KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS

THE ROLE OF VENTURE CAPITAL ON THE GROWTH AND DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES IN THE KUMASI METROPOLIS

BY

GEORGE SARPONG

(BSc. Accounting)

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DECLARATION

I hereby declare that, this thesis is my individual work and that, to the best of my understanding, contains no material which has been published previously by another person or material that has been accepted by the university for the award of degree except, where due recognition has been made.

GEORGE SARPONG

(PG9602813)	**………………..........**	**…………………**
	Signature	Date

Certified by:

Mr.KWASI POKU	**………..……………….**	**…………………**
Supervisor	Signature	Date

Certified by:

DR. K.O. APPIAH	**………..……………….**	**…………………**
HEAD OF DEPARTMENT (Accounting and Finance)	Signature	Date

ABSTRACT

In Ghana, the SME sector has been acknowledged as the conduit of economic growth and sustainable employment. The introduction of the Venture Capital Trust Fund in 2004 was hailed as timely intervention to provide risk and equity capital to promote the sector. A decade after its introduction, the researcher is encouraged to assess the awareness of Venture Capital Financing within the SME's sector in the Kumasi Metropolis as the fund seeks to fulfil its mandate. To achieve the objective, the researcher administered 50 questionnaires to SME's that meets the basic requirement to attract Venture Capital Financing. The study found that, after a decade of the introduction of the scheme, it is still not popular within the SME sector in the region and little effort were being made to bridge this gap by the key stakeholders irrespective of some key success it has chalked and recommends that, a sustained public awareness creation through the print, electronic media, seminars and workshops.

DEDICATION

I dedicate this piece of work to the Almighty God for his kindness, to my lovely wife Hannah Sarfoa Osei for her awesome support, my daughter Ewurabena Tenewaa Aseda Sarpong, my mum and sisters for their tremendous support in kind and prayers. May the Lord God exceedingly and abundantly bless you for all the sacrifices you made on my behalf

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Venture Capital as a conduit to stimulate and promote growth through provision of financial assistance to the SME sector is not a new phenomenon. According to the Asian development Bank's report SME finance monitor 2013 state that, Small and Medium Sized Enterprises (SME's) the spine of national economies in the countries of Asian and Pacific". Hence SME sector development in the region is the key for resilient economies. The above claim is not peculiar to the ACP regions alone as many research has shown, indeed on the average, SME's constitute about 80% of the Global Economy. The enactment of small Business Investment Act of 1958 in the USA to assist small businesses realize and contribute its full economic potential impact was the earlier steps towards the establishment of professionally managed Venture Capital firm. The passage of the SBI Act, 1958 was believed to have done little to gain the needed impact, as (Gompers, 1994) would put it "most of the VC firms has financial background but lacked the technical knowhow"

However, it was until after the passage of the Employee Retirement Income Security Act which was perceived to have unlocked the critical resources. Afterwards, there was an unprecedented flow of money into the Venture Capital sector. The contribution of pension funds rose dramatically, snowballing annual new contribution from US$ 100-200m during the 1970s to the excess of US$ 4b in the mid-eighties. This boosted the growth of new ventures especially in the area of technology which before then had been plagued by lack of financing. The critical role that Venture Capital Companies played in the transformation and growth of new and existing ventures cannot be overemphasized.

In the early 1990s, there had been a set up of two no-bank financing companies to hold funds and they were Venture Fund Management Company and Ghana Venture Capital Fund to make investment decisions. The two funds were incorporated and started operations in November 1992 (Agyemang, 2009). Noteworthy to the Venture Capital role it played in the provision of financial assistance to the new and existing ventures as has been the of Silicon Valley in the United states of America.

This good example encouraged Ghana government to pass the Venture Capital Trust Fund Act in 2004, which Act 680 was supposed to provide financial resources for the development and advancement of venture capital funding for the Small and Medium Enterprises in the priority areas of the economy. The specific objective of the Venture Capital Act, Act 680 is to provide equity and debt finance to appropriate venture capital financing companies to support the Small and Medium Enterprises and to provide monies to support the activities and programs for the promotion of venture capital financing.

The SME sector in both developed and the developing countries are plagued by several factors that impede their growth. According to Bolton report (1971) SME's plays a special role to the contribution to the health of nation's economy (Stokes and Wilson, 2010). Key among them are (a) provision of productive outlet for enterprising and independent individuals who might have been frustrated under-achievers in a larger control environments, (b) contributors to the variation of products and services made available to consumers in specialized markets considered to be too small for larger companies (c) compete to the monopolistic tendencies of large companies.

According to Andersson and Nappier (2007)," Small and medium-sized enterprises form the backbone of the European Economy". They are considered as the critical key to entrepreneurial soul and innovation in the European Union competitiveness. A appropriate of which enterprises especially SMEs makes it easier to identify their needs and to develop efficient policies to compensate for the exact problems related to their small size.

This is vibrant for the competitiveness of an enlarged European Union, its growth and development. Again, according to Hayford N. (2012), SME's tends to be the crucial driver for job formation as they are labor intensive and employ more labor per unit capita than the larger enterprises thereby creating more jobs in the economy. This is also apparent in developing countries like Ghana as it is estimated that, the SME sector employs about 35% of labor (Mensah and Roland).

It is instructive to note that, the SME sector could be the key determining factor in job creation for both skilled and unskilled labor. Due to their structure and their chain of operation, they are a conduit of achieving millennium development goal 1, 3 and 8. Aside the provision of jobs, the SME sector offers a platform for investment prospects, professional skills and training and also serves as an avenue for tax income for governments. In spite of the acknowledgement of the pivotal role that the SME sectors is perceived to have played and continue to play in developing countries such as Ghana, the sector still faces a lot of challenges. The SMEs are the pillar of global economies, and are key contributor to Gross Domestic Product(GDP) growth and employment creation. The sector typically accounts for 95% of enterprises, employs almost 2/3 of the labor force, contributes 30-60% GDP of countries, has grown at approximately twice the rate of GDP in most markets and it is expected to grow at 10-12 % p.a., in footprints across, Asia, Middle East and the Africa (Tim Hinton, 2012).

The needs of SME's, especially in Africa are changing; many of the issues that large companies face, now impacts SMEs. They need their banks to assist in managing the uncertainties in their business-fluctuating currency rates, changing interest rates, and commodity prices. SMEs face challenges expanding their operations into new markets; enterprise recognition access to credit (Tim Hinton, 2012). Mindful of the critical role that SMEs play in the developed and the emerging economies, led to the passage of the Venture Capital Trust Fund Act in Ghana in 2004.

Act 680 among other things, was supposed to provide legislative backing to the fund in providing financial resource for the growth and development of venture capital financing for SMEs in the priority sectors of the economy and the provision of debt and equity finance to eligible venture capital financing companies to support Small and Medium Enterprises. A special amount of money equivalent to twenty-five percent of the proceeds of the National Reconstruction Levy was made available to the VCTF with effect from the 2003 financial year. It is reported that, the VCTF was resourced with an amount of GH₵ 22.5M.

The action taken by the Government of Ghana served as an incentive for the formation of the first four Venture Capital Companies such as Activity Venture Finance Company, Gold Venture Capital Limited, Bedrock Venture Capital Finance Company, Fidelity Capital

Partners Limited and lately Ebankese Venture Fund. Geographically, they are all located in the Greater Accra Regional Capital even though there are ten administrative regional capitals in the country and SMEs are scattered all over the country. It is estimated that, about 69 % of the country's population are employed in the SME's and majority of are located in rural areas. Thus the sector provides employment for a substantial number of people in the rural areas (Ampadu, A.R., 2010).

If policies are devised and well-tailored to focus on SME development in the country, the sector would be able to contribute its quota to the GDP and enhance its tax contribution and generate enough employment opportunities to halt the raising graduate unemployment. According to Agyemang D. 2009, "the low level of awareness on the activities of VC firms still remains a major challenge. However, this challenge can be addressed through intensive advertisement and other educational and interactive programs. By so doing, the SMEs would be better informed, adopt healthy business practices and then be able to access finance or partner with the VC firms and then be able to play their role by contributing to the economic development".

1.2 Research Problem Statement

Ten years after the promulgation of the Venture Capital Trust Fund Act, (2004), the results are a far cry of the objective with which the fund was established. SME sector in Ghana still faces an ominous task in trying to raise funds for large scale projects yet the availability of such funds is crucial to the sustained growth and global competitiveness of firms in Ghana (Owusu-Adjei K. 2010).

The mode of financing by the Venture Capital Companies to especially, the SME sector has all over the world, gained countless interest on the meadow of government policy formulation and academia research.

These Venture Capital firms brings a lot of resources to the SMEs they partner to develop their comprehension in their operations. They also ensure that good business practices are adhered to at all departmental levels. To be able to harness the full potential of the SME, adequate financial assistance should be made available the sector for innovation and expansion. However, in Ghana in general and Ashanti Region in particular, there is somewhat a collaborative gap between the activities of the VC companies and the SMEs. This might be as results of the fact that, the providers of this vital resources or economic transportation are either missing the path of meeting

the end users of their product or the end users themselves are oblivious of the availability of these resources.

The focus of this study is to evaluate the awareness of Venture Capital Financing scheme within the SME community in the Kumasi Metropolis.

According to Abor and Biekpe (2006), there is limited access to financial resources available to smaller organizations as compared to their larger counterparts which have occasioned their low growth and development. They posited that, this twigs from the reasoned that SMEs have limited access to the capital market partly due to the perception of higher risk, informational barriers, and the higher cost of intermediation for smaller organizations.

Again ILO (2005) indicated that, starting a business is a risky venture and warns that the chances of small businesses making it past five year mark are very slim. It is based on these finding that has influenced the researcher to examine the role that venture capital financing could have on growth and development of SMEs.

1.3 Research Objectives

The general objective of this study is to examine the role played by the Venture Capital Trust Fund in the growth and development of SMEs within the Kumasi Metropolis. Specifically, the study seeks to address the following objectives.

- ✓ To assess the financial package available to SME's by the VC firms.
- ✓ To examine the process SME's passes through in accessing venture capital financing.
- ✓ To find out how the VC firms are collaborating with the SMEs in the metropolis.
- ✓ To assess the impact of venture capital financing on successful firms

1.4 Research Questions

The study seeks to address the following queries:

i. What impact can Venture Capital Financing had on SME's?

ii. What can SME owners do to attract Venture Capital Financing?

iii. What awareness has VC firms created to attract SMEs?

iv. How has VC financing aided the SMEs?

1.5 Research Scope

The study covers all the SMEs in the Kumasi Metropolis which, in the opinion of the researcher possesses what it takes to access Venture Capital financing and private equity firms in the Kumasi Metropolis. There have been several attempts to define SME's. Most of these definitions have been informed by the jurisdictional orientation by the authors. Whilst some use number of employees, others comfortably use working capital to distinguish SME's. However, there is other confusion even those that use the number of employees. To avoid this trap, the researcher would use the definition that NBSSI uses to gauge which organization qualifies to be called an SME. The NBSSI defines SME's and defines SME's including the following: Small business is any business that employs up to 29 people. And small business is separated into the micro and medium enterprises. The micro enterprises employ up to 5 workforces with fixed assets (excluding land and building) not exceeding the value of $10,000; small enterprises are those employing between 6 and 29 workforces or having fixed assets excluding land and building not exceeding $100,000 and a medium enterprises employ between 30 and 99 workforces with fixed assets of up to $1m. The scope of the research encompassed those organizations having the above descriptions within the Kumasi Metropolis

1.6 Organization of the Study

The study consist five chapters. Chapter one introduces the reader to introduction and the background of the study and additional relevant information such as research questions, the scope, the methodology, objectives and the justification of the study. Chapter two of the study in turn concentrate on the literature review to review the work of other authors who have conducted studies in this area of interest to identify their conclusions and also identified gap in literatures of private equity financing mode. The third chapter also outlines the design of the study, the strategy, research purpose, data collection and analysis and the tools, sampling population, size and method. The chapter four would provide the outcome of the data obtained and its relationship to chapter one. The outcome would be presented in graphs, tables and charts. The fifth chapter presents a snapshot of discussion on the records and findings. And it is also providing recommendations and perceived solutions to the problems identified in the course of the research.

1.7 Justification of the Study

The findings of the study will provide insight for the venture capital professionals, the regulatory body and the SME sector. The findings would also provide a snapshot of the needs of the private equity firms to the policy makers to propel the SME sector to play its expected role in the achievement of the millennium development goals.

The research will also make investee companies to understand well the operations of venture capital companies. It will also help other SMEs and entrepreneurs to be aware of the existence of such firms which finance start-ups, late stage and expansion stages of businesses and therefore could approach them for funding as and when it becomes necessary for them to do so. The recommendations made after this study will enlighten Ghanaian SMEs and the general public on how venture capital works and what benefits it promises to them.

It will also serve as a guide in fostering a closer collaboration between all stakeholders and also elicit further research in the area of private equity financing activities and to create an awareness of how the private equity financing could be sourced.

1.8 Limitations

Certain limitations were encountered in the course of this research. Key among them is the challenge of data collection from the respondents. Due the scattered nature of the target population across length and breadth in the metropolis, this is expected to have impact on the project. Nonetheless, the researcher was able to make adjustment and readjustment that, he is able to limit any negative impact for project integrity and reliability. Venture capital Trust Fund was unwilling give information about their institution and SMEs in the metropolis as they considered it to be confidential.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The desire behind this research is to highlight the consciousness of the venture capital financing within the SME sector in the Ashanti Region and its significance to the growth of the Ghanaian economy. In order to achieve his goals (the researcher) of the researcher, this chapter of the research is designed to deal with the exploration of the existing literature relative to the objectives of the research study. According to Agyemang, S.K. (2010), Ellis and Levy (2006, p.2) defined literature as "sequential steps to collect, know, comprehend, apply, analyze, synthesize, and evaluate quality literature in order to provide a firm foundation to a research". They further described effective literature review as a "three-fold steps that encompasses input, processing and output". According to Challenges facing Venture Capitalist in developing countries, the following constitutes the diagrammatical steps of these three-fold steps:

Input	**Processing** ➢ Know the literature ➢ Comprehend the literature ➢ Apply ➢ Analyze ➢ Synthesize ➢ Evaluate	**output**

2.1 Definition of Venture Capital

Venture capital (VC) bears over spilling definition due to the surging public interest in the industry. It is significant to realize that the differences in definition represent the investment posture of the author and more notably the economic orientations. Wright and Robbie (1997, p. xiii) broadly defined VC as “a concept of investment by professional investors of long-term risk equity finance where the primary reward is the eventual gain, rather than interest income or dividend yield”.

Moreover, Cumming & MacIntosh (2001, p. 1), explained VC as “ financial intermediaries which receive capital contributions from institutional investors or high net worth individuals across the economic spectrum, and invest the pooled deposits in small, private and mainly high technology businesses or entrepreneurial firms with potentially high growth”. With regards to the different perspective by these authors on the concept of VC, their definitions points to a common investment orientation; equity investments in growth potential but highly risky firms. In short, the concept thrives on investors desire to assume higher degree of risk in anticipation of a higher investment returns (Hill & Power, 2001, p.1). Venture capitalist often function as financial intermediary of investors who are suppliers of capital on one hand and investee companies who are recipient of risk capital on another hand. Given the above definitions, Venture Capital Organizations (VCO’s) could be grouped into three major categories, although other authors (e.g., Agyemang, 2010) proposed it to be five. These are: ***Independents***, whose funding are provided by independent investors. In contrast, ***Captives*** are schemes whose funds are provided by a parent company or some key shareholders. Finally, ***Semi-Captives*** are hybrid in nature, their funding are provided by a parent company and also have the latitude to source funding from

private investors. Venture capital firms are financial intermediaries that are primarily concern with the provision of capital to small, fast-growth start –up companies that mainly high risk and not attractive to more traditional firms.

Consensus has it that venture capitalists after obtaining equity position in the corporation also play a more dynamic role in the overall corporate governance. In other words, they sit in the board of directors and regularly monitor performance (Shalman, 1990). Key characteristics in venture capital financing are staging the commitment of capital and preserving the option to abandon the project. Instead of providing all the necessary capital upfront, venture capitalists invest in stages to keep track of the project. Staged investment allows venture capitalists to monitor the firm before they make refinancing decisions. Project activities e.g. monitoring helps to gather vital information about the viability of a project, and assist venture capitalists from throwing money at bad projects. It helps minimize losses from inefficient continuation and creates an option for exit for venture capitalists.

Again, Agyemang, S.K. (2010) states that, Venture Capital is a subset of risk capital, in which the risk taken by the investor is offset by participation in the future success of the firm as part owner. Independent VC organizations represent firms with diluted ownership making no single investor a majority shareholder (EVCA, 2007, p. 12). With this type of VC organization, investment resources are usually sourced from varied investors and it stands out as the most popular among all VC organizations. Captive VC organizations are firms that are established by parent company and also draw its investment resources from that organization (Isaksson, 2006, p. 22). Semi-captive VC organizations are firms wholly established by a sole enterprises but with significant amount of its funds being sourced through third part investors (EVCA, 2007, p.12).

2.1.1 Characteristics of Venture Capital Concept

The definitions and organizational characteristics as indicated above apparently confirm the earlier statement that differences in the understanding of VC concept could be due to the fact that author's investment mindset or economic environment influence. However, they all reveal key characteristics of VCs that need to be carefully discussed.

The highly potential growth firm attracts venture capital investment; these firms are highly risk group; most of the investee firms are unquoted; assist in management with expertise and strategic guide lines; a class of investment with a finite life; anticipation of annualized returns Pike & Neale (2003). Some explanations to key characteristics of the concept of VC investment are given below.

Finance of risky ventures and higher investment returns

As widely noted by various authors, VC investment are usually into highly risky business ventures due to their preference for small cap and unquoted firms.it is therefore noted that investment into such ventures have higher possibility of recording 100% investment loss.

Understandably, targeted firms for VC investment are usually ventures without significant operational history. For that reason, VC investors unlike other traditional investors have higher expectant investment returns in capital gains as compensation for the risk assumed (Fuerst & Geiger, 2003, p. 194). In the developed countries, VC investment has the possibility of returning 25% to 335% averagely.

Provision of equity capital and monitoring interest

Investment from VCs is often in the form of equity or quasi-equity capital to investee firms. Investments from venture capitalists are mainly in the form of ordinary or preference share with convertibility option attached (Fuerst & Geiger, 2003, p. 194). According to Duffner, (2003) "though venture capitalists assist in the financial and management resources for value added investment, the independence of their investee firms are at held. For this reason, VC companies normally remain minority investors in all respective investee firms."

Management support and monitoring

The concept of venture capital could easily be associated with the operation of any financial institutions e.g. bank.VC companies are more involved in the operations of their investee firms and therefore the whole VC concept dwells more on provision of financial and managerial support. Investee firms are assisted in areas such as structures for modern business practices, key personnel recruitment and training services to ensure efficient investment thereby increasing the value of investee firms. In a nut shell venture capitalist could be described as an investor that seeks to it that their investee function according to the agreed investment plans through effective monitoring and supervision.

Limited Time Horizon and Longer Investment Process

The unique characteristic of VC investment is a definite investment time limit usually longer period. On this note, venture capitalists have a pre-determined time of investment exit. The average period of venture capitalist investments ranges from 5 to 10 years after which they earn from their investment through appropriate exit channels.

2.1.2 What Venture capitalist looks for?

Empirical contributions have been made to analyze the screening process, identifying the most important selection requirement used by the venture capital community, in addition to how each criterion was valued. The studies of Wells (1974), MacMillan et al. (1985), Ray (1991), among others, suggest that the most common selection criteria are related with the experience and personality of the entrepreneur and their team. MacMillan et al. (1985) and Muzyka et al. (1996) established that venture capitalists base the evaluation of a new investment on the ownership and uniqueness of a product or service.

Pandey & Jang (1996) suggests that, the key feature to justify the funding of a venture capital it's the return of its investment. Nonetheless the differences in results and conclusions across various studies leaves open the question regarding to what type of factors play the most significant role? When assessing and choosing new proposals, the investment behavior is highly dependent on the existence of asymmetric information problems which, in turn, might be driven by the characteristics of the venture capital company. Again, Leleux & Surlemont (2003), Cornelius (2005), Brander et al. (2010) find that public and private investors have various investment techniques which attract them towards project in different stages of development. According to Lerner (2002) and Leleux & Surlemont (2003) "public venture capitalists are compared to private venture capitalists, lacking in the knowledge and experience which are requisite in the screening process and due diligence of the companies."

2.1.3 The Venture Capital Investment

The venture capital process describes an investment process for a given venture capital company. It starts from the fund raising stage to the point where investments are harvested.

The subsection would generally be used to provide brief explanation on the investment process of the VC.

A standardize venture capital process usually follows a sequential five (5), steps; Isaksson, 2006). These are:

- ✓ Establish fund: Determine investment objectives, raise capital for investment.
- ✓ Flow of deal: Opportunity creating activities (venture base), recognize and identify entrepreneurial opportunities.
- ✓ Investment decision: Screen and evaluate deals, select/ deselect deals, valuate and negotiate structure deals.
- ✓ Monitoring/ value adding: strategy development, active board membership, outside expertise, other stake holders, management, contact and access to info, people, institutions, staging and syndicating investment.
- ✓ Craft and executing exit strategies.

Fund establishment is the juncture where the venture capitalist set out the firm's investment objectives with clear-cut potential investment activity path and finally gathers the needed resources (funds) to carry out those objectives.

Low of deal also represents a stage where VC firms uses various prospecting tools to identify and select firms with high growth potential.

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.

Monitoring and value adding stage ensures that the business operations are run in line with the project activities and programs of the investment objective and the activity path set out by the VC firm.

Crafting and execution of exit strategies 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. Crafting and executing successful exit strategies requires meticulous investment planning before exit date.

2.1.4 Financing Stages of Venture Capital

VC firms may choose to invest at the various developmental stages of an investee firms. The views of authors on this ground vary which may be due to the differences in economic environment. Emphatically, Cowrie (1999, p. 9) stated that VCs in United States of America does not include buy out deals. He emphasized that VC financing comprises of four major stages: early stage, expansion, replacement and buy-out. On the contrary other authors (e.g., Sahlman, 1990, Ogden et al., 2003, p.360) believe that the financing stages are more than those expressed by the earlier author. One of such factors for staging decision (Gompers and Lerner 1999, p.) is the agency cost of their investment.

Seed stage is where the entrepreneur conceptualizes and develops his or her vision for the venture. As presented by Ogden et al, (2003). Though this is the stage where much time is utilized, the involvement of capital is minimal; this could be attributed to the fact that actual business production does not take place at this stage. Financing is mainly buttressed by the entrepreneur and other business angels.

Start-up stage begins only when the seed stage has been successful. Major activities at this stage include prototype testing; assemble of management team, and the development of business vision conceived at the seed stage among others (Sahlman (1990). Owing to the much workload at this stage much funds are needed as compared to the seed stage. However, commercial manufacturing does not start at this stage. Financing usually comes from business angels and VC companies.

Early development stage as described as the first stage of investment follows the facts that various product development, market testing and prototype have all been proven successful Sahlman (1990). Much fund is needed at this stage because the venture needs adequate capital injections to secure Property Plant & Equipment (PP&E) for the commencement of commercial manufacturing of products for onwards sale. According to Ogden et al (2003) “providers of capital at this are usually Business angels, VCs and government.”

Expansion stage*:* this is the second stage of development of a venture where products and produce have been confirmed to be viable as results of positive feedback from customers/consumers. 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 cost effective minimization operations to brake-even.

Profitable but cash poor stage is the next level where the venture has seen terrific 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 VCs, banks and to a small extent, retained earnings.

Rapid growth stage as the fourth on investment and financing ladder where the venture's marketing strategy is redefined because substantial growth have been accomplished. The ventures default risk is regarded to be much reduced because of sustainable growth and higher profit margin achieved at this stage. There is still requirement of funds by the venture from banks and VCs in order to maintain the growth level standards.

Mezzanine or bridge stage is the point where the exit timing for the venture is made known and for that matter any funding at this stage are strategically assumed to ensure successful exit where proceeds from it could be used to pay back loans Stillman, (2006). Other sources of funding at this stage often come from VCs and banks.

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)

2.2.0 Venture Capital versus Private Equity

Venture capital (VC) and private equity (PE) are used interchangeably in several literature and it is therefore imperative to explain the concept of PE investment because distinction between the two concepts is fuzzy according to Arnold (2008, p. G23). Arnold simply defined PE "as a share capital invested in companies not quoted on an exchange". Others EVCA, (2007, p.; Isaksson, 2006, p.) have all described VC as a subset of PE and this leaves the distinction between the two more muddied. However, Mardle (2009) used the following three parameters to distinguish between the two:

2.2.1 Type of Investee Firm

Mardle (2009) further explained that, PEs will be attracted to invest in firms that would afford them the opportunity to leverage their investments with the intention to use the cash flow generated by the investee firm to deleverage the investment. Therefore, PE investors" choice of an investee firm is strongly dependent on the firm's capability to generate enough cash flow whiles VC firms will invest in firms that holds potential for rapid growth in their business operations.

2.2.2 Use of Proceeds by Investee Firms

Another trait that distinguishes the two is the usage of investment returns. He explained that, PE investment returns are usually paid back to the owners of the investee firms in a form of share purchase reward. On the other hand, investment proceed from VC investment are retained by the investee firms because of constant demand for working capital which makes excess liquidity in investee firms very scarce.

2.2.3 Type of Risk

Though they are all at risk, the level of risk facing each investor varies. The risk associated with PE investment is relatively higher than VC investment. Apparently, VC investors adopt more risk mitigating policies to protect their expected investment returns than the PE investor. Myatt (2006) also explained that the differences between the two could be technically correct due to historical perspective of the two concepts. However, the current trends of ever present competition in the financial markets and more active capital markets have made the operations of the two converge. It is believed that the current state of capital is such that, there is excess supply of capital relative to its demand for equity. This therefore put undue pressure on the limited equity deals at hand.

2.3 Venture Capital Funding

The active involvement of government as a key financier in the early stages of development of VC industry is synonymous with many matured market. Typical examples are the US and the UK VC industries and the critical financing roles played by respective governments. The need for adequate provision of funding by government and quasi government institutions has become very relevant in many academic literatures and therefore requires critical review to understand how VC developing markets could emulate such gesture. A study by Dossani & Kenney (2002) into the development and subsequent development of the VC industry in India revealed strong collaboration between the India government and the World Bank in the funding process.

2.4 Clear-cut policy and regulatory framework

The establishment of business institutions requires a policy framework as a guiding principle for the operation of such institutions. VC investment as a specialized investment class requires a well noted industry specific policies and regulatory framework for effective and efficient investment operation. The emergent trends of the creation of a viable VC industry in developing economies has called for a critical analysis of policy and regulatory framework needed to steer firms in these business environments. Murray (2007) in one of his publications in the handbook of venture capital probed into various probable policy directions that could be formulated to support the establishment of VC in developing markets. The focus of his study was to suggest governmental policies that could be applicable for the creation of a viable VC industry.

Murray's policy recommendations were in reference with the success story of the Silicon Valley in the US for countries willing to develop and establish a viable VC industry to carefully understudy. The Silicon Valley model according to Murray was created based on active involvement of the US government in formulating clear-cut policies and regulatory framework for guidance and control. Key policy guidelines that could be useful for a viable VC industry in developing economies according to Murray (2007) are: institutional legal and fiscal frameworks, an incentive structure of personal and corporate tax systems, the regulatory regime's impact on business, and the efficiency of the market for corporate control.

2.5 History of Venture Capital

Gompers and P.A, (1994) explained the concept of modern day Venture Capital to have started in the late 19^{th} century and early 20^{th} Century (It was started by wealthy families in the City of New York who were looking for ways to invest in a potentially high-return, high-tech businesses. According to Gompers (1994) "David Lample writes in his history of the route 128 Venture Capital region: the City's great fortunes including those of Vanderbilts, Whitneys, Morgans and Rockefellers were based on the such ventures as railroads, steel, oil, and banking.

It is worthy to note that, when young entrepreneur Scot Alexander Graham Bell needed monetary assistance to invest in his telephone experiment in 1874, it took a Boston Attorney Gardener Green Hubbard and Salem leather merchant Thomas Sanders to help him out (Gompers, 1994). The risk capital market was left largely under recognized and dispersed during the late 19th century and the early 20th century. The first post-world war II venture capital was formed in the 1946 when Karl Taylor Compton, the then president of the Massachusetts Institute of Technology, Merrill Griswold, Massachusetts investor and trustee and the Federal Reserve Bank of Boston's President Ralph Flanders and a Harvard Business School professor, General George F. Doriots started American Research and Development (ARD).

The goal of the ARD was to finance commercial applications of technologies that were developed during the World War II. Doriots was made president of the American Research Development until it was acquired in 1972 by Textron. During this time, his motivation was not just making money out of those ventures they have invested, but rather financing noble ideas (Gompers, 1994). ARD's innovation shaped the standard of VC paradigm with its exceedingly fruitful investment in Digital Equipment Company in the 1957. After the fruitful earlier investment in the DEC, the US government decided to play a central role by projecting the development of small firms as both regulator and participant in the financing of small firms.

The Small Business Administration was given the authority to commission a new business investment companies. According to Gompers (1994), "the initial public offering (IPO) market of the late 1960s was extremely active, and many SBICs were able to bring a number of companies during the public boom".

2.6 Growth of Venture Capital

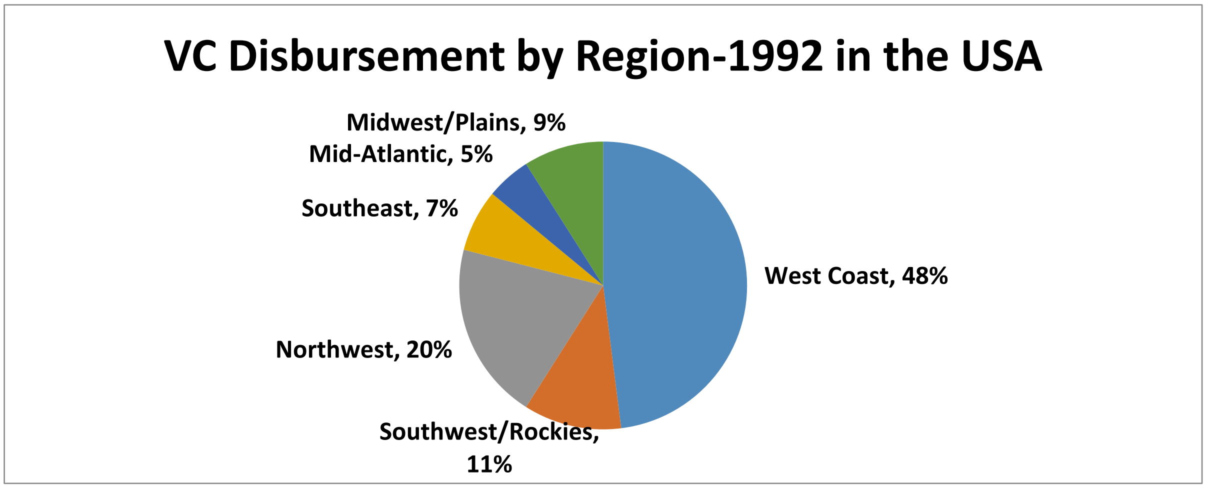
Venture capital as an industry was still cottage commerce in the United States of America prior to the ‘80s. Annually, the flow of funds into was not more US$200m, or substantially less. It however changed dramatically in the 1980s when it reached a peak of US$ 4.9 billion in 1987. The proliferation in the Venture Capital Financing coincided with two important legislative changes. The first was the Revenue Act in 1978 which reduced the capital gain tax from 49.5% to 28%. The second was the changes in ERISA judicious rule christened “the prudent man rule” in 1974, which unequivocally allowed pension funds to invest in VCs which hitherto was not the case. While both laws had favorable effect on the VC investments, the long term effect of the “prudent man” rule was much greater in substance than the capital gain tax rate (Gompers, 1994). The flow of pension funds into Venture capital activities substantially opened a tremendous door of capital resources.

Table 1: Percentage VC capital investment by type of financing-Gompers 1994

Type of Investment	1980	1981	1982	1983	1984	1985	1986	1987
Seed &Start-up	25.0%	22.6%	20.0%	17.2%	21.0%	15.0%	19.0%	13.0%
Expansion/ Late Stage	75.0%	77.4%	68.0%	70.8%	67.0%	69.0%	58.0%	69.0%
LBO	0.0%	0.0%	12.0%	12.0%	12.0%	16.0%	23.0%	18.0%

Source: Adapted from Gompers 1994

The positive contribution of Venture Capital Financing activities cannot be overemphasized as in 1976; Apple Computer’s reception of US$ 3.5 million in venture capital grew over 70% to US$ 271 million when it went to public in December 1980.



Source: (Adapted from The Rise and Fall of Venture Capital, Gompers, P.A. 1994)

2.6.1. Venture Capital in Europe

Unlike the United States where venture capital was a major source of financing startup firms and expansion, private equity investment started in the 1980s in Europe. European Commission 1998, identified risk capital as a key to job creation. Subsequently, a communiqué was issued to develop the risk capital market which is critical for major job creation which led to the development of pan- European risk capital market (Bottazzi and Rin, 2001). Subsequently, amount under management grew steadily to over US$ 30 billion by the year 1997 investing in about 20,000 companies. Not only did funds under management grow, venture capital firms also grew in much greater proportion to over 500 VC firms (Nuechterlein).

In spite of the greater usage of venture capital financing in Europe over few years lately, the same kind of dynamism in start-up that venture capitalist in the United States has helped nurture cannot be said in Europe. Again, venture capitalist has focused in a great deal in only buy outs and work outs as differentiate to start up and expansion in the United States. In 1997, more than 50% of the Europe's US$ 11.5 billion venture capital funding went into MBOs and workouts

with less than 10% invested in start-ups, relative to 37% in the United States. Furthermore, whilst the United States has allowed pension funds to invest in private equity since 1979, some European and Asian countries forbids pension funds from joining in the private equity market.

2.6.2 Venture Capital in Africa

Venture capitalists which operate within political boundaries with unfavorable economic indices aforementioned are deemed to be operating in developing economy and are considered in the larger frame of this thesis. Several Literatures has it that the development of VC market in developing economies speaks of direct involvement of government and other developing partners such as international monetary funds (IMF) and the World Bank Dossani & Kenney, (2002). Current industry report has it that the performance of market in these economies speaks of increasing market yields despite the recent economic crisis Johnson, (2010).

His report revealed interesting statistics about a high record of VC (PE) investments representing 26% of the total investment in developing market funds in 2009. A survey by Coller Capital in collaboration with Emerging Market Private Equity Association Coller/EMPEA (2010) also points to a heartwarming statistics about growing investors" confidence in the activities of VCs (PEs) in developing markets.

For instance, highlights of the survey explains that about 70% of investors are either satisfied or very satisfied with the performance of their emerging market PE portfolio relative to their listed equities in these markets (Coller/EMPEA 2010, p.3). The survey again pointed to an overwhelming investors‟ growth expectations of 11-12% which is far higher that their current expectation. Furthermore, performances of VC-backed ventures are reported to be performing

better than non-VC-backed firms in Nigeria (Dagogo & Ollor, 2009, p.37). These statistics point to nothing but an obvious positive prospect of VC investment in developing economies.

Table: 2Top 15 countries based on private equity funds raised and invested in 2005 US$ billions

Country	Fund Raised	Fund Invested	% Change In Fund Invested, From 2004-2006
1. United States of America	159.00	46.41	6
2. United Kingdom	53.48	27.92	25
3. China	2.14	8.81	328
4. France	13.42	8.55	40
5. Japan	4.42	7.95	13
6. Singapore	0.74	4.41	241
7. Sweden	2.25	3.52	85
8. Germany	3.37	3.16	-28
9. Spain	1.20	3.12	35
10. Netherlands	2.86	2.74	41
11. Italy	1.58	2.56	48
12. Australia	2.08	2.32	7
13. Korea	2.52	2.10	35
14. India	2.48	1.94	45
15. Denmark	1.17	1.24	167

2.6.3 Venture Capital in Ghana

The focal role that Venture Capital Companies play in the formation and growth of new and existing ventures cannot be overemphasized. In the early 1990s, there had been a setting up of two non-bank financing company to hold funds; Ghana Venture Capital Fund and a Management Company, Venture Fund Management Company to make decisions for investment. The two funds were integrated and started operations in November 1992 Agyemang, (2009).

The vital role Venture Capital play in the provision of financial assistance to the new and existing ventures as it has been of Silicon Valley in the United States of America. This good example led to the passage of the Venture Capital Trust Fund Act in 2004 in Ghana, the Act 680 to provide financial resources for the development and the promotion of venture capital financing for the Small and Medium Enterprises in the priority areas of the economy. The specific objective of the Venture Capital Act is to provide credit and equity financing to qualified venture capital financing companies to support the Small and Medium Enterprises and to provide monies to support the activities and programs for the promotion of venture capital financing institutions.

The SME sector in both developed and the developing countries are plagued by several factors that impede their growth. According to Bolton report (1971) SME's plays a special role in contributing to the health of nation's economy (Stokes and Wilson, 2010). Key among them are (a) provision of productive outlet for enterprising and independent individuals who might have been frustrated under-achievers in a larger control environments, (b) contributors to the variety of products and services made accessible to consumers in specialized markets considered to be too small for larger companies (c) compete to the monopolistic tendencies of large companies. Andersson and Nappier (2007), Small and medium-scale enterprises form the bedrock of the European Economy. They are key to entrepreneurial spirit and innovation in the European Union competitiveness.

The best way of which enterprises are SMEs makes it easier to identify their needs and to develop efficient policies to overcome their specific problems related to their small size. This is vital for the competitiveness of an enlarged European Union, its growth and employment. Again, according to Hayford N. (2012), SMEs tends to be the primary driver for job creation as they are labor intensive and employ more labor per unit capita than the larger enterprises thereby creating more jobs in the economy.

This is also evident in developing countries like Ghana as it is estimated that, the SME sector employs about 35% of labor Mensah and Roland (2006).

It is instructive to note that, the SME sector could be the key determining factor in job creation for both skilled and unskilled labor. Due to their structure and their chain of operation, they are a conduit of achieving millennium development goal 1, 3 and 8. Aside the provision of jobs, the SME sector offers a platform for investment prospects, professional skills and training and also serves as an avenue for tax income for governments. In spite of the acknowledgement of the pivotal role that the SME sectors is perceived to have played and continue to play in developing countries such as Ghana, the sector still faces a lot of challenges. The SMEs are the backbone of economies worldwide, and are key contributor to GDP and employment.

The segment typically contributes to 95% of enterprises, employs almost 2/3 of the labor force, contributes 30-60% GDP of countries, has grown at approximately twice the rate of

GDP in most markets and it is expected to grow at 10-12 % p.a., in our footprints across Africa, Asia and the Middle East (Tim Hinton, 2012). The needs of SMEs are changing. Many of the issues that large Companies face, now impact SMEs. They need their banks to assist in managing the uncertainties in their business-fluctuating currency rates, commodity prices, changing interest rates.

SMEs face challenges expanding their operations into new markets; enterprise recognition access to credit (Tim Hinton, 2012). Mindful of the critical role that SMEs play in the developed and the emerging economies, led to the enactment of the Venture Capital Trust Fund Act in Ghana by the year 2004, Act 680 among other things, the fund was supposed to provide financial resource for the development and promotion of venture capital financing for SMEs in the priority sectors of the economy and the provision of credit and equity financial to eligible venture capital financing companies to support small and Medium Enterprises.

An amount of money equivalent to twenty-five percent of the proceeds of the National Reconstruction Levy was made available to the VCTF with effect from the 2003 financial year. It is reported that, the VCTF was resourced with an amount of GH₵ 22.5M. The action taken by the Government of Ghana served as an incentive for the formation of the first four Venture Capital Companies such as Gold Venture Capital Limited, Activity Venture Finance Company, Fidelity Capital Partners Limited, Bedrock Venture Capital Finance Company and lately Ebankese Venture Fund.

Geographically, they are all located in the Greater Accra Regional Capital even though there are ten administrative regional capitals in the country and SMEs are scattered all over the country. It is estimated that, about 69 % of the country's population are employed in the SME sector and majority of are located in rural areas. Thus the sector provides employment for a considerable number of people in the rural areas (Ampadu, A.R., 2010). If policies are devised and well-tailored to focus on SME development in the country, the sector would be able to contribute its quota to the GDP and enhance its tax contribution and generate enough employment opportunities to halt the raising youth unemployment.
According to Agyemang D. 2009, "the low level of awareness on the activities of VC firms still remains a major challenge. However, this challenge can be addressed through intensive advertisement and other educational and interactive programs. The private sector in Africa has been hailed is important frontier for economic growth, (OECD, 2004). It is highly dominated by micro, small and medium-scale enterprises (MSMEs). MSMEs represent about 90% of businesses and account for about 63% of employment on the continent (United Nations Environment Program Finance Initiative, UNEP FI, 2008).

The topography of this MSME spectrum is skewed towards micro enterprises that operate alongside a few large firms, with a scarcity of small and medium-scale enterprises (SMEs). This leads to what is termed the "missing middle" (Harvard, 2010). For private sector development strategies on the continent to have the highest impact on economic growth, this missing middle needs to be reduced by increasing the number of growth-oriented SMEs that are more likely to become competitive in domestic and international markets, as opposed to their "lifestyle" counterparts that are content to remain small, supporting the livelihoods of their owners and a few additional employees (Hallberg, 1999).

2.7. Summary

On the basis of the above reviewed literature, the U S experience through Israel to India and other developing countries such as Brazil has given an indication that, there are more areas of concern in the development of VC markets. Policy framework and basic business infrastructure seems to be the driving force for the success stories of VCs in the aforementioned countries. The following seven policy areas reviewed in this chapter would form the basis for data collections and analysis alongside specific industry concerns.

Policy makers should introduce tax incentive schemes for key stakeholders in VC investment. Literature on this policy supports tax related incentives for R&D and other VC investment boosting activities Freed, 1997; Mason, (2009)

Policy makers should formulate clear-cut policy and regulatory framework for VC investment due to the specialized nature of the industry Gilson, 2003; Murray, (2007).

Moreover, there is the need to provide adequate fund from government and allied institutions for initial development of the industry. Dossani & Kenney, (2002).

Fourth, policy makers must ensure efficient legal system that guarantees fast and minimal cost of legal enforcement for the protection of investors‟ worth Lerner and Schoar, (2005).

Fifth, literature reviewed in this chapter also support government incentives for R&D activities that identify profitable investment opportunities for VC investments and economic development Freed, (1997).

Sixth, the need for effective entrepreneurial coordination for greater entrepreneurial inclination would ensure profitable deals for VC investment.

Lastly, policy architects should establish policies that would reduce unwarranted regulations and other rigid cost to VC investments.

2.8 Definition and Overview of SMEs in Ghana

SMEs can be defined in different criteria. These include turnover, profitability, number of employees, net worth, etc. Quartey and Kayanula (2000), argues that there is no single, uniformly acceptable, definition of a small firm. This argument is based on the fact that firms differ in their levels of capitalization, sales and employment hence; definitions which employ the above measures of size when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result.

According to Stokes and Wilson (2010), some definitions focus on numerical parameters in order to differentiate between smaller and large business types, thus quantitative definition. For example, the European Commission (EC) initiated an important set of definitions of small and medium-sized enterprises (SME) that introduces a further category of the micro enterprise reflect the growing importance of very small businesses. These definitions are based on headcount, turnover and balance sheet value. According to the European Union in 2005, Medium scale enterprises are those with 50 to 249 headcount, a turnover less than €50m or a balance sheet total less than €43m whiles small scale enterprises have headcount of 10 to 49, a turnover less than €10m or a balance sheet total less than €10m and a Micro enterprise is an enterprise with a headcount of 0 to 9, a turnover less than €2m or a balance sheet total less than €2m.

In Ghana, available data from the Registrar General indicates that 90% of companies registered are micro, small and medium enterprises. This target group has been identified as the catalyst for the economic growth of the country as they are a major source of income and employment.

Data on this group is however not readily available. The Ministry of Trade and Industry (MOTI), in 1998 estimated that the Ghanaian private sector consists of approximately 80,000 registered limited companies and 220,000 registered partnerships.

Generally, this target group in Ghana is defined 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 and 29 employees with fixed assets of $100,000

Medium enterprises: Employ between 30 and 99 employees with fixed assets of up to $1million.

Gatsi (2008).

Data from the Social Security & National Insurance Trust (SSNIT) reflects that, by size classifications, the Ghanaian private sector is highly skewed, with 90% of companies employing less than 20 persons, and a small number of large-scale enterprises.

A typical profile of this target group is as follows,

- ✓ They are, dominated by one person, with the owner/manager taking all major decisions. The entrepreneur possesses limited formal education, access to and use of new technologies, market information, and access to credit from the banking sector is severely limited,

- ✓ Management skills are weak, thus inhibiting the development of a strategic plan for sustainable growth.
- ✓ This target group experiences extreme working capital volatility.
- ✓ The lack of technical know-how and inability to acquire skills and modern technology impede growth opportunities.

Many non-financial constraints inhibit the success of such enterprises. SME owners are reluctant to be transparent or open up involvement of their businesses to outsiders. They seem to be unaware of or oblivious to the obligations and responsibilities they have toward capital providers, and the need to acquire or seek support for technical services like accounting, management, marketing, strategy development and establishment of business linkages.

Management and support services are perceived to be cost prohibitive and non-value adding. SMEs have not taken full advantage of Government-sponsored business support services such as the National Board for Small Scale Industries (NBSSI), which operates in the 10 regional capitals under the Ministry of Trade and Industries and the Ghana Regional Appropriate Technology and Industrial Service (GRATIS), a foundation that provides skill training and basic working capital tools for start-ups.

Policy interventions for the promotion of SMEs have generally had the following broad themes:

- ✓ Adequate support structure, transfer of appropriate technology
- ✓ Entrepreneurial training and labor skills development
- ✓ Access to sources of funds including reducing collateral requirements, and providing safeguards for the credit delivery system

- ✓ Promoting linkages between large and small industries based on the above, we start with the cautionary note that access to financing should be seen as only one component of a national SME policy. Without a holistic approach covering the key developmental constraints of SMEs, SME financing schemes implemented in isolation are unlikely to be effective.

2.9 Financing Constraints for Large and Medium Scale Enterprises

An extensive literature documents the relationship between internal resources and firm investment (Hubbard 1998; Harrison and McMillan 2003). In business surveys companies repeatedly allude to the lack of external finance as a major obstacle to their investment and innovation activities (Harhoff and Körting 1998). These findings suggest the presence of finance rationing phenomena, which are typically considered as problems of moral hazard and adverse selection due to information asymmetry. Cressy and Olofsson (1997) argue that banks may ration credit rather than increase interest rates to clear the market as the latter may deter good borrowers and result in incentive problems. In equity markets, Hall (1992) describes why firms may need to sell new stock at a discount ('lemon' premium). Financing constraints occur for various types of firms and/or projects, for example for starting entrepreneurs (Holtz-Eakin, et al, 1994a) and innovative projects like R&D (Himmelberg and Petersen 1994; Hall 2002). Even find evidence of significant capital market imperfections for publicly traded manufacturing firms in developed markets.

Several empirical studies report evidence that financing constraints have a greater impact on the investment behaviour of small firms (Berger and Udell 1998) and that SMEs' growth is determined by their access to internal finance (Moore 1993). The European

Commission has acknowledged the financing difficulties, both for equity and debt, of smaller firms and recognizes the existence of a market failure due to information problems and transaction costs (European Commission 2003b). As a result of the financing gaps, small firms tend to rely more on self-financing, have lower liquidity and leverage, seldom issue equity, and rely more on short-term bank financing, trade credit and owner loans (Chittenden, et al, 1996). The efficient and effective provision of finance is fundamental in ensuring that SMEs can exploit their growth opportunities. A positive association exists between external finance and business performance

(Keasey and McGuiness 1990). We next present a number of reasons that account for the financing issues that SMEs regularly encounter.

First, SMEs are disadvantaged in a number of aspects compared to large firms. They have a smaller pool of financial and managerial resources to survive critical periods. SMEs have a shorter expected life, may face intergenerational transfer problems and are expected to be less profitable (Ang 1992). Large firms usually have better-trained management, advantages in raising capital, more favourable tax conditions and government regulations, and can better compete for qualified labour (Brüderl and Schussler 1990). Empirically, failure rates are notably higher for SMEs (Brüderl, et al, 1992).

Second, agency and asymmetric information problems may be more pronounced for small firms. Agency costs can expected to be higher as a small business manager is likely to put his own and his firm's interest first. Additionally, solutions to agency problems are more costly to SMEs, thereby raising the transaction costs between small businesses and their financiers. Moreover, the fixed cost element of transactions puts small firms at a disadvantage. Monitoring SMEs is more difficult and expensive as information on them is less easily available, they have less credit history, are subject to less rigorous reporting requirements and the quality of their financial statements may vary.

Furthermore, employing bonding methods like incentive schemes may be complex for SMEs

Michaelas, et al. (1999). All these elements result in SMEs often facing difficulties in signaling their creditworthiness.

For SMEs, access to external equity has long been identified as a problem. In general, SMEs do not have access to capital markets. First, a stock market flotation is relatively more expensive to arrange for smaller issues (Lee, et al, 1996). Second, initial public offerings of smaller firms are subject to higher underpricing (Buckland and Davis 1990). Venture capitalists (VCs), as specialized financial intermediaries, may mitigate the substantial information problems that prevail in SMEs. However,

Sahlman (1990) presents evidence that venture capital (VC) is very expensive. In addition, VCs back only a tiny fraction of all new ventures. Besides, the VC market in Continental Europe is relatively underdeveloped compared to Anglosaxon countries. Moreover, due to the high fixed costs of monitoring, especially small businesses are not very attractive to VCs (Scholtens 1999). Furthermore, despite the scarce availability and the high cost of bank loans, it has been well established in the small business literature that SME owner-managers are reluctant to sell equity to outsiders and give up independence and control (Jordan, et al, 1998; Giudici and Paleari 2000). This control aversion is more important for smaller firms; obviously, this demand-side financial constraint further increases financing issues for SMEs. As a consequence of the persistence of an equity gap for small businesses, the bulk relies for external funding upon bank debt (Binks and Ennew 1996). However, regarding bank loans, SMEs find themselves again in a deprived position compared to large firms. Small firms are more constrained in the use of control mechanisms, as collateral, long-term relationship and reputation that ease information problems. For instance, collateralization may under some circumstances contribute to attenuate credit rationing problems; collateral serves as both a signaling device to overcome adverse selection and as an incentive device to overcome moral hazard. Yet, the potential to put up collateral depends on the industry and on the asset specificity of the firm. The younger and smaller a firm, the less it is able to pledge collateral. Furthermore, SMEs usually are less capital intensive than large ones. The intangibility of the assets, an important characteristic of start-up and small firms, also impedes this control mechanism (Scholtens 1999). Pledging personal collateral in the form of a guarantee offers only a partial solution as it is limited in supply (Giudici and Paleari 2000).

Despite the fact that SMEs generally lack sufficient collateral, lending to SMEs is more often based on pledging collateral (Chittenden, et al, 1996).

CHAPTER THREE

METHODOLOGY AND ORGANIZATIONAL PROFILE

3.0 Introduction

The study seeks to determine the role of venture capital in the development of SME sector in the Ashanti region as a target scope. The chapter takes cognizance of research design and the population of the research. It looks at the sources of relevant data for the study and considers the method that would be used in data as well collection and analysis as well.

3.1 Research Design

In view of the researcher, the case study approach was adopted for this study because of the wider geographical landscape of the region chosen. There was a limited possibility to reach out to every part of the region and consequently used a sample population to represent the whole Ashanti Region. According to Ghauri & Gronhaug (2005) research could be distinguished between three (3) main classes of design; exploratory, descriptive and casual.

They assert that in both descriptive and casual research designs the problem is structured and understood. The basic characteristics of descriptive research are structure, precise rules and procedures (Ghauri & Gronhaug, 2005). Furthermore, the researcher intent to use a case study designs because the research was limited to the Ashanti Region of Ghana. The case study approach is regularly associated with exploratory research, without being restricted to these areas (Ghauri, 1983).

The study employed an exploratory research since it trying to find out causal agents of low level of awareness of venture capital financing in Ghana (Agyemang D., 2009). Research methodology was designed in a simple way using detailed questionnaire (informal interviews and semi-structured) to collect and systematically trace the responses that would be given by the managers.

3.2 Sources of Data

The research study gathered data basically from primary source. After gathering the data, the data entered into the SPSS, data was presented in simple tables, charts, and percentages to portray graphical and numeric impressions about the analysis of the study. The following simply depicts the relationship between the overall numbers of question papers administered to respondents and how many were retrieved. In this report, the researcher based on his sample size, administered 50 questionnaires to the SME's and received same. The Hospitality and the manufacturing industry received fourteen (14) questionnaires or 28% each of the overall questionnaires administered. The educational sector of those sampled received five (12) or 24% of the questionnaires whilst the Manufacturing, Microfinance and the Poultry sub-sectors received six (6) and four or 12% and 8% respectively. Again interview was held with venture capital trust fund staff.

3.3 Study Population

A study population is considered as the complete set of individuals, objects or events that have common observable characteristics in which the researcher is interested (Ayedu et al 1999). Subject to this study, the targeted population consists of all the SME's in the region that have the potential to attract Venture capital financing, staffs of Venture Capital Trust Fund and other Venture capital institutions in the region.

3.4 Sample technique

In order to get a very reliable outcome for the study, those firms that have the potential to attract the venture capital firms as far as venture capital financing is concern would thus be selected and some particular staff at the venture capital trust fund was selected. The purposive sampling

method was used to select the sample from the population. This is non-random sampling where the researcher establishes a criterion barren of randomness for the sample selection. In purposive sampling, the sample is chosen to suit the objectives of the study. This method has been chosen

because the researcher believes the sample would be able to answer the questions objectively Saunders et al (2007), sampling is the technique of selecting components such as people or organizations from a population of interest to the extent that, by studying the chosen sample, the researcher may fairly generalize the results to back the population from which they were chosen. In relation to the research, the researcher took into consideration the need to make inferences from the sample of the population in order to answer the study's questions and to also meet the research objectives. Some 50 SME's that have the potential to attract venture capital financing scheme using the NBSSI definition of SME as a key barometer would be targeted by the researcher to constitute the sample size for the study. The two staff of the apex institution which is the Venture Capital Trust Fund which oversee and monitor the activities of the fund managers and the venture capital financing companies.

3.5 Survey Instrument

- ✓ **Primary Data**

Primary data was gathered through the administration of questionnaires to owners, director(s) and middle management employees of the organization.

Any manner of ambiguity is expected to be reduced for a better rate of return of the interviews. Structured and unstructured questionnaires were used to stimulate responses from respondents. The structured part was used in order to present the respondent with fixed set choices whiles the unstructured sought to encourage respondents to share as much information as possible in an unrestricted manner. Face to Face interviews and personal observations were also administered to solicit further information from the organization.

- ✓ **Secondary Data**

Secondary data were referred to in this research; this helped the researcher to gain more about the content of the subject under study. Literatures that have been reviewed formed the basis of the source.

3.6 Analysis of Data

For the purpose of the integrity of data analysis, data was extracted from the field survey carried out by the researcher. Data was entered into the statistical package for social sciences (SPSS) and were presented in the form of tables, charts and percentage.

3.7 Ghana Venture Capital Trust Fund

The existence of the Venture Capital Trust Fund in 2004 was through an Act of parliament (Act 680). The Fund is intended to assist in low cost financing to small and medium scale enterprises to enable them expand, create wealth and provide more job opportunities. This is done 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 programmes 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 education, agriculture, pharmaceuticals, ICT, energy and tourism etc. with the exception of imports to sell. The Fund started with a seed fund of GHC 22.4 million from the Government of Ghana. The Fund monies are made available to investee companies through intermediary institutions called Venture Capital Finance Companies (VCFC), which are tax-exempted. The VCFCs take monies from the VCTF in the form of debt, equity or both. The 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.

The basic requirements for accessing funds are:

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

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DICUSSION OF FINDINGS

4.0 Introduction

The first part of the findings relates to small and medium scale enterprises and the second part also relate the venture capital trust fund.

There is an increasing appreciation of the critical role that the SME sector plays in the socio-economic development particularly, developing countries which provide a safety net for the poor and the under-privilege in the society. They are most at times referred as efficient and productive job creators, the root of big businesses and the catalyst of national economic engines. Even in the developed industrialized countries, it is the SME sector that largely provides jobs rather than the multinational companies (Abor and Quartey, 2010). They went on to say that, in spite of the contribution of the SME's to nation's economic development, there are litany of constraints that they are faced, with particular reference to Ghana and South Africa.

The SME sector in Ghana is credited with provision of about 85% of manufacturing employment in the country. They are also believe to contribute about 70% of Ghana's GDP and account for about 92% of businesses in the country. However, the sector is recognized as facing several challenges raging from lack of access to appropriate technology, limited access to information on global market opportunities, cumbersome bureaucratic procedures, lack of management skills and training, weak institutional capacity, and most importantly, lack of access to finance (Abor and Quartey, 2010). It is largely based on the above commentary that the Government of Ghana in 2004, established the Venture Capital Trust Fund (V.C.T.F.) backed by an act of parliament, Act 680 to provide the "missing middle".

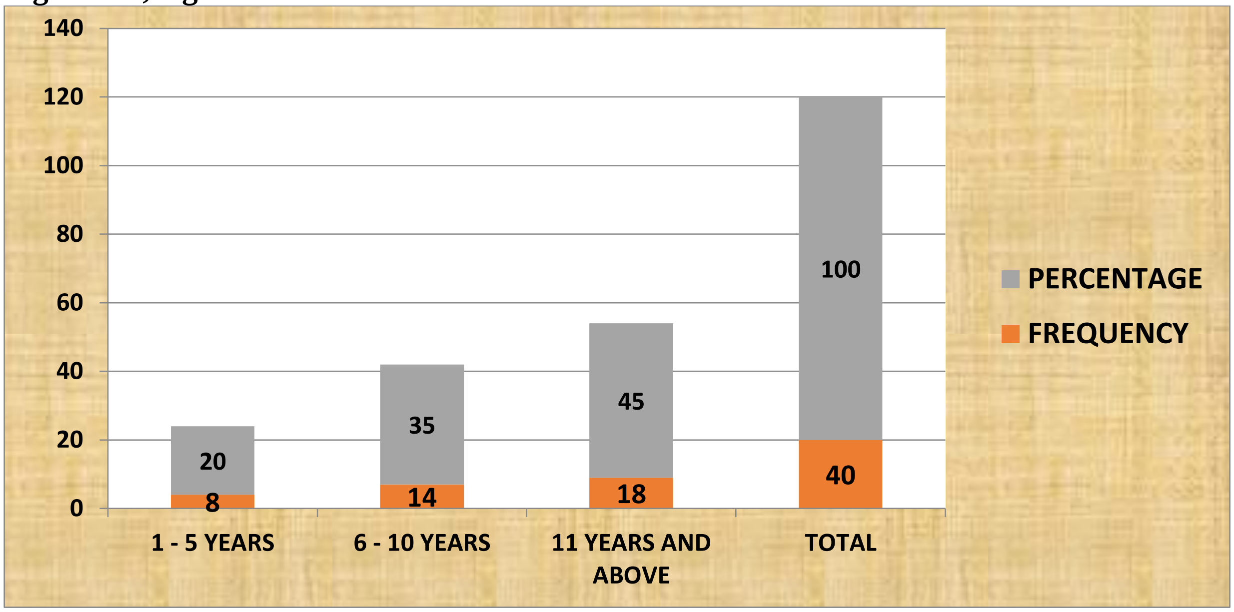
Nevertheless, there is a growing concern that, most of the organizations that falls under the category of SME's according to NBSSI definition, have limited or no knowledge at all about the activities of the Venture Capital Financing Companies, their financing modules and other support services that these organization (SME's) stands to benefit. This chapter analyses and present the report of the data collected from the respondents. For clarity, the researcher used tabular other graphical presentation tool to represent the outcome of the analysis.

4.1.0 Age of Firm and Access to Finance

The longer a firm has existed, the more it signals it can navigate through rough and tough economic and financial turbulence. Furthermore, it posits that is does not adopt crude and opportunistic behavior by staying in business (Olawale and Ansah, 2011). They further adduce that; younger firms (below 4 years) rarely at attract bank and other form of external financing. In their view, it is often difficult and expensive for young SME's to access bank financing because they are viewed to be more failure prone.

Therefore, it is assumed, there is a positive correlation between the age of a firm and successes in accessing external finance. The table below presents the results of the respondents regarding the number of years they have operated.

Figure 4.1, Age of firms



Source: Field Data, 2015

The table above indicates that, all the firms stand equal chance of attracting venture capital financing. In their study, MacMillan et al. (1985) suggest among others that, the most common selection criteria in venture capitalist are related with the experience and personality of the entrepreneur and their team.

MacMillan et al. it is further established by Muzyka et al. (1996) that venture capitalists base the evaluation of a new investment on the ownership and uniqueness of a product or service. Therefore, irrespective of the number of years that the organization has been in operation, it can still attract venture capital financing. From the bar chart, eight (8) of the responding firms representing 20 % has been in operation between one (1) to five (5) years. Again, fourteen (14) of the firms representing 35% of the respondents has been in operation between six (6) to ten (10) years. Finally, eighteen (18) of the respondents representing 45% has been in operation between ten (10) years and above. It is also an indication that, the organizations having been for this while, must know the existence of venture capitalist and their financing model.

4.1.1 Number of employees as a measure of SME's classification

The SME sector has not been spared with several authors trying to define what SME's are. According to Abor and Quartey (2010), the Bolton committee (1971) first formulated an economic and statistical definition of a small firm. Under the economic definition, deferent several criterions are used to define the SME sector. The Bolton Committee applied different definitions of the small firms in different sectors. Firms in mining, construction and manufacturing, 200 or fewer employees are classified as small firms whereas those in the services, retail and wholesale were defined in turnover in monetary terms in which case, those range between GB£ 50,000-200,000 are classified as small firms Abor and Quartey, (2010). However in his report, Mensah (2004), generally defined Micro Enterprises as those employing up to five (5) labour force with fixed assets (excluding realty) not higher than the value of US$ 10,000, Small enterprises as those that employs between six (6) and twenty nine labour force with fixed assets of US$ 100,000 and Medium enterprises as those employing between thirty (30) and ninety-nine (99) labour force with fixed assets up to US$ 1 million.

Table 4.1.0 Number of Employees as a Measure of SME's Classification

Number of Employees	Frequency	Percentage (%)
6 - 29	22	55
30-99	18	45
100 and above	0	0
Total	**40**	**100**

Source: Field Data, 2015

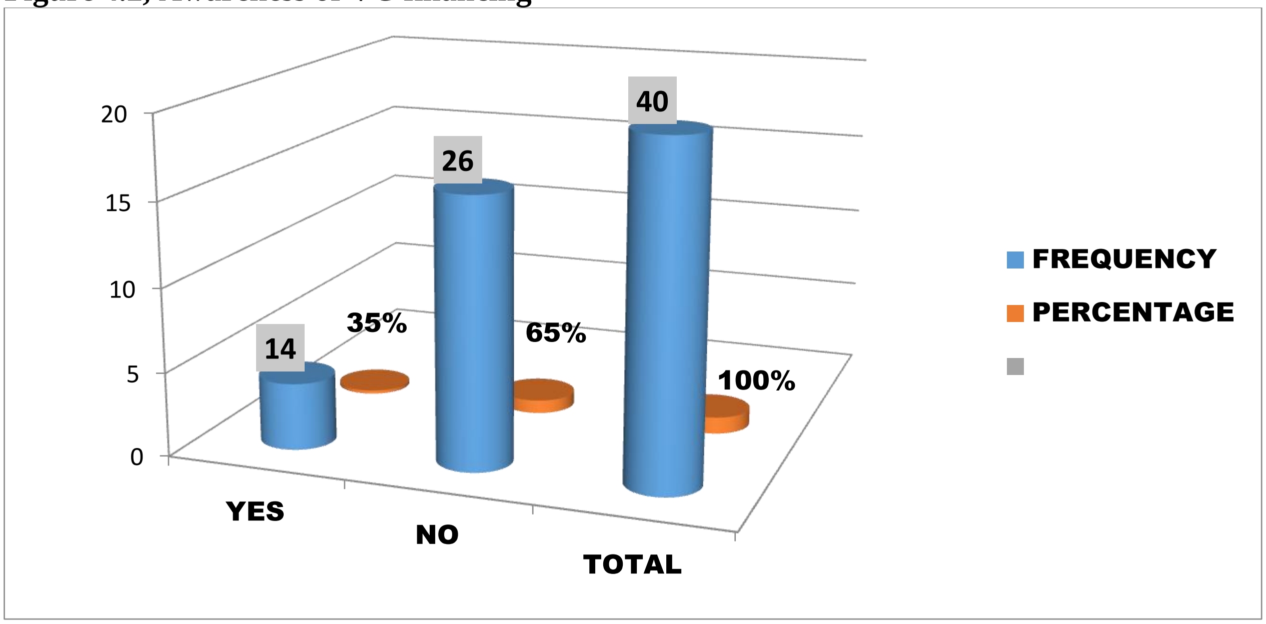
The table above shows that, twenty two (22) out of the forty (40) firms representing 55% have a staff strength ranging between 6 and 29 and falls within the small enterprise category according to Mensah's (2004) definition. On the other hand, (18) firms representing 45% of the respondents retorted as having staff strength between thirty (30) and ninety nine putting them in the category of the medium enterprises. Essentially, the VC firms must know the staff strength of any business that they would want to partner. This would offer them the opportunity to access whether it is justifiable to have a particular labour strength and also access the quality of the workforce and advise accordingly. In VC firms management support to the investee company, the VC firms usually support them in areas such as structures for modern business practices, key personnel recruitment and training services to ensure efficient investment thereby increasing the value of investee firms.

4.1.3 The awareness of VC financing within the SME segment

Venture capital financing remain an essential source of funding for Small and Medium Enterprises, be it at the start up, expansion or later stages. Venture capital form of financing somehow deviate from the requirements demanded by the formal commercial banks hence their importance cannot be overlooked by the SME community. Successes of most giant companies in the developed countries could be linked to the support of venture capitalist.

Nonetheless, SME's in the Kumasi Metropolis seem to have little knowledge of the VC companies and the role they could play in their businesses. The responses by the SME's over the awareness of VC firms are presented below.

Figure 4.2, Awareness of VC financing



Source: Field Data, 2015

The figure above identifies a low level of the awareness of Venture Capital financing within the SME community in the region. Out of the 40 respondents, only fourteen (14) representing 35% were aware of the venture capital financing whilst the remaining twenty six (26) representing 65% of the respondents are not aware of the venture capital financing and other related enormous opportunistic support they stand to tap from the VC companies. From the perspective of the NBSSI, Empretec, and other related institutions that offer business and management advice, the SME's hardly visit them for that kind of services. Therefore, the low level of awareness could either be traceable to the SME's themselves and this is not trying to negate the role that the government and the VC firms could play to create a high level of awareness of the VC companies.

4.1.4 Medium of Awareness

The medium through which the VC's awareness could be created is very critical to the success or otherwise of such crusade, looking at the community dynamics of the region in focus. It seems that more people became aware of the VC firms through the dailies. The figure below present the outcome of the data collected on the subject matter.

Table 4.1.1Medium of Awareness

Medium	Frequency	Percentage (%)
Magazines/Dailies	**4**	**28.6**
Seminar/workshop	**2**	**14.3**
Electronic Media	**8**	**57.1**
Personal Introduction	**0**	**0**
Total	**14**	**100**

Source: Field Data, 2015

Out of the fourteen (14) firms that indicated their awareness of the Venture Capital scheme, four (4) of the respondents representing 28.6% got to know of it through the dailies whereas eight (8) of the respondents representing 25% heard it through the electronic media. Two of the respondents representing 14.3% heard it through seminars and workshop. It indicates that, any attempt of deepening the awareness creation of the venture capitalist should be done through the electronic media. However, judging from the community/group dynamics of the region, any conclusion should be arrived with a lot of cautiousness. Further and broader analysis could be conducted.

4.1.5 Venture Capital financing application

Application for venture capital financing is an important step towards accessing the venture capital funding for enterprises' operations. It is at this stage the prospective applicant approach the VC companies with their business plan that outlines the particular industry that the investee company is operating. The VC companies after reception of the application use a selection of benchmarks to screen and evaluate the prospect of the venture. The studies of Wells (1974), MacMillan et al. (1985), Ray (1991), among others, suggest that the most common selection criteria are related with the experience and personality of the entrepreneur and their team.

Table 4.1.2Venture Capital financing application

Response	Frequency	Percentage (%)
Yes	**7**	**50**
No	**7**	**50**
Total	**14**	**100**

Source: Field Data, 2015

The table above indicates that, out of the fourteen respondents who were aware of the Venture Capital financing, seven (7) representing 50% had applied for financial assistant as at the time the research was being conducted whereas seven (7) of the respondents representing 50% had not applied. The low rate of application by hind sight could be attributable to the long held perception that, most of the SME owners dislike dilution of ownership. On the other hand, the Ghana Venture Capital Trust Fund reported in their operational report for 2010 that, out of the 142 total applications received in that year, only 8 applications representing a paltry 5% were successful. A lot of work needs to be done to bridge this problematic gap.

4.1.6 Success of VC application

The successes in venture capital financing application depend on several factors. Venture capitalist usually invest in a highly potential growth firms as extensively clarified by several authors, Venture capitalist investment are usually into highly risky business. For this reasons, Pandey & Jang (1996) suggests that, the return of the investment is a key feature to justify a venture capital funding.

Therefore, in assessing and choosing new proposals, the investment behavior is highly dependent on the existence of asymmetric information problems which, in turn, might be driven by the characteristics of the venture capital companies. The table below depicts the success rate of the venture capital application on the part of the respondents.

Table 4.1.3 Success of Venture Capital application

Success Rate	Frequency	Percentage (%)
Succeed	4	57.1
Failed	3	42.9
Total	**7**	**100**

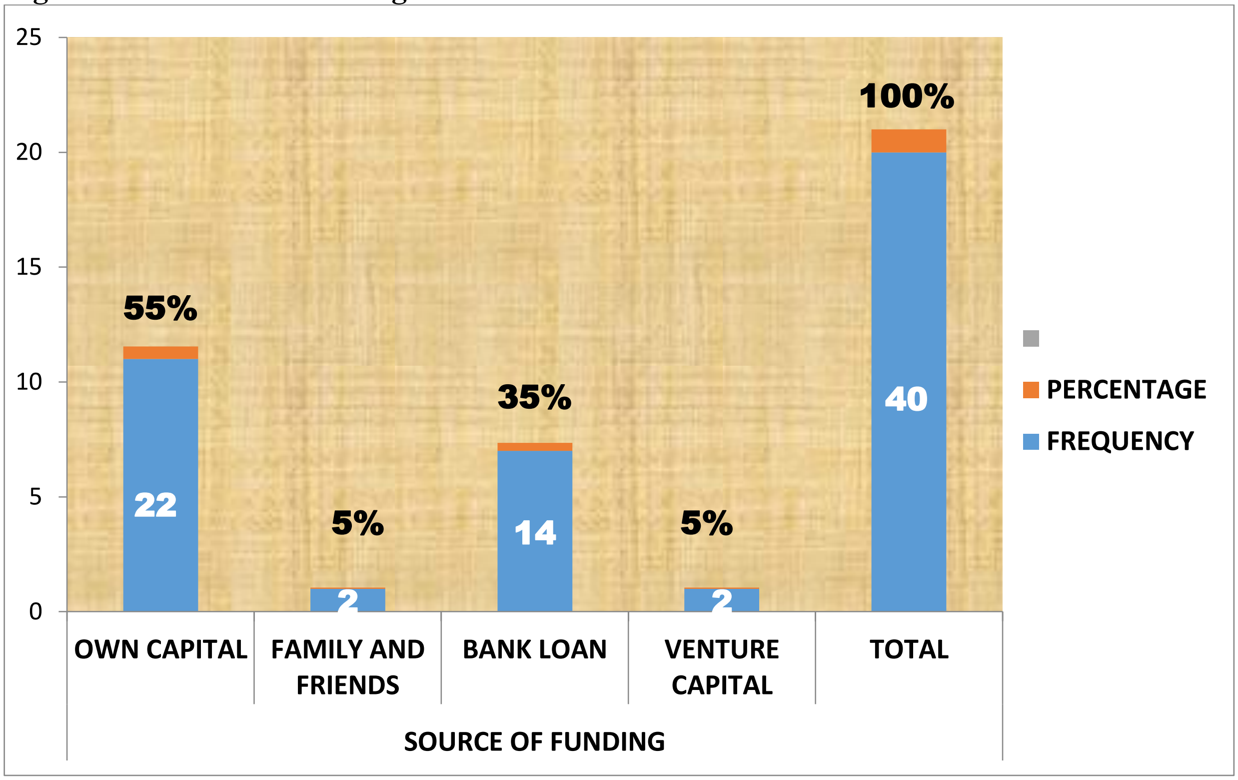
Source: Field Data, 2015

Out of the seven (7) firms that have applied for the venture capital financing, four were successful whereby the other three (3) failed in its application. Even though the outcome of the respondents indicates a 57.1% success rate, the nominal figures of seven (7) applications and four (4) being successful is not somehow pleasant outcome. The venture capital firms and venture capital trust fund as well as the business community within the region have an inter-related role to play.

4.1.7 Source of Funding for SME's

Funding has been identified as one of the critical factors that underpin the survival of an organization and their ability to remain competitive. Personal Savings, Sale of assets, borrowing from family and friend are some of the sources of financing available Sme's (Oston, 2008). According to Olawale and Ansah (2011), the long term growth and competitiveness of SME's has been compromised by the chronic and often acute constraints on their access to finance. They posited that, the failure rate of SME's especially the new ones are very high, the mortality rate is about 75% and one of the primary causes of this high mortality rate is the non-availability of external finance to fund their critical operations.

Figure 4.3 Sources of funding for SME's



Source: Field Data, 2015

In the figure above, out of the 40 respondents, twenty two (22) firms representing 55% answered their own capital are their source of financing. It is followed by fourteen (14) firms representing 35% out of the respondents who also indicated bank loan as their source of funding whilst two (2) firms, representing 5% of the respondents indicating family and friends as their source of funding and another two (2) firm representing 5% indicating Venture Capitalist as their source of funding. This indicates that, in spite of the huge prospect that could be derived from the venture capital financing, SME's in the region are not utilizing this potential. It collaborates with the low level of awareness exhibited in the figure 4.2 of the awareness of venture capitalist.

4.1.8 Stage of SME before approaching the VCF

The study revealed that, seven (7) representing 57.1% out of the fourteen (14) SMEs who were aware of the existence of the VCF, one (1) was at the start up staged. This is the stage the future prosperity of the company is not known and getting finance for such startup companies becomes very difficult by the multi-national financial institutions. Therefore there is the need for support from angel investors like venture capital financing company (ies).This observation is in accordance with Sahlman (1990)."

4.1.9 What other support did you receive apart from funding?

The study further revealed that, three (3) representing 75% of the respondent indicated they receive managerial support from the venture capital financing company in the form of suggesting and appointing the key management members, providing business and financial consultant and assisting in networking of the organization. This study is therefore in line with (Duffner, 2003).

4.2.0 How much funding did you receive from the Venture Capitalist?

The amount requested and how much would be received would largely depend on the industry and the growth potential of the industry that the investee firm is operating. The figure below is the results of the amount that the applicant received.

The information gathered indicated that, the successful four applicants, two (2) received an amount between the ranges of GH₵ 300,000- GH₵600, 000 and the other two(2) applicants also received within the ranges of Gh₵ 300,001- Gh₵ 600,000. This clearly collaborate with the CEO of Venture Capital Trust Fund operational report in 2010 that, at the end of the period (2010), an amount of GH₵ 19.9m had been disbursed across 39 firms averaging GH₵ 500,000 per firm.

4.2.1 The Value of Fixed Assets and Access to Funds

Earlier empirical and theoretical researchers have proved that, there is a positive correlation between firms with high fixed assets and application and subsequent success in loans application (Oppong Boakye, et al, 2013), they posited that a firm with lesser noticeable assets will pay high cost of debt as compared to a firm with high fixed assets; tangible assets represent sound collateral for loans. Subsequently, lenders will be much willing to grant loans to firms whose level of tangible assets is high.

Table 4.1.4 The Value of Fixed Assets before Accessing the Fund

Asset Value (US $)	Frequency
500,000 -1,500,000	**1**
1,500,001 - 3,000,000	3
3,000,001 - 4,500,000	0
4,500,001 – or more	0
Total	**4**

Source: Field Data, 2015

Table 4.1.5 The Value of Fixed Assets after Accessing the Fund

Asset value (US $)	**Frequency**
500,000 - 1,500,000	0
1,500,001 -3,000,000	1
3,000,001 - 4,500,000	3
4,500,001 – or more	0
Total	**4**

Source: Field Data, 2015

The tables above, indicates the positive trend of the fixed asset value of the respondent prior to the venture capital financing and after the venture capital financing. In table 4.1.4 before the VCF, one would realise that, one respondent gave the value of the firm's fixed asset between the ranges of US$ 500,000- 1,500,000 and US$ 1,500,001- 3,000,000 after the VCF. The outcome depicts that, there was 66.6% increase in the fixed asset growth when it was analyzed from the lower points and a 50% fixed asset growth when it was analyzed from the upper limits. And putting the two point's growth together, there was an average growth of 58.3% in fixed asset growth of the respondents company. On the other hand there were three respondents whose fixed assets growth were 150% and 99% for the lower and upper limits respectively. And together, the average growth resulted in 124.5%. In summary, the introduction of Venture Capital Financing has really enhanced the position of the firms in terms of fixed assets growth which in turn could enhance the chances of the firms in terms of attractiveness in assessing future financing as outlined by Oppong-Boakye et al, (2013).

4.2.2 Annual Operating profit and firm's financial position.

Operating income, or operating profit as it is sometimes called, is the total pre-tax profit an organization generates from its operations. In every business, operating income represent the pre-tax profit generated from selling goods or services. Therefore, the operating profit represents what is available to the owners before a few other items need to be paid such as preferred stock dividends. In other words, operating income can be used to gauge the general health of an organization's core business. All things being equal, it is one of the most important figures that a prospective investor needs to know when considering buying an ownership stake in a business or deciding whether to lend to a business or not: Except a firm has other assets to sell, any money flowing to the company is going to be generated from selling product or service. The table below

shows the outcome of the respondent's operating profit before and after the venture capital funding.

Table 4.1.6 Annual Operating profit before VCF

Item GH₵	**Frequency**
100,000-300,000	1
300,001- 500,000	3
500,001-700,000	0
700,001 or more	0
Total	4

Source: Field Data

Should a firm experiences a decline in its operating profit (income), there is going to be little money for the owners, expansion or debt payment or any potential opportunity they want to peruse. It is for this reason that, lenders, investors or stockholders monitors the movement of operating profit closely. Operating ratio is used to calculate interest cover ratio and operating margin. The outcome of the research revealed that one of the respondents experienced operational margin between (300,001- 500,000) which at the lower ends of the data as pre-VCF and GH₵ 500,000 post-VCF, the firm's operating income grew by over 66.6% whilst at the upper level, the operating income grew by 40%, by using the pre-VCF of GH₵ 500,000 and post-VCF of GH₵ 700,000. In a nutshell, the firm's operating income grew by an average of 53.3%t.

Moreover, the remaining three (3) respondents reveled that their post operating income ranges to (GH₵500,000-700,000) from the pre –VCF which ranges (GH₵300,001-500,000) which indicates 120% for the lower level and 85.7% for the upper level resulting to an average increase in operation profit by 102.85%

From all indication, the introduction of VCF has actually improved the cash flow of the business confirming the Ghana Venture Capital Trust Fund's 2010 operational report that, revenue of the investee companies grew from GH₵ 5.3m to GH₵ 7.6m.

4.2.3 Additional benefit to the VCF

The nature of VC concept could easily be likened to the operations of any financial organization.VC companies are more involved in the operations of their investee firms and therefore the whole VC concept dwells more on provision of financial and managerial support. Investee firms are usually supported in areas such as structures for modern business practices, key personnel recruitment and training services to ensure efficient investment thereby increasing the value of investee firms. In reality, venture capitalist could be described as active investors who ensure that their investee firms operate according to agreed investment plans through effective monitoring. As earlier indicated, VC companies does not only provide equity or quasi-equity capital to the investee companies but provides additional support such as managerial support, key personnel recruitment and training, assisting in networking to create strategic alliances. The respondent indicated that, not only did the firm received VCF, but also received other assistant such as managerial support and networking for strategic alliance.

4.2.4 Why would venture capitalist reject a proposal?

Venture capitalists (VCs) are habitually required to assess the quality of early stage entrepreneurial ventures, a procedure that is fraught with uncertainty. The expert judgments of VCs about the quality of companies are highly consequential to the survival of new ventures, since VCs provide investment and important connections to other resources Baum & Silverman, (2004).

When assessing and choosing new proposals, the investment behavior is highly dependent on the existence of asymmetric information problems which, in turn, might be driven by the characteristics of the venture capital company. Therefore, if the proposed venture does not meet the specific investment objectives of the VCs, the VC firms may reject it. The research identified that, three (3) representing 42.9% had their proposal turned down just for the fact that, their venture does not form part of the investment objective for the VC Company. Even though, the venture capitalist exists to provide risk and unsecure capital to businesses, depending on the structure of the VC firm, they may not venture into industries they do not have expertise in.

4.2.5 Reasons for SME's not applying for VCF

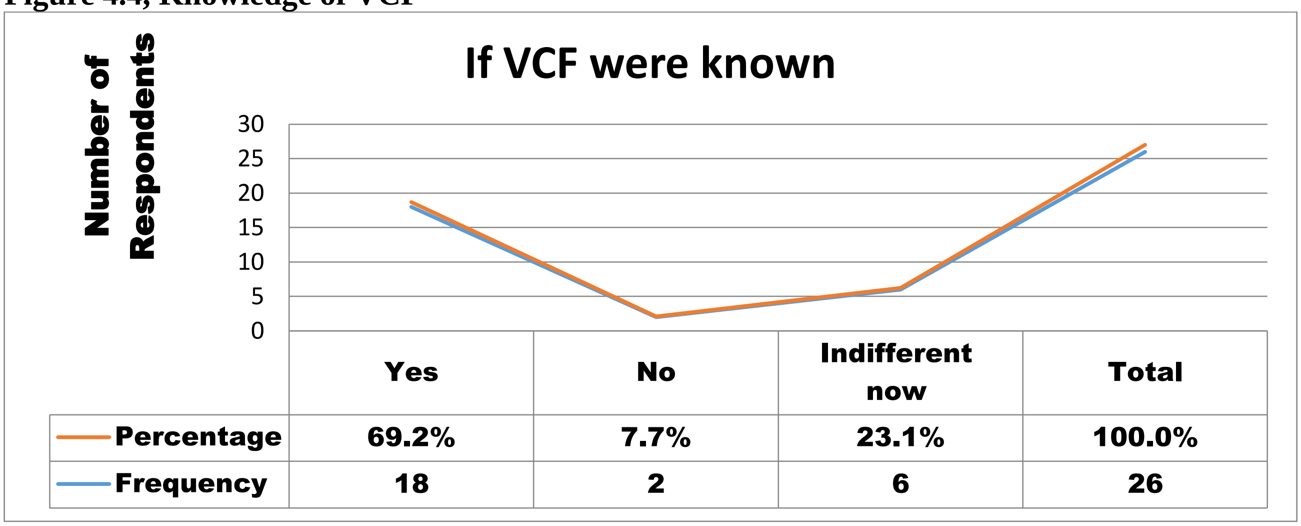
There are several reasons that have been espoused by as reasons why most small businesses fail to attract critical resources to grow as expected of them. Chief among them lack of transparency and irrational suspicions that, they stand to lose their businesses should they enter into partnerships. Again, SME owners prefer to be on their own, take and implement decisions without external influence. When, the researcher probed into the reasons behind those who are aware of the VCF but have failed to applied, the following were responses of the respondent.

Out of the fourteen(14) respondents who were aware of the Venture Capital Financing seven(7) did not apply, out of these, four(4) cited that, he does not need external influence that could eventually lead to him losing control to external influence, prefer to take decisions and implement it himself. On the other hand, the other three (3) respondents replied that, they were actually not clear, about the impact that the VCF could bring into their business. The above submission partially confirms the long held perception that, small business owners in Ghana does not like opening up their businesses to external stakeholders to take advantage of the enormous prospect that normally come with those alliances.

4.2.6 Would you have applied if the benefit of VCF were made known to you?

The primary advantage of venture capital financing is ability for company expansion that would not be possible through bank loans or other methods. This is essential for start-ups with limited operating histories and high upfront costs. In addition, repayment of VC investors isn't necessarily an obligation like it would be for a bank loan. Rather, the VC firm would be bearing the investment risk since they believe in the company's forthcoming success. In addition to financial capital, the venture capitalists would further offer valuable expertise, advice and industry knowledge and connections. The figure below gives a snapshot to what the owners would do if the benefits of Venture Capital firms are made known to them.

Figure 4.4, Knowledge of VCF



Source: Field Data, 2015

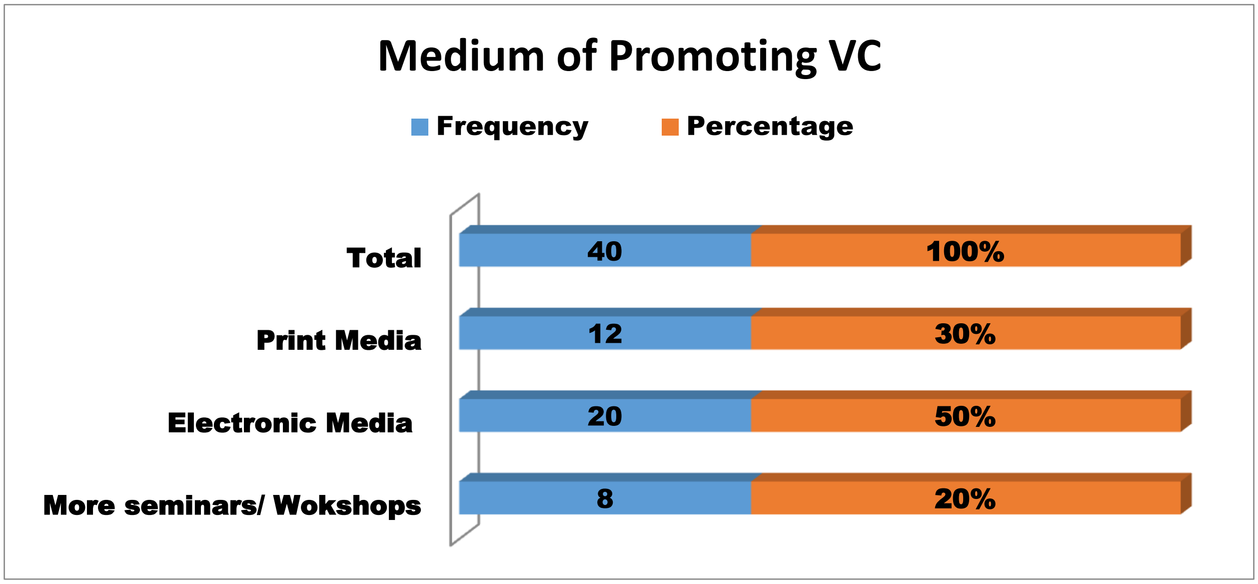
The figure above indicates that, out of the twenty six (26) respondents who responded that they were not aware, 18 representing 69.2% indicated that, if the Venture Capital Financing and its associated benefits were made to them, they would consider approaching the VC Companies. Again six (6) out of the total, representing 23.1% responded that, they were indifferent regarding applying or not if the advantages of Venture Capital were made known to them. Finally, just two out of the twenty six (26) respondents representing approximately 7.7% emphatically responded no.

The outcome of the responses shows an encouraging and a brighter future for the venture capital financing industry in the country if the stakeholders would step up to deepening the public education on the enormous benefit of venture capital scheme in order to propel the SME sector to actually fulfil its long touted accolade as the engine of future growth in both developing and developed countries.

4.2.7 What could be done to promote Venture Capital within the business community?

In order to get the age long advantages of venture capital financing (though emerging in Ghana) to fulfil its core mandate as specified by the venture capital trust fund act of 2004, Act 680, the foremost stakeholders needs to step up in its effort to get it much closer to the businesses. By so doing, a number of channels and exist to conduct this essential public education. Key amongst them is what has been proposed in the table below by the respondents.

Figure 4.5, Medium of promoting VCF



Source: Field Data, 2015

In response to the question posed to the respondents on how and which medium/ channel could be used to promote the awareness of the venture capital financing scheme, twelve(12) respondents representing 30% out of the sample size of 40, suggested the print media whilst eight(8) respondents representing 20% of the sample size, opted for workshops and seminars. Finally, twenty (20) respondents out of the total respondents representing 50% of the respondents suggested the electronic media as the best option for the public education exercise on venture capital financing scheme. The latter buttress the assumption the researcher made on the figure 4.3 on the medium through which the respondents were informed, the majority of the respondents chose the print media however, the researcher admonished stakeholders that, the outcome taking into consideration with the social dynamics of the region.

4.2.8 The prospect of venture capital financing scheme in Ghana

There are a total of five venture capital financing firms currently operating in the country with a total portfolio of GH₵ 59.7M as at 2009 (Venture Capital Trust Fund's operational report, 2010). They are, Activity Venture Financing Company Limited, Bedrock Venture capital Financing Company Limited, Fidelity Equity Fund Limited, Gold Venture Capital Limited and Ebankese Fund Limited. The advent of VC firms is a booster to providing the "missing middle" between the demand and supply of financing within the SME sector. The seeming dominant concentration of VC firms in Accra is a hindrance to the growth of the scheme across the country. The dominance concentration in Accra is a counterproductive to the being made by the government to deepen its presence.

The SME's themselves also have a responsible role to play. Lack of qualified personnel, coupled with poor records keeping and shyness of adopting best industry practices is one factor that is undermining their chances of attracting the needed funding. If these anomalies are brought to the barest minimum, more funding would be released to the sector.

For the SME to qualify for the venture capital funding, the following but not restricted to criterion must be met.

- ✓ There must be a detailed business plan outlining the operations of the firms
- ✓ The SME's must have an experience and competent management team to manage the organization.
- ✓ There should be a high prospect of growth of the business in particular and the industry in general

- ✓ The should be proper and verifiable record keeping and maintenance of proper books of accounts

Also key area of importance the ability of the VC firms to intensely evaluate the risk associated with any venture. The evaluation and the due diligent process will require the SME's to provide relevant information such audited accounts, business certificate as well as tax clearance certificate. The due diligence processes is conducted to ascertain the viability and the justifiability of an investment. These conclusions are arrived by independently subjecting a proposal thorough scrutiny to help the VC's measure the level of risk they would be shouldering and the probable return on their investment.

4.3.0 Venture Capital Trust Fund

4.3.1 Lifecycle of small and medium enterprises

Small and medium scale enterprises relating to national business for small scale industries consider the various stages in the growth of industries which are the seed, start up, the growth and expansion stage.

Table 4.1.5 At what stage of business lifecycle does VC firms invest?

Preferred Stage	**Frequency**
Seed Stage	0
Startup Stage	1
Growth	4
other	0
Total	**5**

Source: Field Data, 2015

The above table shows the importance that venture capital companies attach each and every stage of businesses who may apply for financial assistance. According to Sabol et al, 2013, the growth state of a business is characterized with larger market share, reduction in cost of production, increasing demand and quality improvement. It is instructive to note that, out of the five VC firms contacted, four representing 80% of the sampled population emphasized they expect their investments into firms at the growth stage whilst one or 20% of the respondents emphasized they will invest at the start up stage. It is at this stage that businesses are able to make super-normal profit and are highly liquid. They prefer to invest at this stage that is most probable that, the investor may be able to recoup his investment.

4.3.2 Priorities of Venture Capital Trust Fund

Ventute Capiatal Trust Fund as the apex of the equity financing company(ies) do consider venture activities that will lead to growth, creation of employment and economic progression. Therefore VCTF invest in all business activities except importation. Venture Capital Trust Fund report 2012

Table 4.1.6 Do you prioritize industries to invest?

Industries	Frequency
Tourism	0
ICT	0
Pharmaceuticals	0
No Priority	5
Total	**5**

Source: Field Data, 2015

The table above depicts that, the VC companies does not have priority areas in the economy. Out of the five VC companies interviewed, all of them indicated that, they do not strictly prioritize industries to invest.

4.3.3 Requirement of Venture Capital Trust Fund

SMEs in Ghana can only attract venture capital finance if the various requirements such as business plan, company registration, tax clearance, and audited financial statement (if applicable) are made available to the fund managers to access the investee.

Table 4.1.7 Requirement in accessing VC financing

Requirements	Frequency
Management Team	5
Audited Financial Statements	0
Tax Clearance Certificate	0
Registration Certificate	0
Total	**5**

Source: Field Data, 2015

A plethora of contributions that have analyzed the screening process and what actually the venture capital companies look for abounds. According to Pandey and Jang (1996)", the return on investment is a key criteria to justify venture capital funding". Again, the 1974 Wells' studies, MacMillan et al. (1985), Ray (1991) among others suggest that, the most common selection criteria are related with the experience and personality of the entrepreneur and their team. MacMillan et al. (1985) and Muzyka et al. (1996) establish that venture capitalists base the evaluation of a new investment on the ownership and uniqueness of a product or service.

4.3.4 Source of Funding to the VCTF

Source of funding to the VCTF is coming from the government and since 2006, 25% of the national reconstruction levy which was given to the fund amounted to GH₵ 22.4 million which was the seed money to the fund since then. Based on this, it has become one of the challenges of source of fund to the institution and even their operational expenses have to be financed by internally generated fund. **Source: Field Data, 2015**

4.3.5 Impact of Securing Finance by SMEs

There is a flexible procedure of securing equity finance from the VCF and fund managers, but however, SMEs in the metropolis find it very difficult to locate the VCF due to dilution of ownership, poor publicity and the SMEs not regularizing their companies based on policies and rules of the country. **Source: Field Data, 2015**

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This is the section in which the researcher summarizes his findings on the observations made, draws conclusions and further makes recommendations on the awareness of venture capital financing in the Ashanti Region of Ghana. This would be done taking into consideration the responses provided by the respondents in this exercise.

5.1 Summary of findings

The following observations were made during the course of conducting the study. These findings would underpin the recommendations that would be made.

The study found out that, a large number of the SME's in the Kumasi Metropolis does not know or well informed about the venture capital financing in the country even though it has existed since 2004. Twenty six, (65%) out of the total of 40 respondents were not aware only 35% or fourteen (14) out of the total respondents were informed about the venture capital financing scheme as at the time the research was being conducted. However, out of those that had information about the venture capital financing scheme, only seven (7) firms had contacted VC companies for financial assistance.

It also appeared that, seven (7) out of the fourteen (14) firms that indicated they were aware of the venture capital financing scheme, had not bothered to approach the VC firms citing lack of better information about the scheme and also unwillingness to allow any form of external influence that can curtail the ability to and the comfort being a sole decision maker in the organization.

Again on the aspect of positive impact that VC financing can have on the growth prospect of the SME's, the firms that had applied and received venture capital financing, realized an average growth of124.5 % in fixed asset and 102% average growth in operating income.

The SME's unanimously approved that, the awareness level and awareness creation is very low in the region and proposed some solutions to that effect. Out of the forty (40) respondents, 20 representing 50%, proposed electronic media as the medium of awareness creation. Again, twelve (12) of the respondents representing 30% also proposed the print media to be the medium of awareness creation, whilst eight (8) respondents representing 20% also proposed seminars and workshop as a medium of awareness creation. However by the various opinions, there was a consensus on awareness creation. The researcher decided to monitor the media landscape within the region and conspicuously, there a huge media silence on the venture capital financing scheme.

Most of the respondents also suggested that, if the prospects of the VCF scheme were explained and communicated to them very well, there is a possibility that, they would subscribe to the scheme.

The researcher also found out that it is not only financial support that the VC firms provide. They further provide additional support such as helping the investee firms to strengthen its managerial capacity and also assisting them in networking for strategic alliance.

Additional essential findings the researcher made was that, in spite of the availability of venture capital financing, most of the SME owners prefer using their own funding, bank loans or resulting to family members or close friend for financial assistance.

The requirement procedures by the VCF are also considered as one of the bottleneck to scare off the SMEs in requesting for equity finance. The researcher observed that coming out with business plan and audited financial statements are considered as financial constraint and time wasting.

5.2 Conclusions

The venture capital model of financing has been in the country since 2004, it has come to serves as an important conduit of funding for operational financing. Starvation of credit has been a counterproductive factor within the SME sector. Without removal of these barriers, the SME's will continue to stagger under lack of funding. However relatively younger the VCF scheme is in the country, it is also saddled with challenges in their quest for raising funds. The low level of education on VCF still remains a major barrier and if left unchecked, the scheme cannot fulfill its core mandate.

Larger majority of the SME community is not much informed about the activities of the VC scheme even after ten years of its inception. There is a conspicuous silence on the media landscape on the awareness creation of the scheme. Venture capital is and will continue to remain a key source of SME financing and all effort should be embarked upon to enable it perform its role.

5.3 Recommendation

With regards to the outcome of the study, the researcher would like to offer the following as his humble recommendation in order to create the needed awareness within the SME community in the Kumasi metropolis.

The VCFs, VCTF as a matter of urgency undertake a sustained public education through radio advertisement, print media, workshops and seminars in a periodic manner to bridge the information gap between the VCF, and the SME's.

Increase the physical presence of the venture capital firms within the metropolitan, municipal and district capitals to make the venture capital financing more accessible to the SME sector and also help to address the information shortfall.

Institutions such as Empretec, NBSSI, and Rural Enterprise Foundation should be adequately resourced to assists in the information dissemination. These institutions should further be equipped to offer more training to the SME's as well.

The government of Ghana is beseeched to create an enabling environment for VCFs to thrive and also play a leading role in setting up more venture capital firm though more favorable tax conditions.

Further and broader research study is also being recommended to deepen the knowledge base of the Venture Capital Financing Scheme within the country and the sub-region.

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APPENDIX

QUESTIONAIRE FOR SME OWNERS IN THE ASHANTI REGION

EVALUATING ROLE OF VENTURE CAPITAL FINANCING ON THE GROWTH OF SME SECTOR IN THE KUMASI METROPOLIS

This is research being conducted in partial fulfillment of the requirement for the award of Master's in Business Administration (MBA) Finance Honors. The researcher is guided by the ethical responsibility of this exercise. Respondents are being assured of outmost confidentiality and privacy of the information they provide. Respondents are further being assured that the information provided is for pure academic reasons.

Sample Questionnaire

Instructions: Kindly identify and tick appropriate box to indicate your response

1. How long has your business operated?

   A. 1year to 5years ( )   B 6years to 10years ( )

   C More than 10years

2. How many workers does your firm have?

   A. 6 to 29 ( )   B 30 to 99   C 100 or above

3. Which sector does your business operate?

   (A) Hospitality ( )   (B) Manufacturing ( )

   (C) Education ( )   (D) Wholesale ( )   (E) Other Specify………….

Section B (question 7 sources of fund to SME's)

4. Please indicate which of the following serves as your source of funds or operation?

(A) Own capital ( ) B. Family and friends ( ) C Banks ( ) D Others, Specify……..

Section C (question 8- 15 Venture capital financing knowledge in sme)

5. Are you aware of venture capital financing?

A. Yes ( ) B. No ( )

6. If yes was your answer to question 5, how did you get to know?

(A) Magazine/Dailies ( ) (B) Seminar/Workshop ( )

(C) Electronic Media ( ) (D) Personal Introduction ( )

7. If (A) was your answer to question 5, have you applied for financial assistance from VC firm?

A. Yes ( ) B. No ( )

8. If yes was your answer to question 7, did you receive the financial assistance?

A. Yes ( ) B. No ( )

9. If yes what was the form of the assistance?

A. Equity ( ) B. Loan ( )

10. How much did you received from the VC firm?

A. GhȻ 100,000- 300,000 ( ) B. GhȻ 300,001- 600,000

C. Gh₵ 600,001- 900,000 ( )   D. Gh₵ 900,001 or more

11. Which stage did you approach the VC firm for assistance?

A. Start-up ( )   B. Expansion ( )   C. Profitable but cash poor stage ( )

12. What other support service did you receive apart from the funding? (**You can tick as many as the**

Particular support you have received)

A. Managerial support ( )   B. Personnel recruitment and training ( )

C. Assist in networking ( )   D. Other, please specify

Section D (questions 16-21 after venture capital funding)

13. Please indicate the range of your total capital before receiving the venture capital financing

A. US$ 1,000,000- 300,000 ( )   B. US$ 3,000,001- 500,000 ( )

C. US$ 5,000,001- 7,000,000 ( )   D. US$ 7,000,001 or more

14. Please indicate your total capital after receiving the funding.

A. US$ 2,000,000- 4,000,000 ( )   B. US$ 4,000,001- 6,000,000 ( )

C. US$ 6,000,001- 800,000 ( )   D. US$ 8,000,001 or more

15. Please select the range of your annual turnover before the venture capital funding

(A) Gh₵ 1,000,000 to US$ 5,000,000 ( )   (B) Gh₵ 5,000, 0001 to US$ 10,000,000 ( )

(C) GhȻ 10, 00,001 to US$ 15,000,000 ( ) (D) GhȻ 15,000,001 or above ( )

16. Please indicate your current annual turnover after the VC funding

(A) GhȻ 1,000,000 to US$ 5,000,000 ( ) (B) GhȻ 5,000, 0001 to US$ 10,000,000 ( )

(C) GhȻ 10, 00,001 to US$ 15,000,000 ( ) (D) GhȻ 15,000,001 or above ( )

17. Please indicate the range of your operating profit before the VC funding

A. GhȻ 100,000-300,000 ( ) B. GhȻ 300,001- 500,000 ( )

C. GhȻ 500,001-700,000 ( ) D. GhȻ 700,001 or more

18. Please indicate the range of your operating profit after the VC funding

A. GhȻ 100,000-300,000 ( ) B. GhȻ 300,001- 500,000 ( )

C. GhȻ 500,001-700,000 ( ) D. GhȻ 700,001 or more

19. Please how much was the value of your fix assets before the venture capital funding?

A. US$ 500,000- 1,500,000 ( ) B. US$ 1,500,001- 3,000,000 ( )

C. US$ 3,000,001- 4,500,000 ( ) D. US$ 4,500,001 or more

20. Please how much was the value of your fix assets after the venture capital funding?

A. US$ 500,000- 1,500,000 ( ) B. US$ 1,500,001- 3,000,000 ( )

C. US$ 3,000,001- 4,500,000 ( ) D. US$ 4,500,001 or more

21. If No was the answer to question 8, please what the reason was assign to the denial.

A. Poor industry growth ( ) B. Lack of market for product ( )

C. Not part of investment focus ( )   D. Other, Please specify ( )

22. If the potential of VC financing are made known to you, would you consider applying?

A. Yes ( )   B. No ( )   C. Indifferent now ( )

23. If you are aware of VC financing but have not applied, why have you not applied?

A. Despises ownership dilution ( )   B. Have enough funds for operation ( )

C. Not clear about VCF ( ).   D. Other, specify…………

24. In brief, specify how venture capital financing awareness could be enhanced in Ghana

………………...…..........................

Thank you for your invaluable support