Challenges Facing the Growth of SMEs in Ga-West Municipal Assembly

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Abstract

Majority of SMEs are female-owned businesses, which more often than not are home-based compared to those owned by males; they are operated from home and are mostly not considered in official statistics. This clearly affects their chances of gaining access to financing schemes, since such programmes are designed without sufficient consideration of the needs of businesses owned by females. These female entrepreneurs often get the impression that they are not capable of taking advantage of these credit schemes, because the administrative costs associated with the schemes often outweigh the benefits. Prior empirical studies in Ghana have shown that female-owned SMEs often have difficulty accessing finance. Females are mostly involved in sole-proprietorship businesses which are mainly microenterprises and as such may lack the necessary collateral to qualify for loans. Measures of enterprise efficiency vary greatly both within and across industries. Firm size may be associated with some other factors that are correlated with efficiency, such as managerial skill and technology, and the effects of the policy environment. Most studies in developing countries indicate that the smallest firms are the least efficient, and there is some evidence that both small and large firms are relatively inefficient compared to medium-scale enterprises. It is often argued that SMEs are more innovative than larger firms. Many small firms bring innovations to the market place, but the contribution of innovations to productivity often takes time, and larger firms may have more resources to adopt and implement them.

Keywords: Tax Theory, Public Financial Administration, Economic management, Sustainability of SMEs, Development Economics, Challenges Facing the Growth of SMEs

1.0 INTRODUCTION

Micro, Small and Medium Scale Enterprises (SMEs) are said to play important role in economic development. SMEs are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines (Carsamer, 2009). Empirically, studies have shown that, small and medium enterprises make up 97% of most economies (Ariyo, 2005). In addition, SMEs tend to be the primary driver for job creation as they are labour intensive and employ more labour per unit capita than larger enterprises thereby creating more jobs in the economy. This is also evident in developing countries like Ghana as it is estimated that SMEs employ about 35% of labour (Mensah & Rolland, 2004).

Holban (2007) opined that taxation can contribute to development and to welfare through three sources; it must be able to generate sufficient funds for financing public services and social transfers at a high level of quality; it should offer incentive for more employment and for an efficient and lasting use of natural resources; finally, it should be able to reallocate income. But in the case of SMEs, tax authorities must take into consideration their income and need for survival in imposing the taxes. Operationally, it is expedient that enough profit is allowed them for the purpose of expanding their businesses. The tax policy must be one that will not encourage SMEs to remain in the informal sector or to evade or avoid tax payments. Significantly, the development of small and medium enterprises is greatly affected by the level of taxation, its administration and compliance: the higher the tax rate is, or the greater the efforts to fulfil taxation requirements are, as well as to check how those requirements are met, the lower the initiatives are for SMEs to perform well.

Therefore, maintaining the balance between tax rate, compliance costs, tax administrating and economic development should be a main goal of every tax policy (Stem & Barbour, 2005). Small and Medium Enterprises' (SMEs) ability to grow depends highly on their potential to invest in innovation. Against this background, the consistently repeated conception of SMEs about their problems regarding the effect of multiple taxes is a priority area of concern, which if not properly addressed, can endanger the survival and growth of the sector. In the light of the foregoing, this research attempts to make an assessment of the effect of tax on the sustainability of small and medium enterprises (SMEs) in Ghana

2.0 LITERATURE REVIEW

The issue of what constitutes a small or medium enterprise is a major concern in the literature. There have been various definitions given for small-scale enterprises in Ghana but the most commonly used criterion is the number of employees of the enterprise (Kayanula&Quartey, 2000). In applying this definition, confusion often arises in respect of the arbitrariness and cut off points used by the various official sources. In its Industrial Statistics, the Ghana Statistical Service (GSS) considers firms with fewer than 10 employees as small-scale enterprises and their counterparts with more than 10 employees as medium and large-sized enterprises. Ironically, the GSS in its national accounts considered companies with up to 9 employees as SMEs (Kayanula&Quartey, 2000).

The value of fixed assets in the firm has also been used as an alternative criterion for defining SMEs. However, the National Board for Small Scale Industries (NBSSI) in Ghana applies both the "fixed asset and number of employees" criteria. It defines a small-scale enterprise as a firm with not more than 9 workers, and has plant and machinery (excluding land, buildings and vehicles) not exceeding Ten Million Ghana Cedis (GH¢10,000,000). The Ghana Enterprise Development Commission (GEDC), on the other hand, uses a Ten Million Ghana Cedis upper limit definition for plant and machinery. It is important to caution that the process of valuing fixed assets poses a problem. Secondly, the continuous depreciation of the local currency as against major trading currencies often makes such definitions out- dated (Kayanula&Quartey, 2000).

A more recent definition is the one given by the Regional Project on Enterprise Development Ghana manufacturing survey paper. The survey report classified firms into: (i) micro enterprise, less than 5 employees; (ii) small enterprise, 5-29 employees; (iii) medium enterprise, 30 – 99 employees; (iv) large enterprise, 100 and more employees (Teal, 2002). Small and Medium Enterprises (SMEs) in Ghana have been acknowledged to face many obstacles in their development and this is often linked to the absence of a clear vision of the roles in development and the clear lack of a credible policy framework and distinct credible interventions to promote their growth and expansion. It may be noted that local entrepreneurship was not seriously promoted in Ghana in the colonial period and in the early 1960s, small-scale enterprises were seen as political threats.

State involvement in import-substituting industries was the approach of the President of the First Republic in his bid to modernize the economy. Due to the heavy importation of raw materials and intermediate goods, the cost of development became high with pressure on the foreign exchange situation, which led to the enactment of the Exchange Control Act in 1961. Import licensing was introduced with quantitative restrictions, high tariffs and administrative restrictions on prices. The Export Promotion Council was established in 1969 to improve exports in the economy including non-traditional goods. This was certainly not an environment that was supportive of small enterprises.

2.1. Characteristics of SMEs in Developing Countries

Fisher and Reuber, (2000) enumerate a number of characteristics of SMEs in developing countries under the broad headings: labour characteristics, sector of activity, gender of owner and efficiency. Given that most SMEs are one-person businesses, the largest employment category is working proprietors. This group makes up more than half the SME workforce in most developing countries; their families, who tend to be unpaid but active in the enterprise, make up roughly another quarter. The remaining portion of the workforce is split between hired workers and trainees or apprentices. SMEs are more labour intensive than larger firms and therefore have lower capital costs associated with job creation.

In terms of activity, they are mostly engaged in retailing, trading, or manufacturing (Fisher &Reuber, 2000). While it is a common perception that the majority of SMEs will fall into the first category, the proportion of SME activity that takes place in the retail sector varies considerably between countries, and between rural and urban regions within countries. Retailing is mostly found in urban regions, while manufacturing can be found in either rural or urban centers. However, the extent of involvement of a country in manufacturing will depend on a number of factors, including, availability of raw materials, taste

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and consumption patterns of domestic consumers, and the level of development of the export markets. In Ghana, SMEs can be categorized into urban and rural enterprises. The former can be sub-divided into "organized" and "unorganized" enterprises. The organized ones mostly have paid employees with a registered office, whereas the unorganized category is mainly made up of artisans who work in open spaces, temporary wooden structures, or at home and employ few or in some cases no salaried workers (Kayanula&Quartey, 2000). They rely mostly on family members or apprentices. Rural enterprises are largely made up of family groups, individual artisans, women engaged in food production from local crops. The major activities within this sector include: soap and detergents, fabrics, clothing and tailoring, textile and leather, village blacksmiths, tin-smiting, ceramics, timber and mining, bricks and cement, beverages, food processing, bakeries, wood furniture, electronic assembly, agro processing, chemical-based products and mechanics (Kayanula&Quartey, 2000).

Majority of SMEs are female-owned businesses, which more often than not are home-based compared to those owned by males; they are operated from home and are mostly not considered in official statistics. This clearly affects their chances of gaining access to financing schemes, since such programmes are designed without sufficient consideration of the needs of businesses owned by females. These female entrepreneurs often get the impression that they are not capable of taking advantage of these credit schemes, because the administrative costs associated with the schemes often outweigh the benefits. Prior empirical studies in Ghana have shown that female-owned SMEs often have difficulty accessing finance. Females are mostly involved in sole-proprietorship businesses which are mainly microenterprises and as such may lack the necessary collateral to qualify for loans (Abor&Biekpe, 2006).

Measures of enterprise efficiency vary greatly both within and across industries. Firm size may be associated with some other factors that are correlated with efficiency, such as managerial skill and technology, and the effects of the policy environment. Most studies in developing countries indicate that the smallest firms are the least efficient, and there is some evidence that both small and large firms are relatively inefficient compared to medium-scale enterprises. It is often argued that SMEs are more innovative than larger firms. Many small firms bring innovations to the market place, but the contribution of innovations to productivity often takes time, and larger firms may have more resources to adopt and implement them.

2.2 Sources of Finance available to SMEs

Due to the establishment of modern enterprise systems and thorough structural reforms of the market economy, there are lots of opportunities contained in the market, but it also has many unexpected risks, particularly for the small to medium-sized enterprise (SMEs) which have limited resources to resist in this treacherous environment. To survive and adapt to the environment for a SME is to maintain its advantage in meticulous daily management and even more important is to have a long-term view of strategic thinking especially in financial strategy. A good finance strategy can help SMEs to set up and expand their operations, develop and also invest, (OECD, 2006). Making a finance strategy is very significant to a company; the company has to consider both internal conditions and external environmental problems and even other factors which are related to the company. However, the SME has its particular characteristics, it is not suitable to adopt the same action with a large company; it is better to create a strategy which fits to the company according to its demand. Finding a proper financial strategy for a developing SME, not only can help SMEs to reinforce its essence, the more important is the sustainability of its development. Sources of finance to SMEs include equity finance, venture capital and debt finance.

i) Equity Finance

Under equity financing, the shareholder sells part of corporate control to introduce a new shareholder to raise the capital in the business (Watson, et al., 2007). The enterprise does not need to pay the interest on principal if the capital is received from equity financing and the new shareholder can share the profit from enterprise as well. Equity financing includes stock issuance, allotment and debt for equity swap. Some features of equity financing, are: stock equity is firms first right of its property, it is the base for enterprise to absorb the civil liability and to assume responsibility for firm's own profits and losses (Watson, et al., 2007).

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Furthermore, it is also the base for investors to control the enterprise and to distribute the profit. Certainly, there are some advantages of equity financing that help enterprises in investment and management. Equity financing builds a good system in corporate governance structure, which consists of shareholders meeting, board of directors, board of supervisors and executives. It is effective in decreasing the risk of management. In the modern finance theory, stock market is also called open market; it means that the standardization of financial products and dealing in a trading area with an extensive institutionalization. In financial translation, publicity and availability of information are important; and that is why the stock market is better than loan market in both competitiveness of capital price and publicity of information (Watson, et al., 2007).

ii) Venture capital
Venture capital is the fund which is collected by private placement and set as the type of organization; invest to unlisted small and medium-sized newly emerging enterprises. Venture capital is different from mutual fund, unit trust and securities investment fund. It has its features in operating of investment and collection, such as, venture capital absorbs the venture with enterprise; the venture capitalist needs to cooperate closely with entrepreneur and help the firm to make a plan. Management is part of investment. Venture capital is an investment in long-term and poor flowability. The venture capitalist and entrepreneur become a common destiny once they invest. Venture capital is high risk and requires the venture capitalist with specialized skill, and need to achieve specialization and programmed in choosing the project, tend to avoid the risk. Before inspecting the financial index, the venture capitalist pays more attention in market prospect, development strategy and managing quality. Sharing the bonus from enterprise is not the purpose of venture capital, they make it as a return by increasing the capital when they are exiting; the time for exiting is always when it goes on public or sell it (Watson, Newby, &Mahuka, 2007).

iii) Debt Finance
Debt financing is also called bond financing. It is one of the ways which the firm can raise money for enterprise's external finance. Debt can also be conducted and fitted to the requirement of issuing companies and investors' capital (Watson, et al., 2007). It is included long-term bank loans, short-term financing (such as bills, debt receivable, and letters of credit), enterprise bond and short-term financial bonds, also long-term bond financing, finance lease, discount government loans, government loan, loans from international financial organizations and private bond fund. The first expense an enterprise needs to pay is the interest on capital which it receives from debt financing and the principal on the debt will be paid to creditor at maturity. The purpose for debt financing is to solve the problem of deficiency in working capital rather than the expenditure under the capital account.

Debt financing can be described by two features. The received capital from debt financing is only for using, it is not the property of the enterprise, and the firm needs to pay interest and the principal. Compared to equity financing, except some specific situations that debt financing may bring creditor the problem of intervention or controlling, debt financing does not grant the lender control in the business. However, debt financing has its advantage for helping the firm in investment and management. The lenders have ability to collect and analyze the state of investment and can also conduct long-term investigations and oversee the enterprise to avoid the moral hazard. The function of the creditor's right is when firm can pay off the debt, the firm will hold the corporate control, whereas of the enterprise cannot offer the debt, the corporate control will be turned to lender (Watson, et al., 2007).

3.0 RESEARCH METHODOLOGY
This chapter deals with the research design, population of the study, sample and sampling technique, source of data, method of data collection, instrumentation, statistical analysis, validity and reliability of the data collection procedure.

3.1 Research Design
The two basic methodological philosophies to which different studies might naturally lend themselves are the qualitative and the quantitative methods. Whilst qualitative research is about exploring

issues, understanding phenomena and answering questions by analysing and making sense of unstructured more descriptively, quantitative research more often draws inferences based on statistical procedures and often makes use of graphs and figures in its analysis (Ghauri&Grönhaug, 2005). In the study of research methods, the quantitative method expresses the assumptions of the positivist paradigm that tells that behaviour can be described through objective facts. This study aims at determining the correlation between identified variables.

The quantitative method is supportive in studies where some kind of explanation is sought to describe the cause of change in social facts, basically through the means of objective measurement and quantitative analysis. The quantitative method is a more powerful tool to calculate the magnitude of the relationship with added accuracy (Uma, 2006). Therefore, the researcher considers the quantitative survey method to be an appropriate tool for assessing the effect of tax on the sustainability of SMEs.

3.2 Population of the Study

Asika (2000) defines the population of a research as "all conceivable elements, subjects or observations relating to a particular phenomenon of interest to the researcher". A research population according to Ghauri and Gronhaug (2005) relate to the total universe of units from which the sample is to be selected. The target population for the study consists of SMEs in the Ga-West Municipality. The SMEs in the Ga-West Municipality was chosen due to the fact that from 2010 to 2012 their activities have generated revenue of GH¢1,309,631.14 in 2010 and GH¢1,670,221.32 in 2011. In 2012, the Assembly experienced a drop in IGF from GH¢1,670,221.32 in 2011 to GH¢1,621,142.87 (Ministry of Finance and Economic Planning, 2013). The Assembly generated GH¢ 863,760 representing 39.5 per cent of the estimated internally generated fund of GH¢ 2,189,149, for the first-quarter. The Ga-West Municipality is the second largest of the six Municipalities and Districts in Greater Accra Region. This implies that the activities of SMEs in the Ga-West Municipality are significant to economic development of the economy.

3.3 Sample and Sampling Technique

Bless and Higson-Smith (2000) defines a sample as "a sub-set of a population which must have properties which make it representative of the whole". Similarly, Bryman and Bell (2003) refer to samples as the population that is selected for investigation. Samples involve collecting information from a portion of the larger group, and on this basis, infer something about the larger group (population). The sample frame for the survey included SMEs in Ga-West Municipality. For the purpose of this research, a non-probability sampling technique thus, convenience sampling method was used to select the respondents.

This method was chosen because it was difficult to obtain a sampling frame for SMEs. In addition, convenience sampling provides easy access to the respondents, practical, and quick (Nachmias&Nachmias, 2008). Generally, the SMEs in Ga-West are categorized into retail and provision shop owners, food vendors, spare parts dealers, crops and fruits sellers, wax prints and dress dealers, engineering, mechanical and electrical services, carpentry shops, communication services, salons as well as transport operators. Based on these categories a sample size of fifty (50) was considered. The sample size was divided into ten (10) that is, five (5) per category.

3.4 Sources of Data

There are two different kinds of data; primary and secondary. The primary data was obtained through the administration of questionnaire. The structured questionnaire was the tool which was purposively distributed among SMEs in the Ga-West Municipal Assembly. The researcher used this mode of data collection due to the fact that, it was easy for participants to be convinced and encouraged to complete the questionnaires as cited by Zikmund (2003). It was also easy for the researcher to approach participants. Secondary data from books, journals, dissertations and information from the internet were obtained to supplement the primary data.

3.5 Research Instrument

A self-developed questionnaire was designed as an instrument for the study. This has been attached as Appendix. The structured questionnaire is closed-ended in which the researcher provides a choice of answers. The questionnaire was divided into four different sections. Section 'A' included

biographical questions, such as age, gender, highest level of education and number of years in business. Section 'B' of the questionnaire deals with tax effect on SMEs' sustainability while Section 'C' consists of factors affecting SMEs compliance to taxes in Ghana. The section 'D' also measures the growth of SMEs in the Ga-West Municipality. The scales in sections 'B' and 'C' were measured using Likert scales (strongly agree, agree, neutral, disagree, and strongly disagree).

3.6 Data Analysis

Data collected were transformed into more suitable format for analysis. After data processing, the Statistical Package for Social Science (SPSS) was used for the data analysis. The use of descriptive and inferential statistics as a statistical tool was included. To examine the hypotheses established in chapter one of the study, correlation analysis was used to test the hypotheses of this study. The general goals behind using the correlation analysis were to learn more about the relationship between the independent variables and a dependent variable, also to investigate the functional relationships between independent and dependent variables, in order to understand what might be causing the variation in the dependent variable.

3.7 Validity and Reliability

According to Ghauri and Grönhaug (2005), reliability refers to stability of measurement and relates to the absence of random errors of measurements (Ghauri&Grönhaug, 2005). Reliability measure demonstrates that the operations of the study such as data collection procedures could be repeated, with the same results. The researcher pre-tested the research instruments to determine their suitability and clarity for the study. In view of this, the researcher used a convenient sample of 5 participants for that purpose. Based on the results of the pre-testing, it was observed that participants did not have problem with the items on the research instruments used in the study.

Regarding reliability of primary data collected, the researcher stated in the questionnaire that the research was for academic purposes, did not ask respondents to give their names, there was no reward associated with responding to the questionnaire and it was fully voluntary. This was to instil confidence in respondents to give reliable responses. Further the researcher eliminated responses with excessively missing data from other analysis. In relation to secondary data of the data was collected from credible sources. Hence the information the researcher analysed in this study represents the exact data obtained from the field.

3.8 Ethical Consideration in Research

The researcher took steps to guarantee the ethical acceptability of the study. Specifically, confidentiality of information provided by the participants was assured. Also, anonymity of participants was enforced. In line with this, the researcher's instructed participants not to write their names on the questionnaire. Finally, respondents were made aware that participation in the study was voluntary.

4.0 DATA ANALYSIS & DISCUSSION
4.1 Demographic Characteristics of Respondents
The demographic characteristics of respondents have been presented in Table 1.

Table 1: Characteristics of Respondents

Variables		Frequency	Percent
Age: (Years)	18-27	2	4.0
	28-37	19	38.0
	38-47	24	48.0
	48-57	5	10.0
	58 and over	0	0.0
Gender:	Male	28	56.0
	Female	22	44.0
Level of Education:	WASSCE	27	54.0
	HND	13	26.0
	First Degree	6	12.0

	Master's Degree	4	8.0
	PhD	0	0.0
Length of Business:	Less than 1year	0	0.0
	1-5 years	7	14.0
	6-10 years	32	64.0
	Above 10 years	11	22.0
Source of Finance	Self-Financing	25	50.0
	Bank Loans	9	18.0
	Funds from Relatives	3	6.0
	Loans from MFIs	13	26.0
Business Registered	Yes	50	100.0
	No	0	0.0
Where Registered	GRA	48	96.0
	GWMA	2	4.0
	AMA	0	0.0
	GRA and GWMA	0	0.0

Total Number of Respondents (N=50)

Source: Field Data Analysis, 2015

The researcher administered 50 questionnaires which were retrieved and used for the analysis. The distributions of frequencies and percentages for each of the demographic variables in Table 1 shows majority of the respondents in the study were males constituting 56.0% of all the respondents while the 44.0% were females. This means that more males are in the categories of SMEs selected for the study. Respondents who were between 38 and 47 years make up 48.0% of the entire respondents. Those who were 28-37 years old constitutes 38.0%, however, 48-57 and 18-27 comprise 10.0% and 4.0% respectively. Thus, younger people are more into these businesses than the older people. Also, in terms of educational qualification, majority of the respondents representing 54.0% were WASSCE holders. Respondents who were holders of Higher National Diploma (HND) constitute 26.0% while those who had Bachelors' Degree make up 12.0%. Master's Degree holders constitute the least (8.0%) of all the educational qualification. There was no response for Doctorate degree. It can be deduced that highly educated people are not much involved in these businesses

In relation to sources of finance, 50.0% stated that their source of finance was self-financing which implies that they financed their own business operations, 26.0% indicated that they obtained loans from Microfinance Institutions as a source of finance while 18.0% stated that they used bank loans while the remaining 6.0% stated that they obtained support from relatives. With regards to experience in business, 64.0% of the respondents indicated that they have been in business for 6-10 years, 22.0% stated above 10 years while 14.0% of the respondents stated 1-5 years. From the analysis, it was realised that all the respondents, were all tax registered. They explained that they have been paying tax to both GRA and Ga-West Municipal Assembly. Finally, 96.0% of the respondents were registered with Ghana Revenue Authority (GRA) while 4.0% were registered with the Municipal Assembly. This implies that SMEs in the municipality are registered for tax purposes.

4.2 Challenges of SMEs in accessing credit from MFIs

Results of challenges facing SMEs in accessing credit are presented in Table 4. One of the most common challenges facing SMEs globally is access to financial resources and SMEs in the Ga-West Municipal Assembly are no exception. From the analysis, it was noted that 42.0% of the respondents strongly agree that limited access to finance has been a challenge to their growth and expansion. They explained that, the stringent requirements from financial institutions such as provision of collateral make it impossible for them to access funds from financial institutions. Also, interest rates applicable to the loans are very high.

Results of the study also indicated that, the high cost of registration requirements for start-up firms coupled with delays in court proceedings and legal claim settlements have imposed undue and unnecessary burdens on SMEs which in turn affect their operations. Evidently, this finding supported the

finding of the Word Bank Doing Business Report (2006) which stated that, it takes 127 days to deal with licensing issues and there are 16 procedures involved in licensing a business in Ghana. Meanwhile, the absence of antitrust legislation favours larger companies while the lack of protection for property rights limits SMEs access to foreign technologies (Kayanula and Quartey 2000).

Sixteen percent (16.0%) of the respondents agree to the statement that, lack of proper record keeping has been a constraint on the growth of SMEs. This finding agrees with Maseko and Manyani (2011) who stated that majority of SMEs (62%) attributed the challenges they faced in keeping proper accounting records to lack of accounting knowledge, 18% of SMEs indicated cost and time constraints as challenges while 12% cited lack of guidelines or specific accounting regulations for SMEs as contributing to challenges, they faced in keeping proper accounting records. 8% of the SMEs cited other challenges.

Also 12.0% of the respondents affirm to inadequate managerial knowledge and skills as challenge facing SME access to credit. The finding agrees with Kayanula and Quartey (2000) who indicated that, despite the numerous institutions providing training and advisory services, there is still a skills gap among the SMEs sector as a whole. It was realized from the analysis that (8.0%) of the respondents stated that lack of access to market for the goods and services have contributed to the challenges of SMEs within the Ga-West Municipal Assembly.

Table 4: Challenges facing the Growth of SMEs

Challenges	Frequency	Percent
Limited Access to Finance	21	42.0
Poor Bookkeeping Records	8	16.0
High Cost of Registration Requirements	11	22.0
Inadequate Managerial Knowledge and Skills	6	12.0
Access to Market	4	8.0
Total	50	100.0

Source: *Fieldwork, 2014*

5.0 CONCLUSION

Finally, the objective of identifying the challenges facing the growth of SMEs in Ga-West Municipal Assembly was practically achieved. It was discovered that limited access to finance, lack of proper record keeping, high cost of registration requirements, inadequate managerial knowledge and skills and access to market were challenges affecting the growth of SMEs in Ga-West Municipal Assembly. This supported the finding of the World Bank Doing Business Report (2006).

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