

# **REDUCING THE RATE OF POVERTY IN TAMALE METROPOLIS: THE ROLE OF SMALL AND MEDIUM ENTERPRISES**

**Adams Issahaku** 

School of Business and Management Studies, Tamale Polytechnic, Tamale, Ghana

issadams@yahoo.co.uk

**Abudu Abdul-Ganiyu**

School of Business and Management Studies, Tamale Polytechnic, Tamale, Ghana

abdulganiyu.abudu@yahoo.com

**Ayaric Sophia**

School of Business and Management Studies, Tamale Polytechnic, Tamale, Ghana

kaboasop2@gmail.com

## **Abstract**

*The role of Small and Medium Enterprises (SMEs) in poverty reduction cannot be overemphasized. If developing countries are to realise improvement in the standard of living of the citizenry, SMEs should be the conduit. This study sought to establish the role of SMEs in poverty reduction and the constraints facing SMEs in their effort to help reduce poverty. A sample size of 120 SMEs entrepreneurs in the Tamale Metropolis were randomly selected for this study. The study revealed that there were institutional supports for SMEs in Ghana. SMEs play a significant role in poverty reduction in the Tamale Metropolis in the midst of numerous challenges. The researchers strongly perceived that if special attention is given to the funding needs of SMEs, and educational institutions mandated to design educational programmes to suit managerial, skill and leadership needs of SMEs entrepreneurs, the SMEs industry stand a greater chance of realising its poverty reduction role in Ghana.*

*Keywords: poverty, entrepreneur, SMEs, funding, development, constraints, training*

## INTRODUCTION

Small and medium enterprises (SMEs) can be describe as the pivot of growth in developing countries at large and Ghana in particular. For any developing country to realized an significant growth, it must ride on the back of small and medium size enterprises. Even though most governments of developing countries under estimated the contributions of SMEs, it is believed, even thought without empirical facts that this attitude of most developing countries government is the cause of their under-development. Better late than never, developing countries governments for the past ten to fifteen years realized their mistakes hardly, and has made strides to change this situation. In time past, developing countries training and developing centres were capable of turning out very few graduates, coupled with the fact that there existed state corporation to absorb these few graduates. Unemployment was very minimal, and in most situations non-existent. Costs of living were low, because state owned enterprises were producing essential goods and services at lower cost to meet the basis needs of the citizenry. Societies were not complex, people needs were limited to basic necessities, and household consumables were not numerous and complex compared to today. This above situation created system where people were content with the few. The push to start and own one own business venture was non-existent, even if the idea existed, zeals were low. What incentivised the establishment of SMEs now were not relevant than and mostly were considered a luxury.

Today, SMEs are acknowledged as key contributors to promoting equitable and sustainable economic development in Africa (Afua 2008). She emphasis that this sector in terms of economic development has the potential to provide for growth in employment and contribute towards reducing poverty among urban cities in most developing countries. According the GPRS II 2003, the Ghana government key strategy for increasing employment and production is improving the capacity of the private sector as a means of accelerating the growth of small and medium scale manufacturing industries. The role and importance of the SMEs sector in the economy of Ghana cannot be over-emphasized. It is estimated that 70% of all industrial establishments are in the Small and Medium Enterprises Sector. It is also estimated that 85% of manufacturing employment and to a larger extent overall employment growth in the country comes from the sector. The sector contributes significantly to overall export earnings from the non-traditional exports sector and creates jobs at relatively low capital cost. SMEs thus have a significant contribution to make to Ghana's socio-economic development and growth, and the attainment of its middle income status by the year 2015. (GNA, Hon. Alan Kyerematen, 29<sup>th</sup> May, 2007).

There has been a general realization that it is not only the big businesses that provide the foundations of nations economies. SMEs makes significant contribution to making Ghana a flourishing and growing economy. They can play an important role in poverty reduction and the development of a country The contribution of SMEs to national development is diverse and varied. Basically these include creating employment for teaming urban and rural labor force, providing desirable sustainability and innovation in the economy as a whole, supplementing income to the owners and making goods and services accessible at decentralised locations to meet the needs of consumers conveniently.

The SMEs sector itself can be classified into micro enterprises, small enterprises and medium enterprises. SMEs are the starting point of development in economies towards industrialization. However, SMEs have their significant effect on the income distribution, tax revenue, employment, efficient utilization of resources and stability of family income. According to the United Nations Industrial Development Organization (UNIDO), for developing countries, integration into the global economy through economic liberalization, deregulation, and democratization is seen as the paramount way to triumph over poverty and inequality, and the conduit for achieving the above is through SMEs. Realising that industrial development in Africa after independence is lacking, most countries designed programmes with orientation towards supporting small and medium scale enterprises. African programmes have emphasized provision of industrial estates and training entrepreneurs.

Kenya and Ghana are examples of provisions of industrial estates (Child 1977, World Bank, 1978, Aryeetey, 1977) while Botswana, Kenya and Ghana organised programmes for the training of entrepreneurs in various business areas (Linvingstone, 1982).

In Ghana, though the data on SMEs is not readily available, the little information from the Registrar General Department indicates that about 90% of firms registered are Micro, Small and Medium Enterprises (MSMEs) (Mensah, 2004). Similarly, the Ministry of Trade and Industry, in 1998 estimated that the Ghanaian private sector, dominated by MSMEs consists of approximately 80,000 registered limited liability companies and 220,000 registered partnerships (Mensah, 2004). To most developing countries, SMEs are considered very important. According to (Palma and Gabriel, 2005), SMEs contribute to productivity and job creation, they serve as the foundation or nursery for larger scale firms. SMEs can be said to be synonymous to primary job creation in developing countries. In Ghana, about 35% of labour force is employed by SMEs, (Mensah and Rolland, 2004), and Sowa et al, (1992) opined that majority of public sector workers find usefulness in SMSs and supplementary second job. SMEs contribute about 70% to Ghana's Gross Domestic Product (GDP) (Villars 2004), and also statistics from NBSSI shows that 90% of private sector contribution to the GDP in Ghana is from SMEs. The

statistics compared to other countries like South Africa and Nigeria in the African continent show that the Ghanaian experience of SMEs and entrepreneurship development is not encouraging. This is because support for SMEs in Ghana never existed formally until the advent of the Economic Recovery Programme.

### **Statement of Problem**

In Ghana, the performance of Small and Medium Enterprises (SMEs) has not been encouraging. SMEs inability to perform creditably well, affected their vital role in the economic growth and reduction of poverty in the country. This situation has been of great concern to both governmental and non-governmental organisation, citizenry, and the organised private sector groups. Continuously, the governments of Ghana, non-governmental organizations, donor agencies, and international financing organizations through budgetary allocations, policies and pronouncements have declared interest in and acknowledged of the crucial role of the SME sub-sector to economy development. There have also been fiscal incentives, grants, bilateral and multilateral agencies support and aids as well as specialized institutional support all geared towards making the SME sub-sector vibrant primarily to help alleviate poverty. The concerns for the success of SMEs in developing countries are high. The higher the concern for SMEs success, the higher their failure rate, thus defeating developing countries governments effort to reduce if not eradicate poverty.

It is perceived that there is an adverse relation between vibrant SMEs and poverty, hunger, and unemployment. If Ghana were to achieve an appreciable success towards attaining the Millennium Development Goals by 2015, than the SMEs sub-sector must experience high survival rate, high growth rate, must be self sustainable when micro funding provided ends

This is reflected in the Ghana's Growth and Poverty Reduction Strategy (GPRS II) which main objective is to ensure "sustainable equitable growth, accelerated poverty reduction and the protection of the vulnerable and excluded within a decentralized, democratic environment". The intention is to eliminate widespread poverty and growing income inequality, especially among the productive poor who constitute the majority of the working population (GPRS II 2000/2001).

SMEs by their nature create opportunities for income generation and distribution, capital accumulation, poverty reduction and empowerment of people especially women, (Babajide 2012 cited by Anane (2013). Given that SMEs are well recognized and supported by multi stakeholders, their contributions need to be established to support decision making in the country. Ghana Statistical Service, (2012) through the 2010 Population and Housing Census indicated that about 86% of the population are in the private sector, which is dominated by SMEs. To Daniels, (2004), SMEs have been recognized as the engine of growth for developing

countries, while Quartey and Abor (2010) stated that about 92% of businesses in Ghana are SMEs contributing about 85% of manufacturing employment in Ghana. It is in this light that this research is designed to investigate the contributions of SMEs to poverty reduction in the northern region of Ghana.

### **Research Objectives**

1. To identify the role of stakeholders in promoting SME's in the economy.
2. To investigate the role of Small and Medium Enterprises in poverty reduction in the Tamale Metropolis.
3. To identify constraints of SME's to poverty reduction.

### **Significance of the Research**

This study will be significant to the government of Ghana, non-governmental organizations, international development partners and private donor for policy and decision making purposes. It will also be considered useful to the general public who want to know much about the contributions of SMEs to poverty reduction and the development of the National Economy.

### **LITERATURE REVIEW**

Small and Medium Scale Enterprises (SMEs) is a generic concept and therefore defies one-off definition. Storey (1994), indicated that there is no single uniformly acceptable definition of small firms. Ward (2005), confirmed this by stating that there is no universal definition for SMEs since the definition depends on who is defining it and where it is being defined. It is equally important to add that the purpose for which SMEs is defined further complicated its definition. The concept and definition of SMEs is dynamic and relative Olorunshola (2004), Ogunleye, (2004) and Christina, Neelufer and Amri (2014) supported the statement that there is not universal definition for SMEs as it varies from country to country.

SME is defined as an industry, project undertaken of economic activity whose total asset base (excluding land and building) does not exceed the cedi equivalent of \$1 million US dollars in value (Act 680 2004). To USAID, SME is any enterprise with fixed assets not exceeding US \$250,000 excluding land and building. A professional body in Ghana, Institute of Chartered Accountants (ICA) Gh. stated in the Journal of ICA that using the size of the business to form the definition for SME mostly considers the number of employees, balance sheet totals, or turnover. The European Commission in 2003 declared that small enterprise comprise an establishment with employees not more than 50, turnover not more than 10 million euros, and a balance sheet total not more than 10 million euros. Further category for medium enterprises

comprises firms with employees not more than 250, turnover not more than 50 million euros, and balance sheet total not more than 43 million euros. In Ghana, the working definition for SMEs is provided by National Board for Small Scale Industries (NBSSI). According to NBSSI, micro firm employs up to 5 persons. Small firms represents firms employing between 5 and 29 employees with fixed assets not more than \$100,000 Ghana cedi equivalent is considered small scale, while firms employing more than 30 but not more than 99 employees are considered medium scale enterprises (GSS, 1987). The above basics is an indication that the concept SMEs defies single universally acceptable definition.

### **Argument for and against SMEs**

Different views exist in the study of SMEs. One view supports their basic existence and their viability while another view opposed their existence, usefulness and viability. The supporters of SMEs are largely the development and donor agencies. These groups are of the view that SMEs has the tendency of promoting economic growth and helping to reduce poverty levels in developing countries. They described SMEs as entrepreneurial and innovative business ventures (Beck and Demirguc-kunt 2004, cited in Agyapong (2010). The presence of SMEs in an economy enhances competition and entrepreneurship. This goes a long way to facilitate efficiency, innovativeness and growth in productivity (Agyapong 2010). Hence, if developing countries provide support to SMEs, society will benefit generally. Supporters of SMEs further argue that SMEs generally are more productive and operate efficiently than large firms. However, they lacks funding and financial support from financial institutions under the constraints of lack of collateral security to support their request for credits. If SMEs are truly supported by government and development partners adequately, they could boost economic growth and development. Averagely, the development and growth of SMEs provides more job opportunities in an economy than large firms. This is true because, they are perceived as labour intensive and require the services of more men than machines. Beck and Demirguc-Kunt (2004) stated that subsidising the operation costs of SMEs has the potential of reducing poverty in an economy.

The critiques of SMEs challenged the ability of SMEs to promote economic growth leading to poverty reduction. The lamentation in on the inability of SMEs to exploit the advantages associated with economies of scale. They argued that large firms may exploit economies of scale and more easily undertake the fixed costs associated with research and development (Agyapong 2010). It is also believed that SMEs are neither more labour intensive nor better at creating jobs than large firms.

## **Impediments to the development and growth of SMEs and the achievement of their objectives**

SMEs face a variety of constraints in their start-up, operations and growth. They are not able to absorb large fixed cost and absence of economic of scale and scope in key factors of production. According to Quader and Abdullah (2009), SMEs in developing economies faces multifarious problems relating to raw materials, power, land, marketing, transport, technical facilities, and finance. They further categories these constraints broadly into three, namely; financial constraints, regulatory constraints, and constraints on physical, technical and marketing input. For the purpose of this study, the impediments identified to be associated with SMEs in most developing countries including Ghana are explained below;

### ***Input constraints***

**a. Finance:** Finance is a scarce resource to all organizations, both small, medium and large. Access to finance remained even a more dominant constraint to SMEs in Ghana. Parker et al, (1995) established in a survey that about 38% of the SMEs mentioned credit as a major constrain to their development and growth. This is caused by SMEs lack of or limited access to capital market, both locally and internationally. This is blamable on the perception of high risk due to lack of collateral security, information barriers and higher costs of intermediation for small firms. This makes it mostly difficult for SMEs to obtain medium or long-term finance in the form of debt or equity.

**b. Equipment and Technology:** Information and technology are costly variable even though they have a positive relationship with business growth. SMEs have problems gaining access to appropriate technology and information (Quader and Abdullah 2009). The associated constraints on capital and labour as well as uncertainty surrounding new technologies restrict incentives to innovation. It is realized that old equipment is one of the four most significant constraints to SMEs expansion in developing countries including Ghana (Aryeetey et al 1994, and Parker et al, 1995).

**c. Labour Market:** Most SMEs generally use simple technology which does not require highly skilled employees. However, where it becomes necessary to use the services of highly skilled employee SMEs finds it difficult to hire such caliber of staff. Even if they do, the cost of hiring such caliber eventually will limit the expansion opportunities, raise costs of operation, and leads to poor infrastructure.



### ***Regulatory Constraints***

High start-up costs for firms, including registration fees and documentation and licensing requirements mostly are burdens on SMEs. Even though SMEs are not strictly required to register their business before commencement, they are required to register for tax purposes. This sometimes presents high costs of legal fees and delays due to bureaucratic procedures. According to Maunganidze (2013), the registration process for one to be considered as official SME is hectic and the requirements are difficult to meet. This has led to many SMEs operating without the required paper work.

### ***Management Constraints***

The entrepreneurial capacity required to effectively and efficiently handle the production process rights from inputs procurement to the product marketing stage is one of the major problem facing SMEs. The mentality of most Ghanaian SMEs entrepreneurs has been that they formed and owned the business and so they have what and know how to manage such business instead of employing the services of competent managers to help them manage the firm. Entrepreneurs have to employ the services of professionals to handle their business when the need arises ([www.ghanaweb.com/features/artikel.php/ID=286949](http://www.ghanaweb.com/features/artikel.php/ID=286949)). In most cases, there is scarcity of managers with the talent on how to manage and market the products of SMEs. There is also lack of support services since consulting firms lack the appropriate cost effective management solutions for SMEs.

### ***Institutional Constraints***

There is lack of cohesiveness among the wide range of SMEs which limits their capacity to defend their collective interest and their effective participation in civil society. Similarly, state institutions established to provide services to SMEs focus more on what to offer, without any effort to organise the SMEs to integrate their effort to pursue their collective interest. Associations providing the voice for the interest of SMEs in policy-making process have had a limited role compared to those of larger firms. Many of the associations are yet to complete the transition of their goals of protection to competitiveness. (World Bank, 1993)

### ***Market Constraints***

Marketing the final products remains a challenge to SMEs in Ghana. SMEs often do not have the resources to employ a dedicated marketing professional and as a result market changes are not anticipated and business planning and strategy are not effective (Tau 2013). According to Munyanyiwa, (2009), the contributions of SMEs in Nigeria, South Africa, and Kenya is less than



4 percent. He cited reasons as non-existence of market support, poor product quality, poor market access and managerial capacity. The small-scale enterprises often experience low patronage for their products because most of them produce low quality products (Awiah 1996). Most Ghanaian prefers the foreign goods to the local substitutes. Also, most small firms which are in the rural areas are inaccessible due to poor roads network and most of the times, the policies of trade liberation by government poses threat to small-scale enterprises on the market scene (NBSSI, 1994).

## **METHODOLOGY**

In view of the countless number of small and medium-scale enterprises in the Tamale metropolis, it was certainly impossible to cover all in the conduct of our research. Besides, it was very difficult to know the total number of small and medium scale enterprises in the Metropolis since a lot of them did not register with the National Board for Small Scale Industries (NBSSI). The researchers maintained a sizeable number of small-scale enterprises which includes the Dressmakers, Hairdressers and Barbers, Weavers, Wood Processers, Food Venders and Bakers, and Auto Mechanics.

For the purpose of our study and especially in the light of several limitations, the researchers considered a manageable sample size of one hundred and twenty (120) small and medium scale entrepreneurs for this study. The research team used simple random sampling technique to select the 120 respondents for this study.

A survey questionnaire was used to collect data from the respondents for analysis. Questionnaire was used because it facilitates easy collection of data from large number of respondents. Questions in the questionnaire were close-ended. The close-ended questions were designed to facilitate data collection from the respondents easily. Close-ended questions were deemed necessary because of the low level of education of majority of the SMEs entrepreneurs. The idea behind close-ended questions was to save time spend in providing answers to questions. Data gathered were presented in frequency tables and analysed using simple descriptive statistics.

## **EMPIRICAL RESULTS AND DISCUSSIONS**

### **Demographic Characteristics of Respondents**

Data about respondents age, sex, marital status, number of years engaged in running the business and level of education were solicited and these are presented in the table below.

Table 1: Demographic information of respondents

S/No.	Demographic Variables	Frequency	Percentage (%)
<b>Sex</b>			
1	Male	52	43
2	Female	68	57
<b>Total</b>		<b>120</b>	<b>100</b>
<b>Age of respondents</b>			
1	18 – 25	18	15
2	26 – 35	28	23
3	36 – 45	62	52
4	46 – 55	8	7
5	55 and above	4	3
<b>Total</b>		<b>120</b>	<b>100</b>
<b>Marital status</b>			
1	Married	72	60
2	Single	16	13
3	Widowed	21	18
4	Separated	11	9
<b>Total</b>		<b>120</b>	<b>100</b>
<b>Level of education</b>			
1	Primary school	23	19
2	Junior High School	15	13
3	Senior High School/Ordinary Level	32	27
4	Diploma in Business Studies/ Advance Level	42	35
5	First Degree	8	6
<b>Total</b>		<b>120</b>	<b>100</b>

From the table above, 68 respondents constituting 57% were female while 52 respondents representing 43% were male. This gives an indication that female dominate in establishing SMEs than their male counterparts. A conclusion can be drawn that female are more desirous in making moves to create avenue for income generation to reduce family level poverty. The ages of respondents were another variable that was taken into consideration. Among the age brackets respondents within the age brackets of 36 – 45 dominated. 62 SMEs entrepreneurs representing 52% were between the ages 36 – 45, followed by ages group 26 – 35, 23%. Only 4 respondents, representing 3% were 55 years and above. This is an indication that the youth is more active in the formation of SMEs than the aged. This can be associated with the high level of unemployment in Ghana, thus compelling the youth to take initiative to create self-employable jobs than struggling to be employed.

The marital status of respondents revealed that majority, 60% of SMEs entrepreneurs are married, 13% single, 18% widowed and 9% separated. The basic understanding from the data is that married persons are more entrepreneurial than unmarried. However, the proportion

of married persons to separated that is, 6.5:1 is another issue of interest. It is clear that proportionately, separated couple are also more into SMEs. This is attributed to the fact that, this category of persons have the burden of fending for themselves with little or no support from family members. On the level of education, the researchers tried to establish the relationship between level of education and formation and operation of SMEs in the northern region of Ghana. Majority of SME entrepreneurs 35% representing 42 respondents had Diploma in Business Studies or its equivalent Advance level as their academic qualification. This is followed by 32 respondents representing 27% with Senior High School Certificate or Ordinary level as its equivalent. The indication is that people with this level of academic qualification understand business well, coupled with the fact that the job opportunities for such level of qualification are limited. This compelled them to think innovatively of creating their own business to earn a decent living. Persons with higher qualification of first degree were also found to be engaged in operating SMEs. This category gave a 6% of the respondent. However, all 8 respondents with first degree were gainfully employed with both public and private sector organisation, but operating the SMEs to supplement their income and to grow them until such a time that it will be feasible to resign and manage the SME on full time basis.

### Support for the running of SMEs Businesses

It is perceived that different stakeholders with vested interest works collaboratively to support SMEs in most developing countries. These stakeholders comprises both governmental, non-governmental and private sector organizations. The support provided by these stakeholders organizations to SMEs are stated in the table below.

Table 2: Stakeholders areas of support for SMEs in the Tamale Metropolis

S/No.	Support provided	Frequency	Percentage (%)
1	Training (Sourcing for funding)	21	17.5
2	Training (Record management)	61	51
3	Training (Marketing of products/services)	33	27.5
4	Financial Assistance	5	4
<b>Total</b>		<b>120</b>	<b>100</b>

The data above showed that SMEs receives support from stakeholders mostly in the form of training. The study established that SMEs receive training in three different forms – training on how to source funding, record management, and marketing of products or services. Another area of support is direct financial assistance. The data showed that majority of the sampled SMEs, 61 respondents, representing 51% received training on how to keep and management

business records. 33 respondents representing 27.5% received training on product marketing strategies while 21 SMEs entrepreneurs representing 17.5% received training on how to source for funding. The least, 5 respondents, representing 4% did indicate that they receive support in the form of funding from stakeholders to boost their business operations.

### **The Concept of Poverty**

Poverty is a situation where an individual is denied opportunities and choices that are widely regarded as essential to lead a long, healthy, creative life and to enjoy a decent standard of living, freedom, dignity, self-esteem and the respect of others. Poverty is a humiliation situation experienced by people mostly deprived of basic or physiological needs, the sense of being dependent on others, and being forced to accept offensiveness, insults, and disrespect when seeking support or help.

Poverty is a multi-faceted concept. Some believed it cannot be defined with certainty, while others tried to define poverty based on certain variables such as country or location, food intake, income earned, among others. Poverty can be defined under two types of conditions; (i) material deprivation in the form of food, shelter and access to basic services such as health and education and (ii). non-material conditions, such as lack of rights, insecurity, powerlessness and indignity (Vandenberg 2006). A critical look at the two combined situations makes it extremely difficult to accurately define, measure and evaluate the poverty and any poverty reduction strategy's effectiveness. ILO (2003), noted that poverty is a vicious circle of poor health, reduced working capacity, low productivity and shortened life expectancy, cited in (Vandenberg, 2006). OECD, (2001) defined poverty as comprising multiple dimensions of deprivation that relate to human capabilities, including consumption and food security, health, education, rights, voice, security, dignity and decent work.

### **The role of SMEs in Poverty reduction**

In attacking poverty, ILO approach is through small enterprise development, focusing on the needs of poor people who are part of the micro and small enterprise economy, either as owners or operators and workers, dependents, unemployed who may benefit from job creation, and as customers, ILO (2001), cited in (Vandenberg 2006). ILO strategy of poverty reduction is based on the promotion of the four elements of decent work, namely, productive, remunerative employment; rights at work; social dialogue; and social security (Vandenberg 2006).

For the purpose of the study, various ideas were floated to determine the extent to which SMEs help in poverty reduction. This is shown in the table next;

Table 3: Role of SMEs in Poverty Reduction

S/No.	Poverty Reduction Strategies	Yes	%	No	%
1	Earning Income for Self	116	97	4	3
2	Employing others	113	94	7	6
3	Provide Credit Sales to others to Meet their Needs	87	72.5	33	27.5
4	Contribution to National Development through Tax Payment	68	57	52	43
5	Keep other Businesses in Business by Buying from them.	104	87	16	13
6	Provide help to Community/Social Responsibility	81	67.5	39	32.5
7	Trained others who are now owner of Businesses themselves, now earning income	97	81	23	19

From the table above, 116 SMEs entrepreneurs representing 97% indicated that they earned income and this goes a long way to reduce their poverty levels, while 4 respondents, representing 3% were indifferent. This is an indication that SMEs plays a vital role in reducing poverty in the Tamale Metropolis. Further probing showed that owners of SMEs assets level increase since they started running the businesses and also the income they earned enable them cater for their health needs, schooled their children, and manage other pressing social needs such as funerals, supporting distance relatives among others. On the part of creating employment for other, 113 respondents, representing 94% stated that they employ others and pay them wages and salaries at certain defined periods. This enables the employees to earn an income which helps improve their living standards. However, only 7 respondents work alone without employees and this constituted 6%. 87 SMEs entrepreneurs representing 72.5% stated that they provide credit sales to customers who do not have cash to buy to meet their immediate needs while 33 respondents, representing 27.5% stated that they do not provide credit facilities to customers. This provision of credit facilitates the consumption of products even when the consumer has no money to immediately support such consumption. This means that if people can have access to products to meet their need before paying, it goes a long way to improve their lives. 68 SMEs entrepreneurs representing 57% attest that they pay tax which they believed is used for national development, while 52 respondents representing 43% do not pay tax. Even though this percentage is high, it is still clear that majority of owners of SMEs do pay tax which is used to improve the standard of living of the people in the country. SMEs as businesses are also customers of other businesses. They will have to buy other businesses products in order to keep them in business. 104 SMEs entrepreneurs representing 87% saw this process as supportive to poverty reduction. They help sustain other business owners livelihood. However, 16 respondents, representing 13% did not indicate whether they buy from others to keep them in business or not. 81 respondents representing 67.5% indicated that they provide

support to some needy persons in the communities while 39 respondents representing 32.5% do not offer any support or help to needy in the communities in which they operate. Finally, 97 SMEs entrepreneurs representing 81% stated that they trained and graduated others who are now running their own businesses, earning income and also employing others to give them a source of livelihood. However, 23 respondents representing 19% were still very young entrepreneurs who has not yet turn out other to be on their own. On the average, it is clear that SMEs contributes significantly to poverty reduction in Tamale Metropolis and for that matter Ghana.

### Challenges Facing SMEs in their Fight Against Poverty

SMEs encounters a myriad of challenges in their quest to reduce if not eradicate poverty in developing countries including Ghana. According to Onugu (2005), SMEs in Nigeria faced a plethora of problems, which are enormous, fundamental and far-reaching. Problems confronting SMEs entrepreneurs in Ghana as revealed by this research are presented in the table below.

Table 4: Challenges Facing SMEs in their Fight Against Poverty

S/No	Problems inhibiting poverty reduction strategies of SMEs	Yes	%	No	%
1	Inadequate, inefficient and non-functional infrastructural facilities.	78	65%	42	35%
2	Bureaucratic bottlenecks and inefficiency in administration of incentives and support facilities provided by government.	97	81%	23	19%
3	Lack of easy access to funding/credit and Discrimination from banks.	113	94%	7	6%
4	Lack of access to appropriate technology.	89	74%	31	26%
5	High dependence on imported raw materials,	66	55%	54	45%
6	Lack of technical skills in the form of technological and strategic capability.	102	85%	18	15%
7	Lack of appropriate and adequate managerial and entrepreneurial skills.	81	65.5%	39	32.5%
8	Lack of suitable training and leadership development.	104	87%	16	13%
9	Absence of long-term finance to fund capital assets and equipment.	120	100%	0	0%
10	Weakness in organisation, marketing, information-usage, processing and retrieval, personnel management, accounting records and processing,	94	78%	26	22%

The table above contained data from responses from SMEs entrepreneurs regarding the challenges they face in their attempt to operate SMEs leading to reduction in poverty. From the table, the absence of long-term finance to fund capital assets and equipment was endorsed by all 120 respondents, giving 100%. It is clear from the data that almost all SMEs entrepreneurs

in the northern region and for matter Ghana are unable to source long-term finance to engage in capital expenditure or acquire fixed assets and equipment. This confirms Parker et al (1995) finding that, most SMEs lacks appropriate equipment to carry out their work. It was again established that 65% of respondents have inadequate, inefficient and non-functional infrastructural facilities, while 81% of SMEs entrepreneurs mentioned that bureaucratic bottlenecks and inefficiency in administration of incentives and support facilities provided by government affected their capacity towards poverty reduction. 94% indicated that discrimination from banks in credit disbursement hinders their growth and effort to help reduce poverty, while lack of access to appropriate technology scored 74%. This corresponded with Quader and Abdullah (2009), findings that SMEs lack access to appropriate technology and information to meet current production techniques. High dependence on imported raw materials was a reason why 55% of the respondents are unable to realised the goal of reducing poverty. 81 respondents, representing 67.5% clearly stated that lack of appropriate and adequate managerial and entrepreneurial skills caused SMEs to fail in their quest to help reduce poverty, while 87% were of the opinion that lack of suitable training opportunities and leadership development programmes hinders their effort in expanding their businesses. Clearly, this confirms Afua (2008) finding that lack of managerial competencies and low knowledge and skills levels of SMEs in the garment and textile industry in Ghana hinders the growth and development of SMEs. 94 SMEs entrepreneurs, representing 78% attributed their inability to adequately eradicate poverty to weakness in organisation, marketing, information-usage, personnel management, and keeping proper accounting records. This particular finding is in line with Munyanyiwa, (2009) and Awiah (1996) findings.

## CONCLUSION

The focus of the researchers was on the role of SMEs in poverty reduction and the challenges confronting SMEs in their quest to help reduce if not eradicate poverty in the Tamale Metropolis. The study revealed that SMSs are instrumental in reducing unemployment in the metropolis, contributing immensely towards the revenue generation of the Metropolis through the payment of taxes and leading to general improvement in the quality and quantity of goods and services produced and consumed in the Metropolis. Indeed, they made it possible for consumers to have a choice. However, it was also ascertained that some SMSs do not meet their production target due to the use of inefficient technology, lack of support financially, low managerial abilities and skills, lack of marketing strategies, lack of training programmes, bureaucratic bottlenecks and inefficient administration of incentives provided by government, and lack of proper accounting records keeping.



## RECOMMENDATIONS

From the findings of the study, the following recommendations are considered relevant to help remedy or reduce some of the major challenges, thereby paving the way for the smooth running of SMEs in Ghana if possible.

Government, non-governmental organization, international donors and agencies interested in SMEs should make conscious effort to develop comprehensive policy for SMEs. This policy should be properly communicated, its implementation guidelines made known to SMEs entrepreneurs and potential, and its administration properly streamlined. State institutions such as National Board for Small Scale Industries (NBSSI) should be empowered without political interference to take sole responsibility of the success of such a policy.

A specialized bank or fund dedicated to SMEs should be established to aid SMEs acquire long-term funding to enable them procure assets and engage in capital expenditures that are long-term but relevant to poverty reduction. This specialized bank or fund will propel the development and growth of SMEs unimpeded.

The Polytechnics in Ghana should be empowered to design a curricular and training programmes, both long-term and short-term course on SMEs. This will fill the gap of running businesses in Ghana. This is relevant, because SMEs are strictly localized, therefore SMEs entrepreneurs need to understand focus strategies to enable them take control of their decentralized customers.

## LIMITATIONS THE STUDY

Like all research work, there are certain limitations that hindered the researchers' capability of collecting data from the entire population or a relatively large number of respondents:

- i. Financial Constraint: the Researchers were constrained with finances in paying research assistances, travelling and printing cost. This explains why small sample size was used for this study.
- ii. Possible lack of cooperation from respondents: most respondents mistook Researchers and the research assistance as Tax Collector or Secret Agents. It took a lot of time convincing most of them to provide answers to the questionnaire. When they are convinced, they respond reluctantly leading to delay in getting information.

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