ASSESSMENT OF AWARENESS LEVELS ON VENTURE CAPITAL FINANCING AMONG SMALL AND MEDIUM ENTERPRISES IN KUMASI, GHANA

By

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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 materials previously published by another person nor materials which have been accepted for award of any other degree of the University, except where due acknowledgement has been made in the text.

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ABSTRACT

Small and medium scale enterprises (SMEs) play a significant role in global economies but access to finance by SMEs is still a major challenge. Venture capital financing was introduced over a decade ago in Ghana as a source of financing SMEs, but its use is very limited. In developing countries, lack of awareness has been identified as one of the greatest barriers to effective implementation of venture capital financing on SMEs. This study sought to find out the level of awareness of SMEs regarding venture capital financing and how this awareness levels could be increased among SMEs in Kumasi, Ghana. A quantitative approach was used and the purpose of the research was mainly exploratory. The main strategy used to collect data was a survey using questionnaire involving 100 SMEs from the primary (30), secondary (30) and tertiary (40) sector. Findings show that only 31% were aware of venture capital financing; 23% in primary, 27% in secondary and 40% in the tertiary sector. Barriers reported to applying for this financing option were inadequate information (39%), bureaucracy and stringent conditions (21%), lack of portfolio diversity and location proximity (9%), fear of loss of control (6%) and having no current needs (35%). The main mediums used by SMEs to obtain information on venture capital financing were electronic media - internet (41%), print media i.e. books (38%) and newspapers/magazines (21%) and training seminars (17%). Advertising (63%), field visits (44%) and training seminars (27%) were identified by SMEs as means to increase awareness. In conclusion, awareness on venture capital financing among SMEs in Kumasi is low and the current awareness mediums used are inadequate and mismatch mediums SMEs in Kumasi use to obtain financing information. This study has developed a strategy with multiple and well-harmonized information pathways, which is recommended to support awareness-raising on venture capital financing among SMEs in Kumasi and in other similar settings.

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DEDICATION

To the ever hardworking SMEs in Kumasi and beyond, who are contributing enormously to our national economy and to my beloved family for your heartfelt support.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

It is now increasingly recognized that small businesses play an important role in income generation as well as job creation around the globe. Small and medium-sized enterprises (SMEs) are considered to be one of the principal driving forces in economic development (Szabo, 1996). In Africa, the SME sector accounts for almost 90% of all the enterprises, and they are located in rural and urban areas, whereby they provide more equitable distribution of income in all areas of the countries (Mokaddem, 2006). In Ghana, SMEs are vital for economic growth and development because they encourage entrepreneurship, generate employment, and reduce poverty (Kayanula and Quartey 2000; Mead and Liedholm, 1998).

However, SMEs in Ghana face many challenges such as access to finance, lack of markets and market information, inadequate infrastructure, obsolete technology, weak managerial capacity, low productivity and regulatory burdens (Kyeremanten, 2007). Access to finance is particularly a major concern. Over the years, SMEs have been supported through a number of sources such as the government, financial institutions, donor agencies, plough-back profits, family support and franchising arrangement (Bondinuba, 2012)

Venture capital (VC) financing is one of the sources of financing for SMEs in Ghana. There is increasing documentation on venture capital financing from cases especially in the USA such as Silicon Valley and Europe. In Ghana, venture capital financing is a relatively new concept (Boadu et al., 2014). In Ghana, the Venture Capital Trust Fund (VCTF) Act, 2004 (Act 680) was established as a trust fund to provide financial resources for the development and promotion of venture capital financing to SMEs in priority sectors. The priority sectors identified were ICT, Agriculture, Pharmaceutical, Energy and Tourism. The VCTF provides credit and equity financing to eligible venture capital financing companies (VCFC) to support SMEs which qualify for equity, quasi-equity and credit financing. VCTF also provides monies to support other activities and programs for the development and promotion of venture capital financing in the country (VCTF Ghana, 2014).

While some notable effort has been made to sustain venture capital financing to the SME sector, progress over the last decade has been slow, with limited impact (VCTF Ghana, 2011; 2013). In addition, funding is mostly concentrated in the Greater Accra Region, which takes almost three-quarters of financing. Furthermore, only very few empirical studies have been conducted on venture capital financing, with many SMEs spread across Ghana, especially Kumasi, questions arise on what could be barriers to their access to the venture capital financing. Studies have showed that information gap, particularly lack of awareness could be a major barrier to accessing finance for SMEs (Migiro and Wallis, 2006).

1.2 Research Problem Statement

Venture capital financing has become a global concept because of its enormous contribution to small businesses with high growth potentials all around the globe. Through venture capital financing, businesses such as Apple, Facebook and Yahoo received venture capital funds to invest in their operations to transform what was before an idea into real products. Today these companies are global success stories showing how venture capital financing can effectively be used to transform businesses. A number of factors contributed to the successful implementation of the venture capital financing in these businesses. These included government support, innovation, proper understanding by investee companies on venture capital financing, availability of personnel with adequate knowledge on venture capital financing and industry-academia linkages.

In Ghana, venture capital financing was started in 2004 geared to support SMEs. However, studies conducted so far show that the progress has been slow with limited activities especially in greater Accra region (VCTF Ghana, 2010; 2012). One of the greatest barriers identified to effective implementation of venture capital financing on SMEs in developing countries is information gap; particularly lack of awareness (Migiro and Wallis, 2006). The level of awareness of SMEs on venture capital financing has significant influence on access and use of venture capital funds. So, in this study, the problem to be investigated is the level of awareness of SMEs regarding venture capital financing and how this level of awareness can be improved to make venture capital financing effective.

1.3 Objectives of the study

Focusing on the SME sector in the Kumasi Metropolis, the overall goal of this study was to generate information on awareness of SMEs on venture capital financing that will help in developing a strategy to improve access to venture capital funds by SMEs. The specific objectives were;

1. To ascertain the sources of financing used by SMEs in Kumasi

2. To assess the level of awareness of SMEs in Kumasi on venture capital financing.
3. To find out the mediums that informed SMEs about venture capital financing.
4. To explore options for effective awareness creation on venture capital financing among SMEs.

1.4 Justification of the study

Research in the area of venture capital financing in Ghana is very limited (Boadu et al., 2014; Agyeman, 2010; Anokye-Yeboah, 2009). Venture capital financing is a relatively new concept in Ghana as it was only established in 2004. Effort has been put in the area but unfortunately the focus has been in the greater Accra region. However, in some parts of the country like Kumasi where hundreds of businesses operate, not much has been done yet. Studies on awareness, which has been documented as one of the barriers to access of venture capital funds, is also very limited (Agyemang, 2009; Frimpong, 2008). In addition, after almost a decade from when venture capital financing was introduced in Ghana, a study on awareness on venture capital financing among SMEs will be informative.

The study will generate knowledge that will address one of the key challenges of SMEs in Ghana, i.e. access to financing, through venture capital financing. It will support the development of training programs for SMEs from knowledge gaps identified. It will help in overcoming limitations associated with level of awareness and promote effective awareness creation mechanisms on venture capital financing among SMEs.

1.5 Scope of the Study

There are so many SMEs in Ghana conducting a diversity of businesses. These SMEs are found in different sectors of the economy. These sectors are: primary (e.g agriculture), secondary (e.g manufacturing and processing) and tertiary (e.g. education). Venture Capital financing in Ghana covers all SMEs in these sectors of the economy. This study focused on SMEs with high growth potentials in the three sectors of the economy. The geographical location was limited to Kumasi.

1.6 Sources of data

Primary and secondary sources of data were employed in data acquisition. Primary data is a data collected specifically for the research project being undertaken and secondary data as data that has already been collected for some other purpose perhaps processed and subsequently stored (Saunders *et al.* 2007; Zikmund, 1998). The study mainly used the quantitative research approach, where the survey questionnaire was used, as detailed in Chapter 3.

1.7 Organization of the study

The thesis is organized in five chapters. The first chapter presents the general introduction to the study highlighting background to the study and objectives. The second chapter has extensive literature review on the research subject matter. This is followed by chapter three on methodology, highlighting study design and the methods for data collection and analysis. In chapter four, analysis of findings and discussions are presented. The thesis ends with chapter five with a summary of key findings, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this chapter, a review of information relevant to the research topic is presented. The main focus is on venture capital financing on SMEs. Sources of information used were mainly journal publications, documents, books and appropriate websites.

2.1 Definitions of Small and Medium Scale Enterprises (SMEs)

SMEs are differentiated by size, number of employees, annual turnover, ownership and value of fixed assets (Abor and Adjasi, 2007). The EU, categorizes companies with fewer than 10 employees as "micro", those with fewer than 50 employees as "small", and those with fewer than 250 as "medium" (European Commission, 2005). In the USA, businesses with fewer than 100 employees are termed as “small” while “medium-sized business “often refers to those with fewer than 500 employees. A number of researchers tend to define SME’s as having 0-250 employees and in Africa this number is set around the 200 employees (Kufuor, 2008).

The most commonly used criterion of defining SME’s in Ghana is by the number of employees of the enterprise. The Ghana Statistical Service (GSS) considers firms with less than 10 employees as small scale enterprise whilst those with more than ten are categorized as medium and large enterprises. Another criterion for defining SME is the value of fixed assets in the organization. In Ghana the National Board of Small Scale Industries applies both of these criteria. Mensah (2004) classified SMEs in Ghana as;

Micro enterprises:	Those employing up to 5 employees with fixed assets (excluding realty) not exceeding the value of $10,000.
Small enterprises:	Employ between 6-29 employees with fixed assets of $100,000
Medium enterprises:	Employ between 30-99 employees with fixed assets of up to $1 million.

2.2 The SME Sector in Ghana

SME's have been one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries. In Ghana, the accelerating the growth of SME's are seen as a key strategy to increasing employment and production to reduce poverty (GPRS II, 2005). SME's are perceived to have a significant contribution to make to Ghana's socioeconomic development and growth, and the attainment of its middle income status of $1,000 per capita per annum by 2015 (Kyrematen, 2007).

In Ghana, SME's form a huge chunk of businesses in both the formal and the informal sector. Whilst SME's in developed countries make a significant contribution to GDP and national employment (Culkin and Smith, 2000), there is no sufficient data to say the same about SMEs in Ghana. Nevertheless, data from the Registrar General indicates that 90% of companies registered are micro, small and medium enterprises. The Ghana Business Development Services Fund (BDSF) estimates that the MSME sector in Ghana represents about 30% of the workforce but contributes to abound only 6% of the GDP. In addition, estimates from the Ministry of Trade and Industry show that 70% of all industrial establishments are in the SMEs sector. The sector contributes significantly to overall export earnings from the non-traditional exports sector and creates jobs at relatively low capital cost.

Kyeremanten (2007) outlined some key challenges facing SMEs in Ghana. These were lack of access to finance, lack of markets and market information, inadequate infrastructure, obsolete technology, weak managerial capacity and low productivity and regulatory burdens. Kufuor (2008) identified a number of constraints that hinder the development and growth of the garment and textile manufacturing sector. The constraints identified were lack of managerial competencies, lack of basic services and infrastructure, lack of marketing knowledge, poor access to formal sources of external finance, poor business locations and gender discrimination. But, the greatest hindrance seems to be financing. Many SME's are perceived as risky enterprises; so many financial institutions find it more difficult to finance SMEs. However, there are now some funding schemes for SME's in Ghana including GRATIS, FUSMED, NBSSI BAF and MASLOC (Asiama and Osei, 2007). Several microfinance institutions such as Pro Credit, Sinapi Aba Trust now also fund SMEs.

2.3 Sources of Finance for SMEs

SMEs can have various sources of finance (see Figure 2.1). Sources of financing start-ups identified by Venture Capital for Africa include bootstrapping, family and friends, small business grants, incubators and accelerators, angel investors, venture capital and loans and credit (VC4A, 2014). Overall, sources of finance can primarily be grouped into three: equity (internal and external), debt and governmental and non-governmental assistance (Abdulsaleh and Worthington, 2013; Demirguc-Kunt et. al., 2006).

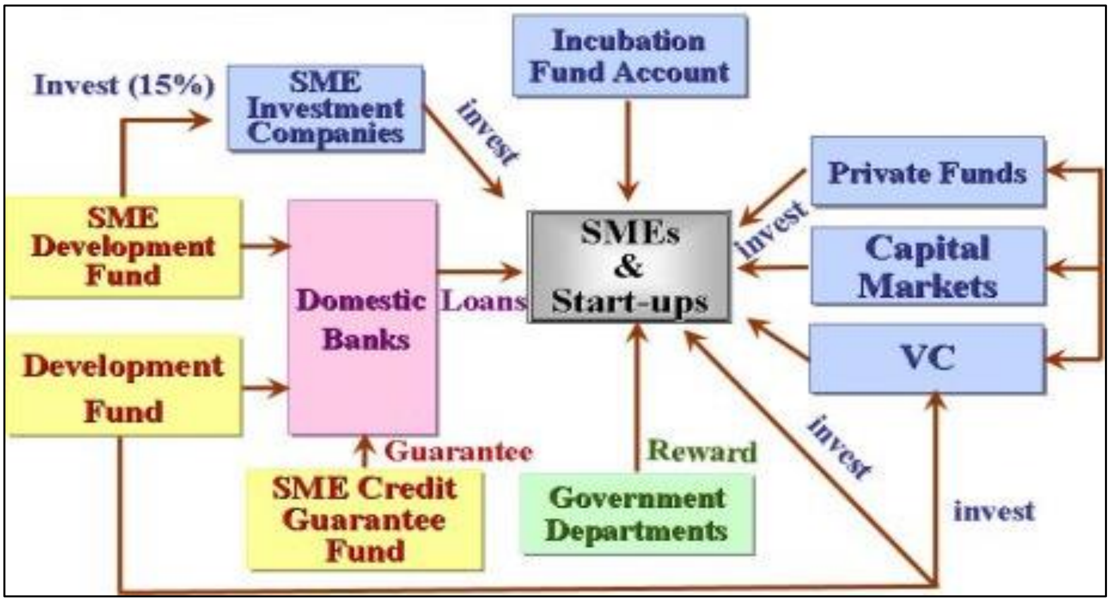


Figure 2.1: Sources of financing for small businesses

Source: Government of Taiwan, 2014.

2.3.1 Equity financing

Equity capital is that capital invested in the firm without a specific repayment date, where the supplier of the equity capital is effectively investing in the business (Ou and Haynes, 2006). Equity capital can be raised either internally or externally.

- **Internal equity – retained earnings, owners, family and friends**: Internal equity is funds obtained from the current owner–manager(s), family, and friends or from the retained earnings within the firm (Abdulsaleh and Worthington, 2013). Internal equity funding is critical source of funding for SMEs in these early stages (seed financing and start-up). Subsequently, in later stages, in order to develop and grow SMEs tend to reduce their dependence on these sources and start seeking alternative channels for raising capital. According to Collins et al. (2010), financing from friends and families still remains as one of the most common source of finance for the poor, especially for the third of the world's population without access to formal finance. The lack of external equity makes many new SMEs dependent on bank loans and overdrafts and suppliers credit for early stage financing. Despite the dependence of SMEs on debt finance, access is limited for new SMEs, especially in developing countries (Mangistae, 2010).

- **External equity** is capital acquired from external channels other than the existing partners/relatives. These include;
    - **Venture capital**: This is the form of financing in which funds are raised from investors and redeployed by investing in high-risk information-wise opaque firms which for the most part are young or start-up firms (Potter and Porto, 2007). Further, venture capitalists decide the timing and type of investment in addition to their role in monitoring, screening and contracting (Gorman and Sahlman, 1989). Moreover, by performing these functions, venture capitalists virtually participate in strategic planning and decision making in the firm. As this is the focus of the thesis, more details are given in the following sections of this review.
    - **Angel Investors**: Angel finance is not intermediated but is instead an informal market for direct finance (Berger and Udell, 1998). Angels are highly-selective wealthy individuals with long business experience who invest directly in high growth SMEs with which they have had no previous relationship (Madill et al., 2005). This form of investment is usually based on an equity contract, typically common stock. Though angels by definition are individuals, they sometimes coordinate their investment in small investment groups. According to Harrison and Mason (1992), angels are more active in the early stages of enterprises (seed and start-up), more obliging to the needs of SME owner–managers and prefer to invest in their local economies where the majority of SMEs operate.

2.3.2 Debt financing

- **Bank loans:** The most documented source of debt financing is banks. This is the main external capital provider for SMEs sector in both developed and developing countries (Vera and Onji, 2010; Ono and Uesugi, 2009). From the perspective of banks, SMEs segment represents a strategic profitable part of bank business. In this regard, De la Torre et al., (2009) described the engagement between SMEs and banks as integral. They explained that banks do not only provide the necessary capital for entrepreneurs to establish new SMEs or expand the existing ones they also offer a variety of services and financial products.
- **Trade credit:** According to García-Teruel and Martínez-Solano (2010) trade credit is a delay in the payment for goods or services after they have been delivered or provided as a result of an agreement between the supplier and the firm. Therefore, for the firm this is a source of financing appears in the balance sheet under current liabilities, whereas for the supplier it is an investment in accounts receivable. The role of trade credit as a source of raising financing for SMEs is even more important in countries with less developed banking and financial systems where asymmetric information problems are more pronounced.
- **Nonbank financial institution debt**: Unlike banks, finance institutions tend to differ from banks in their lending policies possibly in part because of regulatory differences (Berger and Udell, 1998). The nonbank financial institutions include credit unions, pension funds, finance houses, investment trust companies, finance companies and insurance companies.

2.3.3 Government and non-government assistance

- **Government assistance and initiatives:** Governments have recognized that the SME sector faces constrained access to external financing which may negatively affect its crucial role in achieving national development goals (Abdulsaleh and Worthington, 2013). It has been argued that such programs and schemes have the capability to ease the access of SMEs to additional credit (Boocock and Shariff, 2005). However, Riding et al., (2007) maintain that government schemes aim at assisting access to finance for SMEs can be effective only under well-specified conditions. In addition, as SMEs are subjected to credit rationing due to their small size and information asymmetry, Zecchini and Ventura (2009) suggested that in order to be effective such schemes should aim at lowering the degree of discrimination against SMEs borrowers in terms of lending costs and unmet demand for fund. In Ghana, some of the various governmental agencies which provide support for SMEs are National Board for Small-Scale Industries (NBSSI), Business Assistance Fund, Ghana Investment Fund, GRATIS Foundation, Rural Enterprise Project (REP) and Microfinance and Small Loans Centre (MASLOC) (Quaye and Sarbah, 2014).

- **Non-Governmental and Community-Based Organizations:** NGOs and CBOs are particularly important in making financial services available where both commercial and rural banks are scarce – although they tend to be localized and donor-dependent. In Ghana, although some 50 NGOs have active micro credit programs, they are generally multipurpose or welfare-oriented agencies (GHAMFIN, 2003).

2.4. Venture Capital financing: Definitions, terminologies and rationale

The European Venture Capital Association (EVCA) defines venture capital as a subset of private equity investments made for the launch, early development or expansion of a business. It is capital typically provided by professional, outside investors to new growth businesses (EVCA, 2007). Venture capital finance is also viewed as early stage financing of new and young ventures seeking to grow rapidly.

According to the Madison Park Group, venture capital is equity financing provided by institutional investors that either manage a fund on behalf of large institutions (usually pension funds and insurance companies) or have their own proprietary pool of capital. Venture capital is raised in a series of stages or rounds. Venture capital investors usually specialize in one specific investment stage. Each stage also has its own unique set of parameters with respect to the:

- Operational progress that a potential investment needs to demonstrate
- Amount of capital a fund might invest in a given venture
- Investment time horizon (i.e., how long before investor gets money back)
- Investor return expectations (i.e., how much of the company will the investor expect to satisfy their return requirements)

A venture capital fund is generally managed by a venture capital company. The venture capital company invests the funds in investee companies to support them in four basic stages of development; Seed or start up, early growth, business expansion and later stage activities (see detailed stages below). A venture capitalist is a person who makes such investments. There are three main types of private equity transactions: start-up venture capital, development capital and buyouts. The main **advantages** of venture capital are:

- Young companies without a strong track record may have difficulty obtaining funds to finance expansion of their business. Banks may grant them credit facilities but usually require collateral, which they may not provide.
- Venture capital firms usually inject fresh capital into companies rather than providing commercial loans. This enhances the liquidity of the company without the burden of collateral or interest payments.
- Venture capital firms may take majority or minority equity positions in a company and are long term investors. They usually require board representation and will take an active interest in the investee company' affairs. While they are not involved in the day-to-day management of the company, venture capital firms are able to add value to the company by providing advice on business strategy, management, organization, financial systems, and access to their global network of contacts.
- Professional venture capital firms, with their considerable experience, serve as useful sounding boards for companies in many strategic and management areas. They also provide senior level counsel on key issues and infrastructure support to assist young companies.
- Having sound venture capital partners enhances the credibility of investee companies, which in turn helps them secure future financing.
- Venture capital firms function as business partners of investee companies, sharing both the risks and rewards of the venture.

2.5 Venture capital decision-making

Deventer and Mlambo (2008) have summarized several studies done regarding venture capital decision making. Studies on the processes and criteria used by venture capitalists have been done by Tyebjee and Bruno (1984) and Pintado et al.

(2007). The process starts with an initial screening, typically a review of the business plan, followed by a due diligence phase and negotiations around the more detailed issues regarding the investment. In order to provide capital and to enable the success and optimisation of invested funds, venture capital firms use their decision-making processes to gather the information needed in order to make a decision on whether to reject or accept venture capital proposals (Larsson and Roosvall, 2000). The decision to invest is a difficult one with serious adverse selection risk.

The main purpose of the investment decision making process used by venture capitalists is to reduce the risk of adverse project selection (Fried and Hisrich 1994),. The purpose is to assess the possibility of success or failure of a specific venture based on available information. Venture capitalists' financing decisions are fraught with difficulties because entrepreneurs possess information about their opportunities and themselves that potential financiers find difficult or impossible to obtain (Barry, 1994; Gompers, 1995). Because these significant information asymmetries exist between entrepreneurs and venture capitalists, it could allow entrepreneurs to engage in opportunistic behaviour after an investment is made (Sahlman, 1988). Thus, financiers face high risks when selecting among entrepreneurs because entrepreneurs may act opportunistically towards them, and because entrepreneurs vary in their ability to identify and exploit opportunities (Shane and Cable, 2002). This makes it extremely important to the venture capitalist to make the correct decision to invest in order to avoid risk and optimise returns.

By understanding the nature and process of VC investment decisions, the entrepreneur can gain from the improved likelihood of his new venture being funded and in negotiating more agreeable terms. The stage of development, riskiness of the venture, background of the owner, geographic location and exit opportunity are some of the considerations in the venture capitalists' assessment of the risk and return potential of a venture (Van Auken, 2001). Identifying and understanding these issues and criteria will enable companies to develop better proposals and negotiate more effectively with venture capitalists (Timmons and Spinelli, 2004).

2.6 Criteria for making investments

Each venture capital firm sets its own criteria for making investments (KHVCA, 2014). They differ in their investment preferences in locations, industries, investment size, stage of a company's development, expected returns, structure of the investment and the extent of involvement in the company's activities. The important criteria are:

- ***Industry and Product***: The venture capital firm identifies businesses with a competitive advantage in fast growing industries. "Niche" businesses with good margins are important factors.
- ***The Company***: The venture capitalist involved in the expansion and mezzanine stages will want to see several years of consistent growth and profitability and sound management. The company should also demonstrate a leadership position in the industry. For buyouts, it is important that the business is able to generate sustainable cash flows.
- ***Management***: The venture capital firm does not take an active role in the day-to-day operations of the company. It invests in the company and its management to achieve the company's strategy and objectives. The venture capital firm must be confident of the capability, the integrity and the drive of the leader and the depth of its management team.

- ***Return on Investment***: The venture capital firm accepts higher risks on its investments in return for a higher return on its funds. Given the high failure rate of venture capital investments, the lack of liquidity and dividends for several years, the venture capitalist would normally expect a return in excess of 25% (depending on the stage of investment).
- ***Availability of Debt Financing***: In LBO's, the extent and terms of debt financing play a major role in structuring and completion of the transaction.

In selecting a venture capital firm, the young company should attempt to identify a suitable match by finding out the investment preferences of particular venture capital firms. In accepting venture capital, the company should understand that the venture capitalist is its business partner and will demand a more disciplined and professional management style. As the partnership will last several years, it is important for the company to select a venture capitalist that the company believes it can work well with. The young company must provide information that clearly explains its business and potential, its strategy and how management will achieve its projections. A creditable business plan is critical to "selling the investment". A **good business plan** is essential in facilitating the evaluation of a company seeking funding by venture capital firms. It should contain the following:

- ***Background of the Company*****:** Description of the company's history, shareholding, majority shareholders and recent developments.
- ***Business operations*****:** Current business and operations, product details, business organization structure and operating process, size/scale, major suppliers and procurement sources, marketing and distribution channels.

- ***Industry*****:** A review of the industry, including regulatory changes, entry and exit barriers, the competitive environment, market outlook and potential technological development.
- ***Management*****:** Evidence of a committed management structure and team, with description of key management members' experience, credentials and capabilities.
- ***Future strategy and plans*****:** Clear delineation of business goals, medium and long-term expansion strategies, competitive advantages of the company and how they can be best used to achieve the expansion strategies.
- ***Financials*****:** Past performance, a detailed analysis of financial and operational forecast and how new funds will be used.
- ***Proposed investment*****:** A description of the proposed investment transaction, including size and structure of the investment being sought, the projected return on investment, the intended funding period and any exit route.

Willingness on the part of the company seeking funding to provide full information is generally looked upon favorably by the venture capital firms, and will greatly facilitate the evaluation.

2.7 The venture capital investment process

Venture capital process refers to the investment process of a given VC company**.** It starts from the fund raising stage to the points where investments are harvested. This subsection would be mainly used for providing brief explanation on the investment process of the VC. A standard venture capital process (see Figure 2.2) usually follows a sequential five (5) step approach (Isaksson, 2006). These are:

1. **Fund establishment**: This represents a stage where the venture capitalist sets out the firm's investment objectives with clear-cut potential investment activity path and finally gather the needed funds to see through those objectives.

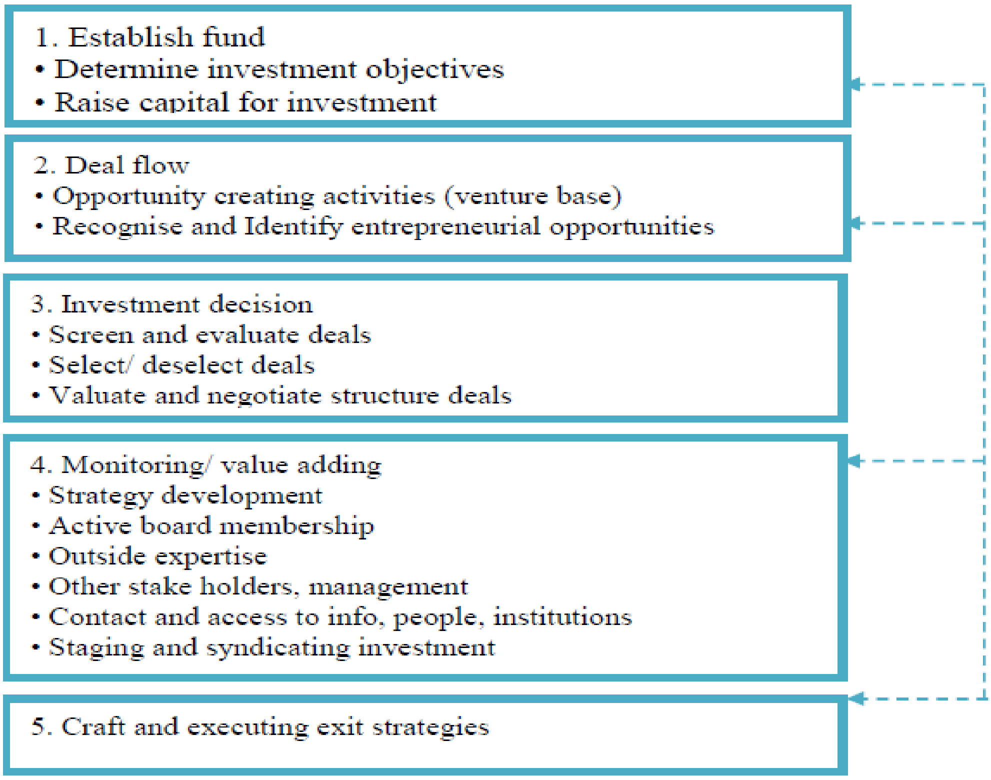


Figure 2.2: Venture capital investment process.

Source: Isaksson, 2006; Agyeman, 2010.

2. **Deal flow**: This also represents a stage where VC firms uses various prospecting tools to identify and select firms with higher growth potential.
3. ***Investment decision stage:*** consists of activities such as evaluations of investment deals received through screening, valuation, contracting issues and financial structuring. According to Tyebjee and Bruno (1984), activities at this stage require more time and industry experience to reduce the risk associated with VC investments.

4. **Monitoring and value adding stage**: This relates to activities and programs that ensure that the investee firm's business operations are run in line with the investment objective and the activity path set out by the VC firm.
5. **Crafting and execution of exit strategies stage**: These are done at the final stage to ensure that venture capitalists conveniently utilize available exit options such as issuing of initial public offering (IPOs) to harvest their investment in the investee firm (see Figure 2.3). Crafting and executing successful exit strategies requires meticulous investment planning before exit date.

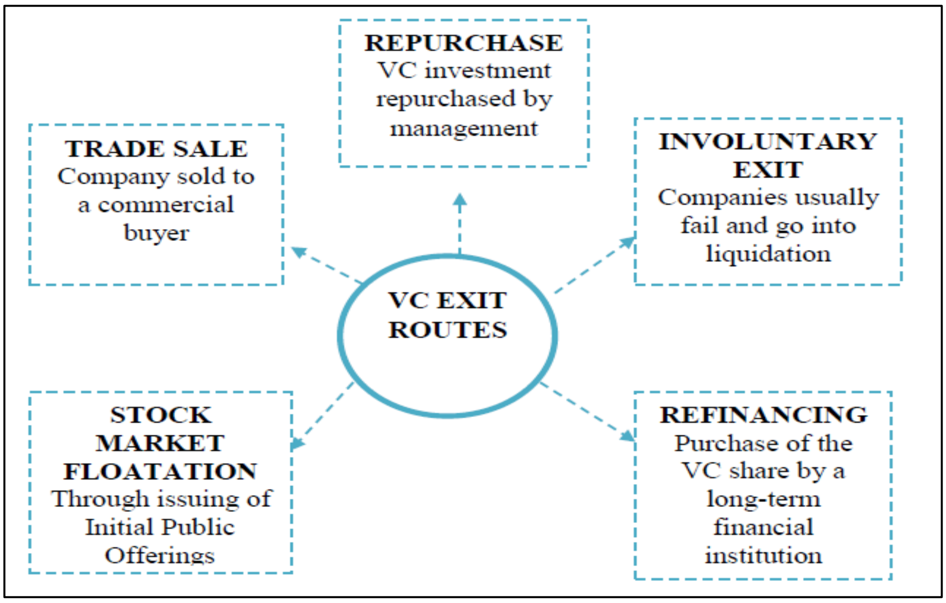


Figure 2.3 Venture capital possible exit routes.

Source: Coyle, 2000; Agyeman, 2010.

2.8 Venture capital financing stages

There are various developmental stages of an investee firms that a venture capital firm may choose to invest. Cowie (1999) stated that venture capital financing comprises of four main stages: early stage, expansion, replacement and buy-out. However, Ogden et al., (2003), outlined many more stages as highlighted below.

1. **Seed stage:** Here the entrepreneur conceptualizes and develops his or her vision for the venture. The entrepreneurs expend a great deal of time at this stage but with less capital injection because actual business production does not take place at this stage. Financing is mainly supported by the entrepreneur and other business angels.
2. **Start-up stage:** This begins only when the seed stage has been successful. Main activities at this stage include prototype testing; assemble of management team, and the development of the business vision conceived at the seed stage among others (Sahlman (1990). Commercial manufacturing does not start at this stage and funds needed at this stage are much deeper than the seed stage due to much heavier work load. Financing usually comes from business angels and VC companies.
3. **Early development stage***:* Is seen as the first stage of investment because it follows after various product development, market testing and prototype have all been proven successful (Sahlman 1990). More funds are needed at this stage because the venture needs adequate capital injections to secure Property Plant and Equipments (PPandE) for the commencement of commercial manufacturing of products for onwards sale. Providers of capital at this are usually Business angels, VCs and government according to Ogden et al. (2003).
4. **Expansion stage:** Also referred to as the second stage of the development of a venture where products have proven to be viable as results of positive feedback from customers. As results, more working capital is needed to see through the expansion of more product lines. Stillman (2006) also intimated that the venture at this stage has not made profit yet but mainly adopt

effective cost minimization operations to brake-even. Financiers at this stage are usually banks, venture capital and government.

5. **Profitable but cash poor stage:** represents the third level where the venture has seen tremendous growth in sale values and these values have been translated into huge profit margins. However, the venture at this stage is regarded as cash poor because cash flow generated from operations could not satisfy huge capital requirement for rapid expansion (Sahlman, 1990). Financiers at this stage are venture capital, banks and retained earnings.
6. **Rapid growth stage**: This is where the venture's marketing strategy is redefined because substantial growth has been achieved. The venture's default risk is regarded to be much reduced because of sustainable growth and higher profit margin achieved at this stage. The venture would still require funds to maintain the growth levels form usually VCs and banks.
7. **Mezzanine or bridge stage**: is explained to be a point where the venture's exit timing is known and therefore any funding at this stage are strategically assumed to ensure successful exiting where proceeds from it could be used to pay back loan (Stillman, 2006). Outside sources of funding at this stage usually come from VCs and banks.
8. **Harvest or exit stage:** is the point in the life of a venture where venture capitalists finally liquidate their investments in the investee firm for cash. The process could take a form of the venture issuing an IPO, acquisition, and leverage buyouts (Sahlman, 1990)

2.9 Venture capital financing - Ghana

2.9.1 Initiation

Venture capital in Ghana was formalized in 2004 when the government set up a Venture Capital Trust Fund (VCTF) after the enactment of Act 680 through the parliament of Ghana. The essence of Act 680 was to provide the legal and the regulatory framework for the establishment of VCTF. VCTF was intended to provide low cost financing to small and medium enterprises so as to enable them expand, create wealth and jobs (VCTF, 2014). This it does by providing credit and equity financing to eligible Venture Capital Finance Companies to support SMEs and the provision of monies to support the activities and programs for the promotion of venture capital financing as the Board may determine in consultation with the Minister. The Fund is a revolving fund that operates in priority sectors such as agriculture, pharmaceuticals, ICT, tourism and energy with the exception of imports to sell.

The venture capital financing companies (VCFCs) are established in partnership with private and some other government institutions. These VCFCs are headed by Fund Managers who are basically investment bankers and advisory service providers licensed by the Securities Exchange Commission (SEC). The VCFCs include Bedrock Venture Capital Finance Limited, which is a product of a partnership with National Investment Bank and SIC Insurance Company Limited, Gold Venture Capital Limited which is from a partnership with Gold Coast Securities Limited and Fidelity Equity Fund II, which emerged from partnership with SSNIT, Fidelity Capital Partners, FINNFUND, SOVEC, OIKOCREDIT, SIFEM and FMO. Others include Ebankese Fund Limited, through partnership with HFC Bank, Ghana Union

Assurance, WDBI AND Oasis Capital, and finally, Activity Venture Finance Company which stems from a partnership of Agricultural Development Bank and Ghana Commercial Bank Limited.

2.9.2 Requirements for accessing venture capital funds in Ghana

The basic requirements for accessing funds are:

1. A comprehensive business plan (business roadmap) with projections for 3 years.
2. Incorporation documents (if applicable)
3. Audited financials for the past 3 years for existing businesses
4. Tax Clearance Certificate
5. Any other information that may be requested

SMEs seeking funding will submit the basic requirements stated above to the respective VCFC. However, businesses are encouraged to talk to any of the VCFC before they prepare any new documentation. A minimum of 51% equity contribution from the business owner (not necessarily cash) is required to access the funds from the VCFCs. It should however be noted, that VCTF does not require any collateral for accessing the funds. What it needs is a good and viable project

2.9.3 Funding profile of VCTF Ghana

VCTF was set up with a government's endowment fund of $13.08 million (GH c 17 million) to partner with other private investors with a Board of Trustees as administrators. As a result of the private-public partnerships (PPP) initiative, reports from the scheme shows an increase in the fund size from $13.08to $44.23 million representing an impressive increment of about154% (VCTF, 2010). Detailed analysis of disbursement of the funds is in Table 2.1. VCTF currently has five (5) subsidiary firms (fund managers) namely, Fidelity Fund II, Bedrock Venture Capital Finance Company(BVCFC), Activity Venture Finance company (AVFC), Gold Venture Capital Limited(GVCL) and Ebankese Venture Capital Fund.

VCTF doesn't have a permanent source of funding. During the year 2010, the VCFCs invested an additional GH¢2.5 million in eight new portfolio companies which increased the total amount invested by the VCFCs to a total of GH¢23 million. VCTF has also partnered successful entrepreneurs with proven track-record in their fields of business to endeavor to support young entrepreneurs with viable business proposals to succeed. The venture dubbed 'Ghana Angel Investor Network' (GAIN) provides a formalized platform to attract investors to invest in early-stage businesses. It also makes available long term capital to entrepreneurs in addition to coaching and mentoring. The Initial membership of the Business Angels include Prince Kofi Amoabeng of UT Group, Kwame Banim, Frank Adu of Cal Bank and Kwesi Twum.

Table 2.1: VCTF funds disbursement in 2010

VC Fund Manager	VCTF'S Contribution (US$ Million)	Private Investors (US$ Million)	Total PPP Contribution (US$ Million)
Gold Venture capital Limited	1.54	1.54	3.08
Ebankese Venture Capital Fund	3.08	4.61	7.69
Activity Venture Finance Company	3.08	4.61	7.69
Bedrock Venture Capital Finance Co.	3.08	4.61	7.69
Fidelity Fund II Limited	2.30	15.77	18.08
Total Fund Contribution	13.08	31.44	44.23

Source: VCTF, 2010; Agyemang, 2009

2.9.4 Challenges facing VCTF Ghana

Sackey (2013) identified a number of challenges facing VCTF. They include;

- Lack of a permanent source of funding: problem of a permanent source of funding to enable it function far better than it is currently doing.
- The general lack of knowledge and understanding of how the fund operates. Some applicants have been confused by the processes and the difference between that and a conventional bank loan. Some find the level of involvement intimidating rather than reassuring. However, that is not the case as fund managers, while keen on the survival and growth of their investments, are careful to leave day to day management of the funded firms to the original owners.
- Most of the SMEs require financial assistance from VC firms in the form of debt and not equity. In other words their willingness to partner VC firms is not that certain because they are not prepared to dilute their ownership. If the funds are given as equity the Venture Capital Finance Company becomes a partner or shareholder of the investee company and no debt service is charged but the Venture Finance Company gets annual dividend from time to time.
- Some SMEs have heard about this source of finance, however some of them have not heard about it and even if they have heard about it they do not know what the Fund has which can benefit them.
- The Fund and most of its finance companies are concentrated in the capital of the country, Accra. This has made it difficult for SMEs outside the capital to know more about the Fund and even access it. This situation can be resolved if the authorities concerned endeavour to spread VC activities to all parts of the country for SME's in other regions of the country can benefit.

- Most of the entrepreneurs (SMEs) see the establishment of the venture capital industry as the solution to their financial difficulties; however they would want the venture capital firms to relax their criteria and conditions a little bit so that more of the SMEs can benefit from this source of finance.

Further solutions for the above challenges bedeviling the Fund comprise;

- Entrepreneurs should be given the needed technical and managerial assistance to put their businesses in order to enable them qualify for VC funding.
- The Fund must continue to build close links with universities and research institutions to identify opportunities for technology-based new ventures. Universities and research institutions are valuable sources of new technologies that can be used to realize the business opportunities identified in discussions with large corporations and other potential clients.
- The Fund should invest in a small number of companies which they truly believe in and which can become global successes rather than small investments in a large number of companies without active support. It is important not only for their returns, but also for the whole market.
- Public awareness, seminars, and conferences should persistently and consistently be encouraged where business communities will be educated on how to access venture capital funds and the benefits of using equity capital to pursue business expansion.

2.10 Venture Capital Markets in USA and UK

Amankwah and Abonge (2011) did an extensive review on the venture capital industry in the US and the UK. The US has by far the most advanced venture capital industry where other countries could learn from. The U.S. venture capital market growth has credited as the pillar behind most successful businesses in the last thirty years through the support to most entrepreneurial talents that have turned ideas into products and services that are envy of the world nowadays. For the past years, U.S venture capital has supported companies like Microsoft, Apple Inc, Intel Corporation, Google, etc. all known for innovative technology products. In the same way companies like Starbucks Corporation, The Home Depot, eBay, Staples had their innovative business models turned into great companies with the help of venture capital funds. In the UK and much of Europe, venture capital is synonymous with the term private equity (Burgel, 2000). The main providers of formal private equity in the UK are venture capital firms (Burgel, 2000).

2.11 Awareness and Information Sources on SME Financing in Kenya

Studies done by Migiro and Wallis (2006) in Kenya show that most finance sources are unknown to SMEs. These included leasing 90%, angel finance 78%, venture capital 82.6%, city or municipal loan scheme 90.8% and SMEs development fund 76.6%. Apart from lack of knowledge on what they are, the study showed that it was difficult to obtain information on them. This is due to fragmented financial information and also lack of targeting awareness an educational scheme, with a view to raising the profile of finance issues among the SMEs. Awareness levels on specific and newer financing options can be even lower. The study identified a number of sources of information used to access external finance were mentioned and an assessment done on how often the SMEs used these sources to access finance (see Table 2.2). They also identified the means of communication used to obtain information on finance as summarized in Table 2.3

Table 2.2 Different sources of information used to access finance (N =380)

Sources of information	Very often	Quite often	Not very often	Not at all
Family and friends	59.7	12.6	22.6	5
Local suppliers	40	15.5	30.8	13.7
Customers	40.5	13.9	29.5	16.1
Competitors	22.9	6.3	35.5	35.3
Internet	0.8	1.1	10.8	87.4
Consultants	1.1	2.4	15	81.6
Contacts outside Kenya	0.8	0.8	12.1	86.3
Department of Trade and Industry	3.9	2.1	19.2	74.7

Adapted from: Migiro and Wallis (2006)

Table 2.3: Methods of communication used by SMEs (N = 380)

Sources of information	Very often	Quite often	Not very often	Not at all
Face-to-face	92.3	1.8	1.6	3.4
E-mails	1.6	3.9	11.8	82.6
Magazine advertisements	18.7	15.3	17.9	48.2
Billboard advertisements	20.3	13.9	20.3	45.5
Internet	13.2	11.3	15.3	60.3
Consultants	1.1	1.1	7.9	90.0
Other	1.6	2.1	9.2	87.1

Adapted from: Migiro and Wallis (2006)

CHAPTER THREE

METHODOLOGY

3.0 Introduction

In this chapter, the research methodology for this study is presented. It describes the study area (Kumasi), the research design, methods used for data collection and how the data was analyzed.

3.1 Research Design

A research design is the blue print for conducting a research project. In this study, a quantitative research approach was mainly used. Quantitative research refers to the systematic empirical investigation of quantitative properties and phenomena and their relationships. The purpose of the study was to explore the financing sources and levels of awareness, so it was mainly exploratory research. The main strategy used for this study was a survey.

3.2 Data Sources

Both primary and secondary sources of data were used. Questionnaire survey was the primary source of data while secondary source of data involved literature and document reviews.

3.2.1 Primary data sources - Survey questionnaire

A questionnaire was designed to collect data in the survey. A questionnaire is a technique of data collection in which each person is asked to respond to the same set of questions in a predetermined order (de Vaus, 1991). The questionnaire contained open-ended questions and closed ended questions. The open-ended questions enabled respondents to express their views on some issues under consideration in their own way whiles closed ended questions made available answers for the respondents to choose from and therefore limit them in expressing their views. The unit of analysis was SMEs. Survey respondents were financial managers, owners or any other responsible people in SMEs with business financing information. One questionnaire will be filled for each selected SME.

The questionnaire is attached as Appendix 1. The key sections in the questionnaire were business profile, awareness on venture capital financing and the medium of information through which SMEs became aware of venture capital financing. The questions in the questionnaire addressed all objectives of this study.

3.2.2 Secondary data sources

Secondary data was collected through literature and document reviews. The literature review included published and unpublished materials such as books, journals, newsletters, and websites. This was done to appreciate the theoretical and the conceptual framework of the work and to appropriately position the work. It also helped in devising strategies for effective awareness creation. Appropriate documents of the businesses were also reviewed to obtain the profile of the SMEs.

3.3 Profile of study area (Kumasi) and population

This study was conducted in Kumasi, the second largest city in Ghana, with a population of 2,035,064 (based on the 2010 population census). Kumasi is a commercial and industrial centre with formal industries in timber, food processing and soap manufacturing, together with informal activities in light engineering, vehicle repair, footwear, furniture manufacture and metal fabrication. The major sectors of the economy fall under Trade/ Commerce/Services which accounts for 71%, Manufacturing/Industry which takes up of 24% and the Primary Production sector which takes only 5%. Kumasi is predominantly a trade and commerce (service economy inclusive) with an employment level of 71 per cent. This is followed by industry and agriculture with employment levels of 24 per cent and 5 per cent respectively.

The study population was SMEs. The National Board for Small Scale Business Industries (NBSSI) records that about 433 businesses are registered by 2011, even though not all SMEs are registered with the NBSSI

3.4 Sampling

Stratified sampling was used in this study, to select a representative sample for the survey. After the stratification, convenience and snowball sampling was used to get the exact respondents for survey. The study focused on SMEs in all the three sectors of the economy – primary, secondary and tertiary. For this study, a total of 100 questionnaires were administered, which included 30 SMEs in the Primary Sector, another 30 SMEs in secondary sector and 40 SMEs in the tertiary sector.

3.5 Data analysis and interpretation

Quantitative data from questionnaires was analyzed using SPSS software program (Version 20) and Microsoft Excel. Responses were coded then analyzed. Descriptive responses tabulated and analyzed. Qualitative data was analyzed based on opinions from respondents and presented as narrations in the results.

CHAPTER FOUR

ANALYSIS OF FINDINGS AND DISCUSSIONS

4.0 Introduction

This chapter presents analysis of data collected in descriptive writing, tables and figures. It also presents the highlights of the key findings from the analyzed data in line with the objectives of the study. Finally, a detailed discussion is given, with critical reflections on the findings and how they related with previous studies conducted on the subject matter.

4.1 Profile of SMEs surveyed

4.1.1 SME sectors and categories surveyed

Of the 100 SMEs which participated in this survey, 30 were in the primary sector; another 30 in the secondary sector and 40 in the tertiary sector (see Figure 4.1). All the 30 SMEs in the primary sector were agricultural production enterprises such as those involved in poultry and crop farming. SMEs involved in mining, which could have formed part of our sample in the primary sector were not within Kumasi. For the secondary sector, 47% were involved in manufacturing, another 47% in food and water processing, while the remaining six were from the health sector mostly pharmaceuticals and herbal medicine producers. The tertiary sector was the most diverse, with 18% involved in education, 20% in tourism, 20% in healthcare, 42% in trading and other related services. Overall, there was diversity in the SMEs which participated in this survey showing high level of representativeness in the survey.

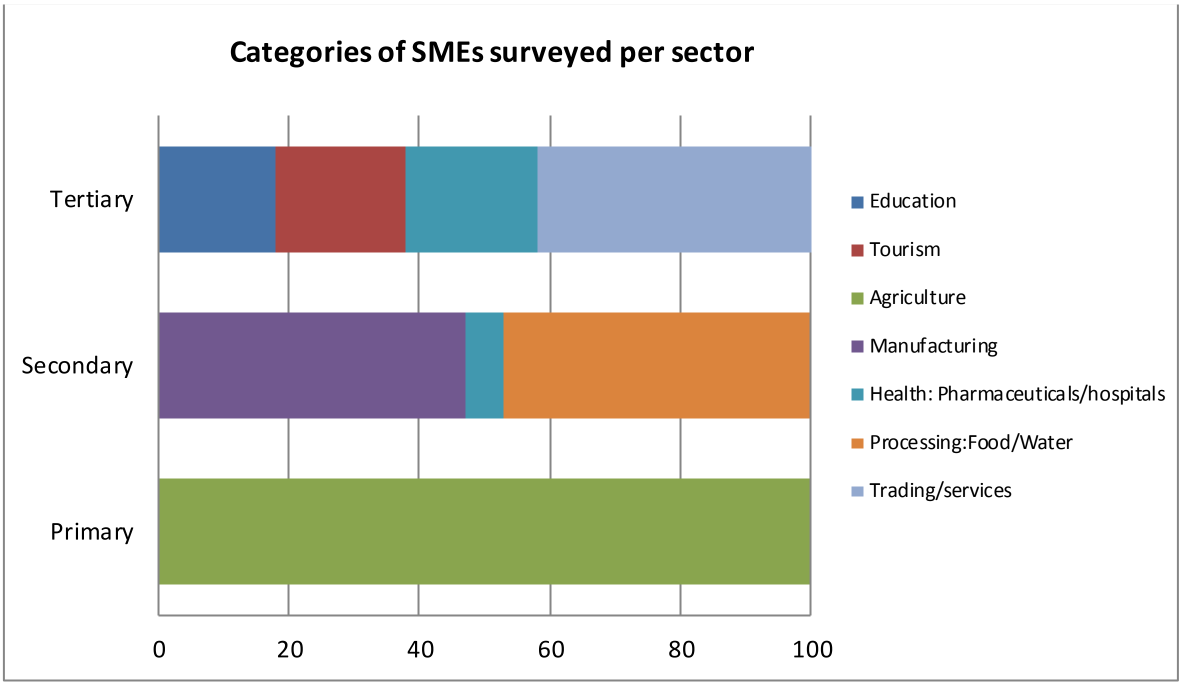


Figure 4.1: Categories of SMEs per sector

Source: Field Survey, 2015

4.1.2 Ownership, employees and years of operation

Table 4.1 shows structure of ownership, number of employees and years of operation of the SMEs involved in the survey. On ownership, most SMEs (60-73%) were under sole proprietorship. Partnerships were more in the primary sector (20%) while limited liability companies were mostly in the tertiary sector (30%) and in the secondary sector (20%). Majority of SMEs surveyed (60-87%) had between 6-15 employees. Tertiary sector SMEs had comparatively a bigger number of employees per SME (i.e. 40% of SMEs had more than 15 employees) compared to the primary (13%) and secondary sectors (20%).

Table 4.1: Ownership structure, employees and years of operation of SMEs

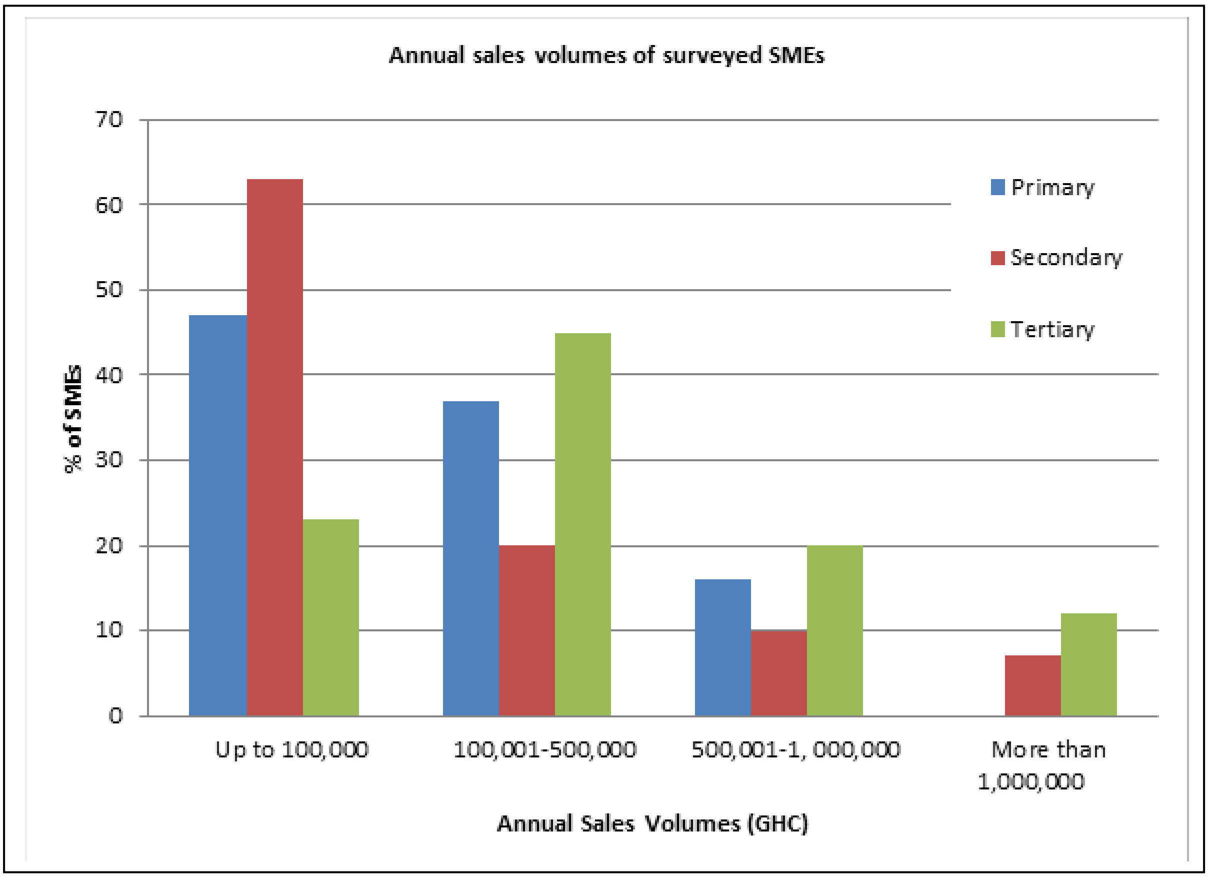
	Primary Sector *(N=30)*		**Secondary Sector** *(N=30)*		**Tertiary Sector** *(N=40)*	
	No. of SMEs	%	No. of SMEs	%	No. of SMEs	%
Ownership						
Sole Proprietorship	20	67	22	73	24	60
Partnership	6	20	2	7	4	10
Limited Liability Company	4	13	6	20	12	30
Number of employees						
Up to 15	26	87	24	80	24	60
16-29	2	7	3	10	11	28
30-50	1	3	2	7	5	12
51-99	1	3	1	3	0	0
Years in operation						
Less than 2yrs	1	3	0	0	4	10
2-4yrs	2	7	9	30	5	13
5-10yrs	12	40	8	27	15	37
More than 10yrs	15	50	13	43	16	40

Source: Field Survey, 2015

Most SMEs surveyed had been in operation for more than 5 years. This is shown as 90%, 70% and 77% of all SMEs in the primary, secondary and tertiary sector had been in operation for more than 5 years. The relatively high percentage of SMEs (30%) in the secondary sector, which have been in operation for 2-4 years, is a reflection of the increase in 'pure' water processing companies in Kumasi over the last few years. In related studies among SMEs in Kumasi, Agyemang (2009) found out that 30% of SMEs had operated between 1-5 years, 32% between 6-10 years and 38% above 10 years. Similarly, AyebengBotchway and Poku (2014) found out that 17% had operated for less than 3 years, 30% for 4-8 years and 53% for more than 9 years. In general, most SMEs in Kumasi (on average more than 40%), have been in operation for long i.e. more than 10 years.

4.1.3 Sales volumes of SMEs surveyed

Another parameter used to profile the SMEs was the annual sales volumes (Figure 4.2). In the primary and secondary sectors, most SMEs (47% primary; 63% secondary) had low annual sales volumes of up to GHC 100,000. In contrast to the primary and secondary sectors, most SMEs in tertiary sectors had comparatively higher annual sales volumes with only 23% having up to GHC 100,000. Almost one third of SMEs in the tertiary sector had annual sales volumes of more than GHC 500,000.



[#] 1 US$ = 4 GHC

Source: Field Survey, 2015

Figure 4.2: Annual sales volume for SMEs surveyed

4.2 Sources of Finance used by SMEs in Kumasi

Venture capital financing is one of the many financing options that SMEs could use. First, this study sought to find out the general sources of financing used by SMEs Kumasi. The sources of financing obtained from SMEs surveyed are shown in Table 4.2. Retained earnings and self-financing, were the most commonly used means of business financing. For example, in the primary sector, all SMEs surveyed used both of these sources. Other sources used in the primary sector were family and friends (27%), bank loans (27%), trade credits (20%) and NGO support (3%). The sources of financing used in the secondary sector were nearly similar; however, this was the only sector that had an SME with venture capital funding. In the tertiary sector, other than retained earnings and self-financing, bank loans (63%) and trade credits (43%) were prominently used.

Table 4.2: Sources of finance to SMEs

	Primary Sector *(N=30)*		**Secondary Sector** *(N=30)*		**Tertiary Sector** *(N=40)*	
	No. of SMEs	%[#]	No. of SMEs	%	No. of SMEs	%
Retained earnings	30	100	30	100	40	100
Owners (self-financed)	30	100	28	93	36	90
Family and friends	8	27	4	13	5	13
Bank loans	8	27	8	27	25	63
Trade credit	6	20	7	23	17	43
NGO support	1	3	0	0	1	3
Government support	0	0	1	3	0	0
Venture Capital	0	0	1	3	0	0

[#] total % more than 100% since respondents could give more than one source of finance

Source: Field Survey, 2015

In previous studies, Agyemang (2009) showed that of the 100 SMEs surveyed in Kumasi, 58% used bank loans, 35% own capital (i.e. self-financing) and 8% family and friends. In a survey on small and medium construction firms (SMCFs) in Ghana, Bondinuba (2012) found out that bank loans (40.4%), personal saving (29.8%), retaining profits (19.2%) and family and friends (10.6%) were the sources used for expansion of SMCFs, while personal saving (45%), family and friends (32%), and bank credit (19%) were used to finance start-ups.

All SMEs surveyed, except one SME in the secondary sector, used multiple funding sources (two or more sources) (see Figure 4.3). In the primary and secondary sectors, more than 80% of SMEs used 2-3 sources of finance. The tertiary sector used even more sources, with one-quarter of the SMEs surveyed relying on 4 sources and 5% relying on more than 5 sources. For venture capital firms, information is important as they need to know that they may not be the only source of finance to the SMEs. So, in case they offer funding, they could be other institutions offering funding as well to the same SMEs, and these institutions could influence some decisions taken by SMEs.

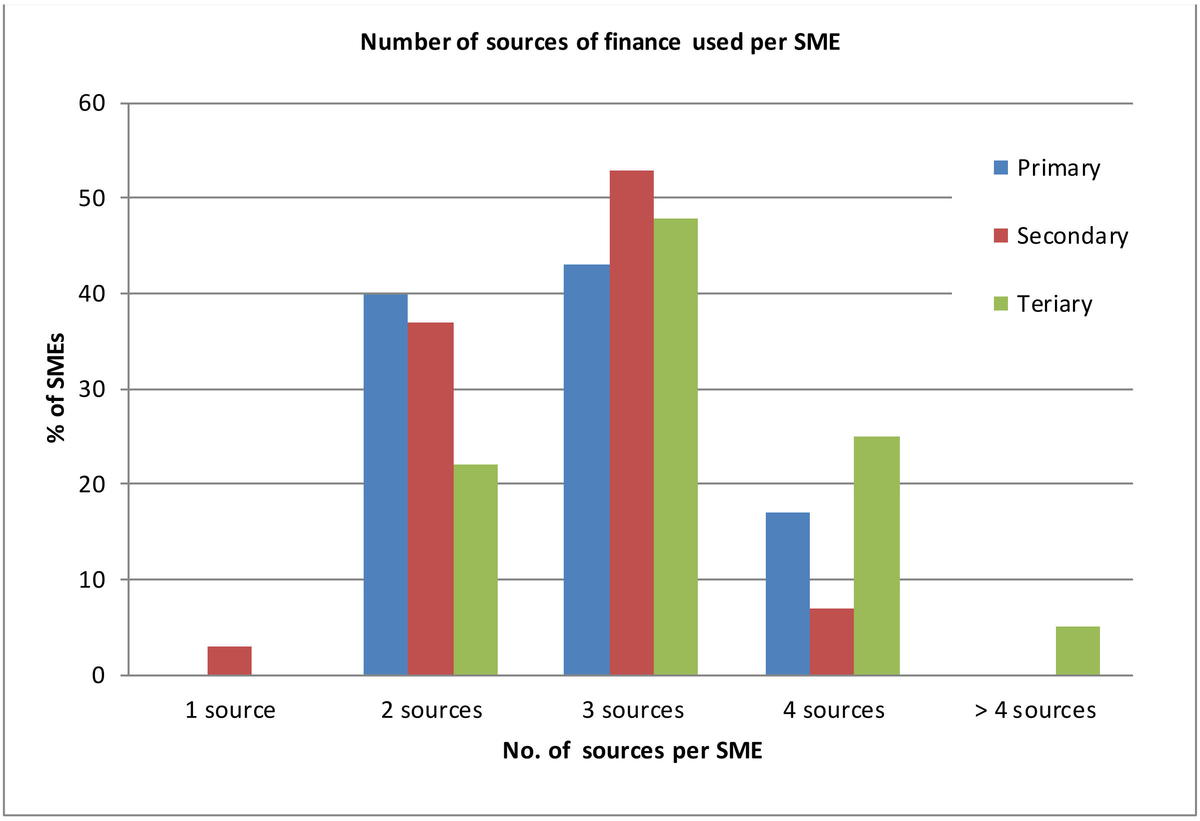


Figure 4.3: Number of sources of funding per SME

Source: Field Survey, 2015

4.3 Awareness on venture capital financing by SMEs in Kumasi

Of the 100 respondent SMEs interviewed, 31% (31 SMEs) were aware of venture capital financing while the rest (69%) were not aware (see Table 4.3). Of the 31 SMEs, 7 were in the primary sector, 8 in the secondary sector and 16 in the tertiary sector. Intra-sector analysis shows awareness of 23%, 27% and 40% for the primary, secondary and tertiary sectors respectively. Relatively, tertiary sector had highest awareness levels on venture capital financing followed by secondary sector then primary sector. However, analysis of variance (ANOVA) shows that the difference in awareness in the sectors are not significant at $p=0.05$, as the *p value* was 0.127.

Table 4.3: Awareness on venture capital financing by SMEs in Kumasi

	Primary Sector *(N=30)*		**Secondary Sector** *(N=30)*		**Tertiary Sector** *(N=40)*		**Total**
	No. of SMEs	%#	No. of SMEs	%	No. of SMEs	%	%
Aware	7	23	8	27	16	40	**31**
Not Aware	23	77	22	73	24	60	**69**
Total	*30*	*100*	*30*	*100*	*40*	*100*	***100***

Source: Field Survey, 2015

Figure 4.4 shows awareness levels based on categories of SMEs. Awareness levels were highest in the health category represented by 60% awareness. Other SMEs with relatively high awareness levels were those involved in tourism (38%), trading (38%) and food and water processing (36%). Lowest awareness levels (20%) were recorded for SMEs in agriculture and manufacturing. However, analysis of variance (ANOVA) shows that the difference in awareness in the categories were not significant at $p=0.05$, as the p value was 0.343.

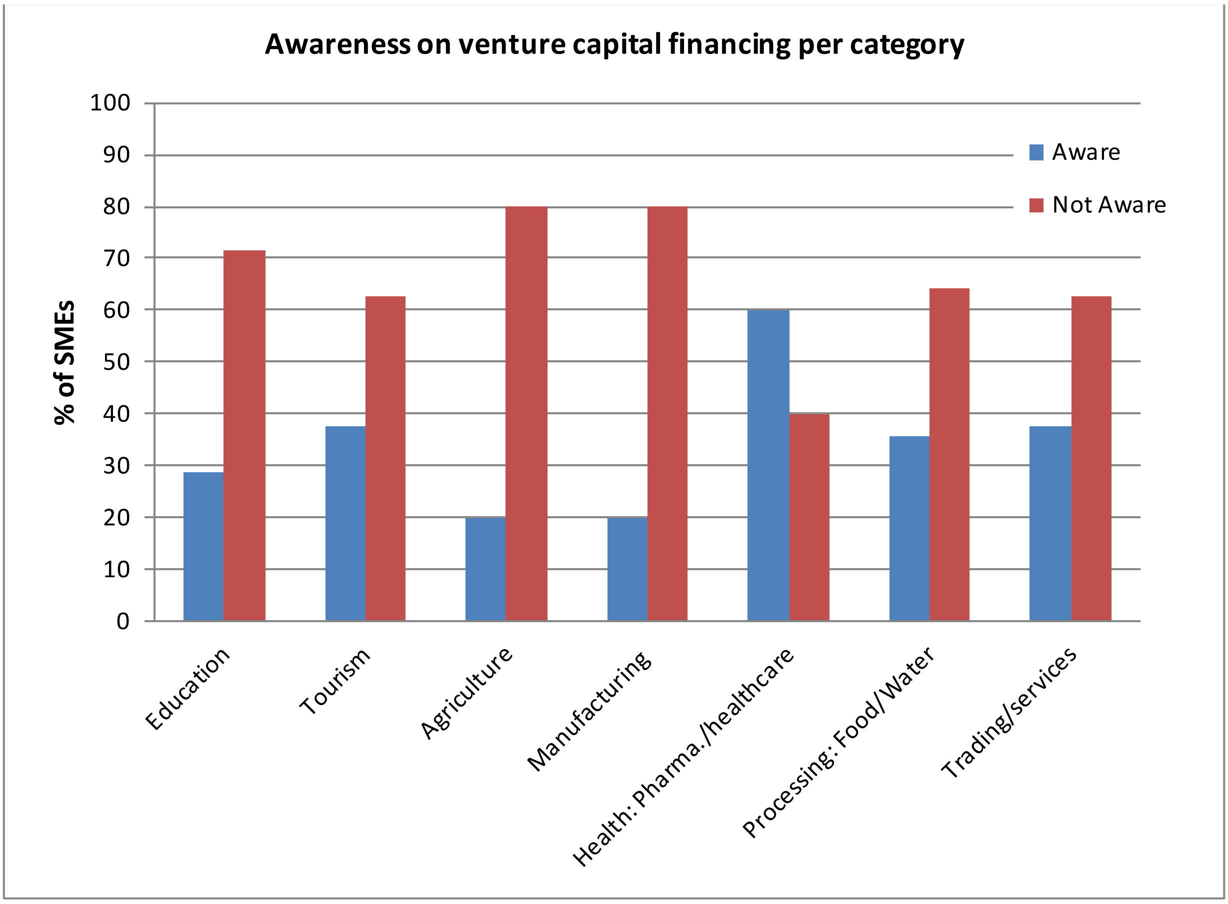


Figure 4.4: Awareness of venture capital financing by SMEs per category

Source: Field Survey, 2015

In a recent related study, AyebengBotchway and Poku (2014) conducted a study on challenges associated with accessing venture capital for expansion of SMEs in Ghana, where 30 SMEs in Kumasi were involved. In the study, 75% of the respondents were not aware of the existence of venture capital financing in Ghana. So, only 25% were aware. Agyemang (2009) conducted a related study to assess the knowledge base of venture capital financing among SMEs in the Kumasi metropolis. In the study involving 100 SMEs, 73% of them did not have any knowledge on venture capital financing, and only 27% had some knowledge on venture capital financing. Among the SMEs involved in manufacturing in Kenya, Migiro and Wallis (2006) found out that only 17.4% were aware on venture capital financing. The current study for the manufacturing category shows a very comparable awareness level of 20%.

Overall, awareness on venture capital financing among SMEs is generally low. For Ghana, particularly Kumasi, one could expect the awareness levels to have increased over time. But since the Agyemang study in 2009 where awareness levels were 27%, the trend is not different 5-6 years later with the AyebengBotchway and Poku study in 2014 i.e. 25% awareness and now this current study in 2015 where awareness was obtained as 31%. More still needs to be done by the stakeholders, particularly VCTF Ghana and venture capital firms to increase awareness on venture capital financing among SMEs in Ghana, particularly Kumasi.

4.4 Influence of SME profile factors on venture capital awareness

This analysis also sought to find out if the factors used to profile SMEs had any influence on awareness of venture capital financing. For example, does the number of years of operation have any relationship with awareness or can we say that SMEs with higher annual sales values had higher awareness levels? Correlation analysis was conducted and results are presented in Table 4.4. Pearson correlation coefficient *(r)* indicates the strength in the relationship. The level of awareness was significantly positively correlated with the annual sales volumes for the primary and the tertiary sectors and the ownership structure for the secondary sector.

Overall (without considering categories), significant positive correlation coefficients were obtained for annual volume of sales (r = 0.299), and ownership structure (r = 0.326). Interpreting this, for annual sales values, SMEs with higher sales volumes were more aware of venture capital financing compared to those with lower sales values. Likewise, for ownership structure, awareness levels increased from sole proprietorship, to partnership, with highest levels obtained for limited liability companies.

Table 4.4: Correlation between venture capital awareness and SME profile factors

SME profile factors	**Primary** *(r)*	**Secondary** *(r)*	**Tertiary** *(r)*
Category	-[#]	0.134	0.071
Ownership structure	0.300	0.399**	0.264
Number of employees	- 0.075	0.092	0.260
Years of operation	0.269	0.006	0.043
Annual sales volumes	0.331**	0.099	0.349**

** means significant at $p = 0.05$;

[#] Not obtained since all SMEs in the primary sector were in agricultural sub-sector.

Source: Field Survey, 2015

4.5 Mediums used by SMEs to obtain information on business financing

The mediums that SMEs interviewed in Kumasi use as sources of finance information are shown in Table 4.5. Radio and TV were the most commonly used mediums by the SMEs. For the primary sector, radio and TV was reported to be used by 80% and 77% of SMEs respectively. While radio and TV continued to be the most used mediums in the primary and secondary sectors, the usage was much lower i.e. 50-57%, due to the use of other mediums of information. For the secondary sector, the other mediums of information commonly used were word of mouth from family members and friends (47%) as well as newspapers and magazines (47%). For the tertiary sector, other sources of information used were word of mouth from family members and friends (47%) and visits from the financing companies (35%).

Table 4.5: Mediums used to obtain information on business financing options

	Primary Sector *(N=30)*		**Secondary Sector** *(N=30)*		**Tertiary Sector** *(N=40)*	
	No. of SMEs	%#	No. of SMEs	%	No. of SMEs	%
Print media						
Newspapers/ magazines	7	23	14	47	6	15
Books	9	30	6	20	9	22
Billboards/Posters/Leaflets	5	17	5	17	8	20
Electronic media						
Radio	24	80	15	50	22	55
Television	23	77	17	57	20	50
Internet	4	13	6	20	7	18
Training workshops and seminars	9	30	4	13	4	10
Word of mouth from family and friends	10	33	14	47	19	48
Direct visits from financial institutions by field marketers	1	3	1	3	14	35
Road shows and mass community outreaches	0	0	4	13	0	0

#% more than 100% since respondents could give more multiple responses

Source: Field Survey, 2015

In a study conducted in Kenya among SMEs in the manufacturing category, aggregate results indicated that about 60% of the respondents very often used family and friends to obtain information on external sources of finance, while customers 41%, local suppliers 40%, competitors 23% and the Department of Trade and Industry 4% were also used. The other sources minimally used included internet (1%) and consultants (1%).

Like sources of funding, SMEs used multiple mediums for information related to business financing (See Figure 4.5). Single sources were only used by 10% of SMEs in the primary and secondary sectors, and 28% of SMEs in the tertiary sector. Most of the SMEs in the primary and secondary sectors used 2 sources of information, represented by 30% and 43% respectively. As many SMEs as 17% SMEs in the primary sector, 14% in the secondary sector and 15% in the tertiary sector used more than 4 sources of information. This finding is important while formulating strategies for effective awareness creation on venture capital financing. Instead of focusing on one medium, a better strategy could be to use multiple sources, especially those currently commonly used by SMEs for business funding shown in Table 4.2

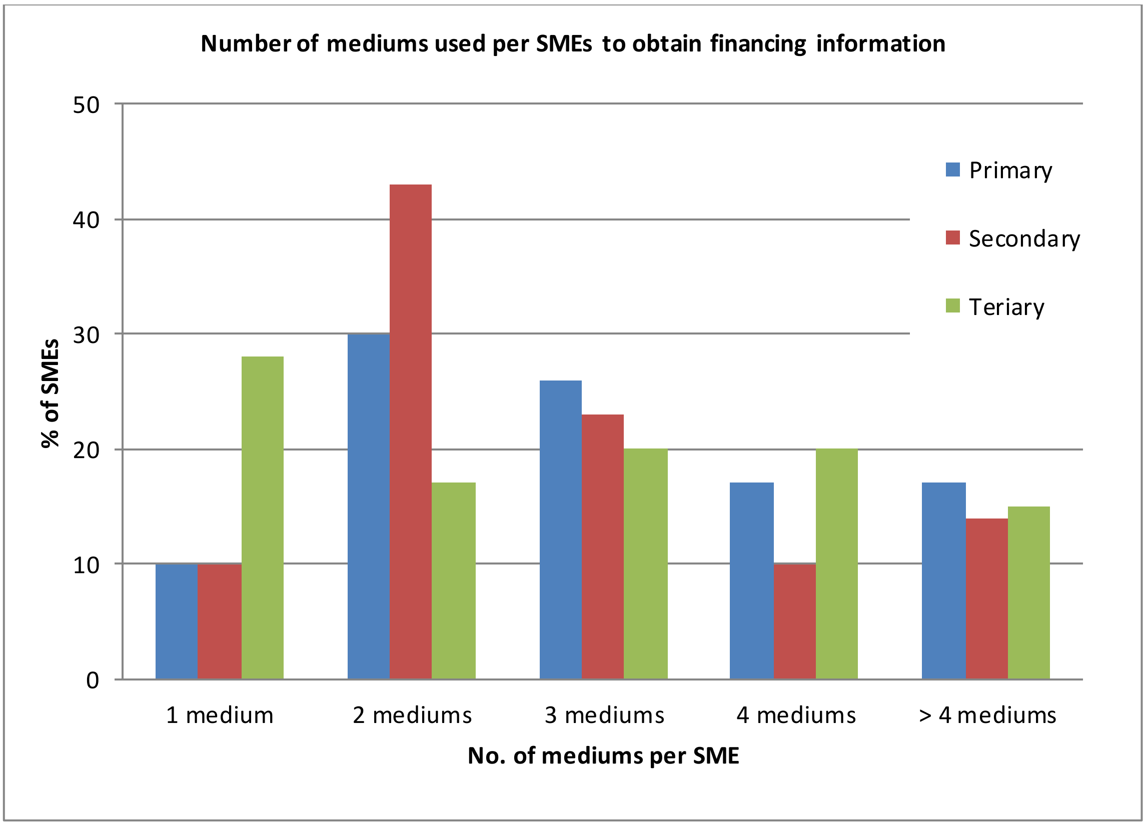


Figure 4.5: Number of mediums of financing information

Source: Field Survey, 2015

4.6 Mediums for information on venture capital financing

Table 4.6 shows the mediums of information used by those who were aware of venture capital financing. The medium that was mostly used to obtain information on venture capital financing was the internet. It was used by 29% of respondents in the primary sector, 50% in the secondary sector and 44% in the tertiary sector. Venture capital financing is a relatively new concept, hence reliance on internet, which tend to contain newer information than other sources. In Ghana, VCTF has a website with some information on venture capital financing (see http://www.venturecapitalghana.com.gh/). There is also a lot of information on venture capital financing on the websites especially from countries which have had successes in VC financing like the USA and UK.

Table 4.6: Mediums for obtaining information on venture capital financing

	Primary Sector *(N=7 of the 30 who were aware of VC)*		**Secondary Sector** *(N=8 of the 30 who were aware of VC)*		**Tertiary Sector** *(N=16 of the 40 who were aware of VC)*		**Mean**
	No. of SMEs	%#	No. of SMEs	%	No. of SMEs	%	**(%)**
Print media							
Newspapers/ magazines	0	0	3	38	4	25	**21**
Books (academic)	4	58	2	25	5	31	**38**
Electronic media							
Radio	1	14	1	13	2	13	**13**
Television	2	29	0	0	1	6	**12**
Internet	2	29	4	50	7	44	**41**
Training workshops and seminars	0	0	3	38	2	13	**17**
Word of mouth from family and friends	0	0	0	0	1	6	**2**
Direct visits from financial institutions by field marketers	0	0	0	0	2	13	**4**

#% more than 100% since respondents could give more multiple responses

Source: Field Survey, 2015

In the primary sector 58% of the respondents used books mostly from educational institutions where they had been taught about venture capital as a financing option in their business courses. Books, as a medium of information, was also used by (25%) of respondents in the secondary sector and by 31% of respondents in the tertiary sectors (31%). Books tend to contain more elaborate information, especially for venture capital, which is a relatively new concept. Radio and television, which were the two most commonly used mediums in the general business financing information, were used to a lesser extent as mediums for venture capital financing information. This could be perhaps because venture capital financing has some technicalities which need more elaborations that could not be better conveyed in radio. Training seminars were particularly mentioned by a high proportion of secondary sector respondents (38%) and direct visits from field marketers (13%) for the tertiary sector.

Similar to general business financing information, SMEs that were aware of venture capital financing also relied on multiple mediums, though not to the extent of general business financing information (see Figure 4.6). For example, 56% of SMEs in the tertiary sector got to know about venture capital financing through only one medium. Most SMEs knew about venture capital financing from two sources like those from the primary sector (71%), and the maximum sources reported were three.

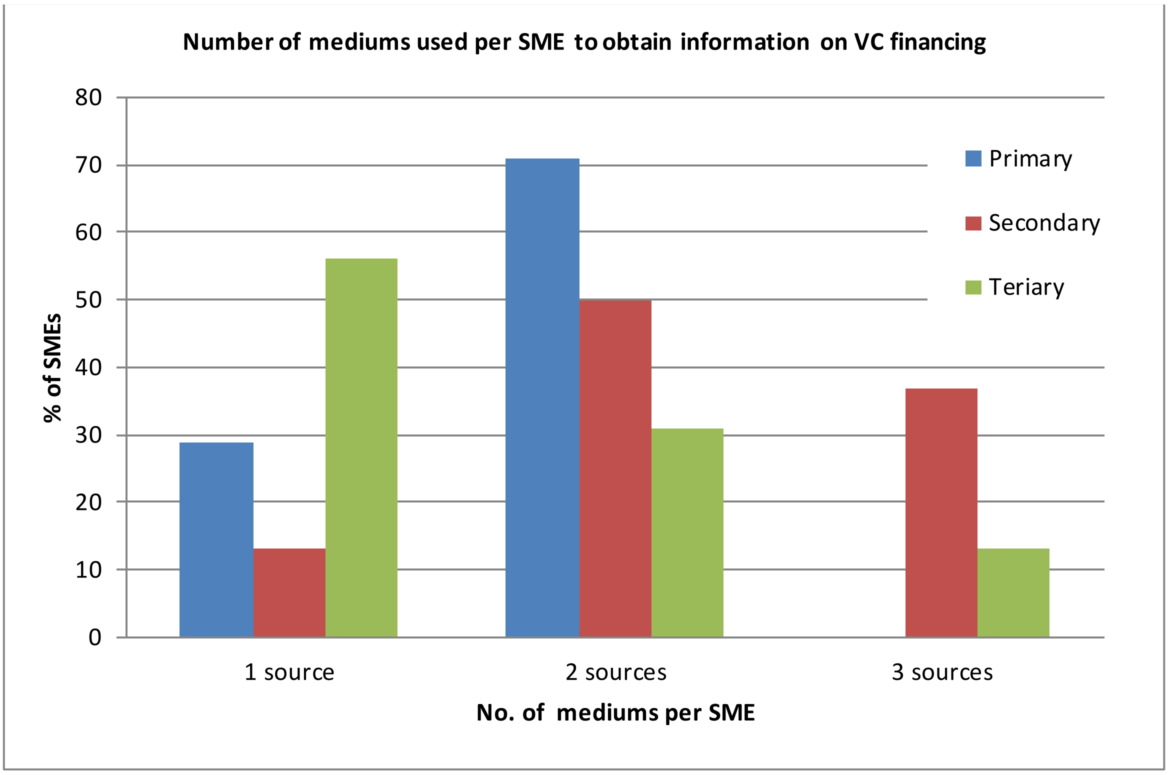


Figure 4.6: Number of mediums used to obtain venture capital financing information

Source: Field Survey, 2015

4.7 Benefits and impacts of venture capital financing on SMEs

For the SME that had venture capital financing, they received up to US$ 500,000, which was released in intervals of 6 months. Other benefits they got were capacity building (advisory support) through trainings and workshops. The financial support and capacity building has helped them to grow. However, the SME complained that the venture capital firm had reneged on its responsibilities in the last two years. They have not been honoring their financial and advisory obligations as agreed, and that has now slowed down the operations of the company.

In a survey involving SMEs that have received venture capital financing in Ghana, Boadu et al., (2014) listed a number of services provided by venture capital firms to the SMEs they surveyed. These were training on managerial skills (33% of respondents), access to finance (24%), access to advisory services (17%) and access to business opportunities. The study revealed that VCTF often organize frequent training programs and business opportunities fair to bring people together and share ideas. Caselli and Gatti (2004) found out that venture capitalists support and strengthen the growth of a company and assist with strategic planning, management recruiting, operations planning or introduction to potential customers and suppliers.

Boadu et al., (2014) identified a number of impacts of venture capital financing on SMEs. This included increased revenues for SMEs and other related businesses, leads to business growth, job creation and expansion. Similar findings have been reported from Kenya by Memba et al. (2012), where the venture capital industry is much more developed than Ghana. These reports support the view of Hellman and Puri (2002) which suggested that venture capital assists in the development of new products or services due to the financial and contributory support that venture capitalists give to thriving and new businesses. A review carried out in the venture capital industry in the USA covering a period from 1970-2000 shows an investment of more than $273.3 billion into companies resulted in employing 7.6 million people and generating over $1.3 trillion in annual sales revenue, representing 5.9% and 13.1% of the U.S national totals respectively (NVCA, 2010). Likewise in Ghana, necessary venture capital support in terms of monetary support and advisory services could lead to growth and expansion of SMEs, leading to job creation and even increased revenues to the state. For venture capital firms in Ghana, they should ensure consistency in meeting their obligations and not renege to their agreements as reported by the SME in this study that received venture capital funding.

4.8 Factors preventing SMEs from applying for venture capital funds

Table 4.7 shows the reasons given by SMEs why they didn't apply for venture capital funds, even if they knew it was a financing option. The main reasons given were inadequate information on venture capital financing, reemphasizing the lack of awareness on this funding option, the reported stringent conditions for accessing funds and the bureaucracy involved and having no current needs. In a related study, Agyemang (2009) showed the main reasons for SMEs not applying for venture capital financing to be the fact that they didn't want any interference (fear of loss of control and ownership) and had no need for extra funds. These barriers, to some extent, influence or are influenced by awareness, as discussed in this section.

Table 4.7: Reasons for SMEs not applying for venture capital financing

	Primary Sector *(N=7 of the 30 who were aware of VC)*		**Secondary Sector** *(N=8 of the 30 who were aware of VC)*		**Tertiary Sector** *(N=16 of the 30 who were aware of VC)*		**Mean**
	No. of SMEs	%#	No. of SMEs	%	No. of SMEs	%	**%**
Inadequate information	2	29	4	50	6	38	**39**
Stringent conditions and bureaucracy	2	29	2	25	1	6	**21**
No current needs/have other financiers	2	29	2	25	8	50	**35**
Fear of loss of control and ownership	0	0	1	13	1	6	**6**
Lack of portfolio diversity and location proximity	1	13	0	0	2	13	**9**

#% more than 100% since respondents could give more multiple responses

Source: Field Survey, 2015

4.8.1 Inadequate information about venture capital financing

Most SMEs surveyed reported inadequate information and knowledge on venture capital financing as a major reason for not applying for venture capital funding. Adding this to the large proportion of SMEs who were not aware of venture capital financing, it is clear that VCTF Ghana has not lived to its mandate of ensuring that SMEs are aware and knowledgeable of this financing option. It was created for SMEs and they should benefit from it. But, how can SMEs benefit from what they don't know? From the annual reports of VCTF Ghana, this is how they conducted promotion and awareness in 2011 (VCTF 2011).

"We began the year by organizing a Press Conference to outline our plans for the coming year. Following that we successfully completed a rebranding exercise to revitalize our corporate image to better reflect our core values and objectives. In 2010, the Trust embarked on ***Nationwide Roadshow which resulted in the production of a TV Roadshow documentary****. This was telecasted on the nation's Ghana television (GTV) and TV3 networks in the First Quarter of the year 2011. These received various reviews and helped broaden the understanding of the venture capital financing in general and VCTF in particular. In furtherance of the public awareness programme, the Trust Fund in 2011 organized its* ***First Ever regional Roundtable Conferences*** *at four Regional Capitals for Phase One and Two of the Programme which Western, Central, Brong Ahafo and the Ashanti Regions. The Round table targeted the business communities using the Chamber of Commerce, the Association of Industries, Central Development Commission, (CEDECOM) the Ministry of Trade and Industries as focal points."* (Source: VCTF, 2011.)

While some effort has been put, it is woefully inadequate and awareness could be better tailored to SMEs already in business. Perhaps the most comprehensive information base on venture capital financing activities in Ghana is on the VCTF and VC firms' websites, but the proportion of SMEs using internet to access financing information is low.

4.8.2 Stringent conditions and bureaucracy

Another barrier for SMEs from applying for venture capital funds was bureaucracy and stringent conditions. Even the SME surveyed in this study that obtained VC funds reported bureaucracy and the valuation methods used by venture capital firms as the key challenges for applying for funds. This study sought to find out more information regarding this barrier from websites of VCTF Ghana, venture capital firms and previous studies..

According to VCTF Ghana, SMEs seeking for funding should initially submit the following documentation to any of the Venture capital Fund Company:

- A comprehensive business plan with three (3) year projections.
- Audited financial reports for past three years where applicable
- Tax clearance certificate (if applicable)
- Incorporation papers (if applicable)
- Any other information that may be required

According to VCTF Ghana, once an application is submitted the following processes and procedures are initiated: Analysis, evaluation and due diligence by the fund manager

- **Initial (desktop) Review (*Analysis*)**: 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 (*Evaluation*)*:*** Verification of claim, visit to facility. Authentication, title search, etc

- **Due Diligence** – Is done on legal, technical and financial aspects of the business.

A detailed process, obtained from Gold Venture Capital Ltd. is shown in Appendix 2. For Gold Venture Capital Ltd. the time taken for each step in the process is shown in Figure 4.7. Overall, it shows that the process usually spans a minimum of 39 working days as follows.

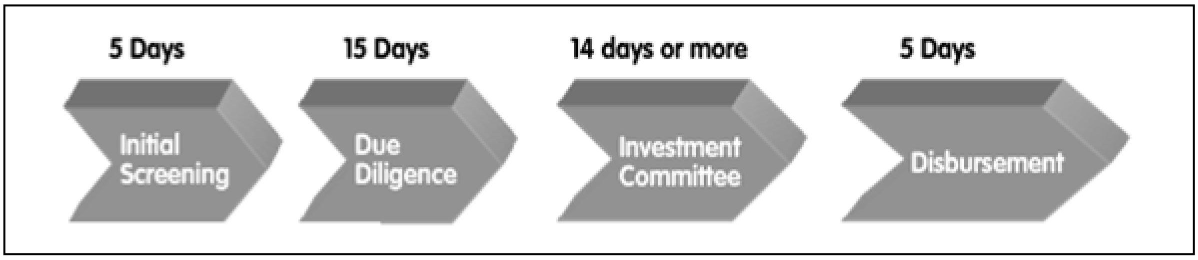


Figure 4.7: Duration for accessing funds from Gold Venture Capital Ltd

Overall, while the documents may be showing a relatively straight forward procedure to access funds, reality on the ground may be different. For example, Anokye-Yeboah (2009), also identified bureaucracy as a barrier for accessing funding. The study showed that 60% of SMEs in Accra who had applied for venture capital funding were refused funding due to requirements and standards, stated as bureaucracy by SME respondents. SMEs found the process too cumbersome and unfriendly to SMEs. Schertler (2003) suggested that venture capital financing companies should ensure flexibility in requirements for venture funds to make it accessible to the business environment.

4.8.3 Portfolio Diversity and Proximity

Lack of category diversity and location proximity was reported as another reason why SMEs did not apply for venture capital funds. However, a closer look into the venture capital firms shows that they have a much diversified portfolio. For example, the Gold Venture Capital Ltd (in their website) shows that their portfolio includes education, agriculture and allied sector, tourism, construction, services, pharmaceutical, manufacturing, ICT, mining and finance. Another firm, Oasis, parent company for Ebankese, portfolio includes private education, housing and hospitality, food services, financial services, healthcare and related services. Boadu et al., (2014) equally shows various categories of SMEs that had venture capital financing in the country. From the 42 SMEs surveyed, the categories were pharmaceuticals (4), agro-processing (8), poultry farms (8), financial services (4), manufacturing (2), education (4), ICT (10) and waste management (2). Ideally, the portfolio is wide but the awareness on portfolios among SMEs is low, emphasizing the broken link of what exists and what really the SMEs are aware of.

On location proximity, this seems to be a real issue. So far, the Greater Accra region seems to carry the lion share of the number of beneficiaries of companies with venture capital funds. Analysis done by AyebengBotchway and Poku (2014) based on VCTF annual reports show that Greater Accra had 75% of the beneficiary SMEs, 7% each in Eastern, Ashanti and Brong Ahafo and Volta had 4%. This is despite the fact that many SMEs are also in Ashanti region, particularly Kumasi. The VCTF annual Report for 2012, states that VCTF was to open a field office in Kumasi by February (2013) to enhance proximity for the Northern sector of Ghana, but it is not clear how far this has been realized as records, even from the VCTF website don't affirm this. Proximity is crucial to increasing awareness of VCTF activities. In any case, studies have shown due diligence to be the most important factor in selecting SMEs for funding, and in that case venture capital firms tend to invest in ventures close to their offices, in order to spend more time on due diligence (Boadu et al., 2014). This could explain why most of venture capital activities are still concentrated in Accra. Decentralization of VCTF, and in particular to have offices in all the ten regions of Ghana, will go a long way to increase awareness on their activities and hence give SMEs another financing option to consider.

4.8.4 Loss of ownership and control

The extent of the fear of loss of control and ownership could be influenced by the extent of awareness and knowledge that SMEs have on venture capital funding. Indeed, Boadu et al (2014) shows that for all companies financed by venture capital, the venture capital firms formed part of the management. Yes, some ownership and control will be lost, there will be interference as Agyemang (2009) found out, yet, this is not necessarily negative. Regardless, more awareness and knowledge to SMEs will lessen this fear factor, so that they can open up their businesses for growth. More knowledge will enhance their negotiation skills so that they can get fair deals from venture capital firms. For instance, one challenge identified by the SME that accessed venture capital funds in this study was ‘the methods used for valuation’. The SME feels that they were undervalued. But that could have changed with better negotiation skills. Also reported abrogation of responsibilities by the venture capital finance company doesn’t need to be a burden to the SME, as it currently stands, but better negotiations could have also imposed penalties on the VCFC, just like it is done in any legal contract.

4.9 Strategy to increase awareness on venture capital financing to SMEs

In developing an effective strategy to increase awareness, it was important to have views of the beneficiary group, in this case SMEs, on how they think awareness could be increased. In this study, the views from SMEs were incorporated with information available in documented literature and an appropriate strategy developed for SMEs in Kumasi.

4.9.1 Means identified by SMEs to increase awareness

Respondents from SMEs involved in this survey had a general consensus that awareness on venture capital financing among SMEs in Kumasi was very low. They suggested a number of ways that could be used to increase awareness of this financing option as shown in Table 4.8. The three most mentioned ways to increase awareness were advertising in radios and TVs (mentioned by 70% of SMEs in primary, 53% in secondary and 65% in tertiary), VC firms directly visiting the SMEs and introducing this financing option (mentioned by 50% of SMEs in primary, 37% in secondary and 45% in tertiary) and holding training seminars for SMEs on the financing option (mentioned by 30% of SMEs in primary, 23% in secondary and 30% in tertiary)

The ways identified by Agyemang (2009) were seminars/workshops (identified by 30% of respondents) adverts on print and electronic media (20% of respondents), setting up of more branches (25%), training programs (10%), resourcing NBSSI (15%). These ways were similar to the ones identified in this study except the one on NBSSI.

Table 4.8: Means to increase awareness on venture capital financing to SMEs

	Primary Sector *(N=30)*		**Secondary Sector** *(N=30)*		**Tertiary Sector** *(N=40)*	
	No. of SMEs	%#	No. of SMEs	%	No. of SMEs	%
Advertising on radios and televisions	21	70	16	53	26	65
Direct contact with SMEs using field visits	15	50	11	37	18	45
Conduct training seminars and workshops	9	30	7	23	12	30
Use business associations and boards to create awareness	1	3	0	0	2	5
Mass training using documentaries in local media	1	3	2	7	4	10
Offices of VCTF and VC firms should be closer	1	3	2	7	1	3

#% more than 100% since respondents could give more multiple responses

Source: Field data, 2015

4.9.2 Strategy for increasing awareness on venture capital financing

Based on available literature and responses from survey correspondents, a strategy for increasing awareness on venture capital financing in Kumasi was developed (see Figure 4.8. This study shows that SMEs use multiple mediums for information on business financing and venture capital financing. An effective strategy should therefore use multiple information mediums. However, to ensure that the same message is conveyed to avoid confusion, the primary source has to be one, i.e. VCTF. So, in the strategy developed, information flows from VCTF Ghana to SMEs, in multiple information pathways and mediums.

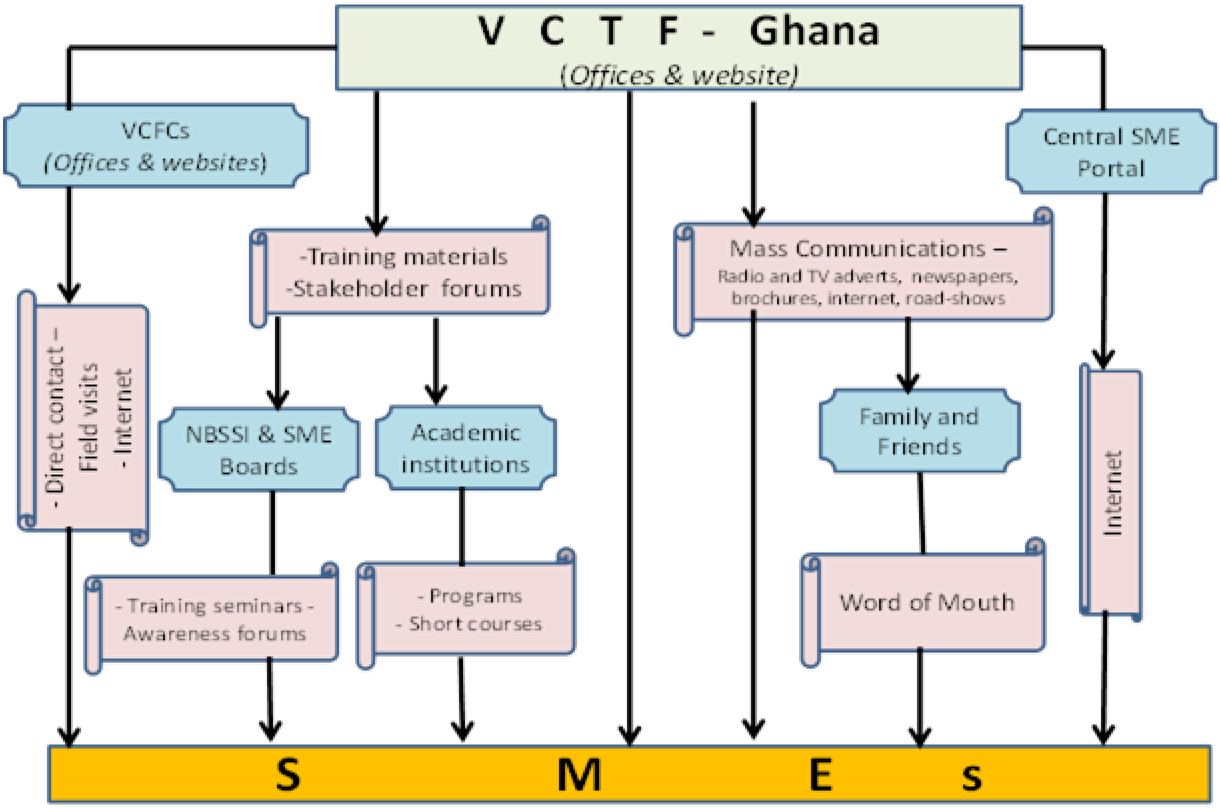


Figure 4.8. Communication strategies to increase awareness among SMEs

Source: Researchers' own development.

Information on venture capital financing can flow directly from VCTF Ghana to SMEs using mass communication. A number of mediums, highly prioritized by SMEs such as advertisements on radio and TV, which may include documentaries as used by VCTF in 2011, can be used. With proliferation of radio and TV stations in Ghana, care should be taken to choose more authoritative stations with wider coverage for these mediums to be more effective. Print media in form of newspapers and magazines can as well be very effective due to the wide coverage. Language is important in all mass communication, as some of the target beneficiaries may be better informed when local languages such as *Twi*, *Ga* or *Dagbani* are used. In addition, the use of prominent businessmen, with practical success stories which other SMEs can relate to can be helpful, especially in documentaries. Previously, VCTF Ghana has used road shows, but care needs to be taken that road shows are not on the 'roads' but targeted in areas with a concentration of business communities.

Looking to the future, however, internet will be an important medium for mass communication. But it will need the websites to be better populated with more information, updated regularly and be user friendly. While VCTF Ghana has a website, the information is scanty and not so user friendly. For example, the VCTF brochure on downloads was scanned and is so unclear. By June 2015 (time for this writing) the latest annual report on the website was that of 2012, among so many lapses in the website. There is also increasing use of social forums like *WhatsApp,* Facebook, Twitter as well as bulk SMS, which should be explored. However, traditional pathways such as 'family and friends' should not be neglected. Indeed, this study shows that word of mouth from family and friends is still widely used and should still be considered, in our contexts.

One of the core mandates of the National Board of Small Scale Industries (NBSSI) is to train SMEs on business development, including financing. So, VCTF need not to duplicate this role. But, VCTF can support NBSSI with necessary venture capital financing materials, and where necessary expertise, during training on business financing. So, venture capital financing, as a financing option, should be part of the formal training package for SMEs. Agyemang (2009) presented this point as 'resourcing NBSSI'. Many SMEs have organizations and Boards. For example, the hotel industry is under the Ghana Tourism Board. Members often rely on their umbrella organizations and leadership as a source of information. Holding stakeholder forums by VCTF to sensitize the boards and leadership on venture capital financing will go a long way to increase awareness of individual SMEs. Targeted training can also be done on the financing option, so that leadership can be a channel of accurate information during their awareness forums.

Academic institutions such as business schools in universities and colleges form another pathway for information on venture capital financing. For example, at KNUST Business School, venture capital financing is taught as a course in the MBA program. Indeed, a number of respondents in this survey mentioned that they learnt about venture capital financing in school/university, with one specifically mentioning KNUST Business School's course. So, venture capital financing can be streamlined as a financing option in syllabuses at tertiary level. These institutions can also offer short tailored and refresher courses for SMEs on venture capital financing. Even more crucial, especially in universities, students hold the key for future innovations in entrepreneurship. Holding stakeholder forums and working closely with incubation programs in universities, will go a long way to creating awareness on venture capital financing.

The venture capital financing companies, as immediate contacts for SMEs in search for funds, could also play a better role on increasing awareness. This study shows proximity to be a major barrier to accessing knowledge on venture capital financing. Other than the websites, which have similar problems highlighted for the VCTF website, locating offices close to SMEs will support increasing awareness on venture capital financing. Even more important is these VCFCs using direct marketing, using field marketers who go and talk directly to potential SMEs. As one respondent said, other financial institutions like banks are doing it, why not them?

Finally, a central SME portal at ministry level should be created, where information on venture capital financing can be provided. As Migiro and Wallis (2006) argued, a central SME-focused business portal to harmonize and facilitate provision of online support services to SMEs.

Overall, a clear communication strategy, with multiple but well-coordinated information pathways through the most appropriate and user-friendly mediums, as the one developed, will go a long way to increase awareness on venture capital financing in Kumasi.

CHAPTER 5: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This last chapter presents objective-based conclusions and recommendations. This is based on a critical reflection of the findings of this study. These are preceded by a summary of findings.

5.1 Summary of findings

Sources of financing used by SMEs in Kumasi: Retained earnings and self-financing, were the most commonly used means of business financing. All SMEs surveyed in the primary sector used both of these sources. The sources of financing used in the secondary sector were nearly similar; however, this was the only sector that had an SME with venture capital funding. In the tertiary sector, other than retained earnings and self-financing, bank loans (63%) and trade credits (43%) were prominently used.

Awareness on venture capital financing by SMEs in Kumasi: Of the 100 SMEs which participated in this survey, 31% were aware of venture capital financing while 69% were not aware. This is represents of 23%, 27% and 40% for the primary, secondary and tertiary sectors respectively. On business category, awareness levels were highest with pharmaceuticals (60%), followed by tourism activities like hotels (38%), trading (38%) and food and water processing (36%). Lowest awareness levels (20%) were recorded for SMEs involved in agricultural activities. Only one surveyed

SME, which is in the food processing category in the secondary sector, had successfully accessed venture capital financing.

Influence of profile factors on venture capital awareness: The level of awareness was significantly positively correlated with the three SME profile factors used i.e. annual sales volumes and amount of assets, and the ownership structure. This means that awareness was higher with SMEs that had higher annual sales and assets. For ownership structure, awareness levels increased from sole proprietorship, to partnership, with highest levels obtained for limited liability companies

Benefits and impacts of venture capital financing on SMEs: The main benefits reported of venture capital financing was financial support (SME that had venture capital financing, they received up to US$ 500,000). Other benefits they got were capacity building (advisory support) through trainings and workshops. The financial support and capacity building has helped them to grow.

Factors impeding awareness and application of venture capital funds: The most frequently reported barriers to awareness and application to access venture capital financing by SMEs in Kumasi were inadequate information on venture capital financing, the perceived stringent conditions for accessing funds and the bureaucracy involved, lack of portfolio diversity and location proximity of VCTF and VCFCs, fear of loss of control and having no current needs for venture capital financing. Most of these barriers can however be linked directly to low awareness and knowledge levels of this financing option, emphasizing the need to create more awareness.

Mediums used by SMEs to access information on venture capital: Internet (websites), books (formal courses in academic institutions), training seminars and workshops were the most commonly used mediums for venture capital financing. Internet was used by 29% of respondents in the primary sector, 50% in the secondary sector and 44% in the tertiary sector. However, for general business financing information, radio and TV were the most commonly used mediums, as used by more than three-quarters of SMEs in the primary sector and more than half in the secondary and tertiary sectors**.** In addition, SMEs relied on multiple mediums, mostly 2-3 sources, for information on venture capital financing. However, for general business financing information, many more mediums were used. For example, s many SMEs as 17% SMEs in the primary sector, 14% in the secondary sector and 15% in the tertiary sector used more than 4 sources of information

Increasing awareness levels on venture capital financing for SMEs: The most mentioned means recommended for increasing awareness of venture capital financing by SMEs were advertising in radios and TVs (mentioned by 70% of SMEs in primary, 53% in secondary and 65% in tertiary), direct contact of SMEs through field visits (mentioned by 50% of SMEs in primary, 37% in secondary and 45% in tertiary) and holding training seminars for SMEs on the financing option (mentioned by 30% of SMEs in primary, 23% in secondary and 30% in tertiary). A strategy has been developed which has multiple but well-harmonized information pathways, through the most appropriate and user-friendly information mediums, that if correctly implemented will go a long way to increase awareness on venture capital financing among SMEs in Kumasi, and others in similar settings.

5.2 Conclusion

After a decade of existence of venture capital financing in Ghana, awareness of this financing option among SMEs in Kumasi is low (31%). The level of awareness has hardly improved since 2009, when a related study showed awareness levels of 27%. Venture capital financing activities are still very much concentrated in the Greater Accra Region, which has about 75% of the SME beneficiaries, where the VCTF and VCFCs offices are located. As due diligence is the most important factor in identifying SMEs for venture capital financing, SMEs in the Greater Accra region will continue to be the greatest beneficiaries, because VCFCs will fund SMEs in close proximity to their offices. With low level activities in other regions and cities like Kumasi, awareness will continue to be low. Decentralization of VCTF and VCFC activities and offices will go a long way to increase awareness of venture capital financing in Kumasi, and Ghana as a whole, and create fairness and a more competitive use for this financing option.

The current mediums of information on venture capital financing used by VCTF don't adequately raise the required awareness to SMEs. The website of VCTF Ghana is poorly resourced, outdated and not user-friendly. One-off roundtable stakeholder meetings and conferences can only address few privileged SMEs, while road-shows can end up in the roads and not target SMEs. VCTF Ghana and VCFCs should have a clear and common strategy that could effectively communicate their packages to SMEs across the country. In this study, SMEs have indicated the means they use to obtain information on business financing, which VCTF and VCFCs should capitalize on rather than using mediums most convenient to them. In addition, there are already institutions in Ghana, which have clear mandates of training and awareness creation to SMEs like NBSSI, or general financing in general, like academic institutions, which the VCTF should work more closely with, instead of duplicating this roles within VCTF. There is also need to be forward-looking and take advantage of ICT by using social forums like Twitter, WhatsApp, even bulk SMS for information sharing. As an input to this, a strategy has been developed from this study, that if well implemented will go a long way, to increase awareness in the SME sector.

Overall, awareness on venture capital financing is low on the primary beneficiaries, (SMEs) is low. The venture capital industry in is weak: growth has been slow and expansion to other regions of Ghana is abysmal. This has not given SMEs in other regions (apart from Greater Accra) a fair chance and is stifling innovation in small business enterprises. Venture capital financing has been widely used to finance highly innovative start-ups leading to spontaneous impacts on economic developments of global economies, such as the US and UK. Innovation is crucial for development, so the slow growth of the venture capital industry in Ghana is stifling development in Ghana. Stakeholders, particularly VCTF, need to develop and adopt a clear strategy with sustained and effective awareness and promotion activities, which can translate to real growth in the industry, and hence the economy of Ghana.

5.3 Recommendations

Based on the findings of this study, the following are the **policy recommendations**

- Decentralization of VCTF Ghana offices and activities from Accra to other regions of Ghana. This will give SMEs in other regions a fair chance to know about this financing option, hence more chances to access this funding

- Streamlining portfolios for different VCFCs and requirements to access funds, so that they can be sector/category focused. The conditions, for example for funding agriculture should not be the same as manufacturing.
- Stakeholders, particularly VCTF, to develop and adopt a clear strategy with sustained and effective awareness and promotion activities, which can translate to real growth in the industry, and hence the economy of Ghana.

The following are recommendations for **further studies**

- A more comprehensive comparative study on how awareness is created and sustained in other funding options for SMEs such as bank loans
- Explore the use of ICT based information and communication technologies in creating awareness among SMEs

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APPENDIX 1: SURVEY QUESTIONNAIRE

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

KNUST SCHOOL OF BUSINESS

MBA THESIS –SURVEY QUESTIONNAIRE

VENTURE CAPITAL FINANCING: ASSESSMENT OF AWARENESS LEVEL AMONG SMALL AND MEDIUM ENTERPRISES IN KUMASI METROPOLIS, GHANA.

Introduction

Dear Manager,

Greetings.

I am an MBA Finance student at KNUST. I am conducting this survey among SMEs in the Kumasi Metropolis regarding their awareness on venture capital financing for my research thesis**. I declare that all information obtained from you will be used for academic purposes only**. I also hope the relevant authorities will make use of my study recommendations so that access to financing, especially venture capital by SMEs, can be improved. Please, the bearer of this letter is part of my team that is supporting me in data collection.

Thank you for your cooperation.

Emily Mogire

June, 2015

I. SME PROFILE

1. **Indicate the sector of the SME?**

[ ] Primary sector[1]

[ ] Secondary sector[2]

[ ] Tertiary sector[3]

2. **Type of business**

[ ] Sole proprietorship [ ] Partnership [ ] Limited liability company

3. What is the business's annual sales volume? ………………………. ……………

4. What is the current value of the business in total assets (excluding land and buildings)?

[ ] $10,001 to $50,000 [ ] $50,001 to $100,000 [ ] $100,001 to $500,000 [ ] $500,001 to $1,000,000

5. How many employees does the business have?

[ ] 6-15 employees [ ] 16-29 employees [ ] 30-50 employees [ ]51-99 employees

6. How long has this business been operating in Kumasi?

[ ] less than 2 yrs [ ] 2-4 yrs [ ] 5 -10 yrs [ ] More than 10 yrs

II. AWARENESS

7. What are the sources of finance for your business? {*Enumerator: You may tick more than one source}*

[ ] Retained earnings,
[ ] Owners (Self-financed)
[ ] Family and friends
[ ] Venture capital
[ ] Angel investors
[ ] bank loans
[ ] trade credit
[ ] non-bank financial institution debt
[ ] government assistance
[ ] non-government (NGOs)
[ ] Others (*Specifiy*) ………………………………………

---

[1] Primary sector SMEs include those in agricultural production, aquaculture and mining
[2] Secondary sector SMEs include those in food processing, manufacturing, water production, artisans and pharmaceuticals
[3] Tertiary sector SMEs include those in Financial services, trading, education,real estate, transportation, hotels/resturants, hosptals and ICT

8. What is the medium through which you obtain information on business financing? {*Enumerator: can tick more than one medium*}

[ ] Newspapers and magazines
[ ] Books
[ ] Leaflets/fliers/tracts
[ ] Printed training materials e.g manuals, charts
[ ] Radio
[ ] television
[ ] Internet
[ ] Roadshows
[ ] Training workshops and seminars
[ ] Friends/Family
[ ] Billboards/Posters
[ ] Other (Specify) ....

9. Are you aware of venture capital financing? {*Enumerator: will explain to the respondent the meaning of venture capital financing – where investors provide financial capital and other technical support to high-potential growth business in return for a percentage of ownership of the business for a given period (7-10 yrs)*}

[ ] Yes [ ] No *(Go to Q19)*

10. If the above is yes, what is the medium through which you obtained information regarding Venture Capital financing? {*Enumerator: can tick more than one medium*}

a) Print media
[ ] Newspapers and magazines [ ] Books [ ] Leaflets/fliers/tracts
[ ] Printed training materials e.g manuals, charts

b) Electronic media
[ ] Radio [ ] television [ ] Internet

c) Other
[ ] Roadshows [ ] Training workshops and seminars [ ] Friends/Family
[ ] Other (Specify) ....

11. If aware, has your business ever applied for Venture Capital financing?

[ ] Yes [ ] No (*Go to Q18)*

12. If ever applied, did you receive the funding/support from the VC firm when you applied?

[ ] Yes [ ] No (*Go to Q16)*

13. If funding was received, how much did you receive?
...

14. If funding was received, what are other benefits the business received from the Venture Capital firm?

……
………………

15. What are the effects of the venture Capital funding to your business?
{*Enumerator: Effects can be positive (benefits) and negative; you can tick more than one}*

[ ] Increase in sales volume
[ ] Better monitoring
[ ] Better governance structure
[ ] loss of control of the business
[ ] delays in decision making
[ ] others (*Enumerator: list as many as respondents say*)
……………………………………

16. If you applied but did not receive the funding, why did the Venture Capital firm decline you the funding?

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

17. If aware and have ever applied, what were the main challenges you faced when applying for Venture Capital funds? {*you can tick more than one}*

[ ] Process of applying too lengthy
[ ] Business data required to make application is incomplete and unreliable
[ ] Requirements for application are difficult
[ ] No sufficient support and guidance during the application process
[ ] Not sure how much funding to apply for as this is determined by VC firm
[ ] Difficulty in determining the percentage of ownership to relinquish to VC firm
[ ] Other (*Specify)* ……………………………………………………………………

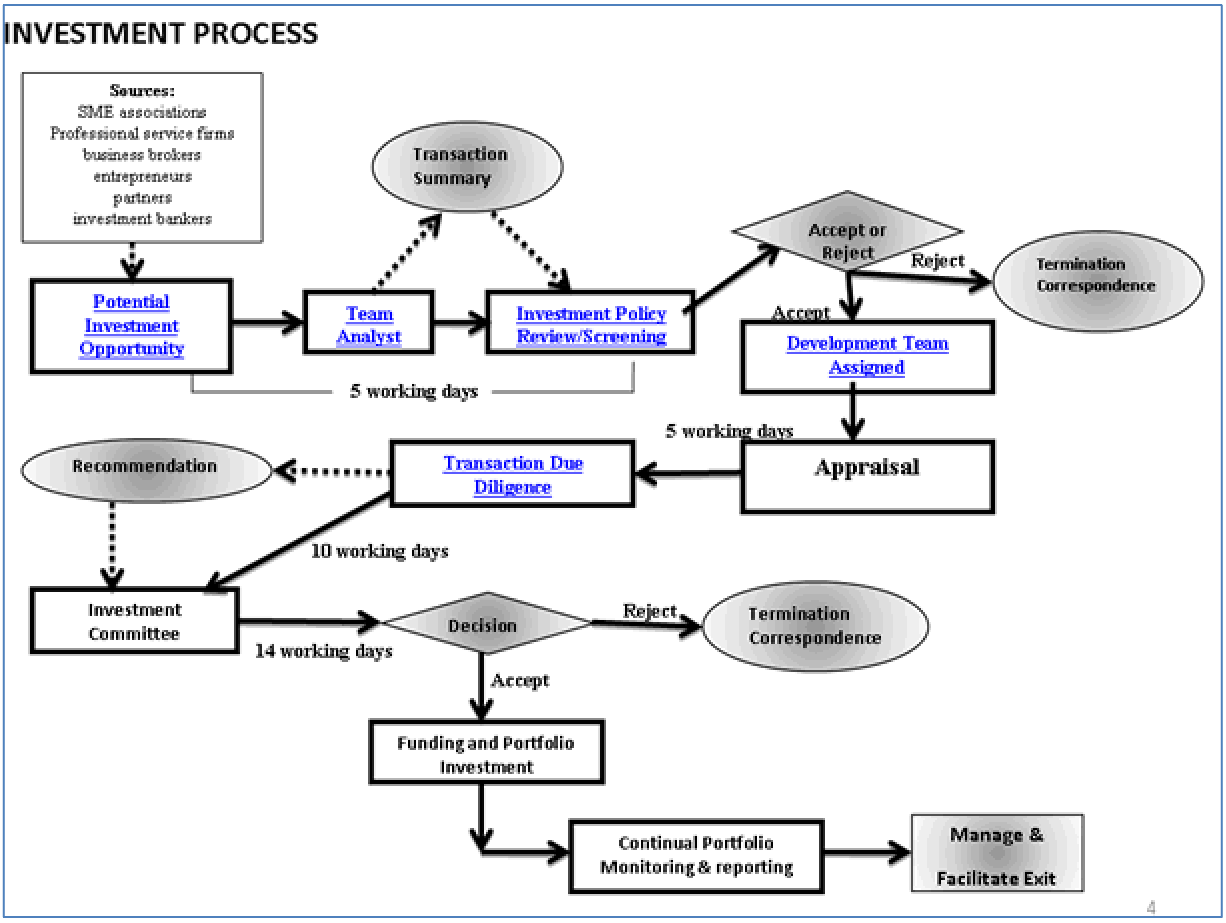
18. If aware but never applied, why have you never applied for venture capital funding?………………………………………………………………………………………
……
……………………………………………………………………

19. Suggest what may be done to improve awareness on Venture Capital financing to SMEs?

……
……
……………………………………

Thank you very much for your time and assistance.

APPENDIX 2: INVESTMENT PROCESS BY GOLD VENTURES LTD.



Source: Gold ventures Ltd website