

VENTURE CAPITAL FINANCING IN GHANA
“CHALLENGES AND PROSPECTS”

By

WILLIAM ANOKYE –YEBOAH

**A thesis submitted to the School of Business, Kwame Nkrumah University of
Science and Technology in Partial fulfillment of the requirements for the degree**

of

MASTER OF BUSINESS ADMINISTRATION

(Banking and Finance)

College of Art and Social Sciences

JULY 2009

DECLARATION

I hereby declare that this submission is my own work towards the MBA and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

WILLIAM ANOKYE-YEBOAH

.....
Student Name



.....
Signature

16/10/09
.....
Date

Certified by:

P. K. OPPONG BOAKYE

.....
Supervisor's Name


.....
Signature

16/10/09
.....
Date

Certified by:

JOSEPH M. FRIMPOH

.....
Head of Department


.....
Signature

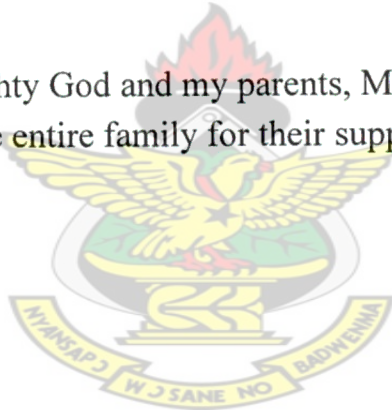
19-10-09
.....
Date

LIBRARY
KWAME NKRUMAH UNIVERSITY OF
SCIENCE AND TECHNOLOGY
KUMASI-GHANA

DEDICATION

KNUST

dedicate this thesis to Almighty God and my parents, Mr and Mrs Anokye-Yeboah and the entire family for their support



DEDICATION

I dedicate this thesis to Almighty God and my parents, Mr and Mrs Anokye-Yeboah and the entire family for their support



ABSTRACTS

The importance of venture capital financing in the development of any economy cannot be over emphasized. This study examines the challenges and prospects in the venture capital industry with a focus on the importance of venture capital availability in an economy especially in Ghana, an assessment of its relevance in the financial sector and to the Ghanaian entrepreneur.

There is a focus on the various models of venture capital, the different sources of funding for businesses, criteria that is used by venture capitalists before they fund businesses, and the benefits and pitfalls of venture capital funding.

There is a major focus on the challenges SME's face in their quest for venture capital funds and also the challenges that the venture capital firms also face in their disbursement of venture capital funds. There is also a focus on how the availability of venture capital in well developed nations like Europe and America has helped boost industries into well-established high street names thereby contributing to the economic growth of those nations.

Interviews were held with staff at the Venture Capital Trust Fund (VCTF) and staff at the venture capital financing companies. Venture capital firms are also very limited in number as there are about four VC companies currently operating in a whole nation. If about 70% out of 90% should apply for funding, the funds available will not be adequate. On the other hand, SME's also face similar challenges, among them were Dilution of control, Unrealistic performance expectation, Imposition of management style, Requirements and standards, Compelling market opportunity.

There is a need to encourage more wealthy individuals to join the few VC firms available. More sources of funding for businesses would have to be established to reduce the burden of funding on the Trust. The analysis again revealed that the managers of the fund did not have much experience, as the Trust has not been in existence for long. There was also no adequate credit checking facility to find out if beneficiaries were capable of paying back, most of them however were not able to pay back funds they received, funds were not re-invested.

TABLE OF CONTENTS

	Pages
Certification	i
Dedication	ii
Abstract	iii
Table of Content	iv
List of Tables	v
List of Figures	vi
List of Abbreviations	vii
Acknowledgement	viii

1. CHAPTER ONE

Introduction

1.1 Background to the Study	1
1.2 Statements of the problem	.....	2
1.3 Objectives of the study	.....	3
1.4 Justification of the study	.....	3
1.5 Organization of the study	.....	4
1.6 Limitation of the study	.....	4

LIBRARY
KWAME NKRUMAH UNIVERSITY OF
SCIENCE AND TECHNOLOGY
KUMASI-GHANA

2. CHAPTER TWO

Literature Review

2.1 Introduction	6
2.2 Venture capital models	6
2.3 Venture Capital Stage Financing	7
2.3.1 The Initial Pitch	7
2.3.2 The Follow-Up Meeting	8
2.3.3 Due Diligence	8
2.3.4The Partner meeting Pitch	9
2.3.5 Deal Negotiation	9
2.4 Criteria to VC stage financing	10
2.4.1 Seed or start-up capital	10
2.4.2 Expansion financing	11
2.4.3 Growth phase financing	11
2.5 Sources of Funds for Businesses	11
2.5.1 Friends and Family	13

2.5.2 Angel Investors	.....	14
2.5.3 Venture Capitalists	.....	14
2.5.4 Banks	.....	15
2.5.5 Equity Funding	.....	16
2.6 How Venture Capital Firms are Funded	.....	17
2.6.1 Pension Funds	.....	17
2.6.2 Wealthy individuals/Venture Capitalists Themselves.....		18
2.6.3 Foreign investors	.....	18
2.6.4 Corporate Sources	.....	18
2.6.5 Non-Profit Entities	.....	18
2.7 Criteria for Lending	.....	19
2.7.1 The Business Plan	.....	19
2.7.2 Analysis of Applicants Past Performance	.....	20
2.8 Importance of Venture Capital	.....	20
2.8.1 National Economic Growth	.....	20
2.8.2 Expansion and Growth	.....	21

2.8.3 Creation of Employment	.....	22
2.8.4 Technological Progress	.....	23
2.8.5 Management Assistant	.....	23
2.9 Pitfalls of Venture Capital	.....	24
2.9.1 Moving Too Fast	.....	24
2.9.2 Indecisiveness	.....	24
2.9.3 Inefficient Management	.....	25
2.9.4 Debt	.....	25
2.10 Conclusion	.....	25

3. CHAPTER THREE

Methodology

3.1 Introduction	.....	26
3.2 Sources of data	.....	26
3.3 Data collection	.....	27
3.4 Data Analysis	.....	27
3.5 Scope of study	.....	27

4. CHAPTER FOUR

Analysis, Findings and Discussion

4.1 Introduction	29
4.2 Percentage Distribution of Responses	29
4.3 Investment to SME's	31
4.4 Monitoring and Evaluation	32
4.5 Challenges facing Venture Capital firms in Ghana.....	35
4.5.1 Inadequate funds for Venture Capital firms	35
4.5.2 Assessment of investment criteria	37
4.5.3 Information Asymmetry	39
4.5.4 Lack of service professional infrastructure	40
4.5.5 Inadequate legal framework	40
4.6 Small and Medium-scale Enterprises	41
4.7 Challenges facing SME's seeking venture capital funds	42
4.7.1 Dilution of control and ownership	43
4.7.2 Unrealistic Performance Expectations	44

4.7.3 Imposition of Management Styles	.....	44
4.7.4 Requirements and Standards	.....	45
4.7.5 Compelling Market Opportunity	.....	46
4.8 Technical Assistance (TA) Program	.....	47
4.9 The state of venture capital financing in Ghana	.....	47

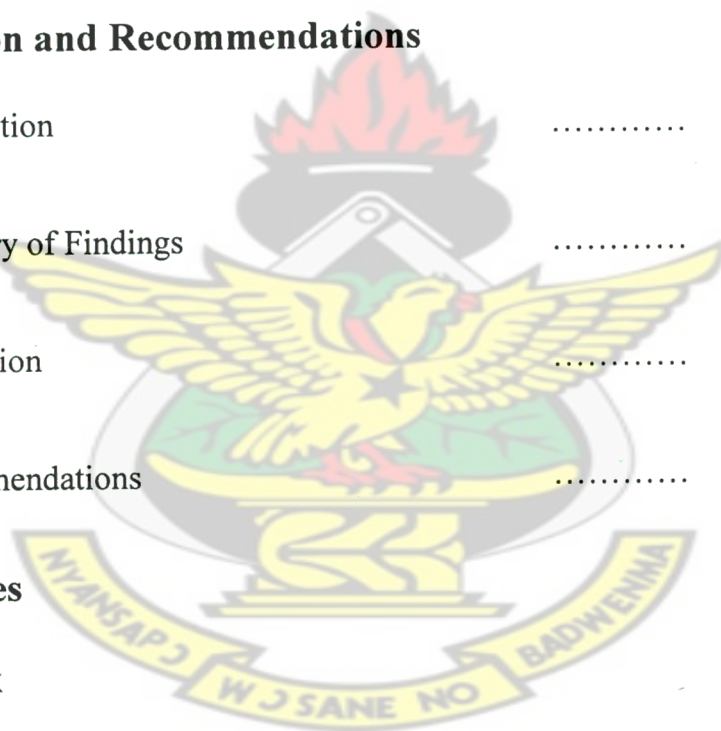
5. CHAPTER FIVE

Conclusion and Recommendations

5.1 Introduction	.....	50
5.2 Summary of Findings	.....	50
5.3 Conclusion	.....	51
5.4 Recommendations	.....	52

References

Appendix



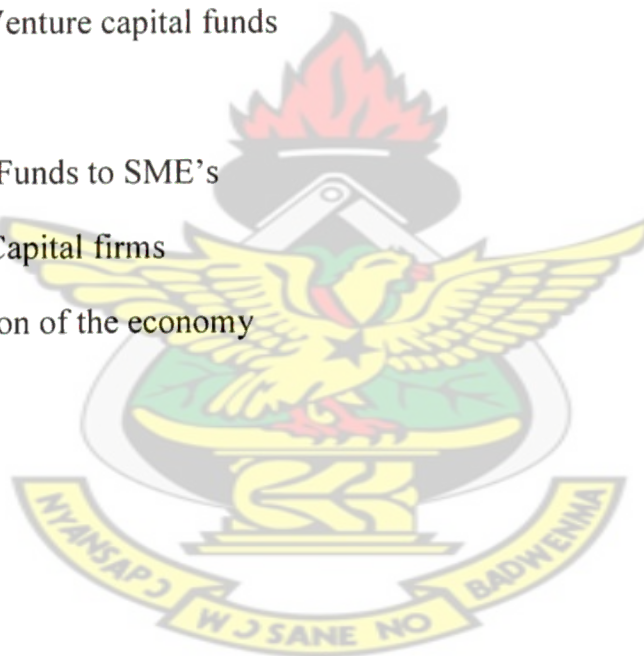
LIST OF TABLE

	Pages
4.1 Monitoring/Evaluation of Regional Disbursement of VC funds to SME's	32
4.2 Annual Disbursement of VC funds to SMEs for production of Sorghum	34



LIST OF FIGURES

	Pages
4.1 Percentage distribution of respondents	29
4.2 SME's Beneficiaries of Venture capital funds	30
4.3 Investment to SME's	31
4.4 Regional Distribution of Funds to SME's	33
4.5 Capital base of Venture Capital firms	36
4.6 Business sector distribution of the economy	42



LIST OF ABBREVIATIONS

BAF.....	Business Assistance Fund
NRL	National Reconstruction Levy
SME's	Small and Medium-Scale Enterprises
TA.....	Technical Assistance
VC	Venture Capital
VCTF	Venture Capital Trust Fund
VCFC	Venture Capital Finance Companies
VCI.....	Venture Capital Investment

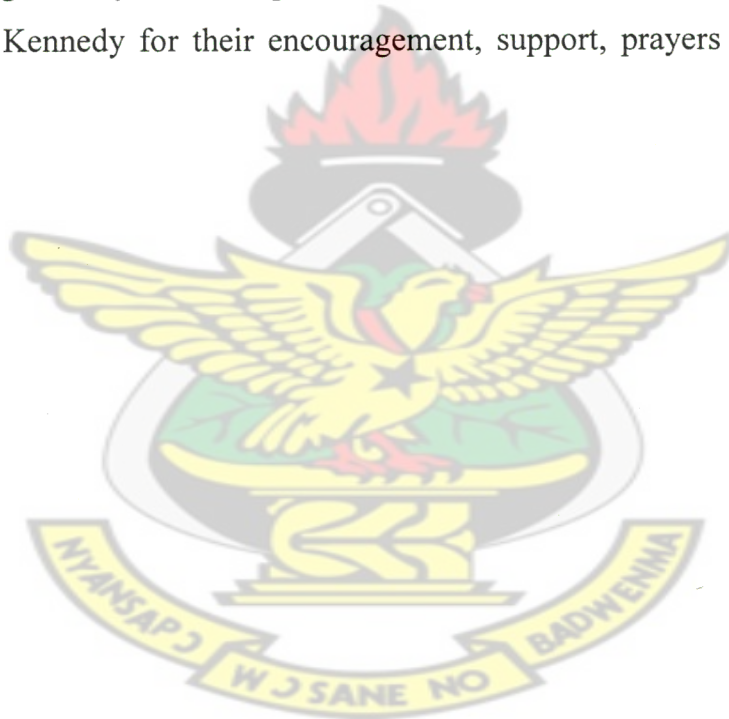


ACKNOWLEDGEMENT

Completing this Dissertation has been hectic as well as exciting and worth the input. My sincere thanks go to the Almighty God for His mercies and guidance.

I would like to thank my supervisor, Mr. P. K. Oppong Boakye who was so helpful in supervising my dissertation as well as his constructive criticism and guidance.

I am so grateful to my parents Mr. And Mrs. Anokye-Yeboah and especially to my mother Mrs. Sarah Anokye-Yeboah who made this whole dream of a Master's program come to fruition and my siblings, Nancy, Benjamin, Barbara and Alex for their support, prayers and counsel. I'm so indebted to all my Friends for their encouragement, support and counsel throughout my studies. Special thanks to Rosina Arthur, Aba Mensah, and Mr Obed Abedu Kennedy for their encouragement, support, prayers and constructive criticisms



L. BRARY
KWAME NKRUMAH UNIVERSITY OF
SCIENCE AND TECHNOLOGY
KUMASI-GHANA

CHAPTER ONE

INTRODUCION

1.1 BACKGROUND TO THE STUDY

Venture capital refers to the financing of start-up, development, expansion and purchase of a firm in the act in which the Venture capital investment (VCI) company acquires by agreement a proportion of the share capital in the business in return for providing funding. Reid (1998, pp.28).

For visionaries with an idea, or simply businessmen with a plan, raising long-term finance is not easy in Ghana. Venture capital (VC) has proven an effective means of fostering growth of small businesses in industrialized countries but is still a growing industry in Ghana.

Several attempts have been made by a number of governments over the years to make available long-term capital to Small Medium Enterprises (SMEs). Notable among them was the bold attempt by the National Democratic Congress (NDC) governments' Business Assistance Fund (BAF), a venture that failed to survive.

In 2001, however, when the New Patriotic Party (NPP) government came into office, it promised the establishment of a Venture Capital Fund. Based on the idea that many of these SMEs, which form the bedrock of Ghana's economy, lacked the financial muscle to survive. It is estimated that some would have required just one million cedis (about a \$100) to be functional. But for lack of this sum most of these enterprises failed. The Trust was established in 2004 but failed to survive but has been re-established in 2006.

Venture capital has developed as an important intermediary in financial markets, providing capital to firms that might otherwise have difficulty in attracting financing. These firms are typically small and young or start ups, plagued by high levels of uncertainty and large differences between what entrepreneurs and investors know. Most entrepreneurs have business ideas but lack the requisite funds to bring them to reality. Gompers and Lerner (2006, pp.26), Stated, "Innovation fails to create value when they cannot attract the resources required to develop them".

However, the government of Ghana in 2004 established the Venture Capital Trust Fund (VCTF) with a vision to provide low cost financing to businesses to enable them Grow, Create jobs, and improve wealth creation towards poverty alleviation.

The two mandates of the VCTF are: The provision of capital to SME's and the development of venture capital industry in the country. The Board of trustees leveraged the government's endowment of GH¢22.4 million to partner with the private sector to bring on board additional funds of approximately GH¢34.5 million from private sector investors.

This Private Public Partnership (PPP) is the first in its kind where a government institution has leveraged its resources with the private sector to create more funds than it was endowed with. As a result of this public private partnership, the venture capital industry has grown to a total fund of GH¢56.9 million to be sourced out by qualified SME's.

1.2 STATEMENT OF THE PROBLEM

The Venture Capital Trust Fund Act, 2004 (Act 680) was established as a trust fund to provide financial resources for the development and promotion of venture capital financing for SME's in priority sectors of the economy.

In response to the numerous complaints by the business community of inadequate and high cost of capital to run businesses, the researcher found reasons to review the venture capital industry in Ghana by looking at the challenges pertaining to the venture capital firms in their disbursement of VC funds and highlight challenges that SME's encounter in their quest for venture funds bringing to light prospective views of the VC industry in order to curb the situation.

Such support for the business sector is in consonance with the popular recognition of the private sector as the engine of growth of the economy. The policy of promoting and supporting SME's would engage the private sector as an equal partner poised to help government achieve the country's developmental goals.

1.3 OBJECTIVES OF THE STUDY

The aim of this project is to explore venture capital financing in Ghana with particular reference to the Venture Capital Firms in Ghana and the Ghana venture capital Trust Fund. The aims of this study are accomplished by focusing on these three objectives.

1. To identify the various challenges faced by SME's in their quest for Venture Capital funds in Ghana.
2. To identify challenges faced by Venture Capital Firms in their disbursement of Venture Capital funds to SME's in Ghana.
3. To identify the prospects of Venture Capital industry in Ghana and Make suggestions on how to use and deploy venture capital finance successfully and effectively.

1.4 JUSTIFICATION OF THE STUDY

The researcher realized that venture capital financing is critical in the development of businesses especially in its infant stages; not because of the funds they provide but most especially the advice and monitoring they bring to the company accessing the funds. This includes the way they evaluate the proposals they receive.

Unlike most investors venture capitalists typically play a role in selecting management and overseeing strategy. It is therefore the researcher's conviction that by the end of this dissertation, he would have acquired a significant knowledge of VCs so as to commence a career in that field.

A research in such an area will bring out some of the issues that arise in relation to venture capital financing as well as how they can be addressed so as to make the financing of venture capital efficient.

This topic is vital in an economy especially in a third world country as it helps create jobs. Jobs will therefore be created by the newly funded enterprise through the employment that results from the firm's birth or expansion Barker, (1983, pp11).

1.5 ORGANIZATION OF THE STUDY

Chapter 1 deals with the scope of the research, problem statement, significance of the research, its aims and objectives, background of the company that's the main focus of this research that is the Ghana Venture Capital Trust Fund (GVCTF) and the VC firms and SME's in Ghana. Chapter 2 reviews literature in relation to general venture capital financing practices. This includes the models of venture capital, sources of funds for businesses, criteria for lending to businesses, importance and pitfalls of venture capital.

Chapter 3 deals with the methodology for the study. It involves the mode for collection of data as well as the limitations of the study. Chapter 4 gives an account of the answers to the survey in Ghana and analyses the results in relation to literature. Chapter 5 finally concludes and gives recommendations for future use.

1.6 LIMITATIONS OF THE STUDY

It must be noted that the general lack of available public and official data on venture capital financing and their adoption by the financial sector and the consumers in Ghana presented methodological limitations.

This is because venture capital financing is less developed and still in its infant stages. Hence, there was not much information as expected. Also one of the difficulties faced during this research was at the stage of gathering data as some information was by telephone and it was at times difficult to get through the respondents switchboards and above all very expensive.

Also some of the venture capital firms did not respond because out of the four VC firms identified, two did not respond. One of the VC firms for instance was not in operations and one VC firm also did not respond at all, making it difficult to get adequate information of the industry. It was also very difficult to identify SME's to contact; however the researcher took direct information from the venture capital firms on SME beneficiaries. Fortunately, the researcher had direct Contact with some SME's at the premises of the VC firms coming to tender in applications and follow ups.

The sample size for this research was limited this is because the research is of a qualitative nature. Burns (2000, pp389) suggests, “Qualitative research employs a non-probability sampling”. Non-probability sampling provides a range of alternative techniques to select samples based on subjective judgments Saunders, (2007). Whereas a probability sampling according to Jankowicz (2005, pp203) involves the researcher identifying and questioning people because they are members of the same industry.



CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

In recent times entrepreneurs or corporate managers who needed to raise capital had very limited options Power and Hill (2001, pp.38). This they said was mainly due to the fact that money from the banks or investors did not flow freely to the businesses that could most profitably invest it due to restrictions such as technological, social, institutional and cultural barriers that restricted capital flows. Venture capital in its widest sense is the investment in equity capital in unquoted companies to support their future development and profitable growth. Burns and Dewhurst (2002, pp.82).

2.2 VENTURE CAPITAL MODELS

Venture capital is a long-term capital financing for new businesses and rapidly emerging companies. VCs usually look for promising new businesses and rapidly emerging companies to invest and gather funds from private investors and then other sources. They do not only provide the moneys for businesses but also assist in the management of these businesses in order for these businesses to develop and play a contributory factor in the development of the economy.

For decades, venture capitalists have nurtured the growth of America's high technology and entrepreneurial communities resulting in significant job creation, economic growth and international competitiveness. Companies such as Digital Equipment Corporation, Apple, Federal Express, Compaq, Sun Microsystems, Intel, Microsoft and Genentech are famous examples of companies that received venture capital early in their development.

Venture Capital firm's come in various sizes from small seed specialist firms to firms with over a billion dollars in invested capital around the world. The common denominator in all of these types of venture investing is that the venture capitalist is not a passive investor, but has an active and vested interest in guiding, leading and growing the companies they have invested in. Quindlen (2000, pp.43-45). He argued that when an entrepreneur has hitched an

idea, identified a market and worked up a business plan to get some money and get the new company rolling.

2.3 VENTURE CAPITAL STAGE FINANCING

There are five stages that entrepreneurs go through before they can receive funding for their businesses. Quindlen, (2000, pp.49). These stages are as follows:

The initial pitch

Follow-up meeting

Due diligence

The partner meeting

Deal Negotiation

KNUST

2.3.1 THE INITIAL PITCH

Mourdoukoutas and Papadimitriou (2002, pp.37). Stated, “It is the first and most critical stage where a series of meetings are held for both parties to get to know one another”. They explained that if an entrepreneur does not succeed they wouldn’t go any further in the financing process. In view of this it is vital for the entrepreneur to prepare very well for this stage.

Entrepreneurs normally have about one hour to win a venture capitalists attention according to Horne (2002, pp18). There is also a need for entrepreneurs to have an oral presentation here and for that matter a power point presentation is essential here. The presentation normally should include the following:

A vision statement.

A description of the market opportunity and growth potential.

Background information on the management team.

A description of the product or its technology.

A business model that includes a distribution model.

How much money needs to be raised a rough estimate of cash flow.

Based on all these factors the venture capitalists will decide on whether to proceed to the next step.

2.3.2 THE FOLLOW-UP MEETING

Kirsch and Trelease (2004, pp2-12). Stated, “If the VC decides to follow-up, it will arrange further meetings and request additional documentation”. If venture capitalist sees an idea in a company, he will schedule a meeting between the entrepreneur and several partners. Some partners however may at times have some reservations about certain investments and may even decide not to fund and will therefore gut the entrepreneur’s chances even though the initial partner was interested. Quindlen, (2000, pp61). Benjamin and Margulis (2005, pp71). Suggested, “Initiate returns calls to the investor and any follow-up meetings only by mutual agreements”.

2.3.3 DUE DILIGENCE

Horne (2002, pp71) explained “the process of investigating venture applicants is known as due diligence”. After this investigation however a decision is reached as to whether to fund the venture.

He stressed further that during the follow-up meetings, the partners begin a due diligence process that is by gathering information to assess the founders, market opportunity, the technology and the competitions. Meetings of this nature are very confidential and entrepreneurs don’t reveal information that is given to them.

Reid (2007 pp65). Stated, “Performing due diligence on a start-up is often tougher than assessing a mature technology company”. He also suggested that VCs and other investors rely on due diligence to unearth key aspects of a target company in order to establish both the level of risk and the potential return. The areas of concern during a due diligence process will include the competitive advantage of the company's product or service; whether the business has established a unique market positioning; whether operating and capital cost estimates are reasonable; whether sales momentum is growing, etc.

Quality of management resources for the company seeking the venture capital is also one area that is considered at the due diligence stage. Camp, (2002, pp2). Suggests, “early-stage companies rarely have complete management teams ready to manage without assistance from day one”.

He further went on to suggest that such companies must look elsewhere for management support until their teams can be completely filled out. The areas of management that these investors often look at include their board of directors and equity investors. This is due to the fact that the qualities of these management resources together with the quality of the management teams themselves are enormously large determinants of success among early-stage companies.

2.3.4 THE PARTNER MEETING PITCH

It's one of the last hurdles. In most venture capitalists' firms the full partnership or part of it must gather and review a deal before it is approved. The entrepreneur is therefore asked to present in front and answer questions. It is vital for the entrepreneur to answer questions directly and succinctly. Quindlen, (2000) pp.64.

2.3.5 DEAL NEGOTIATION

Cardis (2001, pp188). Mentioned, "If VCs are impressed they will send a Letter Of Intent (LOI)". He further stressed that; a minority of firms will not submit an LOI until after thorough investigations of the company. Sahlman (1999, pp304) mentioned, "All deals have certain elements in common as they require the resolution of certain key elements such as how cash and risk should be allocated, the incentives for each partner in the deal etc."

The business is normally divided into three ownerships that are the founders, the future employees and the venture capitalists. Once an agreement is made with the venture capitalists, after a completion of the first five stages then comes the most exciting of all which is building a great company and making lots of money for the entrepreneurs and investors. Sahlman (1999)

2.4 CRITERIA TO VC STAGE FINANCING

Most VCs focus on either early stage financing or later stage financing. Funds invested in early stages require high relative risk and consequently will require higher returns than later stage financing investments. White (2003).

Gompers and Lerner (2006,pp232).Stated, “staged capital infusions are the most potent control mechanism a venture capitalists can employ” they further went on to stress that the shorter the duration of an individual round of financing, the more frequently the VC monitors the entrepreneurs progress.

Fuerst and Geiger (2002,pp107) mentioned that, “financing in stages is important because due to the risk involved investors are willing to risk only a small amount of money and invest the rest as the project reflects some progress. Staging helps avoid risk because as explained by Young (2002, pp277). “It helps the VCs to monitor projects, maintain an option to discontinue investments and withdraw from unsound projects”.

2.4.1 SEED OR START-UP CAPITAL

The VC may have different functions at every stage of financing. De Menil (2002, pp264). Mentioned “the VC becomes interested in the organization of the company at the start-up stage”.

The source of fund for Seed and start-up financing is usually raised from the private sector. Seed and start-up financing can be grouped into stages or rounds of financing. Many analysts have viewed seed capital as the hardest parts of raising venture capital funds.

Sihler (2004, pp 39) explained, “At this stage sources of funding are few and much expenditure is needed to develop plans”. Gladstone (2001, pp15) stated, “These are the most difficult situations to finance as few people are ready to believe in an idea.” Most entrepreneurs have had to use their own resources or those of other individuals as seed financing. These early-stages of financing are usually smaller than turnaround or expansion financing.

2.4.2 EXPANSION FINANCING

Halpern, (1997, pp238) Said that “VC activity place emphases at this stage rather than the start-up phase of a company’s financing life cycle”. This he said might be due to the fact that most investors were at times not ready to invest in new firms.

This source of financing is the generic term for larger second-stage companies or one that is making sales and loses or development financing is given to companies making sales and profits. The source of funds here is usually from public-sector funds. At this stage of the financing the company has revenue and is not more than a year from breaking even .Sihler (2004 pp 41).

The expansion finance stage is where the VC normally may help find additional financing and help the company find additional clients and suppliers. De Menil (2002, pp 264).

The funds here aids the entrepreneurs initial expansion and for meeting the working capital requirements of the business.

2.4.3 GROWTH PHASE FINANCING

De Menil (2002, pp264). Suggested, “This is a stage where the Venture Capitalists help in a trade sale”. They stressed that this stage is where the company is making profit and is above the break even point but needs capital to support additional sales and profits.

Gladstone, (2002, pp17). Mentioned that, “at this stage the company is running well and also making profits but needs additional capital to continue its strong growth”. Major finance is provided by the VC here as at this stage he would have gained confidence about the safety of his investments and the long term returns he can easily anticipate.

2.5 SOURCES OF FUNDS FOR BUSINESSES

The raising of capital is not an easy task for entrepreneurs as especially where small scale Businesses are involved as more investors will like to invest their funds in successful ventures so as to get a good or expected return on the capital that is employed.

For smaller and upcoming ventures most investors must be impressed by these entrepreneurs as well as be confident that their ventures will be successful. It is not impossible to find venture capitalists willing to consider smaller deals, but it is challenging. De Menil (2002, pp 271).

Many critics and writers have expressed their ideas on the various sources of funds that are available for funding businesses. With innovation in the world's capital market, the range of prospective financial sources is quite extensive these days and still growing. The business climate in which to raise early finance is tough but there is funding available for the best of British biotechnology due to the competition that exists for limited funds. De Menil (2002, pp 265).

Glickman, (1986, pp 56) identified several sources of finance for businesses some of which are: Venture capital, Angel financing, Boot strapping, Franchising, Friends and family Initial public offering, Leasing, Personal savings, Vendor financing, individual's personal savings and institutional sources that supply capital such as factoring companies, finance companies, leasing companies, Insurance companies, Savings and loan associations, Investment bankers, and Small business investment companies.

A firm will seek capital in advance from external sources or investors which will include public pension funds, endowments and foundations, corporate funds, wealthy families, individuals, insurance companies etc. The areas from these sources of funds go about investing the funds by screening venture applicants and investigating them to know their merit.

Financial support for businesses or funding of business ventures comes in all shapes and sizes and one business situation and capital needs may not be the same, as other business needs. Finding money to fund one's business is easier if they have an idea of the amount that is required. Glickman, (1986, pp81) cited "after a business has identified that it requires funds, the various sources of funding must be selected by matching their needs with the appropriate type of lender".

A Boston entrepreneur relied on several rounds of funding for his business start-up and later felt that the business might not have survived had it not been for the funding support. The entrepreneur raised a total of \$9million before selling the business for \$40million in December 2004. Nuttall, (2005, pp 9).

Put simply, the bigger deals are just as easy for venture capitalists to do and carry less risk as down to the fact that doing smaller deals with smaller companies means investing in less depth of management and so greater risk.

Apart from the nature and size of business initiatives most fund houses will view the qualities of successful applicants for funding if they possess a good management team and having a very strong entrepreneurial character leading the team is the most important thing, supported by able and driven individuals.

There are various means through which one can get funds to startup a business and the following sources of funds has been identified:

2.5.1 FRIENDS AND FAMILY

Money from friends and family are the closest group of contacts and therefore the easiest place to find money for your startup ventures.

This is a great group to approach usually if one is looking for a smaller amount of money as startup capital. Vance, (2005 pp.120) stated, "This source of financing is often the first outside financing for a start up business".

He explained that it is due to the fact that they are those who know the entrepreneur best and are the easiest to persuade for investment and they'll want the least amount of control over the business as compared to businesses which are set up with the main aim of making profit.

Many people find it hard to raise much more than this, but it's not incredibly uncommon for an entrepreneur to raise several hundred thousand dollars from family and close friends as funds from relatives and friends are the safest financing method. Glikman (1986)

A research conducted between SME financing in the UK and in China had a large proportion of respondents who relied exclusively on financial support from their immediate family in terms of initial start-up funding Hussein, (2006 pp 13).

2.5.2 ANGEL INVESTORS

After friends and family the next source of equity capital for many entrepreneurs is high net-worth individuals known as Angels. Fuerst and Geiger (2002,pp109). They explained that Angel investors are individuals who invest their own private capital into startups or business ventures. This source of funds are a great resource if a business startup can't or don't want to round up money through friends and family.

In view of all this it is difficult to locate angels as angels are extremely difficult to find since they have a passion for privacy because their wealth makes them a target for all sorts of individuals and organizations seeking funding for commercial and charitable purposes. Mason, (1998 pp 33)

Angels screen projects carefully, provide investment advice to entrepreneurs, but are not actively involved in managing the project. Also angel finance arises if the project is not too unlikely to pay off, nor too safe, the financier has sufficient evaluation expertise, and either the costs of choosing the entrepreneur's most preferred action are not too high, or given the angel's information, the entrepreneur and angel would agree about how best to manage the project. Mason, (1998 pp 34)

2.5.3 VENTURE CAPITALISTS

Venture capital is also referred to as risk capital as it's the primary source of financing for start-up businesses and companies bringing out new product lines. Tuller, (1994). When considering an investment; venture capitalists carefully screen the technical and business merits of the proposed company. Venture capitalists on the other hand are professional investors who invest funds into a business startup and with the sole aim of benefiting from that fund. Venture capitalists do not only provide funds to startups but also do provide funds for the expansion of businesses. Tuller, (1994 pp 15).

Tuller (1994 pp 16) stated, “the venture capitalist may have no business experience applicable to the industry your company is involved in, and is focused on the potential rate of return your company can provide”. He explained that venture capitalists are serious full-time investors and demand a much larger share and much more control over your business than any other group. However, they'll also rally around you to do as much as possible (provide contacts, etc) to ensure that the business succeeds and they see a handsome return on their investment.

Sourcing capital from the right venture capitalist may provide more benefits than just access to funding, as a compatible venture capitalist will be able to provide advice and guidance based on past experience with other companies in similar situations. Chapman (1999 pp 69).

Typically, this will not involve a hands-on operating role, but will be in the areas of financial analysis and strategic planning which can be particularly helpful during the early stages of development. Chapman (1999 pp 69).

Mason, (1998 pp 37) stated, “Venture capitalists screen projects carefully, have extensive control rights and participate actively in decision-making”. He stressed further that venture capital finance arises when there is enough uncertainty about project outcomes that is projects are neither too risky, nor too safe, the financier has sufficient expertise about evaluating and managing the project, nor the entrepreneur's preferences over actions are not too strong.

Obtaining funds from venture capitalists can be difficult. Gladstone (2001 pp.15) Stated, “It is especially hard to communicate a new money making idea to a venture capitalists because every venture capitalists is constantly bombarded with ideas.”

2.5.4 BANKS

A research conducted between SME financing in the UK and in China had a large proportion of respondents who after two years in business relied on financial support of a bank and other financial institutions. Hussein, (2006)

In most instances when an entrepreneur has no collateral, the bank won't be the best source to look for funds as explained the banks are collateral-lenders. Trager, (1993 pp 126). Many entrepreneurs opt for a personal loan from a bank to help fund their new venture. The downside to this, of course, is that you are liable to repay this loan even if your business fails.

UK banks like HSBC offer overdrafts, small business loans and business cards. The bank also works with organizations such as the Prince's Trust, which guarantees small business lending, and the Government to provide the Small Firms Loan Guarantee Scheme. It also goes out of its way to ensure that startups get a named, local business banker to support their business.

A research by the BMRB international for the competitions commission shows that small or micro businesses in the UK acquire their external sources of finances from a number of sources of which the high street banks account for a higher proportion. Like any other investor, the banks look out for a good return on their investment. The bank when they have lent you whatever amount that is required apart from they taking any risks, another risks it involves itself in is that its giving away not his own money but the cash of the bank. They are the people that lend you an umbrella when the sun is shining and take it away when it starts to rain.

2.5.5 EQUITY FUNDING

Equity funding means an investor gives money to an investee in exchange for stock (equity) in the investees company. Equity funding is usually paid back when the investor sells his stock either to the company, on public market or to another investor. Paulson (2007, pp 44).

With this type of funding equity an entrepreneurs business is exchanged for the funding that is required by the entrepreneur. This is very commonplace in a startup company. In most instances the industrialists or entrepreneur typically gives up a percentage of their company so that your investors can own a piece of the action when your company grows successfully. Although this may seem like something that's free to give away, you will find out later on if your company is successful that this is a very expensive piece of collateral to use. Paulson, (2007 pp 45).

Bank funding is cheaper in the long run but equity funding provides more flexibility in that you are not committed to paying it off each month like a loan”. This is so because with equity funding the beneficiary gives in an asset in the form of collateral in exchange for the funds he receives. Equity funding can give the industrialists credibility as it can help in dealing with suppliers and potential customers the loan debt won’t be on your balance sheet.

2.6 HOW VENTURE CAPITAL FIRMS ARE FUNDED

Fullen (2006, pp41) stated, “The difference between a VC and an angel investor is the source of the money”. He stressed that angels invest their own money while VCs invest other people’s money. There are several sources that venture capital firms can receive funding and some of the sources are as follows:

2.6.1 PENSION FUNDS

Pension funds are one of the ways that venture capital funds can be raised. Raising money from pension funds provides numerous advantages to the venture capitalist in view of the fact that VCs can quickly raise a large amount of investment capital solely by approaching a few large pension funds. In addition, with changes in legislation and perceived high rates of return, many pension funds became eager to lend to venture capitalists. For all these reasons, private pension funds are an important source of venture capital funds especially in the US. Jeng and Weller (2000 pp245).

A research conducted by Black and Gilson, (1998 pp47) revealed that in 1994, pension funds provided 46% of venture capital money in the United States. They were of the view that Pension funds are much more significant in the UK than elsewhere. Raising money from pension funds may present a few disadvantages. As there may be regulatory compliance issues. In addition, managers of pension funds are sophisticated investors who may require additional disclosure.



2.6.2 WEALTHY INDIVIDUALS/VENTURE CAPITALISTS THEMSELVES

Power and Hill (2002, pp9) mentioned, “Wealthy individuals may use their own monies to invest in VC funds”. Often affluent individuals who are entrepreneurs themselves can invest their monies in up and coming venture capital firms. These investors often have their own jobs or are either a part of a network of a structured group. Advani (2006 pp 14).

2.6.3 FOREIGN INVESTORS

Price (2004, pp59). Stated, “This type of investors as limited partners and the venture capitalists who manage this type of funds are known as the general partners”. He stressed that after the requisite funds have been raised the venture capitalists also charges some interest as investment managers on the funds they give out; In order to pay interest to these limited partners.

2.6.4 CORPORATE SOURCES

Most Venture capitalists have raised finance from the corporate sector. Brown and Gutterman (2005, pp197) mentioned that, “a number of corporations have established venture capital sub-divisions that evaluate corporate investments in a fashion similar to a VC company”.

The funds raised from corporate sources are organized as limited partnerships with the VC firm acting as a general partner where as the corporate investors becomes the limited partner. The limited partner can be an insurance company, a corporation etc. Power and Hill (2002). They further went on to say that the VCs act like financiers but they are actually employees of a financial company much like a local commercial banker.

2.6.5 NON-PROFIT ENTITIES

This is another source that VCs can raise funds to invest in innovative ideas. Fullen (2006, pp32). Mentioned that, “government agencies and public foundations have missions to enhance lives and communities through economic development and growth”.

2.7 CRITERIA FOR LENDING

Anyone with experience of commercial lenders will know they are a relatively cautious lot, particularly with start-ups, and they are unlikely to share the confidence that your business will succeed. Margulis, (2005, pp60)

The article explained that owner-managers of small and medium-sized businesses believe that the cards are stacked against them in the financing game. They say that financial institutions consider their requests for financing as excessive compared to the amount of security and collateral they are able to provide. Financial institutions have stringent lending criteria and are highly selective in their choice of customers.

Margulis, (2005, pp60) stated, “If a venture does not show enough potential or its risk/return ratio is not adequate then it might not receive funding.” Many writers have come up with sets of criteria that venture capitalists look out for in entrepreneurs before they decide on funding a particular venture.

Money is a finite source and venture capitalists carefully analyze potential investments. On average venture capitalists receive about 650 proposals each year from entrepreneurs and they fund only 15 of these ventures forming 2% of all proposals as successfully funded proposals are those with successful or potentially successful entrepreneurs. Gaston (1989).

2.7.1 THE BUSINESS PLAN

Chapman (1999, pp161) stated, “A sound business plan is the first element of the request for funding and the process of investment usually begins with the assessment of its content”. The contents of the business plan in this instance will usually contain the long-term vision of the business, products, market, management structure and financial projections. From the outset preparing a business plan is essential as it serves as a model for the business and forces the entrepreneur to adopt a managerial mindset.

The common mistake that most entrepreneurs make with the business plan is that they are not clear when explaining the opportunity as lack of clarity with the business plan make most entrepreneurs lose their first chance to sell the business to the investor. Unrealistic projections

are one mistake that entrepreneurs need to avoid in their business plans. Power and Hill (2002)

2.7.2 ANALYSIS OF APPLICANTS PAST PERFORMANCE

Before most investors including venture capitalists approve a credit facility, they investigate a company's past financial history, analyze trends and compare results to businesses in the same industry. They determine the strength of the management team, analyze the competition and industry, and determine the marketability of product lines, Tuller (1994 pp51). He explained that this is understandable, since financial institutions have a vital responsibility to their depositors and a moral obligation to their shareholders.

The venture capitalists role is to marshal the sources of funding and channel capital into the hands of potentially competent management who have business propositions that have a reasonable probability of success. The skill of the venture capitalist is in sifting through a range of business proposals to identify those with the best prospects of succeeding. They understand the risks that will be faced and that high returns are needed from successful projects to compensate for other unsuccessful ventures.

2.8 IMPORTANCE OF VENTURE CAPITAL

There are several benefits associated with venture capital financing. The following are some importance of venture capital financing:

2.8.1 NATIONAL ECONOMIC GROWTH

Venture capital availability is vital in any nation as it helps in the economic development and growth of that nation thereby supporting and nurturing growing businesses throughout all cycles of a nation's economy Cardis (2001 pp 217).

Venture capital can play an important role in economic development by catalyzing entrepreneurship and accelerating economic growth. Since 1983 venture capital financing has invested 35billion in around 20,500 companies as more than two-thirds of biotechnology firms in the UK that are now listed on the London Stock Exchange have been backed by

venture capital funds. The growth of venture capital investment is a key indicator of the competitiveness and dynamism of an economy.

A research conducted by Global insights on the impact of venture capital which measures the economic importance of venture-backed companies to the US economy revealed that the venture capital industry whose impact on the US economy is not merely additive, but multiplicative as it has produced some of the true stars of the economic system and has in turn generated wealth and quality of life improvements that filter into every aspect of the society.

2.8.2 EXPANSION AND GROWTH

Venture capital availability helps in the growth and expansion of small and start-up companies. The majority of the young and dynamic firms in the UK including retail and consumer firms have enjoyed support in their infancy from venture capital funds. These funds have enabled them to expand rapidly and also achieve national coverage. For instance firms like Dolland and Aitchison, Waterstones, Whittards of Chelsea etc can all be found in almost every high street. All of these companies were backed by and got started with the help of venture capital. Chapman (1999 pp22)

A study conducted by the Nottingham university Business school suggested that 95% of investee-companies confirm that they would not exist or would have developed more slowly without venture capital investment.

A study conducted by the Coopers and Lybrand public policy and economic unit of data collected from 100 small and medium- sized venture-backed companies of the impact of venture capital in Australia found out that experienced sales growth of 42 per cent per annum as compared to six per cent sales growth for Australias top 100 companies. Chapman (1999 pp22). This research goes to suggests when small and medium-sized firms are backed by venture capital they intend contribute to the economy of a nation.

Venture capital assists in the development of new products or services. This is mainly due to the financial and contributory support that venture capitalists give to thriving and new businesses. McMenamin (1999 pp17). The past performance of venture capital-backed

companies shows that venture capital has been very successful at backing companies with innovative technologies and tremendous growth potential. Companies such as Apple, Compaq, Digital Equipment, Intel, Microsoft, and Sun Microsystems were all backed by venture capital. As a measure of the success of these companies, we can consider their total market capitalization, which in July 1997 were US\$369 billion Jeng and Weller (2000 pp 84).

2.8.3 CREATION OF EMPLOYMENT

More than 8% of jobs in the UK are in companies that have been backed by British venture capital. In the US for instance, venture capital funded companies, contributed about \$1.1trillion to gross domestic product (GDP) that is equivalent to 11% of the overall GDP and also accounted for about 12.5million jobs.

A study conducted by Coopers and Lybrand public policy and economic unit of data collected from 100 small and medium- sized venture-backed companies of the impact of venture capital in Australia found out that there was increased staff numbers by an average of 20 per cent compared to the average employment growth of two per cent of the top 100 Australian companies. Chapman (1999 pp 62).

Considering a policy which makes capital available to an enterprise which had previously been denied funds due to capital imperfections in the economy. Jobs will therefore be created by the newly funded enterprise through the employment that results from the firm's birth or expansion. Barker (1983 pp19)

In addition to creating jobs at a much faster rate than Fortune 500 companies, venture capital-backed firms have done well even when compared to other high growth companies. In 1995 revenue growth for venture capital-backed high growth companies was 36.8% compared to 23.8% for non-venture capital-backed high growth companies. Jeng and Weller (2000 pp89).

The dominance of small businesses as major employers holds true on the international level. In Japan for instance, 78% of the workforce are employed at company's with fewer than 300 workers. Small business owners do not have to be ashamed by their size but be proud that they are a major contributor to the success of the global economy. Rogers (2003 pp 33)

2.8.4 TECHNOLOGICAL PROGRESS

Young (2002, pp279). Stated, “As technology plays a very important role in both developed and developing nations, the funding of entrepreneurial enterprises becomes crucial to the future of their economies. Those countries that are unable or unwilling to nurture entrepreneurial environment will be left behind by the opportunities created by technological innovations”.

Venture capital is playing an increasingly important role in fostering technological innovation. He further mentioned that “Venture capital financing must be available to help entrepreneurial firms commercialize new technology and ultimately enable that technology to be used to increase productivity”.

It is however evident that the availability of venture capital funds is necessary for technological progress and innovation.

2.8.5 MANAGEMENT ASSISTANT

The difference between a venture capital company and a finance company is management assistance. Venture capitalists are more involved in your business than a finance company as venture capitalists frequently review operations and constantly make suggestions Gladstone (2001 pp27).

A distinguishing feature of venture capital finance is the additional support and knowledge transfer provided by the investing firms to the firm they invest in. Mani and Bartzokas (2004) When entrepreneurs acquire venture capital they are acquiring an additional brainpower to help your corporations achieve the goals that have been set as VCs support and strengthen the growth of a company and assists with its strategic planning, management recruiting, operations planning or introductions to potential customers and suppliers. Caselli and Gatti (2004 pp19).

Futter and Vaughn (2004, pp661) explained that, “VCs provide a valuable network of professionals, key executive candidates, investment banks and strategic partners”. Venture capital firms therefore do not only offer funds to firms that require it but also offer specialized skills in the form of advice in diverse fields.

2.9 PITFALLS OF VENTURE CAPITAL

There are some common blunders that entrepreneurs make the first time they consider taking on a private equity investor and if these blunders are avoided and given due consideration, then the rate of failure will be low. Caselli and Gatti 2004 pp22). Some of the mistakes are as follows:

2.9.1 MOVING TOO FAST

This refers to the fact that most entrepreneurs and in this instance those seeking venture capital funds make hasty decision on the type of venture capital funds and venture capitalists to opt for if they have to make a choice of the ones that best suits them. Caselli and Gatti 2004 pp24).

Just as venture capitalists have selection criteria on whom to fund it is also necessary for entrepreneurs to have a criteria when it comes to receiving venture capital funds. Holmes (2007, pp79). “Stated, “one strategy to adopt is to find investors with background in the company’s field”. She further went on to say that about a third of the 30-plus investors in a biotech start-up are doctors and the experience of these doctors who at the same time are the investors make them go beyond the traditional role (that is just being interested on their return on the investments made) to help the company as some of these doctors have helped the company to find sources of tissue and blood for samples.

2.9.2 INDECISIVENESS

If the entrepreneur does not know exactly what they want with respect to deal and how much funds, then they would end up with anything being pushed on them and later realize what mistakes they have made Caselli and Gatti 2004 pp24). The amount of money needed for a particular business is always difficult to determine especially at the early development stages. He stressed further that the start-up stage is the most difficult stage to raise funds to carry the company to the growth stage this is because the more money one raises the more equity ownership one has to give up to an investor.

2.9.3 INEFFICIENT MANAGEMENT

A research conducted by Arcapita Ventures using growth-stage companies during the first quarter of 2006 revealed that most CEOs are beginning to focus on other barriers to success beyond simply raising capital. The research also made mention that there was a 12 percent increase in venture capital investment and this implies that finding capital may be one of the easiest aspects of the executive's job; but how to deploy that capital in order to create returns for investors is increasingly a much more difficult task. Futter and Vaughn (2004, pp72)

VC firms are more prone to try a broad range of things rather than focusing on what they do best. This implies that most companies having ample resources will prevent a company from having its power alley and in the case of VCs, due to the growth of the industry, applicants may not be screened properly because it is easy to acquire the funds and they will end up not making the profits that they intended to. Gutterman (2005 pp197).

2.9.4 DEBT

If after the receiving of funds, beneficiaries do not put in the required structures, they will not be able to pay investors fixed sums of money in the form of repayments that were agreed at the beginning of contracts. Camp (2002, pp137) mentioned that, “debt in the VC context is often a written promise committing a company to pay an investor a specified amount on demand and at a fixed date in the future”.

2.10 CONCLUSION

This chapter has laid out the important assumptions presenting the foundations of this study. The literature review has also offered the theoretical setting which forms the structure of this study. The central part of this chapter has been to emphasize the importance of venture capital in an economy as well as the potential weaknesses it might present to an economy. Other sources of funding apart from VC financing were also examined. The outcomes of this chapter will enable the researcher to move on to define the methodology to be used in search of the objectives

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

This chapter will examine the approach used to investigate the problem set forth at the beginning of this study. It includes topics such as sample selection, objectives of the research, the interview process and the research limitations. The methods used as well as the constraints and difficulties experienced will be defined. Methodology refers to the overall approach to the research process, from the theoretical underpinning to the collection and analysis of the data. Collins and Hussey (2003, pp.66).

The methodology adopted for the purpose of this dissertation will be based on a case study. A case study is a research study that focuses on understanding the dynamics present within a single setting. Einsenhardt (1989, pp.27). The case study is based on the Ghana Venture capital Trust Fund (GVCTF) and Venture Capital Firms which makes up the VC industry.

The method of collecting data for this research process will be based on both primary and secondary data gathering. Interviews and questionnaire are opted for the data because they give first hand information.

3.2 SOURCES OF DATA

Data sources can be categorized as being primary or secondary sources. Primary data come from an original source and are collected with specific research question in mind. Secondary data represent previously recorded data collected for another purpose or as part of a regularly scheduled data collection procedure. Collins and Hussey (2003, pp.71).

The researcher used both primary and secondary data. The primary research method consists of the use of questionnaire and interview to gather facts, opinions and attitudes where as a secondary research method was used to gather qualitative data from the industry. The researcher employed the use of survey method to be able to elicit direct information and facilitate quick but inexpensive as well as accurate means of assessing information.

3.3 DATA COLLECTION

Primary data was collected through the use of questionnaires and interview. Respondents were selected by the use of simple random sampling. Two different questionnaires were used, one of which was to be administered by SME's and the other by venture capital firms. In the case of SME's the Sample size used by the researcher was 50 SME's as sampling fraction to represent the proportion of the total population selected for a probability sample. Also, the four registered venture capital firms including the Venture Capital Trust Fund were used by the researcher to represent the case for the research.

The questionnaire for SME's concerned knowledge of challenges faced by SME's in their quest for venture capital funds and the other form of questionnaire was on challenges faced by the venture capital firms in their disbursement of venture capital funds. The secondary data used in this study was obtained from the Venture Capital Trust Fund (VCTF) to aid the researcher in answering some of the interview questions.

3.4 DATA ANALYSIS

Quantitative techniques together with other qualitative methods were used to make major inferences from the data obtained. Evans (2005, pp.16). explained that data analysis focuses on data in the form of words and mathematical inferences. Data collected was analyzed using Microsoft Excell software. Responses were coded and analyzed, and variables were created out of the questionnaires and interviews. All responses were followed by interpretations and comments.

3.5 SCOPE OF THE STUDY

The scope of this dissertation intends to reveal challenges and prospect of the Ghana Venture Capital Industry with respect to the Ghana Venture Capital Trust Fund. (GVCTF) and the various VC firms associated to the industry. The research will however reveal whether the challenges faced by the industry were due to the sheer ineptitude of the Ghanaian and will also explore vividly prospects in the VC industry.

The theoretical background for discussion will be laid in chapter 2 where theory from specialists and authors will be clarified. Chapter three will address the objectives and research questions for this thesis. After which the main results found will be presented in the sections that follow. Chapter four seeks to give an account of the response to the interviews and analyses the results in relation to literature. In chapter five, the main conclusions for the research will be established as well as recommendations for an effective Venture Capital financing. This research is important in its contribution to how the Ghanaian economy can be improved through venture capital financing.



CHAPTER FOUR

ANALYSIS, FINDINGS AND DISCUSSION

4.1 INTRODUCTION

This chapter seeks to give an account of the response to the interviews and questionnaires and analyses the results in relation to literature. The findings of the study were related to a particular objective.

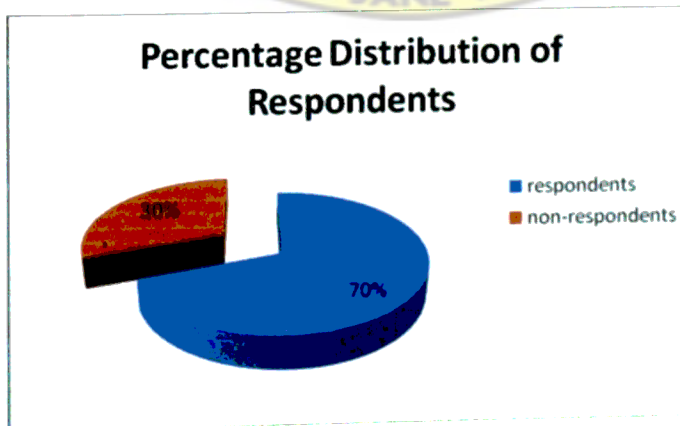
The researcher in this chapter considered the pattern to responses, its relationship and generalisation, the causes and whether it agrees or disagree to theory, the implications of result, reasons to the result, the things coming up which support a line of reason, and finally the significance of the new results.

4.2 PERCENTAGE DISTRIBUTION OF RESPONSES

With reference to the sampling fraction of 50 SME's to represent the sample size, only 35 SME's responded representing 70% of the proportion of the total population selected. The remaining 15 SME's representing 30% of the sample size did not respond at all.

This percentage distribution of respondents is indicated in figure 4.1 below:

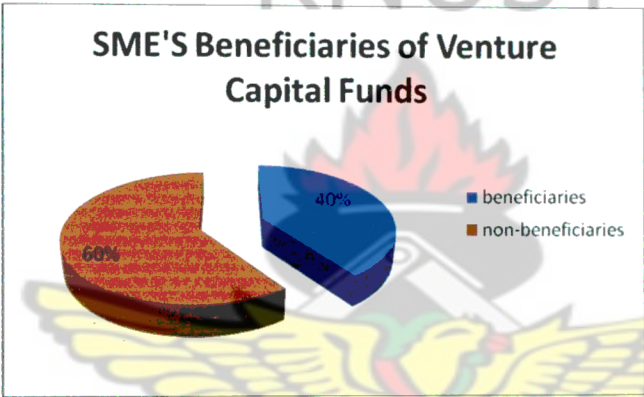
FIGURE 4.1



Source: Researchers findings

Among the 35 SME's respondents, 26 of them representing 74.29% were aware of venture capital financing with the remaining 9 SME's representing 25.71% of the 35 respondents knew nothing about venture capital financing in Ghana. Nevertheless, among the 26 SME's aware of Venture Capital funding, 15 SME's representing 57.69% among them have applied for venture capital funds before with the remaining 11 SME's representing 42.31% have never applied for venture capital funds before. Interestingly, only 6 SMEs representing 40% of those who have applied for funding has actually benefited from the funds, with the remaining 9 SME's representing 60% refused funding. The percentage distribution of beneficiaries and non-beneficiaries has been showcased in figure 4.4 below:

FIGURE 4.2



Source: Researchers Findings

This however indicates that a considerable number of SME's within the sample size are aware of venture capital financing but few have actually applied for the funds before, besides a greater number of SME's were refused funding due to processes and procedures associated with venture capital financing. It is however not surprising that a company like Bedrock Venture capital Finance company since its inception has approved funding for only 3 companies over the years. Among these beneficiaries were "Velox information systems-west legon, Waste recycling Ghana ltd-Tema industrial area and Mede wo Aseda ka farm ltd-Suyani".

According to fund managers of the venture capital firms, this situation is so because most SME's do not meet the condition precedents set as basic requirements. SME's however testified to this fact adding that the requirements are too many and at times seem impossible to meet. This is not good for an economy which is highly dependent on SME's.

However, responses gathered indicates that, the venture capital firms have resorted to Special Purpose Vehicle financing to provide funding to special industries and projects such as the Sorghum Value Chain project ongoing in the Northern regions. These funds are issued to special institutions such as Sinapi Aba Trust Fund which in turn issue them to farmers and other smaller businesses.

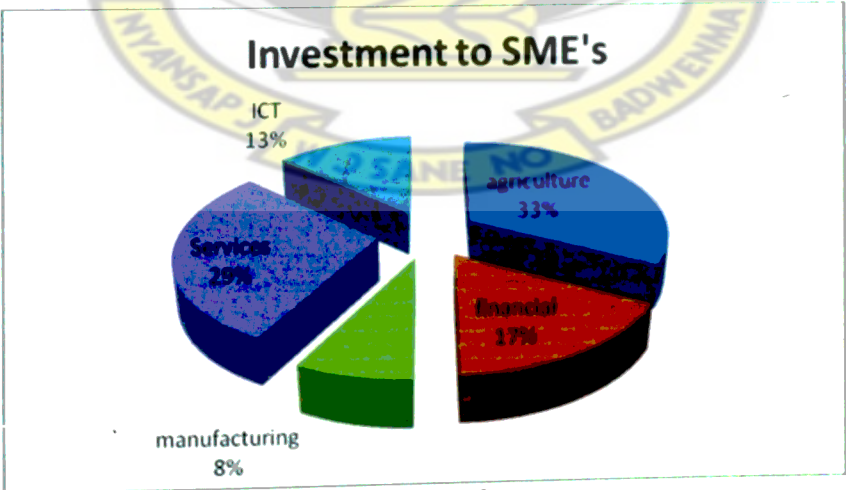
4.3 INVESTMENT TO SME'S

On the issue of how venture capital funds are disbursed to SME's, the responses generated were that, all the venture capital firms are general purpose funding companies and invest in all sectors of the economy except direct imports to sell.

According to Power and Hill (2001, pp.35), venture capital funds are usually disbursed to priority sectors of the economy. However, there are priority sectors for funding which are established periodically by the board of trustees in line with government agenda for the year.

Currently the priority sectors for funding are: Agriculture and allied sectors are Information and communications technology (ICT), Tourism and pharmaceutical industries. The VC firms have so far invested approximately GH¢5.8 million in the following sectors: Agriculture, ICT, Services, Financial and Manufacturing Industries.

FIGURE 4.3



Source: Venture Capital Trust Fund

It is estimated that about a cumulative benefit of approximately 858 jobs will be created with a projected tax revenue of approximately GH¢5.9 million within the next five years resulting from investment of the venture capital funds in those areas.

4.4 MONITORING AND EVALUATION

The VCTF has designated monitoring and evaluation procedures and reporting format with appropriate benchmarks and outcomes for ongoing review of investments to ascertain compliance. The standard reporting which was developed in 2006 is currently being implemented. All venture capital firms provide periodic operating reports on their activities to enable the Board of Trustees to ascertain the efficacy and efficiency of its policies and guidelines. Schertler (2003, pp.49). The researcher has however tabulated the monitoring and evaluation of the VC funds below to showcase regional disbursement to SME's. Table 4.1 below provides exact figures of disbursement made in the subsequent years till date.

TABLE 4.1 MONITORING AND EVALUATION OF REGIONAL DISBURSEMENT OF VENTURE CAPITAL FUNDS TO SME'S

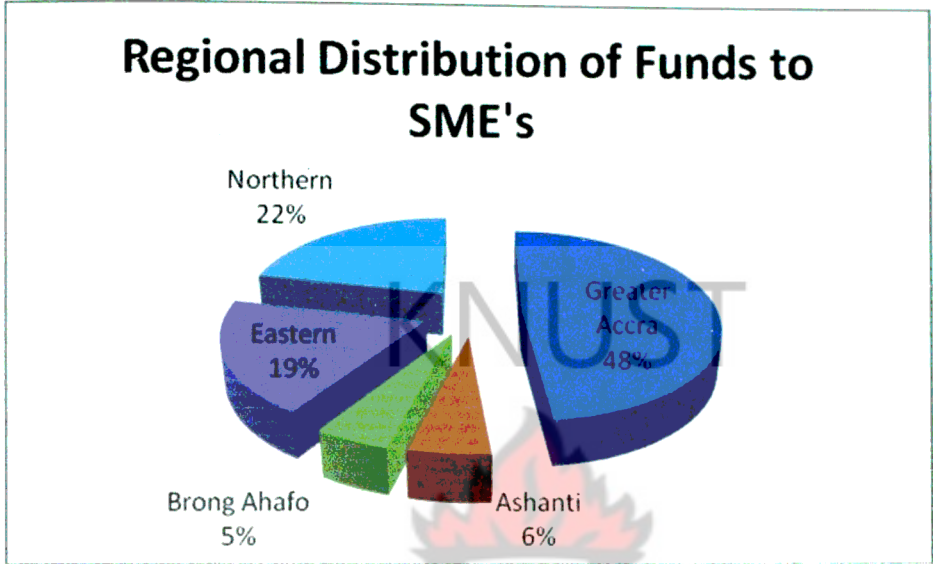
NO. OF INVESTMENTS	REGION	TYPE OF INDUSTRY	APPROVED AMOUNT GH¢
2	Ashanti	Agro-processing	200,000.00
			361,263.00
TOTAL FOR REGION			561,263.00
3	Brong Ahafo	Poultry	36,528.68
			359,180.00
			105,000.00
TOTAL FOR REGION			500,708.68
2	Eastern	Pharmaceuticals	1,800,000.00
		Agro-processing	85,698.22
TOTAL FOR REGION			1,885,698.22
12	Greater Accra	ICT	228,980.68
		Education	271,319.80
		Finance	465,000.00
		Poultry	426,173.56
		ICT	186,000.00
		Pharmaceuticals	40,000.00
		Agro-processing	61,500.00
		Services	186,000.00
		Manufacturing	242,500.00
		ICT	490,300.00
		Savings and Loans	700,000.00
		Development	1,500,000.00
TOTAL FOR REGION			4,797,774.04

Source: Venture Capital Trust Fund

A cursory look at table 4.1 shows that only four regions benefit from venture capital funds with the exception of the three major northern regions namely, Upper East, Upper west and

the Northern region who constantly receive funds for Sorghum Value Chain Project. It was however deduced that only seven regions are currently benefiting from these funds. It was observed that Greater Accra is the highest beneficiary of venture capital funds.

FIGURE 4.4



Source: Venture Capital Trust Fund

The above figure 4.2 indicates percentage distribution of funds to priority regions in Ghana. The values were derived from the amounts which were allocated in table 4.1 above. Greater Accra is the highest beneficiary of 48% of the overall amounts distributed, followed by northern region with 22%, Eastern 19%, Ashanti 6% and Brong Ahafo with 5%.

This indicates that the venture capital firms needs to review their investment strategies to enable them extend to other regions which are yet to benefit from venture capital funds in order to have a fare distribution of venture capital funds in Ghana. Mani and Bartzokas (2004, pp64) indicated that there is the need to exploit all potentials avenues which needs venture capital financing to benefit of small business.

The respondents added that they pay periodic visit to the project site, request monthly cash flow statement, quarterly and yearly financial statement. They also take a directorship position on the board of SME's they invest in to safeguard and also to participate in decision making. They also added that through their due diligence, they try to get every necessary information from investee companies. These responses answered the research question on data on beneficiaries and how they are tracked.

TABLE 4.2 DISBURSEMENTS OF VENTURE CAPITAL FUNDS TO SME'S FOR THE PRODUCTION OF SORGHUM

Year/ season	Number of farmers	Amount (GH¢)	Regions	Sorghum produced (MT)
2006	1,500	360,000.00	Norther, Upper East & West, Brong Ahafo	903.4
2007	3,500	800,000.00	Norther, Upper East & West, Brong Ahafo	2,000
2008	4000	1,000,000.00	Norther, Upper East & West, Brong Ahafo	3,000
Total investment in three years		2,160,000.00		5,903.4

Source: Venture Capital Trust Fund

The Table 4.2 above showcases the distribution of funds to the Northern and Brong Ahafo region for the production of Sorghum for Ghana Brewery Limited, as replacement of imported barley, which the company uses for its brewery processes. According to respondents, the project in 2007 mobilized over 3500 rural sorghum farmers and benefited over 24500 more down the production and processing chain, including extension staff, agro mechanization staff, farm hands, warehouses and other storage facilities, transport workers etc.

Gladstone, (2001, pp.13) stated that there is the need to make direct specific investments with venture capital funds to achieve national goals. This however is in line with what the VCTF did by providing funds to Sinapi Aba Trust to enable them to provide funding to farmers in the three northern regions for the production of Sorghum for Ghana Brewery Limited

This VCTF's investment resulted in total production of sorghum to GUINNESS Ghana limited from the previous year of 100 metric tons to 903.4 metric tons by December 31 2006, over 900 percent in only one year. The sorghum sector recorded unprecedented sales revenue of 3.73 billion compared with previous year sale of 350 million.

This is very refreshing as compared to the gloomy reports from other sectors of the economy. Similar investments from the VCTF and the Venture Capital companies in other strategic

industries like steel, bamboo (to save deforestation), fisheries and energy to name a few can solve their long term financing problems. Indeed this is a clarion call on all SMEs and SME association to position them to benefit from venture capital funds. However there are major challenges or hurdles to overcome before the Ghanaian entrepreneur can access venture capital funding.

4.5 CHALLENGES FACING VENTURE CAPITAL FIRMS IN GHANA

Ghana being a developing and transitioning country, its Venture capital market has some special characteristics in line with challenges. The researcher was however able to ascertain the following challenges generally after critical review of responses gathered during the research process. The challenges facing the Venture Capital firms are as follows:

4.5.1 INADEQUATE FUNDS FOR VENTURE CAPITAL FIRMS

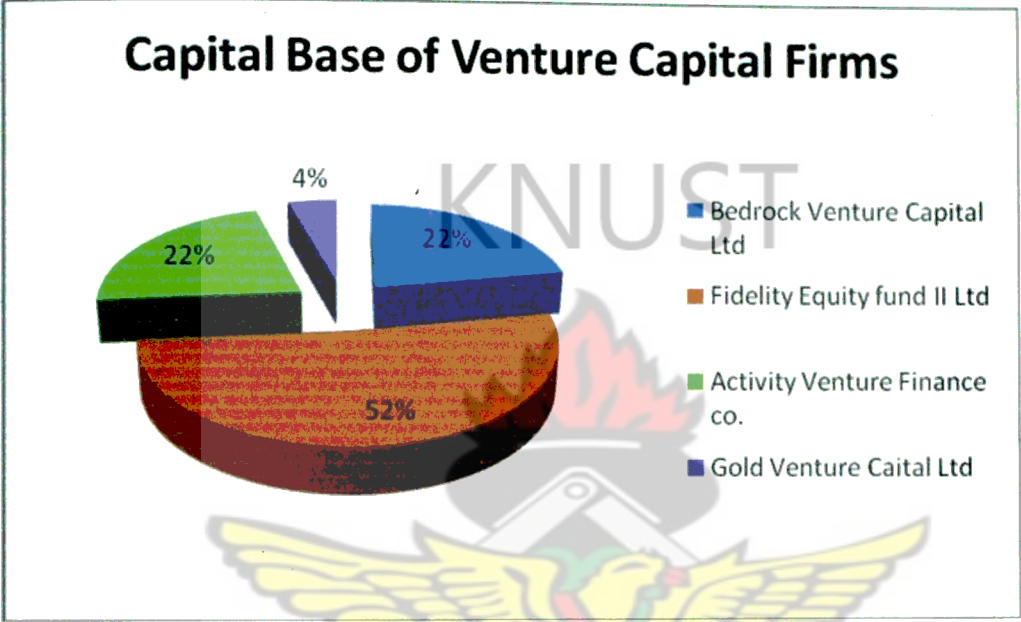
The source of funds to support the Venture capitalists is very limited. Responses revealed that the Trust depended heavily on proceeds from the National Reconstruction Levy, grants and donations with limited external sources of funding. According to respondents, venture capital firms are highly dependent on the Venture Capital Trust Fund and other Private Institutional Partners but still does not have adequate funds to support SME's and the business community.

The only source of funding for the Trust Fund was an amount equivalent to twenty-five percent (25%) of the National Reconstruction Levy. From the responses gathered, since inception to date, the VCTF has been provided with seed funding of GH¢22.4 million representing 25%. However the National Reconstruction levy (NRL) was discontinued at the end of 2006 fiscal year and as a result of the curtailment, the VCTF did not receive any additional funds in the subsequent years.

Private Institutional Partners of the Venture Capital Finance Companies are Ghana Commercial Bank and Agriculture Development Bank who partnered VCTF to form Activity Venture Finance company with a total endowment of GH¢10 million. National Investment Bank and SIC Insurance Company joined VCTF to form Bedrock Venture Capital Finance

Company with total capitalization of GH¢10million. Fidelity Capital Partners, SSNIT and European Private Equity Investors partnered with VCTF to form Fidelity Equity Fund II Ltd which has total capitalization of \$23.5 million and finally, Gold Coast Securities and VCTF established Gold Venture Capital Limited with a capitalization of GH¢2 million from each partner.

FIGURE 4.5



Source: Venture Capital Trust Fund

With reference to figure 4.5 above, Fidelity equity fund II ltd has the highest capital base of \$23.5 million representing 52% because it's the only venture capital financing company which has partnered with a foreign subsidiary, thus European private equity investor which is also supported by SSNIT which according to fund managers is supporting the firm with not only capital but other technical assistance to help sustain the operations of the firm.

Unfortunately Gold Venture Capital Ltd has the lowest capital base of only GH¢2million representing 4% and it's not surprising that it is currently not in operations due to lack of funds to support operations. Bedrock and Activity represents 22% each and are currently in full operations. According to fund managers of Bedrock and Activity, the two companies are still in operation because of support from the Banks which happen to be the mother companies that came together to form the VC companies. This is a clear indication that the Venture capital firms are in high need of funds to support their operations since the money coming from the VCTF is not enough. The directors of the companies have sent appeals to the government and the foreign business community in cry of support.

Venture capital funds can be raised from corporations or corporate bodies. Thus Gutterman (2005, pp197) mentioned that, "a number of corporations have established venture capital sub-divisions that evaluate corporate investments in a fashion similar to a VC company".

Maylor and Blackmon (2005, pp.26), indicated, that government should allocate substantial amount of funds annually to support private sector development, adding that the flow of venture capital funds should be consistent to help sustain its operations. This assertion is however different from what is currently the case in Ghana. The researcher is however optimistic that if the government injects enough funds into the industry, will help facilitates operations of the trust fund and the issue of inadequate funds will be a thing of the past.

KNUST

4.5.2 ASSESSMENT OF INVESTMENT CRITERIA

The assessment of applicants before funds are issued is another major challenge faced by venture capital firms. To respondents it was part of the procedures applicants must go through before they can assess any funds and also stressed the importance of business plans in the venture capital environment. This assertion is however supported by Chapman (1999, pp.22), who explained that a sound business plan is the first element of the request for funding and the process of investment usually begins with the assessment of its content. Most business plans are rejected after analysis.

According to respondents of the venture capital firms, The factors used to calculate credit score and to check applicants credit payment history, current debts, time length of credit history etc, to know whether applicants can payback the venture funds they receive are totally out of place, in that applicants usually see the assessment processes as unreasonable checks and balances and however fail to comply. By this, the venture firms are not able to make proper documentation of applications. The respondents added that assessment of investment criteria is done manually and this makes it difficult to check the authenticity of information provided by applicants. This has been the cause of unnecessary delay in the assessment and facilitation stages. The respondents concluded that, the assessment of investment criteria is seen as cumbersome by most applicants.

These condition precedents are outlined below: thus SME's seeking for funding should initially submit the following documentation to any Venture Capital Financing Companies:

- A comprehensive Business Plan with three year projection.
- Audited Financial Reports for past three years where applicable
- Tax clearance certificate
- Incorporation papers
- Any other information that may be requested.

Once an application is submitted the following processes and procedures are initiated:

- Analysis, Evaluation and Due Diligence by fund manager
- Initial(Desktop) Review-Review of Business plan and other documentation including incorporation documents, tax clearance certificate, etc if the proposal is found to be viable then
- Second round review thus Verification of claim, visit to facility, Authentication, title search, etc.
- Due Diligence-Legal, Technical and Financial.

All the processes are necessary because with Venture investment no collateral or security is required against the investment. A term sheet is negotiable and if agreed by both Fund Manager and Business Promoter it is submitted to the investment committee of the VCFC for decision.

The term sheet will spell out:

- Structure and method of financing to be provided to the investee company (Equity, quasi-equity or combination)
- Responsibilities and obligations on both sides.
- Percentage of share ownership for the investment by the venture finance company.

The investment committee either approves or rejects the application. If approved, final due diligence to ascertain current status of the potential investee company. If there is no material change in the business since the application was filed, then agreement is signed.

The Disbursement of funds is subject to Conditions Precedent that is:

- Corrections required to be made by Business Promoter in the business before start of injection of Venture Money.

The disbursement of funds is done by:

- Drawdown method based upon approved business plan.

This method reduces incidence of funds in the hand of business owner to avoid misapplication of funds.

An Exit Format is agreed by parties in the investment agreement. The exit strategies include:

- Majority Shareholder buy back
- Third Party Private Placement
- IPO on the Ghana Stock Exchange.

4.5.3 INFORMATION ASYMMETRY

The high-tech enterprises in Ghana, relying on various sources of capital, have undergone a difficult process of development although Ghana has a few high-calibre entrepreneurs in the industry due to Information Asymmetry. A large number of these companies are run by inexperienced individuals said Glickman (1986, pp.56). He further stated that as a result of these firms operations are based on the traditional political-economic system rather than international practices.

There exists an information asymmetry between the managers of companies and the outside investors. The company management usually monopolizes the information sources and even falsifies information to the investors at times, forcing the investors to a passive position or even causing the company's failure. By international practice, both parties should be honest with each other and exchange information openly. After all the venture capital investors add value by using their management and technological expertise to improve the company's performance.

According to respondents, in Ghana, some business managers deliberately conceal their companies weaknesses while exaggerating their strengths at negotiations. Once cooperation has been reached, albeit based on flawed information, venture capital companies will be trapped in a *catch-22*, a situation dreaded by venture capitalists.

There is Serious Exclusionism in that, companies in Ghana, particularly those run by the locals, have a tendency to refuse to cooperate with outside investors. Even when some have to cooperate with venture capital firms due to shortage of capital, they remain aloof, skeptical, and reserved. Such a situation makes it hard for venture capitalists to find a basis for cooperation.

4.5.4 LACK OF SERVICE PROFESSIONAL INFRASTRUCTURE

The growth of venture capital involves not only companies and venture capital firms but also intermediary agencies such as law firms, accounting and assessment centres said Coyle (2000, pp 11). Unfortunately Ghana still lacks agencies that offer proper service to venture capital community. According to respondents, this problem is two-folded; first the lack of quality assessment agencies leads to an inaccurate assessment of the project value, a lengthy investment circle and additional investment cost. Secondly some of these agencies are solely profit seeking thereby compromising the validity of their assessment and rendering their assessment morally unreliable.

At present, VC firms in Ghana have to shoulder the multiple tasks of seeking for investment project, assessing the project, avoiding legal risk, planning the finances of invested companies and helping the portfolio companies to list on the stock market. In other words, Ghana VC firms play the role of investor, assessor, investment banker and lawyer all at once. Such overwhelming responsibility may impair the venture capitalists ability to fulfill his duties towards both the invested companies and his fund's investors.

4.5.5 INADEQUATE LEGAL FRAME WORK

Although Ghana has set the national strategy of revitalizing the country through science and education, it has yet to set a legal framework in support of venture capital investment. The Ghanaian venture capital community has been growing in the absence of proper protection by law. Internationally, however, Venture capital invested companies are mostly run by a few partners and can be registered with little capital requirement. Chapman (1999, pp.18).

This issue needs to be addressed in order to achieve the objective of the VCTF of providing financial resources for the development and promotion of venture capital financing for (SMEs). A distinguishing feature of venture capital finance is the additional support and knowledge transfer provided by the investing firms to the firm they invest in. Mani and Bartzokas (2004, pp61)

Respondents however declared that due to high level of default among beneficiaries, this issue serves as major constraints especially during disbursement of funds to SME's. This is satisfactory as practiced in most countries where venture capital financing is well established. Chapman (1999, pp 28).

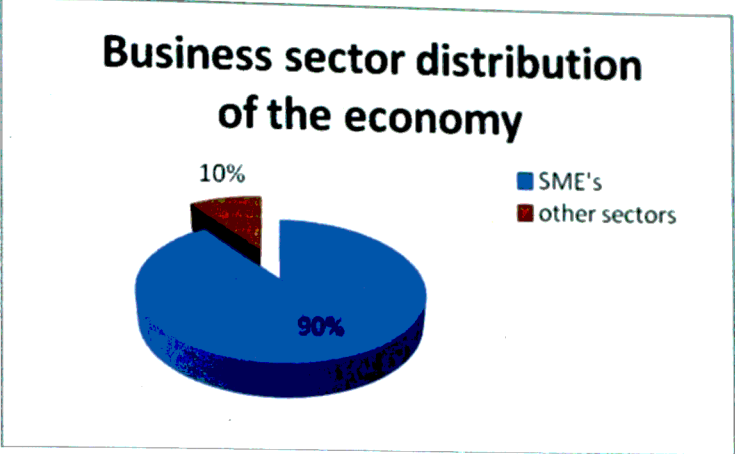
4.6 SMALL AND MEDIUM-SCALE ENTERPRISE (SME)

Under the Venture Capital Trust Fund Act, 2004 (Act 680), a small and medium-scale enterprise (SME) is characterized as an industry, project undertaking or economic activity whose total asset base, excluding land and building does not exceed the cedi equivalent of US\$ 1 million in value. Venture capital finance companies may invest in all stages and sectors of the economy.

The investment may be project that are either start-up or in growth or expansion stages. Gompers and Lerner (2002, pp.51), stated, "Staged capital infusion are the most potent control mechanism a venture capitalist can employ"

Generally, the fund is available to all sectors of the economy except direct imports to sell. However, priority would be given to certain sectors of the economy in line with the government's economic growth policies and objectives from time to time. Currently, the priority sectors identified are ICT, Tourism, Agriculture, Pharmaceutical and Energy.

FIGURE 4.6



Source: Venture Capital Trust Fund

The SME sector from figure 4.4 constitutes in excess of 90% of the economy of this country. These SME's if properly structured and capitalized, have the potential to spearhead accelerated growth of this economy in the middle income status.

Unfortunately since there is a dearth of long term investments funds for SMEs it has become imperative for the Government to set up a scheme that will provide long term funding for the high risk investments needs of the SME sector . Such support is the recognition that the private sector is the engine of growth of the economy and to promote and support them, is to engage the private sector as equal partners to help government achieve the country's development goals.

Small and Medium-Scale Enterprises (SME's) seeking to access funding under the Trust Fund Act should apply directly to any of the four major Venture Capital financing companies, thus Bedrock Venture Capital Finance Co, Activity Venture Finance Co, Fidelity Equity Fund II Ltd, and Gold Venture Capital Limited which is currently not in operation.

4.7 CHALLENGES FACING SME'S SEEKING VENTURE CAPITAL FUNDS

In connection with challenges faced by SME's, the respondent answered positively. Out of 26 SME's aware of venture capital financing, 21 among them representing 80.76% attested to these challenges as major hurdles of much concern. They highlighted on the following as major challenges.

4.7.1 DILUTION OF CONTROL AND OWNERSHIP

The main drawback to SME's is that it involves the surrender of at least part ownership of the business as venture capital companies usually require a seat on the company's board of directors, and insist on shareholder agreements giving them certain rights.

According to respondents, corporate venture units offer many potential benefits but inevitably there is a cost. Some are infamous for demanding terms like more than 50 % ownership and control in exchange for an investment. This sort of agreements if established imposes some kind of compulsion on the entrepreneur or beneficiaries.

Responses gathered implied that many entrepreneurs who have ideas avoid raising capital from venture capitalists. This might be due to the skepticism with which most potential investors approach their concepts and the demand for substantial equity and control.

In a bid to avoid VCs taking much control of a venture, an entrepreneur might deter potential investments. In order not to repel potential investments from receiving funds, start-ups seeking venture capital need much advice on structuring deals that do not give away too much control while still enjoying benefits that venture capital has to offer.

Futter and Vaughn (2004, pp661) mentioned that "VCs generally seek more control of a company than other investors". This acquisition of control will normally arise as a result of contractual agreements.

From the responses gathered, SME's are not comfortable with the influence and dilution of control by venture capital firms. This makes it difficult for SME's to accept the terms associated with the funds. Most of the respondent indicated that, for fear of loss of control and ownership they will rather opt for other forms of funding either than venture capital funds.

4.7.2 UNREALISTIC PERFORMANCE EXPECTATIONS

With regards to the responses gathered, about 65% of respondents representing 17 SME's actually emphasized that there is a high degree of unrealistic performance expectations on the part of venture capital firms. Entrepreneurs see the venture capitalists demands for rapid scalability as unrealistic or in some cases ridiculous but these expectations are necessary for sustaining the investor's participation in the fund. Venture capitalists are not interested in investments based on motives of faith, hope and charity but are run exclusively for profits.

Venture Capitalist expects a reasonable return on investment for a venture fund, but these returns turn out to be unreasonable, exorbitant and very high returns on the part of SME's. From the responses, this is a major detriment to SME's seeking venture capital funds. This reason is so because venture capital financing is seen as high-risk, high reward business and investors in venture capital know that they are taking substantial risk with their money and most of their investments will be worthless with time.

According to Cardis (2001 pp49) , although most of these investments will be worthless and about 7 out of 10 companies in an investor's portfolio being closed down or sold at a loss to the investors, yet still venture capitalists expect that the fund will produce annualized returns of 30% to 40%. Venture capital is high-risk because the possibility of business failure is high and even if the business is successful the investment is illiquid as shares in a private company are not resold easily and their value may decrease Coyle (2000 pp21).

4.7.3 IMPOSITION OF MANAGEMENT STYLES

Ghanaian businesses shy away from equity funding and would not combine their business due to the imposition of management styles on existing management. According to respondents, partnership agreements from venture capitalist come with many disadvantages as compared to the benefits. From the responses gathered, SME's are not comfortable with venture capital firms imposing their management styles on them. They added that the introduction of such management styles completely erode their own style of management which they are conversant with. Majority of the respondent indicated that because of issues

concerning imposition of management styles, they wouldn't want to partner under any circumstance.

One criterion for funding a particular business is for the entrepreneur to be able to demonstrate leadership ability. It is important that people staff the founding team with experience in technology and business as it is one of the main reasons why success stories of companies managed over time and organized by one entrepreneur are rare. Fuerst and Geiger (2002 pp113). With good management capabilities, a product or venture can be made successful.

Venture capitalists will almost always prefer a first-rate management team with a second rate product. Venture capitalists decide that if founders of a business and its management team cannot successfully execute the business plan they will not fund the idea. To venture capitalists dynamite ideas will go nowhere without dynamite people. Cardis (2001 pp 206).

SME's who has already benefited from the funds also concluded that this very reasons wouldn't encourage them to seek for the funds once again. They added that venture capital financing comes with strict measures and doesn't allow them to diversify as they would have wished. They conclude that this issue of partnership deter a lot of SME's in securing for venture capital funds. Maylor and Blackmon (2005, pp.19), suggested that "there is the need to partner business in order to benefit from innovative ideas and other technical assistance including capital".

4.7.4 REQUIREMENTS AND STANDARDS

According to respondents, the basic requirements and standards of funding by venture capitalist are extremely unrealistic, in that the requirements are too many and unreasonable. It was deduced that 60% of SME's representing 9 SME's from 15 respondent who has actually applied for venture capital funds before with regards to the sampling were refused due to requirements and standards.

It was also revealed by responses gathered that virtually all SME's respondents were almost always unprepared for examination when they applied for funds. With these gaps in

applications it is almost impossible to gain access to venture capital finance. According to respondent, there is too much bureaucracy in seeking for venture capital funds, in that the processes involved are too cumbersome. They added that the process and procedures aren't friendly and turns to deter most SME's in their quest for venture capital funds.

Schertler (2003, pp.31), suggested that, "Venture capital financing companies should ensure flexibility in requirements for venture funds to make it accessible to the business environment. This in the researchers view if adhered to will help curtail this existing problem

4.7.5 COMPELLING MARKET OPPORTUNITY

With regards to responses gathered, 15 SME's representing 57.69% of respondents indicated that, one of the major challenge facing SME's is compelling market opportunity which is usually ascertained by venture firms before funding. According to respondents, the existence of a good market opportunity for entrepreneur's products and services is one criterion that lenders look out before they fund a venture. When you approach VCs you need to show them a compelling market opportunity. To venture capitalists the market risk is more significant than the people risk, and it is the market that is first and management is second. According to Cardis (2001 pp206), this is because venture capitalists can always add new people to strengthen the team but can rarely create a market.

The respondents however concluded that it is very difficult on their part to have a compelling market opportunity. This however deter venture capitalist from funding SME's with a compelling market opportunity.

Paulson (2003, pp35) supported this assertion by stating, "VC funds like to work with companies that have an existing market growth so that the provided money enables rapid expansion". If ones ideas or proposal does not involve a sizeable market, the company cannot grow large enough for venture capitalists to make their required return on investments.

4.8 TECHNICAL ASSISTANCE (TA) PROGRAM

Venture capital trust fund has established a Technical Assistance (TA) program that provide subsidized or free business support to various small and medium scale enterprises who have been approved for funding by the venture finance companies. This was the response gathered when a question was posed on whether SME's get any support after funds have been offered. They further implied that in 2007, request for TA in the area of management and marketing strategy were received by fund managers on behalf of investee companies.

The TA intervention is aimed at providing support to approved investee companies to increase efficiency in their operational capacities and enhance potential growth, expansion and capability to provide employment opportunities to others, leading to wealth creation and poverty reduction.

The Technical Assistance program adopts a three-tier strategic approach to provide services to the small and medium scale enterprises:

- Training/Capacity Building
- Mentoring/Matching
- Contract services by Business solutions service providers

According to Power and Hill (2001, pp.34), the essence of the Technical Assistance is to create efficiency in the operations of the SME's for successful investments. This assertion is no difference from what the VCTF inferred.

4.9 THE STATE OF VENTURE CAPITAL FINANCING IN GHANA

The Venture Capital Trust Fund has made funds operational to enable small and medium scale enterprises (SMEs) to source funds for expansion. Many other Venture Capital Financing institutions would be set up with an accumulated capital of \$44 million. This would be done with other venture capital financing companies, such as the State Insurance Company (SIC), the National Investment Bank (NIB) and the HFC Bank. These companies are expected to provide a counter funding totaling \$33 million, while the fund would provide \$11 million to support the program.

It was disclosed that the fund had an option to provide direct funds from its resources while at the same time the fund was in partnership with other firms to provide adequate funds for SMEs. It was underscored that the importance of the initiative, and that it would ensure the development of the venture fund in the country.

The fund had the objective to grow SMEs to create jobs, and that government is not shy to lend money to SMEs through the venture capital fund to facilitate their expansion and growth. The decision to partner various financial institutions to provide funds to SMEs was part of its mandate to provide resources, as well as develop the venture capital finance business in the country. The fund has a two – prong approach that is the provision of funds to SMEs and to develop and promote Venture Capital Finance operations in the country. It was disclosed that the fund currently had \$25 million for its operations and added that through such arrangement with the

Venture Capital financing companies it hoped to increase its funds to generate the needed response. Apart from providing funds to SMEs, the fund also had set a Technical Assistance Program to help SMEs who demanded such services and to provide assistance to them in various expertises. A database of consultants had been created to provide consultancy services to SMEs. Support available to SMEs is not in the form of only cash, but also the provision of technical assistance to see to their development.

The aim of the fund was to ensure that direct cash to beneficiaries was reduced to minimal level as such funds were usually misapplied. Agriculture, pharmaceuticals, information and communication technology and tourism were areas that had been targeted for financial support from the fund. It was not the intention of the fund to take over where companies were investing but rather to provide the necessary finance and technical support to enable those companies to grow.

The VCTF urges SMEs to take advantage of the opportunity provided by the government to seek funds for their operations. SMEs need to also seek legal counsel when negotiating for funds since it was important for SMEs to know the rules of the games. It was dismissed that the notion that SMEs would be provided with start-ups and that startup companies would equally have to provide counterpart funds to be able to access the fund.

The Venture Capital Trust Fund said the fund would provide new ways of doing business in the country, especially for the SME sector, adding that in the next couple of years, Ghana should be able to have a robust industrial base. The VCTF also called on financial institutions to take advantage of the generous tax exemptions that had been provided to develop the venture capital business in the country.

KNUST



CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter seeks to discuss the summary of findings, draw conclusions based on the result of the study and make recommendations to rectify the problems identified.

5.2 SUMMARY OF FINDINGS

In Ghana some have seen in venture capital the harbinger of rampant individualism and greater income inequality and social differentiation. The emphasis on large capital gains is thought by some to bias the economic systems against incremental process innovation and large scale systems innovation. Despite these concerns, venture capital as an institution for supporting innovations has experienced a pattern of cyclical but massive secular growth in recent times

It was also clear from the study that before funds are disbursed to beneficiaries investee companies will look out for Marginal quality, does the business have requisite management skill and acumen in place that can make a success of the project when entrust with funds being requested. This is where most of the diligence concentrates. Projects cost would be thoroughly examined and confirmed independently. Implementation was another issue where most projects encounter considerable challenges at the implementation stage and this call for careful review by the investor.

Considering challenges to the venture capital industry in Ghana, the findings revealed that the major challenges faced by SME's were centered on Ignorance, Attitude, Partnership and Due diligence. Whereas the challenges faced by the venture capital firms concerned Awareness to the business community, Assessment of investment criteria, Information asymmetry, Lack of service professional infrastructure and Inadequate legal framework.

The researcher also realized that one of the basis of monitoring funds was through financial commitment of investee, thus SMEs meeting up to their expectations by dealing with

information asymmetry in relation to provision of financial information by making available financial statement and other financial receipts for verification.

In addition to this was Transparency and information flow thus the investee must be prepared to adhere to a disciplined flow of information and a good governance regime. A venture capital company would not deliberately turn down an entrepreneur's application provided it meets the above application conditions. Most venture companies would usually Endeavor to see that any gaps are properly bridged before approval. Indeed the venture capital trust fund has come to play the role which has been missing in the development of the SME sector. There is every indication that the coming years will see the Deepening of the efforts to research as many SMEs as possible.

KNUST

5.3 CONCLUSION

After years of sluggish development, Venture Capital is now developing in a sound manner, with both promising trends and areas for improvement. First the environment for venture capital investment has improved gradually, with the support of government policies. Take the Northern Regions of Ghana as an example, the proposals for Special Purpose Vehicle financing to provide funding to special industries and projects such as the Sorghum Value Chain Project on going in the Northern region makes rules and recommendation on the form of venture capital organization, scale of investment and exit strategies for Venture Capital in Ghana.

The recent burst of the technology bubble in Ghana and worldwide has substantially slowed the growth of Ghana's Venture Capital Industry, and it has caused some people to question the future of the Venture Capital financing. While taking the heed of these people's apprehensions, the researcher thinks we should view this downturn mainly as a manifestation of the cyclical nature of the industry instead of as the death knell for the venture capital industry.

If history is any guide on this, it tells us that the Venture Capital industry will rebound, because new ideas and new technologies emerge every day. New ventures with new

technologies need venture capital and some of these will meet important human needs and will be successful in the market. This principle stands true in the advanced countries. Margulis (2005, pp33).

The Trust was only established in 2004 and on that basis did not have much experience on the efficient management policies to be put in place. Meaning, there are no service professionals to help address some of the administrative issues that confront the industry.

The findings discovered that there were about four venture capital firms that are currently operating in the country and unfortunately one is no more in operation, thus Gold venture capital company, leaving only three venture capital firms in operation. This is however not enough to meet the financial and strategic support of a nation whose economy is largely dependent on SMEs. There is a need to push for an increase in the number of VC firms available.

Overall, available evidence from the study suggest that venture capital financing in Ghana is in die need of resources to revitalize the industry. The support from the government is inadequate making it difficult to adjust to standards. The inadequacy of resources as seen by the researcher is a major constraint to the venture capital industry. As a matter of fact, the industry is in its infant stages and needs adequate support from the business community and the government to survive.

5.4 RECOMMENDATIONS

- Although Ghana currently lacks enough qualified professionals to support venture capital investments, foreign venture capital companies that are eager for access to the Ghana market, can be encouraged to invest in Education and Training for Ghana Venture Capital firms to meet their long-term interests. The researcher recommends that the government should encourage foreign investors to invest in the venture capital industry in Ghana.
- The researcher is of the view that Venture Capital investment should focus beyond the following areas in the coming years: ICT, Education, Poultry, Pharmaceutical,

Agriculture, and Tourism. In view of such developments, the researcher suggest that Venture Capital in Ghana is should target a wide range of technologies, which will help ensure a Diversified Economy in the future and drive the industry's growth.

- Also, the Researcher thinks there are significant profit opportunities in Ghana's growing economy where venture capital certainly has a promising future. However, there is a high tendency of conducive fiscal, legal and regulatory environment. In view of this, the researcher suggest that the VCTF should have close look at Reliable shareholder rights/minority protection, Financial reporting standards in line with international best practice, Limited market Distortions and finally Domestic institutional investor's active investors in venture capital/private equity fund.
- With regards to the percentage of the economy SMEs constitute in Ghana, thus 90% of the business community, it will be more appropriate if funds are made available to be sourced by SME's because it will be the major employment sector of the nation thereby increasing revenue through taxes for development. This implies that these SMEs form the bedrock of Ghana's economy and with the requisite financial resources SMEs shall be well developed which will help create jobs as well as increase revenues thereby creating wealth for the economy as a whole. The dominance of small businesses as major employers holds true on the international level said Rogers (2003, pp.41). He stressed that In Japan for instance, 78% of the workforce are employed at companies with fewer than 300 workers.
- This affirmation on interest rate on the other sources of funding is an encouragement for people to source funds from the GVCTF compared to the banks which charge 28% or more interest. Evans (2005, pp2). Suggested, "Investors have a higher margin of error, but beneficiaries make up for this margin by pledging in most cases a good percentage of ownership in their company; and in addition, they will be charged a high interest rate on the money they borrow". The venture capital Trust fund in Ghana is interested in equity financing and should capitalize on this opportunity to create awareness to the business community of the comparative advantage associated with VC funding to other funding of high interest charges. This assertion will however put the Trust in a good position as well as attract people to make use of the funds..

- With regards to default, the venture capital firms should take steps to recover as much as possible their investments in the venture but allow for some grace periods. This policy will give the beneficiaries more time and flexibility and they wouldn't be under much pressure to settle any payments. Developed nations with well-established VC industry also take between 5 years to exit a particular venture said Cardis (2001, pp14). He further stated that, "Investors in VC funds know they must wait 5 to 10 years to get their money out". The researcher is of the view that this will help reduce the problem of losses incurred during exit periods.
- With regards to awareness the respondents said they organized road shows, seminars and workshops for entrepreneurs on behalf of the venture capitalists. The researcher is of the view that more channels and mediums should be adopted to create awareness. The media and Internet should be highly employed in the marketing of VC products. With their awareness campaign it will also be more beneficial if they are able to reach out to the very remote parts of the nation.
- The issue on assessment has raised much concern to the venture capital industry. This is however evident in what Chapman (1999 pp.161) said that "a sound business plan is the first element of the request for funding and the process of investment usually begins with the assessment of its content". This is however not enough to meet the financial and strategic support of a nation whose economy is largely dependent on SMEs. However the researcher is of the view that such stringent measures such as process and procedures in acquiring funds by SMEs should be made flexible to make venture funds more accessible.
- On the basis that the sources of funds for small businesses in Ghana were very limited. The analysis revealed that the few VC firms present are owned by few organizations. The result of this would imply that the number of businesses depending on VC funds will be more than expected as the VC funds available were not enough to cater for their funding needs. The researcher suggests that more avenues of funding should be made available for SME's to source from. The researcher believes that

more venture capital firms should be created to make available avenues for SME's to source funding.

- Finally the researcher also suggest that there should be technical assistance to SME's after benefiting from the funds It is also necessary to ensure that beneficiaries of funds have the requisite skill and management capability. Venture capitalists will almost always prefer a first-rate management team with a second rate product over a first-rate product with a second-rate management team said Schiltler, (1991, pp 23).

KNUST



REFERENCES

1. Advani, A. (2006). *Investors in Your Backyard: How to Raise Business Capital from the People you know*, 3rd e.d. Berkeley: Nolo, pp 14.
2. Barker, M. (1983). *Financing State and Local Economic Development*. Duke University Press, pp 11, 19.
3. Benjamin, G. and Margulis, J. (2005). *Angel Capital: How to Raise Early-Stage Private Equity Financing*, 3rd e.d. Hoboken: Wiley, pp 71.
4. Black, B., Gilson, R., (1998). *Venture capital and the structure of capital markets: banks versus stock markets*. Journal of Financial Economics, pp 47.
5. Brown, R. L. and Gutterman, A. S. (2005) *Emerging Companies Guide: A Resource for Professionals and Entrepreneurs*, 3rd e.d. Chicago: American Bar Association, pp 197.
6. Burns and Dewhurst (2002). *Introduction to Research Methods*, 4th e.d. Thousand Oaks: Sage, pp 82.
7. Butler, J. E. (2006). *Venture Capital in the Changing World of Entrepreneurship*. Information Age Publishers (IAP), pp 82.
8. Camp, J. J. (2002). *Venture Capital Due Diligence: A Guide to Making Smart Investment Choices and Increasing Your*. Wiley, pp 2.
9. Cardis, J. (2001). *Venture capital: The definitive guide for Entrepreneurs, Investors and Practitioners*. New York: Wiley, pp 14, 49, 188, 206, 217.
10. Caselli, S. & Gatti, S. (2004). *Venture Capital: A Euro-System Approach*. Berlin; Springer, pp19, 22, 24.
11. Chapman, P. (1999). *Venture capital: Financing growth*. Australian CPA, pp 18, 22, 28,33, 62, 69, 161.

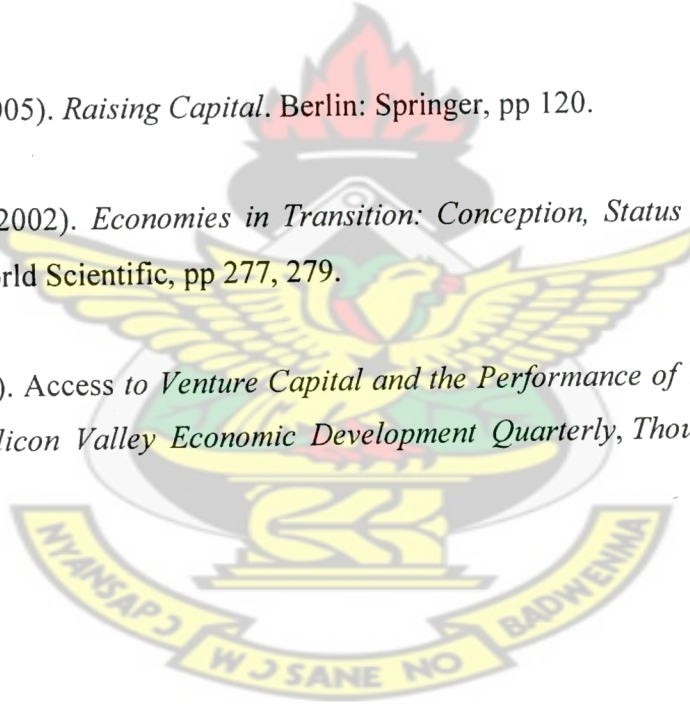
12. Collins, J and Hussey, R. (2003) *Business Research*, 2nd e.d. Hampshire: Palgrave Macmillan. pp 66, 71.
13. Coyle, B. (2000). *Venture capital and buyouts*. London: Routledge, pp 11, 21.
14. De Menil (2002). *Economic Policy*. Oxford: Blackwell, pp 264-265, 271.
15. Dobbins, G. H (1988). *A note on the Role of laboratory Methodologies in Applied Behavioral Research: Don't Throw out the Baby with the Bath Water*, *Journal Of Organizational Behavior*, pp 9, 281-6.
16. Eisenhardt, K. M (1989) Building Theories from Case Study Research Academy of management Research, pp 27.
17. Evans, K. N. (2005). *Becoming Bankable: 5 Steps to Getting Money for Your Business*. New York: iuniverse, pp 2, 16.
18. Fuerst, O. and Geiger, U. (2002) *From Concept to Wall Street: A Complete Guide to Entrepreneurship and Venture Capital*. New Jersey: Prentice Hall, pp 107, 109, 113.
19. Fullen, S. L. (2006). *How to Get the Financing for Your New Small Business: Innovative Solutions from the Experts who do it Everyday*. Ocala: Atlantic Publishing Group, pp 32-33, 34, 41.
20. Futter, D. and Vaughn, I. J. (2004). *Venture Capital 2004: Venture Creation, Management & Financing in the New ...* New York: Practicing Law Institute, pp 72, 661.
21. Gladstone, D. and L. (2001). *Venture Capital Handbook: An Entrepreneur's Guide to Raising Venture Capital*. Upper Saddle River, NJ: Prentice Hall, pp 13, 15, 17, 27, 41.
22. Glickman, R. (1986). *Key Questions for Financing a New Business*. The CPA Journal, pp 56, 59, 75, 81.

23. Gockings, S. R. (2005). *The History of Ghana*, 2nd e.d. Westport: Greenwood Press, pp 331.
24. Gompers, P. A. and Lerner, J. (2002). *The Money of Invention: How Venture Capital Creates New Wealth*. Harvard Business School Press, pp 29.
25. Gompers, P. A. and Lerner, J. (2006). 2nd e.d. *The Venture Capital Cycle*. Cambridge: MIT Press, pp 26, 51, 232.
26. Gumpert, R. (1986). US start-ups learn value of thrift from European cousins. *Working Woman*, pp 11, 38.
27. Gutterman, A. S. (2005). *Done Deals: Venture Capitalists Tell Their Stories*. Boston: Harvard Business School Press, pp 197.
28. Halpern, P. J. (1997). *Financing Growth in Canada*, 2nd e.d. Calgary: Calgary University Press, pp 238.
29. Heesen, M. (2007). *New study demonstrates venture capital industry's multiplier effect* Wellesley Hills: Feb 2007, pp 35.
30. Hill, P. (2001). *The Migrant Cocoa Farmers of Southern Ghana: A Study in Rural Capitalism*, 7th e.d. Cambridge: Cambridge University Press, pp 35.
31. Holmes, E. (2007). *Small Business* (A Special Report); *Show Me the Money -- Maybe: Venture capital is easier to get these days; but that doesn't mean it makes sense*. *Wall Street Journal* pp 6, 79.
32. Hussain, J. (2006). SME financing in the UK and in China: a comparative perspective, *Journal of small Business and enterprise Development*, pp 13, 584.
33. Jeng, L. A. and Weller, P. C. (2000). The determinants of venture capital funding: Evidence across countries. *Journal of Corporate Finance* pp 6, 84, 89, 245.

34. Kirsch, C. E. and Trelease, N. T. (2004). *Advising High-Technology Companies*. New York : Practicing Law Institute, pp 2-12.
35. MacNally, K. (1997). *Corporate Venture Capital: Bridging the Equity Gap in the Small Business Sector* Routledge, pp 21.
36. Mani, S. and Bartzokas, A. (2004). *Financial Systems, Corporate Investment in Innovation, and Venture Capital*. Northampton: Edward Elgar Publishing, pp 61, 64.
37. Margulis, J. and Benjamin, G. (2005). *How to raise early stage private equity financing* New York: Wiley, pp 33, 60.
38. Mason, M. C. (1998). *Informal Venture Capital: Investors, Investments and Policy Issues in Finland*. Berlin: Springer, pp 33-34, 37.
39. Maylor, H. and Blackmon, K (2005). *Researching Business and Management*. New York: Palgrave Macmillan, pp 19, 26, 34.
40. McMenamin, J. (1999). *Financial management an introduction*. London:Routledge, pp 17.
41. Mourdoukoutas, P. and Papadimitriou, S. (2002). *Nurturing Entrepreneurship: Institutions and Policies*. Westport: Quorum Books, pp 37.
42. Naylor, R.C. (2000). *Ghana*, 2nd e.d. Oxford: Oxfam pp. 7
43. Nuttal, C. 2005. *Early stage and seed financing for biotechnology start-ups Business Life Entrepreneurship* pp.9
44. Paulson, Ed. (2003). *The Complete Idiot's Guide to Starting Your Own Business*. Indianapolis, IN: Alpha books, pp 35.

45. Paulson, Ed. (2007). *The Complete Idiot's Guide to Starting Your Own Business*. 5th e.d. Indianapolis, IN: Alpha books, pp 44-45.
46. Power, D. and Hill, B (2001). *Inside Secrets to Venture Capital*, 3rd e.d. New York: Wiley, pp 9, 27, 34, 38.
47. Price, R. W. (2004). *Roadmap to Entrepreneurial Success: Powerful Strategies for Building a High-Profit Business*, 3rd e.d. New York: American Management Association, pp 59.
48. Quindlen, R. (2000). *Inside the high-stakes world of start-up financing*. New York: Time Warner, pp 43-45, 49, 61, 64.
49. Reid, C. (2007). *Sizing Up Early-Stage Tech Firms To Help Gauge Value*. Mergers and Acquisitions, pp 28, 42.
50. Reid, C. G. (1998). *Venture Capital Investment: An Agency Analysis of Practice*, London: Routledge, pp 28, 65.
51. Rogers, R. (2003). *The Entrepreneur's Guide to Finance and Business: Wealth Creation Techniques for Growing a Business*. New York: McGraw Hill, pp 33, 41.
52. Sahlman, W. A. (1999) *The Entrepreneurial Venture: Readings Selected*, 2nd e.d. Boston: Havard Business School Press, pp 304.
53. Saunders, M. (2007). *Research Methods For Business*, 4th e.d. Harlow: Prentice Hall, pp 354, 470
54. Schertler, A. (2003). *Dynamic Efficiency and Path Dependencies in Venture Capital Markets*. Berlin: Springer, pp 23, 33, 49.
55. Silher, W. W. (2004). *Smart Financial Management: The Essential Reference for the Successful Small Business*. New York: American Management Association, pp 39, 41.

56. Susan Ward <http://sbinfocanada.about.com/cs/financing/g/ventcap.htm> (Date retrieved: 25th July, 2009)
57. Thomas, R. M. (2000). *Blending Qualitative and Quantitative Research Methods In Theses and dissertations*. California: Corwin Press, pp 67.
58. Timmons, J. A. (2006). *How to Raise Capital: Techniques and Strategies for Financing and Valuing*, 5th e.d. New York: McGraw Hill, pp 52
59. Tuller, W. L. (1994). *The complete book of raising capital*. New York: McGraw Hill, pp15, 51.
60. Van Horne, C. J (2002). *Financial management policy*: 12th e.d; London: Prentice Hall. pp 14, 18.
61. Vance, E. D. (2005). *Raising Capital*. Berlin: Springer, pp 120.
62. Young, A. E. (2002). *Economies in Transition: Conception, Status and Prospects*. New Jersey: World Scientific, pp 277, 279.
63. Zhang, J. (2007). *Access to Venture Capital and the Performance of Venture-Backed Start-Ups in Silicon Valley Economic Development Quarterly*, Thousand Oaks, pp 2, 124.



APPENDIX ONE

QUESTIONNAIRE ON VENTURE CAPITAL FINANCING IN GHANA

The Questionnaire has been designed to access the challenges faced by SME's in their quest for Venture Capital Funds in Ghana.

- 1) Are you aware of Venture Capital financing in Ghana?
Yes () No ()
- 2) Is your company registered and have you applied for Venture Capital funds before?
.....
.....
- 3) Why did you apply for Venture Capital funds?
.....
.....
- 4) Was the funds made available to you and why?
.....
.....
- 5) In which form was the funding (eg, Equity, Debt, etc)?
.....
- 6) Did you face any challenges in securing the funds?
Yes () No ()
- 7) Please list some of the challenges encountered in seeking for Venture Capital funds?
.....
.....
- 8) Do you know of any other sources of funding business in Ghana apart from VC funds?
Yes () No ()
- 9) If Yes, what are some of the sources of funding you know of?
.....
.....
- 10) Have you applied for funds from any of the sources mentioned above?
Yes () No ()
- 11) If Yes, how was the process like?
Easy () Difficult () Very Difficult () Normal ()
- 12) Will you prefer Venture Capital funding to others?
Yes () No ()
- 13) If Yes, Why and if No, what are your reasons?
.....
.....
- 14) In your own opinion, what is the future of the Venture Capital Industry in Ghana and what will you suggest needs to be done to sustain the VC industry in Ghana?
.....
.....

APPENDIX TWO
QUESTIONNAIRE ON VENTURE CAPITAL FINANCING IN GHANA:

The Questionnaire has been designed to access the challenges faced by Venture capital firms in their Disbursement of Venture capital Funds to SME's in Ghana.

- 1) Are most SME's aware of Venture capital financing?
Yes () No ()
- 2) If yes how is the awareness made?
.....
.....
- 3) How do you disburse Venture Capital funds to SME's?
.....
.....
- 4) Are there any processes that SME's go through before they can receive any funds?
Yes () No ()
- 5) If yes, what are they and how long is it?
.....
.....
- 6) Do you face any challenges in your disbursement of funds to SME's?
Yes () No ()
- 7) If yes, what are the challenges involved
.....
.....
- 8) What normally do venture capitalists assess in the personality of these SME's before the funds are given to them?
.....
.....
- 9) Must the candidates contribute some amounts of funds before you are able to support them?
Yes () No ()
- 10) If yes, how much or what percentage is usually required?
.....
.....
- 11) What do you focus on in your financing process (eg. Market management capability, etc)
.....
.....
- 12) Were there any credit checks during the due-diligence stage to discover or reveal the credit rating of those who seek the funds?
Yes () No
- 13) Do SME's get any support after these funds have been offered e.g. management and strategic support?
Yes () No ()
- 14) What are the other sources of funds for SME's apart from VC funding you know of?
.....
.....
- 15) Do you have enough data on your beneficiaries and how do you track them?
.....
.....