

The Development of Small Medium Enterprises and Their Impact on the Ghanaian Economy

Francis Nii Adjabeng¹, Francis Osei² 

¹Belgorod State Technological University, Belgorod, Russia

²Kumasi Technical University, Kumasi, Ghana

Email: oseifrancis1234@gmail.com

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Abstract

The Ghanaian economy is made up of small and medium scale enterprises (SMEs), corporate bodies and multinational companies. They together form the medium through which the economy transacts business activity and grows. The government agenda to make the private sector the engine of growth is mainly driven by the SME sector. The SME sector contributes over 70% of the country's GDP. SMEs have over the years been very significant to the economic development of most developing countries, especially Ghana. It is a major form of business and a major employer making strong positive impact on the economic growth and GDP in Ghana. This study researches into the operation of the SME development in Ghana, the importance of SME's to the Ghanaian economy, the challenges facing the sector and makes recommendations as to how to resolve these challenges and the impact to the Ghanaian economy. Data was collected from SMEs from various cross sections of manufacturing, trade, commerce and service industries. The data was collected through interviews, questionnaires, publications and reports. On the average the sector was found to be a major contributor to the GDP, performing very well. Some of the problems faced by the sector were lack of access to credit facility, inefficiencies with their management, inability to capitalize on advanced technology, regulatory and legal constraints. Recommendations are made for the training of the SME owners and managers as well as for the proper registration and structuring of the SME ventures to facilitate access to credit and also meet regulatory requirements.

Keywords

Economy, Challenges, SMEs, Ghanaian

1. Introduction

Recently, the issue of the relationship between banks and their small business customers has not only received a lot of academic attention, but it has also been debated on several occasions, leading to the establishment of substantial government support to supplement existing support (e.g. Blackwell & Winters, 1997; Harhoff & Korting, 1998; Degryse & Van Cayseele, 2000; Bodenhorn, 2003; Peltoniemi, 2007). Furthermore, Hernandez-Canovas and Martinez-Solano (2007) argue that close relationships with financial institutions may yield advantages such as improved financing conditions and increased credit availability. However, what is less well known and worth investigating is the core question: How does SME financing affect the profitability of Ghanaian banks? This paper aims to investigate the impact of SME on Ghanaian economy and determine whether banks perceive the SME sector as profitable. However, if the sector is deemed unprofitable, effective structures can be put in place to encourage growth in the sector.

SMEs are, however, bedevilled with a lot of challenges that render them ineffective and inefficient. For instance, Banaeianjahromi & Smolander (2016), reported that most SMEs in Ghana complain about lack of credit facility which has limited their operations. Some SMEs also complain about the cumbersome banking procedures and difficulties in accessing bank loans. Others also complained about the high interest rates charged by the banks. Kusi et al. (2015) reported that about 38% of Ghanaian SMEs surveyed mentioned credit as a constraint. Also, Aryeetey (2010) observed that in Ghana only half of SMEs application for formal finance such as bank loans had any chance of being considered and, according to him, about two thirds of micro enterprise loans are likely to be turned down. Most SMEs also lack formal training in their business lines.

UNCTAD experts also report that banks regard SMEs as high risk borrowers due to insufficient assets and low capitalization, vulnerability to market fluctuations and high fold up rates. Also paramount among these problems is high information asymmetry arising from SMEs lack of accounting records and inadequate financial statements, making it difficult for creditors and investors to access the credit worthiness of potential SME proposals and advancement in technology. The study will cover fifty SMEs in Greater Accra. The choice of Greater Accra is because it is the region with most SMEs in Ghana, Osei et al. (2021c).

These problems still persist. Banks in Ghana for some years now have been challenged to establish SME departments to design services to suit the needs of the SME sector and to address the challenges faced by these SMEs, but questions have been raised as to the level of support banks offer to these SMEs, hence the question becomes, what is the impact of SME banking in the Ghana?

This study is motivated to examine the differential impact of the financing options available to SMEs in Ghana and to find out to what extent these financing options propel or impede the growth of such firms. Specifically, this study adds

to the recent strand of studies on micro-finance and the development of indigenous entrepreneurship by using firm level data on Ghana to examine financing options and how they can impact firm growth. We extend the literature by looking at only SMEs firms. This is motivated by the importance of SMEs to the development of developing countries (de Soto, 1989; Charnes, 2000), especially in Ghana where, among other objectives, the current industrial policy seeks to promote indigenous entrepreneurship. Using different techniques, our results show that bank financing promotes firm growth. Our results are robust when we even control for other firm characteristics. We also observe that bank financing has greater impact on large firms, compared to small firms. These large SMEs are more likely to formalize their activities and, hence, contribute significantly to government revenue (de Soto, 1989).

Our results have several implications. First, they provide a strong basis for policy direction. This outcome provides government and key stakeholders with an understanding and policy direction of how to promote the growth of these informal firms (mainly SMEs) as these firms' growth can be a strong vehicle for economic development of the Ghanaian economy. The right environment and the required initiatives can be created for informal firms to access this form of finance. Following these well-directed government initiatives and support, the right platform will be created for informal firms to grow. This study is also in direct response to the current need of the Ghanaian economy, as the national consensus from the recently held national economic reform highlights the strong need for the state to encourage and promote indigenous entrepreneurship as well as provide further steps to support small and medium scale enterprises.

2. Literature Review

In this section, the focus is to explore theoretical background and literature on SME operation, the challenges of the sector and its importance in Ghanaian economy.

2.1. Theoretical Background

The growing need for financing by SMEs has spawned new forms of financial contracts and encouraged research into how different forms of financing affect company growth over the years. Despite the increasing use of informal finance, SMEs are still unable to achieve the growth they need, leading businesses to seek access to more financing than usual, which may not be available through informal financing. Formal financing will become an obvious option for such companies seeking higher levels of growth. However, as the leverage of such companies also increases, this comes with higher costs. Leverage increases possible moral hazard issues. Collateral requirements then became necessary to obtain formal financing.

Formal finance in this study refers to borrowing from financial institutions such as banks and credit unions and non-bank financial institutions. Informal

finance, however, refers to data from Revolving Savings and Credit Associations (ROSCA), Accumulated Savings and Credit Associations (ASCA), Reciprocal/Personal Finance (e.g. neighbors, friends and family), business finance (money lenders, informal Susu operators) access to financial resources and cooperatives) etc.

Carpenter and Petersen (2002) show how the choice of financing depends on the costs of formal and informal financing. Using a financial hierarchy model, they show that informal financing is preferred for small firms because it is less expensive than other financings. Berger and Udell (1998) theoretically explore the idea that corporate finance can be captured on a continuum. A company's place on this continuum depends on company size, age, and information availability. As can be seen in Figure 1, smaller and younger firms in the case of external borrowing provide less information to demonstrate credibility and are therefore limited to internal and informal forms of financing. However, as companies scale and grow, they accumulate so much information. If this information is good, it increases the credibility of these companies and how much collateral they can raise or lower how much collateral is needed. Berger and Udell (1998) expand financing options to include formal financing in this context. Most of these models do not take into account the non-financial benefits that firms receive from formal financial institutions, not informal financial institutions.

At the macro level, cross-country data have been used to explore the relationship between finance and growth². Most of these studies used different techniques and different measures of financial development. Findings from most of these

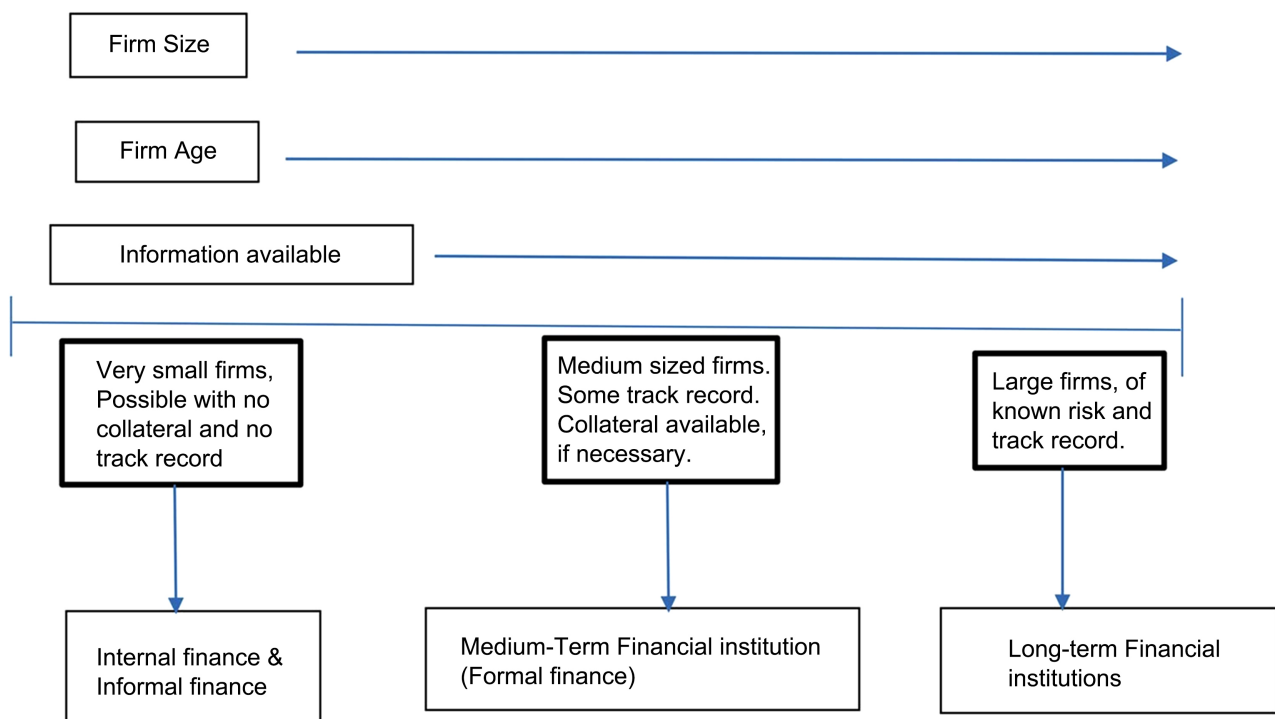


Figure 1. Financial cycle theory.

studies suggest that finance does promote growth. However, using cross-country data cannot capture individual country heterogeneity. Some studies have also looked at finance and growth in individual countries. These country-specific studies have the advantage of capturing individual country characteristics. The difficulty with this approach, however, is that consistent estimates from these studies require a long time span (Christopoulos & Tsionas, 2004). Unfortunately, in the case of African countries, such long-term series are generally not available. Recently, firm-level studies have been favored because they can provide a better understanding of the relationship between finance and growth, taking into account the heterogeneity of individual firms and countries.

One of the key drivers of sustainable growth in developing countries is robust growth and productivity (Beck et al., 2011). Therefore, recent research employs firm-level analysis to achieve higher economic growth goals. Therefore, understanding corporate growth has become a key concern for many researchers and policymakers.

Over the years, studies (e.g. Turkson et al., 2022; Tybout, 2000; Goedhuys & Sleuwaegen, 2013; Baah-Nuakoh et al., 2002) have documented many constraints faced by companies, including infrastructure, energy, market access, excessive regulation and taxation, business environment, Lack of capital, transportation costs, market size, high information costs and macroeconomic instability, especially in developing countries.

However, a rapidly growing literature suggests that financial constraints on firms are the most binding of these constraints (Carpenter & Petersen, 2002; Guariglia, 2008; Beck, Demirgüç-Kunt, & Maksimovic, 2005; Turkson, Amissah, & Gyeke-Dako, 2022). Financial constraints can be particularly acute for informal firms³ that may have been around for a long time and may lack collateral. These companies may have two options: formal financing and informal financing. With less stringent information requirements, informal finance may require less information to obtain funding from lenders, although it is usually in limited supply. As a result, informal finance has higher interest rates but lower transaction costs. On the other hand, formal financing can help businesses overcome financial constraints because it is sufficient, but informal businesses can be difficult to take advantage of given the collateral requirements. This complicates access to financing for informal companies.

2.2. Definition of Small and Medium Enterprise

2.2.1. Small and Medium-Sized Enterprises

SMEs are “non-subsiary, independent firms which employ fewer than a given number of employees” (Maticiuc, 2018). This number is different across national systems, but the most frequent upper limit is 250 employees. This is also the limit in the European Union. The financial aspect is also a characteristic of SMEs. SMEs’ upper limit annual turnover is EUR 40 million and/or the balance-sheet valuation cannot be more than EUR 27 million (Maticiuc, 2018).

2.2.2. Relevance of SME Sector

The importance of SMEs to social and economic development in Ghana and even Africa is almost undisputed. Throughout the continent, SME promotion is a priority in the policy agenda of most African countries as it is widely recognized. There is no doubt that SMEs constitute the seed-bed for the imminent generation of African entrepreneurs. According to United Nations Industrial Development Organization (UNIDO), SMEs account for more than 90% of all registered businesses in Africa.

Small and medium rural and urban enterprises have been one of the major concerns to many policy makers in an attempt to accelerate the rate of growth in an economy such as ours. These enterprises have been identified as the engine through which the growth objective of developing middle income countries like our nation can be achieved.

SMEs provide employment and incomes to a large portion of urban labour force and are a significant source of total output (Aryeetey, 2010). Samuel et al. (2014) estimated that SMEs employ about 22% of the adult population in many developing countries.

Furthermore, SMEs tend to utilize mainly local raw materials that would otherwise be neglected and have less foreign exchange. They mobilize and utilize financial resources that are otherwise dormant like family savings. SMEs by their activities promote indigenous know-how.

2.2.3. Constraints to SME Development

In the face of the wide-ranging economic reforms introduced in Ghana since independence, SMEs still encounter a variety of constraints owing to the difficulty of absorbing large fixed costs, the absence of economies of scale and scope in key factors of production, and the higher unit costs of providing services to smaller firms. A World Bank study found that about 90% of small enterprises surveyed stated that credit was a major constraint to new investment (Igwe et al., 2018; Kung'u, 2015).

2.2.4. Constraints SMEs Face in Accessing Finance

SMEs are the main pivot in the Ghana private sector as the engine for growth agenda as announced by the government. Cross-country evidence, however, also shows that small and medium enterprises are more constrained in their operations and growth than large enterprises and access to financial services features importantly among the constraints (Ayyagari, Demirgüç-Kunt, & Maksimovic, 2017).

Fungwe & Kabubi (2019) indicated that access to bank credit by SMEs has been an issue raised repeatedly by numerous studies as a major constraint to industrial growth.

The major cause for the SMEs inability to raise funds from the financial institutions is the unavailability of collateral to back these facilities as requested by the financial institutions. In their view, the current system of land ownership

and transfer regulation clearly retards and to some extent limits access to formal credits. Firstly, due to lack of clear title to much useable land in Ghana, there is a limited amount of real property that can be put up as collateral. Secondly, a government embargo on the transfer of stool and family land has further restricted land available for collateral. Finally, where title or lease is clear and alienable, transfer regulation needlessly delay the finalizing of mortgages and consequently access to borrowed capital.

Aryeetey (2010), supported the view of Fungwe & Kabubi (2019), that problems related to finance dominate all other constraints to expansion. They claimed that the availability of collateral plays a significant role in the readiness of banks to meet the demand of the private sector. Collateral provides an incentive to repay and offset losses in cases of default.

Thus, collateral was required of nearly 75% of sample firms that need loan under a study which they conducted on the demand and supply of finance for small enterprise in Ghana. The study also indicated that 65% of the sample firm had at various times applied for bank loans for their present business. Nevertheless, a large proportion of the firms had their applications rejected by the banks. For firms that put in loan applications, there was almost 2:1 probability that the applications would be rejected. Firms receive loans for much less than they requested for. Lack of adequate collateral was the main reason banks gave for the rejection of their applications Osei et al. (2021b).

There is the view that if transaction costs of lending are high, the net margin banks expect from loans operations do not compare favourably against safe investment represented by treasury bonds.

Aryeetey (2010) also shares the same view that, for a lender to face information asymmetry, the issue often becomes somewhat persuasive authority he or she holds in ensuring repayment. These push up transaction cost as the probability of default is assumed to be high and has to be contained. Thus banks may avoid lending to smaller lesser known clients or impose strict collateral requirements when they do. They may perceive clients in ways that would overcome the latter's own perception of the difficulty of obtaining formal finance, Alhassan & Sakara (2014).

In investigating whether financing SMEs in Ghana was more expensive than financing the larger enterprises in terms of loan screening, loan monitoring and contract enforcement, banks estimate that, screening to gather information about the applicant and the project, review the feasibility study, do the credit analysis and make a decision to an average of 16 man days for large scale firms application is less than that for small scale firms applications which take 24 man days. Similar results obtained for loan monitoring and contract enforcement suggest that the transaction cost for SME financing were higher than those for large firms per loan. Despite SMEs strong interest in credit, banks' profits orientation may deter them from supplying credit to SMEs because of the higher transaction cost and risk involved.

2.2.5. Ghana and SMEs' Evolution

Years after independence from London (Dana & Dana, 2008), Ghana's industrial strategy has favoured large import substitution industries rather than SMEs, although the latter provide a larger share of employment (Ayyagari, Demirguc-Kunt, & Maksimovic, 2011). In the early 1960s, after independence, Dr. Kwame Nkrumah¹ was concerned with the participation and domination of socialist countries for ideological reasons. The state operates a protectionist trade regime dominated by state-owned enterprises; as a result, the indigenous sector and entrepreneurial class within the country are considered too small and a threat to the political system to be encouraged (Aryeetey, Baah-Nuakoh, Duggleby, Hettige, & Steel, 1996; Appiah-Gyimah, 2018). The government at the time opposed the establishment of private business and the entrepreneurial class. SME financing is not a priority for the government; therefore, no specific efforts have been made to assist the sector. From 1966 to 1972, government involvement in the country's economic affairs decreased significantly. In 1968, the National Liberation Council (NLC) presented a policy document entitled "Promotion of Ghanaian Business Enterprise". This marks the first major problem in the SME sector. Dr. Abrefa Busia²'s government shines brightly in reopening the economy and in its "Ghanaisation" framework policy towards SMEs and decentralized systems, major socio-economic enterprises should be "a place reserved only for Ghanaians". In 1970, the government of Dr. Kofi Abrefa Busia promoted the development of small businesses through the enactment of the Ghana Business Promotion Act (Act 334) (Ninsin, 1989). However, state-led development has continued by 1983, the economy had nearly collapsed (Nowak, Basanti, Horvath, Kochhar, & Prem, 1996). In short, the political system limited the development of SMEs due to the interference of government officials, bureaucracy, and corruption (Ninsin, 1989). To correct some of the causes of its prolonged economic downturn, Ghana introduced the Economic Recovery Program (ERP) (Steel et al., 1991). Hinson and Abor (2004) confirmed that the main objective of the ERP is to create an enabling business environment that helps SMEs make a fruitful contribution to industrial development. In the past, with the support of other donors, the government has tried, implemented and operated many loan schemes to SMEs. Government and NGOs have contributed to the development and development of SMEs and significant contributions have been made to the promotion. These agencies include the National Board of Small Scale Industries (NBSSI), Ghana Appropriate Skilled Industries Service (GRATIS), Business Assistance Fund (BAF), Ghana Investment Fund, Rural Enterprise Project (REP), government agencies, Government Organizations (NGOs), Commercial Banks, Development Finance Institutions (DFIs) and the PAMSCAD Line of Credit for Small Businesses (Boateng, 2015). Available data from the Ghana General Registry indicate that 90% of registered companies are micro, small and medium enterprises (Mensah, 2004). SMEs in Ghana are found in all economic sectors such as agriculture, tourism, ICT, services, energy, general infrastructure,

fishing, manufacturing and waste management. In Ghana, SMEs contribute about 85% of manufacturing employment, representing about 85% of the private sector and about 92% of businesses (Steel et al., 1991). In Ghana, lending to small companies has traditionally been primarily serviced by the banking industry. Banks in Ghana control the widest coverage of banking services in the country and are also proud to have SME desks (Baah-Nuakoh, 2003). Although setting up an SME desk will increase financing costs for SMEs, it will help strengthen relationship banking and effective monitoring to remove more risks on the corporate side.

3. Materials and Methods

The present section describes the procedures and methods which were used in the study and how the questionnaire survey was undertaken. The chapter involves the population of the study, study sample, sampling procedures, the nature of research instruments, research design and administration of the instruments and collection of data.

3.1. Research Design and Sample Size

The study uses a survey to assess the impact of risk management strategies on the financial sustainability of microfinance institutions. This design was adopted because it could adequately describe the current state of the phenomenon (Kothari, 1990). The study included all micro and small business operators operating in Ghana. Nwankwo et al. (2014) state that the population of any study is a universe of such groups; persons or objects of interest to the researcher. To obtain our sample size from the population, we turned to selected micro and small business operators from selected locations in Accra, the capital of Ghana, and by random sampling 50 SMEs operating within the Accra City. They are selected through probability sampling techniques. Our primary data were obtained through questionnaires.

3.2. Research Instrument and Technique

The primary tool used to collect research data is the questionnaire. The questionnaires are designed in both open and closed forms and are distributed directly to the operators of micro and small enterprises. Additionally, to ensure that there is less chance of the questionnaires being lost or misplaced in transit, the questionnaires are retrieved in the same way as managed. Data was analysed using both descriptive and analytical approaches. This involved the use of Statistical Package for Social Sciences (SPSS). The data thus obtained were presented in frequency tables, bar graphs and pie charts using nonparametric simple percentages.

3.3. Validity and Reliability of Research Instrument

The validity of an instrument refers to the extent to which it measures, what it is

meant to measure. The validity of the scales used in this study was assessed as content and structural (convergent) validity. Correlations among the components of the performance scale and among the components of the market-oriented structure provide evidence of convergent validity, i.e. they are high to the extent that they converge on a common base structure. After the survey was completed, the reliability of the scale was further checked by calculating its coefficient alpha (Crombach Alpha). All scales were found to exceed the minimum threshold of 0.7 suggested by Nunnally (1978).

4. Interpretation of Data

4.1. Demographic Data

This section included the age, gender, the level of education of the people, name of business, the type of business (industry and ownership) and finally the year of formation of business. From the results, it was observed that, out of the 50 sampled respondents, 70% were male while 30% were female. This gives an indication, most of these SME businesses were male dominated than female as observed in **Figure 2**.

Further investigation also showed that, the minimum age of the respondents was 19 years while the maximum age was 58 years with an average age of 33.74 years and a median age of 33 years. This also implies that; these SME's was dominated by the youth of the country who try to put ideas into reality by bringing up their own businesses.

The results (**Table 1**) again showed that, majority of them representing 50% had SSSCE/O-level/A-level as their highest level of education while 38% had also attained graduate (tertiary) level of education as their highest level of education with another 10% also saying they have attained BECE/Form 4 education as their highest level of education as observed on **Table 2** below. Only 2% said they have not had any form of formal education.

Investigation into the type of businesses owned by these respondents showed that all SMEs were into private businesses which mainly owned by them or was owned by a group of these personnel coming together to share ideas to build the company.

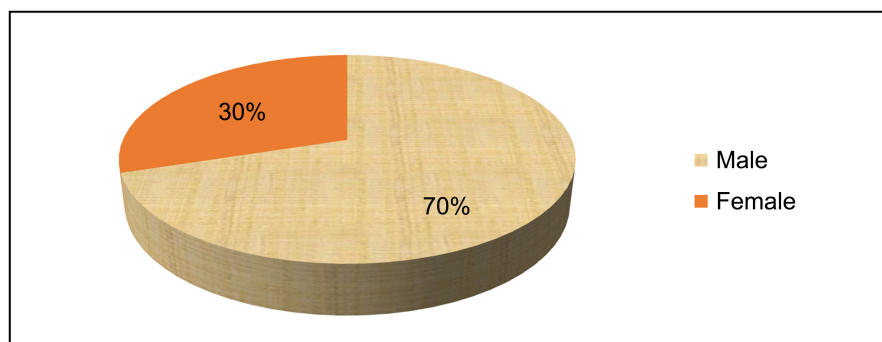


Figure 2. Gender of respondents. Source: Researcher's field survey, 2021.

Table 1. Age of respondents.

	N	Minimum	Maximum	Mean	Median
Age	50	19	58	33.74	33

Source: Researcher's field survey, 2021.

Table 2. Level of education.

Response	Frequency	Percentage (%)
No formal education	1	2.0
BECE/form 4	5	10.0
SSSCE/O-level/A-level	25	50.0
Graduate	19	38.0
Total	50	100

Source: Researcher's field survey, 2021.

4.2. Level of Knowledge in Industry

An in-depth knowledge and understanding of one's' business is an important factor to making important and effective decisions that will lead to increase productivity or progression of the SMEs. For this reason, the study sought to find out the level of knowledge of the respondents in their respective businesses. In achieving this, each respondent was asked to rate their level of knowledge in their respective industry. From their responses, majority representing said they have a very high knowledge about their businesses as they represented 54% while another 30% rated their level of knowledge to somewhat high as observed on **Table 3** below. The table also shows that, 6% rated their level of knowledge to neutral and somewhat low respectively with only 2% rating it very low.

The above information gives the indication that, at least most of these SME personnel have an intensive knowledge about their businesses, knows what they are about, and also makes the right decisions that will aid in increasing productivity in their businesses.

Information and communication technology (ICT) applications provide many benefits across a wide range of intra- and inter-firm business processes and transactions. The use of ICT applications improves information and knowledge management inside the firm and can reduce transaction costs and increase the speed and reliability of transactions for both business-to-business (B2B) and business-to-consumer (B2C) transactions. In addition, they are effective tools for improving external communications and quality of services for established and new customers. With the imminent benefits derived from ICT, the study sought to investigate whether or not these SMEs have knowledge in ICT and advanced technology used in their industry.

From their responses, it can be concluded that, the level of knowledge in ICT is averagely high among these respondents as confirmed by 40% of the respondents who responded to somewhat high while another 22% also rated their knowledge to be very high as observed on **Table 4**. The table also shows that, 16% and 10% rated their level of knowledge in ICT neutral and somewhat low respectively.

Finally, it was observed that, when asked if they have knowledge in financial management and preparation of final reports, 26% rated their level of knowledge as very high while 30% also rated their knowledge as somewhat high with 14% also rating their knowledge as somewhat low and very low respectively as observed on **Table 5**. This information gives the indication that, despite majority of the respondents having a good understanding and knowledge about their businesses, their knowledge in financial management and preparation of final reports was averagely high leaving room for more improvement.

Table 3. Level of knowledge in your industry.

Response	Frequency	Percentage (%)
Very high	27	54.0
Somewhat high	15	30.0
Neutral	3	6.0
Somewhat low	3	6.0
Very low	1	2.0
No response	1	2.0
Total	50	100.0

Source: Researcher's field survey, 2021.

Table 4. Level of knowledge in ICT and advanced technology used in your industry.

Response	Frequency	Percentage (%)
Very high	11	22.0
Somewhat high	20	40.0
Neutral	8	16.0
Somewhat low	5	10.0
Very low	6	12.0
Total	50	100.0

Source: Researcher's field survey, 2021.

Table 5. Knowledge in financial management and preparation of final reports.

Response	Frequency	Percentage (%)
Very high	13	26.0
Somewhat high	15	30.0
Neutral	8	16.0
Somewhat low	7	14.0
Very low	7	14.0
Total	50	100.0

Source: Researcher's field survey, 2021.

4.3. Challenges Facing SMEs in Ghana

The study sought to investigate some of the challenges these SME personnel encounter in the course of their work in the country. In achieving this, respondents were presented with a series of challenges they face and asked to state them in order of importance. The findings showed that, challenges such as availability of financial facility from banks, managerial incompetence, input constraints, market constraints, regulatory and legal constraints and inability to capitalize on the advancement in technology were major challenges these SME personnel face in the course of their work.

They were further asked to state in order of importance the most prominent challenges they face every day which they believed could easily yield low productivity or hinder them in the executing their tasks as SMEs efficiently. From their responses, it was observed that, the most prominent of the above challenges was the availability of financial facilities from banks as confirmed by 58 score marks of the respondents. The next challenge in the order of importance was market constraint which also recorded 28. Regulatory and legal constraint was the next challenge faced by these SMEs in the country and they also represented 22. The fourth important challenge faced by SME according to the questioner was managerial incompetence. It recorded 20. Input constraint and inability to capitalize on the advancement in technology being rated the 5th and 6th important challenges faced by SMEs in Ghana.

The above information gives the indication that, the level of financial aids and support received by these SMEs was very poor which according to most of them slows down their businesses thereby leading to low productivity. In the views of these SMEs, the available financial supports they usually get are from the banks and microfinance companies but the interest rates are too high for them to pay back what they borrow. This according to them deters them from going for such financial assistances from these companies. (Figure 3)

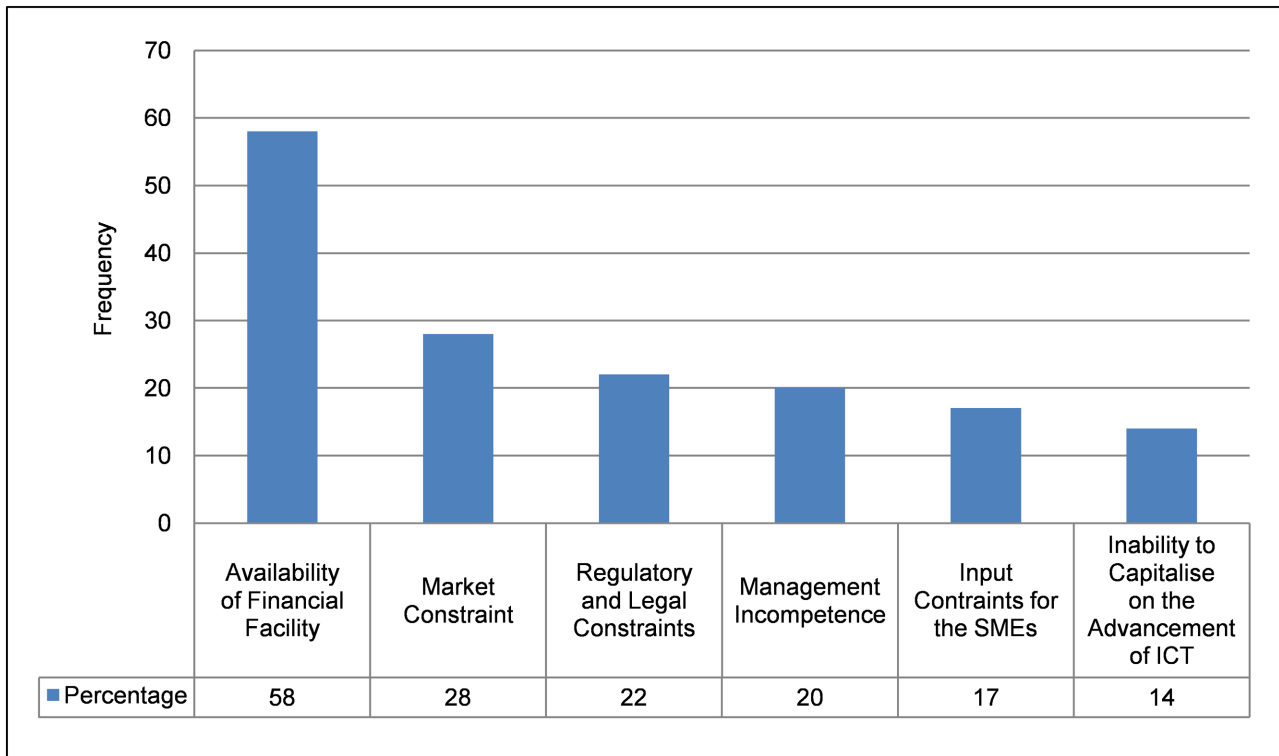


Figure 3. Issues relating to SMEs. Source: Researcher’s field survey, 2021.

4.4. Remedies to Address Challenges

The study also investigated some remedies that could possibly address the challenges faced by these SMEs in the country in the perspective of the respondents. In achieving this, each respondent was posed with a series of remedies and asked to tick which was applicable to them in their various businesses.

From their responses, it was observed that, majority of them responded to re-designing of financial products with less stringent conditions for the SME sector as the most important remedy that could help curb their access to financial support from government, banks and microfinance companies. Another prominent remedy according to the respondents was adequate training being provided for SME personnel to undertake SME ventures. The next important remedy was encouraging nationals to patronize the local goods and encouraging domestication. The other remedies in order of importance as gathered by the research were as follows: encouraging more businesses to go into the production of the inputs needed by these SME. The development of less stringent legal and regulatory requirements and the training of personnel to take advantage of the advancement of technology to increase their business.

4.5. Impact of Small and Medium Enterprises on the Development of the Ghanaian Economy

Respondents were again asked to rate SMEs in relation to the impact they have on the economy of Ghana. Each respondent was presented with a series of ques-

tions to be responded using the Likert Scale ranging from 1 = Least Important to 5 = Most Important with 3 = Neutral. **Table 6**, shows the level of importance on how SMEs are important in terms of development in Ghana in the perspective of the respondents. From the table, majority of the respondents rated SMEs as highly important and most important as they believe they contribute significantly to the growth of Ghanaian economy and they represented 32% and 46% respectively. The table also shows that, majority were of the belief that, SME's contribute 32% - 34% towards generation of employment to many nations respectively.

Most of them did believe SMEs contribute to the generation of forex exchange in the economy as such rate its impact on the development in Ghana as 4 and 5 signifying most importance and they represented 24% and 30% respectively. On Ghana's development in relation to it contributing to the growth of the GDP of the country, there was a high level of certainty as 25% remained highly important while 33% said it was most important with 10% also rating it as least important. Finally, it was observed that, majority rated it 4 and 5 to indicate that, SMEs can improve if the challenges they face are addressed adequately and appropriately.

The above information gives the indication that, SMEs are very important to the boosting of the country's economy as it provides employment for the youth and the general public, contributes to growth as well as contributes slightly to increase in GDP of the country in the perspective of the respondents.

Finally, respondents were asked to make comments on any needs they deem relevant in the questionnaire which they believe could help boost their businesses and better their lives in the SME sector. Some of the comments given included, there should be capacity building for illiterates in the business for them to understand how they can also contribute significantly to the nation building, financial assistance or lending from banks, microfinance companies and other

Table 6. SME development in Ghana.

	1	2	3	4	5
Contributions to the growth of the Ghanaian economy	10%	8%	4%	32%	46%
Contributed towards generation of employment to many nationals	6%	16%	12%	32%	34%
Contributed to the generation of forex exchange in the economy	14%	14%	18%	24%	30%
Contributed to the growth of the GDP of the country	10%	16%	16%	25%	33%
Can be improved if challenges are addressed	14%	10%	12%	26%	38%

Source: Researcher's field survey, 2021.

NGOs for the purchase of goods with low interest rates, Ghanaians should patronize made in Ghana goods and also the government should do something about the cedi depreciation as it is affecting businesses of SMEs as well as government providing financial support to SMEs to help boost their businesses. Other comments made included, provision of adequate and approved technology for safety, workshops and seminars should be organized for SMEs and especially to students in the tertiary institutions to help boost their confidence on their business ideas, there should be efficient organizational structures which ensures effective management of the businesses, more personnel should be trained in the SME sector and also energy problem needs to be addressed.

5. Conclusion

Small and medium enterprises make a huge contribution to the Ghanaian economy, creating jobs for a large number of youth and others, thus curbing chronic unemployment. It also contributes significantly to the country's foreign exchange creation and the growth of the country's gross domestic product. This result may help determine whether there is an alternative or complementary relationship between formal and informal forms of financing in Ghana. We found that bank financing promotes company growth, especially for large companies. Contrary to popular belief that informal finance is suitable for SMEs, this result suggests a key policy.

These findings can help the government and stakeholders create the right environment for the overall development of SMEs in Ghana. SME financing is often considered the first choice for larger companies. But in this study, we have shown that policymakers in developing countries like Ghana can boost SME growth by making it easier for SMEs to access SME financing. In addition, the government can work with Ghanaian banks to develop incentives to encourage formal financial institutions to provide financial support to informal companies. Formal financial institutions with years of experience in raising capital and working with more companies can provide more than just financing for SMEs that need more education in financial management and choice than informal financial institutions (Allen et al., 2005). This support will provide greater output and sales growth. Second, as a policy initiative, the government could educate these SMEs on how to manage their businesses to make them attractive for investment by formal financial institutions.

6. Recommendation

The study discovered important key issues facing the sector and came out with workable recommendations to address these issues. The study observed that Banks and other Non-Banking Financial Institutions should come out with well-designed products and services that will adequately meet the financial needs of the SME sector. In addition to the above, government must provide the incentive and ready market for the products of this sector. The government must help the

SMEs through waiving of taxes and granting of subsidies to the SME businesses. In the procurement of goods and services, the government must first consider and put the products of SMEs first in its purchases. This will accord the SME larger market for their products and services. Furthermore, entrepreneurs must be encouraged to go into the manufacturing and production of products that will serve as raw material and input needed by the sector. Also, entrepreneurs must be encouraged to take advantage of the advancement in ICT to improve upon their output and increase the value of their final product or service. These entrepreneurs should be educated on the benefits, uses and adequately assisted in the usage of the ICT to produce better quality products to match global trends.

Once again, the government should consider the option of going into strategic partnerships with development partners abroad to give adequate source of finance to SMEs. This partnership can also look at sourcing for raw materials at cheaper prices and providing ready market source for final products and services for these SMEs all on long contract terms

Moreover, Tertiary students must be taught to be more entrepreneurial and given the necessary support by the state, if that happens they can be able to contribute to the building of the SME sector and the national development at large. Finally, SME entrepreneurs should be taught to be future looking and consider succession planning as a key ingredient in their management process and put proper organisational structures in place for human resource, marketing and other managerial areas to ensure the continuity and long term success of the business.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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