

UNIVERSITY OF EDUCATION, WINNEBA  
COLLEGE OF TECHNOLOGY EDUCATION, KUMASI

THE EFFECT OF THE CEDI DEPRECIATION ON SMALL AND  
MEDIUM SCALE ENTERPRISE IN GHANA (A CASE STUDY OF  
SMALL SCALE IMPORTERS IN KUMASI)



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Business Studies, submitted to the graduate studies, in partial fulfillment of  
requirement for award of Master of Business Administration (Accounting)  
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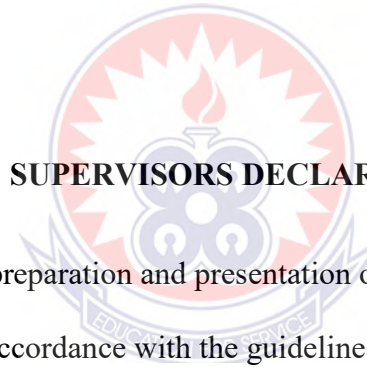
## DECLARATION

### STUDENTS DECLARATION

I, **HAJA HAWA MAAMAH**, hereby declare that this project is my own original research and that no part of it has been presented for another master's programme in this university or elsewhere.

SIGNATURE: .....

DATE: .....



### SUPERVISORS DECLARATION

I hereby declare that the preparation and presentation of this action research material were duly supervised in accordance with the guideline on supervision of action research laid down by the University of Education, Winneba.

**SUPERVISOR'S NAME: RICHMEL BAABA AMANAMAH**

SIGNATURE: .....

DATE: .....

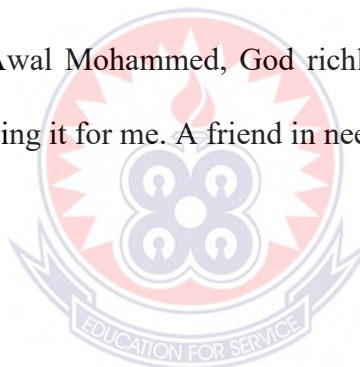
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## Table of Contents

DECLARATION .....	iii
ACKNOWLEDGEMENT .....	iv
LIST OF TABLES.....	ix
LIST OF FIGURES .....	x
ABSTRACT.....	xi
CHAPTER ONE.....	1
INTRODUCTION .....	1
1.1 Background of the Study .....	1
1.2 Statement of the Problem.....	4
1.3 Conceptual Frame Work.....	5
1.4 Theoretical Frameworks .....	6
1.4.1 Trade Theory.....	8
1.4.2 Elasticity Approach.....	8
1.4.3 The Identified Gab and the Variable.....	9
Purpose of Study .....	9
Objective of the Study .....	9
Research Questions.....	10
Significance of the Study .....	10
Delimitation .....	11
1.10 General Layout of the Study .....	11

CHAPTER TWO .....	12
LITERATURE REVIEW .....	12
2.0 Introduction.....	12
2.1 History of the Ghanaian Cedi .....	12
2.1.1 The Birth of the Cedi .....	13
2.1.2 The New Cedi .....	13
2.1.3 Currency Demonetization .....	13
Table 1: GHANA CURRENCIES ISSUED .....	14
2.2 Most Traded Foreign Currencies in Ghana.....	15
2.3 Appreciation and Depreciation .....	16
2.4 Some Theories of Currency Depreciation or Devaluation.....	17
2.5 Causes of Currency Depreciation .....	18
2.6 Effects of Currency Depreciation on Economic Growth .....	19
2.7 The Depreciation Trend of the Cedi .....	21
2.7.1 Worst Performing Currency Year .....	23
2.8 Small and Medium Scale Businesses (SMEs) In Ghana.....	25
2.8.1 Some SME Definitions .....	25
2.8.2 Characteristics of SMEs in Ghana .....	26
2.8.3 Contributions of SMEs Operations to Economic Development .....	28
2.7.4 Constraints to SMEs Development in Ghana .....	30
CHAPTER THREE .....	33

METHODOLOGY .....	33
3.0 Introduction.....	33
3.1 Research Design.....	33
3.2 Population .....	34
3.3 Sample Size.....	34
3.4 Sampling Techniques.....	36
3.4.1 The Strata Used.....	36
3.5 Data Collection .....	38
3.5.1 Questionnaires.....	40
3.6 Data Analysis .....	41
3.7 Limitation of the Study .....	41
CHAPTER FOUR.....	43
DATA ANALYSIS AND DISCUSSION OF FINDINGS .....	43
4.0 Introduction.....	43
4.1 Values of Depreciation for a 10-Year Period.....	43
4.3 Line Representation of the Cumulative Depreciation Values .....	44
4.4 Evaluation of the Effects of Depreciation on the Size of SMEs Workers. ....	49
4.5 Evaluation of the Effects of Depreciation on the Profits of SMEs .....	51
4.6 Evaluation of the Effects of Depreciation on The Volumes Imported.....	53
4.7 Summary of Responses.....	55
CHAPTER FIVE .....	56

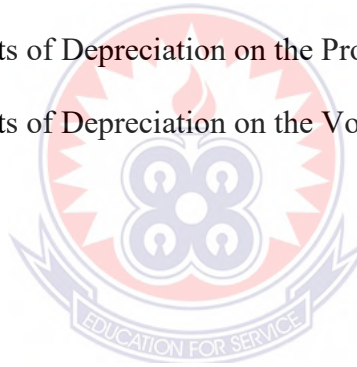
SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS .....	56
5.0 Introduction.....	56
5.1 Effects of Depreciation on Volumes of Imports .....	56
5.2 Effects of Depreciation on Size of Workers .....	56
5.3 Effects of Depreciation on Profit Gained.....	56
5.4 Dependencies of SMEs on Imports.....	57
5.5 Conclusions.....	57
5.6 Recommendations.....	57
REFERENCES .....	59





## LIST OF TABLES

<b>TABLE</b>	<b>PAGE</b>
Table 1: Ghana Currencies Issued	14
Table 2: Number of Males and Females Used in the Study	35
Table 3: List of Businesses, Areas and Information Gathered	37
Table 4: Values of Depreciation for a 10-Year Period	43
Table 5: Layout Used to Summarize the Information Obtained for 145 Subjects	45
Table 6: Cumulative Depreciation Value at the End of Each Year	48
Table 7: Regression Results of Depreciation on the Size of SMEs Workers	49
Table 8: Regression Results of Depreciation on the Profits of SMEs	51
Table 9: Regression Results of Depreciation on the Volumes Imported	53



## LIST OF FIGURES

### FIGURE

Figure1: Conceptual Framework	5
Figure 2: Line Representation of the Cumulative Depreciation Values	44
Figure 3: Bar Chart Representing the Cumulative Depreciation	45
Figure 4: Pie Chart of Importers versus Non-importers	55



## ABSTRACT

The research study seeks to examine the effects of cedi depreciation on the activities of small scale businesses in the country. The aim of the research is to examine the impact of cedi depreciation on imports, income, size and the growth and performance of the small scale industries. In addition the research work aims at finding out the extent to which small scale businesses depend on imports. SMEs found in some selected localities in Kumasi Metropolis are used. Literatures were reviewed theoretically and empirically. Data collected were analyzed with the help of Statistical Package for Social Scientists (SPSS). The survey conducted on a total of 150 respondents out of which 145 responses were received representing 97.67% response rate. The results have proved that there is a negative relationship between values of depreciation and the volumes of goods imports, the income of the businesses and the size. It was found out that SMEs in Ghana presents almost 100% dependency on imports. The study will inform the operators of the industries on the dangers of huge values of depreciation. This will help the managers to take better decisions on the quantity of goods imported, the number of workers and the income of the businesses. I will also recommend to other researchers that a further study can be conducted about the impacts of the cedi depreciation on job creation in the country. Also, a similar study can be conducted about the effects of cedi depreciation on the medium and large scale businesses and their performances in Ghana.

## **CHAPTER ONE**

### **INTRODUCTION**

The purpose of this chapter was to assess the effect of the cedi devaluation on SMEs in Ghana. This chapter covers the background of the study, statement of the problem, purpose of the study, research question, purpose of the study, objective of the study, significance of the study, limitation and delimitation of the study and the organization of the study.

#### **1.1 Background of the Study**

Ghana is a country with many natural resources which cuts across the agriculture, mining, and human sector. There are other natural resources that make it one of the richest countries in Africa which includes gold, timber, diamond, bauxite and so on. This seemingly opportunity for developing countries like Ghana which have mineral deposits comes with its accompanying repercussions (Kwasi Dartey Baah, 2011). Varieties of crops are also produced in Ghana in various climate zones which is from dry savanna to west forest and from east to west bands across the country. These crops include yam, grains, cocoa, oil palm, kola-nuts and timber. All these resources serve as a major source of export exchange rates.

Despite the abundance of these resources, Ghana is able to change those materials into suitable finished goods only in smaller quantities for patronage which in turn does not meet the high demands of the market which gives rise to importation of goods. Countries like Finland with little or without mineral resources have been able to tap into the mineral

resources of endowed countries with their adequate and efficient human resources (Valentino Pasquali, 2015).

Again economic factors such as quality, price and product availability give rise to importation. The general notion among Ghanaians is that locally manufactured goods are inferior to imported and foreign manufactured goods in terms of performance and quality. The success depends on the competitiveness of local producers in both the domestic and international markets. For some years now, import competing industries have been facing number of challenges which are alleged to have inhibited their growth. The key factors usually noted as being responsible for aggravating the situation have included the inflow of un-customed goods through unfair trading practices, (Peter Quartey and Joshua Abor, 2010). This 'unfortunate' and wrong school of thought has come to stay and gained grounds in the Ghanaian society. In addition to the widespread belief that locally manufactured products are inferior in quality to the foreign/imported goods; complaints of the high prices of locally-made items are also rampant. Many Ghanaian consumers complain that goods that are produced domestically are costly, compared with other products of same or higher quality that are imported into the country. Another factor that has encouraged consumers to patronize foreign goods against local goods is poor marketing of most local products. There have been a lot of recent calls on Ghanaians to patronize local goods and services to help local manufacturers and service providers to be able to stay in operation and contribute towards national economic development. These calls have come as a result of the low interest that Ghanaians have shown in patronizing

local goods and services and the related challenge it possess on the country's industrial development and ultimately economic development.

As a way to promote the consumption of local goods, most household items as well as cars used by various foreign embassies here in Ghana are brought in from their home countries as a matter of deliberate policy to patronize their home made products. Indonesian public officers are also made to wear locally produced fabrics to work twice a week.

Unfortunately, the reverse is the situation here in Ghana. Ghanaians have developed a strong taste for foreign products to the extent that we regard anything that is produced in another country as of high quality and high value than the ones that are locally manufactured. An example is our attitude towards locally manufactured rice. Even though rice is grown in the country, most Ghanaians prefer to eat "perfume rice" as it is normally called; rice that is imported from abroad, even though research have shown that the locally produced rice is more nutritious (Frimpong Charles Yeboah, 2013).

The researcher is expected to provide information to the small and medium scaled enterprises so as to help them adjust to the devaluation effect and to prevent them from going out of business or collapsing. After the researcher had investigated some importers in Kumasi, it became evident that the devaluation of the cedi is really collapsing their businesses. This prompted the researcher to identify the effects of the devaluation on the

small and medium scaled enterprises and help them by providing them with information which will help them adjust when there is devaluation.

## **1.2 Statement of the Problem**

Ghana has been experiencing devaluation in its currency. Devaluation of the cedi has a lot of negative consequences and it can lead to serious problem in the country and as a result needs much attention. Even though much research has been done on devaluation, little has been done on SMEs so the researcher thought of filling that gap by investigating on the effects of the devaluation on SMEs. Devaluation of the cedi of a developing country like Ghana who depends so much on the imports of goods and services from foreign countries may have a higher negative impact than the positive impact. The rapid falling value of our national currency, (the cedi) vis-à-vis the hard currencies including the US dollar and the current rate of inflation in the country have become the major concern of many well-meaning Ghanaians. There are several economic problems that have gripped our economy today and these are due to a multiplicity of factors including low agricultural output, excess liquidity, low domestic savings, trade liberalization and exchange rate policies being pursued currently (Alex Bossman Baafi, 2009).

The country depends heavily on importation of goods and services from foreign countries like USA, China, Dubai, Togo, and Nigeria and is a problem for the nation as it results in depreciation. When there is a fall in the cedi, it will mean that more cedi will be used to import fewer goods which will lead to inflation and the collapse of small and medium business. There has been persistent rise and fall in Ghana's exchange rate and this is

largely driven by the continuous exchange rate depreciation. The cedi exchange rate experienced major depreciations among the various major currencies since Ghana adopted the Exchange rate regime (Korankye – Boateng George, 2016). These problems stated above form the statements of much concern to this research work.

### 1.3 Conceptual Frame Work

This deals with concepts that are assembled by virtue of relevance to the common goal of finding out the effects of depreciation of the cedi on the small scale industries in Ghana. The concepts examined under this study are; the values of aggregate annual depreciation representing the independent variable, the concepts of the dependent variables- income of an SME, import volumes and the number of workers present in the business. In mathematical concept this work investigates the relationships below:

$$\text{profit gained}(INCOME) = B_0 + B_1(\text{depreciation}) + e \quad \dots\dots i$$

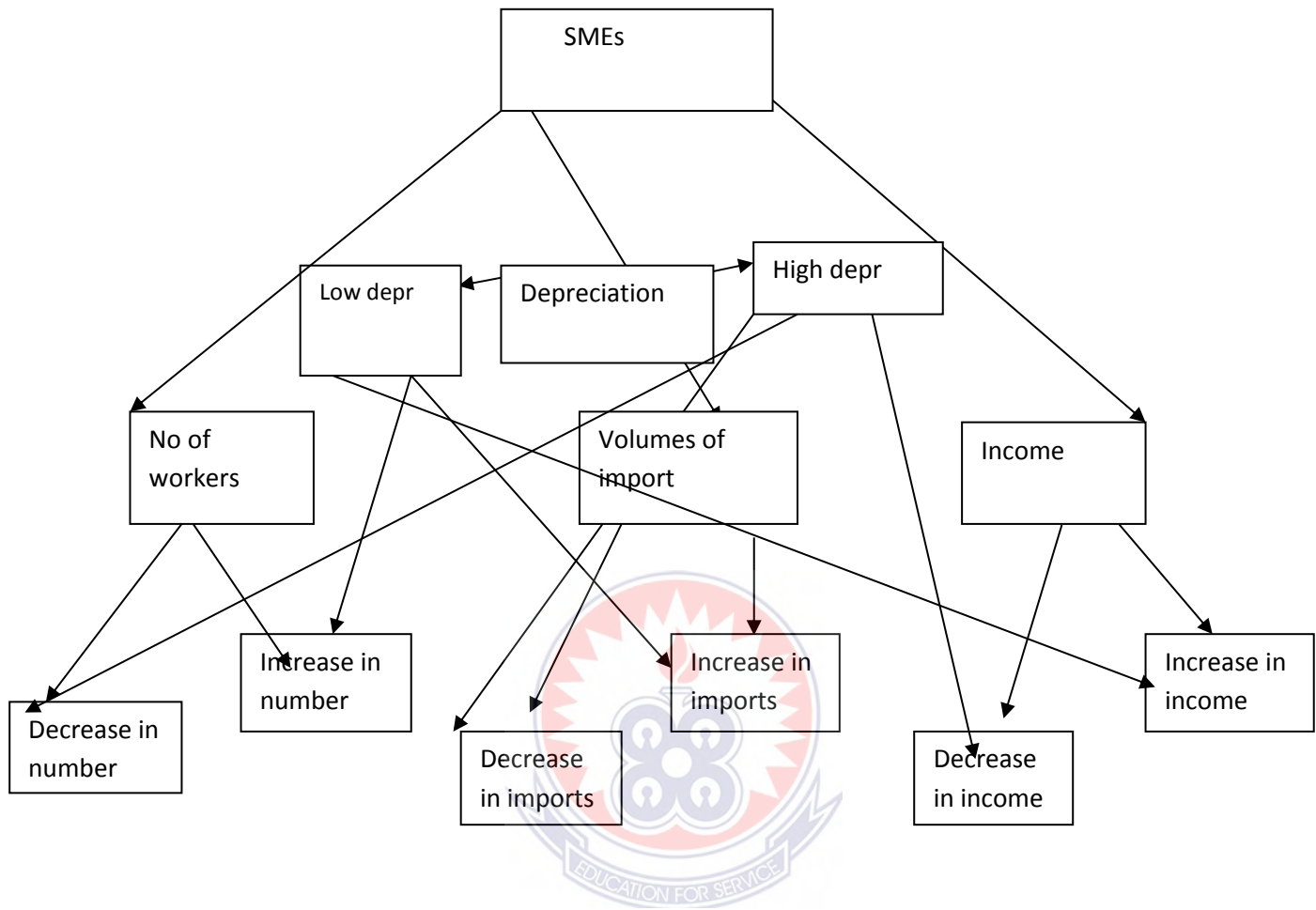
$$\text{number of workers} = B_0 + B_1(\text{depreciation}) + e \quad \dots\dots ii$$

$$\text{volumes imported} = B_0 + B_1(\text{depreciation}) + e \quad \dots\dots i$$

The framework of this analysis is conceptualized below:



Figure 1: Conceptual Framework



#### 1.4 Theoretical Frameworks

Devaluation, like any other concept is a victim of definitional pluralism. Hence, the need for concept clarification owing to fluidity and manifold meanings attached to them. This becomes essential to escape from that. They can generate unsolvable debates about their meaning and application. Devaluation is a reduction in the value of a currency with respect to other monetary units. In common modern usage, it specifically implies an official lowering of the value of a county's currency within a fixed exchange rate system, by which the monetary authority formally sets a new fixed rate with respect to a foreign reference currency (Polytechnic, State, Polytechnic, & State, 2015). Historically,

devaluation is most often used in situations where a currency has a defined value relative to the baseline. Early currencies were typically coins struck from gold or silver by an issuing authority which certified the weight and purity of the precious metals. (). A government in need of money and short on precious metal might abruptly lower the weight or purity of the coins without announcing this, or else decree that the new coins had equal value to the old, thus devaluing the currency. This gave rise to Copernicus-Gresham's law, which stated that "bad money drives out good", i.e., if pure gold coins and [www.taxfreegold.co.uk](http://www.taxfreegold.co.uk) false coins are decreed to have equal value, people will use the false coins for currency and hide the good coins or melt them down into gold (Polytechnic et al., 2015). Traditionally, there are three main approaches to devaluation or currency depreciation: the elasticity approach, the absorption approach and the monetary approach. ([www.ukessays.com](http://www.ukessays.com)). According to the elasticity framework, devaluation improves a country's balance of trade when the Marshall-Lerner condition is satisfied, i.e., when the sum of the total import demand elasticity of the two trading partners exceeds unity. In the absorption methodology however, the elasticity do not matter, and the trade balance improves only if the nation's Gross Domestic Product (GDP) increases faster than domestic spending. According to the monetary approach to the exchange rate, a devaluation or depreciation decreases the real supply of money, resulting in an excess demand for money. It is therefore this results that informs the direction of this work as the effects of excess demand for money sometimes characterize the activities of small scale industries. The theoretical framework of this study centers on the dependencies of the SMEs on the characteristics of devaluation.

### **1.4.1 Trade Theory**

Standard trade theory relates trade in goods with the real exchange rate. Setting all other variables fixed, the trade theory states that the exchange rate can affect the economy's imports and exports. A fluctuation in the exchange rate affects both the value and volume of trade. If the real exchange rate rises for the home country i.e. if there is a real depreciation, the households in the domestic country can get less foreign goods and services in exchange for a unit of domestic goods and services. Thereby a unit of foreign good would give more of domestic goods, resulting in domestic households buying less foreign goods and foreign households wanting to purchase relatively more domestic goods. The higher the real exchange rate the more surplus in the net exports the country will obtain (Zhang, 2008). Lerner widened standard trade theory by including price elasticity of demand for imports and exports as important elements in determining the effect of exchange rate changes on the trade balance and business.

### **1.4.2 Elasticity Approach**

The trade balance varies depending upon price elasticity of demand for imports and exports. The elasticity of demand and supply are defined as the responsiveness of the quantity demanded of goods or services to a change in its price (Tze-haw, 2008). An analysis of the balance of payments based upon the price elasticity of demand for imports and exports is known as the elasticity approach. The elasticity approach was initially developed by Bickerdike-Robinson-Metzler in the middle of the twentieth century (Chee-Wooi & Tze-Haw, 2008). The elasticity of a country's demand for foreign goods depends on the price sensitivity of demand for the different goods. The elasticity of a country's

supply depends on a country's ability to provide goods demanded by both the foreign and domestic markets.

### **1.4.3 The Identified Gab and the Variable**

This work focuses on the dependencies of volumes imported, number of workers and the average gain or profit of small scale businesses on the values of depreciations. The gabs identified are;

1. How volumes of goods relate to the depreciation of the cedi
2. The relationship between number of workers and depreciation
3. The quantification of the effects of depreciation on imported volumes, the number of workers and the income
4. The relationship between the income of small scale businesses and the values of depreciation.

Hence the independent variable is the values of depreciation and the dependents are volumes of imported goods, number of workers and profit gained. The relationship between the variable are handled with simple regression models  $y = B_0 + B_1x + e$  where 'y' is the dependent and x the independent variable.

### **Purpose of Study**

The main purpose of the study was to investigate the effects of the devaluation of the cedi on small and medium scaled enterprises using mini importers in Kumasi as a case study.

### **Objective of the Study**

The specific objectives of the study are:

- To examine the effects of devaluation on quantity of imports of small scaled enterprises.
- To examine the effects of devaluation on the financial performance of small and medium scaled enterprises in Ghana.
- To evaluate the dependency level of Small and medium scaled enterprise on foreign goods and services.

### **Research Questions**

In order to achieve the above purpose of the study, the following research questions were found useful;

- What effect does the devaluation of the cedi have on the import volume of small and medium scaled enterprises?
- How dependent are Small and medium scaled enterprises in Ghana on Foreign goods and services?
- How the devaluation of cedi affects financial performance of small and medium scaled enterprises.
- What are the impacts on small scale industries?

### **Significance of the Study**

This work will contribute to the existing literature on depreciation and small scale industries. The principal beneficiaries of this study would be the managements of small and medium scaled enterprise. This work is expected to serve as a guide for future researchers in this area, and as a material to assist those who want knowledge about

devaluation of the cedi. It will also help policy makers formulate and implement policies that will facilitate growth.

### **Delimitation**

This research piece under the topic “the effect of the cedi devaluation on small and medium scaled enterprises in Ghana (a case study of selected mini importers in Kumasi) “is restricted to importers of materials and spare parts only.

### **1.10 General Layout of the Study**

This research is comprised of five chapters. Chapter one deals with background to the study, the problem, research questions and the purpose of the study. Other aspects of the chapter are the significance, limitation and delimitation of the study.

Chapter two focuses on the review of related literature while methodology describes the research design, the population, sample and sampling procedures, data gathering instruments and data collection procedures of the study. Also covered in the chapter are the variables for the study and methods of data analysis.

In chapter four, results and discussion of findings are presented. Finally, the summary of findings, conclusions, recommendations and suggestions for further research form the concluding chapter of the research.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 Introduction

The need to understand the terms in the title of this work enhances smooth progress towards the achievements of its objectives. This section throws light on the Ghanaian cedi and its development through the years. In addition to the section depreciation is defined and linked to the Ghanaian currency. Furthermore the businesses in Ghana categorized as small scale are defined and highlighted in this section.

#### 2.1 History of the Ghanaian Cedi

Prior to independence, the issue of currency was the responsibility of the West African Currency Board (WACB). The West African pounds, shillings and pence, constituted currency issued by the Board and were in circulation in Ghana until July 1958.

After Independence, the new monetary authority, the Bank of Ghana, issued its own currency in the form of Ghana pounds, shillings and pence on 14<sup>th</sup> July, 1958. With that issue, the Bank of Ghana formally took over the issue of currency notes and coins from the WACB.

### **2.1.1 The Birth of the Cedi**

The second issue of currency was in early 1965, when Ghana decided to leave the British colonial monetary system and adopt the widely accepted decimal system. Accordingly, Cedi notes and Pesewa coins were introduced on the 19<sup>th</sup> July, 1965 to replace the Ghana pounds, shillings and pence. The cedi was equivalent to eight shillings and four pence (8s 4d) and bore the portrait of the then President, Dr. Kwame Nkrumah. The name “cedi” was derived from the word “sedie” meaning cowrie, shell money which gained popularity and wider circulation in the later part of the 19<sup>th</sup> Century. The “Pesewa” represented the smallest denomination (quantity) of the gold-dust currency regime. The name was chosen to replace the British Colonial penny.

### **2.1.2 The New Cedi**

After the overthrow of the CPP government, the military government decided to replace the existing currency, which bore Nkrumah’s portrait, with one without his portrait. The New Cedi (N¢), as it was called, was introduced on 17<sup>th</sup> February, 1967 to replace the 1965 cedi at a rate of  $\text{¢ } 1.20 = \text{N¢ } 1.00$ . The N¢ notes remained in circulation until March 1973 when it became simply known as the cedi.

### **2.1.3 Currency Demonetization**

On 9<sup>th</sup> March, 1979, the Government announced the introduction of new cedi notes to replace the old ones at a discount of 30% for amounts up to  $\text{¢ } 5,000$  and 50% for amounts in excess of  $\text{¢ } 5,000$ . The old cedi were therefore, demonetized. New denominations issued included  $\text{¢ } 1$ ,  $\text{¢ } 2$ ,  $\text{¢ } 5$ ,  $\text{¢ } 10$ ,  $\text{¢ } 20$  and  $\text{¢ } 50$ . From 1965 to present, various cedi and pesewa denominations, ranging from  $\text{¢ } 1$  to  $\text{¢ } 5,000$  for notes and  $\frac{1}{2}$  P to  $\text{¢ } 500$  for coins,



were put into circulation. Currency issued in 1965 comprised ₵1, ₵5, ₵10, ₵50, ₵100, ₵1,000, 5P, 10P, and 20P. Between 1972 and 1994, additional seven different note denominations and eight coin denominations were introduced. These ranged between ₵2 to ₵5,000 for notes and ₵100p to 50,000p (₵500) for coins (see attached table). Since 2002, two more notes ₵10000 and ₵20000 have been added to notes in circulation. The source of this table is Ghana statistical service, 2007 report.

**Table 1: GHANA CURRENCIES ISSUED**

NOTES	COINS
<b>1965</b>	
₵1	5P
₵5	10P
₵10	20P
₵50	
₵100	
<b>1967</b>	
	1/2P
	1P
	2 1/2P
<b>1978</b>	
₵2	100P
<b>1979</b>	
₵20	20P
<b>1983</b>	
₵200	
<b>1984</b>	
	500P
<b>1987</b>	
₵500	

<b>1991</b>	
¢1000	1000P
	2000P
	5000P
	10000P
<b>1994</b>	
¢2000	
<b>1995</b>	
¢5000	
<b>2002</b>	
¢10000	
¢20000	

In July 2007 the Ghanaian cedi was redenominated and new faces of the currency were introduced. Coins issued were in the values of 1, 5, 10, 20, 50Gp; GHC1 and the Banknotes given were in the values of GHC1, 2, 5, 10, 20, 50.

## **2.2 Most Traded Foreign Currencies in Ghana**

Ghana trades in almost every currency in the world but the most traded currencies are the US Dollar and the CEFA. Businesses in Ghana that import or export goods and commodities often do this by the means of those two mediums of payments. The exchange rate of these currencies is always quoted against the cedi to show whether the cedi is in depreciation or appreciation.

### 2.3 Appreciation and Depreciation

Depreciation is a *decrease* in the value of a currency relative to another currency. A depreciated currency is *less valuable* (less expensive) and therefore can be exchanged for (can buy) a smaller amount of foreign currency.  $\$1/\text{GHC } 1 \rightarrow \$1/\text{GHC } 2$  means that the Cedi has depreciated against the dollar. It now takes GHC2 to buy one dollar, so that the cedi is less valuable. At the same time, the dollar has appreciated against the Cedi; it is now more valuable. A depreciated currency is less valuable, and therefore it can buy fewer foreign-produced goods with prices that are quoted in foreign currency terms. A depreciated currency means that *imports* are more expensive and domestically produced goods and *exports* are less expensive. A depreciated currency lowers the price of exports relative to the price of imports.

An appreciated currency on the other hand is more valuable, and therefore it can buy more foreign produced goods that are denominated in foreign currency. An appreciated currency means that *imports* are less expensive and domestically produced goods and *exports* are more expensive. An appreciated currency raises the price of exports relative to the price of imports. According to (Mohammed, Agboola, Moshood, & Abdullah, 2015) Currency devaluation is the reduction of the value of a country's currency against the value of other currencies. Currencies are devalued by the government to reduce the cost of exports in foreign market. Devaluation can also be referred to as a downward adjustment of a country's official exchange rate in relation to other countries (Krugman Obstfeld, 1999). In a case where a country revalue its currency higher (the opposite of devaluation) in response to positive conditions in the economy to reduce inflation or to satisfy investors and trading partners, this would result to a rise in the value of an existing

currency, as against the case with redenomination where a country issues a new currency to replace an old currency that had excessively declined in value (Krugman, 1999).

## **2.4 Some Theories of Currency Depreciation or Devaluation**

According to Saibene & Sicouri (2012), the Mundell-fleming model which explained the traditional point of view argued that devaluations are expansionary and exports do not only increase, but there is also an occurrence of a low aggregate demand for imports which has positive effects on trade balance. Alejandro, Gustavo, Nicholas (2017) and Taylor (2000) pointed out various ways in which devaluation may have contractionary effects on aggregate effects demand (Saibene & Sicouri, 2012). A model was formed by Alejandro, Gustavo, Nichola (2017) where devaluation are divided into two stages: Initial effects and Reversal effects. Initial effects as in the traditional view is the terms of trade improvement and this can be determined by price elasticity of demand and import and export supply. The reversal effects instead are contractionary effects and it is mainly as a result of domestic output decrease determined by the level of domestic demand. A profit favourable redistribution of income and disfavour of real wages is the result. Though, since the propensity of saving happens to be higher for profit than wages, the average propensity to save will go up and will lead to contractionary effects on demand (Saibene & Sicouri, 2012).

## **2.5 Causes of Currency Depreciation**

### ***A. Demand and Supply Rule***

This means if there is more demand of dollars in the currency market and is not adequately matched by the supply, other things remaining equal, the rupee price of dollar will go up or the rupee will depreciate. Demand for dollars may be created by importers requiring more dollars to pay for their imports, foreign institutional investors withdrawing their investments, and taking dollars outside Ghana, etc. On the other hand, supply is created by exporters bringing in more dollars from their revenues,

### ***B. Improving the Strength of US Economy***

Improving the strength of the US economy or dollar gaining strength against other currencies is considered as another reason for the crisis. That is Reserve Banks of Euro zone and Japan printing excessive money due to which their currency is being devalued. On the other hand, US Fed has shown signs to end their stimulus. (Stimulus is a plan by central bank to counter a weak economy, by taking various actions like lowering interest rates, increase govt. spending, and quantitative easing etc.) This side effect includes weakening currency. Hence helps to make US Dollar stronger against other currencies

### ***C. Higher Inflation***

Ghanaian economy is experiencing higher inflation which will decrease purchasing power of the cedi against other currencies. This leads to cedi depreciation. As prices of

goods shoots every day more cedi will be needed in the country trade and consequently making the dollar to gain more strengths.

#### ***D. Interest Rate Difference***

Interest rate difference is another factor, that is higher interest rate generally attract foreign investment but due to slowdown in growth there is increasing pressure on Bank of Ghana to decrease policy rates. Under such conditions investors stay away from Ghana's market. This effects capital account flows to Ghana and put a decreasing pressure on the cedi.

#### ***E. Lack of Clarity in Policy Reforms***

Lack of clarity in policy reforms is another reason for depreciation of currency. Perception of lack of clarity on the policy front is also fanning speculative demand wherein Bank of Ghana and cause the collapse of financial institutions.

### **2.6 Effects of Currency Depreciation on Economic Growth**

According to Saibene & Sicouri (2012), the issue of currency depreciation can be answered conventionally from the analysis in the Mundell-fleming model and the result has a positive impact on the current account. Following this, in respect to GDP, devaluation is expansionary since exports rises more than imports. To examine the level of the reaction of the current account, the model can be extended by putting other important features into consideration like:

- a) Variation in exports (imports) in response to a variation in real exchange rate i.e. World's prices elasticity demand for tradable goods.

**b)** Presence of supply shocks effects resulting from the presence of intermediate inputs and raw materials; for example, oil. Nevertheless, considering the fact that the debts of the country are denominated in foreign currencies, variation in real exchange rate also has important effects on the balance sheets (Saibene & Sicouri, 2012). There are effects such as:

1) Laws targeted at avoiding increased deficit since more money would be needed for payments of interest rates above sovereign debt (Saibene & Sicouri, 2012).

2) There can be a diminished private investment and consumption as though cost of servicing debts increases, profit shrinks and reduced bank lending because it depends on the collateral that can be provided by the firms. This results in an investment level that is negatively affected. Though banking sector can be affected negatively by currency devaluation as a result of the mismatches between the assets and liabilities of currency, hence- the chances that financial crisis rises, something that would seriously worsen the economic state of the country (Saibene & Sicouri, 2012).

3) The national investors can experience a negative wealth effect, with assets majorly denominated in national currency, foreign currency denominated debt can increase the volatility of the flow of capital and the chances of sudden stops, reversals of current account and self-fulfilling crises (Saibene & Sicouri, 2012).

## **2.7 The Depreciation Trend of the Cedi**

With reference to the Ghana news agency, reports of the fiscal year 2018 indicated that the Ghana cedi has lost 77.9 per cent of its value to the US dollar from July 1, 2007, when it was re-dominated to July 1, 2017. At the close of 2007, the dollar/ cedi exchange rate was GH¢0.9599 per the dollar compared to the present exchange rate of GH¢4.3640 per the dollar as at June 30, 2017. This is equivalent to a depreciation of 77.9 per cent over the period under review. For the lay person, the cedi had depreciated by more than 300 per cent at face value. But economists and analysts are united that a currency cannot lose more than 100 per cent of its value unless it becomes garbage that you need to pay someone to haul away. This drop in value was not part of the game plan 10 years ago when the cedi was redenominated by knocking off four zeros from the currency. Since the beginning of 2014, the cedi's exchange rate against the major international currencies, particularly the United States dollar, which is its primary intervention currency, has been the single biggest concern for the nation's economy. Between 2014 and 2018 period, the cedi was rated as one of the worst performing currencies in the world, suffering depreciation of some 30 per cent during the first halves of both 2014 and 2015, before recovering some of the lost ground during the second half of each of those years. But at the time of the redenomination, the idea was to make the new Ghana cedi a strong currency in people's minds and that the renewed confidence in the currency would forestall its depreciation going forward. Ten years on, this has not happened and the dollar has risen against the cedi more than four-fold with one dollar trading at close to GH¢4.3640 by June 30, 2017. Now well above GH¢5 by March 3, 2019. The main purpose of the 2007 redenomination was to make the currency less bulky to carry and less expensive to print. Another key objective was to boost public confidence in a



currency that had suffered steep depreciation since it was floated in the mid-1980s, by making it appear stronger than the US dollar. The strength of the local currency has been hampered by the weak performance of the economy. The cedi has been weakened by spiraling inflation and the other macroeconomic fundamentals. Another major concern is that our economy is largely import driven, which sparks a cost push inflation that further hampers the strength of our currency. The situation has become so worrying that the relative stability of the cedi between mid-2015 and late 2016 was seen as a Herculean macro-economic achievement. And the resumption of sharp cedi depreciation between December 2016 and mid-March 2017 created panic and then sheer resignation among depreciation-weary households and businesses alike in the country. Indeed, the initial stability of the newly denominated currency was very short-lived. The currency was better in 2010 when the cedi depreciation was a mere 3.9 per cent, as confidence rose in line with the impending commencement of oil production at the end. In the following year, 2011, crude oil production had commenced, translating into higher foreign exchange earnings even as gold prices reached a peak of \$1,600 an ounce and confidence in Ghana's economic prospects ballooned. Instructively, that year, Ghana achieved a record Gross Domestic Product growth of 14.4 per cent, the highest in the world in 2011. That achievement was driven by investment in the oil and gas industry. However, the improving prospects translated into sharply rising imports, causing the cedi's depreciation to accelerate again to 10.3 per cent. In 2012, the inevitable election-motivated fiscal spending overruns again occurred in the run-up to the polls. This was the beginning of three consecutive years of double digit fiscal deficits. The resultant 16.2 per cent cedi depreciation in 2012 of GH¢1.905 to \$1 was just the tip of the iceberg. In 2013,

both gold and cocoa prices fell sharply on the international markets, leaving Ghana with steep declines in both public tax revenues and more importantly, foreign exchange earnings which dropped by some \$1.3 billion below the previous year's level. The result was acceleration in the cedi's depreciation to 23.5 per cent which closed out the year at GH¢2.353.

### **2.7.1 Worst Performing Currency Year**

Then came 2014, a year in which the cedi had the indignity of being identified as one of the worst performing currencies in the world, especially during the first half of the year, before recovering a little towards the end of the year, having been buoyed by foreign exchange inflows from a Eurobond issues and the annual cocoa purchases loan syndication. The cedi fell by 36.6 per cent to close the year at GH¢3.215 to \$1.

The start of 2015 followed the trend in the previous year with the cedi racing downwards. However, the Bank of Ghana had learnt its lessons from its mistake of 2014 when it tried to stem the fall by introducing an array of administrative measures which sought to stem demand for, and access to, foreign exchange, but which only succeeded in further damaging confidence in the currency.

The cedi's over 30 per cent fall during the first half of the year 2015 had already taken a harsh toll before the central bank began its direct market supply intervention strategy, but it still enabled an impressive recovery during the second half of the year with the currency's depreciation cut back to 18.5 per cent by the end of 2015 and an exchange rate of GH¢3.809.

This stability continued well into 2016, despite a short period of depreciation between May and August when a delay in the scheduled third endorsement by the International Monetary Fund's executive board of its three-year Extended Credit Facility programme, pending the implementation of some remedial policy measures by the government, caused some temporary jitters on the local forex market.

However, the cedi more or less held its own until late 2016 spending overruns and economic uncertainties helped fuel renewed depreciation which took the cedi's depreciation for the year to 7.2 per cent and an end-of-year exchange rate of GH¢3.879 to \$1.

This renewed depreciation continued into 2017 and indeed accelerated during the first two months of the year. The cedi has depreciated by 11 percent between January 2018 and the same period this year (2019). When the currency was trading at 4 cedi 91 pesewas to a dollar on the interbank foreign exchange market, some currency analysts had predicted that the cedi could hit 5 cedi to a dollar soon. Truly it is now in the first quarter of the year 2019 trading at 5.4700.

The US Dollar to Ghana Cedis (USD-GHC) decreased 0.1300 or 2.32% to 5.4700 on Monday March 18 from 5.6000 in the previous trading session. Historically, the Ghanaian Cedi reached an all-time high of 5.60 in March of 2019 and a record low of 0.90 in July of 2007. (Ghana news agency, Monday, March 18, 2019).

The cedi is not yet out of troubled waters. The renewed emphasis on economic growth by the new government, through improved liquidity, lower taxes on imports and increased

credit, will feed into renewed pressure on the cedi, even as overall economic growth accelerates.

This results in renewed cedi depreciation, the consequent inevitable increases in utility tariffs, petrol prices and the general price level of fuel, higher business costs and ultimately slower economic growth again in real (inflation-adjusted) terms.

The cedi is still a fragile currency. And it will remain so unless Ghana's economic growth can be weaned off its inordinate dependence on imports and made more export-driven. This journey has tremendous effects on small scale industries in Ghana.

## **2.8 Small and Medium Scale Businesses (SMEs) In Ghana**

### **2.8.1 Some SME Definitions**

According to Ward (2005) there is no universal definition for SMEs since the definition depends on who is defining it and where it is being defined. For example, in Canada SME is defined as an enterprise that has fewer than 500 employees and small enterprise as one that has less than 100 employees. On the other hand, the World Bank defines SMEs as having no more than 500 employees. SMEs can be defined in two ways: based on the number of employees in an enterprise and/or the enterprises fixed assets. According to Boon (1989), the size of the enterprises employment is the most important criterion used in Ghana. But one must be cautious when defining SMEs based on fixed assets because of the continuous depreciation in the exchange rates, which often makes such definition out-dated. UNIDO defines SMEs in developing countries based on the number of

employees in an enterprise. A small enterprise has between 5 and 19 workers and takes the example of the ubiquitous small shops in the cities such as hair dressing saloons and chop bars. A medium enterprise has 20 to 99 workers and these include manufacturing firm and exporting companies. The Ghana Statistical Service, in their 1987 Ghana Industrial Consensus, considers firms employing between 5 and 29 employees and with fixed assets not exceeding \$100,000 as small scale, while those employing between 30 and 99 employees medium scale category. The National Board of Small Scale Industries (NBSSI) defines SMEs as enterprises that employ no more than 29 workers, with investment in plant and machinery (excluding land and buildings) not exceeding the equivalent of \$100,000.

### **2.8.2 Characteristics of SMEs in Ghana**

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. In addition, SMEs face the same fixed cost as Large Scale Enterprises in complying with regulations but have limited capacity to market product abroad (Kayanula & Quartey, 2000). SMEs in Ghana can be categorized into urban and rural enterprises. The former can be subdivided into 'organised' and 'unorganised' enterprises. Organised ones tend to have employees with a registered office and are mostly solely owned by an individual whereas the unorganised ones are mainly made up of artisans who work in open spaces, temporary wooden structures or at home and employ little or in some case no salaried workers. 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, timber and mining, bricks and cement, beverages, food processing, wood furniture, electronic assembly, agro processing, chemical based products and mechanics (Liedholm & Mead, 1987; Osei et al., 1993) as cited by (Kayanula & Quartey, 2000) This sector is characterised by low levels of education and training of the self-employed. They are mostly family owned businesses and there is little separation of the business finances from that of the owners even to the point that the owners or operators personal account is the same as that of the business. SMEs in Ghana are heterogeneous group- ranging from small workshops making furniture, metal parts and clothing to medium-sized manufactures of machinery as well as service providers such as restaurants, consulting and computer software firms. Some are traditional ‘livelihood’ enterprises that are satisfied to remain small; others are growth-oriented and innovative.

SMEs Contribution to Economic Development and Growth “The private sector is the engine of growth of the economy therefore they must be given the necessary tools to increase their growth”. (Anyima-Ackah, 2006) Economic development is a process of economic transition involving the structural transformation of an economy through industrialization, rising GNP, and income per head. Economic growth on the other hand, contributes to the prosperity of the economy and is desirable because it enables the economy to consume and contribute to more goods and services by increasing investment, increase in labour force, efficient use of inputs to expand output, and technological progressiveness. Any nation that experiences economic development and growth will benefit from improvement in the living standards especially if the

Government can assist in growth by implementing complementary and growth-enhancing monetary and fiscal policies (Pass et al. 1993) The SME sector is considered very important in many economies because they provide job, pay taxes, are innovative and very instrumental in countries participations in the global market. Beck and Kunt (2004) state that SME activity and economic growth are important because of the relatively large share of the SME sector in most developing nations and the substantial international resources from sources like the World Bank group, that have been channeled into the SME sector of these nations.

### **2.8.3 Contributions of SMEs Operations to Economic Development**

There are no measurable contributing effort of SMEs to the economy but it can always be said that their contributions are enormous and visible though not in it peak as required or desired by the indigenes and the government at large. SMEs have been seen as the engines through which the growth pillars of developing countries can be attained (Stokes, 2010). These roles, which serve as a major contribution factor in the economy can be seen in the area of job creation and employment, proceeds generation in many developing countries, reducing the problem of rural urban drift, provision of utilities and more. In the united of states, research has shown that most jobs are created by small enterprises. Barns (1996) SMEs contributes importantly to the economic activities in the UK. One cannot precisely indicate the number of small business enterprises in Kumasi, from observation; the community has many small business enterprises. Small business provides a high contribution to economic activities in Kumasi area and even the nation as a whole. They provide a source of employment and daily bread to many people in the Ashanti Region.

In Ghana, small businesses are major sources of employment income and personal development for the rural and urban folks (Bani, 2003). It is estimated that about three-quarters of the Ghanaian population derive their livelihood from this sector (Ghana News Agency, 2006). From the internal revenue service of USA ninety six percent of American companies are SMEs. Liedholm and Mead (1987) estimated that, small business enterprise provided about twenty six (26%) to sixty four (64%) of manufacturing value added and the bulk of employment in Africa. One cannot precisely indicate the number of small business enterprises in Kumasi. From observation, the community has many small business enterprises. Small business provides a high contribution to economic activities in Kumasi area and even the nation as a whole. They provide source of employment and daily bread to many people in the Ashanti Region. Small business enterprises, especially cottage industries, which can be found in the rural areas, have helped create employment capabilities to reduce the problem of rural-urban drift whereby many young school leavers from the rural areas flock to urban center in search of non-existing jobs resulting in increase in population and other social vices in the urban areas (Ninson, 2007). Thus, small business enterprises have helped to add to more allotment of monetary activities in rural areas and helped to sluggish the flow of relocation to big cities. The expansion of small business enterprises has attracted the provision of utilities such as electricity, water, improved communication and transport as well as the provision of other social amenities that has made the life in the rural areas more attractive. This has in turn motivated the young school leavers to stay in the rural areas, to contribute their quota to the resuscitation of the economy. Moreover, SMEs operations can be started on a quite a low capital and at the same time on a part time base. SMEs also have the advantage of being



quickly able to adapt to new customer demands. Proprietors of SMEs are closer to their clients, which makes them more accountable and leads to greater customer loyalty. This is particularly challenging for large firms due to their internal bureaucracies. With the evolution of the internet since the 1990s, SMEs have gained extra impetus in the area of internet marketing (Stokes, 2010).

#### **2.7.4 Constraints to SMEs Development in Ghana**

Upon the various contributions made by the SME sector to the economy of the country, there are still a lot of constraints faced by the industry. These constraints hinder the development and progress of the various SMEs in Ghana. SMEs in Ghana do not enjoy economies of scale and hence find it difficult to cope with large fixed costs and main production factors.

##### ***Input Constraints:***

Inputs are the various factors needed for the production of goods and services. The SME sector in Ghana faces a lot of challenges with regards to those factors. The constraints are not only limited to the high cost of the inputs but also the availability of the inputs. According to a research conducted, at least 5% of the sample chose input constraint as major challenge (Aryeetey et al, 1994).

##### ***Financial Constraints:***

The major challenge faced by the SME sector in Ghana is ready access to finance. Every business needs cash as a working capital in order to exist. However, small enterprises in Ghana do not have such an opportunity. Access to credit has remained a major block for

the SME sector in the country. About 38% of respondents in an SME survey mentioned lack of credit as a major constraint to their development (Aryeetey et al, 1994).

***Technology Constraints:***

In today's economy, the use of the most current technology and equipment gives a competitive advantage. The SME sector in Ghana is faced with the constraint of new and advanced technology and equipment. This lack of access to the most current technology has left the sector behind in today's competitive economy. Technology is a major factor that is shaping the economy of today (Kotler and Keller, 2006). Most SMEs lack knowledge and the necessary skills required to use the needed technologies and that remain a major problem (Duan et al, 2002).

***Market Constraints:***

The SME sector in Ghana is faced with not only lack of available international markets but also the local markets too. There is always a certain level of uncertainty in the local market due to instability from macroeconomic factors. Apart from not having the financial and technological muscle to compete with foreign companies in the international market, the SME sector in Ghana also faces competition for foreign businesses in the local market (Abor J. & Peter Q. 2010).

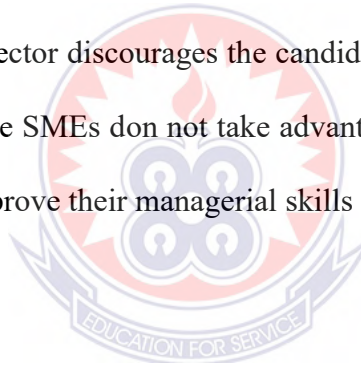
***Regulatory and Legal Constraints:***

The SME sector Ghana is faced with a lot of regulatory and legal constraints (Abor et al, 2010). In spite of previous efforts by governments and other stakeholders, getting a company registered in the SME sector is still far from perfect. A lot of legal fees are

demanding for processing documents required to register a small enterprise in Ghana. Fees such as licensing, registration requirements, expensive legal claims and delay in court rulings all have negative impact on the operations of SMEs.

***Managerial Constraints:***

Most SMEs in Ghana are managed by owners or part-owners or they are family businesses. The majority of these owners do not have the necessary skills and knowledge to run the businesses successfully according to Abor J. & Peter Q. (2010). Though some wish to hire experienced managers to run their businesses, they either lack the financial muscle to pay the hefty salary package demanded by the prospective employees or the uncertainty in the SMEs sector discourages the candidates to take up the jobs for the fear of job security. Most of the SMEs do not take advantage of the various consultancies in the country in order to improve their managerial skills and knowledge.



## **CHAPTER THREE METHODOLOGY**

### **3.0 Introduction**

This purpose of this chapter is to present the methodology that was employed to accomplish the objectives of the research. It describes the research design, the population of the study and sample techniques. It also includes data was collected for each of the areas stated. Reasons are given to substantiate any particular type of method. The validity and reliability of the instrument with data analysis procedures are also discussed.

### **3.1 Research Design**

A case study is an in-depth study of a particular research problem rather than a statistical survey or comprehensive comparative inquiry. It is often used to narrow down a very broad field of research into one or a few easily researchable examples. The case study research design is also useful for testing whether a specific theory and model actually applies to phenomena in the real world. It is a useful design when not much is known about an issue or phenomenon.

According to AL- Hassan (2007) a case study involves critical studies of an aspect of a problem. Case studies are useful for individual researchers because they give the opportunity for an aspect of a problem to be studied in depth within a limited time scale. The case study involves an intensive investigation on the complex factors that contribute to the individuality of a social unit- a person, family, social institution or community. The purpose of a case study is to understand the life cycle of the unit through the study of an aspect or a part.

According to Wikipedia (2018) a case study is an intensive analysis of an individual unit (e.g., a person, group, or event) stressing developmental factors in relation to context. The case study is common in social sciences and life sciences. Case studies may be descriptive or explanatory. The choice of research design depends mainly on the nature, objectives and components of the study. The case study will use four small scale industries in Kumasi within the period between 2008 to 2018. The cedi depreciated against many currencies like the France Cefa, the US dollar and the Yern. The design is a measure of cedi against the dollar since many of them trade in dollar

### **3.2 Population**

Population means all members that meet a set of specifications or a specified criterion. The population of the study is made up all small scale industries in Kumasi. There are about 400 phone sellers, 600 textile dealers, 500 spare parts dealers, 450 footwear dealers and about 1000 food and drink sellers in Kumasi. It is from this that samples will be taken. The design is to take samples from this population and analyze by measuring the effects of depreciation on each one of them.

### **3.3 Sample Size**

One hundred and twenty (150) samples of Small Scale entrepreneurs who are dealers of food items, textiles, spare parts, phones or footwear are taken randomly. Thirty (30) entrepreneurs in each business listed above are considered. That is thirty (30) of them deal in the spare parts, thirty (30) materials and textiles, thirty (30) are in food and drinks whereas thirty (30) are into phones and accessories likewise footwear. The reason for choosing this population is to have firsthand information from the small scale

entrepreneurs in order get their views and experience on the devaluation of the cedi. It is also chosen for easy accessibility of information.

**Table 2:** Number of males and females used in the study

Business type	Male	Female	<b>Total</b>
Footwear	20	10	30
Material and textiles	10	20	30
Spare parts	20	10	30
Food and drinks	12	18	30
Phones and accessories	15	15	30
<b>Total</b>	<b>77</b>	<b>73</b>	<b>150</b>

Due to limited time the sample size considered under this study was hundred (150) entrepreneurs who are operating on a small scaled which are made up of thirty(30) dealing in materials and textiles, (30)thirty in spare parts, thirty(30)in foods and drinks and thirty(30) dealing with phones and accessories. Again it would have been better to have sampled some SMEs of the whole of the country than compared to just those in Kumasi forming the sample frame. But due to time constraint, we could not have travelled to those areas.

It was also very difficult in getting information from the selected SMEs because of fear that the information given would one way or the other get to the tax authorities and as such most of them do not fulfill their tax obligation despite the assurance the researchers have given them.

### **3.4 Sampling Techniques**

“Sampling techniques” refers to the processes involved in selecting respondents Kish (1967).

Twumasi (2001) stresses that the first step in the selection of a sample is to consider sampling design. In sampling design, characteristics of the population must be clearly indicated.

Stratified random sampling is also a form of probability sampling. To stratify means to classify or to separate people into groups according to some characteristics, such as position, rank, income, education, sex, or ethnic background. These separate groupings are referred to as subsets or subgroups. For a stratified random sample, the population is divided into groups or strata. A random sampling is then used to select samples from each stratum based upon the percentage that each subgroup represents in the population.

#### **3.4.1 The Strata Used**

For the case of this study the entire small scale business in Kumasi are grouped (stratified) into seven based on the concentrated locations of each business. These strata are 1.Adum, 2.Bantama, 3.Suame Magazine, 4.Kejetia central market, 5.Tech, 6.Kwadaso and 7.New town (Krofrom).

Stratified random samples are generally more accurate in representing the population than are simple random samples.

According to Agyedu, Donkor and Obeng (2011), the stratified random sampling method is used to select samples in situations where the population is heterogeneous but has definite strata or groups which are homogenous. The same proportion or different

proportions may be used to select samples separately from each stratum. If the number selected from each stratum is proportional, then we end up with a “proportionate stratified random sample” and come as near as possible to a representative sample of the whole population.

In each stratum, random samples of the businesses listed for the research are taken and information gathered from them.

**TABLE 3:** List of Businesses, Areas and Information Gathered

SME STRATA	TEXTILE S	PHONES	FOOD ITEM	FOOTWEA R	SPARE PARTS	TOTALS IN STRATA
BANTAMA	4	4	3	2	3	<b>16</b>
SUAME MAGZ	2	3	2	3	10	<b>20</b>
KEJETIA CENTR	10	5	5	4	6	<b>30</b>
ADUM	5	10	3	3	2	<b>23</b>
TECH	2	4	5	5	4	<b>20</b>
KROFROM	4	2	5	10	3	<b>24</b>
KWADASO	3	2	7	3	2	<b>17</b>
<b>TOTAL IN EACH</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>150</b>



SME						
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### 3.5 Data Collection

Data collection is a process of collecting information from all the relevant sources to find answers to the research problem, test the hypothesis and evaluate the outcomes. Data collection methods can be divided into two categories: secondary methods of data collection and primary methods of data collection. Secondary data is a type of data that has already been published in books, newspapers, magazines, journals, and online portals. Primary data collection methods can be divided into two groups: quantitative and qualitative. Quantitative data collection methods are based in mathematical calculations in various formats. Methods of quantitative data collection and analysis include questionnaires with closed-ended questions, methods of correlation and regression, mean, mode and median and others.

Qualitative research methods do not involve numbers or mathematical calculations. Qualitative research is closely associated with words, sounds, feeling, emotions, colours and other elements that are non-quantifiable. Qualitative studies aim to ensure greater level of depth of understanding and qualitative data collection methods include interviews, questionnaires with open-ended questions, focus groups, observation, game or role-playing, case studies.

With this case, the data samples were obtained using a combination of interviews, the questionnaire and direct observations. Structured interview guides were used to collect the required data from SME for analysis. A structured interview guide with both open

and closed ended questions was designed to find out the effects of the devaluation on the Small and medium Scale Enterprises, their views on the causes of the devaluation, how the devaluation affects their import volumes and how the devaluation affects their financial performance.

Structured questionnaires were designed for the small and medium scale entrepreneurs. These questionnaires were designed to find the effects of the devaluation on the Small and medium Scale Enterprises, their views on the causes of the devaluation, how the devaluation affects their import volumes and how the devaluation affects their financial performance. It was also to find out the key strategies on how they can adjust to the devaluation and still perform better as business entity. Kirlinger (1973) observed that questionnaire are mostly used for data collection in research because they are very effective for obtaining reliable information about practices and conditions and for enquiring into opinions and attitudes of the subject. In order to cross-check and substantiate the responses from the SME, the researcher used observation by visiting the clients at their business centers and working places. In this work random sampling was used to obtain the 150 samples for analysis. Random sampling is a procedure for population in which the selection of a sample unit is based on a chance and every element of the population has a known, non-zero probability of being selected. Random sampling helps produce representative samples by eliminating voluntary response bias and guarding against under coverage bias. Random sampling refers to a variety of selection techniques in which sample members are selected by chance, but with a known probability of selection. Most social science, business, and agricultural surveys rely on random sampling techniques for the selection of survey participants or sample units,

where the sample units may be persons, establishments, land points, or other units for analysis. Random sampling is a critical element to the overall survey research design. Probability sampling is also referred to as random sampling or representative sampling. The word random describes the procedure used to select elements (participants, cars, test items) from a population. When random sampling is used, each element in the population has an equal chance of being selected (simple random sampling) or a known probability of being selected (stratified random sampling). The sample is referred to as representative because the characteristics of a properly drawn sample represent the parent population in all ways. One caution before we begin our description of simple random sampling: Random sampling is different from random assignment. Random assignment describes the process of placing participants into different experimental groups.

This work made use of primary data obtained through questionnaires delivered at all the strata locations. The questionnaires were distributed to owners of the small scale industries named above in Kumasi Metropolis.

### **3.5.1 Questionnaires**

Questionnaire is a structure arranged and circulated to secure reactions to specific inquiries (Creswell, 2013). Questionnaire is the universal word used to mean all methods of data collection in which each person is asked to respond to the same set of questions in predetermined order (deVaus 2002) cited in (Saunders et al. 2012). Questionnaires were used as primary sources of data collection tools to require information from entrepreneurs in Kumasi Metropolis. The purpose behind utilizing questionnaire is that it is the most productive device for information gathering. Also, it is useful in order for the researcher to ascertain fitness and applicability of the questionnaire it was pretested. According to

Hair et al., (2006), the final report of the questionnaire is pretested to make sure that there are no problems regarding the questions set on the background information of respondents, independents and dependents variable questions. In all, 30 questions were set. The questions set consisted on independents and dependents variables. The researcher did pilot-test on the questionnaire. He sought for expert advice and from the expert advice few corrections were made on the questionnaire. The corrected versions of the questionnaires were distributed to the strata locations of the research.

### **3.6 Data Analysis**

The data collected were analyzed with quantitative methods. The questionnaires were keyed into Statistical Package for Social Scientists (SPSS), for data analysis and interpretation. Descriptive figures such as percentages, frequency and cross tabulation were used and they were presented in the form of tables. Regression analysis was conducted to ascertain the effects of cedi depreciation on some dependent factors and the performance of SMEs in industries.

### **3.7 Limitation of the Study**

The research was challenged with the following problems, which were potential setbacks that influenced the result.

Some correspondent deliberately, out of ignorance or due to illiteracy gave inaccurate responses to the questions asked so the researcher adopted a little face to face interaction by explaining to the responds and making sure understand is clear and correct response is given.

Also not all the questionnaires administered were responded and returned. Lack of time and financial resources made it impossible to carry out some activities like re-going over the questionnaire with some respondents.



## CHAPTER FOUR

### DATA ANALYSIS AND DISCUSSION OF FINDINGS

#### 4.0 Introduction

This chapter analyses and discusses the information gathered from the respondents. The responses captured on the questionnaire are presented, analyzed and discussed with respect to the objectives of this work. Charts and tables are used and the results of regression done with the statistical package SPSS are shown.

#### 4.1 Values of Depreciation for a 10-Year Period

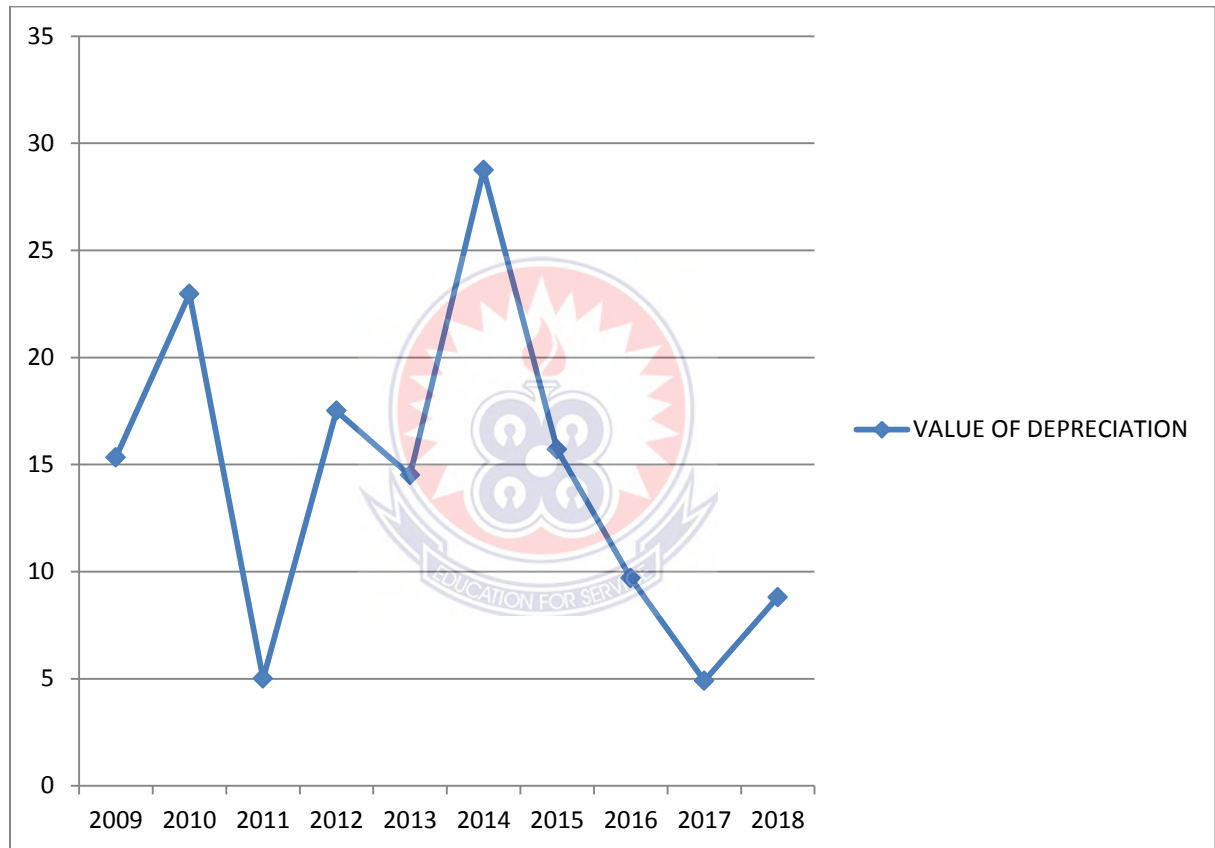
**Table 4:** Values of Depreciation for a 10-Year Period

YEAR	CUMULATIVE DEPRECIATION PER YEAR (%)	SOURCES
2009	15.5	Databank report 2009
2010	22.96	The citizen news paper 2010
2011	5.0	Bank of Ghana report 2011
2012	17.5	Bank of Ghana report 2012
2013	14.5	Bank of Ghana report 2013
2014	28.74	Sam Mensah , PhD, 2014
2015	15.7	Myjoyonline.com 2019
2016	9.7	Myjoyonline.com 2019
2017	4.9	Myjoyonline.com 2019
2018	8.8	ISD (Rex Maino Yeboah 2019)

The highest depreciation was recorded in the year ending of 2014 and the years 2011 and 2017 recorded almost the same lowest depreciations among all the years under the study period. This can be shown clearly with the diagrams below.

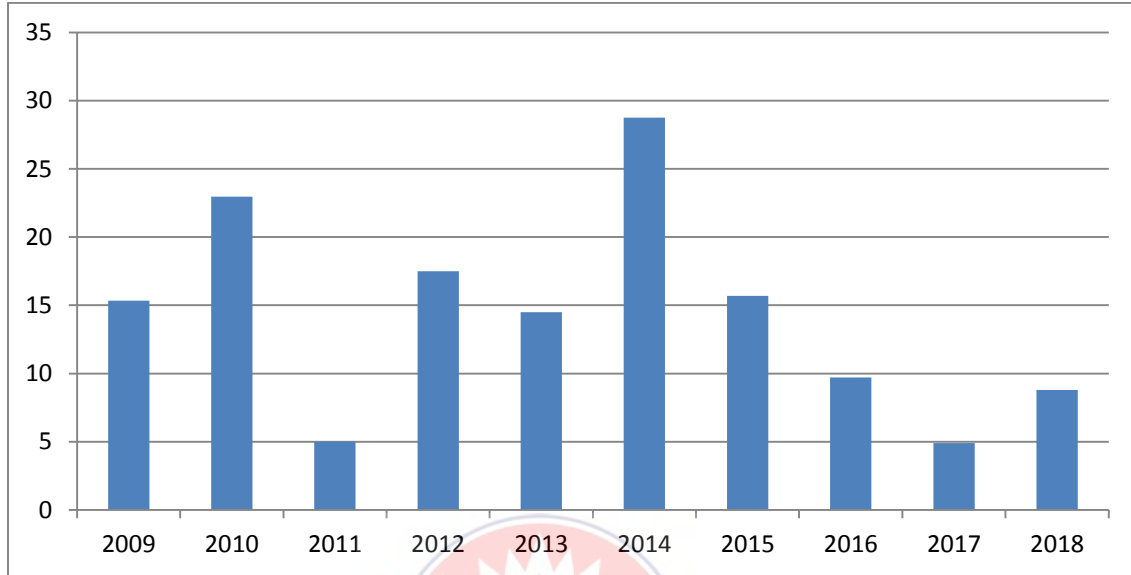
### 4.3 Line Representation of the Cumulative Depreciation Values

**FIGURE 2:** Representation of the Cumulative Depreciation Values in Line Chart



The bar chart below represents the cumulative depreciation in each year starting from 2009 to 2018 using the table 4 as collected from different sources.

**Figure 3:** Bar chart below represents the cumulative depreciation in each year starting from 2009 to 2018.



The table below is the layout used to summarize the information obtained for 145 subjects showing the first 5 and the last 5.

**Table 5:** Summarize the information obtained for 145 subjects showing the first 5 and the last 5.

Id	T	S	2009			2010			2011			2012			2013		
			N	W	P	N	W	P	N	W	P	N	W	P	N	W	P
1	A	i	14	1.3	2	9	0.7	2	18	1.0	3	10	0.7	2	10	1	3
		m			4			0			0			6			0
2	B	i	12	0.8	3	10	0.4	1	16	0.8	2	12	0.5	2	14	0.9	2



		m			0			9			7			1			5
3	C	i	14	1.1	2	8	0.7	1	12	1	2	8	0.2	1	10	0.5	1
		m			0			8			0			6			9
4	D	i	16	1.0	2	15	0.6	2	16	1.2	3	8	0.1	3	12	0.3	3
		m			7			2			1			0			3
5	E	i	14	4.0	5	10	3.0	4	16	6.0	6	14	3.6	2	19	4.0	2
		m			2			6			0			3			7
.																	
.																	
.																	
14	A	i	17	0.9	2	15	0.5	1	20	0.9	2	17	0.3	1	13	0.1	1
1		m			5			6			0			5			0
14	B	i	12	1.4	3	13	0.9	3	17	1.0	3	15	0.5	3	12	0.2	2
2		m			4			0			4			0			2
14	C	i	11	0.7	4	10	0.1	3	17	0.6	4	13	0.3	3	10	0.1	3
3		m			2			7			0			7			2
14	D	i	13	1.3	2	6	1.0	2	8	1.4	3	8	1.2	2	8	0.7	2
4		m			6			0			0			6			0
14	E	i	12	6	5	6	4.4	4	9	5.0	5	7	3.9	4	6	3.0	3
5		m			3			5			0			1			6

			2014 (28.74%)			2015 (15.7%)			2016 (9.7%)			2017 (4.9%)			2018 (8.8 %)		
Id	T b	S g	N w	Wg	P	N w	W g	P	N w	W g	P	N w	W g	P	N w	W g	P
1	A	i m	9	0.9	2 6	14	1.3	2 4	15	1.4	2 5	17	1.5	2 7	10	0.9	2 5
2	B	i m	10	0.3	2 0	12	0.8	3 0	12	0.9	3 0	15	0.9	3 7	12	0.5	2 1
3	C	i m	9	0.2	1 3	14	1.1	2 0	14	1.2	2 2	18	1.6	2 5	10	0.4	1 6
4	D	i m	10	0.2	2 9	16	1.0	2 7	17	1.0	2 7	17	1.4	2 7	10	0.1	3 0
5	E	i m	15	3.4	2 0	14	4.0	5 2	15	4.3	5 3	17	4.9	5 7	14	3.6	2 3
.																	
.																	
.																	
14 1	A	i m	10	0.1	9	17	0.9	2 5	18	1.0	2 6	19	1.5	2 8	16	0.3	1 4
14 2	B	i m	10	0.1	2 0	12	1.4	3 4	13	1.5	3 5	13	1.8	3 6	15	0.5	3 0
14	C	i	7	0.0	3	11	0.7	4	12	0.7	4	12	0.9	4	13	0.3	3

3		m		9	0			2			2			4			7
14	D	i	5	0.6	1	13	1.3	2	14	1.4	2	17	1.7	2	8	1.2	2
4		m			8			6			6			7			6
14	E	i	5	2.9	3	12	6	5	15	10	5	15	6.5	5	7	3.9	4
5		m			0			3			4			2			2

### 4.3 Definitions

**A** --- Textiles      **B**--- Phones      **C**---- Food items      **D** --- Footwear      **E** ---

Spare parts

**Im** --- importing goods      **Id** ---- individual      **Tb** ---- type of business      **Sg** ----

source of goods      **Nw** --- number of workers      **Wg**---- weights of goods imported in

tons      **P** --- Average profit in 1000 Ghana cedi.

**Table 6:** Cumulative Depreciation Value at the End of Each Year

YRS.	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Depr(%)	15.33	22.96	5	17.5	14.5	28.74	15.7	9.7	4.9	8.8
Agg. t	237.8	156.6	290.0	147.9	194.3	145.0	237.8	255.2	298.7	159.5
Tot. W	1,537	1,450	2,262	1,508	1,885	1,538	2,030	2,117	2,436	1,624
Agg. P	4,437	3,625	4,872	3,364	3,886	3,132	4,466	4,553	5,017	3,335

Depr(%)..... cumulative depreciation value at the end of each year

Agg.t ..... total weight of goods per year measured in tons

Tot. W .... Total number of workers in the year

Agg. P .....Total profit for all the SMEs

#### 4.4 Evaluation of the Effects of Depreciation on the Size of SMEs Workers.

To quantify the effect of the depreciation on the size of workers of the SMEs, a regression line is obtained by the use of SPSS. This can be done with the model below

$$\text{size of SME workers} = B_0 + B_1(\text{depreciation}) + e \quad \dots\dots (1)$$

Where  $B_0$  and  $B_1$  represents the overall effects and the effect of depreciation on the size of workers of the SMEs as depreciation changes by a unit. The SPSS regression results are shown below:

**Table 7:** Regression results on the effect of depreciation on the size of workers of the SMEs as depreciation changes by a unit.

<b>Descriptive Statistics</b>			
	Mean	Std. Deviation	N
size_of_SME_workers	1838.7000	355.92292	10
value_of_depreciation	14.3170	7.63198	10

<b>Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.755 <sup>a</sup>	.570	.517	247.45739

a. Predictors: (Constant), value\_of\_depreciation

<b>ANOVA<sup>a</sup></b>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	650248.841	1	650248.841	10.619	.012 <sup>b</sup>
	Residual	489881.259	8	61235.157		
	Total	1140130.100	9			

a. Dependent Variable: size\_of\_SME\_workers

b. Predictors: (Constant), value\_of\_depreciation

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2342.935	173.398		13.512	.000
value_of_depreciation	-35.219	10.808	-.755	-3.259	.012

a. Dependent Variable: size\_of\_SME\_workers

The mean size of workers for the SMEs in the 10 year period with average depreciation of 14.3170 is given to be 1,838.7 workers.

The second table shows r squared value of 0.57 which is the power of prediction of the model obtained. This indicates that 57% of the variations in the size of the SME workers are explained by the independent variable (value of depreciation) representing it significant in the depreciation of the cedi in SMEs workers in Ghana.

The third table presents an f test to be significant with a value of 0.012; hence the model is well fitted.

The fourth table presents the model and the effects of the independent variable (depreciation) on the size of workers. The model for determining the effect is given as

$$\text{size of SME workers} = 2342.935 - 35.219(\text{deprec}) \dots\dots (2)$$

This clearly shows a negative effect of depreciation on the sizes of workers through the 10 year period.

#### 4.5 Evaluation of the Effects of Depreciation on the Profits of SMEs

The effect of the depreciation on the gains/profit of these SMEs can also be quantified using a SPSS regression line. This can be modeled as;

$$\text{profit gained} = B_0 + B_1(\text{depreciation}) + e \quad \dots\dots (3)$$

Where  $B_0$  and  $B_1$  represents the overall effects and the effect of depreciation on profit gained as depreciation changes by a unit. The SPSS regression results are shown below;

**Table 8:** Regression results on effect of depreciation on profit gained as depreciation changes by a unit.

##### Descriptive Statistics

	Mean	Std. Deviation	N
profit gained	4068.7000	684.36313	10
value depreciation	14.3130	7.62356	10

##### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.709 <sup>a</sup>	.503	.441	511.73829

a. Predictors: (Constant), value depreciation

##### ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2120167.481	1	2120167.481	8.096	.022 <sup>b</sup>
	Residual	2095008.619	8	261876.077		
	Total	4215176.100	9			

a. Dependent Variable: profit gained

b. Predictors: (Constant), value depreciation

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	4979.948	358.821		13.879	.000
value depreciation	-63.666	22.375	-.709	-2.845	.022

a. Dependent Variable: profit gained

The first table presents the descriptive statistics of the data on the values for depreciation and aggregate profit obtained. The mean profit gained (4068.7) within the 10 year period produced standard deviation of 684.36.

The second table of results presents the summary of the model with r square value of 0.503 that shows 50.3% explanation of variations in the profit gained explained by the changes in depreciation.

The third table presents the effectiveness of the model with 0.022 significance of f test.

The fourth table represents the true model for effects evaluation. The model is therefore in the form as

$$\text{profit gained} = 4979.948 - 63.66(\text{depreciation}) \dots\dots (3)$$

This also shows negative effect of the depreciation on the profit gained by these SMEs in Ghana who are into importation of goods.

#### 4.6 Evaluation of the Effects of Depreciation on The Volumes Imported.

As part of the objectives of this study, the effect of the depreciation on the volumes of goods imported of these SMEs can also be quantified using a SPSS regression line. This can also be modeled as;

$$\text{volumes imported} = B_0 + B_1(\text{depreciation}) + e \quad \dots\dots (3)$$

Where  $B_0$  and  $B_1$  represents the overall effects and the effect of depreciation on volumes imported as depreciation changes by a unit. The SPSS regressions in results are shown below:

**Table 9:** Regression results oneffects and the effect of depreciation on volumes imported as depreciation changes by a unit.

	Mean	Std. Deviation	N
volumes imported	212.2800	59.19284	10
value_of_depreciation	14.3130	7.62356	10

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.749 <sup>a</sup>	.562	.507	41.56960

a. Predictors: (Constant), value\_of\_depreciation

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17709.881	1	17709.881	10.249	.013 <sup>b</sup>
	Residual	13824.255	8	1728.032		
	Total	31534.136	9			

a. Dependent Variable: volumes imported

b. Predictors: (Constant), value\_of\_depreciation



**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	295.564	29.148		10.140	.000
	value_of_depreciation	-5.819	1.818	-.749	-3.201	.013

a. Dependent Variable: volumes imported

The first table presents the descriptive statistics of the data on the values for depreciation and aggregate volume of goods imported. The mean volumes of imported goods (212.2800) within the 10 year period produced standard deviation of 59.7.

The second table of results presents the summary of the model with 'r' square value of 0.562 that shows 56.2% explanation of variations in the volumes imported explained by the changes in depreciation.

The third table presents the effectiveness of the model with 0.013 significance of 'f' test.

The fourth table represents the true model for effects evaluation. The model is therefore in the form as

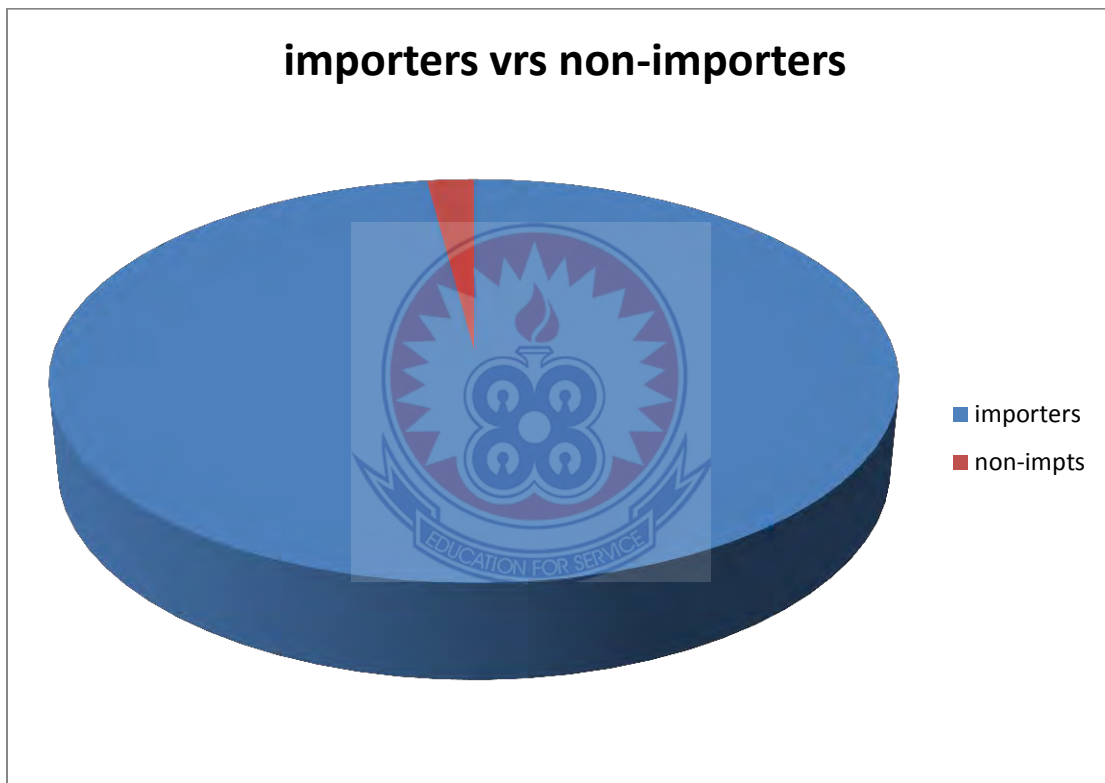
$$\text{volumes imported} = 295.564 - 5.819(\text{depreciation}) \quad \dots\dots (3)$$

This also shows negative effect of the depreciation on the volumes of imports by these SMEs. Thus the devaluation of the cedi affects the quantities of goods imported by these SMEs.

#### 4.7 Summary of Responses

150 questionnaires were distributed. 145 of them had clear answers and there represented the useable responses. Out this number, 142 of the respondents indicated that their goods are imported from countries like U.S.A, China, Dubai, France and UK. 142 represent 97.93% of the total responses. This can be seen clearly in the pie chart below;

**Figure 3:** Pie Chart representing importer and non-importer SMEs.



The analyses of all the data collected shows clearly that the devaluation of the cedi affected volume of imports, workers present within a time frame or year and the profit margin of SMEs in Ghana.

## **CHAPTER FIVE SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

### **5.0 Introduction**

In this chapter, the summaries of findings of the effects of depreciation on the SMEs are presented. Conclusion on the findings and recommendations are then stated.

### **5.1 Effects of Depreciation on Volumes of Imports**

The analysis done in the previous chapter indicated that for one unit change in depreciation, the volumes imported changes negatively by 5.819. In other words as depreciation increases the SMEs cut down their imports volume. They turn to import less.

### **5.2 Effects of Depreciation on Size of Workers**

It was found out that the numbers of employees in the SMEs are dependent on the depreciation. A unit change in the depreciation of the cedi brings about a negative change of 35.219 in the number of workers. This shows a huge effect of depreciation on the status of job of individuals in the SMEs.

### **5.3 Effects of Depreciation on Profit Gained**

From the analysis done above, when the value of depreciation changes by one then there is a negative effect recorded in the changes of the profit gained by the SMEs. Depreciation cuts the gains of businesses. This may cause a collapse of the business in case of huge values of depreciation.

#### **5.4 Dependencies of SMEs on Imports**

When the data was analyzed it presented the fact that about 97 percent of the SMEs depend on imports for their goods. This exposes them to all the effects of depreciation analyzed. The pie chart above shows how largely this is certain.

#### **5.5 Conclusions**

SMEs in Ghana contribute a lot to the development of the nation and as such care must be taken in maintaining their management. Influential factors such as depreciation must be monitored properly in order to keep SMEs strong and productive. The study concludes that there exists a very alarming effect of depreciation on the number of workers in the SMEs and hence leaves a negative impact on them. Volumes of imports and the profit margin of the SMEs are not left out in the effects of depreciation.

#### **5.6 Recommendations**

This study makes the following recommendations to the industries, the government and researchers in the field of business;

1. Managers of SMEs should update themselves with the current trend of depreciation so as to prepare well before any unexpected jump of the values of depreciation.
2. SMEs should revise their pricing systems in order to close the gap of losses they may incur in the presence of an alarming increase in depreciation.
3. Government should create a lot of jobs for the citizen to increase production and help retard depreciation.
4. Government should cut down expenditure to help curb the problems of depreciation and assist the SMEs in Ghana.

5. Researchers should focus on finding lasting and robust models for prediction of depreciation.
6. Government should lend this small scale business loan in case there are severe depreciations in the country to help maintain them and their workers.
7. Government should allow foreign investors into the country. Their activities create jobs for citizens and reduce the rate of depreciation of the cedi.
8. The managers of SMEs should also find a way to source some of their raw materials from the local market to reduced cost of production. This will also reduce depreciation.



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## QUESTIONNAIRE

### Business Information

1. Name of business .....
2. Location of business .....
3. Year of establishment .....
4. Place of establishment .....
5. Number of workers .....
6. Source of goods                    ( a ) import                    ( b ) local
7. Type of goods .....
8. Countries imported from .....
9. Currencies used in imports .....
10. Age bracket of workers    15-25    26-35    36-45    46-55
11. Average volumes imported for the years below
 

2009 .....	2010 .....	2011.....	2012 .....	2013 .....
2014 .....	2015 .....	2016 .....	2017 .....	2018 .....
12. Number of workers present for the years below
 

2009 .....	2010 .....	2011.....	2012 .....	2013 .....
2014 .....	2015 .....	2016 .....	2017 .....	2018 .....
13. Average yearly profit gained for the years below.
 

2009 .....	2010 .....	2011.....	2012 .....	2013 .....
2014 .....	2015 .....	2016 .....	2017 .....	2018 .....
14. Workers education level    ( a ) primary    ( b ) secondary    ( c ) tertiary

**15.** Number of client who returned sold goods for the years below

2009 ..... 2010 ..... 2011..... 2012 ..... 2013 .....

2014 ..... 2015 ..... 2016 ..... 2017 ..... 2018 .....

**16.** Fast selling good .....

**17.** Number of same businesses around .....

**18.** Status of workers. .... Full time          part time

**19.** Private or partnership .....

**20.** How many same business do you have .....

