

ALTERNATIVE MODEL FOR FINANCING SMEs IN GHANA

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ABSTRACT

The role of SMEs in the economic development of a country cannot be over-emphasized. They contribute to employment, GDP, innovations, human resource development and poverty alleviation. However, they are constrained by access to credit. The main objective of this paper was to develop an alternative model for raising funds. It also looked at why lenders are cynical in advancing credit to SMEs. It was found that inappropriate risk management, moral hazard and possible adverse selection limit their access to credit. The SMEs Network Fund developed suggested the formation of a self managed fund by the SMEs to finance their activities, which would require no collateral if SMEs access funds and offer relatively cheaper capital to SMEs.

Keywords: Small, Medium Enterprises, Finance, Model

1. INTRODUCTION AND STATEMENT OF THE PROBLEM

The role of micro, small and medium enterprises (MSMEs) has been identified in both developed and developing economies. It has been found that it is not only the big businesses that provide the foundations of the nations economies, but small enterprises also play significant role in developing the economies of nations. In view of their crucial role, some developed countries have initiated strategic, financial and counselling programmes to support them. Few of such examples in some developed economies include the USA where the government through the Small Business Administration provide loans, advice, export counselling, as well as legal assistance on exports; the United Kingdom now has a Minister for Small Firms within the Department of Trade and Industry and a Small Business Service which gathers evidence, analyses the needs of small business. There is also the annual National Small Firms Policy and Research Conferences, organised by the Institute for Small Business Affairs, the main fora for researchers, practitioners, and policymakers, enabling them to come together each year to share the latest thinking in the field. In Korea the institute of economic affairs (IEA) and the Korea Development Institute (KDI) of the Republic of South Korea entered into a form of collaboration to help develop a policy framework for SMEs in the country and assist them to grow to greater heights.

In order to help promote small business growth in Japan, the state provides various types of support. First, there is active support for the self-help efforts of motivated start-ups, growth, and technical innovation. Also there is reinforcement of article-making technologies and technical development infrastructure, and promotion of smooth access to and use of management resources such as human resources, technologies, funds and information. In addition, there is enhancement of the potential of academia, industry, and government through promotion of collaboration among them and advancement of mutual exchange and education for article-making technologies and innovation. Not all, there is the holding of training workshops and seminars and improvement of the common infrastructure of SMEs to actively use information technology (IT) and promote business innovation to cope with the IT revolution (SME Agency, 2008).

SMEs have been found to contribute to employment generation, gross domestic product, entrepreneurial skill development and innovation to many developing countries (Cook & Nixson, 2000; Agyapong, 2011). But as was pointed out by Page (1978), inadequate research in the sector poses policy constraint in that area. This continues to be the situation in Ghana where research interest in the critical role of small businesses in economic growth still remains very low despite small businesses widespread. In Ghana, though the data on this group is not readily available, the little information available from the Registrar General indicates that 90% of companies registered are micro, small and medium enterprises (Mensah, 2004). 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. In addition, as was identified in Boachie-Mensah and Marfo-Yiadom (2005), the Ghanaian experience of SMEs and entrepreneurship has not been impressive as that of the developed economies. SMEs had not been fully integrated into the main stream of economic activity before the advent of the Economic Recovery Programme (ERP). Support for these entities has been ad hoc, irregular and uncoordinated.

Despite their contribution to the development of the country, they are confronted with the problem of raising adequate funding. So how would the entrepreneurs managing these SMEs raise adequate or at least improve upon their access to funds? The rest of this paper is divided into four parts; the second was the definition and the economic importance of SMEs; the third looked at financing SMEs in Ghana and the fourth part looked at the conclusions and the policy recommendations.

1.1 DEFINITION AND IMPORTANCE OF SMALL AND MEDIUM ENTERPRISES

The term SMEs has been severally defined by institutions, regions and based on number of people employed, sales or assets. In Egypt, they are businesses employing between 5 and less than 50 people. In Vietnam, they are firms employing 10 and 300 employees. According to the World Bank, a venture employing up to 300 people with US\$15 million in annual revenue, and US\$15 million in assets is an SME. But to the Inter-American Development Bank, an SME is a business employing up to 100 employees and earning not more than US\$3 million in revenue (Dalberg Global Development Advisors, 2011). Furthermore, European Union defines SMEs as a venture that employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro. Small and medium enterprises are thus defined as firms with 10 to 250 employees, as and more than 10 million euro turnover or annual balance sheet total.

Similarly, the NBSSI (1998) provided an operational definition of small business. According to this body, a small business is any business that employs up to 29 people. They are divided into micro, small and medium enterprises micro enterprises, employing up to 5 employees with fixed assets (excluding land and building) not exceeding the value of \$10,000; small enterprises – employ between 6 and 29 employees or having fixed assets

excluding land and building not exceeding \$100,000 and medium enterprises – employ between 30 and 99 employees with fixed assets of up to \$1m.

According to International Institute for Environment and Development, when the firms are classified by sizes, the assessments of SME firms get ranged with employee size that is less than a 100. As declared by Ghana Statistical Service the firms that are functioning with less than 10 employees are recognised as a small scale enterprise. With more than 10 employees it will be firms with medium to large enterprises (Kufour, 2008).

From the definitions provided, it is obvious that there is empirical consensus on the use of number of employees in defining a small business, although the actual employee size differs from one definition to the other. The paper adopted the NBSSI definition of small businesses since it is the main body regulating the activities of small businesses in the country.

1.1.1 Economic importance of SMEs in Ghana

SMEs have been and continue to play significant role in the economy of Ghana. This is especially true as most graduates, learning institutions as well as policy makers are beginning to accept the fact that the larger organisations can not provide all the needed jobs, but would have to be complemented by the SMEs. Fredua (2007) cited a World Bank Report in 2006 which states that Ghana's informal sector contributes to its economic activities, especially contributing significantly to employment estimated to be around 70% of the total labour force. Small firms help create bulk of the jobs as well as contribute to the national revenue by way of tax revenue, but also improve upon national income (Keskin, 2006; Abor & Quartey, 2010). Kayanula and Quartey (2000) and Aryeetey (2001) found among others that SMEs are sources of employment generation, help conserve foreign exchange, increase exports through the non-traditional commodities exports as well as contributes to economic growth and development through innovation and creativity. These businesses are also considered by Abor and Quartey (2010) as providing about 85% of employment in the manufacturing sector and are believed to contribute about 75% to Ghana's GDP and also account for 92% of businesses.

They have often been described as improving the efficiency of domestic markets and making productive use of scarce resources, and thus facilitating long-term economic growth in poor countries (Aryeetey & Ahene, 2005). In Ghana small businesses make up the largest portion of the employment base and are the bedrock of the local private sector (Kufour, 2008).

Apart from these broader contributions, there are some other identified importance of these entities. According to Buame (2004), SMEs are very important to an economy because they make more efficient use of resources, act as a source of skill creation, cradle of entrepreneurship, utilises financial resources that are otherwise dormant like family savings, innovative, have a much lower cost per job created, wider geographic spread, wider presence in rural areas, and higher capacity for absorbing labour.

Small businesses are often found to have some advantages over large firms. Large firms have been found often to have undesirable working conditions, such as weaker autonomy, stricter rules and regulations, less flexible scheduling, and a more impersonal working environment (Brown & Medoff, 1989; Edmiston, 2007). Also, SMEs are seen to rely on a personalised, tailor-made service. Moreover, they tend to provide quicker services, quality products, fair prices as well as providing both formal and informal after sales service. As Vossen, (1998) opined, while large-firm strengths are mostly material in nature, small-firm strengths are mostly behavioural. Perhaps the most critical strength is the lack of an entrenched bureaucracy that often characterizes larger firms. An entrenched bureaucracy can lead to long chains of command and subsequent communication inefficiency, inflexibility, and loss of managerial coordination (Edmiston, 2007).

Further, small firms, to the extent that they operate in more competitive environments, may have a greater incentive to innovate so as to stay ahead of rivals. Finally, because ownership and management are more likely to be intertwined at smaller firms, the personal rewards of potential innovators are higher. As a related factor, smaller firms may be better able to structure contracts to reward performance (Zenger, 1994). But despite such advantages small businesses continue to face especially financial difficulties because they often start with inadequate capital. So in society where fewer bureaucratic firms exist, and given the significant role of SMEs in job creation (Mensah, 2004), if strategies are devised in solving their (SMEs') problems, they could contribute more to the development of the society.

Cook and Nixon (2000) outlined numerous merits of SMEs including the basis for entrepreneurship; utilising labour intensive technologies and thus having impact on employment generation; encouraging the process of both inter- and intra-regional decentralisation. In addition, they put forth that SMEs have become a countervailing force against the economic power of larger enterprises; and finally the development of SMEs is seen as accelerating the attainment of social and economic objectives, including female unemployment poverty alleviation especially in rural Africa.

1.2 FINANCING SMALL AND MEDIUM ENTERPRISES IN GHANA

Small enterprises and most of the poor population in Sub-Saharan Africa have very limited access to deposit and credit facilities and other financial services provided by formal financial institutions. For example, in Ghana and Tanzania, only about 5–6 per cent of the population has access to the banking sector (Basu, Blavy & Yulek, 2004). According to HFC Bank (2004), SMEs in Ghana tend to be marginalised or have limited access to credit. Coupled with the fact that few informal supports exist by way of business angels and personal savings, this tends to affect their ability to adopt modern technology (UNIDO, 2002). It has been found that only few of these businesses are financed from commercial bank loans, government assistant programs or other informal sources (Osei, Baah-Nuakoh, Tutu & Sowa, 1993; Bani, 2003). Similarly, Abor and Biekpe (2006) pointed out that, access to finance is a dominant constraint facing SMEs in Ghana. It must be noted that access to funding is not the only constraint to SME development (Liedholm, MacPherson & Chuta, 1994), finance and access to funding are often the major challenge for SMEs development (see Bigsten et al., 2000; Buatsi, 2002.). It should be noted that the availability of funds could improve SMEs' access to other resources such as human, information and physical resources.

With low level of technological support (because they are unable to finance technological resources) they cannot get adequate amount of production and subsequently sales and profits. This obviously leaves small business in a vicious cycle of financial constraint. In view of this, it is often imperative that external capital injections are necessary to help boost small business performance.

Besides, several empirical studies have recognised the issue of financial constraint as the main problem thwarting the speedy growth of small businesses in developing economies including Ghana (Arthur, 2003; Mensah, 2004; Deakins, North, Baldock, & Whittam, 2008). Other studies have in developing economies have found funding as the major problem of SMEs. These studies have made varying recommendations, but SMEs continue to be constrained by funding as suggested by the empirical studies cited earlier on. Whereas some countries have set up small business equity markets to help raise equity capital, others have set up state grants and develop a list of business angels to assist small businesses. But the situation in Ghana is more of moral suasion, where appeals are often made by policymakers and the NBSSI to lenders to grant credit to small

businesses. Studies that propose peer-to-peer lending as a funding alternative is yet to be carried out, hence the need for the present study.

The main methods to access funds for SMEs are basically through debt or equity sources or both. Equity usually may be by the business owner relying on personal savings (bank savings or “susu¹”) from previous work, gift from friends or family members or even remittance from abroad (individual remittances in Ghana for 2008 and 2007 amounted to US\$1,678.6 million and US\$1660.3 million respectively)², venture capital fund and share (rare in Ghana for small firms). Ideally entrepreneurs would want to rely only on such source. But typically, such funds may not be adequate and they may have to fall on debt or borrowing. There is also financing through trade credit.

In Ghana, apart from few traditional lenders and some other non-banking lenders, a greater proportion of debt capital could only be obtained through the banks. However, financial institutions (FIs) such as banks would not just lend till SMEs are able to make a convincing case about the future prospects and sustainability of their business. Such loan seekers should be able to demonstrate their management’s awareness and competency to cope with business risks as well as satisfy providers of funds that they are taking an acceptable risk and will receive reasonable return. Lenders would give out loans when they have satisfied themselves with the loan seeker’s capability and developed a transparent relationship built on mutual trust with the loan seekers. Because as Cook and Nixson (2000) posit, credit is provided in the context of information asymmetry on both sides (Fischer 1995) and can be resolved by demonstrating creditworthiness and business viability. However, because of poor accounting practices and record keeping, many of such loan seekers are unable to do so. This increases the risks and transaction costs of small business lending. Banks require collateral to manage this risk (Tagoe, Nyarko & Anuwa-Amarh, 2005). Such indicators are used by financial institutions to assess the likelihood of business failure and payment default. That is a way to avoid adverse selection by the FI as well as to prevent moral hazard. Due to their high risk consciousness, FIs at any point in time find ways to protect themselves from future negative outcomes.

Notwithstanding these, SMEs look at financial soundness being their ability to achieve business targets and success and try to predict and portray future positive outcomes to satisfy repayment times in seeking for such funding. So that in times of seeking debt funding, the risk of failure is the last thing the SME owner would want to consider. But this is what is of interest to the FI.

Nevertheless, the possibility of failure can not be ruled out by the FI when the SMEs submits a loan application, as some internal causes such as poor target selection or product positioning, inadequate business management experience, financial management as well as inappropriate management practices can lead to the collapse of the venture. In addition, external causes such as high cost of compliance with regulation, fierce competition, and difficulty in obtaining external funding are likely to lead to the failure of the venture (Accounting Web, 2003).

1.2.1 SME Reliance on Banks and Credit Scoring

According to Keith (2006), SMEs may self-finance but typically have very limited capital and rely on external finance. When seeking external finance, most SMEs rely on the FIs. But these FIs would not grant credit without relying on credit scoring methods. The problem here is that credit scoring will increasingly impact on

¹ Susu is a practice where a business owner makes a periodic (usually daily) savings with another (Susu Collector). The collector then marks on a card these periodic savings. The amount accumulated is given back to the saver usually at the end of the period. The collector usually is rewarded by taking the last amount deposited by the Saver.

² Bank of Ghana Monetary Policy Committee Press Conference on Tuesday February, 24, 2009.

SMEs, as there are usually no SMEs Credit Officers to evaluate loan applications of such borrowers. So their applications are eventually given the same consideration like that of the larger organisations. What is more is that due to the risk perception of SMEs by FIs, their applications tend to be given a more critical scrutinizing and loans are granted more cautiously than the larger firms. Evidence from the Bank's survey of credit conditions continues to point to tightening of credit to both enterprises and households. Small and Medium Enterprises (SMEs) access to credit was tightened marginally while large enterprises' remained unchanged (Bank of Ghana, 2009). But in a society where SMEs provide the junk of the jobs created, providing financial assistance to this sector is crucial for economic wellbeing of the country and the economically active labour force (Wolfensen, 2001; Fredrick, 2005; Agyapong, 2010).

Typically, lending to SMEs in Ghana has been found to have high moral hazard – tendency of SMEs not using the funds for the purpose intended as was agreed with the FI (borrower dishonesty leading to a loss). Problems with financial credit facilities were always predominant to the SMEs of Ghana (Mensah, 2004). Since there is the context of providing information that is actually asymmetry on both sides the credit options gets limited. On the other hand, it can be well resolved with the help of demonstrating the SME owners with the creditworthiness and all kinds of project viability. However, since SMEs in some developing world including Ghana have poor records keeping and accounting practices, it will be hard for them to get out of it (Kwarteng, 2009; Cook & Nixson 2000; Binks, Ennew, & Reed 1992). By means of restricting credits they can somehow plan for new persuasions. An NBSSI (2009) pointed out that a number of SMEs who benefit from credit schemes do not use the credit for the intended purpose. Some of them use the fund to meet personal needs to the detriment of their business, whilst others invest it in their business, but do not go according to their business plan. Still others invest only part of the fund in their business with the intention of getting higher yield. This adversely affect repayment plan. But they added that the trend is changing with education.

Second, lending to SMEs have its own adverse selection – tendency to give inaccurate information on their assets, capital, liabilities and character leading to the selection of high credit risk borrowers. In addition, location³ is major wrong information given due to poor address system and bad town planning. The Small Business Policy report (2002) analysing from a credit risk and rationing models perspective indicated that it is an underlying assumption by lenders that small business borrowers possess salient private knowledge that is not shared with lenders or investors. This makes it difficult for lenders to prevent adverse selection, as it makes it difficult for lenders to differentiate between high quality and low quality borrowers. A potential risk faced by lenders in Ghana is the inability to locate defaulting small business borrowers due to inappropriate location and the tendency for the venture owners to give wrong information about their location. So in event where such risk is perceived, the lender is likely to charge a higher rate of interest on the loan being granted (Wynant & Hatch, 1991). But the problem of adverse selection is not only associated with lending to SMEs but with large firms (Gaul & Stebunovs, 2009) as well.

Third, there is high tendency for default because there is lack of capital, thus making SMEs more vulnerable to failure. Notwithstanding, there is limited suitability of SME business assets as collateral. Also, owner/manager guarantees may be impaired by personal revenue reliance on SME business. In effect, the ability to access

³ In the view of Kwarteng (2009) the banks can hardly be blamed for their rather dismissive attitude towards the informal sector because, they lack proper books, well defined management structure, sense of appreciation for accountability. He points out in the case of Ghana that the personal residential address system is nearly non-existent and many people do not have proper title to their assets to afford them the opportunity to use them as collateral for loans.

funding will depend largely on the entrepreneur or the SME owners' ability to manage the risk of his or her firm through right business balance.

The problem of inadequate information disclosure and lack of data on the number and role of SMEs in Ghana make it difficult to assess the real contribution of the sector to economic development. However, the contributions of SMEs in Ghana have been identified as very pivotal in the nation's economic transformation as it attempts to attain a middle-income status by 2015. Analysts say the sector accounts for about 90 per cent of enterprises in the Ghanaian economy, generating a significant proportion of jobs created in Ghana. According to Abor and Quartey (2010), the sector contributes about 85% of manufacturing employment in Ghana. They estimate that the sector contributes about 70% to Ghana's GDP and account for about 92% of businesses in Ghana.

In view of this, successive governments have in their own ways try to find some solutions to the greatest challenge facing SMEs in Ghana – problem of financing. Thus they have introduced varying SMEs funding schemes in the form of debt and equity financing. These official schemes are mostly state originated with international donor support. But others are international in their origin and operation. Among the schemes include Business Assistance Fund, Ghana Investment Fund, Export Development and Investment Fund, Bank Loans, Australian Import Program, NBSSI Loan Revolving Fund, Venture Capital Trust Fund and Fidelity Equity Fund. Therefore it is imperative that these SMEs devise alternative solutions to the problem of access to funding, hence, the proposed model.

1.2.2 Problems with Official Credit Schemes in Ghana

Despite the numerous financing schemes available, SMEs still contend with the problem of financing in the country, thus, impacting negatively on their operations and the ability to positively affect the economy of the country. In the first place, most of these official schemes are debt in nature, requiring collateral before an entrepreneur is able to access it. Secondly, the nature of the schemes is such that they are not meant only for SMEs, but the private sector. So that the SMEs would have to compete with some well established private firms for a fair share of such funds. Thirdly, the schemes are mostly for importation which could defeat the economic growth purpose of SMEs. This is because one of the objectives of ensuring that the sector thrives is to serve as import substituted industries to help conserve foreign exchange. For instance the Austrian Import Support Program was to be used by beneficiaries to procure equipment, machinery, raw materials and related services from Austria.

In addition to the above problems, there is more often than not over subscription (excess fund demand over supply). This stems from the fact that money usually made available by the state is inadequate to go the numerous fund applicants. Also international donor support to complement government effort may sometimes not come or come with some strings attached to it (only meant for SMEs in specified sectors; e.g. the Loan Revolving Fund was set up to promote the development of SMEs in services and manufacturing sectors). Additionally, high default rate due to operational difficulties, discrimination among applicants, and ineffective scrutinising of loan applicants and their firms before granting credit have served as major setback in this direction.

In view of the foregoing, equity funding would have been an alternative. However, equity financing for SMEs in tend to inadequate. Mensah (2004) posits that SMEs find it difficult raising equity funding because equity investors seek high return consistent with the high risk of investment especially with small firms. In addition, SMEs investment is hard to evaluate compared to other larger organisation (example listed firms). Furthermore

SMEs investments take time to mature and are difficult to liquidate, in case the investor wants to opt out. Unlike some developed economies, there is no stock market for SMEs in Ghana to enable the possibility of capital acquisition through the floating of shares.

1.2.3 The Proposed Model for Financing SMEs

It is no doubt that the existing schemes are bedevilled with several problems, and hence the need to look for a more effective and efficient funding schemes to help improve the access to funds by SMEs. The SMEs Network fund model (figure 1.1) suggests a fund to be setup with pooled funds from individual SMEs. Though the fund would be made up mainly of contributions from the SMEs owners themselves, contributions from the state, venture capitalists and international donors would also be sought into the fund. What is more, SMEs can assess capital from the fund as well as continue to access existing government, venture and external funds.

The difference between this scheme and what existed is that unlike others, this scheme would be manned by a committee headed by a Fund Manager. The members of this committee would constitute volunteers from the SMEs, representatives from other contributors such as the government, international bodies and other institutional investors. The Fund Manager would be responsible for making the necessary investment decisions of the fund. This is different from existing schemes usually controlled by the state or some bodies other than a committee made up members from SMEs. Again unlike previous schemes that may not have a form of seed money by SMEs, this one contains contribution by business owners (equity stake from SMEs).

Fund manager and the committee would undertake scrutinise an applicants' documents for assessing funds from the scheme not as means of turning their application down, but to enable the them advise and if possibly offer training and counselling to the member on how to utilise the funds. Funds accessed from the SMEs Fund would not require any collateral as other lenders do. Members belonging to the fund would be required to deposit their monthly reports to the committee, which in a way could help deal with the problem asymmetry and invariable moral hazards. Not all, there would be a periodic visits to members businesses, by way of monitoring to help ensure funds collected are being reasonably used by SMEs for the purpose intended. This would also help deal with the problem of moral hazard in SME lending.

Additionally, the scheme would be opened to all SMEs in all sectors and activities. Admission of members into the scheme would not require stringent requirements, but that they are ready to contribute towards the fund. In addition to those who would undertake to be members, there would also be non-members who can access the scheme. In accessing the fund, members would be made to pay relatively lesser interest than non-members. Thus, unlike others that restrict accessibility to a specific sector, this fund could be accessed for different purposes and categories of SMEs (be it those who are into production, processing or service rendering).

Meanwhile, those who access the fund made up of contributors from the government and international donors can still access separate or additional funds from these bodies. In effect, SMEs can obtain more funds with the setting up of the SMEs' Network Fund.

1.2.4 Theoretical basis of the SME Network Fund model

The model has its foundation from three theories – the social network theory, social exchange theory and the theory of large numbers.

The SME Network Fund model based on the network theory to small groups which also has its foundations from five others including the theories of self-interest, theories of social exchange or dependency, theories of mutual or collective interest, cognitive theories, and theories of homophily.

The Social Network theory is of the view that actors are not as significant as the relationships (ties) and contacts with other actors in the network (Hazzard-Robinson & Loch, 2012; Borgatti & Li, 2009; Jorgensen & Ulhoi 2010). The theory focuses on the assessment of social relationships between or among actors in a network. The SME Network Fund model is based on this premise that once SMEs pool resources they can have adequate funds to be given to one at a time. Besides, fund manager(s) can invest the pool in short term securities to enable it appreciate.

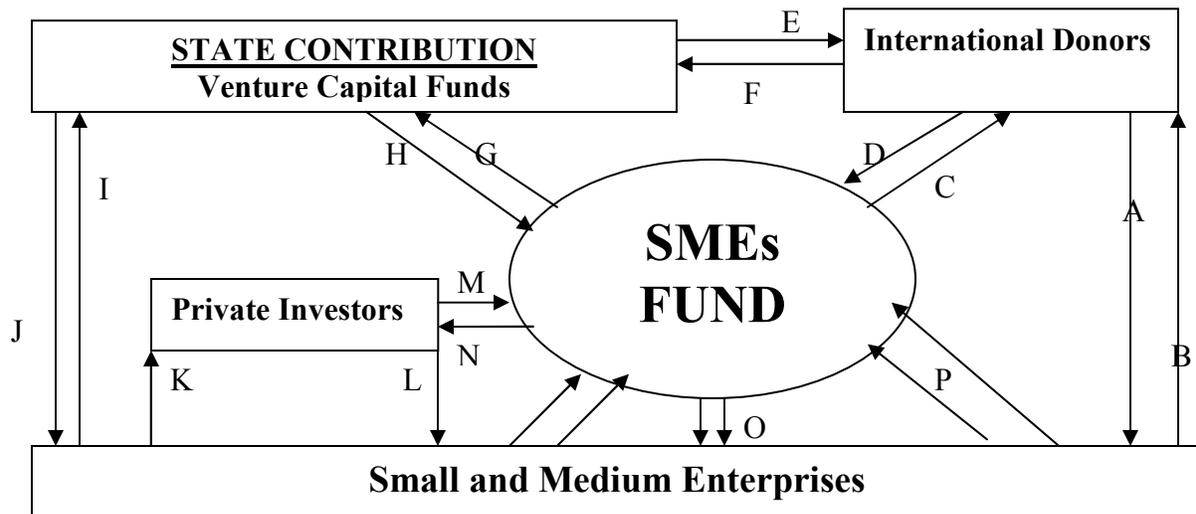
In addition, according to the social exchange theory, humans in social situations choose behaviours that maximize their likelihood of meeting self interests in those situations. This theory assumes that the individuals (owners of the venture) are rational and engage in costs-benefits analysis in social exchanges. This implies they act as both actors and reactors in social exchanges. But at the core of social exchange theory are the concepts of equity and reciprocity; where the group in this network, pool resources and give it to a member at a time.

This theory has been applied in various economic and social relationships (see Nomaguchi & Milkie, 2003; Sprecher, 2001; Lawler, 2001; Monge & Contractor, 2003). Although some weaknesses have been reported e.g. Miller (2005), several empirical works (Cropanzano & Mitchell, 2005; Zafirovski, 2005; Liu & Deng, 2011) have reported gains from its application.

The theory of large numbers (the law of large numbers) is a financial risk management practice often used in insurance and for individuals with little funds to invest. The law of large numbers is simply pooling little resources into the fund. Although SMEs are deemed to be cash starved, they can periodically make little contributions into the fund. As per the model proposed, together with contribution by other stakeholders, SMEs could have access to funding and at a cheaper rate than other lenders. In terms of management, if necessary, a fund manager can be employed to manage such a fund. In Ghana, such practice is common especially with Co-operative Societies.

1.2.5 Assumptions Underlying the Proposed SMEs' Network Fund

Firstly, SMEs should be willing to disclose their operational and managerial information to the fund managers. This would enable the fund managers to create a database of SMEs as well as determine the appropriate contribution to be made by each SME. Failure to disclose such vital information could lead to the failure of the scheme. Secondly, the SMEs should pay back the funds obtained from the scheme with its accompanying interest. Periodic checks on the owner to determine how the fund is being utilised can help the SME payback into the fund. Thirdly, the assessment of documentation as to who qualifies to access the fund is devoid of all political, social, cultural and religious affiliations, but access is made available to those who proof to the fund manager and the committee they require the funds to finance viable projects. This criterion mainly is on the member's proof of financial constraints. Meanwhile, decision making authority regarding how the fund is invested should rest with the entire members of who are contributors to the fund

Figure 1.1: The SMEs' Network Fund Model

Author's Construct, 2012

As one of the strategies to sustain the fund, the managers would be required to update members on monthly basis their receipts and payments. This they would do and as a way of peer-to-peer check, information about members not in good standing would be disclosed to colleagues during meetings. Monitoring would be done by the committee, the fund managers and the entire members through the periodic circulars. The number of times a business would receive assistance from the fund and the rate of interest (if even free) would be agreed upon by all members. There would also be incentives for members who payback money received from the fund before or on time. As much as possible the number of times one can withdraw for a particular period would reduced if they consistently delay or default in payment. However, if these assumptions do not hold, then the scheme could encounter some problems.

1.2.6 Features of the Model

The features of the model are illustrated by the individual arrows defined by the alphabets (A) to (P):

1. This arrow (A) indicates fund flow from international donors directly to SMEs. Such donations can be channelled through (arrow E) state institutions such as the Venture Capital Fund, then flow onwards into the fund.
2. This arrow (B) indicates what received in return by the international donors. This is usually dependent of the type donation. For grants, international donors would want a project progress or completion report. Similar reports may be expected from the state agency or institution (arrow F) if the donation is channelled through them.
3. Arrow (D) indicate flow of donor funds directly into the SMEs Fund, whilst arrow (C) report from fund managers about the possible use of funds
4. Arrow (H) indicates fund flow from state institution into the SMEs fund, while arrow (G) is the feedback from the fund managers. The feedback may come in a form of periodic financial reports and possible returns on investment to the state.

5. Arrow (J) indicates the flow of funds directly from state institutions (e.g. Capital Trust Fund Ghana, Business Advisory Fund) to SMEs. Such funds may be government guaranteed loans to small businesses. The SMEs report back to the state agency by paying back the soft loans and the interest (arrow I).
6. Arrow (L) indicates the flow of funds from private investors directly to SMEs, while arrow (K) shows the potential return which is purely a kind of economic profit. This is because private investors would put their funds into a venture only when they expect to obtain good returns on the fund so invested.
7. Arrow (M) indicates the flow of funds from private investors directly into the SMEs fund, while arrow (N) shows the potential return which is purely a kind of economic profit.
8. Arrow (P) indicate the flow of funds from the SMEs directly into the SMEs fund, while arrow (O) shows fund flow from the SMEs Fund to finance their activities. The fund flow in arrow (P) may come in a form of members' contribution.

1. CONCLUSIONS AND POLICY RECOMMENDATIONS

SMEs contribute significantly to the economic development of the country in the area of employment, creativity and entrepreneurship. In the course of setting up and operating, they face financial and non financial challenges. Although both challenges have the tendency to slow down the growth of these businesses, the one that is often highlighted is that of access to finance. In order to deal with the problem of funding, institutions and different governments have put up some intervention measures but still the problem persists.

SMEs have had to rely on financial institutions (FIs) as an alternative source of funding. However, these financial institutions would not grant credit to SMEs until collateral is provided. Even though society usually discern on FIs for such conduct, FIs are also trying to manage their risk as way to sustain institutional survival. In view of this, there is the need to look for an alternative model to funding SMEs. The paper developed an alternative model to financing SMEs.

2.1 Policy Recommendations

There is the need for SMEs to network or form partnership; pool financial resources and sometimes have joint projects. Such a fund can help these businesses to take such a step. This is because as they interact they could identify common areas of strategic partnership and collaborations.

Secondly, such a Fund would SMEs have access to funds with less or no strings attach to it and possible at no or less costs of capital. Again they would be under relatively lesser pressure to payback without interest compared with loans from banks or other lenders. Also SMEs would access funds without any collateral.

There is the possibility of donor support (from international and domestic agencies) if there is the evidence that the fund is being managed well. Again not only members have access to cheap capital, they could also benefit from investment of their fund in a pool.

SMEs could benefit from additional group training and counselling. The peer-to-peer check would self as a monitoring system for businesses. Members would have a say in how the fund is managed

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