

The Impact of Government Financial Support Agencies on Small Business Development in Ghana

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Abstract

Even though Ghana has been described as a model of entrepreneurship, the country has still not been able to find answers to the problems that confront the small business sector as a result of competition posed by the influx of cheaper foreign goods. The cost of borrowing remains one of the highest in the sub-region. The sector continues to sink deeper and deeper even though government support institutions for the sector such as the NBSSI, EDIF, MASLOC, Gratis Foundation and the Ghana Chamber of commerce have all widened their scope of operations as a means of curtailing these challenges. There was therefore the need to conduct a research to establish the impact of government financial support agencies on the small business development in Ghana. The study adopted both primary and secondary data. The simple random and purposive sampling techniques were used to select 60 owner managers of small businesses in the New Juabeng Municipality for the interview. The study found out that the impact of government financial support agencies on small businesses have largely been low due to low funding of these agencies, poor awareness of the agencies, and favouritism in the disbursement of funds.

Keywords: Small Business Development, Government Financial Support Agencies

1.0 Introduction

Informality, both in housing and livelihood generation has often been seen as a social ill, and described either in terms of what participant's lack, or wish to avoid. A countervailing view, put forward by prominent Dutch sociologist Saskia Sassen is that the modern or new 'informal' sector is the product and driver of advanced capitalism and the site of the most entrepreneurial aspects of the urban economy, led by creative professionals such as artists, architects, designers and soft-ware developers. While this manifestation of the informal sector remains largely a feature of developed countries, increasingly systems are emerging to facilitate similarly qualified people in developing countries to participate.

2.0 Review Of Literature

In this paper, a comprehensive literatures review about the impact of government financial support agencies on small business development, has been carried out.

2.1 Overview of the government financial support agencies for small businesses in Ghana

Government, in an attempt to strengthen the response of the private sector to economic reforms undertook a number of measures in 1992. Prominent among them is the setting up of the Private Sector Advisory Group and the abolition of the Manufacturing Industries Act, 1971 (Act 356) which repealed a number of price control laws, and The Investment Code of 1985 (PNDC Law 116) which seeks to promote joint ventures between foreign and local investors. In addition to the above, a Legislative Instrument on Immigrant Quota which grants automatic immigrant quota for investors has been enacted. Besides, certain Technology Transfer Regulations have been introduced. (Aryeetey E, Baah-Nuakoh A, Duggleby T, Hettige H & Steel W.F, 1994)

Government also provided equipment leasing, an alternative and flexible source of long term financing of plant and

equipment for enterprises that cannot afford their own. A Mutual Credit Guarantee Scheme was also set up for entrepreneurs who have inadequate or no collateral and have limited access to bank credit. To complement these efforts, a Rural Finance Project aimed at providing long term credit to small scale farmers and artisans was set up.

In 1997, government proposed the establishment of an Export Development and Investment Fund (EDIF), operational under the Exim Guarantee Company Scheme of the Bank of Ghana. This was in aid of industrial and export services within the first quarter of 1998. To further improve the industrial sector, according to the 1998 Budget Statement, specific attention will be given to the following industries for support in accessing the EDIF for rehabilitation and retooling: Textiles/Garments; Wood and Wood Processing; Food and Food Processing and Packaging. It was also highlighted that government would support industries with export potential to overcome any supply-based difficulty by accessing EDIF and rationalise the tariff regime in a bid to improve their export competitiveness.

2.2 Institutions

The idea of SME promotion has been in existence since 1970 though very little was done at the time. Key institutions were set up to assist SMEs and prominent among them is The Office of Business Promotion, the present Ghana Enterprise Development Commission (GEDC). It aims at assisting Ghanaian businessmen to enter into fields where foreigners mainly operated but which became available to Ghanaians after the 'Alliance Compliance Order' in 1970. GEDC also had packages for strengthening small scale industry in general, both technically and financially. (Aryeetey E, Baah-Nuakoh A, Duggleby T, Hettige H & Steel W.F, 1999)

The Economic Recovery Programme instituted in 1983 has broadened the institutional support for SMEs. The National Board for Small Scale Industries (NBSSI) has been established within the Ministry of Industry, Science and Technology to address the needs of small businesses. The NBSSI established an Entrepreneurial Development Programme, intended to train and assist persons with entrepreneurial abilities into self employment. In 1987, the industrial sector also witnessed the coming into operation of the Ghana Appropriate Technology Industrial Service (GRATIS). It was to supervise the operations of Intermediate Technology Transfer Units (ITTUs) in the country. GRATIS aims at upgrading small scale industrial concerns by transferring appropriate technology to small scale and informal industries at the grass root level.

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.

Amidst all these government interventions and institutions tailored for small businesses, local businesses are not able to cope with the competition that results from cheaper foreign imports. Funding remains a major bane for the sector.

2.2.1 Export Development and Investment Fund (EDIF)

EDIF's mission is to enhance the economic growth of Ghana by the provision of funds on concessionary terms for the development and promotion of the country's export. Export oriented development has been the cornerstone of the economic policy of the Government of Ghana. The main thrust of Government's foreign trade policy has consequently been the promotion of Private Sector led export development. It is considered that the policy would offer the country substantial increase in foreign exchange receipts and appreciable opportunity for growth. (Aryeetey et al, 1999)

The Export Development and Investment Fund (EDIF) was established by Act 582 on the 4th October 2000 to provide financial resources for the development and promotion of the export trade of Ghana. Operation of the fund however started in July 2001 with the appointment of a Chief Executive, the inauguration of a 13 member Board and

the establishment of a Secretariat to manage the fund. The need for the establishment of the fund arose as for many years in the history of Ghana's international trade import licensing or regulation of import was considered necessary to rationalize the use of scarce foreign exchange resources. Export development and promotion – the real and important factor of economic development was relegated to the background. Subsequently however conscious efforts have been made to lift up the country's exports. Prominence has been given to measures like import duty draw-backs, participation in trade tours, intensification in the work of Trade Attaches and the search for and revival of export oriented bilateral and multilateral trade pacts e.g. AGOA visa to Ghana under AGOA ACT. Other trade promotion schemes such as Free Trade Zone and GATEWAY Secretariat, Export Finance Company Limited, Exim Guaranty Co. (Gh) Ltd. were also established and the GEPC strengthened. However, these export promotion bodies have been providing mainly services. Direct financial support for exports was left to the Banks. Funds in the form of credits from financial institutions carrying relatively exorbitant interest charges were not attractive enough to give a significant boost to exports. It was therefore logical to expect and welcome the emergence of EDIF.

2.2.2 Microfinance and Small Loans Centre (MASLOC)

Microfinance and Small Loans Centre (MASLOC) is a body responsible for implementing the Government of Ghana's microfinance programmes targeted at reducing poverty, creating jobs and wealth. Microfinance and Small Loans Centre (MASLOC) is a microfinance apex body responsible for implementing the Government of Ghana's (GoG) microfinance programmes targeted at reducing poverty, creating jobs and wealth.

Over the years MASLOC has modestly established itself not only as a microfinance institution that disburses micro and small loans to the identified poor in the various sectors of the Ghanaian economy, but also provides business advisory services, training and capacity building for small and medium scale enterprises (SMEs) as well as collaborating institutions, to provide them with the required skills and knowledge in managing their businesses efficiently and effectively. (Afriyie, 2002)

Established in 2006 by the Government of Ghana, MASLOC is particularly mandated to:

- Hold in trust Government of Ghana and/or Development Partners' funds for the purpose of administering micro and small-scale credit programmes.
- Provide, manage and regulate approved funds for microfinance and small scale credit, loan schemes and programmes.
- Be a micro finance apex body responsible for:
 - The co-ordination and facilitation of the activities of institutions and organizations in the micro-finance subsector of the economy;
 - Promoting and enhancing the development of a decentralized micro financial system; and
 - The Co-operation, collaboration and complementarities with other non-bank finance institutions in the operations of microfinance services. (Elaian K, 1996)

2.2.3 The Gratis Foundation

The Gratis Ghana Foundation exists to promote Industrialization by developing and disseminating technology to Industry, particularly small and medium-scale enterprises. Given its widespread presence the GRATIS/RTTC network has the ability and potential to reach a high number of direct beneficiaries in the small business sector.

2.2.4 The National Board For Small Scale Industries

The National Board for Small Scale Industries (NBSSI) is a non-profit public sector organisation under the Ministry of Trade, Industry and Presidential Special Initiatives and came into being in 1985. NBSSI has its Head Office in Accra, secretariats in all the regional capitals and Business Advisory Centres (BACs) in one hundred and ten(110) district capitals. Services offered by the NBSSI include business development services for micro and small enterprises. (Steel, 1992)

3.0 METHODOLOGY

3.1 Objective of the Study

The main objective of the study is to identify the impact of government financial support agencies on small business development in Ghana.

3.2 Sampling Size and Procedure: The sample size chosen for the study was 60. This figure captured selected owner managers of small businesses in the New Juabeng municipality of Ghana. The sample size of 60 is a fair representation of the population. The simple random technique was used to select 60 of these businesses to be interviewed. This technique ensured that each business stood an equal chance of being selected. The purposive sampling technique was applied to select only the owner managers of these businesses for the interview. The choice to use only the owner managers was due to the fact that they had a deeper involvement in the business.

3.3 Variables

This section takes into consideration the means through which the data was acquired for this study and also the sampling method that was used. The research adopted both primary and secondary data for the research. Primary data sources included the administering of questionnaires and conduction of interviews to 60 owner managers of small businesses in the New Juabeng municipality of Ghana. Secondary data sources included books, journals and the internet.

3.4 Data Analysis

Usually, data collected from the use of questionnaires are not generally meaningful unless analyzed and interpreted. There was therefore the need to analyze the data that was collected through the use of questionnaires for this study. The data was analyzed using the Statistical Package for Social Scientists (SPSS); a modern analysis software. The SPSS software was chosen because of its advanced nature. This facilitated the easy and accurate analysis of the data collected.

4.0 Results And Discussions

This particular section includes the presentation and interpretation of findings on the importance of each SRM element. In order to simplify the analysis, most of the questions with the same answer options are merged.

Table 4.1: The level of awareness of the institutions

Awareness	Frequency	Percent
Somewhat high	26	43.3
High	34	56.7
Total	60	100

Source: Field Survey

Table 4.1 indicates the level of awareness of the government support institutions for small businesses. Out of the 60 respondents who answered the question, 26 were of the opinion that the level of awareness was somewhat high and the last 34 expressed the opinion that the awareness was high. The percentages were 43.3 and 56.7 respectively. No respondent selected very high or extremely high.

Table 4.2: The accessibility of the services

	Frequency	
Somewhat accessible	26	43.3
Extremely accessible	34	56.7
Total	60	100

Source: Field Survey

Table 4.2, represents responses from 60 selected owner managers of small businesses in the New Juabeng municipality. Out of the 60 managers who answered the questions, 26 out of the total respondents believed the services of the institutions to be somewhat accessible, and 34 believed it to be extremely accessible.

Table 4.3: The difficulties encountered in accessing the services

Difficulties		Frequency	Percent
Valid	Prolonged length of time to get assistance	15	25
	Favouritism on the part of officials	28	46.7
	Bureaucracy	17	28.3
Total		60	100.0

Source: Field Survey

Table 4.3 is a presentation on the difficulties encountered in accessing the services from the institutions. Responses provided include prolonged length of time to get assistance, favouritism on the part of officials, and bureaucracy. The absolute valid percentages are 25.0, 46.7, and 28.3 respectively.

Table 4.4: The severity of the difficulties

Severity		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Extremely severe	60	100	100	100
Total		60	100.0	100.0	

Source: Field Survey (2011)

Inferring from Table 4.4, all the respondents were of the opinion that the difficulties in accessing services from government institutions dedicated to small businesses to be extremely severe.

Table 4.5 Level of satisfaction gained from the service

Satisfaction		Frequency	Percent
Valid	Average	2	3.3
	Somewhat low	8	13.3
	Low	16	26.7
	Zero	34	56.7
Total		60	100.0

Source: Field Survey

Table 4.5, out of the 60 respondents who answered this question, 2 considered the level of satisfaction gained from the service received from the institutions as average, 8 considered it as somewhat low, 16 considered it as low and 34 considered it as zero. The absolute respective percentages for the valid responses are 3.3, 13.3, 26.7, and 56.7.

Table 4.6: The level of effectiveness of services received from the institutions

Effectiveness		Frequency	Percent
	Somewhat high	26	43.3
	High	34	56.7
Total		60	100

Source: Field Survey

Table 4.6 indicates the level of effectiveness of services received from the institutions. Out of the 60 respondents who answered the question, 26 were of the opinion that the level of effectiveness of the services received from the institutions was somewhat high and the last 34 expressed the opinion that the level of effectiveness of the services received from the institutions was high. The percentages were 43.3 and 56.7 respectively. No respondent selected

very high or extremely high.

Table 4.7: The measures to increase satisfaction

	Benefits	Frequency	Percent
Valid	Increasing the re-payment period	14	23.3
	Employing competent personnel	20	33.3
	Expanding services	14	23.3
	Embarking on regular follow-up's	12	20
Total		60	100.0

Source: Field Survey

Inferring from Table 4.7, the measures to increase satisfaction include Increasing the re-payment period, Employing competent personnel, Expanding services, and Embarking on regular follow-up's. The absolute valid percentages are 23.3, 33.3, 23.3, and 20.0.

Table 4.8: The measures to improve accessibility

	Measures	Frequency	Percent
Valid	The use of competent personnel	15	25
	Expansion of services	28	46.7
	Use of agents	17	28.3
Total		60	100.0

Source: Field Survey

Table 4.8 is a presentation of the measures to improve accessibility of services rendered by the institutions. These measures include the use of competent personnel, Expansion of services, and Use of agents. The absolute valid respective percentages are 25.0, 46.7, and 28.3.

Conclusion:

The impact of the government financial support agencies on small business development in Ghana has largely been low due to factors such as low awareness of the agencies, poor accessibility of the services, low effectiveness of the services and bribery and corruption. To improve the impact of the agencies, government should increase the re-payment period of loans, employing competent personnel, expanding services, increase the level of awareness and embarking on regular follow-up's

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