

Alternative Financing for SME's: A Case of the Service Sector in Ghana

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Abstract

Small and Medium-Sized Enterprises (SMEs) form the majority of businesses in developing economies, and they require diverse forms of financing to thrive. However, financial institutions that are their major sponsors are challenged in lending to SMEs. The study used a mixed methods design to gather information from both financial institutions and SMEs to determine the alternative means by which lending to SMEs in the service sector, in particular, is made feasible. Qualitative data was gathered from seven financial institutions, whilst the quantitative data were obtained from 663 SMEs in the service sector. The results revealed that angel investment and venture capital are SME's most preferred forms of external sources of alternative financing. Financial institutions' alternative means to direct lending to SMEs is to tie financing to receivables, use of soft grants, lending schemes and start-up clubs' formation to ring-fence their lending. The policy implication is to enhance the alternative approaches to SME financing for the mutual benefit of all key stakeholders if the growth of the SME sector is to be achieved and not only desired.

Keywords: SMEs, financial institutions, alternative financing, service(s), capital

1. Introduction

Small and medium enterprises (SMEs) form a significant part of the economies of most countries and they contribute significantly to the Gross Domestic Product (GDP) in most economies (Balogun Olanrewaju Abdul, Nazeem Ansary, Agumba Justus Ngala, 2016; Cole & Dietrich, 2017). They are considered the engines of economic growth in most economies in both the developing and developed worlds (Ayyagari et al., 2017). They contribute to employment creation and rural development (Manzoor et al., 2021), the development of the circular economy (Pereira et al., 2022), and they make an impact on the micro and macro economies of countries (Lin et al., 2020). In terms of their size,

SME classifications differ along different dimensions such as the number of employees, turnovers, and total assets; the differentiation may also be industry-specific or country-specific (Abor & Quartey, 2010; Ayyagari et al., 2013; Beck & Demirgüç-kunt, 2011). In Ghana, Abor and Quartey (2010) classified business establishments as micro, small, medium and large businesses based on a number of employees and fixed assets. Micro enterprises employ less than five persons with fixed assets, excluding land and buildings, not exceeding US\$10,000. In contrast, small enterprises comprise 6 to 29 employees with less than US\$100,000 fixed assets, excluding land and buildings. Medium and large enterprises consist of 30 to 99 employees and 100 or more employees, respectively. For medium enterprises, their fixed assets, excluding land and buildings, do not exceed US\$1.0 million, whilst that of large enterprises exceeds US\$1.0 million (Narteh, 2013). From the classification, about 90% of businesses in Ghana fall within micro, small and medium enterprises (Oppong et al., 2014). These businesses can be found across the three main sectors of the economy: agriculture, industry and services sectors comprising 0.4%, 17% and 82.4% of the 638,234 business establishments respectively (GSS, 2018). Quartey et al. (2017) reiterate that SMEs constitute a greater proportion of businesses in Sub-Saharan African regions. In Ghana, they constitute 85% of businesses and contribute 70% to the GDP. Turkson, Amissah and Gyeke-Dako 2020 contend that the majority of the micro, small and medium enterprises (MSMEs) that fall in the informal sector in Ghana are unregistered and unaccounted for in the categorizations.

The services sector has been the major driver of the Ghanaian economy, followed by the industrial and agricultural sectors. According to Gyeke-Dako et al. (2015) and the Bank of Ghana Annual Report (2019), the sectoral contribution to GDP for the services sector in Ghana has averaged 32.9% in the 1990s, 38.9% in the 2010s, and 45% in 2020, indicating an increase in contribution over two decades. Comparatively, the industrial subsector has seen a gradual growth in the contribution to GDP, averaging 24.5%, 24.8% and 25.5% in the 1990s, 2010s and 2020, respectively. The agricultural sector has seen a significant decline in the share of GDP from 42.6% to 32.6% and 25% in the 1990s, 2010s and 2020, respectively. In terms of revenue, the services sector contributes 69.8% to the economy, while industry and agriculture contribute 29.1% and 1.1%, respectively. Despite the importance of SMEs to economies, they face many challenges, which several authors have elaborated extensively (Abor & Quartey, 2010; Ayyagari et al., 2017; Beck, 2013; Quartey et al., 2017). A major challenge is access to finance which has been discussed by authors with an indication of constraints faced by this group of businesses across countries (Mohammed & Bunyaminu, 2021; Moscalu et al., 2020; Ullah, 2020). The financing gap of this group of businesses across regions has been outlined in Table 1.1. MSMEs in East Asia and the Pacific have the highest financing gaps for both micro and SMEs, representing a gap of \$278 billion and \$2,110 billion, respectively. The Sub-

Saharan African region has a financing gap of \$86 billion for micro-enterprises and \$245 billion for SMEs (World Bank, 2018).

Table 1. 1 Financing gap of MSMEs in developing regions

| Regions | Financing gap (\$billions) | |
|---------------------------------|----------------------------|------------------------------|
| | Micro | Small and Medium Enterprises |
| East Asia and Pacific | 278 | 2,110 |
| Latin America and the Caribbean | 111 | 1,098 |
| Europe and Central Asia | 140 | 636 |
| South Asia | 46 | 291 |
| Sub-Saharan Africa | 86 | 245 |
| Middle East and North Africa | 57 | 138 |

Source: Author's based on World Bank data

Businesses in Ghana are not excluded from the financing challenge. Access to finance has been noted as a major challenge SMEs face in Ghana over a period of time (World Bank Group, 2015; Turkson, Amisah & Gyeke-Dako, 2020). Studies on SMEs in Ghana further reveal that one in every two firms has challenges with access to finance, a major obstacle to their business development (World Bank Group, 2015). The challenge is even more pronounced on small and medium firms than large firms; for instance, small firms represent the least of firms (19.9%) with a bank loan, followed by medium firms which have 22.9% of loans from banks, while large firms represent 50.8% of bank loans (World Bank, 2019). Table 1.2 displays access to credit by firms in Ghana. The proportion of loans that require collateral is over 70% across the three firm sizes. Small firms are further challenged with providing 244% of collateral coverage for loans. Both medium and large firms need to provide 198% and 222% collateral coverage for loans respectively. Thus, all firms are faced with the challenge of providing collateral for loans, with small firms being the most challenged.

Table 1. 2 Access to credit by firms in Ghana

| Firm Size | Percent of firms with a bank loan/line of credit | The proportion of loans requiring collateral (%) | Value of collateral needed for a loan (% of the loan amount) |
|-----------|--|--|--|
| Small | 19.9 | 70.6 | 244.8 |
| Medium | 22.9 | 87.9 | 198.6 |
| Large | 50.8 | 95.3 | 222.8 |

Source: World Bank report on Ghana

In view of SMEs challenged financing from banks, alternative sources of financing have been used to reduce the financing gap. These are competing with traditional sources such

as banks at a fast pace. Saksonova (2018) identifies venture capital and business angel as alternative sources of finance for SMEs. The use of grants from funding agencies has been identified as well (Rupeika-Apoga, 2014). Thompson, Boschmans and Pissareva (2018) outline various alternative financing for SMEs according to the level of risk associations. While the authors identify factoring and leasing as low-risk alternative means, public listing, crowdfunding, business angel and venture capital are identified as high-risk alternative sources of financing. In between the low and high risk are different types of bonds as alternative sources of financing. The aim of the study was to understand the alternative approaches to financing of SMEs in order to bridge the existing financing gap. This is to be achieved from two perspectives: from the financial institutions innovative ways used to extend financing to SMEs aside the traditional means of lending and the SMEs perspective on what they perceive as alternative means of accessing financing for their business outside banks

2. Literature review

Diverse forms of alternative approaches to financing have been discussed in this section. Venture capital is a form of funding where investors raise funds and these funds are invested into businesses with potentially high returns (Abdulsaleh & Worthington, 2013). Venture capital is at a more mature stage in developed economies (Tykvová, 2018) than in developing countries (Esho & Verhoef, 2018). Tykvová (2018) finds a positive relationship between the success of venture capital funding and the legal framework of the investee country; hence, the more developed a country is, the more successful the venture capital environment is. Esho and Verhoef (2018) explain that the concept is at the teething stage in developing countries, and hence studies are limited. In developed countries like China, Wu and Xu (2020) find an improvement in SMEs' access to finance when the bank loans are supported with venture capital which leads to the performance of these SMEs with fewer default rates. This assertion is affirmed by Quas, Martí and Reverte (2020), who revealed that entrepreneurial ventures with venture capital backing perform better in job creation, improve assets and increase sales better than non-venture capital-backed entrepreneurs. Other studies have shown that the collaboration intensity between firms and their local partners and foreign partners has an effect on their access to finance through venture capitalists (Trunina et al., 2019).

In Ghana, venture capital is fairly new. The Venture Capital Trust Fund (VCTF) was established in Ghana by an Act of Parliament (Act 680) in November 2004 to provide financial resources for developing and promoting venture capital financing for SMEs in Ghana. This is achieved by providing financing to eligible Venture Capital Finance Companies to support SMEs; and providing monies to support other activities and programmes for promoting venture capital financing (Banking and Financial Laws of

Ghana 1998-2006, 2007). Since its inception, the VCTF has made strides in making financial resources available to SMEs by establishing alternative financing sources, namely: the Ghanaian Angel Investors Network (GAIN) and the Ghana Alternative Market (GAX) as an alternate listing on Ghana's stock market . Barnett *et al.* (2018) classify SME beneficiaries of venture capital in Ghana as job creators, service providers and market makers, where the job creators are the least preferred by investors, although they make a greater social impact.

The funding of venture capital comes from diverse sources, including governments, rich individuals and monetary agencies (Kato, 2021; Wu & Xu, 2020). For instance, in Ghana, the National Pensions Regulatory Authority (NPRA) was influenced to direct funds into the venture to promote SME development. Additionally, there were collaborations with the Ghana Stock Exchange to promote SME listing, including assisting with funds to cover upfront costs in listing SMEs on the market (VCTF, 2016). Although the fund has gained some strides, including investing in SMEs in agriculture, health and education , it is challenged in terms of gaining autonomy from government and political influences, ensuring sustainable funding and strengthening the internal technical capacity (VCTF, 2016). Additionally, a more diverse set of investment strategies to include debt, quasi-equity, equity, impact, and growth could benefit growth-oriented SMEs in Ghana (World Bank Group, 2019). In other jurisdictions, venture capital has been a major source of finance for SMEs due to how well structured and funded the ventures have been developed (Lungeanu & Zajac, 2016). Barnett et al. (2018) report that the social impact of the VCTF in Ghana is undervalued, as there are indirect impacts such as indirect job creation, value added to rural and lower-income groups. The authors suggest that the level of investment requirements for SMEs ought to be properly measured. There is a growing interest in venture capital investment into African countries such as Nigeria, South Africa, Ghana and Egypt (Kato, 2021).

Dibrova (2015) describes business angels or angel investors as wealthy individuals who provide capital or financing for new business ventures, usually a start-up, in return for convertible debt or equity. They are thought of as a bridge between loans from family and friends and venture capital amongst start-ups. According to the European Business Angels Network (EBAN) angel investors invest their time, expertise and connections in the businesses they finance. Business Angels play a similar role and are classified as private investors in start-up businesses who mentor and advise their investees (EBAN, 2021). Business angels may organise their activities in three different ways: by joining business angel networks or associations, by co-investing with other investors (angels) and by working on their own as independent investors (Dibrova, 2015). Bonini et al. (2018) reveal the investment behaviour of business angels who operate in associations

such as EBAN. They conclude that the shared information, networking, monetary, and risk determines how much personal wealth an angel investor commits to a particular venture. SMEs, on the other hand, require funding from different sources, including trade finance, equity financing/angel investor, loans, and informal sources of finance, with trade credit being the strongest form of finance in a developing country context (Muturi & Njeru, 2019). Jabeen, Ali and Ali (2021) show gender, type of business and sectoral preferences in sources of financing by SMEs in Pakistan, with businesses owned by men prioritizing angel financing, leasing and hire purchase, while partnership entities prefer retained earnings. Service sector businesses prefer to hire purchase, while agricultural entities prefer leasing.

The investment activities of angel investors are limited in developing countries, contributing to SMEs' access to finance challenges (Ayyagari et al., 2017). Particularly, the Ghana Angel Investor Network (GAIN) was the first angel investors' network that resulted from the innovation of the VCTF. GAIN is at its early stage and comprises a network of 25 high net-worth individuals and accomplished entrepreneurs from various industry sectors (VCTF, 2021). This suggests that angel investors are not prevalent and well-developed in Ghana as a key player in financing businesses at various stages. Biest and Wyss (2019) reiterate that few options exist for SMEs in Accra's (Ghana) external financing through business angels or venture capital. However, the role of business angels and the potential in expanding financing options of SMEs in Ghana cannot be over-emphasised (Owusu et al., 2017).

Gupta and Gregoriou (2018) argue that capital market-based financing for SMEs is progressively becoming an alternative means by which SMEs can access external financing. Hence policymakers are creating an enabling environment for SMEs to meet the stringent requirements. Ullah (2020) shows that there are disparities in the growth of businesses and considers that businesses in countries with a strong stock market presence amongst other conditions face fewer financial constraints than countries with weak stock markets. The flow of remittances has also been used to assess the level of development of bank and stock markets in developing countries such that countries with low inflows of remittances promote the banking sector development but slow stock market development. In other words, stock markets promote high remittance inflows (Issahaku, Abor and Harvey (2017). Nguyen et al. (2020) argue that countries in the tropical economies are at the developmental stages of the stock markets and the dependent institutions, which requires some level of efficiency to develop.

Johnson and Kotey (2018) assessed the influence of the Ghana Alternative Market on SMEs and the economy and discovered the market was fraught with challenges and stagnated growth. The authors found a lack of knowledge on the part of SMEs on the requirements and the benefits of listing on GAX, whilst at the same time, the stakeholders

needed to invest in the education of the SMEs. Acquah-Sam (2019) argues that GAX had not achieved its objective of listing at least 50 SMEs by the end of 2020. The associated challenges are two-fold: first, investors are scared of the failure of start-ups and existing SMEs and are committing low investments. Secondly, the associated cost of listing and the requirements should be scaled down to suit SMEs. In other words, the stock market has the potential of enabling SMEs to access finance, but the achievement of this objective is far reaching.

3. Methodology

The study used the exploratory sequential mixed-method approach, where participants from financial institutions were first interviewed using an interview guide. To address the objective of assessing alternative financing for SMEs, ten financial institutions in Ghana were targeted out of the twenty-three at the time of the study and seven, representing 70% of the target responded and granted permissions for the interviews. Using an interview guide, the researcher personally conducted and recorded each of the interviews. The questions were open-ended to solicit information from the participants. The recorded interviews were transcribed into Microsoft Word and analysed using thematic analysis. Following Creswell's (2012) approach to analysing qualitative data, the data was organised by first developing a table of sources and grouping the interviews according to the participants, followed by typing out the audio recordings into text information in Microsoft Word document. After thoroughly reading through the information, the data was put in themes according to the responses received and thereafter analysed for the writing of the report.

The quantitative data collection was undertaken after the qualitative phase. A questionnaire was developed for this second phase, where SME owners/managers provided information relating to access to finance. A total of 800 SMEs in the service sector were targeted for the quantitative aspect of the study and 663 responded, representing 82.7%. The results of the data analysis were presented in the form of descriptive analysis such as frequency tables and interpreted statistically.

4. Findings

4.1. Qualitative findings

Participants were asked to suggest alternative approaches of financing used to extend credit to SMEs aside the traditional forms. The findings are discussed in this section. The various types of financing the financial institutions provide to SMEs include SME loans (short-, medium- and long-term loans), personal loans to SME owners, microloans, working capital loans, overdrafts, investment financing, credit guarantees, and asset

financing. The participants admitted their institutions offered these credit facilities depending on their mandate as a bank and their focus on lending in a particular year. The suggested means by which SME financing can be increased and the alternative approaches to SME lending are outlined below.

Organize SME clinics – Having identified that SMEs have challenges, four of the financial institutions indicated that they do organize SME clinics for their customers. This is when they educate their customers on how to do basic book-keeping by recording sales and purchases, stock taking and using technology in their activities. The clinics also help SMEs in the areas of accounting, marketing, good management practices, and taking their revenues to the bank in order to build a history with their bankers. One respondent stated that SMEs have a notion of not repaying loans and so the clinics and training programmes organized for them also include trying to change that mindset. Advice is also given on the lack of succession planning associated with SMEs and any challenges that Financial Institutions identify with SMEs. These clinics are used as an opportunity to discuss best practices. Other financial institutions call SME clinics *help stations* as they provide diverse assistance to their SME customers.

Focus on women-owned SMEs – Two of the financial institutions indicated that they would rather lend to women-owned businesses than male-owned, as women repay their loans more than men, and this is consistent with several studies on female-owned SMEs (Ali, 2018; Naegels et al., 2021; Pergelova et al., 2019). One financial institution has a banking product specifically for women, where they groom the women to grow their businesses and link them up to stakeholders in their businesses to encourage them. The Financial Institutions provide credit facilities to them at various stages of their businesses. Their statement is captured below:

“We also identified that most of these SMEs who are more reliable are run by women. The women traders are much more disciplined than the male business people so we also try to focus more attention on the women, develop special products to assist the woman” (FIA).

The SME ownership was stated as a factor that determines access to finance by one respondent. The statement is captured below:

“One of the things I have seen with the SMEs is, in 90% of the cases, if the husband and wife come to you for a facility, that facility will perform very well. If the husband comes

alone it's a danger. If the woman comes alone - 70% they will pay. So, I am more comfortable giving loans to the women than giving it to men" (FIB).

The findings from the interviews suggests that Financial Institutions are more willing to give credit facilities to women-owned SMEs than male-owned SMEs.

Develop Product Papers – The financial institutions develop a product paper for specific segments or sectors of businesses by understanding the general activities and the business cycle. Instead of assessing the SMEs within a particular segment on a case-by-case basis, the general characteristics are used to develop a product paper to suit them to make it easy to avail funds to them when any business within that segment approaches the institution for a credit facility. Other Financial Institutions also call these product papers as *schemes*. One financial institution has a pharma scheme (for pharmacists) and a distributor scheme for their SMEs and other schemes based on their segment. The product paper becomes generic so that when any SME meet the qualifications, the process of assessing the customer becomes short (checking boxes) and quick decisions are made within twenty-four hours for some or within thirty-six hours for others.

Cheap sources of funds – From the interviews, it was gathered that financial institutions could also help SMEs by obtaining cheap sources of funding, specifically meant for SMEs or, better still, grants aimed at helping the SME have access to finance. Some respondents suggested these:

"...I think that the banks themselves must have access to cheap sources of funds first of all, so that they can give the loan out at very attractive rates so that the loan doesn't become a burden on the client" (FIE).

One respondent sums up all the above assistance to SMEs to improve their credit access in this way:

"... change their (SME's) mentality of not paying for loans, get their books in order, banks need to understand the sector better, set funds aside for lending to SMEs without collateral, profile customers well..." (FID).

Tie lending to receivables:

A suggestion from a participant was to lend mainly on a transactional basis, where the receivables from the transaction come in to pay for the credit facility when it is due. This is consistent with Duqi, Tomaselli and Torluccio's (2018) study on lending technologies.

The participant cited an instance that, if one of their SME customers had a contract with a service provider that was in the institution's good books, and the SME customer raised an invoice to the client, it took the client 30 to 45 days to make the payment. This way, the bank could discount that invoice (at 75%, for instance) and hold it as security. The client, however, must be reputable with a good track record.

"If it is also based on a contract and a contract that we have checked and are okay with, we can go ahead and advance money or maybe the contract employer is going to guarantee it, then we will consider that." (FIA)

Grants from funding organisations

According to participants, donor organisations sometimes provide funding for SMEs through their banks. Therefore, if an SME falls within the specific sector and meets the other criteria the grant is set out for, they can qualify for funding. However, the funding organisations expect the financial institutions to take the SMEs through the banks' risk assessment before lending to them. It is the participating institution's responsibility to ensure such grants are repaid. And for an institution that is more corporate or large businesses inclined, the SME business will also be assessed on that same basis. SMEs that pass the risk assessment and fall in the category of funding from a grant are more likely to receive financing.

"Currently, we do not provide any grants. Again, it is all set out in the credit arrangement because even when we have partnership with donor organisations who want to support SMEs, they still channel it through our credit processes." (FIC)

Start-up clubs

According to a participant, SMEs should be able to form associations to help one another to get financing. Most of the participating financial institutions required SMEs to open and operate bank accounts with them for at least six months and up to eighteen months before they could apply for a credit facility. This leaves out start-up SMEs. In the start-up clubs, SMEs get to know what each member does, and they rely on one another for services they can obtain from within the club. SMEs that join start-up clubs in financial institutions are more likely to receive alternative sources of financing through the club than those that do not belong to any start-up club.

"...so that is why we formed the Start-up club, so what we encourage them to do is to know what everybody does in the group so you only come to us when you really need it.

...the barter system... if this SME needs money for building they can partner another SME who is into building but would need other services (e.g. with computers) ...” (FIF)

Financing from investments or savings

One of the suggestions from the financial institutions regarding alternative approaches to SME financing was that the SMEs should invest in the business by using their equity earnings before approaching a bank for financing. One respondent put it this way;

“I feel they themselves should be able to help by putting in some equity. Again, you can save small. If you come to me and say I have 60%, give me 40%, it’s more reasonable than saying: give me 100%.” (FID)

Lending Schemes

Participants intimated they had various schemes for their SMEs. These were based on the business type; for instance, a pharma scheme for SMEs in pharmaceuticals, a distributor scheme for distributors, and so on. These products meet the specific financing needs of the SMEs that fall within those specific segments. The participants had developed these schemes based on experience in dealing with SMEs and in meeting their specific needs. The participants also encouraged SMEs to form group schemes where members could contribute to, and members could borrow amounts from the group and approach a bank for financing when the required amounts were beyond the group scheme.

“If it’s a pharmacy, we have a pharma scheme; if it’s a distributor, we have a distributor scheme for them... in all those areas we’ve mentioned that come with SMEs, we do have products for them.” (FIF)

“Among themselves they can come together to form associations that will cater for these needs. From monthly contributions if members need help, they can do that to help them. Like a group scheme, they themselves can help themselves, not necessarily going to a bank to borrow.” (FIF)

4.2. Quantitative Findings

Participants had the option of choosing the likelihood of their firms using an alternative source of financing from a five-point Likert scale as follows: Very Unlikely, Unlikely, Neutral, Likely and Very Likely. The alternative sources listed were venture capital, stock market, mobile data-based funding, angel investors and factoring.

To ensure reliability and consistency of the Likert-scaled items in the questionnaire, the Cronbach’s α (CA) coefficient was computed. A coefficient of 0.70 is said to be

acceptable in most social science research, even though other scholars suggest a reliability alpha of 0.60 is also acceptable (Cortina, 1993; Peterson, 1994). To test the reliability of the items in the scale, the reliability analysis was done using the Statistical Package for Social Sciences (SPSS version 22) and a Cronbach's alpha of 0.694 was obtained and deemed acceptable. The individual items' reliability of the scale for measuring the alternative approaches to financing has been outlined in Table 1.3..

Table 1.3. Cronbach's alpha test items on alternative finance

| Item Total Statistics | | | | | | |
|--|-----|----------------------------------|---|--|------------------------------------|--|
| Overall Cronbach's alpha index = 0.694 | | | | Number of items = 5 | | |
| Item | No. | Scale Mean if Item Deleted | Scale Variance if Item Deleted | Corrected Item-Total Correlation | Squared Multiple Correlation | Cronbach's alpha if Item Deleted |
| Venture capital | 662 | 10.55 | 11.991 | .482 | .276 | .631 |
| Mobile data-based lending | 662 | 11.10 | 13.044 | .480 | .251 | .633 |
| Angel Investors | 662 | 10.06 | 12.504 | .436 | .208 | .652 |
| Stock market | 662 | 10.95 | 12.753 | .437 | .212 | .650 |
| Factoring | 662 | 11.26 | 13.936 | .421 | .215 | .658 |

Source: primary data

In the discussion, the responses for 'likely' and 'very likely' were reported as 'Likely' and responses for 'very unlikely', 'unlikely' and 'neutral' were reported as 'Unlikely'. Financing through angel investors was likely to be used by 57.3% of participants, and 42.7% were unlikely to use angel investors as a form of alternative financing for their businesses. Venture capital was likely to be used by 41.3% of respondents, but 58.7% were unlikely to use this as an alternative form of financing. Both angel investors and venture capital have been used in other developing economies as alternative financing approaches (Rupeika-Apoga, 2014; Thompson et al., 2018). Twenty-seven percent of participants were likely to use financing through the stock exchange but 73% were unlikely to use financing from the stock exchange. Gupta and Gregoriou (2018) suggest that, though it is difficult for SMEs to be listed on the stock exchange due to stringent requirements, governments have reduced the measures. For SMEs that are listed, they have better access to finance and improved information asymmetry. Mobile data-based lending and factoring were unlikely to be used by 80.3% and 88.5% of respondents, respectively. Table 1.3 indicates the alternative financing sources for SMEs in the services sector.

Table 1.3 Alternative financing sources

| Alternative Financing | Mean | STD | Very Unlikely n (%) | Unlikely n (%) | Neutral n (%) | Likely n (%) | Very Likely n (%) |
|--------------------------------|------|-------|------------------------|-------------------|------------------|-----------------|----------------------|
| Angel Investors | 3.42 | 1.376 | 93 (14.0) | 92 (13.9) | 98 (14.8) | 205 (30.9) | 175 (26.4) |
| Venture capital | 2.93 | 1.403 | 145 (21.9) | 135 (20.4) | 109 (16.4) | 168 (25.3) | 106 (16.0) |
| Stock market | 2.53 | 1.325 | 202 (30.5) | 144 (21.7) | 138 (20.8) | 120 (18.1) | 59 (8.9) |
| Mobile data-based lending | 2.38 | 1.200 | 203 (30.6) | 168 (25.3) | 160 (24.1) | 99 (14.9) | 32 (4.8) |
| Factoring (cheque discounting) | 2.22 | 1.107 | 231 (34.8) | 152 (22.9) | 204 (30.8) | 55 (8.3) | 21 (3.2) |

Source: Survey data

From the analysis, service sector SMEs prefer angel investors and venture capital as alternative financing. Angel investors bring relief to business financing. In many countries, they are supported by governments whose macro-economic and institutional factors influence SMEs' access to such financing (Bongini et al., 2019; Ding & Li, 2021). Whereas the Venture Capital Trust Fund in Ghana is in its growing stage, the impact on businesses in such areas as growth, reducing unemployment rate and information asymmetry challenges cannot be over-emphasised (Barnett et al., 2018; Gomes et al., 2013).

5 Conclusions

Despite the SME challenges, the financial institutions have found alternative approaches to financing SMEs. In this study, they tie lending to receivables for SMEs that had receivables from reputable organisations. Additionally, they resorted to using grants from donor agencies for lending to specific sectors and lending to SMEs through group schemes. Furthermore, the financial institutions have used start-up clubs to finance start-up SMEs. Several scholars suggest alternative means of lending to SMEs, including digital banking and technology, to bring banking to the doorsteps of SMEs (Owens & Wilhelm, 2017; Sheng, 2020; Thompson et al., 2018). On the other hand, SMEs suggested they were likely to use angel investors and venture capital as alternative external sources of financing. Venture capital and Angel Investors are at the early stages of growth in Ghana and their impact on SMEs is yet to be fully measured apart from job creation (Barnett et al., 2018).

The study therefore has policy implications for stakeholders including governments, financial institutions and business owners to create an enabling environment for the growth and establishment of angel investors and venture capitalists.

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