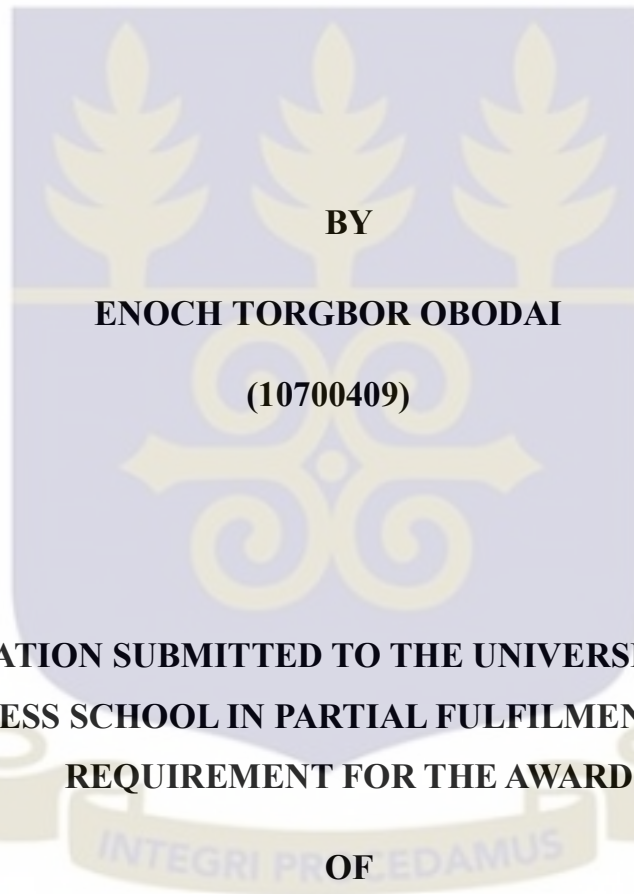


**UNIVERSITY OF GHANA
BUSINESS SCHOOL**

**LEASING, AN ALTERNATIVE SOURCE OF FINANCE FOR SMALL
AND MEDIUM SCALE ENTERPRISE'S IN GHANA**



BY

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(10700409)

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DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research towards the MSC and that to the best of my knowledge no part of it has been published by another person or presented for another degree in this university or elsewhere except where due acknowledgement has been made in the text.

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Supervisor's Declaration

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

Supervisor's Signature: Date:

Name: Prof. Godfred Alufar Bokpin

ABSTRACT

In almost every developing country Small and Medium enterprises (SMEs) are treated as the engine for economic growth and the availability of external finance for them is a topic of significant research interest to academics and policy makers around the globe. SMEs need improved access to finance especially for acquiring capital equipment and applications of new technology for operations. However, their access to finance is restricted because they do not have reliable credit histories, adequate capitalization or additional assets for collateral. Most of the financial institutions are reluctant to provide term loans or cash flow based lending to the SME sector. Thus, SMEs face severe disadvantages while trying to obtain financing relative to larger and more established firms. On the other hand, leasing is an asset-backed, term financing product. It focuses basically on the ability of lessee's cash flow generation from their regular business operations to service the lease payment, rather than on the asset base. In this connection, this paper investigates how as an alternative financing mechanism, leasing can be the useful tool in facilitating greater access to finance for SMEs. From the survey of the paper it is found that out from the various sources of finance for SME's only 5 per cent can be attributed to lease facilities. So it is strongly suggested that developing the leasing sector as a means of delivering finance increases the range of financial products in the marketplace and provides a route for accessing finance to SMEs that would otherwise be impossible.

DEDICATION

I dedicate this project to God Almighty, the source of my strength and inspiration. Indeed, we know that in all things, God works for the good of those who love Him, who have been called according to His purpose.

Also to my lovely wife, Mrs. Gertrude Dzifa Obodai, and sweet daughter, Deladem Naa Oboshie Torgbor. For all the times that I was by the study table instead of being in the bedroom, I will make it up to you.

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LIST OF ABBREVIATIONS

SME-Small and Medium Scale Enterprise

MFET-Ministry of Foreign Economic Relations and Trade

MFTEC-Ministry of Foreign Trade and Economic Cooperation

PBC-People's Bank of China

GAAP-Generally Accepted Accounting Practices

IAS-International Accounting Standards

AICPA-American Institute of Chartered Public Accountants

LFG-London Financial Group

USA-United States of America

NBSSI-National Board for Small Scale Industries

ASEAN-Association of South East Asian Nations

IFC-International Finance Corporation

ILO-International Labour Organization

GSS-Ghana Statistical Service

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Firms generally own fixed assets and report them on their balance sheet, but it is the use of these assets that is important, not their ownership. Business enterprises often lack access to long-term credit needed to acquire equipment because they do not have the required collateral. Most assets that small enterprises own cannot be used as collateral: titles to land are often nonexistent and movable assets such as livestock and warehouse receipts are not legally permissible as collateral (Nair, Kloeppinger-Todd, & Mulder, 2004).

One way of obtaining these facilities and equipment is to acquire them outright, but an alternative is to lease them and assume a controlling interest in the asset.

Until recently in Ghana, lease was generally associated with the real estate, land and buildings. Today, however, it is virtually possible to acquire any kind of fixed assets through lease agreement (Bryan, 2011). Leasing is a contract between two parties whereby, the owner of the asset (lessor) transfers the use of the asset to another party (lessee) who in turn makes fixed rental payments periodically.

The Ghana Leasing Company is a limited liability company established and certificated in September, 1991 but commenced business on 4th February, 1992. It is the first company to be established in Ghana to undertake exclusively lease financing. It is considered the pioneer of lease financing business in Ghana. Its objective is to facilitate the growing need for equipment and other capital goods necessitated by sustained growth in the economy.

The company was established by international and individual investors both foreign and domestic. These investors having realized the potential of the leasing business in Ghana, came together to take advantage of the opportunity created by the government's program at broadening the financial sector of the country to establish the Ghana leasing company.

The company promulgated the drafting of the finance lease law to govern the sector.

The company raises its funds for operations from shareholders contributions and retained earnings.

As a viable institution, it also sources funds from banks both foreign and domestic.

The company as a financial institution utilizes the vibrant money market in Ghana by issuing short-term money market instrument like certificates of deposits and commercial papers to borrow money to finance its operations.

As a lease finance institution, they finance the purchase of equipment – factory and office as well as transportation facilities for use by their client. To date, leasing has not been comparatively, widely patronized, as many people in Ghana prefer outright purchasing perhaps through debt financing to leasing. This may be because leasing does not give the user of the asset the pride of ownership.

1.2 Problem Statement

It is believed that finance is the driving force behind any successful business; it is such an essential part of business without which it cannot operate.

Leasing has become a popular way for many organizations to own an asset. In fact, one may have noticed that an increasing number of assets are given prices in terms of leasing rather than buying (Bryan, 2011). It appears that patronage to these products under leasing terms seems to be low in Ghana. In Nigeria for example between the years 1993 and 2003, only 19 companies out of a total 106 companies listed on the Nigerian stock exchange reported lease financing (Kurfi, 2009).

Just like the many other financial institution in Ghana, it appears that lease financing institutions in Ghana are also confronted with the many challenges of lease financing.

Many organizations in need of these alternative financing are not left out of these challenges that the lease agreements comes with. Several among these problems include the clients understanding of the lease terms, negotiating skills, calculating the cost and the understanding of warranties (Bryan, 2011). Thus to these problems, this research seeks to investigate the challenges confronting lease financing and the prospects in Ghana with reference to Ghana Leasing Company.

1.3 Objectives of the Study

The overall objective of this research is to assess the lease financing challenges facing lease financing companies in Ghana, using the Ghana Leasing Company as a study.

The specific objectives of this study are to:

- i. Assess the lease financing challenges facing SMEs in Ghana;
- ii. Determine the level of access to lease finances in Ghana;
- iii. Ascertain the extent of satisfaction between lease finances and debt finances; and
- iv. Identify how these challenges can be removed.

1.4 Research Questions

The study seeks to provide answer the following questions;

- i. What are the challenges confronting lease financing in Ghana?
- ii. What is the level of access to lease financing in Ghana?
- iii. What is the extent of satisfaction between lease finances and debt finances?
- iv. How can these lease financing challenges be overcome?

1.5 Significance of the Study

This study will be undertaken to unearth the importance of leasing which is beginning to make contributions to the reconstruction of the finance sector of this country and the economy at large. Despite its importance, leasing has not been giving much attention by the government and hence, the failure of the business community to appreciate its potential contribution to the national output.

A study of this nature will therefore help enhance the government's effort to promote the leasing companies as partners of economic development.

This study will be of numerous benefits, first of all, to the business community. This is because the study will highlight different lease finances challenges which stand between their businesses success. And this will help them to put in place measures to forestall the occurrence of similar problems in their business.

Little seem to be known about the factors that hinder organizations access to lease finances in Ghana. This study will broaden the knowledge and understanding of the import of problems faced by businesses in accessing lease finances and also it will help get an understanding of operations of lease financing companies and how these institutions can provide tailored services to meet the specific needs of customers.

The study will also serve as a secondary data for further studies in similar areas.

1.6 Organization of the Study

The study will be organized into five chapters. Chapter one will consist of introduction/background of the study, problem statement, research questions, objectives,

significance and the scope of the study. The Chapter two will consist of the theoretical and empirical literature. Chapter three will deal with the methodology, which will involve research design, population, sample size, sampling technique, and data analysis. The chapter four will consist of the results and discussion of data collected and the last chapter will be summary of findings, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Literature

2.1.1 Finance

The driving force behind any successful business is finance. It is such an essential part of business without which it cannot operate. According to Ravi (2008), it is an act and science of managing money hence effective mobilization and management of it promotes the business.

2.1.1a Sources of SMEs Finance

Most businesses will never be able to raise all the funding they would require from banks and other institutions. In this sense, there will always be a deficiency in the funding of most business assets. As a result, a clear and present challenge for operating and intending businesses is sourcing of funds by lease. Business may start up from personal savings, gifts from friends and relatives and sometimes loans. As Levy (1993) noted, businesses have limited access to financial resources compared to larger organization.

In a study, Cork and Nisxon (2000), poor management and accounting practices have hampered the ability of enterprises to raise finance. This is coupled with the fact that smaller businesses are mostly owned by individuals whose personal lifestyle may have far reaching effects on the operation and sustainability of such businesses. As a consequence of the ownership structure, some of these businesses are unstable and may not guarantee return in the long run. However, as noted by Liedholm and Mead (1987), there is a reason to hope since a large number of enterprises fail because of non-financial reasons. Remmers et al (1974) reported that debt/total assets ratio is to be independent of firm size while Peterson (1987) reported that debt/total assets ratio to first

rise and then fall with size of the firm. In Ghana, banks particularly the commercial banks are mandated to give loans to small business but the inability of most business owners and intending entrepreneurs to provide the collateral security remains a setback.

According to Yeah, Julie, and Lee (2005), businesses draw finance from a variety of sources. Around 75-90% of ASEAN businesses rely on internal savings, retained earnings and borrowing from family, friends and money lenders (collectively known as 'informal sector') as opposed to the 3-18% which have access to formal sector finance (banks, lease financing, capital markets, venture capitalists etc.). For start-up companies, the rate of funding from the formal bank sector is even lower. For example, only 12% of businesses in Indonesia had access to formal financing while in Singapore access is represented by 49% (DP Info credit, 2004). In Malaysia, 47.3% of businesses had access to formal funds compared to 32.4% that relied on internal funds and 11% from family and friends that is informal source (Bank Negara, 2002).

According to Boachie-Mensah & Marfo-Yiadom (2003), other sources of finance available to businesses are; Equity Financing – this can also be called risk capital since the investors assume the risk of losing their funds if the business fails. In essence, equity shareholders according to (Hisrich, Peter, & Shepherd, 2007) are claimant.

Equity funds can be raised through the floatation of shares which attract floatation costs. The companies' code restricts the floatation of shares by small businesses and can only do so through the private arrangement with investors. According to the (Companies' Code, 1963) (Act 179), Section 9 (3), a private company shall be a company which by its regulations prohibit companies from making any invitation to the public to acquire any of its shares.

Debt Financing – only few entrepreneurs have the needed personal savings to finance the complete startup cost of small business. Debt financing allows businesses to maintain a complete ownership of the business since it is carried out as a liability on the balance sheet as well as to be repaid with interest within a period of time.

According to Hisrich et al., (2007), debt funds are raised in the form of debentures, bond, term loans, etc. The debt is repaid as per the agreement and must be repaid with interest irrespective of the profitability of the business. Considering Angel vs. Venture capital financing, an entrepreneur must determine the amount and the timing of funds required as well as the projected company sales and growth. As Hisrich et al., (2007), noted there are four basic factors that determine how a firm is financed. These are: the maturity of the company, the nature of its asset, the firm's economic potential and the personal preference of the owners with respect to the trade of debt and equity.

2.1.1b Types of financing

According to Longenecker, Moore, and Petty (2003), there are basically three types of financing available to SMEs

1. Profit retention, which involves avoiding cash withdrawals, such as dividends to owners. Instead, the cash is used to finance growth.
2. Spontaneous financing, which arises automatically with increase in sales, for instance, as firm's sales grow, it must purchase more inventories and the supplier extends more credit.
3. External financing, which comes from outside investors. Creditors (such as lease financing companies, bankers), additional equity investors (such as shareholders), or sole proprietor may provide this type of credit

2.1.1c Purpose of Finance to SMEs

Small and medium scale enterprise (SME's) make a major contribution to growth and employment in the Ghanaian economy and are at the heart of the NBSSI whose main objective is to turn Ghana into the most competitive and dynamic knowledge-based economy in the world. By contributing to the development of an enterprise culture in Ghana, facilitate access to credit for small-scale enterprise, provide non-financial support for small-scale business development. However, the ability of SME's to grow depends highly on their potential to invest in restructuring, innovation and quantification. All of these investments need capital and therefore access to finance. Lack of needed finance brings under capitalization which contributes to many business failures.

It is therefore established by Aryeetey, Baah-Nuakoh, Duggleby, Hettige, and Steel (1994) that, finance is one of the major resources that determine the survival of most businesses. The purpose of finance can be grouped into fixed, working and growth finance.

Fixed Finance

Fixed finance is finance used to purchase the firms fixed assets such as plants and equipment, land, building and computers. It is used to produce goods and services. The purchase of these assets requires a large sum of money.

Therefore, the first purpose of finance to businesses is the purchase of fixed assets to enable efficient and effective operation of their business, (Boachie- Mensah & Marfo-Yiadom, 2003).

Working Finance

Working finance are temporary funds used to support the firms normal short term operations. This type of funds are used for the continuous running of the business as money is needed to face

running cost such as inventories, electricity bills, rent, wages and salaries and taken care of unexpected emergencies, (Boachie- Mensah & Marfo-Yiadom, 2003).

Growth Finance

Expanding and/or changing the primary direction of a business are another important purpose why businesses access finance. Businesses need large sums of cash to inject into the business in order to expand or increase its plant size, sales and production work force and purchase more equipment.

2.1.2a Lease Financing

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time (IAS 17, 3). Therefore, a lease is a contractual agreement between a lessor and a lessee that gives the lessee the right to use specific property, owned by the lessor, for a specific period of time in return for stipulated, and generally periodic, cash payments (i.e. rent). An essential element of the lease agreement is that the lessor conveys less than the total interest in the property. The growth in lease's use suggests that it often has a genuine advantage over owning property for both the lessee and the lessor. Some of the commonly advantages to the lessee of leasing are: less costly financing, financing at fixed rates, protection against obsolescence, alternative minimum tax problems, flexibility, and off-balance-sheet financing. However, the following benefits are available to the lessor: interest revenue, tax incentives, and high residual value (Kieso & Weygandt, 1998).

It is an undeniable fact that leasing is beginning to make a significant contribution to the reconstruction of the finance sector of this country and the economy at large. This is manifested in the recent survey by the International Finance Corporation, the financial arm of the World Bank. The survey indicates that the number of new lease issued in Ghana grew from 311 in 2005

to 536 at the end of 2006, recording about 72.4% increase. It indicates further that the total lease portfolio held by the leasing sector increased by 73% from \$29.8 million in 2005 to \$51.3 million in 2006.

Leasing is a super financing alternative if you are seeking funding to obtain business equipment (Staff, BusinessTown, 2003) .

Finance lease as defined by Greame (2010) is primarily a method of raising finance to pay for assets, rather than a genuine rental. The latter is an operating lease.

The key difference between a finance lease and an operating lease is whether the lessor (the legal owner who rents out the assets) or lessee (who uses the asset) takes on the risks of ownership of the leased assets.

Lease Financing according to Staff (2009), is a contractual agreement in which a company, identified on the contract as the lessor grants the individual or group of individuals leasing the product/equipment, identified on the contract as the lessee, the ability to operate the equipment for a given amount of time, identified as the term of leasing, while making specific monthly payments to the lessor or leasing company.

2.1.2b Types of leases

Leasing takes several different forms, the three most important of which are: (1) sales- and-leaseback arrangements, (2) operating leases, and (3) financial leases. (Shamsi Bawaneh., 2010).

Sales- and- leaseback arrangements

Under a sales-and-leaseback arrangement, a firm that owns land, buildings, or equipment sells the property to a financial institution and simultaneously executes an agreement to lease the

property back for a specified period under specific terms. The financial institution could be an insurance company, a commercial bank, a specialized leasing company, or an individual investor. The sale-and-leaseback plan is an alternative to a mortgage. Note that the seller, or lessee, immediately receives the purchase price put up the buyer, or lessor. At the same time, the seller-lessee retains the use of the property. This parallel to borrowing is carried over to the lease payment schedule. Under a mortgage loan arrangement, the financial institution would normally receive a series of equal payments just sufficient to amortize the loan while providing a specified rate of return to the lender on the outstanding loan balance. Under a sale-and-leaseback arrangement, the lease payments are set up in exactly the same manner- the payments are sufficient to return the full purchase price to the investor, plus a proper return on the lessor's investment.

Operating leases

Operating leases, sometimes called service leases, provide for both financing and maintenance. Computers and office copying machines, together with automobiles and trucks, are the primary types of equipment involved in operating leases. Ordinarily, these leases call for the lessor to maintain and service the leased equipment. The cost of the maintenance is built into the lease payments. Another important characteristic of operating leases is the fact that they are frequently not fully amortized. In other words, the payments required under the lease contract are not sufficient to recover the full cost of the equipment. However, the lease contract is written for a period considerably less than the expected economic life of the leased equipment. In addition, the lessor expects to recover all costs either in subsequent renewal payments, through leases to other lessees, or by sale of the leased equipment. A final feature of operating leases is that they frequently contain a cancellation clause which gives the lessee the right to cancel the lease and

return the equipment before the expiration of the basic lease agreement. This is an important consideration to the lessee, for it means that the equipment can be returned if it is rendered obsolete by technological developments or is no longer needed because of a decline in the lessee's business.

Financing leases

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. Moreover, title may or may not eventually be transferred (IAS 17, 3). Financial leases are differentiated from operating leases in that they (1) do not provide for maintenance service, (2) are not cancelable, and (3) are fully amortized (i.e. the lessor receives rental payments equal to the full price of the leased equipment plus a return on investment). In a typical arrangement, the firm that will use the equipment (the lessee) selects the specific items it requires, and then it negotiates the price and delivery terms with the manufacturer. The user firm then arranges to have a leasing company (the lessor) to buy the equipment from the manufacturer or the distributor. When the equipment is purchased, the user firm simultaneously executes an agreement to lease the equipment from the financial institution. The terms of the lease call for full amortization of the lessor's investment, plus a rate of return on the unamortized balance which is close to the percentage rate the lessee would have paid on a secured term loan. For example, if the lessee would have to pay 10 percent for a term loan, then a rate of about 10 percent would be built into the lease contract. The lessee is generally given an option to renew the lease at a reduced rate on expiration of the basic lease. However, the basic lease usually cannot be canceled unless the lessor is completely paid off. Also, the lessee generally pays the property taxes and insurance

on the leased property. Since the lessor receives a return after, or net of, these payments. This type of lease is often called a “net, net” lease.

Financing leases are almost the same as sale-and-leaseback arrangements, the major difference being that the leased equipment is new and the lessor buys it from a manufacturer or a distributor instead of from the user-lessee. A sale-and-leaseback may, then, be thought of as a special type of financial lease. Both sale-and-leaseback arrangements and financial leases are analyzed in the same manner. Financial leases, sometimes called capital leases.

2.1.3 Upsides to Lease Financing

There are many upsides to Lease Financing, such as:

- The lessee may at the end of the lease be able to buy the item outright for equal or sometimes below market value.
- Some leases may be able to be counted as "off the balance sheet." That is, leases can be disclosed as balance sheet footnotes or asterisks. Thus, they are not counted as visible company debt despite the fact that the leases signify ongoing company liabilities.
- Also, monthly payments on equipment via lease financing are typically viewed as required operating expenses, thus these expenses give a business or individual significant tax benefits.
- Another upside is that if an organization attain its lease financing through a third party, banks will be more likely to grant you loans and additional funding than if you were to only go through that bank. Banks, without a doubt, consider their complete possibility for exposure when lending funds to small businesses.

2.2 Empirical Literature

Numerous findings by researchers all over the world have made several attempts to define finance and the determinants of firms' access to finance.

Countries with low level of development like Ghana, access to lease finance by businesses is not with ease. This is manifested in a research conducted by Kurfi(2009), which states that only 19 companies out of a total 106 company listed on the Nigerian stock exchange reported lease financing between the years 1993 and 2003.

Recent surveys disclosed that, well over 80% of businesses in the United States lease at minimum one of their large equipment acquisitions and nearly 95% would lease in the future (Staff, 2009).

2.2.1 USA case in lease financing

Leasing has grown tremendously in popularity and today is the fastest growing form of capital investment. The popularity of leasing is evidenced in the fact that 546 of 600 companies surveyed by the AICPA in 1996 disclosed lease data (Myers, 1964). Before 1950s in the USA, leasing was generally known to be associated with real estate, land and buildings (Brigham & Gapenski, 1985). Today, however, it is possible to lease virtually any kind of fixed asset. In 1984 about 20 percent of all new capital equipment acquired by businesses in the USA was financed through lease arrangements. Since then, leasing is most popular method of financing not only in the USA, but also globally (LFG, 1996). Kieso & Weygandt (1998) estimated that leasing, in the late 90s, provides about one-eighth of the world's equipment financing requirements. In 2004, financial leasing was the fastest growing way of financing fixed assets all over the world. In addition (Al

Rai, 2007) also reported that in the USA, it shows that fixed assets purchased by the biggest 500 companies, 35% of those assets were financed by leasing in 2004.

2.2.2 China case in lease financing

The leasing industry in China appeared less vibrant until post-1978 not because the law did forbid it, but because no law actually defined it at that time. It was not until 1985 when the Ministry of Foreign Economic Relations and Trade (MFET) issued the Notice on approving the Establishment of Chinese-foreign Cooperative Leasing Companies. At its infant stage, the lease industry in China was saddled with lot of challenges sine it was operating within uncertain legal environment and as a result, lessors rely heavily on government guarantees rather than creditworthiness of the lessee and the enforceability of the contract (Ross & Stephen, 2001).

Under capitalization, shortages of trained personnel, and negligent supervision generated a host of irregularities among Chinese-invested leasing companies, including failure to deliver or maintain the leased item, government protection of lessees who failed to perform their obligations, and inaccurate record keeping are among the numerous challenges that confronted the Chinese leasing industry at the time.

By the late 1990s the central government recognized that a vibrant leasing industry could reduce upfront capital expenses, stimulate consumption, and help develop a more comprehensive financial industry. The central government has licensed several financial leasing companies since 1999. The Ministry of Foreign Trade and Economic Cooperation (MFTEC) approved 42 equity-joint-venture leasing companies, and the People's Bank of China (PBC) has approved 15 domestic financial leasing companies. After these interventions by the central government, more non-bank financial institutions are exclusively or partially engaged in financial leasing. However, Article 42 of the Commercial Banking Law of China prohibits banks from engaging in commercial

leasing therefore, foreign-invested financial leasing companies may be established only as joint ventures.

2.2.3 Ghana case in lease financing

Lease financing seems to be a convenient alternative source of providing the necessary equipment for manufacturing and other business firms. However, in Ghana, lease does not seem to play the major role as an alternative source of funding to SMEs. Until recently, statistics in the leasing industry is nothing to write home about. Recent reports and indicators from the industry appears that several interventions by government and other stakeholders seem to bare fruits. For example in a survey by International Finance Corporation, the financial arm of the World Bank, suggest that Ghana leasing market recorded a 72% growth rate in 2007. It further indicates that the number of new leases issued in Ghana grew tremendously from 311 in 2005 to 536 at the end of 2006, representing a 72.4% increase over the years under review (IFC, 2011). In Ghana the chunk of the lease arrangement often involved the leasing of vehicles, construction & mining equipment, with Office equipment seeing the least on the table. Considering the regional dimensions with regards to the level of access to lease finance in Ghana, about 82% of leases written were in the Greater Accra Region, followed by Ashanti 8%, Western 6%, Central 3% and Eastern 1% (IFC, 2011). Worldwide leasing has demonstrated the ability to increase investment in capital equipment especially in developing country like Ghana (IFC, 2011).

In order to augment the efforts of the leasing industry, government over the years have formulated broad and specific policies to ensure that the industry serve the purpose for which it is established. The government has a broad policy of increasing the use of lease financing for industrial development in Ghana. This is to be achieved by encouraging the growth of lease financing, facilitating access to medium and long term funds for lease financing for industrial development

and also government continuous support to strengthen commercial court to ensure speedy resolution of commercial disputes and contract enforcement (IFC, 2011). However, the main challenge threatening lease financing in Ghana remained the high interest rate although these had consistently been falling from a high of 40% in 2002 to 29% in 2006 (IFC, 2011).

2.3 Definition of Terms and Construct

2.3.1 Finance

Finance as defined by the Longman dictionary is:

1. The management and control of money by government, company or large organization.
2. To provide money, especially, large sum of money, to pay for something.

According to Ravi (2008), it is the process of procuring and judicious use of financial resources with the view to maximizing the value of the firms and thereby the value of the owners.

2.3.2 Lease

According Revers, an online dictionary, a lease is a legal agreement by which the owner of a building, a piece of land, or something such as a car or equipment allows someone else to use it for a period of time in return for money.

For the purpose of the study, lease financing is referred to as a contractual agreement that exist between a company, identified as the lessor, and an another business entity identified as the lessee, where the lessor agrees to grant the lessee access to the use of assets in the form of equipment for a given amount of time whiles making specific and periodic payment to the lessor.

2.3.2 Small and Medium Enterprises (SMEs)

The European commission adopted a new definition of SMEs effect from 1st January, 2005: enterprise qualify as SMEs if they fulfill the criteria laid down in the Recommendation:

Enterprise Category	Head Count	Turnover Or	Balance Sheet Total
Medium	<250	≤ €50m	≤ €43m
small	<50	≤ € 10m	≤ € 10m
micro	<10	≤ € 2m	≤ € 2m

The international labour organization (ILO) defines SMEs as those which rely on indigenous resources, owned by indigenes, labour intensive and acquired through the informal sector (ILO).

The Ghana statistical service by Abor and Quartey (2010), defined SMEs as those firms employing less than ten persons as small scale and their counterpart with more than ten employees as medium and large size enterprise.

Steel and Webster (2003) and defined SMEs in Ghana as those with less than thirty employees.

Pronouncing a particular firm as SMEs has come with a lot of difficulty due to the various criteria and industry-based definitions, however, for the purpose of this study, a synchronized definition of ILO and GSS was adopted. That is SMEs which rely on indigenous resources, owned by indigenes, labour intensive and acquired through the informal sector with not more than ten employees.

CHAPTER THREE

METHODOLOGY

3.1 Research Design

This study primarily is based on qualitative and quantitative approach to critically investigate lease financing challenges in Ghana. The study sourced information from earlier reports, business journals and other research report on the subject matter. Also, the study was based on a cross sectional survey method. Cross sectional survey method according to Wikipedia, an online dictionary, is a class of research methods that involve the observation of all of a population, or a representative sample, at one specific point in time.

3.2 Population and Sampling

3.2.1 Target Population

As noted by Amedahe (2003), it is the aggregate of element which comprises the source of information for the researcher. The target population of the study consisted of all Lease Companies in Greater Accra Region and all SMEs in Greater Accra Region.

3.2.2 Sample Frame

According to the encyclopedia – the Wikipedia (www.wikipedia.org), sample frame is the list of all those within a population who can be samples, and may include individuals, household or institutions. From a population of fourteen (14) leasing companies and fifty (50) listed and non-listed SMEs identified from the Ghana Business Directory, a convenient sample frame of five (5) Lease companies in the Greater Accra region and twenty (20) SMEs in the same region were chosen. In all, twenty five (25) respondents were contacted.

3.2.1 Sample & sampling method

In an attempt to select the sample size for the study, the non-probability sampling technique was employed to identify those individuals and organizations in the study area, whose activities puts them in a position to understand the challenges facing their access to lease financing. The adoption of non-probability sampling technique was more convenient and provided the researchers the opportunity to select samples purposively so that data from persons who have the needed information on the subject matter assisted in the achievement of the research objectives.

3.3 Data Collection Method

The data was gathered from primary and secondary sources. The primary source comprised of self-administered questionnaires. All the questions were made clear to motivate the respondents to answer without difficulty. These questions took the form of closed and opened ended questions which provided easy understanding to the respondents. The secondary data consisted of financial statements of SMEs, books and journals that related to the subject matter.

To facilitate the process of administering the questionnaires and the interviews, a letter of introduction was obtained from the Institute's Industrial Relations Officer. Due to the limited time schedule, a minimum of three (3) days and a maximum of one (1) week were allowed for respondents to fill out the questionnaires and subsequent collection of the answered questionnaires.

3.4 Procedure and Time Frame

The research was undertaken for a period of eight (8) months commencing from November, 2018 to June 2019.

3.5 Analytical Techniques

In order to get a clear presentation of results, descriptive analysis was employed by the use of tables, charts and a computerized based method of statistical analysis (that is EXCEL) to interpret the data.

3.6 Validity and Reliability

A representative sample of five (5) was chosen. The questionnaires were pre-tested on SMEs and a Lease Company on a sample size of five (5). After which minor changes were made because entrepreneurs in the location were not willing to disclose certain information. The questionnaire as a survey instrument for this research was most advantageous due to its simplicity, versatility and low cost as a method of collecting data (Amedahe, 2003). Since the researchers personally administered the questionnaires, the team believes and has confidence in the validity of measurement.

CHAPTER FOUR

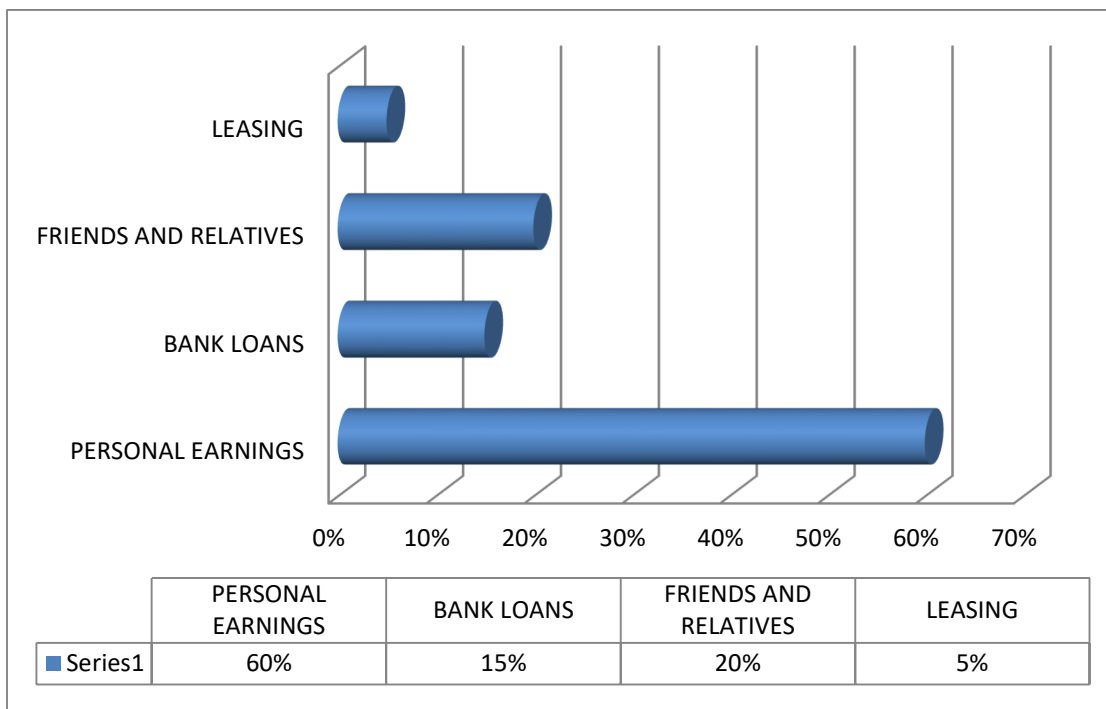
RESULTS AND DISCUSSIONS

4.1 Results and Analysis

4.1.1 Sources of Finance options for SMEs

In determining the relative popularity of the various source of finance to the sampled organization, the respondents were asked to state their sources of finance options available to them in running their various enterprises.

Figure 4.1: Sources of financing options available to SMEs. (N=20)



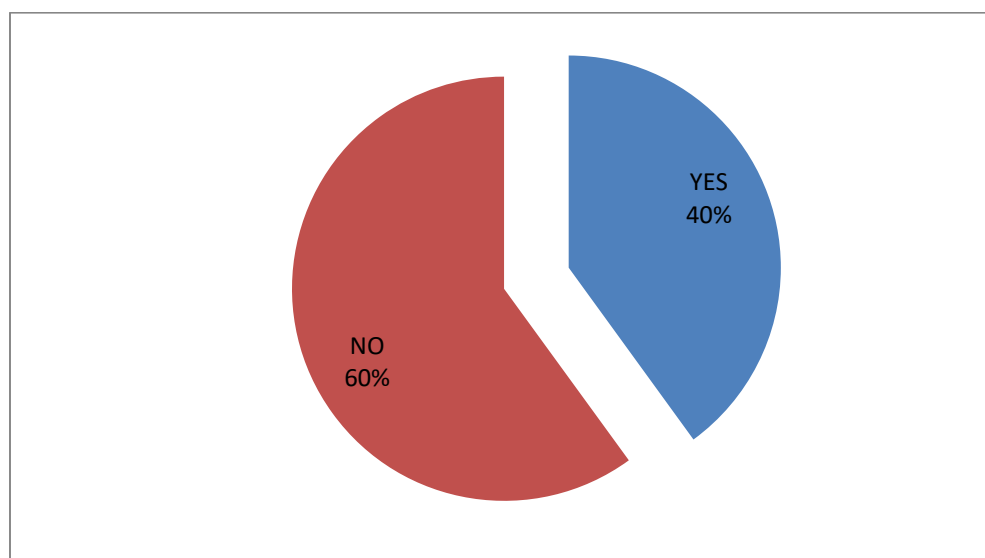
Source: Survey data, 2019

The result shown in Figure 4.1 indicated that (60%) of the SMEs in the study area depend on personal earnings as an option for capital to finance their operations. This compares to just about

15% of SMEs who obtain their financial support from banks. Friends and Relatives are also major sources of finance for SMEs in the study area constituting about 20%. The result further indicates that Leasing as an option remain the least with only 5%. As stated by (Asare, 2010). The results suggest that, enterprises in the study area depends less on Leasing as an option to finance their businesses. This confirms the study by Kauffmann (2005), who found that internal sources of funds have been paramount as the major sources of funds for small and medium enterprises in Ghana. The results also imply that formal financial institutions do not play any significant role in SMEs financing in the study area.

4.1.2 SMEs Awareness of Products offered by Lease Financing Institutions

Figure 4.2: SMEs Awareness of Lease Financial Products (N=20)



Source: Survey data, 2019

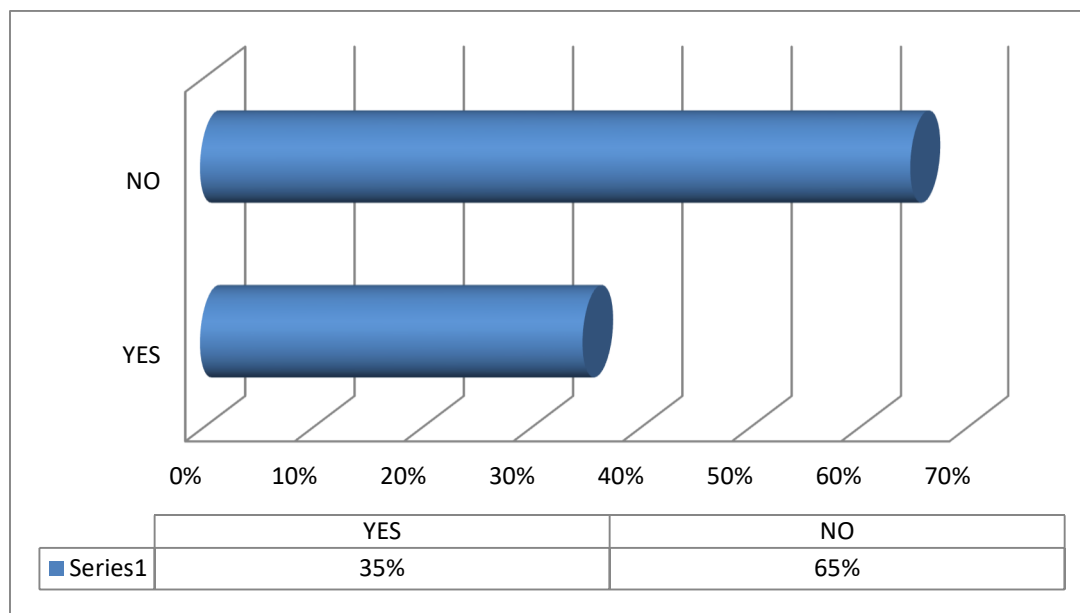
Many financial institutions including lease financing institution have over the years developed products aimed at addressing the lease financing constraint facing small and medium scale

enterprises. To test the extent of SMEs awareness of the new initiatives by these financial institutions, respondents were asked about their awareness of such products. 40% of respondents indicated that they are aware of product offered by lease financing institutions for SMEs. While 60% of the respondents indicated they are not aware of SMEs products by lease financing institutions.

The results suggest that many SMEs do not have knowledge of products being offered by lease financing institutions. Hence lack of information about lease financing products can be said to be a hindrance to access to lease finance by most SMEs in the study area.

4.1.3 Demand for Leasing among SMEs

Figure 4.3 Distribution of whether Respondents have ever applied to lease an asset (N=20)



Source: Survey data, 2019

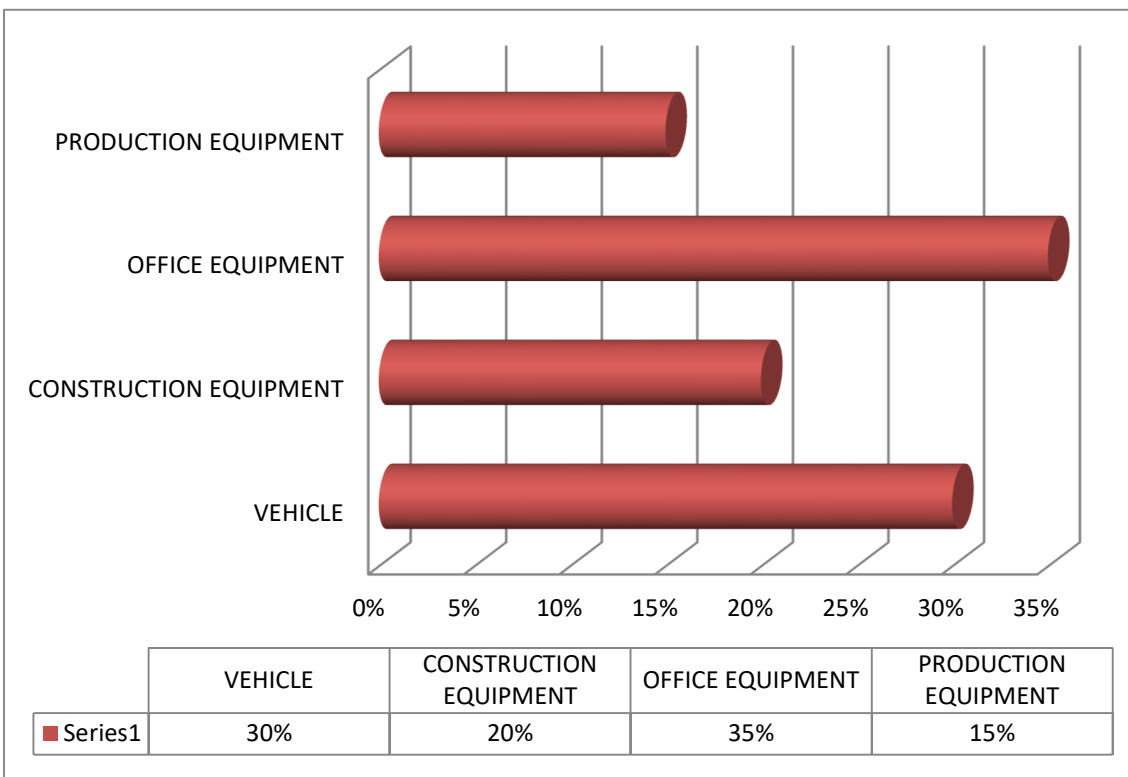
The study further asked respondents whether they have ever applied to lease an asset from any lease financing company in the past five (5) years. The objective was to evaluate the demand for

leasing among SMEs in the study area. As shown in Figure 4.3, 65% of the respondents have never made an attempt to lease an asset from lease financing institutions compared to 35% who have ever applied to lease an asset before. Even though majority of these respondents have not applied to lease an asset before, most of them wanted one at the time of the survey. Other people's experiences and the perceived challenges in assessing the lease products are the factors deterring them from making the attempt to get one. The results imply that demand for lease product is low among sampled SMEs.

4.1.4 Type of asset applied for

The study further asked respondents who were successful in their applications the type of asset they did apply for and the figure below indicates the analysis.

Figure 4.4: Type of Asset Applied for. (N=20)

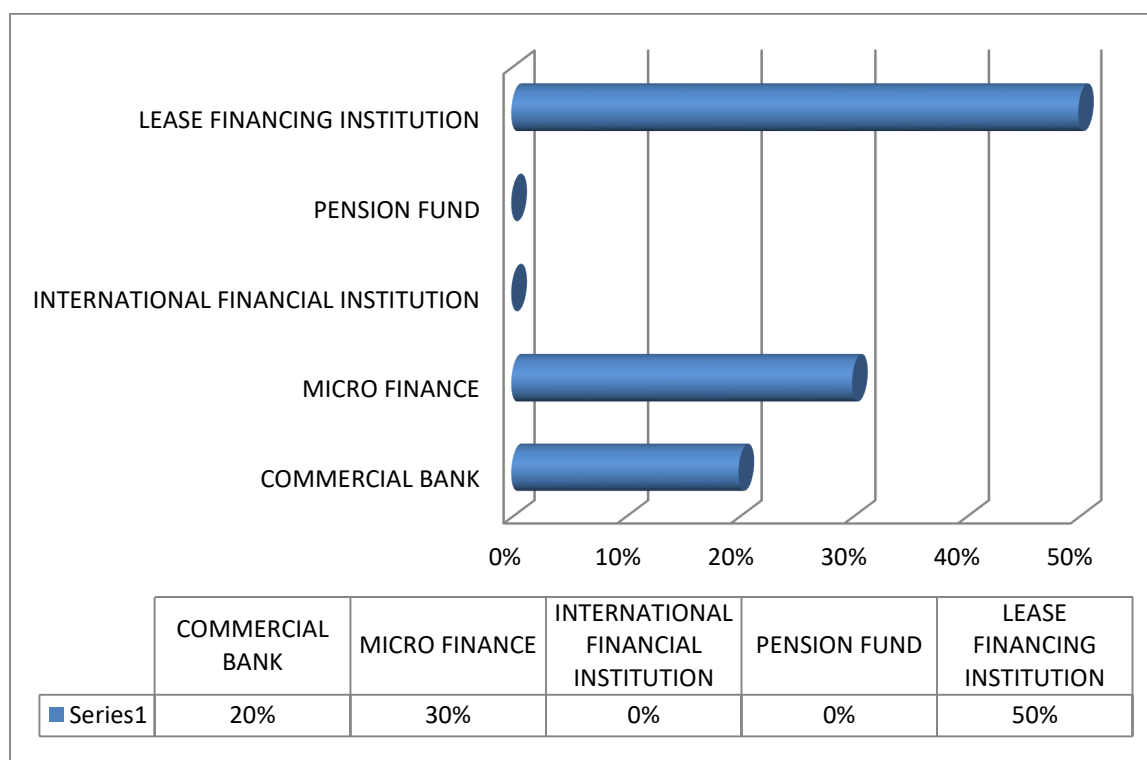


Source: Survey data, 2019

The results indicate that 35% of the lease contracts were Office Equipment (See figure 4.4). This is followed by Vehicle (30%), Construction Equipment (20%) and Production Equipment (15%), Office Equipment seem to dominate the types of assets often required by SMEs through lease agreements. The dominance of Office Equipment in this report seem to agree with the study of Ben (2010), where he stated that leasing is especially popular for Office Equipment that will need to be replaced or updated fairly quickly such that SMEs enjoy the benefit of using better models of equipment. By leasing, the business wouldn't be left with old models of equipment that they would have paid for outright and which they have to now sell out or worse still, throw away.

4.1.5 Nature of Institution where Asset Applications were made

Figure 4.5: Institutions where asset applications were made. (N=20)



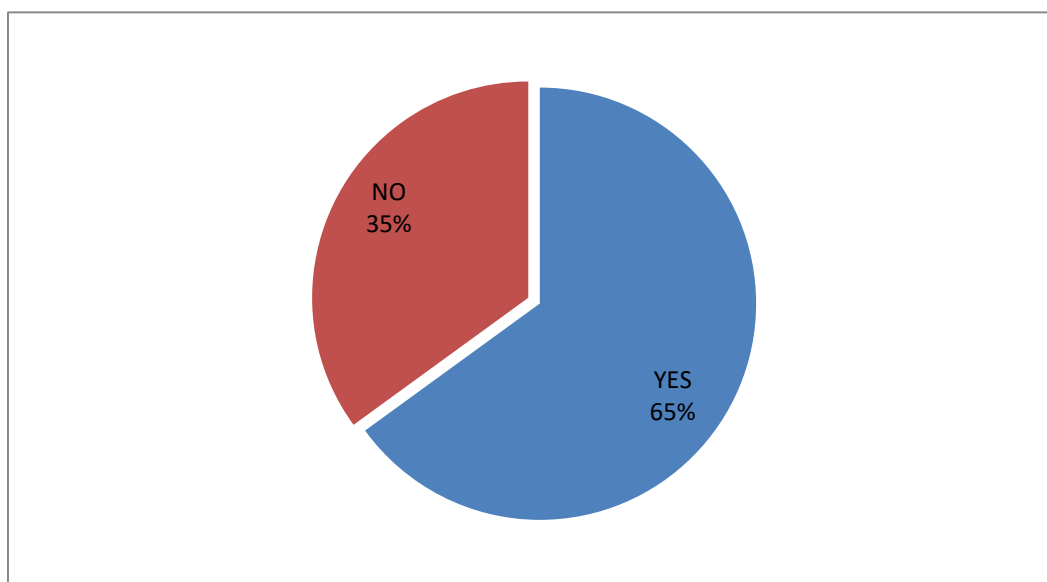
Sources: Survey data, 2019

In order to fully establish the sources of lease financing constraints facing SMEs, respondents were asked which institution they made their application for asset leasing. As shown in Figure 4.5 below, majority of respondents made their application for asset leasing with lease financing institution (50%). This is followed by Micro finance institution which is made up of 30%. Commercial Bank constituted 20% of the asset applications. International Financial Institution and Pension Fund had (0%) of lease application by SMEs.

The results imply that lease financing institutions and micro finance remain the major institutions where SMEs rely on for asset leasing.

4.1.6 Success Rate of Lease Application

Figure 4.6: Distribution of Success Rate of Lease Application. (N=20)



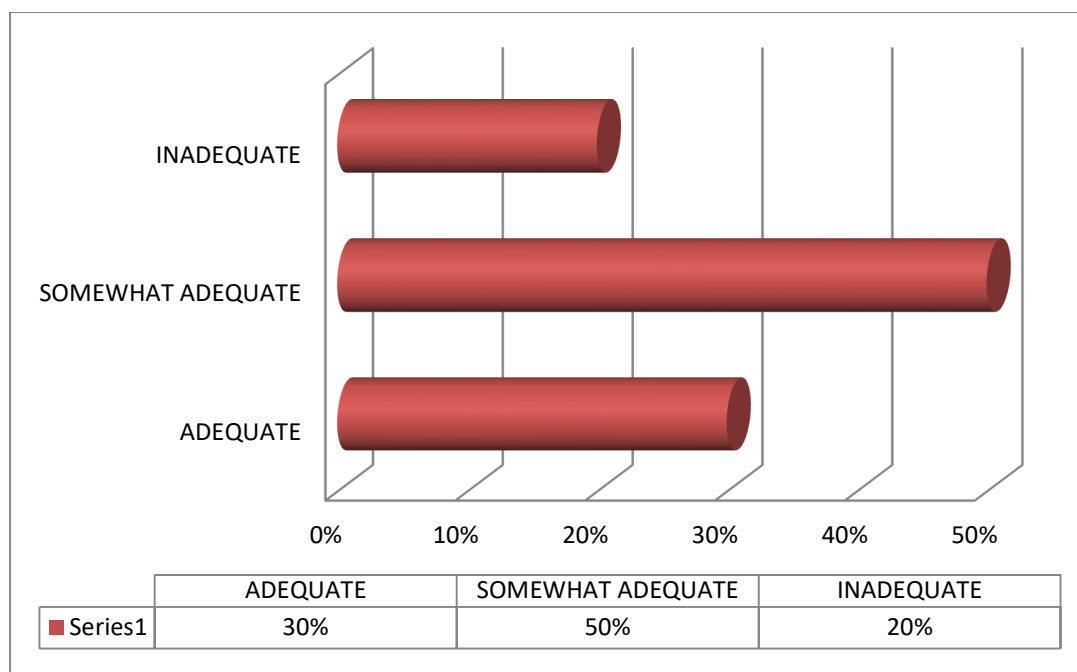
Source: Survey data, 2019

The study further sought from respondents whether they were successful in their application. The results indicate that 65% of respondents were successful in their application compared to 35%

who were denied access (Figure 4.6). The results suggest that majority of lease applicants were successful in their bid to receive lease product from both individual leasing companies and other financial institutions. This implies that access to lease financing does not seem to be a major challenge to SMEs.

4.1.7 Adequacy of the Lease

Figure 4.7: Distribution of Adequacy of the Lease Asset



Source: Survey data, 2011

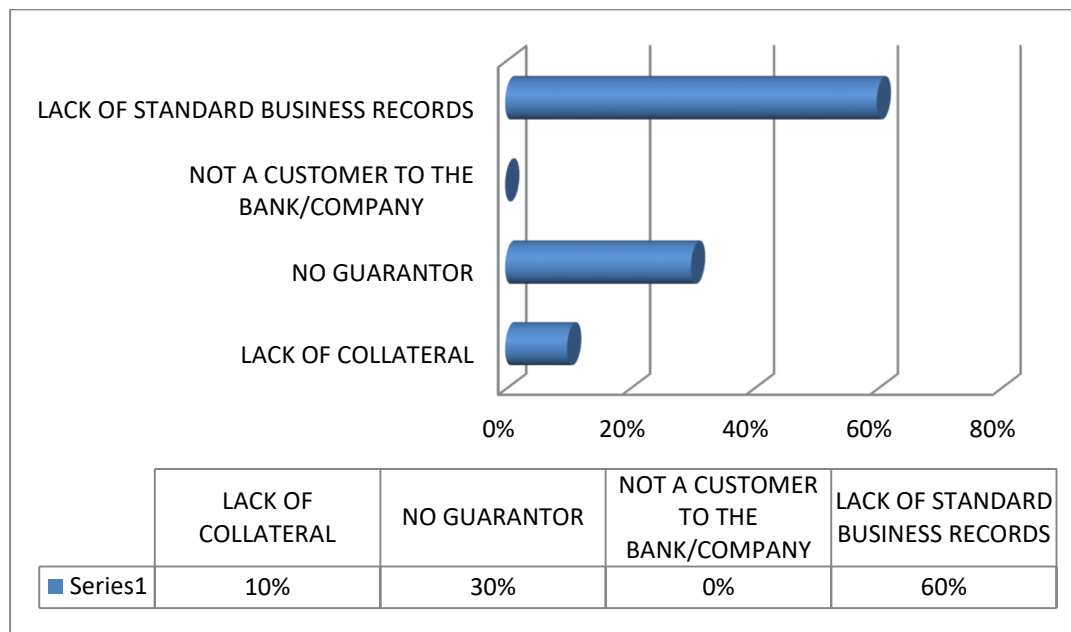
The study further asked respondents who have successfully leased an asset whether they find the asset(s) applied for as adequate or not. Many respondents (30%) indicated that the asset(s) was adequate while 20% described the asset(s) wanted as inadequate (Figure 4.7). Those who described the asset as somewhat adequate represent 50% of the respondents. The results imply that many SMEs in Ghana find asset(s) offered by lease financing institutions as somewhat adequate, thus not fully satisfying their needs.

4.1.8 Reasons for denial of access to lease asset

Respondents whose applications were denied were further asked about the reasons given by the lease financing institutions for refusing their application. 60% of the applicants who failed cited insufficient business documents and records of business activities (Figure 4.8). The problem of no guarantor was also one of the major reasons constituting 30% followed by the unavailability of collateral (10%) being reasons for refusal of most applications where as not being a customer to the institution has no bearing on the failure of SMEs application

The result implies that lack of records of business activities and documents poses one of the greatest obstacles to SMEs in accessing lease finance.

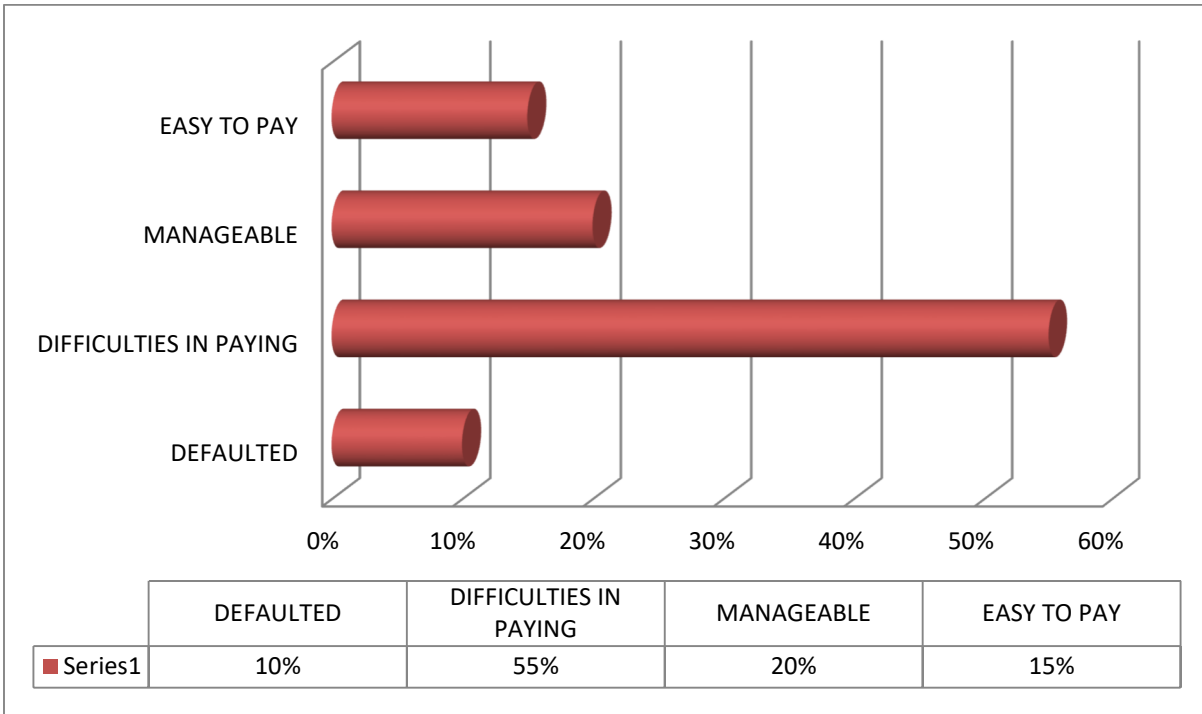
Figure 4.8: Reasons for Unsuccessful application. (N=20)



Sources: Survey data, 2019

4.1.9 Facility Repayment Experience

Figure 4.9: Distribution of Asset Repayment Experience. (N=20)

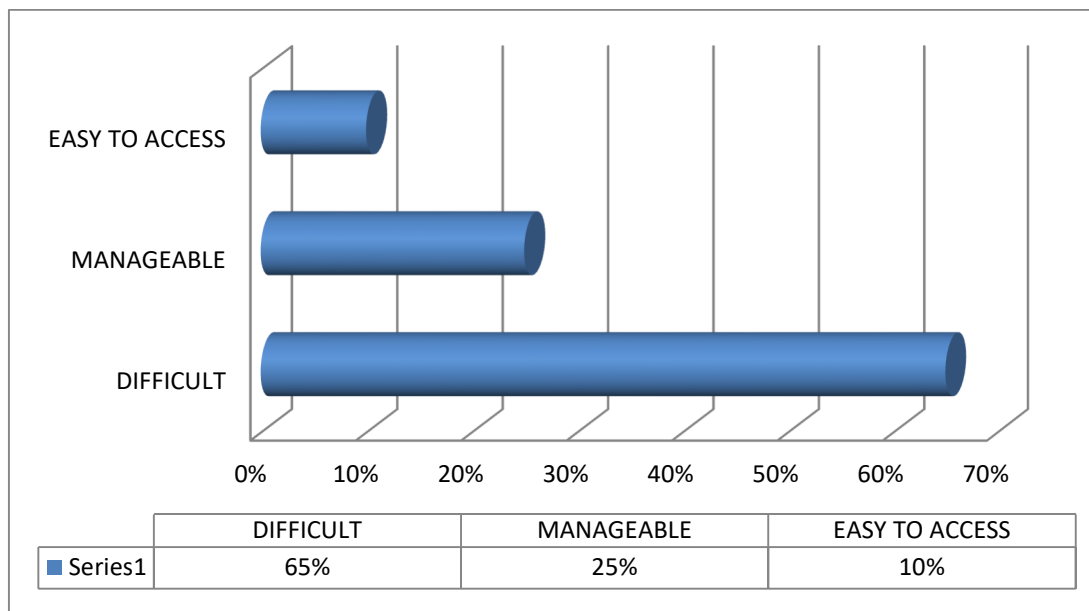


Sources: Survey data, 2019

The figure above represents the respondent’s responses about their experiences in repaying for their asset(s). This was to ascertain the challenges they faced in repaying the cost of the asset(s) applied for. Many respondents (55%) indicate that repayment was difficult. This difficulty serves as a deterring factor to others from access lease product. 20% indicated that the facility repayment was manageable. According to figure 4.9, 15% of respondents could repay for their asset(s) easily. Whiles 10% defaulted in repayment (Figure 4.9). Many respondents who expressed facing difficulties and defaulted in the lease asset repayment indicated that the interest rate on the lease asset(s) was high.

4.1.10 SMEs Experience of Accessing Lease Asset

Figure 4.10: Distribution of SMEs Experience of Accessing Lease Asset. (N=20)



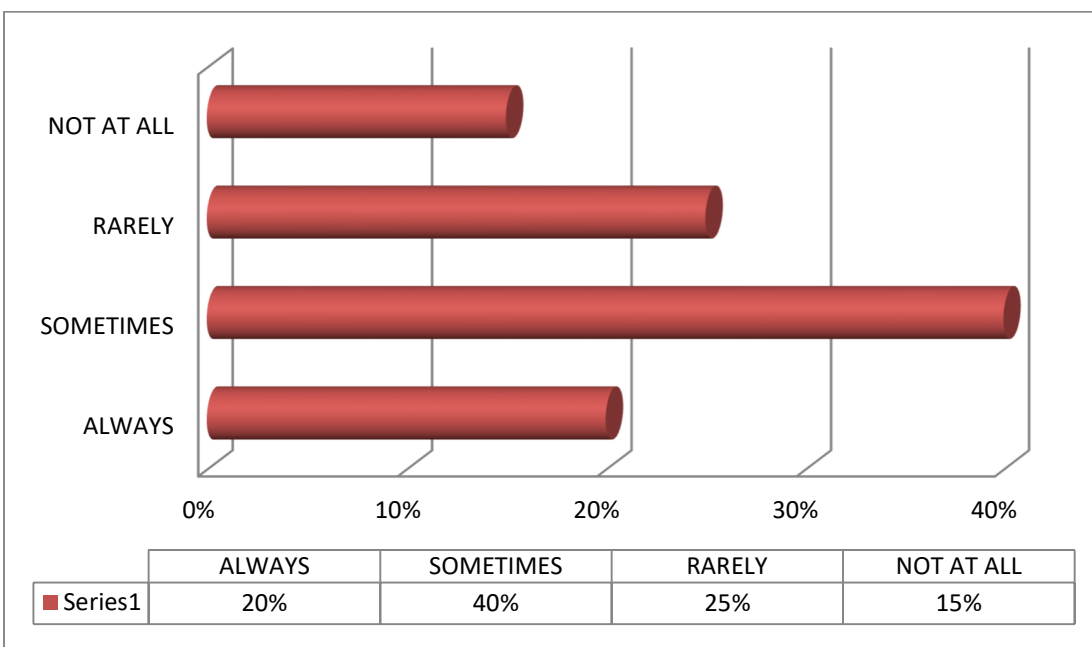
Source: Survey data, 2019

The figure above indicated respondents' experience of leasing an asset from lease financing institutions. Over half of the respondents (65%) stated that it was difficult to lease an asset while 25% said it was manageable. Only 10% stated that it was easy to lease an asset. These outcome seem to explain the over reliance of SMEs on Personal Earnings as a major source of financing options to their business operations. This result further affirms the finding of Aryeetey et al., (1994) on the known phenomenon that formal banking institutions play only a small role in meeting SMEs capital requirement.

4.1.11 Existence of Records Keeping among SMEs

Further, the study assesses the extent to which record is kept by the businesses in the sampled SMEs. Before SMEs can successfully access formal credit including leasing, the officer may want to appraise the borrowers business to see if the borrower can repay for the facility. The study therefore investigated from the sampled firms the degree to which they keep records of financial transactions.

Figure 4.11 Extent to which SMEs keep Standard Records of Accounts. (N=20)



Sources: Survey data, 2019

The results as shown in Figure 4.11 depicted that only 20% of respondents said they always keep proper accounting books. 40% of respondents sometimes keep records of accounts while 25% indicated that they rarely keep records of accounts. A number of respondents (15%) do not keep any form of records at all. This therefore suggests that, only 20% of respondents would be able to

access lease finance from lease financing institution since most of them would like to see the trend of the business through the accounting records.

4.1.12 Requirement for Accessing Lease Asset

Table 4.1 Conditions for Granting Lease Asset (N=5)

Category	Mean
Purpose of lease	4.8
Standard Records of Business Activities	4.5
Availability of Collateral	4.2
Guarantor	4.2
Rate of Account Turnover	3.9
Institution's Customer	0.0

Sources: Survey data, 2019

As part of the objectives of this study the researchers asked the sampled lease financing institutions about their conditions for granting asset to their customers. The result indicated that lease financing companies enquire to know the purpose of leasing an asset as a first step (see table 4.1). This was ranked as the highest major conditions by lease financing institutions to lease an asset with a mean of 4.8. This according to the lease financing institutions, since the customer's ability to repay for the asset is the chief concern of the institutions, the use to which the asset sought for, is a major concern to lease financing institutions. Records of business activities were rated as the second important criteria for granting a lease item with a mean 4.5. This according to the lease financing institutions helps in appraising the business performance and financial position hence the ability to repay for the asset being sought for. Availability of guarantor and collateral are ranked same as the third important criteria to access credit (4.2). These are used to secure the asset granted which seem to be a general problem in Ghana. The lease financing

institutions hence resort to alternative means of granting the lease items such as purpose of the leasing the asset and standard record of business activities.

From the results, preference would be given to Rate of Account turnover in granting credit facilities (3.9) reason given for this condition is to appraise the customer's ability to repay the asset given the amount of cash flow in and out of the customer's account. Furthermore the asset leased is expected to increase productivity hence turnover, thus historical turnover will not serve a strong requirement. Institution's Customers (0.0) being the least important criteria, reason given for this condition is that most lease agreements are walk in therefore it is not necessarily to be the company's customer.

4.2 Discussion of Results

Based on the results obtained from the survey, the researchers found out that, 60% of respondents in the study area depend on personal earnings as a source of finance for their operations, while 15% obtained support from financial institutions as compared to 20% assistance from friends and relative. Leasing financing is the least, representing only 5% of the option of financing to SMEs. The results suggest that sampled SMEs depends less on formal leasing institutions in securing funding to finance their business operations.

On the analysis of the data on whether respondents have ever applied for a lease facility before, it was observed that only 35% of the respondents have ever applied for a lease facility. 65% constituting the majority have never applied to lease an asset as at the time of survey.

The results suggest that demand for lease as an alternative means of financing business operations is low among SMEs in the study area.

To enable the research team find out more about the lease financing challenges in the study area, the team further sought from respondents whether they were successful in their lease application. Contrary to the perception of the team, 65% of the respondents were successful in their loan application as compared to 35% who were not successful.

This suggests that even though majority of them have never applied for a lease facility, majority of these few that applied were successful in their application.

For the research team to know more about the reasons that accounted for the refusal to grant lease facility by the lease financing institutions to the applicants, insufficient business documents and records accounted for 60% while lack of guarantor and unavailability of collateral accounted for 30% and 10% respectively.

This implies that insufficient business documentation and records is a major hindrance to successful execution of a lease financing agreement in the study area.

In order to assess the challenges faced by the respondents in the study area about their experience in repayment of the lease facility, 55% of respondents who were successful in their application found it difficult to repay for the lease, 20% indicated that the repayment was manageable, while 10% defaulted in paying for the lease, 15% found it easy to repay the facility granted.

From the respondents, difficulties in repaying for the leased assets and default in repayment were due to high interest rates, short term nature of some of the lease repayment periods.

Concerning the data on the extent to which SMEs keep record of accounting, it was observed that only 20% of the respondents always keep proper accounting books, 40% sometimes keep records

of accounts while 25% indicated that they rarely keep record of accounts. A number of the respondents (15%) do not keep any form of record at all.

This therefore suggests the reason why most of the SMEs in the study area were not successful in their bid to lease an asset from the lease financing institutions.

The research team also asked the respondents about their awareness of SMEs products offered by the lease financing institutions. About 40% of the respondents indicated that they are aware of the SMEs products offered by the financial institutions while 60% of the respondents indicated that they are not aware of the SMEs products offered by these lease financing institutions.

The results suggest that lack of information about SMEs products offered by lease financing institutions can be said to be a hindrance to access to lease finance by most SMEs.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The study found that source of capital to SMEs in the study area is less from lease financing institutions. The researchers' findings further indicated that, the startup capital for newly established SMEs are from personal earnings and friends and relatives, few existing SMEs derive theirs from formal financial institutions including lease financing institutions.

The analysis also found that, source of leasing to SMEs is less from lease financing institutions. Lease financing institution outreach programme was identified by the researchers as the most important source of information about lease financing institutions' products for SMEs followed by referrals by friends and relatives. This implies that financial institutions outreach programme of visiting prospective customers at their business center have helped considerably.

It has also been found that, SMEs sampled have a low demand for lease finance products. Rigid terms of payment and high interest rate were found to be the major reasons for the low demand for the facilities in the study area. However, Office Equipment dominated the few who attempted applying for a lease facility. Majority of these applications were successful, however, a greater percentage complained of the difficulties posed because the financing institutions require SMEs to have proper business records, collateral, guarantors which majority of them lack, and also rigid terms of payment and high interest rates constitutes some of these constraints.

Lastly, business plan was among other criteria given by the financing institutions. The findings indicate that, the bank appears to be relying extensively on informal method of assessment; they

consider methods like personal relations, family connections or knowledge of the borrower and business relations.

Further analysis reveals that majority of respondents applied to lease an asset from formal Lease Financing Institutions, followed by Micro Finance Institutions and Commercial Banks constituting the least. This implies that Lease Financing Institutions and Micro Finance Institutions remain the major formal institutions where SMEs rely for Lease financing options.

The researchers further identified some reasons why some applicants were refused the credit facility by the financial institutions; insufficient business records and documents were the significant reasons for refusal and it is one of the greatest obstacles to SMEs in accessing credit. Other problems include lack of guarantor and lack of collateral security which constituted popular reasons cited by SMEs who applied to lease an asset.

The study found that, there is a positive relationship between the size of the SMEs and the size of the asset applied for. It can be observed from the analysis that small businesses find the assets offered by financial institutions as somewhat adequate. This could be that SMEs demand for high assets without any proper records or guarantor has forced financing institutions to cut down the size of approved credit hence the complaint.

The research also revealed that the SMEs faced some difficulties in repaying for the cost of assets leased. These difficulties were attributed to higher interest rate and short repayment term nature of the facility.

5.2 Conclusion

The objective of examining the lease financing challenges in Ghana has been largely achieved. The SMEs selected have limited access to lease credit facilities. Interestingly, the success rate of lease application made by the SMEs to the lease financing institutions was generally high.

The limited access to lease financing option by SMEs can be attributed to several constraints on the part of SMEs as well as those of the financial institutions. Lack of business records and document, no guarantor and collateral are the reasons for refusal of credit to SMEs.

Contrary to the general perception, lack of information about lease financing products meant for SMEs appear to be a hindrance to the SMEs lease financing challenges. It is worth noting that the financial institutions apply too stringent assessment criteria to SMEs lease application. Access to lease financing products from the financial institutions by SMEs is very much constrained with stringent lease application requirements serving as a limiting factor to SMEs access to lease credit.

5.3 Recommendations

The following recommendation should be noted with reference to the findings.

There is the need to train SMEs to keep standard records of all their activities especially financial transactions. These financial records should comply as much as possible with Generally Accepted Accounting Practices (GAAP). This will go a long way to enhance the quality and chances of asset lease application made to lease financing institutions and also to enhance the SMEs chances of qualifying for capital allowance. Since lease financing companies always enquire to know the purpose of leasing an asset as a first step. According to the lease financing institutions, the customer's ability to repay for the asset is a chief concern of the institutions, the use of which the asset is sought for, is a major concern to them. SMEs on their part need to boost their capacities

to deal with the documentation requirement to aid them lease an asset. This can be done by undertaking personal learning of basic methods and practice of recording, analyzing and presenting in a form that as much as possible meet requirement of leasing an asset. This can also be done by engaging first degree accountants to prepare comprehensive semi-annual/annual financial statements to meet the lease financing institutions' requirement.

Door to door marketing strategy which is adopted by financial institutions should also be adopted by lease financing institutions and be pursued further since lack of information about leasing as an alternate source of finance to SMEs is a major constraint to lease an asset by most SMEs. Lease financing institutions should relax some of their stringent criteria of lease application appraisal and come out with innovative product that will meet the specific circumstances of SMEs.

Government should step up the effort of the Ghana Leasing Company to deliver on its mandate of assisting businesses including SMEs in their development effort. Government should provide favorable environment for the establishment of more individual lease financing institutions to deal solely with SMEs on asset leasing especially in the manufacturing and industrial sectors. The Government should setup Asset Guarantee Scheme to guarantee at least a larger percentage of assets applied for by SMEs from lease financing institutions in terms of finance lease, since this will help in the reduction of lease interest charges by lease financing institutions and the risks associated with leasing to SMEs.

The research team also observed that, lease industry has less incentive from government and therefore suggest the reduction on fiscal payments on importation of equipment aimed at boosting the industry.

5.4 Limitation of the Study

- The research team was faced with time constraints since this work was to be undertaken and completed within a specific time frame.
- Respondent Institutions were not willing to give needed information due to threat of competition. However, the respondents were reassured that, the research is fundamentally an academic research.

5.5 Further Studies

There are several directions for further studies. It is hoped that, this research and its design could be expanded in future to take into consideration a variety of factors in much detail given larger samples. This would make the findings worth generalizing.

The researchers recommend for further studies on: Assessing the contributions of lease financing companies to the development of SMEs in Ghana.

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APPENDIX:

**QUESTIONNAIRE FOR LEASE FINANCING COMPANIES ON THE TOPIC LEASE
FINANCING CHALLENGES FACING SMEs IN GHANA**

Dear Respondent,

This is a public survey questionnaire which is aimed at identifying and collecting data about the problems, concerns and issues that affect the operations and performance of our Small and Medium Enterprises (SMEs). Your kind and objective response will significantly contribute towards reducing if not totally removing the problems militating against this all-important subsector of our economy.

In order to ensure confidentiality do not put down your name on the questionnaire but please answer the questions as much as possible.

1. What is the nature of your financial institution?

- a) Commercial Bank
- b) Micro Finance
- c) International Financial Institution
- d) Pension Fund
- e) Lease Financing Institution

2. What financial lease products does your financial institution offer SMEs?

- a) Vehicles
- b) Construction Equipment
- c) Mining Equipment
- d) Office Equipment
- e) Production Equipment

3. What are the conditions for SMEs in obtaining financial credit in your institution?

✓ (Please tick appropriate box)

ITEMS	RANKING				
	Most important	Somewhat important	Neutral	Not very much important	Not at all
	5	4	3	2	1
Availability of collateral					
Purpose of lease					
Rate of account turnover					
Records of business activities					
Bank's customers					
Guarantor					
Others(Please specify)					

4. How often do SMEs approach your financial institution for a lease facility?

- a) Very often
- b) Often
- c) Less often
- d) Not at all

5. Do you have SMEs Reserve Fund? Yes No

6. If yes to (5) above, how much have you in your SMEs Reserve Fund:

GH¢.....

7. How much worth of lease fund have you granted to SMEs in the following years?

- a) Year 2007 GH¢
- b) Year 2008 GH¢
- c) Year 2009 GH¢.....
- d) Year 2010 GH¢.....
- e) Year 2011 GH¢

8. How many lease have you issued to SMEs in the following years?

Year	Number of Applications	Amount Applied GH¢	Total Number Granted	Total Amount Granted GH¢
2007				
2008				
2009				
2010				
2011				

9. What do you think can be done to stimulate and enhance appreciable utilization of Lease financing in Ghana?

- a) Education
- b) Provide special financial service
- c) Encourage savings
- d) Others (please specify).....

10. Do you think the Government and the Central Bank should play any role in SMEs' Lease financing?

- a) Yes
- b) No

11. What specific roles should the Government and the Central Bank play if answer to question ten (10) above is yes?

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**QUESTIONNAIRE FOR SMEs ON THE TOPIC, LEASE FINANCING CHALLENGES
FACING SMEs IN GHANA**

Dear Respondent,

This is a public survey questionnaire which is aimed at identifying and collecting data about the Lease Financing Challenges Facing SMEs. Your kind and objective response will significantly contribute towards reducing if not totally removing the financing challenges militating against this all-important sub-sector of our economy. In order to ensure confidentiality do not put down your name on the questionnaire but please answer the questions as honestly and objectively as possible.

1. For how long have you been operating?

- a) Less than one year
- b) 1 to 5 years
- c) Above 5 years

2. To what extent could you describe the rate at which you keep record of your business activities?

- a) Always
- b) Sometimes
- c) Rarely
- d) Not at all

3. How does your business finance its operations?

(Please you can tick more than one)

- a) Personal earnings
- b) Bank loans
- c) Friends and relatives
- d) Leasing
- e) Others (specify).....

4. Are you aware of the existence of institutions that offer Lease financing products to SMEs?

- a) Yes b) No

5. If yes, how did you come to know of it?

- a) From the Leasing company office premises
b) Billboard of the Leasing company
c) Through media advertisement
d) Introduction by a family/friend
e) Through the Leasing outreach program

6. Have you ever applied to Lease an asset from a Leasing company in the past?

- a) Yes b) No

7. If **No** what is your reason?

- a) Interest Rate too high
b) No collateral to pledge
c) Rigid terms of payment
d) No guarantor
e) Don't understand terms of Leasing

If **Yes**, then answer questions 8 to 16

8. What type of asset did you apply for?

- a) Vehicles
b) Construction Equipment
c) Office Equipment
d) Production Equipment

9. From which institution did you apply for?

- a) Commercial Bank
- b) Micro Finance
- c) International Financial Institution
- d) Pension Fund
- e) Lease Financing Institution

10. Were you successful with your application?

- a) Yes
- b) No

11. If No, what was/were the reason for the refusal?

- a) Lack of collateral
- b) No Guarantor
- c) Not a customer to the Bank
- d) Lack of standard business records
- e) Others.....

12. How much did you apply for?

- a) Below GH¢5,000
- b) GH¢5,001-10,000
- c) GH¢10,001-20,000
- d) GH¢20,001-30,000
- e) GH¢30001-40,000
- f) Above GH¢40,000

13. How would you describe the asset(s) that was/were granted?

- a) Adequate
- b) Somewhat adequate
- c) Inadequate

14. How would you describe your experience in repaying the facility granted?

- a) Defaulted
- b) Difficulties in paying
- c) Manageable
- d) Easy to pay

15. How would you describe your experience of accessing Lease Financing facility from the institution?

- a) Difficult
- b) Manageable
- c) Easy to Access

16. What do you think these institutions should do to make their services and products more accessible to you (SMEs)

- a) Make terms of payment flexible
- b) Reduce the rate of interest
- c) Develop other alternative to secure the facility
- d) Make terms of the lease simple to understand
- e) Others specify.....

17. Is financing challenge really a set back to the growth of your organization?

- a) Yes
- b) No

18. Explain your answer in (17) above

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