

UNIVERSITY OF CAPE COAST

PERCEPTIONS OF OWNERS OR MANAGERS OF SMALL AND
MEDIUM SCALE ENTERPRISES ABOUT THE GHANA ALTERNATIVE
EXCHANGE: EVIDENCE FROM ACCRA METROPOLIS

ERIC KOFI EDUBOAH

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FROM ACCRA METROPOLIS

ERIC KOFI EDUBOAH

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DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original work and that no part of it has been presented for another degree in this University or elsewhere.

Candidate's Signature..... Date.....

Name: Eric Kofi Eduboah

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation was supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Signature..... Date.....

Name: Prof. Daniel Agyapong

ABSTRACT

The importance of Small and Medium Scale Enterprises is being considered crucial to the economic development strategies of every economy. It is therefore, important to consider conditions that would ensure sustained growth in this sector. Finance is considered as the life blood of every organisation and most firms rely on finance not only for survival but for growth and expansion. Access to finance is usually restricted to SMEs by financial institutions with simple reason that SMEs have high risk of default. It can be observed from research reports that, most developed and some developing countries have structures which is gradually reducing the dependence of most SMEs on bank loans, personal financing, family and friends financing and all other traditional methods of financing businesses. This study sought to analyse owners/managers views on the listing requirements on the GAX, to analyse the current funding sources to SMEs as well as to assess the readiness of SMEs to get listed on the GAX. The study adopted a cross sectional design to survey 327 SMEs out of the population by using the Krejcie & Morgan (1970) sample size determination table. The study concluded that SME willingness to list on the GAX is low despite their willingness to share information with the general public and their understanding of the operations of the GSE-GAX. There are now new and alternative sources of financing across the world which include capital market financing for SMEs; in which countries have establish a new market for SMEs with less stringent listing requirements to list either debt or equity instruments.

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DEDICATION

To my immediate family

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LIST OF ACRONYMS

GAX	Ghana Alternative Exchange
SMEs	Small and Medium Enterprises

CHAPTER ONE

INTRODUCTION

Small and Medium Scale Enterprises (SMEs) going to the capital market to raise funds is not a new phenomenon. In 1990, India came up with a stock market for SMEs which did not perform as expected but it was later revived in 2009 to become a success. Another of such markets was established in Korea in 1999 when their government introduced the Primary Collateral Board Obligation which has accumulated a lot of success to date. Ghana has thus followed the good example of these countries to boost activities of SMEs in the Ghanaian market by establishing the Ghana Alternative Exchange where SMEs can raise affordable medium to long term capital to help curb the dominant factor of finance which limits SMEs ability to grow and expand over time.

SMEs that have gotten access to and appropriately applied finance have performed better than those that have not found out that the availability of finance does influence the entrepreneurs' choice of source. He also supported his findings with the claim that SMEs borrow from commercial banks because they are the most obvious and accessible source of finance. This actually allows the researcher to conclude that SMEs owners' knowledge and understanding of the finance sources goes a long way to determine the patronage of these sources of finance to help them raise enough capital to do business.

Background to the Study

SMEs play important roles in the process of industrialization and economic growth within countries. Industrialization clearly cause increases in per capita income and output, create employment opportunities, improve economic balance through dispersing of industries and promote better resource utilization considered critical to economic development and growth (Ogujiuba, Ohuche & Adenuga, 2004). SMEs are a backbone of the resilient national economy in every country due to their nature of stimulating domestic demand through job creation, innovation, and competition. Meanwhile, SMEs involved in the global supply chain have the potential to encourage international trade and to mobilize domestic demand. Prioritizing SME development is therefore critical for promoting inclusive economic growth in Africa.

The SME sector is the spine of the economy of Europe and America. Many researchers have assigned buoyant increase in GDP of countries to SME development. They are responsible for over 66 percent of the exports, employing over 70 percent of the workforce in most countries and generating 56.2 percent of most private sector turnover (Kumar & Newport, 2005). The importance of this sector can be seen from the fact that, 99.8 percent of the 17.9 million business in the European Union are SMEs (Kumar & Newport, 2005). Most SMEs in sub-Saharan Africa can also be blamed for not being innovative with respect to sourcing for financing.

Finance is the blood of every organization and most firms rely on finance not only for survival but for growth and expansion. Research has shown that

financing is the most significant factor contributing to the growth of small firms (Mason & Brown, 2013). Austria Import Support Programme in collaboration with the government of Ghana provided financial assistance to about twenty businesses in Ghana which was to be paid back after some period (Quaye, Abrokwah, Osei & Sarbah, 2014). Most of these firms in which grants were issued could not pay back and the single most factor cited by most of these firms was inadequate finance.

According to Parker (1995), a World Bank study found that more than 90 percent of small enterprises surveyed cited lack of credit as a major constraint to investment. Access to finance is usually restricted to SMEs by financial institutions because they see SMEs to have high risk of default (Quaye et al, 2014). These can clearly be seen in a research by Quaye et al. (2014) indicated most of the SMEs and businesses in Ghana rely on personal financing and bank loans for financing their activities. Although people would argue that the pecking order theory would encourage most firms to first depend on internal sources before moving towards external sources research in Asia show a clear pattern of most SMEs gradually migrating towards alternative sources of finance (Asian Development Bank, 2014).

It can be observed from research reports that, most developed and some developing countries have structures which are gradually reducing the dependence of most SMEs on bank loans, personal financing, family and friends financing and all other traditional methods of financing businesses and SMEs (International Organisation of Securities Commission, 2015). There are now new

and alternative sources of financing across the world which include capital market financing for SMEs; in which countries establish a new market for SMEs with less stringent listing requirements to list either debt or equity instruments, crowd sourcing, rating of SMEs.

This allows SMEs to place bonds on a common market where most investors know and understand the level of risk being taken with such markets, venture capitalist firms structures which are being done to make sure that most firms get equity financing and technical support for a long term and which allows the investor firms to be bought out from the business by the SME owners among other schemes (International Organisation of Securities Commission, 2015). The Kenyan Stock Exchange and its regulator have established a similar scheme but in this case they have found innovative ways to attract SMEs to the stock market. The establishment of Alternative Investment markets which has fewer restrictions and the empowerment of the growth enterprise market a segment of Stock market regulators activities to carry out marketing and inform the SMEs of the capital raising opportunities and establishment of SME Exchange (Ngugi, 2003).

The Ghana Stock Exchange has successfully met the capital needs of firms with very high capitalisation and companies who have attained some level of maturity in terms of operations and size but Small and Medium Enterprises (SMEs) did not have the opportunity of raising funds from the exchange. In 2013, the Ghana Alternative Exchange was introduced to allow small and medium scale enterprises which have funding needs to raise finances from a different sources that has proven in other jurisdiction to provide easy access to long term capital,

cheaper cost of long term capital, improve the financial position of listed SMEs, enhance the status of the SMEs on both local and the international market, help investors realize value on their investments, and improved liquidity of shareholders of these SMEs. According to United Nation Industrial Development Organisation (2004) many people believe the single most important factor constraining the growth of the SME sector is the lack of finance.

Statement of the Problem

SMEs have the ability to cause rapid technological development and maximum employment of most factors of production (Government of Kenya Central Bureau of Statistics, 1999). A greater percentage of job creation is done by SMEs in developing countries. It is therefore best to eliminate the constraints which limit SMEs ability to flourish and one most notable of these constraints is access to credit. Akorsu and Agyapong (2012), posited that SMEs contribute to employment, GDP, innovations, human resource development and poverty alleviation but they are constrained by access to credit. Non-traditional sources of raising capital such as issue of equity and debt instruments are not patronised by SMEs in most African capital markets.

Small and medium enterprises (SMEs) contribute about 70 per cent to the GDP of Ghana (Ghana Government eService Portal, 2011) but they find it difficult to expand because of their small capital base. In the last five years micro finance firms have provided financing to SMEs. However, this comes at high cost of between 4 to 6.5 per cent interest per month which deters most of the SMEs

from using the service (Sarpong, 2013). For this reason there is a financing gap that SMEs face; the Ghana Stock Exchange (GSE) wants to fill that gap by introducing the Ghana Alternative Exchange (GAX); an alternative market for SMEs to go public and raise capital from the public.

The three main alternative investment markets that were launched in Africa, early 2013, namely; the Ghana Alternative Exchange (GAX) launched by Ghana Stock Exchange, the Growth Enterprise Marketing Segment (GEMS) launched by the Nairobi Stock Exchange (NSE) in Kenya and the Alternative Security Market (ASeM) launched by Nigeria Stock Exchange (NSE) are all undergoing some challenges. However, ASeM has been able to attract eleven companies (Onyema, 2013) and GEMS have not attracted any listings (Mwarari, 2013). From the look of things, Ghana is taking the path of Kenya with GAX

Quaye and Sarbah (2014) found out the most dominant funding source for SMEs in Ghana is personal financing and this point is in line with the perking order theory. The next dominant source of financing was bank loans or some form of loan scheme patronised by these firms. It was established in Yartey (2005) that most SMEs in sub-Saharan Africa pay relatively higher cost for medium to long term capital compared to similar firms in Europe and Asia. The Ghana Alternative Exchange is an alternative source of financing available to SMEs to list both equity and debt instruments. The Ghana Alternative Exchange (GAX) is appropriate to SMEs which have low level of minimum capital requirement and other requirements. Sourcing finance is one of the key problems frustrating entry

and growth of SMEs in that the type and the source of finance influence the success and the acquisition of competitive advantage of an SME.

This research helped to bring out a clear perspective of the SMEs understanding of how GAX meet their financing needs and provide the Self-Regulating Organisation (Ghana Stock Exchange) information for the making rules for the GAX which do not only protect investors but also make capital available to SMEs for their medium to long term funding needs. Financiers would benefit from the findings of this study since this would provide them with a clear picture of SMEs tendencies towards capital markets and would help them formulate and implement policies that are very critical to the success of their organisations. Venture capitalist, business angels, banks, microfinances, and capital market operators would better understand their customer's tendencies towards funding and put them in a better position to design products and policies to meet their needs.

The significance of this research is also to inform the regulator - Securities and Exchange Commission and SRO-the Ghana Stock Exchange in making policy decisions that will encourage SMEs to access capital through issuing of securities and listing on GAX which will in the long run improve financial market activities in Ghana.

Purpose of the study

This study seeks to assess SMEs awareness, problems and opportunities with GAX and to what extent listing requirements would be favourable, to assess sources of funding for their businesses.

Research Objectives

The following objectives guide the study:

1. Analyse owners/managers views about listing requirements on Ghana Alternative Exchange.
2. Analyse the current funding sources to Small Medium Scale Enterprises.
3. Assess the readiness of SMEs to get listed on the Ghana Alternative Exchange..

Research Questions

In order to fully achieve the stated objectives, the following questions will be asked:

1. What are the views of Small Medium Scale Enterprises owners/managers about the basic requirements to list on the Ghana Alternative Exchange?
2. What are the current sources of funding for Small Medium Scale Enterprises?
4. What are the readiness of SMEs to get listed on the Ghana Alternative Exchange?

Delimitation

This research is on all SMEs in Accra Metropolis irrespective of their stages of development. This is that the research wants to project the general finance problems and how best the Ghana Alternative Exchange can be of a help in providing financial solutions.

Organisation of the Study

The study would be organized into five chapters. Chapter one consisted of the background of the study, statement of problem, objectives of study, research questions, scope and finally limitations of the study. Chapter two reviewed related literature by providing both theoretical framework and empirical analyses while chapter three explained the methodology used in carrying out the study which consisted of the research design, population, sampling and sampling techniques, data collection instrument and methods of data analysis. Chapter four dealt with the results and discussion of finding while chapter five summarised, concluded and offered recommendations for the study.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter discussed the theoretical and empirical literature which applies to SMEs financing and particularly why they will list on an Alternative Market (Ghana Alternative Exchange), the sources of finance for SMEs in Ghana, SME financing from financial institutions, Perception of SMEs about capital markets, willingness of SMEs to list on GAX and an overview of Ghana Alternative Exchange.

Overview of SMEs

Small and Medium Scale Enterprises (SMEs) do not have a unique definition as there are differences in definition by international institutions, definition by national laws and definition by industry (Berisha & Shiroka Pula, 2015). However, the concept SMEs connotes the classification of organizations based on a criteria that fall outside the definition of large enterprises. A number of criteria usually grouped into qualitative and quantitative are used to define SMEs. The term SMEs is used interchangeable with others like 'small businesses' and 'micro small and medium enterprises.' Using the quantitative criterion, size is the commonly used indicator. This is measured either using the number of employees, annual turnover (sales) and assets.

Globally, SMEs represent the highest number of organizations as it accounts for over ninety-five percent (95%) of the total number of organizations (O.E.C.D,

2000). They also account for the largest number of organizations and are instrumental to economic development. In Ghana, the Integrated Business Establishment Survey phase 1 report conducted in 2014 shows that SMEs accounts for 99.7% of the businesses in Ghana (Ghana Statistical Service, 2015). In the report, these SMEs are mainly owned by Ghanaians and usually either take the form of a sole proprietorship, partnership or private limited company. They are largely concentrated in the Greater Accra Region and predominates the service sectors specifically the wholesale and retail trade sector.

Characteristics of SMEs

Typically, SMEs have certain unique features that can affect the investment and financing decisions. Whereas the concept of separation of management from ownership is mandatory in large firms, SMEs typically have a management team that is dominated by one individual who is the major investor. Therefore, the character of the owner plays a key role in the decision making of SMEs. SMEs are also characterized by certain firm-specific features that are unique and can affect their investment and financing decisions. Lastly, SMEs put in place mechanisms to attenuate the information problems they face in order improve their access to external finance. The following sub-sections discuss the three broad categories of characteristics into detail.

Theoretical Review

Agency Cost

According to Jensen (1976), Agency cost theory is about the costs which are created as a result of conflicts of interest between shareholders, managers and debt holders. For small firms, the conflict of interest between shareholders and lenders may be particularly severe (Ang, 1992). Small firms tend to have more concentrated ownership, the conflict of interest between shareholders and managers is dealt with since shareholders often run the firm. This leads to, no or little agency problem arising. For this reason small firms have less debt in their capital structure. Abor and Biekpe (2009) in their study “How do we explain the capital structure of SMEs in sub-Saharan Africa, Evidence from Ghana”, showed that short-term debt constitutes a relatively high proportion of total debt of Ghanaian SMEs. Also age and size of the firms are very important in influencing SMEs’ access to debt finance.

Newer and smaller firms are often discriminated against when applying for external debt finance which confirm to the life cycle theory. Another interesting finding of their study was that there is significant positive relationship between asset structure and long-term debt ratio which is as a result of the fact that asset or collateral plays an important role in SMEs’ access to long-term debt finance. SME are generally in the fresh or newer firm categories and SMEs in Ghana are the least likely to acquire long term debt capital to finance their medium to long term activities.

Trade-Off Theory

The earlier version of the trade-off theory was birthed out of controversy surrounding the Modigliani-Miller theorem. The trade-off theory is used by different researchers to describe a cluster of related theories and in all of these theories, a decision maker in charge of an organization assesses the various benefits and costs associated with alternative leverage plans. It is most at times assumed that an interior solution is obtained so that marginal costs and marginal benefits are both balanced. The Modigliani-Miller Irrelevance theory worked under a number of assumptions. When corporate tax was included in the original theory, it created a benefit for debt because it served to protect earnings from being taxed.

Trade-off theory argues that a firm's optimal debt ratio is determined by a trade-off between the bankruptcy cost and tax advantage of borrowing (Scott, 1977). Higher profitability decreases the expected costs of distress and let firms increase their tax benefits by raising leverage. Firms would prefer debt over equity until the point where the probability of financial distress starts to be important. The type of assets that a firm has determines the cost of financial distress. For instance, if a firm invests largely in land, equipment and other tangible assets, it will have smaller costs of financial distress than a firm relies on intangible assets. So for debt financing, both small and large firms must provide some kind of guarantees materialized in collateral.

But small firms are seen as risky because they have higher probability of insolvency than large firms (Berryman, 1982). With this backs the reason why

most SMEs or firms would go in for more leverage until a point where the leverage is likely to cause the firm financial distress. Most SMEs might follow the pecking order theory, but looking at Ghana high cost of capital and substantially high tax rates, most firms would rather prefer to soak up tax shields with some debts. The question that accrues to this debt is whether the firm would like to go for a listed debt which would require more transparency on the part of the issuer.

Acceptance Theory of Management

Acceptance is the act of taking or receiving an offer and agreeing to the terms and conditions of the offer. The acceptance theory of management was elaborated by Chester Barnard in 1938 in his only book *The Function of the Executive* (Hartman, 2009). The acceptance theory argues that a person who gives an order only has authority when the order is accepted by those receiving it. Therefore, the willingness of subordinates to accept and comply with an order from an authority gives that authority the power to rule (Mishra, 2011). Similarly an idea or program can only materialize when it is accepted by the people to whom the program was prepared for. Therefore GAX can only be successful when SMEs are willing to list on it. There are four factors that influence acceptance. They include:

- ❖ Understanding the offer
- ❖ Accepting the offer because it is consistent with the organization's goals
- ❖ When people feel their actions will be consistent with the needs and desires of other people

- ❖ When people feel that they have the capacity (mentally and physically) to carry out the order (Hartman, 2009).

Pecking Order Theory

Pecking Order Theory, states that capital structure is driven by firm's desire to finance new investments, first internally, then with low-risk debt, and finally if all fails, with equity. Therefore, the firms prefer internal financing to external financing (Myers & Majluf, 1984). This theory is applicable for large firms as well as small firms. Since small firms are opaque and have important adverse selection problems that are explained by credit rationing; they bear high information costs (Psillaki, 1995). Since the quality of small firms financial statements vary, small firms usually have higher levels of asymmetric information. Even though investors may prefer audited financial statements, small firms may want to avoid these costs (Pettit & Singer 1985). Therefore, when issuing new capital, those costs are very high, but for internal funds, costs can be considered as none. For debt, the costs are in an intermediate position between equity and internal funds. As a result, firms prefer first internal financing (retained earnings), then debt and they choose equity as a last resort (Pettit and Singer, 1985).

Incentive Theory of Motivation

Motivation is the process of arousing, directing, and maintaining behaviour towards a goal (Greenberg, 2010). It is therefore any force that causes people to act in a specific way or the reason why people do things in a particular way (Szabó, 2012). The three main components of

motivation (arousal, direction and maintenance) describe what drives people to behave in a certain manner, their choice of behaviour and the willingness to pursue a course of action in order to achieve a desired goal respectively (Greenberg, 2010). In this study, the incentive theory of motivation is used to determine how valuable the incentives offered by the Ghana Alternative Exchange (GAX) market are to SMEs.

Incentive is any external force that encourages people to behave in a certain way. Hence incentive theory of motivation suggests that the behaviour of people is motivated by incentives or external reward (Szabó, 2012). People behave differently towards situations based on the value they place on the incentives that come with the situation. Therefore incentives have to be obtainable and valuable to motivate people to act. Similarly, the behaviour of SMEs to either list or not list their stocks on the alternative market can be influenced by the value they place on the incentives that the alternative stock market has to offer.

SMEs Funding Sources

The National Board of Small Scale Industries (NBSSI) defines SMEs as enterprises that employ no more than 29 workers, with investment in plant and machinery (excluding land and buildings) not exceeding the equivalent of \$100,000. For the purpose of this research, the Venture Capital Trust Fund (VCTF) Act 2004 (Act 680 section 28) definition of SMEs will be used since it's a more recent definition. SMEs are defined by the VCTF as "an industry, project, undertaking or economic activity which employs not more than 100 persons and

whose total asset base, excluding land and building, does not exceed the cedi equivalent of US\$1 million in value". SMEs funding sources include the following:

Equity Aversion of SME Owners

Equity aversion measures the willingness of an entrepreneur to access equity financing. Amongst entrepreneurs who have high equity aversion, the fear of losing part of their business to others and sharing of control has been the main reasons (Mason and Kwok, 2010) for not accessing equity financing. Therefore, considering an alternative market that requires its applicants to increase the number of people who share in the ownership of the business, it is likely that entrepreneurs who are risk averse will not list on the market. This attitude can be related to their lack of access to information on the incentives that the program has to offer and the importance of using alternative forms of financing for the development of businesses (Kadariya et al, 2012).

Therefore to ensure healthy growth of alternative stock markets, SMEs have to be educated and informed on the importance of accessing equity financing for development and growth of their businesses (Mason and Kwok, 2010). They must also be made to understand the incentives that the equity financing programmes have to offer. This information will motivate them to access alternative financial markets.

Debt

Loans and contributions from friends and relatives are common source of funds, especially for new business since the financial institutions are reluctant to providing funding for start-up business because of the risk involve. This source of funds, however, bears a potentially dangerous price. Many friends' relatives find it very difficult to stay as passive creditors or investors. They usually try to interfere with policy and operational issues (Kuriloff, Hemphil & Cloud, 1993; Longenecker Moore & Petty, 1994). As a remedy to this problem, Kuriloff et al. (1993) recommended the treatment of such loans like bank loans by putting into writing all the terms including interest rates and payment schedule.

Hisrich and Peters (1995) make an assertion that commercial banks constitute the most widely used source of debt financing for small companies. This assertion is also supported by Longenecker Moore & Petty, 1994). Again Longenecker et al. (1994) claim that commercial banks loans to small companies are mostly short-term loans, though some do offer long-term loans to small and medium size companies. According to Kuriloff et al. (1993), commercial banks usually provide loans for working capital or for the purchase of fixed assets. They demand evidence of a company's ability to pay the interest and principal as scheduled. This evidence is usually in the form of cash flows statements. They also demand some form of security. Collaterals are the most widely used form of security demanded by commercial banks. Longnecker et al. (1994) classify commercial bank loans as line of credit and term loans.

Business Suppliers

Companies can enjoy some form of credit from their business suppliers. This is a very important source of credit, especially for SMEs. The suppliers allow the company sometime to pay for the supplies. The credit periods varies from a few days to several years (Broom, Longnecker & Moore, 1983). Credit from business suppliers may be trade credit or equipment loans and leases.

Trade Credit: Basically it involves the purchase of goods and services from a supplier on credit. The purchasing firm is given a few days, usually between 30 and 120 days, to settle the debt (Broom et al. 1983). This type of credit is very important to SMEs for a number of reasons:

Broom et al. (1983) and Moyer, Charles and James (1992) assert that suppliers are more flexible in dealing with SMEs than the banks. Suppliers may only check the credit standing of an SME whereas a bank is likely to demand financial statement and cash flow budgets before extending a credit facility.

Generally, suppliers are very eager to add to their customers (irrespective of the size of firm) and thereby increase their sales hence they are more willing to assume greater risk.

- Suppliers are more flexible regarding adherence to terms of credit. Banks required strict adherence to loan terms and monitor borrowers more closely than suppliers do.
- The amount of trade credit granted may be readily increased just as the volume of a company's purchases increases. It may not take a lot of negotiations to make this possible. Banks are less willing to substantially

increase the amount of credit they grant to customers, especially small and medium scale companies (Peirson, Ron & Peter, 1990).

Trade credit, however is not cost-free. The cost associated with trade credit may not be explicit as interest on bank loans, for instance. Suppliers incur costs by supplying goods on credit and they must recover cost. They usually pass the costs on implicitly as part of the purchase price of the merchandise. Trade credit may come with an offer of cash discount. A cash discount may be quoted as 3/12net40. This means that the customer has 40 days to pay the full amount but can enjoy a 3percent discount if payment is done within 12 days. Failing to take cash discount may constitute an opportunity cost of trade. In the above quote, for example, failing to utilize such discount implies borrowing the amount for 28 days (i.e. 40-12) days at 3 percent. Therefore, it is important to compare the cost of forgoing a trade discount and the cost of other available short-term credit facilities before decision is made (Moyer et al., 1992; Brealey, Myers & Marcus, 2001).

Equipment Loans and Leases: Many SMEs find it very difficult to raise funds for outright purchase of certain equipment's and machinery. They resort to purchasing such equipment on installment basis. Longenecker et al. (1994), noted that down payment of about 25 to 30 percent of the price of the respective equipment's are usually made initially. The remainder may be amortized over 3 to 5 years. This practice is referred to as equipment loans. An alternative to this is equipment leasing. This arrangement allows firms greater investment flexibility; and smaller amounts of capital are required by the firm at any given time.

However, the total cost involved in equipment leasing is usually higher than the cost of outright purchase. On the other hand, in a situation where continuous specialized maintenance and protection against obsolescence are required, leasing may be more suitable (Broom et al., 1983).

Personal Resources

Again Longenecker et al. (1994) observe that personal savings of the owners and partners of businesses constitutes an important source of funds, particularly in the formative stages of a firm. Personal contributions also help to raise additional funds from other sources. Significant financial commitments made by owners of a company tend to build a lot of confidence among potential investors. Kuriloff et al. (1993) also note other personal resources apart from personal savings. These include borrowing using one's personal assets such as house and bonds as collateral.

Other Individuals (Business Angels)

There is a category of private individuals who invest in business ventures. These individuals are referred to as 'business angels'. Many of such individual investors tend to have some experience in business and/or are affluent professionals, who may have a lot of money to invest. Business angels constitute the informal capital source. They are said to represent the informal capital because there is no formal market place where their investment transactions are carried out. They are usually contacted through dealmakers such as business associates, accountants and lawyers (Longenecker et al. 1994).

Venture Capital

Venture capital, according to Stenvenson, Howard and Irwin (1999), is a pool of equity capital contributed by wealthy individuals, as limited partners, and professionally managed by general partners for a fee and a percentage of the gain on investments. Thus venture capital firms are investment firms. Owing to the highly risky nature of the investments they undertake, venture capitalists demand very high returns on their investments, with target returns of about 50 percent or 60 percent being considered normal (Stevenson et al., 1999). Tuller (1994) notes that owing to their high expected returns, venture capital companies usually target companies that have prospects of rapid growth and above average profitability. The targeted companies must also have the prospect of going public in the foreseeable future – usually within five to seven years.

Venture capital firms aim to capitalize on initial public offerings (IPOs) and cash in on their investments if prices are substantially above their initial investments in the respective companies. Apart from the provision of capital for very promising business ventures, venture capital firms also provide useful advice to these young enterprises, having acquired much more experience in business. They also provide additional financial assistance in the future if a firm they have invested in runs into financial difficulties. It will not be considered prudent to stand aside and watch their investments go to waste with a firm for lack of cash provided throwing in more cash will not amount to reckless investment (Tuller, 1994; Longenecker et al.1994).

Tuller (1994) summarizes this as “future availability of funds can be an enormous boost to achieving long-term strategic goals”. One of the clear weaknesses in the Ghanaian financial system is the limited medium and long-term financing available to the private sector in the market place (Morse et al, 1996). While commercial banks are the major source of loanable funds in the market, they focus on providing only short-term financing for their clients. As a consequence, many companies inappropriately use short –term funds to finance long-term project (Morse et al, 1996). The short–term nature of the loans from the banks does not support the expansion programs of SMEs.

As another measure with the intended purpose of assisting SME overcomes their financing difficulties, Venture Trust Funds has been set by State and other developing partners. As defined in the Cambridge dictionary, a venture capital is money that is invested or is available for investment in a new business or company, especially risky one. 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 respect 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 (Mensah, 2004).

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 (VFMC) to make investment decisions. It became operational in

November 1992, and was fully invested with 13 investee companies of which their average investment was \$250,000 (Mensah, 2004). In addition to the management of GVCF, VFMC was awarded the management of a \$4 million Enterprise Fund, promoted by the European Union. According to Mensah, 2004, all these funds have been targeted at growth oriented large enterprises simply because the risks and cost involved in managing shareholdings in SMEs have so far rendered those investments not interesting.

Joint Venture

Various forms of strategic alliances have become important and common practice in business today. One such important form of strategic alliances is joint ventures. A joint venture typically involves two or more companies coming together to form a new entity. The main objective of joint venture formation is to gain competitive advantage and become more profitable. Combining the resources of the firms involved in a joint venture most often leads to the attainment of synergy.

The new company may be able to perform a service more efficiently, produce a product at a less cost or utilize a facility or funds more effectively. This ultimately results in greater profits for the firms involved than they would have achieved as separate business entities. Financing is also a common goal of joint venture. Smaller firms in particular tend to benefit from the usually better financial positions of larger firms. In addition, joint venture stand a better chance of obtaining credit or raising more equity as creditors and investor confidence in

the new firm is often greater. As a joint entity, they provide better guarantee for creditors fund as their assets base is widened.

SME Financing from Financial Institutions

As at the end of 2016, there were thirty-four (34) major banks in Ghana. Ghana also has one hundred and forty (140) rural and community banks across the country as at the end of 2016. There are 24 finance houses, 3 remittance companies, 3 credit reference bureaux, 27 savings and loans, 5 leasing companies and 1 mortgage finance firm totaling 63 Non-banking financial institutions in the country. More than 500 microfinance companies were licensed of December 2016 and 67 money lending institutions as at same date by the Bank of Ghana. There are also 11 financial Non-Governmental organizations in the country (Bank of Ghana, 2016).

In an attempt to expand the loan portfolios, the SME industry has become very attractive to the various banks and other financial institutions. SME sector was previous perceived by banks as risky but there have been some changes in recent times. This was due to the high default rates among the various SMEs in the country with regards to credit facilities offered to them by the banks and other financial institutions. In spite of their attractiveness, only a handful of banks in the country have developed a policy for the SME sector considering their needs and requirements. There are no customized products designed for the SME sector and most of the financial institutions treat the small enterprises just like the large firms when offering their loans service to them.

While the larger corporations are given longer time periods to pay back their credit facilities, the small enterprises, on the other, hand have very limited time frame as little as a year and sometimes less. In most cases, the small enterprises have to provide collaterals in form of deposits or in other forms that satisfies the Bank of Ghana (BoG) classification of a secured loan. Banks with an SME desk usually provide the sector with minimum loan facility just to create a relationship in order to take considerably huge deposits from the small businesses. Alternative financing is rarely used as an option in Ghana and it can be observed from the literature above that most businesses look to traditional sources of funding for their activities. The way forward for SMEs is the Ghana Alternative Exchange where SMEs can raise relatively larger amounts of money for funding their expansion and growth.

Perceptions of SMEs about Listing Requirements and Capital Markets

According to a report in 2014 by the Asian Development Bank, over 80 percent of issuers in OECD economies have acknowledged that developing the SME capital market is a policy priority at the national level. They discovered that the perceptions behind responses were awareness of the underserved segment, increased roles of capital markets as part of national growth strategies and limitations of traditional bank-centered financial systems. A further probe into the subject matter has revealed that there is a limitation of bank financing for SMEs, this will require diverse financing modalities for them in which SME capital markets seem a viable option.

Willingness of SMEs to list on Capital Market Platforms

A study by Asian Development Bank (2014) revealed that, 77 percent, 83 percent, 82 percent, and 54 percent of SMEs in China, India, the Republic of Korea, and Malaysia respectively were willing to issue either equity or debt instrument to finance their operations if such a market is established. This shows that Asian SMEs has apposite perception about the establishment of a stock market or an alternate index. The reasons why they preferred capital market is the relative easiness of funding, an alternative to banks, and increased social credibility of the company expected. It also revealed that the major constraints of SMEs to access these capital markets are procedures involved in issue securities which are complicated and Costly.

A study by Mensah, Awunyo-Victor and Sey (2012) in Ghana showed that, the size (small) of companies, reluctance to share ownership, lack of understanding of the operations of the stock exchange market and firms reluctance to exposing their earning to the general public are the reasons why they did not want to list on the Ghana Stock Exchange. The primary objective of SME capital markets is to facilitate access of financing for SMEs creating an enabling environment and accommodative framework for them. In this regard, many economies have loosened their listing requirements to make their markets more accessible for SMEs. Effective communication and co-ordination among different governmental agencies and market stakeholders also help increase SME access to the markets.

An Overview of the Ghana Alternative Exchange

In the first quarter of 2013, the Ghana Alternative Exchange (GAX) was launched as a parallel market operated by the Ghana Stock Exchange (GSE). The aim of the GAX is to focus on Small and Medium scale Enterprises (SME's) with potential for growth. Even though the GSE lists SME's on their second, third and fourth official lists, the stated Share Capital requirement of GH¢50m and GH¢20m was too high for most SME's in Ghana, hence GAX registers and lists SME's at less and waived cost relative to listing on the main exchange (GSE).

It is an innovative market operated by the Ghana Stock Exchange focusing on small and medium scale enterprises with high growth potential. This market supports the listing of both equity and debt instruments and with less stringent listing requirement as compared to listing on the main GSE market. As at 1st March 2017, there were five firms which have listed debt instruments namely; AFB (Ghana) Plc, Bayport Financial Services (Ghana) Plc, Edendale Properties Plc, Ghana Home Loans, and IZWE loans Limited. While four firms have listed equity instruments on the GAX namely, HORDS Limited, Intravenous Infusions Limited, Meridian-Marshalls Holdings Limited and Samba Foods Limited.

Listing Requirements for Equity Instruments

A company that wants to list on the GAX must have a minimum stated capital of GHC 250,000 at the time of listing as compared to GHC 1,000,000 to be listed on the main market. The stated capital for rural banks listing on the GAX shall be as required by the Bank of Ghana. Where the surplus of the potential issuer is negative, the shareholder's funds of the company must be at least

GH¢250,000. The public float of the applicant must constitute a minimum of twenty-five per cent (25 percent) of the total number of issued shares for both companies on the main market and on GAX.

The spread of shareholders existing at the close of an offer should be at least 20 for GAX and 100 for the main market. For a company's securities to be eligible for admission to the GAX, the company must have operated for at least one year and have published or filed accounts in accordance with the Companies Act, 1963 (Act 179) for at least the latest financial year. Admission may be granted to a start-up company provided the applicant submits to the GAX a 3-year business plan, demonstrating clearly the sustained viability of the applicant.

The company seeking admission to the GAX need not have recorded profits historically but must have the potential to make profit at least at the end of its third year of listing. The securities for which listing is sought must be freely transferable, subject only to restrictions imposed by the laws of Ghana. A prospective GAX company's shares must be admitted to the GSE Securities Depository. The company shall, prior to listing appoint a registrar to handle corporate actions. Listing fees in relation to application and listing have been waived. Companies that want to list pay only an annual fee of GH¢ 2000 and a when they want to quit a de-listing fee of GH¢ 5000 (GAX Rules, 2013)

Listing Requirement for Debt Instruments

Any company that wants to list debt instrument on GAX must list a debt total issued nominal value of not less than GH¢500,000. Application Fee - based

on 0.0002 of the value of the bond being listed. Original & Additional Listing Fees - based on 0.0001 of the value of the debt securities being listed. Annual Fee - based on 0.0001 of the value of the debt securities listed. Annual listing fees shall be charged in each of the subsequent years that the debt will remain listed (GAX Rules, 2013). The main market listing requirement specifies a minimum stated capital of GH¢ 1 million and the spread of shareholders for listing on the main market is at least 100 shareholders.

On the issuing of debt, the minimum debt for the first official list is an amount not less than GH¢ 1 million. For good corporate governance, public disclosures and success of public offering companies that want to list are mandated to appoint corporate advisors, licensed dealing member or sponsoring broker and solicitors to guide them in the process of listing and after. Listing firms go through the same process as listing on the main stock exchange; prospectus must be submitted to Securities and Exchange Commission, Registrar General and the Ghana Stock Exchange for thorough review before it is allowed to be put out to the investing public. SMEs are also required to show the use of funds, information on directors and employees, risk factors and all other requirements for all offerings. (GAX Rules, 2013).

There is a very good incentive why SMEs should list on GAX and this incentive is underwriting. There is underwriting of new issues by a sponsoring broker and the SME can benefit from the GAX-SME support fund that assist SMEs meet upfront cost of advisors. In addition to this incentive, other benefits accrue to any of SMEs that list on GAX and should also have easy access to long

term capital, improvement in the financial position of the firm, an enhanced status in the community, reduced risk and better liquidity to investors and realisation of value on investment.

CHAPTER THREE

METHODOLOGY

Introduction

This chapter of the research detailed the research methodology adopted in this study. It contained the research design, population, sample size and sampling technique, sampling procedure and explained the method and procedures for data collection, analysis and interpretation of the research findings. The chapter also discussed why these elements in the research methodology were used.

Research Design

This study was a cross-sectional study in which data was collected from the population through sampling. Cross Sectional design is one of the most well-known and commonly used study designs. In this kind of study, the subset of the population or the whole population is chosen and from the selected participants, data is gathered for the purpose of helping answer research questions of interest. The questionnaires were administered to 278 SMEs in Accra Metropolis and were selected using simple random sampling technique. A questionnaire was used because it affords the respondents some level of individuality (Nesbari, 1992; Rous, 2002).

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Sources of Data

Data was collected from both primary and secondary sources. Data collected for a specific purpose are known as primary data. The collection of facts and figures as designed in the questionnaire for this study and interview of the respondents is the source of primary data for this study. The essence of obtaining such data is to ensure that the exact information wanted for the study was obtained. Terms were carefully defined so that as far as it is humanly possible, misunderstanding on the relevant data to be collected is avoided. Secondary data was collected from journals, textbooks, handbooks and manuals, review of articles and editorials, literature review as well as published guides.

Population of the Study

It is difficult to estimate the number of SMEs in Ghana because there is no proper system in the country to keep records. SMEs are also not tracked to identify if they are still existing and operating. However, SMEs in Ghana account for more than 70% of the country's gross domestic product (GDP) and represents about 75% of general employment (Boateng, 2012). According to the Registrar General's Department about 92% of companies registered annually are micro, small and medium enterprises (Boateng, 2012). Since it was not possible for the researcher to study the entire population, the researcher concentrated on SMEs in Accra that have registered with the National Board for Small Industries.

The researcher chose Accra because of its concentration of small and medium scale businesses. Also, Accra comes first in the regional distribution of

SMEs in Ghana. The population is the complete set of individuals (subjects), objects or events having common observable characteristics in which the researcher is interested (Agyedu, Donkor & Obeng, 1999). According to the National Board for Small-Scale Industries (NBSSI) (2016), micro, small and medium enterprises are defined based on the number of employees and value of its investment capital. The targeted population of the study consisted SME owners in Accra metropolis. The estimated population is 1000 SMEs (NBSSI, 2016) who run various business units of various sizes.

Sampling Size

Saunders, Lewis and Thornhill (2007), explains that provided samples are not biased, by the law of large numbers, samples of larger size are more likely to be representative of the target population where research is to be conducted than smaller sizes. Statisticians have also attested to the fact that, larger absolute samples lead to normal distribution which means more robust data source. (Namusonge, 2010; Saunders *et al.*, 2007). A total number of 1000 SMEs were selected out of the population of 278 using the Krejcie & Morgan (1970) sampling size determination.

Sampling Technique

In order to get very accurate result for this study, the simple random sampling method was used to select the sample from the population. A sampling frame of the total population was developed by assigning a number to each members of the population.

Research Instrument

In view of the nature of the topic, it was realized that questionnaire would be the most appropriate instrument to use. Questionnaires are also not inexpensive and very simple form of gathering data from a potentially large number of respondents. The questions were closed ended with a few open ended ones. In the open ended question, the respondents formulated their own answers. In closed format, respondents are forced to choose between several given options. The open ended format allowed exploration of the range of possible themes arising from an issue. It was used where a comprehensive range of alternative choices could not be compiled. The closed or forced choice-format was easy and quick to fill in.

Data Collection Procedure

Data for this study were be obtained from a primary source, mainly, the questionnaire. The questionnaire were provide information on how SMEs have been financing their activities and the prospects and challenges of such instruments, their view about GAX, their readiness to list on GAX. A Copy of the questionnaire is attached as appendix A. The aim of the questionnaire projects a clear image of perceptions of SMEs about the Ghana Alternative Exchange. The instrument was designed to be answered by the owners or finance managers or the designated deputies of these institutions. Interviews coupled with questionnaires were used in specific situations depending on the education level of the respondents. This helped to increase the validity of data collected. The questionnaires were issued and administered to a cross-section of more than 270 owners or managers in the Accra metropolis.

Pre- Test

The research instruments were pre-tested using a sample size of 20 respondents based on the recommendations of Mugenda and Mugenda (1999) who found that a successful pilot study uses 1 percent to 10 percent of the actual sample size. The respondents were student SME owners in the Accra metropolis with similar characteristics respondents used in the main study but they were only used to test the questionnaire. This did help in clarifying questions and in refining the data analysis methods (Mugenda & Mugenda, 1999).

Method of Data Analysis

Quantitative data will be collected from this survey. The quantitative data were analysed using Microsoft Excel 2010 and SPSS version 21. Frequency distribution tables were also used to show proportion of respondents choosing various responds. The proportions will show the diverse views of SMEs on the various sub-issues. Tables, charts and graphs would be also used to ensure easy understanding of the analyses. The data analysis involved reducing the raw data into a manageable size, developing summaries and applying statistical inferences. Consequently, the following steps were taken to analyse the data for the study. The data was edited to detect and correct, possible errors and omissions that were likely to occur, to ensure consistency across respondents.

The data was then coded to enable the respondents to be grouped into limited number of categories. Microsoft Excel software and SPSS version 21 were used for this analysis. Data was presented in tabular, graphical and narrative

forms. In analysing the data, descriptive statistical tools such as bar graph complemented with mean analysis were used.

Data Reliability Test

The study employed Cronbach's alpha to test the reliability of the data collected. Cronbach's alpha is a measure used to assess the internal consistency (or reliability), of a set of scale or test items. In other words, the reliability of any given measurement refers to the extent to which it is a consistent measure of a concept, and Cronbach's alpha is one way of measuring the strength of that consistency. The Cronbach's alpha is mostly used when a researcher uses questionnaire that form a scale and wish to determine the scale reliability. It can be inferred from Table 1 below that the Cronbach's alpha was 0.711, which indicates approximately 71 percent degree of internal consistency and reliability.

Ethical Considerations

All the respondents were guaranteed anonymity and confidentiality in the reporting of the results of the study. This was specified at the introductory part of the research instrument.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

Introduction

This section presented the findings from the survey, using the statistical tools and methods chosen for data analysis. The first section of this chapter presented the demographics of respondents and the respondents businesses, followed by the perception of SMEs about the basic requirements to list, SMEs readiness to list and lastly, an assessment of SMEs current sources of finance.

The questionnaire was issued to 327 respondents and the researcher was able to receive 278 questionnaires which represents (85 percent) response rate. All the analysis were based on the 278 questionnaires received.

Table 2: Socio-demographic Characteristics of Respondents

Variables	Description	Frequency	Percent (%)
Gender	Male	169	60.8
	Female	109	39.2
Total		278	100
Age	Less than 20 years	35	12.6
	21-30 years	51	18.3
	31-40 years	67	24.2
	41-50 years	69	24.8
	51-60 years	56	20.1
Total		278	100
Education	No formal Education	21	7.6
	Middle School	22	7.9
	JHS	33	11.9
	SHS	51	18.3
	Tertiary Education	151	54.3

Total	278	100
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Source: Field Survey, Eduboah (2017)

The demographic characteristics of the respondents are shown in Table 2; it can be seen that one hundred and sixty-nine (169) of the respondents representing about sixty-one percent (61 percent) are males whilst thirty-nine percent (39 percent) are females. This implies that more males responded to the questionnaire as compared to their female counterparts and also there are more male entrepreneurs than females.

With respect to age, 41 – 50 years representing about twenty-five percent (25 percent) of the respondents were in the majority and twenty-four percent (24 percent) represent 31 – 40 years followed in that order. The older generation and those in the twenties were in the minority with age more than 51 years having a percentage of (20 percent) and 21 – 30 years having (18 percent) respectively. This means that most people taking up the initiative of establishing SMEs are those in their prime age and some reasons for these actions are the cost involved in starting such ventures.

With respect to the highest level of education of respondents, 151 of the respondents representing (54.3 percent) have some form of tertiary education, (18 percent) of the respondents representing 51 persons have been educated to the Senior High School level, 33 of the respondents representing (11.9 percent) are Junior High School leavers, 22 of the respondents representing (7.9 percent) have been educated to middle school and 21 respondents representing (7.6 percent) have no formal education. This means that, the elite in society are taking advantages of the huge potentials in SMEs sector and with their level of

education, SME activities are going to be done in a more organised form as compared to being done by people with little or no education.

Table 3: Basic Business Demographics

Variable	Description	Frequency	Percent (%)
Form	Sole Proprietorship	249	89.6
	Partnership	16	5.8
	Private Limited Liability Company	7	2.5
	Public Limited Liability Company	6	2.1
Total		278	100
Stated Capital	Less than GHC 50,000	71	25.5
	Between GHC 50,000- GHC 100,000	40	14.5
	Between GHC 100,000-GHC 250,000	69	24.8
	Above GHC 250,000	98	35.2
Total		278	100
Years	1 year or less	29	10.43
	2-5 years	106	38.13
	5 years and above	143	51.5
Total		278	100

Source: Field Survey, Eduboah (2017)

From the Table 3, it can be observed that, (89.6 percent) of the respondents representing 249 are sole proprietorships, 16 respondents representing (5.8 percent) are incorporated partnerships, 7 respondents representing (2.5 percent) are private limited liability companies and the remaining 6 respondents representing (2.2 percent) are public limited liability companies. This implies that majority of SMEs in the Accra Metropolis are sole

proprietorships this might be as a result of it being the easiest business unit to register and is also an ideal situation for quick decision making.

Stated capital is the amount of capital injected into a business by its owners from the point of sole proprietors and partnerships and the amount of money contributed and paid for by equity owner (shareholders) in a company setting. From Table 3 above, 98 of the respondents representing (35.2 percent) have a stated capital above GHS 250,000, 71 respondents covering (25.5 percent), 69 respondents covering (24.8 percent) and 40 respondents covering (14.5 percent) have a stated capital less than GHC50, 000, betweenGHC50, 000- GHC100, 000 and between GHC100, 000- GHC 250,000 respectively. This response is much attributed to the activity and quantum of transactions most SMEs in the capital city undertake; they have injected a lot of capital to facilitate their ability to handle huge transactions and this allows them to take up greater risk and earn better reward as compared to their compatriots in other regional capital.

Also (51.4 percent) of respondents representing 143 SMEs have been in operation for 5 years and above, 106 respondents representing (38.13 percent) and 29 respondents representing (10.43 percent) of the respondents have been operating between 2-5 years and one year or less respectively. From this survey it can be inferred that, majority of the SMEs in Accra Metropolis have been in operation for 5 years and above. This means SMEs owners have experience to keep their businesses from collapsing and can contribute significantly towards

their firms' growth due to a higher ranking on the experience curve which goes a long way to reduce cost.

Table 4: Additional Business Demographics

Variable	Description	Frequency	Per cent
Presence of Auditors	Yes	69	24.8
	No	209	75.2
Presence of Board of Directors	Yes	74	26.6
	No	204	73.4
Presence of Published Accounts	Yes	171	61.5
	No	107	38.5
Presence of Business Plan	Yes	193	69.4
	No	85	30.6
Presence of Business Advisors	Yes	150	54.0
	No	128	46.0
Expert Management	Yes	231	83.1
	No	47	16.9

Source: Field Survey, Eduboah (2017)

The presence of both Internal and External Auditors, board of directors and published accounts are very good indicators of good corporate governance. Good corporate governance would go a long way to affect the level of confidence of investors in a security or financial asset. The theory of management not always

acting in the interest of shareholders and bondholders is true and investors would require some sanity in the firm's activity before they will commit resources towards its growth. Auditors are mitigating factors against corruption and poor decision making of management and board of directors in general. Auditor's opinion expressed on the face of the accounts goes a long way to determine the response of investors on any investment setting.

From Table above, 209 of the respondents have no auditors representing (75.2 percent) but 69 respondents representing (24.8 percent) have auditors. 74 respondents had board of directors, representing (26.6 percent) and 204 respondents representing (73.4 percent) had no board of directors. We can infer from the data and conclude that auditors, board of directors, are requirements of companies and because most of the respondents being sole proprietors, they are usually not interested in such governance structures. This confirms the reason for the one – man business approach towards business.

From the just mentioned Table, 85 respondents have no business plan for running their SMEs which represents (30.6 percent) and 193 respondents representing (69.4 percent) have business plan for running their operations. With respect to business advisors, 150 respondents representing (54.0 percent) have business advisors and 128 respondents representing (46 percent) have no business advisors. With respect to management with expertise in core business activity, 231 respondents representing (83.1 percent) have management who are experts in their line of business and 47 respondents representing (16.9 percent) do not have expert management. There are also 107 SMEs that do not have published

accounts representing (38.5 percent) and 171 respondents representing (61.5 percent) do have published accounts. The variables of business plan, business advisors, management with expertise in core business activities, and published accounts are very popular among majority of the SMEs in the Accra metropolis and this the researcher attributes to the education level of most SME operators in the metropolis.

Perception of SMEs about Basic Requirements to list on Ghana Stock Exchange

The views of respondents were sought on the requirements to list on the Ghana Stock Exchange by asking to rate on a scale of 1 to 10 their level of agreement with the following requirements before they can raise capital for their business operations “1” being the least level of agreement and “10” being the highest level of agreement. The means of their responses was used in analyses. The requirements with the highest mean is “Publish accounts for at least three years” and “Publish accounts to the general public” with a mean of approximately 7 meaning respondents strongly agree to this being a requirement to list.

The next requirement they agree with most is “Have management who are specialist in core business activities”, “Have business advisors”, “Have board of directors”, “Be a public limited liability company” and “Have a stated capital of at least GHS 250,000” having mean level of agreement of approximately six. Having board of directors and auditors of their accounts had the least level of agreement which is approximately five.

Table 5: SMEs Perceptions about Basic Listing Requirements

Variable	Mean
Publish accounts for at least three years	7.00
Publish accounts to the general public	6.83
Have management who are specialist in core business activities	6.36
Be a public limited liability company	6.36
Have business advisors	6.19
A minimum Stated Capital of GHS 250,000	6.09
Have board of directors	5.56
Have board of directors	5.42
Have auditors of accounts	5.13

Source: Field Survey, Eduboah (2017)

Readiness of SMEs to list on the Ghana Alternative Exchange

Table 6: SMEs Willingness to list on GAX

Variable	Mean
Willingness of SMEs to share information about their earnings to the general public	5.30
SMEs understanding of activities of GSE and GAX	4.53
Willingness of SMEs to list on GAX	2.98
Willingness to share ownership and control of their business	2.79
Willingness of SMEs to issue shares and bonds to finance their medium to long term finance needs	2.78

Source: Field Survey, Eduboah (2017)

GAX has been in existence since 2013 and this survey wanted to ascertain if SMEs were ready to list on the GAX. Respondents rated on a scale of 1 to 10 their level of agreement with statements regarding their readiness to list on GAX. The statement on their willingness to list on GAX, SMEs willingness to issue shares and bonds to finance the medium to long term operations and willingness to share ownership and control of their business all had a mean of approximately 3 which shows a very low level of agreement. This also follows Yartey (2005) conclusion that some SMEs are unwilling to list on stock exchanges because of the fear of losing control and the survey confirms this assertion.

On SMEs understanding of activities of GSE and GAX, and their willingness to share information about their earnings to the general public respondents had a mean rated level of agreement of approximately 5. This study contrary to that of Mensah et al (2012) has shown that SMEs have a fair knowledge of how GSE and GAX operates. Sharing information about one's business earnings and accounts to the general public is a good corporate governance practice and also boost investor confidence in a firms offering and these investors are willing to provide information to the general public with regards to their earnings. This is a sign of good faith to investors.

Assessing SMEs Current Source(s) of Funding

Table 7: Current Source(s) of Funding

Source of Funding	Frequency	Percent (%)
Self-Financing	259	93.17
Family and Friends	100	35.97
Money lenders and Micro finance	70	25.18

Bank loans	55	19.78
Issue of Shares	4	1.44
Issue of Debt	3	1.08
Other source of funding		10.36

Source: Field Survey, Eduboah (2017)

From the Table 7, 259 respondents current source of finance is self-financing representing 93.17 percent, followed by 100 respondents whose source is from family and friends representing 35.97 percent. Money lenders and microfinance companies also help solve the finance problems of 70 respondents representing 25 percent, 55 respondents use bank loans representing 19.78 percent. Issue of share is used by 4 respondents to finance their activities representing (1.44 percent) and issue of debt which is the least patronized source of funding used by 3 respondents representing (1.08 percent).

One respondent representing (0.36 percent) also stated other source of funding which is government subvention. We still have the most dominant source of funding being self-financing. This follows the model espoused by Modigliana (Perking order theory) SMEs understanding about the extent to which their current source of finance meets the standard of affordability, accessibility, flexibility, adequacy and availability. Respondents were then asked to state the extent to which they agreed to the statements on these measures on a scale of 1 to 10 with “1” being least level of agreement and “10” being highest agreement level.

From the Table 8, SMEs source(s) of financing level of availability is approximately 4 which imply that finance is not always readily available for these SMEs to use. The level of adequacy of finance of approximately 5 means that

current source of finance meets 50 percent of their finance needs which is not encouraging and clearly shows a huge finance gap.

Cost of finance also had a mean response of approximately 4; hence, from their interest rate point of view we can conclude that SMEs cost of finance to be (40.0 percent). Accessibility of finance is also a challenge to these SMEs, this was rated approximately 4, meaning a huge challenge in accessing finance and lastly the measure which is flexibility, SMEs see the flexibility of their source of finance at approximately 4 which means that they cannot easily alter the terms and conditions of their source of finance neither can they easily change their source(s).

Table 8: Measures for SMEs Source(s) of Funding

Variable	Mean
Availability	4.21
Adequacy	5.12
Affordability	3.47
Accessibility	4.08
Flexibility	4.37

Source: Field Survey, Eduboah (2017)

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents the summary, conclusion and recommendations of the study. The summary and conclusion are based on the findings captured in chapter four. The recommendations are in turn based on the conclusions of the study. Suggestions for further studies are also discussed here.

Summary

Out of the 327 questionnaire issued to respondents, the researcher was able to receive 278 questionnaires which represents (99 percent) response rate. The study was carried out in the Accra Metropolis. The study sort to achieve the following objectives;

- i. Analyse owners/managers views about listing requirements on Ghana Alternative Exchange.
- ii. Analyse the current funding sources to Small and Medium Scale Enterprises.
- iii. Assess the readiness of SMEs to get listed on the GAX.

With respect to the views of SMEs about the basic requirements to list on GAX, the key findings are that, SMEs in the Accra metropolis agree to a large extent to the requirements. Publish accounts for at least three years to the general public; they should have management who are expert in core business activities,

business advisors and board of directors; being a public limited liability company and have a minimum stated capital of GHC 250,000. SMEs in the Accra Metropolis agree that before they receive any form of financing from GAX they need to be more transparent and have good structures in place.

On the readiness of SMEs to list on the Ghana Alternative Exchange the study revealed that some SMEs are unwilling to list on stock exchanges because of fear of losing control and the survey confirms this assertion. This is because of low tendency for SMEs in the Accra Metropolis to patronise the activities of the Ghana Alternative Exchange and this can be seen from the low willingness to list, willingness to share ownership, willingness to issue share and bonds to finance their operations.

On SMEs understanding of activities of GSE and GAX, and their willingness to share information about their earnings to the general public, respondents had a higher level of agreement. This study follows that of Mensah et al (2012) which indicated that SMEs have a fair knowledge of how GSE and GAX operates. Sharing information about one's business earnings and accounts to the general public is a good corporate governance practice and also boost investor confidence in a firm offering based on this survey.

The study revealed that self-financing representing the major source of funding for SMEs in the Accra Metropolis, followed by family and friends which also help in financing businesses. The Money lenders and microfinance companies the researcher noted to be much help to these SMEs. Surprisingly bank loans formed a small percentage of financing for these SMEs probably due to the

high risk they have in defaulting. Government subvention, debt and equity instruments form only a minute percentage in their source of finance.

The study again sought to measure the qualities of SMEs source of financing. This revealed that finance is available, yet not adequate and accessible for their operations. SMEs also, indicated that cost of finance is expensive when compared with the cost SMEs in developed economies. They further indicated that the funding is not flexible.

Conclusions

The legal form of most of the business activities hinders SMEs ability to make use of capital market and other alternative source of funding to fund their business operations over the medium to long term which would have been better; in flexibility, reliability, availability and cost when businesses are registered as a public limited liability company before they can list. SME willingness to list on the GAX is low. Despite their willingness to share information with the general public and their understanding of the operations of the GSE-GAX, they are not willing to list and stakeholders need to take up this issue and work collaboratively with SMEs organisations' to help them find a middle ground with the low level agreement factors.

One positive sign with GAX is that, most SMEs agree at least fifty (50 percent) to all the basic listing requirements. This means both the Securities and Exchange Commission and Ghana Stock Exchange would require no major

changes in listing requirements to attract SME issuers to the Ghana Alternative Exchange.

Recommendations

Based on the findings of the study and the conclusions drawn from it, the following recommendations are made:

There should be education for SMEs on how the GAX can help businesses achieve their aims and what they need to do in other to maintain and sustain their businesses.

SMEs, stakeholders and other unions should work with government for a greater governmental support to enable their members get acquainted with sustainable sources of finance such as listing debt and equity instruments on the Ghana Alternative Exchange.

The Ghana Stock exchange as a self-regulatory organization, should further research into viability of capital market activities in other regions to get businesses in such regions to get listed on the exchange.

The researcher also recommends GSE and the brokerage firms to identify firms with good fundamentals and coach them along the line to a point where they would be self-sustainable and bring them to the market.

Further research

Further research can ascertain how investment advisors, underwriters and brokers perceive companies that do not want to list on the Ghana Alternative Exchange. Researchers can equally find out reasons for low market participation by local individual investors. Researchers should try to look at the impact of education on market participation on the Ghana Stock Exchange.

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APPENDIX

Questionnaire

UNIVERSITY OF CAPE COAST
COLLEGE OF HUMANITIES AND LEGAL STUDIES
CENTRE FOR ENTREPRENEURSHIP AND SMALL ENTERPRISE
DEVELOPMENT

Dear Sir/Madam,

I am a Sandwich final year Master of Business Administration (MBA) - Entrepreneurship and Small Enterprise Development student from the University of Cape Coast, School of Business-Centre for Entrepreneurship and Small Enterprise Development, and undertaking a research study on the topic **Perceptions of Small and Medium Scale Enterprises (SMEs) about the Ghana Alternative Exchange: Evidence from Accra Metropolis**. Information is needed from you for the success of this study by responding to the questions below. Kindly be assured that your responses would be treated with utmost confidentiality and will only be used for the purpose of this academic research. Thank you for your time.

Demographics

D1) Gender: Male [] Female []

D2) Age (Please tick your age group)

Less than 21years []

21-30years []

31-40years []

41-50years []

51-60years []

Above 60 years []

D3) What is the highest level of education that you have attained?

No formal education []

JHS/Middle School []

SHS/O' Level []

A' Level []

First Degree []

Master's Degree []

If others please specify.....

Demographics

D4) What is the legal form of your business?

Sole proprietorship [] Partnership []

Private limited liability Company [] Public limited liability Company []

If others, please specify.....

D5) How much is your businesses stated capital or amount injected into your business?

Less than GH¢ 50,000 [] Between GH50,000- GH¢100,000 []

Between GH¢100,000- GH¢250,000 []

Above GH¢250,000 []

D6) How long has your business been in operation?

1year or less [] 2-5years [] 5 years and above []

D7) Do you have the following?

	YES	NO
Auditors		
Board of Directors		
Published Accounts		
Business Plan		
Business Advisors		
Management with expertise in your core business activities		

To what extent do you agree with the following requirements as a basis before you can raise capital?

1=**least agree**

10=**highest agreement**

Requirements	1	2	3	4	5	6	7	8	9	10
1. Be a Public limited liability company										
2. Have a minimum stated capital of GH¢250,000										
3. Publish accounts to the										

general public										
4. Published accounts for at least three (3) years										
5. Have auditors of accounts										
6. Have a business plan										
7. Have Board of Directors										
8. Have business advisors and/or lawyers										
9. Have management who are specialist in core business activities										

Please specify the extent to which you agree with the following statements

1=**least agree**

10=**highest agreement**

Statement	1	2	3	4	5	6	7	8	9	10
10. I am willing to share ownership and control of my business with others										
11) I understand the operations of the Ghana Stock Exchange and the Ghana Alternative Exchange										
12) I am willing to share information about my business earnings with the general public										
13) I am willing to issue shares and bonds to finance my businesses medium to long term operations										
14) I am willing to list on the Ghana Alternative Exchange										

15) What is/are your current **source(s)** of funding (please tick the **one(s)** applicable to your business)

a) Self-financing	
b) Family and Friends	
c) Money lenders and Micro finance	
d) Banks loans	
e) Issue of shares	
f) Issue of debt	

If other(s) please specify

To what extent do you agree with the statements below?

1=**least agree**

10=**highest agreement**

Statement	1	2	3	4	5	6	7	8	9	10
16. Affordability: The cost in raising my current funding is high										
17. Accessibility : It is difficult to secure my current source(s) of funding										
18. Flexibility: My current source(s) of funding is very flexible										
19. Adequacy: My current source(s) of funding meets all my finance needs										
20. Availability: My current source of funding is always available										

THANK YOU