DECLARATION

I hereby declare that this piece of work as submitted towards the award of MSC and that to the best of my knowledge and ability, may contain no or few materials previously published by another person nor material which has been accepted for award of any degree of the University, except where due acknowledgement has been made in the work.

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(HEAD OF DEPT)

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DEDICATION

This work is dedicated to my family, my lovely little Kwabena Nhyira Kumi-Lamptey, siblings and also especially to Abena Tiwaa for their love, thought and their endless prayers and encouragement.

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ABSTRACT

Venture capital is seen as a major financing method for small and medium scale enterprises. The study looked at the Impact of Venture Capital Financing as an alternative success on SMEs in the Kumasi Metropolis. For some years now, there are efforts by successive Governments to improve on the performance, growth and sustainability of SMEs and had led to the promulgation of different policies and act including the Venture Capital Fund to assist SMEs. 100 questionnaires were administered to Manager/SME owners operating within the Kumasi Metropolis with focus on Maslenda fruit and water processing limited using convenience sampling techniques. It was generally observed that SME"s prefer self-financing and occasionally received support from financial institutions. Analysis was computed with SPSS version 16 and Microsoft excel. Majority of the SMEs were however not aware or had little knowledge about Venture Capital Financing as an alternative to financing. Firms that had benefited from Venture Capital Financing stated that they did not only receive capital inflow but was accompanied with monitoring, technical skills and expertise, access to management, marketing and

distribution and reputation for attracting further finance. The study concludes that though few of SMEs remained optimistic about venture capital financing most them were „uncertain". The study recommends that SMEs need to recognize the potential advantages of seeking equity finance from venture capital. Venture capital fund managers can do much to encourage venture capital investment from corporate investors. Government and policy makers should play a dual role as both facilitators and educators in encouraging the venture capital process.

CHAPTER ONE

INTRODUCTION

1.1 Background

In recent times various research work has been conducted on links that exit between Small and medium scale enterprises (SMEs), jobs and access of finance by the SMEs. It is quite alarming that an estimated 200 million people are unemployed worldwide. Young people who are supposed to be the productive persons in the world are more likely to be more than 2.5 times unemployed than their older counterparts. About 620 million young people in the world are not working nor in training (World Bank, 2003). Employment rates must be kept constant, and to do this about 600 million jobs must be created by countries mainly in Asia and Africa by 2020.

The private sector employs about 90% of people in employment. This has made the private sector the main source of job creation. SMEs are a bedrock of the private sector and they create more than half of all jobs worldwide. With increase in riches by countries, larger firms are likely to employ more people and therefore increase in their share of employment. In the formal private sector, they provide two-thirds of jobs in emerging markets. About 48% of all jobs are created by informal enterprises in Asia and Africa, 25 percent of all jobs in developed countries, but only 37 percent and 16 percent of GDP in these two markets, respectively (IFC, 2013).

In Ghana about 50% of the Gross domestic product has been attributed to the work of Small and Medium Scale enterprises. More than 60% of persons employed in the country is attributed to SME (ISSER, 1999). In Ghana majority of firms are made up of SMEs.

SMEs name financing as one of the most important problems (Mensah, 2003).

The G-20 has its main objective of restoring global economic growth. This is the core mandate of the G – 20. In order to encourage growth of economies, jobs and investments must be created. Work by McKinsey and IFC confirmed about 70 percent of micro, small and medium enterprises (MSMEs) in most countries do not require external financing from formal financial institutions. They also found that about 15 percent are underfinanced from formal sources. Work by these authors has made the G-20 inculcate SME financing in their activities (G20 Global Partnership, 2014).

Almost all companies began as an SME. World giants like Vodafone, Hewlett-Packard, Google, Apple and Volkswagen all started as small companies. Today however they are counted as the leading forces in business (Lukacs, 2005). The biggest software company Microsoft also started off in characteristic SME manner (Amissah, 2009).

SMEs are faced with challenges such as knowledge required to expand their operations and the ability to obtain a well-structured financial system for the mobilization of capital.

The role of finances in SME development has also been cited by Cook and Nixson (2000).

Another challenge to SMEs is their ability to access funds. Revelations from fund managers indicate that most individuals in SMEs who have applied for various funds have not been able to get those funds. This is quite surprising since various funds have been created for SMEs (Boateng, 2010). In order to stay competitive SMEs need to assess new means of assessing funds. Venture capital is one of such innovative ways that can be used to raise funds for the growth of SMEs.

In the world market today, venture capital is listed as a source of financing for new businesses. Venture capital funds work by amassing cash from investors and loaning it to small businesses with perceived, long-term growth potential. These sources of funding start-ups do not have access to other capital and it typically entails high risk (and potentially high returns) for the investor (Reid, 1998).

In venture capital, the majority of their funds are provided by investment banks, wealthy investors and other financial institutions. They either work alone or in partnerships. This kind of capital raising is seen mostly in new companies with limited or no operating history. Often, venture firms will also provide start-ups with managerial or technical expertise (Gompers and Lerner, 2003).

In venture capital, money required for operation is provided in the form of equity. This helps in developing technologies and products; this is in turn generate jobs and taxes to keep the nation competitive. This is done to help venture capitalist and potential investors have sufficient capital gains. Each company hopes to expand and that"s the major aim of venture capital. They do this while maintaining control of the enterprise. It is expected that companies build a relationship with venture capitalist. They gain knowledge in accounting, procurement, management, budgeting and computer related studies
(Amissah, 2009).

The aim of almost all governments is to help in the promotion of the welfare of SMEs. SMEs do not meet the required expectations and therefore their activities are carefully monitored by individuals. When compared with progress made by SMEs in developing and developed countries, the problem becomes more disturbing and worrying.

The key to the success of SME is mainly in financing. The motive of investors is also of great concern to the SMEs. The operational requirement of SMEs is dependent on the funds available to them. Before an investor venture into an SME, they weigh the risk, perception and how lucrative the work is. This helps them to establish the amount of capital they invest into the project. Some key areas have been notified as areas that can help the SMEs keep track on their activities. The amount of borrowing by government, economies of scale, how records are kept, relationship between investors and business owners as well as availability of funds are key areas in the growth and management of SMEs.

SMEs do not have long investment funds in Ghana. This is mainly because banks and securities markets are not ready to risk investments in these sectors. High risk investment needs are a challenge in SMEs. The government has therefore instituted a scheme to help curb this situation. The Venture capital fund was therefore instituted under the Venture Capital Trust Fund Act, 2004 (Act 680). This was to solve the problems of Small and Medium Enterprises (SMEs) and to promote Venture Capital industry in Ghana by supplying them with the needed expertise and funds for their operations (Venture Capital Ghana, 2008).

Aside finances, SMEs are challenged by some inherent problems. This has hindered the success story of SMEs. In this part of the world, owners of most SMEs do not willingly give out information about their operations. They believe they created the business and owes no one any explanation for the activities they undertake. They do not see fund providers as partners in their work. To some of them skills like computing, accounting, marketing, human resource management, procurement and establishment of linkages of businesses are not important to them. They only see them as additional cost to their operations. They are however unaware of the positive side of engaging in such a venture. Venture capitalist provides additional information and expertise and helps expand the operations of the company.

To stay productive and competitive, a venture capitalist either an individual of a group of individuals provides finances to a firm in need. This is to help them undertake projects they intend to partake. The investor through a written agreement may choose to owe part of the company or not (Boateng, 2010).

Such a venture is new in Ghana. Again there is scare data on the activities of venture capital as an alternative source for funds for SMEs in the Ashanti Region of Ghana. This research is aimed at gathering information from Managers of SME‟s. It further aims at knowing the amount of growth venture capital has on the various firms.

1.2 Statement of the Problem

An SME Clinic organised by the GCB Bank (2015) concludes that the SME sector constitutes in excess of 90% of the economy of the country. Ghana‟s economy, like all other developing economies, is dominated by a large proportion of business in the smallscale and self-employed group. These businesses need reliable sources of funds which have not been met by the commercial banks in the formal sector. The emergence and proliferation of several other financial institutions in the formal and informal sector offers opportunities for SME entrepreneurs to address the age old financing battle. These institutions made up of credit unions, financial NGO‟s, Venture capital, cooperatives, savings and loans companies, leasing companies, micro-finance and sus companies are potentially good sources of credit for the teeming SMEs who are under served by the „big banks‟. The questions that comes to mind is whether these institutions have the capacity, resources and scope to serve the huge demand for credit or finance from the SMEs. From the institutions listed, the least patronised is Venture capital. The focus of this study would specifically be on the using venture capital as an alternative source of financing for SME businesses in Ghana.

1.3 Aim/Objectives

This work is aimed at establishing the role of venture capital financing in SMEs. The following objectives are hoped to be achieved after the completion of the work:

1. To establish sources of funding available to SMEs.

2. To find out the level of understanding of Owners of SMEs in the operations of venture capital.

3. To establish the role played by venture capital in financing SMEs.

1.4 Research Questions

The study addresses the following research questions:

1. What kinds of funds are available to SMEs?

2. How do owners of SMEs understand the operations of venture capital financing?

3. How has venture capital helped in the promotion of activities of small and medium scale enterprises?

1.5 Significance of the Study

Venture capital is relatively new to Ghana and there is therefore the need to understand its operations. Most SMEs in the country are also not prelude to their activities and therefore do not partake in their activities. Studies done in SME financing have excluded venture capital. The study hopes to bring to bear to academia and the general public the role venture capital play the operations of SMEs. Since businesses need to be stable financially, this study is justified in that it also makes known venture capital as an alternative source of funding. It also brings out the advantages one hopes to achieve by partaking in their activities. Results from this study will help SMEs known of the existence of venture capital. With the establishment of the venture capital fund, this work can be an eye opener to managers of the fund to expand their operations. When this is done more businesses would be created and the country can enjoy from low unemployment rates.

1.6 Scope of the Study

The study hopes to find out the knowledge of business owners on the operations of venture capital. It also seeks to know the role venture capital plays in the activities of SMEs. Finally the study will establish the impact of venture capital in the activities of small and medium scale enterprises.

1.7 Limitations of the Study

This work will deal in part with record keeping. The inability of SMEs to provide and share information will be a major setback to this work. The research is centred in the Ashanti region of Ghana and therefore findings may not be used as a general trend for the whole nation.

1.8 Organization of the study

This work has five major chapters. They include Introduction, literature review, materials and methods, results and discussion and conclusion and recommendation.

The first chapter gives a brief background of the study, reason for the study and its objectives. In the second chapter, works by other authors in the area of venture capital is reviewed. The methods used in acquiring data are provided in the third chapter. Findings arising out of the methods are discussed in chapter four. The work is finally concluded in chapter five. Recommendations are given for further study.

CHAPTER TWO

REVIEW OF LITERATURE

2.1 Financing in Venture Capital

A major factor for economic growth has been linked with the formation and growth of small and medium scale enterprises (SMEs) (Storey 1994). Each business starts with capital and accessing it has become a challenged for SMEs and new venture start-ups. This hinders their growth opportunities (European Commission, 1998). Stable cash flows and scanty history is another challenged which are faced by some of the start – up companies. This situation has crippled these young firms and they are constantly battling with the issue of financing. The firm could have been financed by the entrepreneur but this is not an alternative since their resources are usually insufficient to support such a venture (Bygrave and Timmons, 1992). Some firms which seemed to be developing faster than their colleagues are also challenged with capital needed to make such a progression (Brophy 1996). One way of financing the growth of young firms is the use of Equity financing. This has been proved to be reliable in helping firm"s investments and developments than debt. In debt financing, the firm is at a disadvantage since their financial risk is increased (Cornell and Shapiro 1988). An equity gap is created and makes it difficult to secure capital to help grow entrepreneurship (Wetzel, 1983). This affects all firms" especially small firms which have high growth potentials (Barth 1999). With the expansion of the firm, management is required to make changes in its operations (Barth 1999, Klofsten, 1992). This calls for the activities of venture capital.

Venture capital is a term used to describe the operations and activities of individuals or corporations who provided funding or co-investing opportunities to entrepreneurs. They do this with the aim of expanding the activities of the entrepreneurs. They do this by contributing not only money but also managerial skills to the companies. In the United States venture capital is not new. They have as a result succeeded in this area of funding. The U.S venture capital structure is therefore used an international model. Most countries therefore strive to meet this model. Most successful American companies, such as Microsoft, Apple and Intel have all benefitted from the activities of venture capital (Jörgensen and Levin, 1984). Bygrave and Timmons (1992) stated that venture capital has played a catalytic role in the entrepreneurial process. Venture capitalists have changed the way in which we live and work.

Next to the United States venture capital is the European venture capital market. They have resolved to become a global model and have made huge investments in this sector. Records from the European Venture Capital Association (EVCA) indicate that companies engaged in venture capital in Europe invested about £15 billion in 2005 (EVCA, 2006).

The venture capital market has its own challenges. With the introduction of the internet and dot-com bubble during the year 2000 a new era in venture capital was created. The years 1998 to 2000 saw an increase in capital flows in venture capital related firms (Ofek and Richardson, 2003). This led to an illogical behaviour among investors during this time. A report by Lamont and Thaler (2003) made the following arguments about investors. They tagged them as „irrational, woefully uninformed, and endowed with strange preferences or for some other reason willing to hold overpriced assets‟.

In U.S for instance the collapse of the venture capital industry had a huge effect firms (NVCA, 2002). In the year 2003, Mark G. Heesen the president of the National Venture capital Association made this statement „It will likely take several years for short term private equity performance to return back to normal levels" (NVCA, 2003). The amount of the investments made by venture capitalists had decreased in this period. In the same period most venture capitalist was trapped in the dot-com bubble, this affected their behaviour and also the market as well (Valliere and Peterson, 2004). The venture capital markets are still aware of the dot-com era and even today speak of the post-bubble strategy they used to survive (NVCA, 2006).

2.2 The Establishment of Venture Capital in Ghana

In Ghana, venture capital is regarded as a new form of funding enterprises. Its operation started in the year 2006. In most Africa countries however the operations of venture capital were created between the years 1990 and 2000. With increase in industrialisation, the venture capital market developed within a short time in operation. Governments the world over have therefore made several attempts to establish a fund that provides long term funds to small and medium scale enterprises. It is a generalised statement that SMEs which form the backbone of the Ghanaian economy are faced with financing challenges. This makes its virtually unlikely for them to survive. The amount needed for some of these companies is sometimes below a hundred United States dollars (Mensah, 2004)

SMEs do not have access to long term financing needed for growth (Mensah, 2004). This brings into mind venture capital. It also led to the formation of the venture capital fund in Ghana. This was formed by two organisation in 1991. They are the United States Agency for International Development (USAID) and the Commonwealth Development Corporation (CDC) (Mensah, 2004).

In the area of small and medium scale enterprises, patrons have raised the concern of good investment opportunities. They are however not too sure of the financial cost and risks involved in dealing with stakeholders in this industry. This has pushed investments away from this section. This industry is challenged by lack of little or no management skills and the type of management systems instituted in these firms are a recipe for business failure (Steel, 1994). In Ghana, aside venture capital, the Ghana Stock Exchange (GSE) is another source of funding for SME (GSE Annual Report, 2000).

In Ghana, government has been involved in the providing finance in the form of equity for SMEs. In the year 2003, the government made public its objective of supporting equity financing. It assigned a quarter of the National reconstruction levy for the establishment of venture capital. This was to be done over a period of three years (Quartey, 2003). Operations required for the establishment of venture capital were made known in the year 2004. In orders not to scare SMEs from venture capital a non-bank financial institution was established. This was the Ghana venture capital trust fund. They were to be managed by the Venture fund management company. They had the responsibility of making decisions relating to investments (Quartey, 2003).

A guarantee of $1,094,000 was provided by USAID to help in operational activities. This was to be used over a three year period starting 1991 and ended in 1994. Other organisations like CDC also committed an amount of $2million to the fund. They however made additional payments to end at $3.8 million. In all an amount of $5.8 million was received and the operations of GVCF started in November 1992. In the end the fund was invested by 13 companies. An average investment of $250million was made by these companies. The fund in all managed about $4 million (GTZ, 2001). The average size of

investment by the Enterprise Fund was $100,000. A joint venture between the Fidelity equity fund and the Netherlands development finance company also provided $5 million. 10 companies invested in this fund and they were managed by the Fidelity investment advisors. In years past, Ghana had benefited from a form of direct foreign venture capital. This was focused mainly on pan Africanism. The funds include Modern Africa Growth Fund, the Commonwealth Africa Investment Fund and the African
Enterprise Fund (GTZ, 2001).

2.2.1 The Venture Capital Trust Fund

The Ghana Venture capital Trust fund was established in the year 2004 by an act of parliament. It was established to provide equity financing to small and medium scale enterprises. Its operations fully began in 2006. As part of its core mandates, the fund was to make venture capital a venture of choice for Ghanaians. It was to help strengthen the finances of the nation by playing a coordinating role in industrial operations. Private firms were the major target of the venture. The fund managers were to partner with the private sector and use their funds to grow and establish venture capital financing companies. The operations of the fund managers saw a total of 62.9 million dollars invested the fund. This was made possible by five companies (FINSSP II).

The following activities are placed under the VCTF act:

1. The provision of finances to help in the growth of venture capital, by so doing they will be able to support SMEs; and

2. Providing monetary funds to finance projects for the promotion of venture capital.

The fund was established with a mission to provide a relatively cheap alternative form of funding for SMEs that are both efficient and provide profitable operations to create jobs and wealth.

The fund was created with a vision of creating a vibrant and well-structured venture capital industry which boasts of investments in various sectors, and leading to a reduction in poverty through job and wealth creation and has a collateral growth in government revenue (Venture Capital Trust Fund, 2009)

This can only be achieved when we accept and realise the participation of the private sector in nation development. There is therefore the need to engaged the private sector in activities of national importance and also partner them with government to help the country achieve its aim. The venture capital trust fund has the following functions;

1. Support small and medium scale enterprises which qualify for equity financing by providing them with the credit facilities.
2. Providing financial support for programs meant to promote and develop the activities of venture capital in the country.

2.2.2 Role of Fund Managers of VCFC

Fund Managers are required to nurture the businesses they invest in to growth, thereby protecting investor‟s capital and moving SMEs to greater heights. Responsibilities to be tackled by the fund manager involve their responsibility for investments and all other related analysis, evaluating and applying due diligence for applications submitted in a bid to win funds. In view of this, the fund manager needs all the skills needed to review, analyse and evaluate any potential risk associated with the applicant.

Fund managers are therefore responsible for how fast funds will be processed and also the success of an application depends on them. The funding and disbursement processes is done by the venture capital fund companies. It must be important to note that fund managers are not the final signatories to the issues of funds. They also do not have absolute control on the release of funds since their applications can be either accepted or rejected. The investment committee board has the final say in the disbursement of funds (Venture capital trust fund, 2009).

Table 1: Venture Capital Finance Companies & Fund Managers

Fund Vitals	**Activity Venture Finance Company Ltd.**	**Bedrock VCF Company Ltd.**	**Fidelity Equity Fund II Ltd.**	**Gold Venture Capital Limited**	**Ebankese Fund Limited**
Fund Size million (US$)	10	10	23.2	4	15
Date Established	2006	2007	2007	2007	2009
Fund manager	Black Star Advisors	SIC-Financial Services	Fidelity Capital Partners	N/A	Oasis Capital
Strategic Focus	Generalist	Generalist	Generalist	Generalist	Real Estate
Geographic focus	100% Ghana	100% Ghana	70% Ghana 30%Sierra Leone & Liberia	100% Ghana	100% Ghana
Investment partners	GCB, ADB	SIC Insurance, NIB	European Partners, SSNIT	Gold Coast Securities Ltd	HFC Bank , GUA, WDBI Ltd, Oasis Capital

Sector exposure	Education, AgricBusiness, Pharmaceutical, ICT, Services, Financial Services, Manufacturing	AgriBusiness, Manufacturing ,Retail, ICT, Medical Services	Education, Pharmaceutical ,Medical Services, Real Estates, Financial Services, Manufacturing	N/A	Predominantly real Estates
Life Fund	10	10	10	10	15

Source: ***Business & Financial Times***

2.3 The role of Venture capital in firm formation and growth

In the world today various sources of funding are available to start-up businesses. Venture capital adds on to the long list of financing sources available to start-up businesses. With regard to the number of funding available to start-ups and the amount of money invested in these firms, the activities of venture capital becomes narrowed. It is important to note that most beginners start business without the need for venture capital.

Some firms although wanting to engage the activities of venture capital are unable to. Others on the other hand feel reluctant to engage the activities of venture capital. They cite reasons such as not being able to contain their expansion and the responsibilities that it comes with. Others fear the new venture capitalist will take over their businesses. Surprisingly enough, venture capital has all the attention it needs because of the positive impact they have on the operations of young firms which make use of their expertise. These impacts are made manifest mainly in technology based firms. In view of this the activities of venture capital can be an alternative source of funding for many of such firms.

A study of venture by Isaksson (1999) in Sweden concluded that about 31% of the respondents were convinced that venture capital was the only available source of finance available for their businesses. They also confirmed that the activities of venture capital in their firms saw a massive increase in the finances of their economy. They survey concluded that when compared to other firms venture capital firms were growing at a phenomenal high rate. On an international scale, the positive role of venture capital has been stressed. It has been concluded that an increase in the micro and macro economies affects venture capital (Hellmann and Puri, 2000).

Venture capital do not only provide new businesses with start-up capital, they also act as leverages for other sources of capital. Besides supplying new start-ups with capital and competence, venture capital can work as a considerable leverage for other capital sources. It is a common saying that for every unit of venture capital that new business receive, five additional ones can be borrowed from banks and credit institutions. In effect venture capitalist builds trust and fortifies the firm‟s position against that of other financiers. This has been made possible by the validation provided by projects picked for investments (Kortum and Lerner, 2000).

2.4 Structure of organisations involved in venture capital

The source of funds and the ownership structure are the main criterial used to categorise venture capital firms. With regard to funding, some private independent venture capital firms invest their funds as limited partnerships. By this the venture capital firm acts as a general partner. In the United States and Europe, the venture capital institution is dominated by private firms or investors (Sahlman, 1990). This made it possible for an amount of 76.8% of funds to be raised by the independent venture capitalist (EVCA, 2004).

In Sweden and because of the rate of growth of the independent venture capital market, this form of venture capital has been adopted (EVCA, 2006).

When a venture capital firm is funded by funds from internal operations by its parent or nominating organisation, it is mostly known as a captive venture capital organisation (Jeng and Wells, 2000). In effect, when an established company invests resources in its own activities, it is known as a captive venture capital firm. In such instances the mother firm is most at times a financial institution. This may be a bank or insurance company. It can also be a bigger non – financial institution (McNally, 1994).

In venture capital, the activities of an external investor has its own implications on how the venture capitalist behaves. The investment strategies may be influenced by the investors when this happens (Sahlman, 1990). It is important to note that due diligence and professional attitude must always be maintained to help attract investors to venture capital. When this tract record is maintained, then we are assured of massive patronage of venture capital by the general public and organisations. Gompers (1995) argues that this might have caused some venture capitalists to take companies public too early. In a work by Scwienbacher (2002), he found out that for European venture capitalists there was a widespread belief that successful IPOs would give significant reputation benefits to the venture capitalist, indicating that independent venture capitalists might pursue an IPO exit strategy, even if a trade sale strategy is more expected and rational.

The mode of operation of captive venture capital organisations and those in the corporate firms differ. This is seen in their strategic objectives. Whilst corporate independent firms have corporate strategic objectives in mind, private independent firms have investment return or financial objectives as their primary objectives. In a survey by Wright and Robbie (1996), they found significant differences in several dimensions of independent venture capitalist. Most of these works are based on the period when the venture capitalist invested money into the business.

Differences are also seen between public and private venture capital institutions. This is mainly seen in the mode of statutory constraints. Most private firms are limited by statutory constraint. Most private sector institutions have long term goals which are not seen in the public sector. This is one major setback for the public institutions and therefore separate the two institutions. Cumming and MacIntosh (2002) conclude that Canadian public venture capital firms, based on statutory constraints and other limitations. This they claim would make more investments in lower firms compared to their competitors. Incentives are important in managing any institutions. In a work by Isaksson (2006), he asserts to the fact that lack of incentives among managers in the public sector of the Swedish venture capital institution could affect their decision making.

In Canada, Ayayi (2004) found indications which suggest that the skill provided by venture capitalist was lower in the public sector compared to that provided in the private sector. This lack of venture capital skill was as a result of the capitalist having no knowledge in any industry. They lacked the direction to invest in a particular portfolio. They were therefore not able to give meaningful advice to potential investors as to the area to invest. This confirms work by Ayayi (2004) in the Canadian public sector, where venture capitalists were considerably lower than those of their competitors.

2.5 The process of venture capital

Most work on venture capital has relied on how businesses are developed by the venture capitalist and entrepreneur. It is also important to know the process one needs to engage in to be qualified to undertake such a venture. Investors, venture capitalist and entrepreneurs are the people to note in this industry. In venture capital the entrepreneur is always at the receiving side whilst venture capitalist and investors are at the supply section. The venture capitalist serve to mediate between the investors and the entrepreneurs. They thus act as suppliers of funds and also as a means of attracting funds for the investors (Amit *et al*. 1998). Trust is the key word to be used in such a firm. Once that is lost the whole cycle is broken (Shepherd and Zacharakis, 2001).

In avoiding conflicts from arising, the bond between each of the parties is respected. Thus the investor is as important as the entrepreneur. Several kinds of interactions therefore exist in between these people. Each has a strong affiliation with the other because they believe it is by helping one that they can all progress and have returns on their investments (Amit *et al.*, 1998). They achieve this by interacting amongst themselves. In the earlier stages because the investor is investing most of the capital, they have high influence on the other. After agreements have been completed, the venture capital company is free to operate in areas which would not conflict in its operations
(Bygrave and Timmons, 1992; Fried and Hisrich, 1995).

The venture capitalist and the entrepreneur also play a key role in the venture capital process. For the venture capitalist, he recognises the entrepreneur as a smart person with a business idea who is ready to share his experience and ideas with like-minded people. They are also ready to share their business with people who share in their views. The entrepreneur also needs someone with capital, marketing skills, ability to link them to people of repute and encourage the growth of their firms. One major issue between entrepreneurs and venture capitalist is who will own and control the business. This often creates a huge gap between them (Berglöf, 1994; Smith, 2001).

2.7 SMEs in Ghana

2.6.1 Definitions and Contributions of SMEs

In Ghana, SMEs play a meaningful role in economic development of the country and will continue to do so if the government creates the necessary environment and support the needs of the sector.

According to Hug (1989) SMEs provide the bulk of the people employed in manufacturing in developing Countries. In Ghana about 70% of the total manufacturing employment is provided by the SMEs. A recent nation-wide survey of all industrial establishments by the statistical Service in (2003) reveals that the SMEs contribute about 97% and employ 46% of the total industrial labour force.

SMEs have also been defined by the Bolton committee. They however defined them with respect to the sector they are engaged in. the number of employees were used to categorise people in manufacturing, mining and construction. In these areas a firm size of 200 or less qualified the firm to be a small firm. If their monetary turnover were between 50,000 - 200,000 British Pounds, they were also classified as small firms. In the transport sectors, you are classified as small if the institution had less than 5 vehicles. The definition by the Bolten committee has been criticized. They have mainly focused on the number of persons employed and the managerial approach used in the institutions. A new definition have been provided by the European Commission (EC). They have used the number of employees to define SMEs. They are listed;

1. firms with 0 to 9 employees - micro enterprises; (International Research Journal of Finance and Economics - I (2010))
2. 10 to 99 employees - small enterprises;
3. 100 to 499 employees - medium enterprises.

Based on the definitions we can concluded that SMEs are enterprises with less than 500 workers. Exceptions given to this definition include agriculture, hunting, forestry and fishing. These definitions are based on employment. It is therefore important for researchers to use the definition which suits their study and company been worked on.it is important to note that the definition stands to change unless factors such as size are known to influence performance in the organisation (Storey, 1994).

Another definition of SMEs has been given by Jordan *et. al.,* (1998). He defines firms with less than 100 employees and whose turnover is less than £15 as SMEs. Michaelas *et al* (1999) on the other hand has defined SMEs as independent private organisations with less than 200 people. López and Aybar (2000) considered companies with sales below €15 million as small. The British department of trade has clearly stated that the definition of the Bolton committee be used as the rightful definition for SMEs. They defined an SME as a small firm with an independent business and manged by an owner with a small market share (Department of Trade and Industry, 2001).

UNIDO has defined SMEs by the number of individuals in a firm. They give different classifications for industrialized and developing countries (see Elaian, 1996). The definition for industrialized countries is given as follows:

(i) Large - firms with 500 or more workers;

(ii) Medium - firms with 100-499 workers;

(iii) Small - firms with 99 or less workers.

The classification given for developing countries is as follows:

(i) Large - firms with 100 or more workers;

(ii) Medium - firms with 20-99 workers;

(iii) Small - firms with 5-19 workers;

(iv) Micro - firms with less than 5 workers.

With the numerous definitions given it is clear that a general consensus has not been given to what make up an SME.

2.6.2 Sources of finance for Small and medium scale enterprises

Funds available for small and medium scale enterprises are either generated internally or externally (Husain, 2005). Funds from the personal contribution of owners, family members and profits from projects account for the internal funds. On the other hand funds from loans from banks and other financial institutions including equity are the external funds. It is important to note that internal sources of funds have been the major source for financing small and medium scale enterprises. Work by Tonge (2001) concludes that internal funds are usually used by SMEs during the commencement of business. Other authors have also identified equity financing as sources of financing for new businesses (Love, 2003).

In Africa, most small and medium scale enterprises rely on internal funds for business. They choose this over the external sources of funds. This practices has been known to hinder the growth of SMEs since their capital base is not enough to support such activities (Kauffmann, 2005). Additionally, most small and medium scale enterprises fail to obtain funds from external sources because of the conditions needed to meet such loan facilities (Kauffmann, 2005). Conditions such as collateral, records and guarantors discourage SMEs from receiving loans from theses external sources. In Ghana only a handful of SMEs have applied and been given loans from the external sources (Ayeertey, 1998). This has been as a result of the provision of viable projects. The SMEs also fail to give the institutions all the information they need to operate. They are therefore not able to weigh the risks associated with entering into such a business. About 10% of SME loan applicants are successful in obtaining the loan facilities (Aidoo, 2003).

Some researchers have claimed that owners of small and medium scale enterprises will rather resort to their personal funds followed by funds from family before requesting for external sources of funds (Sogorb and Lopez-Gracia, 2003; Watson and Wilson, 2002). Most of the SMEs rely on their own sources of funds because they are scared of losing their businesses when they go into partnership with other firms. Others are of the view that they might lose their businesses to the financial institutions because of the huge interest rates which are on the loans they apply for.

2.6.3 Financing SMEs in Ghana

SMEs continue to be challenged with high cost of credit and access to financial aid. Most at times it is easier for larger firms to receive loans as compared to their small and medium scale enterprises. This is mostly seen during times of financial crises (World Bank, 2000). There is little or no competition among banks in Ghana as compared to those in other economies. Banks in Ghana are therefore reluctant to give out loans to institutions. Again the risk involved in accessing loans in the country is huge and therefore SMEs do not fancy going in for loans from such institutions. Banks on the other hand are reluctant to give out loans because of lack of dependable information on borrowers (Hallberg, 1999).

Governments on their own have tried to put in place credit facilities for SMEs. The Government of Ghana has however tried to encourage the state owned banks to give such credit facilities to SMEs. It is known that most SMEs put more emphasis on the credit they need than the cost involved in obtaining them (Sakai and Takada, 2000).

One major objective of credit programs is to increase access to finances to small and medium scale enterprises as well as financial service providers. They are however faced with challenges such as low rate of loan recovery, non-repayment culture among SMEs, distortions and false information on borrowers. The risk associated with this kind of program is therefore not getting its intended results (Sacerdoti, 2005).

A strategy to reduce the risk of improving access to finance by SMEs needs to be created. This is meant to increase competition in the financial market. It is to make the central bank encourage the giving out of loans by other financial institutions to SMEs. Some of the strategies have been implemented in other countries. The major elements of the strategy include but not limited to the following;

1. The capital adequacy requirements and regulations for financial institutions will be reduced to reduce the obstacle for SME involvement.

2. Laws on enforcement of contracts will be revised to make it easier for SMEs to participate.
3. Challenges associated collateral will be tackled.
4. A policy map will be created to include venture capital as a major source of funding for small and medium scale enterprises.
5. Training financial institutions on the activities of SMEs in economic development and their need to support them.
6. Credit bureaus will be created to track the credit worthiness of SMEs.

In Ghana SMEs are more comfortable with internal sources of funding (Okaku and Croffie, 1997). They continuously rely on personal savings, family members, profits from business and friends for financial aid. This has not helped the SMEs as they face the problem of lack of funds when they want to expand. The businesses of these institutions progress slowly or may collapse in the long run.

Banks also charge high interest rates and therefore discourage the SMEs from acquiring loans. In Ghana, lending rate stands at about 40%. This is high enough to collapse most small and medium scale enterprises some of whose profits are below the 40% margin. Banks in the country are also not encouraged to lend loans to SME because they are of the view that the collateral provided by the SMEs are not substantial enough to give out loans (Aryeetey, 1999).

In developing economies, SMEs are known to be the backbone of the economies. It is important that such information be spelled out to help SMEs gain access to loans and therefore help impact the economic outcome of the nations. These are however true for some SMEs as opposed to others. Not all SMEs have helped in nation building. Others have taken loans from government and not paid. They have therefore not helped in the positive roles SMEs play in national development. Misleading information on SMEs have made governments commit most of their resources to help in their services (Hallberg, 1999).

2.7 CURRENT STATUS OF SME FINANCING

A number of studies have been carried out to identify the needs of SMEs in Ghana. Notable among is the one by Tweneboa-Boateng (2008). According to TweneboaBoateng (2008), the major needs of SMEs include lack of enabling environment (political instability, micro-economic instability, and poor physical infrastructure), lack of entrepreneurial skills, and lack of access to finance. Similarly, Mensah (2004), in exploring the SMEs financing schemes in Ghana, has suggested that various schemes exist for financing SMEs operations. Lack of finance is one of the single and most important challenge to SME development. Factors that can be given for this lack of finance include:

- An undeveloped financial sector with low levels of intermediation
- Lack of institutional and legal structures that facilitate the management of SME lending risk
- High cost of borrowing and rigidities interest rates.

Many interventions have been launched by governments and development partners to stimulate the flow of financing to SMEs over and above what is available from exiting private sector financial institutions. Existing SME financing interventions can be classified under:

- Official Schemes

- Financing provided by financial institutions

2.10.1 OFFICIAL SCHEMES

These are schemes introduced by government alone or with the he lp of donor agencies to increase financing to SMEs (Mensah, 2004). In the past Government has attempted to implement a number of such direct lending schemes to SMEs either out of government funds or with funds contracted from donor agencies. These funds were managed the Ministry of Finance and Economic Planning. Examples of such schemes are Austrian Import Program (1990), Japanese Non-Project Grants (19872000) and Canadian Structural Adjustment Fund and Support for Public Expenditure Reforms (SPER). In addition to donor-supported schemes for direct lending, government has attempted at various times to operate lending schemes for SMEs (Mensah, 2004). The schemes have included the following:

(i) Business Assistance Fund: This fund was operated in the 1990s to provide direct government lending to the SME sector. The program was abused politically, with most of the loans going to perceives government supporters.

(ii) Ghana Investment Fund: The Ghana investment Fund Act (Act 616) was passed to establish a fund to provide for the grant of credit facilities by designated financial institutions to companies in 2002. The scheme was however not implemented.

(iii) Export Development and Investment Fund (EDIF): C ompanies with export programs could borrow up to $500,000 over a five-year period at a subsidized cedi interest rate of 15% under this scheme. The scheme is administered through banks, however the EDI board maintains tight control, approving all the credit recommendations of the participating banks.

The Government of Ghana (GoG) has been empowered by Section 13 of the Loans Act of 1970 (Act 335) to provide government guarantee to any external financiers who wish to advance funds to any Ghanaian organization and the terms of such facility require the provision of guarantee from the Government. Guarantee facilities are contingent liabilities of the Government. The obligation for repaying the facility lies with the borrower and not the Government. The facility matures and becomes liability due from GoG if the borrower is unable to honour his/her loan responsibility and the Government is called upon to settle the facility as a guarantor. In that case the borrower is required to subsequently refund the Government for the amount involved. Kayanula and Quartey (2000) have also explored the constraints that SMEs in Ghana and Malawi. They reported that input constraints, lack of access to finance, labour market constraints, equipment and technology constraints, domestic demand constraints, international market constraints, managerial constraints, institutional constraints as well as regulatory constraints. However, greater attention has been attached to the financial constraints both by the SME owners and policy-makers. Given the lack of access to these sources of financing, it may be important to examine the alternative sources of financing available to SMEs and also determine which ones they can access successfully.

2.7.2 Financial System in Ghana

Ghana has the following financial institutions; commercial banks (including Merchant Banks and Development Banks), 17 of which operate a network of 303 branches in the country; 115 rural and community banks, savings and loan companies and non-bank financial institutions.

With banks wanting to increase their loan portfolio, they have resolved to engage the activities of SMEs. In the past this was not the case in Ghana. The financial institutions were not in acceptance of providing loans for SMEs because of the high rates of defaults. Policy guidelines on loans for SMEs have been created by banks in the country. Some banks have clear guidelines on granting loans to SMEs. They also have specific tailored loan facilities to specialised SME sectors. Some banks have gone further to train their staff on SME development. They are therefore able to access risk involved in venturing into a specific SME (Kaymula and Quartey, 2000).

2.11 Reasons why banks do not give out funds to SMEs

Banks in the country have on many occasions withdrawn from lending loans to SMEs. Most of the banks fail to do this because the SMEs are new in business have no success story. Banks thus need information on previous success enjoyed by the SMEs before they can give out their loans (Abor, 2000).

Some banks on the other hand have other reasons for not lending loans to these SMEs. Some of the reasons given include low level of branches, network, low lending conditions, no information on SMEs, little information on credit worthiness of SMEs and the need for investors to invest in treasury bills.

2.11.1 Factors considered by banks in financing SMEs

Since banks deal with money, the major requirement for granting loans is the provision of a profit and loss cash flow. Some banks help SMEs who do not have these documents to produce one. They help them by providing accountants and other professionals to help them shape their organisations (Abor, 2000).

Small and medium scale enterprises on countless occasions do have readily available data on sales as well as data on the start-up. Banks therefore are challenged on the types of information presented to them by the SMEs. They have to use their own knowledge to give out the loans (Abor, 2000).

It is important to note that cash flow forecasts are not always positive. Bankers therefore need to investigate extensively before giving out loans to the SMEs. They are therefore supported by their tem to make informed decisions (Black and Strahan, 2002).

Most banks rely on some baseline information to make decisions on giving out loans to the SMEs (Love and Mylenko, 2003). They are outlined.

(a) The ability and integrity of the proprietors of the business:

- How long have they had a relationship with us?
- Do they have a track record with any other bank or with us? Why are they coming to us?
- Has the account been satisfactorily conducted?
- What is their reputation in town?
- What experience do they have in running a business?
- What is their personal commitment to the business? How much is their stake?

(b) The availability of physical and production resources:

- Are the premises of the right size and in a good location?
- Is the machinery in good condition? How old is it? Maintenance record?

Many small and medium scale enterprises are owned by family members. They therefore do not separate family from business (Husain, 2005). In cases like these when a problem arise in the family, it is likely to affect the operations of the business. Most at times money earned is used to pay school fees, hospital bill and for family upbringing. Businesses are therefore encouraged to insist on a high level of security for their businesses. Business and family issues must be separated. To this effect it is important for managers to keep a close relation with their bankers to give them a good and fair background of their monetary activities.

Tagoe *et al*., (2005) asserts that, banks see SME lending as a high-risk activity, given the larger proportion of business failures in this sector. As a result, they will inevitably charge a higher risk premium. They suggested that, the price to some extent could be mitigated depending on:

- The level of capital that the owner has in the business
- The degree of profitability
- The extent to which profits remain in the business
- The value/desirability of security offered

2.12 Existing Schemes

Financing of Small and medium scale enterprises has not been effective in Ghana (Mensah, 2004). These are as a result of the following; Sufficiency of the institutional framework, Regulatory Framework and SME Managerial Capacity and Lack of Training.

The acquisition of financial resources leads a greater deal to contractual obligations (Kaymula and Quartey, 2000). Businesses can only be supported when contracts have been adequately signed.

To finance business it is important that the two companies come into contact to help raise the asserts of the company (Dawson, 1993). They need to sign befitting contracts to help supply and demand of products. When these are placed in equilibrium, they can help to improve the beneficial gains of both the lender and borrower.

Problems of adverse selection have been encountered by some operators in this industry (Mensah, 2004). A lender needs information on a borrower before he can give out a credit facility. When this is breached the lender suffers in the end. On the other hand when the lender uses the information received for any other purpose aside its intended use, they break the relations.

In some instances the creditor hides some relevant information from the lender. This is to make their records look good so they can be provided with the loans they require (Abor, 2000). To them they believe when the lender has all information about their activities they might not be given the loans they require (Mensah, 2004). Lenders most at times do not have means of confirming the authenticity of the information they have been given. It therefore becomes difficult for the lenders to pull out of the deal when they find out about the real dealings of the firms they are supporting.

This situation is not only limited to financing of loans (Mensah, 2004). Investors are also involved. They have their profits increased when their investments are increased. This is due to the fact that most of the loans require a percentage of interest charged. The investors therefore enjoy the interest. It is important that in the start-up of businesses managers desist from paying themselves salaries above what their profits can contain (Mensah, 2004). In this country however this is difficult since most SMEs are not educated to undertake such activities.

An important condition for an organised financial system is the access to readily available information. When information fails to flow informed decision cannot be made and therefore bankers or lenders are likely to support projects that do not last (Guiso *et. al.*, 2004). The lenders also fail to access the likelihood of the product failing on the market. Some firms also capitalize on this to extend their credit.

In advanced countries, the flow of information is easy. It is readily made available on request. Systems have been put in place to readily access information on any firm upon request. In Ghana such systems are not in place and therefore makes information sourcing difficult (Mensah, 2004). Ghanaians are more used to their traditional means of information determination. They are reluctant to give out information and this goes a long way to destroy their activities.

2.13 Impact of Venture capital on SME financing

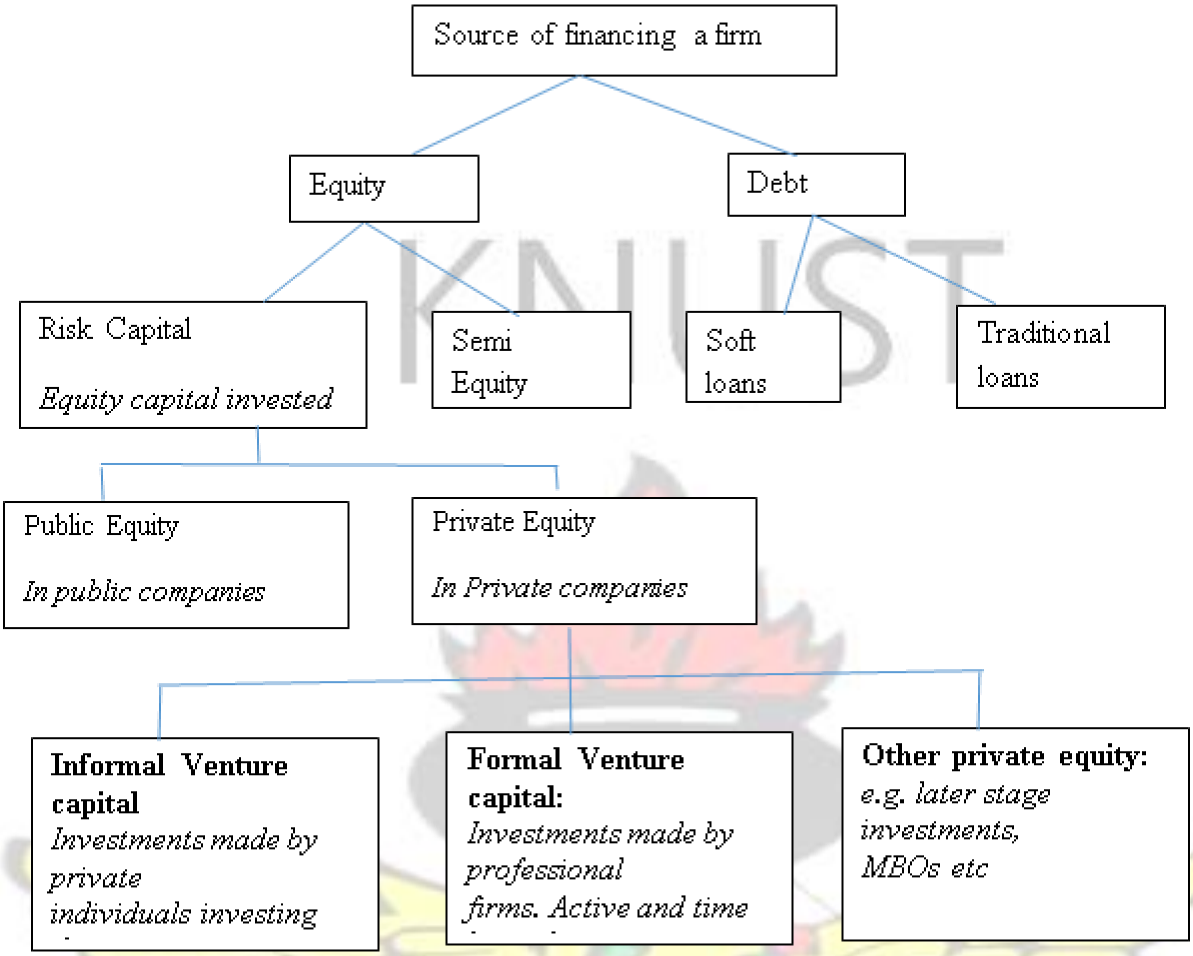
In the world of financing, venture capital is new and is seen as an alternative source of funding for small and medium scale enterprises (Manigart et al., 2002). Venture capitalist are known to provide huge capital for new businesses. They do not require the company to have a history of having achieved huge successes in business before they give out their facilities.

Venture capitalists have an aim of helping Small and medium scale enterprises to progress. They do this by giving out both monetary and professional help to the organisations (Reynolds, 2000). The venture capitalist therefore has an aim of overcoming all the challenges one is likely to encounter when dealing with the traditional lenders. Once an individual comes up with an innovative idea, they help them to bring them into practice. By so doing, they help to bring the company on the right path and encourage them to succeed.

Financing in the form of venture capital is associated with high levels of risk (Mason and Harrison, 2004). There is a continuous competition and one is not promised success in the market place. Venturing into a firm is not a prerequisite to succeeding. Venture capitalist however invest in projects they think can be of immense benefit to them and the entrepreneur. They do this by carrying out market surveys to know the viability of the business (Baeyens and Manigart, 2003). They also evaluate all processes to be sure the industry they are entering is the right one which will bring them profits (Kaplan and Stromberg, 2001).

1.9 Conceptual framework

The study is based on a conceptual framework which classifies companies into the various subgroups allows us to look closely at what type of investment the company primarily pursues. It is important to note that many companies combine venture capital and private equity investments, which in turn makes clear cut classification difficult.


Source of financing a firm
Equity
Debt
Risk Capital
Equity capital invested
Semi Equity
Soft loans
Traditional loans
Public Equity
In public companies
Private Equity
In Private companies
Informal Venture capital
Investments made by private individuals investing
Formal Venture capital:
Investments made by professional firms. Active and time
Other private equity:
e.g. later stage investments, MBOs etc

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section presents the methods used to acquire information on the role and impact of venture capital in the activities of small and medium scale enterprises in the Ashanti region of Ghana. Special emphasis was placed on Maslenda fruit and water processing limited.

3.2 Research Methodology

SMEs in Kumasi were the main focus of the study. Due to the focus of the work, Maslenda fruit Processing limited was selected. The company has increased in size since its inception. It is located in Kumasi. With managers of SMEs unwillingly to openly share financial ideas and knowledge of their activities, the survey was limited to Kumasi. Most SMEs do not keep records on their activities and therefore accessing information was a challenge to this study. With all these in mind the time and financial constraints of the researcher also posed a challenge. However the research was undertaken. The research adopted a survey method to help capture the type of SME to work with. A cross sectional study was therefore adopted to solicit for information on SMEs in Kumasi.

3.3 POPULATION

All SMEs in Kumasi were included in the study. They thus made up the population.

3.4 Sampling and sampling procedure

Convenience sampling was used to solicit information for the study. The main aim of using this was to select SMEs who were readily available for the study. Sampling was limited to

SMEs in Kumasi. The study used two groups of small and medium scale enterprises for the study. In all about 200 SMEs provided information for the study.

3.5 Data and data collecting procedure

In order to reduce irrelevant information and enhance the quality of information gathered, questionnaires were used. The survey involved the distribution of questionnaire to SME owners, their directors and management members. This served as the primary source of data.

The questionnaire were divided into structured and unstructured ones and used to receive information from the respondents. The structured part of the questionnaire had fixed responses which the respondents had to choose from. The unstructured part however were open questions which required the respondents to share their answers openly with the interviewer or researcher. In the course of distributing the questionnaires, the researcher also adopted face to face interviews with the respondents to also solicit for information. Information required general bothered on the ownership, activities and progress of the firm. Information from books and existing literature helped the researcher to structure the work. The information included those in books, journals, newspapers, company profile and financial plan.

3.6 Analysis of Data

The information obtained from the research was analysed using the Microsoft excel and SPSS software.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 INTRODUCTION

Interpretation of data obtained from the study is discussed in this section. A summary of information on how funds are obtained by the SMEs, their perceived knowledge of funds available to them, their knowledge on venture capital and their expectations on joining venture capital are all given in this section. The survey sent out 200 questionnaires out of which 160 were adequately answered and returned. This gives a fair distribution of the small and medium enterprise base of the general populace in Ashanti region.

Interpretation of results were done using graphs, frequency counts and percentages.

4.2 Statistical Findings

4.2.1 The case of Maslenda Fruit Processing Limited

The company started its activities in the year 2010. It started with the production of fruit juices and then added water production. Capital for operation was initially from the owners resources. They also relied on loans from banks and other institutions to help finance their activities. However with the support of venture capital which now caters for about 45 percent of their activities they have expanded their operations.

Table 2 presents projections on the expected amounts of money targeted to be raised and the actual amounts raised for their operations. Their financial report confirms that the company could not raise more than 50 percent of their expected amount. This was before they joined venture capital. It was clear from the financial analysis that the company was getting financial support from other sources.

Table 2: Financial projections for a 5 year period

YEAR	EXPECTED AMOUNT (GH₵)	ACTUAL AMOUNT (GH₵)
2010	100,000	40,000
2011	250,000	100,000
2012	300,000	120,000
2013	350,000	130,000
2014	450,000	200,000

Source: Annual financial report starting 2010 to 2014

Due to their inability to raise the expected funds for their activities, the company had made enquiries about other sources of finance to help rectify their financial situation. They made loan applications to banks and other financial institutions. They were mostly unsuccessful because these institutions were not ready to help agro processing industries.

In other cases they were refused because of the strict rules and items one need to present before acquiring such a facility. Their rules and methods were long and time wasting. This discouraged the company from accessing loans from these institutions. The collateral needed for loans from the institutions also pushed clients away.

The company were however successful in acquiring some of the loan facilities from other financial institutions. The amounts they received were however too little to support their intended activities. This made them ask for more but were denied by these institutions. Their projects were therefore left hanging.

Results from the study indicated that the company were aware of most sources of funds to help in the expansion of their company but had no idea of venture capital. This was all in the initial stages of the work. The company financed itself with the owner"s capital, funds from family members, funds as a result of profit acquired in the early stages and other sources. The percentages of the sources of finances is presented in Table 3.

Table 3: Initial and current sources of finance for the company

Source of funding	**Initial source of finance**	**Current source of fund**
Savings of owner	50	13
Family members	30	11
Earned profit	17	29
Venture capital	0	45
Other sources	3	1

Source: Maslenda Fruit processing limited

As a start-up company most of the finances of the company was made by the owner. Table 3 confirms that the owner contributed about half of the capital needed for the sustenance of the company. This was followed by funds from family member, profit and other sources of finance. Venture capital did not account for any percentage on the resources invested. This is a confirmation of the work by Asiamah (2009) who also asserts that most of the start-up capital of SMEs are from the owner‟s finances.

Currently and after joining venture capital investment however, most of the financing of the company is done by venture capital. The burden on the owner has reduced as he supports the company with less than a quarter of his earnings. With increase in profits, the company has also benefited from reinvesting a large proportion of their profits to help in the finances of the company. This is also in agreement with work by Agit *et. al.*, (1999) who also concludes that firms that join venture capital have high tendencies of increasing their profit.

The company has as its bankers Societe General SSB. In their early stages of operation, most firms would rather want to handle all their short term burdens. This was the main reason why they took loans from the bank to solve their short term needs. With this experience they never thought of engaging the equity finance as a means of financial relieve. The type of treatment they received from their known local means of acquiring funds pushed them away from receiving funds from one they had little or no knowledge of.

However with the expansion needs in mind and the kind of financial resources needed, the company had no option than to learn and engage the activities of venture capitalist. Manigart *et al*., (2002) states that venture capital is a more important source of financing than the traditional alternative. It is known have injected lots of financial and managerial skills to new businesses which has helped in their expansion. Some authors have claimed that venture capital is a high risk venture which has uncertainties (Mason and Harrison, 2004). One is therefore not aware of the positive impact to be gained from engaging in venture capital. Another school of thought is about conflict which might arise as a result of differences in the ideology of the venture capitalist and the entrepreneur. These were some of the thoughts that Maslenda limited battled with before engaging the services of venture capital.

Management of the firm were however confident that baring all challenges, joining venture capital has brought massive improvement in their operations. They have been able to expand their production and therefore increased in profit. Their managerial skills, record keeping, clientele base and product quality has all been improved. They are now able to bring in more innovative products. The company has also increased in working force and production as well. Their production facility has been increased. Enough space has been provided for the storage of raw and finished goods. During peak seasons they do not complain of low sales because of scares resources. The company has a result employed qualified professionals to handle most of its operations. The company which was not into the production and sale of dispenser bottles now has a full furnished production and sales section for this activity.

4.3 Information of other firms

The company also received information from other SMEs. Results obtained from them are summarized.

4.3.1 Structure of ownership

A summary of the structure of ownership is presented in figure 1 and table 4.

Table 4: Ownership of SMEs

Source of Ownership	Percentage	Frequency
Family members	52.5	84
Private Individual Investors	27.5	44
Corporate / Institutional	7.5	12
Venture / Equity funds	12.5	20
TOTAL	**100**	**160**

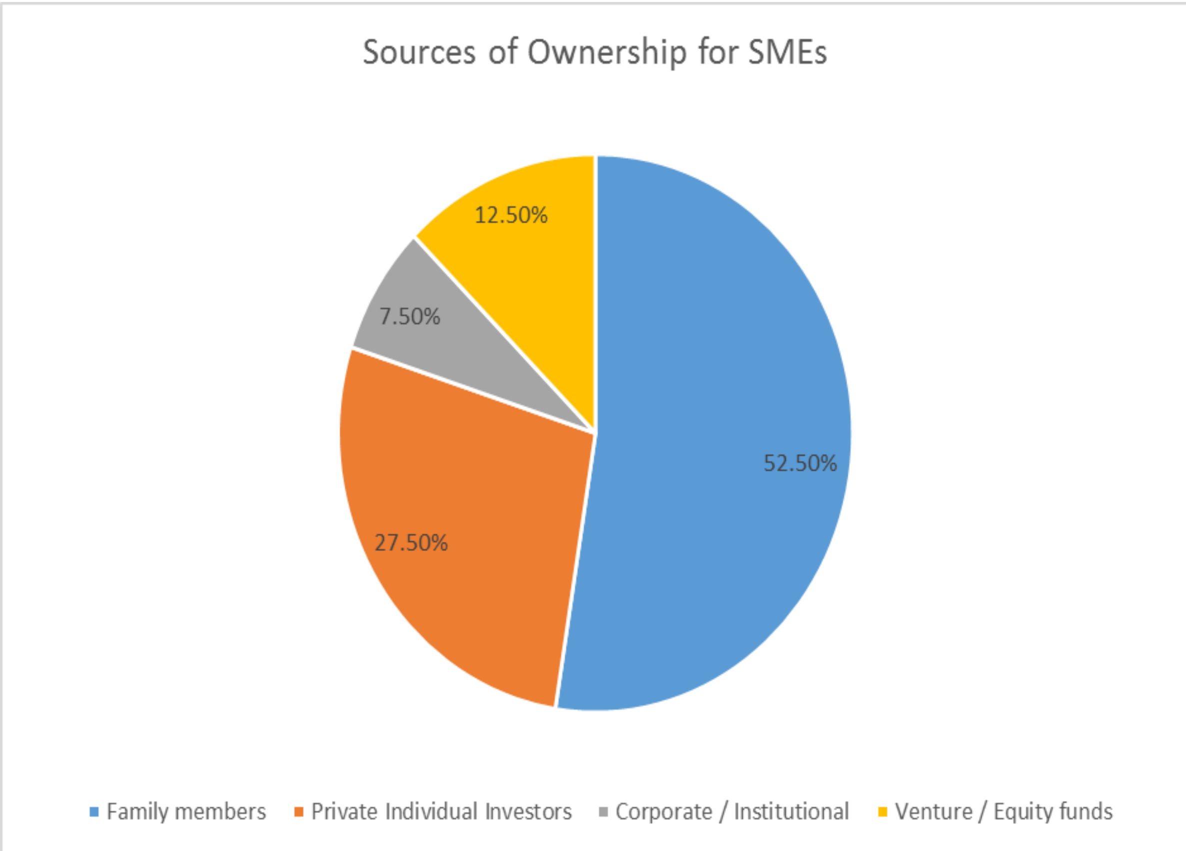


Figure 1: Shareholders/ Owners of SMEs

Majority of the respondents were financed by their family member (52.5%), this was followed by private investors. Venture capital followed with the least being corporate investment. This clearly shows that most SMEs in Ashanti region rely on their family members for funds in sponsoring their business. Results from this work are in line with work by Aryeetey, (2009) who also asserts that in Ghana most businesses are funded by their family members. Husain (2005), also claims that most small and medium scale firms are family owned. They control their own resources as they do not keep business and family separated.

It is however encouraging to note that venture capital accounted for 12.5% of the business ownership in Ashanti. Although new in this part of the country venture capital has gained roots and hop to survive the test of time.

4.3.2 Alternative sources of financing for SMEs

It has been reiterated that small and medium scale enterprises are the main tools for job creation and also helps in the growth of the economy. Financing however continue to be a challenge for such firms. The research therefore seek to get views from the SMEs on other sources of finances available to them. These results are summarised in table 5 and 6 as well as figure 2 and 3. These give the short term and long term sources of finance available to small and medium scale enterprises.

Table 5: Long term Assets financing

Source of Asset	Percentage	Frequency
Retained earnings	39	62
Long term loan	17	28
Venture capital funds	14	22
Credit for suppliers	22	36
Stock / Capital market	8	6
TOTAL	**100**	**160**

With low levels of incomes of family and relatives, the next means of funds is from the long term financing schemes. Tonge (2001) has also identified relatives, friends and personal savings as the most important means of sourcing for finance for new businesses. Low income levels of Ghanaians however make them source for other forms of finances. They are therefore forced to rely on other financial institutions for finances.

Results from the study indicate that majority (39%) of long term financing schemes was from retained earnings or profit of the company. In this part of business most of the raw materials are picked on credit and so it was not surprising that the next means of long term financing was thought credit from suppliers. Long term loan accounted for 17%, venture capital 14% and the least being stocks on the capital market. The distribution of long term finances is presented in figure 2.

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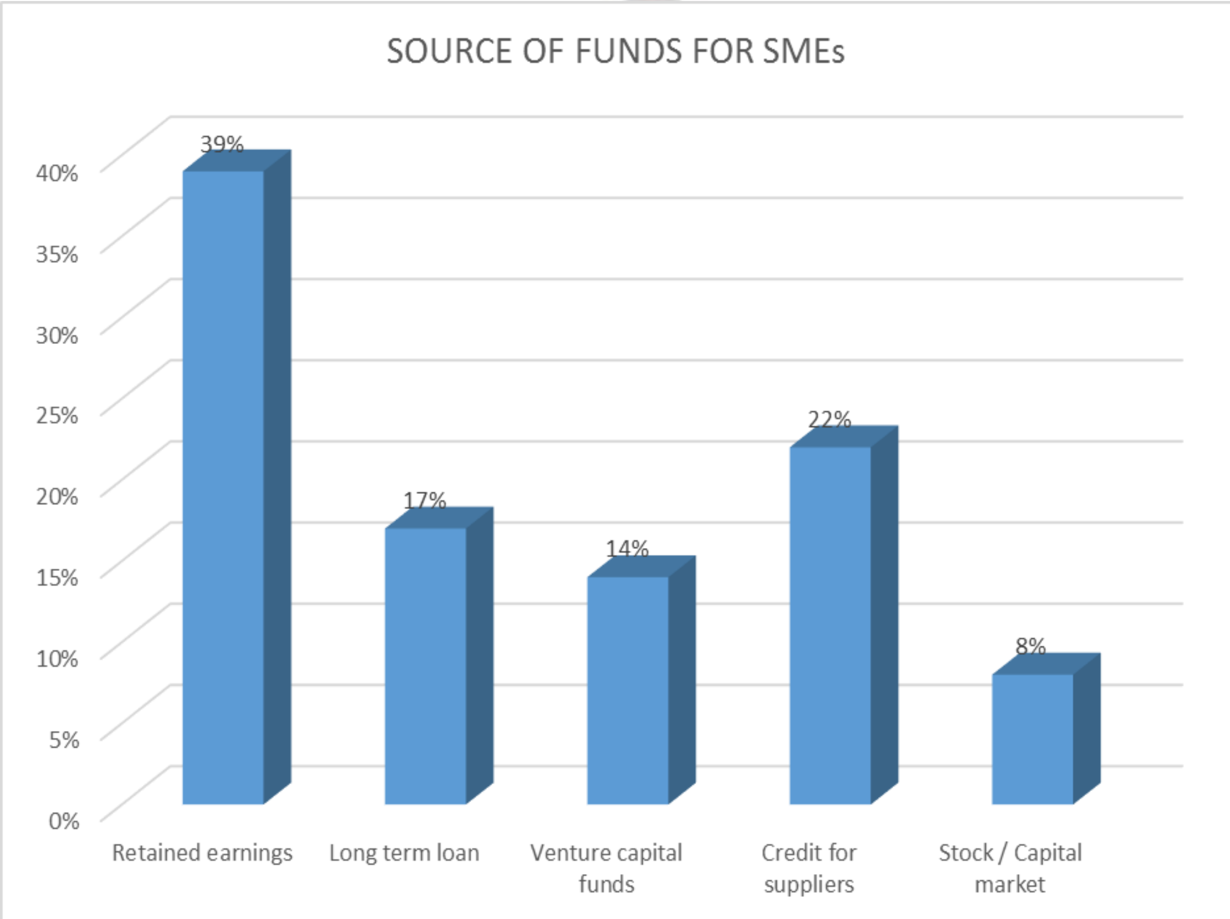

Figure 2: Long term source of financing for SMEs

The study also compiled results on short term asset finance options. Information obtained is represented in table 6 and figure 3.

Table 6: Asset financing (Short term)

Source of Finance	Percentage	Frequency
Family funds	34.4	56
Personal Funds	37.5	60
Bank Overdraft	12.5	20
Short term loan	15.6	24
TOTAL	**100**	**160**

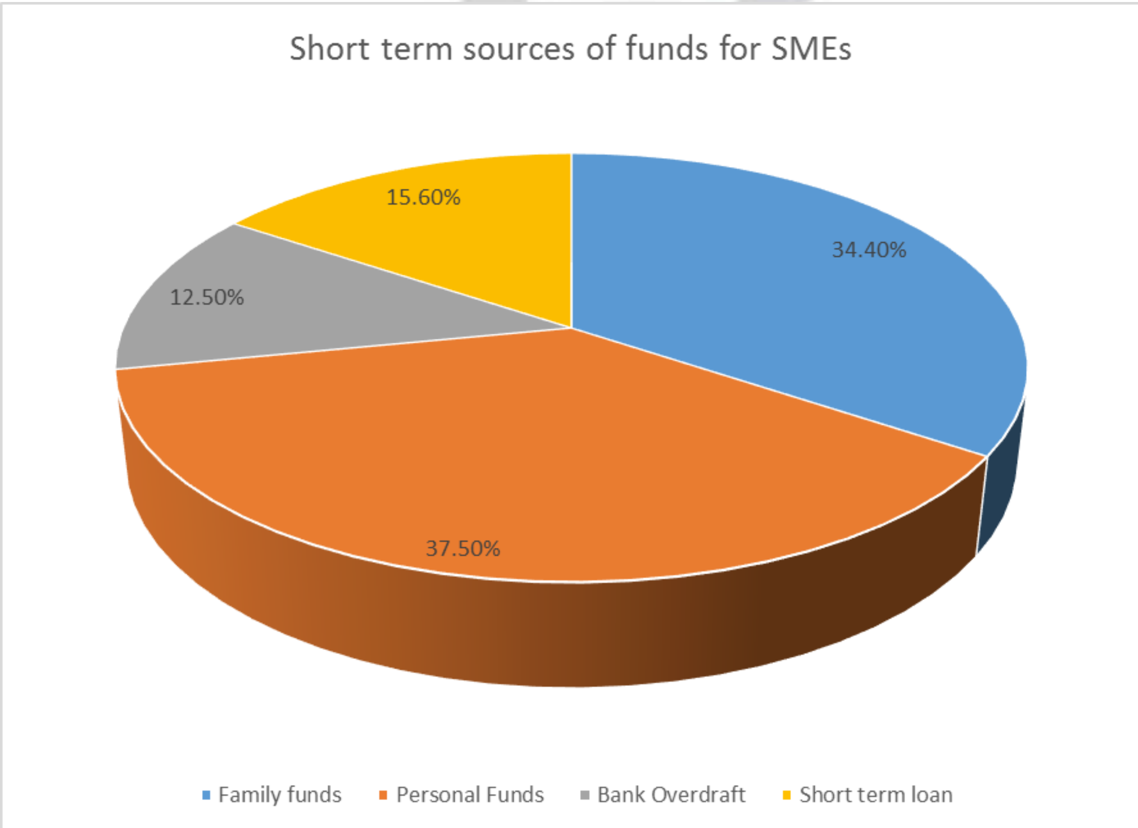

Figure 3: SME"s Short term Assets financing

For short term financing SMEs use their personal funds to finance their activities. The results confirmed that 37.5% of the short term funds were attributed to self or personal financing. Family finances was the next choice of financing with an estimated 34.4% (56 respondents). This was followed by short term loans and bank overdrafts were the least considered in this category. The SMEs again had other sources of financing such as support from foreign partners, discounts received from purchasing goods in bulk and incentives received from suppliers of goods. Their means of sourcing for funds is therefore not limited to just one area but a multiplicity of diverse areas.

Ask about why they could not receive financial help from banks and other financial institutions, they claimed the collateral and items one need to provide before the loans could be released was cumbersome.

Some banks required that the SMEs form associations to help them acquire the credit facilities they needed. This was a disadvantage to them since not all companies were ready to abide by the rules governing joining associations.

Worse among them was the interest rates charged on the loans the small and medium scale enterprises received form the banks. It was high for the SMEs. Continuous reliance on them meant one could lose his company as a result of running into loses.

With all these in mind the entrepreneur will rather use his personal earnings to finance his operations. This to them give them time to think through their business. And since it‟s their own money they are investing and account to themselves, they were at liberty to make their own decisions (Sogorb and Lopez-Gracia, 2003; Watson and Wilson, 2002). Watson and Wilson (2002) are quick to add that SME owners will rather rely on their personal finances. It is only when they find it inadequate when they rely on family or short term borrowing.

Long term borrowing comes in when they want to expand and finally equity financing is the least among them all.

Almost all firms interviewed were aware of the existence of a financing scheme available for their operations. Although their knowledge base on these institutions remain high others had little or no knowledge about the existence of such institutions. For financial institutions who market their activities through radio and television adverts SME owners could easily identify them. Firms like Sinapi ABA microfinance was mainly mentioned. SME owners however made the following revelations on why some financial institutions were not supportive in granting their loan requests. Some reasons given include; SMEs had little or no history pertaining their operations. They could also not provide simple financial statements on their operations. Their record keeping skills were low.

Aside this small and medium scale enterprises also had challenges in raising funds for their activities. Since they are new in the business world, their operations are sometimes risky and therefore no bank will like to support their activities. Most business have no business plan or guide to help them in their operations. They enter the business because they find others venturing into it. This is seen in the mass production of Sachet water by a section of the economy. Most managers have little or no idea about the business they want to partake in. with all these in mind financial institutions are not readily to finance their projects.

Based on information received, the banks access the risk in releasing their finances to the SME. The decision made will influence interest rate, and repayment details.
Again most businesses have little or no asset and investing in such a company is at the risk of the lending facility. It is also important to note that in the early stages of financing SMEs little or no problems arise. The challenges set in when the company begin to expand its

operations. At this stage investments will be made in equipment‟s and human resource. The wrongful choice of personnel will lead to the collapse of the company.

4.3.3 Venture Capital financing in Ghana

The questionnaire also sought to find respondents knowledge on the existence of venture capital. They also sought to find out if they are aware of the conditions one need to meet in order to be accepted as an entrepreneur who is in need of a venture capitalist.

More than half of the respondents (71%) responded to not having any idea of the existence of venture capital. Only 29% were aware of the existence and operations of venture capital in the country. This confirms that venture capital is new and not known in the country. Results are presented in table 7.

Table 7: Awareness of the existence of venture capital

Awareness of venture capital	**Percentage**	**Frequency**
YES	29	46
NO	71	114
TOTAL	**100**	**160**

Awareness creation can be by means of radio and television adverts, bill board, posters, friends and family. These are channels that can be used to spread the news on venture capital. The Government of Ghana and fund managers can therefore adopt these channels to spread the news on venture capital. Seminars and workshops can also be organised to educate small and medium scale enterprises on the operations of venture capital.

The research went further to find out how respondents who knew about venture capital had their information. They responded to have had the information from newspapers. A few had information from family members.

4.3.4 How SMEs apply for funding from Venture capital firms

The study further went ahead to find out if SMEs who knew of the existence of venture capital had applied to them for aid. About 61% of the respondents had applied for sponsorship from the venture capital firms and only 39% had not applied for finances from them. Results from this survey are presented in table 8.

Table 8: Have you applied for funds from venture capital

Have you a from capital for funds venture firm	**Percentage**	**Frequency**
YES	61	28
NO	39	18
TOTAL	**100**	**46**

4.3.5 Motivation behind choosing venture capital over others

There are many sources of finances available for sourcing funds for small and medium scale firms. The research therefore sought to find views of respondents on why they chose venture capital over the other sources of finance. Unavailability of loans from the other financial institutions were cited as one of the major reasons why respondents resorted to venture capital. This reason accounted for more than half of responses. They made up 53%. Insufficient personal funds accounted for 29%. The least amongst the motivation for the choice of venture capital was as a result of respondents not been ready to engage the services of external investors. It has been stated that venture capital is an alternative source for raising funds. Companies tend to move to venture capital when they have exhausted all their sources for raising funds (Manigart et al., 2004). He further sates that companies which involve venture capital in their operations have received huge financial help to help expand their operation.

Table 9: Reason for choosing venture capital

Reason	**Percentage**	**Frequency**
Scarcity of loans	53	15
Low Personal funds	29	8
Opposition to investor alliance	3	1
Information from public	15	4
TOTAL	**100**	**28**

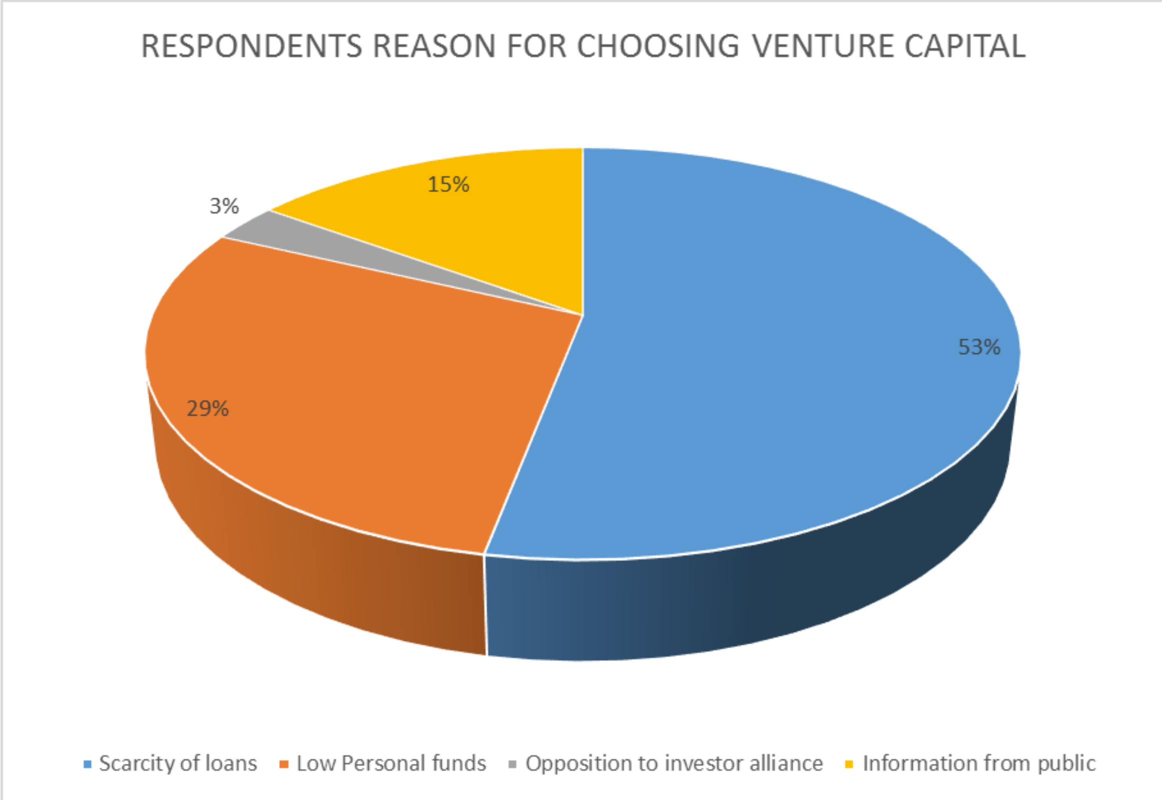

Figure 4: Motivation and Choice for Venture Capital Financing

4.3.6 Success rate in securing venture capital funds

More than half of the respondents (62%) were successful in raising funds from the venture capital fund. Less than half were unsuccessful (38%). This is represented in table 10 and figure 5.

In finding out reasons for their unsuccessful application, they cited issues such as documentation as a major issue. Others also include devaluation and the type of business they were involved in. they also attributed to the fact that they had little or no knowledge of the consequences of the business in the future.

Respondents who were successful in their bid however claim to have produced and documented all activities and were also well vexed in their operations. This made the procedure smooth for them

Table 10: Success rate of receiving funds from venture capital

Successful	PERCENTAGE	FREQUENCY
YES	62	17
NO	38	11
TOTAL	**100**	**28**

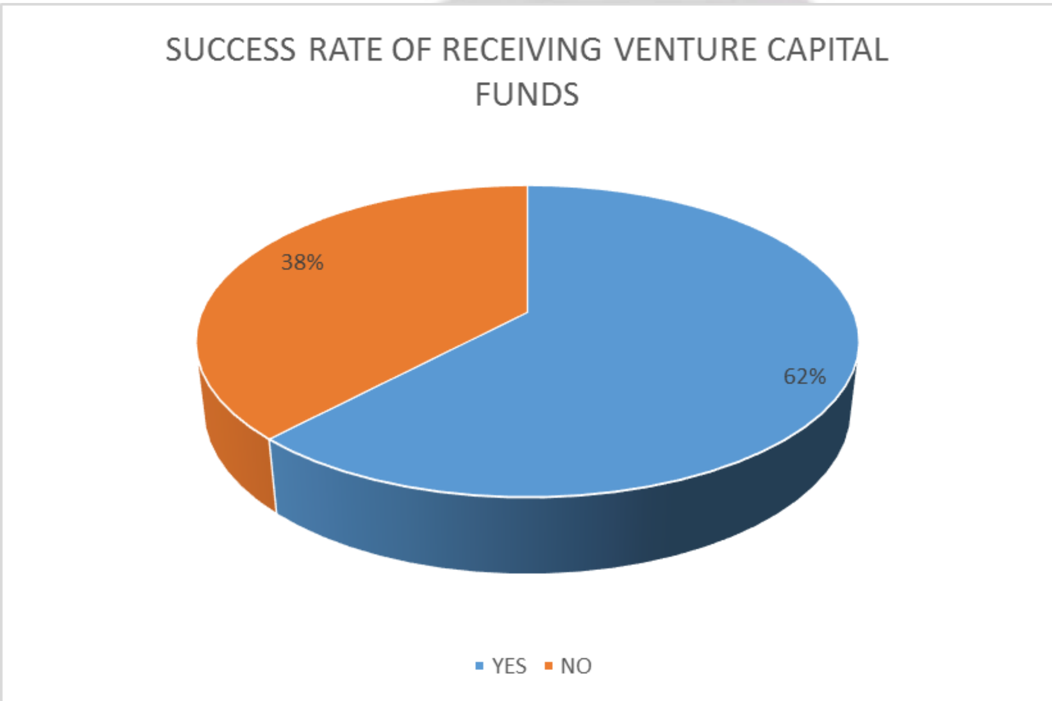

Figure 5: Rate of Success in raising From Venture Capital Financing

4.3.7 Impact of venture capital on SME activities

With venture capital being a relatively new form of financing, the study sought to point out the impact of venture capital on the activities of small and medium scale enterprises.

Almost half of the respondents (46%) claimed but for the activities of the venture capital trust fund their businesses would have collapsed. Only 8% of the respondents found no effect of venture capital in their operations. Another 46% of the respondents realised the positive impact of venture capital in their institutions. They had gained increase in capital, expansion of business, increase in profit and also reduction in unemployment.

These results are presented in table 11.

Venture capitalist have helped shaped the human resource base, accounting and management skills of the firms they engage their activities. This has been confirmed by the work of Hellmann and Puri (2002).

Table 11: The impact of venture capital on SMEs

Impact	**Percentage**
Business collapse without intervention by venture capital	46
Increase in firms development	46
No change in development	8
Venture capital collapsing business	0
TOTAL	**100**

4.3.7.1 Benefits associated with joining venture capital

Specific areas where small and medium scale enterprises have benefited are represented in table 12.

Table 12: Benefits of engaging in venture capital

BENEFIT	RANK
Start-up and new business expansion	1
Employment	2
Growth of business	3
Competitor comparison	4
Management of finances	5
Product diversification	6
Enlargement of sales	7
Innovative products	8
Human resource management	9
Quality of products	10
Quality customer service	11

The major aim of venture capital is to help new businesses have access to finance and help build their businesses. The survey concludes that new business expansion was important to entrepreneurs and they ranked it as the first. In every economy employment creation is a major tool for development. Governments therefore put in measures to employ as much people as possible to make employment a must for all. Expansion of businesses, higher sales product diversification are all benefits that the entrepreneur hopes to achieve.

Once the venture capitalist have come into contact with the entrepreneurs, they also help them to strengthen their human resource base as well as improving quality of products and services.

The venture capital process is such that before a venture capitalist signs an agreement with an entrepreneur or small and medium scale enterprises, they spend time in assessing the opportunities available to firm. They therefore put in place strategies to help them progress (Kaplan and Stromberg, 2001).

Among the influential areas of change were in the area of financial management. Through venture capital some of the products of the firms found their way in other regions of the country. This helped them increase sales and profit in their firms.
Managers have therefore benefitted from the activities of venture capital.

Aside benefits listed, the respondents were again asked to reveal other benefits they had received from their activities with venture capitalist. The other benefits range from strengthening of vertical relations, access to expertise from the corporate world, wide opportunity to widen their business gap, improved production, access to marketing and distribution channels and availability of technical expertise.

Initially some of the firms had a challenge of access to huge and large markets. They also lacked the technical expertise to expand their operations. Again some had little or no managerial skills to help expand their operations. Venture capitalist provided all these as well as financial education to help them improve in their operations. Hellman and Puri (2000) reveals the professional ways in which venture capitalist work. This has gone a long way to improve businesses. With the introduction of venture capital small and medium scale enterprises which would have increased in production in about 10 years is now shortened to about 2 years.

Venture capital financing has helped in bringing about technologies improvements in the life of businesses (Gans and Stern, 2003).

4.3.7.2 Limitations associated with joining venture capital

The venture capital process requires that beneficiaries have in debt knowledge on the activities they which to engage in. the entrepreneurs or small and medium scale enterprises must also have a management board in place to steer the affairs of the SME. The management must make clear cut decisions to help curb the problem of decision making. The management must also put in place measures to record and document all activities.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Summary of findings

The research aimed at finding the sources of finance available to small and medium scale enterprises. It was also to find out the knowledge of respondents on the activities of venture capital in Ashanti region of Ghana. The research used questionnaires to solicit information on venture capital and other sources of funding available for SMEs.

Results conclude that SMEs relied on personal funds to help them finance their activities. This was followed by funds from family members, loans and private equity.

Although respondents had little knowledge of the existence of venture capital because of reasons like lack of advertisement, majority of respondents who knew of their activities had benefited from their funds. They had therefore recorded increases in profits as well as expansion of their businesses. Maslenda fruit processing limited had received tremendous benefits from joining venture capital. They have had increases in production as well as expanded their market. They had also created new and improved products.

5.2 CONCLUSIONS

Several conclusions could be extracted from the arguments that have been advanced. Firstly, deep pre-screening process should be performed before investing in small, startup business since a well performed initial scan ensures good investment.

Capital inflow is accompanied with the process of value-adding which provides the company with monitoring, skills, expertise, help and reputation for attracting further finance. Although findings shows that venture capital funding is related to strengthened control, potential conflict of interests and founder replacement from the top managers seat, Venture Capital remains crucial factor for spurring innovations, enhancing growth opportunities, especially for the small and medium-sized enterprises and therefore, creating new jobs. The latter are enough reasons for every national economy to take care for the venture capital financing as proven chance for the realization of smart ideas.

5.2.1 Practical Implications

The study has important implications for stakeholders in the SME sector. To be successful in acquiring this form of equity financing the following should be observed

• Good information management and the ability to use information to present a well-crafted business case for financing reduces risk perception

• The need to have strong business concept with strong market growth potential, and an exceptionally strong management team that can demonstrate past successes in similar businesses.

• SME umbrella associations and SME assistance organizations should help SMEs to source funds from venture capital. The EU-BAS assistance to procure consultancy services is a step in the right direction, as is the Africa Project Development Facility

(APDF) of the World Bank.

5.2 RECOMMENDATION

The researcher has however spelled out some recommendations. They include;

1. The creation of awareness on the existence of venture capital through advertisements.
2. Education of the general public on the types of records needed to be able to engage the activities of venture capitalist.
3. Research should be carried out in the other regions of the country to know the impact of venture capital funds in the activities of SMEs.

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APPENDIX

SURVEY QUESTIONNAIRE

The researcher would like to learn about the impact of Venture Capital Financing towards financing of SMEs and attitudes towards venture capital as an alternative source of fund. Any information provided would be used for the sole purpose of this academic exercise and would be kept in strict confidence.

1. Name of organisation

....

2. When was the firm established?

....

3. What is the nature of business of your company?

....

4. How many employees do you have?

....

5. For how long has your business been in operation?

....

6. What is the ownership type of your business?

....

7. What is the number of shareholders of your company?

....

8. Who are the shareholders/owners of your company (Please tick (√) as many as applicable)

Family members	
Individual investors	
Institutional investors	
Venture / private	
Others, please specify	

9. What is your company‟s main source of long-term assets financing? (Tick as many as applicable)

Retained earnings	
Long-term Loan	
Venture Capital	
Suppliers Credit	
Stock market/capital market	
Others, please specify	

10. If venture capital is the answer to Q9, what motivated your company‟s choice for venture capital financing? (Tick as many as applicable)

Unavailability of loans	
Insufficient personal financing	
Opposition to any types of strategic investors	
Public Information	

11. What is your company‟s main source of short-term assets financing? (Tick as many as applicable)

Bank Overdraft	
Personal funds	
Family Funds	
Others, please specify	

PLEASE CIRCLE ONE (Q12 – Q23)

12. Are you aware of the existence of any venture capital fund in Ghana? Yes/No

13. Has your company ever applied for fund from any Venture Capital Fund in Ghana?
Yes/No

14. If you have applied for any venture capital fund, were you successful in raising funds?
Yes/No

15. Why was your application rejected if you answer to question 14 is No?

Insufficient document	
Lack of Collateral	
Business not registered	
Bad credit history	

Others, please specify	

16. Do you know any company that has benefited from any venture capital fund?
Yes/No

17. Are you aware of the requirements of the venture capital funds? Yes/No

18. Please, list the important ones

……………………………………………………………………………………………………
……………………………………………………………………………………………………
…………

19. Do you find the requirements of Venture Capitalist as strenuous? Yes/No

20. Does your company intend to apply for funding from a venture capital fund? Yes/No

21. At what stage of your operation did you receive a venture capital help?

……………………………………………………………………………………………………
…….

22. Has your company attempted to raise finance from venture capital firm in the past two years? Yes /No

23. If no, why did you not opt for venture capital?

Obtained enough financing through loans	
Sufficient self- financing resources	
Finance through stakeholders	
Outright rejection	
Not interested	

24. What benefits has your company derived from participating in venture capital financing?

....
....

25. How has venture capital impacted on your company?

Impossibility of business continuity with Venture Capital	
Improvement in Firm"s development	

No Change in firm‟s development	
Poor development in firm after venture capital	

26. What changes have you observed as a result of venture capital finance in terms of?
1 = much more, 2 = slightly more , 3 = About the same, 4 = Slightly less, 5 = much less
Please tick (√) if applicable

	1	2	3	4	5
Product Quality					
Financial Management					
Diversification of products					
Sales territory					
Innovation					
Customer Service					
Organisation and human resources					