FINANCING FAMILY BUSINESSES IN GHANA - CHALLENGES AND THE WAY FORWARD

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Abstract: The significant role family businesses play in economic development process has been well documented (Dannreuther and Perren, 2013; Ayyagari et al., 2007; Davidsson and Henrekson, 2002). Studies have been conducted on family business management, business planning and to some extent on venture creation but this paper focuses on financing options in Ghana.

Studies conducted in Ghana on some selected family business revealed that there is no clear distinction between family businesses and non-family businesses with regards to the sourcing of finance for their businesses, hence, no special financial package exist solely for family businesses. Most family firms fall under the micro, small and medium scale enterprises (MSMEs) and therefore benefit from any package for these MSMEs.

Small and micro enterprises in Africa are mostly family-run, and play an important role in employment creation and economic development. This has been the growing trend not only in Africa, but in other developing economies around the world.

Considering the important role family firms play in the development of the nation, it is high time the authorities in the country recognized and treat them in a manner they deserve accordingly. Having access to finance gives MSMEs the chance to develop their business and to acquire better technologies for production, thereby ensuring their competiveness. However, there is a huge challenge for MSMEs globally when it comes to sourcing for initial and expansion capital funds from traditional commercial banks. The situation is even dire in developing countries and for Ghana in particular where, access to and cost of credit is so prohibitive.

Micro, small and medium scale enterprises often cite inadequate finance, coupled with high interest rate charged by the traditional banks when accessing loans, as the major constrains on the day to day running of their businesses, which family businesses are included. (Parker et al, 1995).This high cost of financing is often associated with financial policies and bank

practices that make it hard for banks to cover the high costs and risks involved in lending to small firms. (Aryeetey et al 1994)

This paper assesses the challenges family businesses goes through when accessing financial assistance from the traditional financial and governmental institutions. The second part of this research also look at alternative and less expensive sources available for financing family businesses in Ghana, and review some state interventions previously meant for financing MSMEs in the country.

The third section considers the financial system in Ghana, looking at the products designed specifically for micro, small and medium scale enterprise development.

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1.0 INTRODUCTION

Supply and access to capital are critical to stimulating entrepreneurship, family business and economic growth. The International Finance Corporation estimates that up to 84% of small and medium-sized enterprises (SME's) in Africa are either un-served or underserved, representing a value gap in credit financing of USD 140-170 billion. ('Barriers to Finance Africa's SME's', ABN Digital, 2011). Currently, the main sources of capital for small and growing enterprises are retained earnings, and investments from family and friends. Majority of African entrepreneurs use family loans to finance their .business, whilst other used private equity. However, once these sources are fully exhausted, entrepreneurs face the challenge of tapping other sources of capital such as bank loans. Bank lending policies, however, favour more well-established firms compared to new companies, given their limited or non-existent historical financial and bank records.

Small and medium-sized enterprises (SME's) and micro small and medium-sized enterprises (MSME's)are the backbone of all economies and are a key source of economic growth, dynamism and flexibility in advanced industrialised countries, as well as in emerging and developing economies. MSME's constitute the dominant form of business organisation, accounting for over 95% and up to 99% of enterprises depending on the country. They are responsible for between 60-70% net job creations in OECD countries. Small businesses are particularly important for bringing innovative products or techniques to the market. (OECD, 2006)

Micro, Small and Medium Enterprises in Ghana are said to be a characteristic feature of the production landscape and have been noted to provide about 85% of manufacturing employment of Ghana (Aryeetey, 2001). MSME's are also believed to contribute about 70% to Ghana's Gross Domestic Product (GDP) and account for about 92% of businesses in Ghana. MSME's therefore having a crucial role to play in stimulating growth, generating employment and contributing to poverty alleviation, given their economic weight in African countries. MSME's development can encourage the process of both inter and intra-regional decentralization; and, reckon force in catching up with economic superpowers of larger economies in the developed world. More generally, the development of MSME's is seen as accelerating the achievement of wider socioeconomic objectives, including poverty alleviation (Cook and Nixson, 2000).

Microsoft may be a software giant today, but it started off in typical MSME fashion, as a dream developed by a young student with the help of family and friends. Only when Bill Gates and his colleagues had a saleable product were they able to take it to the marketplace and look for investment from more traditional sources.

While not every small business turns into a multinational, they all face the same issue in their early days – finding the money to enable them to start and build up the business and test their product or service.

Available literature is clear on the fact that small businesses mostly have problems accessing funds from finance providers to finance fixed assets and working capital for their operations (Tucker and Lean, 2003). The presence and nature of a 'finance gap' for small firms has been debated for decades, ever since the Macmillan Report (Macmillan, 1931). In the work of Blanton and Dorman (1994), small firms are frequently under-capitalized. That is, the term structure of loans granted to SME's does not suit their needs. Blanton and Dorman (1994) argue that even when SME's are given credit, they are often granted short-term loans and therefore they have no option but to depend on short-term and informal credits in financing their long-term needs such as acquiring new equipment (Riding and Short, 1987).

In spite of the significant role SME's play in socio-economic development of developing countries in general and Ghana specifically, the sector continues to be plagued with myriad of challenges such unstable government policies, gross under capitalization, high operating costs, lack of clear cut government support and assistance, and difficulty in assessing credit from financial institutions and banks (Aryeteey, 2008). The one most pervasive and predominant challenge which confront SME's and hinder majority of entrepreneurs from success is the finance factor (UNCTAD, 1995, 2001; SBA, 2000).

Financing family business is not a not an easy task, especially when financing with debt capital, but the problem worsens when financing is through equity. (Ward, et al 2005). The formal financial sector of the economy constitutes the most reliable source of creditor most SME's in the advanced countries and some emerging economies in the Far East, than it is for Africa.The cost of capital charged by banks and investors is often so high that it impedes the entrepreneur's profitability. In some cases, banks require 150% of the borrowed amount in collateral, thereby automatically disqualifying many from funding eligibility. Government funding is also viewed as difficult to access due to the bureaucracy and nepotism involved in the process.

Family businesses have the special characteristic that ownership is held by the members of a family or kin-related group, especially where the family firm is shrouded with family values and principles, which does not allow external ownership in the form of public equity. (Adams, Manners, Astrachan, &Mazzola, 2004), this have the tendency of limiting capital mobilization to what the members can contribute.

Factors that likely affect financing and investment decisions in family business include family culture, family cohesion, age and size of the family and firm, individual and family risk orientations, entrepreneurial characteristics, capital structure including level and type of debt (short- vs. long-term), and family and business goals (Naldi, Nordqvist, Sjo¨ berg, &Wiklund, 2007).

Having access to finance gives MSME's the chance to develop their business and to acquire better technologies for production, therefore ensuring their competiveness. However, there is a huge challenge for family businesses globally when it comes to sourcing for initial and expansion capital funds from traditional commercial banks. The situation is even dire in developing countries and in Ghana in particular where, access to and cost of credit is so prohibitive

The difficulties that MSMEs including family business encounter when trying to access finance can be due to an incomplete range of financial products and services, regulatory rigidities or gaps in the financial legal framework, lack of information on both the bank's and the MSME's side. Banks may avoid providing financing to certain types of MSMEs, in particular, startups and very young firms that typically lack sufficient collateral, or firms whose activities offer the possibilities of high returns but at a substantial risk of loss.

MSMEs tend by their very nature to show a far more volatile pattern of growth and earnings, with greater fluctuations, than larger companies. Their survival rate is lower than for larger companies – one analyst found that manufacturing firms with fewer than 20 employees were five times more likely to fail in a given year than larger firms. Thus, MSMEs are at a particularly severe disadvantage when trying to obtain financing relative to larger and more established firms.

It can also be difficult for potential creditors or investors to distinguish the financial situation of the company from that of its owners. The entrepreneur may have re-mortgaged his or her house to acquire the start-up funds for the company, for example. If there are two cars in the driveway, can one or both be considered part of the company's assets? If the owner dies, is there someone to take over the business or will it dies with him or her?

The MSME may have several stakeholders, but again unlike a large company, they are likely to be the friends and family of the SME owner. What happens if one of them decides to take his or her money elsewhere? (www.oecd.org/publications/Policybriefs)

Financing has therefore remained one of the key managerial problems decision that keep confronting business enterprises in Ghana today. For the family businesses, the accessibility to funds and the cost of raising them have remained issues limiting the in-capitalisation requirements leading to premature collapse of many enterprises.

Getting access to finance has continued to be the major leading problem faced by MSMEs in Ghana. The government of Ghana business policy paper in May 2001 stated that, about 80% of MSMEs operators started their businesses with their own capital with sometimes minimal help from relatives and friends. The banks requirement of collateral such as land, house, cars from MSMEs operators to guarantee loans given are beyond the reach of most entrepreneurs .This collateral demands stems from the perception of high risk associated with MSMEs and the view that most of them are one man owned business which have no future of continue operating once the owner dies. As a result, MSMEs often cannot obtain long term loans in the form of debt and equity from financial institutions.

2.0. FINANCIAL INSTITUTIONAL SYSTEMS IN GHANA

The financial landscape of Ghana has gone through significant changes over the past three decades. Currently, in Ghana, it appears new banks are born every month with branches all over the country, unlike the past decades where only few commercial banks existed which were in the hands of the government and few private individuals.

The finance services industry encompasses a broad range of organizations that deal with the management of money. In Ghana, the financial services industry is categorized into three main sectors:

- Banking and Finance (including Non-Bank Financial Services and Forex Bureau)
- Insurance and

- Financial market/capital markets

The operating institutions include both foreign and local major banks, Rural and Community Banks (RCBs), Savings and Loans Companies (SLCs) and other finance and leasing companies with the Bank of Ghana (BOG) being the central bank. The Bank of Ghana (BOG) is the overall supervisory and regulatory authority in all matters relating to banking and non-banking financial business in Ghana. The Bank of Ghana (BOG) is therefore, charged with the responsibility of ensuring that the financial system is stable to ensure that it serves as a facilitator for wealth creation, economic growth and development.

The formal banking institution in Ghana has previously been dominated by the state and a few foreign owned until 1983. In fact they had a monopoly over the entire banking sector as regards their spread and operations. With the exception of two banks – Barclays and Standard Chartered Banks, the country could not boast of any other foreign banks in the entire financial system. Surprisingly, these banks operations were limited to only the regional capitals and few other cities in Ghana, leaving the rural areas.

This brought into existence the establishment of rural banking concept in 1983, to provide banking services for rural areas in Ghana and to bridge the gap between rural and urban financing.

There were few non-banking financial institutions in the country during those periods, which included the State Insurance Corporations and Great African Insurance Company. Their activities were also limited to the cities and deals with only the larger companies and corporations. This explains why till now most micro, small and medium enterprises, which include family firms, do not patronize their services. Majority of Ghanaian business communities do not even know the role of the non-banking financial institutions in the development of MSMEs.

Due to political instabilities and undemocratic rule during the period before the return to constitutional rule in 1992, there were a lot of decrees passed by the then government which limited the activities of these financial institutions as well as business owners. In 1979, there was one policy decree where individual households were made to send their foreign currencies to the central bank for local currency, and made it criminal for individuals not to posses' foreign currency, also in 1982, there was another decree leading to the seizure of fifty cedi notes from the public, and later was declared illegal, the use of the fifty cedi note, which ironically was the highest denominations at that time.

There was also the freezing of bank deposits in excess of 50,000 cedis, whiles bank loans for financing trade inventories and business deals of more than 1,000 cedis was required to be conducted by cheque, all in an attempt to reduce money supply and hence inflation.(Bank of Ghana and Quarterly Digest of Statistics). These interventions had negative impact on business, since every rich business operator was considered criminal, and also discourage savings, and individual bank accounts were subject to severe scrutiny.

It was later realised that when encouraged and supported, the micro, small and medium scale enterprises will be the engine of growth. This was the recommendation given be the National Board for Small Scale Enterprises in 1989, a body established by the government for the welfare of small and medium scale enterprises which includes most family businesses, after undertaking a nationwide survey on MSMEs. In response to this and among other factors, the then government headed by a military leader, Flt. Lt Jerry John Rawlings. and backed by the International Monetary Fund initiated and introduced the famous Economic Recovery Program (ERP) which sought to introduce three major policies, to raise the level of investment, to change the sectoral pattern of investment, and to keep interest rate both low and stable.

Until recently real interest rates on deposits have been negative, due to low interest rate on savings, people were rather keeping cash in their homes, and also for the fear of been monitored by the state, this reduced the money in supply, thereby reducing inflation which was the target of the then government. This policy restricted the lending capacity of the banking industry to the MSMEs. Prices of goods and services were forced down drastically due to price fixing policies, known in Ghana as 'control price'. This was disincentive to production and the circle went on and on.

Low rate of financial innovation and poor quality of service throughout the financial sector could also be identified as another attribute of the pre-liberalization era of the Ghanaian financial system. Two reasons account for this development. In the first place, the financial system itself was a very young institution in Ghana at that time. Since financial development is a gradual process it is only natural that the amount and rapidity of innovating financial instruments were lacking in that sector.

Secondly the lack of competitiveness in the system as a result of the controlled environment under which the sector was operating was enough reason for the disappointing performance of the sector as regards its innovation and ability to render quality service. After all there did not seem to be incentives, anyway for such qualities under a restricted financial system. There were thus a limited variety of financial instruments.

The ERP brought some reforms in the financial system of Ghana by removing the controlled interest rate, and sectoral credit ceilings. Access to foreign currency, and establishment of foreign exchange bureau in the country helped the local business to go international.

In 1989, the Financial Sector Adjustment Programme (FINSAP) was introduced, with the support from Financial Sector Adjustment Credit (FSAC) and the World Bank. The major objectives of FINSAP were to address the institutional deficiencies of the financial system, through restructuring the distressed banks, formulation of prudential legislations, supervisory role, and financial liberalization where new entry into the financial markets by public or private sector were made possible.

Further liberalization of the financial market was introduced in 1992 which allowed interest rate to be linked up with market determined Treasury bill rate.

The second phase of FINSAP took off in 1994 with the main aim to privatize all state own banks therefore bringing competition and full cost recovery in the banking sector.

3.0. TRADITIONAL SOURCES OF FINANCE FOR FAMILY BUSINESSES IN GHANA

3.1. Debt finance

This is the first option that most people consider when looking to raise money to finance a business. Banks nowadays are much more careful to whom they loan money to and unless you have a good relationship and a good credit rating this option is difficult.

The lack of access to financial services from the formal financial system is quite striking, when one considers that in many African countries family business represents the largest share of the population and an engine for economic growth and that the informal sector is an important part of the economy.

To meet unsatisfied demand for financial services, a large variety of microfinance institutions (MFI's) has emerged over time in Africa. Some of these institutions concentrate only on providing credit, others are engaged in providing both deposit and credit facilities and some are involved only in deposit collection (Basu et al, 2004).

Over the years, financing business through debt has been the most popular choice for most businesses, small, large, start-ups and for their expansion. Debt financing ranges from long term, medium term to short term.

Research reveals that micro, small, medium scale enterprises access the medium and short term loans. Long term debt financing ranges from five year and above, Medium term ranges from one to five years, whiles the short term involves the overdraft from a month to six months.

The formal financial sector in Ghana which disburses such loan facilities comprises commercial banks, developmental banks, rural banks, savings and loan companies, credit unions, and other non-banking financial institutions.

A change in the banking law and operations in Nigeria saw some banks moving to Ghana where the banking laws were in their favour especially on the capital requirement. This brought about intense competition in the banking sector in Ghana, and as a result, attentions were directed from the traditional operation lines (dealing with larger firms) to non-traditional areas (micro, small and medium firms).

Recently, as banks and other financial institutions have sought to broaden their loan portfolio due to competition and innovativeness, MSMEs has become an increasingly attractive customer group which hitherto, were not considered at all, even if considered, a lot of caution was taken because of high default rate and other risk associated with the sector.

Only few innovative banks have specific loan products for micro, small and medium scale enterprises other than donor funded facilities. Few banking institutions have separate desk or departments for MSMEs. For the others, lending to micro and small businesses is simply transacted by credit officers from corporate finance departments of the bank who generally apply the same appraisal and lending principles to MSMEs. None of the commercial banks visited have any specialized training for credit officers in proven MSME lending techniques, and most credit officers do not have any prior MSME specific experience.

Studies conducted on a cross-section of the financial institutions in the country revealed the following.

1. The traditional banks have no separate and special lending policies for MSMEs; they treat them the same way as they treat larger firms in their loan disbursements.
2. Terms and Conditions are not favourable to MSEM, loans financed out of the normal business portfolio of a commercial bank are granted for 12 months or considerably less, secured by deposits or other sources with a view to categorize it as a "secured loan" under Bank of Ghana conditions, and carries the upper band of interest rates. Most family firms cannot secure their loan requirement; hence they do not benefit from such loan facilities.
3. Commercial banks do not integrate MSME finance effectively into their existing organizational structure. Four (4)out of the seven (7) surveyed banks and Savings and Loans organizations have a separate MSME desk. MSME lending below a certain threshold are initiated and processed by the bank's marketing department since MSMEs are targeted primarily with a view to attracting their deposits with small loans granted only to establish initial client contact and lending to MSMEs are transacted by credit officers from corporate finance departments of the banks.
4. Majority of financial institutions service MSME clients with a package modified from their existing smaller "light" corporate clientele. As a result, there is strong emphasis on business documentation and financial reports, which are not in existence in most family businesses.

3.2. Equity Finance

Long term financing in terms of public equity capital, required for rapid growth and expansion in the family firms are virtually not in existence in the Ghanaian business circle. Even if it were to be in existence, the nature, aims, culture and other guided values and principles, may not encourage it.

Only two commercial venture capital funds have been established in Ghana over the past 10 years. In 1991, U.S. Agency for International Development ("USAID") and the Commonwealth Development Corporation ("CDC") initiated the formation of a venture capital fund in Ghana in response to an increasing demand and also to bridge the gap between short-term and long term loan facilities in the context of Ghana's financial sector reform program.

USAID provided a $1,094,000 grant to underwrite the operational expenditures over a three year period ending in 1994, while CDC's $2 million commitment to GVCF was leveraged for an additional $3.8 million in invested capital from developmental finance and local institutions.

The combined investment capital thus became $5.8 million. The GVCF became operational in November 1992, and was fully invested with 13 investee companies. The average investment was $250,000.In addition to managing the GVFC, VFMC in 1995 was awarded the management of a $4 million Enterprise Fund, promoted by the European Union which is also fully invested with 18 direct investee companies and 12 indirect (through leasing) investee companies. The average size of investment by the Enterprise Fund was $100,000.

Even though, the idea behind the establishment of the venture capital fund was laudable, yet most MSMEs including family businesses were not able to access these facilities. The causes range from total ignorance of the existence of such facilities, inadequate qualified professionals and also the risk and costinvolved in managing ,shareholding in SMEs have so far rendered those investments not interesting.

Most family businesses are inwardly looking, therefore do not endorses the inclusion of external bodies in the running and managing of their businesses, in which venture capital sought to.

4.0. GOVERNMENTAL SUPPORT THROUGH VARIOUS AGENCIES

Family businesses and other MSME's have played important roles in the development process in most developed economies, and have proved to be the most viable engines of economic growth and development. The successes recorded by these countries were because of serious consideration of the future rewards from sustained investment in this sector. Due to their size and scope of operations, these enterprises require relatively small capital investment to start, thereby offering a relatively high labour-to-capital ratio. They also demands low technology and managerial skills, which are readily available within the society. In Ghana there are various governmental agencies which provides support for these family businesses. Some of these agencies are discussed below.

4.1. The National Board for Small-Scale Industries:

Realising the need to support these enterprises, the National Board for Small-Scale Industries (NBSSI) was established by an Act of Parliament of the Third Republic of Ghana

(Act 434) to contribute to the creation of an enabling environment for MSME development and also, provide a non-financial support for sustainable MSME development. One of the major functions of NBSSI is to research and identify new opportunities for the MSEM sector, also to assist in the finance of MSMEs.

The National Board for Small-Scale Industries (NBSSI) has positioned itself adequately to transform the micro and small-scale enterprises from subsistence orientation to a commercially attractive and dynamic sector capable of making a substantial contribution to the growth of the economy. Government through the board, had established a number of schemes to assist micro and small scale businesses to expand their activities.

The NBSSI, a public funded organisation is the apex body charged with the responsibility for the promotion and development of the MSMEs in Ghana. The present form of the NBSSI has the following main objectives:

- Contributing to the creation of an enabling environment for small-scale enterprise development.
- Contributing to the development of an enterprise culture in Ghana.
- Providing non-financial support for small-scale business development.
- Facilitating access to credit for small-scale enterprises.
- Promoting MSEs sectoral associations.

The NBSSI is further supporting the MSMEs with technical and advisory services through its regional Business Advisory Centres (BAC) found in the 10 regions of the country. It provides training to the MSMEs in preparation of business plans, book keeping and simple business management practices. The BAC also assisted and advice MSMEs owners to choose the best machinery which cost less but effective for their business operations. They also carried out feasibility studies for businesses where possible and applicable and also help to arrange for tax exemptions on certain equipment and machinery. It also offered services in management and development training programmes in quality control, record keeping, marketing, business planning, customer relations, motivation, banking procedures, communication, pricing and costing.

To achieve its objectives, the NBSSI focuses on:

- Making policy recommendations and developing strategies towards the promotion of small businesses in Ghana.

- Advising the sector Minister on all issues relating to the development of small businesses in Ghana.
- Establishing a data bank and disseminating information on the small business sector.
- Promoting the information of sectorial business associations and developing existing ones.
- Mobilizing funding for the development of small business sector.
- Developing the entrepreneurial, technical and managerial capabilities of small business people and;
- Implementing programmes and action plans in collaboration with governmental and non-governmental organizations whose activities have impact on the promotion and development of MSMEs.

4.2. Business Assistance Fund:

As part of the Ghana government's effort to offer finances to the micro, small and medium enterprises, the Business Assistance Fund was established to champion this all important exercise. The Business Assistance Fund became operational in the mid 1990 to provide direct government loans to MSMEs including family businesses.

The idea behind this noble initiative was good, but in the end, the politicians had a lot of influence on their operations, so deserving businesses were not reached up to. Those who benefited considered the amount received as thank you money for supporting and voting for the political party, hence the defaulting rate was so high. The program was widely seen to have been abused politically, with most of the loans going to perceives government supporters. (Mensah, 2004)

4.3. Ghana Investment Fund

The Ghana Investment Fund Act (Act 616) was enacted in 2002 to establish a fund to provide grant and credit facilities for designated financial institutions for onward submission to deserving companies. The affected financial institutions disappointed the state by redirecting such grant into more profitable areas since there was poor monitory and supervision, more emphasis were on larger firms, rather than the MSMEs.

4.4. GRATIS Foundation

The GRATIS Foundation has the mandate to promote small-scale industrialisation in Ghana through transferring appropriate technologies to small-scale industrialists through training, manufacturing and the supply of machine tools, plants and equipment. GRATIS operates through a network of Intermediate Technology Transfer Units (ITTUs), now referred to as Regional Technology Transfer Centres (RTTCs). The RTTC exist in nine regions of the country and is responsible for providing hands-on short and long term training for small business entrepreneurs in areas such as metal fabrication and design, textiles, pottery and soap making and others. GRATIS Foundation has also provided training, business and technical advice, access to equipment and tools to enable artisans and entrepreneurs have a hands-on experience. The Foundation has also introduced women in rural communities to equipment that has been designed and manufactured by GRATIS/ITTU.

The services provided by GRATIS and the RTTCs are made possible through the support of the Government of Ghana, the European Union and the Canadian International Development Agency (CIDA). Funding for specific projects has been provided by the German Agency for Technical Cooperation (GTZ) and the British Department Fund for International Development (DFID), (Ayeetey et al 1994).

4.5. The Rural Enterprise Project (REP)

Another important institution is the Rural Enterprise Project (REP) which has the objective of creating wealth and improving living conditions in rural areas, especially the incomes of women and vulnerable groups through increased self-employment. The Project provides the MSMEs with a development package, which involves a mix of business development services, technology transfer, support for apprenticeship training, and rural finance services. The Project is supported by the International Fund for Agricultural Development (IFAD), the Agricultural Development Bank (AfDB) and the government of Ghana.

The Rural Enterprise Project has been collaborating with NBSSI, Rural Banks, District Assemblies, GRATIS and other governmental organisations to support the growth of the MSMEs in the rural areas. In conjunction with these organisations, it has been providing training programmes in areas such as business management, record keeping, book keeping and banking procedures, marketing clinics, credit management, costing and pricing, business ethics and negotiation skills among others. It has been organizing annual exhibitions for its clients to show case their products and also expose them to markets in the urban areas. The activities of these institutions definitely have made some impacts on the MSMEs. However, as illustrated in this paper a lot more needs to be done to build the competence and capabilities of the MSMEs to enable them contribute significantly to the economy.

There are currently other financing schemes set up by government and the donor agencies available to the SME sector and family business, including Private Enterprises and Export Development Fund, Export Development and Investment Fund, Deutsche GesellschaftFuerTechnischeZusammenarbeit(GTZ), Business Assistance Fund, Ghana Investment Fund, Trade and Investment Programme, Africa Project Development Facility, Support for Private Enterprise Expansion and Development, Promotion of Small and Micro Enterprise Fund, Business Sector Programme Support, Revolving Loan Fund, Ghana Private Sector Development Fund etc. In spite of these developments, the finance gap continues to be a major problem to family business development in Ghana.

5.0. ALTERNATIVE SOURCES OF FINANCE FOR FAMILY BUSINESSES IN GHANA

5.1. Family and friends

An untapped or underutilized area of finance available for both MSMEs and family businesses in Ghana is contributions from family members and friends. The family structure in Ghana is built on trust, oneness, care for one another, and communalism. These values can be explored for the betterment of family business survival. A very large percentage of businesses are started using funding options from friends and family. This is a great small business credit and financing option that is undervalued especially if you cannot borrow money in the usual way or have a poor credit rating.

Although there are certain disadvantages to going down this route, it is a very popular option. Funding from friends and family can be a good way to inject some quick and flexible cash into a business, but guidelines for repayment should be set out from the start.

It is common nowadays for owners of small and start-up businesses as well as family businesses to look to relatives and friends for support when faced with issue of financial difficulties. This type of finance when well-structured can work well, but often these arrangements are informal and based purely on trust and verbal assurances. Hence, if care is not taken could damage personal relationships, so it is important that both parties are clear about what any investment will involve.

The following guide explains the benefits of borrowing and investment from friends and family and how to avoid misunderstandings by setting up a formal finance deal that is legally binding, and spells out the tax implications on such financial transactions. One must be clear on the kind of financial assistance seeking from family and friends, and should made it clear to other party.

5.2. Loan

If it is short funds needed for the business in the shortest possible time, a loan may be most appropriate. The borrower must decide whether he can afford to pay interest, or whether he is seeking an interest-free loan. If it is an interest paying loan then there will be tax implications for both the borrower and the lender. Mode of payment must be agreed and documented, for future references, if possible a third party, that is a witness should be involved.

5.3. Investment

Where the business needs a term funding from family and friends, then one should consider whether to relinquish part ownership of the business to the financier in the form of selling share, where the investor becomes part owner of the business. This form finance sound very good, but this nature of funding is not popular among most family business in Ghana.

a. Benefits and pitfalls of friends and family finance

There are many benefits associated with financing business from family and friends as compared with other forms of funding, even though there some limitations to this form of finance. Generally, there is flexibility, human touch, and on many occasions offer a practical level, loans without security or accept less security than banks. They may also lend funds interest-free or at a low rate.

Friends and family may agree to a longer repayment period or lower return on their investment than formal lenders. They may also seek a lower rate of initial return than commercial bankers. On a personal level, they already know your character and circumstances and so are less likely to need a detailed business plan.

However, transactions of this nature can be complex. Any misunderstandings about the arrangement can damage relationships. There is a risk your investors may offer more than they can afford to lose, or that they will demand their money back when it suits them but not the business. They may also want to get more involved in the business, which may not be appropriate.

It is a good idea to approach friends and family in the same way you would a formal lender. To avoid or reduce these setbacks, the following measures could be adopted;

i. **Approach the transaction as if it were a formal finance deal.**

This may involve the following and others;

- presenting your business plan
- preparing a business case
- taking professional advice
- creating a formal, written agreement

ii. **Legal agreements**

Misunderstanding can be prevented by having a written formal agreement with a witness and stipulating all the necessary terms and conditions involving the agreement signed by the parties involve.

iii. **Tax**

Some loans are **interest-bearing** while others are **interest-free**. With interest-bearing loans, each party must know his or tax obligation under the contract, in the absence of a contract, equality is equity.

Other sources of finance available to family business in Ghana which need to be investigated and researched into in the subsequent research include;

a. Rotational savings
b. Susu schemes
c. Credit purchase
d. Finance Leasing
e. Others.

6.0 METHODOLOGY

6.1 Introduction

This section explains how questions of the research were answered, methods that were employed in the study, the study design, the target population, sample size and sampling techniques as well as the various and appropriate sources of data and how the data were collected. The main objective of the study is to investigate the sources of finance for family business development and also the challenges and problems of accessing finance from the traditional commercial banks. The study also seeks at identifying other alternative sources of finance for the family businesses in Ghana. In order to ascertain the potential role of government policy to support other financing initiatives, it is imperative to determine the use and awareness of the various financing sources available to family businesses and also to investigate issues that are of importance to family business financing.

6.2 Study Design

The research method adopted was a both quantitative and qualitative approach. The study seeks to relate access to finance by family businesses to the availability of finance for their growth and progress as the entrepreneurs operate. This has certain implications for the design of the study. It suggests that a number of family businesses would be studied and their opinion about both internal and external financing for the development of their business.

6.3 Research Approach

Two main approaches were used to achieve the purpose of the study. The first was the short personal interview during the familiarity visits to the selected family businesses in the Ashanti Region. Based on the familiarity visit, questionnaires were designed, which were used as second approach in collecting responses from the entrepreneurs. A total of one hundred and twenty (120) respondents from the Ashanti region were used as the targeted population sample for the study.

The population for this study included selected Small and Medium size Enterprises (SME's) or family businesses operating in the Ashanti Region of Ghana. The family businesses were engaged in various activities including manufacturing, wholesaling, retail trade, services, transport, agribusiness, and construction. Questionnaires were used to collect data from selective micro, small and medium business operators in different business sectors at different locations within the Ashanti region. This was to solicit their views about the aforementioned research problem. The data collected is used as the basis of generalization. The questionnaires used forms part of the quantitative approach adopted to gain an understanding into the topic being studied.

Interviews were conducted to gather data from micro business operators and family business owners to investigate the challenges that they encountered when it comes to sourcing for finance for their businesses. It also focused on the existing barriers they face currently and what support they received from the government or other agencies. This approach forms part of the qualitative method used. The researcher used the narrative form to simplify the findings gathered in analyzing the different views from the various business operators. The interviews were conducted on one on one encounter with various family business owners.

6.4 Sample Technique and Size

A purposive sampling technique was used in selecting the entrepreneurs located in various parts of the Ashanti Region of Ghana. Purposive method was used because these entrepreneurs are scattered all over the region.

6.5 Data Collection and Presentation

Interviews were conducted among these selected sample and in some cases questionnaires were used to collect data from the targeted population. The family business questionnaire was designed to provide data that will assist in determining the family businesses schedule of fund acquisition and the mix accessed by the SMEs. Responses received were analysed using a statistical package SPSS.

6.0. ANALYSIS/ DISCUSSION/CONCLUSIONS

The analysis took the form of descriptive statistics. This is because the study was descriptive in nature as it sought to determine the situation as far as family business financing in Ghana. As a result, percentages were computed for the various responses they provided. In the paragraphs below, descriptive statistics about the characteristics of companies and the family business financing situation in Ghana are presented.

Table 6.1: Type of financing

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Debt Financing	16	13.3	13.3	13.3
	Equity Financing	74	61.7	61.7	75.0
	Both	30	25.0	25.0	100.0
	Total	120	100.0	100.0	

Source: Field survey by researcher

The survey indicated that 61.7% of the respondents adopt equity financing for their family businesses as indicated in table 6.1 above. Only 13.3% uses purely debt financing whist the remaining adopt both types of financing. It was revealed that equity sources of funding usually comes from the business owners relying on personal savings (bank or other savings) from previous work, gift from friends or family members or even remittance from abroad. Table 6.2 below indicates the type of equity financing that most of them adopted. But typically, such funds may not be adequate and they may have to fall on debt or borrowing. There is also financing through trade credit. The respondents also did confirm that their most pressing problem is access to finance.

Table 6.2: Type of equity capital

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Personal Savings	56	46.7	46.7	46.7
	Gifts from family & friends	14	11.7	11.7	58.3
	Family Inheritance	18	15.0	15.0	73.3
	Other Sources	16	13.3	13.3	86.7
	Do not use equity	16	13.3	13.3	100.0
	Total	120	100.0	100.0	

Source: Field survey by researcher

Apart from few traditional lenders and some other non-banking lenders, a greater proportion of debt capital could only be obtained through the banks. However, these financial institutions such as banks would not just lend till MSMEs are able to make a convincing case about the future prospects and sustainability of their business. In view of this it came out from the study that most family businesses do not borrow from the traditional banks as indicated in Table 6.3 below. As much as 35% borrow from family and friends and anther 25% from money lenders a non-traditional forms of borrowing to finance their business and cite reasons such as high interest rates, short repayment periods among others and being reasons for shying away from the banks.

Table 6.3: Types of debt capital

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Loans from family & friends	42	35.0	35.0	35.0
	Loans from micro finance institutions	18	15.0	15.0	50.0
	Loans from commercial banks	12	10.0	10.0	60.0
	Loans from money lenders	30	25.0	25.0	85.0
	Others	6	5.0	5.0	90.0
	Do not use debt finance	12	10.0	10.0	100.0
	Total	120	100.0	100.0	

Source: Field survey by researcher

Successive governments in Ghana have in their own ways try to find some solutions to the greatest challenge facing MSMEs and family businesses in Ghana, that is, the problem of financing. Thus they have introduced varying funding schemes in the form of debt and equity financing. These official schemes are mostly state originated with international donor support. But others are international in their origin and operation. When the question was put whether family business are aware of these state interventions the answers obtained are as indicate on table 6.4 below:

Table 6.4: Awareness of Agencies that Support Family Business

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	66	55.0	55.0	55.0
	No	54	45.0	45.0	100.0
	Total	120	100.0	100.0	

Source: Field survey by researcher

Whilst 55% of the respondents did indicate that they are aware of such agencies and institutions that provide support for family businesses, 45% answered no. This indicates that the awareness is great but as to whether they have benefited from these institutions table 6.5 provided the answer. It indicated that only 20% have ever received support from these institutions.

Table 6.5: Supported by other Institution/Agencies

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	24	20.0	20.0	20.0
	No	96	80.0	80.0	100.0
	Total	120	100.0	100.0	

Source: Field survey by researcher

The respondents were further asked what type of support they expect from these institutions and government agencies. Whilst 65% expect financial support from them, 10% were expecting advisory and another 10% expected them to provide training from them. 15% were expecting other forms of support from. This is indicated on table 6.6 below:

Table 6.6: Type of Support Expected

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Financial	78	65.0	65.0	65.0
	Advisory	12	10.0	10.0	75.0
	Training	12	10.0	10.0	85.0
	Others	18	15.0	15.0	100.0
	Total	120	100.0	100.0	

Source: Field survey by researcher

The final question was whether they were ready to access other sources of financing. These answers are as indicated in Table 6.7 below:

Table 6.7: Will You Try Other Non-Traditional Types of Financing?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	96	80.0	80.0	80.0
	No	24	20.0	20.0	100.0
	Total	120	100.0	100.0	

Source: Field survey by researcher

In conclusion, there are a number of financial, governmental and non-governmental institutions and other non-financial institutions available in financing family businesses. An American dog training specialist has an inscription at his entrance, which reads like 'no dog is good, no dog is bad, but the trainer or the handler'. So when seeking financial assistance, one must shop around, read the terms, and select the best that suits the actual needs of the business at those present and future needs

During these tumultuous economic times, borrowers should put in the legwork to ensure they are partnering with an institution that is not in jeopardy of going under. It is the recommendation of the researcher that prospective borrowers before going for loans, there are two important steps a family business owner should take. First, they should meet with key family members and be in full agreement on the company's vision and strategy.

Once all key family members are in agreement, they should put that plan into writing in an executive summary. Putting the business plan on paper helps organize the owners' thoughts and shows a preparedness that is looked upon favourably by banks. A written summary offers the opportunity to provide lenders with a brief narrative about each family member, what his or her background is and what role he or she fills in the company. It is also an opportunity to address the question of transition between the generations.

Family firms should also try to reform where necessary to accommodate non-family owners so as to attract larger capital from public equity.

There is also a strong demand for the government to elaborate and implement policies and strategies for financing MSMEs as well as for developing and improving financial institutions and financial instruments and the need to harmonize those policies and strategies as well as the instruments for implementing them.

In the Ghana, banks do not pay sufficient attention to the development of MSMEs. The role of Governments should be to open the dialogue and to create instruments together with the banks to promote the financial aspects of successful MSME development and to ensure a great improvement in different aspects of financial services for MSMEs such as seed money, leasing, venture capital, and investment funding. There is a lack of long-term loans; interest rates are still high, etc. and all these limit the development of MSMEs.

Diversification of financial support for start-ups, growing and successfully operating MSMEs will significantly contribute to the creation and development of MSMEs. It is therefore necessary to take into account in all support programmes the different needs of micro, small and medium-sized enterprises.

Government should provide an elaborate set of instruments for the monitoring, evaluation and follow-up of different aspects of MSME support programmes and activities and create a system of education and training on different aspects of MSME activities for entrepreneurs which is crucial to the development of the sector.

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