The role of leasing as an option for financing capital assets of Small Medium Enterprises (SMEs) in Ghana

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BTHE ROLE OF LEASING AS AN OPTION FOR FINANCING CAPITAL ASSETS OF SMALL AND MEDIUM ENTERPRISES (SMEs) IN GHANA

BY

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MINI-DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE MASTER'S IN BUSINESS ADMINISTRATION (MBA) AT THE MAFIKENG CAMPUS OF THE NORTH WEST UNIVERSITY

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DECLARATION

I hereby declare that this submission is my own work towards the Master's in Business Administration and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the university, except where due acknowledgement has been made in the text.

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Head of Dept. Name	Signature	Date

DEDICATION

This work is dedicated to my lovely mum, Hajia Fati Issaka Ziba.

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Any errors of omission and commission are entirely mine.

ABSTRACT

SMEs are the catalysts for economic growth in most countries in terms of productive capacity, thus the underlying goal of this study is to investigate the role of leasing in the Ghanaian economy with respect to SME's. A simple random sampling technique was used by the researcher to select 85 Lessees and 6 Lessors who were involved in the research sample.

In order to acquire related data towards achieving the objectives of the study, the researcher further used a designed questionnaire to aid in analysing the data. Descriptive statistics involving simple percentage information in the form of a table and illustrations was applied in the data presentation and analysis. The findings of the study reveal that a significant number of the SMEs will benefit from leasing even though only few of them were capable of securing the required amount needed. Interestingly, the majority of the SMEs acknowledge positive contributions through leasing towards increasing their returns and sales thus placing them in the competitive arena.

It is recommended that leasing should be more attractive to SMEs as an alternative means of obtaining capital assets for their operations. In addition, the tax rate and interest rate should be reviewed in order to lessen the cost burden on the use of leasing by SMEs in Ghana.

Key: Ghana, leasing, SMEs, capital assets

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LIST OF ABBREVIATIONS AND ACRONYMS.

AICPA	-	American Institute of Certified Public Accountant
BOG	-	Bank of Ghana
GDP	-	Gross Domestic Product
GLS	-	Ghana Leasing Scheme
GLC	-	Ghana Leasing Company
IFC	-	International Finance Corporation
IRS	-	Internal Revenue Service
NBFI	-	Non Bank Financial Institution
PNDC	-	Provisional National Defence Council
PNDCL	-	Provisional national Defence Council Law
SECO	-	State Secretariat for Economic Affairs
SME	-	Small and Medium Enterprises
UK	-	United kingdom
USA	-	United States of America

CHAPTER ONE

ORIENTATION

1.1 INTRODUCTION AND BACKGROUND

Firms generally own fixed assets and report them on their balance sheets, but it is the use of buildings and equipment that is important, not their ownership per se. According to Ayeetey, Baah-Boateng, Ackah, Mbiti and Lehrer (2014), small and medium enterprises often lack the ability of gaining continuous growth and development due to limited assets absence of required tangible assets for collaterals, thus SMEs make use of external machinery and equipment with or without any shared ownership or leasing.

Small and Medium Enterprises usually have difficulties in obtaining local patent rights, and this may leave them with no option but to acquire foreign licences. Regulatory constraints also pose serious challenges to small and medium enterprise development and although wide-ranging structural reforms have led to some improvements, prospects for enterprise development remain to be addressed at the firm - level as postulated by Abor and Quartey (2013). The high start-up costs for firms according to Aggarwa, Klapper and Singer (2012), including licensing and registration requirements, can impose excessive and unnecessary burdens on small and medium enterprises.

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Leasing is an alternative to obtaining the use of facilities and equipment. There has been a massive growth of leasing in many economies, thus leasing is seen to be a rapid form of capital investment in today's economy (Alrai, 2007). Leasing provides the use of, and usually the option to acquire capital assets. For many Small and Medium Scale Enterprises (SMEs), certain changes in the economy might force SMEs to try to selectively improve both cash-flow and profit performance through the use of long-term capital leasing arrangements. Leasing primarily provides economic incentives such as financial and tax related issues regarding structures, machinery, equipment, and other depreciable assets. A careful and critical analysis of the available options and terms of the lease provides advantages of leasing assets.

Abashiya (2006) reveals that in order to sustain the momentum already geared towards industrial development in Africa, capital asset formation must be given priority. For this reason, the study is about an empirical research project into the viability of leasing as an option to finance the capital asset requirements of SMEs.

According to Myers (2001), leasing is evidenced as becoming popular since the lease data disclosed 546 out of 600 companies in a survey conducted by the American Institute of Certified Public Accountants (AICPA) in 1996 being Lessees. It was further revealed that leasing was linked with real estate-land and buildings (Brigham & Gapenski, 2004). Today, nonetheless, it has become viable to lease practically any kind of fixed tangible assets. Kieso and Weygandt (2003) reveal that leasing accounted for one out of eight of the world equipment financing requirements in the late 90s. In addition, 35% of the tangible assets acquired by the large five hundred companies in United State of America was financed by leasing in 2004 (Alrai, 2007).

Many small and medium scale enterprises (SMEs) in developing countries such as Ghana have problems obtaining the requisite financing to procure the necessary equipment/capital assets required for their growth and development (Tshiribi, 2009). For most SMEs in Ghana, medium to long term financing of assets has been an incessant problem and frustrated their development efforts (*Ayeetey et al.*,2012).

In the economy of Ghana, the small-scale enterprises in the productive sector contribute significantly to Ghana's Gross Domestic Product (GDP) and are the cornerstones for sustained economic growth. Due to the above contributions made by the small and medium scale to the GDP of Ghana, there exists a relatively low contribution towards socio-economic development as a result of the absence of medium and long term financing for their capital needs.

Where SMEs have been able to raise funds to purchase the needed equipment, they usually find the credit period too short to match their projected cash-flows and/or further difficulties are encountered with getting the requisite working capital finance (Osaze *et al.*, 2008). For the advancement of their own initiatives and for the utilization and expansion of their resources and potentials, SMEs must be provided with the basic prerequisite for financial and economic independence and flexibility. Crucial to this is a financing option that is suited to their structure, financial requirements and cash-flow needs.

A critical look at the inadequacy of the current financing options available to SMEs in meeting their capital financing requirements shows that lease financing is a viable solution. The structure of leasing, particularly finance leasing, provides an adequate opportunity for these SMEs to get access to medium-to-long term mode of financing its capital assets requirement (International Finance Corporation, 2006).

Fletcher, Freeman, Sultanov and Umarov (2005) define leasing as an agreement entered into by two parties (Lessee and Lessor) where the lessee is allowed to make use of an asset owned by the Lessor for an agreed periodical payment. However, the use of the asset by the Lessee does not guarantee the legal ownership of the asset, thus ownership and the use of the asset are separated.

Many small and new firms in developing countries use leasing to finance their capital asset requirements (Ndu, 2009). In lease evaluations a firm qualifies for use of leased equipment based on its generated cash-flow rather than its credit history, assets or capital base. Because the leasing company retains legal ownership of the leased asset, it enables a firm to attain the use of the much-needed equipment based on its cash-flow generation ability and is therefore relatively lower risk to the Lessor.

According to International Finance Corporation (IFC) reports (2014), there has been an increase in demand for leased facilities in emerging markets and that has led to the industry growing into almost US$78 billion in Africa. Leasing, however, should not be viewed as an end in itself, but rather a means to an end. It is important that a lease facility be complemented with the build-up of business/management skills together with marketing efforts and links of entrepreneurs to complement lease financing and reduce the risk of lending to these SMEs.

Leasing has the potential of assisting SMEs in getting access to the much-needed capital asset financing to enable them increase productivity, performance and develop their full potential thereby fuelling the development and growth of the economy, if it is properly planned, structured, implemented, monitored and managed.

1.2 Statement of the problem

Most economies in the world such as developed and developing economies are characterized by SMEs. However, in developing economies such as Ghana, these SMEs form the core of the business sector and are the cornerstone in the driving the economy. Notwithstanding the fact that they play an important role in Ghana's economy, SMEs have no ready access to financing because of present economic conditions and the attitude of the traditional banks towards such enterprises, considering that loan financing to SMEs has been short-term in nature and insufficient for capital asset needs. Therefore it is evidenced that the SMEs have had virtually no access to medium-long term financing.

According to Non-Bank Financial Institution in Ghana (2012), fewer than 25% of current loan disbursements from formal financial institutions go to SMEs in the productive sector. Further studies have indicated that fewer than 35% of SMEs utilize bank loans in financing their fixed investments. This may be due to some challenges including inability to provide security requirement, lack of managerial capacity, policy regulations and insufficient credit accessibility (Bunting, 2010).

The problem to be investigated is the viability of leasing as an option for financing the capital asset requirement of SMEs. The nature and modalities of the leased product were investigated and its suitability and benefit as an option to financing the capital asset requirements of SMEs assessed.

1.3 Research problems and question

1.3.1 Key research problems

The study investigated the role of leasing as an option for financing capital assets of SMEs in Ghana.

1.3.2 Research questions

In the light of the background of the study, the statement of the problem and the key research problem, the following subsidiary research questions would constitute the basis for data collection:

- What are the nature and scope of leasing?
- What are the leasing opportunities for SMEs?
- What are the challenges facing SMEs on leasing?
- What are the strategies for enhancing access to leasing by SMEs?

1.4 Research aims and objectives

The main objective of this study is to do research into the role of leasing as an option for financing capital asset requirements of SMEs in Ghana. The objectives of the study are as follows:

- To establish the nature and scope of leasing.
- To identify the leasing opportunities available to SMEs.
- To identify challenges facing SMEs on leasing.
- To establish the strategies for enhancing access to leasing by SMEs

1.5 Significance of the study

This research intends to investigate the role of leasing as an alternative financing to the capital assets of SMEs in the development of micro - businesses in Ghana. The findings of this study will help to promote private sector development by enhancing existing information on alternative sources of financing to the private sector. The study will also benefit the economy of Ghana in generating more revenue through tax which will enhance the provision of public infrastructure and services necessary to spur additional development in Ghana.

Furthermore, the study will also provide information on the challenges and opportunities to entrepreneurs regarding lease income-producing assets required to grow their business

In addition, the researcher anticipates that the research results would seek to produce opportunities for the people to reduce the level of poverty and a better standard of living by creating awareness among local entrepreneurship, assist the government to acknowledge the importance of helping SMEs, which would create employment for the youth and also equip them with modern infrastructure. It would also provide the fundamentals to help target groups to obtain solutions to some of the problems facing SMEs in Ghana.

Finally the study would come up with a set of recommendations for various stakeholders for implementation. It was also expected that the outcome of this research would help future researchers who would try to do additional research and also help SME owners to have solutions to some of the challenges within the sector.

1.6 Delimitation of the study

In Ghana there are so many SMEs operating in the country and each one of them faces some challenges which normally prevent them from growing and also to contribute to the economy effectively. Within the context of this study the focus is on challenges facing SMEs operating within the eastern region of Ghana particularly Koforidua, Nsawam and Akim Oda which will go a long way to represent the challenges facing SMEs in Ghana.

Looking at the limitations of this study the researcher focused on selected SMEs from the following groups to represent the whole sector. These include soap-making, dress-making, batik, tie and dye, carpentry, hairdressing and shoe making. This research also takes into consideration some of the organisations which work closely with the SME"s within this region such as the Ministry of Trade and Industries, financial institutions and other commercial institutions that are linked within this sector.

1.7 Limitations of the study

Some limitations were encountered during the course of conducting this study. The first challenge the researcher met in this study was proximity to and gathering of hard data owing to data differences in the country. This caused the researcher to focus the study on micro and small enterprises. The following limitations of this study were time, funds and logistics challenges, which reduced the size of the area of coverage of the study. There were SMEs in every corner of Ghana but the researcher limited the research to a certain proportion of them.

There were also challenges in terms of respondents who could not complete the questionnaire given them and this reduced the number of respondents who were included in the study though the researcher made efforts and approaches to explain the importance of the study to them.

1.8 Organization of the study

The chapter one comprises the background of the study, the statement of the problem, objectives, research questions, the study area, scope of the study, limitations of the study, and the significance of the study and the organization of the study.

Chapter two talks about a review of the study. The researcher concentrated on the research methodology in chapter three, and analysing the data in chapter four. Chapter five of the study focused on findings, recommendations and conclusions.

1.9 Definition of terms

The following defining terms were adopted for the study:

Annuity: Crosby, Mark and Glenn (2000) define annuity as series of consecutive payments or receipts of equal amount.

Balance sheet: A financial statement that shows the financial position of a firm or business in a given financial year (Ruback, 2002).

Bankruptcy: A legal status of a business or a person that shows the inability to pay off liabilities with the available assets (William, 2000).

Capital: Source of finance which a firm uses to acquire any form of assets needed for its operations (Varchaver, 2002).

Capital lease: A non-cancellable form of leasing in which the rights of ownership is transferred to the user (lessee) despite the owner (lessor) financing the leased asset (Van Home, 2005).

Cost of capital: Monetary value of earnings or returns required for making a specific investment (Krueger, 1994).

Cash-flow: The inflow and outflow of money (plus depreciation and minus tax) in firm's operations (Ruback, 2002)

Depreciation: The loss in the value of an asset over a period of time intended to be used by the firm (Moehrle, 2002).

Discount rate: An interest rate that is used to discount future cash flows (Vardi, 2002).

Financial Intermediary: Knight (1999) defines financial intermediary as an entity that acts as the middleman between two parties in a financial transaction, such as a commercial bank, investment banks, mutual funds and pension funds.

Finance lease: An agreement where the lessor receives lease payments to cover its ownership costs. The lessee is responsible for maintenance, insurance, and taxes. Some finance leases are conditional sales or hire purchase agreements (Kieso & Weygandt, 2003).

Fixed cost: Any costs that do not vary with the level of output because they are linked to a time base rather than to a level of activity (Western & Copeland, 1998)

Future value: The amount of cash at a specified date in the future that is equivalent in value to a specified sum today (Varchaver, 2002).

Maturity date: Date on which the principal amount of a note, draft, acceptance, bond, or other debt instrument becomes due and payable (Varchaver, 2002).

Net Present Value: Crosby and Glenn (2000) explain as a measure of discounted cash inflow to present cash outflow to determine whether a prospective investment will be profitable.

Net Worth: The financial value of a person or company after adding all assets and subtracting all liabilities (Blair, 2002).

Operating Lease: A short-term lease in which rental payments are made by the lessee and full ownership rights are kept by the lessor (Mills, 2008).

Par value: Par value is the face value, or named value, of a stock or bond (Adefolaju, 1997).

Present value: The current value of future cash payments when the payments are discounted by a rate that is a function of the interest rate. (Crosby & Glenn, 2002).

1.10 Summary

The study sought to critically investigate the role of leasing as a means of financing the capital assets of businesses particularly SMEs in Ghana. In line with the research questions and research goals mentioned earlier, will give audiences a clue regarding how information can be gathered and utilised from this research paper.

Furthermore, this chapter outlines the importance of this research work to SME financing schemes in Ghana. The limitations and delimitations to this research have also been highlighted in this chapter.

Finally, this chapter outlines how this research work will be organised and also the vocabulary that will be used for such studies was defined in this chapter for easy understanding.

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CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

Entrepreneurship development in both developed and developing countries or economies provides in the need for a country to be self-sufficient and also speed up the growth of economies through vitalizing SMEs and entrepreneurship in their business operations.

This chapter looks into the theoretical framework of the role of leasing as an option for financing capital assets of SMEs in Ghana. This is divided into various sections outlined below:

- Section one discusses some theories relating to the nature and scope of leasing.
- The conceptual framework for the leasing opportunities for SMEs is discussed in section two.
- In section three, the conceptual framework of challenges facing SMEs in Ghana is outlined
- Section four discusses the strategies for enhancing access to leasing by SMEs.

2.2 Nature and scope of leasing.

2.2.1 History and evolution of leasing

The details of leasing earlier times can be traced to the advanced cultures of the Middle East. The evidence of the existence of leasing was documented by both economic researchers and students of prehistoric systems, since about the last 5000 years. In the nineteenth century, leasing was used by the Bell Telephone Company, and short term leases were available for cotton looms, electricity and gas meters, and some manufacturing equipment.

The growth of leasing in today's economy is seen to be the fastest growing form of capital investment in the world. According to the survey conducted by AICPA in 1996, it was revealed that 546 out of 600 companies make use of leasing to finance their operations (Myers, 1999). Prior to the 1950s, leasing was linked with real estate-land and building in USA(Brigham & Gapenski, 1985). Nonetheless, in today's economy, it has become viable and less risky to lease particularly any kind of fixed tangible assets. Businesses in 1984 acquired 20% of all new capital equipment through lease financing in the USA. Therefore leasing has become the most embraced form of capital asset financing by businesses in USA and other parts of the world (Brigham, 1996).

Prior to the late nineties, leasing provided about one-eighth of the world's equipment financing requirements (Kieso &Weygandt, 1998). In 2004, financial leasing was the fastest growing way of financing fixed assets all over the world. It was increased by 26% counting around 580 billion dollars. The USA counts $241 billion taking over the funds provided through the USA banks credit, bonds and equity. In addition, in the USA it shows that fixed assets purchased by the biggest 500 companies 35% of those assets were financed by leasing in 2004 (Alrai, 2007).

According to IFC reports (2008), leasing has developed greatly in the last 60 years. Equipment manufacturers have realized the value of leasing as a marketing tool and the growth of the aircraft and car industries further stimulated the development of leasing (partly because repossession of movable property in the event of default was relatively easy).

As a result of the industry having been developed from its existence of manufacturers selling techniques into a specialised financial service, the first leasing industry was formed in 1952 in the USA. Leasing was accepted and used in more than eighty countries in both developed and developing economies by 1994.

In August 2008, Uzbekistan formed their first leasing industry through the IFC support of a $3 million loan to Uzbek Leasing International. Uzbek leasing in today's economy has become one of the leading and most prosperous leasing industries in the country and that has opened up the way for other leasing companies to commence operations in Uzbekistan (World Leasing Book, 2011)

2.2.2 Growth of leasing (worldwide and in Africa)

Globally leasing ranks second to loans as sources of funding in the capital market as indicated in table 2.1 below. While leasing has played a major role in many economies development the African Continent has not tapped its full potential. This statement is buttressed by the fact that the International Finance Corporation (IFC) as at June 1998 had invested only $57.7 million or 7% for leasing in Africa out of the $800.5 million invested worldwide.

According to the 2008 Global Leasing Report, approximately $630 billion worth of equipment was leased throughout the world in 2006. European and Japanese firms accounted for more than half of the leasing.

2.2.2.1 Leasing volume ranking by the Top 10 Countries

According to the White Clarke Global Leasing report 2015, the total financial leasing value of the Top 10 countries as Influenced by the financial crisis in 2014, the growth rate of the financial leasing value of Top 10 nations showed a positive growth between 2012 and 2013.

Table 2.1 Top 10 Countries by Leasing Revenue, Rankings in 2014

Rankings	Country	Revenue (US$bn)	%Growth (2012/2013)
1	USA	336.95	6.0
2	China	114.85	31.06
3	United Kingdom	78.16	16.45
4	Germany	68.19	8.36
5	Japan	55.85	-16.96
6	Australia	35.27	0.03
7	France	31.86	3.93
8	Canada	30.89	2.63
9	Sweden	18.94	7.07
10	Italy	17.78	11.35

2.2.2.2 Leasing Volume Growth by Region (2013 - 2014)

The table below presents a list of leasing volume growth by regions. This will provide an uneven or irregular manifestation of where respondents perceived potentiality for future growth and a need for asset financing.

Table 2.2: Leasing Volume Growth by Region (2013 - 2014)

Rankings	Region	Annual Volume (USD bn)	Growth (2013 - 2014)
1	North America	368.40	9.9
2	Europe	327.8	-1.7
3	Asia	195.0	10.0
4	Aus/NZ	35.6	185.1
5	South America	10.7	-40.5
6	Africa	6.8	-10.0

Source: World Leasing Yearbook (2015)

As noted by the White Clarke Report (2016), Africa holds 0.7% of the world market in leasing. Four countries in Africa were among the top fifty countries in the world and they are South Africa, Morocco, Nigeria and Egypt.

However, the above report indicates that the African Leasing Industry is still in its infancy as it recorded a decline of -10% ($6.8bn - $7.5bn) between 2013 and 2014.

2.2.3 Historical background to the Ghanaian leasing industry

The first significant legal development to finance leasing in Ghana is the passage of the Hire Purchase Law in 1976. This Law was considered more as a regulated trade credit system outside the normal contract Law and Sales of Goods Act.

The Bank of Ghana in 1990 as an integral part of the International Development Agency's strategy for supporting the government's reform programme, appointed a special team headed by Prof J.A. Mills, to conduct a study into a legal and regulatory framework for finance leasing in Ghana and to draft new legislation for the promotion and regulation of finance leasing (Ghana Leasing Company Report, 2008). The results of the study were to provide the government with the basis for formulating a timely comprehensive legal and regulatory framework for the growth of the leasing industry. The Finance Lease Law (1993 PNDCL 331) is the fruit of the study and recommendations of the special team.

In January 1993, the Government of Ghana passed into Law both the Non-Bank Financial Institutions law PNDCL 328 and the Finance Lease Laws. By these laws, Ghana became the pioneer in Anglophone West Africa to develop Finance Leases as regulated financial services. The Leasing industry, however, is relatively new in Ghana. Prior to 1992 when the first independent leasing company, the Ghana Leasing Company was formed, leasing was mostly related to land and buildings rather than equipment (GLC Report, 2008).

Since then, other Leasing Companies such as LeaseAfric Ghana, General Leasing and Finance and first National Leasing Company have been established. Prior to the establishment of these independent leasing companies, however, two merchant banks, Merchant Bank (GH) Limited and Ecobank as well as Barclays Bank had established subsidiaries (Merban Leasing Finance Company and Ecobank Leasing Company) to provide leasing facilities to complement their other banking products since the late 1980s.

According to the *Daily Guide* newspaper report (June, 2012), the first Protea Hotel was built in Takoradi in the western part of Ghana through the provision of $5.45 million loan from the IFC as their 101st hotel investment. This is very helpful since more demand for business infrastructure and more investors are entering into the oil producing region of Takoradi. The Hotel is a 3-star hotel with about 132 rooms to help meet the demand in that area. This will encourage local employment and other infrastructure in the region.

The Ghana Leasing Company (2012) reveals that the economy of Ghana gained 13.6 per cent growth in 2011. As a result of the above, the Protea Hotel will help in provision of 132 international standardised rooms as well as conference rooms in that region. Due to their multiplier effect on local economies, IFC has invested more than $2.5 billion in hotels since 1956. The Protea investment in Ghana marks IFC's twentieth hotel project in sub-Saharan Africa. As Ghana's economy expands, IFC is seeking to support infrastructure development, tourism, agribusiness and small and medium businesses. In fiscal year 2012, IFC expects to invest $250 to 300 million Ghana cedis.

IFC, as a key member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. We help developing countries achieve sustainable growth by financing investment, providing advisory services to businesses and governments, and mobilizing capital in the international financial markets. According to the IFC Report (2014), the IFC facilitated loans worth $17 billion to SMEs and household through financial institutions to improve financial infrastructure. In addition, they also helped their clients to create jobs, strengthen environmental performance, and contribute to their local communities. Leasing enables small businesses to overcome capital impediments (Higson, 2007).

2.2.4 Overview of the regulatory, legal and operational framework of leasing in Ghana.

2.2.4.1 The Bank of Ghana (BOG)

The Central Bank issues licences and regulates the activities and operations of the Leasing Industries. It ensures that statutory requirements are complied with thereby ensuring a much safer and sound regulatory environment. The Non-Bank financial Institutions Department (NBFI) of the bank of Ghana is responsible for compliance with legislation and regulatory issues concerning the non-bank financial institutions sector. Its role also includes the issuing of prudential guidelines for the different categories within the non-bank sector and monitoring the compliance by institutions with lawful regulations under PNDC Laws 328 and 331. GLC was incorporated in September 1991 to provide medium term equipment financing through "Full-pay out" finance leasing.

2.2.4.2 Non-banking Financial Institutions Law PNDCL 328

The NBFI law of PNDCL 328 was passed in 1993 to create the regulatory framework under which financial institutions apart from the banks like commercial, development and merchant would operate. It was realised that there was a need to develop the non-banking sector by facilitating the flow of capital through other means of financial intermediation, and to create the opportunity for the formal financial sector to provide the financing required for the informal and private sector. The law covers issues such as licensing, deposit taking from the public, capital adequacy and liquidity ratios, exposure limits, and payment of dividends and submission of financial statements to the Bank of Ghana (Adda &Hinson, 2008).

2.2.4.3 Finance Lease Law PNDCL 331

The finance lease law was passed in 1993 to specifically regulate the activities of leasing companies. This law intends to cover issues relating to the contents of a Lease Agreement, Rights and Obligations of the Lessee and Lessor, Registration of a Lease Agreement and Repossession by Lessor (Adda &Hinson, 2008).

2.2.4.4 Non-bank Financial Institutions-Leasing Companies Draft Operating Guidelines

This draft of the Operating guidelines has been issued in accordance with and as a supplement to the FINBL 1993 (PNDCL 328) to provide guidelines for the operations of the leasing industry taking into consideration, the nature and structure of their operations.

The draft guidelines were highlighted issues such as Coverage/Gearing ratios, Risk Management and Lease Rentals/Income recognition (Adda &Hinson, 2008).

2.2.4.5 Hire Purchase Decree 1974

This law covers issues on requirements of a hire purchase agreement, termination and completion, protected goods, and representations and terms (Adda &Hinson, 2008).

2.2.4.6 Lease Agreement

This Lease Agreement is executed by both the Lessor and Lessee and stipulates the terms and conditions that will govern the lease contract. Issues covered in the lease agreement include the lease term and rental, insurance, acceptance and care of the equipment, warranties relating to the equipment, termination and option to purchase the equipment (Adda &Hinson, 2008).

2.2.4.7 Registration of Agreements

The Bank of Ghana Prudential Guidelines call for the Registration of Agreements with the registration authorities of the Government of Ghana.

There is, however, a need to establish a separate/independent and dedicated body to regulate and register lease agreements to foster the growth of the industry. Such a body is yet to be established and a more complete guideline is being formulated for the industry's use in due course (Adda &Hinson, 2008).

2.2.5 Taxation issues

In most countries especially the developed ones, tax regimes for leases have been carefully structured to create incentives or disincentives depending on the fiscal objectives desired. In all cases the issues centre on who is qualified to hold capital allowances on the asset as the allowances can enhance the income or returns of the claimant. In Ghana, where generous allowances are being provided to boost investment, it is an issue of importance in leasing where economic and legal ownership of assets are almost always divorced. It appears that leases have not received any special treatment in tax laws, as even the finance lease law is silent on it. However they are considered within the main framework and principles underlying the SMCD 5 and its subsequent amendments (Adda &Hinson, 2008).

2.2.5.1 Operating leases

The lessee

A rental under an operating lease is fully deductible for tax purposes by the Lessee. He does not have the option to book the asset on his balance sheet no matter the length of economic ownership of the asset, and can consequently not claim any capital allowances thereon. A buy-or-lease analysis by the lessee determines where the advantage lies by comparing the tax credits arising from deductibility of the lease rentals and capital allowances, among others (Adda &Hinson, 2008).

The Lessor

As the Lessor has full legal ownership of the asset during and after the rental period, he has the legal right to hold all relevant depreciation on the asset (Adda &Hinson, 2008).

2.2.5.2 Finance leases

The Lessee

The mode of treatment of finance leases accepted by the Internal Revenue Service (IRS) by a lessee is as follows:

The Lessee with a lease-end purchase option is allowed to book the asset on the balance sheet at the start of the lease period, at the value of the asset less its finance costs. When rentals accrue both the principal and the finance portion will be expensed and are fully tax-deductible. The Lessee in this instance, however, cannot claim the relevant depreciation on the asset (Adda &Hinson, 2008).

The Lessor

In a single investor lease (where the Lessor fully finances the asset), the IRS will normally allow the Lessor to claim all the relevant capital allowances. Where there are claims on both parties, either lessee or Lessor is allowed by IRS to claim capital allowances but not both with respect to one asset and also the IRS will scrutinise the lease agreement to see the intent of the agreement (Adda &Hinson, 2008).

2.2.5.3 Leveraged leases

Whilst the issue of a single investor or leveraged lease is of no consequence to the Lessee, it is a major point for the Lessor. The question is who owns the asset so as to claim the capital allowances? It appears that the question is resolved by the funding parties in selecting one of the investors to book the asset and to make the claim whose benefit will then be shared by all parties according to their respective equities (Adda &Hinson, 2008)..

2.2.6 Lease accounting

2.2.6.1 Finance lease

Accounting for Lessors (PNDCL 328)

The Lessor records all assets under a finance lease as an investment in a lease rather than as a property or plant and equipment. At the beginning the lease, the Lessor should also take the following into account;

- Gross investment in the lease; and
- property income that should be expected from the lease.

The expected property income should be postponed and apportioned to the Lessor's income throughout the lease agreement on a methodical and logical basis. This is usually based on a pattern reflecting a constant periodic rate of return on the Lessor's net cash investment outstanding in respect of the finance lease.

With respect to leveraged leases, the Lessor records his investment in the lease net of the non-recourse debt and the related finance costs to the third party creditors and recognises finance income on the basis of the Lessor's net cash investments outstanding in respect of the finance lease. The amount due from the Lessee under a finance lease should be recorded in the balance sheet of the Lessor as a debtor at the amount of the net investment in the lease after making provisions for bad and doubtful rental receivables (GLC Yearbook, 2008).

Accounting for lessee (PNDCL, 328)

The balance sheet of the Lessee records finance lease as an asset with the responsibility of making future rental payments. Under the finance lease, the value that needs to be recorded should be the present value of the minimum interest payments as an asset and as well as a liability. this is recorded after the value has been discounted at the discount rate, usually not visibly in the lease. The apportionment of rental payment should be between the finance charge and a scaling down of the pending responsibility for future amount payable. Again, the sum total of finance charge should be apportioned to the period of account within the lease term in order to reflect on the continual recurrent rate of change which is applied on the pending balance of the responsibility for each period of accounting (GLC Yearbook, 2008).

Rentals payable should be apportioned between the finance charge and a reduction of the outstanding obligation for future amount payable. The total finance charge under a finance lease should be allocated to accounting periods during the lease term so as to produce a constant periodic rate of charge on the remaining balance of the obligation for each accounting period. Depreciation of an asset under the finance lease should be based on the functional life of the asset and the short-lived term of the lease (GLC Yearbook, 2008).

2.2.6.2 Operating leases

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Accounting for Lessor

Under an operating lease, the Lessor records all fixed assets and they are depreciated over their economic useful life. Lease payments received are accounted for as lease rental income. Initial direct cost incurred in respect of operating lease is written off in the periods incurred (GLC Yearbook, 2008).

Accounting for Lessee

The Lessee assigns rent to the periods benefiting from the use of the asset and ignores, in the accounts, any commitments to make future payments.

Appropriate accruals are usually made if the accounting periods ends between cash payment dates (GLC Yearbook, 2008).

2.2.7 The leasing market in Ghana

Finance leases dominate the leasing industry in Ghana. Although sale-leasebacks exist they are mostly structured as finance leases and thus only finance leases are currently available on the Ghanaian market.

Finance leases are granted because of their low risk vis-à-vis operating leases. The reasons why Lessors prefer finance leases are discussed below:

- Lack of adequate volume and structure of long term funds

Lessors find it difficult to raise and structure the requisite long-term funds required for fiancé leases. Since operating leases are not fully paid out leases the monthly rentals are minimal and given the cost and structure of funds available to the Lessor, rentals from operating leases cannot be used to match available funds.

- Under-developed secondary market and residual risk

An important income generation source of operating leases is the residual value. After the lease term when the equipment is returned to the Lessor, it is sold at the secondary market value to generate a remarkable portion of the Lessor's income.

In Ghana, given the under-developed nature of our secondary market, going into operating leases will lead to the risk of not being able to sell the equipment on the secondary market or getting a low price which could lead to a loss.

In view of these factors outlined above, finance leases suit the structure of the funds and the economy in general (Demirguc-Kunt, 2008).

2.2.8 Growth of leasing in Ghana

According to the International Finance Corporation (2008), the financial arm of the World Bank, in alliance with the State Secretariat for Economic Affairs of Switzerland has released the report on the Second Survey conducted in Ghana's leasing market.

The survey indicates that the number of new leases issued in Ghana grew from 311 in 2005 to 536 at the end of 2006, recording a 72.4% increase. It indicates that the total leasing portfolio held by the leasing sector increased by 73% from $29.8 million in 2005 to $51.3 million in 2006.

According to the IFC (2007 and 2008), there has been a remarkable changes in the Ghanaian leasing industry. This industry is seen to have been the most successful and longest reigning leasing industries in Ghana. The Ghanaian leasing industry was recognised as having been providing a competitive method of asset financing in Ghana (IFC, 2007). According to the study (IFC, 2008), the following were identified as the basis through which the Ghanaian leasing industry has been successful.

- An increase in the size of lease providers from 5 to 14 between 2004 and 2008;
- The value of new leases has increased from $13.72 million in 2004 to $93.31 million in 2008, which reflects 580.1 per cent;
- Also, the study also showed that there has been a rapid increase in the number of new leases from 166 to 1381 between 2004 and 2007 in the Ghanaian leasing industry representing 732 per cent (IFC, 2007).

The report further noted that vehicles constituted the highest value of equipment financed with a rate of 48% construction and mining equipment constituted 25%, office equipment recorded about 8%, with production equipment recording almost 17%. About 82% of leases written were in the Greater Accra Region, followed by Ashanti (8%), Western (6%), Central 3(%) and Eastern (1%).

The report noted that the growth in the leasing portfolio for the industry could be largely attributed to bank Lessors with an increased portfolio of 300%. It noted further that 93% of lease financing emanated from the commercial banks, 7% from International Financing Institutions and Pension Funds such as the Social Security and National Insurance Trust.

According to the report, the average lease duration over the period of study was 36 months with ¢7.5 million charged for the smallest lease and ¢18.5 billion for the largest lease. It had security deposits between 5% and 10%. The year recorded 9.5% average interest rate for funds from the United States of America and 19.5% average interest rate for funds from Ghana.

Launching the report, Taba Cookey, Programmes Manager of SECO, International Finance Corporation programme, said they were committed to supporting efforts to deepen Ghana's financial sector, as well as expanding access to finance for the private sector.

Worldwide, leasing has demonstrated the ability to increase investment in capital equipment. It has been revealed that an average growth of 1% in the GDP of the country was as a result of every 8-9% growth in the operations of leasing. She stressed that IFC promotes economic growth in developing countries by committing close to $8.3 billion, including syndications, to 284 investments in 66 developing countries.

However, the growth of leasing according to the researcher is not without some problems. The leasing industries, notwithstanding the fact that they are considered as a machine that drives the growth of leasing in Ghana, also face some problems such as micro-economic issues, funding, regulatory and legal issues, repossession and information/data dissemination.

2.2.9 How leasing is used to finance capital assets of SMEs

In the Leasing Industry, Aryeetey (1994), indicates that there are basically two major types of leases. These are Finance Lease and Operating Lease. However there are other types, which are variations of the main categories. These include Sales Leaseback and Leveraged Lease.

Tax implications are normally applied to the classification of a Lease transactions into finance and operating and impacts the recording and presentation of lease transactions in the books of accounts and financial statement. SMEs make use of leasing based on these types of assets in Ghana to finance their capital assets requirements.

2.2.9.1 Financial leases

A finance lease is a contractual arrangement where the Lessor purchases equipment selected by and for the use of the Lessee, for a significant period of the useful economic life of the equipment. 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 (Mensah, 2004).

Financial leases are differentiated from operating leases in that they:

- do not provide for maintenance service,
- are not cancellable, and
- 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 (Osaze, 2008).

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 expiry of the basic lease (GLC Yearbook 2008).

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.

The Lessee has the option to purchase the equipment after the lease period for a nominal residual value - usually a percentage of the original acquisition price and if exercised ownership is transferred to the Lessee (Aryeetey, 2004). Given the structure and attributes of finance leases, they are an alternative to bank loans for financing equipment purchases. Finance lease payments can be structured to meet the Lessee's projected cash flow.

According to Azu and Owa (2011), financial 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 analysed in the same manner. Financial leases are sometimes called capital leases.

2.2.9.2 Operating leases

Operating leases, sometimes called service leases, provide for both financing and maintenance. It is also a lease agreement in which the cost of the asset is not fully amortized during the primary lease tenure. Ordinarily, these leases call for the Lessor to maintain and service the leased equipment (Bunting, 2010). 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. Heavy Duty Equipment and Aircraft leases are typical examples (Bunting, 2010).

The capital cost is usually recovered from multiple or serial rentals and the final outright sale of the asset. Maintenance and Insurance Costs are usually assumed by the Lessor, together with the risk of obsolescence (GLC Yearbook 2008).
In view of the residual risk inherent in Operating Leases, the Lessor needs to have regard for the residual value of the asset at the end of the lease term, including prospective re-leasing of the asset, as Lessors' profits depend on this. Operating leases usually work well in a well fully-fledged, developed and vibrant secondary market.

2.2.9.3 Sales- and- leaseback arrangements

Mensah (2008), reveals that sale-Leaseback is a transaction that involves the sale of equipment to a Leasing Company and a subsequent Lease of the same equipment back to the original owner, who continues to use the equipment. 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 by 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 or remaining 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 (GLC Yearbook 2008).

2.2.9.4 Leveraged Lease

A specific form of lease involving at least three parties:

- A Lessor
- Lessee, and
- Funding source

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The Lessor borrows a significant portion of the equipment cost on a nonrecourse basis by assigning the future lease payment stream to the lender in return for up-front funds (the borrowing). The Lessor puts up a minimal amount of its own equity funds (the difference between the equipment cost and present value of the assigned lease payment) and is generally entitled to the full tax benefits of equipment ownership (GLC Yearbook, 2008).

2.3 Leasing opportunities for SMEs in developing countries

Private sector development is said to be critical for employment creation, growth and development particularly in Africa (Kurokawa et al., 2008). It is acknowledged that the development of SMEs would be a key condition to promote equitable and sustainable economic development in Africa. The reduction in poverty and the provision of employment growth can be achieved through the potentials of leasing which would result in a country's growth and development. In Ghana, improving private sector capacity to increase job creation and output has become the most embraced government strategies to accelerate the growth in manufacturing industries particularly the SMEs.

SMEs account for nearly 93% of the registered businesses in Ghana and therefore play an important role in economic development by providing employment opportunities, opening up new business opportunities, enhancing entrepreneurship, and fostering creativity among many other things. Kayanula and Quartey (2000) recognize them as the engines through which the growth objectives of developing countries can be achieved and are potential sources of employment and income in many developing countries. Mensah (2005) makes the analogy that SMEs act like sponges by soaking up surplus labour to provide a large share of employment and income in Ghana.

According to World Bank estimates, it is evidenced that micro, small and medium enterprises (SMEs) are responsible for more than 70 per cent of total employment in the Ghanaian economy. It is also known that 85 per cent of industrial and manufacturing employments are achieved as a result of the existence of small enterprises in Ghana (Ayeetey et al, 2008). SMEs are responsible for more than 70 per cent of Ghana's GDP which represents about 92% of firms in the Ghanaian economy. Therefore leasing becomes appealing to SMEs since it allows them to fully (100%) finance the value of their capital asset without necessarily giving out any form of guarantees (Beck, 2006).

SMEs therefore have a crucial role to play in stimulating growth, generating employment and contributing to poverty alleviation, given their economic weight in African countries. SMEs form a huge portion of ventures in both the formal and the informal sector. Whilst SMEs in developed countries make a significant contribution to GDP and national employment, the importance of SMEs can never be over- estimated in Ghana (Azu &Owa, 2011).

Most SMEs in Ghana employ only a few employees who are mostly relatives of the owner, therefore it is often not easy to distinguish between ownership and control. It is clearly evidenced that SMEs do not account for or are attached to specific regulations relative to compliance since SMEs do not traditionally rely on public funds (Abor & Adjasi, 2007). Gockel and Akoena (2008) reveal that the owner(s) or managers of SMEs lack skills and managerial competencies. The development of SMEs in Ghana is challenged due certain factors that hinders their development.

Further investigation reveals that leasing is characterised as a "creative financing" to businesses including SMEs since monthly payments can be tailored to a projects cash flow and also promotes cash advantages in the lease structure. This helps the SMEs to build their capital assets to stimulate economic growth especially in Ghana. Moreover, leasing can increase the productive capacity of the SMEs without affecting significantly its liquidity or leverage levels, enabling SMEs to deduct the leasing monthly expenses from their taxable incomes and the competitiveness of the cost of lease finance with traditional credit because of the increased security held by Lessors.

BIS (2012), believes that SMEs potential to access finance for their capital investment, achieving growth and expansion can affect their cash flow for business survival. It is also averred that SMEs do not float shares directly in the capital markets and therefore depend largely on credits from the bank which are often not easy to obtain as a result of credit risks, refinancing capacity by the banks and capital adequacy (Kraemer-Eis, Lang & Gvetadze, 2013). The most crucial element of SME finance is provided by leasing or factoring companies since SMEs are not directly financed through traditional loans. The purpose of this study is to appreciate the role of leasing and its importance as additional funding capability for SMEs that heighten the entrance into short and medium-term financing for capital assets.'

According to survey results (Oxford Economics, 2011), SMEs seem to lease due to price considerations, better cash-flow management and the absence of the need to provide collateral. In contrast, micro-enterprises stated tax benefits next to price considerations as the main reasons to use leasing. Based on the report, it is evident that leasing is a crucial characteristic means of capital financing for SMEs and that the SMEs operations can be expanded through leasing of capital investment.

2.4 Challenges facing SMEs

Small and Medium Enterprises (SMEs) have been seen as the main pillar through which the growth objectives of developing countries can be realized and are considered to be potential income generation sources of many developing countries (Quartey, 2010). In the past, SMEs got their support from a number of sources, state assistance, banking institutions assistance, philanthropic agencies, ploughing back profits, to family support and franchising arrangements, among others (Abor&Adjasi, 2008).

One of the major means of SMEs sources of finance is through the financial assistance from the financial institutions in the form of loans, etc. However, getting it from banking institution has become difficult to most SMEs in many developed and developing economies including Ghana. It seems a lot of SMEs appear to have difficulty in financing their business operations (Abor&Adjasi, 2008).

Though some research done in the past in the area of support for the SMEs in general (Abor&Biekpe, 2006; Biekpe, 2004; Kayanula&Quartey 2010), not much empirical evidence exists on this phenomenon in developing countries in general. There are a lot of difficulties in construction development and growth. According to Uriyo (2007), policy regulations, insufficient financial infrastructure, firm regulations, trade regulations, tax regulations, changing government policies, tax rates, corruption, labour regulations, cost of capital, and keen competition for limited opportunities, also contribute to the challenges faced by the SMEs in general. Mamun et al. (2012) also postulated that high interest rates, excessive security and guarantee requirements, insufficient working capital, complexity of documentation, long loan-processing times, unstructured financial information, financial institutions" negligence, high cost for obtaining loans, malpractices in sanctioning loans, and lack of managerial capacity are the main obstacles facing SMEs in Ghana and other parts of Africa.

The study found that access to finance was a significant problem for SMEs, even though other problems such as low cash-flow, energy, high cost of non-labour inputs, increasing competition, lack of relevant physical assets for collaterals and high cost of credit were also cited (Silva & Carriera,2010) and (Asiama & Osei, 2013). As contended by Kayanula and Quartey (2010), the availability and cost of finance, collateral requirement, Informational barriers, regulations and rules impede SMEs' access to finance. Mensah (2008) also argued that the development of the SME sector is hindered by the lack of finance available to SMEs in most African countries especially Ghana. Mensah (2008) further argued that a lack of finance as a common factor constrains business as a result of rigidities in interest rates, high borrowing costs, inadequate institutional and legal structures that helps to manage lending risks of SMEs and relatively undeveloped financial sector with low levels of intermediation.

Bunting (2010) noted that as part of government macro-economic objectives of achieving growth and development thereby alleviating poverty, various contributions were made by the government of Ghana, other government institutions and NGO's to speed up the growth and development of SMEs but SMEs are still faced with numerous problems in Ghana. As further supported by Bunting (2010), some of the challenges that contribute to the difficulties in accessing finance by SMEs include equipment and technology, managerial skills, regulatory constraints and lack of data regulation and collective action to defend their insufficient credit information and more importantly lack of access to credit.

Also, access to education is considered as a major factor when it comes to SMEs' ability to acquire the needed finance for their operations. SMEs lack business and marketing skills that may allow or qualify them to put together viable business proposals (King & McGrath, 2002). They have limited or less access to formal channels that provide comprehensive skills training because they are mostly unaware of the existence of such programmes and even when they are aware, their time constraints may limit their access to such programmes. Moreover, some of them may lack the needed basic educational qualification for such skills training and are therefore cut off from benefiting from such programmes, which in turn limit them from meeting competitive financing requirement to finance their capital assets.

SMEs usually lack the ability to recruit qualified and professional management staff due to absence or insufficient funds for their operations and these restrict them to certain benefits which would enhance their survival and growth. Following the case study, it was revealed that SMEs are having difficulties in developing and sending appropriate information, facilitating and networking services to their members as result of lack of funding (Jain, 2003).

Awura (2006), states that an efficient transport network enhances the growth potential of a country and a reliable system of energy generation and distribution brings modern technologies and smooth out SME,s operations. The availability of infrastructural facilities such as power, communications, water and transport, represents another important constraint on both the choice of SME opportunities and the scale of operation of each respective enterprise production as well as distribution depends vitally on the availability as well as reliability of physical infrastructure. Hulten (1997) has emphasized that the efficiency of infrastructure utilization is important to business and economic growth. Further investigation reveals that insufficient energy supply, water supply deficiency, undeveloped transportation system and poor communication, impede the choice of SMEs opportunities and the scale of operation of each respective enterprise production as well as distribution (Awura, 2006).

Maksimovic (2011), also noted that small firms are mostly known to have finance 13 percentage points less of investment with bank finance as compared to large firms which are known to have financed a greater share of investment with equity. He further explained that most SMEs are able to finance substantial portions of investment through personal savings, relatives as well as friends and money lenders and this becomes an obstacle to SME growth. In some economies, capital may just not be available, property rights regimes may not allow ownership of land, markets for transfer of immovable assets may be very under-developed, credit and collateral legislation may not allow certain assets that SMEs commonly have access to, to be used as collateral (e.g. future acquired property), absence of registries for mortgages and pledges may increase risks to lenders, contract enforcement and asset liquidation may be hampered due to weaknesses in legislation and in the judiciary (Awura, 2006).

Furthermore, SMEs are faced with fixed transaction costs and information asymmetries and as a result, they suffer higher transaction costs as well as higher risk premiums due to the fact that they only demand smaller loans for their operations (Beck &Demirguc-Kunt, 2009).

However, Pretorius and Shaw (2004), do not believe that the above mentioned factors are the main constraints to SME financing but rather a good business plan is perceived as one of the most essential documents to be prepared by the SME in accessing credit from financial institutions. Berger and Udell (2002) also find that the effects that the geographic proximity to banks and customers has a relationship on a firm's use of leverage. Banks that are geographically closer to their customer firms are better able to use soft qualitative information about their customers' credit quality and not the main challenges as mentioned earlier. Geographical proximity to either critical buyers or suppliers produces a form of enhanced environmental scanning that enables SMEs to more easily identify and exploit growth opportunities in the market.

According to the researcher, SMEs survival and growth largely determined by the availability of finance to fund their businesses as noted by most business surveys, therefore finance is noted to be the major obstacle to SMEs growth in both developing and developed countries. Availability of financial support to SMEs allows them to make strategic investments to increase the size of their businesses and to purchase modern equipments, hence making them competitive and strengthening that of the country as a whole. Weak financial structures can seriously affect the micro-economic fundamentals of a country, resulting in lower income and employment.

Irrespective of the increase in their number and the numerous jobs they have created, SMEs normally face challenges in the acquisition of credit or equity. For example, repayment period of commercial bank loans given to SMEs are often limited to a period far too short to pay off any sizeable investment. Also, availability of competitive interest rates granted to some few selected blue-chip companies while loan interest rates available to SMEs remain high. However, banks in many developing countries generally grant a great many loans to the government, which represents less risk and higher returns. Such behaviours have crippled most private sector borrowers and increased the cost of capital for them. In the case of venture capital funds, they have been concentrated in high technology sectors.

SMEs are faced with a number of challenges in getting access to funding due to a number of well-known reasons, which have been explored in numerous UNCTAD expert meetings. They include the following:

- SMEs are seen as high-risk borrowers due to insufficient assets and low capitalization.
- Most SMEs lack the ability to keep proper books of accounts, poor financial statements or business plans which pose a challenge in assessing the creditworthiness of potential SME proposals;
- The cost of managing SME firms is very high as a result of high administrative/transaction costs of borrowing or investing small amounts do not make SME financing a lucrative business.

Most international financial institutions and governments have tried to find solution to the challenges associated with high transaction costs and risks by providing subsidized credit facilities and/or creating lease guarantees. Such projects have often fostered a culture of non-repayment or failed to reach the target group or achieve financial self-sustainability (Beck & Demirguc-Kunt, 2011).

2.5 Strategies to enhance leasing by SMEs

SMEs are usually regarded by creditors and investors as high-risk borrowers due to insufficient assets and low capitalization, vulnerability to market fluctuations and high mortality rates. Due to these, many researchers have mentioned strategies that could be used to enhance the use of leasing by SMEs.

According to Myers (2005), establishing a solid financial infrastructure (auditing and accounting standards, credit registries/bureaus, and insolvency regimes) should be a priority in financial development. The aim should be to develop a comprehensive credit reporting system that covers both personal and commercial credit information, which would help leasing companies to provide a wide range of SME lessees with the needed forms of capital for their businesses.

An effective data collection framework at the national level should include efforts to standardize the definition of SMEs, centralize the collection of supply-side data by the leasing companies and other financial institutions (Bokea & Mutiso, 2009). Demographic data on SMEs by a number of employees, turnover and asset size should be available to help normalize access to data. Computerized business registries would further facilitate the data-gathering process and would serve as an important first step for SMEs to enhance the use of leasing to finance their capital asset requirements.

Azu and Owa (2011), further noted that an effective legal and regulatory framework promotes competition by avoiding overly restrictive licensing requirements and allowing international and regional banks with better SME lending tools to enter the market. Competition among financial sector players can be promoted further by introducing technological platforms in key areas, facilitating a variety of financial products and services, driving down the costs of financial access, and reaching previously untapped markets.

In all cases, government interventions and support mechanism should be carefully designed and better evaluated with a view to accurately measure their achievements in terms of outreach and leverage. Partial credit guarantee schemes should remain an important form of intervention. Key guiding principles on such schemes should contain guidelines on eligibility criteria, coverage ratios, scalable credit approval mechanism, fees, payment rules, use of collateral/down-payment, and equity ratios, among other parameters (Aryeetey, 2010).

On the basis of the key lessons learned from the stock-exercise by IFC (2014),the following additional recommendations were set out in the report as a strategy to enhance the use of leasing by SMEs.

i. Scaling up SME financing in the developing world for establishing an enabling environment for SME access to financial services:
ii. Developing a supportive legal and regulatory framework;
iii. Strengthening the financial infrastructure;
iv. Designing effective government support mechanisms;
v. Building consistent and reliable data sources on SME finance; and
vi. Building capacity of the financial institutions (IFC, 2014).

These recommendations are developed here into a Policy Guide, with a focus on policy and regulatory measures. Accepted guidelines and standards are set out, supplemented by examples, models, and diagnostics. Further stock-taking of SME finance models was conducted to deepen insight into the most relevant models, and to try to identify models for all areas of the Policy Guide (*Journal of Small Business and Entrepreneurship,* 2015).

CHAPTER THREE

Research design and methodology

3.1 Introduction

This chapter covers the following main sections:

- the research approach used for the study,
- the sample frame and how the sample size was decided on,
- sampling technique; tools used for data collection, data analysis as well as data sources and,
- this section finally talked about how field data were collected for presentation and analysis and the tools used for data presentation and also describe the study area.

3.2 Research design

Descriptive statistics was utilised to analyse the underlying causes of the challenges faced by SMEs in financing capital assets. The descriptive statistics will help the researcher to easily visualise the data obtained into more meaningful way to enhance simpler interpretation of data, thus it provides simple graphic analysis.

Since the study mainly seeks to identify the role of leasing as a means of financing capital assets of SMEs, the appropriate research design used was a case study. This availed the researcher to engage virtually all the key stakeholders within the industry to help them identify the desideratum for leasing in financing capital assets of SMEs in Ghana.

Based on the required research objective of highlighting the role of leasing as an option for financing capital assets of SMEs in Ghana, the quantitative research method was adopted, which often is the most efficient and cost-effective research method (Gerhardt, 2004). This method (quantitative) was also considered not only as it is seen as more reliable and objective but it often reduces and restructures a complex problem to a limited amount of information suitable to the objective of the study. This method will also help the researcher quantify the responses from our respondents into statistics to generalise its findings (Bunting, 2010). However, the researcher considered quantitative method over qualitative method was because the latter do not focus on contextual sensitivities of the study but rather on meaning and experiences.

The main reason for utilising this approach was to explore and describe the opinions of SMEs in their capital asset financing. This method was opportune to capture all germane information regarding the utilisation of leasing as an option for financing capital asset of Small and Medium Enterprises (SMEs).

3.3 Population

The study population was composed of Lessees and Lessors located in the Eastern Region of Ghana particularly in Koforidua, Nsawam and Akim Oda. The SMEs Lessees for this study comprises SMEs from the sectors of agriculture, construction, information technology, education, foods and beverages, tie and dye, paper and printing, and transport. The Lessors are composed of banks and other financial institutions who are licensed for the operation of leasing in Ghana.

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3.4 Sample size and collection

Based on the study, the researcher used a sample size of 85 SMEs and 6 Lessors. A convenience sampling method was used to select the respondent SMEs. The selected SMEs were based on Net Asset and Number of Employees. For a firm/enterprise to qualify as an SME at least one of the following characteristics must exist:

- Maximum Total Net Asset level of Gh20,000 and/or
- Maximum of 50 employees.

Lessors were composed of those who are accredited by Bank of Ghana to conduct the business of leasing. Six Lessors were contacted due to their availability within the scope/parameters of the study chosen by the researcher.

Eighty-five (85) Lessee SMEs representing 100 per cent of the sample size and 6 Lessors representing 100 per cent of the sample size respectively responded to the sample questions of the study. This showed a very high response rate as a result of both Lessee and Lessors' interest in the study since studies concerning leasing have hitherto been highly limited.

3.5 Research instrument

The main research instruments used were questionnaires and interviews through the internet and personal contacts. These instruments were selected because they help increase the response rate and also curtailed the time constraint significantly. They also help in reaching out respondents from different geographical areas in a relatively short time, reduces the cost of coding respondent data and explored the responses to gather more or deeper information (Zang, 2000). The questionnaire of the Lessees was designed to capture the following broad areas:

- ➢ The nature and awareness of other forms of financing available for SMEs
- ➢ The nature and the scope of leasing for SME financing
- ➢ The opportunities available to SMEs for the use of leasing.
- ➢ Challenges facing SMEs in financing capital assets through leasing.
- ➢ The impact of leasing on the company's operational performance such as production, activity and efficiency,
- ➢ The impact of leasing on the company's financial performance, profitability, liquidity and activity
- ➢ Other benefits being derived from Lease Financing, and

The questionnaire for Lessors was also designed to capture the following issues:

- The awareness of leasing for SMEs in their capital financing
- The factors that influence their ability to finance SMEs through leasing.
- Problems inherent in dealing with SMEs, and
- Strategies available to enhance the use of leasing by SMEs.

3.6 Data-collection procedure

Questionnaires were mostly administered through the internet. The respondent SMEs were subsequently contacted and given a brief about the objectives of the study through the means of email and telephone. After all contacts had been obtained, the questionnaires were then dispatched. A two weeks time frame was then given to the respondents to complete the questionnaires, as this gave them enough time to give out the right responses.

This data-collection procedure was chosen in order to increase the response rate and also curtailed significantly the time constraint. Two separate questionnaires were administered to the respondents (Lessors and Lessees). The data gathered were then analysed in chapter four through the means of relative frequencies, tables, and percentages after the data had been edited for completeness.

3.7 Methods of data analysis

According to Ader (2008), data analysis is a process of editing, cleaning, transforming, and modelling data with the goal of highlighting useful information, suggestions, conclusions, and supporting decision-making. The initial stage was to edit the replications for omissions and errors for rectification. This ensured precision, consistency and plenaries of the replications.

After the coded and edited responses the data had been analysed through statistical description and factor analysis, a limited number of categories were used to group responses which matched the important information needed for the analysis. The coded data was tabulated and counted. The tallied coded responses were presented in statistics for discussion.

The degree/intensity of relationship between the variables was deduced as a result of descriptive statistics used to compute the relative frequency distributions of all variables. Factor analysis was used as a tool to describe a number of factors that would clarify a variance observed in the study variables. Factor analysis was used to predict the impact of lease financing on the capital assets of SMEs.

3.8 Limitations of the data collection

Owing to some problems faced with regards to entrepreneurs and officers of the institutions sometimes not willing to provide important information mostly when it is about the negative effects of the activities of small-scale and some field challenges encountered during the work included the postponement of appointments which contributed to the delay of the work.

Therefore a total of 85 questionnaires for Lessees and 6 questionnaires for Lessors were made available to them. Both Lessees and Lessors targeted fully responded to the questionnaires. The high rate of response from both Lessees and Lessors was as a result of the researcher's attempt to effectively explain to them the importance and effectiveness of this study and how it would enhance financial improvement in their businesses.

3.9 Summary

This chapter provides detailed information on how this research is structured. The research questions and research procedures are explained and from reading the limitation, the SMEs will be provided with the general idea on how to critically evaluate the results. Finally, the ethical issues were addressed and no potential problems perceived by the researcher attended to.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF RESULTS

4.1 Introduction

This chapter presents the findings from the survey. Responses from respondent Lessees and Lessors are presented separately. As sample size of 85 questionnaires were fully completed together with the interviews made with our respondent Lessees and Lessors, results are presented below.

4.2 Lessees results and analysis.

4.2.1 Nature and scope of leasing

4.2.1.1 Type of equipment and term of lease

The administered questionnaires to Lessees SMEs were done from sundry sectors as presented in the table below:

Table 4.1 – Sample by sectors

SECTORS	NUMBER	PERCENTAGE
Advertising and Printing	4	4.7
Commerce	5	5.9
Financial	4	4.7
Health	4	4.7
Hotel and Tourism	8	9.4
Manufacturing	10	11.8
Plant Hire and Construction	13	15.3
Service	6	7.1
Transportation and Haulage	20	23.5
Agriculture	11	12.9

Total	85	100.00%

As presented in the table above, it is seen that 23.5 per cent of the entire responses of our sample size are made up of the SMEs transportation and haulage Sector, while SMEs in the advertising and printing, financial as well as the health Sectors had utilized lease financing at least four of our sample size which represents 4.7% of our responsive SMEs respectively. Not surprisingly from our results, SMEs Lessees in the agricultural sector have utilized leasing the least at 12.9%

Discussions with Lessors indicated that this is a reflection of the relatively lower number of applications that came from the transportation and haulage sectors and thus had the lowest percentage in terms of actual leases financed.

4.2.1.2 Type of equipment leased

Equipment leased based on the sample size was mostly mobile equipment, such as saloon cars, trucks, buses, ambulance and heavy duty earth-moving equipment.

Manufacturing and industrial equipment such as block and pavement tile-making machines and industrial kitchen appliances were among the equipment that had been leased to SMEs.

The mobile equipment mostly leased as indicated by our results was mainly due to a combination of factors from both Lessees and Lessors. Lessees who tend to be moved towards mobile equipment mostly due to the kind of business they operate specifically those in the service sector, and vehicles are among the few-fixed assets that can easily be leased.

From the Lessors perspective, their portfolio is geared towards mobile equipment mainly due to:

- The relative demand and

- The relatively low risk in the event of repossession due to the availability of a secondary market.

4.2.1.3 Discovery and awareness of leasing

According to the research study, a significant proportion of Lessee SMEs were exposed to leasing through friends and family, organizations that worked with SMEs such as the Ministry of Finance and Economic Planning and Empretec Ghana Foundation. Research information gathered also reveals that 50% of the respondent Lessee SMEs were referred to leasing from the commercial/merchant banks because they could not meet the bank requirements.

4.2.1.4 Lease term and structure

It is indicated from our sample results that the lease term and structures for SMEs varies from one industry to the other. It normally ranges from period of 6 to 60 months. It also indicated that average lease terms from our sample indicated 36 months.

Lease rental payments for SMEs as indicated by our sample results are normally made monthly, quarterly, bi-annually and annually and others as indicated by the analysis of the results. It is presented in table 4.2 below:

Table 4.2: Payment frequency

Frequency	Number	Percentage
Monthly	68	80%
Quarterly	10	11.7%
Bi-annually	5	5.9%
Annually	2	2.4%
Other	0	0%
Total	85	100%

The table above indicates that most Lessee SMEs make rental payments monthly which represents 80% of our respondents. This shows that most SMEs do make payments on a regular monthly basis as compared to payments regarding quarterly, half-yearly and annually representing 11.7%, 5.9% and 2.4% respectively.

4.2.1.5 Lease-processing vs. loan-processing time

The table below indicates from the respondents on how long it takes for the processing of loans and lease in Ghanaian market.

Table 4.3 Lease-processing vs. loan-processing time

	Number	Processing Time (weeks)	percentage
Lease	70	3 - 26	82.4
Loan	15	5 - 40	17.6
Total	85		100

(GLC Year book 2008)

With the number who had utilized loan financing prior to leasing, 82.4% of respondents indicated that the processing of a lease was quicker. Loan-processing times ranged between 5 to 40 weeks, averaging 24 weeks before funds were disbursed. Lease-processing time ranged between 3 to 26 weeks, thus leasing takes an average of 5 weeks' processing time. Therefore time saved between lease and loan processing time was 19 weeks.

Delays in loan application were mostly from the lenders' end, since the loan approval processing was from their side especially in situations where they did not provide Lessors with all the requisite information required and/or Lessors required some specific information/action from them.

4.2.1.6 Factors that influence choice of finance lease

This section was designed with the aim of actualizing the advantages of leasing as stated in Section 2.4 and 2.8 that influences that choice of leases by SMEs in Ghana. The factors that influenced the choice of the lease option by SME are presented below.

Table 4.4 – Factors that influence choice of finance lease

Factor	Number	Percentage
Availability	85	100%
Nature of Equipment	35	41.1%
Value of Equipment	80	94.1%
Structure	82	96.5%
Flexibility	70	82.4%
Convenience/Quickness	70	82.4%
Cash-flow Constraints	82	96.5%
Off balance sheet financing	0	0%
Taxation issues	7	8.2%
Cost of funds	83	97.6%

As indicated Table 4.4 above, participants were unanimous about leasing being the only option available for financing capital asset requirements. Even with those who had access to other options they said none of them provided the several advantages they attained with the lease option. Specifically, the Lessor finances 95% of the invoice price of the equipment with a medium-term repayment structure to the Lessee. The results and analysis above attest to the fact that leasing is a major and important medium term financing option available to most SMEs.

It further indicates that cash-flow constraints are also one major factor that influences the choice of a lease option. As a support to our assertion in section 2.8 above, leasing provides an option of acquiring the much-needed equipment when Lessee's do not have adequate cash to acquire the asset.

Discussions with the participants further revealed that even where they had enough funds to acquire the equipment, the repercussions on its working capital/liquidity position included undue cash constraints and thus they were compelled to utilize the lease option.

One other key factor in respondents' choice of the lease option as indicated by the results, was the medium-term nature of lease financing. There were indications that the period of time required for lease rental payment was very suitable especially for financing capital asset requirements. This is because since capital asset investment is of a medium-long term nature, the medium term nature of lease financing enables repayments to be spread over a reasonable period of the life span of the equipment.

It was also indicated from our results that leasing provides flexibility in repayments since instalment payments can be easily tied to the nature of the cash-flow. Other contributory factors include the convenience and quickness with which leases are reviewed compared to loans. Those who had utilized loans indicated that since the processing of the lease request was much quicker than that of the loans, it made possible more effective planning.

Leasing as a mode of off-balance sheet financing did not play a role in respondents' choices. This is in support of our assertion that most leases being offered are finance leases. Off balance sheet financing is only available for operating leases.

A few relatively sophisticated SMEs took taxation issues into consideration. According to those, the fact that full lease rentals could be deducted for tax purposes was an additional advantage vis-à-vis that of a loan and they further indicated that this enhanced their effective tax management.

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A significant number of participants took the interest rate into consideration. These respondents indicated that they were interested in knowing the applicable interest rates, to find out if they were in line with market rates and if it was affordable.

The interesting revelation was that while most participants indicated that the interest rates were high, for them that was the only source of medium-term funding and thus they had to accept it irrespective of the sometimes harsh debt burden on their operation (Bunting, 2010).

4.2.1.7 Lease security arrangements

As indicated earlier under the lease structure, the Lessor holds ownership of the equipment, which normally serves as collateral. To determine the situation vis-à-vis SMEs, the question as to whether additional security was required was examined.

For respondents who answered in the affirmative the type/category of security required was further inquired about.

Table 4.5: Lease security arrangement

Response	Number	Percentage
Yes	72	84.7%
No	13	15.3%
Total	85	100%

It was evidenced that 84.7% of respondents indicated that no additional security was required, apart from the mandatory ownership of the equipment, while 15.3% indicated that some security, mostly receivables, was required.

The interesting revelation about the security arrangements under SME lease financing is that Lessees who indicated that additional security was required were unanimous on the issue of the type of security required. This was in the form of tying lease rental payments to specific receivable.

Further discussion revealed that in most cases it was tied to payments from a particular client of the Lessee, of whom the leased equipment was required to execute a specific job. In this case, payments were assigned directly to the Lessor, in the joint names of Lessee and Lessor

4.2.1.8 Impact of leasing on financial and operational performance

Table 4.6 Operational performance

	Yes		No		Total	
	Number	percentage	Number	Percentage	Number	Percentage
Increased production	79	92.9	6	7.1	85	100%
Production in cost	69	81	16	19	85	100%
Efficient Utilisation of Resources	82	96.5	3	3.5	85	100%

Respondents' answers to the question as to whether the leasing of the equipment had led to increased production were mostly in the affirmative. It was clearly seen that 92.9% of the respondents were positive that the lease of the equipment had led to increased production. Lessees who did not have the machine at all prior to leasing indicated a tremendous boost to the company's production.

Lessees who lease operating equipment, plants and machinery indicated that the new equipment was an improvement over the old one, in terms of capacity and technology. One Lessee was so relieved to have had access to a new generator because the frequent breaking down of the old was having adverse effects on her hotel and restaurant business, since she was losing valuable clients.

Other Lessees who replaced their old and obsolete equipment and or added to their equipment were also positive about the increase in the quantity of goods produced. Lessees who leased trucks and some who leased heavy-duty equipment indicated that in view of the increase in the fleet they could take on additional jobs and rent out their equipment for additional income when it was not in use.

Those who answered No, were mostly Lessees who had just obtained the equipment and thus indicated that the period of time was too short to measure any increases. Another client who leased heavy duty equipment to execute a contract indicated that he had access to his own equipment instead of renting and thus the impact was more on a reduction in cost which is discussed further below.

Others indicated that prior to obtaining the equipment they had to rent equipment and/or in some cases sub-contract their jobs to operators who had the requisite equipment. However the lease option had enabled them obtain the much-needed equipment, which had led to a tremendous reduction in cost. For most of these Lessees, the cost of renting the equipment was higher than the lease of rental payments. Coupled with this, leasing the equipment gave the Lessee an additional advantage of owning the equipment at the end of the lease period.

The important revelation was that some of the Lessees who answered negatively indicated that the interest cost made up for any reductions in operating costs, thus they felt no impact in terms of cost reduction. Others indicated that the period was too short to realize the impact.

Regarding the efficient utilization of resources Lessees indicated that the lease of the additional equipment had led to a reduction in wastage and man hours spent idling due to broken - down equipment and trying to repair the equipment. Most Lessees noted that with the lease of the new equipment, they could better utilize their resources and realize their full potential (Bunting, 2010)

Table 4.7 – Financial Performance

	Yes		No		Total	
	Number	percentage	Number	Percentage	Number	Percentage
Profitability	82	96.5%	3	3.5%	85	100%
Liquidity	62	73%	23	27%	85	100%
leverage	46	54.1%	39	45.9%	85	100%

On the positive side, 96.5% of the respondents from above table indicated that the increase in profitability could be partly attributed to the leased assets, while 3.5% were negative as was noted by Ayeetey (2012).

On the positive side, 96% of respondents indicated that the increase in profitability could be partly attributed to the leased assets. Those who answered negatively indicated that the period was not long enough to measure the impact in terms of profitability. Given the increase in production and reduction in cost, the net result is increased profitability as indicated by respondents. The results in terms of liquidity revealed some interesting revelations.

Respondents who indicated that there was no improvement in liquidity said the additional cash that was being generated was being used to make lease rental payments. In a few cases, Lessees indicated that the increase in cash-flow was not enough to meet rental payments and thus they had to supplement rental payments with other funds. However, 73 per cent of Lessees indicated that the lease had led to increased cash-flow that led to a positive net effect. Thus the increase in cash-flow attributable to the leasing of additional equipment more than offset the lease rental payment resulting in an overall impact on liquidity. This was mainly because as indicated previously some Lessees could reach out to new markets, and/or do new business in view of leased equipment.

Some interesting revelations were discovered regarding the issue of leverage. About 54% of our respondents indicated that leasing had led to increased leverage. This is because in finance leasing, lease rental payments are reflected in the balance sheet as liabilities. Thus the lease of the equipment and its consequent maturing financial obligations increased the leverage positions of most of these firms.

The 44% of respondents who indicated that leasing did not lead to an increase in leverage were mostly those using alternative financing methods from other financial institutions. These respondents indicated that since they had utilized the lease option in lieu of their previous financing options, the impact in terms of leverage was not any different because in both ways the credit had to be repaid (Ayeetey *et al.,* 2012).

4.2.2 Challenges facing SMEs in Capital Asset Financing

According to the responses received from our SME respondents, it was noted that SMEs are faced with lots of challenges in their operations. Based on the selected SMEs and the number of responses for this study, the researcher noted that inadequate access to finance is the highest ranked constraint SME faced in their operations. The table below shows the responses from the Lessee SMEs and their percentage rankings on their constraints.

Table 4.8 Challenges facing SMEs in Capital Asset Financing

Constraints	Respondents	Percentage	Rankings
Financial infrastructure	5	5.9	3
Lack of finance	64	75.1	1
High utility tariffs	7	8.3	2
Policy regulations	2	2.4	6
Competition	4	4.7	4
Lack of managerial capacity	3	3.6	5
Totals	85	100	

The table above shows the total responses and rankings of the major challenges facing SMEs in their growth potentials. Out of 85 respondents, 64 SME respondents ranked lack of finance as the major challenge to their potential growth and this represents 75.1 per cent of the entire range of SME respondents. High utility cost is ranked second which is approximately 8.3 per cent of the responses. Lack of financial infrastructure, competitions, lack of managerial capacity representing 5.9%, 4.7%, 3.6% and 2.4% respectively.

These results augment the theory of Aryeetey *et al.* (2008), where they stipulated that access to bank credit has been a major concern to their business expansion. Again, SMEs' financing has still been noted to be a major problem faced by most developing countries or economies, including Ghana, even though the number of financial institutions has increased tremendously since 1993.

With these increases in financial institutions in the country (Ghana), one expects that access to credit by these SMEs was greatly improved as competition became keen. But the results still show that a lack of access to credit or bank loans remains the major constraint that needs to be addressed to enhance SMEs growth.

4.2.2.1 Factors contributing to SMEs' constraints

As seen from table 3.5 above, SMEs in developing countries like Ghana are unable to readily access finance from the financial institutions of the country due to the following factors. Demirguc-Kunt (2006) noted that SMEs do not only perceive access to finance and the cost of credit to be greater constraints to SMEs than the larger firms but see that there are other constraints to SME financing. Table 3.6 below shows the frequency distribution of factors that hinder participant SMEs' access to finance.

Table 4.9 Frequency distribution of factors that hinder SME access to finance

Factors	Frequency	Percentage
Interest Rates/ financing cost	72	84.7
Excessive security/Collateral requirements	55	64.7
Lack of managerial capacity	10	8.5
Complexity of documentation	15	17.6
Asset/Liability mismatch	8	9.4
Others	6	7.1

From the above table, 84.7 per cent of the total respondents claimed high interest/ cost of finance as the major factor that prohibits them from accessing finance. The second highest percentage of 64.7 per cent representing 55 out of 85 respondents also argue that excessive security or collateral requirements hinder them from obtaining capital asset financing. Additionally, complexity of documentation, lack of managerial capabilities, asset/liability mismatch and others which are 17.6%, 8.5%, 9.4% and 7.1% respectively as factors affecting SMEs access to credits (Demirguc-Kunt, 2006).

According to the case study, interest rates/financing costs dominates as a major factor that contributes to SME access to finance. Various studies also noted that interest rates/finance cost that most financial institution impose on loan financing is higher for SMEs to bear in financing capital assets. This discourages or limits most SMEs from acquiring bank credit to expand their businesses.

It is also evidenced that high interest rates demanded by financial institutions are linked to the high risk nature of this sector which normally results in high default rates by SMEs in financing. Likewise, collateral issues and other factors listed in table 3.6 above also make it difficult for SMEs to access the maximum amount needed for expansion. Almost all SME respondents shared the same view on these factors above as it makes SMEs access to credit unattractive (Ayeetey *et al.,* 2008).

4.2.2.2 Accessibility to other financing options and its impact on SME growth

Table 4.10 Accessibility to other financing options and its impact on SMEs growth.

Response	Number	Percentage
Yes	33	38.8%
No	52	61.2%
Total	85	100%

(GLC Yearbook, 2008)

According to the survey, the majority of the respondent have no access to any means of financing options to their capital assets requirements representing 61.2 per cent. However, 38.8 per cent of the respondents have access to financing their Capital Asset requirements. The high rate of respondent Lessee SMEs who do not have any means of financing capital asset may be as a result of high operating costs, retarded growth, inability to meet demand, operational inefficiencies, and some Lessees losing market share.

The impact of the non-availability of alternative sources of funding as indicated by Beck (2011) has been analysed below.

- High operating costs; since in some cases Lessees had to rent or hire the equipment and in some cases use slow rudimentary methods of production.
- Retarded growth; since operations could not be increased/expanded,
- Inability to meet demand;
- Operational inefficiencies, and
- Loss of market to other competitors; some Lessees lost market share to competitors who had the requisite equipment

4.2.2.3 Pre-Lease mode of financing Capital Asset Requirements

Responses from respondents indicate that almost all Lessees relied on internally generated funds either solely or to supplement other funding modes to finance capital assets. Most respondents also used a combination of two or more financing methods as detailed in the table 4.10 below:

Table 4.11 Pre-Lease mode of financing Capital Assets

Mode	Number	Percentage
Overdraft	15	17.6%
Bank loan(6months or less)	20	23.5%
Short term loan	9	10.6%
Medium term loan	6	7.1%
Internal funds	81	95.3%
Friends and family	6	7.1%
Suppliers credit	35	41.2%
Other	0	0%

From table 4.11, it seen that quite a number of respondent also make use of bank loans and suppliers' credit but the internal funding remains the main mode of capital asset financing of SMEs in Ghana. Since the major challenge facing the SMEs is lack of finance, various sources ought to be explored by the SMEs for development and growth. It came to light that the most popular alternative method to SMEs capital financing is through leasing.

Most respondents were using a combination of two or more of the above financing methods. The most utilized were combinations of bank loans or overdrafts, supplier's credit and internally generated funds. It is significant to note that all respondents relied on internally generated funds to supplement and/or support what they had. Respondents who had utilized suppliers' credit indicated that their reliance on suppliers' credit put undue pressure on working capital.

Other problems which Lessees encounter as a result of the utilization of inadequate financing methods are discussed below:

- Inability to provide adequate collateral: Lessees were mostly unable to provide collateral. This limited them to overdraft facilities, which they had to combine as a mode of working capital as well as financing their capital asset requirements.
- Asset liability mismatch: the consequent asset liability mismatch led to an undue debt burden on Lessees.
- Inadequate funds provided: funds provided were never enough to finance up to 95% - 100% of equipment required, thus Lessees while having to service the facility had ways to find to supplement the additional cost required for the equipment.
- High Interest Rates/Financing Costs: In view of the high cost of funds in the current monetary environment and the mode of calculation of some short-term loans, specifically the overdraft, the effective interest rates to Lessees are high. Given the current era of high nominal rates the cost of servicing debt to SMEs is very high and affects their ability to borrow and where they are able to borrow, the impact on their operations are harsh (Demirguc-Kunt, 2006)

4.2.3 Leasing opportunities for SMEs

It is evident through our respondent SMEs that leasing enabled them finance their capital assets up to 100 per cent of the purchase price of an asset without having to offer any supplementary guarantees. Further investigations reveals that leasing helps SMEs to expand their capital market and also help in reducing poverty in the economy. Other benefits or opportunities available to SMEs through the use of leasing is outlined in the table below (Azu &Owa, 2011)

Table 4.12 – Other Benefits of Leasing

Benefit	Number	Percentage
Access to external capital financing	85	100%
Flexibility in capital financing	71	83.5%
Taxation	20	23.5%
Quick financing	72	84.7%
Lower transaction costs	13	15.3%
Little or no initial cash outlay	62	72.9%
Simpler security	83	97.7%
Off balance sheet financing	0	0%
Inflation and cost escalation protection	23	27.1%
Other, please specify	0	0

As indicated in Table 4.9, the benefits derived from leasing were to a large extent as expected by Lessees. These are analysed below.

Access to external capital financing

Lessees were unanimous about the fact that the lease had given them access to external medium-term external financing of Capital Asset which gave them access to external medium term external financial of Capital Asset which to them was a major advantage.

Another major advantage for Lessees was the flexibility in payment, where lease rental payments were payments tied to the cash inflows of Lessees.

Another factor Lessees found a major advantage was the little cash outlay required. Discussion with respondent Lessees indicated that although most Lessors required a down payment ranging from 5%-15% of the equipment, having 85%-95% of the equipment financed with external funds was an advantage.

However, other Lessees found the transaction costs i.e. fees paid, to be a significant initial outlay of cash, which is discussed further below.

- Simpler security: almost all respondent Lessees found the security arrangement appropriate, simple and manageable.
- Quick financing: a significant number of Lessees also found the relative speed with which Lessors processed their applications an advantage.
- Cost escalation and inflation: Regarding Leasing being a protection against cost escalation and inflation protection only 27 per cent of respondents found it an advantage.

For those Lessees who found it an advantage, the equipment was expensive and scarce, e.g. printing machines, and most had to resort to slightly used equipment which they found once-off, had to negotiate further to obtain it at an affordable price. Thus for Lessees who found themselves in such a situation, the fact that they could find a Lessor to pay the equipment outright to enable them utilize it and pay over a period of time had protected them from cost escalation given the inflationary and cedi depreciation environment. Such Lessees could never have been able to save up enough from their current operations to acquire the equipment.

Also, 73% who did not find leasing to be an advantage against cost escalation and inflation protection were of the view that the future inflationary cost had been built into the interest rates being paid. Thus any protection against inflation was being made up by interest charges, built into the lease rental payments.

Regarding lower transaction costs only 15% found it an advantage since utilizing the lease option was cheaper than what they had spent in trying to obtain other forms of financing.

However the majority of respondent Lessees were of the view that prior to obtaining the lease most of them had to pay several fees which ranged between 1%-10% of value of equipment required. Some of the fees Lessees paid included: Processing Fees, Facility Fees and Monthly Overhead Charges. Given the type and magnitude of fees that Lessees had to pay they were of the view that the transaction costs were not any cheaper.

Taxation

While 23% of Lessees SMEs were of the view that they derived an advantage from deducting lease rentals (principal plus interest)from profits for tax purpose, the majority were of the view that it was not an advantage.

Discussions with respondents indicated that given the interest charges applicable on to the lease facility, the tax advantage was not any better vis-à-vis a loan option for these lessees who were of the view that the capital allowance/depreciation derived from the loan option was offset by the principal payment they deducted from the lease and thus at the current interest rate paid, the lease option did not yield any extra tax benefits.

In the view of the fact that no respondent lessee had benefited from operating leases no off-balance sheet benefits had been derived (Ozu &Owa, 2011).

4.2.4 Disadvantages of leasing as a financing option

Although there are numerous benefits or opportunities available to SMEs in use of leasing for financing capital assets, it is also evidenced that there are number of disadvantages in the use of leasing. Demirguc-Kunt (2006), noted some of these disadvantages as a major obstacle to SME financing. Some of them are shown in table 4.13 below

Table 4.13 Disadvantages of lease utilisation

Benefit	Number	Percentage
High interest rates	85	100%
Lack of working capital	59	69.4%
Restriction of amount that can be borrowed	43	50.6%
Lack of ownership		
Repossession in the event of default	55	64.7%
Loss of capital allowance	9	10.5%
	20	23.5%

The disadvantages of utilising the lease option as presented in the table 4.10 are given below

High interest rates

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Most Lessees were unanimous about the fact that the nominal interest rates currently applicable to their lease facilities were high and constituted a major disadvantage in view of the adverse effects on operations.

Lessees further explained that the servicing of these rates had harsh consequences for their operations. A lot of Lessees indicated that if they had enough cash they would have purchased the equipment outright in view of the high interest rates. Others were of the view that they would prepay if they ever had enough funds.

Working capital

A significant number of Lessees indicated that the lease option did not come with a supplementary working capital facility. Most Lessees indicated that after the requisite equipment had been acquired additional working capital was required to run the equipment. For example, some Lessees SMEs required funds to get additional raw materials, install the equipment, hire additional labour, and/or new premises, etc. etc.

Lessees indicated that this led to some cash-flow problems especially immediately after the lease. Coupled with this most Lessees indicated that they had to commence lease rental payment a month after the delivery of equipment and this exacerbated the cash-flow problem immediately following the lease.

The Restriction on Amount that can be borrowed, is similar to the issue discussed above. The financing provided is equal to amount stated on the invoice price of equipment. Thus the lessee does not have the option of borrowing additional funds required to inter alia, pre-finance a huge order, cover maintenance cost, etc. etc. Thus no financing can be provided with the lease option unless it to finance tangible equipment.

Lack of ownership

Lessees were of the view that the lack of ownership of the equipment was a disadvantage, since inter alia, it did not allow them to utilize the equipment to generate cash since they did not have access to any equipment. Lessees were of the view that repossession eventually led to the total collapse of the firm. Lessees explained that rather than repossession a rescheduling of payment should be done and/or additional funds be provided where required.

The issue here is that Lessors cannot continuously be rescheduling payment and/or providing additional financing. This issue will however be discussed a bit more in the section under Lessors.

As indicated, 23% of Lessees found the loss of capital allowance under the lease option to be a disadvantage. Under the lease option although the Lessee is allowed to book the assets in its balance sheet but not allowed to claim capital allowance over the lease period. The legal owner, the one with title to the equipment, claims the capital allowance.

The objective of study was also to capture the general impression of respondents as to the suitability of leasing. It was intended for Lessors to indicate whether overall leasing was a suitable option. All 85 respondents Lessees were of the view that it was currently suitable.

Further explanations given indicated that some Lessees are not deriving the full benefits of leasing as discussed above and are experiencing some disadvantages with the lease option currently. However, on the whole most Lessees concluded that the benefits they were deriving from leasing far outweighed the disadvantages.

In view of the above Lessees were unanimous about the fact that all other things being equal they would utilize leasing as an option for financing capital asset requirements again (Ayeetey *et al.,* 2010).

4.3 Lessors results and analysis

4.3.1 Types of SME leases

In using empirical data to support the type of leases granted to SMEs in Ghana, the results of question 8 are summarized in table 11 below:

Table 4.14: Types of SME leases

Lease type	Average Percentage
Finance	83%
Operating	0%
Sale leaseback	17%
Total	**100%**

The table above indicates that the majority (83%) of the leases that have gone to SMEs have been finance leases with a few sale leaseback facilities. In further discussions with the Lessors, they were unanimous that they only provide Finance Leases in general and to SMEs in particular. In addition, the Sale leaseback facilities that had been granted were mostly in the form of Finance Leases (GLC Yearbook, 2008).

Finance leases are the only types of leases available to SMEs on the Ghanaian market as indicated by table 4.14 above. The few Sale leaseback facilities granted have been subsequently structured in the form of finance leases.

The factors that influence the type of leases granted to SMEs as presented in table 4.14 are analysed below.

- Availability of adequate volumes of funds

A significant number, 67% of Lessors, indicated that the current volume of funds available on the Ghanaian Market was not adequate for operating leases. Lessors further explained that the nature of operating leases required large amounts of funds to write leases and stock equipment.

The financing of equipment is capital intensive in nature and requires large amounts of funds to finance it. However, in view of the young but nascent leasing industry, the balance sheet of Lessors does not have the strength and depths to finance the amounts required and or borrow the funds since the guidelines of their operations, prescribe certain debt limits, a debt ratio of 10:1

The 33% of the Lessors who thought volume of funds was not a problem were mostly those that were subsidiaries of banks and/or had access to large volume of long-term funds from their parent banks.

- Lack of adequate structure of funds

Most respondent Lessors (ie 83%) were of the view that the current structure of funds available on the market hindered the granting of operating leases and thus only finance leases of medium term nature could be granted.

- Unlike finance leases, the term for operating leases is less than the useful economic life of the equipment and as indicated by Western and Brigham, the cost of the asset is not fully amortised over the primary lease period. The recovery of the balance of his coat and profits is expected from the re-leasing or resale of the used asset at the expiration of the primary lease period. In view of this nature of operating leases, Lessors indicated further that it required long term funds since some equipment had economic useful lives of more than 10 years, which was currently not available on the market.

The Lessors who did not see this as a problem were of the view that they could get access to long term funding of the type required for operating leases.

- Under-developed secondary market and residual risk

Only 33% of the Lessors found the under-developed secondary market in Ghana to be a factor that hindered their ability to provide operating leases. However, 50% of the Lessors found residual risk a major hindrance.

The majority of Lessors further explained that in view of the low level of industrialization in Ghana, Lessees did not require that much specialized equipment, which mostly carried a residual risk. Thus, if Lessors were to grant operating leases, they would deal more in or make use of non-specialised type of equipment such as bulldozers, rollers, excavators, which currently form the majority of their finance lease portfolio. This type of equipment has an available secondary market in Ghana.

Those on the opposing side were of the view that they perceived under-developed secondary market and consequent residual risk could lead to major losses in operating leases, specifically those for SMEs.

- Taxation and accounting issues

Lessors were unanimous on this issue and thus it is viewed as a major hindrance to the development of operating leases. Lessors were of the view that the current tax and accounting environment was not conducive to the development of operating leases.

The current tax environment did not make possible the sharing of capital allowances with Lessees' to enable them benefit from lower rates. Thus from both the lessees' and Lessors' perspective the current structure made more economic sense to deal in operating leases rather than finance leases

- Legal, regulatory and economic environment

This point is closely linked to the preceding point discussed. Given the current macro-economic environment with its consequent high interest rates, it is not possible for Lessors to structure long-term facilities like operating leases. Also as mentioned above it makes more economic sense to write finance leases in view of the high interest rates.

The legal and regulatory environment does not provide many guidelines and regulations for Operating Leases (Silva &Carreira, 2010).

Table 4.15 – Factors that Influence type of leases provided

Factor	Number	Percentage
Availability of adequate volume of funds	4	67
Lack of adequate structure of funds	5	83
Underdeveloped secondary market	2	33
Residual risk	3	50
Taxation and accounting issues	6	100

Legal regulatory and operational environment	6	100
Other, please specify	0	0

4.3.2 Requirements/Factors that make SMEs eligible for lease financing

In terms of differences between SME financing eligibility requirements and that of larger firms: respondent Lessors were unanimous about the fact that they did not apply the same stringent requirements/factors in the eligibility of SMEs for funding. Lessors indicated that while basically the same type of factors were required, the levels, degrees and magnitudes of these requirements were in most cases lower for SMEs than for larger firms.

Lessors further indicated that although they had laid down guidelines, principles and requirements, in certain cases where the prospective SME Lessee did not meet all the requirements they were flexible and could waive some of the factors. This flexibility was possible especially where Lessors had strong adequate compensating factors, which gave them enough strength to make up for their inability to meet certain factors. This was specifically in situations where SMEs had shown a strong case of the equipment being able to have a positive impact on the SMEs' operations and generate adequate cash.

Thus albeit there are certain guidelines and principles, the review of an SMEs' application was done with a lot of flexibility and from a holistic approach and some of them are discussed below.

- Minimum net worth

While on the average Lessors indicated that a minimum net worth of at least twice the amount of the facility was required for larger firms, for SMEs this had been reduced to the minimum net worth being at least the same as the amount of the facility required. This was because it had been discovered that SMEs had a relatively lower asset base and to encourage them to grow where there was the need to waive this option.

- Managerial capability

Lessors further indicated that it had been observed that most of the managerial requirements of SMEs were of the owner-managed type where the owner of the business managed all the affairs of the business and took all the major decisions. In effect the business virtually came to a standstill when the owner was not available for one reason or the other.

This is in contrast to the relatively larger firms where proper managerial structures are established, and continuity is ensured in the absence of the owners.

Lessors further explained that while for some SMEs proper managerial structures were not in place some made an effort to ensure some skeleton structures and/or were willing to undergo training and take advice to institute the proper structures. In other cases, it was observed that fair structures existed although the level and intensity were not up to that of the larger well-established firms.

For the Lessors the firms that did not show any signs of having fair management structures in place and/or did not show any level of understanding were rejected in most cases. It was further indicated that this was one major reason why a lot of SMEs were rejected.

For existing SMEs a company profile and/or a Business Plan was certainly required from SME applicants. Where the SME was a start-up, a feasibility report was also required. Lessors indicated that these documents assisted them in gaining an insight into, inter alia, the structure and operations of the business, their marketing and operational strategies, their financial requirements and sourcing plans, as well as the competence experience and capability of management.

Lessors indicated that it was important that SMEs had a clear indication and plans as to how they intended to achieve their objectives.

The submission of audited accounts is important to Lessors, since inter alia, it enabled them to access the past performance of the SME, indicate how the firm had been financing the business, how well the firm had kept its books and access the strength of the firm's balance sheet.

For Lessors another important aspect of the audited accounts was to access and compare the SMEs' past performance with their projections and ensure that the projected levels were achievable.

The insistence on audited accounts is also to ensure that proper or professional bookkeeping and accounting practices are adhered to.

- Cash-flow projections

Lessors indicated that a lot of emphasis is placed on the cash-flow projections in their evaluation of lease applications in general and SMEs in particular. The ability of the equipment to generate enough cash to pay for itself is paramount in lease evaluations used on the availability of the complementary structures that will ensure the cash-flow generation ability of the equipment.

As indicated above, the proportions are compared to past performance, to find out whether they are realistic and attainable. Sensitivity analysis is also undertaken to ensure that SMEs will be able to withstand adverse changes to projected revenues and cost.

- Identification and sourcing of equipment

Another issue specified by Lessors was the importance of accurate identification and sourcing of equipment. Albeit that Lessors are not in the business of identifying, selecting and recommending the type of equipment in its due diligence they required affair assurance that SME Lessees were clear on the most suitable equipment. It also required and ensured that all the necessary negotiations had been made all the installation, training and operating arrangements that would ensure the smooth running of the equipment had been put in place (Ayeetey *et al.*, 2014).

4.3.3 Lessor lease-processing time

Most Lessors (67%) indicated that on average the processing of leasing for SMEs took about 5 – 8 weeks, with an average of about 7 weeks. For others, it took a bit longer ranging from 9 – 12 weeks, with an average of 10 weeks.

Lessor lease-processing time as indicated by our results is on the average about seven weeks. Delays in financing for SMEs are as indicated in section 4.6.4 above mostly from the SMEs' inability to provide required information quickly. Lessors also indicated that some delays were from their side, which were mostly caused by the need to carefully assess the SMEs' application and/or the delays in sourcing the appropriate funding required for SMEs.

4.3.4 Factors that affect the ability of Lessors to finance SMEs

The (average) order of importance of the following factors as indicated by the Lessors is presented below:

- Future cash-flow generation ability
- Managerial capability/competence
- Availability of appropriate funding
- Past financial performance
- Net worth
- Suitability of equipment to their operations
- Value of equipment

Analysis of these factors mentioned above is provided below.

- Future cash-flow generation ability

As discussed earlier, Lessors were unanimous about the fact that the future cash-flow generation ability of the firm was a major factor that affected the ability of the Lessors to finance SMEs.

Where SMEs do not show a persuasive ability to generate cash in the future with the leased equipment, the equipment is not financed.

- Managerial capability/competence

As discussed earlier, the managerial capability and competence of the owners or management of the SMEs is an important factor.

- Availability of appropriate funds

Lessors indicated that in view of the current macro-economic environment and its consequent high interest rates most SMEs are not able to afford the market rates and thus may default in repayments.

Thus, according to Lessors, there is a need to source from cheaper alternative sources of funds, which sometimes takes into consideration the structures and characteristics of SMEs and is specifically meant for SME financing. The availability and accessibility of these funds determine the extent to which Lessors can finance SMEs

- Past financial performance

Lessors are of the view that the past financial performance gives a fair indication of how SMEs will perform in the future. Coupled with this, an insight into the past operations and financial performance of SMEs enables the assessment of the possibility of achieving future cash-flow targets.

- Net worth

The net worth of the SMEs should be fair enough to support the new asset, which is going to be acquired. Thus a fair assessment of the company's net worth is important to ensure that the company's balance sheet can support the value of the equipment required.

- Suitability of equipment to SMEs operations

From the Lessor's perspective it was indicated that it was important for SMEs to acquire equipment suitable to their operational needs. One Lessor shared an experience where an SME, a fashion designer, wanted to procure equipment which was too technologically advanced for her current operations and had too big a capacity to suit the current size of her operations. Thus she was advised to procure smaller and simpler equipment for her business.

- Value of equipment

Lessors indicated that their ability to finance equipment for an SME was based on their ability to repay. By this, the value of the equipment should be within the current and future capability of the SME to repay as indicated by their current financial position and most importantly their future cash-flow generation ability.

- The equipment should be moderately priced and within an affordable range.

4.3.5 Attractiveness of SME financing

Despite the fact that many problems were encountered with SME lease financing, Lessors were unanimous that there were some attractions about financing SMEs, which overall outweighed the disadvantages. Lessors stated clearly that the issues mentioned are the underlying reasons why they take the risk of financing the capital asset requirements of SMEs and envisage that the long run rewards are numerous and varied. Among them are those analysed below

- Embezzlement and siphoning of funds

Lessors indicated that the structure of leasing ensured that the embezzlement and siphoning of funds are minimised. As previously discussed in lease financing a payment is made directly to the supplier, thus minimizing the embezzlement and siphoning of funds for other purposes.

- Ownership of equipment

The ownership and title to the equipment serve as a simple and quick method of security for Lessors. This provides them with a cushion of comfort that in the event of default by the Lessor the equipment can be repossessed and sold at a relatively smaller cost to the Lessor vis-à-vis the collateral normally granted with other financing methods.

Lessors were of the view that they were attracted to SME financing in view of the growth capabilities exhibited by most of them. Lessors indicated that a significant number of SMEs have great ideas and potential and in a lot of cases all that was required were financial and technical assistance.

In view of this Lessors said they were encouraged to SME financing and had forged alliances with institutions that provided technical and managerial training and assistance to SME to pass these SMEs on to them for financing after they had completed the requisite managerial and technical training programs.

Lessors indicated that they relied on these institutions for the pre-screening of these SMES to check whether there were any managerial, operational and financial shortcomings, which could be corrected with training. This was also to ensure that the SMEs qualified under Lessors basic requirements for financing.

Lessors were of the view that with the appropriate education, training and financing, these SMEs had the potential to grow into formidable companies.

- Socio-economic role of SMEs

As indicated earlier and authenticated by Lessors the mere fact that SMEs play a major role in the socio-economic development and are major income generation and employment avenues means that their financial requirements need to be catered for.

SMEs are the cornerstone of the economic development in Ghana specifically under the current environment where the private sector has been earmarked as the main engine of growth (Ayeetey *et al.,* 2014).

4.3.6 Role of post-lease monitoring and supervision and its effect on SMEs performance

All six Lessors interviewed indicated that periodic follow-up monitoring and supervision formed a core part of their operations. This entailed the ongoing review of the SMEs financial and operational performance. This mostly required periodic visits to SMEs offices, factories and sites where leased equipment was operating.

Lessors indicated that post-lease follow-up monitoring and supervision were very important. Below are some of the important issues.

- It gave Lessors insight into the subsequent operational and financial performance of SMEs,
- It enabled Lessors ensure that the equipment was being operated in a professional manner,
- It ensured that manufacturers' prescribed maintenance schedule was being adhered to, and
- It made it possible to foresee and rectify where possible, any issues that may have adverse consequences on the business and their ability to meet lease rental payments.

Lessors indicated that the benefits of the post-lease monitoring exercise were worthwhile. Specifically it gave them an insight into the operations and performance of the business as well as information on the location operation and maintenance of the equipment. Where proper care and maintenance were not being practised, Lessors ensured that the required action was taken.

Lessors again indicated that most SME Lessees were sometimes evasive about the location of the equipment, more specifically when they had not complied with the equipment care covenants as stated in the agreement.

Most Lessors were unanimous about the fact that the post-lease monitoring and supervision had a positive impact on the operational and financial performance and thus curbed the probability of default in lease rental payment.

4.3.7 Measures of minimising risk of leasing to SMEs

Further to post leasing monitoring and supervision as a means of minimizing the risk of financing SMEs as discussed above, Lessors indicated other modes which have been outlined.

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- Ensuring cash-flow generation ability

A significant part of the extensive due diligence conducted by Lessors prior to financing the capital asset requirements entails a cash-flow analysis. As indicated earlier the cash-flow projections of SME Lessees are carefully evaluated to ensure that they will be able to make lease rental payments even in adverse situations as per the sensitivity analysis undertaken.

- Insurance

Ensuring that the equipment is comprehensively insured with the Lessor as loss payee, is an important means by which Lessors minimize risk.

- Since the use of any equipment is subject to undue risk, the comprehensive insurance cover ensures the repair or replacement of the equipment in the event of accidents, destruction, fire and theft. This is an important risk minimization method.

- Tying facility to specific receivables

Where possible and specifically with SMEs Lessors like to tie lease rental payments to specific receivables, which are normally paid into an escrow account or cheque payments issued in the joint names of the Lessor and the lessee.

- Assessing managerial capability and past performance

This is done as a mode of minimizing risk as discussed extensively in section 5.23 above (Ayeetey *et al.*, 2014).

4.3.8 SME lease financing by sector

The table below consolidates the Lessor results on SME lease financing by sector.

Table 4.16 SME Lease Financing by Sector

Sector	Percentage
Agriculture	4%
Commerce and Trade	7%
Construction	22%
Health	4%
Manufacturing	8%
Mining	15%
Service	20%
Tourism	11%
Other	9%
Total	**100%**

The sectors that Lessors indicated were given high priority were Agriculture, Manufacturing and Health. Actual results as indicated in Table 4.16 were that while these sectors were given priority, actual financing that they had benefited from was relatively low.

The results indicate the sectors of high priority constitute a relatively smaller portion of Lessors' portfolios. The results above indicate that the construction, service and mining sectors have benefited most from leasing.

Lessors attributed this to several factors, some of which are discussed below:

- The equipment requirements of the construction and mining sectors are relatively high, mostly constituting expensive heavy-duty equipment. Thus they tend to require external financial assistance and utilize lease financing.
- The low volume of leasing that has gone to the agricultural sector is mainly due to the under-developed nature of the agricultural industry as well as the high perceived risk of agricultural financing.

The agricultural sector in Ghana is mostly characterized by labour-intensive practices and thus the level of equipment required by most SMEs in that sector is low. The operating structures of most agricultural firms are also such that they do not meet the basic financing criteria of Lessors.

- Many people in Ghana cannot afford effective health care, thus the healthcare sector is highly subsided and does not generate enough money to pay for the services it renders. Thus only a few private clinics are able to operate at commercial rates and can afford to lease the required medical equipment at the current rates.
- Our local manufacturing industries cannot afford lease rental at the current rates, since this affects their ability to compete effectively with imports on the local market. The inability of most manufacturing industries to obtain capital asset financing has led to a decline in the manufacturing base of the economy

as indicated by lessors. This is because the manufacturing sector tends to be capital intensive and thus has high capital asset requirements.

4.3.9 The continuation and stability of leasing as a financing option for SMEs

All Lessors interviewed indicated that they would continue utilizing leasing as an option for financing the capital asset requirements of SMEs based on their past experience.

Lessors' willingness to continue financing the capital; asset requirements of SMEs are based on their past experience, issues of which have been discussed extensively above. This is also mainly due to the immense benefits to the Lessor, the lessee, the leasing industry and the economy in general.

In view of the crucial role of SMEs as the cornerstones of the development of the economy, Lessors see the need to look after for their capital asset requirements with the most suitable leasing options available.

Lessors indicated that to expand the volume and depth of lease financing to SMEs strategic alliances had been forged with agencies and institutions that provide technical and managerial assistance to these firms to foster increased financing to these sectors.

4.4 Integrative analysis

This chapter has aimed at using empirical data to support the concept of the suitability of leasing as an option for financing the capital asset requirements of SMEs. A separate analysis has been conducted in the previous sections and this section is aimed at actualizing the integrative inferences.

The case for leasing as a suitable financing option for the capital asset requirements of SMEs

The results of the analysis have verified the suitability of leasing as an option for financing the capital asset requirements of SMEs as inferred from the Lessee and Lessor analysis above. Both Lessors and Lessees have unanimously indicated the suitability of the terms and structure of leasing as a suitable option.

The results above indicate that the structure of lease financing has enabled SMEs from varied sectors in the economy to get access to a medium-term avenue of financing equipment required for their operations.

The results further indicated that, given the current macro-economic issues, legal, operational and regulatory environment, finance lease were the most suitable type of leasing for SMEs in particular.

The results also established that there was a lack of alternative avenues of financing capital asset requirements for most SMEs as 60% of the respondent Lessees did not have access to alternative financing sources. Where lessee's had alternative funds in most cases the structure did not suit the medium-long term nature of the equipment required. This had adverse consequences on the operations of SMEs which have been discussed above.

It was more accessible and quicker to obtain lease financing than alternative methods of capital asset financing, specifically loan financing as our results indicated. Both Lessees and Lessors indicated that with a few exceptions, on the average lease financing took an average of six weeks while loan financing took an average of 24 weeks for approval and disbursement of funds. This can be attributed to the kind of structures found in leasing companies vis-à-vis banks. In the banks, loan appraisal normally goes through various stages of management. However, in view of the relatively smaller and simpler structures of leasing companies lease appraisals and procedures are relatively shorter.

Most of the advantages of leasing indicated in our previous chapters were actualized as indicated from respondent lessee and Lessor results. The advantages mentioned below indicate that leasing is a major and important medium term financing option available to SMEs. These are, inter alia:

i. Access to external capital financing
ii. Little or no initial cash outlay
iii. Simpler security
iv. Flexibility
v. Quick financing
vi. Taxation
vii. Financing source to acquire high cost equipment
viii. Lower transaction cost
ix. Protection from inflation and cost escalation
x. Lower after tax present value cost

In addition to the above, leasing had a positive impact on the operational and profitability performance of SMEs and in some cases their liquidity position.

From the Lessors perspective the main attractions of SME financing included:

i. Minimization of the embezzlement and siphoning of funds
ii. Ownership of equipment
iii. The growth capabilities of SMEs
iv. The socio-economic role of SMEs in the local economy.

Despite the advantages above, SME financing still constitutes a smaller portion of the total portfolio of Lessors. The results above indicated that while 71% of lease financing came from SMEs only 31% actually benefited from lease financing.

This is as a result of the manifold operational and structural problems inherent in SME financing as indicated by our results and discussed in section 5.26. These are inter alia:

i. The relatively longer man-hours involved in SME lease evaluations

ii. The high prevailing interest rates
iii. Managerial incapacity
iv. Operational inefficiencies
v. Post lease monitoring problems
vi. Cash mismanagement
vii. Improper book-keeping practices
viii. Insurance problems
ix. Maintenance problems

Further discussions with Lessors indicate that Lessors take certain decisions and steps to reduce the risks of lending to SMEs. Some of the measures being currently adopted have been discussed above. These include,

i. Insuring cash-flow generation ability,
ii. Insurance
iii. Tying lease facilities to specific receivables.
iv. A critical assessment of managerial capability and
v. Past performance

Another interesting discovery from the analysis was that while Lessors give priority to Agriculture, Manufacturing and Health sectors, in actual terms as evidenced by the applications they received a relatively lower portion while the construction and service sectors benefited most from leases.

Despite the problems and shortcomings of lease financing from both the lessee and the Lessor's perspective, the rewards and benefits to Lessee, Lessor, the leasing industry, the development of the financial sector and the economy in general are numerous and varied.

This has been verified by both respondent Lessees and Lessors who were unanimous about the fact that lease financing is a suitable alternative for the capital asset financing requirements of SMEs

Given this, Lessees indicated that they would continue utilizing Finance Leases for their capital asset requirements while Lessors indicated that they would continue to provide financing to SMEs and thereby increase the volume and depth of financing the capital asset requirements of SMEs (Reindolf, Edem &Maxwell, 2014).

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CHAPTER FIVE

5 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter basically summarizes, concludes and recommends the entire research data/results as presented in the above chapters.

5.2 Summary and conclusion

The study has justified the enthusiasm of leasing as a suitable financing option of the capital asset requirements of SMEs. This study also aimed at achieving the following research objectives as they are outlined below.

- Establishing the nature and the scope of leasing
- Identifying the leasing opportunities available to SMEs
- Identifying challenges facing SMEs on leasing
- Establishing the strategies for enhancing access to leasing by SMEs.

The study identified some types of equipment that are leased. It was further identified that mobile equipment is highly leased due to the nature of SME businesses specifically to those in the service sector. Due to the relative demand from Lessors and relatively low risk in the event of repossession, Lessors' portfolio is usually geared towards mobile equipment.

Leasing is also characterised by an average term of 26 monthly rental payments for equipment which helps provide a medium term avenue for financing capital assets requirements of SMEs. Lessee SMEs identified an important role leasing provides since there is a flexibility in terms of repayment because repayments can be linked to the nature of Lessees' cash-flow position.

The study has established that there are immense quantitative and qualitative benefits for SMEs who utilize the finance lease option in the procurement of their capital asset requirements. The study has further revealed that leasing is a suitable financing option for filling the yawning gap for medium term asset requirements financing of SMEs. Lessors on the other hand have indicated their willingness to continue to provide Lease financing to SMEs in view of the numerous and varied rewards.

Notwithstanding the above, the study has revealed that SME financing has its own peculiar problems which are inevitable with financing SMEs in a developing country such as Ghana. It is, however, important that Lessors be aware of some of the possible problems and take the necessary steps to circumvent these problems.

The several problems of both Lessees and Lessors have inhibited the expansion of lease financing to SMEs and thus have limited the benefits of leasing and the growth SME business, The problems that were revealed include lack of finance, high utility/interest cost, inability of SMEs to provide collateral or security requirements, lack of managerial capacity and others make it extremely difficult to access finance. This notion was supported by various researchers like Aryeetey *et al.* (2010) which affirmed that some Lessee SMEs that had their applications rejected were all as a result of an inability to provide collaterals. Most SMEs are unable to provide the necessary collateral to access loans from the banks and in the process good business ideas could not be implemented.

As a result of these constraints, access to bank loans is always difficult and this will affect SMEs in the management of their receivables due to inability to mobilise cash as quickly as possible to grow and expand their business.

From the foregoing results, it can be derived empirically with respect to leasing opportunities available to SME's and that adequate capital and credit have remained a key success factor for SME's. There is, in general, a strong correlation among the various dynamic factors of leasing in terms of financing options available to SMEs.

It is in this regard that leasing as an alternative source of funding for SMEs must be critically considered by emerging markets. Unlike other forms of credit, lease finance is relatively easier to access because normally it does not require a collateral security. Other advantages that were evidenced include the early recouping of investment and the treatment of the lease rental as full expense in a company's account books for tax purposes. This was also reflected in the high number of respondents favouring leasing. Leasing also has a high developmental impact particularly for SMEs because it deepens the financial sector and increase competition to push down interest rates.

It was additionally noted from the results that, leasing builds access to capital and improves cash flow for SMEs because monies that would otherwise be used on equipment are retained and ploughed back into the business to enhance its operations. It is the view of this study that leasing must be integrated into SMEs development in developing countries especially in Ghana to catapult the economic development of these nations.

5.3 Recommendations

Based on the results of the study our recommendations on how the lease product and industry can develop to enable more SMEs utilize it and thereby benefit from the full potential of the product are discussed below.

- Taxation

The taxation and accounting environments need to be reviewed and the relevant laws passed to enable Lessors to share their tax benefits, specifically capital allowances with Lessees in the form of lower interest rates. Until this is done, the true benefits of leasing will not be derived since leasing in substance is a loan and thus Lessors find themselves competing directly with loans.

- Financial competitiveness

In view of the fact that Lessors do not have access to more competitive sources of financing in the current era, Lessors will not be able to further strengthen and deepen the lease product. This will stifle the growth of SMEs, the industry, the financial sector and the industry in general. If this is successfully implemented it will curb the incessant high interest rate problem plaguing the leasing industry, the financial sector and the economy in general.

- Micro-industrial co-operation

Also, to enable more SMEs utilize the product there is a need for the very small ones, specifically those termed as micro-industries to form cooperatives. Thus the cooperative will collate the capital asset requirements of their respective members and apply as one body to Lessors. This will ensure the collective required volume, weight, financial capacity and strength of Lessors.

For this option to succeed, however, these cooperatives should be well managed and cooperative managers should take part of the responsibility of lease rental by ensuring that lease rental payments are made to the Lessors when due. Cooperative managers should collect individual rentals from the beneficiaries and make collective payments to Lessors in one payment.

In this arrangement, the Lessors will have a contract with the cooperative as a body and the cooperative managers will have a separate agreement with the various individuals belonging to the cooperative.

- Building SME alliances

Although Lessors are currently working with institutions and agencies that provide technical, managerial and to some extent financial assistance with SMEs there is the need to further strengthen and re-define the relationship with these firms. The alliance between Lessors and these agencies can provide invaluable benefits, since their roles complement each other.

For SMEs to benefit fully from the lease product their financial, operating and management structures need to be improved to standard levels or else any growth that may result from capital asset financing will not be sustained in view of their limited managerial, financing and operational skills.

Thus Lessors should channel more resources into ensuring that more SMEs get the requisite training to enable them support the consequent growth in their operations in view of their increased access to capital asset financing.

To further strengthen the relationship between Lessors, central bank and the special agencies/institutions that deal with SMEs, they should work closely together, exchange ideas, and make recommendations. It is also important that the assistance goes to specific SMEs who have been identified by either the Lessor or the agency and a prescribed set of training and/ or assistance granted.

In this way the results will be easy to measure and the resources focused on achieving specific results.

These will alleviate the financial mismanagement, operational and managerial inefficiency, and the basic problems with SME financing.

- Insurance cost

Fourthly, so solve the insurance problem, the cost of insuring the equipment should be added to the lease facility amount and Lessors take up the responsibility of insuring the equipment and renewing premiums when due. Thus monthly lease rental payments will have insurance costs incorporated.

- Creating awareness on the benefits of leasing

Finally, there is the need for educating SMEs on the existence and availability of leasing. Many SMEs are still not aware of leasing and its immense benefits, and utilize leasing as a last resort when other financing options do not work out.

5.4 Suggestions for further research

As noted earlier, this study is considered as a step in sequence of investigating leasing as a means of financing capital assets of SMEs, and it turns out to be essential to broaden its scope to achieve the goal of leasing in development of SMEs.

Therefore the researcher suggests that the effects of disparity in prices of products and factors of production in respect of leasing should trigger further research and consideration as it has a greater impact on returns and expectations by both Lessees and Lessors.

In doing that, a more precise awareness could be reached by widening the approach used in the present study and determining the reaction of alternative leasing arrangements to variations in prices.

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APPENDIX 1

Questionnaire - Lessee

1) Name of Company

____

2) Nature of Business

____

3) Which Category of Equipment has your Company leased?

- o manufacturing plant/equipment
- o industrial plant/equipment
- o heavy Duty Equipment
- o Agricultural Plant/Equipment
- o generators
- o trucks/goods vehicle
- o Automobiles(buses/saloon Cars)
- o Office Equipment
- o Hospital Equipment
- o Telecommunication and Information System
- o Domestic Appliances
- o Other, please specify____

4) How did you discover leasing as a financing option.

- o From a friend
- o Through a family member
- o Through the media(Radio, Newspaper ,TV, Promotions etc, etc)
- o Reference from an organization
- o From the supplier of the Equipment
- o Other

5) What is/was the Lease Term?

- o ____

6) What is/was the frequency of payment

- o Monthly
- o Quarterly
- o Bi-annual
- o Annual
- o Other, please specify____

7) Prior to utilizing Leasing as a financing option did your company have alternative source of Capital Asset Financing?

Yes☐ No☐

7b) If no, What were the effect on your Company?

- o Overdraft
- o Bank Loans/Credit(Less than 6 months)
- o Short Term Loan(Less than 1 year)

- Medium Term Loan (More than 1 year)
- Internally Generated Funds
- Friends and Family
- Suppliers Credit
- Other, please specify________________________________

8) If yes, how was your company financing its Capital Asset Requirements?
- overdraft
- Bank Loan/credit(less than 6 months)
- Short Term Loan (less than 1 year)
- Medium Term Loan (more than 1 year)
- Internally Generated Funds
- Friends and Family
- Suppliers Credit
- Other, please specify____________________________

9) What were some of the problems you encounter with your previous mode of Financing your capital Asset requirements.
- Inability to provide adequate collateral
- Asset Liability mismatch i.e using short-term funds to finance medium-long term capital asset needs.
- Inadequate funds provided i.e funds provided was less the 95% of the equipment required.
- High Interest Rate/Financing Costs
- Other, Please specify______________________________

10) If you utilise a loan, how long did it take for the loan to be granted i.e the period of time between application to disbursement of funds?
- Less than 2 weeks
- 2 - 4 weeks
- 5 - 8 weeks
- 9 - 12 weeks
- 13 - 16 weeks
- 17 - 24 weeks
- 24 - 52 weeks
- more than 52 weeks.

11) What was the interest rate applicable on the loan?________________

12) With the Lease option, how long did it take for equipment to be delivered i.e. the period of time between application to delivery of equipment?
- Less than 2 weeks
- 2 - 4 weeks

- 5 - 8 weeks
- 9 - 12 weeks
- 13 - 16 weeks
- 17 - 24 weeks
- 24 - 52 weeks
- more than 52 weeks.

13) What was the interest rate applicable on the Lease?

____

14 Why did you choose Leasing vis-a-vis other financing methods? (select as many as are applicable)

- Availability
- Nature of Equipment Required
- Value of Equipment Required
- Simpler Security Requirement
- Structure (medium-long term financing)
- Flexibility
- Convenience/Quicker Processing
- Cash flow Constraints/requirements
- Off Balance sheet Financing
- Taxation Issues
- Cost of Funds

15) Did the Lessor require additional Security?
Yes ☐ No ☐

15b) If yes, what form of Security was required?

- Land
- Building
- T-Bill
- Assignment of Specific Receivables
- Additional Equipment (not leased equipment)
- Other, please specify

16a) Has the Lease of the New Equipment led to increased production?
Yes ☐ No ☐

16b) Explain

____

17a) Has the Lease led to a reduction in Cost?
Yes ☐ No ☐

17b) Explain

____

18a) Has the Lease resulted in efficient utilisation of resources?
Yes ☐ No ☐

18b) Explain

19a) Has the Leased equipment led to increase in the company's Profitability?
Yes ☐ No ☐
19b) Explain

20a) Has the Leased equipment had a positive impact on the Company's Liquidity?
Yes ☐ No ☐
20b) Explain

21a) Has the Leased equipment led to an increase in Leverage?
Yes ☐ No ☐
21b) Explain

22) What other benefits are you deriving from leasing? please tick as many as are applicable.

- Access to external capital financing
- Flexibility in payment terms and structure (ability to tie lease rental payments to cash inflows
- Taxation benefits
- Quick Financing
- Lower Finance transaction cost
- Little or no initial cash outlay
- Simpler Security Arrangements
- Off-balance sheet Financing
- Inflation and Cost Escalation protection
- Other, specify

23) What are some of the disadvantages or problems associated with leasing?

- High interest Rates
- lack of Working Capital
- Restriction of amount that can be borrowed
- Lack of ownership. Explain?
- Repossession in the event of Default
- Loss of Capital Allowance
- other, Explain

24) From your experience is leasing a suitable method of Capital Asset Financing.
Yes ☐ No ☐
24b) Explain

25) If possible will you utilise Lease Financing again?
Yes ☐ No ☐

APPENDIX 2

Questionnaire - Lessor

1) Name of Company

---

2) Is your Company?

a) registered under the financial Institutions (Non Banking Law) PNDCL 328.

Yes ☐ No ☐

b) regulated under the finance Lease Law PNDCL 331

Yes ☐ No ☐

3) How long has your company been operating?

4a) do you receive applications from SME's?

Yes ☐ No ☐

4b) If Yes, what proportion of your applications, constitute financing to SME's?

- 1% - 20%
- 21% - 40%
- 41% - 60%
- 61% - 80%
- 81% - 100%

5) Do you grant Lease financing to SME's

Yes ☐ No ☐

6) If Yes, what percentage of your total portfolio constitute SME's?

- 1% - 20%
- 21% - 40%
- 41% - 60%
- 61% - 80%
- 81% - 100%

7) If No, why don't you provide financing?

- Relatively Higher Risk
- Cannot meet minimum eligibility criteria
- High Interest Rates
- In appropriate operational structures
- Other, please Specify

8) What percentage of your portfolio of SME's constitute the following type of Leases?

	Percentage
Finance Lease	
Operating Lease	
Sale lease Back	

9) What are the factors that influence the type of leasing you provide?

- Availability of adequate volume of Funds
- Lack of adequate structure of Funds
- Under developed secondary market

- Residual Risk
- Taxation and Accounting Issues
- Legal, regulatory and operational environment
- Other, please specify

10a) Are your requirements for SME financing the same as that for other firms?

Yes ☐ No ☐

10b) If No, what is the difference?

____

____

11) ~~What are your basic requirements/factors that make SME's eligible for~~ Finance?

- Minimum Net worth (please state)
- managerial Capability
- Company Profile/Feasibility Report/Business Plan
- Audited Accounts
- Cash flow Projections
- Other, Please Specify

12) What is the time period between an SME's application and delivery of equipment, that is if a approved?

- Less than 2 weeks
- 2 - 4 weeks
- 5 - 8 weeks
- 9 - 12 weeks
- 13 - 16 weeks
- 17 - 24 weeks
- 25 - 52 weeks
- More than 52 weeks

13) What is the applicable Interest Rate on SME Leases?

____

14) What are the factors that affect your ability to finance SME's?

- Managerial Capability/Competence
- Availability of appropriate Funding
- Future cash flow generation abilities
- Past Financial performance
- Net worth
- Other, Please specify

15) Please rank the factors in #14 above in order of importance.

1
2
3

4
5
6

16) What are the factors that forestall your ability to increase financing to SME's i.e the problems uncounted in financing SME's?

- o High Interest Rates
- o Managerial Incapability
- o Operational inefficiencies
- o Post Lease Monitoring problems
- o Cash Mismanagement
- o Improper Book-keeping practices
- o Insurance Problems
- o Other, Please specify

17) What are some of the attractiveness of financing the capital asset requirements of SME's through leasing?

- o Embezzlement and siphoning of facility funds are minimised
- o Ownership of Equipment
- o Important role they play in the economy
- o Growth Capability
- o Employment generation
- o Other, please specify