

**EXAMINING THE CONTRIBUTION OF RURAL AND COMMUNITY
BANKS TO THE DEVELOPMENT OF SMALL AND MEDIUM SCALE
ENTERPRISES IN GHANA: A CASE STUDY OF AMENFIMAN RURAL
BANK LIMITED**

BY

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DECLARATION

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

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DEDICATION

I dedicate this work to Reginald Adu-Manu and Randy Adu-Manu being the two children the Lord has blessed me with not forgetting my wife Mrs Victoria Akofa Manu from whom I derive a lot of inspiration and support from. I also dedicate this work to Evans Mensah and George Osei Nyarko (both being my course mate at KNUST) for the good times shared together at school.

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May the good Lord bless you all.

ABSTRACT

The contribution of Rural and Community banks towards the development of Ghana most especially the rural communities have been highly recommendable. Before the establishment of the first rural bank in 1976, the availability of formal credit in rural communities predominantly made up of small farmers and fishermen and small and medium scale enterprises was extremely limited. Small and Medium Scale Enterprises (SMEs) form the majority of the private sector which is considered as the engine of growth in the Ghanaian economy. Rural and community banks are therefore expected to focus attention on the provision of quality banking services to the people in their catchment area including the SMEs. It is as a result of this that this study seeks to examine the contribution of Rural and Community Banks to the development of SMEs, taking cognizance of the role and contribution of Amenfiman Rural Bank Ltd. The sources of materials for the study were both primary and secondary. The primary data was collected by the use of structured questionnaires and interview guides which were designed and administered to SME customers and staff of Amenfiman Rural Bank Ltd respectively. The secondary data was collected from text books, journals, research papers and other intellectual works. Tables and graphs were used to analyze the data collected from the field. The study discovered that microfinance loans is very popular among services provided by rural banks to SMEs due to the fact that most SMEs do not have the collateral to access commercial loans from banks. The researcher also found out that it was very difficult for SMEs to access start-up capital from banks. This study therefore recommend among other things that SMEs should also use loan taken from banks for its intend purpose. Rural banks should take insurance cover for loans granted to new SMEs as start-up capital to reduce the effect

of loan default in their book and operations and also reduce the risk of granting loans to new SMEs.

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LIST OF ABBREVIATIONS AND ACRONYMS

SMEs.....	Small and Medium Scale Enterprises
NBSSI.....	National Board for Small Scale Industry
GSS.....	Ghana Statistics Service
UNIDO.....	United Nations Industrial Development Organization
USAID.....	United States Agency for Industrial Development
GOG.....	Government of Ghana
RCBs.....	Rural and Community Banks
GDP.....	Gross Domestic Product
GLSS.....	Ghana Living Standards Survey
ADB.....	Agricultural Development Bank
BOG.....	Bank of Ghana
ARB.....	Association of Rural Banks
NPLs.....	Non Performing Loans
AGM.....	Annual General Meeting
BODs.....	Board of Directors
MASLOC.....	Microfinance and Small Loans Centre
SAP.....	Structural Adjustment Program
EC.....	European Commission
GEDC.....	Ghana Enterprise Development Commission

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The contribution of rural and community banks to the development of small and medium scale enterprises in Ghana cannot be underestimated since the introduction of the financial institution by the bank of Ghana. Before the establishment of the first rural bank in 1976, the availability of formal credit in rural communities predominantly made up of small farmers and fishermen and small and medium scale enterprises was extremely limited. The main sources of credit were moneylenders and traders charging exorbitant interest rates. The Government of Ghana had taken some policy measures to improve access to finance these sectors of the economy. These measures included a requirement that commercial banks lend at least 20 percent of their portfolio for agricultural uses and the establishment of the Agricultural Development Bank (ADB) in 1965 with an exclusive mandate of lending for agriculture and allied industries in rural Ghana.

Though, commercial banks opened their door to small and medium scale enterprises, nevertheless, lending to these enterprises remained low. Commercial banks demanded higher deposit accounts and stronger collateral requirements to provide loans to small and medium scale enterprises. In view of this situation, the Government of Ghana (GOG) considered supporting the establishment of rural and community banks that would be dedicated to providing financial services in those areas. It asked the Bank of Ghana (BOG) to send a delegation to the Philippines to study the rural banking system there and afterward decided to facilitate the opening of banks in rural farming and fishing communities.

Rural banks were first established in Ghana in 1976 to provide banking services to the rural population, providing credit to small and medium scale farmers and businesses and supporting development projects, with the first being in Agona Nyakorm in Central Region. As of January 2013, Ghana could count a total of 137 rural and community banks in the country.

Small and medium scale enterprises sometimes called a small business are businesses which employ a small number of workers and do not have a high volume of sales. Such enterprises are generally privately owned and operated sole proprietorships, corporations or partnerships. The legal definition of a small-scale enterprise varies by industry and country.

As contained in its Industrial Statistics, The Ghana Statistical Service (GSS) considers firms with less than 10 employees as Small Scale Enterprises and their counterparts with more than 10 employees as Medium and Large-Sized Enterprises. However, the National Board of Small Scale Industries (NBSSI) in Ghana applies both the 'fixed asset and number of employees' criteria. It defines a Small Scale Enterprise as one with not more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Cedi, currently 1,000.00 Ghana cedis (US\$ 9506, using 1994 exchange rate).

Small and medium scale enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries. Therefore, this study seeks to examine the contribution of these rural and community banks to the development of small and medium scale enterprises in the country with a case study of Amenfiman rural bank limited.

1.2 Statement of the Problem

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

Small and medium scale enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries. It is estimated that SMEs employ 22% of the adult population in developing countries (Daniels, 1994; Daniels & Ngwira, 1992; Daniels & Fisseha, 1992; Fisseha, 1992; Fisseha & McPherson, 1991; Gallagher & Robson, 1995).

Due to their flexible nature, SMEs are able to withstand adverse economic conditions. They are more labour intensive than larger firms and therefore, have lower capital costs associated with job creation (Anheier & Seibel, 1987; Liedholm & Mead, 1987; Schmitz, 1995)

Commercial banks demanded higher deposit accounts and stronger collateral requirements to provide loans to small and medium scale enterprises. In view of this situation, there was the need for the Government of Ghana (GOG) to consider in supporting the establishment of rural and community banks that would be dedicated to providing financial services in those areas.

In view of the above, this research seeks to find out the provision of financial services by rural and community banks to small and medium scale enterprises. Again, it will determine the level of financial support that small and medium scale enterprises can

access from rural and community banks and also find out how these financial services are impacting on small and medium scale enterprises.

1.3 Objectives of the Study

The general objective is to examine the contribution of rural and community banks to the development of small and medium scale enterprise in Ghana. A case study of Amenfiman Rural Bank Limited.

The specific objectives of this study are as follows;

1. To identify the kind of financial services that rural and community banks provide to small and medium scale enterprises.
2. To ascertain whether rural and community banks have been able to solve the funding problem of small and medium scale enterprises.
3. To find out whether credit facilities are provided on time by rural and community banks to small and medium scale enterprises.
4. To assess the contribution of Amenfiman rural bank ltd to the development of SMEs in the catchment area.

1.4 Research Questions

The research questions are as follows;

1. What kind/type of financial services does small and medium scale enterprises receive from rural and community banks in their catchment area?
2. Has rural and community banks solved the funding problem small and medium scale enterprises encountered with commercial banks?
3. Do rural and community banks provide timely credit facility to small and medium scale enterprises?

4. Has there been improvement in income levels of small and medium scale enterprises after accessing credit facility from rural and community banks?

1.5 Scope of Study

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

1.6 Justification of the Study

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

1.7 Limitation of the Study

It was the anticipation of the researcher to encounter problem in the course of this study as every scientific research has had to. Out of the numerous problems, the following can be enumerated. Access to information from Amenfiman rural bank

limited was a problem for the researcher. The researcher also encountered financial constraints which also pose a grave problem for this study as the means to financial access is not easy for a student research. Furthermore, low level of literacy among business owners was also a problem in the aspect of questionnaire administration. More time was be wasted which when quantified will be much greater that whole cost of printing out the questionnaires.

1.8 Organization of the Study

This research covers five chapters. The first chapter being the introduction which brings to light the background of rural and community banks as well as small and medium scale enterprises. This chapter also comprise problem statement, objectives of the study, research questions, scope of the study, justification of the study and limitations of the study. Chapter two of this study is the literature review. The literature review brings out the historical and theoretical aspect of both rural and community banks and small and medium scale enterprises and a review of what others have written in relation to this topic. The third chapter is the methodology and this mainly focus on research design, sources of data, population of the study, sampling techniques and sample size, method of data collection, data collection instruments, method of data analysis and profile of Amenfiman rural bank limited. The fourth chapter concentrated on data analysis. Under this chapter, all gathered data was processed into information by using statistical software called SPSS.

And finally, the last but not the least chapter covers the findings, conclusions and recommendations. This chapter brings out the final outcome of the study and recommendations proffered for users of this study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The relevant literature related to this study was covered in this chapter. The chapter concentrates on the historical and theoretical background of both rural and community banks and small and medium scale enterprises. The operation of both rural and community banks and small and medium scale enterprises has been highlighted without leaving the characteristics of both rural and community banks and small and medium scale enterprises in Ghana.

2.2 History of Rural and Community Banking in Ghana

Rural and community banks (henceforth referred to as rural banks or RCBs) are a network of 137 independent unit banks in Ghana. They are regulated by the Bank of Ghana and thereby form part of the regulated financial sector in Ghana. These banks are the largest providers of formal financial services in rural areas and also represent about half of the total banking outlets in Ghana (IFAD 2008).

By the end of 2008, these banks together had 421 branches. Including head offices, there were 548 service delivery locations spread throughout the country. All administrative regions have at least one bank, although most are located in the Ashanti, Western, Eastern, and Central regions. RCBs are relatively small financial institutions with average share capital of GH¢ 136,526 (US\$105,263), average deposits of GH¢2.3 million (US\$1.77 million), and average assets of GH¢ 3.8 million (US\$2.4 million).

Values of the three indicators, however, vary significantly. Out of the 137 RCBs, 75 percent have assets between GHC 1 million (US\$771,010) and GHC 8 million

(US\$6.1 million), 20 percent have assets of less than GH¢ 1 million, and 5 percent have assets over GH¢ 10 million (US\$7.7 million). Similarly, 44 percent of RCBs have share capital of less than GH¢ 100,000 (US\$77,101) and only 6 percent have share capital of more than GH¢ 250,000 (US\$192,753). As a network, RCBs have achieved a remarkable level of service delivery and financial performance. At the end of 2008, they had deposits of GH¢ 343.9 million (US\$265.1 million) from more than 2.8 million clients, and loans and advances of GH¢ 224.7 million (US\$173.2 million) with about 680,000 clients.

They delivered 128,875 domestic money transfers worth around GH¢ 63.3 million (US\$48.8 million) in 2007 and 32,392 international money transfers worth GH¢ 9.3 million (US\$7.1 million) in 2008. They also facilitated check transactions worth GH¢ 993.7 million (US\$766.1 million) in 2008. RCBs made a consolidated profit of GH¢ 15.6 million (US\$12.0 million) in 2008 and had a consolidated net worth of GH¢ 62.3 million (US\$48.03 million). Several have excelled in performance, both within the financial sector and in the broader private sector. Some rural banks have figured more than once in Club 100, a group of 100 Ghanaian institutions recognized annually for business excellence.

Ghana covers about 240,000 square kilometers of land in three major ecological zones including the rainforest zone (25 percent of total area), the transitional zone (11 percent), and the savannah zone (64 percent). In 2007 Ghana's population was 23.5 million, growing at an estimated 2 percent a year, down from the 3.4 percent growth recorded in the mid-1990s.

Urbanization is concentrated mainly in the southern and central regions, which contain nearly 49 percent of the country's population. Although there are densely

settled pockets in the Upper East and Volta regions, more than half of the population lives in the Greater Accra, Eastern, Central, and Ashanti regions. Real gross domestic product (GDP) growth rose gradually from 4.5 percent in 2002 to an estimated 7.2 percent in 2008, although it is still below the rate needed to achieve Ghana's ambition of becoming a middle-income country by 2015. Inflation fell from 42 percent in 2001 to 13 percent in 2008. Agriculture contributes 40 percent of GDP; industry, 27 percent; and services, 32 percent.

Agriculture also contributes about three-quarters of export earnings and provides the main source of livelihood for about 60 percent of the population. Cocoa accounts for about 16 percent of agricultural GDP; cereals and root crops, 65 percent; and forestry, livestock, and fisheries, the remaining 19 percent. Agricultural growth, which averaged 3.6 percent for the 10-year period from 1997 to 2007, remains the mainstay of strong overall growth performance, accounting for more than half of total growth in this period. The country has an agricultural system that is traditional, rain fed, and dominated by smallholders. Some 2.7 million farms, averaging 1.2 hectares in size, account for 80 percent of agricultural production. The 2006 Ghana Living Standards Survey (GLSS) estimates that the poverty headcount fell from 39.5 percent in 1998 to 28.5 percent in 2006.

Before the establishment of the first rural bank in 1976, the availability of formal credit in rural communities predominantly made up of small farmers and fishermen was extremely limited. The main sources of credit were moneylenders and traders charging exorbitant interest rates. The Government of Ghana had taken some policy measures to improve access to finance in rural areas.

These measures included a requirement that commercial banks lend at least 20 percent of their portfolio for agricultural uses and the establishment of the Agricultural Development Bank (ADB) in 1965 with an exclusive mandate of lending for agriculture and allied industries in rural Ghana. Subsequently, commercial banks and the ADB opened branches in rural areas, with an emphasis on cocoa-growing rural areas. Nevertheless, lending to the rural sector remained low; the commercial banks used their rural branches primarily to make payments to cocoa farmers and collect deposits for lending in urban areas. Other banking services, like credit, were not provided as initially envisioned. Commercial banks demanded higher deposit accounts and stronger collateral requirements to provide loans to rural areas.

Many small farmers and fishermen did not have deposit accounts in commercial banks, and the collateral they had available was not satisfactory for commercial lending (Andah and Steel 2003). Mensah (1993) and Ranade (1994) found that the ADB's credit provision and coverage were limited. Only 27 percent of its branches were in rural areas, and lending to smallholder farmers made up only about 15 percent of its total portfolio. In view of this situation, the Government of Ghana (GoG) considered supporting the establishment of community banks in rural areas that would be dedicated to providing financial services in those areas. It asked the Bank of Ghana (BOG) to send a delegation to the Philippines to study the rural banking system there and afterward decided to facilitate the opening of banks in rural farming and fishing communities.

The first rural bank was established in 1976 in the Central region of Ghana with paid-up capital of 60,660 old Ghana cedis (old GHc 60,660, or about US\$52,000). It was established in Nyakrom, a farming community. Capital contributions were mainly drawn from farmers in the community.

A second bank was opened in the following year at Biriwa, a fishing village also in the Central region. By 1980 the number of rural banks had reached 20. Managers and directors of these rural banks founded the Association of Rural Banks (ARB) to promote the exchange of information and to improve the performance of rural banks as a whole. Over the period 1980–84 the number of rural banks rose rapidly and reached 106. This growth was driven by rising interest among rural communities in establishing their own banks and by the introduction of Akoafo Check operations in cocoa-growing areas in 1982. As the network of rural banks grew, it was essential to provide a code for establishing new rural banks.

The BOG developed and issued guidelines for the establishment of rural banks in 1985. The minimum paid-up capital required by BOG was old GH¢ 1.5 million. Of this, shareholders were to hold 67 percent and 43 percent was to be contributed by the BOG. The maximum share that could be purchased by an individual shareholder was limited to old GH¢ 10,000. This limit was intended to allow equal participation of all shareholders from the community and to mitigate the risk that a few shareholders would dominate the governance of the banks. The rural banks provided mainly savings and credit services and products. With the increase in the number of rural banks, the number of individuals with bank accounts also increased. Salary and pension deposits for civil servants were transferred using rural bank networks. The volume of deposits increased from old GH¢ 148,000 in 1976 to old GH¢ 2.3 billion in 1988. With the addition of credit lines, the consolidated loan portfolio grew to around US\$4 million, with nearly half of the portfolio in agriculture and 30 percent in cottage industries. The repayment performance of loans worsened, however, with nonperforming loans (NPLs) rising from 5 percent in 1982 to 70 percent in 1986.

The capital available in most banks was not sufficient to cover the cost of the bad loans. Although the 1983 drought and the 1984 bumper yield and price slump contributed to the worsening loan portfolio performance, several other factors also figured in this deterioration. First, the boards of directors of most banks had little experience in or understanding of the banking business. Criteria for selecting directors did not include an individual's competence to lead a banking institution. The main criterion was popularity in the community. Second, because the banks were located in rural areas and had limited resources, they could not attract well-qualified and experienced personnel. Employees of the banks were in most cases selected from their own communities, regardless of qualifications and experience. Training opportunities were rarely available.

Third, weak internal controls led to several instances of corruption by management and staff. Fourth, the sector-specific credit quotas and other inappropriate regulatory requirements (concessional interest rates for priority sectors including agriculture) constrained the RCBs' ability to flexibly respond to market signals and risks unique to RCBs. Specifically, RCBs gave many bad loans to meet the 50 percent lending requirement for agriculture imposed by the BOG. Fifth, inadequate resources limited the BOG's capacity to supervise the rapidly rising number of rural banks and to effectively respond to their complex difficulties. In an attempt to respond to the worsening financial performance of RCBs, the BOG introduced some financial reforms. These reforms included a review of the sector-specific credit quotas and a reduction in agricultural loans, increases in primary and secondary reserve requirements, closure of distressed banks, and a stronger role for the BOG in examination and control of the banks (Andah and Steel 2003).

The World Bank–supported Rural Finance Project, approved in 1989, further advanced this attempt. The project aimed to strengthen the rural finance sector, particularly the RCBs, by (1) providing technical assistance for restructuring about 80 RCBs; (2) strengthening the ARB and credit unions; (3) rationalizing the roles of the Rural Banking Department of the BOG and the ARB; (4) improving the rural credit appraisal capacity of RCBs and participating financial institutions; and (5) strengthening the BOG’s capacity to supervise rural banks.

2.3 Characteristics of Rural and Community Banks

Rural banks are incorporated as limited companies under the Companies Code of 1963 (Act 179) of Ghana and are required to be owned by shareholders from the local community in which they operate. At first, the BOG owned up to 43 percent of shares in rural banks as preference shares. This practice was stopped in the 1990s. In the early years of RCBs, the shareholding levels for an individual and a corporate body were capped at 10 percent and 30 percent, respectively. These levels have been revised to 30 percent for an individual and 50 percent for a corporate body. An identifiable group can also own 40 percent shares in a bank.

The governance structure of an RCB comprises a board of directors that represents shareholders within the bank and supervises the management of the bank. Boards of directors are elected by the shareholders from the communities where the banks are located. Election of board members takes place during annual general meetings (AGMs). Directors are elected on the basis of their reputation in the community and professional qualifications. The individuals nominated by the shareholders are validated by the BOG before assignment is effective.

The board elects a chairperson and a vice chairperson from among the directors. In many cases, the chief executive of the bank serves as the secretary of the board. A board member is elected for a three-year term but can be reelected for an unlimited number of terms by the shareholders. At every AGM, one-third of the board members need to retire but are eligible for reelection, in accordance with the Companies Code of Ghana. However, a sample analysis of 10 Board of Directors (BODs) of RCBs showed that the average number of years spent as a board member is 11; the maximum was 32 and the minimum was 1 year. The minimum size of a BOD is five, and the maximum is 11. Although the number of directors with voting rights cannot exceed the maximum allowed size, additional individuals can participate as co-opted members. Based on a sample analysis of 10 RCBs, only 9 percent of the directors are women.

The sample analysis also showed that a limited number of directors have experience in banking. The board of a rural bank has three to five supervisory subcommittees covering the main aspects of managing and operating the bank. Members of the supervisory subcommittees are elected from the board based on specialization and interest. The following are the main subcommittees and their respective responsibilities: *f* Loans subcommittee: ensures that loan approvals are in accordance with the operating policy of the bank and that loans disbursed are recovered; reviews and approves loan applications; and follows up with delinquent clients and legal cases. *f* Finance and audit subcommittee: monitors the financial performance of the bank; assesses the liquidity position of the bank and makes decisions on advances; monitors the bank's investments; reviews the operational budget; ensures that accounts are prepared for audit; ensures that prudential returns are prepared and submitted; ensures provision for bad and doubtful loans; and ensures that policies and

manuals are updated and implemented. *f* Disciplinary subcommittee: manages conflict among the staff and takes disciplinary action in case of misconduct.

The boards typically meet once a month. During this meeting the board approves loans above the approval threshold of the RCB management (above GH¢ 2,000, or US\$1,542); reviews monthly reports from the internal auditor; examines portfolio quality; follows up on previous meeting actions; reviews reports from supervisory subcommittees of the board; and undertakes strategic decisions and guidance for management. The minutes of the meetings are recorded and submitted to the BOG for monitoring and information purposes. Shareholder services—such as share registries that are essential to attract investors—are weak in rural banks. Share registries of many rural banks are not up to date despite support provided for this purpose under RFSP.

Until recently many rural banks operated a system of equal voting rights for each shareholder regardless of the number of shares owned, thus creating no incentive for shareholders to increase their shareholding. This situation has been changed to voting rights based on the number of shares. Governance of rural banks is constrained by their difficulty in attracting and retaining qualified directors, even though these positions are generally considered prestigious. The opportunity cost for professionals with the necessary knowledge and skills to serve effectively as board members of financial institutions is often higher than what most rural banks can afford to pay as sitting fees or honoraria. In addition, the amount of time directors are expected to spend attending board meetings, subcommittee meetings, and other ad hoc engagements is typically higher than that in other organizations.

2.3.1 Services

As financial intermediaries, rural banks provide primary services consisting of savings, loans, and payments. Several products are offered within each of these categories.

Given the community-owned nature of these institutions, they also generally support community development services. As financial institutions actively supported by the government, RCBs offer special products and services for specific target groups on behalf of government- and donor-financed programs, such as Microfinance and Small Loan Center (MASLOC), the Social Investment Fund, the Community -Based Rural Development Project, and the Millennium Development Authority. The rural banks use a variety of techniques to promote their services and products, including traditional outreach by bank staff and use of electronic and print media. For example, some banks use local FM radio to promote their products (particularly microfinance) and broadcast information about services available. This approach has been successful in reaching many clients in remote parts of the operational area. Several social occasions such as funerals have been used to disseminate important information such as repayment reminders.

2.3.2 Deposits

Rural banks offer all the general savings products such as the regular savings accounts, current accounts, and time deposits. Typically, the largest share of the deposit portfolio in a rural bank is held in the savings account. Interest rates offered on these accounts are typically very low, however, and often negative when inflation is taken into account. In 2008 in the sample banks, interest rates on savings deposits varied from 5 to 16 percent, while inflation ranged between 11 and 18 percent.

Further, interest on savings accounts is often provided only when the savings balances are more than a specified amount. Unlike in most commercial banks, however, rural banks do not require high minimum balances to maintain a savings account and do not charge a high ledger fee.

A unique deposit offered by rural banks is their Susu deposits. These deposits are daily or weekly savings deposits that are collected by Susu collectors, who are either rural bank employees or agents paid on a commission basis. This deposit and deposit collection technology builds on the traditional system of Susu collectors in Ghana. Susu collectors mobilize daily deposits by visiting individuals at their houses and business premises.

A Susu collector has a schedule and an agreed savings plan with a client and collects the amount of deposit according to the agreed plan. One Susu collector visits up to 300 clients per day. Most of the Susu collectors are men, whereas a majority of the participants are women. Safety is an area of concern since the women physically carry money with them. Typically, no interest is paid on Susu deposits, and depositors pay a fee for the service. Banks use different savings mobilization methodologies. Many banks use the Susu approach. Some banks use deposit mobilization centers, which operate in the market on market days. Some rural banks also offer special deposit products that target specific target groups such as small traders and fishmongers, or purposes such as children's education. The smaller size of deposit accounts and the concentration of a large number of deposit clients around these small-sized accounts may imply that the rural banks are increasing the depth of outreach by serving poor clients. The Susu products and savings mobilization instruments are particularly well suited to the savings needs of poor clients.

2.3.3 Loans

The major credit products offered by the rural banks include microfinance loans, personal loans, commercial loans, salary loans, Susu loans, overdrafts, and others.

Microfinance loans and Susu loans are the two special loan products that most directly benefit the low-income population. A significant portion of the salary loans, however, would also be considered microloans in the Ghanaian context. Consequently, the microcredit portfolio of rural banks is larger than the sum of the microfinance and Susu loan portfolios shown in the loan classifications reported by the RCBs. Most banks are using a “credit with education” approach adapted from Freedom from Hunger to deliver microfinance credit products. In this approach, banks educate and sensitize members of microfinance groups for about six weeks before disbursing the loan.

First, members of microfinance groups participate in a financial education program on basic bookkeeping and preparation of business proposals for credit. Then, credit officers assess the readiness of the group members before releasing funds. This methodology is intended to reduce credit risk caused by clients’ inability to manage and use loans in a productive way that allows for repayment. The training is provided by microfinance officers, and some RCBs outsource training to NGOs. The training typically includes education on savings; the purpose of group formation; group management; good business practices; and bookkeeping. In addition to the financial education, clients also receive education on health and nutrition. The group is required to collect compulsory savings during the six-week training period to cultivate the habit of saving and managing funds. Following the satisfactory completion of the training and compulsory savings, the group is eligible to obtain formal credit from the

bank. The bank requires 10–20 percent of the compulsory savings as collateral and a group guarantee of the loan.

A sample of share of clients and credit portfolio in nine sample banks in 2008 were taken. Out of the total advances, salary loans are the highest, with 33 percent of the total advances, followed by personal loans (24 percent) and microfinance (20 percent).

In terms of size of clients, microfinance loans have the most borrowers (31 percent) followed by personal loans (26 percent) and salary loans (22 percent). In six (out of nine) of sample banks, more than 20 percent of clients are microfinance clients. Only one bank has no microfinance product. In three banks—Borimanga, Upper ManyaKro, and AhafoAno Premier—about half of clients

2.4 History of Small and Medium Scale Enterprises

The dynamic role of small and medium enterprises (SMEs) in developing countries as engines through which the growth objectives of developing countries can be achieved has long been recognised. It is estimated that SMEs employ 22% of the adult population in developing countries (Daniels, 1994; Daniels & Ngwira, 1992; Daniels & Fisseha, 1992; Fisseha, 1992; Fisseha & McPherson, 1991; Gallagher & Robson, 1995). The sector employs about 15.5% the labour force in Ghana. This paper seeks to identify the achievements of the SME sector, to consider the constraints to the development of the sector, and to highlight the role that rural and community banks have played in promoting the sector in Ghana.

Ghana and Malawi have common macroeconomic traits; in 1991 they both had a per capita income of less than \$400. Although Ghana's per capita income declined between 1965 and 1991, the country has a relatively well educated population, a

capable bureaucracy and abundant natural resources. While Malawi showed a positive growth in per capita income, its per capita income is less than \$200, it also has a thin industrial base, a limited educated class and has a population density well above the Sub-Saharan average of 21 persons per square kilometre (Parker et al, 1994).

In the late 1970s and early 1980s, both countries experienced severe economic crises arising from internal and external factors. Externally, the oil price hikes and declining world prices for major exports depleted foreign reserves, thereby reducing the import capacity of many industries. Both countries faced deterioration in their terms of trade due to weak market conditions for key export commodities besides the increases in their import prices. Another significant external factor peculiar to Ghana was the expulsion of a million Ghanaians from Nigeria in 1983. In the case of Malawi, the civil war in Mozambique (from 1979 to 1981) also disrupted the traditional trade route of land-locked Malawi.

These developments had repercussions on the countries balance of payments; in Malawi, the cost, insurance and freight (CIF)/free on board (FOB) margin rose from an average of 15 percent in the early 1970s to 40 percent during the early 1980s, following the re-routing of the country's external trade through the ports of Durban in South Africa and Dar-es-Salaam in Tanzania. Both countries also suffered the adverse effects of the global debt crisis of the early 1980s. Since both countries had contracted some commercial debt in the 1970s, particularly for infrastructural investments, they experienced a massive increase in their debt obligations (Aryeetey et al, 1992; Parker et al, 1995).

Internally, problems such as large inefficient public sectors, policy biases that favored industry over agriculture, overvalued exchange rates and inflation were dominant. In

the 1980s, the deteriorating economic conditions led to the implementation of Structural Adjustment Programs (SAP) with similar but distinct emphases, tailored to address specific economic issues. Ghana embarked on its reforms in 1983 and they included elements of stabilization and liberalization. Prominent among them was the liberalization of the exchange rate and greater access to foreign exchange.

This was achieved through a series of devaluations and the setting up of auction markets aimed at fostering market-based exchange rate setting and the licensing of foreign exchange bureau to trade in the currency (Dordunoo, 1988). In short, the country operated the Dutch auction system. Other important measures contained in the program included: (i) rationalization of the tax structure and the broadening of its base; (ii) cut in subsidies to public enterprises and a shift in emphasis towards education and infrastructure; (iii) abolishing of price controls; (iv) decontrolling of interest rates; (v) reduction in tariff and abolishing of import licensing; (vi) revision of the investment code; The SAP embarked upon by Malawi consisted of two elements: between 1981 and 1985 the country sought to restore macroeconomic stability and encourage economic growth.

The authorities initially responded by maintaining aggregate demand and income through deficit financing supported by external commercial borrowing (Parker et al, 1995). This resulted in a rapid increase in the fiscal deficit and a widening of the current account deficit. To deal with these emerging balance of payments and fiscal deficits, the authorities adopted several policies that resulted in a more inward oriented economy and deterioration in competitiveness. The policies included an introduction of quantitative restrictions on imports, and an increase in the level and spread of tariff rates, partly intended to raise revenue and close the fiscal gap. The second component of the SAP consisted of the following: (i) measures to establish

fiscal discipline such as tax reforms, reduction in government expenditure and improved budget planning;⁶ (ii) agricultural sector reforms mainly in producer prices, (ii) agricultural sector reforms mainly in producer prices, increasing the role of small private farmers and greater incentives for large scale production. (iii) Trade liberalization.

The implementation of the SAP and the degree of commitment to reform varied between the two countries. Ghana's reform is said to be the most extensive and its implementation has been thorough. Malawi on the other hand, undertook at least partial measures in almost all sectors.

2.5 The Concept of SMES in Ghana

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

- (i) it has a relatively small share of their market place;
- (ii) it is managed by owners or part owners in a personalized way, and not through the
- (iii) medium of a formalized management structure;
- (iv) It is independent, in the sense of not forming part of a large enterprise.

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

- (a) Quantifying the size of the small firm sector and its contribution to GDP, employment, exports etc.;
- (b) comparing the extent to which the small firm sector’s economic contribution has changed over time;
- (c) applying the statistical definition in a cross country comparison of the small firms’ economic contribution.

Criticism of the Bolton Committee’s “Economic” Definition Storey D.J(1994), *Understanding the Small Business Sector*, Routledge, page 9.8 A number of weaknesses can be identified with the Bolton Committee’s “economic” and ‘statistical’ definitions. First, the economic definition which states that a small business is managed by its owners or part owners in a personalized way, and not through the medium of a formal management structure, is incompatible with its statistical definition of small manufacturing firms which could have up to 200 employees. As firm size increases, owners no longer make principal decisions but devolve responsibility to a team of managers. For example, it is unlikely for a firm with hundred employees to be managed in a personalized way, suggesting that the ‘economic’ and ‘statistical’ definitions are incompatible.

Another shortcoming of the Bolton Committee’s economic definition is that it considers small firms to be operating in a perfectly competitive market. However, the idea of perfect competition may not apply here; many small firms occupy ‘niches’ and provide a highly specialized service or product in a geographically isolated area and do not perceive any clear competition (Wynarczyk et al, 1993; Storey, 1994).

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

- (a) Uncertainty associated with being a price taker;
- (b) limited customer and product base;
- (c) Uncertainty associated with greater diversity of objectives as compared with large firms. As Storey (1994) stated, there are three key distinguishing features between large and small firms.

Firstly, the greater external uncertainty of the environment in which the small firm operates and the greater internal consistency of its motivations and actions. Secondly, they have a different role in innovation; small firms are able to produce something marginally different, in terms of product or service; this differs from the standardized product or service provided by large firms.

A third area of distinction between small and large firms is the greater likelihood of evolution and change in the smaller firm; small firms which become large undergo a number of stage changes. Criticism of the Bolton Committee's "Statistical" Definition:

- (i) no single definition or criteria was used for "smallness", (number of employees, turnover, ownership and assets were used instead)
- (ii) Three different upper limits of turnover were specified for the different sectors and two different upper limits were identified for number of employees. This makes the definition complex to allow for cross country comparison.

- (iii) Comparing monetary units over time requires construction of index numbers to take account of price changes. Moreover, currency fluctuations make international comparison more difficult.
- (iv) The definition considered the small firm sector to be homogeneous; however, firms may grow from small to medium and in some cases to large.

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

- (i) firms with 0 to 9 employees - micro enterprises
- (ii) 10 to 99 employees - small enterprises
- (iii) 100 to 499 employees - medium enterprises.

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

2.5.1 Alternative Definitions

World Bank since 1976 - Firms with fixed assets (excluding land) less than US\$ 250,000 in value are Small Scale Enterprises.

Grindle et al (1989:9-10) - Small scale enterprises are firms with less than or equal to 25 permanent members and with fixed assets (excluding land) worth up to US\$ 50,000.

USAID in the 1990s - Firms with less than 50 employees and at least half the output is sold (also refer to Mead, 1994).

2.5.2 UNIDO's Definitions:

Large - firms with 100+ workers

Medium - firms with 20 - 99 workers

Small - $5 \leq$ 19 workers

Micro - < 5 workers UNIDO's

Definition for Industrialized Countries:

Large - firms with 500+ workers

Medium - firms with 100 - 499 workers

Small - ≤ 99 workers

From the various definitions above, it can be said that there is no unique definition for a small and medium scale enterprise thus, an operational definition is required.

2.5.3 Country Definitions

Small Scale enterprises have been variously defined, but the most commonly used criterion is the number of employees of the enterprise. In applying this definition, confusion often arises in respect of the arbitrariness and cut off points used by the various official sources. As contained in its Industrial Statistics.

The Ghana Statistical Service (GSS) considers firms with less than 10 employees as Small Scale Enterprises and their counterparts with more than 10 employees as Medium and Large-Sized Enterprises. Ironically, The GSS in its national accounts considered companies with up to 9 employees as Small and Medium Enterprises.

An alternate criteria used in defining small and medium enterprises is the value of fixed assets in the organisation. However, the National Board of Small Scale Industries (NBSSI) in Ghana applies both the 'fixed asset and number of employees' criteria. It defines a Small Scale Enterprise as one with not more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Cedis (US\$ 9506, using 1994 exchange rate). The Ghana Enterprise Development Commission (GEDC) on the other hand uses a 10 million Cedis upper limit definition for plant and machinery. A point of caution is that the process of valuing fixed assets in itself poses a problem. Secondly, the continuous depreciation in the exchange rate often makes such definitions out-dated.

Steel and Webster (1990), Osei et al (1993) in defining Small Scale Enterprises in Ghana used an employment cut off point of 30 employees to indicate Small Scale Enterprises. The latter however dis-aggregated small scale enterprises into 3 categories: (i) micro -employing less than 6 people; (ii) very small, those employing 6-9 people; (iii) small -between 10 and 29 employees. In the case of Malawi, the

official definition of enterprise sizes dates back to 1992. The definition is based on three criteria, viz.: the level of capital investment, number of employees and turnover. An enterprise is defined as small scale if it satisfies any two of the following three criteria, that is, it has a capital investment of US\$2,000 - US\$55,000, employing 5 - 20 people and with a turnover of up to US\$110,000 (using 1992 official exchange rate).

For manufacturing enterprises, capital investment is taken to mean the cost of plant and machinery, including working capital and the cost of land and buildings. It may be observed that since this official definition was given in 1992, the economic situation in the country has changed drastically, with the value of the kwacha falling from an official rate of MK3.60 to US\$1 in 1992 to MK15.30 to US\$1 in 1996 and to MK43.15 as of January 1999. The implication is that the existing official definition is out of date and needs to be revised.

2.6 Why Small And Medium Scale Enterprises?

The choice of small and medium scale enterprises within the industrial sector is based on the following propositions that;

(a) Large Scale Industry:

(i) Has not been an engine of growth and a good provider of employment; (ii) already receive enormous support through general trade, finance, tax policy and direct subsidies;

(b) Small and Medium Scale Enterprises

(i) Mobilize funds which otherwise would have been idle;(ii) Have been recognised as a seed-bed for indigenous entrepreneurship; (iii)

- intensive, employing more labour per unit of capital than large enterprises;
- (iv) Promote indigenous technological know-how;
 - (v) are able to compete (but behind protective barriers);
 - (vi) Use mainly local resources, thus have less foreign exchange requirements;
 - (vii) Cater for the needs of the poor and;
 - (viii) Adapt easily to customer requirements (flexible specialization).

2.7 The Role SME's

Small-scale rural and urban enterprises have been one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low income countries. These enterprises have been recognised as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries. It is estimated that SMEs employ 22% of the adult population in developing countries (Daniels, 1994; Daniels & Ngwira, 1992; Daniels & Fisseha, 1992; Fisseha, 1992; Fisseha & McPherson, 1991; Gallagher & Robson, 1995). However, some authors have contended that the job creating impact of small scale enterprises is a statistical flaw; it does not take into account offsetting factors that makes the net impact more modest (Biggs, Grindle & Snodgrass, 1988). It is argued that increases in employment Small and Medium Enterprises is not always associated with increases in productivity. Nevertheless, the important role performed by these enterprises cannot be overlooked. Small firms have advantages over their large-scale competitors.

They are able to adapt more easily to market conditions given their broadly skilled technologies. However, narrowing the analysis down to developing countries raises the following puzzle: Do small scale enterprises have a dynamic economic role? Due

to their flexible nature, SMEs are able to withstand adverse economic conditions. They are more labour intensive than larger firms and therefore, have lower capital costs associated with job creation (Anheier & Seibel, 1987; Liedholm & Mead, 1987; Schmitz, 1995).

SSEs perform useful roles in ensuring income stability, growth and employment. Since SMEs are labour intensive, they are more likely to succeed in smaller urban centres and rural areas, where they can contribute to the more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Because of their regional dispersion and their labour intensity, the argument goes, small scale production units can promote a more equitable distribution of income than large firms. They also improve the efficiency of domestic markets and make productive use of scarce resources, thus, facilitating long term economic growth.

2.8 Constraints To SME's

Despite the wide-ranging economic reforms instituted in the region, SMEs face a variety of constraints owing to the difficulty of absorbing large fixed costs, the absence of economies of scale and scope in key factors of production, and the higher unit costs of providing services to smaller firms (Schmitz, 1982; Liedholm & Mead, 1987; Liedholm, 1990; Steel & Webster, 1990). Below is a set of constraints identified with the sector.

2.8.1 Input Constraints

SMEs face a variety of constraints in factor markets (also see Levy, 1993). However, factor availability and cost were the most common constraints. The specific problems differed by country, but many of them were related, varying according to whether the

business perceived that their access, availability or cost was the most important problem and whether they were based primarily on imported or domestic inputs (World Bank, 1993; Parker et al, 1995). SMEs in Ghana and Malawi emphasised the high cost of obtaining local raw materials; this may stem from their poor cash flows (Parker et al, 1995). Aryeetey et al(1994) found that 5% of their sample cited the input constraint as a problem.

However, Daniels &Ngwira (1993) reported that about a third of Malawian SMEs reported input problems. This can also be contrasted with only 8.2%, 7.5% and 6.3% of proprietors in Botswana, Swaziland and Lesotho. It was also found that input constraints vary with firm size.

2.8.2 Finance

Access to finance remained a dominant constraint to small scale enterprises in Ghana and Malawi. Credit constraints pertaining to working capital and raw materials were cited by respondents (between 24% and 52% in Parker et al, 1995). Aryeetey et al(1994) reported that 38% of the SMEs surveyed mention credit as a constraint , in the case of Malawi, it accounted for 17.5% of the total sample(Daniels &Ngwira, 1993:30-31). This stems from the fact that SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, and the higher costs of intermediation for smaller firms. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity.

2.8.3 Labour Market

This seems a less important constraint to SMEs considering the widespread unemployment or underemployment in these countries. SMEs generally use simple technology which does not require highly skilled workers. However, where skilled

workers are required, an insufficient supply of skilled workers can limit the specialization opportunities, raise costs, and reduce flexibility in managing operations. Aryeetey et al(1994) found that 7% of their respondents indicated that they had problems finding skilled labour, and 2% had similar problems with unskilled labour. However, only 0.9% of Malawian firms were reported to have had labour problems.

2.8.4 Equipment Technology

SMEs have difficulties in gaining access to appropriate technologies and information on available techniques. This limits innovation and SME competitiveness. Besides, other constraints on capital, and labour, as well as uncertainty surrounding new technologies, restrict incentives to innovation. 18% of the sampled firms in Aryeetey et al (1994) mentioned old equipment as one of the four most significant constraints to expansion (18.2% in Parker et al, 1995), this is in contrast to the 3.4% reported in Malawi (Daniels & Ngwira, 1993; Makoza & Makoko, 1998).

2.8.5 Domestic Demand

24.9% of Malawian proprietors indicated they had marketing constraints, while 5% of respondents were the figure quoted in the Ghanaian case (Aryeetey et al, 1994; Daniels & Ngwira, 1993). The business environment varied markedly among SMEs in Ghana and Malawi, reflecting different demand constraints after adjustment. There were varying levels of uncertainty caused by macroeconomic instability and different levels of government commitment to private sector development. Recent economic policies have led to a decline in the role of the state in productive activity but a renewed private investment has created new opportunities for SMEs. Nonetheless, limited access to public contracts and subcontracts, arising from cumbersome bidding

procedures and/or lack of information, inhibit SME participation in these markets. Also, inefficient distribution channels often dominated by larger firms pose important limitations to market access for SMEs. As noted in the case of Ghana, demand constraints limited the growth of SMEs (Parker et al, 1995).

2.8.6 International Market

Previously insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share. However, this problem was mostly identified in medium-sized enterprises in Ghana (12.5% in Aryeetey et al, 1994:13), less than 1% of the total sample complained there were too many imported substitutes coming into the country. Daniels & Ngwira (1993) also reported a similar figure for Malawi (0.9%). However, Riedel et al (1988), reported that Tailors in Techiman (Ghana) who used to make several pairs of trousers in a month went without any orders with the coming into effect of trade liberalization. Limited international marketing experience, poor quality control and product standardization and little access to international partners, impede expansion into international markets. It is reported that only 1.7% of firms export their output (Aryeetey et al, 1994).

2.8.7 Regulatory Constraints

Although wide ranging structural reforms have improved, prospects for enterprise development remain to be addressed at the firm-level.

2.8.8 Legal

High start-up costs for firms, including licensing and registration requirements, can impose excessive and unnecessary burdens on SMEs. The high cost of settling legal claims and excessive delays in court proceedings adversely affect SME operations. In

Malawi, prohibitive laws like The Business Licensing Act, The Electricity Act, The Control of Goods Act, and The Export Incentives Act, have severely constrained SME development (Makoza & Makoko, 1998). 5.3% of proprietors in Malawi mentioned this as a constraint (Daniels & Ngwira, 1993). In the case of Ghana, the cumbersome procedure for registering and commencing business were key issues often cited. However, Aryeetey et al (1994) found that this accounted for less than 1% of their sample. Meanwhile, the absence of antitrust legislation favours larger firms, while the lack of protection for property rights limits SME access to foreign technologies.

2.8.9 Managerial Constraints

Lack of Entrepreneurial & Business Management Skills: Lack of managerial know-how places significant constraints on SME development. Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries in the region, has a magnified impact on SMEs. The lack of support services or their relatively higher unit cost can hamper SME efforts to improve their management because consulting firms often are not equipped with appropriate cost effective management solutions for SMEs. Furthermore, absence of information and/or time to take advantage of existing services results in weak demand for them. Despite the numerous institutions providing training and advisory services, there is still a skills gap among the SME sector as a whole. According to Daniels & Ngwira¹⁶ (1993), about 88% of Malawian SMEs desired training in various skills but as of 1992, less than 6% have actually received it. In Ghana, a lot has actually been achieved in this regard, though there is still room for improvement.

2.8.10 Institutional Constraints

The lack of cohesiveness and the wide range of SME interests limits their capacity to defend their collective interests and their effective participation in civil society.

2.8.11 Associations and Collective Action

Associations providing a voice for the interests of SMEs in the policy-making process have had a limited role compared to those of larger firms. Many of the entrepreneurs associations have yet to complete the transition of their goals from protectionism to competitiveness (World Bank, 1993). Additionally, the potential economies of collaborative arrangements in production and sales among SMEs have not been adequately explored. It is reported that about 98% of all SMEs in Malawi sell their products to the final consumer with the exception of chemicals, plastics, and wholesale trade which sell to other commercial or manufacturing enterprises (Makoza & Makoko, 1998). There are very few forward linkages. However, backward linkages were common with 71% of enterprises procuring unprocessed, semi-processed or finished products. The dependence of the SME sector in Ghana on large-scale enterprises as purchasers of output, either for sale, as final goods or to be used as intermediate inputs, is very limited. Only 13% of firms produce any item for or component for larger firms. Interdependence among SMEs is very minimal. As reported in Osei et al (1993), only 17.6% of firms with growing output and 8.4% of those whose output stagnated have other SSEs as customers.

Looking at the contribution and constraints of small and medium scale enterprises brings to board as far as development of the country is concerned, then the provision of credit by rural and community banks can solve the financial problem for the SMEs.

CHAPTER THREE

METHODOLOGY AND ORGANIZATIONAL PROFILE

3.1 Introduction

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

3.2 Research Design

As this study seeks to examine the contribution of rural and community banks, a descriptive survey was employed in this study. Creswell (2003) defines descriptive survey as a method of collecting data for the purpose of testing hypothesis or answering research questions concerning the current status of the subjects under study.

In the opinion of Cohen and Marion (1999) descriptive survey is a design used to gather data at a particular point in time with the intention of describing the nature of existing conditions or identifying standards against which existing conditions can be compared or determining the relationship that exist between events. Thus, a descriptive study is undertaken in order to ascertain and be able to describe the characteristics of the variables of interest in a situation.

This is done through the use of strategies and procedures to describe, clarify and interpret existing variables that constitute a phenomenon. This study adopted the descriptive design because it has the advantage of producing a good amount of responses from the staff and customers of Amenfiman Rural bank.

3.3 Sources of Data

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

3.4 Population of the Study

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

3.5 Sampling and Sampling technique

Due to the limited time frame of the research, the entire staff and customers of Amenfiman Rural Bank could not be used for the study. Hence, a sample of 65 was chosen for the study. Out of the 65 people sampled, 5 were made up of the staff of Amenfiman whereas 60 were the customers of Amenfiman. With reference to the sampling technique employed, a convenience purposive sampling technique was used to choose 5 staff members while a simple random sampling was employed in choosing 60 customers to represent the population of interest.

3.7 Research Instrument

Questionnaire administration and interview guide were the research instruments used by the researcher to collect data from the respondents. In all a total of 60 questionnaires and 5 interview guides were designed and administered.

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

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

3.8 Method of Data Analysis

The following steps were taken to analyze the data for the study. The data was edited to detect and correct, possible errors and omissions that are likely to occur, to ensure consistency across respondents. Data collected from the field was analysed using descriptive statistics. The Statistical Package for Social Sciences (SPSS) Software was employed to process and analyse the instruments. Frequencies, percentages, proportions, charts and diagrams were used to present the results.

3.9 Ethical Issues

Almost all the service industry in Ghana have strict policy on confidentiality and one can pay the ultimate price for the breach of this duty of confidentiality. Divulging of

information by employees to a third party can expose the institution to potential legal tussle and therefore being mindful of this ethical issue, the respondents were sometimes apprehensive in the disclosure of information. This genuine apprehension was addressed by first explaining the essence of the study to the respondents and also with the assurance that the data will be handled professionally and that their identities are not going to be revealed. The confidentiality of the information collected from interviewees was preserved by ensuring that their names and other information that could bring out their identities were not disclosed in the data collected.

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

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

3.10 Validity and Reliability

Peppers (2002) states that validity and reliability are two features which any quantitative researcher should focus on while designing a study, analyzing the results and judging the quality of the study. According to Peppers (2002) in a research work, all the right things must be measured. Care should be taken such that, the appropriate item is measured (validity); in addition, careful attention should be paid to how the

measurement is being made (reliability). This study therefore took into consideration these two key factors during the course of the research.

3.11 Profile of Amenfiman Rural Bank Limited

Amenfiman Rural Bank limited, one of the leading Rural Banks in Ghana was the first Rural Bank established in the western region and the fourth in Ghana in 1980 to provide essential banking services to rural and peri-urban communities in which it operate. The bank was incorporated under the Ghana companies code 1963 (Act 179) and received its certificate to commence business in May 1980 and also licensed under the banking Act 2004 (673) to engage in the ordinary business of banking. The head office of the bank is located at Wassa Akropong in the Western Region of Ghana. The bank has eleven (11) branches including the head office.

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

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

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

In the year 2012, the bank was ranked thirty-five (35) in the Ghana club 100 prestigious award. The bank was also awarded as the best deposit mobilization bank and first runner up of the most profitable bank by the Association of Rural Banks-Ghana for the year 2013.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction

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

4.2 Background of Data Collected

A total of 60 customers and 5 staff participated in the study with an equal number of questionnaires sent out and responded to by customers and staff of Amenfiman Rural Bank (respondents). After the field survey 60 questionnaires were returned on the part of the customers. This showed a favourable response rate as compared to what was established by Sekaran (2003) in literature, that in any given survey exercise a response rate of 90% is considered most acceptable.

4.3 Sex of Respondents

The researcher collected information on the sex of respondents and the results presented in Table 4.1 below.

Table 4.1: Sex of Respondents (SME Owners)

Gender	Frequency	Percentage %
Male	8	87
Female	52	13
Total	60	100

Source: Field survey, July 2015

The results from the survey as presented in summary from Table 4.1 above, shows that majority (87%) of the respondents were female. They formed the majority because it is perceived that female are more involved in small and medium scale activities than men. It could be strongly confirmed from the researcher's observation, it could be realized that all the areas that had to do with petty trading and agricultural products was under the care of women. The remaining (13%) comprised their male counterparts who were seen not to be involved in SMEs.

4.4 Age of Respondents

The research collected information on the age of respondents and the results presented in Table 4.2 below.

Table 4.2: Age of Respondents

Details	Frequency	Percentage %
20 - 30	5	8
30 - 40	35	58
40 – 50	20	33
50 and above	60	100

Source: Field survey, July 2015

The data collected from the field indicated that respondents who participated in the survey and responded to issues raised had majority of them thus (58%) between the age ranges of 30- 40 and mostly in the prime age in the small and medium scale business, followed by those between the range of 40- 50 forming (33%) who are in their old ages, and that of 20-30 age group constituting (8%) being in their early stages of life in the small and medium scale activities. The summary presented in Table 4.2 above.

4.5 Number of Years in Business Operations

The researcher collected data on the number of years the SME Owners were in business operations and the results presented in Table 4.3 below:

Table 4.3: Number of Years in Business Operations

Details	Frequency	Percentage %
Below 1 year	3	5
1 – 2 years	9	15
2 – 4 years	16	27
5 years and above	32	53
Total	60	100

Source: Field survey, July 2015

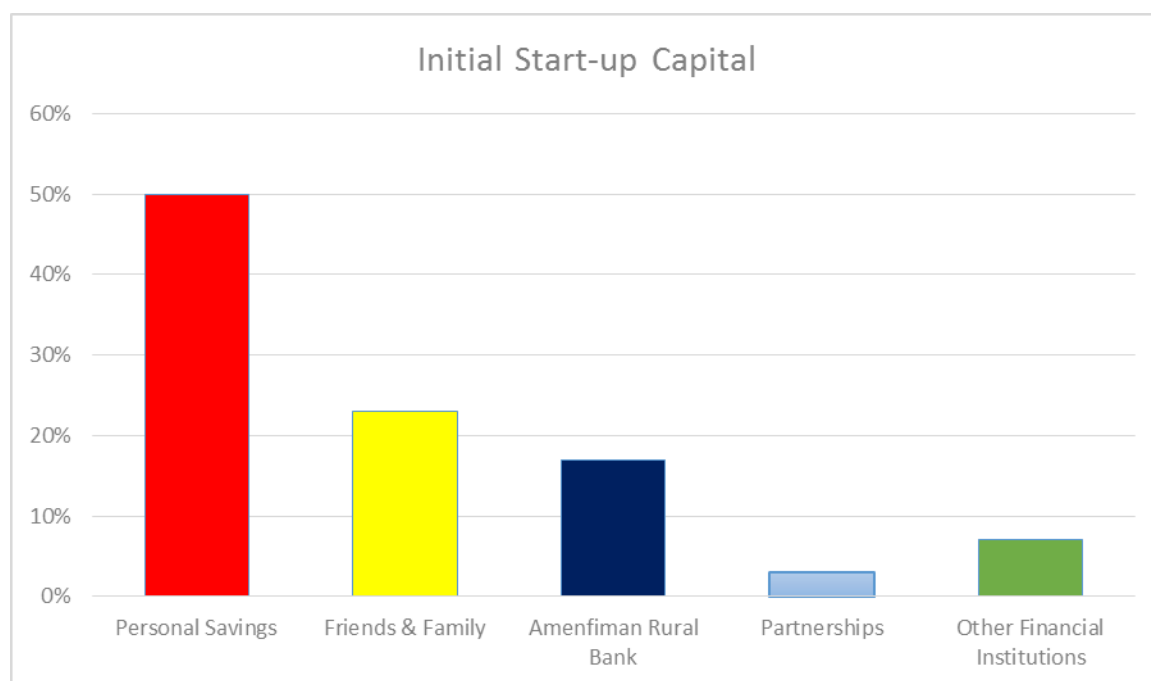
According to Table 4.3 above, majority of the respondents who had operated with the Amenfiman Rural Bank for 5 years and above were being represented by 53% of the total responses collected for the study; followed by the age range of 2-4 years who had operated with Amenfiman Rural Bank constituted 27% of the total responses collected; followed by the age range of 1-2 years representing 15% and the least age below 1 year were being represented by 5% of those respondents who were in business operations with the rural bank. This analysis above shows that, SME's owners who were in business with Amenfiman Rural Bank were all represented by different age's groups within the case study institution.

4.6 Whether Rural/Community Banks have solved the Funding problems of SME's

4.6.1 Initial Start-up Capital for Business

The study gathered data on how small and medium scale enterprises acquired their initial capital for their business operations and the results illustrated in Figure 4.1 below.

Figure 4.1: Initial Capital for Business



Source: Field survey, July 2015

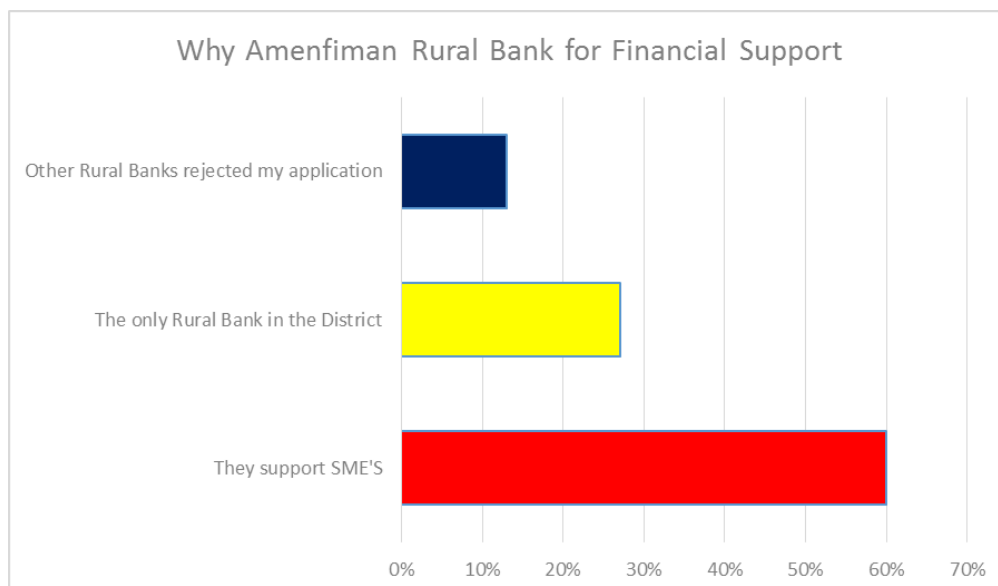
According to Figure 4.1 above, majority of the respondents who took part in the administration of the questionnaire stated that initial start-up capitals used by SME owners in starting their small and medium enterprise business operations were mostly capitals from personal savings which constituted 50% of the total responses collected for the study; followed by those who mentioned friends and family as the source for their business start-ups which represented 23% of the responses collected; followed

by those respondents who mention Amenfiman Rural Bank as the source of capital for the start of their business representing 17% of the responses collected for the study; followed by other banking and financial institutions support for the start of their business which constituted 7% and the least being those who mentioned partnership as the source of their business start –ups which constituted 3% of the total responses collected for the entire study.

4.6.2 Reasons for choosing Amenfiman Rural Bank for Financial Support

The research took into consideration the reasons why respondents choose Amenfiman Rural Bank as the financial institutions within the district for financial support and the results presented in Figure 4.2 below:

Figure 4.2: Reasons for choosing Amenfiman Rural Bank for Financial Support



Source: Field survey, July 2015

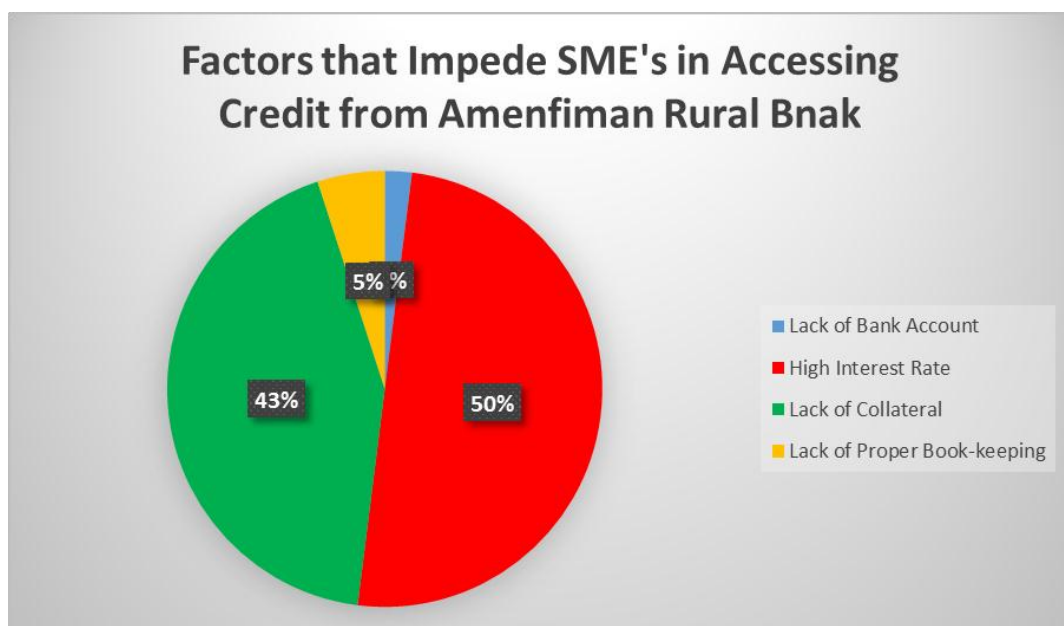
According to Figure 4.2 above, majority of respondents representing 60% of the total responses collected for the study indicated that they only choose Amenfiman Rural Bank for their financial support due to the fact that, the rural bank support the

activities of SME's within the District; followed by 27% of the responses collected from the respondents who said that they only choose Amenfiman for their financial support because Amenfiman is the only rural bank within the Amenfiman district and those who said they choose Amenfiman rural bank for their financial support because their loan applications to other rural banks were rejected and had no other choice than Amenfiman rural bank.

4.6.3 Factors that Impede SME's in Accessing Credit from Amenfiman Rural Bank

The research under review collected data on the factors that impede SME's from accessing credit from Amenfiman Rural Bank and the results presented in Figure 4.3 below.

Figure 4.3: Factors that Impede SME's in Accessing Credit from Amenfiman Rural Bank



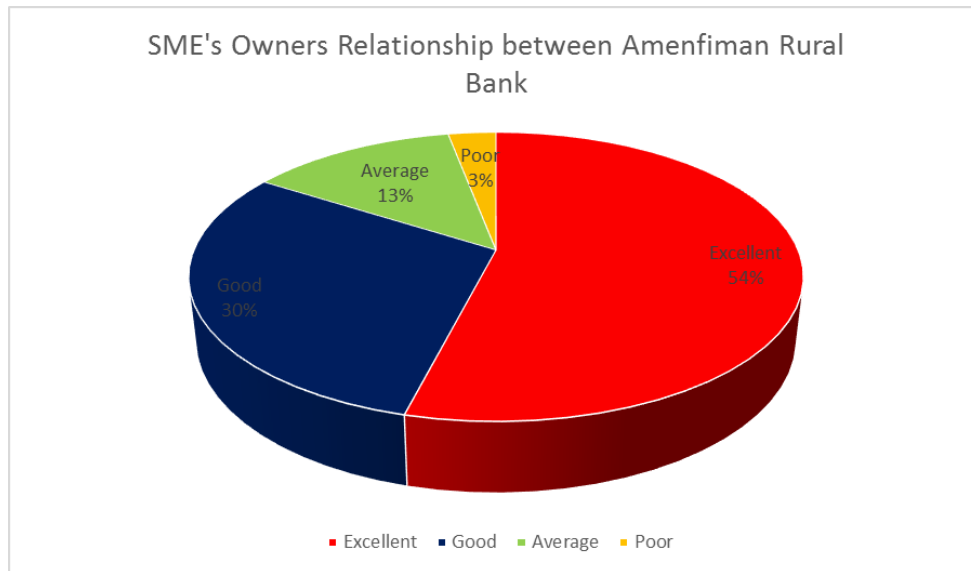
Source: Field survey, July 2015

According to Figure 4.3 below, majority of the respondents who took part in the research did agree that, high interest rate which constituted 50% of the data collected from the field work stated that high interest rate is a major factor that impedes their business in accessing credits from Amenfiman Rural Bank; followed by those respondents who stated lack of collateral representing 43% as being another factor that impede SME's from accessing credits from the rural bank; followed by lack of proper book keeping which was being represented by 5% of the responses collected from the study who stated was another factor that impedes SME's from accessing credits from Amenfiman Rural Bank and the least being lack of bank accounts with Amenfiman Rural Bank represented by 2% of the total responses collected for the study.

4.6.4 SME Owners Relationship with Amenfiman Rural Bank Limited

The research collected information on the relationship that exist between SME owners and the Amenfiman Rural Bank Limited and the results presented in Figure 4.4 below.

Figure 4.4: SME Owners Relationship with Amenfiman Rural Bank Limited



Source: Field survey, July 2015

According to Figure 4.4 above, respondents were quizzed about the relationship that exist between SMEs owners and Amenfiman Rural Bank Limited. Majority of 32 respondents which were being represented by 54% of the total responses collected for the study did agree to the fact that the relationship between SMEs owners and the Amenfiman Rural Bank was excellent; followed by 18 respondents representing 30% of the responses collected for the study indicated that the relationship between SMEs owners and Amenfiman Rural Bank are good; followed by 8 respondents representing 13% of the responses collected for the study indicated that the relationship is average and the least being 2 respondents representing 3% of respondents who said that the relationship between the SMEs owners and the rural bank is poor.

4.6.5 Refusal of Loan by Amenfiman Rural Bank

The study took into consideration the interest of SMEs owners whether they have ever been refused loan facility from Amenfiman Rural Bank and the results presented in Figure 4.5 below

Figure 4.5: Refusal of Loan by Amenfiman Rural Bank

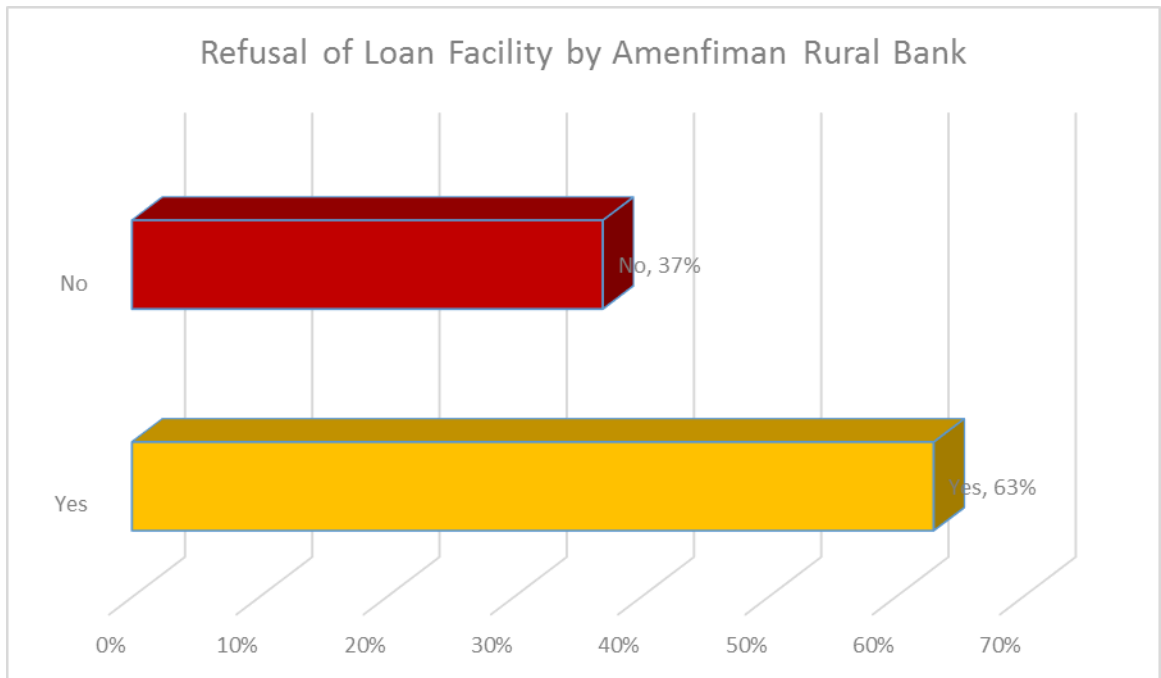
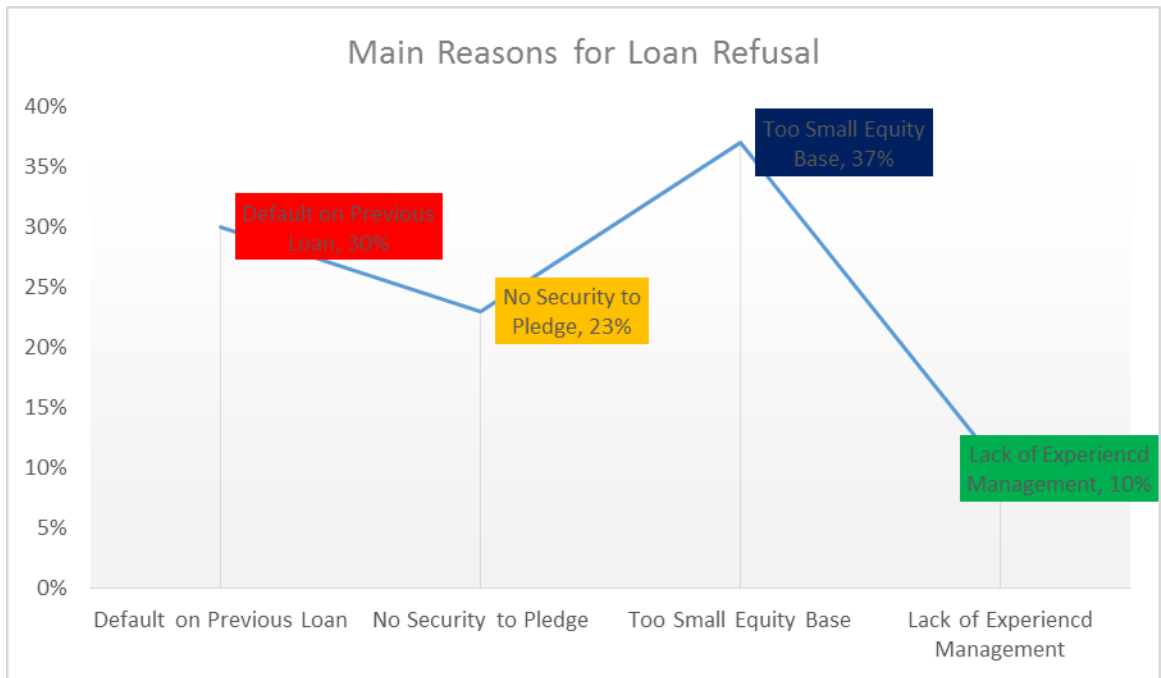


Figure 4.5 above shows whether SME owners have ever being denied credit facility by Amenfiman Rural Bank. Majority of 38 respondents representing 63% said yes to the fact that they have ever been denied credit by Amenfiman Rural Bank, while 22 respondents representing 37% said no to the effect that they have never being denied credits by the bank.

4.6.6 Reasons why Amenfiman Rural Bank refused SME Owners Loan Facility

The study gathered data on the reasons why Amenfiman Rural Bank refused SMEs owners credit facility and the results presented in Figure 4.6 below.

Figure 4.6: Reasons why Amenfiman Rural Bank refused SME Owners Loan Facility



Source: Field survey, July 2015

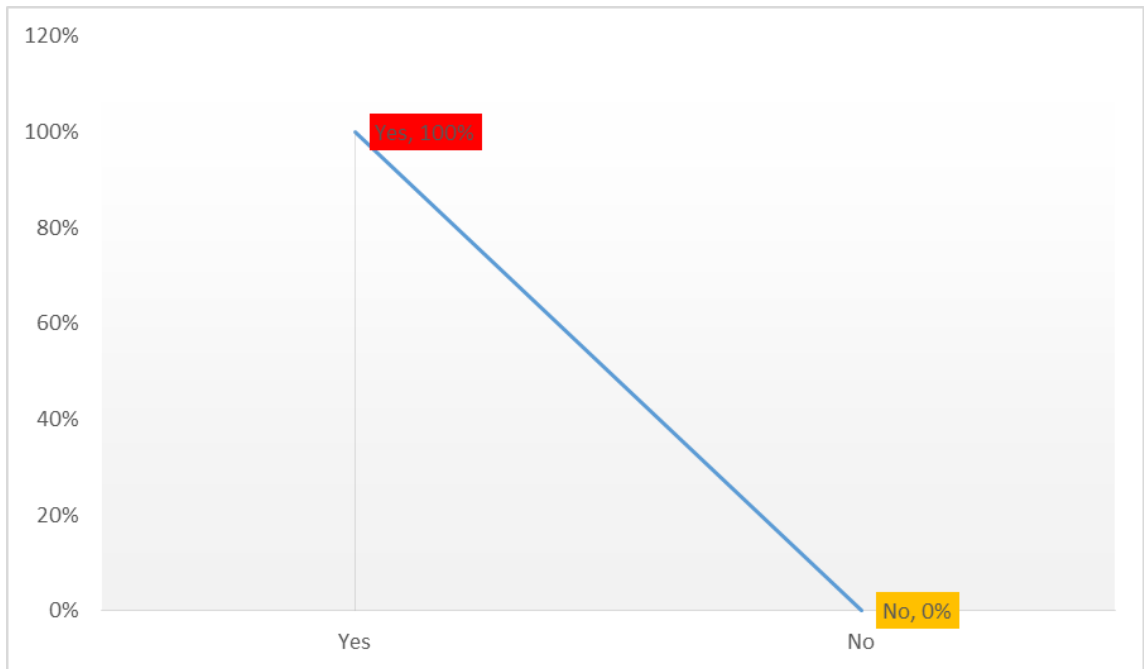
Figure 4.6 above, shows the main reasons why Amenfiman Rural Bank refused SMEs owners loan facility. Majority of 37% of the respondents stated that too small equity base; followed by 30% stating that default on previous loan were some of the reasons; followed by 23% who stated that, lack of security pledge and the last being 10% who stated lack of experienced management by some of the SMEs owners were the reasons why Amenfiman Rural Bank sometimes refuse their clients credit facilities.

4.7 Contribution of Rural/Community Banks to SME's in the Catchment Area

4.7.1 Access to Credit by SME'S Owners to support their Businesses

The research collected data on whether SMEs have access to credit to support their businesses and the results presented in Figure 4.7 below.

Figure 4.7: Access to Credit by SME'S Owners to support their Businesses



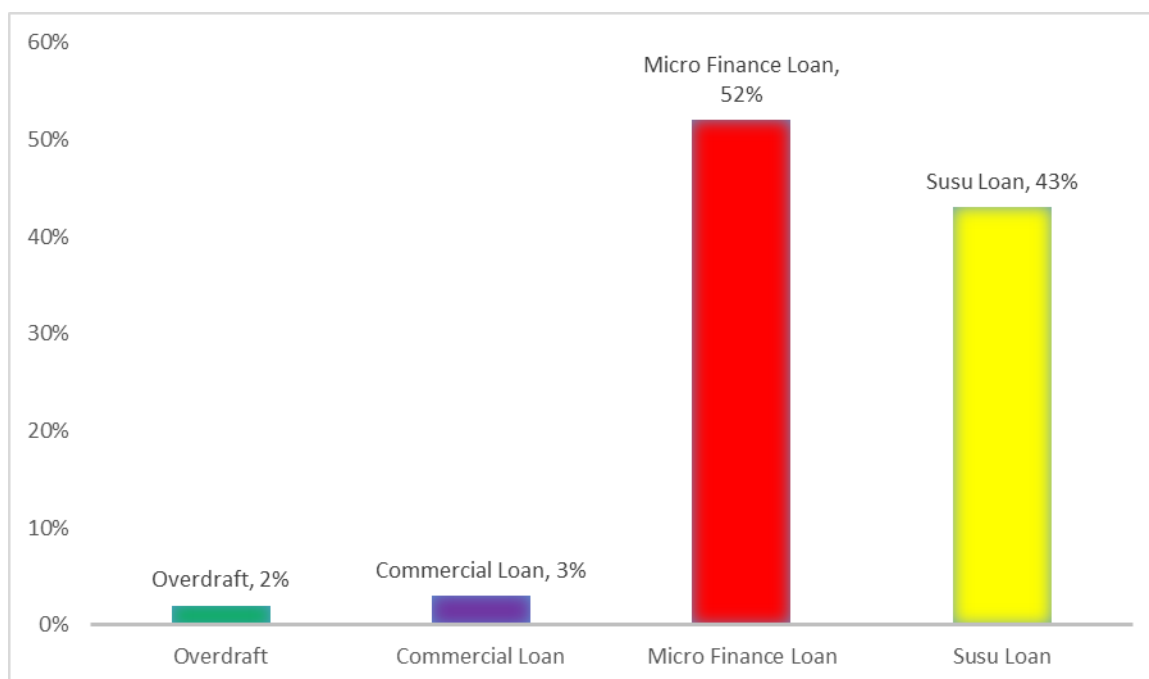
Source: Field survey, July 2015

According to Figure 4.7 above, 100% of the respondents who took part in the research all agreed to the fact that, SMEs owners have full access to loan facilities at Amenfiman Rural Bank.

4.7.2 Type of Products SME's Require from Amenfiman Rural Bank

The study gathered data on the various types of products the respondents requires from Amenfiman Rural Bank and the results presented in Figure 4.8 below.

Figure 4.8: Type of Products SME's Require from Amenfiman Rural Bank



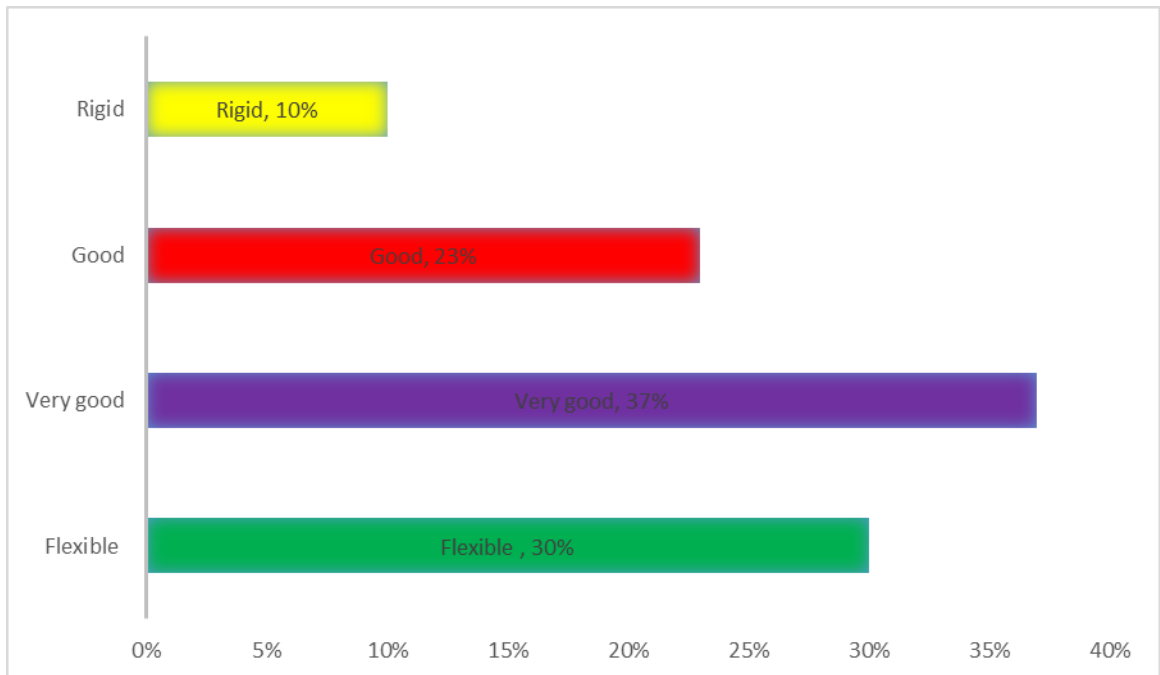
Source: Field survey, July 2015

Figure 4.8 above show the various types of product SMEs owners request from Amenfiman Rural Bank. Majority of 31 respondents representing 52% of the responses collected for the study indicated that they require micro finance loans for their business operations; followed by 26 respondents constituting 43% who said Susu loan were the type of product requested by SMEs owners; followed by 2 respondents constituting 3% stated commercial loan product as what they request and last being 1 respondents representing 2% of those who require overdraft product from Amenfiman Rural Bank.

4.7.3 Assessing Terms of Payment in Amenfiman Rural Bank

The study collected data on the terms of payments in Amenfiman Rural Bank and the results presented in Figure 4.9 below.

Figure 4.9: Assessing Terms of Payment in Amenfiman Rural Bank



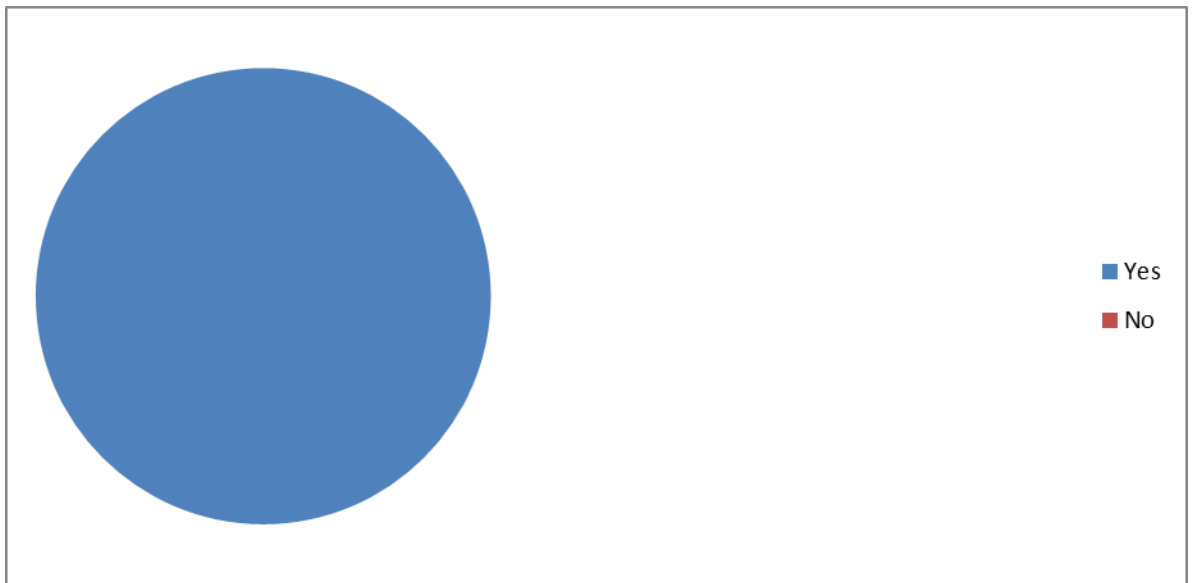
Source: Field survey, July 2015

Figure 4.9 above shows that, majority of respondents representing 37% of the responses collected indicated that the terms of payment in Amenfiman Rural Bank is very good; followed by 30% of respondents who indicated that the terms of payment is very flexible; followed by 23% of respondents who said the terms of payment were good and the last being 10% of the respondents who said the terms of payment is rigid within the banking sector.

4.7.4 Impact of Credit Facilities on SME's Owners

The researcher collected data on the impact of credit facilities on sme's owners and the results presented in Figure 4.10 below.

Figure 4.10: Impact of Credit Facilities on SME's Owners



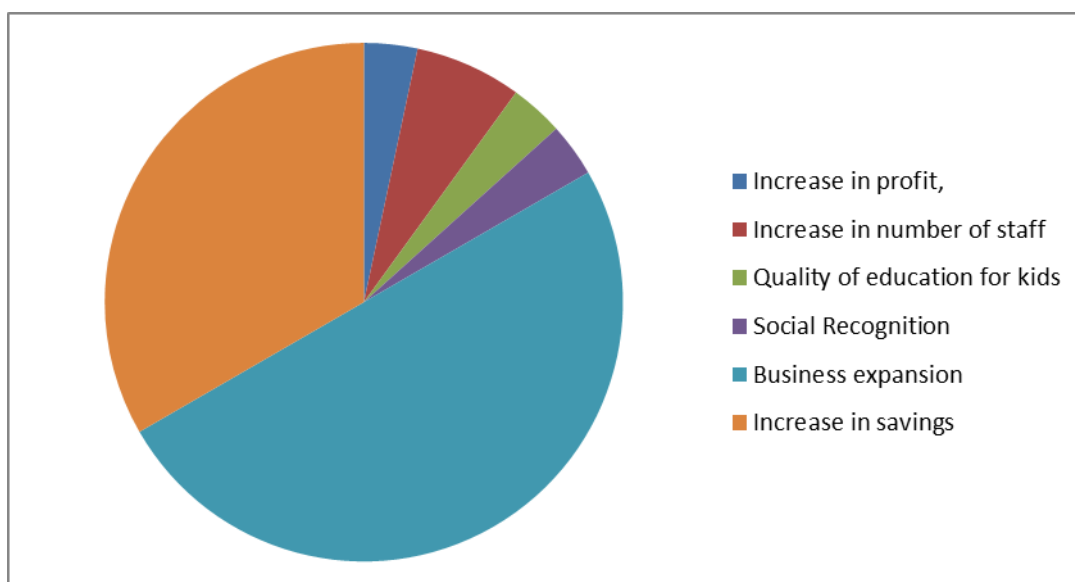
Source: Field survey, July 2015

Figure 4.10 above shows that, 100% of the respondents who took part in the research work stated that the credit facilities have 100% impact on SMEs owners.

4.7.5 Impact of Business/Life on SME's Owners

The research collected data on the impact of business and life on SMEs owners and the results presented in Figure 4.11 below.

Figure 4.11: Impact of Business/Life on SME's Owners



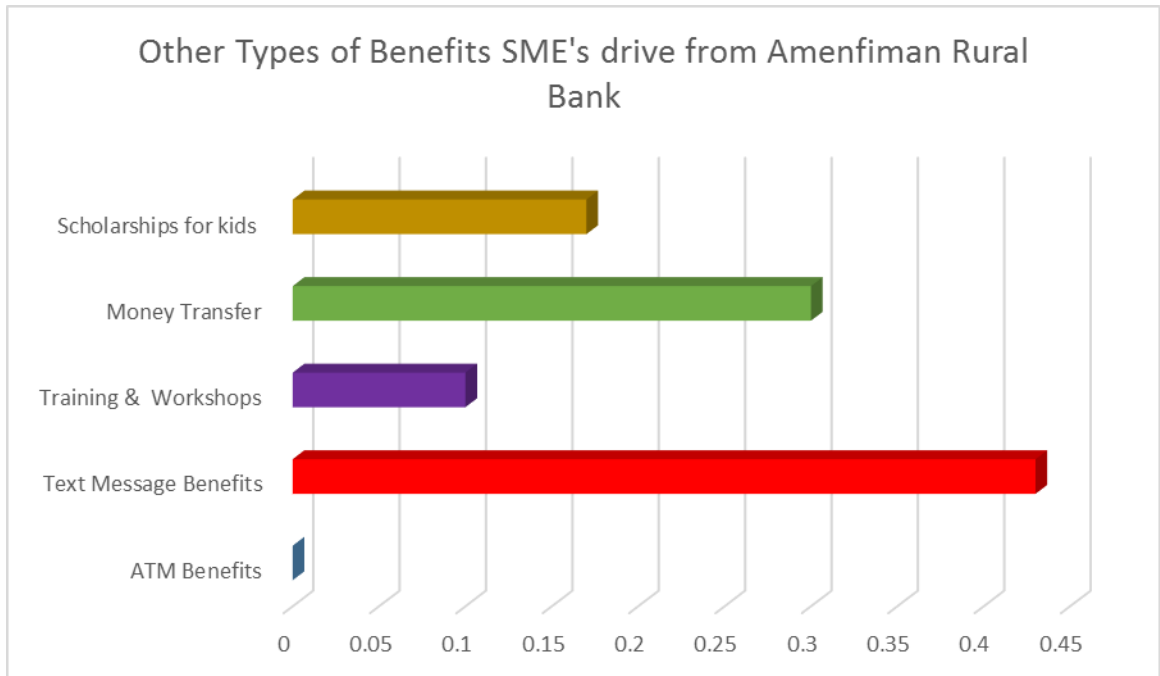
Source: Field survey, July 2015

According to Figure 4.11 above, respondents were quizzed about the impact of business and life on their small and medium scale enterprises. Majority of the respondents which were 30 representing 50% of the total responses collected for the study mention that their business have expanded since they engaged the services of Amenfiman Rural Bank; followed by 20 respondents constituting 33% who said that their savings had increase significantly; followed by 4 respondents representing 7% of respondents who affirmed that their working staff had increased since they engaged the services of Amenfiman Rural Bank; followed by 2 each of respondents represented by 3% for those who also affirmed that their profita has increased, social recognition had gone up and the quality of education for their kids had all gone up which was all as a results of the impact of Amenfiman credit facilities on their SMEs.

4.7.6 Other Types of Benefits SME's derives from Amenfiman Rural Bank

The research gathered data on other types of benefits SMEs receives from Amenfiman Rural Bank and the results presented in Figure 4. 12 below:

Figure 4.12: Other Types of Benefits SME's derives from Amenfiman Rural Bank



Source: Field survey, July 2015

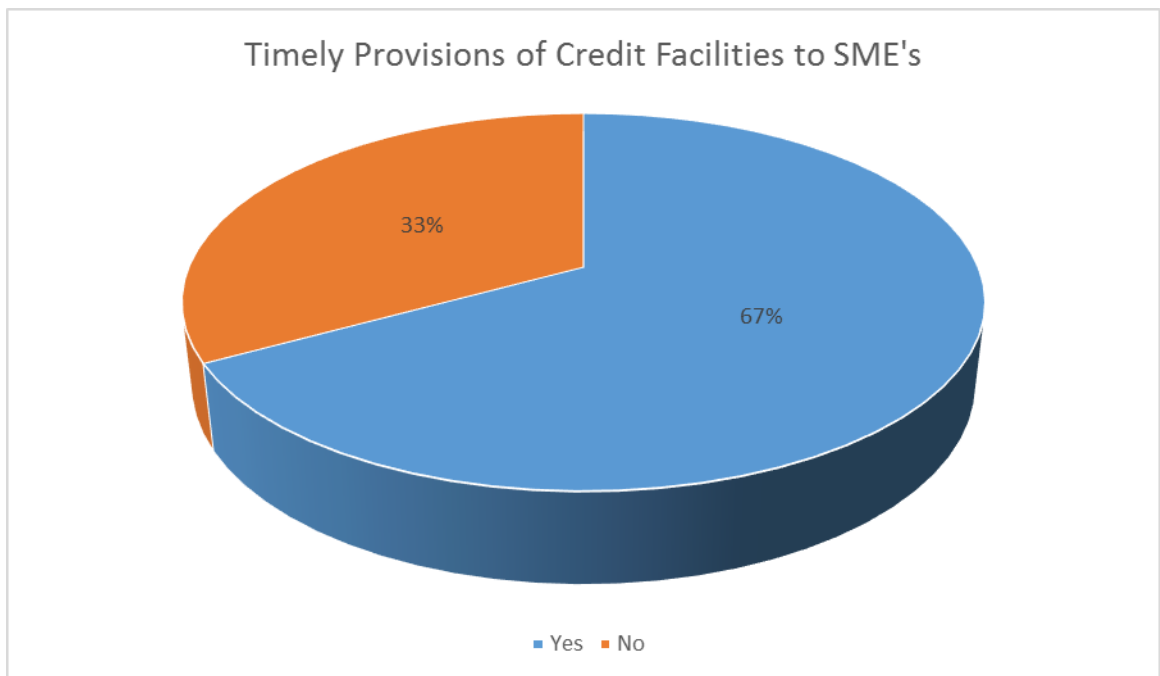
Figure 4.12 above shows that, majority of 43% of the respondents who took part in the research study stated that the other type of benefits they drive from Amenfiman Rural Bank was the product of text messages on their phone any time they transact business with the bank; followed by 30% of respondents who said they receive money transfer services; followed by those respondents who said they receive scholarship opportunities for their kids which represented 17%; followed by those respondents who said they receive training services which constituted 10% and the least being ARM services which was not commented on at all, meaning that Amenfiman Rural Bank does not provides ATM services at the bank.

4.8 Timely Provisions of Credit Facilities by Amenfiman Rural Bank

4.8.1 Timely Provisions of Services as Scheduled

The researcher collected information on whether Amenfiman Rural Bank provides timely services at all times as planned and the results presented in Figure 4.13 below.

Figure 4.13: Timely Provisions of Services as Scheduled



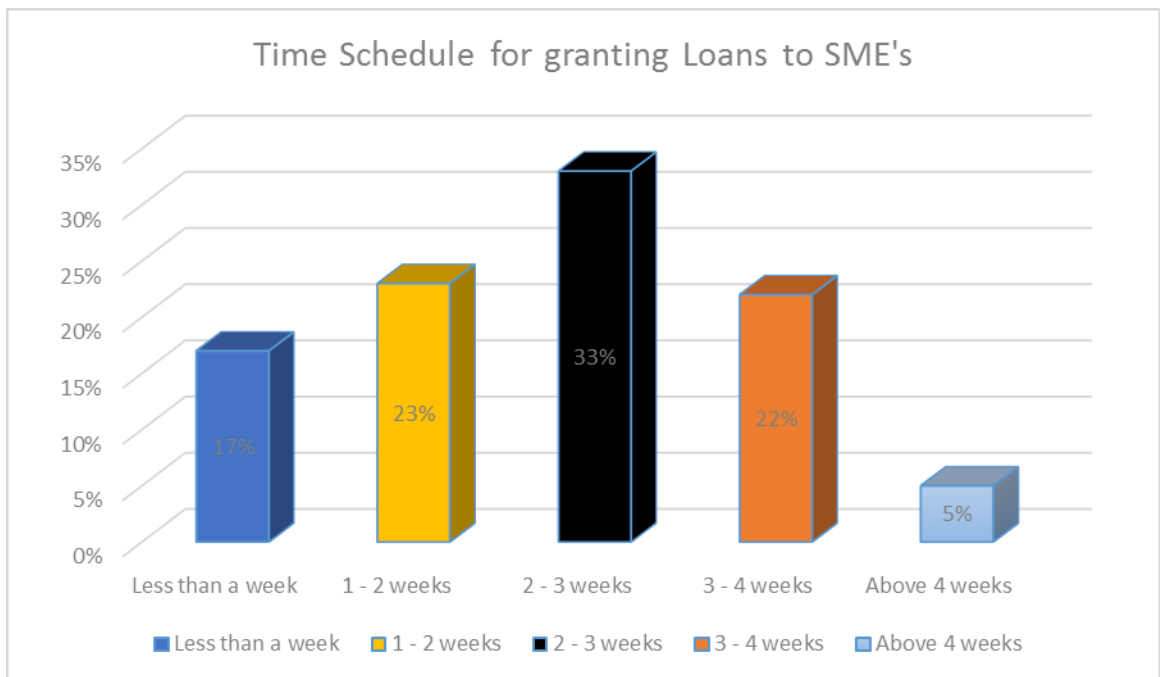
Source: Field survey, July 2015

Figure 4.13 above shows that, majority of 40 respondents representing 67% of the total responses collected for the study states that 'YES' Amenfiman Rural Bank provides timely credit facilities to SME owners as scheduled, while only 20 respondents representing 33% of the responses collected for the study said no to the fact that, Amenfiman Rural Bank does not provide timely credit facilities as scheduled.

4.8.2 Time Durations given by Amenfiman Rural Bank in granting Credits to SME'S

The study took into consideration the time duration given before credit facilities are granted to SMEs and the responses presented in Figure 4.14 below.

Figure 4.14: Time Schedule for granting Loans to SME's



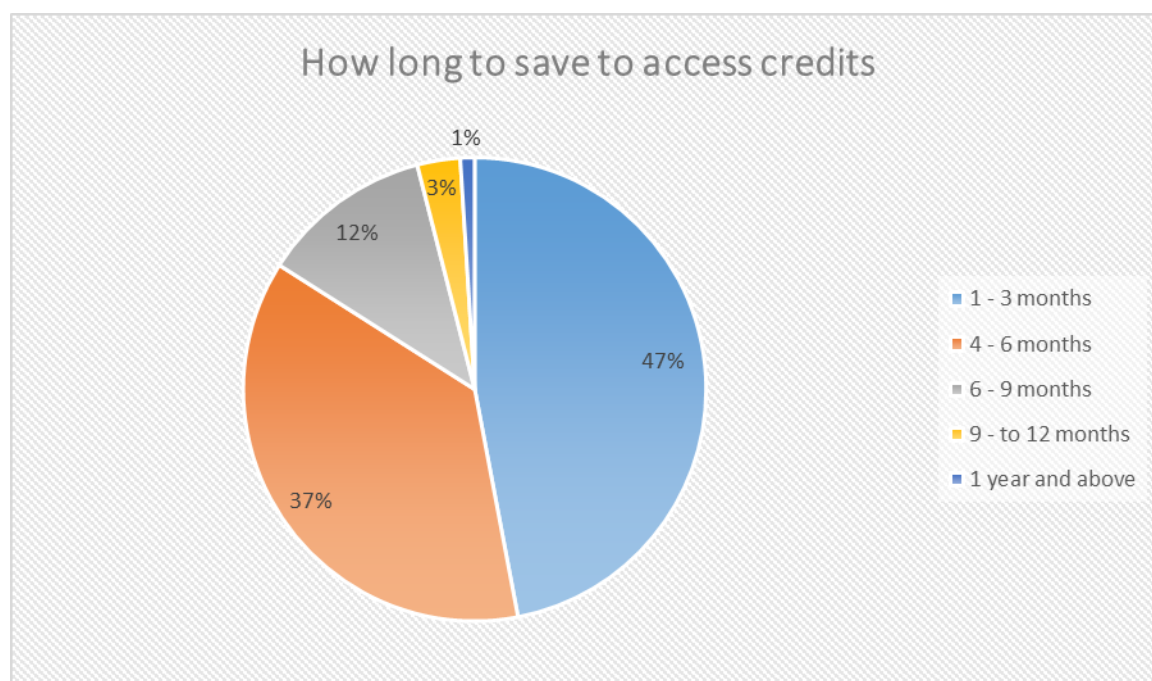
Source: Field survey, July 2015

According to Figure 4.14 above, majority of the respondents which was represented by 33% said that the time duration given before loans are granted is within 2 – 3 weeks; followed by 1- 2 weeks constituting 23%; followed by 3 – 4 weeks representing 22%; followed by less than a week representing 17% and the last being above 4 weeks representing 5% of the entire responses collected for the study.

4.8.3 Number of years SME'S Owners have to save with Amenfiman Rural Bank

The researcher collected information on the number of months and year's respondents had to save with Amenfiman Rural Bank before credit facilities are granted to them and the results presented in Figure 4.15 below:

Figure 4.15: Number of years SME'S Owners have to save with Amenfiman Rural Bank



Source: Field survey, July 2015

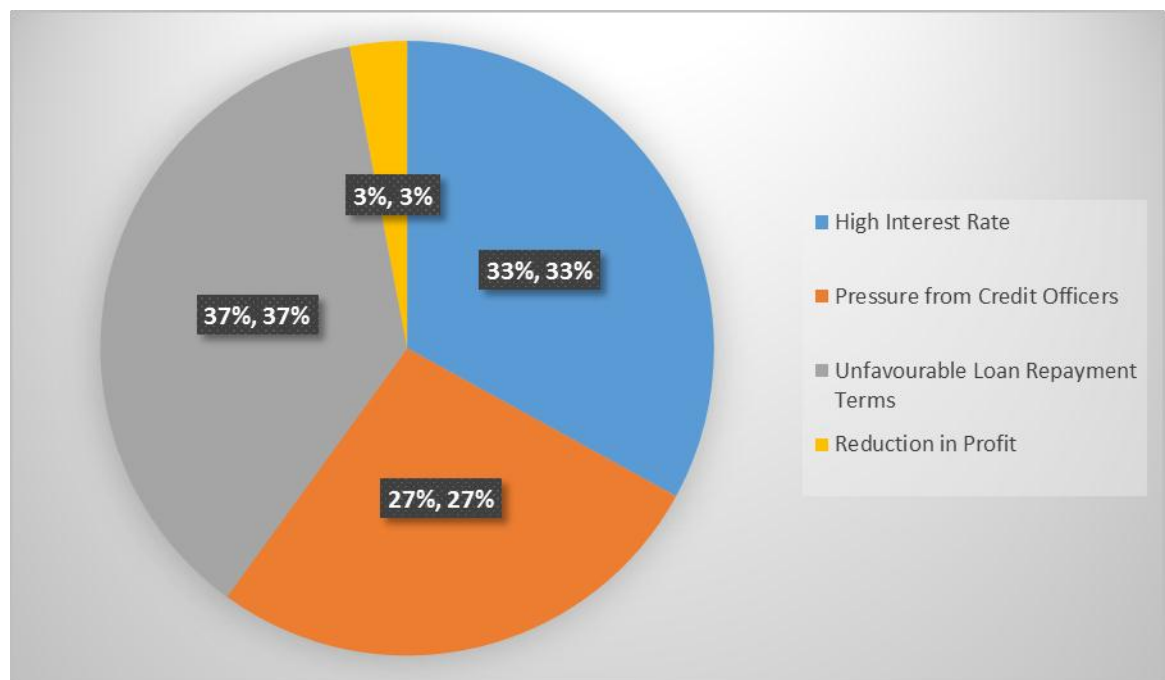
Figure 4.15 above shows that, majority of respondents representing 47% said that SME'S Owners have to save with Amenfiman Rural Bank for 1 – 3 months before they can access credits from the bank; followed by 4 – 6 months constituting 37%; followed by 6 – 9 months representing 12%; followed by 9 – 12 months constituting 3% and the last being 1 year and above representing 1% of the total responses collected for the study.

4.9 Whether Funds Provided by AmenfimanBank have improved the SME'S Business

4.9.1 Main Challenge after Accessing Credits from Amenfiman Rural Bank

The research collected information on the main challenge they faced after accessing credits from Amenfiman Rural Bank and the results presented in Figure 4.16 below.

Figure 4.16: Main Challenge after Accessing Credits from Amenfiman Rural Bank



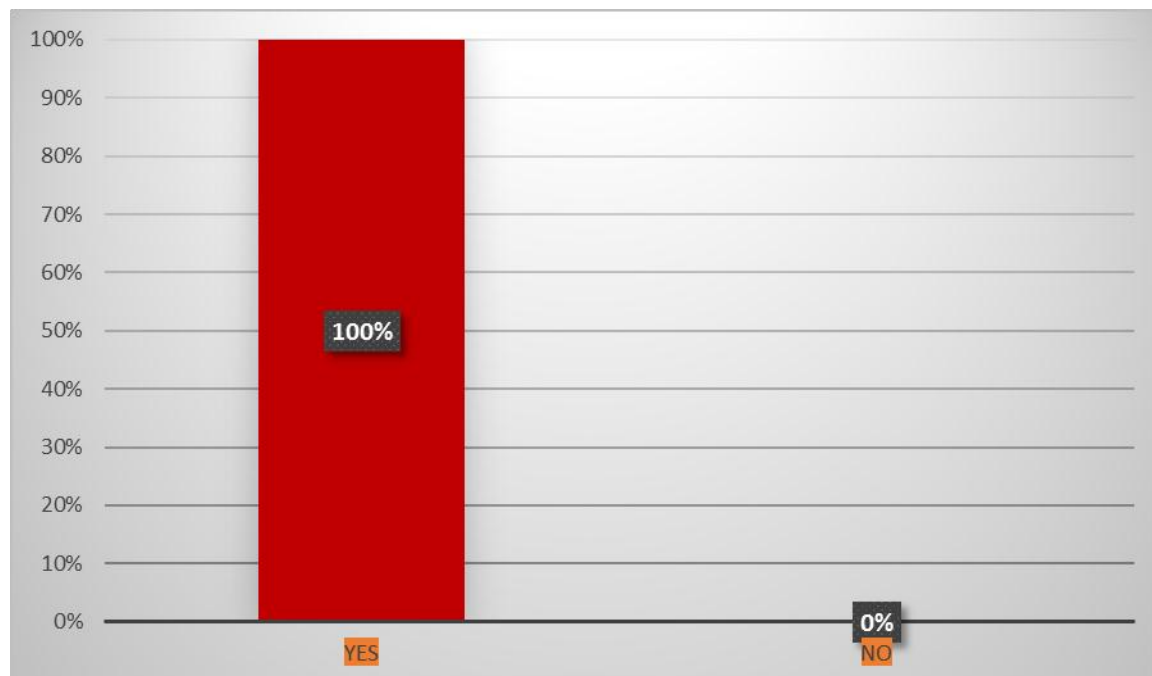
Source: Field survey, July 2015

Figure 4.16 above shows that, majority of respondents constituting 37% faced a lot of difficulties from unfavorable loan repayment terms from Amenfiman Rural Bank; followed by 33% who stated that high interest rate as some of the challenges; followed by pressure from credits officers which constituted 27% and the last being reduction in profit from the bank which were represented by 3%.

4.9.2 Repayment of Loan as scheduled to Amenfiman Rural Bank

The researcher collected data on whether SMEs owners were able to repay their loan facilities to Amenfiman Rural Bank and the results presented in Figure 4.17 below.

Figure 4.17: Repayment of Loan as scheduled to Amenfiman Rural Bank



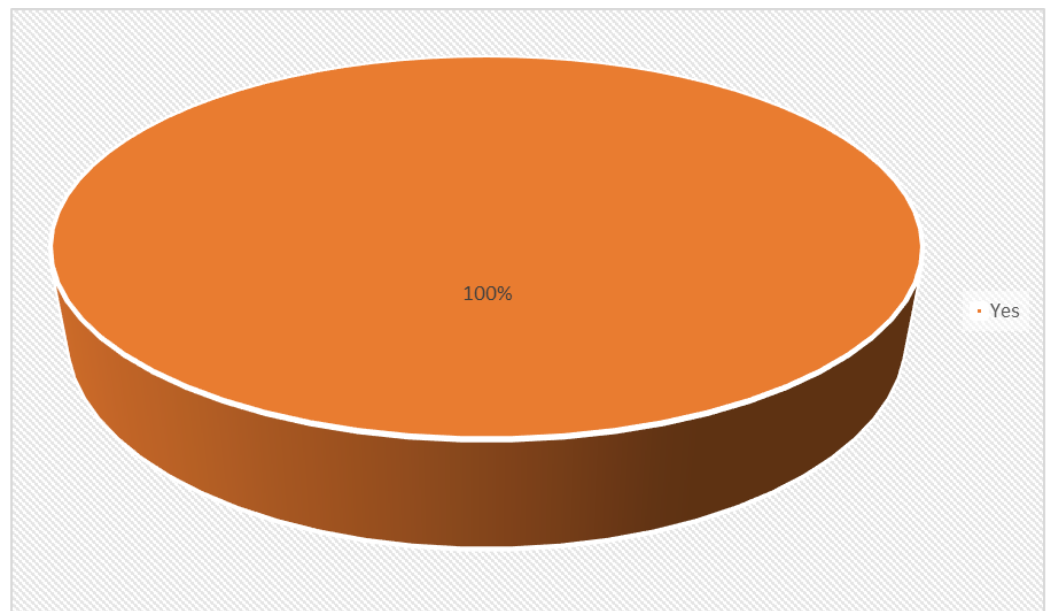
Source: Field survey, July 2015

According to Figure 4.17 above, majority of 60 respondents representing 100% of the entire respondents who took part in the survey all agreed to the fact that they were all able to repay their loans taken from Amenfiman Rural Bank.

4.9.3 Recommendation of Amenfiman Rural Bank to other SME's

The research collected information on whether the current SMEs operating with Amenfiman Rural Bank would recommend the services of the bank to other SMEs who may be interested in their services and the results presented in Figure 4.18 below.

Figure 4.18: Recommendation of Amenfiman Rural Bank to other SME's



Source: Field survey, July 2015

According to Figure 4.17 above, 100% of the total respondents who took part in the research work all agreed to the fact that they would recommend the services of Amenfiman Rural Bank to other SMEs owners within the Amenfiman catchment area.

4.10 ANALYSIS OF STAFF RESPONSES

4.10.1 Process involved in granting loans to SME's

The study interviewed 5 staff members of Amenfiman Rural Bank concerning the process involved in granting loans to SMEs within their catchment area. Amenfiman Rural Bank staff stated that, the process involved in granting loans to clients are very simple and easy to follow depending on each customer and the needs of each SME owners. Firstly, a clients must first of save with the bank for not less than three months continuously for the bank to determine your credit worthiness, completion of credit application forms by customer, followed by the bank visiting the clients

business centre to ascertain the existence of the business, followed by the bank assessing the physical property the customers poses, followed by a credit assessment of the clients business in totality and after which the loan would be processed for a period of one week or less. The staff stated that, after all the checks and balances have being done, the credit officer then process the loan to the head of credit at the bank head office before payment are effected there on.

4.10.2 Contribution of Amenfiman Rural Bank to the Development of SME's

The researcher interviewed the staff members of the Amenfiman Rural Bank on the contribution of the bank towards the development of SMEs within the Amenfiman community. During the interview with the five staff members, they stated that, the bank organize training for their microfinance customers and after-loan counseling for customers. Amenfiman Rural Bank also provides social amenities such as bore holes, assistance to clinics and schools, market centers, public toilets and children play grounds for the community. They also explained to the researcher that, they also contribute funds during Amenfiman festivities and other community groups all in support of the development of the community. The staff also stated that, Amenfiman Rural Bank have also set up an educational endowment fund for poor and less privileged kids within the catchment area. They also said that they have created the business friendly environment to make it easier for SMEs to approach them for any assistance.

4.10.3 Types of Credit Facilities available for SME's

The staff of Amenfiman Rural Bank were interviewed about the various types of credit facilities that were available at the bank. The staff stated that, Amenfiman Rural Bank have different loan products which are; Susu loan, savings loan, funeral loan,

educational loan, company loan, personal loan, microfinance loan overdrafts and SME's loan. They said that all these loans mentioned above were being provided by the bank and were being accessed by the SME owners within the Amenfiman catchment area and its environments.

4.10.4 Types of Documentation before loans are granted

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

4.10.5 Other services that are provided by Amenfiman Rural Bank to SME's

Staffs who were interviewed stated some of the services that were provided by Amenfiman Rural Bank to the SMEs owners. The services stated were as follows;

Text Messages, Training, Workshops, Electronic Money Transfers and Scholarship opportunities

4.10.6 Challenges faced in providing services to SME's Owners

The staff interviewed stated some challenges that were hindering their effort in providing more services to the Amenfiman community and they were stated as follows;

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

4.10.7 Measures that can be adopted to address the challenges

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

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

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

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summarized findings, conclusion and recommendations of the research. It includes gender, age, characteristics of SME customers studied, availability of financial assistance for SMEs and the general impact on their business among others.

5.2 Summary of findings

Gender dimensions

There is huge gender differentiation in terms of activities undertaken by the different gender groups. While men are engaged usually in strenuous activities such as galamsay, farming and auto mechanic works; majority of the respondents in this study were made up of women who are confined to the relatively non-strenuous jobs like tailoring, pottery and hairdressing and small and medium enterprises such as trading and petty trading.

Age of SME's Owners

The research revealed that several new enterprises are continually springing up every day indicating that businesses are either making abnormal profits or breaking even. It is important for economic development since many of the businesses will expand and provide employment opportunities. Most of these SMEs were averagely aged between 20-40 years within the Amenfiman Rural Bank catchment area.

Ownership/Business operations

About 90 percent of business ownership is that of the sole proprietorship. Most enterprises are owned by indigenes of the community. This is the dominant business enterprise in the catchment areas. The few enterprises with collaterals easily access loan for their operation. The implication is that majority of the businesses without collaterals will be constraint in accessing short and medium term credits for business expansion. However it was found out that most SMEs prefer microfinance loans as a result of less collateral requirement as members of the group guarantee for themselves.

Financial Assistance

The researcher also found out that it was very difficult for SMEs to access start-up capital from Amenfiman Rural Bank and other financial institutions hence result to initial funding from personal savings, friends and family members. However they are able to access loans for expansion after establishment. This makes it difficult for people to start up businesses of their own. Majority of the respondents who took part in the administration of the questionnaire stated that initial start-up capitals used by SME owners in starting their small and medium enterprise business operations were mostly capitals from personal savings which constituted 50% of the total responses collected for the study.

Factors that Impede SME's in Accessing Credit from Amenfiman Rural Bank

Majority of the respondents who took part in the research did agree that, high interest rate which constituted 50% of the data collected from the field work is a major factor that impedes their business in accessing credits from Amenfiman Rural Bank.

Type of financial services provided by rural banks to SMEs

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

Timely Provisions of Services by Rural Banks to SMEs.

The findings revealed that, majority of 40 respondents representing 67% of the total responses collected for the study states that 'YES' Amenfiman Rural Bank provides timely credit facilities to SME owners as scheduled. The study revealed that SME customers can access loans from Amenfiman Rural Bank between a period of two to three weeks. SME customers also feel more comfortable in dealing with rural banks as they provide a friendly atmosphere to entice even customers whose education levels are very low. The study also revealed that, the process involved in granting loans to SMEs were very simple and easy to follow depending on each customer and the needs of each SME owners. The clients must first have to save with the bank for not less than three months continuously for the bank to determine your credit worthiness and cash flow of your business, assist the customer to complete loan application forms and then finally appraise the loan application for approval and disbursement.

Contribution of Amenfiman Rural Bank to the Development of SME's

The study revealed that, Amenfiman Rural Bank provides social amenities such as bore holes, clinics, schools, market centers and public toilets for the community. The

bank also explained to the researcher that, they also contribute funds during Amenfiman festivities and other community groups all in support of the development of the community. These social amenities have helped to improve the standard of living of both SME customers and the community at large. Apart from the above social amenities Amenfiman Rural Banks also assist SME customers of their bank to develop their business by organizing training and workshops for them, giving business advises to them through their microfinance program, provision of scholarship to needy children of their customers and other student in their catchment area, electronic money transfer services to customers to prevent risk associated in travelling with cash and also mobilization of savings within their catchment area. The above mentioned contributions has helped to improve the business and life of SMEs by way of expansion of business, increase in profit, recognition in community, quality education for their kids and last but not the least, creation of employment as more hands are needed when business expands.

5.3 Conclusions

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

However, the role of Rural and Community Banks to the development of SMEs has not been particularly noticeable either because it has not been researched into hitherto or because their contributions have been suppressed. This study has however provided evidence to prove and buttress the contribution of rural and community banks to the

development of small and medium scale enterprise in Ghana taking Amenfiman Rural Bank as case study.

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

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

5.4 Recommendation

Introduction

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

Recommendation for Small and Medium Scale Enterprises

The SMEs Should:

Participate in all workshop and training programs that is organized by Amenfiman Rural Banks and also cultivate the habit of savings for expansion and attract loans from the bank.

Develop a culture of transparency and accountability in dealing with the bank by opening separate business account where all incomes from their business shall be deposited. This makes them credit wealthy with the bank. It is also highly recommended that they practice proper book keeping.

They should also use loan taken from banks for its intend purpose so that they can repay the loans to avoid any loan default and the bank inability to grant future loans to SMEs. They should also create good relationship with the bank so that they can feel free to approach the bank for business advise as and when the need arises.

They should also come together as one and strengthen their association to intercede on their behalf on general issues affecting the sector.

Recommendations for Rural Banks

The researcher recommends that rural banks should:

Continue organizing training and workshops at regular intervals for SMEs and encourage them to attend.

It is also recommended that rural banks should monitor SMEs after granting them loans to ensure that the loans are used for it intend purpose to ensure easy repayment and avoid loan repayment default and its consequences.

Design a product with flexible repayment terms to assist potential entrepreneurs with good business plan who need capital to start up their own SMEs. Assist SMEs to build good savings to serve as collateral for loans and capital to expand their businesses. Reduce the pressure given to SME customers by credit officers after accessing loans from the bank but rather design a flexible repayment terms and monitor their operations to reduce the fear in some SMEs in accessing bank loans for expansion.

Take insurance cover for loans granted to new SMEs as start-up capital to reduce the effect of loan default in their book and operations and also reduce the risk of granting loans to new SMEs.

Recommendation for Government and Policy Makers

The government and policy makers should:

Intensify the campaign on venture capital trust funds which is a new concept in the country by publicizing it through organization of workshops, durbars and seminars throughout the country to explain to entrepreneurs the process involve in getting assistance from the fund to start business or expand existing business.

Institutions such as Bank of Ghana should be strengthen and tasked to ensure that adequate portion of banks loan portfolios are allocated to SMEs at a reduced interest rate by granting attractive incentives to rural banks that adhere to this policy.

Reduces the tax burden on SMEs especially at the initial start up years to assist sustain their operations.

Access to market is very crucial in developing and developed economies globally. The available market facilities in the study area is however very appalling. Several perishable agricultural products such as tomatoes, onions, pepper, yams among others

usually go bad during bumper harvest due to inadequate storage facilities in the skewed and very limited markets in the District. This brings about very huge losses to entrepreneurs and sometimes leading to the collapse of businesses. The need to expand the few available markets in the district is strongly recommended. Also, new and modern standard markets are recommended to be constructed in Amenfiman community to augment the already overburdened markets in the district. It is recommended that government takes steps to reduce the prime rate to make borrowing especially for investment attractive. This is because one of the major militating factors against loan repayment or default is the high interest on loans.

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APPENDIX A

QUESTIONNAIRE FOR SMEs

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

MASTERS OF BUSINESS ADMINISTRATION

As partial fulfillment of the requirement for the award of Masters of Business Administration, I would like to invite you to be part of a research study. The study entitled: **Examining the Contribution of Rural and Community Banks to the Development of Small and Medium Scale Enterprise in Ghana.** A case Study of Amenfiman Rural Bank. Any information given will be treated with utmost confidentiality.

Demography of Respondents (SME Owners)

1. Sex of respondent (a) Male [] (b) Female []
2. Age of respondent (a) 20-30 [] (b) 30-40 [] (c) 40-50 [] (d) 50 and above []
3. Number of years in business operations
(a) Below 1 year [] (b) 1-2 years [] (c) 2 – 4 years [] d. 5 years and above ()

To find out whether Rural/Community Banks have solved the funding problems of SME's

4. How did you acquire the initial capital for your business?
 - (a) Personal Savings
 - (b) Friends and Family
 - (c) Amenfiman Rural Bank Ltd
 - (d) Other Banking/Financial Institutions
 - (e) Partnership

5. Why did you choose Amenfiman Rural Bank Ltd for your financial assistance?

- (a) The only financial institution in my area
- (b) Other financial institutions rejected my application
- (c) Though this bank would offer the best terms
- (d) Other reasons.....

6. What factors impede your business in accessing credit from Amenfiman Rural Bank Ltd?

- (a) Lack of bank accounts
- (b) High Interest Rate
- (c) Lack of Collateral
- (d) Lack of Proper Book – Keeping
- (e) Other.....

7. How do you rate your relationship with your Amenfiman Rural Bank Ltd?

- (a) Excellent
- (b) Good
- (c) Average
- (d) Poor

8. Have you ever been refused or denied credit from Amenfiman Rural Bank Ltd?

Yes / No

9. What was the main reason that Amenfiman Rural Bank Ltd refused offering you loan?

- (a) Default on Previous Loan
- (b) No Security to Pledge
- (c) Too Small Equity Base
- (d) Lack of experienced Management

- b. Increase in number of staff
- d. Social recognition
- e. Business expansion
- f. Increase in savings
- g. Others please specify

16. What other types of benefits do you receive from Amenfiman Rural Bank Ltd as SME?

- (a) ATM Benefits
- (c) Training and Workshops
- (b) Text messages benefits
- (d) Money transfer
- (e) Scholarship for my kids
- (f) Other

To know whether Credit Facilities are provided on the timely basis by Rural/Community Banks

17. Do Amenfiman Rural Bank Ltd provides services at scheduled times as promised

- a. Yes ()
- b. No ()

18. What is the time schedule that Amenfiman Rural Bank Ltd provides its credit facilities?

- a. less than a week
- c. 2 to 3 weeks
- b. 1 to 2 weeks
- d. 3 to 4 weeks
- e. Above 4 weeks

19. How long do you have to save with Amenfiman Rural Bank Ltd before you are granted a loan?

- a. 0 to 3months
- b. 4 to 6months
- c. 6 to 9months
- d. 9 to 12months
- e. 1 year and above

To find out whether these funds provided by Amenfiman Rural Bank Ltd helped improve the income levels/operations of small and medium scale enterprises in the catchment area.

20. What was your main challenge after taking the loan from Amenfiman Rural Bank Ltd?

- a. High Interest rate
- b. Pressure from Loan Officers
- c. Unfavorable loan repayment terms
- d. Reduction in profit
- e. Others

21. Did the loan granted by Amenfiman Rural Bank Ltd helped improve your business operations?

- a. Yes
- b. No

22. How did the loan/facility granted by Amenfiman rural bank ltd helped to improve your business or life?

- a. Increase sales
- b. Increase in profit
- c. Increase in capital
- d. Increase in staff numbers
- e. Expansion of business
- f. Social recognition/Contribution to society

g. Quality education for my kids

h. Others.....

23. Were you able to repay the loan as scheduled by Amenfiman Rural Bank Ltd?

a. Yes

b. No

24. Will you recommend Amenfiman Rural Bank Ltd as a solution to financial problems of SMEs?

a. Yes

b. No

APPENDIX B

INTERVIEW GUIDE FOR STAFF MEMBERS

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

You are humbly invited to a brief interview by responding to the few set questions to provide your views and opinions on the research study ‘**Examining the Contribution of Rural and Community Banks to the Development of Small and Medium Scale Enterprise (SMEs) in Ghana**’. Your information is taken confidential for academic purpose only.

Staff of Amenfiman Rural Bank Ltd

1. What are the processes involved in granting loans to SME’s in Amenfiman Rural Bank Ltd.

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2. Explain briefly the contribution of Amenfiman Rural Bank Ltd to the development of SME’s in your catchment area.

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3. What are the various types of credit facilities that are available for SMEs to access at Amenfiman Rural Bank Ltd.

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

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

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

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

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

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

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

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

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

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

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Thanks for this Information and your time spared for this interview