The Contributions of Small and Medium Scale Enterprises to Economic Growth: A Cross-Sectional study of Zebilla in the Bawku West District of Northern Ghana.

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Abstract

The mainstay of developing economies is the informal sector. In Ghana, most employment opportunities are largely hinged on the private sector. The contribution of this sector to Ghana's economic growth through job creation cannot be underestimated. Globally, SMEs are noted for empowering citizens and economic growth of countries in Asia, Europe and North America. Though successive Ghanaian governments after independence in 1957 have made strenuous efforts towards reducing poverty and accelerating economic growth through formulating policies that favor SMEs, there is still a lag in knowledge regarding the presence of SMEs and level of development in rural settings in Northern Ghana. The study sought to find out if the presence of SMEs could be linked to rapid infrastructural development, whether significant number of people is gainfully employed in the sector, and if SMEs have attracted the needed financial institutions through increased in credit facilities. By extension we also explored inherent challenges confronting SMEs and provided recommendations for entrepreneurs and policy makers to improve the sector in Ghana.

The study employed a descriptive cross-sectional study design and data was collected between April and August, 2013. Simple random sampling was used to select One hundred and sixty (160) SMEs respondents at 92% confidence interval (C.I) at 0.08 error margin. To achieve the set objective, the study employed both primary (questionnaires and observation) and secondary (documented evidence, internets materials etc) data collection techniques. The study revealed that SMEs do not play significant role in employing youth in the District though most SMEs rely on free family labour to minimize cost. Some infrastructural development like roads constructions could not be associated with the presence of SMEs. 15% of respondents attributed SMEs presence to housing and electricity extension to selected areas. Onion cultivation dominated other crops production in the area and generated appreciable profits. Limited access to credit, Infrastructural development deficits such as decent roads, Onions storage facilities and irrigation dams for all year round cultivation were among key challenges outline as hindering SMEs development in the area. It is recommended that, entrepreneurs should be encouraged to form cooperatives to enable them access bank credits since most financial institutions hold the view that, group lending minimizes the risk of loan default. Also, occasional capacity training sessions should be organized for SMEs on basic records keeping and entrepreneurial management skills.

Keywords: SMEs contribution, Onion cultivation, Dawadawa / Shea butter extraction, Zebilla, Bawku.

1. Background of the Study

Globally, Small and Medium Scale Enterprises (SMEs) are a tool for empowering the citizens and economic growth. SMEs are associated with rapid economic growth of countries in Asia and North America (Schaper 2002). Among developed countries such as the USA, SMEs still play enormous role in the country's economy (Aranoff et al. 2010). Available evidence points that, SMEs occupy an important and strategic place in economic growth and development in all countries (Abor & Quartey 2010) constituting as high as 90% of enterprises in most countries worldwide. SMEs are the driving force for large number of innovations and contribute to the growth of the national economy through employment creation, investments and exports. Owing to the success of the Asian tigers, interest is running SMEs particularly in developing countries that are in the rat race to meet and reduce the economic and development gap, the Chinese and foreign experts estimate that SMEs are now responsible for about 60% of China's industrial output and employ about 75% of the workforce in China's cities and towns (Schaper 2002). These SMEs creates jobs for workers who have been laid off from state-owned enterprises due to the steady transition from communism to a market based economy.

According to (Cook & Nixson 2000), interest in the role of small and medium-scale enterprises (SMEs) in the development process continues to be in the forefront of policy debates in developing countries. In view of the relevance of SME's, in 2006 the government of Taiwan launched a $61 million "branding" initiative, which aimed to propel the economy from being production-based to knowledge-based (Lin 1998; Onuorah 2009; SAN 2006). According to the report in English language version of the online edition of Electronic Engineering Times-Asia print magazine, formerly *Asian* Sources Electronics Engineer (EE Times Asia) in August 2006, the so-called "Branding Taiwan Plan" is a seven-year program designed to help promising small-to-medium enterprises (SMEs) in developing their own brand, according to the Taiwanese government. This was initiated with the view of SMEs ability to boost the economy particularly in the medium term. Small businesses employ 72,000,000 people (Schaper 2002). More than 90 per cent of the industries in Indonesia, Philippines, Thailand, Hong Kong, Japan, Korea, India and Sri Lanka are small enterprises (Cook & Nixson 2000).

In Africa, the SMEs is the dominant sector and accounts for almost 90% of all the enterprises in rural and urban areas. SMEs are a major employment avenue to people and stimulate the development of the countries by promoting entrepreneurial and business skills amongst communities (Giovanna Ceglie & Marco Dini 1999). In Sub Sahara Africa, SMEs are considered very important propellers for obtaining national development goals, such as poverty alleviation and economic growth (Zoltan Acs 2006). For example, in South Africa, the SMEs account for about 46% of the total economic activities and 84% of private employment. It is also estimated that about 80% of the formal business sector and 95% of the total business sector are

considered to be the SMEs (Axel Volkery & Klaus Jacob 2004).

In Ghana efforts have been made by successive governments to reduce poverty and accelerate economic growth by increasing foreign direct investment, diversifying the economy, enacting policy frameworks which favor small business ownership and at most initiating employment and entrepreneurship programmes. According to Milford (2000), while quoting from World bank (2000), "enormous effort has been placed on SMEs capacity to address extreme poverty, create desperately needed jobs, halt the ongoing de-industrialization process and curtail any further ethnic unrest associated with bleak economic prospects and social collapse". Ghana remains a country with very high potential but an equally high inertia to develop. The country is blessed with abundant supply of enormous human and natural untapped resources. SMEs are vital for economic growth and development because they encourage entrepreneurship, generate employment, and reduce poverty (Abor & Quartey 2010), however, sustainability of SMEs in Ghana are threatened to stagnate due to the varied risks exposed to SMEs. In the Ghanaian context the National Board for Small Scale Industries (NBSSI) classifies SME as an enterprise with turnover greater than US$200,000 and not more than US$5 million equivalent. The SME market constitutes the vast majority of businesses in Ghana and over the years, they have evolved to become key suppliers and service providers to large corporations, inclusive of multinational and transnational corporations. In view of the significance of SMEs in Ghana, this study sought to find out the contribution of SMEs to the economic development of Ghana with particular reference to Zebilla in the Bawku West District of Northern Ghana.

1.1 Problem Statement

The manifestation of poverty in Africa is evident from high infant mortality, low level illiteracy, inadequate health care services and limited access to portable water (Sahn et al. 1999). Today, as other continents continue to register sustained economic growth and development, Africa is not only lagging behind but is trapped in a vicious circle of borrowing and donors depend. Africa has perpetually failed to focus its development efforts on the optimum utilization of the available natural resources that many countries are endowed with to turn into wealth to propel their economies and people towards a high level of economic and social development. The importance of SMEs in driving economic growth is emphasized in the case of communist East and Central European countries that allowed limited forms of officially-sanctioned SME development as a way of ameliorating poor economic performance and lifting living standards (Edgar Norton 1991). According to Rowen *et al.,* (1998) the rapidity of industrial development success achieved in the last thirty years in East Asian economies have been amazing and this is attributed to SMEs.

Notwithstanding SMEs contributions to economic growth and job creation avenues in low income countries (LMICs), there is a gap in knowledge regarding SMEs contributions and the level of economic growth in rural settings in Northern Ghana. Their performance is saddled with teething problems such as limited access to credit for expansion, lack of access to appropriate technology, limited access to foreign market, dwindling domestic prices for their products, existence of regulations that hinder growth, weak institutional capacity, insufficient managerial skills, lack of appropriate collateral and more so inadequate training (Zoltan Acs 2006). This study sought to answer the following research questions; (1) What are the characteristics of SMEs in Zebilla, (2) What are the contributions of SMEs in Zebilla and (3) What the challenges confronting SMEs in Zebilla in the Bawku West District of Northern Ghana.

2. Methodology

2.1 Study settings

Bawku West District is one of the nine districts in the Upper East Region of Ghana. The District was carved, Bawku District by the Legislative Instrument 1442 in 1988. It lies roughly between latitudes 10° 30'N and 11° 10'N, and between longitudes 0° 20'E and 0° 35'E.The District covers an area of approximately 1,070 square kilometers, which constitutes about 12% of the total land area of the Upper East Region. It is the fourth biggest district in the Region in terms of land area. The district shares borders with Burkina Faso in the north, Bawku Municipality to the East, Talensi/Nabdam District to the West and East Mamprusi District to the South. It has an estimated population of 94,034 (females = 45,114 and males = 48,920) and an annual growth rate of 1.1% (Ghana Statistica Service 2012). There are 114 communities in the district. The predominant tribes are Busangers, Frafras, Kusasis, Mamprusi, and Moshies. However, other settlers such as Fulani and Transferred Government employees from all the regions of the country cohabitates in the District. Farming, rearing of animals, poultry keeping, weaving, and cultivation of onions, millet, maize and watermelon are the socio-economic activities of the inhabitants. In term of commerce and Industry, the resource base of the District is agriculture. More than 80 per cent of the population is engaged in agriculture or agriculture related activity like fishing whilst about 11% is engaged in trading (Statistical service 2012). The available industries include groundnut oil processing, shea butter extraction, dawadawa and malt processing, rice parboiling and milling and weaving of smock materials which are done using simple local technology. It is important to note that these small scale industries in the District are mostly engage in by the female population who are mostly poor and therefore lack capital to enable them produce on large scale. Therefore, if given the necessary support it would stimulate economic growth in the District and go a long way to reduce the poverty level among the female population.

The major marketing centres in the District include Zebilla, Binaba, Sapelliga, Gbantongo (Kukore) and Agatusi. The main items traded in these markets are rice, millet, beans, sorghum and groundnuts. Other items are malt, dawadawa, onions and livestock. All the markets, except Zebilla and Binaba Markets, lack basic facilities like lockable stores, toilets and urinals. The Zebilla market has just been provided with security lights. The rest of the few markets in the District lack stalls/sheds and storage facilities, which pose a security problem especially on market days. Therefore, in order to boost the production and trading of onions in the district, the assembly has to build storage facilities so that onions could be stored for sale and for transportation to other markets within the district outside.

2.2 Study Design, Population and Sample Size

The study employed a descriptive cross-sectional study design and data was collected between April and August, 2012. Simple random sampling was used to select One hundred and sixty (160) SMEs respondents at 92% confidence interval (C.I) at 0.08 error margin. The sample size was determined by proportion of the population engaged in SMEs in the District. Total proportion of the population in small scale business is 11% which is approximately 10, 344 of the total population (Statistical service 2012). The sample size at 92% confidence interval with 0.08 error margin.

Using the formulae; $n = \dfrac{N}{1 + N\,e^{\wedge}2}$

Where *n=* Sample size*, N=* Sampe frame/taget population (total number of households in Wa), $\hat{e}^2=$ represented the margin of error which is *0.08* with confidence level of *92%.* By substituting 10,344 and 0.08 into the formula, **n=155** approximately. Therefore, the sample size 160 was selected from small scale entrepreneurs. This minimizes errors when the sample mean is closer to the population mean. This study gathered information from both primary and secondary sources using structured questionnaire. The goal of this method data collection is to capture quality evidence that then translates into rich data analysis and allows the building of a convincing and credible answer to questions that have been posed in the study (Creswell & Tashakkori 2007).

The researcher with two assistants personally administered the questionnaire in the case of entrepreneurs who could not read, the questions were read to them before options were selected. Secondary data were gathered from the annually published statistics of the Ministry of Employment, Annual Records of Association of Ghana Industries (AGI), NBSSI and NGOs. For the review of literature, data were gathered from Ghana Statistical Service (GSS) publications, articles and books on SMEs development in Ghana and the world at large from government sources, international and governmental organizations sources. The data analysis was done using the Statistical Package for Social Scientist (SPSS). Descriptive Statistics was employed in data presentation using charts and graphs.

3. Concept of Small/Medium Scale Enterprise

There is a large literature on SMEs impact on national development in particular. Similarly, the contributions of SMEs in terms of income generation and job creation in Ghana's economic development cannot be underestimated. This section traces some of the developments in these areas that are especially relevant to the study.

3.1 Nature of SMEs

The definition of small-scale enterprise has been a very controversial issue The European Union defines a medium-sized enterprise as one with a headcount of 250, a small firm as one with a headcount of less than 50 and a microenterprise as one with a maximum of 10 employees. In the USA businesses with fewer than 100 employees are termed as "small" while "medium-sized business "often refers to those with fewer than 500 employees. The definition by the British Department of Trade and Industry on a small firm as an "independent business, managed by owners and co-owners and having a small market share" is the most acceptable definition and forms a clear global framework for all the measures directed towards SME's (UK Department of Trade and Industry, 2001). To be classified as an SME or a microenterprise, an enterprise has to satisfy the criteria for the number of employees and one of the two financial criteria, i.e. either the turnover total or the balance sheet total. In addition, it must be independent, which means less than 25% owned by one enterprise (or jointly by several enterprises) falling outside the definition of an SME or a micro-enterprise, whichever may apply.

In Ghana, SMEs are broadly classified as rural or urban. The rural enterprises are individual artisans, groups of people in pottery, basket weavers and dress making. Others include bakery, blacksmithing, leather works and textiles. The urban enterprises are either organized or unorganized. The organized ones have registered office space and paid employees. The unorganized ones have no paid workers and often operate in occasional open spaces (Osei B et al. 1992).

3.2 Contribution of SMEs to Economic Growth

The role of small businesses owned by Ghanaians, set up by individual savings, gifts and loans and sometimes sustained by profit cannot be ignored. According to (Schaper 2002) countries that have made economic breakthroughs in the last two decades demonstrate beyond doubt that the development of entrepreneurship has been the sine back bone of economic growth and development. The significant role SMEs play in development is acknowledged world over (Schaper 2002). He cited the work of Schell, (1996) who noted that in developed countries such as the USA, where big corporations are dominant, SMEs still play enormous role in the country's economy.

SMEs are the driving force behind a large number of innovations and contribute to the growth of the national economy through employment creation, investments and exports. Owing to the success of the Asian tigers, interest is running high globally particularly in developing countries that are in the race to catch up and reduce the economic and development gap. Chinese and foreign experts estimate that SMEs are now responsible for about 60% of China's industrial output and employ about 75% of the workforce in China's cities and towns (Lloyd-Reason & Mughan 2002). These SMEs creates jobs for workers who have been laid off from state-owned enterprises due to the steady transition from communism to a market based economy.

According to (Cook & Nixson 2000), interest in the role of small and medium-scale enterprises (SMEs) in the development process continues to be in the forefront of policy debates in developing countries. Owing to the relevance of SME's, in 2006 the government of Taiwan launched a $61 million "branding" initiative, which is aimed to push the economy from being

production-based to knowledge-based. According to the report in EE Times Asia in August 2006, the so-called "Branding Taiwan Plan" is a seven-year program designed to help promising small-to-medium enterprises (SMEs) in developing their own brand, according to the Taiwanese government. This was initiated with the full consciousness of the ability of SMEs to drive the economy particularly in the medium term. Small businesses employ 72,000,000 people (Sahn et al. 1999; Schaper 2002).More than 90 per cent of the industries in Indonesia, Philippines, Thailand, Hong Kong, Japan, Korea, India and Sri Lanka are small enterprises.

3.3 Overview of SMEs in Africa

Given the critical role SMEs play in supporting sustainable economic growth globally, Africa is yet to catch up with the rest of the world. The development of the private sector varies greatly throughout Africa. SMEs are thriving in South Africa, Mauritius and North Africa, thanks to fairly modern financial systems and clear government policies in favor of private enterprise (IADB, 2004). Elsewhere the rise of a small-business class has been hindered by political instability or strong dependence on a few raw materials. In the Democratic Republic of Congo, for example, most SMEs went bankrupt in the 1990s during the civil war. In Congo, Equatorial Guinea, Gabon and Chad, the dominance of oil has slowed the emergence of non-oil businesses (Galindo et al. 2007; Schmitz 1995). In Nigeria, SMEs (about 95 per cent of formal manufacturing activity) are key to the economy but insecurity, corruption and poor infrastructure prevent them being motors of growth(Cook & Nixson 2000).

According to AGI (2011),With the discovery of oil, the critical issue facing Ghana is how to avoid some of the pitfalls and negative effects of oil and gas resource that have bedeviled most oil-producing countries, especially those in Sub-Saharan Africa. Experiences abound from sister countries, such as Nigeria (Niger Delta unrest and corruption), Angola (civil war and high cost of living) and Equatorial Guinea (under development and unequal distribution of income).

Africa's private sector is mostly informal micro-enterprises, operating alongside large firms. Most companies are small because the private sector is new and because of legal and financial obstacles to capital accumulation. For most small entrepreneurs in Ghana, the lack of access to financial services is a critical constraint to the expansion of viable micro-enterprises (Adjei Joseph Kimos et al. 2009; Osei B et al. 1992). Between these large and small firms, SMEs are very scarce. In most developing countries, including Ghana opportunities for wage employment in the formal sector of the economy are extremely limited, and the vast majority of the poor rely on self-employment for their livelihood (Nkuah Joseph Kofi et al. 2013). According to the World Bank (2000) cited in (Adjei, 2010), micro, small and medium-sized enterprises together account for 66 per cent of total employment in Ghana.   Even in South Africa, with its robust private sector, micro and very small enterprises provided more than 55 per cent of all jobs and 22 per cent of GDP in 2003, while big firms accounted for 64 per cent of GDP.

SMEs are weak in Africa because of small local markets, undeveloped regional integration and very difficult business conditions, which include cumbersome official procedures, poor infrastructure and inadequate financial systems. According to Adjei (2010), better access to financial services would enable entrepreneurs to establish and expand micro-enterprises and thereby improve their income levels and create employment. Even in middle income countries such as Botswana and Egypt, where opportunities for wage employment are greater, many poor households rely on self-employment in micro-enterprises for their livelihoods.

Many firms stay small and informal and use simple technology that does not require great use of national infrastructure. Their smallness also protects them from legal proceedings (since they have few assets to seize on bankruptcy) so they can be more flexible in uncertain business conditions. Large firms have the means to overcome legal and financial obstacles, since they have more negotiating power and often good contacts to help them get preferential treatment (Mensah 2004).

3.4 The characteristics of SMEs in Ghana

The Small and Medium-scale Enterprise (SME) Sector in Ghana includes Micro Enterprises, Small Enterprises, Artisans & Village Industries, Medium Enterprises, Service Sector units & individual sub-sector units. Growth resulting from globalization and liberalization is most visible and profound in the SMEs segment, making SMEs growth engines for economic development (Anthony K. Ahiawodzi & Thomas C. Adade 2012);Unibank, 2011).

The choice of small and medium scale enterprises within the industrial sector is based on the following propositions (Abor Joshua & Nicholas Biekpe 2006):

(a) Large Scale Industry
(i) has not been an engine of growth and a good provider of employment;
(ii) already receive enormous support through general trade, finance, tax policy and direct subsidies;

(b) Small and Medium Scale Enterprises
(i) Mobilize funds which otherwise would have been idle;
(ii) Have been recognized as a seed-bed for indigenous entrepreneurship;
(iii) Are labour intensive, employing more labour per unit of capital than large enterprises?
(iv) Promote indigenous technological know-how;
(vii) are able to compete (but behind protective barriers);
(viii) Use mainly local resources, thus have less foreign exchange requirements;
(ix) Cater for the needs of the poor and;
(x) Adapt easily to customer requirements (flexible specialization).

A distinguishing feature of SMEs from larger firms is that the latter have direct access to international and local capital markets whereas the former are excluded because of the higher intermediation costs of smaller projects (AGI, 2011). In addition, SMEs face the same fixed cost as Large Scale Enterprises (LSEs) in complying with regulations but have limited capacity to market products abroad.

It is interesting to note that small scale enterprises make better use of scarce resources than large scale enterprises. Research in Ghana and many other countries have shown that capital productivity is often higher in SMEs than is the case with LSEs (Kayanula Dalitso & Peter Quartey 2000). The reason for this is not difficult to see, SMEs are labour intensive with very small amount of capital invested. Thus, they tend to witness high capital productivity which is an economically sound investment. Thus, it has been argued that promoting the SCE sector in developing countries will create more employment opportunities, lead to a more equitable distribution of income and will ensure increased productivity with better technology (Steel & Webster, 1991) cited in (Kayanula,2000).

3.5 Funding of Small Businesses
The SME sector constitutes in excess of 90% of the economy of the country (Abor et al, 2010). The need to provide secured source of financing for this sector cannot be over emphasized. SMEs, if properly structured and capitalized have the potential to grow and spearhead accelerated growth of this economy into a middle income status (GPRSII, 2005). There are some challenges to the SME sector Despite their commendable contribution to the national economy, SMEs in Ghana have not always obtained the required support from concerned Ministries, Departments and Agencies as well as the Banks, Financial Institutions and other bigger corporate entities. This lack of support is a handicap to developing competitiveness.
Indeed, SMEs face a number of problems such as the absence of adequate and timely banking finance, limited capital and knowledge, non-availability of suitable technology, low production capacity, ineffective marketing strategies, lack of capacity to identify new markets, constraints on modernization & expansions. Access to credit has been one of the main bottlenecks to SME development. Most SMEs lack the necessary collateral to obtain bank loans. To address this issue, the Central Bank of Ghana has established a credit guarantee scheme to underwrite loans made by Commercial Banks to small scale enterprises. Unfortunately, the scheme did not work out as expected. It was against this background that the Bank of Ghana obtained a US$ 28 million credit from the International Development Association (IDA) of the World Bank for the establishment of a Fund for Small and Medium Enterprises Development (FUSMED). Under the Programme of Action to Mitigate the Social Cost of Adjustment (PAMSCAD), a revolving fund of US$ 2 million was set aside to assist SMEs (Kayanula Dalitso & Peter Quartey 2000).

To address such challenges, successive governments in Ghana have tended to look at cosmetic minor changes and relied on inadequate donor supported funds to address the concerns of SMEs. Despite these support systems, and the now institutionalized funding through non-bank financial institution and traditional banks, capacity gaps continue to exist (Adjei, 2010). Capacity Development for SMEs Indeed, despite the strenuous efforts most SMEs put into developing their business and economic growth many SMEs are not aware about various developments and changes in international and domestic trade, incentives and schemes of Government, market development, banking and finance, laws, direct and indirect taxes, H.R. Management, TQM, Six Sigma, quality assurance, productivity, logistics and supply chain management and other related areas (Park et al. 1994). The result is that SMEs in Ghana have lacked competitiveness and both the banks that finance their operations and the government which supports programmes with tax payer resources have not derived the required benefits (Tagoe et al. 2005).

According to Cork and Nixon, (2000) poor management and accounting practices have hampered the ability of smaller enterprises to raise finance. This is coupled with the fact that small businesses are mostly owned by individuals whose personal lifestyle may have far reaching effects on the operations and sustainability of such businesses. As a consequence of the ownership structure, some of these businesses are unstable and may not guarantee returns in the long- run. Unfortunately since there is a scarcity of long term investment funds for SMEs (as a consequence of the banks and securities markets shying away from the high risk investments in these sectors), it has become imperative for the Government to set up a scheme that will provide long term funding for the high risk investment needs of the SME sector. Such support to the business sector is in consonance with the recognition that the private sector is the engine of growth of the economy and the policy to promote and support them, is to engage the private sector as an equal partner to help government achieve the country's developmental goals (GPRS II, 2005). It is in this regard that the Venture Capital Trust Fund has formed partnership with financial and non-financial organizations for Small and Medium-Scale Enterprises(s) (SMEs).

3.6 Contribution of SMEs to Ghana's Economic Development
Development essentially has to do with improvement in human well-being, elimination of hunger and poverty, and gainful and productive employment for all the citizens. According to Joshua, 2007, development means "bringing a nation to an advanced or highly organized state that is utilizing all human and material potentials of a nation to bring about growth or advancement. Therefore, national development means the ability to harness all available resources, human and material to bring out the potential of a nation. Micro and Small Enterprises are the bone of a country's economic development. The government of Ghana in an effort to ensure the growth of these enterprises established the National Board for Small Scale Industries by Act 434 of 1981 and is mandated to promote the growth and development of Micro and Small Enterprises (MSEs) (GIPC, 2011).

The National Board for Small Scale Industries (NBSSI) is the apex governmental body for the promotion and development of

the Micro and Small-scale Enterprises (MSE) sector in Ghana. Government views the sector as having the potential to contribute substantially to reducing the high unemployment and to the growth of the economy of Ghana. MSEs account for a significant share of economic activity in Ghana and can play an important role in achieving the development goals for production. The long-term goal is for MSEs to maximize their contribution to the country's economic and social development with respect to production, income distribution and employment and the closer integration of women and people in rural areas with the national economy.

In Ghana SMEs are now exposed to greater opportunities than ever for expansion and diversification across the sectors. While developed global markets may be shrinking on account of the financial and economic crises prevailing, Ghana's market size is growing and opportunities within Africa are also beginning to look attractive for SMEs in manufacturing, food processing, pharmaceutical, IT and agro and service sector, among others.

SMEs are key contributors to Ghana's economy and are playing an increasingly important role in economic growth. In their research work published in the 'International Research Journal of Finance and Economics (2010)' Joshua Abor and Peter Quartey both of the University Ghana established that SMEs account for 92% of all businesses in Ghana and contribute about 70% of Gross Domestic Product (GDP) of the country. SMEs today account for over 75% of the nation's total employment. The number of SMEs is increasing due to the advent of Oil and Gas in Ghana.

It should be noted that, the principal activities of SMEs in Ghana are in agriculture, manufacturing, commerce and service. SMEs therefore have a crucial role to play in stimulating growth, generating employment and contributing to poverty alleviation in Ghana.

3.7 Constraints associated with SME in Development

Despite the wide-ranging economic reforms instituted in the Africa region, SMEs face 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 (Tagoe et al. 2005). Below is a set of constraints identified with the sector.

*Input Constraints***:** SMEs face a variety of constraints in factor markets (also see Abbor et al, 2010). However, factor availability and cost were the most common constraints. The specific problems differed by country, but many of them were related, varying according to whether the business perceived that their access, availability or cost was the most important problem and whether they were based primarily on imported or domestic inputs (World Bank, 1993). SMEs in Ghana and Malawi emphasized the high cost of obtaining local raw materials; this may stem from their poor cash flows (Park et al. 1994; Tagoe et al. 2005).

Finance: Access to finance remained a dominant constraint to small scale enterprises in Ghana (Under the Venture Capital Trust Fund Act, 2004 (Act 680)). This stems from the fact that SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity (Abor Joshua & Nicholas Biekpe, 2006). Many SME's are perceived as risky enterprises; so many financial institutions find it more difficult to finance SMEs. However, there are now some funding schemes for SME's in Ghana including GRATIS, FUSMED, NBSSI/ BAC and MASLOC (Osei B et al. 1992). Several microfinance institutions such as Pro Credit, Sinapi Aba Trust now also fund SMEs.

*Equipment & Technology***:** SMEs have difficulties in gaining access to appropriate technologies and information on available techniques. This limits innovation and SME competitiveness. In most African nations, Ghana inclusive, the challenge of connecting indigenous small enterprises with foreign investors and speeding up technological upgrading still persists (Zoltan Acs 2006). There is a digital divide between the rural and urban areas. With no power supply in most of the rural areas, it is next to impossible to have Internet connectivity in any enterprise. Thus technological change, though meant to bring about economic change even among the rural lot, does not appear to answer to the plight of the rural entrepreneurs.

Domestic Demand: Recent economic policies have led to a decline in the role of the state in productive activity but a renewed private investment has created new opportunities for SMEs (Abbor et al, 2010). Nonetheless, limited access to public contracts and subcontracts, arising from cumbersome bidding procedures and/or lack of information, inhibit SMEs participation in these markets. Also, inefficient distribution channels often dominated by larger firms pose important limitations to market access for SMEs. As noted in the case of Ghana, demand constraints limited the growth of SMEs (AGI, 2011).

3.8 Regulatory Constraints

Although wide ranging structural reforms have improved, prospects for enterprise development remain to be addressed at the firm-level.

Legal: High start-up costs for firms, including licensing and registration requirements can impose excessive and unnecessary burdens on SMEs. The high cost of settling legal claims and excessive delays in court proceedings adversely affect SME operations. In Malawi, Prohibitive laws like The Business Licensing Act, The Electricity Act, The Control of Goods Act, and The Export Incentives Act, have severely constrained SME development (Kayanula Dalitso & Peter Quartey 2000).

3.9 Lack of Entrepreneurial & Business Management Skills:

Lack of managerial know-how places significant constraints on SME development. Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries in the region, has an overstated impact on SMEs.
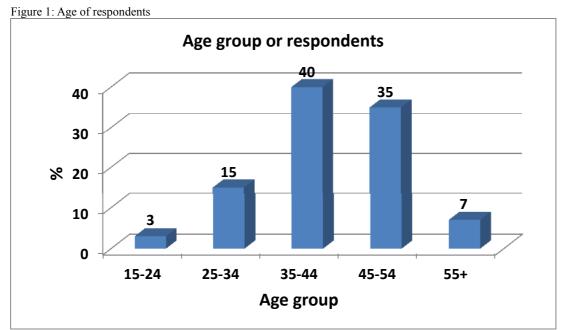
Majority of those who run SMEs are ordinary lot whose educational background is deficient. Hence they may not be well equipped to carry out managerial duties for their enterprises (Giovanna Ceglie & Marco Dini 1999). Studies suggest that those with more education and training are more likely to be successful in the SME sector (King & McGrath 1999). As such, for small businesses to do well in Kenya, people need to be well informed in terms of skills and management. SMEs in ICT appear to be doing well with the sprouting of many commercial colleges offering various computer applications. Further, studies show that most of those running SMEs in this sector have at least attained college level education (Axel Volkery & Klaus Jacob 2004; Zoltan Acs 2006).

4. Results

4.1 Socio-Demographic Characteristics of Respondents

4.1.1 Age distribution of respondents

Age is important in every aspect of life and it is used in making economic decisions. Due to its importance, this study determined the age structure of the respondents. The 2000 population census indicates that 45% of Ghana's population is less than 15 years. The dependent population (below 15 and 64 years and above) is almost the same to those within the working group (15- 64 years) (Statistical service 2012). The age distribution of a country helps policy makers and the business community to effectively channel resources for development. From the data analyzed, 40% of the entrepreneurs were between age group 35-44 and 35% in group 45-54. Only 3% and 8% respectively were found in below age group 25 and 55 and above (see figure 1).

Figure 1: Age of respondents

Source: (Field Survey, 2013)

4.1.2 Sex composition of Respondents

The sex composition and age structure of the population are a reflection of known demographic trends (GSS, 2002). According to the 2000 population census women constitute 50.5 per cent translating into a sex ratio of 97.9 males to 100 females. Available statistic show that, the females in Ghana is slightly more than males (Ghana Statistica Service 2012). Poverty in Ghana has important gender dimensions. According to Adjei (2010) the three Northern Regions tend to have female population in the range of 50-52 per cent. He argued further that women experience greater poverty, have heavier time burden and lower literacy rates. Therefore, to alleviate poverty among women and to empower them economically, most poverty reduction strategies target the women and provide them with the needed capital for business. From our analysis women entrepreneurs constituted 78% while male were 22%.

4.2 The contribution of SMEs to Economic growth and Development

To examine the contribution of SMEs in terms of economic growth and infrastructural development, the researcher sought the views of respondents in the industry in order to have a comprehensive view on the matter.
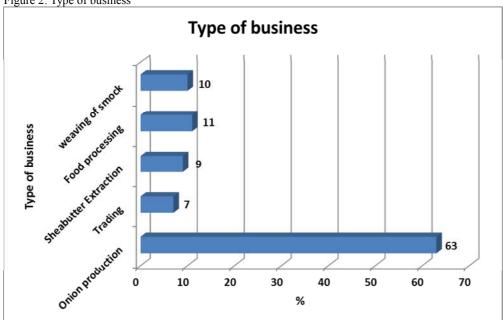
4.2.1 Small and Medium scale Businesses

According to the 2010 Population and Housing Census results, Ghana is mainly an agricultural economy and the main

sources of employment are small scale farming, fishing and trading. Agricultural development of Ghana will have a direct impact on both local and national economies. Improved agricultural sector will translate into improved standard of living of the people and increase GDP growth rate. The four major occupations, nationally, are agriculture and related work (49.2%), production and transport (15.6%), sales work (14.2%) and technical work (8.9%), (GSS, 2002). This general pattern is true for the, majority of regions. In the case of women the major four occupations are agriculture and related work, sales work, production and services (GSS, 2002). The data analysis show Bawku West District is dominated with businesses such as groundnut oil processing, shea butter extraction, dawadawa and malt processing, rice parboiling / milling and smock materials weaving are done using simple local technology. In figure 2, 63% respondents were involved in onions production. Food processing accounted for 11% of the respondents while 9% of the respondents were engaged in shea butter extraction. Those involved in trading constitutes 7 % and smock weaving taking 10 %. The research revealed that, resource base of the District is agriculture. More than 80 per cent of the population is engaged in agriculture or agriculture related activity whilst about 10% is engaged in trading. Results from one way analysis of variance shows that there is no significant relationship between type of business and profitability of the business (P=0.139). This means that not all businesses at the SME level are profitable. This means that some businesses are more lucrative than others.
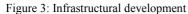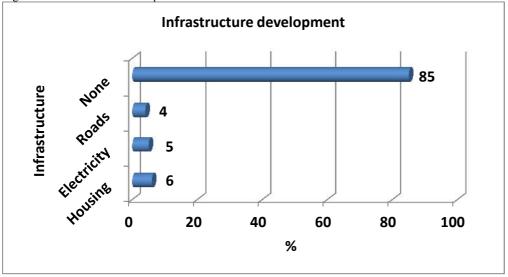
Figure 2: Type of business

Source: (Field Survey, 2013)

4.2.2 The Contribution of SME Sector in terms of Infrastructural Development

Infrastructural development in Ghana will have a direct impact on both the local and national economy. Improved infrastructure such as good roads, access to electricity and potable water will translate into improved standard of living of the people and increase economic growth. Apart from the main Bolgatanga-Bawku road (incidentally the only trunk road in the District), which passes through Tilli, Zebilla and Kubore, and a section of the Tilli- Binaba feeder road and Zebilla-Kansongo road, all the other roads in the District are not tarred. The tarred trunk road covers a distance of 31 kilometers. The rest of the roads, which cover an estimated distance of 290.4 kilometers, are classified as feeder roads (Bawku West District Assembly, 2013). From the analysis, 85% of the respondents indicated there was inadequate infrastructural development in the area. 15% respondents mentioned there is housing and electricity due to SMEs activities (figure 3).
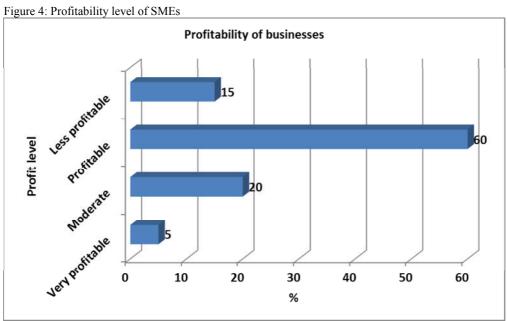
Figure 3: Infrastructural development

Source: (Field Survey, 2013)

4.3. The Profitability of SMEs in Bawku West District

4.3.1 Profitability of SMEs

SMEs are weak in Africa because of small local markets, undeveloped regional integration and challenging business environment, which include cumbersome clerical procedures, poor infrastructure and inadequate financial access systems. According to Adjei (2010), better access to financial services would enable entrepreneurs to establish and expand micro-enterprises and thereby improve their income levels and create employment. Even in middle income countries such as Botswana and Egypt, where opportunities for wage employment are greater, many poor households rely on self-employment in micro-enterprises for their livelihoods. The research revealed that 60% respondents ranked business as profitable, 20% indicated moderate while 15% said the business was less profitable (figure 4).
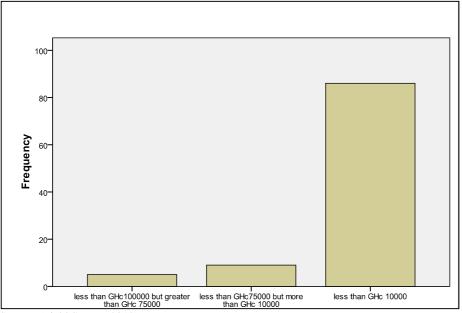
Figure 4: Profitability level of SMEs

Source: (Field Survey, 2013)

4.3.2 Estimated annual income of SMEs

The data shows that 5% of the businesses surveyed made profit of at least seventy five thousand Ghana Cedis (GH¢ 75000) per annum that is approximately fifteen thousand dollars ($15,000). 86% made profits of less than ten thousand Ghana Cedis (GH¢ 10000) (see figure 5). Those whose annual sale were more than ten thousand Ghana Cedis (GH¢ 10000) but less than seventy five thousand Ghana Cedis (GH¢ 75000) per annum constituted 9%.

Figure 5: Annual income of SMEs

Source: (Field Survey, 2013)

4.4 Significance of SMEs in terms of job creation within the District

4.4.1 Number of Employees of SMEs

SMEs are the driving force behind a large number of innovations and contribute to the growth of the national economy through employment creation, investments and exports. Owing to the success of the Asian tigers, interest is running high globally particularly in developing countries that are in the race to catch up and reduce the economic and development gap. Chinese and foreign experts estimate that SMEs are now responsible for about 60% of China's industrial output and employ about 75% of the workforce in China's cities and towns (Schell, 1996). These SMEs creates jobs for workers who have been laid off from state-owned enterprises due to the steady transition from communism to a market based economy.

On the average the staff strength of the SMEs in Zebilla was generally low. 82% of the SMEs employed less than 10 individuals, although some businesses had up to 10 workers. 84% of the businesses surveyed have not employed a staff in the last year but this is inclusive of those who have no staff. 96% of the businesses surveyed have other small businesses around which sell or produce materials which they need to run their businesses. However, 92% of respondents confirmed that businesses were not started directly as a result of existing SMEs. Results from one way analysis of variance (P=0.207) shows that number of people employed was also not significantly related to SMEs in the district (P>0.05). This means that SMEs are not significant employers of labour in Bawku West District. Indeed, SMEs are not generating enough employment opportunities for the people in the district.

4.4.2 The Relationship between Profitability and type goods sold at SME Level

To determine whether Profitability of SME business in this community is independent of the nature of goods on sale, the researcher sought the views of the major players in the industry in order to have a broad view on the matter. 94% of respondents, irrespective of sex or age confirmed that businesses were profitable at the SME level in the district. However, one way analysis of variance (P=0.139) shows that there was no significant relationship between profitability and type of businesses in the district as (P>0.05). This means that Profitability of SME is independent of the nature of goods and services on sale. Also, the research revealed that income of 86% of the respondents fell below GH¢ 10000 and this is also independent of the type of goods produced and sold. One way analysis of variance (P=0.253) shows that there was no significant relationship between income and type of businesses in the district as (P>0.05) hence estimated annual; income of businesses does not depend on the type of goods sold.

4.4.3 Financial Credit to SMEs

About 83% of the respondents are in agriculture and related activities in the district. In other words, agriculture is the main stay of the people in Bawku West. All the respondents, 100% confirmed that there were few banks and financial institutions located in the district and as a result access to credit was difficult. Respondents need credit to purchase inputs to expand production. Indeed, close to about 70% of the respondents claimed they have never received credit. Although there was a significant relationship between type of business and profitability of businesses in the area (P=0.001). This means that the profitability of small businesses in the district has led to the opening of a bank and financial institution. Although, the presence of banks did not translate into increase in SME loans and incentives by the Banks to customers since 70% of the respondents claimed they never received loans from the banks.

5. Summary of findings, conclusion and recommendations

This section of the research is a review what this study sought to investigate, what its findings are, what conclusions can be

drawn from the findings and what recommendations can be made. First, notwithstanding the numerous advantages of small and medium scale businesses in terms of job creation, contribution to GDP and as the engine for economic growth, SMEs still do not get the needed support to realize these objectives. Credit offered to SMEs are small loans called micro credit. Micro credit is touted as one of the many proposed solutions to inadequate capital for SMEs.

5.1 Summary of findings

The sex composition and age structure of the population are a reflection of known demographic trends (GSS, 2002). According to the 2000 population census women constitute 50.5 per cent translating into a sex ratio of 97.9 males to 100 females. It is estimated that, there are more females than males in Ghana. Poverty in Ghana also has important gender dimensions. According to Adjei (2010) the three Northern Regions tend to have female population in the range of 50-52 per cent. He further argued that, women experience greater poverty burden, have heavier time burden and lower literacy rates. As a link to this evidence, majority of the respondents in this survey were women. Of the 160 respondents, 78% were women and 22% men. Therefore, as a poverty alleviation strategy, government and non-governmental institutions should target the women entrepreneurs and provide them with the needed support for business.

Age is important in every aspect of life and it is used in making employment decisions. The 2010 population census indicates that 45% of Ghana's population is below 15 years. The dependents population (below 15 and 64 years and above) is slightly the same compare those of working age (15- 64 years) Ghana statistical service (GSS 2012). The age distribution of a country helps policy makers and the business community to effectively channel resources meant for development. About 90% of the entrepreneurs were between 25 to 54 years while 3% were below 25 years. 7% of the respondents were above 55 years. Indeed in selecting microfinance clients, institutions rely on an accepted idea that clients in working bracket have high repayment rate and low default rate compared to their unemployed counterparts. Literature supporting this came from Adjei (2010). The respondents' age ranged between 25 to 60 years. Most of them engaged in one form of trade or the other.

SMEs have been fully recognized by governments and development experts as the main engine of economic growth and a major factor in promoting private sector development and partnership (GPRS II, 2005). The development of the SME sector therefore represents an essential element in the growth strategy of most economies and holds particular significance in the case of Ghana. SMEs not only contribute to improved living standards, employment generation and poverty reduction but they also bring about substantial domestic capital and achieve high levels of productivity. From a planning point, SMEs are increasingly recognized as the principal means for achieving equitable and sustainable industrial diversification and growth. In most countries, including developed countries like Japan, USA, UK etc, SMEs account for well over half the total share of employment, sales and total contribution to GDP. Bawku West lies in the Savanna regions of Ghana and Agriculture are the main stay of the people. But the study focus (Zebilla) is dominated with agriculture. In which agriculture constitute producers of various kinds of crops, shea extraction, food stuffs processing and many more. Onion cultivation was the dominant occupation of the respondents. This supports findings of the 2000 Population and Housing Census reports by the Ghana Statistical Service (GSS, 2002).

The resource base of the District is agricultural. More than 80 per cent of the population is engaged in agriculture or agriculture related activity and fishing whilst about 11% is engaged in trading (Bawku West District Assembly, 2013).The available industries include groundnut oil processing, shea butter extraction, dawadawa and malt processing, rice parboiling and milling and weaving of smock materials which are done using simple local technology. The findings of this research confirmed that about 63% of the respondents were involved solely in the cultivation of Onions. Similarly, 11% of the respondents were engaged in food processing while 9% were involved in shea butter extraction. Those involved in trading and smock weaving constituted 7 % and 10% respectively.

The profitability and sustainability of small businesses could be the reason why respondents generally support the establishment of similar businesses elsewhere in the district. 60% of the businesses in this study were considered profitable by the respondents and/or management staff and 5% of the businesses also described as very profitable. 15% of respondents maintained business was not profitable.

Successive governments in Ghana have attempted to address the problems of SMEs, which points to the fact that governments have all along appreciated the crucial role and significance of SMEs as the single agent of economic growth and development (GPRSII, 2005). SMEs represent the sub-sector of special focus in any meaningful economic restructuring programme that targets employment generation, poverty alleviation, food security, rapid industrialization and the stemming of rural-urban migration. To a large extent, Ghana's ability to realize the Millennium Development Goals (MDG) and the post MDGs hinges on her ability to revamp and rejuvenate the SME sector.

Small and medium scale enterprises remain an important contributor to the development of
Ghana as indicated by results in this study. However the use of family labour and casual staff is a threat and can undermine the potential benefits of such businesses. This cannot be blamed solely on the entrepreneurs because they try to minimize cost of production. SMEs as observed in this study contribute to the establishment of other businesses which service them with raw materials and essential services. Indeed, the staff strength of the SMEs in Zebilla was generally low. 82% employed less than 10 individuals, although some businesses had up to 10 workers. 84% of the businesses surveyed had not employed a staff in the last year but this is inclusive of those who had no staff. This means that SMEs were not significant employers of labour in Zebilla.

SMEs as observed in this study contribute to the establishment of other businesses which service them with raw materials.

The fact that SMEs contribute to industrial development was underscored by this research as respondents disagreed that road construction and other developmental projects are available in the community as a result of SMEs. Majority of respondents (85%) confirmed that there were no infrastructural developments in the area as a result of small businesses operational in the district. Although, some respondents 15% particularly those who have been in business for longer periods agreed that there has been housing and electricity as a result of SMEs (figure 3). The relationship between SMEs and infrastructural development was also not significantly related in Bawku West.

5.2 Conclusion

Small and medium scale enterprises remain an important contributor to the development of Ghana as indicated by results in this study. However the use of family labour and casual staff threatens to undermine the potential benefits of such businesses. This cannot be blamed solely on the entrepreneurs because they try to minimize cost which is mainly associated with the prohibitive cost of utilities. The fact that the presence of SMEs contribute to infrastructural development has not been supported by this research as respondents disagreed that road construction and other developmental projects have come to the community as a result of SMEs. The profitability of small businesses could be the reason why respondents generally support the empowerment of similar businesses elsewhere in the region. Overall the findings of this research indicate that SMEs are important contributors to economic growth in Ghana. The results of this research work generally agree with existing theories in the field and once again link underperformance and cost of businesses to government actions and inactions.

5.3 Recommendations

Motivated by the findings in this research, SMEs in Ghana have a long way to go for the sector to be relevant, productive enough, and play the crucial role it is expected to play in relation to contributing to the growth and development of the economy of Ghana. The challenges of the SMEs in Ghana are overwhelming and can only be effectively tackled using a concerted approach by all stakeholders. That is, the governments, banks, regulatory authorities, tax authorities, SMEs (owners and management), the employees of SMEs, multilateral and bilateral agencies and donors.

It behooves on the government to create an enabling environment that is devoid of corruption and bureaucracy, and at the same time, motivating and entrepreneurially friendly. It has to be a two-pronged approach for the government efforts to be effective in creating a conducive environment in which SMEs can succeed. It has to be an environment full of opportunities and incentives which would sufficiently attract investors and would-be entrepreneurs including young school leavers who would be motivated enough to opt to be employers instead of looking for non-existing white-color jobs.

For the government to succeed in reinventing the future of SMEs, it has to extend entrepreneurship to our educational system to make it more functional, relevant and need-oriented and driven. The emphasis should be on modern technology and entrepreneurial studies aimed at producing entrepreneurs. This implies a change in our culture, value system and orientation as well as Ghanaians' overall attitude, ethics and appreciation of the need for every Ghanaians to contribute in making our country better than it is today. The transformation of our educational system has to start from primary through secondary and tertiary emphasizing the cultural reorientation and focus on technological studies through all the stages. Where possible, the technological and entrepreneurial studies can be thought in the indigenous or local dialect to ensure full understanding and appreciation by the pupils and students. This method is bound to enhance fast and full integration of the new values into the culture of these young impressionable Ghanaians.

A change in our value system, which would place high premium and recognition on entrepreneurial acumen, honesty, diligence, and ability to contribute to the society through invention or creation of employment opportunities for others, demonstration of quality leadership and the likes, should concurrently be introduced into our educational system with the above technological thrust. In the same vein, morality, civics and war against corruption should also be introduced at the primary, secondary and tertiary levels of our education alongside entrepreneurial and technological studies. Corruption should be viewed as a canker worm, which eats deep into the fabrics of any progressive nation and certainly destroys the value system as well as economic growth and development. Civic studies should also be vigorously pursued in our educational system, as it will help the fight against corruption. The existing anti-corruption agencies should not only continue but also be invigorated to more aggressively pursue their respective mandates in ensuring a better and more conducive and enabling environment for investors and entrepreneurial pursuits.

There is the urgent need for the government to revamp the SME sector of the economy in order to redress the growing unemployment rate in the country, reduce poverty level, enhance standard of living and stimulate economic growth and development. The government as a matter of urgency, should priorities the SME sector giving it devoted practical and visible attention with a view to making it virile, vibrant, focused and productive. The era of 'lip service' attention to the sector should be done away with. Ghana cannot develop without a vibrant SME sub-sector, and so should do all within its arsenal to reverse the situation. Government should readily and freely assist prospective entrepreneurs or existing enterprises to have access to necessary information relating to business opportunities, modern technology, raw materials, markets, plant and machinery, goods and services etc which would enable them to reduce their operating cost and be more efficient and competitive.

5.4 Recommendation for Further Studies

An in-depth study on contribution of SMEs to Ghana's Gross Domestic Product (GDP) should be undertaken, taking into account the different characteristics of each industry. This study for focused on SMEs located in a rural area Zebilla. There is an apparent substantial gap between SMEs in urban and rural areas. Future studies should consider the regional differences

when analyzing the impact and contributions of SMEs in Ghana. Also, there is no documentary evidence on SMEs in Northern Ghana, hence research to broaden the level of enquiry into SMEs size, prevalence and economic growth in Northern Ghana is encouraged. Lastly, it is obvious that, some initiatives have been introduced by government to assist the development of SMEs in Ghana. Such initiatives which include National Board for Small Scale Industries (NBSSI), Medium and Small Loans Center (MASLOC), Ghana Youth Employment and Entrepreneurial Development Agency (GYEEDA), National Youth Employment Programme (NYEP) and well as other Microfinance Institutions (MFI) have not yet produced scientific documentary evidence. There is therefore the need for rigorous studies into these institutions and MFI houses commitment and SMEs level of satisfaction in Ghana.

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