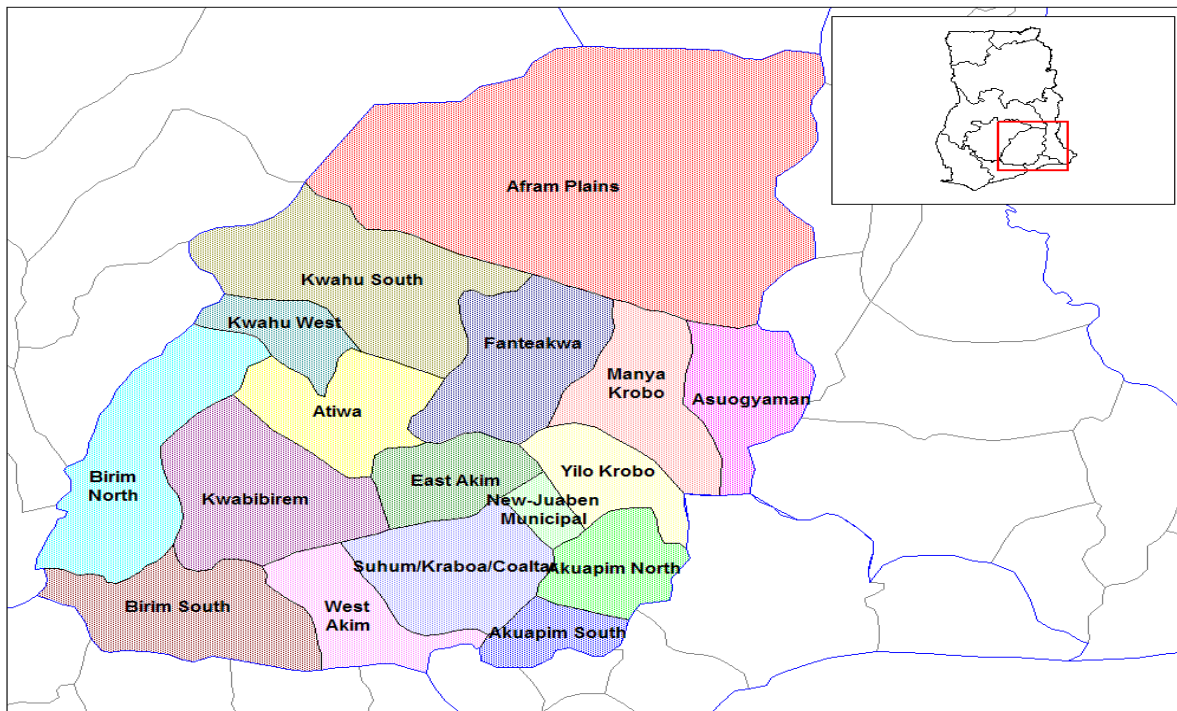
Kofofidua. Due to the difficulty to dealing with all small and medium scale enterprises within the New Juaben Municipality, the study was done with a total sample of four hundred and twenty (420) (thus, some selected SMEs) within the New Juaben Municipality. Below is a map of New Juaben Municipality.

Map of NJM



Source: <http://www.newjuaben.ghanadistricts.gov.gh/>

Map of Eastern Region



Source: <https://www.google.com.gh/search?q=eastern+region+map>

FINDINGS

The sample size for the study was four hundred and sixteen (416) and the sampling technique was purposive sampling to collect information from the respondents. The researchers used purposive sampling for the reason that the target respondents were all those who were running SMEs. About four hundred and twenty (420) questionnaires were printed and administered and four hundred and sixteen (416) questionnaires were retrieved signifying about ninety nine (99) percent response rate.

The researchers initially used a mean method to collect the data for the study [thus, dividing the total questionnaires by the number of categories identified which four hundred and twenty (420) divided by five (5)] but later realized that some of the categories identified had more people working in that category than the other thereby making the researcher to undertake the research in the manner in which it has been done.

Thus, Mean =
$$\frac{\text{Total Respondents}}{\text{Number of Categories}}$$

$$\frac{420 \text{ respondents}}{5 \text{ categories}} = 84 \text{ respondents each for a category}$$

Table 1. Retrieved Questionnaires from Respondents

Categories	Number of Respondents	Percentage (%)
Beauticians	80	19.2
Wood Works	122	29.3
Mechanics & Milling works	110	26.4
Metal Works	74	17.8
Others	30	7.2
Totals	416	100

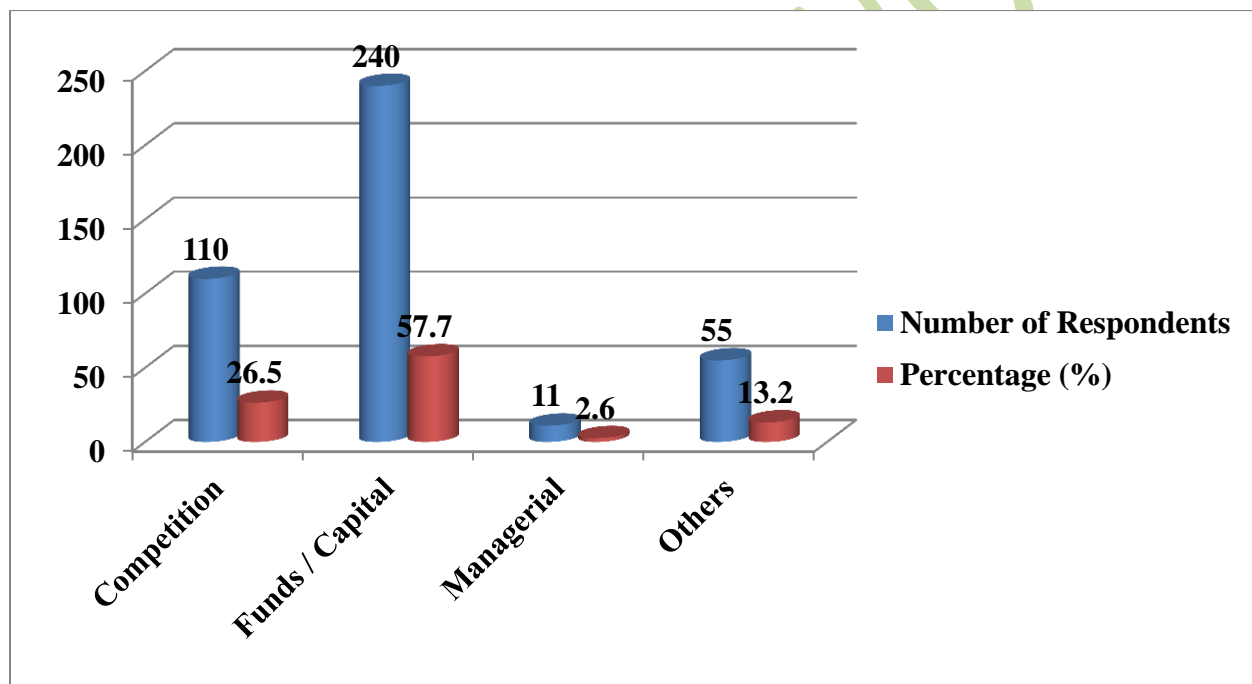
From the table 1 above, it was realized that, about four hundred and sixteen questionnaires that were administered to the various respondents, eighty (80) of them were beauticians representing about 19.2%, one hundred and twenty two (122) respondents were also found to be wood workers indicating 29.3%, one hundred and ten (110) respondents were also mechanics and milling workers aggregating up to 26.4%, metal workers were also seventy four (74) summing up to 17.2% whiles the remaining thirty (30) of the total four retrieved questionnaires were those working in others area of service indicating 7.2%.

Table 2. How Funds/Capital are generated by SME's

Source	Number of Respondents	Percentage (%)
Banks	19	4.5
Family and Friends	98	23.6
Personal Savings	255	61.3
Others	44	10.6
Totals	416	100

The table 2 above shows that, two hundred and fifty five (255) business owners gets their funds from their personal savings which constitutes 61.3%, followed by ninety eight (98) respondents who directly gets their funds from family and friends representing 23.6%, forty four (44) respondents who also take their funds from other sources which constitutes 10.6% and lastly, nineteen (19) respondents who access their funds through the banks representing 4.5%. This clearly shows that, most SME's are not fond of accessing loans from the Banks. This according to them is due to the high rate of interest on the loans and the bureaucracy hey had to go through in accessing the loans.

Figure 1. Perceived Challenges facing SME's



From chart 1 above, it was recognized that, two hundred and forty (240) respondents complained that the problems facing the SME's has to do with Funds/ Capital for the running of the business which constitutes 57.7%, followed by one hundred and ten (110) respondents who think that it is mostly because of the competition they are facing from other competitors such as the international market representing 26.5%, fifty five (55) respondents also believe that, other factors are the reasons why they face these challenges indicating 13.2%, whiles eleven (11) respondents however think that, it is because of managerial capacity which has become a hindrance in SME's operation representing 2.6%.

Regarding the foreign competitors, respondents complain that those foreign firms have expanded over time to enjoy economies of scale and therefore produce at their minimum long run average cost curve. They therefore sell their product or goods at cheaper price as compared to that of local ones. To them if competition were allowed with these big foreign companies, it would be unfair and the SME's would prefer the imported goods to the locally produced goods but this has serious effect on the domestic economy for unemployment problem since most of the goods would be imported.

CONCLUSIONS

According to Ford (2004) small business enterprises create most employment, provide a greater degree of economic stability and very often contribute the lion's share of GDP in industrialized economy.

It was revealed that SME's in Ghana are facing vigorous competitions from the big industries of advanced countries; many of them may not survive this global competition drive. The study revealed that most of the SMEs do not patronize bank loans since access to credit has become one of the major challenges to SME's growth in Ghana. It was commonly believed that SME's have limited access to deposits, credit facilities and other financial support services.

RECOMMENDATIONS

Based on the analysis and findings of the study, the researchers wish to make the underlying recommendations for SME's to help encounter the challenges facing the SMEs division:

➤ Interest Rate

The reduction of interest rate should be a short term issue. If the interest rate is reduced, it will encourage more of the entrepreneurs to access loans from the bank since most of them believed that rate of interest is cost of capital. A fall means cost of production falls and marginal efficiency of capital exceeds that of rate of interest and it will entice them to invest money which will therefore increase output by employing more factors of production. This will however bring together financial institutions and SMEs in business hence, a better platform to understand each others' mode of operations.

➤ **Insurance Packages**

The insurance companies should be vigorously involved in SMEs financing by providing credit packages for any credit delivery by the formal institutions. The insurance companies must have a sense of partnership with the banks and SMEs in areas of credit insurance and guarantee facilities.

➤ **Business Registration and Documentation**

In the area of financial characteristics of SMEs which hinders their access to credits, it is suggested that all small and medium scale enterprises in the metropolis develop voluntary interest in such legal activities as business registration, accurate documentation of business transactions, appropriate and clear business planning so that, it situates their ventures in the best positions to access finance to boost their operations. This is because, lending in itself is a risk and to advance a loan to a business which is not legally recognized is riskier for financial institutions. Therefore, business registration and good business conduct would attract financial institutions' interest to do business with SMEs and to aid their growth through loan packages.

➤ **Embargo on Importation of Foreign Goods**

Also, the government should establish policies which will prohibit the importation of foreign goods which can be produced in the neighborhood by SME's. in the situation where the ban will not be required, government must enforce high tariffs and import duties on the imported goods in order to increase its prices so that people will demand locally produced goods.

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