

CHRISTIAN SERVICE UNIVERSITY COLLEGE, KUMASI-GHANA
SCHOOL OF BUSINESS ADMINISTRATION
DEPARTMENT OF ACCOUNTANCY STUDIES

RESEARCH TITLE:

**CONTRIBUTIONS OF RURAL BANKS TO THE DEVELOPMENT OF SMALL
AND MEDIUM SCALE ENTERPRISES(SMEs)**

(A CASE STUDY OF SOME SELECTED RURAL BANKS IN ASHANTI REGION.)

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STATEMENT OF AUTHENTICITY

We have read the university regulations relating to plagiarism and certify that this report is all our own work and do not contain any unacknowledged work from any other source. We also declare that we have been under supervision for this report herein submitted.

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DEDICATION

This piece is dedicated to Almighty God for seeing us through this work.

To our family and friends for their constant love, prayers and support

&

To all dedicated lecturers, who made the journey with us and never failed to show us the way.

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We thank the Almighty God for His blessings and continuous guidance, for making it possible for me to put this work together.

A good deal of thanks goes to our supervisor for his immense support. We thank you for the immeasurable motivation we needed in order to complete this project.

Last but not the least we express our appreciation to the Board of Directors, Management and Staff of these Rural Banks, Juaben rural bank limited, Nwabiagya rural bank limited, Sekyere rural bank limited, Odotobri rural bank limited and AtwimaKwanwoma rural bank.

I also acknowledge our family for their support and prayers throughout this period. We are also grateful to our respondents and indeed to all researchers and writers whose work helped to produce this piece.

ABSTRACT

The study was aimed at finding out about the Contributions that Rural Banks make towards the Development of Small and Medium Scale Enterprises. A case Study of Selected Rural Banks in the Ashanti Region of Ghana.

It was aimed at ascertaining whether income levels of small and medium scale enterprises have improved after accessed Credit, to know whether Rural Banks have direct stake in these enterprises, and to know other benefits that the small and medium scale enterprises derived from the Rural Banks.

To facilitate the research work; a population size of 70, who have benefited credit from these Rural Banks were chosen.

The instruments used included questionnaire and interview. The questionnaire took two forms; one directed to the management of the banks and the other to the beneficiaries. The data collected was analyzed using descriptive statistical method and recommendation and conclusions were drawn.

The outcome of the study reveals that credit from these unit banks to small and medium scale enterprises have not been enough, yet they come with high interest charges and that has further worsen the pledge of these enterprises.

Suggestions have been made in respect of sustaining Small and Medium Scale Enterprises through Rural Banking concept.

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LIST OF ABBREVIATION

Community Banks

RCBs

SMALL AND MEDIUM ENTERPRISES

SMEs

CHAPTER ONE

Nature and Background of the Study

1.1 Background Of The Study

The dynamic roles of rural banking in developing countries like Ghana cannot be over emphasized. These rural banks have been identified as the means through which the rapid industrialization and other developmental goals of the small and medium scale enterprises can be realized.

Despite the numerous benefits that thenation standsto benefit from these small and medium scales enterprises, the sector faces problem of financing. Borrowing from the commercial banks have become a problem to owners of these small and medium scale enterprises since they are required to open current accounts which require lots of documents that this category of people cannot provide to enable them access the facility from banks. In the quest of government to alleviate the problems of rural farmers and small and medium scale enterprise owners from the challenges of financing their businesses, government at that time introduced rural banking concept in Ghana in the year 1970 in order to solve such problems.

Rural Bank was established in 1976 as Nyakrom Rural Bank Limited at AgonaNyakrom in Central Region of Ghana. Today Ghana can boost of over 134 rural banks to its credit.

Small and medium 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 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 Ghana Statistical Services in its national accounts considered companies with up to 9 employees as small and medium scale enterprises.

An alternate criterion used in defining small and medium enterprises is the value of fixed assets in the organization. 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 and medium scale enterprise as one with not more than 29 workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding (GHS 1,000) One Thousand Ghana Cedis (US\$ 662, using 2011 exchange rate). (Graphic Business, back page dated 15\03\2011)

The Ghana Enterprise Development Commission on the other hand uses a (GHS 1,000) One Thousand Ghana Cedis upper limit definition for plant and machinery. A point of caution is that the process of valuing fixed assets in it poses a problem. Secondly, the continuous depreciation in the exchange often makes such definitions out-dated. Steel and Webster(1992), in defining Small Scale Enterprises in Ghana used an employment cut off point of 30 employees to indicated Small Scale

Enterprises. The latter however disaggregated small scale enterprises into 3 categories:

- (i) Micro -----employing less than 6 people;
- (ii) Small----- those employing 6-9 people;
- (iii) Medium-----employing 10 upwards

Small and medium 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 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 42% of the adult population in developing countries. Robinson (2000).

The emphasis for the establishment of rural banks in Ghana was to improve upon the living standard of the people of the catchments area and to ensure economic development of the country. In the same vein that this study seeks to look at the contributions of rural banks to small and medium scale enterprise development in some selected Districts/Municipals Assembly in Ashanti Region of Ghana. This means that the study will examine the impact that Rural Bank has on small and medium scale enterprise development of its surrounding areas of Ejisu, Bonwire, Agona, Jacobu, Pakyi, Barakesse, Fumesua, etc. But the main notion for the investigation will be to examine the benefits that these small and medium scale enterprises derive from the rural banks in their quest to curb the economic problems of these enterprises.

This has being made possible because it is now a known fact that credit from commercial banks in the country to this small and medium scale enterprises has not being forth coming, hence the need for a solution to the cry for credit facilities by such small and medium scale enterprises in the country.

1.2 Statement Of Problem

There have been some assertions that the contributions of commercial banks to small and medium scale enterprise development have been very low and that consisted of an extremely small proportion of the contributions to small and medium scale enterprises development. As such there is the need to have a banking system that will help solve the problem of granting credit facility to such enterprises. Hence the rural banks. The study will concentrate on how rural banks contribute to the progress of the communities in which they operate, financial support from the banks to small and medium scale enterprise, how such support are access by small and medium scale enterprise operates, creating the right and enabling environment for the advancement of development of these enterprises.

1.3 Objective Of The Study

The study is an attempt therefore to take a critical look at the contributions of rural banks to small and medium scale enterprise development within a typical rural bank catchment area. development or development that these rural banks bring to the micro-enterprise through granting of credit facilities.

More significantly the objectives of the study are to:

- a) Determine how income levels of micro-enterprises have improved after the extension of micro credit to small and medium scale enterprise from rural banks in their catchment areas.
- b) How the rural banks have solve some of the funding problems that faces the small and medium scale enterprises in the area.
- c) To know whether rural banks have a direct stake in small and medium scale enterprises.
- d) To know whether there is a relationship between the performance of Small and medium scale enterprises and rural banking credit facility.

1.4 Research questions

With the background information given to the problem, stated answer to the following questions will be sought:

- a) Has the income level of micro enterprises improved after the extension of credit to them?
- b) Are the funding problem of Small and medium scale enterprises minimised?
- c) What kind of credit facilities are offered to small and medium scale enterprises.
- d) What measures has the banks adopted to avoid liquidity problems to ensure continuous financial assistance to businesses

1.5 Relevance Of The Study

It is hoped that at end of this study one will be able to conclude whether it is worth establishing rural banks and whether the people of Ashanti Region (small and medium

scale enterprise owners) benefited from the banks' services with regards to its lending facilities, performing its social obligations thereby leading to over-all enterprise development of the study area. The findings will assist policy makers, development agencies and business organizations to ascertain the appropriate strategy to improve the micro-enterprise sector.

1.6 Limitation

The researcher encountered various difficulties such as regards having the right information from the Banks on who has been giving credit and how to locate them. The researcher inability to cover large areas also constitutes a major setback.

Furthermore, more areas could have been covered but funds were limited for such a thing to have being done. Time wasted to explain the questions to the beneficiaries were also a setback since most of them could not write nor read. The inaccessibility of some of the areas was also a major constraint that confronted the researchers in their mission to unravel the contributions of the rural banks to the socio-economic development of the study area and the small and medium scale-enterprise operators.

Also financial constraint and time factor could not permit me, the researcher to cover many areas.

1.7 Organization Of Chapters

The study is organized into five chapters. Chapter one deals with a general introduction of and the relevance of micro-small scale enterprise, the statement of

problem, focus of the study, the objectives of the study, relevance of the study, the statement of hypothesis, the methodology for the study, limitations of the study and finally the conclusions out of the study.

Chapter two consist of the literature review of Rural Banks and Small and Medium Scale Enterprises in the Country, and reviews the theoretical framework of such concept as financing, Small and Medium Scale Enterprises, characteristics and contributions of rural banking and small and medium scale enterprises, justification of credit support to the Enterprises.

Chapter three deals with research methods, and the procedure for the collection of data, the use of research design, sample population, instrument used for the collection of data, and limitations that confronts us in our quest to getting data for this research work.

Chapter four briefly discusses credit and other inputs grant from Rural Bank and also seek to analyze the data collected for the study.

Chapter five which is the final or the last chapter contains the summary of the whole study, conclusion and recommendations made on the bases of the data collected.

CHAPTER TWO

Literature Review

2.1 Introduction

This chapter reviews the theoretical framework and related literature that underlie the study. It mainly looks at the historical background of rural banking in the country and defines such concepts as finance, credit and social responsibilities in relation to the study. It again looks at the characteristics and contributions of rural banking and the justification of credit to support small and medium scale enterprises.

2.2 Historical Background Of Banking

The banking industry which is, importantly the main ingredient in Ghana's financial sector, possibly offers substantial contribution to the economic development of the country. This possibly may be valid when examined against the background of the key roles the industry has played in Ghana's economy since the introduction of banking institutions such as Barclays and Standard Chartered Banks some decades ago. The banks are clearly different from other financial institutions such as stock exchange, insurance, leasing firms, funds management organizations and other Capital Markets.

Ghana Commercial Bank Limited started in 1953 as the Bank of the Gold Coast to provide banking services to the emerging nation for socio-economic development. The aim and objectives was to provide special attention to Ghanaian traders, business people, farmers and small and medium scale enterprises who could not benefited from the expatriate banks.

In 1957, when Ghana attained independence, Bank of Ghana was established as the Central Bank while the bank of the Gold Coast was renamed as Ghana Commercial Bank to focus solely on commercial banking services. Due to the inability of Ghana Commercial Bank to help contribute by given advices, finances and credit to small and medium scale enterprises, another bank which is Agricultural Credit and Co-operative Bank was formed in 1965, by Act of Parliament to meet the banking needs of the Ghanaian agricultural sector, fishermen and small and medium scale entrepreneurs in a profitable manner and to help improve the living standard of these people.

The bank changed its name in 1970, to Agricultural Development Bank when the parliamentary statute was amended to grant the institution full commercial banking powers. This time also Agricultural Development Bank fails its intended purpose of establishment and turn away from these small and medium scale enterprises.

The topic to this project will narrow its scope to the rural banking concept in Ghana and more particularly some selected Rural Banks in Ashanti Region respectively. Rural banking was introduced in Ghana in the 1970s. The first rural bank was established in 1976, and since then, rural banking has contributed immensely to the development of small and medium scale enterprises, socially and economically.

2.3 Contribution And Characteristics Of Rural Banking In Ghana

Rural Banking started about four decade ago, but as at 31st December 2011, Ghana can boast of over 134 rural banks with over 564 agencies nationwide with about 15,890 direct employments and about 5000 indirect employment nationwide. These

rarely show that rural banks are contributing immensely to the national development both directly and indirectly.

Their main characteristics and the rules and regulations that governing the setup of rural banks is preventing them from expansion, because of their unit in nature which did not allow them to move from one district to another, and also to have an agency in main business centre of the ten regional capitals, e.g. Adum in Kumasi, Ashanti Region.

Due to the sabotage of formal commercial banking against rural banking in term of specie and cheque clearing system, the ARB Apex Bank Limited was incorporate as a public limited liability company on 4th January, 2000. Its shareholders are the Rural and Community Banks. It was granted a banking license on 23rd April, 2001 and was admitted to the Bankers Clearing House as the 19th member in August, 2001³. It had its certificate to commence business on 1st November, 2001, thus completing all the legal processes for the commencement of operation.

The ARB Apex Bank Limited began clearing services on 2nd July, 2002 in all the 10 clearing centers in Ghana. The bank has outlets in all the 10 regional capitals. The ARB Apex Bank Ltd was registered under the Companies Code 1963, Act 179 as a public limited liability company and licensed by the Bank of Ghana under the then Banking Law, 1989 (PNDCL 225). Apart from the above legal and regulatory framework in which the Bank is operating, it is also subject to the Bank of Ghana Act, 2002 (Act 612) and other directives issued by the Bank of Ghana from time to time. The main aim and objectives of the formation of The ARB Apex Bank was to

regulate, provide manpower training, supervising, cheque clearing activity and information communication and technological advancement of all the rural banks in Ghana in which the formal commercial banks are now competing vigorously with the universal banking licenses given to these banks.

The table below shows some small indicators that rural banks have helped pool them together from these rural folks, these show that rural banks are rarely helping the society and Ghana as a whole.

Bank Performance And Report For 2nd Quarter June 2008

REGION	NO OF RCBs	PAID-UP CAPITAL	LOANS\ OVERDRAFT	TOTAL INVESTMENT	TOTAL DEPOSIT	TOTAL ASSETS
ASHANTI	25	8,712,175.21	147,400,030.38	132,087,866.67	310,182,910.72	377,851,413.3
BRONG AH	19	3,479,797.10	44,962,882.15	21,813,805.00	73,606,623.18	102,651,286.3
CENTRAL	21	5,009,875.82	51,089,120.83	23,391,292.88	84,220,158.11	108,924,399.2
EASTERN	22	6,931,123.09	82,010,379.87	43,084,416.58	142,385,150.38	180,253,910.3
G.ACCRA	6	2,380,330.37	21,313,887.89	14,518,317.88	47,192,538.96	59,324,102.5
NORTHERN	7	1,307,209.27	10,075,180.19	4,698,400.00	17,137,305.61	25,250,576.3
UPPER E.	5	863,954.69	15,214,641.53	7,429,422.00	26,201,389.80	38,773,281.6
UPPER W	4	774,796.43	37,80,146.28	6,447,500.00	12,007,172.32	18,270,945.8
VOLTA	12	2,814,212.21	23,795,649.02	10,213,352.87	31,519,347.01	47,557,567.5
WESTERN	13	4,628,394.17	72,063,284.10	72,898,739.36	165,966,906.93	197,804,261.3
TOTAL	134	36,901,868.3	471,705,202.24	336,583,113.24	910,419,503.02	1,156,661,744.3

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**(December 2011, Report on the Performance of Rural and Community Banks
(RCBs)**

Sources: Rural Banks Performance for December 2011- ARB APEX BANK

2.4 Rural Banks In Ashanti Region

Rural Banking started in Ashanti Region around 1981, the first bank to establish was Atwima Rural bank at Foase, but as at 31st December 2011, Ashanti Region can boast of 25 rural banks with over 147 agencies nationwide with about 2,343 direct employments and about 3000 indirect employment in the regionⁱ. These rarely show that rural banks are contributing immensely to the national development both directly and indirectly.

Bank Performance And Report For 2nd Quarter June 2008

BANK	AGENCY	NO OF STAFF	NO. OF CLENTS	T. DEPOSIT	T. INVESTMENT
ATWIMA KWANWOMA	6	193	148,865	38508325.80	26426590.00
NWABIAGYA	7	161	105,368	28943070.71	12183682.67
SEKYERE	7	132	93,825	21024525.84	10174566.17
JUABEN	8	148	91,508	21117489.00	11033323.00
BOSOMTWE	9	129	123,124	17864107.84	8741404.12
ODOTOBRI	6	104	116,948	24601420.83	11958135.73
ATWIMA MPONUA	7	150	91,434	18528295.39	6849331.43
AMANSIE WEST	8	95	45,919	21551967.21	10912937.27
OTUASEKAN	7	209	115,892	16592347.73	7350119.95
ATWIMA	6	78	19,714	7974334.05	2551464.12
KWAMANMAN	8	91	39,629	12172220.13	3746960.62
ASANTE AKYEM	9	83	71,841	12709068.00	4964331.00
ADANSI	7	73	35,062	15137612.24	5600663.40
SEKYEDOMASE	6	81	37,247	9088226.80	3360590.00
ASOKORE	7	92	47,279	7759375.69	4456787.19
KUMAWUMAN	9	134	67,455	15301605.01	5267120.00
OKOMFO ANOKYE	7	107	28,879	10335562.85	4346525.34
AHAFO ANO	7	56	9,401	3711990.48	506000.00
AMANTIN & KASEI	6	62	26,626	6659666.95	2091404.12
NSUTAMAN	1	23	11,822	2218912.36	1693589.45
AKROFUOM	2	27	13,505	3740531.27	2163871.78
AMANANO	4	75	29,296	10641433.75	5792764.21
OFFINSO	2	28	8,336	2847200.18	539414.12
BOSOME FREHO	1	12	4,846	896651.68	366500.00
EJURAMAN					
TOTAL	147	2,343	1,383,821	329935641.79	153078075.69

(Ashanti Chapter, January 2012 Report on the Performance of Rural and Community Banks (RCBs)

Sources: Rural Banks Performance for December 2010- Ashanti Chapter

2.5Juaben RuralBank Limited-History And Profile

Juaben Rural Bank Limited was incorporated on 24th October, 1984,ⁱⁱ as a Rural Bank and has since then built a reputation as one of the leading Rural Banks in Ghana. The Head Office of the Bank is located at Asante Juaben, in the Ashanti Region about 30 kilometers away from Kumasi.

The Bank is the 93rd to be established in the country and the 18th to be established in the Ashanti Region.

The initial Share Capital of the Bank which was GHS2,213.98 was the highest in the country when the Bank was commissioned in October 1984, and has increased over the years to GHS219,829.27 alongside with 2,647 shareholders and 3,829,634 shares as at 31st December, 2009. The Bank has agencies at Ejisu, Kwaso, Bonwire, Aboaso as well as three in the Kumasi metropolis namely: Roman Hill, Magazine New Road and SepeTimpomu.

The Bank offer the following products and services; Current Accounts, Savings Accounts, Fixed Deposit Accounts, Loans and Overdrafts, Domestic Money Transfer(Apex Links), Susu Savings Accounts, Susu Loans, Funeral Loans, DaakyiNti Investments, Consumer Credit, Micro Finance.

Since its inception from 1984 to December, 2010 the bank was able to grant loans and overdraft to a tune of GHS 7,388,095.00, total investment is 8,558,509.00, total deposit is GHS 15,556,395.00, total share capital GHS 422, 758.00, total assets is

GHS 19, 174,222.00, total staff is 127 and more than 79,573 customers and a number of developmental projects in and around Juaben areas.

2.6 Nwabiagya Rural Bank Limited- History And Profile

Nwabiagya Rural Bank Ltd. was incorporated and issued a certificate to operate the business of banking on the 4th of June, 1987. Through well focused direction and planning, coupled with the well-motivated staff and enviable customers the bank can now boast of five additional outlets located at Kumasi, Offinso, Magazine, Bohyen and Abuakwa. The Bank has fully computerized its operations and has began the networking of its agencies, with two branches already linked and a third to be added very soon.

SamuelNuamah-Dankwa, Managing Director :Our short term goals will be geared towards deposit mobilization, customer care, growth and human resource development, profitability, efficiency and increase in community development assistance to enable us attain our mission which we have termed “Journey to the top”.

Mission:

To provide efficient and effective financial services by adopting appropriate technology, increase market shares, enhance optimal realisation of stakeholders’ interest, human resources development and product innovations

The ever growing competition in the banking industry, changing technology in the global environment and the persistent fall in discount and interest rates, low capitalization and increasing cost of operations are the main challenges

2.7 Sekyere Rural Bank Limited- History And Profile

Sekyere Rural Bank was set up and commissioned in 1983 at Jamasi in the Ashanti Region of Ghana. The role of the Bank is to play an intermediary role between surplus fund holders and those in need of funds for their economic activities in the communities in which the Bank operates. Sekyere Rural Bank Limited is dedicated primarily to the mobilization of resources from its operational area for on lending to individual savers, groups, small and medium scale enterprises. The bank is registered under Ghana's Companies Code 1963 (Act 179) and licensed under the Banking Law, 2004 (Act 73) to operate the business of banking.

The nature of the businesses that the Bank is authorized to carry on are, The provision of Current and Deposit Accounts for customers, Savings and Fixed Deposit for customers, To act as Agent of other financial institutions in the country, To accept and Discount Bills of Exchange, To act as Executors or Trustees of Wills for people in the community and To provide finance for farmers, small and medium scale enterprises.

Sekyere Rural Bank has the Vision, to continue to grow into a recognized financial institution locally and abroad and always offer value-added service to clients.

The Mission of the bank is to be a unique financial service provider in the rural and per urban area in Ghana, propelled by a motivated workforce, customized products and superior Customer Service than our competitors, sustain the payment of returns to our shareholders and seen as a vehicle for rural development.

The bank currently operates eight branches located in Jamasi, Agona, Ntonso, Mampong, Ahwiaa, Abrepo Junction, Afrancho and Kronom.

2.8 Odotobri Rural Bank Limited- History And Profile

Odotobri rural bank ltd was incorporated by shares on 29th March, 1982, with banking operations commencing on September, 1982. The bank has its head office at Jacobu and branches at Obuasi, Bekwai and Asawasi all in the Ashanti Region.

According to the managing Director of the bank, Mr. Godfred Frank Opoku the vision of the bank is to be the best reputable and most reliable rural bank in Ghana

In 2007 the bank recorded a profit of ₵1,338,460, 000 billion as against ₵2,198,014,000 billion made in the previous year.

The Chairman of the Board of Directors of the Bank, Mr. J. Owusu-Boadi who announced this at the 20th Annual General Meeting of its shareholders at Jacobu at the weekend, attributed the decrease of profit to unfavorable economic environment during the year coupled with the cost of refurbishing its multi-purpose Obuasi Branch as well as the construction of its Maakro Branch.

He said despite the above problems, the Bank's total assets rose from ₵39.2 billion in 2005 to ₵57.5 billion in 2006, representing an increase of 46.7 percent with its total deposit increasing from ₵30.7 billion to ₵44.2 billion also representing a 43.9 percent increase.

The Bank, during the same year, also granted a total loan of ₵27 .1 billion as against ₵21.7 billion in the previous year while its investment in Treasury Bills increased by 38.4 percent last year from a figure of ₵11.8 billion in 2005 to ₵16.3 billion in 2006.

The Board Chairman said the Bank's Micro finance Department as a way of alleviating poverty in rural areas, granted loans to the tune of ₵3.2 billion to 3,146 clients.

2.9 Atwima Kwanwoma Rural Bank- History And Profile

Nana GyamfiSakyi II, Chief of Pakyi No. 2, Nana OkyereTaaAmoantwi II and the elders of Pakyi No. 2 initiated the formation of the bank. Nana GyamfiSakyi II coordinated all activities and was elected as the patron of the bank.

Nana OkyereTaaAmoantwi II was elected as the 1st Board Chairman. He saw to the initial establishment of the board and had to struggle with the initial problems until he died in 1993 after 10 years of service.

From a humble beginning, the bank had turbulent early years. The bank had to look for alternative means of survival to continue operations.

Generally, customer base was low resulting in low deposit base and this was due to limited business opportunities at Pakyi. It was in 1986 that the then Board of Directors took a giant step to establish the first agency of the bank at Santasi. In 1987, the bank recorded its first profit of GH¢ 15.296. This inspired the board to open the second agency of the bank at Old-Tafo in 1988. In 1992, the third branch was opened at New-Tafo while the fourth at Ayigya in 2002. Atonsu-Agogo branch was opened in 2007 and since it coincided with the Golden Jubilee celebration of the nation, hence, the Jubilee Branch. The Head Office Complex was completed in 2002 and new departments created.

The fate of the bank started to deteriorate from 1989. The bank experienced high staff turnover. Dismissed staff turned against the bank, this led to low confidence in the bank. There was huge capital deficit of over GH¢ 2.1million. There were several fraud cases and imbalances in the banks' book. The confidence in the bank was lost.

2.10 Historical Background Of Small And Medium Enterprise

Small and Medium Scale Enterprises have existed and they are as old as society. They date back to the period of barter trading through to what has become petty and small business. In Ghana, small business is found in every area of the economy. Even in the manufacturing sector, where it was commonly thought that it requires very large firms to succeed, small firms have been found to dominate. In a survey by Biringhametalⁱⁱⁱ

It was concluded that typical manufacturing in Ghana comprises a large number of small establishment, a very small number of medium sized establishments, and one or two if any of large establishments. They observed that 92% of the manufacturing establishments had no paid employees at all. 7% employed up to 5 people and only 1% employed more than 5 people. They described the vast majority of the manufacturing enterprise as being tiny and put the average number of people engaged at 2.7% per establishments.

Although it has been a fact that small businesses have dominated the economy, early government policies have failed to recognize the sector as an effective economic tool for development. It was then thought that many small-scale enterprises could not survive the development. It was then thought that many small-scale enterprises could not survive the sophisticated demands of a modernizing economy. This is evident in the 1964 Development plan of Ghana, which stated out-rightly that “it was time to strike a balance against the still denominating smaller industry which would not be able to support the more sophisticated demands of a modern economy. State policies in 1960s primarily favoured larger industrialization by larger firms. As Hakem^{iv} noted,

the credit and the import license policies up to 1968 constantly favoured larger industries in the face of the largely Ghanaian owned smaller informal industry.

Immediately after independence, it was thought Ghana could leap to an industrialized state through investing in large-scale enterprises. The state took the lead in this direction and invested heavily in large scale industry to the neglect of small and medium scale enterprise. They thus depend heavily on the government for protection and survival. Many of them were squeezed up as economic crises and budgeting restraints hit the government. The government of Ghana experienced stagnation in income per capita in the 1960's stimulated growth in self employment as people attempted to maintain family incomes. The 1970's saw a little support for small and medium scale enterprise as in the 1977 development plan; there was a policy statement that sought to help establish and develop cottage industries. Moreover, in the 1970's and 1980's, many modern sectors turned to self-employment activities to supplement their declining real wages, while others were forced to work on their own when they were laid off, as a residual source of employment and economic survival. The small and medium scale enterprise sector is generally thought to have expanded in the face of a declining economy as reported by Steel and Webster^v

The government of Ghana has now come to the realisation that small and medium scale businesses when well developed could boost economic development and could even be more effective than large state owned and heavily state supported large small and medium scale enterprises.

Recent years have seen a major and continuing transition from state-control of production facilities to private ownership. This trend has been visible in both

industrial and especially, developing countries. It has included not only manufacturing plants but also even more importantly a set of activities ranging from financial services to infrastructure. The increasingly popularity of privatization is being driven by the fact that government has found that the state-owned enterprises have frequently being a major drain on their fiscal accounts at a time when revenues have been difficult to generate.

Today, government has passed much legislation and established many institutions to help establish, support and develop small and medium scale enterprise in the country. The National Board for Small Scale Industries has been set as an apex body to co-ordinate activities of these agencies towards national development. This has lead to a proliferation of many small and medium scale enterprises all over the country.

2.11 Finance

Enterprise create manufacturing capacities for production of goods and services to consumers with the primarily aim of making profit. They require finances to enable them acquire these manufacturing and other facilities. The following questions then arise. What is finance? What is an enterprise financial activity? How are they related to the other activities of the firm?

The then Minister of Trade and IndustryMs Hannah Tettehhas reiterated the need for financial institutions to design innovative products and services to address financial challenges of SMSEs in Ghana. The Minister noted that the country could consolidate its present macro-economic stability only when significant resources are channeled into the private sector and the SMSEs in particular, and the economy. She said it was

therefore important for banks to have clear policy for Small and Medium Scale Enterprises groups taking into account their peculiar requirements and given them finances. The theme was: Facilitating Small and Medium Scale Enterprises in Ghana. The seminar was held at the Kwame Nkrumah University of Science and Technology (KNUST) in Kumasi on Tuesday.

As Pandey puts it a firm requires a number of real assets to carry on its business. Real assets can be tangible or intangible. The firm normally borrows from Banks, Financial institutions and other sources to obtain these real assets. Financing therefore is making money available to meet the cost of production and making operations. This finance function is very vital to every business entity. He continued to say that there exist an impossible relationship between finance on one hand and production, marketing and other functions on the other hand. Almost all kinds of business activities directly or indirectly involve acquisition and use of funds.

The functions of raising funds, investing them in asset and earning returns are known as financing and investing decisions. While performing these functions a firm attempts to balance cash inflows and out flows. This is called liquidity decisions and it is added to the list of important finance decisions or functions, performed by enterprises. A firm performs finance functions simultaneously and continuously in the normal course of business. They do not necessarily occur in a sequence. Finance function calls for skilful planning control and execution.

2.12 Small And Medium Scale Enterprise

The term small-scale enterprise has been given different definitions and these definitions vary from one country to another, sector to sector and even one industry to another. This is so because enterprises operate in an economy and the size of the economy will influence the definition so derived. In large economies like that of the UK, USA, and Japan, enterprises have tens of thousands of workers and incomes sometimes larger than that of a whole country in the third world. Obviously the definition of what is small and medium scale, there may not necessarily be the same as a small enterprise in a country with a small economy like that of Ghana.

The definition of small and medium scale enterprise has often been in different perspective by different stakeholders. For instance, while some define it in terms of investment in fixed assets, others look at the number of employees. Even turnover and energy requirement are at times used as a measure. In Ghana, small and medium scale enterprises have mostly been defined by the number of persons engaged in the enterprise and or by capital employed. The National Board for Small Scale Industries as that, enterprises that has 29 or less employees or one whose plant and equipment value does not exceed the cedi equivalent of \$100,000.00. (One hundred thousand US dollars).

Steel and Webster^{vi} defines small and medium scale enterprises in Ghana as production unit with hired labour that involves enough investment in capital or skills to constitute a barrier to entry but are small enough to be managed by one person. The indication been given here is that SME's are usually very small business with just a little capital.

In the study on 'How small and medium scale enterprise in Ghana have Responded to Adjustment Small Scale Enterprise' it was defined as an enterprise with having 4 to 29 full time workers and was distinguished from micro enterprise as with fewer than 4 workers who are more likely to be informal and oriented toward income for survival. He also stated that it is necessary to differentiate between the informal sector which is crowded by people faced by low income, unemployment and by desperate poverty to engage in any kind of income generating activity for subsistence, and its counterpart in the developed countries. He goes on to argue that, 'in the first, there is very little room for voluntarism because of the necessary to keep going at all cost while in the later, the level of desperation is low and voluntarism is quite high. It had significant contrast between unemployment and poverty on one hand, and voluntary choice between self-employment and wage employment on the other.

However, it must be stated that the economy of a country is not static hence the definition of small and medium scale enterprise would also change with time. Apart from the various definitions given; a working definition would depend on the user definition and what he intends to do with the definition. Therefore for the purpose of this study, Micro and Small Scale Enterprise would be fussed together to be small and medium scale enterprise. The meaning would cut across enterprises that are oriented towards income for survival up to enterprise that employs as many as 29 people who are full time workers. These enterprises could be formal or informal. The important thing here is that the employees fall within 1 to 29.

2.13 Characteristics Of Small And Medium ScaleEnterprise

By considering the above definitions one can deduce that small and medium scale enterprises by their mode of operations have acquired certain peculiar characteristic that differentiate them from the large enterprise. Liedholm and Meadenumerated some features common to Small and Medium Scale Enterprises.

First, it has been established that most of these establishments have fewer than 10 employees-collectively they typically account for more than fifty percent (50%) of total industrial employment. They are generally engaged in the production of light consumer goods primary related to clothing, furniture and food and beverages. Other small enterprise activities include automotive, electrical and bicycle repair blacksmith and light engineering.

Secondly, in most developing countries most of the industrial firms are located in rural areas (that is areas having fewer than20,000 inhabitants) employment in these rural units frequently exceed that generated by all urban industries these are the procedures that are most frequently invisible since much enterprise activity takes place within the family house compound.

Thirdly, the overwhelming majorities of the industrial firms are not just small but are very small. Indeed, there is a plethora of one-person firms and most employ fewer than 5 persons. In terms of their large numbers and relatively low incomes they constitute a potentially important target group for policy makers concerned with the low end of the income distribution spectrum.

Fourthly, virtually all of these small firms are privately owned and are organized mainly as sole proprietorship. In many countries significant numbers of the small enterprises entrepreneurs are female.

Fifthly, proprietors are family workers and generally form the largest component of the small industry of the labour force. Apprenticeship labour, however, is also important. In some areas particularly West Africa, informal apprenticeship system in which a young person serves a proprietor or a master for a given period to learn a craft or a trade plays a key role in skill formation. Hires workers typically form the smallest segment of small enterprises employment in most development in most developing countries.

Sixth, in most countries, the average person engaged in small-scale industry does not work in full time in that activity over the entire year. In many cases, these individuals also work part time in other activities. Nevertheless, there is evidence that many small scale workers spent significant period of time simply waiting for customers.

Seventh, the amount of capital used by most small scale industrial firms is modest, as is their initial capital, with equipment typically accounting for the greatest share. Although low, however, the capital entry barriers to small scale industries are significant, especially when compared with the capital income levels in those countries.

Eight, most of the funds for establishing or expanding the small firms come from personal savings, relatives or retained earnings. The paucity funds obtained from the

commercial banks, governments or an even informal financial source such as moneylenders is striking. These results highlight the nascent state of the financial markets in many developing countries and indicate the limited extent to which small firms are directly reached by formal credit institutions.

Nine, small and medium scale industries activities turns to increase in absolute terms in most developing countries. Although systematic information on growth is limited, the available evidence indicates that it has been growing at a faster rate even than large-scale industries. Since small scale industry account for such a large portion of total industrial employment, the absolute increase in employment absorbed by the small private sector is substantial.

Tenth, he also identified a characteristic of small and medium scale enterprises, where production or product is subject to frequent changes in design or specification; the larger firm is at handicap with its heavy commitments. The small firm has a greater investment in experience and person of its owners. With relatively small investment in fixed equipment, the owners are in position to change from one type of product or service to another. When the nature of the industry is such that management at the local level involves complete and rapidly changing conditions, a premium is placed on speed of adaptability. This is achieved most effectively by individual initiative. Also where product change rapidly, where specific product differentiation for the few is required, there is likely to be important fundamental advantages for small scale business.

The Bolton also had this to say on the characteristic of small and medium scale enterprises.

- a) In economic terms it has relatively small share on the relevant market.
- b) It is run by its owners in a rather personalized manner than by means of formalized structures.
- c) It is independent of any wider organizational structure, with the owner entrepreneur more or less free to take strategic decisions. A lot more attributes and features have been identified to small scale enterprises. These features are invariably very similar to those stated above if not the same.

2.14 Importance Of Small And Medium Scale Enterprise.

The contribution as well as importance of small and medium scale enterprises in a nation's economy cannot be over emphasized. A consensus emerging from the literature is that the fundamental issue is how to create a policy and business environment that enable small and medium scale enterprises to contribute productively to industrial development, not whether small and medium scale enterprises have a role to play. Steel and Webster also stated that growth of private indigenous enterprises is important for sustained industrial development, given decreasing public ownership and uncertain prospect of foreign investment.

Perhaps the most important justification for small scale business were that small firms provide the means of entry into business for new entrepreneur talent and the seedbed from which new large companies will grow to challenge and stimulate the established leaders of industry, and all confirmed that successful industrialization must have an indigenous base, and expansion of the small scale sector will help develop managerial skill as a basis for efficient indigenous investment and management of large

industries. It has also been argued that small scale industries can respond flexibly under difficult and changing conditions because they do not depend heavily on infrastructure and also because their typically low cost.

Steel and Webster also stated that small and medium scale enterprises could offset the negative effects of import liberalization to the extent that they could use local input to produce import substitutes or exports, thereby taking advantage of the incentives provided by a greatly developed exchange rate. To buttress this point, they stated that small enterprises are sensitive to changes to customers.

With a low level of technology given them the flexibility to change product lines and inputs. Thus they may be in a favorable position relative to large enterprises to respond to liberalization of market and changes in relative prices. In Ghana through innovative use to local raw and waste materials some technological astute small enterprises were able of fill the gaps left by declining import and large-scale output by producing import substitutes such as soap, metal products and vehicles spare parts.

Because small and medium scale enterprises tends to be relatively labour intensive and to use low level of technology, a strategy to expand the small and medium scale enterprise sector are likely to be consistent with employment and income distribution objectives, while allowing for sustained productivity increases through improvement in technology.

Steel and Takagi, Statistics obtained put it that in Ghana during the period of 1987 – 1993, the population grew at an average rate of 23% which means that if other sectors of the economy did not grow as well as to absorb the additional population, thus the gap between employment and population growth would be widening. This situation

happened to be the case so far. However, as reported by the State of Ghana Economy, it is important to note that the additional labour force resulting from population growth is to a large extent absorbed by the small scale informal sector in industry. There is therefore an urgent need to stimulate growth in this sector for employment generation so as to reduce the adverse effects on population growth on the country.

2.15 Justification for Credit Support To Small And Medium Scale Enterprise

Having justified the immense role and contributions that could be harnessed from a well developed small and medium scale sector to the development of a nation's economy, it thus becomes very important to assess the major hindrance in the development of this sector. Scarcity of credit has often been considered as a major constraint among other factors such as lack of management skills, poor book keeping of records etc. it is established that lack of credit for raw materials and equipment has been the major constraint to the expansion of the small scale section. Increase access to credit would greatly facilitate small and medium scale enterprises to contribute meaningfully to the economy.

As could be expected, small firms have less access to bank loans than larger ones. This is because small firms often invariably fail to provide the type of collateral that is usually required by banks for granting of loans. However, Stuart states that the myth that credit, by its very nature, is the exclusive privilege of a few fortunate people needs to be exploded. There is nothing inherent in the nature of credit that keeps it away from the poor. Nonetheless, the poor has no access to credit institutions. The logic behind this practice has always been considered infallible; since the poor cannot provide collateral security, the argument goes; there is no basis for lending to them. If

collateral alone can provide the basis for the banking business then society should mark out the banks as the harmful engines for creating economic, social and political inequality by making the rich richer and the poor, poorer. He contends that credit for self-employment should also be recognized as a human right that plays a critical role in attaining all other human rights.

Some small and medium scale enterprises often demurred because they doubt whether they could operate well enough to repay their loans with interest often associated with the formal financial institutions. Steel and Webster. They further stated that for potentially dynamic small and medium scale enterprises, an important constraint are their lack beyond the limits of self-finance, but they remain unable to obtain the necessary funds formal financial institutions. They went on to say that supply-side assistance programmes will have only limited impact until the financial system is restructure to function more efficiently, credit is eased, and new instruments are developed to meet the needs of small and medium scale enterprises. To this point one would say that Rural Banking would be the solution to credit problems of these enterprises.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter deals with the research methods and procedure for the collection of data. It involves the research design, population of the study, sample size and sampling technique, source of data, data collection method and data analysis.

3.2 Research Design

The study is a survey in the form of cross sectional study in which data was collected once across a population through sampling.

The study was mainly concerned with how the rural banks have contributed towards the development of Small and Medium Scale Enterprises.

This research adapted the use of questionnaire to solicit information from the beneficiaries and management of the selected Rural Banks, of the credit facility from Ejisu, Bonwire, Agona, Jacobu, Pakyi, Barakesse and Fumesua, branches of Rural Banks. Also the primary information from the banks gave much insight into how the operations of the banks are when the question of contribution and credit comes into mind. At the conclusion part of the research, the questionnaires were subject to statistical analysis and interpretation and conclusions drawn.

3.3 Target Population

Beneficiaries of loan facilities within the catchment areas of some selected branches at Juaben, Ejisu, Bonwire, Agona, Jacobu, Pakyi, Barakesse and Fumesua. They had started a programme of giving credit to small and medium scale enterprises as a

means to address the credit needs of the small and medium scale enterprises. The main branches of the rural banks had an agency that deals with granting credit to the needed parties. This means that the final authority rests in the hands of the head office when issues of credit come to the domain.

3.4 Sampling Methods / Techniques Used

The target population for the study was seventy (70), which reflects the notion of the people of Juaben, Ejisu, Bonwire, Agona, Jacobu, Pakyi, Barakesse and Fumesua, where the banks have been able to offer credit to small and medium scale enterprise operators. The people to answer the questionnaire were chosen randomly.

3.5 Instrument Used For The Study

There are various methods through which information for a research work could be obtained. These include: observation, interview, questionnaire, test and so forth. The researchers used questionnaire to collect the information needed from small and medium scale enterprise operators and beneficiaries of credit from the banks. A questionnaire was also directed to the management of the banks to find out about how the credit get to the beneficiaries and the interest charged on the credit to sustain the scheme.

The questionnaire directed to the beneficiaries of the credit facility were 20 questions with some of the questions being open-ended, where the people had to provide answers based on their own notion and ideas. The one directed to the management of the bank also had questions some of which were open-ended and some with options.

3.6 Data Collection Method

For the collection of data for the study, the researchers sought permission from the managers of the rural banks. A questionnaire was design by the researchers and through the help of the staff of the Rural Banks who are directly involved in small and medium scale-credit, theresearchers were able to identify some of the beneficiaries of the said facility and it was not difficult locating the beneficiaries because they have organized themselves into groups.

3.7 Analysis of Data

A percentage was calculated on each by scaling the items by multiplying the frequency of the responded under each response category and divides the sum of the various respondents who gave responses to the items.

CHAPTER FOUR

Analysis and Presentation of Data

4.1 Introduction

This chapter summarizes the activities of Rural Banks and how these agencies responsible for credit granting discharge its duties and the mode under which such facilities are given out to the needed people. It also analyses the data collected from beneficiaries and management of these Institutions. Descriptive statistics is used to test certain socio-economic variables such as educational background, gender, nature of work, paid workers, volume of credit facility and how the facility has helped the development of businesses in some selected Districts/Municipal Assemblies in Ashanti Region of Ghana and its surrounding areas such as, Juaben, Aboaso, Ejisu, Bonwire, Agona, Jacobu, Pakyi, Barakesse and Fumesua. Also included in the analysis is the efficiency of these Rural Banks in addressing the credit needs of its customers and extent of technical support given to these enterprises.

4.2 Educational Background of SMEs Respondents

Small and Medium Scale Enterprises have been argued to have been increasing due to the fact that capital involved in their operation is not as substantial as that of large-scale enterprises and could be obtained from close associates such as relatives and friends, it must however be stated that education has not been a barrier either to having credit. The study conducted showed that some of the respondents have not had any form of formal schooling. A proportion forming about 7% has never been to school before, and the rest have varying levels of formal education. Further analysis of the educational background of these small-scale enterprises tested the level of education

attainment of the respondents and the results have been shown in the table 4.1 and the diagram 4.1 below.

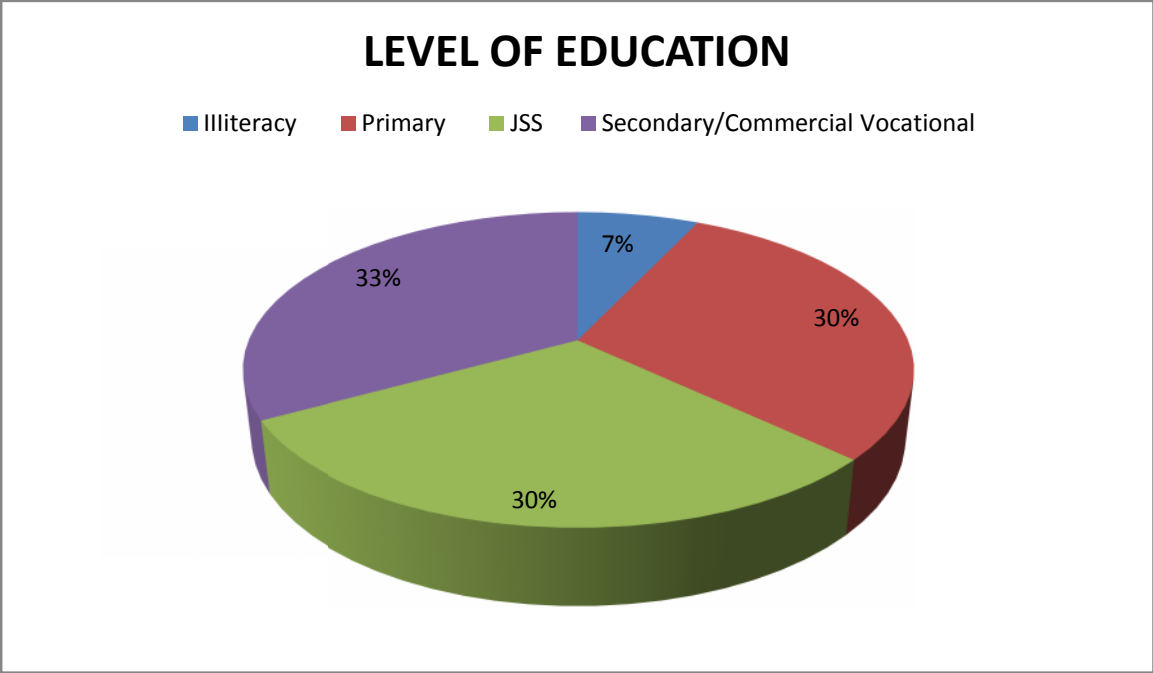
Table 4.1:1. Level of Educational Attainment

Classification	Frequency	Percentage
Illiteracy	5	7
Primary	21	30
J S S	21	30
Secondary / Commercial / Vocational	23	33
Total	70	100

Source: field survey 2013

The statistics in table 4.1 above have shown that 7% of the total respondents have had no formal education. The people mostly acquired their trade through apprenticeship and inheritance from their parent and close relatives, and are now operating on their own. Also 30% of the respondents have had some level of primary school education, however, those people also served as apprentices before they could be in the business of their own. These categories of people add up to the percentage of those without education of form 37% of our respondent who acquired their trade through apprenticeship. This point confirmed one earlier on made by Liedhom and Mead (1988) that, in West Africa informal apprenticeship system in which a young person serves a proprietor or a master for a given period to learn a trade, craft, plays a key role in the skill formation. 33%, which was the highest figure, showed that most of the respondents have had some form of education.

Diagram 4.1: 1. Level of Education



Sources: field survey 2013

4.3 Gender

Females as is often argued have formed the majority of small and medium scale enterprise operators in the sub-region. This steamfrom the fact that females turn to be more business minded and are ready to accept responsibility than men. Among the characteristics of small and medium scale enterprises established by Liedhom and Mead^{vii} was stated that in most countries significant numbers of the small and medium scale enterprises are female operators. The table below 4.2 shows the percentage of females and males who constitute our respondent in the study area.

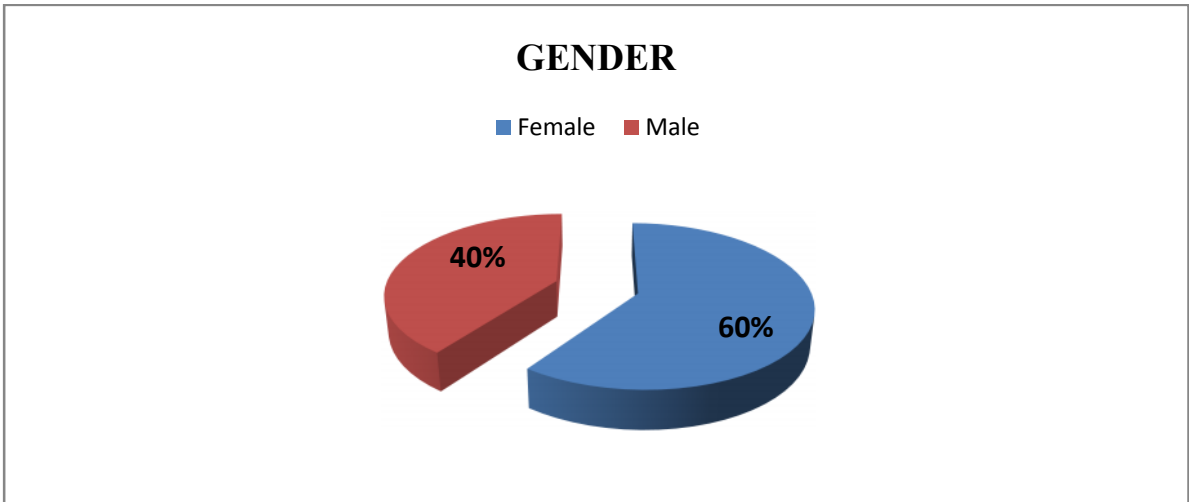
Table: 4.2. Gender Ratio

Gender	Frequency	Percentage (%)
Female	42	60
Male	28	40
Total	70	100

Source: field survey 2013

It was realized that the large number of people who come to these Rural Banks as beneficiaries of credit were women, forming 60% of the respondents as shown in the table above. The reason for this fact is that women in the study area have been able to come together to form co-operative associations and since the scheme does not require collateral, they find such societies to be very secured to trust with credit and that form the bases for collateral perfection. The formation of such societies guarantees repayment of credit and provide some level of confidence for the management of Micro-finance under the management of the Rural Banks. Though the male counterparts have such groups it has not been as vibrant as the female counterparts hence their inability to access as much of credit. The pie chart 4.2 below also gives the pictorial view of the issue of gender.

DIAGRAM 4.2: 2. GENDER



Source: field survey 2013

4.4 Nature Of Operation

The major pre-occupation along the Ashanti Region has been commerce with agricultural forming the main occupation. This demand for skill person who will do all the service work that the people around the area need hence the high percentage of beneficiaries from service sector. Commerce at the area is also equally good since the population around the area is high due to the presence of those businesses. An analysis of the various sectors that have benefited in the study area has been presented in table 4.3 below.

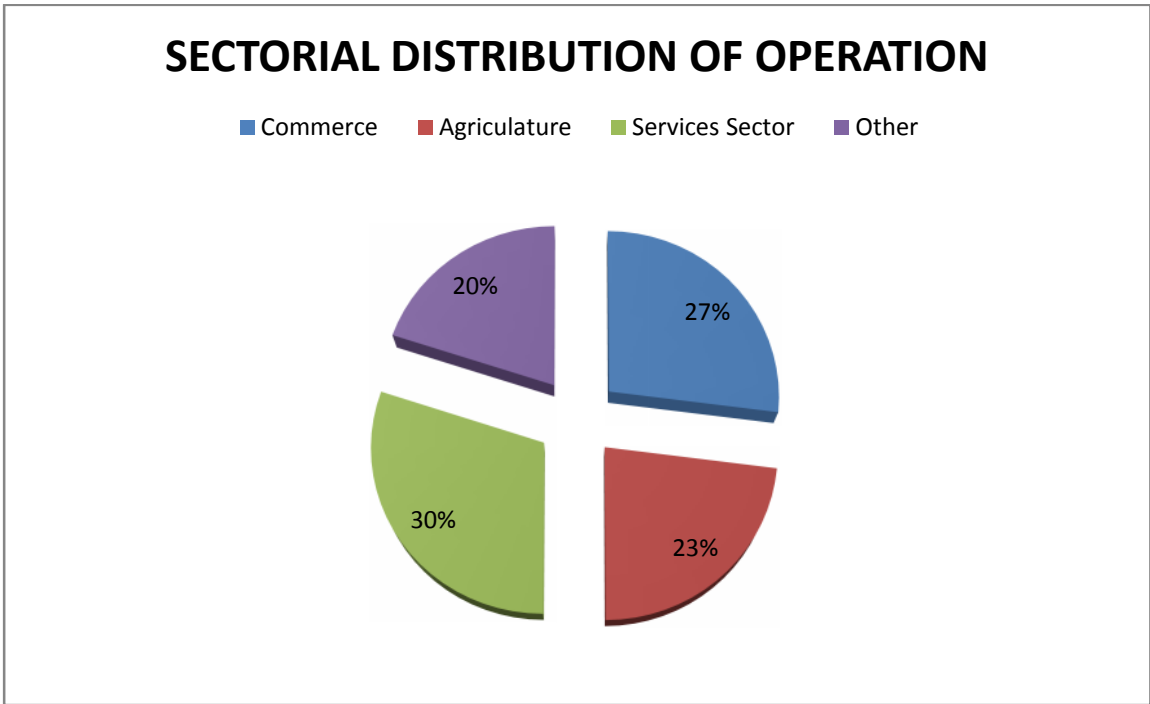
Table 4.3: 3. Sectorial Distributions of Operations

Sector	Frequency	Percentage
Commerce	19	27
Agriculture	16	23
Services sector	21	30
Others	14	20
Total	70	100

Source: field survey 2012

From the table 4.3 above, majority of the respondent are in the Service sector confirming that the presences of businesses around the study area demand people with some sort of training to render most of the services the people around demand. The percentage of those in the service sector is 30% followed by commerce with 27% and then 23% from Agriculture. Below is a diagram 4.3 which further makes the analysis clear.

Diagram 4.3: 3. Sectorial Distribution of Operations



Source: field survey 2013

4.5 Paid Labour

Small and medium scale enterprises have been characterized as having just a little or no paid labour at all in their operations. This fact became evidently clear in the study, when the researchers enquired whether the respondents have any form of paid

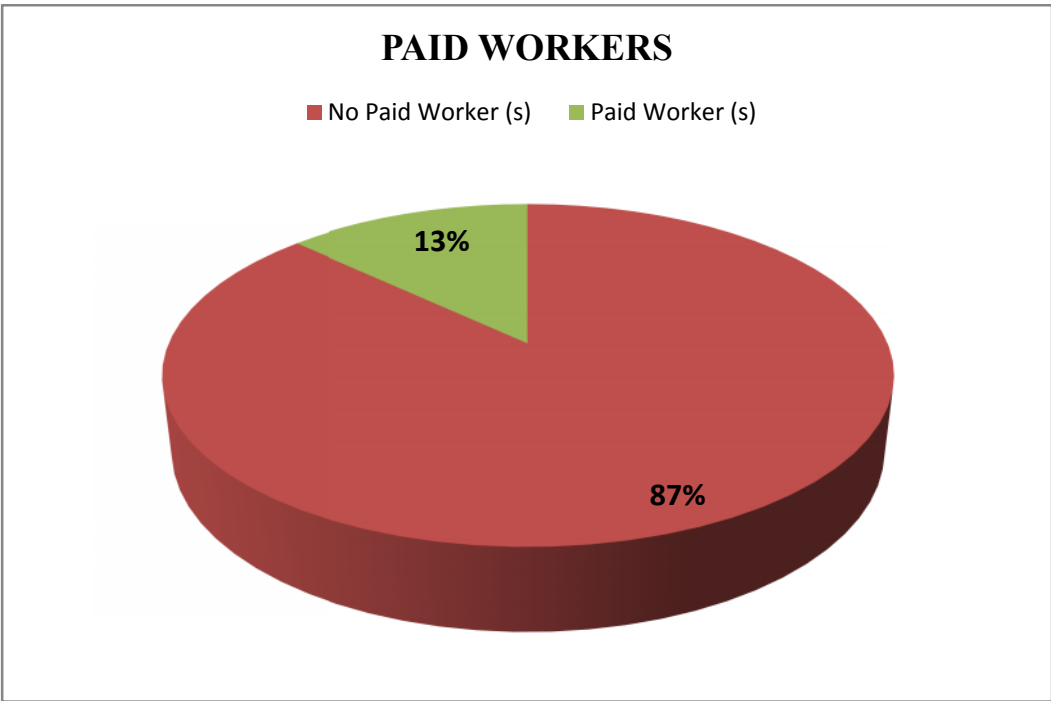
workers. The responses obtained are depicted in the table 4.4 below and the pie chart 4.4 also shows the pictorial view of the responses.

Table 4.4:4 Paid Workers

Responses	Frequency	Percentage
No Paid Worker (s)	61	87
Paid Worker (s)	9	13
Total	70	100

Source: field survey 2013

Diagram 4.4:4 Paid Workers



Source: field survey 2013

As shown in table 4.4 and the pie chart 4.4 above, it can be seen that most of the respondents have no form of paid workers. They mostly relied on family members as a source of labour. These family members and sometimes other apprentices who work with these entrepreneurs are not paid because they are supposed to be under training to acquire the said trade. This confirms an earlier point made by Liedholm and Mead

(1988) that ‘family workers generally formed the largest component of the small and medium scale enterprises labour force, apprenticeship labour, however, is also important’. The categories of respondent were mostly found in the service sector where most of them depended on children and close relatives as their source of labour. 13 percent of the respondents employed some form of paid workers. A further analysis to see how many workers have been engaged showed just a few of them.

This is illustrated in the table 4.5 below.

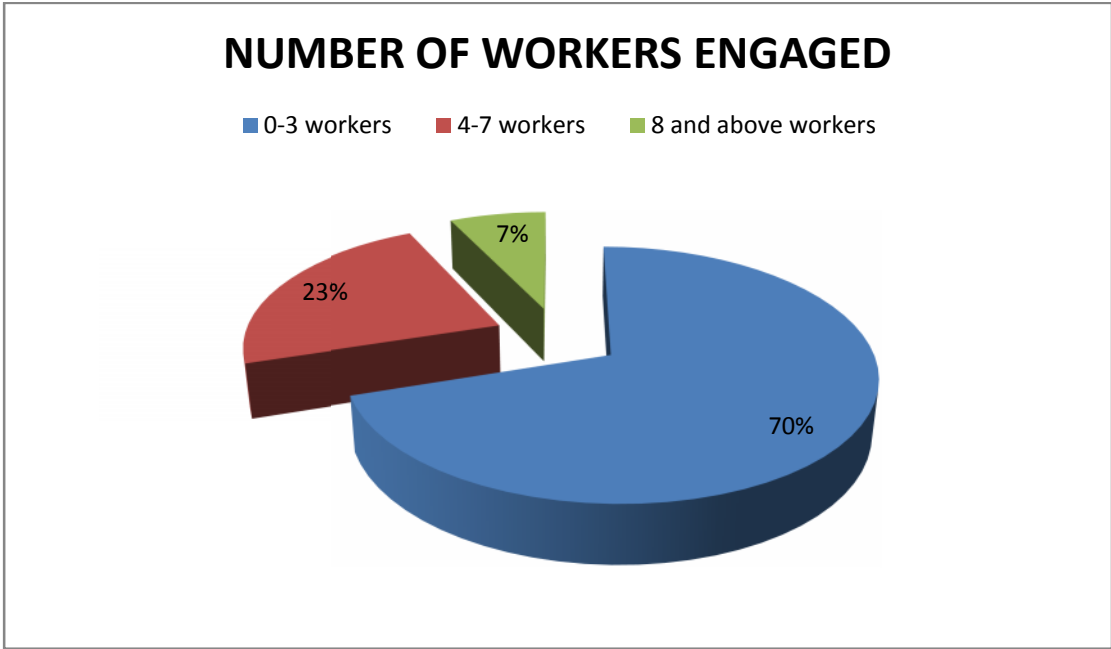
Table 4.5:5. Numbers of Workers Engaged

Classification	Frequency	Percentage
0-3 workers	49	70
4-7 workers	16	23
8 and above workers	5	7
Total	70	100

Source: field survey 2013

Enterprises in the service sector engaged more than 4 workers while enterprises that had 1-4 workers were found in the repair shops and poultry. Even those workers did not have as it has been permanent status.

Diagram 4.5:5. Number of Workers Engaged



Source: field survey 2013

4.6 VOLUME OF CREDIT RECEIVED BY SMALL AND MEDIUM SCALE ENTERPRISES

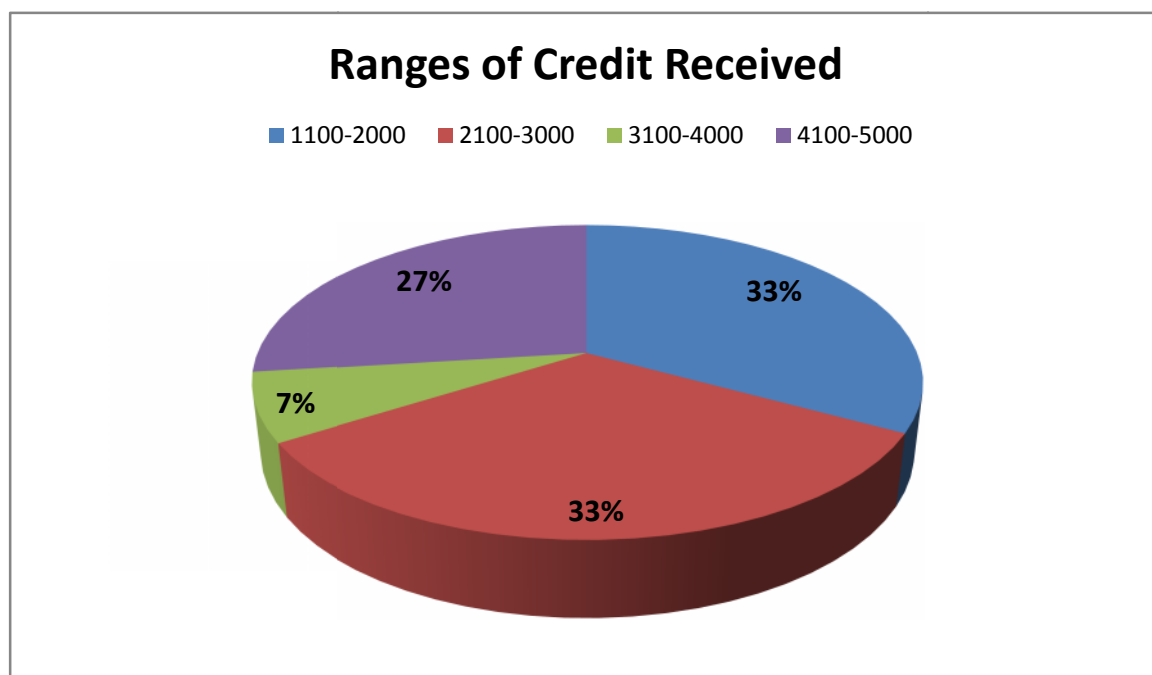
Analysis made earlier indicated that many beneficiaries of credit support from these Rural Banks come from the service sector due to the strategic location of the study area and this has also been reviewed in the analysis of the volume of credit received. Most of the credit granted from the bank went to the peoples in the service sector followed by the commerce sector, which is equally a very vibrant sector due to the large population in that area. Most of the credit received are within the range of GH¢1,000-GH¢2,000 with a 33% of the total percentage and GH¢2,100-GH¢3,000 also with 33% of the whole credit from the Bank, which is followed by the highest amount of credit that the bank grant to individuals under the small and medium scale enterprises scheme that is GH¢3,100-GH¢4,000 with percentage of 27 of total credit granted by the bank and this has been shown in the table below.

Table 4.6: 6. Ranges of Credit Received

Range of credit received	Frequency	Percentage
GH¢1,100-GH¢2,000	23	33
GH¢2,100-GH¢3,000	23	33
GH¢3,100-GH¢4,000	5	7
GH¢4,100-GH¢5,000	19	27
Total	70	100

Source: field survey 2013

Diagram:5 Ranges of Credit Received



Source: field survey 2013

As a result of the nature of work of the majority of the respondents, it means that more credit was needed to embark on such a venture hence the greater proportion of the beneficiaries are in the range from GH¢1,100 to GH¢5,000 as can be seen from the table above. This also indicates that for most of the respondents, the facility was either their second time or third time of having such a facility

4.7 ADEQUACY OF CREDIT GRANTED

Credit in the form of Loans for capital investment and to help improve the liquidity position of the small and medium scale enterprises in the Ashanti Region has been a problem and has actually hindered the sector in the Region. Microfinance agency of these Rural Banks has been set up to help alleviate some, if not all the problems. 80 percent of the respondents said that the credit was inadequate and 20 percent said it was adequate from the data obtained from the field. Several reasons were assigned by the management of the Bank as to why the problem of adequacy always comes up. They said that they are supposed to spread the facility to all and sundry hence the constraint of not being possible to meet the credit demands of all is very high. Also your ability to pay the first loan guarantees you having more of such facility and the problems that they go through when doing business with you would qualify you for another facility but the study indicated that most of the respondents are not educated and that makes the bank careful in loaning so much to a single beneficiary.

It was further stressed that the facility is not suppose to provide all the financial needs of the small and medium scale enterprises but to help bring them up to a level that could repose some confidence in the traditional financial and unit banks, there by attracting credit from them. Also the Micro finance team has to appraise the project

and examine the strength and weakness so that the credit will not be a problem when the issue of repayment comes to surface.

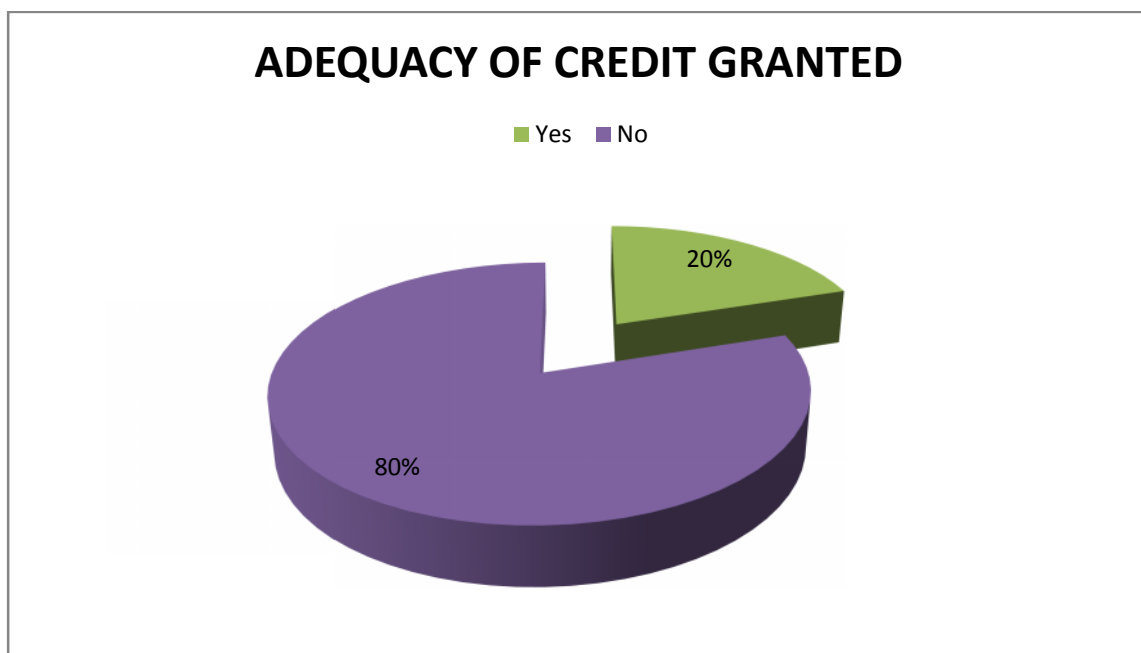
Table 4.7:7 Adequacy of Credit Granted

Response	Frequency	Percentage
Yes	14	20
No	56	80
Total	70	100

Source: field survey 2013

The table above has shown that indeed credits for the small and medium scale enterprise from the Unit Banks have not been adequate and that has been shown in the responses. 80 percent of the respondents affirm the notion that credit is indeed small and 20 percent also responded that Credit was enough and the reason assign for this was that it was their first time of having such a facility hence for now it was enough but they hope to have an increase in the near future. Also diagram 4.7 has been used to further make the analysis very clear and from that we have also realized that 80% of the respondents have stated categorically clear that the credit facility was no enough to make them realize their objective for engaging in that Business. Below is the diagram of Adequacy of credit

Diagram 4.6: Adequacy of Credit



Source: field survey 2013

4.8 Default Rate/Repayment Level Analysis.

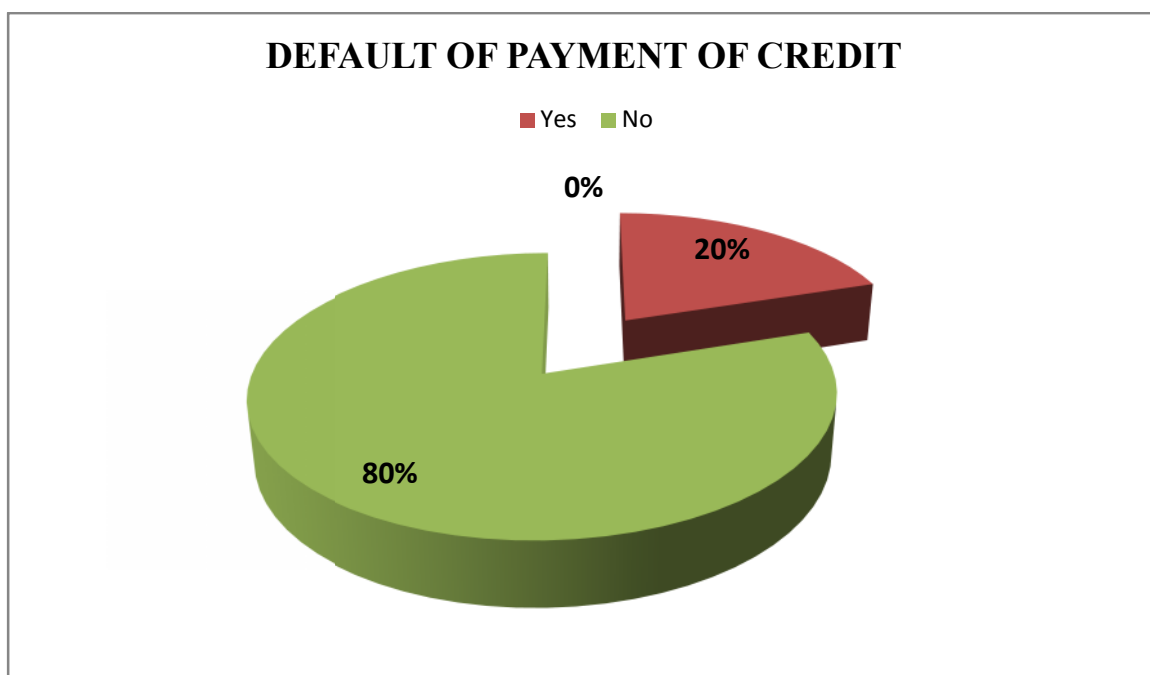
The prompt repayment of the credit facility with the appropriate interest is needed to make the scheme revolving and sustaining. According to the management of the facilities that is the Micro finance agency at the Rural Banks, the default rate was quoted as an average of 20% of all loans granted and about 80% pays promptly and on time. However the responses from the respondents gave the value as 80% not defaulted in payment and 20% have actually defaulted in payment. This does not deviate so much from the value of the management hence indication of the fact that credit recovery involves an extensive mechanism. The table 4.8 below shows the responses of those who have defaulted and those who have not defaulted.

Table 4.8: 8. Default of Payment of Credit

Responses	Frequency	Percentage
Yes	14	20
No	56	80
Total	70	100

Source: field survey 2013

Diagram 4.8: 7 Default Of Payment of Credit



Source: field survey 2013

The tables values have confirm that credit recovery has not been all that good but the explanation to the high default rate can be due to the fact that most of the beneficiaries fail to honour their part of the agreement but management has the legal action as one of the measures used to recover loans from beneficiaries.

This supports the point made by Anda and Steel when they stated that the low rate charged by credit institution is responsible for the slow rate of expansion of credit agencies. According to them a good credit agency should provide not only facilities that yield benefits to the enterprise but also produces some returns that cover the cost of credit administration.

4.9 Collateral Security

In the traditional Banking System one of the requirements for getting a credit was your ability to provide a collateral security that guarantees you in case of default. This variable was of so much importance to use since it really showed whether small and medium scale enterprises that could not provide those facilities could not have access to such facility. In information gathered from the management of the Rural Banks, it became evidently clear that such a facility is no more a problem to you having a credit from them. What the bank now require from the people who apply for such facility are to provide what the bank called collateral Perfection. This perfection could be based on the volume of your savings with the bank and also when you have an organized group where the team of workers from the Bank could locate and the ability of the group contributing in the form of SUSU scheme, then that serves as a guarantee. The table 4.9 below gives the true picture of the perception of the respondents on the issue of Collateral.

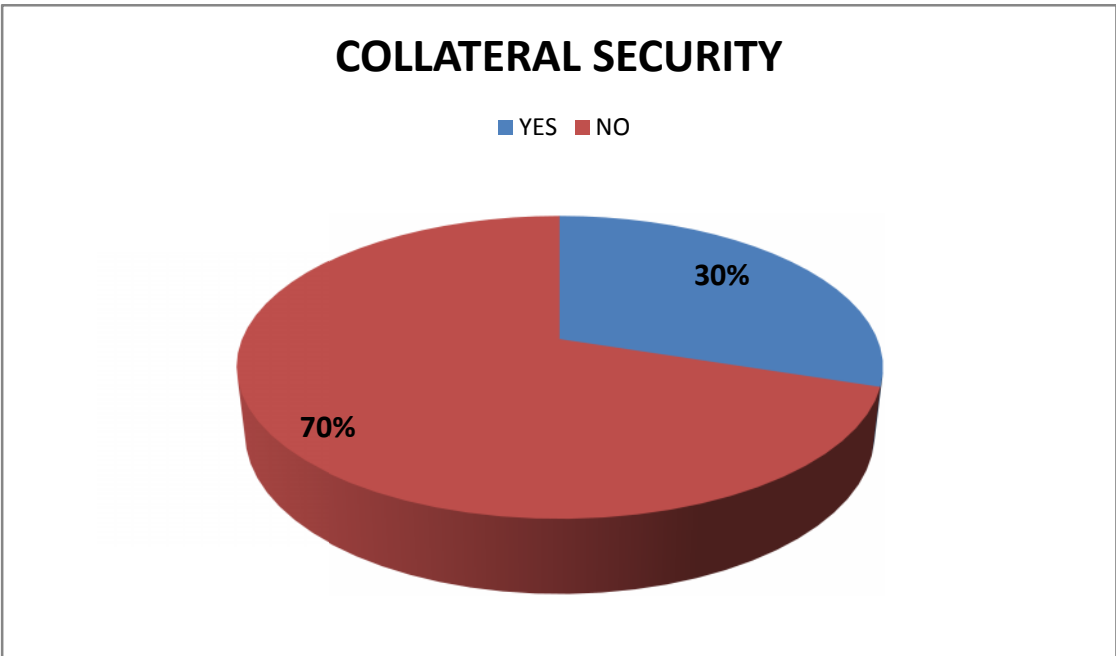
Table 4.9: 9. Collateral Security

Responses	Frequency	Percentage
Yes	21	30
No	49	70
Total	70	100

Source: field survey 2013

With reference to the table 4.9 above a table has been used to show the percentage of respondents who indicate whether they provided collateral security or not. Of the total respondents 70% said that they did not provide a collateral security but rather provided a collateral perfection and 30% of the respondents said they were made to provide collateral security. This analysis has been shown in the diagram 4.9, below pictorial pie chart has been used to show the responses on the issue of collateral security.

Diagram 4.8: 8 Collateral Securities



Source: field survey 2013

4.10 DurationFor Holding Credit

Credit facility from the banks is allowed to stay with the beneficiaries for some time after which the total amount, in addition to the interest charged on the facility would be paid. From the management of the banks credit stay with a beneficiaries depends on the type of work they do, and that those in the agriculture sector are allowed to keep the credit for a maximum period of one year whiles those of the service and the commerce sector are allowed to keep the facility for a period of six months. Since most of the respondents were from the service sector, 50% were allowed to keep the credit for 6 months and 47% were also allowed to keep the credit for 1 year, which were predominantly farmers and 3% for others. The detail of the analysis has been shown in the table and the diagram below.

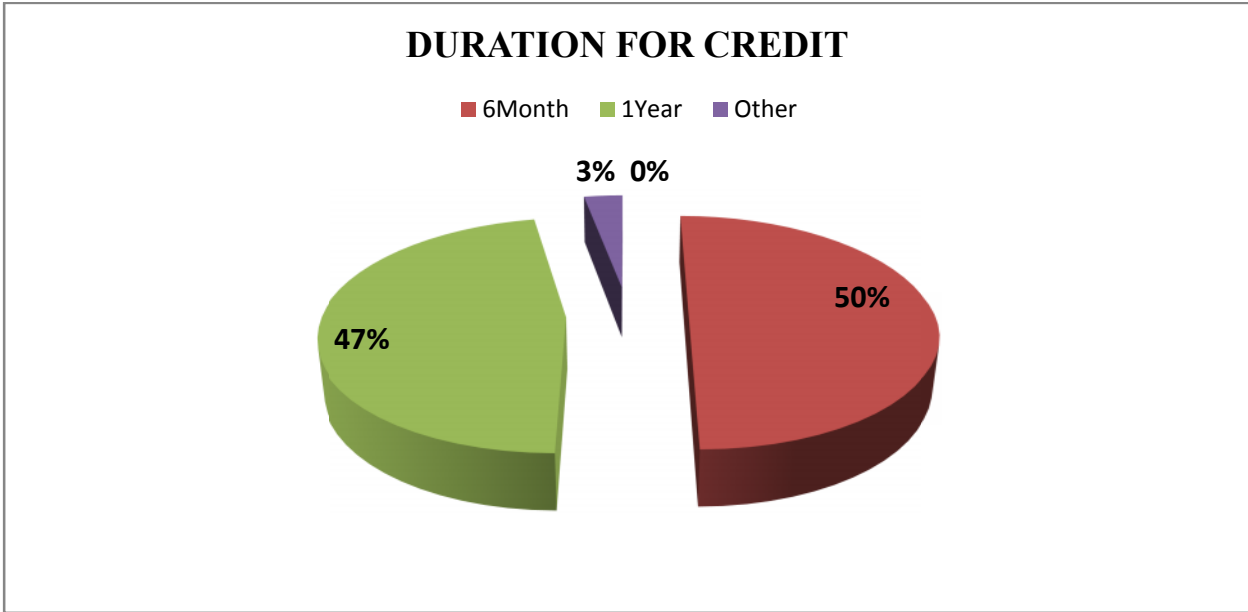
Table 4.10: 10. Duration for Holding Credit

Duration for credit	Frequency	Percentage
6 month	35	50
1 year	33	47
Others	2	3
Total	70	100

Source: field survey 2013

As showed from the diagram 4.10 below 60% of the respondent had their credit for a 6 months period by which time the total amount and the interest are paid and 47% were also granted a credit to be held for 1 year and the other periods for holding a credit which normally last for either month is also shown in the diagram. This is an indication that credit are not allow to stay with enterprises for a longer period by which time they would have been able to get some turn over on the credit facility.

Diagram 4.10:9 Duration for Credit



Source: field survey 2013

4:11 Other Sources of Finance

Due to the inadequacy of the credit facility that is given to the beneficiaries, they always look for other areas that they can access other forms of credit facility. This has been shown in the table. 4.11 Below, where 27% of the respondents resorting to other forms of credit facility from other savings and loans companies in the Region. Whereas 73% of the respondent categorically stated that they do not access any other form of support from any groups or organization apart from that of these Rural Banks. The table 4.11 illustrates the point raised above.

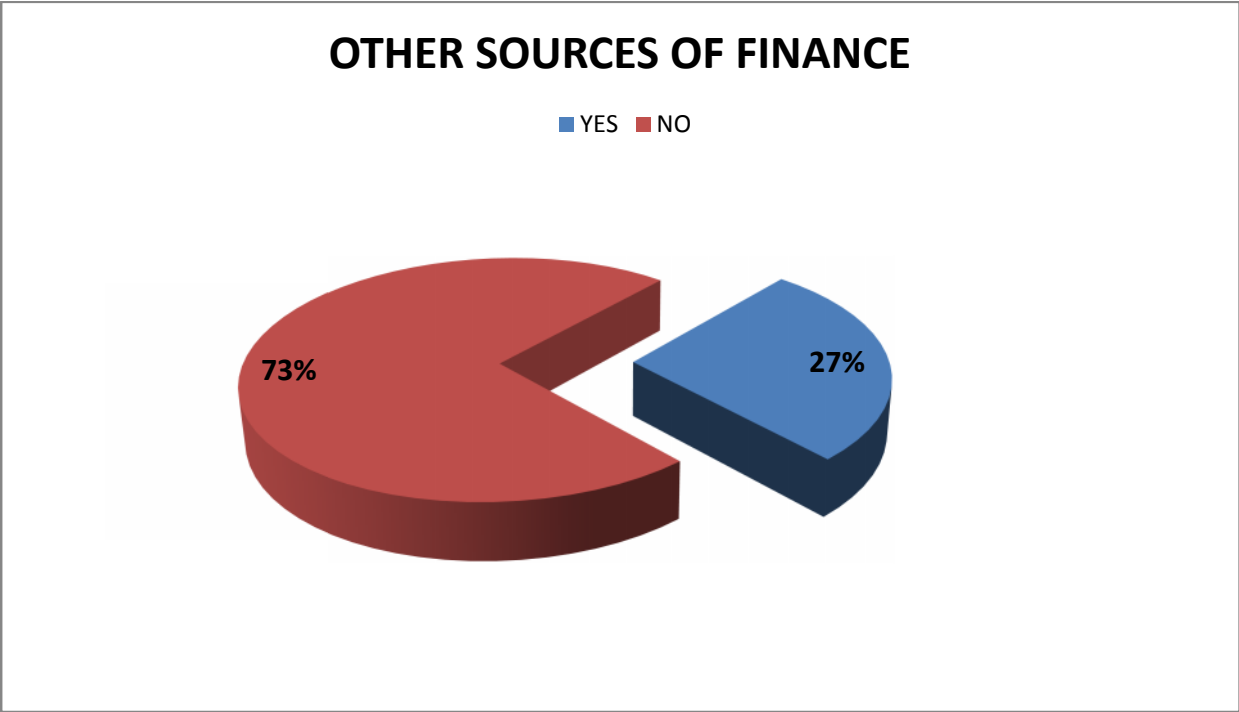
Table: 11. Other Sources of Finance

Responses	Frequency	Percentage
Yes	19	27
No	51	73
Total	70	100

Source: field survey 2013

From the table out of the total 17 respondents 27% said they have access to other forms of credit vindicating the fact that credit from the Rural Banks to the Micro-Enterprises in the country has not been enough for them to release their objective as been the turn around which the development of every nation revolves. The diagram 4.11 below also gives the pictorial view of the situation. The graph below shows the percentage of the respondents who access other sources of credit as 27% of the total population and the others as 73%

Diagram 4.11:11 Other Sources



Source: field survey 2013

4.12 Beneficiaries Rating Of The banks

Table 4.12: 12. Beneficiaries Response

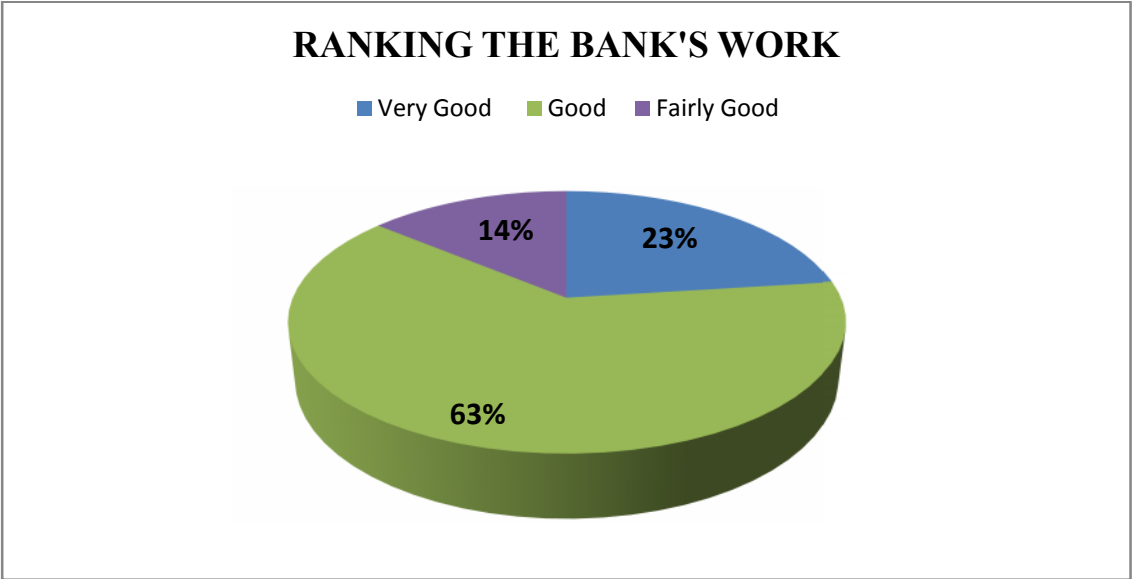
Responses	Frequency	Percentage
Very good	16	23
Good	44	63
Fairly good	10	14
Total	70	100

Source: field survey 2013

The reasons assigned to the responses above were as follows. Beneficiaries who responded very well are those who either had all their credit demands or those who had a substantial amount of the credit requested. Those of the response good, are those who had a cut or delay in the granting of the credit. They felt the amount was inadequate and unduly delayed. From the responses it can be concluded that though the work of the Banks in credit granting to small and medium scale enterprises in the Region is not all that old it has enjoyed some level good well from the people that access credit from the banks. Below is a diagram 4.12, which shows the distribution of the responses on the bases of the performance of the Rural Banks on credit granting to the small and medium scale enterprises.

From the diagram 4.12 below 63% of the respondents said the performance of the bank was good, whiles 23% said the performance was very good and finally 14% said the performance of the bank to credit granting is fairly good.

Diagram 4.12: Ranking the Bank's Work



Source: field survey 2013

4.13 Interest Charges

Another worrisome issue that was almost reflective in the data that was collected was the issue of the high interest rate charges on the facilities. It became evidently clear that interest on the credit was 30% to 35% depending on the bank on each facility that you receive from the bank. Though the respondents complain about they were quick to add that yet they do not have any place to go. The interest charged on the facility has made it impossible for them to really have a turnover in the areas that they operate.

This management responded that there are some risks involved in the business especially dealing with people who are not well educated. The fear of the bank was whether they could recover the cost should there be reduction in the base rate, but it became clear that the bank was not ready to reduce the interest charge on the facility.

There was one of the most serious reason that most of the respondents assign for their inability to access more credit and they pray that management of the bank to consider the interest charged on the credit adjusts it to suite the people who are within the sphere of the small and medium scale enterprises since that was the engine of growth of the country.

4.14 Credit Expansion

Credit expansion was a key issue that was central to the study. Respondents of the research made it abundantly clear that after the facility was accessed there have been credit expansion, which is an indication that the importance of the Bank in Micro-financing cannot be over emphasized. Capital for business has gone up and now they

could afford to do more business that would increase their profit rate and lead to a general increase in the welfare of the people in particular and Ghana as a whole.

This good news has led to a situation where more people now apply for the credit facility, only that a few people did not get such facilities. Business is now good for them and they would be glad if the interest is reduced and the minimum credit increased for them to have a greater profit out of their business.

4.15 Other Benefits Derived From These Rural Banks

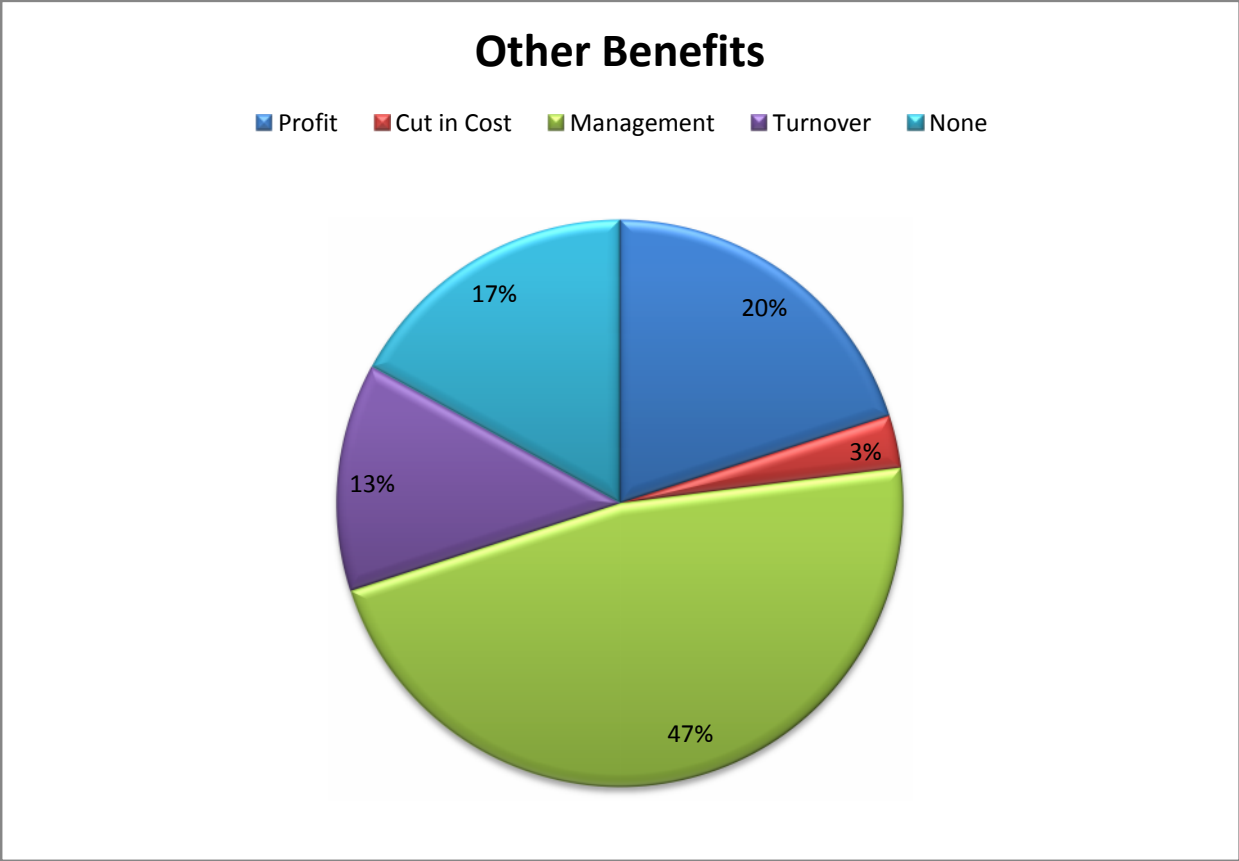
Another important issue was the other benefit that beneficiaries of the credit facility have derived from the banks. It was made known that there are other benefit that the beneficiaries of credit from the bank have had apart from the credit. Mention could be made of increase in turn over, increase in profit; better management practice and cut in the cost of operation are some of the benefit that they have had apart from the credit facility. The table 4.13 below and the diagram 4.13 below shows the various benefit that is derived from the banks.

Table 4.13: 13. Other Benefits from the Banks

Benefits	Frequency	Percentage
Increase in Profit	14	20
Cut in the Cost Operation	2	3
Better Management Practice	33	47
Increase in Turn Over	9	13
None	12	17
Total	70	100

Source: field survey 2013

Diagram 4.13: 13. Other Benefit



Source: field survey 2013

From the table above it can be conclude that apart from the credit facility that was given by the bank to the applicant other forms of assistance were due them in their quest to turn their dreams into realities and the table 4.13 gave the highest benefit apart from credit as better management practice with 47% and increase in profit as the next benefit with 20% value. The diagram 4.13 also gives the pictorial impression of the other benefits that applicants get apart from the credit facility.

CHAPTER FIVE

Summary, Recommendation And Conclusion

5.1 Overview

The chapter summarizes the information obtained from the study. It also draws recommendations about the study in the light of the findings and makes appropriate conclusions

5.2 Summary

Small and Medium Scale Enterprises development have been acknowledged world over as a strategy important and quite effective for addressing the low incomes and under development in the informal sector of developing nations. To develop the small and medium scale enterprise sector, certain operational structures would have to be put in place to address the numerous problems faced by these enterprises in the country. These structures include the provision of an efficient credit scheme as well as technical, managerial, marketing, and other forms of assistance. Microfinance agencies, an agency under these Rural Banks was set up to help put in place among other things the above-mentioned structures to facilitate the development of the small and medium scale enterprises sector in the region. In the light of these, a study was carried out to see the effectiveness of Micro financing agency of these Rural Banks to addressing the problem of credit, which leads to the development of the study area of Juaben, Aboaso, Ejisu, Bonwire, Agona, Jacobu, Pakyi, Barakesse and Fumesua, etc. in the Ashanti Region.

Interest rate which was one of the most important variable to the study was noted has been around 28-32% on each credit facility received, depending on the bank and the credit worthy of the group. This the beneficiaries raised concerns that it was on the high side and pray management to review the rate so as to make it comfortable for them when they access the facility. It was realized that the interest rate, been at high rate have not attracted most people from the Agricultural sector since their profit depends not only one the facility but also the fluctuations in the weather conditions. However the study indicated that those few from the Agricultural sector do better in the repayment of credit then other sectors as and when credit fall due.

Whereas management of these banks was of the opinion that their activities were a success to a larger extend in the development of small and medium scale enterprises in the study area, the beneficiaries were of the general view that the micro finance agency has not done so much and there was a need to improve upon their services so that their dreams turns into reality. 60% of the management saw their operations as very good whiles 40% saw it to be good.

5.3 Conclusion

The study has shown that the operations of these Rural Banks so far as assisting small and medium scale enterprises is concern, leaves much to be desired. Even though they have not failed entirely in this light, a lot more effort is required of them if they really want to be seen as effective agencies for the development of the study area.

The study has also shown that effort to reshape small and medium scale enterprises to make them more effective should be linked with the mainstream economic activities, to the conditions of those involved in them and finally to the commercial institutions

The study has also shown that these Rural Banks have major stake in small and medium scale enterprises and the major areas of their interest are commerce, services and agriculture. These areas are all doing well due to prudent management practice put in place by the management of the bank.

We wish to conclude finally by stating that credit extension goes beyond the provision of physical cash and other inputs to entrepreneur. In fact the activities involved in the extension of credit to small and medium scale enterprises are both interwoven and complicated. It is therefore expected that the various factors that are at play in extension of micro credit should clearly be understood, isolated, and taken into consideration before efficient credit extension can be carried out. Otherwise, the more provision of cash to the enterprise may actually turn out to be a disaster to both the lenders and the beneficiaries.

5.4 Recommendation

Small and Medium Scale Enterprises can confidently be said to be very durable, all-encompassing and flexible and it so, the question then is under what conditions can they flourish. The study has shown certain circumstances when improved are likely to help the sector improve upon its lot. In this vein, the following recommendations have been suggested for consideration.

To start with the Microfinance agency under these Rural Banks should seek out the very enterprises with the greatest potential of viability, sustainability, and expansion and should not be based on officers' affiliation with applicants before loans are granted. Again credit should aim at enterprises that generally do not have access to formal sources of credit and technical services. The consideration of graduation approach where enterprises are brought to a state that can be linked to other financial institutions should be taken seriously and actually operative.

Again the need to encourage small and medium scale enterprises to actually come together to form cooperatives societies is very important especially among the male gender. The importance of these cannot be over emphasized since it will go a long way to make them credit worthy thereby attracting more credit. It is important to note that some of these individual enterprises are in very profitable ventures but lack of the necessary security to get credit to operate efficiently.

Furthermore Credit granted to small and medium scale enterprises should be disbursed in time to synchronise with the various operations and seasons of the enterprises if the full benefit of this input is to be realized. The delay in granting credit as a result of elaborate and complicated procedure involved in loan application and processing before funds are finally approved and disbursed by the banks should be looked into and improved upon.

Also Credit in general should be increased and emphasis should be limited to a number of viable firms instead of covering a wide range of enterprises. Also defaulters who used to be credit worthy and are in profitable ventures and who

defaulted as a result of their credit getting to them late should not be shun but be given more credit on time to enable them recoup the previous seasons losses. The interest charged on the facility having been identified to be on the high side should also be looked at so as not to further push the beneficiaries into further default. These recommendations are necessary for it has elsewhere been reported that defaulter rate are actually lower among small business then large ones.

Finally, an efficient credit scheme should go with it strong base technical, managerial, marketing, and other forms of non-financial assistance. This fact though, has been identified by the managements of the scheme, has not been carried to its logical conclusions. There is therefore the need to provide a comprehensive technical, managerial, marketing and other form of non-financial assistance to supplement the credit granted to those enterprises for improved productivity.

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CHRISTIAN SERVICE UNIVERSITY COLLEGE

SCHOOL OF BUSINESS ADMINISTRATION

DPARTMENT OF ACCOUNTANCY STUDIES

QUESTIONNAIRE FOR MANAGEMENT

The following questions based on how Rural Banks contribute to the Small and Medium Scale-enterprise Development in Juaben and its catchment area, in the Ejisu/Juaben Municipal assembly is aimed at providing information for this project work.

All information disclosed in this questionnaire will be treated strictly confidential.

Please Thanks in advance for your co-operation.

Questionnaire directed to the management of Juaben Rural Bank, Juaben Main Office.

PLEASE TICK [~] the box and provide brief comment where necessary.

1. What is your position?

.....
.....

2. How long have you been working for this bank?

.....
.....

3. Is your work related to credit granting to Small and Medium Scale-Enterprises?

Yes [] No []

4. What is the nature of the work?

.....
.....

5. What kind of services do you offer to Small and Medium scale-enterprises in your Area?

.....
.....

6. How do you make the services of the bank known to the Small and Medium scale-enterprise operators?

.....
.....

7. Does your bank provide enough credit to Small and Medium Scale-Enterprises Operators?

Yes [] No []

8. What criteria do you use in deciding as whom is too be given credit?

.....
.....

9. Does your Bank have a state in Small and Medium Scale-Enterprise Operation?

Yes [] No []

10. In offering these credits, do you require collateral security?

Yes [] No []

a) If yes, what do you ask for?

.....
.....

b) If no, how do you secure the repayment of the facility?

.....
.....

11. Do you charge any interest?

Yes [] No []

a) If yes how much interest is charge on each credit facility?

.....
.....

b) If no how do you sustain the running of the credit facility to Small and
Medium Scale-Enterprise operators?

.....
.....

12. What has been the trend regarding the number of Small and Medium scale-
enterprise Operators that apply for credit and those who actual get the credit?

.....
.....

13. What has been the repayment level of the credit granted?

.....

.....

14. How do you deal with defaulters?

.....

.....

15. How long do you allow the credit to stay with an Entrepreneur?

- | | |
|-------------------|---------------------|
| a. 1 month [] | d. 1 year [] |
| b. 3 month [] | e. others (specify) |
| c. 6 month [] | |

16. Are you able to meet all the funds applied for by applicant once they qualify?

Yes [] No []

a. If no how do you help them out?

.....

.....

17. What is the present highest and lowest amount that can be offered to a single

Small and Medium scale-Enterprises by your bank

.....

.....

18. Have Enterprises been able to transform their businesses through the credit received from your bank?

Yes [] No []

19. What problems does the bank face in credit allocation?

.....

.....

20. What other services apart from Micro credit does the bank provide for the development of small and medium scale enterprises in your catchments area?

.....

.....

21. Assess the performance of Juaben Rural Bank in the development of small and medium scale enterprises in the study area?

- | | |
|-----------------------|-------------------|
| a. Excellent [] | e. Fair [] |
| b. Very good [] | f. Poor [] |
| c. Good [] | g. Failed [] |
| d. Fairly good [] | |

Please explain your answer in question 21 above

.....

.....

CHRISTIAN SERVICE UNIVERSITY COLLEGE
SCHOOL OF BUSINESS ADMINISTRATION
DEPARTMENT OF ACCOUNTANCY STUDIES

QUESTIONNAIRE DIRECTED TO SMALL AND MEDIUM SCALE.

ENTERPRISE OPERATORS

1. Personal Data

a. Sex Male [] Female []

b. Age

c. Educational Background

2. Location of Business

.....
.....

3. Nature of operation.

a. Commerce []

d. Service Sector []

b. Manufacturing []

e. others (specify)

c. Agriculture []

4. How many people do you employ and how many are paid workers?

.....
.....

5. How did you acquire your trade?

.....
.....

6. How did you get to know the operations of Juaben Rural Bank?

a. Radio []

d. Print Media []

- b. Seminars, for a etc [] e. others (specify).....
- c. Officers from the bank []

7. How did you become a beneficiary of credit allocation from Juaben Rural Bank?

.....

.....

8. What benefit have you derived from Juaben Rural bank?

.....

.....

9. If you have benefited any credit, how much did you received?

.....

.....

10. How did the facility get to you?

.....

.....

11. Has there been credit expansion after you have assessed the fund?

Yes [] No []

12. Did you have to provide collateral security before you were given the credit?

Yes [] No []

a) If yes specify the type of collateral

.....

.....

13. How long were you expected to keep the credit?

- a. I month [] d. 1 year []
- b. 3 months [] e. Others (specify)
- c. 6 month []

14. Was the credit adequate?

Yes [] No []

15. Please explain your answer to question 14 above

.....
.....

16. Have you been paying your credit as and when they fall due?

Yes [] No []

a) If no, what has been the problem as far as repayment is concerned?

.....
.....

17. Have you defaulted in the repayment of credit given you?

Yes [] No []

a. If yes, how were you handled?

.....
.....

18. Have you benefited from the services of the Bank apart from the credit facility?

Yes [] No []

19. If yes state how it helped your business;

a. Increase in turn over []

d. Cut in cost of operation []

b. Increase profit []

e. others (specify)

c. Better management practice []

20. Do you benefit from any other source apart from the credit from Juaben Rural Bank?

Yes [] No []

21. How do you in general assess the operations of Juaben Rural Bank to the development of small and medium scale enterprise development?

- | | |
|-----------------------|------------------|
| a. Excellent [] | e. Fair [] |
| b. Very good [] | d. Poor [] |
| c. Good [] | g. Failed [] |
| d. Fairly good [] | |

Please explain your answer to question 21 above

.....

.....

.....
