UNIVERSITY FOR DEVELOPMENT STUDIES

FINANCING SMALL AND MEDIUM SIZE BUSINESSES: EXPERIENCES FROM KWAEBIBIREM RURAL BANK LIMITED, ASUOM, GHANA

BY

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A DISSERTATION IN THE SCHOOL OF BUSINESS AND LAW, SUBMITTED TO TO THE SCHOOL OF GRADUATE STUDIES, UNIVERSITY FOR DEVELOPMENT STUDIES IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF (MASTER OF COMMERCE IN HUMAN RESOURCE MANAGEMENT) DEGREE.

NOVERMBER, 2017

DECLARATION

Student's Declaration

I, Owusu Kwarteng declare that this dissertation, with the exception of quotations and references contained in published works, which have all been identified and duly acknowledge, is entirely my original work and it has not been submitted, either in part or whole, for another degree elsewhere.

SIGNATURE:..

DATE:...

Supervisor's Declaration

I hereby declare that the preparation and presentation of this work was supervised in accordance with the guidelines for supervision of dissertation as laid down by the University for Development Studies.

NAME OF SUPERVISOR: Mr. Attakora Amaniapong Elvis

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DATE:...

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DEDICATION

I dedicate this work to Geofrix Owusu Boateng, Adelaide Owusu Gyamfuah and Georgina Owusu Manteh being the three children the Lord has blessed me with not forgetting my wife Emelia Owusu Kwarteng from whom I derive a lot of inspiration and support from. I also dedicate this work to Daniel Kwame Tettey and Okyir Buame

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ABSTRACT

The contribution of Rural Banks towards the development of Ghana most especially the rural communities have been highly recommendable. Small and Medium Scale Enterprises (SMEs) form the majority of the private sector which is considered as the engine of growth in the Ghanaian economy. Rural banks are therefore expected to focus attention on the provision of quality banking services to the people in their catchment area including the SMEs. It is as a result of this that this study seeks to examine the contribution of Rural Banks to the development of SMEs, taking cognizance of the role and contribution of Kwaebibirem Rural Bank Ltd. The sources of data for the study were both primary and secondary. The primary data was collected by the use of structured questionnaires and interview guides which were designed and administered to SME customers and staff of Kwaebibirem Rural Bank Ltd respectively. The secondary data was collected from text books, journals, research papers and other intellectual works. Tables and graphs were used to analyze the data collected from the field. The findings revealed that microfinance loans is very popular among services provided by rural banks to SMEs due to the fact that most SMEs do not have the collateral to access commercial loans from banks. The researcher again revealed that it was very difficult for SMEs to access start-up capital from banks. In addition to the above it again revealed that most of the SMEs have not registered. This is not helping the SMEs to develop, This study therefore recommend among other things that SMEs should also use loan taken from banks for its intend purpose. Rural banks should take insurance cover for loans granted to new SMEs as start-up capital to reduce the effect of loan default in their book and operations and also reduce the risk of granting loans to new SMEs.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The contribution of rural and community banks to the development of small and medium scale enterprises in Ghana cannot be underestimated since the introduction of the financial institution by the bank of Ghana. Before the establishment of the first rural bank in 1976, the availability of formal credit in rural communities predominantly made up of small farmers and fishermen and small and medium scale enterprises was extremely limited. The main sources of credit were moneylenders and traders charging exorbitant interest rates. The Government of Ghana had taken some policy measures to improve access to finance these sectors of the economy. These measures included a requirement that commercial banks lend at least 20 percent of their portfolio for agricultural uses and the establishment of the Agricultural Development Bank (ADB) in 1965 with an exclusive mandate of lending for agriculture and allied industries in rural Ghana.Though, commercial banks opened their door to small and medium scale enterprises, nevertheless, lending to these enterprises remained low. Commercial banks demanded higher deposit accounts and stronger collateral requirements to provide loans to small and medium scale enterprises. In view of this situation, the Government of Ghana (GOG) considered supporting the establishment of rural and community banks that would be dedicated to providing financial services in those areas. It asked the Bank of Ghana (BOG) to send a delegation to the Philippines to study the rural banking system there and afterward decided to facilitate the opening of banks in rural farming and fishing communities.

Rural banks were first established in Ghana in 1976 to provide banking services to the rural population, providing credit to small and medium scale farmers and businesses and supporting development projects, with the first being in Agona Nyakorm in Central Region. As of January 2013, Ghana could count a total of 137 rural and community banks in the country. Small and medium scale enterprises sometimes called a small business are businesses which employ a small number of workers and do not have a high volume of sales. Such enterprises are generally privately owned and operated sole proprietorships, corporations or partnerships. The legal definition of a small-scale enterprise varies by industry and country. As contained in its Industrial Statistics, The Ghana Statistical Service (GSS) considers firms with less than 10 employees as Small Scale Enterprises and their counterparts with more than 10 employees as Medium and Large-Sized Enterprises. However, the National Board of Small Scale Industries (NBSSI) in Ghana applies both the fixed asset and number of employees' criteria. It defines a Small Scale Enterprise as one with not more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Cedi, currently 1,000.00 Ghana cedis (US$ 9506, using 1994 exchange rate). Small and medium scale enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries. Therefore, this study seeks to examine the contribution of these rural and community banks to the development of small and medium scale enterprises in the country with a case study of Kwaebibirem rural bank limited.

1.2 Statement of the Problem

Though, commercial banks extended their branches rural communities to meet the financial needs of small and medium scale enterprises, nevertheless, lending to these enterprises remained low. Other banking services, like credit, were not provided as initially envisioned.

Small and medium scale enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries. It is estimated that SMEs employ 22% of the adult population in developing countries (Daniels, 1994; Daniels and Ngwira, 1992; Daniels and Fisseha, 1992; Fisseha, 1992; Fisseha and McPherson, 1991; Gallagher and Robson, 1995). Due to their flexible nature, SMEs are able to withstand adverse economic conditions. They are more labour intensive than larger firms and therefore, have lower capital costs associated with job creation (Anheier and Seibel, 1987; Liedholm and Mead, 1987; Schmitz, 1995). Commercial banks demanded higher deposit accounts and stronger collateral requirements to provide loans to small and medium scale enterprises. In view of this situation, there was the need for the Government of Ghana (GOG) to consider in supporting the establishment of rural and community banks that would be dedicated to providing financial services in those areas.

In view of the above, this research seeks to find out the provision of financial services by rural and community banks to small and medium scale enterprises. Again, it will determined the level of financial support that small and medium scale enterprises canaccess from rural and community banks and also find out how these financial services are impacting on small and medium scale enterprises.The research workalso seeks to find out whether the Kwabibirem Rural Bank Limited is contributing in any significant manner to the development of SMEs in terms of finances its catchment areas.

1.3 Objectives of the Study

1.3.1 General Objectives

The objective of research is to assess Kwaebibirem Rural Bank's financialsupport to the development of small-scale enterprises in its catchment area.

1.3.2 Specific Objectives of the Study

1. To assess the financial services provided by Kwaebibirem Rural Bank (K.R.B.) Limited to SMEs.
2. To examine the contributions of K.R.B. towards the growth of the SME's in its catchment area.
3. To examine challenges encountered by SMEs in obtaining desired assistance from rural banks.
4. To assess the challenges K R B encounters in providing services to SMEs

1.4 Research Questions

The research questions are:

1. What financial services are offered by K.R.B. to SMEs
2. What are the contributions of K.R.B. towards the development of SMEs in its catchment area?
3. What challenges do SMEs and K.R.B encounterin transacting business?
4. What measures can be adopted to address the challenges?

1.5 Scope of the Study

As this study aimed at examining the contribution of rural and community banks to the development of small and medium scale enterprises in Ghana, the research concentrated mainly on the financial accessibility of small and medium scale enterprises in the catchment area and whether this financial access is having impact on the development of small and medium scale enterprises. It did not delve into other area such as loan repayment problems by small and medium scale enterprises to the rural and community banks and other problems of small and medium scale enterprises face which are not directly linked to credit inaccessibility.

1.6 Significance of the Study

The research seeks to examine the contribution of Kwaebibirem rural bank to the development of small and medium scale enterprises in the country. The aim was that, at the end of the study, readers and policy maker can be rightly informed whether rural and community banks establishment to bridge the funding gap between commercial banks and rural population and small and medium scale enterprises have been realized. This study is also a source of guide for players thus, rural banks and small and medium scale enterprises in the country, whether it is worth providing and sourcing for funds respectively.

Specifically in Ghana, the research would contribute to the realisation of the government's objective of enhancing private sector competitiveness (as contained in the Ghana Shared Growth and Development Agenda, 2010-2013) through the creation of the financial sector which is responsible to the private sector.

1.7 Limitations of the Study

It was the anticipation of the researcher to encounter problem in the course of this study as every scientific research has had to. Out of the numerous problems, the following can be enumerated. Access to information from Kwaebibirem rural bank limited was a problem for the researcher. The researcher also encountered financial constraints which also pose a grave problem for this study as the means to financial access is not easy for a student research. Furthermore, low level of literacy among business owners was also a problem in the aspect of questionnaire administration. More time was be wasted which when quantified will be much greater that whole cost of printing out the questionnaires.

1.8. Organization of Thesis

The research covers five chapters. Chapter one outlines the introduction of the study, which consists of the background to the study, statement of the problem, research questions, objectives of the study, scope of the study, significance of the study, limitations of the study, and organization of the report. Chapter two reviews related literature and defines some key terms on the definitional parameters of rural banking and small and medium enterprises. Chapter three presents the setting, research approach, target population, sample size determination, sampling procedure, sources of data, data collection instruments, confidentiality issues, data analysis and presentation, validity and reliability. Chapter four looks at the analysis and discussion of findings of the data collected from the field. It presents the data from the field and gives meanings to them. Finally, chapter five presents the summary of the major findings of the study and conclusions. Based on the findings, appropriate recommendations were made to address challenges in accessing and administering micro credit to small and medium enterprises by the Kwaebibirem Rural Bank.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this chapter, the focus is to explore as far as possible the available literature on rural banking and its impact on SME'S (small and medium enterprise in Ghana). The section deals with what other authors have done in regard to this subject matter.

2.1 Evolution of Rural Banks

Rural banks are a network of 127 independent unit banks in Ghana. They are regulated by the Bank of Ghana and thereby form part of the regulated financial sector in Ghana. These banks are the largest providers of formal financial services to SMEs in rural areas and also represent about half of the total banking outlets in Ghana (IFAD 2008). By the end of 2008, these banks together had 421 branches. Including head offices, there were 548 service delivery locations spread throughout the country. All administrative regions have at least one bank, although most are located in the Ashanti, Western, Eastern, and Central regions (Ajai and Fissha, 2010). Rural Banks are relatively small financial institutions with average share capital of GH₵ 136,526 (US$105,263), average deposits of GH₵ 2.3 million (US$1.77 million), and average assets of GH₵ 3.8 million (US$2.4 million). Values of the three indicators, however, vary significantly. Out of the 127 RCBs, 75 percent have assets between GH₵ 1 million (US$771,010) and GH₵ 8 million (US$6.1 million), 20 percent have assets of less than GH₵ 1 million, and 5 percent have assets over GH₵ 10 million (US$7.7 million). Similarly, 44 percent of RBs have share capital of less than GH₵ 100,000 (US$77,101) and only 6 percent have share capital of more than GH₵ 250,000 (US$192,753) (Ajai and Fissha, 2010).

As a network, Rural Banks have achieved a remarkable level of service delivery and financial performance. At the end of 2008, they had deposits of GH₵ 343.9 million (US$265.1 million) from more than 2.8 million clients, and loans and advances of GH₵ 224.7 million (US$173.2 million) with about 680,000 clients. They delivered 128,875 domestic money transfers worth around GH₵ 63.3 million (US$48.8 million) in 2007 and 32,392 international money transfers worth GH₵ 9.3 million (US$7.1 million) in 2008. They also facilitated check transactions worth GH₵ 993.7 million (US$766.1 million) in 2008. RCBs made a consolidated profit of GH₵ 15.6 million (US$12.0 million) in 2008 and had a consolidated net worth of GH₵ 62.3 million (US$48.03 million). Several have excelled in performance, both within the financial sector and into broader private sector. Some rural banks have figured more than once in Club 100, a group of 100 Ghanaian institutions recognized annually for business excellence (Ajai and Fissha, 2010).

Several challenges, however, remain. The Bank of Ghana (BoG) rated the performance of 17 of the 127 rural banks in operation as mediocre, based on capital adequacy, and it categorized 5 banks as distressed.6 among the banks whose performance is categorized as mediocre, 6 rural banks have negative net worth. The apex bank of the network, which was created primarily to provide services to rural banks, is not yet fully financially self-sufficient and has inadequate resources to effectively perform its functions. The BoG, which is primarily responsible for supervising Rural Banks, is constrained in effectively performing its supervision role because of political and civil society pressures, resource constraints, and limited delegation of supervisory functions to the Apex Bank.

This research was based on a review of various published and unpublished documents, interviews with key respondents, and an analysis of data collected from the rural banks. The sampled rural bank was selected primarily to reflect the proportional representation of different categories of rural banks according to the BoG's performance classification of all 127 banks.The performance analysis of the rural banks is primarily presented at the network level (consolidated data for all RBs) using secondary data available from the ARB Apex Bank, the BoG, and other secondary sources. Whenever the necessary data are not available at the network level, data from the bank is used, if available. The analysis includes trends, frequencies, and composition of key indicators and their comparison with data from peer-group institution (Ajai and Fisseha, 2010).

Before the establishment of the first rural bank in 1976, the availability of formal credit in rural communities predominantly made up of small farmers and fishermen was extremely limited. The main sources of credit were moneylenders and traders charging exorbitant interest rates. The Government of Ghana had taken some policy measures to improve access to finance in rural areas. These measures included a requirement that commercial banks lend at least 20 percent of their portfolio for agricultural uses and the establishment of the Agricultural Development Bank (ADB) in 1965 with an exclusive mandate of lending for agriculture and allied industries in rural Ghana. Subsequently, commercial banks and the ADB opened branches in rural areas, with an emphasis on cocoa-growing rural areas. Nevertheless, lending to the rural sector remained low; the commercial banks used their rural branches primarily to make payments to cocoa farmers and collect deposits for lending in urban areas. Other banking services, like credit, were not provided as initially envisioned. Commercial banks demanded higher deposit accounts and stronger collateral requirements to provide loans to rural areas. Many small farmers and fishermen did not have deposit accounts in commercial banks, and the collateral they had available was not satisfactory for commercial lending (Steel and Andah 2003). Mensah (1996) found that the ADB's credit provision and coverage were limited. Only 27 percent of its branches were in rural areas, and lending to smallholder farmers made up only about 15 percent of its total portfolio.In view of this situation, the Government of Ghana (GoG) considered supporting the establishment of rural banks in rural areas that would be dedicated to providing financial services in those areas. It asked the BoG to send a delegation to the Philippines to study the rural banking system there and afterward decided to facilitate the opening of banks in rural farming and fishing communities.

2.2 Establishment and Growth

According to Ajai and Fissha (2010), the first rural bank was established at Nyakrom in the Central region of Ghana in 1976. The paid-up capital of 60,660 old Ghana cedis or about US$52,000 was used to set up the bank. Rural bank was owned by farmers in the rural community through share purchase. The second rural bank was also established at Biriwa, a fishing community in the Central region of Ghana the following year. The Association of Rural Banks (ARB) was instituted in 1980 to facilitate the exchange of information and to improve the performance of the entire rural banks. Between 1980 and 1984 the number of rural banks had reached 106. The rapid growth particularly in cocoa growing area was attributable to the interest among rural communities; introduction of Akuafo Cheque operations. With time a code for establishing new rural banks was developed. In 1985, the Bank of Ghana (BoG) instituted guidelines for the setting up of rural banks. The minimum paid-up capital needed for the commencement of rural bank was GH₵ 1.5 million. It was mandatory for the BoG to acquire 43% of the total shares whiles the remaining 57% was to be acquired by the general public. The old ₵ 10,000 currently c1 was the maximum value shares that an individual shareholder could purchase. The rural banks provided mainly savings and credit services and products. Salary and pension deposits for civil servants who worked in rural communities were transferred from the capital, Accra to the rural area using rural bank networks. In 1988 deposits in rural banks increased tremendously from oldGH₵148,000 (1976) to old GH₵ 2.3 billion and loan portfolio increased to about US$4 million. Nonperforming loans was pegged at 5% in 1982 and 70% in 1986. The non-performing loan was attributable to the 1983 drought and fallen prices.

The RBs were bedevilled with so many challenges. As part of governance structure of RBs the rural banks were required to have a board of directors in place. The boards of directors were and the selection Criteria was not based on competencies. Secondly, on the issue of employment, the rural banks could attract competent staff because of inadequate resources. Thirdly, there were weak internal controls which led to corruption involving management and staff. Lastly RBs gave many bad loans coupled with BoG's lack of capacity to supervise the rural banks. The above mentioned challenges led to the introduction of reforms by the BoG. Steel and Andah (2003) established that there was a tremendous reduction in agricultural loans, increases in primary and secondary reserve requirements, distressed banks were also closed children, and a stronger role for the BoG in examination and control of the banks were taken to address the situation. Ajai and Fissha, (2010) established that the World Bank supported Rural Finance Project in 1989. The main aim of the world bank support to; provide technical support for restructuring some RBs; strengthening the ARB and credit unions; rationalize the roles of the Rural Banking Department of the BoG and the ARB; improve the rural credit appraisal capacity of RBs and financial institutions; and strengthen the BoG‟s capacity to supervise rural banks.

2.3 Ownership Structure

The ownership structure was however changed in the early 1990s. In the early years of RCBs, it was mandatory for an individual to acquire only 10% of the shareholding of rural banks whiles 30% was acquired by a corporate body. These levels have been revised andconsequently an individual shares is capped at 30% whiles 50% could be acquired by a corporate body. Moreover an identifiable group can lawfully acquire 40% of the entire shareholdings of a rural bank.

2.4 Rural Bank Operations

According to Ajai and Fissha (2010), the Bank of Ghana has streamlined Rural Bank lending operations to ensure that Bank credit actually benefits the small scale rural producer and the rural community. The Bank of Ghana has developed an Operational Manual for all Rural Banks. Applications are accepted from individuals, groups, associations, and companies. Recommendations to reject an application must be justified by specific and clearly stated reasons and cannot be based on vague suspicions." They further stated, before granting a loan to a group, the Bank requires that there be mutual trust and respect among members. In the case of a group loan approval, members are held jointly and severally liable. The group cannot exceed 20 members, and the group leader must have a clean loan record. The Bank of Ghana has developed a mandatory sartorial allocation for Rural Bank loans. The allocation ensures that the bulk of the resources go to agriculture, the priority sector in Rural Bank lending. To ensure that resources assist small farmers, the Bank of Ghana requires that the maximum acreage a loan-eligible farmer can cultivate is 10 acres for vegetables and 100 acres for staple crops. The Rural Banks try to reduce the cash element in the loans to the minimum possible to prevent the diversion of funds for purposes other than those for which they are granted. The Banks arrange for inputs to be made available in kind (raw materials, seeds, fertilizers, equipment and machinery, etc). Loan repayment conditions are determined with reference to the borrower's capacity to repay. A "grace period" is allowed between the loan approval date and the time the borrower is expected to generate sufficient income to repay the loan. During the "operation period" of the loan, the Bank's Project Officer monitors the borrower to ensure proper use of funds and punctual repayment. Routine and emergency visits by the Project Officer are common during the operation period of the loan. Rescheduling may be allowed if there are circumstances which the loans committee or board of Directors accepts as "unforeseen developments." If there is default on the loan, the case is sent to the Bank's lawyer(s) for action. By 1990, the Rural Banks were experiencing negative profitability resulting in capital inadequacy and, in some cases, the inability to meet depositors' withdrawal demands. The Bank of Ghana ordered a restructuring of the Rural Banks. By December of 1991 all of the Rural Banks had undergone diagnostic study conducted by outside consultants. The restructuring was designed to determine financial strength, organizational capability, and management status in line with existing statutory requirements. The Banks updated and standardized accounts and procedures. The Banks introduced internal control systems and management information systems. After the restructuring process, the number of Rural Banks meeting the capital adequacy requirement increased from 2 to 55. The Bank of Ghana has instituted measures to maintain public confidence in the remaining mediocre and distressed Rural Banks (Bank of Ghana 2009).

Today, the Rural Banks are still given the opportunity to determine who should benefit from their credit resources. There is substantial anecdotal evidence of misdirection and misapplication of rural credit by the Rural Banks and the rural people. Many rural banks appear to give credit to people who do not fall into the Bank of Ghana target groups. It is not uncommon to see many credit recipients spending borrowed credit on land litigation and funeral ceremonies instead of productive ventures. The Bank of Ghana initiated the Rural Bank system with the hope that small-scale rural producers and small towns would benefit from the new credit resources. It is uncertain whether or not the Rural Banks are fulfilling the basic functions for which they were created (Ajai and Fissha, 2010).

2.5 Services Provided by Rural Banks

As financial intermediaries, rural banks provide primary services consisting of savings, loans, and payments. Aside these primary services some RBs provide some special services like advising their clients to register their businesses, customer care services and others. Several products are offered within each of these categories. Given the community-owned nature of these institutions, they also generally support community development services. As financial institutions actively supported by the government, RBs offer special products and services for specific target groups on behalf of government- and donor-financed programs, such as Microfinance and Small Loan Centre (MASLOC), the Social Investment Fund, the Community -Based Rural Development Project, and the Millennium Development Authority. The rural banks use a variety of techniques to promote their services and products, including traditional outreach by bank staff and use of electronic and print media. For example, some banks use local FM radio to promote their products (particularly microfinance) and broadcast information about services available. This approach has been successful in reaching many clients in remote parts of the operational area. Several social occasions such as funerals have been used to disseminate important information such as repayment reminders (Ajai and Fissha, 2010).

2.5.1 Deposits

Rural banks offer all the general savings products such as the regular savings accounts, current accounts, and time deposits. Typically, the largest share of the deposit portfolio in a rural bank is held in the savings account. Interest rates offered on these accounts are typically very low, however, and often negative when inflation is taken into account. In 2008 in the sample banks, interest rates on savings deposits varied from 5 to 16 percent, while inflation ranged between 11 and 18 percent. Further, interest on savings accounts is often provided only when the savings balances are more than a specified amount. Unlike in most commercial banks, however, rural banks do not require high minimum balances to maintain a savings account and do not charge a high ledger fee. This applies in the bank under research.

A unique deposit offered by rural banks is their susu deposits. These deposits are daily or weekly savings deposits that are collected by susu collectors, who are either rural bank employees or agents paid on a commission basis. This deposit and deposit collection technology builds on the traditional system of susu collectors in Ghana. Susu collectors mobilize daily deposits by visiting individuals at their houses and business premises. A susu collector has a schedule and an agreed savings plan with a client and collects the amount of deposit according to the agreed plan. One susu collector visits up to 300 clients per day. Most of the susu collectors are men, whereas a majority of the participants are women. Safety is an area of concern since the women physically carry money with them. Typically, no interest is paid on susu deposits, and depositors pay a fee for the service.Banks use different savings mobilization methodologies. Many rural banks use the susu approach. Some banks use deposit mobilization centres, which operate in the market on market days. Some rural banks also offer special deposit products that target specific target groups such as small traders and fishmongers, or purposes such as children's education.

Another indicator of the primary deposit clientele of the rural banks is the percentage of deposits accounts that are below GH₵ 100 (US$77.1). In the sample banks, 90 percent of all accounts have balances between GH₵ 10 (US$7.1) and GH₵ 100 (US$77.1), with only 10 percent of accounts larger than GH₵ 100. Not surprisingly, the top 10 percent of accounts, by size, hold 81 percent of the deposits whereas the 90 percent of smaller accounts hold only 19 percent of the deposits (Abor and Quartey 2010).Although these small accounts make up only about one fifth of the deposit base of the rural banks, these deposits are more likely to be stable and are hence important to the banks (Ajai and Fissha, 2010).

2.5.2 Loans

The major credit products offered by the rural banks include microfinance loans, personal loans, commercial loans, salary loans, Susu loans, overdrafts, and others. Microfinance loans and Susu loans are the two special loan products that most directly benefit the low-income population. A significant portion of the salary loans, however, would also be considered microloans in the Ghanaian context. Consequently, the microcredit portfolio of rural banks is larger than the sum of the microfinance and Susu loan portfolios shown in the loan classifications reported by the Rural Banks. Most rural banks are using a “credit with education” approach adapted from Freedom from Hunger to deliver microfinance credit products. In this approach,Rural banks educate and sensitize members of microfinance groups for about six weeks before disbursing the loan. First, members of microfinance groups participate in a financial education program on basic bookkeeping and preparation of business proposals for credit. Then, credit officers assess the readiness of the group members before releasing funds. This methodology is intended to reduce credit risk caused by clients’ inability to manage and use loans in a productive way that allows for repayment. The training is provided by microfinance officers, and some RBs outsource training to NGOs. The training typically includes education on savings; the purpose of group formation; group management; good business practices; and bookkeeping. In addition to the financial education, clients also receive education on health and nutrition. The group is required to collect compulsory savings during the six-week training period to cultivate the habit of saving and managing funds. Following the satisfactory completion of the training and compulsory savings, the group is eligible to obtain formal credit from the 19 bank. The bank requires 10–20 percent of the compulsory savings as collateral and a group guarantee of the loan. A sample of share of clients and credit portfolio in nine sample banks in 2008 were taken. Out of the total advances, salary loans are the highest, with 33 percent of the total advances, followed by personal loans (24 percent) and microfinance (20 percent). In terms of size of clients, microfinance loans have the most borrowers (31 percent) followed by personal loans (26 percent) and salary loans (22 percent). In six (out of nine) of sample banks, more than 20 percent of clients are microfinance clients. Only one bank has no microfinance product. In three banks-Borimanga, Upper Manya Kro, and Ahafo-Ano Premier-about half of client.

2.5.3 Microfinance loans.

These loans are provided to groups of individuals to finance small and micro income generating activities. For some banks, the group is the borrower, whereas for others, each member of the group is a borrower. In both cases, the group is jointly liable for the loan. The size of a microfinance loan ranges between GH₵ 50 and GH₵ 1,000; most loans are between GH₵ 100 and GH₵ 500. The term of a microfinance loan is four to six months, and the interest rate ranges between 30 and 36 percent.

***Susu* loans.** These loans are provided to individuals following a three-month *susu* deposit. The size and term of *susu*loans are similar to those of microfinance loans, but *susu*loans are provided to individuals whereas microfinance loans are group loans.

Salary loans. These loans, provided to salaried individuals, are secured by the individual's salary, which is paid through the bank. The bank automatically deducts the loan repayment instalment from the salary payments. Salary loans are used for consumption and investment, as well as social purposes. The size of the loan is determined by the salary of the borrower. The maximum term of a salary loan is 48 months, and the interest rate ranges between 30 and 33 percent.

Commercial loans. These loans are provided to companies and individual entrepreneurs for working capital or fixed capital. The maximum loan size is GH₵ 100,000, the maximum term is 36 months, and the interest rate ranges between 28 and 35 percent.

2.5.4 Money Transfer

Rural banks offer both domestic and international money transfer payments. Both these services are managed across the network by the ARB Apex Bank. Domestic transfer payments are offered through Apex Link, a domestic transfer system, set in place in 2003. Both inward and outward money transfer services are available at all 455 outlets of the rural bank network. Apex Link also allows for money transfer to and from other commercial banks and selected nonbanks in Ghana. International money transfers are offered through partnership agreements between the ARB Apex Bank and several major international money transfer companies such as Western Union, and Money Gram. In 2008, rural banks facilitated 128,875 domestic money transfers worth about GH₵ 63.3 million (US$48.8 million) and 32,392 international money transfers worth GH₵ 9.3 million (US$7.1 million). Both the domestic and international money transfer services are provided by rural banks through a fee-sharing agreement with the Apex Bank. The Apex Bank is responsible for negotiating the fee-sharing arrangements with the external institutions banks within Ghana for domestic transfers and international money transfer companies.

2.5.5 Payments

Payment services are a key service provided by rural banks. Rural banks provide this service through the Apex Bank, which is a member of the national clearinghouse. The introduction of MICR checks in 2002 gave rural banks' checks the same legitimacy as checks issued by other financial organizations. Before the introduction of MICR checks guaranteed by the Apex

Bank, many institutions and commercial establishments refused to accept rural bank checks. With the introduction of the check-clearing system in 2002, the number of checks for clearing grew by an average of 43 percent a year.Because of their location and network of branches, rural banks are used by the central and local governments and private companies to make salary and pension payments to their employees in rural areas. The salary payment system in particular enabled the rural banks to consolidate their salary loan products that are closely tied with the salary transfers. Licensed buying companies (LBCs) also use rural banks to pay cocoa-producing farmers in their catchment areas. In 2008, rural banks facilitated GH₵ 68.8 million (US$56 million) in payments to cocoa farmers and earned about GH₵ 2.75 million (US$2.1 million) in commission (Bank of Ghana, 1995).

2.6 The Association of Rural Banks (ARB)

According to Ajai and Fissha (2010), the BoG supported the 30 existing rural banks to form the ARB in 1981, to provide a forum for rural banks. There are nine regional chapters. Initially, the ARB's was required to offer training to different target groups. With the setting up of Apex Bank ARB was no longer required provide the training to RBs. However ARB is still responsible for offering training for directors of rural bank. ARB now focuses on advocacy with the government and resolves disputes among its members.

2.7 The ARB Apex Bank

According to Ajai and Fissha (2010) the Apex Bank was set up to provide financial, managerial, and technical support to rural banks. A study was jointly undertaken by the World Bank and the BoG in 1996. The study recommended the setting up an institution similar to the Rabobank in the Netherlands. In 1998 a feasibility study was undertaken. The study recommended the setting up of apex bank in view of its financially viability.

Consequently, the ARB Apex Bank was incorporated in 2000 as a public limited liability company with rural banks as shareholders. Apex Bank was licensed in 2001 and commenced operations in July 2002. The Apex Bank has six other branches in Ghana aside its head office in Accra. The first managing director, Emmanuel K. Kwapong, who had 30 years of experience from Barclays Bank served for six years. Eric Osei-Bonsu, a former president of ARB was appointed the second managing director of the Apex bank. The Apex Bank had staff strength of 149 in 2007. The Apex Bank board has a 13 member board which headed by a chairman. Currently Apex bank board is headed by Dr. Samuel Dufu. The board comprises nine representatives from the regional chapters and one each is drawn from the ARB, the BoG, and the Ministry of Finance and Economic Planning (MoFEP). The managing director of the Apex Bank augmented the membership of the board.

The Apex Bank provides the following services to the rural banks:

1. **Cheque clearing:** The Apex Bank provides cheque-clearing services to RBs through its 11 clearing centres across the country. Ajai and Fissha (2010) argues that Cheque clearing service plays a very important role in making rural banks‟ cheques more acceptable. Currently automated clearing house programme which facilitates speedy clearing of cheques has begun in Apex Bank. The technology use scanned cheque images instead of the actual cheque and thereby speeding up the process.

2. **Specie supply:** Initially Apex Bank was charged with the responsible of supplying specie to the rural banks. Since most rural banks now own bullion vehicles to transport cash from the Apex Bank branches, Apex bank now provides that service based on need basis. The Bank in collaboration with BoG is now charged with the responsibility of maintaining acceptable supply of specie. Apex bank also grants loans to the RBs to acquire bullion vans (Ajai and Fissha, 2010).

3. **Treasury management:** The Apex Bank also offer brokerage services to the RBs for the acquisition and rediscount of financial instruments such as Treasury bills and bonds. Treasury management also includes Apex certificates of deposit, and interest payment on clearing account balances (Ajai and Fissha, 2010).

4. **Loan fund mobilization:** According to Ajai and Fissha (2010), Apex Bank also accelerates rural banks" access to funds from donor projects such as SPEED and governmental interventions such as Agricultural Credit and the Poverty Alleviation Loan, the Community-Based Rural Development Project (CBRDP), and the Ghana Energy Development and Access Project (GEDP).

5. **Domestic and international money transfers:** The Apex Bank runs Apex Link. Apex link is a manual domestic fund transfer platform, which allows money to be transferred across the country through the RCB network. Ajai and Fissha (2010), established that Apex Bank contracted Western Union to offer international money transfer services through RCBs and its own branches. Currently VIGO has also been contracted to provide international money transfer service.

6. **Information and Communication Technology (ICT):** According to Ajai and Fissha, 2010), Apex bank offers installation and support services for RCB computerization. Apex Bank provided support for the computerization of 17 rural banks. It also provides maintenance and troubleshooting services to RBs.

2.8 The Concept of SMES in Ghana

There is no single, uniformly acceptable, definition of a small firm (Storey, 1994). Firms differ in their levels of capitalization, sales and employment. Hence, definitions which employ measures of size (number of employees, turnover, profitability, net worth, etc.) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result. The first attempt to overcome this definition problem was by the Bolton Committee (1971) when they formulated an “economic” and a “statistical” definition. Under the economic definition, a firm is regarded as small if it meets the following three criteria:

(i) it has a relatively small share of their market place;

(ii) it is managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure;

(iii) It is independent, in the sense of not forming part of a large enterprise.

The Committee also devised a “statistical” definition to be used in three main areas:

(a) Quantifying the size of the small firm sector and its contribution to GDP, employment, exports etc.;

(b) comparing the extent to which the small firm sector’s economic contribution has changed over time;

(c) applying the statistical definition in a cross country comparison of the small firms’ economic contribution.

Criticism of the Bolton Committee’s “Economic” Definition Storey D.J (1994), Understanding the Small Business Sector, Routledge, page 9.8. A number of weaknesses can be identified with the Bolton Committee’s “economic” and `statistical’ definitions. First, the economic definition which states that a small business is managed by its owners or part owners in a personalized way, and not through the medium of a formal management structure, is incompatible with its statistical definition of small manufacturing firms which could have up to 200 employees. As firm size increases, owners no longer make principal decisions but devolve responsibility to a team of managers. For example, it is unlikely for a firm with hundred employees to be managed in a personalized way, suggesting that the economic' and `statistical' definitions are incompatible. Another shortcoming of the Bolton Committee's economic definition is that it considers small firms to be operating in a perfectly competitive market. However, the idea of perfect competition may not apply here; many small firms occupy `niches' and provide a highly specialized service or product in a geographically isolated area and do not perceive any clear competition (Wynarczyk et al, 1993; Storey, 1994).

Alternatively, Wynarczyk et al (1993), identified the characteristics of the small firm other than size. They argued that there are three ways of differentiating between small and large firms. The small firm has to deal with:

(a) Uncertainty associated with being a price taker;

(b) limited customer and product base;

(c) Uncertainty associated with greater diversity of objectives as compared with large firms. As Storey (1994) stated, there are three key distinguishing features between large and small firms. Firstly, the greater external uncertainty of the environment in which the small firm operates and the greater internal consistency of its motivations and actions. Secondly, they have a different role in innovation; small firms are able to produce something marginally different, in terms of product or service; this differs from the standardized product or service provided by large firms. A third area of distinction between small and large firms is the greater likelihood of evolution and change in the smaller firm; small firms which become large undergo a number of stage changes. Criticism of the Bolton Committee's "Statistical"

Definition:

(i) no single definition or criteria was used for "smallness", (number of employees, turnover, ownership and assets were used instead)

(ii) Three different upper limits of turnover were specified for the different sectors and two different upper limits were identified for number of employees. This makes the definition complex to allow for cross country comparison.

(iii) Comparing monetary units over time requires construction of index numbers to take account of price changes. Moreover, currency fluctuations make international comparison more difficult.

(iv) The definition considered the small firm sector to be homogeneous; however, firms may grow from small to medium and in some cases to large.

It was against this background that the European Commission (EC) coined the term `Small and Medium Enterprises (SME)'. The SME sector is made up of three components:

(i) firms with 0 to 9 employees - micro enterprises

(ii) 10 to 99 employees - small enterprises

(iii) 100 to 499 employees - medium enterprises.

Thus, the SME sector is comprised of enterprises (except agric, hunting, forestry and fishing) which employ less than 500 workers. In effect, the EC definitions are based solely on employment rather than a multiplicity of criteria. Secondly, the use of 100 employees as the small firm's upper limit is more appropriate given the increase in productivity over the last two decades (Storey, 1994:13). Finally, the EC definition did not assume the SME group is homogenous, that is, the definition makes a distinction between micro, small, and medium-sized enterprises. However, the EC definition is too all-embracing for a number of countries. Researchers would have to use definitions for small firms which are more appropriate to their particular `target' group (an operational definition). It must be emphasized that debates on definitions turn out to be sterile unless size is a factor which influences performance. For instance, the relationship between size and performance matters when assessing the impact of a credit programme on a targeted group (Storey, 1994).

2.9 Definition of Small and Medium Enterprise

The SME sector is quite amorphous and therefore defies a simple definition. There is no single uniformly acceptable definition of small firms (Storey, 1994). Also, according to Ward (2005), there is no universal definition for SMEs since the definition depends on who is defining it and where it is being defined. These firms differ in their level of capitalization, employment and revenue. Hence definitions which employ measures of size (net worth, profitability, turnover, number of employees, etc.) when applied to one sector could lead to all firms being categorized as small, while the same size definition when applied to a different sector could lead to different results. Venture capital trust fund Act, 2004 (Act 680) defines a small and medium scale enterprise (SME) as an industry, project undertaking or economic activity whose total asset base (excluding land and building)does not exceed the cedi equivalent of $1 million US dollars in value. Whiles the USAID defines SME as any enterprise with fixed assets not exceeding US$250,000 excluding land and building. According to the International Labour Organization (ILO), no single definition can capture all the dimensions of "small" or "medium" business size. Most sized definitions are based on measures such as number of employees, balance sheet totals or turnover (Journal of ICA (GH), 2002). The European Commission in 2003 adopted Recommendation 2003/361/E by which Small Enterprises are categorized as having employees not exceeding 50, turnover not exceeding ten million Euros and balance sheet also not exceeding ten million Euros. Medium sized enterprises are categorized as having employees not exceeding 250, turnover not exceeding fifty million Euros and balance sheet not exceeding forty-three million Euros. Countries like France defines SMEs as enterprises employing less than 250 employees, whilst

Singapore defines SMEs as an enterprise having at least 30% local equity, fixed productive assets (defined as net book value of factory building, machinery and equipment) not exceeding US$15,000 and employment size not exceeding 200 people for non-manufacturing companies (Abor and Quartey 2000). In Ghana, the Ghana Statistical Service, in their 1987 Ghana industrial census considered firms employing between 5 and 29 employees and with fixed assets not exceeding US$100,000as small scale, while those employing between 30 and 99 employees as medium scale category. Whiles Steel and Webster (1990); Osei et al, (1993) also defined small scale enterprise in Ghana using an employment cut off of 30 employees. The National Board of Small Scale Industries (NBSSI) which is the regulatory body for SMEs in Ghana applies both the fixed asset and number of employees" criteria to define SMEs. This regulatory body defines SMEs as firms with not more than nine (9) workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding10 million cedis (US$9,506 using the 1994 exchange rate).

2.10 Organizing the SME Sector

Nyamekye et al (2009) also organized the SME into trade union and organized groups:

Trade Union	Organized Groups
1. Ghana Private Roads Transport Union	Car owners, drivers and attendants
2. General Agriculture workers Union	Farmers
3. Timber and Workers Union (TWU)	Sellers of timber, charcoal burners, carpentry associations, sawyers association etc.
4. Local government workers‟ union	Petty trading, craftsmanship, waste collection, Association of Butchers‟ sellers of charcoal.
5. Public service workers	Receivers of National lotto and Ghana Union of professional photographers.
6. Maritime and Dockworkers‟ Union	Enterprises working shipping in industry.
7. Ghana Federation of Labour (GFL)	Enterprises in the Tie and Batik, farming etc.

Source: Nyamekye et al (2009)

2.11 Characteristics of Small and Medium Enterprises in Ghana

1. Individual Ownership of SMEs

This type of SME is owned by individual or self-employed including family members who are employed in such business. Collier, (2009) stated that such enterprises are owned and operated by an individual known as sole proprietorship such as husband and wife who come together to form partnership.

2. Ease Entry

There are no entry barriers to SME operation. The capital requirement needed to enter into SME is also very small. For example some SME such as hairdressing or dress making are established in homes. Since it is labour intensive only basic tools such as sewing machine are needed to commence business. There is also no regulatory requirement regulating entry.

3. Local Resources are used

SMEs use local resources for their operations. For example, SMEs engaged in wood processing use wood from the local market. Palm oil processing use palm kernel from the local market.

Inadequate resources account for one of the reasons why SME use mainly local resources.

4. Labour Intensive

SMEs in Ghana are labour intensive. Because of inadequate resources SMEs are unable to acquire sophisticated equipment needed for their operations. SMEs owners buy locally manufactured equipment for their activities. For example in the Agricultural sector, the farmers continue to use basic tools such as holes and cutlasses instead of the sophisticated combined harvesters for their operations.

2.12 Economic importance of SMEs in Ghana

The importance of SMEs to the economy of Ghana cannot be over emphasized.

1. Provision of Jobs

Aryeetey (2001) found out that SMEs are a major source of employment generation in Ghana. SMEs complement the efforts of large organization in the provision of jobs to the teeming graduates who complete school yearly (Agyapong, 2010). According to the World Bank Report (2006) established that Ghana's informal sector which highly dominated by SMEs, contributes to about 70% to the total jobs in the Ghanaian economy. Collier, (2009) established that SMEs which employs about 80% of the labour force in the country.

2. Foreign Exchange Reserve

Cook and Nixson (2000) outlined numerous merits of SMEs which included the utilization of labour intensive technologies. Since the sector does not use highly imported sophisticated machines which involve the payment of foreign reserves, it saves the nation the needed foreign exchange which could have been saved. Aryeetey (2001) found out that SMEs help conserve foreign exchange. SMEs have contributed to the increase in the exports of non-traditional crops leading to increase foreign exchange.

3. Economic Growth

According to Abor and Quartey, (2010) SMEs contribute mainly to the national revenue by way of tax revenue, but also improve upon national income tremendously. SMEs activities are believed to contribute to about 75% of the country's gross domestic product.

2.13 Rural Banks Finance for SMEs in Ghana

It has been noted that SMEs in the Sub-Saharan Africa have limited access to credit facilities and other financial services provided by commercial banks in particular. Buatsi (2002) stated that as low as 5% to 6% of the entire population has access to financial service from the banking sector. So far as access to credit is concerned SMEs in Ghana tend to be marginalized. Bani (2003), buttresses limited access to credit by establishing that only few of the SMEs are financed with loans from commercial banks and other sources. It should be reiterated that funds are used to procure other resources such as quality human resource, technological resources and equipment needed to grow SMEs. Several empirical studies have also identified financial constraints as the main problem bedevilling the operations of SMEs in Ghana (Arthur, 2003; Deankins et al 2008). Debt and equity financing are the main sources of funds for SMEs in Ghana. Equity is usually provided by the proprietor or proprietress of the enterprise. The equity can be in the form of personal savings, gifts from family and friend and remittances 25 from abroad. Individual remittances stood at US$1,678.6 million and US$1660.3 million in 2008 and 2007 respectively (Agyapong, 2010).

They therefore depend on ‘’own savings ‘’and much of the rest of gifts and loans from acquaintances. About 5% of small enterprises use the banks for start-up capital and only 10% turn on banks for assistance for operational capital. The situation improves with medium scale enterprises. In view of this, many lack a credit history and good financial records, vulnerable to economic and financial shocks and many suffer from ’’un-banking’’ culture constraint such as high levels of conviviality, lack of separation of business proceeds from personal finances, a tendency to divert loans for other purposes, a high level of mobility and lack of traditional collateral (Ghana Banking Survey. PWC, 2013).

Small firms have traditionally encountered problems when approaching providers of finance for funds to support fixed capital investment and to provide working capital for their operations (Tucker and Lean, 2003). Under adverse selection, theoretical models often assume that, an entrepreneur has private knowledge about the success profitability of a project or expected profits that are not shared with the financier. Consequently, suppliers of capital cannot differentiate between a high quality business and a low quality business and adverse selection can result. Moral hazard refers to the inability of the finance provider to control fully how the entrepreneur uses funds provided. Owners can conceivably benefit economically by, for example, redirecting borrowed funds to invest in higher risk projects than those approved by the lender (Stiglitz and Weiss, 1981 as quoted in Adomako-Ansah 2012). It would appear understandable therefore why banks, which hold money in trust for depositors, creditors and investors, would be wary of the majority of SMEs. Banks expect funds to be used for purposes for which they are provided and profitable of course, and repaid with interest. Traditionally, prudent rules require banks to be rigorous in their credit assessment with respect to the quality of management, product, market, technology, technical expertise and credit history (Agyapong, 2010). As a result, they find many SMEs to be high risk businesses, presumably. The banking sector may have their own reasons for their limited involvement in the SME sector, but whatever these reasons are; they do not constitute enough justification looking at the roles SMEs play in the economy.

2.14 Small scale industries and local development process in Ghana

The promotion of micro and small scale industries is lauded on the fact that large- scale industries has not been an engine of growth and a good provider of employment. Most of the working force in Ghana cannot be absorbed by the large scale and formal sector of the economy. It is based on this that promotion of SMEs, which are viable instruments of economic development, can play a vital role in the local areas in Ghana. It is estimated that SMEs employ 22% of the adult population in developing countries (Daniels and Ngwira, 1993). The SME sub-sector which employs 15.5% of the labour force in Ghana (Parker et al, 1996) has experienced higher employment growth than large-scale enterprises (5% in Ghana).

According to Carreira (2010), small-scale industries play the following roles in the economy:

I. small-scale industries make use of the nations' idle materials which otherwise would go waste. For example cocoa husk used to produce potash for soap making;

II. they offer a variety of activities which draw labour from the surplus rural labour force into the productive sector of the economy;

III. they depend little on imports and therefore conserve foreign exchange;

IV. they provide a variety of goods and services to satisfy local needs;

V. they provide outlets for the talents and energies of enterprising individuals because of their ease of entry and exit;

VI. they provide a seedbed for nursing entrepreneurial skills and testing ground for new industrial enterprises;

VII. they contribute to community stability, do less harm to the physical environment than large scale industries, stimulate local resource mobilization for investment and generally raise the level of popular participation in the economy;

VIII. they induce linkages within the industrial sector and with other sectors of the economy.

2.15 Constraints to SMEs development

Small and Medium-scale Enterprises are faced with so many challenges. Among them are the following.

i**. Finance**

Lack of financial credit facilities has always been a major problem to the SMEs of Ghana (Mensah, 2004). One of the major constraints of the Small and Medium-scale Enterprises is access to finance. Ghana Banking Survey (PWC, 2013) mentioned access to finance as a major challenge facing the SMEs in Ghana. Inability to access credit is attributable to the risky nature of their businesses. SMEs lack the collateral security which is a requirement for accessing finance from the commercial banks in Ghana.

ii. **Demand**

Small and Medium-scale Enterprises are constrained by lack of demand for their products especially those engaged in the manufacturing sector of the economy. Firstly, the Ghanaian citizens have developed a strong taste for foreign products which has adversely affected the demand for locally produced goods. Secondly the local products are perceived to be of inferior quality and consequently there is a low demand for locally produced goods. Low level of demand can impede the growth of the Small and Medium Scale Enterprises

iii. **Lack of Managerial Skills**

The owners of the Small and Medium-scale Enterprises do not have the requisite knowledge and experience to manage their businesses effectively (Collier, 2009). This can lead to frequent collapse of such businesses in Ghana. Players of the SMEs are predominately illiterates and semi literates who lack the competencies to manage their businesses effectively and efficiently. High cost of support services provided by consultants and financial institutions also worsens the situation. Inadequate training is a major constraint of the SMEs.

iv**. Lack of Equipment and Technology**

SMEs are unable to acquire the needed or the requisite equipment and technology to improve their businesses. This is partly due to inadequate capital. Lack of equipment and technology constrained SMEs from competing with large scale firms. Ofori (2009) cited low level technology as one of the major constraints of SMEs in Ghana.

v**. Access to Skilled Labour**

One of the major challenges of the SMEs is access to skilled labour force. According to Banking Survey (PWC, 2013) SME are challenged by lack of credit. Lack of fund may lead to the operators ability attract the required skilled labour for the sector. The SMEs are unable to recruit, train and retain skilled labour force needed for their operations in Ghana mainly because of the high cost of skilled labour.

Kayanula and Quartey, (2000) listed the following as constraints to the development of SMEs in Ghana and Malawi:

i. Access to inputs, their availability or cost is an important problem.

ii. Access to finance remained a dominant constraint to small scale enterprises in Ghana.

iii. SMEs have difficulty with gaining access to appropriate technology and information on available techniques.

iv. Distribution channels, which are not efficient and are often dominated by larger firms, pose important limitations to market access for SMEs. In Ghana, demand constraints limited the growth of SMEs.

v. Trade liberalization has made SMEs face greater external competition and the need to expand market share. For example, tailors in Techiman (Ghana) who used to make several pairs of trousers in a month went without any orders with the coming into effect of trade liberalization.

vi. The problem of regulatory constraints was also cited with issues of high cost of business registration and long bureaucratic administrative constraints.

vii. SMEs have inadequate Entrepreneurial & Business Management Skills.

2.16 The Role of Rural banking in the Development of Small and Medium Enterprises

The administration of rural banking focuses on the credit facilities offered and the processes involved in advancing these credits. This is determined by the rural banks funding sources as well as the sectors of focus in the local economy. The funding sources determine the amount of money available for the rural banks to advance as loans to the small and medium enterprises. Similarly, as discussed from the literature review, the Bank of Ghana has indicated the proportion of credit to be advanced to the various sectors of the local economy. Hence, compliance or otherwise to the Bank of Ghana's directive by the rural banks is also a determinant in the advancement of credit to the various sectors of the local economy. In sum, two factors become the determinants in the administration of rural banking by the rural banks. These are the funding sources and the sectors of focus in advancing credit. Is there enough evidence of a direct relationship between access to credit in rural areas and poverty reduction or rural development? If such a relationship does exist, then the premise can be made that the development of the rural area is dependent on systems such as the rural and community banking system currently operating in countries in Ghana, Philippines and India. (Burgess and Pande, 2005).

Burgess and Pande (2005) again in their study on India found that state-led rural branch expansion and the extension of financial credit was associated with poverty reduction in rural areas. The underlying reason for the development of the rural areas was linked to increased saving mobilization and the provision of credit facilities. Burgess and Pande (2005) further make a claim for a direct relationship between credit provision and economic growth. Rural banks usually provide more attractive interest rates on savings and deposits than the informal sector in rural areas and are therefore a better boost of economic activities. In a control experiment in Ghana, According to Essel and Newsome (2000) the financial activities of the case bank had minimal effects on their customers' income, economic activities and general welfare. However, the minimal economic impact by the case bank on the inadequacy of credit to the recipients. Since credit is inadequate, rural investors are unable to expand their production facilities to create jobs and improve the standards of living. It can be inferred that any attempts to increase the credit facilities of rural banks in Ghana will have a positive impact in the standards of living of the people in the local community.

Credits advanced to the small and medium enterprises are used for either productive or non-productive activities. These non-productive activities are those activities which does not support the production process of these small and medium enterprises. In actual sense, credits advanced are not supposed to be used for these non-productive activities. However, as Essel and Newsome (2000) note, 82 percent of rural banking recipients use it for these non-productive activities. Credits used for productive activities by the small and medium enterprise owners directly influence the productive processes. Such credits are used as start-up capital and/or to acquire raw materials for the businesses. The productive and non-productive use of credit affects the development of small and medium enterprises. Whilst the later have a negative connotation to development of the small and medium enterprises, the former positively affect the development of these businesses.

From the above discussion, the development of small and medium enterprises depends on not only the administration of rural banking but also the use of these credits. This notwithstanding, by focusing on the process of acquiring credits as well as the credit facilities offered, the administration of these credits can in a way be used to determine how these credits are used by the business owners. The above provides an ideal conceptual basis for an investigation into the administration of rural banking to small and medium enterprises by the rural banks.

2.17.1. Economic Growth and Development

Economic growth refers to the concerted and sustained effort to improve the standard of living of the citizenry by means of improving the productive capacity of the economy (Tetteh and Frempong (2009). Economic growth policies, according to Obianuju (2012) involve multiple areas such as mobilization of savings, accessibility to credit, employment generation, poverty reduction etc. Economic development on the other hand entails policies by which a nation improves the economic, political, and social well-being of its citizens (Okunmadewa, 2001). Syrous and Laura (2007) define economic development as a process by which an economy is transformed from one that is dominantly rural and agricultural to one that is dominantly urban, industrial, and service in composition.

In pursuit of economic growth and development by all nations of the world, economists have developed a number of theories to explain and facilitate the process. The theories or models include that of Keynesian macroeconomic growth model, Harrod-Domar model, Leontif's input/output model and a host of others. The centre piece of all the models is that economic growth and development is tied down to levels of savings, investment, employment generation and poverty reduction (Obianuju, 2012). Based on theoretical propositions, countries have developed various measures to strengthen the banking sector to play the intermediary role of mobilization of savings and allocating it to the productive sectors of the economy for investment, employment generation and poverty reduction, especially in rural areas.

In Nigeria, the conventional banks provide financial services only to about 35% of the economically active population while the remaining 65%, are excluded from access to financial services of the banks (C.B.N, 2005). Rural banks according to C.B.N (2005) is about providing financial services to the poor who largely constitute the 65% excluded from access to financial services of conventional banks. According to Taiwo (2012) rural banks has worked successfully in many parts of the world-Africa, Latin America, Europe and North America. Through rural banks the poor people in most countries were able to have access to variety of financial services comprising savings, loans, money transfer and insurance. The accessibility has resulted in employment generation, poverty reduction and consequently economic growth and development (Taiwo, 2012).

2.17.2. Financing of Microenterprises

Microenterprises in Nigeria have not made the desired impact on the economy (Nwachukwu, 2012). This may not be unconnected to the numerous challenges facing the enterprises, among which is finance. Obamuyi (2007) rightly observed that the major gap in Nigeria's industrial development process is lack of long and in some cases short term finance for Microenterprises.

Microenterprises usually raise their finance through informal sources. The sources comprise owners' savings/retained earnings, contributions/borrowing from friends, relations etc (Ango, 2012). In most cases finance generated from informal sources fall short of the required capital for Microenterprises (Okungwu 2004). To raise the balance of the required finance, entrepreneurs look up to the formal sources, which comprise banks, other financial institutions, cooperative societies and government loans agencies (Ango, 2011). There are a lot of challenges for Microenterprises in raising finance through the formal sources, especially as it affects banks and other financial institutions (Lawal, 2010). Most of the banks are not willing to advance loans to the Microenterprises mainly due to the absence of the so called collateral security. Microenterprises are in dire need of the loans for capital formation and financing of their operations. Considering the significant role Microenterprises play in the Economic development of the Nation and the challenges they face in raising finance, the Federal Government, in 2005, through the BOG, introduced a rural banks policy framework. The goals of the policy are as follows:

- Provide diversified, affordable and dependable financial services to the active poor, in timely and competitive manner, that would enable them to undertake and develop long-term, sustainable entrepreneurial activities;
- Mobilize savings for intermediation;
- Create employment opportunities and increase the productivity of the active poor in the country, thereby increasing their individual household income and uplifting their standard of living;
- Enhanced organized, systematic and focused participation of the poor in the socio-economic development and resource allocation process;
- Provide veritable avenues for the administration of the micro credit programmes of government and high net worth individuals on non-recourse basis. In particular, this policy ensures that state governments shall dedicate an amount of not less than 1% of their annual budgets for the on-lending activities of rural banks in favour of their residents, and
- Render payment services such as salaries, gratuities, and pensions for various tiers of government.

Based on the goals of rural banks, C.B.N (2005) stated the following policy targets for the banks:

- To cover the majority of the poor but economically active population by 2020 thereby creating millions of jobs and reducing poverty;
- To increase the share of micro credit as percentage of total credit to fie economy from

0.9 percent in 2005 to at least 20 percent in 2020; and the share of micro credit as percentage of GDP from 0-2 percent in 2005 to at least 5 percent in 2020;

- To promote the participation of at least two-thirds of state and local governments in micro credit financing by 2015;
- To eliminate gender disparity by improving women's access to financial services by 5% annually; and
- To increase the number of linkages among universal banks, development banks, specialized finance institutions and rural banks by 10% annually

The Rural policy is about nine years old (2005 to 2013). The period is long enough to warrant assessment and evaluation. There is serious dearth of literature on performance of rural banks on achievement of the policy goals and targets, which all aim at reducing poverty by means of providing access to financial services. This study intends to determine the extent of attainment of the policy goals/targets by rural banks in Kaduna State by means of determining their role in financing of Microenterprises. The study is meant to bridge the existing gap in literature on performance of rural banks on the attainment of the policy goals.

2.17.3 Poverty Reduction

MoFED (200a) define a rural bank as a banking entity which is co-operative in character but provides a much wider range of services. Rural banks' basic function is to mobilise local savings and meet the credit needs of all medium and small-scale entrepreneurs and cultivators. They are also envisaged as taking up the task of implementing programmes of supervised credit, providing ancillary banking services, supplying inputs and agricultural credit, providing assistance in marketing, and generally helping the overall development of the banks' areas of operations.

The concept of the rural bank has spread across the length and breadth of the globe. Banco Solidario (BancoSol) in Bolivia, Bank Rakyat Indonesia (BRI) of Indonesia and the Grameen Bank in Bangladesh are prominent rural banks and financial institutions often cited as examples (Merrill, 2009).At the core of rural and specifically of rural banking is combating poverty (Otero, 1999). According to Otero establishing financial institutions in the rural areas to cater for the banking needs of the local people creates access to productive capital for the poor, which together with human capital addressed through education and training and social capital achieved through local organisation-building, enables people to move out of poverty. Providing material capital to poor people strengthens their sense of dignity, and this can help to empower the person to participate in the economy and society as they escape poverty (Otero, 1999).

Poverty is a complex issue and is difficult to define, as there are various dimensions to poverty. Attimir (1982) defines poverty as a situation of poor health facilities, low level of education, malnutrition, and lack of participation in the decision making process. Unlike Attimir (1982), Sen (1999) perceives poverty not only as lack of income, education, or health, but also, on a broader scale, lack of voice, lack of empowerment, and lack of good governance. Sen (1999) defines poverty as the deprivation of basic capabilities rather than merely as low level of income, which is the standard criterion for identifying poverty. Sen identifies five dimensions of poverty: lack of political space, economic space, social space, transparency, and protective security. Sen (1999) views poverty as deficits along these five dimensions which limit the ability of people to develop their capabilities and function effectively.

A critical assessment of the literature reveals that at the heart of poverty is the whole gamut of basic needs. Typically, a person is considered as poor if he/she does not have the capabilities to meet basic needs. Poverty is not just paucity of income but goes beyond that to consider the social context in which the person lives, including access to credit which in turn improves capabilities (Akindola, 2009).

As development agents, rural banks have over the years brought banking services to the doorsteps of people, most importantly rural dwellers. With this rural banks have succeeded in instilling in the rural dwellers the habit of banking in the form of savings and borrowing. Rural banks have contributed immensely to the mobilisation of savings and have granted loans and overdrafts to several productive ventures to promote development activities and enhance the socioeconomic lives of rural dwellers (Ruben and Clerex, 2003). Access to financial services has been identified by Okukpara (2009) as a potential tool in raising the productivity and incomes of small and micro entrepreneurs. Providing credit increases the productivity of the individual and also increases social equity by improving the individual's income (Dullien, 2009). Such income gains may be regarded as the avenue to greater equality in national consumption levels and a more just distribution of economic opportunities (IFAD, 2012). IFAD (2012) have shown how access to credit, a service provided by rural banks and micro financial institutions, affects household welfare outcomes.

Other research has shown that financial institutions have a significant role to play (Bekaert, Harvey and Lundblad, 2011). It is believed that the introduction of banks in rural areas enhances the livelihood of rural dwellers. A study by Burgess and Pande (2002) revealed that the establishment of banks in rural areas of India spurred entrepreneurship, structural change, and poverty reduction. Burgess and Pande assert that access to banking, particularly finance, may be critical in enabling poor rural residents to begin new macroeconomic activities, thereby exiting poverty.With the provision of credit, saving facilities, and other ancillary financial businesses, rural banks have helped in the development of small and medium scale enterprises (IFAD, 2012, Okpukpara, 2009). With the recognition of the importance of human capital development, rural banks have organized educational and skills training and counselling programmes for their clients. These programmes are in areas such as credit management, investment management, product development, market access and marketing, basic bookkeeping, health issues relating to business, customer care, and environmental policy issues, as well as social and community issues (BoG, 2007; Cheston and Kuhn, 2002).

Scholars such as Johnsen and McMahon (2005) remain sceptical about the role that rural and rural institutions play in poverty reduction. They point out that rural banks and micro-credit are not a panacea for poverty alleviation, since in some cases the poorest people have been made worse-off. However, some scholars such as Bhaduri (2002) see rural banking institutions as agents of poverty reduction. Empirical studies show that rural banks help the poor to meet basic needs and also protect them against risk. This consequently results in improvement in household economic outcomes. Rural banks create access to productive capital for the poor, which, together with human capital development through education and training, enables the poor to move out of poverty (Bank of Ghana, 2007).

The financial and non-financial services that rural banks offer to their customers can be seen from the conceptual framework. These inputs result in intermediate benefits which include the establishment of businesses, increased productivity, capital formation, purchase of essential goods and services, better management practices, and enhanced knowledge and practice of improved health, institutional, and environmental behaviours. Such intermediate benefits result in ultimate benefits where the output, income, and savings levels of customers increase. Customers are also able to afford good shelter, good education, decent clothing, good nutrition and safe water, and improved health status, and also to own assets.

2.18 Effects of Rural Banking on Small and Medium Enterprises

The effects of rural banking on SMEs are enormous. This is because every business entity, SMEs inclusive needs some amount of capital injection and rural banking institutions fill the gap created by the big financial institutions. Because of the need to fill the financing gap for SMEs, this section reviews some ideas espoused on the issue by scholars. According to Abebe (2006)), rural banking has had positive and significant effect on poverty reduction and women empowerment. Findings presented in other studies such as Khandker (1999) threw light on some successes of rural banking in alleviating households' poverty. They enabled women to go into gainfully self-employment. Income from such non-farm enterprise is used for household provisioning and other essential basic services. This leads to improvement in the family livelihood. Women acting as breadwinners of the family gives them the opportunity in taking part in household decision-making, which changed their positions relative to men's in Nandom. But, in the case of women in Nandom, the credits given to them are inadequate to support any viable venture. They are therefore compelled to put the loan collected into supporting the family's routine subsistence (Aasoglenang, 2000).

In other expositions, Bamilak (2006) makes the assertion that micro-credit programmes are currently being promoted as a key strategy for both poverty alleviation and women's empowerment on the basis that these programmes have the impact of increasing women's income levels and control over income which ultimately results in greater economic independence. Another factor is that rural banking programmes provide women in Africa with the access to networks and markets which equips them with a wider experience of the world outside the home. In this process, access to information and possibilities of other social and political roles are enhanced. Daba (2004), recognizes that the establishment of rural banking programmes enhances the perception of women's contribution to household income and family welfare and this increases women's participation in household decision-making about expenditure and invariably creates a greater expenditure on women's welfare. Finally, these programs tend to help greatly in changing the attitudes of men to the role of women in the household and the community in general. Rural banking, micro financing and microenterprises are terms that have been used to describe and define the situation in which small loans are extended to people for the purposes of setting up small and usually self-employment projects that generate income.

In the opinion of Berger and Udell (2004), rural banking programmes and services offered are usually established for the purposes of creating and developing self-employment opportunities. Thus a microenterprise based on the application of these terms, would refer to a sole proprietorship that has fewer than five employees, does not have access to the commercial banking sector and can initially utilize a loan of under $15,000. These "small" loans are utilized through microenterprise development programmes, which are usually run by non-profit organization that provides a combination of credit, technical assistance, training and other business and personal assistance services to microenterprises such as those offered by CIAD. Clark and Kays (1995) give the characteristics of rural banking loans as "facilities with an average size of $5,640, with terms ranging from one year to 4.75 years. The programmes charge a market rate of interest that is between eight to 16 percent, and these loans are generally secured by non-traditional collateral, flexible collateral requirements or group guarantees". The characteristics of rural banking programmes in Africa in the business of rural banking financing, there is a premise that borrowers are the best judges of their own circumstances and as a result, they know best how to utilize credit facilities when it is available. The thrust of this premise is that each individual has the opportunity to choose the income- generating activity appropriate to her own peculiar situation. Based on this notion of peculiarity of situation, if a borrower is involved in group lending, she enjoys the benefit of constructive criticism from the members of her lending group. In this situation, the programmes have the benefit of both individual creativity and participatory planning initiatives by a group of peers.

The concepts of individual creativity and group planning are just two of the many important characteristics of rural banking programmes. Other essential characteristics include: The targeting of poor people in the society; Tailoring programme operations to reach women considered as key recipients of micro-credit; establish simple procedures for reviewing and approving loan applications; delivering of credit and other related services to the village level in a convenient and user-friendly way; facilitate the quick disbursement of small, short -term loans usually for a three to one year duration; designing clear loan recovery procedures and strategies; establish an incentive program which grants access to larger loans based on a successful repayment of first loans; maintain interest rates that are adequate to cover the cost of operations; encourage and accept savings in tandem with lending programs; Institute a commitment to, and training for democratic participation in decision- making by all those involved as clients; develop a culture, structure, capacity and operating system that can support sustained delivery to a significant and growing number of poor clients; provide accurate and transparent management and information systems which can be utilized to take decisions, motivate performance, and provide accountability of management performance and the use of funds, and clearly demonstrate program performance to commercial financial institutions and provide access to business information, expertise, and advice to micro-entrepreneurs.

In addition to these characteristics, rural banking programmes must offer loan menus that meet the needs of their clients. For example, the granting of consumer loans can contribute to the productivity of the poor entrepreneur as well as providing security and reducing vulnerability. This factor is very important due to the fact that the cost of living in Africa for many poor people is at a precarious level, and this forces people to become vulnerable to a multiplicity of personal and financial disasters: illness generates medical expenses; death creates funeral expenditure; crop failure requires additional expense on food as well as seeds for the next planting season. The variety of loan menus, therefore assist poor clients in managing these events without forcing families to sell their assets to raise cash or risk the traditional money lenders crippling rates of interest.

Contrary to the notion that poor people are not credit worthy, and therefore considered a financial and investment risks, there exist a record of accomplishments and a significant body of scholarly studies that together present a totally different picture. These studies evaluate the concept of micro-credit as a compelling anti-poverty and development strategy on the one hand, and have also established that very poor people constitute a good credit risk in the context of a mutually responsible system. The value of rural banking and its high potential to help the Africa's poor people is reflected in the work of Otero and Rhyne (1994) which reflects seven studies based on practical experience and evaluative research. Otero and Rhyne (1994) study shows that in developing countries, late payment and bad loan ratios are comparable to or below that of conventional banking houses. In this study in which the operations of Banco Sol, a rural banking institution was analyzed, it was revealed that only 1.04 percent of the loan portfolio was in arrears beyond thirty days compared with a 4.42 percent figure at the conventional banking institutions.

Even though the creditworthiness of poor people has no basis in terms of gender, there is evidence to support the fact that though women have often been denied access to credit by legal and traditional barriers, experience has shown that women as a group are consistently better in promptness and reliability of repayment. As a result, focusing on women as clients of micro-credit programmes has been a very effective method of ensuring that the benefits of increased income accrue to the general welfare of the family, and particularly children. At the same time, women themselves benefit from the higher status they achieve when they are able to provide new income. Another important factor that supports the establishment of rural banking institutions in Africa to address the developmental need of women is that rural banking programs in the developing world have been found to be sustainable. Christen, Rhyne and Vogel (1994) in a paper concluded after a study of eleven leading microenterprise financial institutions note that while some of the eleven institutions continued to be dependent on grants and subsidized loans, a number of the these institutions also achieved a state in which they continued to function without the need for these loans. The overall picture presented by this study was one of a growing trend towards sustainability that held great promise for the rapid growth of rural banking programs in developing nations. This study proves that rural banking institutions in developing countries have the potential to become profitable institutions, capable of competing for investment funds in the financial marketplace. The social benefits derived from rural banking programmes relate to the establishment of an adult literacy program, which has become another source of income for 12 members of the group, who serve as facilitators for the literacy program, and the changes in gender relationships between the women and the community as a whole. This is in contrast to what existed before the program began in 1992. It has been observed that women who participate in the rural banking activities now exercise a newly found freedom in terms their inclusion in decision-making at the household and community levels (Khandker,1999). Specifically, women in this group can now answer the telephone and are able to read and have access to information that influences their lives. They are also able to leave written messages for their spouses and go about their work instead of the former situation where they had to wait for their spouses before anything could be done. According to some of the women in the group, there has been a significant decrease in disputes that they have with their husbands since they spend only a minimal time at home. Finally, for the members of this group, they are able to discuss issues with the spouses more thoroughly due to their being literate (Rubinstein, 2001).

In conclusion, it is estimated that for African economies to achieve growth rates comparable to other developing countries in southeast Asia, their economies need to grow at a rate of 4.7 percent per annum to achieve a reduction in the number of poor people in Africa. Despite the efforts of African governments and the donor communities, the continent is far from achieving the necessary level of growth although there have been indications of an upturn in recent years (World Bank, 2005). In view of these developments, the current signals that stress on an intensification and support for poverty alleviation efforts must be sustained. Specifically, the enormous potential can be exploited by providing greater opportunities for the poor in the African societies through rural banking programs, which adopts a "bottom - up" approach instead of the often used "top-to bottom" measures.

In addition to these efforts, it is important to assert that the path to poverty reduction in Africa must include the empowerment of communities, households, and individuals, which allows them to seek their own solutions and welfare enhancing opportunities. To state this in a very candid manner, the greatest potential is African women and therefore it must be accepted that, investment in women's education and promotion of their access to productive resources, will promote economic growth, redress the imbalances produced by the discriminatory and marginalization policies, and achieve higher standards of living for the continent as a whole.

2.19 Relevance of SME Sector

The importance of SMEs to social and economic development in Ghana and even Africa is undisputed. Throughout the continent, SME promotion is a priority in the policy agenda of most African countries as it is widely recognized. There is no doubt that SMEs constitute the seed bed for the imminent generation of African entrepreneurs. According to United Nations Industrial Development Organization (UNIDO), SMEs account for more than 90% of all registered businesses in Africa. Small and medium rural and urban enterprises have been one of the major concerns to many policy makers in an attempt to accelerate the rate of growth in an economy such as ours. These enterprises have been identified as the engine through which the growth objective of developing middle income countries like our nation can be achieved. SMEs provide employment and incomes to a large portion of urban labour force and area significant source of total output (Aryeetey, 2001). Daniels, 1994 estimated that SMEs employ about 22% of the adult population in many developing countries. It is also estimated that SMEs generate about 50% of national output and provide about 60% employment to Ghanaians (Minister of Finance, Dr Kwabena Dufour, reported by Business and Financial Times 13-07- 2009). Furthermore, SMEs tend to utilize mainly local raw materials that would otherwise be neglected and have less foreign exchange. They mobilize and utilize financial resources that are otherwise dormant like family savings. SMEs by their activities promote indigenous know how.

2.20 Constraints SMEs Face in Accessing Finance

The fact that SMEs have not made the desired impact on the Ghana economy in spite of all the efforts and support of succeeding administrations and governments gives a cause for concern. It underscores the conviction that there are fundamental issues or problems, which face SMEs but which up till now have either not been addressed at all or have not been wholesomely tackled. A review of literature reveals indeed that access to loan is the main problem. Lack of adequate financial resources places significant constraints on SME development. Cook and Nixson (2000) observe that, notwithstanding the recognition of the role of SMEs in the development process in many developing countries, SMEs development is always constrained by the limited availability of financial resources to meet a variety of operational and investment needs. SME owners in Europe, when asked about the most important problems they faced, they mention access to finance first, ahead of issues such as "taxation", lack of skill, access to public procurements, unfair competition, labour law, access to the single market and so forth (European Commission Report, 2008). In Ghana, the major problem face by SMEs is access to credit (Boapeah, 1993). A few of the challenges of SMEs in accessing loans are discussed below;

1. Stringent conditions

In many cases, SMEs are not able to access loans from financial institutions because of the conditions attached to the loan. Financial institutions refuse to lend to some small enterprises because they do not have acceptable collateral. Previous researchers have suggested that, bank financing will depend upon whether the lending can be secure by collateral (Storey, 1994; Berger and Udell, 2004). Collateral in the form of assets is only a way for financial institutions to recover their money in event of default. Without adequate collateral, banks have limited or no ways to protect the loan assets. The financial institutions demand collateral in order to mitigate the risk associated with the loans. SMEs with good business plans not back by adequate collateral are normally refuse credit because financial institutions cannot afford to take any chances of non-repayment of loans. Financial institutions always insist that this collateral requirement is fulfil.

2. Strict vetting of credit applications

Banks are also strict when vetting credit applications of small businesses. According to Appenteng, the vice president of the Association of Ghana Industries (AGI), (2010) banks are more stringent when appraising credit applications of SMES hence subjecting them to cumbersome credit procedures. The procedure of vetting loan applications waste so much time that loans are delayed and issued when intended purposes have expired.

3. Short period for repayment

At times, loans received are less than requested and short periods are giving for the repayment of the loans. Ricupero (2002) states that commercial bank loans extended to SMEs are often limited to a period far too short to pay off any sizeable investment and Abereijo and Fayomi (2005) notes that the majority of commercial bank loans offered to SMEs are often limited to a period far too short to pay off any sizeable investment.

4. Unaware of factors financial institutions take into considerations

Small enterprises do not know factors financial institutions take into consideration before lending to its customers. Financial institutions generally do not lend to whoever would be willing to pay higher interest rates, because doing so would attract riskier borrowers. They have ways of checking credit worthiness of their customers. They lend to businesses, which they are convince that they have the ability to repay the loan (Ocansey, 2006). It has been observed that a key factor that makes the SMEs unable to access financial assistance was the lack of understanding in the operations of banks and vice versa. Consequently, in effect SMEs suffer from the frustration of delay in accessing bank credits or denied completely. Banks demand things like audited financial information, convincing business plan, and bankable proposal before they lend to small business. Most small enterprises do not have technical capacity to do these things. This makes it difficult for them to access loans.

5. Government institutions and development partners to help SMEs

Successively Governments after independence have set up institutions to assist SMEs because of the persistent financing gap; Governments and development partners to stimulate the flow of financing to SMEs over and above what is available from exiting private sector financial institutions have launched many interventions. The problem is that most SMEs are not aware of the existence of these institutions. Schemes introduced by government, either alone, or with the support of donor agencies to increase the flow of financing to SMEs. The schemes have included the following:

a. Business Assistance Fund: The Business Assistance Fund was operated in the 1990s to provide direct government lending to the SME sector. The program was widely seen to have been abused politically, with most of the loans going to perceives government supporters.

b. Ghana Investment Fund: In 2002, the Ghana investment Fund Act (Act 616) was passed to establish a fund to provide for the grant of credit facilities by designated financial institutions to companies. However, the scheme was never implemented.

c. Export Development and Investment Fund (EDIF): Under this scheme, companies with export programs can borrow up to $500,000 over a five-year period at a subsidized cedi interest rate of 15%. While the scheme is administered through banks, the EDI board maintains tight control, approving all the credit recommendations of the participating banks (Mensah, 2004).

6. Guarantee Facilities

Section 13 of the Loans Act of 1970 (Act 335) empowers the Government of Ghana (GoG) to provide government guarantee to any external financiers who wish to advance funds to any Ghanaian organization and the terms of such facility require the provision of guarantee from the Government. Guarantee facilities are contingent liabilities of the Government. The onus for repaying the facility lies with the borrower and not the Government. The facility crystallizes and becomes liability due from GoG if the borrower is unable to honour his/her loan obligation and the Government is called upon to settle the facility as a guarantor. Currently, the only government-supported loan guarantee scheme in operation is operated by Exim Guaranty Company which is majority-owned by the Bank of Ghana (Mensah, 2004).

7. Financial Illiteracy

Financial illiteracy and complexities is a major problem throughout the world and has been identified as one of the key reasons why SMEs are unable to access loans. Most SMEs, which are not able to properly comprehend the lengthy terms and conditions, are also oblivious of the interpretation of the percentage charged on the loans and become alarmed when the repayment periods tend to be longer than expected. It is thought that rural banking institutions are doing a good job by providing loan facilities for SMEs, but they sometimes do not tell the truth. Some of these institutions take advantage of their educational weakness, and for one reason or the other, refuse to give details and explain the interest rates and its implications on the loans lend to small business. This becomes a problem when they have to re-pay the loans (Donkor, 2012).

Again, due to lack of clear title to much useable land in Ghana, there is a limited amount of real property that can be put up as collateral. Secondly, a government embargo on the transfer of stool and family land has further restricted land available for collateral. Finally, where title or lease is clear and alienable, transfer regulation needlessly delay the finalizing of mortgages and consequently access to borrowed capital (p 24). Aryeetey et al (1993) support the view of Ganbold (2008), that from the view point of private sector, problems related to finance dominate all other constraints to expansion. They claimed that the availability of collateral plays a significant role in the readiness of banks to meet the demand of the private sector. Collateral provides an incentive to repay and offset losses in cases of default Thus, collateral was required of nearly 75% of sample firms that need loan under a study which they conducted on the demand and supply of finance for small enterprise in Ghana (p 19). The study also indicated that 65% of the sample firm had at various times applied for bank loans for their present business. Nevertheless, a large proportion of the firms had their applications rejected by the banks. For firms that put in loan applications, there was almost 2:1 probability that the applications would be rejected. Firms receive loans for much less than they requested for. Lack of adequate collateral was the main reason banks gave for the rejection of their applications. There is the view that if transaction costs of lending are high, the net margin banks expect from loans operations do not compare favourably against safe investment represented by treasury bonds (p 30). Aryeetey et al (1993) also shares the same view that, for a lender to face information asymmetry, the issue often becomes somewhat persuasive authority he or she holds in ensuring repayment. These push up transaction cost as the probability of default is assumed to be high and has to be contained. Thus banks may avoid lending to smaller lesser known clients or impose strict collateral requirements when they do. In investigating whether financing SMEs in Ghana was more expensive than financing the larger enterprises in terms of loan screening, loan monitoring and contract enforcement, banks estimate that, screening to gather information about the applicant and the project, review the feasibility study, do the credit analysis and make a decision to an average of 16 man days for large scale firms application is less than that for small scale firms applications which take 24 man days. Similar results obtained for loan monitoring and contract enforcement suggest that the transaction cost for SME financing were higher than those for large firms per loan. Despite SMEs strong interest in credit, banks' profits orientation may deter them from supplying credit to SMEs because of the higher transaction cost and risk involved. First, SMEs loan requirements are small in that even the costs of processing the loan tend to be high relative to the loan amounts. Second, it is difficult for financial institutions to obtain the information necessary to assess the risk of new unproven ventures especially because the success of small firms often depends heavily on the ability of the entrepreneur. Cuevas et al (1993) however indicates that, other alternatives to loans secured by real and movable property have practical constraints. For example, it is possible to take security interest in liquid assets, the foreclosure upon which is much quicker than that for real and movable property. However, many debtors especially traders are not in the habit of saving money in liquid accounts, they rather turn to either move it into the informal sector of the economy or reinvest it in their business. Another alternative would be for the bank to accept the assignment of contractual benefits from borrowers. Though this arrangement is known in Ghana, it is not chosen by banks as they prefer to stay out of other contracts (Cuevas et al, 1993). Others include the lack of clear financial discipline on the part of SMEs and the fact that they are most often the last to understand when there is a change in government policy.

2.21 Challenges of Rural Banks

Since its inception, rural banks have been beset by their own unique operational and financial problems and challenges that have inhibited growth and undermined the performance of its core functions. The Bank of Ghana has had to withdraw the banking license of 23 distressed rural banks in 1993/1994, 23 rural banks in 1999/2000 and 3 other rural banks in 2008/2009 (Asiedu-Mante, 2011). Asiedu-Mante (2011) mentions the most pronounced of these distresses as those relating to liquidity, poor staffing, weak management, low capitalization, bad loan recovery and profitability, weak internal control and poor technology. He broadly classifies the problems under four main categories:

- Institutional factors
- Economic and political factors
- Regulatory and supervisory factors
- Fraudulent factors

However, Asiedu-Mante (2011) failed to acknowledge the higher risk of giving credit to rural individuals and businesses which is not compensated for through high interest charges. Credit facilities to boost agricultural projects in rural areas are usually at the mercies of the weather and other natural occurrences. Much more than that, the economic activities in a local community may not be sufficient to support the broad operations of its local rural bank. Even as rural banks create innovative solutions to the peculiar challenges they face in their operations, additional capital investments can allow them diversify their operations to reduce risk and manage shocks.

Ajair and Fisseha (2010) provide some more specific challenges and restrictive framework of rural banks in Ghana. In their study, they outline some causal factors as the poor operating environments for most rural banks and capacity constraints, especially in terms of finance. Their study on rural banks in also Ghana points that the requirement of location-specific ownership imposed on rural and community banks is a major impediment to the growth and network of rural and community bank through mergers and acquisitions. Gains from scale economies, synergy, better managerial and operational performance in the sector are thereby lost. Rural banks are also faced with the challenge of improper keeping of records, especially the shares list that is crucial to consolidation activities. Owing to the low level of literacy in the operating environments in which rural banks operate, stock certificates are kept as 'certificates of honours' and are perceived as loan baits. These various underlying problems and challenges in the structure of rural banks in Ghana make consolidation policies and option a challenge in the rural banking sector.

2.22 Challenges Rural Banks Face in Supplying Services to SMEs

Despite the strong demand for finance from the small firms, banks may perceive lack of effective demand by clients they consider credit worthy. Small firms have encountered problems when approaching providers of finance for funds to support fixed capital for their operations (Tucker and Lean, 2003). Difficulties banks face in supplying financial services to SMEs include:

1. Information and Risk

Statistically, small firms tend to have high failure rates; hence, banks need to be selective. It is difficult however to assess accurately the viability of small enterprises, the abilities of the entrepreneur, and the likelihood that the client will repay which are the most important criteria of creditworthiness applied by the banks. Banks are also faced with information asymmetry where SMEs provide incomplete information. Stiglitz (2000), refer to information asymmetry as the disparity between the information available to the business seeking capital and suppliers of capital that are typically assumed to be at an informational disadvantage with respect to the insider of the business.Banks usually require collateral to force repayment, to offset losses in cases if default and to help screen applicants. The result is that, smaller firms tend to get screened out since they are least likely to be able to provide acceptable collateral. Even though, most SMEs may provide their owned property, the difficulty of proving legal, enforceable title to lend may render it unacceptable to banks as collateral.

2. Cost

Most SMEs lack financial accounts and may have difficulty filling out bank forms correctly. The cost of processing and monitoring small loan exceeds that of loans to large enterprises on per loan basis. Banks estimated that, it takes an average of 24 days to gather information and process an application for small firms as against 16 days for large scale firms.

3. Lack of Management Expertise and Effective Succession Plan

Many SMEs owners or managers lack managerial training and experience. The typical owner or managers of small businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day to day operations than long term issues, and more opportunistic than strategic in its concept (Hill,1987). Although this attitude is the key strength at the start up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made. A consequence of poor managerial ability is that SME owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology. Majority of those who run SMEs are ordinary lot whose educational background is lacking. Hence they may not well be equipped to carry out managerial routines for their enterprises (Harrison, Love, and McMillan, 2002). Succession planning is a means by which an organization can operate as a going concern. Succession planning is to affect not only top management but the whole organization. The absence of these often makes it difficult for SMEs to profitably handle loans (www.ndkfinancialservices.com).

According to the Bank of Ghana (2007), funding for the sub-sector has been from three sources - the institutions themselves, government, and development partners. In the first place, available funds have not been adequate, and secondly, the different sources come with their associated conditions, and thus distort the market in some cases. There is considered to be a need for a central rural banking fund to which RBIs can apply for on-lending and/or capacity building support, building on experience such as the case of the Training Fund under the Rural Financial Services Project. The Bank of Ghana requires that of all rural credit resources, 50% support agriculture, 30% support small-scale industry, and 20% support rural area service sectors. Credit for these purposes is called "direct production credit." However, a study on the *Effectiveness of Institutional Credit for Rural Development in Africa* by Essel and Newsome (1995) indicates that credit for production activities, such as farming, trading, and fishing constituted only about 15% of the total loans in the sample. Social and domestic needs were the two most common reasons given for acquiring a loan. Credit for these purposes is called "social credit." About 82 percent of the sampled recipients used the loan for family obligations, health, education, and consumer items in the home. Another 3% of the respondents admitted misapplying credit from productive to social investment. An informal discussion with Rural Bank managers revealed that the trend toward social credit is pervasive all over Ghana. The general consensus among managers was that the focus of the Banks was changing because of loan recovery problems (Ibid, 2000).

4. Lack of Interest in Small Rural Credits

Similarly, the lack of interest in small rural credits by the National Investment Bank and the commercial banks is explained by the high cost of administering a large number of small credits spread over a wide area, coupled with the comparatively high level of default that has often accompanied small credits.

5. Adequate Security

Again, the inability of rural borrowers to offer adequate security for loans, and the enormous risks associated with agricultural production, are the typical reasons given for the urban-based bias of commercial lending. The Agricultural Development Bank was created to service the rural sector in particular. It too, however, eventually began to concentrate on traditional urban-based banking activities.

6. High transaction Costs

Like all other businesses, banks incur costs to do a business, they incur costs to assess credit, process and monitor loans. Transaction costs directly related to profitability. The higher the cost of processing a transaction the lower is the return. SMEs' loans often consume time to assess, monitor and manage. According to Zavatta (2008), irrespective of risk profile considerations, the handling of SME financing is an expensive business. Many bankers perceive that small business require much more advisory support-hand than large corporate client does. All these involve cost.

7. Lack of reliable information

Small business owners are not transparent or do not open up of their businesses to outsiders. For some reasons, they do not give the true information about their assets, liabilities, profits and others to tax collectors, their employees and outsiders. Access to external finance depends on an open trade of information between the one receiving the fund and the giver. More transparency and better dialogue between SMEs and financial institutions can help to solve some of the challenges SMEs face in accessing loans. The refusal of small business owners to give right information about their business to outsiders make it difficult to assess creditworthiness and also difficult to lend. If true and quality information are supplied to banks and other financial institutions, it would be easy to assess creditworthiness of businesses and reduce risk of default. This would also enable financial institutions to give small enterprises good terms of payments. In Ricupero (2002) part of the reluctance of banks to lend SMEs is the banks' inability to evaluate risk because of lack of reliable financial information.

8 Lack of adequate financial statements

Most SMEs do not prepare financial statements. SMEs are not requiring by law to prepare financial statements. Even in highly developed economies, such as those in the European Union, SMEs are not required to report on their financial performance in a standardized manner if they do not reach a significant threshold in total assets, turnover and/or number of employees. This means that many SMEs in developed and developing countries do not produce reliable financial information, which could be used by creditor or investors (Ricupero, 2002). Bass and Schrooten (2005) concluded that the lack of reliable information leads to comparably high interest rates even if a long-term relationship between borrower and bank exists. In a situation like this, having audited financial statements play a major role. Audited financial statements are very useful in accessing credit from financial institutions. Often, banks require audited financial statements before granting credit. For example, Berry and Brian (1994) found that lenders in the UK pay much attention to accounting information in order to deal with the loan applications of small firms. Given the reduced information risk arising from audited financial statements, potential lending institutions may offer low interest rates as well. In other words, audited financial statements improve borrower's credibility and therefore reduce risk for lenders (Sacerdoti (2005).

The ability of borrowers to provide adequate financial statements and the establishment of credible credit bureaus and financial data bases are essential to encourage the expansion of credit, promote competition in the banking systems, and thereby reduce the cost of credit to borrowers. In many countries, banks are reluctant to extend credit to SMEs because of the inability of the borrower to produce formal financial statements and audited accounts. Strengthening accounting and auditing is therefore a key requirement for widening access to banks by SMEs. In many countries, however, the accounting profession is not well regulated, and the quality of accounts varies widely, hampering transparency.

9. Dullness of Small Enterprise

Banks face two basic problems: the opaqueness in small enterprises and small size of transactions. They do not want to relinquish control over to outsiders and they personally want take control of every aspect of their business. According to Zavatta (Op. cit.) one of the problems of financial institutions in lending fund has to do with unwillingness of small enterprises to relinquish control over the company to outsiders. It is quite widespread among SME. Most SMEs do not keep proper books of account.

10. Credit Rating Agency

One of the challenges that financial institutions face in lending to SMEs is to make an accurate risk assessment of loans applications without generating high cost per application. One of the ways of assessing risk of loans is using credit rating agency or credit bureau. Sacerdoti (2005) in advanced countries databases centralizing information on borrowers are frequently established by the private sector; however, in a number of continental European countries including France and Italy, these have been established and maintained by central bank.The credit rating agencies publish general financial details of many companies, together with a credit rating. They also produce a special report on creditworthiness of companies if requested for fees. In the absence of credit rating agencies, it has become difficult to assess creditworthiness of customers and it is costly to generate information about the repayment morale of potential enterprise. Information provided by rating agencies help to reduce risk of default. This information infrastructure is not common in Africa. Zavatta (Op. cit.), the "information infrastructure" it is still largely undeveloped. There is lack of credit bureaus and other mechanisms for collecting and exchanging information on payment performance. This inevitably exacerbates the informational asymmetries between enterprises and lenders/ investors.In IRB Working Paper (Access to Bank Credit in Sub-Saharan Africa: Key Issues and Reform Strategies) prepared by Sacerdoti (2005), stated that, to foster a credit culture, it is essential that progress be made in area of credit information.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter brings to the fore the methodology employed in the research for the analysis. The chapter comprise mainly of research design, population of the study, sampling and sampling technique, hypothesis testing, method of data collection, sources of data, data collection instruments, methods of data analysis and the profile of Kwaebibirem rural bank limited.

3.1 Research Design

This study seeks to examine the contribution of rural banks, a descriptive survey was employed in this study. Cresswell (2003) defines descriptive survey as a method of collecting data for the purpose of testing hypothesis or answering research questions concerning the current status of the subjects under study. In the opinion of Agyedu, Donkor and Obeng (1999), descriptive survey is a design used to gather data at a particular point in time with the intention of describing the nature of existing conditions or identifying standards against which existing conditions can be compared or determining the relationship that exist between events. Thus, a descriptive study is undertaken in order to ascertain and be able to describe the characteristics of the variables of interest in a situation. This is done through the use of strategies and procedures to describe clarify and interpret existing variables that constitute a phenomenon. This study adopted the descriptive design because it has the advantage of producing a good amount of responses from the staff and customers of Kwaebibirem Rural bank.

3.2 Sources of Data

Data for the study was collected from both primary and secondary sources. The administration of questionnaires and interview guide form the basis for primary data. Data collected from this source was centered on the background characteristics of respondents and issues concerning the rural bank and its contribution to SME's in Ghana. The advantage of the primary sources of data is that they are more reliable since they come from original sources and are collected for the study.

3.3 Population

The population of the study in the opinion of Agyedu, Donkor and Obeng (1999), refers to a complete set of individuals (subjects), objects or events having common observable characteristics in which the researcher is interested. The target population of a study constitutes the group of persons, objects or institutions that defines the objects of the investigation (Patton, 2002). The target population of the study is Kwaebibirem Rural Bank Ltd. The population for the study were made up of the staff and customers of Kwaebibirem Rural Bank Ltd.

3.4 Sample and Sampling Techniques

Due to the limited time frame of the research, the entire staff and customers of Kwaebibirrem Rural Bank could not be used for the study. Hence, a sample of 65 was chosen for the study. Out of the 75 people sampled, 15 were made up of the staff of Kwaebibirem whereas 60 were the customers of Kwaebibirem. With reference to the sampling technique employed, a convenience purposive sampling technique was used to choose 15 staff members while a simple random sampling was employed in choosing 60 customers to represent the population of interest.

A selection of respondents from the Kwaebibirem Rural Bank was based on purposive sampling technique. The fifteen (15) respondents were made up of five (5) board members, five (5) senior staff and five (5) junior members.

3.5 Research Instrument

Questionnaire administration and interview guide were the research instruments used by the researcher to collect data from the respondents. In all a total of 60 questionnaires and 15 interview guides were designed and administered.

The self-administered interview was employed to collect data from staff of Kwaebibirem Rural Bank. In the same way, the interviewer helped the customers to fill their questionnaires. These were modified to suit the goal of the present study. A separate questionnaire was prepared for the SME customers and an interview guide for the staff of Kwaebibirem Rural Bank.

The questionnaire comprised a mix of open-ended and close ended questions. With respect to questions that require a 'yes' or 'no' response, the instrument provided an opportunity for respondents to explain the response they chose. The questionnaire elicit responses on issues regarding respondents' background characteristics and issues regarding micro finance with respect to SME's in Ghana.

3.6 Data Analysis

Data analysis involves reducing the data into manageable size, giving summaries and using statistical inferences. Raw data obtained were edited and errors corrected to ensure consistency and validity. In all sixty (60) questionnaires were administered and received from SME's and fifteen (15) structured interview schedule were conducted with the staff of

Kwaebibirem Rural Bank.

The data collected was coded to enable the responses to be grouped into limited number of categories and analyzed with the aid of Statistical Package for Social Science (SPSS).
Lastly, the data was presented in a tabular form, graphical and narrative forms.

3.7 Ethical Issues

Almost all the service industry in Ghana has strict policy on confidentiality and one can pay the ultimate price for the breach of this duty of confidentiality. Divulging of information by employees to a third party can expose the institution to potential legal tussle and therefore being mindful of this ethical issue, the respondents were sometimes apprehensive in the disclosure of information. This genuine apprehension was addressed by first explaining the essence of the study to the respondents and also with the assurance that the data will be handled professionally and that their identities are not going to be revealed. The confidentiality of the information collected from interviewees was preserved by ensuring that their names and other information that could bring out their identities were not disclosed in the data collected.

They were also made to understand their role in the data collection activity to find answers to the research questions. To avoid imposing the interviews on respondents, they were given the choice to opt out if the interview would affect them in any way or if for some reasons they were not comfortable in participating in the study. The methods and procedures explained above were used in seeking the needed data for the analysis which are captured in the next chapter.

The researcher ensured that data collected for this study are not fabricated, falsified or misrepresented to ensure that, data is reliable and accurate. The study also respected intellectual property by referencing and acknowledging all authors whose materials and works were included in this study, Ticehurst and Veal (2000).

3.8 Validity and Reliability

Peppers (2002) states that validity and reliability are two features which any quantitative researcher should focus on while designing a study, analyzing the results and judging the quality of the study. According to Peppers (2002) in a research work, all the rights things must be measured. Care should be taken such that, the appropriate item is measured (validity); in addition, careful attention should be paid to how the measurement is being made (reliability). This study therefore took into consideration these two key factors during the course of the research.

3.9 Profile of Kwaebibirem Rural Bank Ltd.

Kwaebibirem Rural Bank Ltd. was established to operate as a rural banking currently has six branches in Eastern Region besides its headquarters at Asuom. These are Kade, Asamankese, Akim Oda, Kwae Estate, Pramkese, and Boadua.

The management staff is headed by a chief executive officer (typically called a supervising manager or general manager), who reports to the Board of Directors. The core management staffs of Kwaebibirem Rural Bank ltd. includes an internal auditor supported by assistant accountants; a finance officer; a credit head supported by credit officers and project officers in charge of the microfinance portfolio; and a system administrator. At the branch level, the structure typically includes a branch manager, an accountant, credit officers, clerks and cashiers, and support staffs and susu supervisors and susu collectors at the branch levels.

The bank is dedicated to mobilizations of surplus funds from its catchment areas and channelling of such funds into viable and profitable economic ventures by lending to individuals and groups in all sectors and also to small and medium enterprises, thereby creating wealth and alleviating poverty.

Shareholding / Deposits

The initial share capital of Kwaebibirem Rural Bank Ltd was estimated at GHC 2,213.98. It adjudged to be one of the highest in the country when the bank commenced operations. Over the years the bank has increased its stated capital to GHC 19,829.27. As at December 2009, the stated capital of the bank which comprises 3,829,634 shares was owned by 2,647 shareholders. The deposit at the same period was estimated at GHC 10, 908,729.00.The mission of Kwaebibirem Rural Bank Ltd is to provide excellent financial services to the communities it finds itself through the application of Modern Technology, Innovative and flexible products, adoption of best customer care and create a sustainable shareholders value. The vision of the bank is to always be among the best rural banks in Ghana. The bank provides SME Loans to its customers.

The bank core mandate is to accept deposit, provide lending, and cash management services and related financial services and support for enterprise growth. The bank has successfully executed this mandate and provided the necessary catalyst for rural community development and also promoted growth by creating jobs and improving the lives of its clients.

The bank products which are tailored made to suit the needs of its customers include savings account, current account, investment accounts, loan products and funds transfer services both local and international.

The management of Kwaebibirem Rural Bank Ltd has stated the five reasons why enterprises including SMEs should do business with the company. The reasons are; rendering excellent customer services through well motivated staff that are qualified and experienced enough to meet all customers" needs; helping business to grow their funds and Business; provision of good Business Advice to businesses; payment of attractive interest on Savings and; charging very low interest on loans.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSIONSOF FINDINGS

4.0 Introduction

This is the fourth chapter of the research report which presents the background analysis of data and proceeded to present the results and its interpretation in the light of the research objectives and questions as listed in chapter one.

4.1 Background of Data Collected

A total of 60 customers and 15 staff participated in the study with an equal number of questionnaires sent out and responded to by customers and staff of Kwaebibirem Rural Bank (respondents). After the field survey 60 questionnaires were returned on the part of the customers. This showed a favourable response rate as compared to what was established by Sekaran (2003) in literature, that in any given survey exercise a response rate of 90% is considered most acceptable.

4.2 Category of respondents

The survey collected data from two main sources namely SME owners and KRB Staff. Per the focus of the research, SME owners doing business with KRB were given questionnaire to answer to ascertain their source of finance if different to help the researcher to give recommendations for future policies on SME financing.

4.3: Demography of Respondents

Table 4.1: Demography of Respondents (KRB Staff)

Gender	Number (n)	Percentage
Male	12	80
Female	3	20
Total	**15**	**100**

Source: Field survey, 2016

The results from the survey as presented in summary from Table 1 above, shows that majority (80%) of the respondents were male. The remaining (20%) comprised their female counterparts.

Table 4.2: Demographic data of SMEs Respondents.

Gender	Frequency	Percentage
Male	25	41.7
Female	35	58.3
Total	**60**	**100.0**

Source: Field Survey, 2016

From the above table, 58.3% (35) of the respondents were female SME operators whiles 41.7% (25) of the respondents were male. The research revealed a ratio of 1.4:1 with regard to female and male distribution. The ratio indicated enough evidence of 58.3% of female dominance, thus, laying credence to the assertion that there is an unfair gender balance in the SMEs in the Asuom.

4.4 Age of respondents

The research collected information on the age of respondents and the results presented in Table 4.3 below.

Table 4.3: Age of respondents (KRB)

Age	Frequency	Percentage
20 - 35	9	60
36 - 49	6	40
Total	**15**	**100**

Source: Field survey, 2016

Table 4.3 shows that, out of the 15 KRB staff sampled, (9) of them representing about 60% falls within the ages of 20 - 35 years. The remaining 6 representing 40% falls between the ages of 36 – 49. This shows that majority of the respondents are young adults.

Table 4.4 Age of Respondents (SMEs)

Age	Frequency	Percentage
21 – 30	3	5.0
31 – 40	46	76.7
41 – 50	11	18.3
Total	**60**	**100.0**

Source: Field Survey, 2016

Table 4.4 show that, out of the 60 customers sampled, (46) of them representing about 76.7% falls within the ages of 31 - 40 years. This is closely followed by 41 - 50 age group which constitute about 18.3% (62) of the respondents. Whilst about 5% representing (3) respondents fall within 21-30 year group. This shows that majority of the respondents are in the middle age.

Table 4.5 Educational Background (SMEs)

Education	Frequency	Percentage
GCE O'Level/A' Level/SSCE	49	81.70
HND	7	11.37
Bachelors	3	5.00
Masters	1	1.70
Total	**60**	**100.00**

Source: Field Survey, 2016

From the above table, the research revealed that out of 60 who responded to this, as low as 1.7% (1) of the entire respondents had Master Degree, while 5% (3) respondents had First Degree. The study also reviewed that 11.37% (7) of the respondents had HND. 81.7% (49) of the respondents had secondary education. Since majority of respondents had secondary education, it was assumed that the respondents were knowledgeable and handling their businesses.

Table 4.6: Businesses Activities

Activity	Frequency	Percentage
Baking industry	2	3.3
Wood products industry	6	10.0
Furniture works industry	10	16.7
Metal works industry	10	16.7
Merchandise goods	9	15.0
Oil palm processing	15	25.0
Printing industry	8	13.3

Total	**60**	**100.0**

Source: Field Survey, 2016

Table 4.6 above shows that, 25% (15) out of the 60 respondents were engaged in oil palm processing. About 16.7% (10 each) of the respondents were engaged in metal works and furniture works. Another 13.3% (8) of the respondents were engaged in printing industry. Also, 15% (9) of the respondents were engaged in merchandised industry. About 10% (6) of the respondents were engaged in wood processing industry whilst the remaining 3.3% (2) of the respondents were engaged in baking.

4.5 Business Registration

Table 4.7: Registration status of business

Responses	Frequency	Percentage
Yes	11	18.3
No	49	81.7
Total	**60**	**100.0**

Source: Field Survey, 2016

Most of the SMEs covered in the survey have not registered their respective businesses as depicted in table 4.7 About 49 representing about 81.7% of the responses stated that they have not registered their SMEs.

4.5.1 Legal status of SMEs

Table 4.8: Legal status of business

Variables	Frequency	Percentage
Private liability company	6	10.0
Sole proprietorship	49	81.7
Private partnership	5	8.3
Total	**60**	**100.0**

Source: Field Survey, 2016

The above table, classifies that out of 60 respondents, about 81.7% (49) were sole proprietors. This is in line with Collier, (2009) that the SMEs in Ghana are dominated by sole proprietorship businesses. Again the banking industry should therefore concentrate on financing sole proprietorship businesses since it is the highest dominated businesses in the community. About 10% (6) were engaged in Limited liability companies. Whilst about 8.3% (5) indicated they were engaged in Private partnership companies.

Table 4.9: Time Span of operation of SMEs

Variable(age)	Frequency	Percentage
3 to 5 years	17	28.3
6 to 10 years	43	71.7
Total	**60**	**100.0**

Source: Field Survey, 2016

The above table which classifies the years of experience of the SME operators, about 23% (17) of the respondents had being in the business between 3-5 years, about 71.7% (43) had worked between 6-10 years. Majority of the respondents had worked between 6-10 years and this puts them in a better position to manage their businesses appropriately.

4.5.2 Length of time SMEs have transacted business with KRB

Table 4.10: Length of time SMEs have transacted business with KRB

Length of time	Frequency	Percentage
4 – 6 years	28	46.7
7 – 9 years	30	50
10 – 12 years	2	5.3
-	49	81.7
Total	**60**	**100.0**

Source: Field Survey, 2016

The statistics in table 4.9 shows the number of years SMEs have transacted business with KRB. It can be said from the table that the minimum number of years is between 4-6 years while the maximum number of years is between 10-12 years. Exactly half (50%) of the responses indicate that they transacted business with KRB between 7-9 years now. This revelation is an implication that majority of the SMEs started business with KRB.

4.5.3 KRB customer Application process

Table 4.11: How SMEs first requested for financing from KRB Ltd

Request for finance	Frequency	Percentage
Customer application form filled in at the bank	55	91.7
Application filed on phone	5	8.3
Total	**60**	**100.0**

Source: Field Survey, 2016

Table 4.11 is a distribution of how SMEs first requested for financing from KRB Ltd. Almost all customers (91.7%) went through the normal loan application process at the bank premises by filling customer application forms. On the other hand, 8.3% of respondents indicated that they filed their application for loan on phone. This is an indication that those respondents that filed loan application on phone are in good standing with KRB. Or perhaps KRB can help to improve upon that mode of applying for customer financing.

Table 4.12: Reasons for requesting finance from KRB

Length of time	Frequency	Percentage
It is the regular financial institutionfor the business	47	78.3
It is the only financial institution in the area	3	5.0
Thought the other financial institutions may reject application	2	3.3
Thought KRB would offer the best terms	8	13.3
Total	**60**	**100.0**

Source: Field Survey, 2016

Table 4.12 depicts the reasons why SMEs choose KRB to finance their respective businesses. The statistics shows that 78.3% of SMEs choose KRB because it is the regular financial institution for their business operations. Similarly, 13.3% of SMEs thought KRB would offer them the best terms. Again, 5% and 3.3% stated that KRB is the only financial institution in the area and also thought that other financial institutions may reject their request for the needed assistance.

4.6 Research Question 1: What financial services are offered by K.R.B. to SMEs.

The staffs of Kwaebibirem Rural Bank were interviewed about the various types of credit facilities that were available at the bank. The staff stated that, Kwaebibirem Rural Bank has different loan products which are; Susu loan, savings loan, funeral loan, educational loan, company loan, personal loan, microfinance loan and overdrafts for SME's. They said that all these loans mentioned above were being provided by the bank and were being accessed by the SME owners within the KRB catchment area. This lends credence to Ajai and Azab, 2010, assertion that rural banks provide services like susu loans, savings loan, funeral loans, educational loans.

4.6.1 Modalities under which SMEs obtain credit facility from KRB.

The study interviewed 15 staff members of Kwaebibirem Rural Bank concerning the modalities involved in granting loans to SMEs within their catchment area. Kwaebibirem Rural Bank staff stated that, the modalities involved in granting loans to clients are very simple and easy to follow depending on each customer and the needs of each SME owners. Firstly, a client must first be a customer of the bank for not less than three months continuously for the bank to determine your credit worthiness, completion of credit application forms by customer, followed by the bank visiting the client business centre to ascertain the existence of the business, followed by the bank assessing the physical property the customer poses, the number of years of operation of the SME is another condition for granting loans to SMEs. Another one is the location of the SME.

Lastly the client has to provide a guarantor. The staff stated that, after all the checks and balances have being done, the credit officer then process the loan to the head of credit at the bank head office before payment are effected there on.

4.6.2 Types of Documentation before loans are granted

Staff who took part in the interview session all agreed that, there were number of documentation that was needed by the bank before they can give out loans to their customers. Most of the documentations mentioned were; certificate to commence business, business incorporation certificate, tax clearance certificate, bank account number, and profile of the clients and the passport picture of the clients. The staff stated that, every loan had different type of documentation that was needed but stated in general all the documentation required by the bank before loans are processed to SMEs owners of the bank.

4.6.3 The services/facilities KRB provides for SMEs

A distribution of the services provided by KRB to SMEs is shown in Table 4.13 below.

Table 4.13: Services/facilities provided by KRB Ltd. for SMEs

Services	Frequency	Percentage
Overdraft	11	18.3
Business instalment loan	20	33.3
Working capital	29	48.3
Total	**60**	**100.0**

Source: Field Survey, 2016

From the Table 4.13, 25 respondents representing 48.3 percent indicated that KRB provided them their working capital. Another 20 respondents constituting 33.3 percent of respondents also received their business instalment loans form KRB.

4.6.4 Other services that are provided by Kwaebibirem Rural Bank to SME's

Staffs who were interviewed stated some of the services that were provided by Kwaebibirem Rural Bank to the SMEs owners. The services stated were as follows; Text Messages, Training, Workshops, Electronic Money Transfers, Scholarship opportunities and Business Advice.

4.7 Research Question 2: What are the Contributions of Kwaebibirem Rural Bank to the development of SME's in its catchment area?

The researcher interviewed the staff members of the Kwaebibirem Rural Bank on the contribution of the bank towards the development of SMEs within the Kwaebibirem community. During the interview with the fifteen staff members, they stated that the bank organize training for their microfinance customers and after-loan counselling for customers. They also explained to the researcher that, they also contribute funds during Kwaebibirem festivities and other community groups all in support of the development of the community. The staff also stated that, Kwaebibirem Rural Bank has also set up an educational endowment fund for poor and less privileged kids within the catchment area. They also said that they have created the business friendly environment to make it easier for SMEs to approach them for any assistance. Burgess and Pande (2005) made a claim that there is a direct relationship between credit provision and economic growth. Rural banks usually provide more attractive interest rates on savings and deposits than the informal sector in rural areas and are therefore a better boost of economic activities.

4.7.1 Types of SMEs KRB has single-handedly assisted

The fifteen staff who took part in the interview stated that KRB has single-handedlyestablished eight (8) SMEs. Among these SMEs are; oil palm processing, Bakery, Printing press and Merchandise shops.

4.7.2 How SMEs used the facility received from KRB

A distribution of how SMEs expend the facility provided by KRB is displayed in the table 4.14 below.

Table 4.14: How SMEs use finance requested from KRB Ltd

Use of facility	Frequency	Percentage
To purchase fixed assets	29	48.33
Operating capital	30	50.00
Debt consolidation	1	1.67
Total	**60**	**100.0**

Source: Field Survey, 2016

The statistical declaration from table 4.14 reveals that half of the responses representing 50 percent of respondents indicated that they used the finance requested from KRB in the operation of their businesses while 29 respondents constituting 48.3 percent of the respondents used the facility provided to purchase fixed assets for their respective businesses.

4.7.3 Impact of the finance received from KRB on SMEs

A distribution of the impact of KRBs finance on SMEs is depicted in the table 36:

Table 4.15: Impact of the financing received from KRB on SMEs

Impact of KRBs financing on SMEs	**Frequency**	**Percentage**
Has helped SMEs to remain in business	49	81.7
Has helped SMEs to increase sales	9	15.0
Could not meet customer demands	2	3.3
Total	**60**	**100.0**

Source: Field Survey, 2016

Table 4.19 above shows that about 49 SMEs representing 81.7 percent indicated that the finance received from KRB has helped them to remain in operation of their respective businesses. On the other hand, 9 SMEs representing 15 percent of the responses also affirmed that the finance received from KRB has helped them immensely to increase sales.

4.8 Research Question 3: What Challenges do SME's and K.R.B. encounter in transacting business?

4.8 1 Challenges of S.M.Es

A distribution of the major problems faced by SMEs in securing funds from KRB is depicted in the table 4.20 below:

Table 4.16: Major problems faced by SMEs in securing funds

Major SME problems	**Frequency**	**Percentage**
None	57	95
Poor credit experience /History	3	5
Total	**60**	**100**

Sources: Field Survey, 2016

Table 4.20 above displays the problems faced by SMEs in their quest to receive assistance from KRB. As can be seen, 57 respondents representing 95 percent of the responses remarked that they have not encountered any constrain in their quest to secure credit from KRB. However, 3 SMEs, representing only 5 percent also remarked that they have poor credit experience or history and that serves as a hindrance from getting credit from KRB.

4.8.2 Documents KRB require to process SME loan application

Table 4.17: Documents requested by KRB Ltd for loan application

Documents requested	Frequency	Percentage
Formal application for financing	40	66.7
Business registration certificates	20	33.3
Total	**60**	**100**

Source: Field Survey, 2016

A distribution of the documents KRB request from SMEs to process loan is depicted in table 4.21. The responses indicate that 66.7% stated that KRB only made them fill normal loan application form. The process begins with "loan application" where an applicant shows interest in accessing microcredit from the bank. This is followed by the initial interview, loan appraisal, loan documentation, loan approval, loan disbursement, loan repayment and finally loan recovery. Another 33.3% also responded that KRB requested for their business registration certificate in addition to the filled-in loan application form.

4.8.3 Does KRB request SMEs to provide personal asset as collateral

Table 4.18: Do SMEs provide personal assets as collateral to KRB before granting loans

Responses	Frequency	Percentage
Yes	0	0
No	60	100
Total	**60**	**100**

Source: Field Survey, 2016

Table 4.22 shows a distribution of the assets that KRB requires from SMEs before granting them loan. The responses (100%) indicate that KRB does not request for collateral security from SMEs before granting them loan.

4.8.4 Do business owners provide personal assets to KRB as collateral?

Table: 4.19: Do business owners provide personal assets as collateral to KRB to guarantee the granting of loans

Responses	Frequency	Percentage
No	58	96.7
Don't know	2	3.3
Total	**60**	**100**

Source: Field Survey, 2016

In the same vein, the statistics from table 4.23 shows that business owners do not provide personal assets to KRB before receiving any loan facility. About 96.7% answered that "no" they do not provide any personal assets as collateral to KRB to guarantee for their loan facility.

4.8.5 Challenges of KRB

The staff interviewed stated some challenges that were hindering their effort in providing more services to the SMEs and they were stated as follows; Defaults on previous payment of loans were seen as a major challenge that was hampering their effort to continue offering credits and other services to the SMEs. This was because, most of the clients who benefited from their loans previously failed to pay their debt and resulted in the bank taking more pre-caution in the service delivery to the SMEs. Lack of collateral was another factor that was hindering the ability of the bank to give out loans and provide better services to the community. Another factor that was a challenge to the bank was lack of savings on the part of customers, because if the clients failed to save how can the bank gives out loan to such a customer.

Table 4.20: The rate at which SMEs default in loan repayment

Rate of default	Frequency	Percentage
15% - 20%	11	73.3
21% - 25%	2	13.3
26% - 30%	2	13.3
Total	**15**	**100.0**

Source: Field Survey, 2016

The statistics above shows that the highest rate of default ranges between 15% - 20% which accounted for 73.3% of the responses. 13.3% each of the respondents affirm that the rate of default in loan repayment ranges 21% - 25% and 26% -30% respectively.

4.9 Research Question 4: What measures can be adopted to address the challenges?

The staff who took part in the interview process stated that, the best solutions needed to address the challenges is that, the bank should encourage SME owners to save more so that they can use their savings background to support their businesses. The bank should also educate the clients to pay their loan in time to make them credit worthy for future loan application. The bank should also educate their clients to practice proper book keeping in supporting their loan applications and also monitor the progress of the business.

4.9.1 Major Indicators of the Effects of Credit Facilities granted to SME's

The fifteen staff who took part in the interview agreed that, as a result of the contribution of Kwaebibirem Rural Bank to the SMEs, it has gone a long way to expand the business portfolio of their customers. It has also increase the profit margin of the customers and sales turnover has also increased tremendously. The impact of Kwaebibirem Rural Bank loans and other services have also contributed to the quality of standard of living of its customers and the community at large.

4.9.2 KRBs future policies for SME financing

This section attempt to find out whether KRB has plans in place for continues SME financing. The fifteen staff who took part in the interview agreed that there are plans in place to increase the loan facility extended to SMEs, to reduce interest rates on SME loans and make it possible for SMEs to be their own guarantors.

4.9.3 The overall satisfaction of services provided by KRB

Table 4.21: SMEs satisfaction or otherwise

Research variable statements	No opinion	Very Dissatisfied	Dissatisfied	Satisfied	Very Satisfied	Total
Overall quality of service	4 (6.7%)			48 (80%)	8 (13.3)	60
Interest rates and services charges	8 (13.3)	8 (13.3)	43 (71.7%)	1 (1.7%)		60
Time to process application			2 (3.3%)	58 (96.7%)		60
Understanding of business needs	1 (1.7%)	1 (1.7%)	2 (3.3%)	54 (90%)	2 (3.3%)	60
Convenience and accessibility	3 (5%)			57 (95%)		60
Relationship with account manager			2 (3.3%)	7 (11.7%)	51 (85%)	60
Documentation required	52 (86.7)		1 (1.7%)	5 (8.3%)	2 (3.3%)	60

Source: Field Survey, 2016

A distribution of the overall satisfaction SMEs have received from the services of KRB is conveyed in table 4.25 above. According to the statistics 80% of SMEs are satisfied with the overall quality of services provided by KRB for them. However, 71.7% are dissatisfied with the interest rates and services charges of KRB. On the contrary, 96.7% of SMEs are satisfied with the time KRB takes to process loan application for them. Again, 90% agree and are satisfied that KRB understands their business needs. Similarly, 95% of SMEs agree that the services of KRB are very convenient and highly accessible as they are satisfied. On the relationship of SMEs with their accounts manager, 85% of SMEs are very satisfied with the kind of relationship that existed between them. This is an indication that a very cordial relationship exist between. On the other hand, 86.7% of SMEs could not tell whether they are satisfied or dissatisfied with documentation procedures of KRB.

4.9.4 Business creation

Table 4.26: Did you create or participate in the creation of the SME

Responses	**Frequency**	**Percentage**
Yes	51	85
No	9	15
Total	**60**	**100**

Source: Field Survey, 2016

A distribution of whether respondents created or participated in the business is displayed in table 4.20. 85% of respondents indicate that they actually created the business and participated fully in the day-to-day running of the business. These persons have vested in interest in running their respective businesses.

Table 4.23: Measures that can influence SMEs to pay loan

Measures	**Frequency**	**Percentage**
Good assessment	10	66.7
Frequent monitoring	5	33.3
Total	**15**	**100.0**

Source: Field Survey, 2016

KRB staff stated among other things that good assessment and frequent monitoring of SME operators are the measures that need to be put in place to influence SMEs. This received a total of 66.7% and 33.3% respectively.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.0 Introduction

This chapter presents summary of findings, conclusion and recommendations and a conclusion for the whole study.

5.1 Summary of findings

5.1.1 Services provided by KRB to SMEs

The study found out that microfinance loans is very popular among services provided by rural banks to SMEs due to the fact that most SMEs do not have the collateral to access commercial loans from bank as the microfinance group serve as guarantor for loans granted to it members. Other services provided by Kwaebibirem Rural Bank includes; Electronic money transfer, business workshop and training for its customers, easy access to bank balances through text messages, mobilization of savings, Susu, and provision of personal and education loans.

5.1.2 How SMEs use finance requested from KRB

The survey has revealed that about half of SMEs representing 50% of responses indicated that they used the finance requested from KRB in the operation of their businesses while 29 respondents constituting 48.3 percent of SMEs used the facility provided to purchase fixed assets for their respective businesses. This revelation is also a departure from parker et al (1995), Aryeetey et al (1994) and cited by Musa Abdul-Aziz (2008) observation that access to finance remained a dominant constraint to small scale enterprises in Ghana. Credit constraints pertaining to working capital and raw materials were cited by respondents in a survey conducted.

5.1.3 Special facilities of KRB

As can be observed from the statistics above, KRB offers SMEs Microfinance and Susu Loans, Commercial Loans, Investment Loans and access to overdrafts. Micro Finance Loans is the major facility that KRB offers to SMEs as 11 respondents constituting 73.3 percent of SMEs receive Micro Finance. This revelation lends credence to (Ajai Nair and AzabFissha's 2010) revelation that the major credit products offered by the rural banks include microfinance loans, personal loans, commercial loans, salary loans, Susu loans, overdrafts and others. Microfinance loans and Susu loans are the two special loan products that most directly benefit the low-income population. A significant protion of the salary loans, however, would also be considered microloans in the Ghanaian context. Consequently, the microcredit portfolio of rural banks is larger than the sum of the microfinance and Susu loan portfolios shown in the loan classifications reported by the RBs.

5.1.4 Impact of the financing received from KRB on SMEs

The study has revealed that about 49 SMEs representing 81.9 percent indicated that the finance received from KRB has helped them to remain in operation of their respective businesses. On the other hand, 9 SMEs representing 15 percent of the responses also affirmed that the finance received from KRB has helped them immensely to increase sales.

5.1.5 Sole financier

The survey has revealed the staff of KRB indicated that Bakery, Printing and Merchandise businesses constituting 4 each of SMEs and 26.7 percent each of the responses have equally benefitted from KRBs finance. A four oil palm processing industries, representing exactly 20 percent of the responses.

5.2 KRB's contribution to SMEs

The study has revealed that about 49 SMEs representing 81.7 percent indicated that the finance received from KRB has helped them to remain in operation of their respective businesses. On the other hand, 9 SMEs representing 15 percent of the responses also affirmed that the finance received from KRB has helped them immensely to increase sales. Alsothe survey revealed by the staff of KRB indicated that Bakery, Printing and Merchandise businesses constituting 4 each of SMEs and 26.7 percent each of the responses have equally benefitted from KRBs finance. Four oil palm processing industries, representing exactly 20 percent of the responses are solely financed by KRB.

5.3 Major problems faced by SMEs in securing funds

The survey has revealed that the problems faced by SMEs in their quest to receive assistance from KRB. About 57 SMEs representing 95 percent of the responses remarked that they have not encountered any constrain in their quest to secure credit from KRB. However, 3 SMEs, representing only 5 percent also remarked that they have poor credit experience or history and that serves as a hindrance from getting credit from KRB. This revelation is sharp contrast from Boapeah, Tucker and Lean 1993 and the European Commission report of 2008 which state among other things that the major problems faced by SMEs is access to credit.

5.3.1 Constrains face by KRB in the extension credit to SMEs

The results from data collected to ascertain the constraints faced by KRB in the extension of credit to SMEs shows that 46.7 percent each of the responses indicated that default in loan repayment and delay in loan repayment are the major constrains of SMEs. Another 6.6

percent remarks that the low savings on the part of some SMEs which does not make them credit worthy is a constraint. An overwhelming number of KRB staff representing 73.3 percent of respondents indicated that the rate of default of loan repayment is between 15 to 20 percent implying that even though default in loan repayment is a major constraint of KRB a smaller number of SMEs default in paying loan as expected of them. The interview with KRB staff again revealed that the rate of savings of SMEs is “high”. This gives 7 representing 46.7 percent of the responses. Another 6 representing 40 percent of the KRB staff remarked that SMEs have “Low” rate of savings at the bank. Perhaps, that explains why majority of SME owners indicated that they have not faced any constrain in their quest to secure finance from KRB. Their high rate of savings with the bank make them credit worthy.

5.3.2 Default in loan repayment

An overwhelming number of KRB staff representing 73.3 percent of respondents indicated that the rate of default of loan repayment is between 15 to 20 percent implying that even though default inloan repayment is a majorconstraint of KRB a smaller number of SMEs default in paying loan as expected of them.

5.4 Solution to the challenges faced by KRB

About 60% of KRB staff suggests that there should be proper monitoring of SME operation before extending credit to them. 13.3% each indicated that their bank should strengthen collateral system, institute a good credit team and let SME sign a long binding loan term to help deal with the challenges faced by KRB.

5.5 Conclusion

Several factors account for the growth, development and rapid development of small and medium enterprises. Some of these factors include; population growth and expansion, industrialization, modernization, level of gainful and meaningful employment, markets, income per capital, and equitable distribution of income, welfare and quality of life enjoyed by inhabitants.

However, the role of Rural Banks to the development of SMEs has not been particularly noticeable either because it has not been researched into hitherto or because their contributions have been suppressed. This study has however provided evidence to prove and buttress the contribution of rural banks to thedevelopment of small and medium scale enterprise in Ghana taking Kwaebibirem Rural Bank as case study.

Evidence shows that SMEs such as; service enterprises; provision stores, hair dressing salons, barbering shops, drinking bars, fitting and mechanic enterprises, washing bays, agro processors (palm oil extractors, coca producers, gari processors, and palm kennel extractors), primary fabrication (local shoe manufacturers, tie and die making enterprises) and forest products enterprises have contributed significantly to the growth of the Asuom community as a results of the support derived from Kwaebibirem Rural Bank.

Hence, in considering development alternatives that can propel the growth and development of towns in Ghana, SME led- development approach (encouraging the development of SMEs as a catalyst to develop towns) because of the ability of SMEs to create employment, provide income to meet the basic needs of citizenry, create savings leading to capital formation, providing tax revenue for developmental projects and attracting the provision of social infrastructure at locations where SMEs cluster. This is why there is the need for more efforts must be done to financially support the activities of these SMEs.

5.6 Recommendations

The major findings of the study have raised several issues about the emergence and contribution of RCBs towards the growth of Small and Medium Scale Enterprises in rural towns in Ghana and the need to address them. The findings also revealed very crucial and laudable measures which should be strengthened and implemented

SMEs should:

1. participate in all workshop and training programs that is organized by Kwaebibirem Rural Banks and also cultivate the habit of savings for expansion and attract loans from the bank.
2. make prompt payment of loans extended to them by the bank and also try to register firms.

Rural banks should:

1. Continue organizing training and workshops at regular intervals for SMEs and encourage them to attend.
2. monitor SMEs after granting them loans to ensure that the loans are used for it intend purpose to ensure easy repayment and avoid loan repayment default and its consequences.
3. reduce the number of guarantors needed to access microcredit from two to one and further adjust their interest rate to a minimal level. This will ensure that all small and medium enterprises applying for loans from the bank will eventually access loans since the deterring factors have been duly addressed.

4. assist SMEs to build good savings to serve as collateral for loans and capital to expand their businesses.
5. take insurance cover for loans granted to new SMEs as start-up capital to reduce the effect of loan default in their book and operations and also reduce the risk of granting loans to new SMEs.

Government and policy makers should:

1. intensify the campaign on venture capital trust funds which is a new concept in the country by publicizing it through organization of workshops, durbars and seminars throughout the country to explain to entrepreneurs the process involve in getting assistance from the fund to start business or expand existing business.
2. strengthen and tasked institutions such as Bank of Ghana to ensure that adequate portion of banks loan portfolios are allocated to SMEs at a reduced interest rate by granting attractive incentives to rural banks that adhere to this policy.
3. reduces the tax burden on SMEs especially at the initial start up years to assist sustain their operations.

Access to market is very crucial in developing and developed economies globally. The available market facilities in the study area is however very appalling. Several perishable agricultural products such as tomatoes, onions, pepper, yams among others usually go bad during bumper harvest due to inadequate storage facilities in the skewed and very limited markets in the District. This brings about very huge losses to entrepreneurs and sometimes leading to the collapse of businesses. The need to expand the few available markets in the district is strongly recommended. Also, new and modern standard markets are recommended to be constructed in Asuom community to augment the already overburdened markets in the district. It is recommended that government takes steps to reduce the prime rate to make borrowing especially for investment attractive. This is because one of the major militating factors against loan repayment or default is the high interest on loans.

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APPENDENCES

APPENDIX A

BANK STAFF

INTERVIEW SCHEDULE

You are humbly invited to a brief interview by responding to the few set questions to provide your views and opinions on the research study; Financing Small And Medium Size Businesses: Some Experiences From Kwaebibirem Rural Bank Limited, Asuom, Ghana

Your information is taken confidential for academic purpose only.

Staff of Kwaebibirem Rural Bank Ltd

Age: a. 20-35 [ ] b. 36 – 49 [ ] c. 50 -60 [ ]

1. What are the various types of credit facilities that are available for SMEs to access Kwaebibirem Rural Bank Ltd.

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

2. What are the processes involved in granting loans to SME's in Kwaebibirem Rural Bank Ltd.

……………………………………………………………………………………………

……………………………………………………………………………………………

3. Briefly explain the various types of documentations that your bank requests before credit facilities are granted to SME's.

……………………………………………………………………………………………

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4. Briefly state and explain other services that Kwaebibirem Rural Bank gives to the SME's towards the development of their businesses apart from loans and credits.

…………………………………………………………………………………………………

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………………………………………………………………………………………………….

5. What are your comments on service delivery, efficiency and accessibility of such services towards the development of the SME's in your catchment area?

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………………………………………………………………………………………………….

6. Explain briefly the contribution of Kwaebibirem Rural Bank Ltd to the development of SME's in your catchment area.

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7. Please state and explain some challenges you face in providing services to SME's in your community.

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8. Please state and explain the possible measures or solutions that you think can help address this challenges.

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9. Briefly explain how you assess the effect of your credit facilities granted on SMEs on their business.

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

10. Please state the percentage of the total loan portfolio of Kwaebibirem Rural Bank Ltd that relates to credit facilities granted to SMEs

……………………………………………………………………………………………

……………………………………………………………………………………………

11. Please how long does it take Kwaebibirem Rural Bank Ltd to process credit facilities for SMEs?

……………………………………………………………………………………………

……………………………………………………………………………………………

12. Briefly explain some of the causes of loan default of SMEs

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13. Please what are the major indicators of the effects or contributions of credit facilities granted to SMEs.

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Thanks for this Information and your time spared for this interview

APPENDIX II

BUSINESS OWNERS QUESTIONNAIRE

This is a research being conducted in partial fulfilment of the requirement for the award of masters of Commerce (MCom, Human Resource Management). Respondents are assured of confidentiality and anonymity of the information they provide. They are further assured that any information they provide is purely for academic purposes.

Instructions: Please kindly tick in the boxes provided or write in the spaces provided your responses

1. Identify the sector that represents the main activity of your business

Food processing industry [ ] Bakery industry [ ]

Wood products industry [ ] Furniture works industry [ ]

Metal works industry [ ] Machinery works industry [ ]

Others, Specify………………………………………………………………………….

2. Have you registered your business? Yes [ ] No [ ]

3. If your answer to question 2 is "yes," what is the legal status of your business? (Check one only)

Private limited liability companies [ ] Sole proprietorship [ ]

Private Partnership [ ]

4. How old is your firm?

2 years or less [ ] 3 and 5 years [ ]

6 and 10 years [ ] 11 years and above [ ]

5. For how long have your firm transacted business with Kwaebibirem Rural Bank Ltd?

3 years or less [ ] 4 - 6 years [ ] 7 - 9 years [ ]

10 -12 years [ ] 13 years and above [ ]

6. Do you have a designated account manager assigned to manage your firm's banking relationship? Yes [ ] No [ ]

7. How did the firm first request a financing from Kwaebibirem Rural Bank Ltd?

[ ] Application filled in at branch

[ ] Application made by phone

[ ] Application over the internet (include electronic mail and website)

Others (please specify)………………………………………..

8. Why did the firm choose **Kwaebibirem Rural Bank Ltd** for request or additional credit?

[ ] This was the regular financial institution for the business

[ ] This was the only financial institution in my area

[ ] Thought other financial institutions would reject the application

[ ] Thought this financial institution would offer the best terms

Other reasons (please specify)………………………………………………

9. What type of product/financing did the business request from Kwaebibirem Rural Bank Ltd (Ghana) Limited?

SME current account	[ ]	Overdrafts	[ ]
Business Installment Loans	[ ]	Express Trade	[ ]
Trade Finance	[ ]	Working Capital facility	[ ]

Others (please specify) ……………………………………

10. How did the firm used the financing that was requested from **Kwaebibirem Rural Bank Ltd**?

To purchase fixed assets	[ ]	Working capital/operating capital	[ ]
Research and Development	[ ]	Debt Consolidation	[ ]

Others (please specify)……………………

11. What documents were requested by Kwaebibirem Rural Bank Ltd as part of the application process?

Formal application for financing [ ] Business certificates of registration [ ]

Business financial statements [ ] Business plan [ ]

Personal financial statements [ ] Appraisals of assets to be financed [ ]

Cash flow projection [ ]

Other documentation (please specify)……………………. No documentation [ ]

12. Have you ever had your application rejected before? Yes [ ] No [ ]

13. If you answered “yes” to question 13, what are the major problems faced by SMEs in securing funds?

Lack of collateral/guarantees [ ]

Inadequate compiled financial records and accounts [ ]

Poor credit experience or history [ ]

Inexperienced management team or lack of professionalism [ ]

Inadequate technologies [ ]

Low rate of return on capital [ ]

Limited knowledge of business opportunities [ ]

Other reasons, (please specify)……………………………………..

14. Were you satisfied with the explanation above?

Yes [ ] No [ ] Don’t know [ ]

15. Are you required to provide personal assets as collateral by Kwaebibirem Rural Bank Ltd to guarantee the granting of loans?

Yes [ ] No [ ] Don’t know [ ]

16. Are business owners required to provide their personal assets as collateral by Kwaebibirem Rural Bank Ltd to guarantee the granting of loans?

Yes [ ] No [ ] I refuse to answer [ ] Don’t know [ ]

17. What has been the impact of the financing/products received from Kwaebibirem Rural Bank Ltd (Ghana) Limited on your business?

……………………………………………………………………………………………

……………………………………………………………………………….................

18. On a scale of 1 to 5, where "1" stands for "very dissatisfied" and "7" stands for "very satisfied," how would you rate your level of satisfaction with regard to questions 17 to 23:

1-Very Dissatisfied, 2-Dissatisfied, 3-No Opinion, 4-Satisfied, 5-Very Satisfied

Research Variable Statement	**1**	**2**	**3**	**4**	**5**
17. Overall quality of service					
18. Interest rates and service fees charged					
19. Time to process application					
20. Understanding of your business needs					
21. Convenience and accessibility					
22. Relation with account manager					
23. Documentation required					

24. Age of respondents

Please tick your age group

Less than 20years [ ] 21-30years [ ] 31-40years [ ]

41-50years [ ] 51-60years [ ] Above 60years [ ]

25. Gender: Male [ ] Female [ ]

26. What is the highest level of education that you have attained?

GCE Ordinary/Advanced/SSSCE [ ] Higher National Diploma (HND) [ ]

Bachelor Degree [ ] Master Degree [ ]

27. Did you create or participated in the creation of this enterprise?

Yes [ ] No [ ]

28. Is the main owner also the manager of the enterprise?

Yes [ ]   No [ ]

29. How many years of experience do you have in managing **this** firm?

Less than 5years [ ]   Between 5years and 10years [ ]   More than 10years [ ]