

KWAME NKURUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS

**RURAL BANKS FINANCING OF SMALL AND MEDIUM- SCALE ENTERPRISES
(SMEs)**

A CASE STUDY OF JUABEN RURAL BANK

By

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DECLARATION

I hereby declare that this submission is my own work towards the Master of Business Administration (Finance Option) and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree in this University or elsewhere except for the references to other people's work which have been duly acknowledged.

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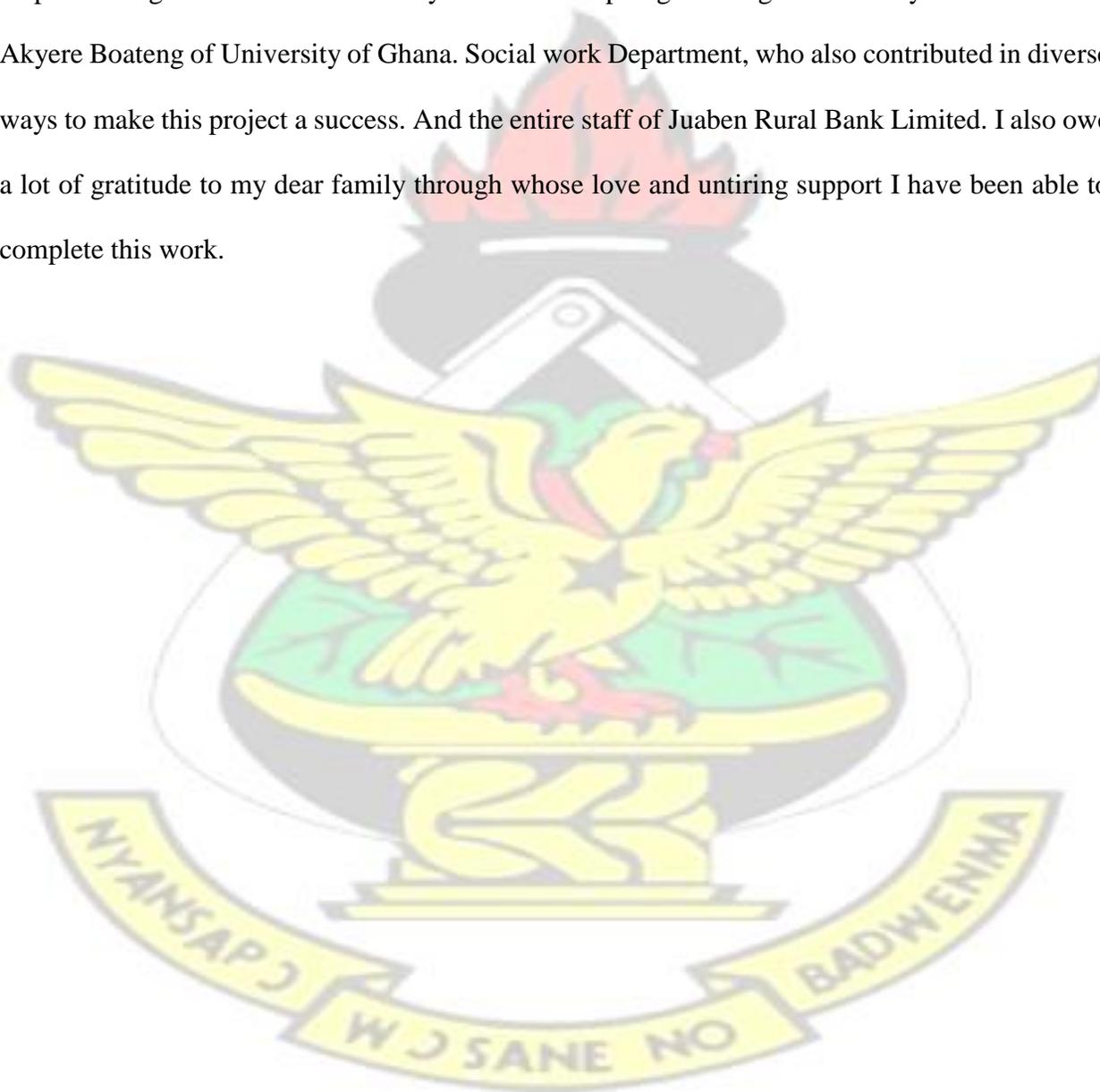
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ABSTRACT

The main objective of the study is to explore how Rural Banks financing Small and Medium- scale Enterprises (SMEs) within Kumasi Metropolis of Ghana, taking cognizance of the roles and contributions of Juaben Rural Bank Limited. In the advanced countries, commercial banks are the main financiers of SMEs. However, in Ghana there are a number of macroeconomic, institutional and regulatory challenges that hinder the commercial banks from lending to SMEs. In addition, SMEs have high failure rates and for that matter commercial banks are unwilling to extend credit to players of the sector. Even where the commercial banks extend credit to SMEs the loans are secured with collateral, leading to stagnation of growth. By administering a questionnaire to ninety (90) SME operators and ten (10) staff of Juaben Rural Bank, the study has shown that lack of collateral security, unprepared accounts, poor financial history, limited years of operation, no business plan, and no reason and not being qualified are some of the major challenges SMEs face in accessing loans from rural banks. Moreover, high default rate of the SMEs, ineffective management of SMEs and ineffective monitoring of SME loan were challenges the bank faced. In view of the findings, it was recommended that rural banks should not use collateral security as a requirement for granting credit to SMEs; Bank of Ghana should ensure the rural banks reduce their interest rate; rural banks should train SME operators on effective management of resources and monitor how credit or loans they grant to SMEs are used in the sector; SMEs should form joint ventures to increase their capital base.

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DEDICATION

This thesis is dedicated to my Husband, Mr. George Kwasi Gyamfi and my son Nana Kwasi Opoku Boateng.

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CHAPTER ONE

INTRODUCTION TO THE STUDY

1.0 Background of the Study

The contribution of Small and Medium-scale Enterprises (SMEs) to the socio-economic development of Ghana cannot be overemphasized. SMEs refers to firms with small market share and mostly managed or run by its owners (Bolton committee, 1971). Nyamekye et al (2009) organized the SME into trade union and organized groups such as Ghana Private Roads Transport Union with Car owners, drivers and attendants organized group. SMEs are found in both rural communities and town; SMEs found in the rural communities are agriculture, fishing and fish processing, rural agro-based (Adu-Amankwah (1999).

Individual ownership of SMEs, ease of entry, the use of local resource and labour intensive have been identified as the characteristics of SMEs. SMEs complement the efforts of large organization in the provision of jobs to the teeming graduates who complete school yearly in employment so far as employment generation in Ghana is concerned (Fredua (2007). Carroll (2011) established that SMEs employs about 80% of the labour force in the country.

According to Abor & Quartey, 2010 SMEs contribute to the growth of the economy by way of tax revenue. SMEs activities are believed to contribute to about 75% of the country's gross domestic product. SMEs also contribute tremendously to the infrastructural development of Ghana such as the provision of private junior high, senior high and tertiary institutions, construction of bore holes, etc. Aryeetey (2001) also 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.

Notwithstanding the important contribution of SMEs to the Ghanaian economy, the sector is bedeviled with some challenges. Lack of skilled labour force has been identified as one of the challenges of SMEs in Ghana. According to Banking Survey (2013) 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. Ofori (2009) also cited low level of technology as one of the major constraints of SMEs in Ghana. Lack of equipment and technology, partly due to inadequate capital further restrain SMEs from competing with large scale firms.

The owners of the SMEs lack the requisite skills, knowledge and experience to manage their businesses effectively have been identified as some of the constraints of SMEs (Carrol, 2011).

However the single most important challenge to SMEs has been identified as lack of credit. Mensah (2004) stated that lack of financial credit facilities has always been a major problem to the SMEs of Ghana. It is to address these challenges that the establishment of Rural and community banks (RCBs) was hailed by many as the medium through which the financial needs could be addressed. Rural and Community Banks (RCBS) are unit banks which are incorporated under Companies Code of 1963 (Act 179) of Ghana as limited companies provide financial intermediation to its customers (Nair and Fissaha, 2010). The main aim for the establishment of RCBs was to promote rural development with the intention to increase the standard of living of the rural dwellers (Kudiabor, 1974). According to Ackah et al (2014) RCBs grant loans to groups with a maximum of twenty members without collateral security. They stated that members of a group are held jointly liable in the case of default. RCBs also provide savings to its customers. Savings products comprises; regular savings accounts; current accounts; susu deposits; and fixed or time deposits. According to Nair and Fissaha, 2010 regular savings deposits stands at about 58% of rural banks total number of clients and 57% of the entire rural banking deposit.

According to Ackah et al (2014) RCBs provide credit facilities to its customers. The credit facilities provided by RCBs include micro loans, personal loans, salary loans, *susu* loans, and overdraft facilities. Salary loans account for about 33% of entire rural bank advances, personal loans is pegged at 24% and microfinance account for about 20% of all rural bank deposits. It is in line with this the study is being conducted to address the challenges SMEs face.

1.1 Statement of the Problem

Considering the fact that the informal sector is mainly made up of SMEs which employs about 80% of the labour force in the country (Carrol, 2011) and contributes to about 49% of the country's GDP in 2012 (Ghana Banking Survey, 2013), it is expected that much effort is made to address SMEs challenges. A report by the Ghana News Agency (GNA) in 2009 indicated that out of 226,760 SMEs registered by the Registrar General Department, only 5% have access to credit or external funding. Various studies have reiterated the formal banking institutions unwillingness to lend to SMEs on grounds that the sector is considered highly risky. The risky nature of the SMEs is attributable to lack of collateral to serve as security for loans SMEs contract.

In order to address the financial challenges that SMEs face, it was necessary to establish Rural and Community Banks which could provide some relief to the SMEs.

The RCBs lend to the SMEs and individuals with virtually no collateral to secure. RCBs extend small amount of money to even the poor, who may neither have credit history nor possess the requisite collateral security required by the commercial banks. However rural banks have unfavourable environment and are constrained to mobilize scattered rural incomes at a high cost into savings. According to Ackah et al (2014) SMEs have high failure rates and for that matter banks need to be selective in extending credit to players of the sector. The major challenge Banks

face so far as information is concerned is information asymmetry. Information asymmetry refers to the disparity between the information available to the loan applicants and providers of capital (Stiglitz and Weiss, 1981). The challenges in managing rural banks' loans have led to the folding up of some rural banks in Ghana. Tano Rural Bank in the Asutifi District in the Brong Ahafo Region has been cited as an example of a collapsed rural bank due to reasons identified above. It is for this reasons that this study wants to find out the impact of rural banking on financing SMEs in Ghana.

It must be noted that various studies on SME financing have concentrated on banks unwillingness to lend to SMEs. This research work has moved a step further by delving deeper into banks unwillingness to lend to SMEs. The researcher has conducted extensive investigation into why banks do not lend to SMEs to pave way for owners of such businesses to access credit from banks. Moreover, unlike other studies, this study has also concentrated on other benefits SMEs derive from rural banks which promote the growth of the entire economy.

1.2 Objectives of the Study

Generally, this study seeks to explore how rural banks finance small and medium scale enterprises in Ghana. The specific objectives are:

- To examine the challenges SMEs face in accessing credit from banks.
- To assess the appropriateness of the bank credit policies in achieving the goals of SMEs.
- To assess the contributions of rural bank to SMEs growth in Ghana.

1.3 Research Questions

The following questions will assist the researcher to focus on the research objectives of the study:

- What are the challenges SMEs face in accessing credit from banks?
- What are the bank credit policies in achieving the goals of SMEs?

- What are contributions of rural banks to SMEs growth in Ghana?

1.4 Significance of the Study

SMEs are important to the growth of the Ghanaian economy. However, access to finance from financial institutions has been identified as a major challenge to the survival SMEs mainly due to the SMEs inability to meet the requirements of financial institutions. This study will be of significance in a variety of ways. The findings of this study will provide an insight to SMEs on the forms of SME classification used by various rural banks and the determinants of finance by rural banks in order to assist them in improve on their eligibility to access financial support from rural banks.

Further, this study will inform SMEs, rural banks, government and all interested stakeholders about the factors that restrain the provision of finance to SMEs by rural banks.

Finally, the study will add to the literature in this area of study.

1.5 Methodology

The research design used for the study was the case study approach. The purpose of this study is descriptive. Case study involves the use of both qualitative and quantitative research. The researcher used primary and secondary sources of data for the study. The population of the study is made up of the entire officials of the Juaben Rural Bank and some selected SMEs in Ghana.

Simple Random sampling was used to select the operators of SMEs for the study. A sample size of one hundred (100) was used. The respondents comprise ninety (90) operators of SMEs and ten (10) officials from all the Juaben Rural Bank branches in Ashanti Region. Purposive sampling technique was used to select ten (10) respondents comprising five (5) senior staff and five (5) junior members.

Data analysis involved reducing the data into manageable size, giving summaries and using statistical inferences. In all hundred (100) questionnaires administered were received. The data collected was coded to enable the responses to be grouped and analyzed with the aid of Statistical Package for Social Science (SPSS).

1.6 Scope of the Study

The study covers the impact of rural banks financing SMEs in the Kumasi Metropolis. The deVaus (2002) formula was used to determine the sample size of hundred for the study. The researcher administered questionnaires to about ninety (90) SMEs operators in Kumasi metropolis and ten (10) officials of Juaben Rural Bank Ltd.

1.7 Limitation of the Study

Some of the challenges were unwillingness to respond to the questionnaire. However after establishing a very good rapport with these respondents, they responded to the questionnaires. Unavailability of fund was identified as a major setback to this study. This also put a lot of constraints on the respondents. The limited time frame, within which the researcher was to submit the study, put a lot of constraint on that researcher.

1.8 Organization of the Study

The research project is organized into five chapters. Chapter one is the introductory chapter which deals with background information on the topic, the problem statement, research objectives, and significance of the study. It also presents the questions the research seeks to answer as well as the limitations of the study. Chapter two is a review of the relevant literature of the study. Some of the notable areas that will be reviewed include concepts of small and medium scale enterprises, sources of finance of SMEs, and challenges the SME's face that are uniquely solve by Rural banks. Chapter three outlines in detail the research methodology, explaining how the research will be

conducted. It encompasses the general research strategy, study area, sources of data, target population, study site, sample size, sampling technique, data collection tools, data management and analysis. In chapter four, the data will be analyzed and findings presented in line with objectives of the study. This chapter will also present the extent to which the researcher was able to answer the research questions. Chapter five will be dedicated to the conclusions and recommendations based on the findings of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Rural and Community Banks

Rural and Community Banks (RCBs) are unit banks which provide financial intermediation its customers. Rural banks are incorporated under Companies Code of 1963 (Act 179) of Ghana as limited companies and shares are owned by members of the rural community (Nair and Fissah, 2010). The main aim for the establishment RCBs was to promote rural development with the intention to increase the standard of living of the rural dwellers (Kudiabor, 1974). Nissanke and Aryeetey (1998) established that in 1980 there was an increase of RCBs mainly to service the government's introduction of special cheques instead of cash payment to cocoa farmers.

According to the Association of Rural Banks (1992), the aims of Rural Banks are:

- I. to stimulate banking habits among rural dwellers;
- II. to mobilize resources locked up in the rural areas into the banking systems to facilitate development; and

III. to identify viable industries in their respective catchment [areas] for investment and development.”

2.1 History of Rural Banks

Since independence (1957), the government of Ghana had made several attempts to promote rural development in order to increase the living standard of the rural folks (Kudiabor 1974). Brown (1986) attributed the reasons for the failure of the government to begin the project before 1976. The reasons included high cost of living for farmers, and the lack of coordination between government agencies. According to Nair and Fissha (2010) before the establishment of the first rural bank in 1976, the main source of credit to the rural dwellers was made available by moneylenders. Small farmers and fishermen complained that the money lenders charged exorbitant interest rates. In an attempt to improve access to finance support in the rural communities the Government of Ghana took measure to address the challenges. As part of measures to address the challenge commercial banks were required to lend at the rate of 20% for credit facilities for agricultural uses. It was in this direction that the Agricultural Development Bank (ADB) was established in 1965 with the mandate of lending to agriculture and allied industries in rural communities of Ghana.

This was augmented by the opening of commercial banks and ADB branches in rural areas particularly cocoa-growing rural areas. It must be noted that despite these efforts lending to the rural communities remained extremely low. The rural branches were used mainly to effect payment to cocoa farmers whose produce had been purchased by the government. The branches were also used to collect deposits and provide other banking services such as granting of credit. As part of requirement for the granting of loans, collateral securities and deposit accounts were needed for. According to Andah and Steel (2003) many small farmers and fishermen did not have deposit

accounts in commercial banks, and had no collateral security for commercial lending. Mensah (1993) and Ranade (1994) also found out that the ADB's credit provision and coverage were inadequate. 27% of ADB branches were in rural communities and lending about 15 percent of its total portfolio to farmers. In view of this situation, the Government of Ghana (GoG) took it upon itself to support the establishment of community banks in rural areas to provide financial services in those areas. BoG sent a delegation to the Philippines to understudy the rural banking system in Philippines to enable the government establish to rural banks in rural farming and fishing communities.

2.2 Establishment and Growth of Rural Banks

According to Nair and Fissaha (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 to 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 Akuafu 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 GHc 1.5 million. It was mandatory for the BoG to acquire 43% of the total shares while the remaining 57% was to be acquired by the general public. The old c 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 old GHc 148,000 (1976) to old GHc 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 RCBs were bedeviled with so many challenges. As part of governance structure of RCBs the rural banks were required to have a board of directors in place. The boards of directors were inexperienced, 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 RCBs 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. Andah and Steel (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. Nair and Fissaha (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 RCBs; 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 RCBs 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 while 30% was acquired by a corporate body. These levels have been revised and consequently an individual share is capped at 30% while 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 Ackah et al., 2014, the Bank of Ghana has restructured Rural Bank lending procedures to the small scale rural producer benefit from the credit facilities they contract from RCBs. As part of the restructuring exercise BoG has developed an Operational Manual for all RCBs. It is a requirement that loan applications are accepted from individuals, groups, associations, and companies. The manual requires that rejection of loan application must be justified.

2.4.1 Group Loans

Loans are granted to groups based on mutual trust and respect among members. The maximum membership of a group was pegged at 20 members. Each group was to be headed by a group leader who was expected to have a clean loan record. Members of a group are held jointly liable in the case of default (Ackah et al., 2014).

The BoG has instituted a mandatory sectorial allocation for Rural Bank loans. Under the sectorial allocation it is required that the greater part of rural bank resources go to the agriculture sector. The BoG also made it mandatory for eligible farmers to cultivate 10 acres for vegetables and 100 acres for staple crops in order to qualify a loan facility.

To prevent loan beneficiaries from misapplying the facilities, the rural banks arrange for the supply of the inputs such as raw materials, seeds, fertilizers, equipment and machinery, etc. loan repayment period is determined based on the borrower's capacity to repay. A grace period is given to enable the borrowers to generate sufficient revenue to pay back the loan facilities. The Banks' Project Officers are required to monitor the beneficiaries to ensure judicious use of their loan facilities and timely repayment. In line with this routine and unannounced visits are paid by the Project Officers. Loans committee or board of Directors has been authorized to reschedule loans on grounds of unforeseen developments. Where there is default the case is referred to the Bank's lawyer(s) for action to be taken.

According to Ackah et al. (2014) the Bank of Ghana ordered a restructuring of the Rural Banks in 1990 in view of decline in profits and capital inadequacy. Some consultants were contracted to undertake a diagnostic study. A restructuring exercise was subsequently followed. The aim of the restructuring exercise was to determine financial strength, organizational capability, and management status as required by statute. The Banks' accounts and procedures were restructured. Internal control systems and management information systems were also introduced into rural banking. After the restructuring exercise, the capital adequacy requirement was increased from 2 to 55. This was part of measures to instill public confidence in the Rural Banks (Bank of Ghana, 1995).

2.4.2 Savings

RCB savings products comprise; regular savings accounts; current accounts; *susu* deposits; and fixed or time deposits. Regular savings deposits stand at about 58% of rural banks total number of clients and 57% of the entire rural banking deposit (Nair and Fissera, 2010). The RCB savings are small in size and short term. Low interest rate is paid on regular savings and is paid based on

the balance. Due the low amount required for the opening of such account most of the rural dwellers have access to this type of account. 21% of entire clients of rural banks are *Susu accounts*.

The susu deposit accounts for *only* 11% of the total rural banking deposit.

2.4.3 Credit

The credit facilities provided by RCBs include micro loans, personal loans, salary loans, *susu* loans, and overdraft facilities. Salary loans account for 33% of entire rural bank advances, personal loans is pegged at 24% and microfinance account for about 20 percent% of all rural bank deposits. In terms of the number of borrowers, microfinance, personal loans and salary loans accounts for 31%, 26% and 21% of the entire rural bank borrowings (Nair and Fissaha, 2010). Microfinance loans are grouped under trading and Agricultural loans. Microfinance and personal loans are actually used for agricultural production.

2.4.4 Money transfer and payments.

RCBs offer money transfer and payment services to their clients in partnership with the ARB Apex Bank. RCBs participate in local and international money transfers such as Western Union, Money Gram, and Vigo. Government agencies also use the RCB service outlets to transfer salaries and pension deposits. The rural banks are also used for the Clearing of cheque for cocoa purchases (Nair and Fissaha, 2010).

2.5. The Association of Rural Banks (ARB)

According to Nair and Fissaha (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 RCBs. 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.

2.6 The ARB Apex Bank

According to Nair 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 financial 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 RCBs through its 11 clearing centers across the country. Nair 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 RCBs to acquire bullion vans (Nair and Fissha, 2010).
3. **Treasury management:** The Apex Bank also offer brokerage services to the RCBs 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 (Nair and Fissha, 2010).
4. **Loan fund mobilization:** According to Nair 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. Nair 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 Nair 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 RCBs.

2.7 Small and Medium Scale Enterprises

Bolton committee (1971) identified SME as a firm with a small market share and mostly managed or run by its owner(s). The European commission (EC) identified small enterprise as a firm which employs between 10 and 99 employees while a medium enterprise was identified as a firm which employs between 100 and 499 employees.

UNIDO has also categorized firms in developing countries with 5-19 employees as small firms and firms with 20-99 employees as medium enterprise. The Ghana Statistical Service has identified small firms as firms employing 10 employees and medium scale enterprise as firm employing more than 10 employees. In view of the fact that it is largest sector of the developing economy, SMEs are the vessels through which the economies of developing countries could grow. Carroll (2011) established that SMEs which employ about 80% of the labour force in the country and contributes to about 49% of the country's GDP in 2012 (Ghana Banking Survey, 2013). National Board for Small Scale Industry also defines small enterprise as an enterprise which engages 10 workers and more and owns plant and machinery valued at 10 million cedis (US & 9506, using 1994 exchange rate).

From the various definitions above it could be noted that small and medium scale enterprises in Ghana employ between 5 to 100 workers. Bolton committee (1971) listed the sectors in the SMEs as manufacturing; construction; mining and quarrying; retailing; miscellaneous; service; motor trading; wholesale trade; road transport; catering etc. The SMEs which is dominated by the private informal sector engages about 86% of the entire population of Ghana (Ghana

Statistical Service, 2012). Carrol (2011) pegged the employment at the sector to about 80% and accounting for about 49% of the Gross Domestic Product in 2012 (Ghana Banking Survey, 2013).

Notwithstanding the tremendous contribution of the SMEs to socio economic development, the sector is bedeviled with so many challenges which affect their operations. Among them are registration and licensing requirements. The cumbersome nature of laid down procedures to be followed in registering and commencing SME enterprise in Ghana has also been identified as a challenge. Adu-Amankwah (1999) has grouped the SMEs into rural and urban informal sector. Among the SMEs in the rural communities are Agriculture, fishing and fish processing, rural agro-based processing activities. The following are some informal sector groupings of SMEs in Ghana. The Ghana Private Road Transport Union (GPRTU), Ghana National Chemical Sellers Association, Ghana National Tailors and Dressmakers Association, National Drinking Bar Operators Association, Chop Bar Keepers and Cooked Food Sellers Association, Hair Dressers Association of Ghana, Susu Collectors Association, Blacksmiths and metal workers union, amongst many (Yankson,1992).

2.8. 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.

2.9 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. Carrol (2011) 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 hoes and cutlasses instead of the sophisticated combined harvesters for their operations.

2.10 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 (Fredua (2007)). 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. Carroll (2011) 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 & 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.

4. Provision Social and Economic Infrastructure

SMEs contribute tremendously to infrastructure of Ghana. Activities of SMEs include provision of schools such as private junior high, senior high and tertiary institutions. Some SMEs are found in the construction of bore holes, a major source of water for the rural dwellers. SMEs therefore argue the effort of government so far as the provision of social and economic infrastructure is concerned.

2.11. Constraints to Small and Medium-scale Enterprises Development

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

1. 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 (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.

2. Domestic 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.

3. 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 (Carrol, 2011). 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.

4. 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.

5. Access to Skilled Labour

One of the major challenges of the SMEs is access to skilled labour force. According to Banking Survey (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.

2.12 Credit Policies

The main function of Rural and Community Banks (RCB) is to extend credit to SMEs (Ampah, 1996). However before rural banks can administer effective credit system they should be guided by effective credit policies. The main aim of effective credit policies is to administer effective credit administration or management. Bank of Ghana (1985) has documented credit policies for

rural banks in Ghana. The document referred to as Part II of the Bank of Ghana Operational Manual for Rural Banks was issued in 1985. The document outlined procedures for credit appraisals, approval process, borrowing limits, monitoring and rescheduling and defaults for rural banks.

Credit Administration

According to Guidelines for Commercial Banks for Pakistan Banks (2010) credit administration involves:

- a. **Documentation.** Management should ensure the completeness of certain documentations such loan agreements, guarantees, transfer of title of collateral securities to conform to approved standards.
- b. **Credit Disbursement.** Management should ensure that loan application are approved and subsequently entered into the computer systems. Disbursement of loans is made after the completion of the loan agreement and the recommended collateral securities are received.
- c. **Credit monitoring.** After the disbursement of the loans there should be continuous monitoring of loans to ensure credit terms are being complied with. Remedial actions should be taken where there are deviations.
- d. **Loan Repayment.** There should be effective communication to borrowers about the terms of repayment. The terms of repayment includes the time, the amount (principal/markup), number of installments etc.
- e. **Maintenance of Credit Files.** Financial institutions should develop standards for maintenance of their credit files.
- f. **Collateral and Security Documents.** Financial Institutions should ensure that all documents on collateral securities should be kept safely. Moreover asset registers should be kept to ensure

that banks keep track of the movement of assets. Insurance covering certain collateral securities should also be renewed when they expire. Physical checks on security documentation should be looked at regularly.

2.13 Financing Small and Medium Enterprises 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. Basu et al. (2004) 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 (HFC Bank, 2004). 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 bedeviling the operations of SMEs in Ghana (Arthur, 2003; Baldock, & Whittam, 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 from abroad. Individual remittances stood at US\$1,678.6 million and US\$1660.3 million in 2008 and 2007 respectively (Akorsu and Agyapong, 2012).

Since equity fund available to SMEs are woefully inadequate there is the need to fall on debt as an alternative source of funds. In view of this, it is often important that external funding is injected to support the activities of SMEs in Ghana.

As pointed out by Basu et al. (2012) only a few SMEs contracted loans from banks. (Akorsu and Agyapong, 2012) established that apart from moneylenders SMEs could access credit from banks

on condition that they convince bank officials of their management's awareness and competency to cope with business risks as well as satisfy providers of funds that they are taking an acceptable risk and will receive reasonable return. Banks (Lenders) normally grant loans based on the applicant's capability, transparent relationship and mutual trust the bank (lender) has built with the loan seekers. Cook and Nixson (2000) buttressed this assertion when they suggested that credit is granted based on information asymmetry. Fischer (1995) posited that information asymmetry can be resolved by demonstrating creditworthiness and business viability. The inability of SMEs to contract loans from is attributable to poor accounting practices and poor record keeping from loan seekers. Tagoe et al. (2005) stated that Banks need collateral security as a requirement to manage the risk associated with granting loan facilities. According to Akorsu and Agyapong. (2012) SMEs financial break through is dependent on the ability of management of such enterprises to accomplish their planned business targets and its ability to predict and achieve positive outcomes to satisfy repayment conditions. Owners of SMEs do not consider the risk of failure of their business when they seeking debt financing. However, providers of capital are mostly interested in the survival of such business and their ability to repay loan facilities. Accounting Web (2003) itemized internal causes such as poor financial management practices, product positioning, inadequate business management experience, inappropriate management practices and external causes such as high cost of compliance with regulation, fierce competition, and difficulty in obtaining external funding are likely to lead to the collapse of such enterprises.

2.14 Rural Banks Finance for SMEs in Ghana

In Ghana, most of the SMEs are funded and managed by their owners or family members. According to Ackah et al (2014) about 5% of SMEs use the banks credit as start-up capital whiles about 10% of existing SMEs fall on banks for assistance to improve their operations. Traditionally

SMEs encounter problems when approaching financial institutions for finance to support capital investment and to provide working capital to enable them improve their operations (Tucker and Lean, 2003). Poor financial records, lack of credit history, vulnerable economic and financial shocks, culture constraint have been cited as reasons for SMEs inability to contract loans from banks (The Ghanaian Banker, October-December 2003, vol.4). Another challenge banks face when granting credit to SMEs is Moral hazard. The inability of provider of capital to control how granted loans are utilized by owners of SMEs is known as moral hazard. Stiglitz and Weiss (1981) are of the view that owners of SMEs divert the loans they contract from banks into investment in highly risky projects with higher returns. Since the banks keep investors money as trustees they may not willing to extent credit to most SMEs. The banks may have several reasons for not granting enough credit to SMEs but banks should take a second look at the sector in view of its impact to the Ghanaian economy.

2.15 Challenges Banks face in Supplying Services to SMEs

There are several reasons militating against banks resolve to lend to SMEs. Among are the following.

1. Information and Risk

According to Ackah et al (2014) SMEs have high failure rates and for that matter banks need to be selective in extending credit to players of the sector. Financial institutions find it extremely difficult to ascertain the credit worthiness of SMEs in view of the unavailability of information.

The major challenge Banks face so far as information is concerned is information asymmetry. Stiglitz and Weiss (1981) established the disparity between the information available to the loan applicants and providers of capital is known as information asymmetry.

2. Collateral

Tagoe et al. (2005) stated that Banks need collateral security as a requirement for granting credit to SMEs. The essence of collateral security is to offset losses in the unlikely event that default crop up. Ackah et al (2014) are of the view that some the owners of SMEs owned some properties required for granting credit they may not have proper title and thereby making it difficult for banks to accept them. Due to lack of collateral security only a few SME operators are able to contract loan from banks.

3. Cost

Banks incur costs to do a business. The cost includes costs incurred to assess credit, process and monitor loans. There is also a transaction cost which has direct relationship with profitability. High transaction cost lowers the expected returns. 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. The cost involved in processing and monitoring SME loan far exceeds that of loans granted to the formal sector. According to Ackah et al (2014) granting loans to SMEs which involves gathering of information and processing of an application involves take about 24 days as against 16 days needed to process loans for large scale enterprises.

4. Lack of reliable information

Ackah et al., 2014 established that unlike the large scale enterprises, owners of SMEs are not transparent which means they do not open doors to outsiders. Owners of SMEs are noted for giving inaccurate information particularly about the profit they earn which affects their tax liabilities. Banks grant credit depending upon the information available to them. Transparency can help address the challenge SMEs face in accessing credit from the financial institutions. If relevant and reliable information are made available to providers of capital it would be easy to ascertain the

creditworthiness of SMEs and bring risk of default to the barest minimum. According to Ricupero (2002) established that part of the reluctance of banks to lend SMEs is the inability of providers of capital to estimate the risk because of lack of reliable financial information.

5. Lack of adequate financial statements

According to Ackah et al (2014) a large number of SMEs do not prepare financial statements.

The company's code of Ghana, Act 179 does not require SMEs to prepare financial statements. Since SMEs are not lawfully bound to prepare financial statement some the financial statements they prepare are not reliable. Most developed and developing nations do not prepare accurate and reliable financial information, which could be depended upon users of financial statement such as creditor or investors to take decisions (Ricupero, 2002). Bass and Schrooten (2005) established that lack of accurate information leads to high interest rates irrespective of the relationship between the borrower and the providers of capital. It is a practice in Ghana that banks grant credit or loans base on audited financial statements. Audited financial statements improve borrower's credibility and therefore reduce risk for lenders (Sacerdoti, 2005). Berry and Brian (1994) established that lenders in the UK are interested in accounting information in order to deal with the loan applications they receive from SMEs. Audited financial statements may reduce information risk which enables providers of capital to charge low interest rates. The ability of the loan applicants to provide credible financial statements, establish credit bureaus and provide accurate financial data are important to encourage the expansion of credit, promote competition in the banking systems, and thereby reduce the cost of credit to loan applicants (Ackah et al., 2014). In many countries, providers of capital are unwilling to extend credit to SMEs, however the inability of the applicants to prepare audited or credible financial statement enhances the borrowers' chances of securing the loans.

6. Opaqueness of Small Enterprise

According to Ackah et al (2014) banks are bedeviled with two fundamental problems namely the small size of transactions and opaqueness in SMEs. The owners of SMEs are not interested in surrendering control to outsiders. One of the challenges in lending to owners of SMEs depend on unwillingness of SMEs to relinquish control to outsiders. SMEs see access to credit from providers of capital as a means of relinquish control to them.

7. Credit Rating Agency

According to Ackah et al (2014) lending to SMEs is a major challenge for banks. This is because there is the need to make accurate risk assessment of loans applications without causing high cost per application. Credit rating agency is one of the ways of assessing risk of loans. Sacerdoti (2005) established that in advanced countries databases centralizing information on borrowers by the private sector. Ackah et al (2014) established that in the developed countries credit rating agencies publish general financial details of many companies, together with a credit rating. The credit rating agency charge fees on request in order to produce a special report on the creditworthiness of companies. Credit rating agencies lend credibility to SMEs. Credit rating agencies provide information which help to reduce risk of default. There is lack of credit bureaus and other mechanisms for collecting and exchanging information on payment performance. This unavoidably aggravates the informational asymmetries between SMEs and providers of capital.

2.16 Constraints SMES Face In Accessing Finance

Ackah et al (2014) stated that SMEs are the main axle in the Ghana private sector as the engine for growth agenda as announced by the government. Ayyagari et al (2006) established that SMEs face challenges in their operations and growth than large enterprises. Access to financial services particularly bank credit is a major constraint bedeviling SMEs (Cuevas et al., 1993).

1. Collateral Security

According to Ackah et al (2014) the main cause bedeviling SMEs ability to contract loans from banks is lack of collateral security to back credit facilities as required by the financial institutions. The current system of land ownership and transfer regulation which limits SMEs access to credits has been cited as an example. In Ghana there is lack of legal title to most of the useable land and thereby debarring them from being used as collateral security. Under the constitution of the Republic of Ghana there is embargo on the transfer of stool and family land which has further limited land available to be used as collateral security. Moreover where there is title or lease transfer regulation there may be unnecessary delay in the processes and finalizing of mortgages rendering the borrower incapable to contract loans from banks. According to Cuevas et al (1993) availability of collateral plays an important role in the readiness of banks to lend to SMEs. Collateral provides an incentive to repay and offset losses in cases of default. They indicated in their study that 65% of the sampled SMEs had applied for bank loans for their businesses in the past but a large proportion of such enterprises had their applications rejected. Lack of adequate collateral has been cited by Ackah et al (2014) as the main reason thwarting the banks unwillingness to extend credit to SMEs. Providers of capital may avoid lending to smaller lesser known clients particularly SMEs or impose strict collateral requirements when they do. Aryeetey et al (1993) established that for a lender to face information asymmetry, the issue often becomes somewhat persuasive authority he or she holds in ensuring repayment. The transaction cost increases and consequently the probability of default is assumed to be high.

2. Strict vetting of credit applications

Kwaning et al (2015) stated that Banks are strict when vetting credit applications of owners of SMEs. According to them, Mr. Apenteng, the vice president of the Association of Ghana

Industries (AGI), (2010) said banks were more stringent when appraising credit applications of SMES thus subjecting applicants to awkward credit procedures. The procedures involved in vetting loan applications was a waste of time and the time that loan applications are approved the main purposes of contracting the loan might have expired.

3. Short period for repayment

Kwaning et al (2015) stated that loans received are less than the amount applied for and short repayment periods are given for the repayment of the loans. Ricupero (2002) also buttressed the assertion that commercial bank loans granted to SMEs are required to be repaid any sizeable investment within a short period. It must be noted that the majority of commercial bank loans granted to SMEs are often limited to a short period of time to pay off any sizeable investment Abereijo and Fayomi (2005).

4. Unaware of factors financial institutions take into considerations

According to Kwaning et al (2015) SMEs are unaware of the factors that providers of capital take into consideration before lending to its borrowers. In order to safeguard against risky borrowers, banks are not noted for lending to whoever would be willing to pay higher interest rates. Consequently, Banks have so many ways of checking credit worthiness of loan applicants.

Banks lend to SMEs, which have the capacity to repay the loan they contract (Ocansey, 2006). Kwaning et al (2015) found out that a key factor that make the SMEs disabled from accessing financial assistance from banks was lack of understanding of the operations of banks and vice versa. It has been established that SMEs suffer from the frustration of delay when contracting loans from banks. Banks require audited financial statements, business plan, and proposal before they lend to small business. Most SMEs lack the expertise to prepare financial statements, business plan etc. These requirements thwart SMEs effort to access loans from banks (Kwaning et al., 2015).

2.17 Government institutions and development partners to help SMEs

According to Kwaning et al (2015) right after independence, successive governments have established various institutions to help solve SMEs persistent financing gap. Governments and development partners arouse the flow of financial resources to SMEs. It must be emphasized that most SMEs are informed about the existence of these institutions. The government of Ghana in collaboration with donor agencies has introduced a number of schemes to make funds available to SMEs. Among the schemes are Business Assistance Fund, Ghana Investment Fund, Export Development and Investment Fund (EDIF) etc.

1. Business Assistance Fund

The Business Assistance Fund which commenced in the 1990s offers loans provided by the government to the SMEs. It must be pointed out that the scheme was abused in the sense that most of the loan beneficiaries were perceived to be the supporters of the ruling government Kwaning et al (2015).

2. Ghana Investment Fund

Ghana Investment Fund Act (Act 616) was passed in 2002. The main objective of establishing the fund was to offer credit facilities by selected financial institutions to companies. It must be established that the scheme was never implemented (Kwaning et al., 2015).

3. Export Development and Investment Fund (EDIF)

Under the EDIF scheme, 15% subsidized interest rate is chargeable on funds companies borrow. The act allows companies to borrow up to \$500,000 over a five-year period. Kwaning et al (2015) established that the scheme is administered through the banks even though the EDIF board

maintains tight control, approving all the credit recommendations of the participating banks (Mensah, 2004).

4. Guarantee Facilities

Government of Ghana has been empowered by Section 13 of the Loans Act of 1970 (Act 335) to act as a guarantor to any external financiers who may wish to loan funds to any Ghanaian organization on condition that such facility require the provision of guarantee from the Government. According to Kwaning et al (2015) guarantee facilities are contingent liabilities of the Government. As stipulated in the Act the government is bound to repay the loan if the borrower is unable to repay the facility. Currently, Exim guaranty Company is the company which has government-supported loan guarantee scheme (Mensah, 2004).

5. Financial Illiteracy

Kwaning et al (2015) financial illiteracy and complexities is a major challenge bedeviling SMEs throughout the world and has been recognized as one of the key reasons why SMEs are unable to contract loans. Most SMEs, which are not able to understand the lengthy requirement, are also unaware 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 SMEs are doing a good job by extending credit facilities to SMEs, but they sometimes do not tell the truth. Some of these institutions take advantage of weakness of in education as a justification for not giving detailed explanation on interest rates and other issues about the loans they grant to SMES.

CHAPTER THREE

METHODOLOGY AND ORGANIZATIONAL PROFILE

3.0 Introduction

This chapter comprises the methodology used to achieve the objective of the research. The study seeks to determine rural banks financing of SME's. The methodology consists of the population sampling, sampling frame, primary and secondary data, data collection instrument and data analysis techniques.

3.1 Research Design

The research design used for the study was the case study approach. The purpose of this study is descriptive. Case study involves the use of both qualitative and quantitative research. The research design includes hypotheses. The researcher used primary and secondary sources of data for the study.

3.2 Sources of Data

Both primary and secondary data were used in conducting the research.

3.2.1 Primary Data

Primary data obtained through administered questionnaire was used for the study. The Primary data was gathered from Juaben Rural Bank Ltd and the Small and Medium Scale Enterprises in Kumasi.

The researcher personally administered the questionnaires to the Owners of SMEs and the Officials of Juaben Rural Bank Ltd. The administered questionnaire mainly consisted of closeended and a few open-ended questions. These helped the researcher to analyze the data both qualitatively and quantitatively.

3.2.2 Secondary Data

Secondary sources of data gathered from both published and unpublished materials on rural banks which included financial statements, articles, newspapers, journals, internet materials and in-house corporate materials were also used to support the primary data.

3.3 Population

The population of the study is made up of the entire of officials Rural Banks and SMEs in Ghana.

3.4 Sample and Sampling Techniques

Since the entire populations could not be used for the study, a sampling technique was used to determine the sample size.

Simple Random sampling was used to select the operators of SME for the study. A sample size of one hundred (100) was used for the study. The respondents comprise ninety (90) operators of SMEs and ten (10) officials from all the Juaben Rural Bank branches were used to conduct the study.

A selection of respondents from the Juaben Rural Bank was based on purposive sampling technique. The ten (10) respondents were made up of five (5) senior staff and five (5) junior members.

3.5 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 hundred (100) questionnaires were administered and received from SME's and staff of Juaben 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. Descriptive statistical tools such as bar graph, pie charts, mean and mode were used to analyze the data collected.

3.6 Organisational Profile

3.6.1 Juaben Rural Bank Limited

Juaben Rural Bank Ltd was incorporated as a rural bank on 24th October, 1984. The head office of the bank is located at Juaben in the Ashanti Region of Ashanti. Juaben is about 30 kilometers away from Kumasi. The bank has opened branches at Ejisu, Kwaso, Bonwire, Aboaso, Roman Hill, Magazine New Road and Sepe Timpomu. Currently the bank has nine branches. The bank is the 93rd to be established in Ghana and the 18th to be established in the Ashanti Region. Since its establishment in 1984 it has built a reputation as one of the leading rural banks in Ghana (<http://www.juabenruralbank.com/index.php/about-us/company>).

Shareholding / Deposits

The initial share capital of Juaben Rural Bank Ltd was estimated at GHC 2,213.98. It adjudged to be the highest in the country when the bank commenced operations in October 1984. 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 Juaben 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. There is a group account for economically active people who may not have a strong capital base. Daakye Nti Investment is also designed to afford customers the opportunity to mobilize long term savings to take care of future contingencies particularly retirement. It also includes other eventualities such as school fees payment, etc. Some of the products Juaben Rural Bank offers include Current & Savings Accounts, Deposit Account, Susu Account, overdraft facility, consumer credit, Daakye Nti Investment Account, Domestic Money Transfer and Apex link. Other services the company provides include Funeral loans, consumer credit, micro finance, Bankers' draft, Salary Advance, Cash collection etc. (<http://www.juabenruralbank.com/index.php/about-us/company>)

The management of Juaben 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. Currently the bank is ranked 39th in rural banking and takes the 65th position on the Ghana Club 100 ranking. The bank also honours its corporate social responsibility (Daily graphic, 2011).

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

The chapter presents the data gathered from the field, analyzes and presents the findings of the study. The data was collected in accordance with the study's objectives. The data has also been

presented in relation to the literature review. It contains a descriptive information of the sampled SMEs as well as that of the bank officials of Juaben Rural Bank limited. The data has been presented in the form of graphs, charts and tables.

SMEs samples were selected based on non-probability sampling method of random sampling, specifically the purposive sampling technique. This method ensured that representative samples of all the known elements of the population were covered in the sample. A total of 100 questionnaires were administered out of which 100 were successfully returned. This represent a total of 100% response rate. Out of the successful returns comprise 90 SME operators and 10 bank officials.

4.1 Demographic data of SME Respondents

Table 4.1- 4.7 summarizes the demographic data of SME respondents.

Table 4.1 Gender

Variable	Frequency	Percentage
Male	54	60%
Female	36	40%

Source: Field Survey, July 2015

From the above table, 60% (54) of the respondents were male SME operators while 40% (36) of the respondents were female. The research revealed a ratio of 1:1.5 with regard to female and male distribution. The ratio indicated enough evidence of 60% of male dominance, thus, laying credence to the assertion that there is an unfair gender balance in the SMEs in the Kumasi Metropolis.

Table 4.2 Ages of the Respondents

Variable	Frequency	Percentage
16-30 years	15	16.67%

31-50 years	62	68.89%
51-60 years	13	14.44%

Source: Field Survey, July 2015

Table 4.2 show that, out of the 90 SMEs sampled, (15) of them representing about 17% falls within the ages of 16-30 years. This is closely followed by 31- 50 age group which constitute about 69% (62) of the respondents. Whilst about 14% representing (13) respondents fall within 51-60 year group. This shows that majority of the respondents are in the middle age.

Table 4.3 Marital Status

Variable	Frequency	Percentage
Single	15	16.7%
Married	66	73.3%
Divorced	7	7.8%
Widow	2	2.2%

Source: Field Survey, July 2015

Table 4.3 above indicates that, about 17% (15) of the respondents stated they were single, 73% (66) of the respondents were also married, and 8% representing (7) of the respondents reported they were divorced whilst the remaining 2% (2) were widow.

Table 4.4 Level of Education

Variable	Frequency	Percentage
Low / Basic	2	2.2%
Intermediate / Secondary	45	50%

High/ Tertiary	27	30%
Postgraduate	18	17.8%

Source: Field Survey, July 2015

From the above table, the research revealed that out of 90 who responded to this, as low as 2% (2) of the entire respondents had no formal education, while 50% (45) respondents had secondary education. The study also reviewed that 30% (27) of the respondents had tertiary education. 17.8% (16) of the respondents had basic education. Since majority of respondents had secondary education, it was assumed that the respondents were knowledgeable and handling their businesses.

Table 4.5 Business Activities

Variable	Frequency	Percentage
Trade Enterprises	45	50%
Service Orientation	31	34.4%
Manufacturing Business	14	15.6%

Source: Field Survey, July 2015

Table 4.5 above shows that, 50% (45) out of the 90 respondents, were engaged in trading activities. About 34% (31) of the respondents were engaged in service oriented Business. And 16% (14) of the respondents were engaged in Manufacturing Business. The banking institution should concentrate on trading activities since majority of the SMEs respondents are engaged in that sector.

Table 4.6 Business Ownership

Variable	Frequency	Percentage
Sole Proprietorship	63	71.6%

Partnership Business	12	13.6%
Limited Liability Company	13	14.8%

Source: Field Survey, July 2015

The above table, classifies that out of 90 respondents, about 72% (63) were sole proprietors. This is in line with Carrol (2011) 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 metropolis. About 14% (12) were engaged in partnership Businesses. Whilst about 15% (13) indicated they were engaged in Limited liability companies.

Table 4.7 Years of Experience

Variable	Frequency	Percentage
Less than 1 year	6	6.7%
1-5 years	28	31.7%
6-10 years	22	24.4%
Above 10 years	34	37.8%

Source: Field Survey, July 2015

The above table which classifies the years of experience of the SME operators, about 7% (6) of the respondents had being in the business for less than a year, about 31.7% (28) had worked between 1-5years whiles 24.4% (22) had worked between 6-10 years. And about 38% representing 34 respondents, modal class for this distribution, had over 10 years“ experience. Majority of the respondents had worked for above 10 years and this puts them in a better position to manage their businesses appropriately.

4.2. Demographic data of Bank Officials

Table 4.8 to 4.9 presents the demographic data of Bank Officials.

Table 4.8 Status of Bank Officials

Variable	Frequency	Percentage
Credit Officers	8	80%
Assistant Accountant	2	20%

Source: Field Survey, July 2015

The above table indicates that 80% (8) of the respondents were Credit Officers, whilst 20% (2) were also rank as Sub Assistant Accountant. Since majority of the respondents were directly in charge of credit it is assumed that the information given would assist the researcher in matters relating to the impact of rural banks financing SME's.

Table 4.9 Years of Experience of Bank Officials

Variable	Frequency	Percentage
3 years	2	20%
4 years	1	10%
5years	5	50%
Over 5 years	2	20%

Source: Field Survey, July 2015

The table above shows that 20% (2) of the respondents had worked with Juaben Rural Bank for 3 years. 10% (1) of the respondents had worked for 4 years. 50% (5) has also worked for 5 years whilst 20% (2) of the respondents had worked in the bank for over 5 years. It could be assumed

that the information given by the respondents puts the officials in a better position on how the bank has been in operation and its impact on SME's.

4.3 Challenges SMEs face in Accessing credit

Rejection of SME Loan Application

In response to the question which sought to find out the challenges SMEs operators face in accessing credit from rural bank. Their responses are shown in figure 4.1 below.

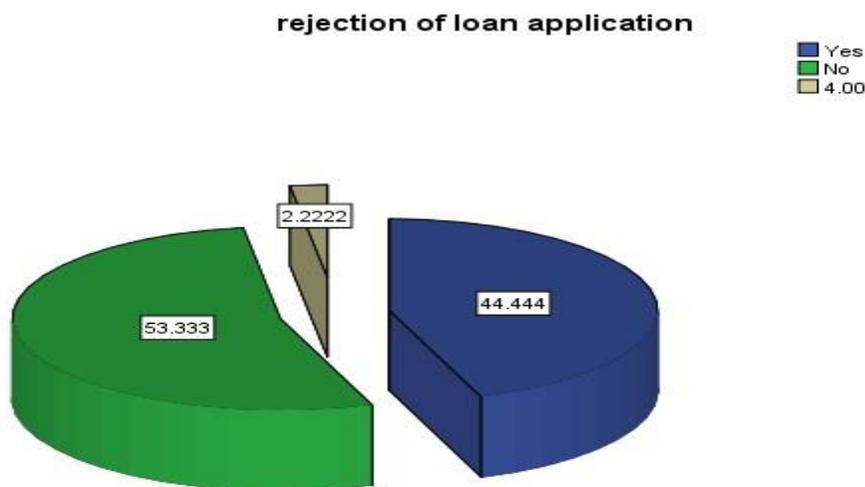


Figure 4.1: Responses on Whether Savings Is a Requirement for Credit

Source: Field Survey, July 2015

From figure 4.1 above, 44.44% (40) of the respondents stated that their loan application had been rejected before. However more than half of the respondents, 53.33% (48) stated their loan application had not been rejected before. Among the 44 respondents who gave reasons for the rejection of their application.

Basis for Rejection

Majority of the respondents cited the basis for rejection as lack of collateral security, unprepared financial statements and limited years of operation.

Major Problems SME face when accessing credit from banks?

The SME respondents were asked about the problems they face when accessing credit from the banks. Their responses are shown in table 4.10 below

Table 4.10: Problems Sme Face When Accessing Credit from Banks

	Responses		Percent of Cases
	No.	Percent	
lack of collateral /guarantors	69	29.7%	80.2%
High interest rates	52	22.4%	60.5%
Inadequate compiled financial records and accounts	36	15.5%	41.9%
Poor credit experience or history	18	7.8%	20.9%
Problems SMEs face in Poor past and projected accessing Credit cash flows	18	7.8%	20.9%
inexperience management team or lack of professionalism	23	9.9%	26.7%
Inadequate technologies	6	2.6%	7.0%
Low rate of return on capitals	6	2.6%	7.0%
Limited knowledge of business opportunities	6	2.6%	7.0%
Total	232	100.0%	269.8%

Source: Field Survey, July 2015

From the table 4.10 above, out of 232 responses representing 269.8%, 80.2% (69) responses assigned lack of collateral / guarantors as a problem faced in accessing credit from banks. 60.5% representing 52 responses assigned high interest rate as one of the main problems faced in accessing credit from banks. 41.9% representing 36 responses assigned inadequate compiled financial records and accounts as one of the problems they encounter in accessing credit from banks. 20.9% representing 18 responses stated poor credit experience or history as one of the main problems faced in accessing credit from banks. 20.9% representing 18 responses stated poor past and projected cash flows as one of the main problems faced in accessing credit from banks. 26.7% representing 23 responses stated inexperience management team or lack of professionalism as one of the main problems faced in accessing credit from banks. 7% representing 6 responses stated inadequate technologies as one of the main problems faced in accessing credit from banks. 7% representing 6 responses stated low rate of return on capital as one of the main problems faced in accessing credit from banks. 4.7% representing 4 responses stated limited knowledge of business opportunities as one of the main problems faced in accessing credit from banks.

4.4 Appropriateness of Credit Policy

Is it a requirement for SME to save with the rural banks before they qualify for loans?

The respondents were asked to ascertain whether it was a requirement to save with the rural bank before they qualify for loans. Details of the responses are outlined in figure 4.2 below.

From figure 4.2 below, as high as 96.7% (87) of the respondents stated that it was a requirement for SMEs to save with the banks for a period before they qualify for loans. However 3.3% (3) stated it was not a requirement.

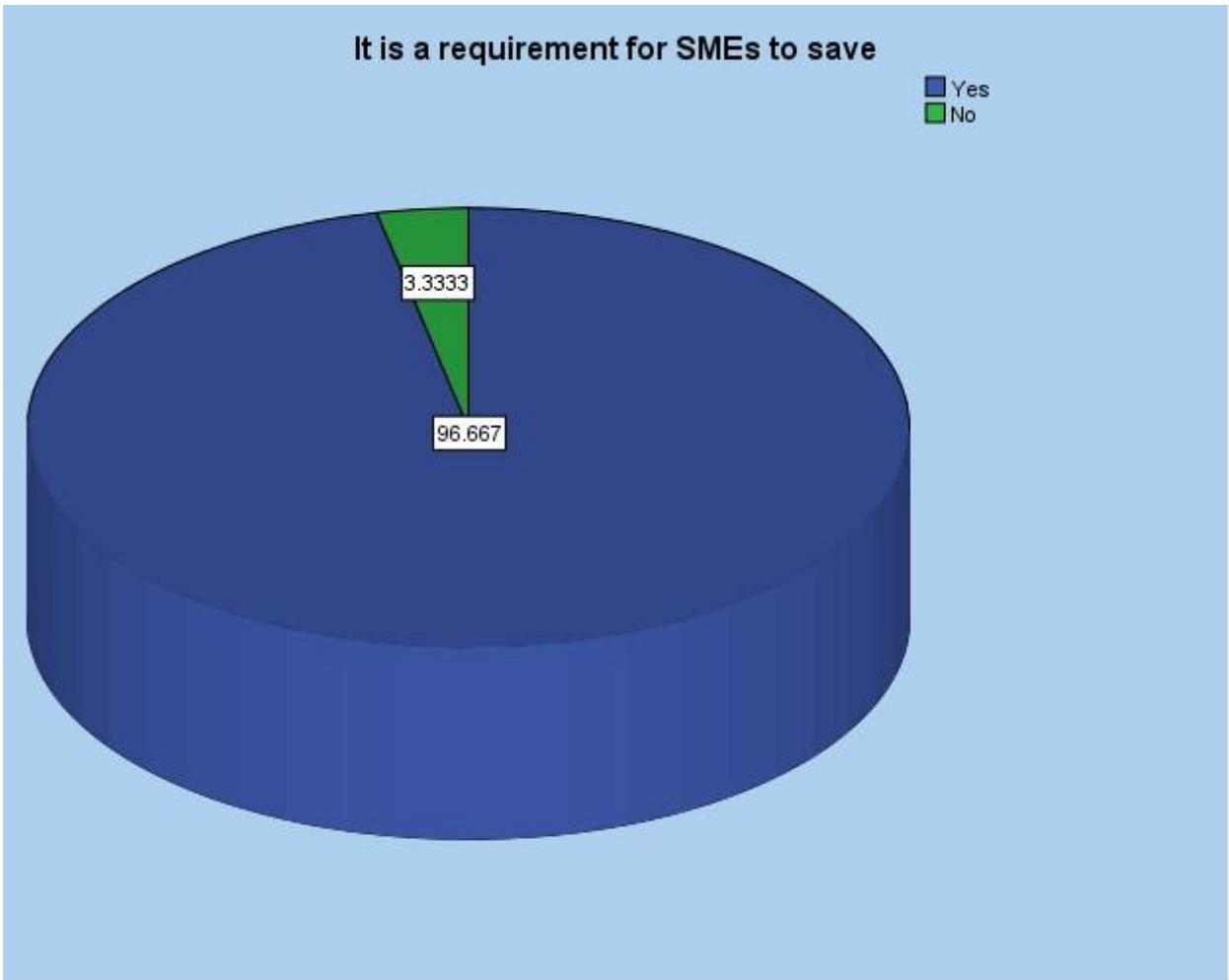


Figure 4.2: Responses on Requirement for Credit

Source: Field Survey, July 2015

4.4.1 Period of saving with the bank to qualify for loans

A question was posed to ascertain the specific period SMEs are required to save to qualify loans.

Details of the responses are found in figure 4.3

From the figure 4.3 below, out of 82 respondents who responded to this question, 87.8% (72) respondents representing absolute majority stated they saved for less than one year to qualify for loan facilities. 9.8% respondents stated they saved for between 1 to 5 years before they qualify to

contract loan facilities. And 2.4% respondents stated they saved for over 10 years before they qualify for loan facilities

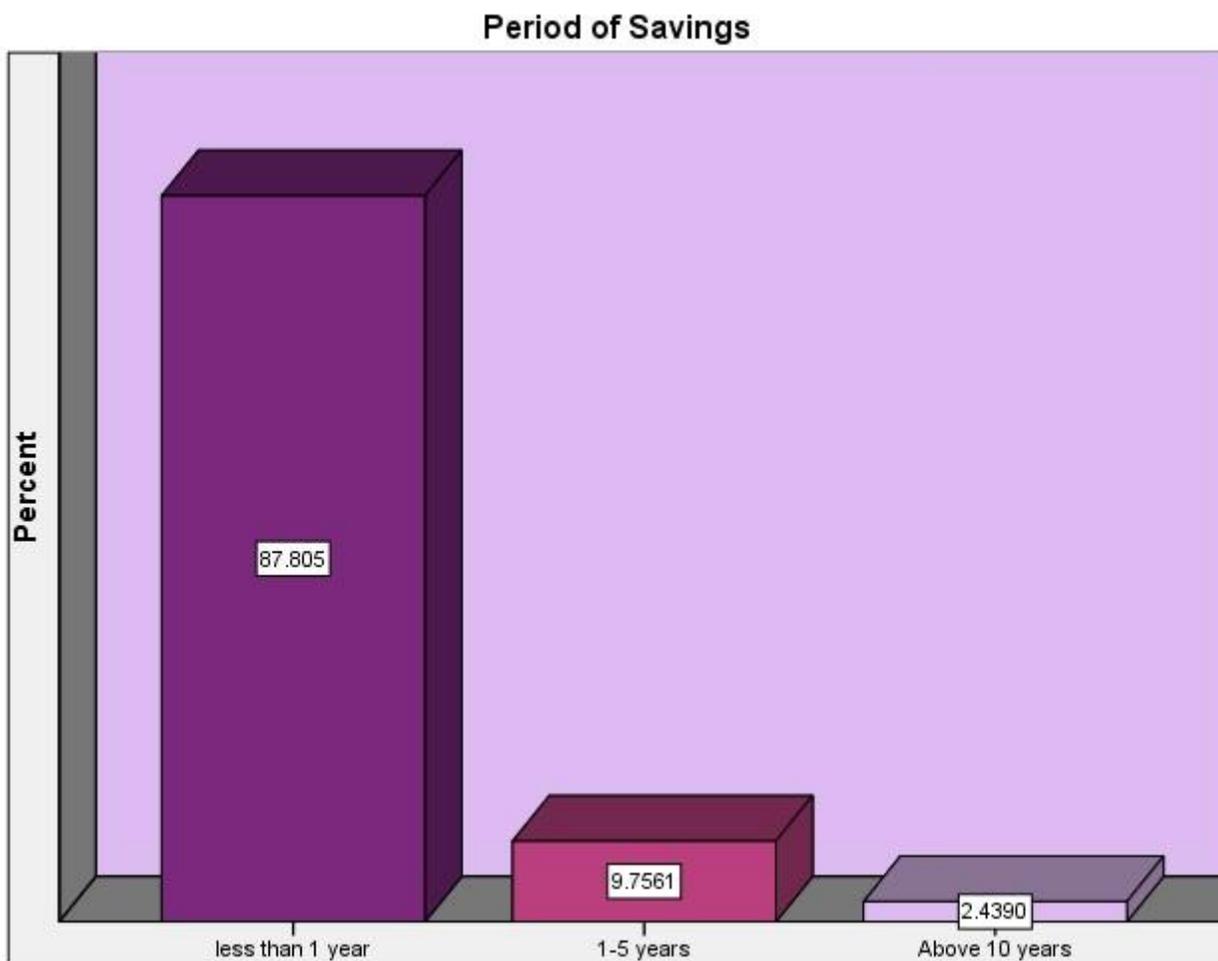


Figure 4.3: Responses On Required Savings Period For Credit

Source: Field Survey, July 2015

4.4.2 Ways of Requesting for financing

Details of the responses on ways of requesting for loan/ credit from rural banks are found in table 4.11

Table 4.11: Responses on How to Apply For Credit from Rural Banks

	Responses		Percent of Cases	
	No.	Percent		
How SMEs request for financing the branch	Write an Application letter	26	22.6%	29.5%
	Fill Application form at	71	61.7%	80.7%
	Other	18	15.7%	20.5%
Total	115	100.0%	130.7%	

Source: Field Survey, July 2015

From the table 4.11 above, out of 115 responses representing 130.7%, 29.5% (26) indicated they write letters to apply for credit from rural banks. 80.7% (71) stated they fill application forms whenever they apply for loans. However, 20.5% (18) stated that the banks require other forms of application. It was noted that the SMEs are required to support their application with certain documentations such as business certificates of registration, business financial statements, business plan, personal financial statements and appraisals of assets to be financed.

Table 4.12: Responses on Loan Supporting Documents

	Responses		Percent of Cases	
	No.	Percent		
Required Documents	Business certificates of registration	57	46.0%	77.0%
	Business financial statements	23	18.5%	31.1%
	Supporting Business plan	17	13.7%	23.0%
	Appraisal of assets to be financed	8	6.5%	10.8%
	Cash flow projection	8	6.5%	10.8%
	No document	15	12.1%	20.3%
Total				

	4	3.2%	5.4%
	124	100.0%	167.6%

Source: Field Survey, July 2015

From table 4.12 out of 124 responses representing 167.6%, 77% (57) representing the majority stated Business registration certificates were required for processing loans. 31.1% (23) stated financial statements were required for processing loans for SMEs. 23% (17) stated Business plan was required for processing loans for SMEs. 10.8% (8) stated Appraisal assets to be financed were required for processing loans for SMEs. 20.3% (15) stated cash flow projections were required for processing loans for SMEs. Lastly 5.4% (4) stated no documentation were required for processing loans for SMEs.

4.5 Contribution of Rural Banks to the Growth of SMEs

Type of Bank Account Held

To verify the authenticity of perception that SMEs were required to open accounts to qualify for loans, a question was posed to SMEs about the types of accounts they hold at the rural bank and the number of the years they had held the accounts. From table 4.13, 33.3% (30) respondents indicated they had savings account. 60% (54) respondents indicated they had current account while 6.7% (6) respondents indicated they had fixed deposit account.

Table 4.13: Accounts Held

Type of Bank Account	Frequency	Percentage
Savings Account	30	33.3%
Current Account	54	60%

Fixed Deposit Account

6

6.7%

Source: Field Survey, July 2015

Period of Accounts

The table below shows that, 8.9% (8) respondents indicated they had held the account for less than 1 year. 62.2% (56) respondents indicated they had held the account for 1 year to 5 years. 22.2% (20) respondents indicated they had held the account for between 6 to 10 years. 6.7% (8) respondents indicated they had held account for more than 10 years.

Table 4.14: Period of Holding Accounts

Period	Frequency	Percentage
Less than 1 year	8	8.9%
1-5 years	56	62.2%
6-10 years	20	22.2%
Above 10 years	6	6.7%

Source: Field Survey, July 2015

Reasons why a particular bank was chosen

The respondents were asked to ascertain the reasons why the SME respondents saved with their current banks. The responses are shown in table 4.15

From table 4.15 below, 24.4% (22) stated that their bank was the regular financial institution for their businesses. 44.4% (40) stated that their bank were the only financial institution in their area.

31.1% (28) stated that they thought their financial institution would offer them the best terms.

Table 4.15: Responses on the Reasons why a particular bank was chosen

Reasons	Frequency	Percentage
Regular bank for their businesses	22	24.4%
The only bank in my area	40	44.4%
Thought this bank would offer the best terms	28	31.1%

Source: Field Survey, July 2015

Banking services offered to SME respondents

A question was posed to the banking services SME respondents receive their financial institutions. The responses are shown in figure 4.4below.

From figure 4.4 below, 47.8% (43) respondents stated they receive SME banking from their banks. 28.9% (26) respondents stated they receive cash management services from their banks. 21.1% (19) respondents stated they receive SME business advice from their banks while 2.2% (2) respondents stated they receive other banking services from their banks.

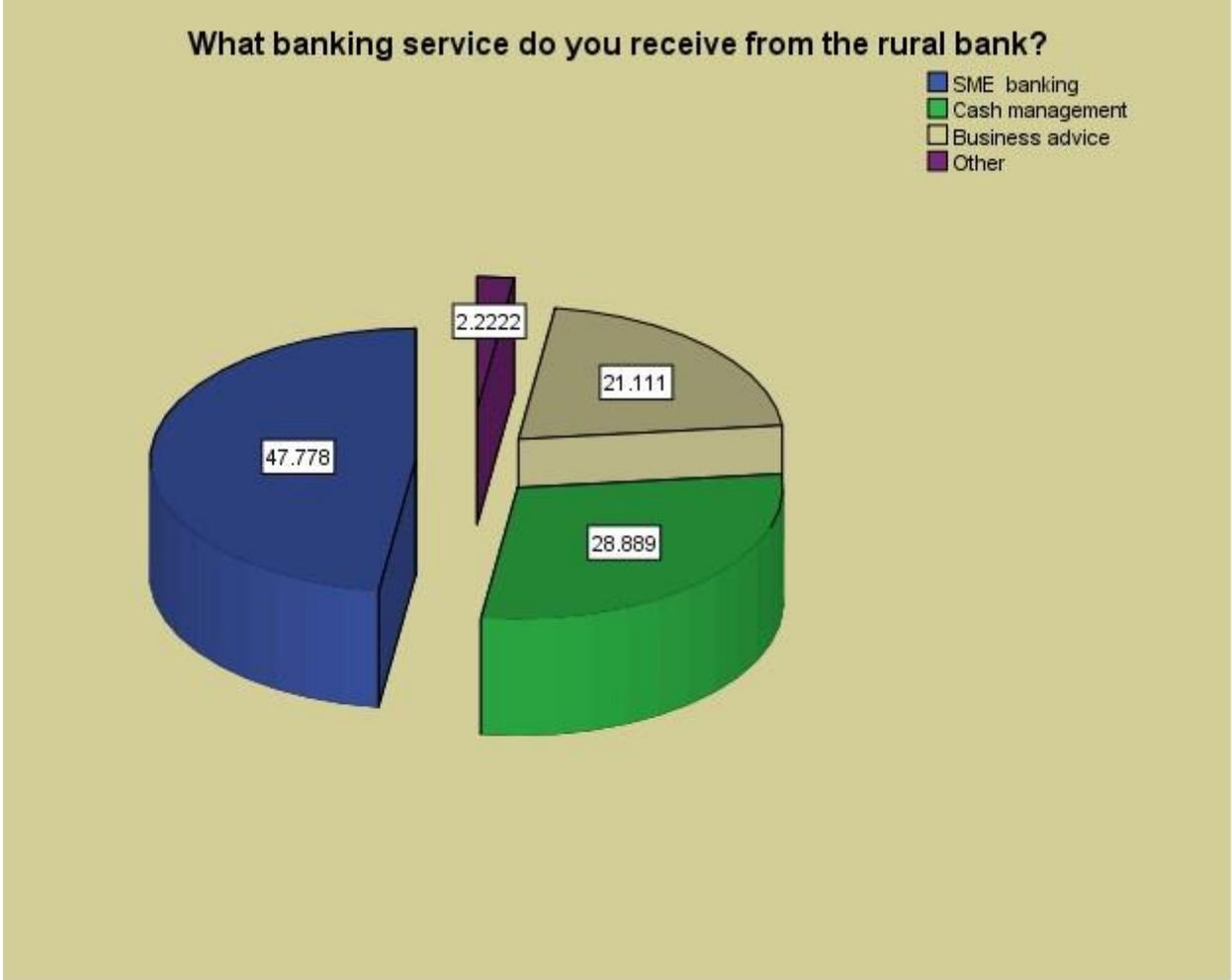


Figure 4.4: Banking Services Offered To SME Respondents

Source: Field Survey, July 2015

Type of finances SMEs receive from rural banks

In seeking to answer the type of finances SME receives from the rural bank, the respondents were asked about the type of finances they receive from rural banks. The responses are shown in table 4.16, 52.2% (47) indicated they receive overdraft from the rural banks. 35.6% (32) indicated they receive business installment loans from the rural banks. 100% (90) representing the majority indicated they receive express trade from the rural banks. 24% (26.7) indicated they receive trade

finance from the rural banks. However, 15% (16.7) indicated they receive working capital facility from the rural banks.

Table 4.16: Responses on the Type of Finances SME Receive From Rural Banks

Type of financing	Frequency	Percentage
Overdraft	47	52.2%
Business installment loans	32	35.6%
Express Trade	90	100%
Trade Finance	26.7	24%
Working Capital facility	16.7	15%

Source: Field Survey, July 2015

How funds provided by the financial institutions are used

A question was asked to find out how funds given by the financial institutions are used in the enterprises. Details of the responses are shown in table 4.17

Table 4.17: Responses On How Loans/ Credit Are Used In The SME

Uses of loans/credit	Frequency	Percentage
Asset Acquisition	8	8.9%

Working Capital	70	77.8%
Research and Development	12	13.3%
Debt consolidation	90	100%

Source: Field Survey, July 2015

From table 4.17 above 8.9 %(8) respondents stated they used the funds provided by financial institution for Asset acquisition. 77.8 % (70) respondents stated they used the funds provided by financial institution to manage their working capital. 13.3 % (12) respondents stated they used the funds provided by financial institution for Research and development. 100% (90) respondents, representing the majority stated they used the funds provided by financial institution to consolidate their debt.

Contribution of loan facilities for the growth of SMEs

To ascertain the contribution of loan/ credit to the growth of SMEs, a question was posed to SME respondents and details are outlined in table 4.18.

Table 4.18: Responses on contribution of loans/ credit to SME growth

Uses of loans/credit	Frequency	Percentage
Increase in Capital	34	37.8%
Expansion of businesses	70	77.8%
Setting up of other businesses	4	4.4%

Source: Field Survey, July 2015

From table 4.18 above 37.8 % (34) respondents stated credit/ loans from rural banks has contributed to increase in their capital. 77.8 % (70) respondents stated credit/ loans from rural banks has contributed to the expansion of their businesses. Only 4.4% (4) respondents stated credit/ loans from rural banks has helped them to establish other businesses.

4.6 Recommendations to address financial challenges SMEs face

The following measures were made to address the financial challenges SMEs face. Majority of the respondents suggested the need for the rural banks to scrap the collateral security required for granting loans SMEs.

It was also recommended that the prevailing interest rate should be reduced. The reduction will enable SMEs earn more profit to be used in servicing the loans. Majority of the respondents suggested that SME operators should hire more experts to help them in the preparation of their financial statements. Lastly there was also a suggestion that SME operators should be given adequate training on resource management. This will curb misapplication of loans SME operators' contract from rural banks.

4.7 Contribution of Rural banks to SME growth

Financial services offered by Rural Banks

The researcher sought to ascertain the financial service rural banks offer to SMEs. Details of the responses are found in table 4.19. Out 38 responses representing 380%, 90% (9) indicated they offer overdraft facilities. 100% (10) indicated they offer business loans. 70% (7) indicated they

offer SME banking. 60% (6) indicated they offer cash management services. 60% (6) indicated they offer business advisory services.

Table 4.19 Financial Services offered to SMEs

		Responses		Percent of Cases
		No.	Percent	
Financial Services offered to SMEs	Overdraft	9	23.7%	90.0%
	Business Loan	10	26.3%	100.0%
	SME banking	7	18.4%	70.0%
	Cash Management	6	15.8%	60.0%
	Business Advice	6	15.8%	60.0%
Total		38	100.0%	380.0%

Source: Field Survey, July 2015

Contribution of financial service to the growth of SMEs

The respondents were asked a couple of questions to ascertain the contribution of financial services to the growth of SMEs. Details of the responses are found in table 4.20.

Table 4.20: Responses On The Contribution Of Financial Service To SME Growth

		Responses		Percent of Cases
		No	Percent	
Contribution to SME	Increase in Capital	9	33.3%	90.0%
	Expansion of Businesses	8	29.6%	80.0%
	Setting up of Other Businesses	4	14.8%	40.0%
		2	7.4%	20.0%

growth	Improvement in service/ products offered by SMEs	4	14.8%	40.0%
	Improvement in the Standard of living of SMEs			
Total		27	100.0%	270.0%

Source: Field Survey, July 2015

From table 4.20 above out of 27 responses representing 270%, 90% (9) respondents stated financial service offered by their rural bank has contributed to increase in their capital. 80% (8) respondents stated financial service offered by their rural bank has contributed to expansion of SME businesses. 40% (4) respondents stated financial service offered by their rural bank has contributed to setting up of other businesses. 20% (2) respondents stated financial service offered by their rural bank has contributed to improvement in services/ products offered by SMEs. 40% (4) respondents stated financial service offered by their rural bank has contributed to improvement in the Standard of living of SMEs.

4.8 Credit Policies

Credit Policies of rural banks. The respondents were asked about the credit policies being used in their institution. Details of the responses are outlined in table 4.21.

Table 4.21: Responses On The Credit Policies Of Rural Bank

	Responses		Percent of Cases
	No	Percent	
Credit appraisal, approval process and borrowing limit Documentation	10	20.8%	100.0%
Credit Policies of rural Credit disbursement and	9	18.8%	90.0%

bank	monitoring	10	20.8%	100.0%
	Loan repayment and maintenance of credit files	10	20.8%	100.0%
	Collateral security	9	18.8%	90.0%
Total		48	100.0%	480.0%

Source: Field Survey, July 2015

From table 4.21 out of 48 responses representing 480%, 100% (10) respondents indicated credit appraisal, approval process and borrowing limit was part of their credit policy. 90% (9) respondents indicated Documentation was part of their credit policies. 100% (10) respondents indicated Credit disbursement and monitoring was part of their credit policies. 100% (10) respondents indicated loan repayment and maintenance of credit files was part of their credit policies. 90% (9) respondents indicated collateral security was part of their credit policies.

Credit policies posing Challenges to SMEs

Figure 4.5 presents the responses on challenges credit policies pose to them.



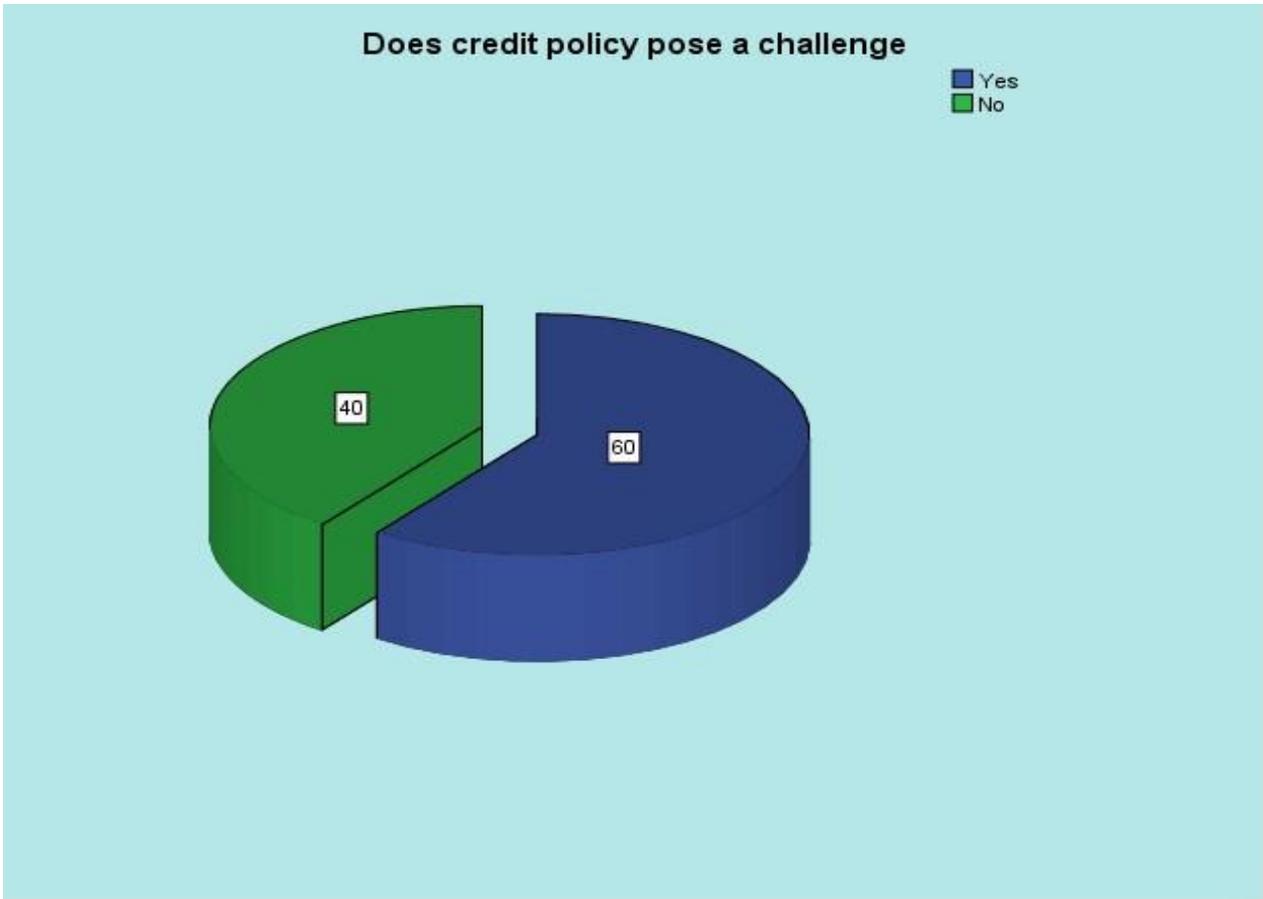


Figure 4.5: Responses on Whether Credit Policies Pose Challenges To SMEs

Source: Field Survey, July 2015

From figure 4.5 above 60% (6) respondents stated credit policies of their bank pose challenges to SMEs while 40% (4) dissented.

83.3%(5) respondents who admitted their bank credit policy pose a challenge to SMEs explained that the credit of their bank requires SMEs to provide collateral security and audited financial statements which pose a challenge to SMEs.

4.9 Credit Requirement Which Pose Challenge To SMEs

Bank requirement which pose challenges to SME's

A question was posed to bank respondents to ascertain the banks requirement which pose a challenge to SMEs in assessing credit from rural banks. Details of the responses are outlined in table 4.22.

Table 4.22: Responses On Bank Requirement Which Pose A Challenge To SME's

	Responses		Percent of Cases
	No	Percent	
Registration of Business with the Registrar General	8	24.2%	80.0%
Past and projected cash flows	7	21.2%	70.0%
Credit History	1	3.0%	10.0%
6 months operations with the Bank	1	3.0%	10.0%
Collateral Security	10	30.3%	100.0%
Guarantors	6	18.2%	60.0%
Total	33	100.0%	330.0%

Source: Field Survey, July 2015

From table 4.22 above out of 33 responses representing 330%, 80% (8) respondents stated Registration of Business with the Registrar General was a challenges to SMEs. 70% (7) respondents stated Past and projected cash flows was also a challenges to SMEs. 10% (1) respondent stated Credit History pose challenges to SMEs. 10% (1) respondent stated 6 months operations with the Bank pose challenges to SMEs. 100% (10) respondents representing the absolute majority stated Collateral Securities was a challenges to SMEs. 60% (6) respondents stated Guarantors pose challenges to SMEs

4.10 Challenges Rural Banks Face

Challenges rural banks face in lending to SMEs

The respondents were asked to ascertain the Challenges SMEs they face in extending credit/loans to SMEs. Details of the responses are outlined in table 4.23.

Table 4.23: Responses On Challenges Rural Banks Face In Lending to SMEs

	Responses		Percent of Cases
	No	Percent	
Management	5	33.3%	50.0%
Challenges banks face High Default in lending to SMEs rate	8	53.3%	80.0%
Monitoring	2	13.3%	20.0%
Total	15	100.0%	150.0%

Source: Field Survey, July 2015

From table 4.23 above out of 15 responses representing 150%, 50% (5) respondents stated Ineffective management of SMEs was a challenges to rural banks effort to loan to SMEs. 80 % (8) respondents stated High Default rate of SME loan was a challenges to rural banks effort to loan to SMEs. However only 20% (2) respondents stated ineffective monitoring of SME loan pose challenges to rural banks effort to loan to SMEs.

4.11 Respondents' suggestions for curbing challenges of SME financing

When asked to come up with suggestions to curb financing challenges of SMEs, the following suggestions were made.

Training on proper Accounting

Majority of the respondents suggested that SMEs should be trained on proper Accounting of the resources of their businesses. For example going concern principle in accounting stated that the

business will continue into the foreseeable future. It is therefore required that the profits of the businesses are plough back into the business to grow them.

Education

It was also recommended that SMEs should be educated on the proper use of loan they contract from rural banks.

Effective management

Majority of the respondents suggested that SMEs should be encouraged to put in place measures to ensure effective management of their businesses. For example business entity concept stipulates that the business is separate from its owners. It is therefore required that expenses of the owners are separated from that the businesses.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of the research findings, conclusion drawn from the study and recommendations made based on the research findings. The aim of this research was to find out rural banks financing of SMEs: Using Juaben Rural Bank Ltd as a case study. With specific research objectives being: to examine the challenges SMEs face in accessing credit from banks; to assess the appropriateness of the bank credit policies in achieving the goals of SMEs; to assess the contributions of rural bank to SMEs growth in Ghana. The researcher adopted the nonprobability sampling method of a simple random sampling to select SME's to participate in the study. The purposive sampling technique was used to select Juaben Rural Bank as a case study. A sample

size of one hundred (100), comprising ten (10) staff of Juaben Rural Bank (representing 10%) and ninety (90) SME operators (representing 90%) was used. There was also a fair representation of people from both genders.

5.1 Summary of Findings

The following summaries are presented based on the findings in chapter four of this study. 44.44% (40) of the respondents stated that their loan application had been rejected before. They cited lack of collateral security, unprepared accounts, poor financial history, limited years of operation, no business plan, and no reason and not being qualified as some of the reasons for rejection of their loan application.

In assessing credit from rural banks, apart from some of the challenges respondents cited, they also indicated that poor past and projected cash flows; inexperience management team or lack of professionalism; Inadequate technologies; Low rate of return on capitals; and Limited knowledge of business opportunities as some of the major problems they face in assessing loans from the Bank. A strong majority of respondents also indicated that it was a requirement for SMEs to save with the banks for a period before they qualify for loans.

Other key findings of the study are that rural bank financing contributed to an increase in Capital, Expansion of businesses, setting up of other businesses and Improvement in the standard of living of SMEs. It also came to light that rural banks offer overdraft, business loan, SME banking, Cash management and business Advice service to SMEs. As a result of the financial service provided to SMEs, there have been increase in SME capital base, Expansion of SME businesses, improvement in services or products offered by SMEs and lastly improvement in the standard of living of SME operators. Finally, the study identified Registration of Business with the Registrar General, past

and projected cash flows, Credit History, 6 months operations with the Bank and Collateral Security as challenges the Bank faced in loaning to SMEs.

5.2 Conclusion

Rural bank financing has contributed to Asset acquisition, increase in capital, expansion of SME businesses, setting up other business and improvement in the standard of living of SME operators. However it has been noted that SMEs face challenges such collateralization, high interest rate, unprofitable of SME business which prevent them from accessing credit from rural bank. Business documentation such as business registration certificate, financial statements, business plan, Appraisal of assets, cash flow projects required by rural banks also pose challenges to SME access to finance.

Appropriate measures should be put in place to address the challenges SMEs face to enable the sector contribute significantly to the growth of the entire economy.

5.3 Recommendations

The following measures were suggested as measures to put in place to address the challenges SMEs face when accessing credit/ loans from rural banks.

No collateralization

It is recommended that rural banks should not use collateral security as a requirement for granting credit to SME operators. Instead, SMEs could be assisted by rural banks to keep their accounts well and based on their ability to keep their books, be granted loans by the banks. It is further recommended that rural banks should train SME operators on effective management of resources as a requirement for granting credit to SME operators. The rural banks should also monitor how funds they grant SMEs are used in their enterprises.

Reduction of interest Rate

In order for SMEs to be able to make enough profit to grow their businesses and at the same time be able to service their loans, it is recommended that the Bank of Ghana should ensure that rural banks reduce their interest rates to SMEs.

Hiring of experts

Since most of the SMEs indicated that they had challenges preparing their financial statements, it is recommended that SMEs invest in the services of experts in the preparation of their financial statements. This would help them to keep track of their own transactions and their loan repayment, which would in turn contribute to the growth of their businesses.

5.4 Suggestion for Further Research

Due to financial constraints, the sample size used for the study was too small. Further research could therefore be undertaken using a larger sample size. Further research could be undertaken across the 10 regions of Ghana to ascertain whether there are regional differences in rural bank financing of SMEs. Some studies have been undertaken on financial institution financing SME operated by females within the context of the Western developed countries. It is worthy of replicating that study in a developing country like Ghana. Further research should be undertaken in this area.

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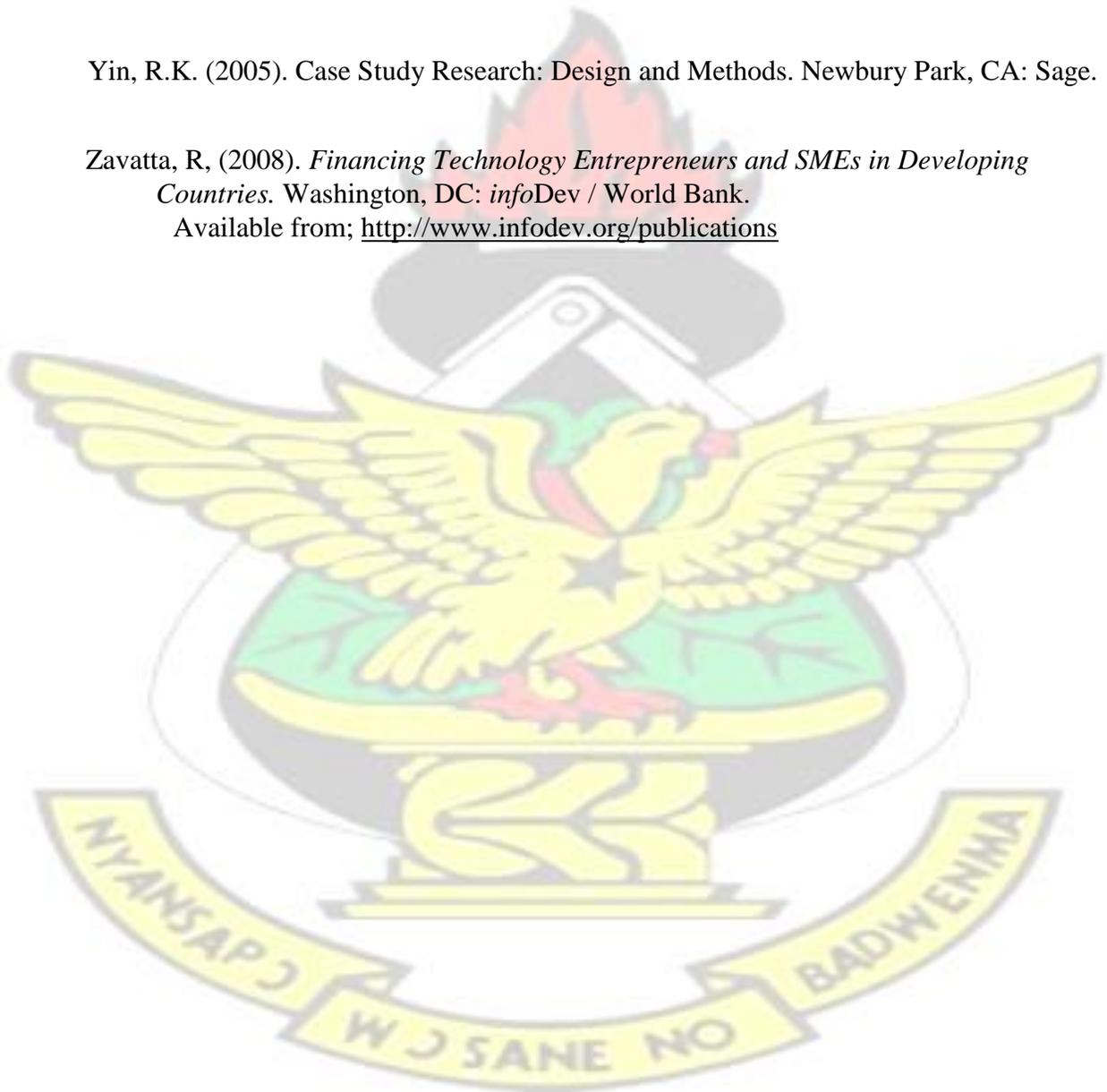
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APPENDIX

QUESTIONNAIRE FOR BANK OFFICIALS

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY (KNUST),
SCHOOL OF BUSINESS (KSB).

THE IMPACT OF RURAL BANKS FINANCING SMEs

A CASE STUDY OF JUABEN RURAL BANK.

Kindly help me answer the following questions in the best of your knowledge;

1. Office held

2 .How long have you been in SME banking?

i. Less than 2 years []

ii. 3 years [] iii. 4

years [] iv. 5 years [

]

v. Over 5 years. []

3. Which financial services do you offer to your SME customers?

i. Overdraft [] ii. Business Loan [] iii. SME banking []

iv. Cash management []

v. Business advice []

vi. Others (specify).....

4. How have the above services contributed to the growth of SMEs?

i. increase in capital [] ii. Expansion of businesses [] iii.

Setting up of other businesses [] iv. Improvement in services/ products offered by SMEs []

v. improvement in the standard of living of SMEs []

5. What are the credit policies of your bank?

i. credit appraisal, approval process and borrowing limit []

ii. Documentation [] iii. Credit disbursement and monitoring [] iv. Loan repayment and maintenance of credit files []

v. collateral security

6. Does the credit policy of your bank pose challenges for SMEs?

Yes [] No []

7. If yes how does the credit policy affect SMEs?

.....

.....

.....

8. What are the challenges SMEs face in assessing credit from banks?

i . Registration of Business with the Registrar General []

ii. Past and projected cash flows [] iii. Credit history []

iv. 6 months operations with the Bank []

v. Collateral Security [] vi.

Guarantor (s) []

vii. Other (specify)

KNUST

9. What are the major challenges your bank face financing SMEs?

i. Management [] ii.

High default rate []

iii. Monitoring []

iv. Other (specify)

10. What recommendations would you like to make to address the financing challenges SMEs face?

.....
.....
.....
.....
.....

Thank you

QUESTIONNAIRE FOR THE OPERATORS OF SMEs

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY (KNUST),
SCHOOL OF BUSINESS (KSB).

THE IMPACT OF RURAL BANKS FINANCING SMEs: A CASE STUDY OF JUABEN RURAL BANK.

This study is being conducted in partial fulfillment of the requirements for the award of Masters of Business Administration Degree. All information received would be used solely for academic purposes and treated with strict confidentiality.

SECTION 1: DEMOGRAPHY

Please tick (✓) in the following questions

1. Gender

- a) Male₁
- b) Female₂

2. Which of the following ranges of ages do you fall within?

- a) 16-30₁
- b) 31-50₂
- c) 51-60₃
- d) 60+₄

3. What is your marital status?

- a) Single₁
- b) Married₂
- c) Divorced₃
- d) Widowed₄

4. What is your level of education?

- a) Basic School₁
- b) Secondary School₂
- c) Tertiary₃
- d) No Formal Education₄

5. Which of the following Business Activities do you operate as SME?

- a) Trade Enterprises₁
- b) Service Oriented Business₂
- c) Manufacturing Business₃
- d) Others₄

Please specify _____

6. What form of ownership do you think you operate under? (Do not answer this if you answered no for the preceding question)

- a) Sole Proprietorship₁
- b) Partnership Business₂
- c) Limited Liability Companies₃
- d) Others₄

Please specify _____

7. How many years have you been in operation?

- a) less than 1 year₁
- b) 1-5 years₂
- c) 6-10 years₃
- d) Above 10 years₄

SECTION 2: CHALLENGES SMEs FACE IN ACCESSING CREDIT

8. Has the bank ever rejected your enterprise's loan application before?

Yes₁ []

No₂ []

9. What was the basis of the rejection?

.....
10. In your view what are the major problems faced by SMEs in accessing credit from banks?

- a) [] Lack of collateral/guarantors₁
- b) [] high interest rate₂
- c) [] Inadequate compiled financial records and accounts₃
- d) [] Poor credit experience or history₄
- e) [] Poor Past and projected cash flows₅
- f) [] Inexperienced management team or lack of professionalism₆
- g) [] Inadequate technologies₇
- h) [] Low rate of return on capital₈
- i) [] Limited knowledge of business opportunities₉
- j) [] Other reasons₁₀

Please specify.....

SECTION 3: APPROPRIATENESS OF CREDIT POLICIES

10. Does your bank require an SME to save for a period in order to qualify for a credit facility?

Yes₁ []

No₂ []

NB: If you answered yes for question 10 answer question 11, if not skip to question 12.

11. How long does the bank require an SME to save?

- a) less than 1 year₁
- b) 1-5 years₂
- c) 6-10 years₃
- d) Above 10 years₄

KNUST

12. How does your enterprise request for financing from the Bank?

- a) Write an Application letter₁
- b) fill Application form at the branch₂
- c) Others₃

Please specify.....

13. What documents are requested by the bank as part of the application process?

- a) Business certificates of registration₁
- b) Business financial statements₂
- c) Business plan₃
- d) Personal financial statements₄
- e) Appraisals of assets to be financed₅
- f) Cash flow projection₆
- g) No documents₇
- i) Other documentation₈

Please specify.....

SECTION 4: CONTRIBUTION OF RURAL BANKS TO THE GROWTH OF SMEs

14. What type of account do you hold in the rural bank?

- a) Savings a/c₁
- b) Current a/c₂
- c) Fixed deposit a/c₃
- d) Susu a/c₄
- e) Group a/c₅
- f) Others₆

KNUST

Please specify

15. How many years have you held the account with the rural bank?

- a) less than 1 year₁
- b) 1-5 years₂
- c) 6-10 years₃
- d) Above 10 years₄

16. Why did your enterprise choose this bank over other banks?

- a) This was the regular financial institution for the business₁
- b) This was the only financial institution in my area₂
- c) Thought other financial institutions would reject the application₃
- d) Thought this financial institution would offer the best terms₄
- e) Other reasons₅

Please specify).....

17. What banking service do you receive from the rural bank?

- a) SME banking₁
- b) Cash management₂
- c) Business advice₃

d) Others₄

Please specify.....

18. What type of financing does your enterprise request from the Bank? a) Overdrafts₁

b) Business Installment Loans₂

c) Express Trade₃

d) Trade Finance₄

e) Working Capital facility₅

f) Others₆

Please specify.....

19. How does your enterprise use the finance provided by the bank?

a) To purchase fixed assets₁

b) Working capital/operating capital₂

c) Research and Development₃

d) Debt Consolidation₄

e) Others₅

Please specify.....

20. How have the above facilities contributed to the growth of SMEs?

a) increase in capital₁

b) Expansion of businesses₂

c) Setting up of other businesses₃

d) Improvement in services/ products offered by SMEs₄

e) improvement in the standard of living of SMEs₅ f) Others₆

Please specify.....