A REVIEW OF SME FINANCING SCHEMES IN GHANA

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Introduction

A major barrier to rapid development of the SME sector is a shortage of both debt and equity financing. This paper provides a review of SME financing in Ghana. Specifically, the paper covers the following:

- A review of the various schemes, initiatives and funding mechanisms for facilitating access of SMEs to loan and equity finance
- An analysis of their effectiveness

Finally, we establish some reasons for the ineffectiveness of some of the financing schemes and provide some suggestions for improving the overall effectiveness of SME financing.

A General Overview of the SME Sector

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 $1 million.

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,

1. 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,
2. Management skills are weak, thus inhibiting the development of a strategic plan for sustainable growth.
3. This target group experiences extreme working capital volatility.
4. 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 labour 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.

CURRENT STATUS OF SME FINANCING

There are many who believe that the single most important factor constraining the growth of the SME sector is the lack of finance. There are many factors that can be adduced for this lack of finance:

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

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

- Official Schemes
- Financing provided by financial institutions

Official SME Credit Schemes

Official schemes are schemes introduced by government, either alone, or with the support of donor agencies to increase the flow of financing to SMEs. Government has in the past attempted to implement a number of such direct lending schemes to SMEs either out of government funds or with funds contracted from donor agencies. These funds were usually managed by the Aid and Debt Management Unit of the Ministry of Finance and Economic Planning. Most of the on-lent facilities were obtained under specific programs with bilateral organizations in support of the Government of Ghana's Economic Recovery Program and Structural Adjustment Program. Examples of such schemes are:

1. Austrian Import Program (1990)
2. Japanese Non-Project Grants (1987-2000)
3. Canadian Structural Adjustment Fund and Support for Public Expenditure Reforms (SPER)

In all cases, the funds were designed to assist importers. For example, under the Austrian Import Support Program (AIP), the beneficiaries were to use the facility to procure equipment, machinery, raw materials and related services from Austria. The Export Finance Company, a quasi-public institution was made the sole administrator of the facility. The Japanese and Canadian facilities were similarly designed to support imports from the respective countries. While these schemes were not specifically targeted to SMEs, there were no restrictions with respect to minimum company size and many companies that would fit the SME definition were beneficiaries.

The results of the direct lending schemes operated by government have been mixed. For example, under AIP, 20 companies of varying sizes benefited from the scheme. Beneficiaries were given six years made up of a one-year moratorium and a five-year repayment period. Since the loans were disbursed in 1990, the borrowers should have completely liquidated their loans by the end of 1996. However as at December 2001, only 1 out of 20 beneficiaries had fully paid. The results for the Japanese and CIDA schemes were much more encouraging from a recovery perspective because repayments were guaranteed by various financial institutions, although the Government has had to hire 18 debt collectors to recover outstanding indebtedness under both schemes.

In addition to donor-supported schemes for direct lending, government has attempted at various times to operate lending schemes for SMEs. The schemes have included the following:

- **Business Assistance Fund**: The Business Assistance Fund was operated in the 1990s to provide direct government lending to the SME sector. The program was widely seen to have been abused politically, with most of the loans going to perceives government supporters.

- **Ghana Investment Fund**: In 2002, the Ghana investment Fund Act (Act 616) was passed to establish a fund to provide for the grant of credit facilities by designated financial institutions to companies. However, the scheme was never implemented.

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

Guarantee Facilities

Section 13 of the Loans Act of 1970 (Act 335) empowers the Government of Ghana (GoG) to provide government guarantee to any external financiers who wish to advance funds to any Ghanaian organization and the terms of such facility require the provision of guarantee from the Government. Guarantee facilities are contingent liabilities of the Government. The onus for repaying the facility lies with the borrower and not the Government. The facility crystallizes and becomes liability due from GoG if the borrower is unable to honour his/her loan obligation and the Government is called upon to settle the facility as a guarantor. In that case the borrower is required to subsequently reimburse the Government for the amount involved.

Although GoG in exercise of the relevant provisions in the Loans Act, has provided guarantees to a number of bilateral and multilateral organizations in the past on behalf of selected Ghanaian organizations in both the private and public sectors of the economy, no targeted SME guarantee facilities has been introduced. A Loan Guarantee Scheme was announced by the Ministry of Trade and Industries in 2001 but was not implemented.

Currently, the only government-supported loan guarantee scheme in operation is operated by Eximguaranty Company which is majority-owned by the Bank of Ghana. However, the company's operations are limited by the size of its guarantee fund. Although ¢10 billion was voted in the 2004 budget to augment the guarantee fund, it is small relative to the needs of the SME sector.

Direct Interventions from Development Partners

Many donor activities concentrate on various credit schemes through both commercial banks and micro-finance institutions, and also on strengthening of micro, small and medium-scale MSMEs through training and business support services. The table below presents a list of projects, which may not be comprehensive.

Table 1: Donor Activities In The Area Of Supporting MSMEs

Donor	Title	Short description
CIDA	Private Sector Development Support	Assist MSMEs (deepening technological capacity)
DANIDA	Private Sector Programme	Business linkages between Ghana and Denmark
DANIDA	Business Sector Development	Lending to SMEs, front-runner legal reform (pilot)
GTZ	Promotion of Private Sector	Promotes German investments in Ghana
GTZ	Promotion of Small and Micro Enterprises	Assist MSEs (Credit Fund - Urban and Rural areas)

GTZ	Rural Financial Services Project	Capacity building to rural and community banks and informal financial sector; and to ARB Apex Bank
IFAD/AFD	Rural Enterprise Project	Enterprise development in rural areas
IFC	Africa Project Development Facility	Support the development of SMEs (training)
UNDP	African Management Services Company	Assist SMEs (training and secondment)
UNDP	EMPRETEC Ghana Foundation	Assist SMEs (entrepreneurship development)
UNDP	Micro Start Ghana Programme	Support MFIs build institutional capacity
UNDP	Promoting Private Sector Development	Capacity building of private sector interlocutors
UNIDO	Strengthening competitiveness of MSMEs	Strengthening capabilities of MSMEs
USAID	Amex International (increased private enterprise performance)	Support development of non-traditional exports
USAID	Micro enterprise Development Assistance	Assist micro and small-scale farmers
USAID	Trade and Investment Programme	Assist SMEs in non-traditional exports (credits)
WB	Non-Bank Financial Institutions Assistance	Promote growth of non-bank financial sector

Perhaps, as a result of the unpleasant experience of direct lending by government in the recent past, more recent donor interventions in SME finance have used exiting financial institutions to channel funds to SMEs. Appendix 1 provides a summary of available credit facilities for SMEs in Ghana. A number of lending programs are undertaken as partnerships between government and donors are listed such as:

- Trade and Investment Program (TIP), operated by USAID and the Ministry of Finance
- Private Enterprise and Export Development Fund (PEED) managed by Bank of Ghana but administered through banks.

Increasingly, however, donors have implemented lending programs directly with financial institutions. Examples of such schemes are:

- Small Business Loan Portfolio Guarantee (USAID)
- European Investment Bank Facility

- Care-Technoserve Fund for Small Scale Enterprises
- DANIDA SME Fund
- GTZ Fund for the Promotion of Micro and Small Enterprises
- SECO SME Financing Scheme
- FMO SME Financing Scheme

In addition, Oikocredit, an international NGO operates SME lending programs through a local office and lends directly to the target group.

Equity Finance

Long term financing in terms of equity capital, needed by growth-oriented mainly small and medium companies, is virtually non-existent for SMEs. Only two commercial venture capital funds have been established in Ghana over the past 10 years. In 1991, U.S. Agency for International Development ("USAID") and the Commonwealth Development Corporation ("CDC") sponsored the formation of a venture capital fund in Ghana in response to a perceived need for financial products and services designed to meet the long-term financing requirements of growing businesses in Ghana within the context of Ghana's financial sector reform program.

In the absence of a regulatory environment, the sponsors agreed to establish, a non-bank finance institution to hold the funds - Ghana Venture Capital Fund ("GVCF"), and a management company, Venture Fund Management Company to make investment decisions. USAID provided a $1,094,000 grant to underwrite the operational expenditures over a three-year period ending in 1994, while CDC's $2 million commitment to GVCF was leveraged for an additional $3.8 million in invested capital from developmental finance and local institutions. The combined investment capital thus became $5.8 million. The GVCF became operational in November 1992, and was fully invested with 13 investee companies. The average investment was $250,000.

In addition to managing the GVFC, VFMC in 1995 was awarded the management of a $4 million Enterprise Fund, promoted by the European Union which is also fully invested with 18 direct investee companies and 12 indirect (through leasing) investee companies. The average size of investment by the Enterprise Fund was $100,000.

Subsequent to the GVFC, a $5 million Fidelity Equity Fund was established by a joint venture between Fidelity Discount House and FMO (The Netherlands Development Finance Company). This fund is also fully invested with 10 investee companies, and managed by the Fidelity Investment Advisors. In the recent past, there has also been a trend of foreign direct venture capital investment in Ghana from pan-African focused VCFs such as Modern Africa Growth Fund, the Commonwealth Africa Investment Fund and the African Enterprise Fund.

A number of institutional investors have also been active in providing directly without formally setting up a venture capital fund. Notable among these are:

- Social Security and National Insurance Trust (SSNIT)
- Development Finance Institutions notably the International Finance Corporation, CDC Capital Partners

In general, all these efforts have so far been targeted at growth oriented large enterprises. Although there appears to be a good number of potentially viable investments in the (upper) small and medium sized segment, the risks and costs involved in managing shareholding in SMEs have so far rendered those investments not interesting. Usually, lack of management skills and inappropriate management systems cause much higher business failure risks for SMEs than for large companies. To counterbalance these risks through increased involvement into the day-to-day management of the firms results in high costs for the venture fund that can hardly be recovered through the return of the comparatively small investments.

In addition to venture funds and private equity investments, the Ghana Stock Exchange is potentially a viable option for SME equity financing. Established in 1990 with 9 listings, the GSE now has 26 listed equities. The GSE has facilitated the participation of SME by establishing three Official lists.

The criteria for admission to listing on the GSE are summarized in Table 2, and are such that the largest and most profitable companies are on the First Official List, while medium sized and small companies are on the Second and Third Official Lists, respectively.

Table 2: GSE Listing Requirements

	First List	**Second List**	**Third List**
Stated Capital	¢100 million	¢50 million	¢20 million
Minimum Public Share Offer	¢30 million	¢15 million	¢5 million
Public Share Float (%)	25% of Total Issued Shares		
Published Accounts	5 Years	3 Years	1 Year (May be Waived)
Profitability	Profitable on aggregate during previous 5 Years	Profitable on aggregate during previous 3 Years	Not necessary but company must demonstrate potential to be profitable

In 1999, Camelot Ghana Limited became the first and only company to utilize the Second Official List to raise equity capital. The GSE has made a further effort to facilitate the entry of SMEs to the exchange by creating the Provisional List, which allows companies to list provisionally for six months during which they are guided by the GSE, with the support of the Africa Project Development Facility and financial advisers to meet the requirements for full listing.

Government support for equity financing for SMEs in Ghana has been limited. It has however provided incentives for active participation of both issuers and investors on the Ghana Stock Exchange in the following ways:

1. Capital gains on shares listed on the GSE are tax exempt till 2005

2. Dividends are subject to a withholding and final tax of 10%

3. Companies listed on the Ghana Stock Exchange enjoy a lower corporate tax rate. Until 2003, this rate was 30% compared to the general corporate tax rate of 32.5%. Effective 2004, companies listing on the GSE for the first

time will enjoy a lower tax rate of 25% (compared to a general 30% corporate tax rate) for the first three years of listing.

There are indications that government will now actively participate in the provision of equity financing of SMEs. In 2003, the Government announced its intention to support equity financing for SMEs through the earmarking of 25% of the National Reconstruction Levy over a three-year period for the establishment of a venture capital fund. We are informed that the modalities for the operation of the venture capital fund will be announced in the course of 2004.

SME Financing from Financial Institutions

The formal financial sector in Ghana comprises commercial banks (including Merchant Banks and Development Banks), 17 of which operate a network of 303 branches in the country; 115 rural and community banks, savings and loan companies and non-bank financial institutions. Recently, as banks and other financial institutions have sought to broaden their loan portfolio, SMEs have become an increasingly attractive customer group. Traditionally, however, financial institutions in Ghana have been cautious with lending to SME groups because of high default rates and risks associated with the sector. Few banks have therefore developed an explicit policy for SME target groups taking the particular requirements and needs into consideration, e.g. developing earmarked financial products and appropriate credit management systems. Only few banks have SME specific loan products, and many of these are donor funded. Few banking institutions have SME desks or departments. For the others, lending to micro and small businesses is simply transacted by credit officers from corporate finance departments of the bank who generally apply the same appraisal and lending principles to SMEs. None of the commercial banks have any specialised training for credit officers in proven SME lending techniques, and most credit officers do not have any prior SME specific experience.

A recent GTZ survey of has provided insignt into the lending practices of financial institutions towards micro and small scale enterprises (MSEs)

1. Banks and other financial institutions have traditionally looked at the MSE sector with caution. As a result, there are usually no separate MSE lending policies, and loan requests are handled quite stringent. Some institutions only give cash-secured overdrafts to enterprises for a maximum of a six-month period after which the transaction can be renewed, pending revision. This type of overdraft can be secured by the borrower upon presentation of fixed deposit or treasury bills. A maximum of 95% of their value is granted, with a lien placed them, to minimize the risk of default.

2. Terms and Conditions: MSE loans financed out of the normal business portfolio of a commercial bank are granted for 12 months or considerably less, secured by deposits or other sources with a view to categorise it as a "secured loan" under BoG conditions, and carries the upper band of interest rates.

3. MSE Lending within the Organisational Structure of the Financial Institution: Commercial banks find it difficult to integrate MSE finance effectively into their existing organisational structure. 4 out of the 7 surveyed banks or Savings and Loans have a separate MSE desk. Solutions are different and sometimes unique to a single institution. The following more unusual organisational set ups were found when

conducting a sample survey of 8 banks and non-bank financial institutions:

i) MSE lending below a certain threshold are initiated and processed by the bank's marketing department since MSEs are targeted primarily with a view to attracting their deposits with small loans granted only to establish initial client contact

ii) MSE lending is transacted by credit officers from corporate finance departments of a bank.

4. Systems and Procedures: Almost without exception, the financial institutions attempt to service SME clients with a package modified from their existing smaller "light" corporate clientele. As a result, there is strong emphasis on business documentation and financial reports. These are analysed basically in the same format as corporate applications, including time consuming cash flow analyses.

5. All the analysed institutions work towards a longer term client – credit officer relationship, avoiding changes in dealing staff. However, selective checks in client files showed that changes in dealing officers are quite common.

EFFECTIVENESS OF EXISTING SCHEMES

It is generally accepted that the broad goal of SME policy is to accelerate economic growth and in so doing alleviate poverty. While there are many developmental constraints on the SME sector, bridging the financing gap between SMEs and larger enterprises is considered critical to economic growth. To assess the effectiveness of schemes for promoting SME finance, we assume that an effective SME financing scheme meets the following criteria:

- Provides opportunities for SMEs to meet their financing needs
- The scheme is sustainable in the sense that it must maintain the profitability of the enterprise, or on the eventual sale of investments or collection of loans that would provide cash for later investments.

Schemes that focus on economic development only may find it difficult to resist investments that provide immediate jobs or revenues but are not sustainable in the longer run.

Opportunities for SMEs

Unfortunately, data is difficult to obtain on the extent to which the financial systems provides for the needs of SMEs. One piece of available data, albeit indirect, is to look at the existent to which credit to the private sector as a whole is growing. Table 3 below summarizes the growth of credit to the private sector for the period 1997 -2002:

Table 3: Percentage Increase in Domestic Credit

Percentage Increase in credit	1997	1998	1999	2000	2001	2002
Net Domestic Assets						
Credit to government	23.2	49.9	38.2	57.7	0.0	30.0
Credit to public enterprises	n/a	n/a	9.0	19.2	9.7	-9.0
Credit to the private sector	n/a	n/a	24.9	34.9	12.0	17.7
Annual Inflation Rate	27.9	14.6	12.4	25.2	32.9	14.8

Source: Ghana, Financial System Stability Update, 2003, IMF

It is evident that there has not been a consistent increase in the flow of credit to the private sector. While credit to the private sector grew significantly between 1999-2000, the growth since then has been lacklustre and has barely managed to keep up with inflation. While the data is not primarily for SMEs, it is obvious that flow of credit to the SME sector was much less than what the national averages say, because of their traditionally disadvantaged position.

Sustainability

An indicator of sustainability of lending through the traditional financial institutional is the trend of asset quality. The data for Provision for Loan losses of the banking system as a percentage of gross loans for the period 1997-2002 is provided in table 4 below:

Table 4: Provisions as a Percentage of gross loans

	1997	1998	1999	2000	2001	2002
Provisions as a % of Gross Loans	25.5	22.6	18.4	12.1	16.9	24.2

Source: Ghana, Financial System Stability Update, 2003, IMF

Since 2000, there has been a deterioration in asset quality of the banking system. Provision for loan losses has climbed from 12.1% in 2000 to 24.2% in 2002. While the data is incomplete, there are indications that the majority of bad loans is loans to SMEs. This indicates that in the face of mounting loan losses, SMEs are likely to be squeezed out of the traditional financial institutions. Currently, sustainability of SME lending by the traditional financial institutions is questionable.

The limited availability of credit through the traditional financial institutions indicates that interventions are needed through special schemes. However, it appears that there is no coordinated policy response to the SME financing gap in Ghana. Credit schemes have been developed on an ad hoc basis without considering the institutional support mechanisms that would provide a sustainable flow of credit to the SME sector.

Why SME Credit Schemes Have Been Ineffective

We have concluded that SME financing in Ghana has generally not been effective. What are the reasons? The key missing factors are:

1. Adequacy of the institutional framework

2. Legal and Regulatory Framework

3. SME Managerial Capacity and Lack of Training

Adequacy of Institutional Framework

Among the resources needed for the production of goods and services, there are many things that set capital apart from the other inputs. Assets such as equipment and land provide benefits that derive from their physical characteristics. For example, a machine is built according to specifications that define its rate of output. When we buy the machine, we know exactly what its output rate is. Unfortunately we cannot say the same thing about the financial resources used to run a business. The acquisition of financial resources leads to contractual obligations. Here are some examples:

1. When a bank: lends money to a business, the loan generates a contractual obligation between the borrower and the business. Under the loan contract, the lender is entitled to receive specified payments of principal and interest during the term of the loan. If the business is a sole proprietorship or partnership, the owners of the business are personally liable. If the loan is to a corporation, the corporate entity is liable.

2. An investment in the shares of a business is also a contractual relationship. Shareholders are entitled to share in any earnings which are distributed as dividends. In addition, shareholders are entitled to their pro rata share of the net assets of the company upon at liquidation.

The fact that financing agreements create contractual obligations means that the supply of financing to businesses depends on whether contracts can be designed that create the appropriate incentives for both the supplier and user of funds. This is called the principal-agent problem. In business financing, the principal is the supplier of funds and the agent is the user of funds. The ideal contract is one that induces the agent to act in the best interests of the supplier of funds. If such contracts can be created, the supply and demand for funds will be brought into balance since there is a mutually beneficial relationship between the supplier and user of funds. But there are many reasons why such contracts are difficult to attain. First there is a *moral hazard* problem arising from the possibility that the borrower may take actions that may not be observable to the lender. For example, a borrower may borrow funds with the declared objective of investing the funds in business equipment. However, the lender may have no means of verifying whether the borrower actually used the funds for the declared objectives. In Ghana we have heard many times about businessmen who borrow funds in the name of a business only to walk out of the bank and buy the latest Mercedes Benz model. When the lender is unable to monitor the borrower's behaviour, the lender's funds are put at risk since the risk of default increases.

In addition to the difficulty of monitoring actions of the borrower, there is a second problem called *adverse selection* relating to the information requirements of a lending contract. In order for a lender to be able to make a sound lending decision, he needs to know a about the borrower's financial situation, their assets and liabilities and character indicators that would give the borrower the confidence that the loan would be repaid. The borrower, on the other hand has an incentive to hide all negative information from the borrower. For example, the borrower may not have the assets that she claims to have; or the profitability of the business that he or she runs may be less rosy than the picture she paints to the lender. When the prospective borrower knows more about her true finances than the lender, negative information which is relevant to the lending decision is not revealed and the lender is exposed to the risk of selecting borrowers with a high credit risk.

In the absence of opportunities for monitoring borrower actions and for verifying the information provided by borrowers, there might be situations where both borrowers either withdraw from the market or impose borrowing conditions which are difficult for most borrowers to comply.

The contracting problem just described is not confined to loan financing. Investors who make funds available to businesses by acquiring shares are also in a contractual relationship which entitles them to participate in the profits of the firm. Clearly, their interests are best served when the managers of the business take actions that maximize the returns to shareholders. However, since the shareholder is unable to monitor all management actions, the manager may take unnecessary risks or pay herself a tat salary when the shareholder is not looking. The amount of confidence with which investors would hold shares are thus affected by the confidence that they have in the available monitoring systems. Monitoring arrangements include audit systems and timely and accurate financial statements.

The problems of moral hazard and adverse selection are especially severe in Ghana. A necessary condition for an efficient financial system is that there should be readily accessible information about participants in the system. The absence of such information creates moral hazard and adverse selection costs that can cause credit markets to fail. Market failure is reflected in the unwillingness of lenders to extend credit at any price. Creditworthy borrowers are shut out of the market.

In economies with advanced credit markets, a significant investment has been made in building an infrastructure for collecting, storing and retrieving information about participants in the financial system, as reflected in the widespread existence of credit bureaus that maintain information. A starting point for a credit information system is the availability of systems for identifying participants in the market. The absence of such an identification system in Ghana has been a major factor in the low level of credit market development.

There are also cultural beliefs that are in collision with the information and monitoring requirements of formal financial contracts. The information requirements for the efficient flow of financial resources in the formal sector of the economy are very demanding. While there is a clerical army of cashiers and book-keepers in Ghana the ranks of qualified chartered accountants, auditors bankers and investment analysts remains thin.

Legal and Regulatory Framework
As the government recognizes, the absence of supportive laws and regulations severely limits the availability of financing for SMEs, especially from non-governmental and foreign sources. The most serious barriers to investment in SMEs come from problems related to the adequacy of laws and enforcement mechanisms for:

1. Formation of companies
2. Require disclosure to relevant parties
3. Protect the interest of stakeholders with general laws establishing rights and enforcement

Effectiveness of Equity Financing Schemes

For most SMEs, equity is only available from friends and family and from foreign investors. Domestic private equity is scarce and there are no government-funded venture capital funds. There are a number of reasons for the equity shortage:

- Equity investors seek highest return consistent with the risk of the investment

- SME investments are difficult to evaluate

- SME investments take time to mature

- Investments are difficult top liquidate

- Major institutional investors such as insurance companies are not allowed to invest in private SMEs.

To encourage investment in SMEs, most countries have programs that either:

- Increase the potential returns to investors or
- Reduce the risk of loss

Virtually every major government in the world has some kind of a support program to encourage direct investment in young SMEs. These are needed because, with the exception of popular high-tech companies, investors are generally unwilling to invest in SMEs. They believe the potential return on their investment is not high enough to justify the risk of loss and the length of time required before they can sell their investment at a profit. The government support programs are designed either to increase the potential profit to the investors, or to reduce their risk of loss. With the exception of two venture funds (Ghana Venture Capital Fund and Fidelity Fund), there are no organized investment funds operating in Ghana that have a significant interest in investing in SMEs Considering the perceived risk/reward potential of such investments, we do not believe there will be any in the future, unless they are supported by the government. We believe such support is warranted to accelerate the inception and development of job-creating SMEs.

However, all of the most successful programs are based on government support for funds that have the following characteristics:

1. They also have non-governmental co-investors.

2. They are managed by independent fund managers who are motivated by receiving a portion of the ultimate profit from the investments of the fund.

3. Government increases the potential rate of return to the other investors by limiting the profit it will take on the Government investment or loan to the fund.

4. Government satisfies its economic development objectives by limiting the right of the fund to investment only in businesses that are smaller or younger than prescribed limits.

While commending the Government's efforts to create a venture capital fund, we caution that it is important to adhere to best practice as described above.

SME Managerial Capacity and Training

Training programs are required in all aspects of SME finance:

- Training of loan officers
- Training of loan guarantee officials
- Training of investment fund managers
- Training of entrepreneurs

Training of the SME sector is critical. It is recommended that more coordination be brought into SME training. Some centralization of the many disparate training programs, perhaps under the NBSSI would support the design and implementation of training programs for SMEs. These training programs would include accounting, business management, preparation of business plans, financial statement analysis, personnel management, marketing and other subjects as well as one-on-one counseling of business owners. The lack of such training is adversely affecting the ability of SMEs to acquire financing and raises the risk being taken by the SMEs and lenders by entering business without the benefit of such training.

SUMMARY AND CONCLUSIONS

From the above, we conclude as follows:

- There is a strong demand for the government to elaborate and implement policies and strategies for financing SMEs as well as for developing and improving financial institutions and financial instruments;
- There is a need to harmonize those policies and strategies as well as the instruments for implementing them
- The legal framework plays an important role in the creation and successful operation of SMEs and should encourage a simplification of the procedures involved in the creation, financing, training and other aspects of the SME sector;
- In the Ghana, banks do not pay sufficient attention to the development of SMEs. The role of Governments should be to open the dialogue and to create instruments together with the banks to promote the financial aspects of successful SME development;
- There is a great need for improving different aspects of financial services for SMEs such as seed money, leasing, venture capital, and investment funding. There is a lack of long-term loans; interest rates are still high, etc. All these limit the development of SMEs;
- Diversification of financial support for start-ups, growing and successfully operating SMEs will significantly contribute to the creation and development of SMEs;
- It is necessary to take into account in all support programmes the different needs of micro, small and medium-sized enterprises;

- There is a need for the elaboration of a set of instruments for the monitoring, evaluation and follow-up of different aspects of SME support programmes and activities;

- The creation of a system of education and training on different aspects of SME activities for entrepreneurs is crucial to the development of the sector.

LOAN PROGRAMS FOE SMEs

Program	Sponsor	PFI	Amount Available	Minimum	Maximum	Max Term	Interest Rate/Fees	General Remarks
Small Business Loan Portfolio Guarantee	USAID	CAL Merchant Bank	USD$2m	Cedi equivalent of USD $5,000	Cedi equivalent of USD $150,000	5 Years	Base Rate + margin of between 2-5% p.a.	All SMEs with maximum asset value of USD$150,000 excluding timber processing, alcohol and military sectors
Trade and Investment Program (TIP)	USAID through Ministry of Finance	Ecobank First Atlantic Merchant Bank	¢24.5B	On merit	On merit	3 yrs	15%	Available to Small/Medium Scale Enterprises in all sectors
European Investment Bank Facility	EIB	Ecobank SSB Bank	€5.0 M	€100,000	€1 M	12 yrs	EBG base + spread	Targeted at Medium scale businesses in manufacturing and agro-processing and related services with a maximum of 500 employees
EIB Fund	European Union	General Leasing and Finance Company	€1 M	€50,000	€500,000	5 yrs	Base rate + 3-6%	
Care-Technoserve Fund for Small Scale Enterprises	USAID	Merchant Bank	USD100,000	On merit of proposal		1 year	2% below 182-day Treasury Bill	Managed Loan Fund for SMEs in the agricultural sector Funds for rural banks
DANIDA SME Fund	DANIDA	Prudential Bank	¢4 B	¢500,000	¢50 M	3 yrs	20%	Targeted at exporters and manufacturers in all sectors excluding trade and agriculture and used for working capital and capital equipment purchase
Trade and Investment Fund for Non-Traditional Exporters	USAID through Ministry of Finance	Prudential Bank	¢9.3 B	¢500,000	Limit approved on merit	5 yrs	15%	Available to Producers and Exporters of Non-traditional goods

Program	Sponsor	PFI	Amount Available	Minimum	Maximum	Max Term	Interest Rate/Fees	General Remarks
GTZ Fund for the Promotion of Micro and Small Enterprises	GTZ	Prudential Bank	DM 10 M	¢2 M	¢150 M	5yrs	25%	Available for Manufacturing, Service, Exporters and other sectors excluding trade and agriculture for start-up and expansion projects
Private Enterprise & Export Development Fund	Bank of Ghana	Prudential Bank SSB Bank		USD 10,000	USD 500,000	7 yrs	USD LIBOR +1.375% to 2.375%	Available to Small and Medium Scale Exporters for pre-export finance, purchase of capital equipment and working capital
Export Development and Investment Fund (EDIF)	Government of Ghana	Ecobank Prudential Bank NIB FAMBL	Open Ended	USD1,000	USD 500,000	5 yrs	15%	Targeted at producers and exporters of non-traditional goods
SME Financiang Scheme	FMO	The Trust Bank	USD 2.5 M	¢50 M	¢700 M	3 yrs	Base rate + 5%	Available to SMEs with maximum employee size of 30 with Total Assets (excluding land and building) equivalent to USD 100,000. Used for expansions and working capital finance
SME Financing Scheme	SECO	The Trust Bank	USD 2.5 M	¢50 M	¢700 M	3 yrs	Base rate + 5%	Available to SMEs with maximum employee size of 60 with Total Assets (excluding land and building) equivalent to USD 200,000. Used for expansions and working capital finance
OIKOCREDIT Forex	Oikocredit	Oikocredit		€50,000	€1 M	10yrs	10% for	For SME's, microfinance

Program	Sponsor	PFI	Amount Available	Minimum	Maximum	Max Term	Interest Rate/Fees	General Remarks
Loan							USD 9% for Euro	institutions; startups are excluded
OIKOCREDIT Local Currency Loan	Oikocredit	Oikocredit		€50,000	€100,000	5 yrs	35.5%	For SME's, microfinance institutions; startups are excluded

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