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Factoring as a Mitigated Risk Alternative External Source of Finance for SMEs in Developing Economies

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Abstract: **A reliable and inexpensive source of finance represents the lifeblood of any business venture. Access to finance continues to be a primary obstacle to the existence and growth of SMEs. This study seeks to assess the opportunities and risks associated with providing factoring for SMEs in Ghana. It delves into the existing sources of external financing for SMEs, the receivable management strategies employed by SMEs and then examines the extent to which SMEs in Ghana will fulfil the requirements for factoring. The research finds that out of the sampled SMEs, those in the manufacturing and distribution sectors presented a greater opportunity for factoring. It also revealed that the rather laid-back approach of SMEs to the management of their receivables presents a viable business opportunity for a factors' account receivable management service to be provided.**

Keywords: **Factoring, Risk Mitigation, SMEs, Developing Economies.**

I. INTRODUCTION

SMEs are an essential component in the economic fabric of any country. Nurturing the development of SMEs is one of the key factors that contributed to the rapid economic transformation of emerging economies [1]. Even in developed economies, it is the SME sector rather than multinationals and/or large corporations, that is the largest employer of workforce [2]. The Latin America Review [3] points out that SMEs are a fundamental building-block of the productive structure, accounting for around 99% of businesses and employing around 67% of employees. In 2013, European SMEs employed about 86.8million people, representing 66.5% of all European jobs in that year (Annual Report on European SMEs 2012/2013). In Ghana and Nigeria, which are arguably two typical developing economies, for example, the SMEs account for 92% and 97% of the workforce, and contribute 70% and 50% to their respective gross domestic products (GDP) [4].

Access to and the costs of credit are fundamental problems which threaten the growth of SMEs in several countries in Africa. Internal sources (retained earnings, informal savings and loans associations, etc.) provide little access to finance and are unpredictable. External sources (capital markets, financial institutions) provide few financial instruments [5]. In short, Kaufmann asserts that access to these external and 'formal sources of finance is poor because of the high risk of default among SMEs and due to inadequate financial facilities'. Finding a suitable financing source therefore remains an obstacle especially for the growth of innovative SMEs, a problem known as the 'SME financing gap' [3]. According to a 2012 report by the Cartel of Cameroon Businessmen (Gicam), lack of access to finance contributes enormously to the demise of the enterprises in Cameroon.

Although some countries have provided support for the growth of smaller commercial banks (in Kenya), or of rural banks (in Ghana), the difficulty in accessing bank loans and overdrafts, which are the most utilized of all credit facilities offered by the formal sector to SMEs resides in the high cost of credit and the inability of SMEs to meet stringent credit requirements of these formal institutions.

Added to the afore-mentioned setbacks are other criteria such as track record or years in the business, availability or unavailability of collateral and the availability of proper financial records.

Factoring therefore provides a practical way of relegating some of these setbacks to the background in order to concentrate on the ability of the SME to sell and receive payments for its goods/services. With specific reference to Ghana, this study seeks to examine the opportunities and risks of factoring SMEs for financial institutions, to examine how SMEs manage their receivables and to assess whether SMEs in Ghana possess factoring requirements. It is also expected that this research serve as a trigger for further research into Factoring, and associated risk management, by drawing attention to the existence of this financing technique in Ghana.

A. Factoring:

Factoring is a financial transaction whereby a business sells its accounts receivable (i.e. invoices) to a third party (called a factor) at a discount in exchange for immediate cash in order to finance continued business. It represents a viable alternative to other external financing sources available for firms (banking loans, leasing, venture capital, etc.) by which a business can increase its cash-flow in order to fund expansion [6].

It involves three main parties: the factor, the customer (the SME), also called "adherent" (or the SME client) and the debtor (the SME client's client or buyer). The functions of the factor are to finance or pay their clients (i.e. the SME client) for the invoices when they are issued, advice and manage their clients' receivables, provide receivable collection services for their customers and protect their clients against bad debts.

The ensuing text is organized with extensive literature review following this introductory section. That is then followed by the methodology and the results and analysis. We conclude the discussion with some recommendations and suggestions for future works.

II. LITERATURE REVIEW

A. Factoring with SMEs:

The availability of finance has been highlighted as a major factor in the growth, development, and success of SMEs [7], [8]. According to [9], the method of financing used by SMEs varies from initial internal sources to informal sources, including financial assistance from family and friends [10], trade credit, venture capital and angel financiers [11], and thence to formal external sources represented by financial intermediaries such as banks, financial institutions and securities markets [12].

Vasilescu [6], like [13] has pointed out that the type of external facility employed by the SME depends upon, among other factors, the stage in growth and development of the SME. Berger and Udell [14] in their financial growth cycle paradigm equally underscore the same fact. This seems to fall in line with Myers' [15] Pecking Order Theory which suggests that the type of capital structure a firm possesses is a function of the firm's age. The priority is first given to internal sources of financing, with external sources introduced only when internal ones have been exhausted.

Mulaga [16], in analyzing the use of external financing by SMEs in Malawi concludes that firm size significantly determines the use of external financing or not. On the contrary, [17] in assessing whether, why and how banks are financing SMEs around the world, point out that the lending environment is more important than firm size in shaping bank financing to SMEs. This is supported by [18], that there is a strong economic effect of financial and institutional development on easing SME's financing constraints and on increasing their access to formal sources of external finance. They therefore seek to shift the focus away from size-oriented policies to policies that improve the playing field between firms of different sizes. Mulaga [16] however eventually goes on to propose the roll-out of special financing schemes which target firms with different sizes.

Evidently, there is a strong need for the development of alternative and appropriate external financing techniques which will respond to dynamic needs of business, especially as SMEs grow. In their recommendations following an assessment of the challenges faced by SMEs in obtaining credit in Ghana, [19] proposed that banks in Ghana should consider Factoring to enable SMEs 'breath some air' when it comes to managing accounts receivables.

B. Factoring as an Alternative :

Factoring is a financial transaction by which a firm sells its accounts receivable (i.e. invoices) to a third party (called a factor) at a discount in exchange for immediate cash in order to finance continued business [6].

In the nineteenth century, it became the predominant form of financing working capital for the high growth rates of the United States' textile industry. By the first decade of the twenty-first century, the basic public policy rationale for factoring remains that the product is well suited to the demands of innovative rapidly growing firms critical to economic growth. It is now a viable alternative to other external financing sources available for firms [6].

Available literature on factoring could be classified into two broad themes. One presents a detailed analysis of the factoring mechanism while the other probes specific issues on factoring. Vasilescu [6] points out various classifications of factoring depending on several criteria. The kind of participants involved could create domestic or international factoring.

Domestic Factoring is one executed in the same country; with no international trade contract involved. This therefore involves only a single factor. International Factoring is where there is the existence of a trade contract between the factor's customer and the latter's clients. This involves two factors: the import factor and an export factor who buys the exporter's debts.

Depending on the recourse weight of the bank of the adherent or SME client, there is either Non-recourse factoring or Recourse factoring. Non-recourse factoring offers the SME or the factor's client, full credit management service cover on approved debts against the event that the factor is unable to secure full payment of the factored invoices. In Recourse factoring, the factor equally takes responsibility for collecting the debts of its clients. However, it retains the right to obtain full recourse from the client for any bad debts. Since the factor provides no cover for the invoices, the SME may want to buy credit insurance separately [20].

Majority of the literature, especially with respect to literature investigating key concepts under factoring covers regions other than Africa. Due to the special nature of the factoring transaction, and the fact that it is still yet to be widely employed in some regions of the world, several studies have sought to explain how it works, throwing more light on its merits. Berry [21], like [22], [23] and [24], underscore the fact that unlike traditional forms of working capital financing, factoring involves the outright purchase of accounts receivables by the factor, rather than the outright collateralization of a loan. Since bank loans and overdrafts are dominant features of external financing [6], factoring enables SMEs avoid the problem posed by the unavailability of collateral. This advantage invariably feeds into [23] finding that a major advantage of Reverse Factoring was that it could be done without recourse: SMEs are therefore not obliged to put forward some form of fixed assets or personal guarantees just to obtain sufficient short term working capital financing. Again, there is an advantage of protection against the risk of invoices not being paid since this is taken catered for by the factor [6].

A major disadvantage which runs through most works on factoring is with respect to the high costs involved for an SME, as pointed out by [6]. It is however possible to control this through 'Reverse Factoring'. Here, the buyer (the SME's client) and supplier (the SME) work together with a bank in order to maximize the financial flow [25]. The bank buys account receivables from only partner corporations (the buyer) with a high credit rating. After the bank has convinced the buyer to participate in reverse factoring, the buyer then brings on board its suppliers who would want to convert its accounts receivable into cash prior to maturity. The supplier thus contacts the factor or factoring company which will then buy the invoices at a discount. This is thus dependent on the credit worthiness of the buyer and the supplier will not have to worry about the pricing of the factoring contract since the buyer is the main client of the factor now.

But despite its immense benefits, 'ordinary factoring' has proven to be insufficient in some cases. Chen & Liang [26] focused on the inability of factoring to solve the chain-debt problem which is prevalent in the China context. Through the review of relevant works on factoring and its development in China, the co-authors present a remodeled factoring technique -the [1]Account Receivable Right Trading (ARRT) - to tackle this particular financing problem faced by China SMEs. This eliminates 'the traditional factoring's confinement to creditworthy large companies. Additionally, the right certificates could be used as collateral in applying for loans or equally sold to another organization to cater for cash requirements. Additional research is however required on a suitable price mechanism for the ARRT as well as an appraisal and precaution system to manage related risks.

In a similar fashion, although employing a different method, i.e. a sample of factoring turnover as a percentage of Gross Domestic Product (GDP) of 48 countries, [21] points out another challenge with factoring: although factoring is in theory a form of finance, it is not available to all. This resides in the reluctance of factoring organizations to take on the business

[1] The model involves the issue of right certificate, transfer of right certificate, and repurchase of right certificate. The right of account receivable is transferred by a trading certificate rather than in cash, and the trading is based on not only the credit quality of account receivable but also the value of the collateral, which is an additional guarantee.

of customers of SME firms because the former is not judged to be a 'quality' customer. The historical credit information of the firm is therefore central in enabling the factoring organization to arrive at a decision. Klapper [22] suggests that the problem of informational opacity may be addressed by employing Reverse Factoring even though this will have to be the case for receivables from high-quality buyers.

To assess the risks and rewards associated with Reverse Factoring (without recourse), [23], uses a sample of heads of procurement of government institutions and chief investment officers of Development Finance Institutions (DFIs) in South Africa, as well as managers of 80 SMEs which supply government institutions and blue-chip firms. The findings showed that although reverse factoring could be highly appropriate, poor information on SMEs, weak Information and Communications Technology (ICT) infrastructure and skepticism on the part of banking institutions hindered progress in this direction. Also important in Mbatha's finding is the fact that reverse factoring could be extended to SMEs involved in government tenders, the construction industry, as well as those which are export-oriented.

Some other literature centered on the kind of business environment (either external or internal) within which factoring was a workable alternative. In a bid to test what country-level characteristics are associated with a greater use of factoring, Turcu-Rus [27] tests the hypothesis 'that there is a relation between factoring and local macroeconomic and business environment variables'. Turcu-Rus [27] came out with findings that factoring thrived in countries with better availability of credit information and weaker contract enforcement. It provided an example of how 'reverse' factoring was successful in overcoming barriers of access to credit information and weak contract enforcement in the Nacional Financiera (Nafin) Development Bank, Mexico through the creation of an online market infrastructure to facilitate on-line factoring services to SME suppliers.

Delving deeper, this time into the internal environmental features which prompt the use of factoring, [28] found that high risk firms which possess a dire need for short-term financing but face a restricted access to bank credit are more likely to resort to factoring (i.e. full-service factoring for that matter). Again, larger firms will generally go in for in-house factoring while smaller firms prefer full-service factoring. Hartmann-Wendels & Stoter [28] also provide a unique twist from previous research by comparing full-service factoring to in-house factoring.

In retrospection, it is clear that even though factoring offers several immense advantages, it certainly has its limits in providing an alternative to existing traditional bank loans and overdrafts. With every country possessing a unique business environment, this research seeks to find out, among others, the opportunities and risks available to SMEs (as well as financial institutions) through the use of factoring as an alternative source of external financing in Ghana.

III. METHODOLOGY

The population chosen for the study comprised SMEs who operate bank accounts with a commercial bank in Ghana, with principals from Europe. It possesses an extremely large client base and offers a wide range of products and services including factoring.

A sample of 100 SMEs from major trade hubs, namely Accra, Koforidua, Kumasi and Tema were used. Research questionnaires were administered seeking information essentially on financing needs, sources of finance and receivables management. Respondents were from top management: managers, directors, chief executive officers, finance managers, etc. This was to enable the study obtain extensive information on how most SMEs would be able to utilize factoring as an external source of finance.

Although the sample comprises SME business activities covering the whole SME sector, i.e. the primary, secondary and tertiary sectors, the basic operations of some subsectors do not make them 'factorable'. For instance, providers of software applications generally do not have regular sales to particular clients. Since their service or product provided is meant to last for a long period, they are not likely to have clients to whom they sell on a regular basis (monthly, bi-monthly, etc.) and on credit. Any such business activities which do not involve regular credit sales will not be included.

The research made use of both primary and secondary data. Primary data was obtained by administering questionnaires to mostly holders of top-management positions. The fact that over sixty per cent (60%) of the data was obtained from Managing Directors or Chief Executive Officers to an extent lends much credence to the data collected.

Secondary data sources include journals, internet sources, newspapers and report of international finance organizations. These provided further insight into the subject of study. The use of both a structured and an unstructured questionnaire was to minimize the level of ambiguity and obtain as much useful information as possible. The structured portion of the questionnaire gave the respondent the opportunity to select from a range of possible choices while the unstructured portion allowed the respondent to provide additional information where necessary in a bid to enrich the analysis.

Primary and secondary data analyses were carried out mainly using Microsoft Excel. Inferences were drawn from the findings and supported with secondary sources in line with the objectives of the study.

IV. RESULTS & ANALYSIS

We set off with some descriptive statistics of the respondents who were all members of top management. Sixteen (16) different job positions were recorded. Majority of respondents (62%) were Managing Directors/Chief Executive Officers, followed by Directors and Accountants representing 11% and 7% respectively.

The data also suggests that perhaps most of the SMEs surveyed may have been formed between the years 2000 and 2004, a period during which SME development was generally boosted by a favorable macroeconomic conditions. The then government declared a ‘Golden Age of Business’ and began implementing corrective policies and measures to ensure the growth and development of private enterprises. The favorable influence of new entrants from overseas into Ghana’s banking sector and the rippling effect following the deregulation of Ghana’s telecom sector equally boosted the growth of SMEs.

Limited liability companies formed the largest proportion among the respondent SMEs with seventy three per cent (73%) and the rest (27%) registered as sole proprietorships, suggesting that there seemed to be a shift among SMEs in Ghana from the “one-man” business model.

Table 4.1 shows that most of the sampled SMEs (15%) are active in the retail sector. The second and third most common sectors SMEs in Ghana can be respectively found are distribution (13%), and information, media and communication sectors (11%). Table 4.2 also shows that SMEs in Ghana cover a wide range of sectors from manufacturing, wholesale, engineering and construction, clothing, printing, advertising, processing of oil seeds, IT solutions to education and many more.

Data collected also showed that the oldest company among the one hundred (100) SMEs sampled was found in the manufacturing sector. Most of SMEs (20%) which had between 1 – 10 years of experience were into distribution. Table 4.1 shows the major sectors of activity of the respondents. Others worthy of mention are security services and printing/stationery services.

Table 4.1: Major Sectors of Activity of Sampled SMEs

Sector of Activity	Percentage
Retailing	15
Distribution	13
Information, Media & Communication	11
Wholesale	9
Engineering & Construction	8
Transportation	6
Manufacturing	5
Hospitality	3
Janitorial & Building Superintendents	1
Arts & Crafts	1

Fig. 1 shows that average sales of the sampled SMEs increased year by year from 2011 to 2013. Further analysis revealed that particular sectors of activity consistently generated above-average sales from 2011 to 2013. These sectors of activity were manufacturing, wholesale, security services, advertising, and transportation. Retail and information, media & communication started generating above-average sales from 2012 to 2013. Though retail was the commonest sector of activity among respondent SMEs, it was never a source of above-average sales except when combined with wholesaling.

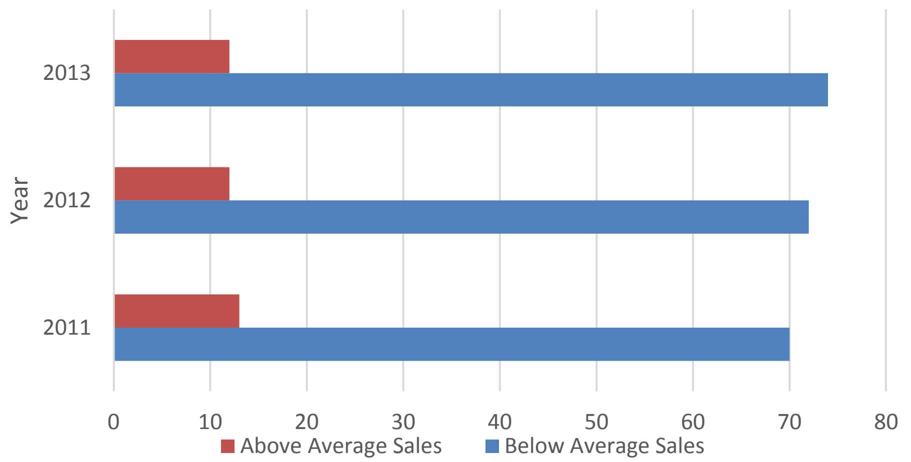

Fig. 1: Analysis of Sales of Sampled SMEs

A. *Opportunities for the Factor through Receivables Financing:*

Out of the 85 respondent SMEs which suffer from late payments, 78 stated that their cash flow is negatively strained or affected by their credit terms, whereas 77 out of the 85 firms indicated they would prefer to outsource the management of their accounts receivables. Again, a considerable number of the respondent SMEs are not aware of factoring as an external source of financing. Thus, the financing gap created by late payments coupled with the desire of SMEs with late payments to outsource the management of their accounts receivables presents a huge potential for the Factor's services.

Financial institutions desirous of providing this service should prioritize educating their SME clients about factoring. In a business environment where credit sales feature prominently, a classic opportunity exists for the Factor. The lack of knowledge on factoring equally means there is still room to orient the attitude or response of SMEs to this financing alternative in a way which will make it profitable for the factor and beneficial to the SME.

B. *Opportunities for the Factor through Receivables Management:*

In the first instance, it was found that the relationship between the payment terms offered by SMEs to their client's and the SME's knowledge of its client's financial health highlights an opportunity for the Factor to provide receivables management services to the SME.

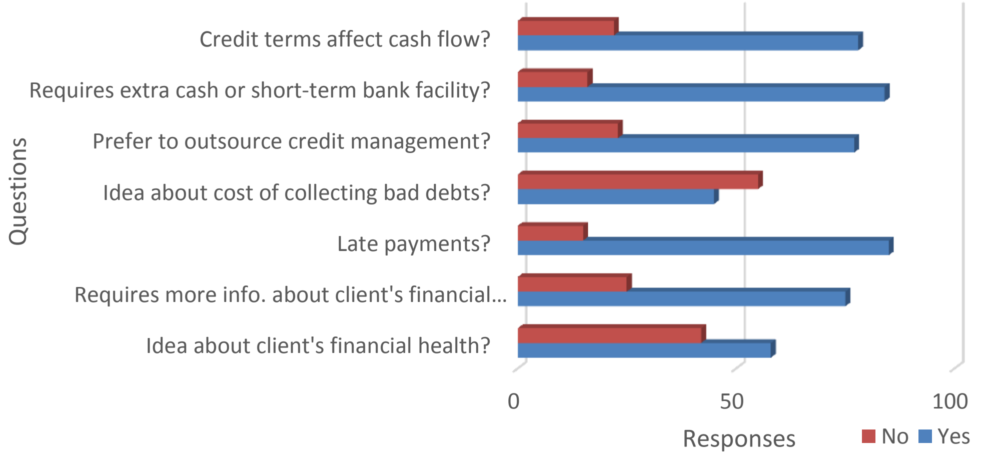

Fig. 2: Questions on Receivables Management

Eighty-five per cent (85%) of the respondent SMEs conceded they experienced late payments. Also, fifty eight per cent (58%) of respondent SMEs had an idea about the financial health of their clients; the remaining 42% had no idea. When asked whether they would require more information about their clients' financial health, 75% said 'Yes', with the remaining saying 'No'.

It is worth mentioning at this stage that the SME's knowledge of the financial health of a client could inform the SME's decision on the credit payment terms to grant a particular client, or whether or not that client merits a credit sale at all. A significant proportion (42%) of the SMEs however lacks adequate knowledge of their client's financial health. This argument is supported by the fact that a large slice (85%) of the respondent SMEs who lacked any idea about the financial health of their clients had late payments from their clients (as shown in Fig. 3).

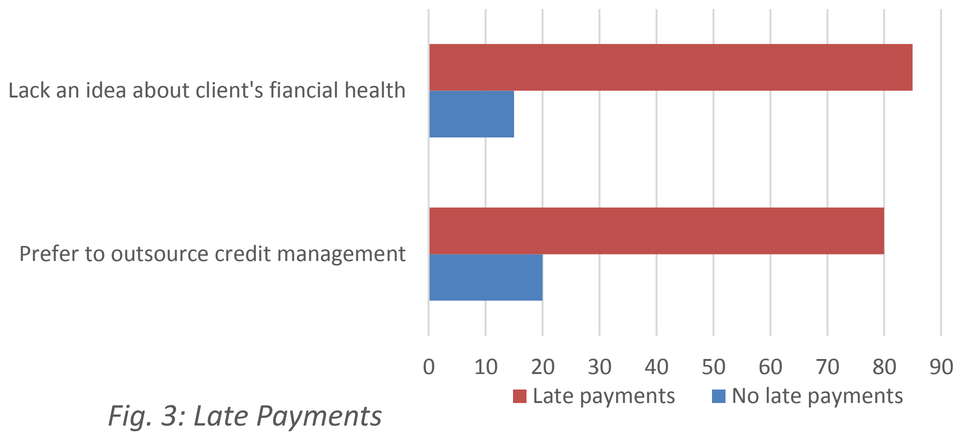

Fig. 3: Late Payments

In addition, seventy one per cent (71%) of the respondents preferred to outsource their credit management (Fig. 2), providing a clear indication about the desire for receivables management services.

Data collected also showed that the number of staff working on company invoices ranged from 0 to 8, suggesting that some SMEs appreciate the need for the management of their accounts receivables. However, as most SMEs even placed dash (-) as answers to those questions, it is an indication of the fact that they nevertheless do not really attach significance to assigning staff dedicated to manage their account receivables.

The need for a better receivables management through the assignment of specific staff to this role is buttressed by a study of forty (40) SMEs in the United Kingdom (UK) by [29] to explore the reasons why the potential strategic benefits of trade credit are not more routinely achieved by SMEs and why solutions enacted thus far had proved ineffective. The study found that 'the way in which both supplier and customer firms organize themselves internally, together with their attitudes and behaviours, are absolutely central to how well they negotiate and control trade credit given to or taken from business partners'. Sampled firms which adopted a more strategic approach, seeing trade credit as an important business opportunity rather than a simple debt-collecting function, reported far fewer late payments than their counterparts. Among others, these firms 'had well-trained and experienced credit management staff who exhibited a clear commitment to their work and an understanding of their role in the business'.

One possible explanation however, to the somewhat laid-back approach of the SMEs as pointed out earlier is probably because they have not fully realized that these account receivables could be used as collateral to collect loans to serve as working capital for their operations, as suggested by [30].

The need for the receivables management services of a factor is therefore very present in the operations of most SMEs. This will enable the SME to equally overcome the challenge of finding the right credit management personnel or spending its limited business time to go after unpaid debts.

C. *Risks Associated with Financing Receivables:*

From the foregoing, it could be inferred that 8 out of the 85 SMEs which suffered from late payments were not interested in outsourcing their credit management even though they suffered late payments. This could be explained by the apprehension of the SMEs towards the use of factoring in that on one hand, this could be a show of their weakness in financing their operations towards their clientele, and on the other hand, it could be a source of strained business relationships where the factor might be forced to pester the SMEs clients for overdue payments. This is to point out the possible risk that a Factor could lose its business relationship with an SME where the former's dealing with the latter strains the business relationship between the latter and its debtors/clients. This risk is further aggravated in a situation where some of the SME's clients are larger, reputable firms or important state-funded institutions.

Another risk is what was referred to by [23] as the 'collusion risk'. In a study of the rewards and risks of reverse factoring among SMEs in South Africa, [23] identified the collusion between SMEs and key employees in the payment departments of the SME's clients to present fraudulent invoices to the factor as the strongest proposition of the risk associated with fraud in factoring. This risk was however mitigated by the fact that the big buyers in reverse factoring submitted the invoices themselves and acknowledged legitimacy of the invoices. This was the case in countries where factoring has been successful, according to [23].

In addition to the 'collusion risk' exists the risk concerning the interception of payment systems and the input of wrong invoices by extremely technology-savvy hackers. Although according to Mbatha's work, this risk was identified as a moderate, it is clear that there is every reason for the factor and all other concerned parties to employ secure internal systems.

The risk of the delivery of wrong goods which was also identified by [23] could however be reduced when SMEs assign specialized staff for such an operation.

D. *SMEs Possessing Factoring Requirements:*

A comprehensive survey of factoring service suppliers in the UK in 1997/1998 [30] and the one conducted for the Forum of Private Businesses [31] revealed certain characteristics which defined businesses using factoring. Some of which are:

i. Businesses using factoring have high turnovers.

ii. Factoring services tend to be more focused upon manufacturing and distribution.

iii. Factoring services tend to be focused upon firms of 1–5-year-old.

iv. Factoring services focus upon limited companies.

Using the above factoring requirements, the study assessed whether the respondent SMEs possessed factoring requirements.

The respondent SMEs can be said to possess characteristic 1 as stated above since the data showed that the average turnover of respondent SMEs in 2011 recorded an increase of about 100% in 2013.

Only eighteen per cent (18 %) of the respondent SMEs are in the manufacturing and distribution sectors, implying majority of the sampled SMEs are not likely to present a sufficient business case to attract factors. This is because factoring services have tended to be more focused on manufacturing and distribution services based on the secondary data obtained.

Only 10 respondent SMEs representing 10 % were between 1- 5 years old. However 9 of these respondent SMEs were neither in the manufacturing or distribution sector and so by the second characteristic mentioned above, they will not be considered for factoring -even though they possessed the third characteristic of being between 1 -5 years old.

Seventy three per cent (73 %) of respondent SMEs were limited liability companies. However, only two respondent SMEs representing 2 % satisfied characteristics 1, 2 and 3 above, suggesting that few of the sampled SMEs in Ghana would possess all factoring requirements as stated above.

Nevertheless, factoring is still nascent in Ghana. There a good indication that the 18 % of respondent SMEs in the manufacturing and distribution sectors will qualify for factoring and present a strong business opportunity for factors. Also, the opportunity exists in Ghana for factoring among SMEs providing advertising, janitorial and security services as these services have shown per the research to have recorded above-average sales.

Empirical evidence from the research nevertheless stipulates that each of the sectors with the potential for factoring (manufacturing, construction, distribution, janitorial, information and media & communication) has peculiar responses with respect to positive responses (a 'yes') to questions on receivables management. The responses obtained from the various sectors to questions on receivables management were significantly different from each other ($p < 0.05$ as shown in Table 4.2). However, these responses were not statistically different from each other ($p > 0.05$ as shown in Table 4.2)

Table 4.2: ANOVA (Positive Responses On Questions on Receivables Management)

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Sectors	341.4286	4	85.35714	35.70717	8.90E-10	2.776289
Questions on Receivables Mgt.	33.2	6	5.533333	2.314741	0.06627	2.508189
Error	57.37143	24	2.390476			
Total	432	34				

For sensitivity and robustness, the negative responses were also analyzed and the results confirm the above. (see Table 4.3) In effect, although opportunities exist in these industries, it would be necessary for these opportunities to be assessed on a case-by-case basis. This will ensure that receivables are managed and financed in a way which appropriately responds to the needs of these industries. Again, this will ensure that the effects of any peculiar risks are avoided or minimized.

Table 4.3: ANOVA (Negative Responses On Questions on Receivables Management)

Source of Variation	*SS*	*df*	*MS*	*F*	*P-value*	*F crit*
Sectors	38.17143	4	9.542857	3.777568	0.016071	2.776289
Questions on Receivables Mgt.	32.8	6	5.466667	2.163996	0.082681	2.508189
Error	60.62857	24	2.52619			
Total	131.6	34				

V. CONCLUSION

In conclusion, Factoring will yield lots of benefits to Factoring companies or financial institutions which undertake a thorough education of their clients about it. Due to ignorance, the product is bound to make some SME client's apprehensive and reduce the success rate of this financing technique.

Factoring companies should carefully target potential clients in the manufacturing, distribution, security, janitorial and advertising industry. These sectors, per the research, have proven to enjoy above-average sales and also receive payments on credit. Also, due to the generally high costs of factoring, factors should consider pursuing large manufacturing firms for Reverse Factoring contracts as a way of breaking grounds to penetrate the Ghanaian market.

There exists a real risk of not receiving payments for invoices paid financed by the factor. Finding the right client could therefore pose a problem to the successful roll-out of this service. Risks involved in financing receivable (especially reverse factoring) mainly concern the presentation of fraudulent invoices and the delivery of wrong goods. The former risks could be mitigated or controlled if the SME's client presents the invoices to the factor themselves and confirm their authenticity. The latter requires that all parties involved assigned specific personnel to ensure that such occurrences are minimized as much as possible.

Again, Factoring companies or potential factors should explore the creation of factoring clubs or associations whose membership will include officers of factoring institutions and SME managers. This will serve as a fertile ground to share and improve knowledge of the mechanics of factoring among yet-to-be-factored SMEs. It will enable those already benefitting from factoring to gain deeper insight into the dynamics of this financing technique.

SMEs should strongly consider recruiting staff to be assigned to the management of their receivables. This will assist in controlling the high number of late payments and also enhance the SME's cash flow.

In compliance with the Companies Code, all SMEs should keep proper and up-to-date financial records of their businesses. This will enable factors to easily assess their financial health and facilitate the process of appraising a factoring request.

Further research works would need to be carried out in addressing the following concerns. What are the key drivers of sustainable growth in SMEs within the manufacturing industry in Ghana? How can this growth be improved through the use of factoring as an external financing alternative. Pricing of factoring contracts: Towards a sector-specific model in order to encourage higher factoring volumes within Ghana's retail sector.

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