CHRISTIAN SERVICE UNIVERSITY COLLEGE

BACHLOR OF BUSINESS ADMINITRATION

THE IMPACT OF ADVANCES TO SMALL AND MEDIUM SCALE ENTERPRISES BY RURAL BANKS ON THEIR PROFITABILITY. EVIDENCE FROM SEKYERE RURAL BANK LIMITED, JAMASI

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DECLARATION

We hereby declare that this submission is our own work towards the Bachelor of Business Administration and that, to the best of our knowledge, it contains no materials previously published by another person nor material which has been accepted for the award of any degree of University, except where due acknowledgement has been made in the text.

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ABSTRACT

The study sought to assess the impact of loans/credit to SMEs by rural banks on their profitability towards the socio - economic development of Ghana. Closed - ended questionnaires were prepared as a major instrument to collect primary data from a sample size of 370 SMEs out of which 70 represents a sample size of the bank (SRB). However, the secondary data made use of financial statements and 'Other related documents from SRB ltd.

It is recognized that the provision of financial services to small and medium enterprises (SMEs) now represents an important growth opportunities, and commercially viable services for financial institutions. Although there was a recognition that access to domestic savings and credit service could help rural households, the poor, petty traders, and indigenous and entrepreneurs to finance production and other socio - economic activities in Ghana, the universal banks rarely extended its services to them, due to rigidissties, perception of high risk, high operational cost, lack of collateral securities for loans, improper records and low business return (Bank of Ghana 2006).

Hence the introduction of Rural Banks to help mitigate the above problems and provide financial services to the rural folks and prospective entrepreneurs. Sekyere Rural Bank Ltd (SRB) is one of the rural banks that provide financial services to SMEs by granting loans in the form of capital formation for most SMEs to commence operations.

The study sought to assess the impact of loans/credit to SMEs by rural banks on the profitability of the rural bank towards the socio-economic development of Ghana. Closed – ended questionnaires were prepared as a major instrument to collect primary data from a sample size of 2872 of which 2850 represents the SMEs and 22 represents a sample size of the bank (SRB). However, the secondary data made use of financial statements and other related documents from SRB Ltd.

The study revealed that, loans or credit from SRB had helped to sustain and develop SMEs through capital formation. It was also revealed that most SMEs in Ghana now access loans from rural banks to expand their business operations. In conclusion, loans or credit from rural banks had had a positive impact on the profitability of SRB ltd.

PURPOSE OF THE STUDY

- ❖ To evaluate the credit policies of SRB Ltd on the SMEs
- ❖ To know the total loan portfolio and how much was given to the SMEs and their recovery and defaulting rates.
- ❖ To know the significance of the loans to the SMEs.
- ❖ To assess the challenges faced by the SMEs.
- ❖ To assess the impact of the SMEs on the economy.

METHODOLOGY

Out of a population of 7193, a sample size of 2850 SMEs and 22 bank officials adding up to 2872were used for the study.

We also used both primary and secondary source of data for the study (Interview/Questionnaire structured), Quantitative and Qualitative description-Tables & Charts.

A non probability sampling (purposive) sampling were also used for the study.

Data Analysis used for the research were,

- ❖ Operating profit margin
- ❖ Short term loan to deposit ratio and
- ❖ Regression

ACKNOWLEDGEMENT

With all humility, we wish to extend our unqualified gratitude to the God for granting us good health, peace and love throughout this research.

We wish to express our gratitude to our supervisor, Mr. Appiadjei Atta Danka Eric for his invaluable assistance to us when we were undertaking this research.

Lastly, our appreciation goes to our course mates, friends and staff of Sekyere Rural Bank Ltd. We are grateful for everything.

DEDICATION

We would like to dedicate this work to God almighty.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The origin of Banking can be traced to the shops of medieval gold smiths who accepted gold deposits and other valuables for safe keeping. People who made deposits of gold were given receipts, which they relied to transact business. These receipts were the origin of Contemporary bank notes. The gold smiths found the work of accepting deposits and issuing receipts more profitable than working as goldsmiths. What made the business attractive and rewarding was the discovery of a banking principle that remains true today. They realized that not all depositors would come for their gold on the same day. Those withdrawn did not draw the bulk of the gold but part of it. Therefore, the gold smith was in a position to lend out the actual gold or print more receipts which they lent out to other people with interest. Consequently, the gold smith stopped charging people for safe keeping in order attracting more people to deposits. The depositors rather were given interest, a situation similar to Bank savings and fixed deposit and other interest earned accounts of today.

The Rural Banking in Ghana did not start in the manner above. It was established by an Act, of parliament. The early Banks were foreign Banks, which saw the establishment of branches in the area of the West Africa where trade was growing in order to get profit. The Banking industry in Ghana consists of the Central Bank or Bank of Ghana, 21 major Banks, 115 rural and community Banks, the major banks consist of Nine (9) Commercial Banks, Three (3) development Banks, Three (3) Merchant Banks, Five (5) Universal Banks and One (1) Apex Bank (a mini Central Bank for the Rural / Community Banks).

Banks are institutions that have been given license to accept deposits and make payment on Client account on demand. They also offer additional Services such as; granting of Credit facilities, assets management, save keeping of valuables and so on. The universal Banks are required to offer banking services to all and sundry. However, most of these Banks are mostly centered in the cities and urban areas. The rural areas are therefore denied of banking services. It is in the light of this that the Bank of Ghana in 1976 introduced Rural Banking in Ghana.

The small and medium scale enterprises (SMEs) are believed to have very limited access to credit and other financial supports provided by the formal financial institutions. The Rural Banks were therefore established among other things, to provide credit facilities to small and medium scale enterprise within their catchment area so as to build solid businesses with good financial base through debt financing or granting of loans.

The Ghana Economy is largely characterized by small and medium scale businesses and is central to the economic development of the country. The small and medium scale businesses support and supplement the role of large scale businesses towards the socio-economic development of the economy by the provision of goods and services to individuals as well as business entities. Many large scale businesses in Ghana started as either small or medium Scale enterprises. Hence the importance of small and medium scale enterprises cannot be downplayed in Ghana.

In recent times many SMEs have engaged in the exportation of finished goods to other countries. They do not only operate in the local markets but also in the international markets to provide products which most large corporations are not able to produce. Most of the SMEs in Ghana are financed by Rural Banks. The roles the rural Banks play in the provision of credit in the socio-economic development of our country cannot be over-emphasized.

1.2 STATEMENT OF THE PROBLEM

The small and medium scale enterprises in the rural areas are contributing greatly to the Socio-economic development in Ghana, especially in the area of job creation. One of the main reasons why Bank of Ghana came out with the establishment of rural bank was to enable the SMEs obtain financial support.

Hitherto, the SMEs were receiving support from small scale Susu collectors, family members and friends who have excess cash funds and are ready to hand them to SMEs on short term basis. All of them were coming with high interest rates, most often than not, about 200%. Asiedu mante (2011).

The Rural Banking concept was initiated by BOG to enable the SMEs at Rural areas have access to credit especially at areas where the universal banks are not covering.

This study was initiated to observe as to whether the credit support to the SMEs by Rural Banks is yielding any impact on the business of the Rural Banks.

It is expected that, the study will constitute to death of knowledge in this area which have not received much attention over the years.

1.3 OBJECTIVES OF THE STUDY

- To analyze the impact of loans to SMEs from Sekyere rural bank on their operating profit margin over the last 3 years.
- To determine the challenges the small and medium scale enterprises face in accessing loans /credits from rural banks.
- To examine the challenges encountered by rural banks in granting loans/credit facilities to small and medium scale enterprises.

1.4 RESEARCH QUESTIONS

1. What impact has loans from Sekyere rural bank ltd had on their operations?
2. What challenges have SMEs encountered in assessing loans from Sekyere Rural Bank Ltd?
3. What challenges do the rural banks encounter in granting loans?

1.5 SIGNIFICANCE OF THE STUDY

The significance of studying credit facility to SMEs will have an impact on;

- The Researcher

It makes the beginning of our contribution to knowledge

- The bank

To motivate the Bank to do more because, their contributions have been recognized by the academic world. The recommendation would have some policy implications which will enable them improve upon their operations.

- The community

How the bank has contributed to the growth of SMEs and employment among others

- SMEs

How credit have impacting on the business of the SRB ltd.

It will enable them to understand the correlation between profitability and credit

- The economy as a whole

Increase in economic growth

Reduce the rate of unemployment

1.6 LIMITATION OF THE STUDY

1. Access to data were not forthcoming and hence it caused the delayance of the study
2. Because this study was combined with work and studying, time was a problem
3. We could not visit Sekyere rural bank ltd, APEX Bank and other SMEs regularly due to financial constraints.

1.7 ORGANIZATION OF THE STUDY

The study is organized into five main chapters.

Chapter one takes a look at the background of the study, this consists of the introduction, statement of the problem, objectives of the study, significant of the study, scope and limitation of the study.

Chapter Two deals with the literature review.

The Chapter three also deals with the research methodology used in the study.

The chapter four looks at research findings, analysis and discussion.

The study ends with chapter five which looks at the summary of findings, conclusion, and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 DEFINITION OF CREDIT

Credit has been given various definitions by different authors. The international dictionary of management defines credit as borrowing up to a certain amount given by financial institutions like the bank to an individual or an organization. According to wood (1983), credit is derived from a Latin word "credre" which means belief. From this, he defined credit as an expression of belief in a person's ability and willingness to repay a loan.

Miller and Van Horne (1993), consider credit from two dimensions; First, they see it as an asset and secondly as a liability. To them, credit represents a future receipt to the lender and as a future obligation to the borrower. They therefore defined credit as a transfer of title for real goods and services.

Lidger Wood (1993) in his contribution to the definition defined credit as; "borrowed funds with specified terms of repayment".

From the above definitions and explanations, credit can be defined as granting of a loan/facility to a customer by a bank with agreed scheduled terms of repayments.

2.2 FORMS AND IMPORTANCE OF CREDIT

The bank of Ghana credit manual states that, credit facilities may be granted for the purpose of conducting or carrying on developing or improving farming, fishing, industrial and commercial operations to benefit the community. It further indicates that, credit faci1ities may also be extended to maintain the efficiency of eligible borrowers in connection with their health, education and subsistence. Commenting on the importance of the lending function, Crosse and Hampel (1980) argue that, traditionally and practically, the foremost obligation of a bank is to supply the credit needs of individuals and business enterprises including farm operations, Rose and Korari (1995) in their contributions touched on the significance of quantitative contributions of lending to the banks income, as well as the important role it plays in the social functions that banks perform in the economy.

For a full realization of the above benefits, the bank of Ghana credit manual recommends two forms of credit to all rural banks. The first is loan credit, the second type is the overdraft, thus an amount a customer is to draw over and above his or her normal deposit with the bank. Interest is charged only on the excess amount overdrawn. It is usually granted to the current account holders.

In addition, Valentine and Mc McCarthy (1995) further observed discounting bills as a third form of credit that is when a holder of a bill wants money from his bank, he can send the bill to his bank and collect money in return. The amount he gets in return from the bank is less than the face value of the bill. The difference between the face value and the amount taken is called discount charge for performing such a service.

2.3 RISK ASSOCIATED WITH LENDING

Like all other investments, lending is also prone to some level of risk. Risk is defined by H.B. Mayo (1984) as the uncertainty that the anticipated return will be achieved

Lidger wood (1993) identified five different types of risk associated with the operations of any financial institution. They are credit risk, interest risk, foreign exchange risk, capital adequacy risk and Fiduciary risk. Out of these, she picked credit risk as the most important of all and is of most relevance to this study.
Credit risk according to Rose and Korari (1995) is the possibility that borrowers wil1 default in repaying loans taken. The general fact that risks are unavoidable in any investment of any sort is well accepted. The question left to be tackled however is the determination of trade-off point for risk and return. The extent of risk of default in the rural sector has deterred most commercial banks from venturing the sector. This point was confirmed by Dr. Frank Mwine, a former world bank expert, in January, April 1995 edition of the African fanner's magazine.

He observed that, it is very difficult to find any literature on rural credit which concluded that it is a mistake to lend to the rural farmers. Furthermore, it was reported in the daily graphic issue of 1998 that only 2.3 million out of a total of 24.5 million given out as loan to farmers in the Afram plains in the Eastern region of Ghana had been recovered.

In the same issue, there was a report that, of the 88 tractors costing 5 million each, acquired under the sponsorship of food and Agriculture organization (FOA), Italian Government and United Nation Development program (UNDP) was sold on credit to farmers in (1996), only a little improvement in the payment had been recorded as at 1996.

2.4 CREDIT MANAGEMENT

Cary Forth (1996) contends that attempt to define management is doomed to be failure, mainly, because it diverse and continually changes. Despite this, there has been several attempts by various authors to give own definitions. Stoner and Freeman (1995) defined management as the process of planning, organizing, leading and controlling the work of organization's members and using all available resources to reach a stated goal.

Megginson, True blood and Rose (1950) also defined management as an economic concept. It is the process of working through respondent to achieved objective by means of effective decision of scarce resources.

Relating the above to the context of banking, Hampel, Simpson and Coleman (1994) believe that whatever the degree of risk taken, loans losses could be minimized by organizing and managing the lending function in a highly professional manner. To sum up, credit management could be defined as a systematic planning and organization of all available defined bank resources to grant credit in highly professional manner so that, profitability and the economy's ultimate security of the bank's asset is not sacrificed.

2.5 PROCEDURES INVOLVED IN LENDING

Gup Fraper and Korari (1989) maintained that, failure is usually the result of reckless lending, lack of diversification or both. To this end, Hampel, Simpson and Coleman (1994) wrote that effective organization and control of the lending function are vital to the profitability and default solutions of every bank. Writing in support of the need for the proper lending procedures, Corse and Hampel (1990) recommended the formation and implementation of sound lend policies and so, considered these to be among the most important responsibilities of bank directors and management.

On their part, Rose and Korari (1995) believed that before establish.ing a loan policy, tide institution need to be concerned about how individual applicants are evaluated.

2.6 LOAN POLICY

Rose and Korari (1995) outlined the following components;

2.6.1 Objectives

Development and re- examination of loan policy provide directors with the opportunity to evaluate the role of the bank in community's economic development. It is a support to businesses and other important issues.

2.6.2 Trade Areas;

Both primary and secondary areas should be designed to instruct loan officers on the bank's geographic priorities. The bank should define the area to provide service routinely by each officer. Set limit on loan participations with other banks" customers outside the area; process any other loan as an exception to policy (Hampel, Simpson and Coleman).

2.6.3 Loan Volume

Bank management must allocate funds to meet reserve requirement as well as satisfying anticipated liquidity needs because of deposit withdrawals. This loan portfolio also, will be affected by the credit needs of the community as well as the ability to meet these needs (Rose and Korari, 1995).

- **LOAN MIX;** the mix of credit and loans by the bank to the customers, is to emphasize what might be an appropriate balance of each type of loan and credit in the portfolio needs of the customers should be specified. Such specifications should be made with regards to demand of the local economy, as well as the size of the bank and expertise of its management (Rose and Korari, 1995).
- **CREDIT STANDARDS**; Loans policies should indicate both desirable and undesirable types of collateral. It should further indicate circumstances in which unsecured lending is prohibited. The quality and liquidity of collateral must be verified. Maximum loan to collateral value ratio should be applied before a secured loan is approved (Hampel, Simpson and Coleman, 1994).

2.7 LOAN AUTHORIZATION AND APPROVAL

The policy should establish lending loans officers and combination of officers and loan committees (Hampel, Simpson and Coleman).

2.7.1 Credit Analysis and Appraisal

According to Maness (1998) to talk of credit analysis is to talk of the process of deciding whether to extend credit to a customer. He outlined certain individual traits that must be used for such analysis, which he referred to as the 3Cs. These are, the customers' character, capacity to pay, collateral to support the loan granted. Easy recovery, as well as reduce to the barest minimum of risk associated with lending.

2.7.2 Loan Review and Evaluation

Simpson, Hampel and Coleman (1994), Suggested that, the loan policy should require diligence on the part of all loan personnel to detect and correct problems. They further identified certain indicators to aid loan officers in the early detections of loan problems. These include deposit balance and the occurrence of overdrafts, late payment of principal and interest and delays in the submission of periodic financial statement.

Crosse and Hampel (1980) also emphasized the need for periodic credit review by both large and small banks. They noted that the heart of the review function should be the credit file which the bank's written records of its investigation on borrowers and its business transactions are kept, it is a bad practice for the directors to allow only the loan officers' to review the loans made. It should be done by both the loan committee members and the credit officers.

Assigning reasons to this, they acknowledged the possibility of taking certain vital facts from the fill.

2.8 THE REGULATION FRAMEWORK OF RURAL BANKS

Various statues, regulations and the common law control the formal and informal functions of rural banks. Among the masses of the written laws, those which affect rural banks are;

- Companies code of 1963 (Act 179).
- Banking Act of 2004 (Act 634).
- The bank of Ghana Act 1963 (Act 182) and the bank regulation of 1963.
- Acts extracted from Dr. Kwaku Addeah (1989)

2.9 REGISTRATION OF RURAL BANKS

With the completion of the acquisition of capital, business premises and drafting of regulations, the rural banks which are public companies must be registered with the registrar general's office, in accordance with section 14 of the companies code. Upon registration, the registrar will issue a certificate of incorporation, which is conclusive evidence that all the requirements of the code in respect of registration has been complied with and that the rural bank has duly been registered under the code. After incorporation, the promoters of the bank should apply for banking license from the bank of Ghana in fulfillment of the requirement under section 2(1) of the banking Act of 2004 (Act 634) the rural bank is required under section 27 of the companies code of 1963 Act 179) to obtain a certificate of commencement of business from the registrar general's office. This certificate empowers a rural bank to start operations (Dr. Addeah, 1989).

2.10 SUPERVISION OF RURAL BANKS

In the course of operations, rural banks are subjected to bank of Ghana and the ARB Apex Bank supervision. The Bank of Ghana Act, 1963 (Act 182) empowers the bank of Ghana and the ARB Apex Bank to supervise the activities of the rural banks. The supervision is the form of demanding periodic submission of returns to the registrar generals' office and regular visit by the bank of Ghana and ARB Apex officials. Rural banks are expected to submit a weekly statement of reserve assets, deposit and liabilities in the form of balance sheet called Bex 7 and quarterly returns on loans and overdrafts. The companies' code also requires the rural banks, being public entities to prepare and submit to the registrar general about its board of directors.

2.11 THE CREDIT FUNCTION OF RURAL BAATKS

The rural banks are obliged to grant credit facilities to its customers for projects and other legitimate business activities within the communities they serve or operate. Aside that, the bank of Ghana credit manual for rural banks outlines other objectives of the rural banks. These include; Savings mobilization, profit realization and its plans to raise the standards of living of the rural folks.

The manual further specifies certain requirements that must be fulfilled by the applicants.

Firstly, the applicant must be a customer of the bank for at least six (6) months, holding either a savings, current and Aku Sika accounts. The personal traits of the applicants must be assessed before giving out the credit. These are integrity, honesty and the reputation of the applicant in the community.

Secondly, the applicant must demonstrate the processing competence. In other words, the applicant must appear to be physically and mentally sound and must not possess any questionable history regarding debt repayment.

Lastly, the applicant must show actual need for the credit by giving a convincing description of the purpose for which the credit facility is applied for, the amount and the loan needed must be specified. The applicant is also expected to explain the source from which repayment of loans hall be made. In the case of group loan, the leader must satisfy the above requirement and the rest who do not have an account with the bank must be made to open a savings or current account together with the loan application of the group. For government agencies and members of board of directors of the rural banks, the applications shall be referred to the bank of Ghana for clearance.

Agriculture loan; for a farmer or an organized group of farmers who are into the cultivation of vegetables and staple crops, the acreage under cultivation should not exceed ten (10) acres and hundred (l00) acres respectively. Commercial overdraft, the applicant should be a retailer or a wholesale merchant known in the community and operating a current account with the rural bank.

2.11.1 ENDING PROCEDURES I RURAL BANKS

The bank of Ghana credit manual contains the mandatory sector allocation priorities set in the guidelines established by the bank of Ghana, these are;

- Agriculture; A minimum of 50% of total credit.
- Cottage industry 30% approximately and
- Trade and transport 20% maximum.

The project officer is responsible for studying all applicants, arranging for an appraisal or implementation visit. Completing the application and appraisal report and make recommendations as to whether or not an application should be considered. The approval process is the responsibility of the manager if the amount is within authority limit. If it exceeds, he forward it the chief executive office or to the loan committee or at the board meeting.

2.11.2 Credit Life Time

The following comprises the various credit periods.

- Establishment and running period; which ensures the utilization of the borrowers own 50% contribution and that all the other requirements are observed.
- Operational period; this is the period when actual monitoring has to be done until the loan, overdraft has been fully recovered.

Review period; the manager at least in every month has to go through the loan current, savings or Aku Sika accounts to make sure that repayment has been made and recorded. He must observe the progress of the creditor's undertakings on the projects financed by the bank. In case of default, the manager has to take action. (Extract from the bank of Ghana manual).

2.12 OVERVIEW OF ENTERPRISE

No single definition has been given to the small and medium scale enterprises, as a result of the difficulties encountered in trying to give a clear distinction between what a large or small business is. The existing definitions for small and medium-scale enterprises are contextual and differ from country to country, sector-to-sector as well as industry-to-industry. Usually, the definitions are bases on the capital involved, the number of employees, the volume of sales and the volume of production. The small business Administration of United States (SBA) defined a small and medium ltd business based on sales volume and the number of employees in the firm. The SBA affirmed that the number of employees in a manufacturing small business should be 250 or fewer and the annual sales for wholesaling, retailing and service firms should range from $9.5 to $22million, $2 to $7.5 minion d $1.5 to $l0 million respectively (Hodgetts and Kuratko, 2010

In Ghana, the National Board for Small Scale Industry uses the size of the workforce and the amount of investment to define SMEs. According to NBSSI, a small business in Ghana is the one that employs 6-29 employees and has investment which does not exceed $100,000. The micro business is the one which employees up to 9 employees with a maximum capital of $10,000. The medium scale enterprise employs from 30 to 99 with a maximum capital of $100,000. The large scale business employs above 100 employees. (An analysis of small and medium scale enterprise survey in Ghana final report 2006 submitted by MEL Consult limited)

From the various definitions, it is clear that small businesses have relatively small number of employees, however the number of employees considered as small in the developed countries might be considered as large in the developing countries. For example, the Small Business Administration of United States (SBA) reported that the number of employees in a business ranges from 100 to 500 employees. Firms with less than 20 employees were considered very small; those with 20 to 99 employees were viewed as small; 100 to 499 employees were also considered as medium sized and business with more than 500 employees as large businesses. (Hodgetts and Kuratko, 2001).

Small businesses can be in the form of a sole proprietorship, which is managed by barely one person or a partnership, which is an association of two or more people who come together to form a business with a profit motive or a private company and a co-operative society. Small and medium scale enterprises can further be classified under the following sectors; Service, wholesaling, Retailing, Manufacturing or production. Service businesses are the small businesses that render services to individuals as well as other businesses with the objective of making profit Avorkpoh (1996) noted that example of small service businesses are advertising agencies, travel agencies, laundries, motels and hotels, hairdressing, tailoring and dressmaking. He further asserted that the service businesses are characterized by their relatively small size in terms of the employees' base.

The small businesses that engage in wholesaling act as intermediaries between manufactures in large businesses and retailers. The products they sell according to Corman and Lussier (1996) include assorted grocery products, building and electrical appliances, farm produce, machinery, tools, parts, accessories equipment etc. Small businesses under the retailing sector sell their products to the final consumers. Music store, restaurants, independent supermarkets, boutiques, stationery stores, pharmacy shops, grocery stores, food retail outlet among others are good examples of small retail businesses. Stillman (1983) identified the small businesses in the manufacturing sector as those that transform raw materials and other inputs into finished goods. He noted that the businesses under the manufacturing sector are the ones that require more funds in order to procure the necessary equipment and machinery for their production. Examples of such businesses are firms that engage in basketry, pottery, distilling of local drinks, weaving, textiles and garment production (tie and dye, batik fabrics), cosmetics, food processing to mention but a few.

2.13 IMPORTANCE OF SMALL AND MEDIUM - SCALE ENTERPRSES IN THE ECONOMY

The small and medium- scale industries over the years have contributed greatly to the balance of payments, Gross Domestic product and other aspects of the economy, Lawrence, John and Dobald, (1968) noted at the small and medium-scale business represents a significant and vital force in every economy. They identified that every unit of their contributions were recognized as; manufacturing of products to meet customer's needs, provision of vital services, they serve as sources of income for their owners and contribute to the gross national product and gross domestic product of the economy. 'Small and medium businesses provide employment opportunities to many people '(Avorkoh, 1996 pg.6l). Avorkpoh argue that, the small and medium businesses help in the reduction of the social problem of employment in the economy, since many people who would have been unemployed are engaged in various forms of small business activities. He also noted that most people after re-deploy themselves in a small and medium scale business serve as a second job for many people.

In Avorkpoh's (1996) view, because small and medium scale businesses are flexible in their innovations and decisions making stages, they are able to bring out new products that expand the consumer's field of choice. In terms of innovation Hodgetts and Kuratko (2001) added that small and medium firms play an important role in the introduction of new goods and services to the market place. They further noted that the small businesses produce about 55 percent of innovation.

To Megginson, Byrd, Scott and Megginson (1994) small and medium scale businesses maintain close relationship with their customers and suppliers thereby

possessing intimate knowledge of their communities leading to the provision of specialized products to meet their needs.
Hisrich and Peters (2002) noted that because small firms usually operate in the local areas and thus have adequate knowledge of the needs of the people in the community in which the businesses operate, they serve as niches that stand ready to satisfy the needs of a particular market segment which larger firms may find unattractive.

According to Avorkpoh (1996) small and medium scale businesses supply the needs of large corporations. In his view, outputs of small and medium -scale businesses in some occasions serve as inputs for large-scale businesses. Hisrich and Peters (2002) asserted that small businesses serve as vitally important suppliers of some specialized intermediate goods that some larger businesses use in the production of other goods. Small and medium scale businesses also keep the larger corporations competitive in terms of price, design and efficiency by the introduction of new product in the market. In Ghana, many small and medium scale businesses serve as vocational training centers, where individuals acquire the knowledge and experience to establish their own businesses (Nimarko, 1995). Avorkpoh (1996) noted that small and medium scale businesses serve as a point of entrepreneurial skills and development, and one is likely to develop better methods of handling certain business problems. This he said may result in inventions of all kinds of ideas and products to boost the country's technological base desired for economic development.

2.14 THE NEED FOR FINANCING

"Financing is basically the process of making funds available to the businessman in the right amount, at the right time and at the right cost possible" (Avorkpoh, 1996 pg60). Corman and Lussier (1996) defined financing as the process of obtaining the necessary money to operate a business. They added that financing involves making decisions with regards to planning, raising, Managing and conserving capital necessary to carry out the business operations.

One of the main reasons why small and medium scale businesses fail is inadequate financing. A Minolta corporation's survey on why small and medium scale businesses fail is as a result of inadequate financing. Out of the 703 businesses with less than 500 employees surveyed, 48% attributed to failure of inadequate financing. (USA today, march 13, 1987 p13). Quite often, new businesses are not able to survive because of financial problems. Existing firms usually experience financial difficulties due to their inability to finance the investment required to support sales growth.

Finance is considered as the lifeblood of every business and in view of this both new and existing small and medium scale businesses require financing for a variety of needs as they develop over time. Small and medium scale businesses need financing for establishment, operations and expansion of the business. It must be noted that often these needs depend on the kind of business engaged in, the rate of growth and the stage of development.

Fred L Fry (1981) in his book, "Entrepreneurship: A planning Approach “noted that small and medium scale enterprises need financing for a variety of uses. He identified some of the uses of funds as start up expenses, which include remodeling facilities, initial inventory purchases, marketing expenses and any other expenses that could be identified as overhead. In the case of exporting, small and medium-scale enterprises access to adequate trade financing is a major component of successful export transactions. Zimmerer and Scarborough (2000) identified two basic needs of capital for the small and mediums scale enterprises namely; fixed capital to purchase permanent or fixed assets such as buildings, land, computers and equipment. They emphasized that capital of such nature are usually high and once invested cannot be used for any other purpose.

Working capital on the other, is "the capital used to support a business normal short term operations" (Ibid pg.383-384). Working capital is used to buy inventory, pay bills, finance credit, pay wages and salaries and take care of unexpected emergencies.

Avorkpoh (1996) noted that small and medium scale enterprises need two different types of funds or credit; short term and long-term funds. First, the business must have long term fund or credit that will provide the necessary working capital and initial expense money; he added that short-term financing refers to funds or monies that are to be repaid within a year or less. Consequently, small and medium businesses need short-term financing to run the day-to-day operations of the firm and usually to meet the seasonal fluctuations of inventory.

Hodgetts and Kuratko (2001) defined short-term fund as the loan to be repaid with a period of one year. In their view, the most common forms of short-term funds are trade credit and short-term bank loans and this is helpful when the small and medium business owners have a temporal need for more capital.

Long-term finance is needed to meet long term expenditure such as purchasing of assets like a piece of machinery, land or building and renovation of premises. (Zimmerer and Scarborough, 2004)

2.15 TYPES AND SOURCES OF FINANCE

Among the challenges that small and medium scale business owners' face is where to turn to for external funding and at what time and cost. Several researchers have identified the two main types of external funds as equity and debt finance. (Hisrich & Peters, 2002; Hodgetts & Kuratko, 2001; Megginson et al, 994). Small and medium scale enterprise owners can borrow money (debt financing) Gris.-sue common stock (equity financing) to raise funds for the business. However, most small and medium-scale businesses are unable to raise funds through the issuance of stock due to numerous requirements imposed by the security and exchange commission (SEC) and the Ghana Stock Exchange.

Hisrich and Peters (2002) defined equity financing as "obtaining funds for the company in exchange for ownership" (pg.366). The authors identified the various sources of equity financing as personal investment, Small Business Investment Companies (SBICs) and customers. They further asserted that, equity financing unlike debt financing does not require the pledging of any security or collateral. However, the investor is entitled to an ownership interest in the business. Debt financing is a financing method involving interest bearing instrument, usually a loan that should be repaid at a predetermined date. The major sources of debt capital for the small and medium-scale business include funds from personal savings, friends and relatives, venture capital, investors; internal funds trade credit, commercial banks rural banks, small business administration and other private source such as insurance companies, finance companies and other factors.

CHAPTER THREE

3.0 PROFILE OF SEKYERE RURAL BANK LIMITED

Sekyere Rural Bank Ltd was set up and commissioned in 1983 at Jamasi in the Ashanti Region of Ghana. The Bank was to play an intermediary role between surplus funds holders and those in need of funds for their economic activities in the community. Indeed Sekyere Rural Bank Ltd is dedicated primarily to the mobilization of resources from its operational areas for lending to individuals, groups, small and medium scale enterprise. The Bank is registered Under Ghana's Companies code 1963 (Act 179) and licensed under the Banking Law 2004 (Act 673) to operate the business of banking.

The mission of the bank "is to be a unique financial service provider in the rural and pre-urban areas in Ghana, propelled by a motivated work force, customized products and superior customer service than our competitors and sustaining the payment of returns to our shareholders as well as being seen as a vehicle for development in our operational area."

The vision of the bank is to provide banking products and value added services through advanced technology and offer quality customer service than our competitors.

Since 2004 the bank has consistently won awards and honors both within and outside Ghana.

CHAPTER THREE

3.1 INTRODUCTION TO METHODOLOGY

The research methodology described how the result of the research undertaken should be analyzed. The major aim is to identify problems, analyze and make the report available for the benefit of those who are concerned and also provide information as primary source for the consumption of the society. The research gave us correct clarification of the mode being used knowledge about the nature of abstractions, research design and method of analysis.

Methodology brought out the scope of how the whole study was undertaken, the procedure, the challenges that was encountered and how best they were resolved. In this chapter, procedures used in collecting and analyzing data will be discussed, it starts with the over view of public perceptions for job performance in the banking sector, the difficulties and challenges that Sekyere rural bank faces in granting loan and theoretical undermining the methods employed in gathering data for the research.

3.2 RESEARCH DESIGN

This study showed qualitative and quantitative research which is concerned with collecting and analyzing numerical data; This research therefore assessed the actual impact of credit / loan from rural banks in financing small and medium scale enterprises.

Information was retrieved from groups, individuals and staff of Sekyere rural bank that were part of the population. The data for the study was obtained from annual reports and financial statements of SRB ltd. We also administered questionnaires to SMEs and staff of SRB ltd.

3.3 POPULATION

The targeted group of people for the research was all the small and medium scale enterprises who operate with Sekyere Rural Bank ltd and the staff of SRB ltd. These consist of 7048 SMEs and 145 staff of SRB ltd adding up to 7193.

3.4 SAMPLE AND METHOD

In as much as the researchers cannot conduct a hundred percent research on the population, a representative sample was selected for the research. The processes of sampling helps to limit the study to a relatively small portion of the sampling frame know as sample. The study was limited to only the small and medium scale enterprises of SRB Ltd. A stratified and random sampling was employed in selecting the sample.

This method was used to select the sample because the population was homogeneous and has definite class which involves only the SMEs. Thus making the population sampled truly representative.

Out of the population of 7048 SMEs, a random sampling of 2850 representing 40% was used. They were divided into strata as fellows; 500from Jamasi branch, 400 from Agona branch, 280 from Ntonso branch and 360 from Mamponteng branch, 470 from Ahwiaa branch, 480 from Abrepo branch, 260 from Afrancho branch and 100 from the Kronom branch.

Out of the 145 staff of SRB ltd, 22 of them representing 15% of the population were used. These consist of the chairman of credit committee, 2 credit officers, 3 micro finance officers, 8 branch managers and 8 operation officers.

3.5 TYPE OF DATA USED

Both primary and secondary data were used for the study. The primary sources used in the collection of the data for the study were questionnaires and interviews. The questionnaires were meant to collect data from rural bank officials. Open and close-ended questions were used in the questionnaires to collect information from SMEs and staff from SRB ltd.

The secondary sources were the annual reports and financial statements from SRB ltd.

3.6 MODEL FOR ANALYSIS

3.6.1 Regression Equation

To assess the impact of credit/loan from SRB Ltd in financing the SMEs a simple regression equation was used. The regression equation used by Cur win (2007) was adopted and modified as follows;

$$\mathbf{Y = a + bx + e}$$

Where the dependent variable is designated by Y (Operating profit margin), ***a*** is the constant variable, ***b*** is the gradient and ***X*** is the independent variable (Short term loans/Deposit), changes in X causes changes in Y. The term ***e*** represents the effects of any variable not included in the equation (error).

The study expects a positive relationship between operating profit margin and short term/ Deposit ratio. If interest income or short term loans perform well and increases, it will increase deposit of the organization. If the loans do not perform well, it will be written off and hence decrease total deposit.

If loans increased or decrease it will intend increase or decrease Share holders' fund or net asset.

Hence, there is a correlation between short term loans and operating profit

CHAPTER FOUR

RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

4.0 INTRODUCTION

The number of questionnaires that were sent out was 500 out of which 450 responded representing a response rate of 90%. The expected responses from both the SMEs and the Bank officials were; 100 responded from Jamasi branch, 50 from Agona branch, 40 from Ntonso branch, 90 from Mamponteng branch, 85 from Ahwiaa branch, 100 from Abrepo branch, 15 from Kronum branch and 20 from Afrancho branch. However, the actual responses that were received from the various branches were; 91 responded from Jamasi branch, 46 responded from Agona branch, 34 responded from Ntonso branch, 80 responded from Mamponteng branch, 81 responded from Ahwiaa branch, 96 responded from Abrepo branch, 12 responded from Kronum branch and 18 responded from the Afrancho branch respectively.

However, since the sample size of 450 needed was obtained, the remaining nine were ignored. The data collected was analyzed by the researchers using micro soft excel. The rate of response for the questionnaire from respondents were above 90% and this was in line with Williams' et al (2002) who asserted that, an average rate of responses for questionnaires must fall between 41% and 100% to be able to analyze the results.

However, the researchers used ratios to analyze the secondary data. These consist of the financial statements from SRB Ltd and the SMEs. Below is the analysis of the secondary data collected?

4.1. DATA ANALYSIS

4.1.2. Operating profit margin:

Operating profit margin (also called operating margin or operating margin percentage) reflects the profitability of the operations of the business. It is how much out of every sale is left to cover non operating expenses, such as interest and taxes.

Interest income is a financial measure for banks, calculated by the amount of money the bank receives from interest on assets, (commercial loans, personnel loans and aku sika).

Table 1

NO OFYEARS	PBTMILLION ¢	INTEREST INCOME¢
2007	0.612	1.923
2008	0.393	2.123
2009	0.630	3.023
TOTAL	1.635	7.069

Sources: financial statement of SRB

The formula for operating profit margin

$$\textbf{OPM} = \frac{\textbf{PBT}}{\textbf{INTEREST INCOME}} \textbf{ X 100}$$

2007

$$= \frac{0.612}{1.923} \text{ X } 100$$

$$= 31.8\%$$

2008

$= \frac{0.393}{2.123} \times 100$

= 18.5%

2009

$= \frac{0.630}{3.023} \times 100$

= 20.8%

4.1.3 Short term loan to deposit ratio (STLDR)

The formula for the short term loan to deposit ratio is exactly as its name implies, loans divided by deposits.

The short term loan to deposit ratio is used to calculate a lending institution's ability to cover withdrawals made by its customers. A lending institution that accepts deposits must have a certain measure of liquidity to maintain its normal daily operations. Loans given to its customers are mostly not considered liquid meaning that they are investments over a longer period of time. Although a bank will keep a certain level of mandatory reserves, they may also choose to keep a percentage of their non-lending investing in short term securities to ensure that any monies needed can be accessed in the short term.

Loans in the numerator of the formula are investments or assets for a bank. Deposits in the denominator of the formula can be considered the same as debt as the individual depositors are essentially granting monies to the bank with a return equal to the deposit rates and that can be called upon at any time. In these respects, the loan to deposit ratio is similar to a liquidity ratio and debt ratio.

Table 2

NO OF YEARS	SHORT TERM LOAN IN MILLION ¢	DEPOSIT IN MILLION ¢
2007	0.559	O.787
2008	0.600	0.871
2009	0.580	1.066
TOTAL	1.739	2.724

Sources: financial statement of SRB

The formula for the STLDR = $\frac{\text{SHORT TERM LOANS}}{\text{DEPOSIT}}$ X 100

2007

= $\frac{0.559}{0.787}$ X 100

= 71%

2008

= $\frac{0.600}{0.871}$ X 100

= 68.9%

2009

= $\frac{0.580}{1.066}$ X 100

= 54. 4%

4.14 Regression Analysis

Regression analysis was used to determining the actual impact of loans or credits from SRB Ltd in financing SMEs

Table 4

NUMBER OF YEARS	**OPM Y**	SHORT TERM LOANS X	XY	X^2	Y^2
2007	0.318	0.710	0.225	0.504	0.101
2008	0.185	0.689	0.127	0.475	0.034
2009	0.208	0.544	0.113	0.296	0.043
TOTAL	0.711	1.943	0.465	1.275	0.178

Sources: financial statement of SRB

Using the regression formula

Y = a + bx

$$b = \frac{n\sum xy - \sum x \sum y}{n\sum x^2 - (\sum x)^2}$$

$$= \frac{3(0.465) - 1.943(0.711)}{3(1.275) - (1.943)^2}$$

$$= \frac{1.381 - 1.395}{3.825 - 3.775}$$

$$= \frac{-0.014}{0.05}$$

$$= -\underline{\underline{0.28}}$$

$$a = \frac{\sum y - (-b)\sum x}{n}$$

$$= 0.611 \frac{- (-0.\ 28)\ 1.943}{3}$$

$$= \frac{0.711 + 0.544}{3}$$

$$= \frac{1.255}{3}$$

$$= \underline{\underline{0.418}}$$

$$R^2 = (-b) \frac{n\sum xy - \sum x \sum y}{n(\sum y^2) - (\sum y)^2}$$

$$= \frac{3(0.465) - 1.943(0.711)}{3(0.178) - (0.711)^2}$$

$$\frac{1.395 - 1.381}{0.534 - 0.506}$$

$$\frac{0.014}{0.028}$$

0.28+0.50

= 0.78

The coefficient of determination being 0.78 means that 78% of the variability in profitability can be explained by the variability of loans (capital). However, 22% of variation in profitability must be explained by other factors. This computation answers the research question 3 which seeks to determine the proportional change of loans of SMEs. Three results are consistent with several studies that were done in most developing countries. These studies found out that there is a positive relationship between loan/credit (debt) usage and profitability of SMEs. Such studies include Modigliani and Miller in 1958 and corrected in 1963, Ruland and Zhou (2009), Berkivitch and Israel Zhou (1996) etc. These studies found out that, the use of Debt Zhou (loan/credit) was found to increase the value of a firm by reducing the cost of capital and magnifying the returns to the owners.

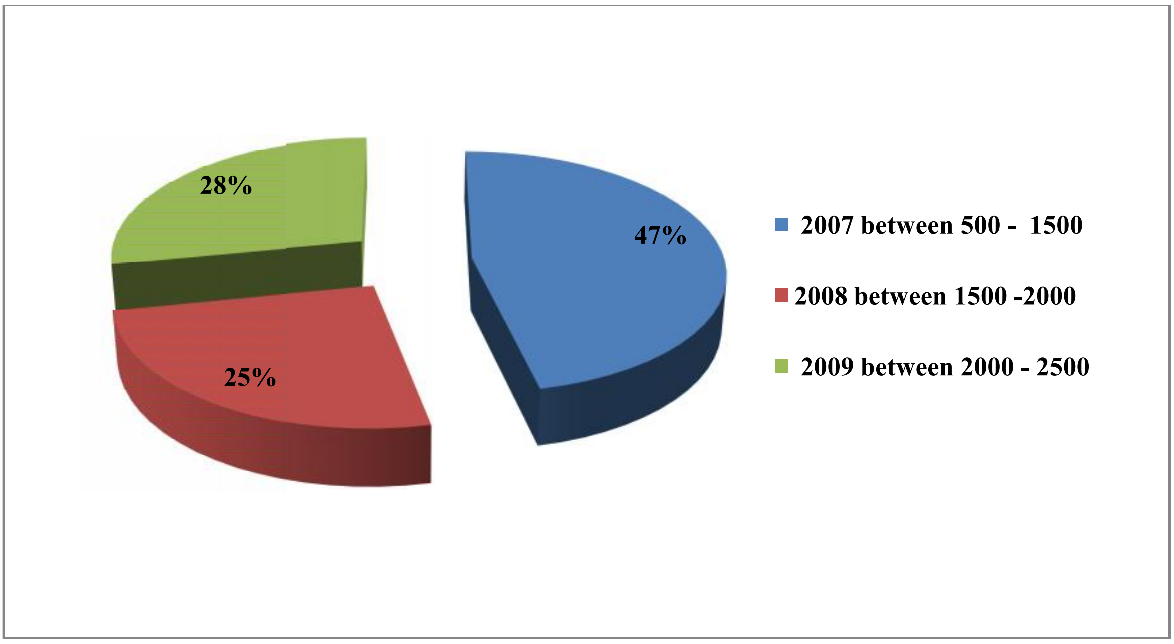
Since the secondary data obtained from SMEs could be deceptive or painted to give a favorable performance of the firm, primary data were also collected to supplement the data analysis to ensure credibility and reliability of the information gathered and beneath were the analysis.

Table 5 and the pie chart below indicate the number of SMEs who benefited from SRB Ltd loans during the period of study. It was revealed that between 500and 1500 SMEs assessed for loans in 2007 representing a cumulative percent of 22.5. In 2008 between 1500 and 2000 SMEs were granted loans from SRB Ltd which represents 12.3 %. 2009 recorded 13.5% of SMEs who accessed loan from SRB ltd. In 2010 between 2500 and 3000 SMEs were granted loans from SRB Ltd representing 26.7%.whilst 25% of SMEs were granted loan between 3000 and 5000 respectively.

Table 5.Number of SMEs who benefited from SRB Ltd's Loans

	Frequency	Percent	Cumulative percent
2007 between 500 - 1500	90	46.6	46.6
2008 between 1500 -2000	49	25.4	72
2009 between 2000 – 2500	54	28	10
Total	**193**	**100.0**	

Number of SMEs who benefited from SRB Ltd's loans



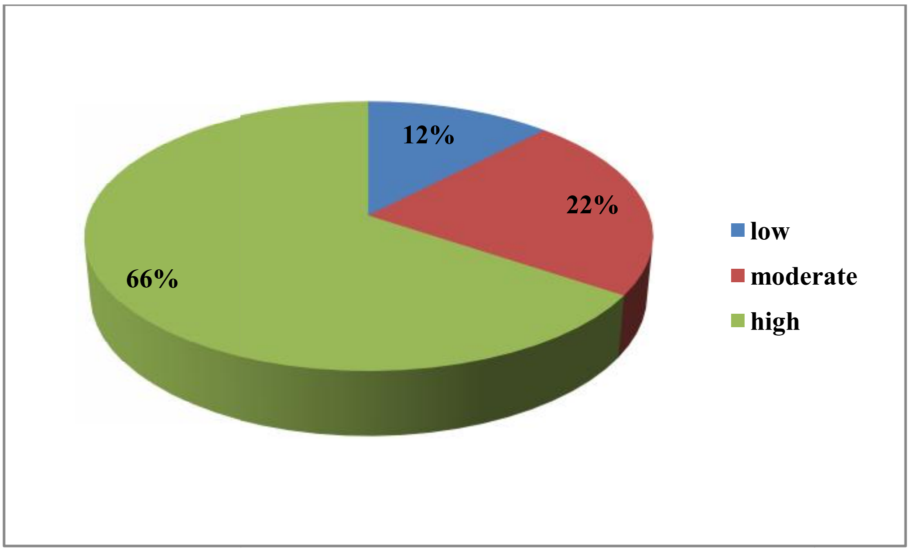
4.2 EFFECT OF LOANS ON BUSINESSES OF SMEs

In assessing the effect of loans acquired by SMEs from SRB Ltd on their businesses, it was revealed from table 6 below that out of 450 respondents, 295 representing 65.6% strongly agreed that loan from SRB Ltd have had higher effect on their businesses. 100 of the respondents agreed to the assertion that, the effects had been moderate representing 22.2% of the total respondents. 12.2% of the respondents agreed that, the loan from SRB ltd has low effect on their businesses. It is demonstrated in figure 4 below.

Table 5 Effect of loans on business of SMEs

	Frequency	Percent	Cumulative Percent
Low	55	12.2	12.2
Moderate	100	22.2	34.4
High	295	65.6	100.0
Total	**450**	**100.0**	

Figure 5 Effect of loans on businesses of SMEs.



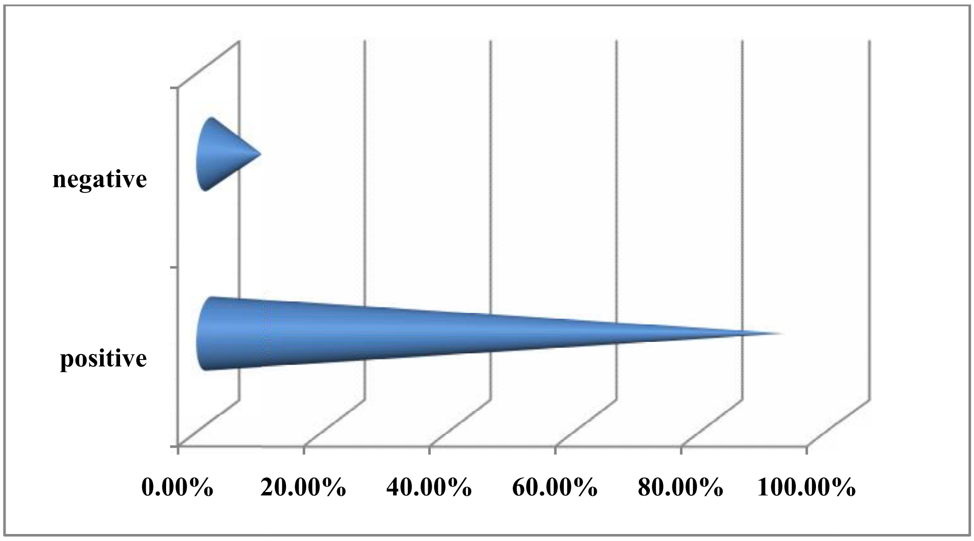
Source: Field work 2012

The researchers went further to find out the impact of loans form SRB Ltd on SMEs, it was discovered from the table 7 below that out of the total respondents of 458, 419 of the respondents agreed that the loan had positive impact on their businesses, representing 91.5%. 39 respondents indicated a negative impact of loans on their businesses, representing 8.5% as shown on the table below

Table 6: Impact of loans from SRB Ltd on SMEs

	Frequency	Percent	Cumulative Percent
Positive	419	91.5	91.5
Negative	39	8.5	100.0
Total	458	100.0	

Figure 5: Impact of loans form SRB on SMEs



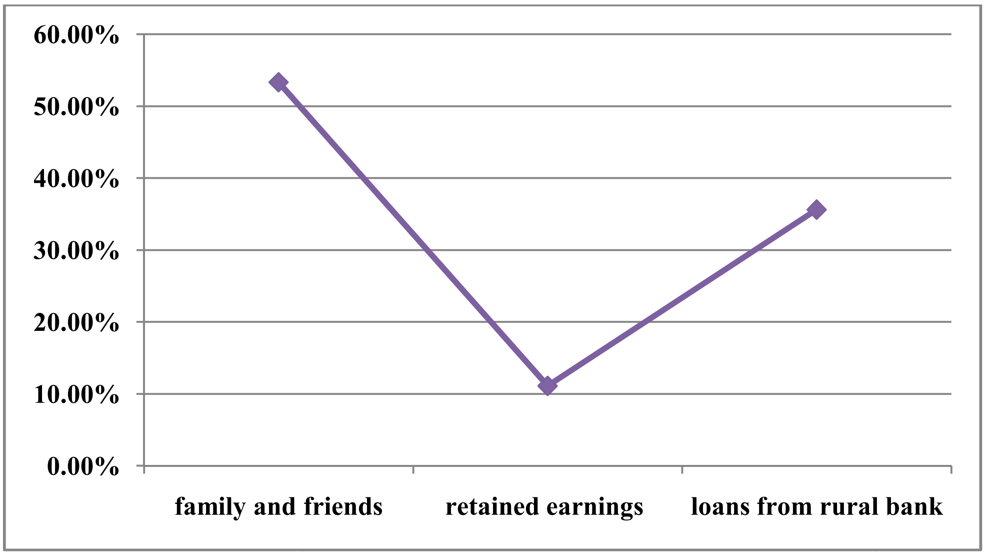
Source: Field Work 2012

4.3 FINANCING OF SMEs

Table 8: Financing of SMEs

	Frequency	Percent	Cumulative Percent
loans from rural banks	240	53.3	53.3
Retained earnings	50	11.1	64.4
Family and friends	160	35.6	100.0
Total	**450**	**100**	

Figure 8: Financing of SMEs



Source Field work 2012

The figure above portrays how SMEs were financed. Out of the 450 respondents 53.3% confidently responded that, their businesses were financed by SRB Ltd loans representing 240 of the total responds. 50 respondents constituting 11.1% indicated that, retained earnings were their main source of financing. In addition, 160 respondents representing 35.6% were financed through family and friends. As depicted in the above figure 5.

4.4 BUSINESS EXPANSION

The views of SMEs were solicited as to whether the loan from SRB ltd had expanded their business activities. It was shown in the table 6 below that, out of the 450 respondents, 93.6% representing 421 respondents had indicated a drastic expansion on their business activities. Only 29 of the total number of respondents constituting 6.4% expressed no expansion on their business activities.

Table 9: Business Expansion

	Frequency	Percent	Cumulative Percent
Yes	421	93.6	93.6
No	29	6.4	100.0
Total	450	100.0	

Source: Field Work 2012

Figure 6: Business Expansion

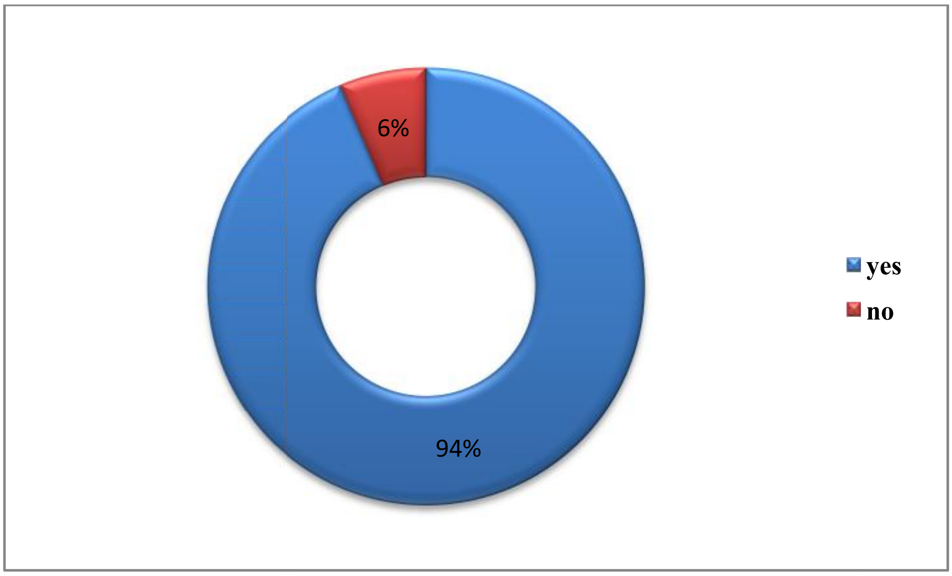
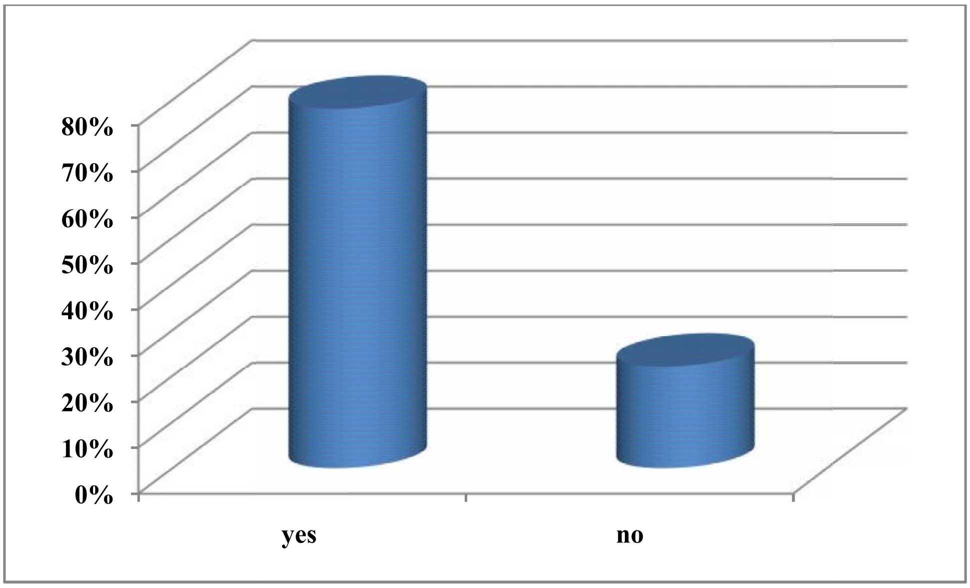


Table 10: Repayment of loans

	Frequency	Percent	Cumulative Percent
Yes	351	78	78
No	99	22	100.0
Total	**450**	**100.0**	

Figure 10: Repayment of loans



Source: Field work 2012

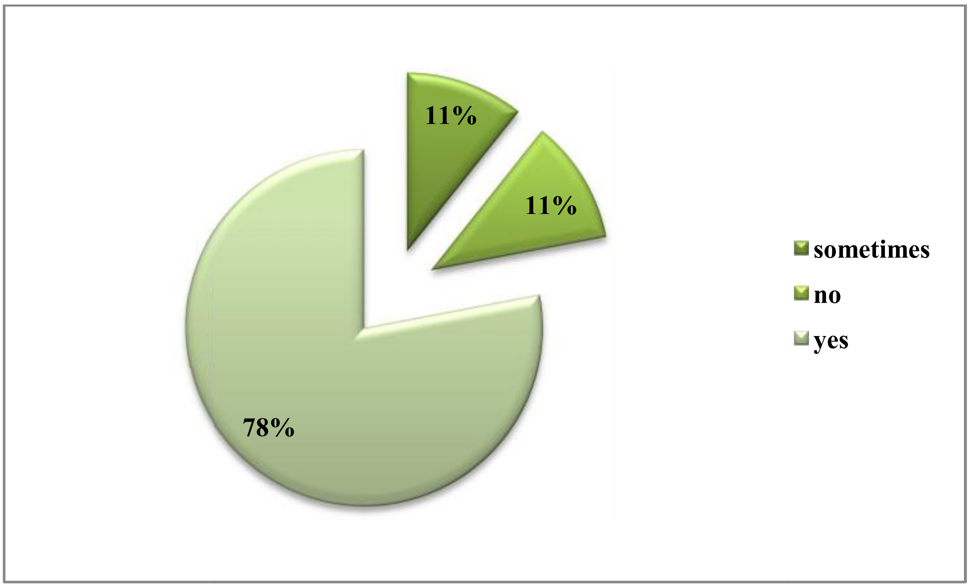
4.5 REPAYMENTS OF LOANS

The above figure shows how clients responded as to whether they have ever defaulted in payment of loans from SRB ltd. The finding indicated that; 78% of the clients have been able to repay the loans granted. 22% that is (99) respondents of the total number of clients were defaulted in payment, as been shown in the bar chart above.

Table 11: Investment of entire credit in the business

	Frequency	Percent	Cumulative Percent
Sometimes	48	10.7	10.7
No	51	11.3	22
Yes	351	78	100.0
Total	**450**	**100.0**	

Figure 8: Investment of entire credit in the business



Source: Field work 2012

4.6 INVESTING ENTIRE CREDIT IN THE BUSINESS

The figure 8 showed above were the responses to a question on whether they diverted some of the loan into other businesses or activities. The responses revealed that majority of the client which is 351 out of 450 of the total number constituting 78% indicated that they invested all the loan facility into their businesses. 51 respondents representing 11.3% indicated that they diverted the loan to other business activities and not the businesses for which they took the money. 10.7% of the respondents could not declare whether they invested the entire loan facility into the intended business or not.

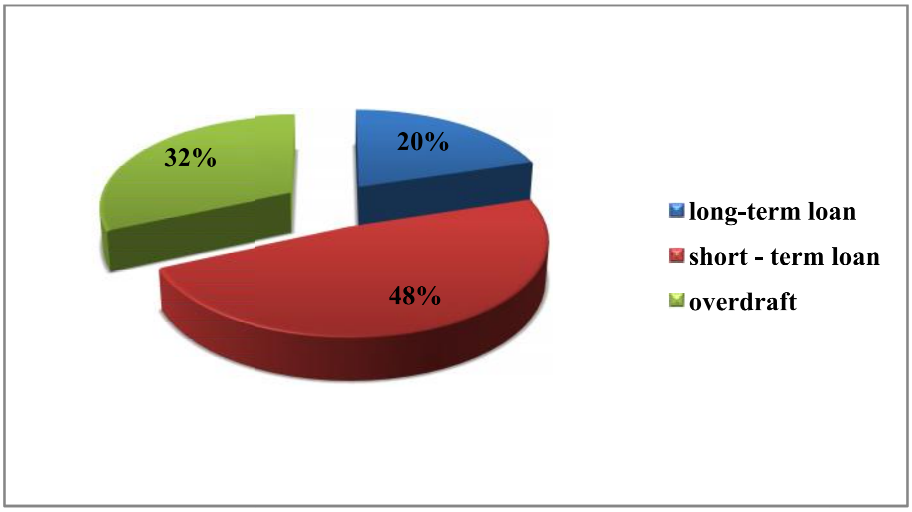
4.7 TYPES OF LOAN MOSTLY GRANTED TO SMEs

The table below shows types of loans mostly granted to SMEs, it was revealed that out of the total number of 114 respondents, 55 out of 114 respondents indicated they access short – term loan representing 48.2%. Overdraft constitutes 23 respondents representing 20.2% and long –term loan shows 36 respondents which indicates 31.6% of the total number. This has been demonstrated in the table below.

Table 12: Types of loans mostly granted to SMEs

	Frequency	**Percent**	**Cumulative Percent**
Overdraft	23	20.2	20.2
Short – term loan	55	48.2	64.8
Long – term loan	36	31.6	100.0
Total	**114**	**100.0**	

Figure 9: Types of loans mostly granted to SMEs



Source: Field work 2012

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 SUMMARY OF FINDINGS

The purpose of the research was to assess the impact of loans / credit from SRB Ltd in financing SMEs. To determine whether leverage (loan / credit) was positive or negative, ratios and regression analysis were used. The results of the analysis indicated that, the loan/credit from Sekyere rural bank in financing SMEs resulted in a positive value.

The study revealed a significant positive relationship between loan / credit and profitability of SRB ltd; the results of regression analysis indicated that, the use of debt by SMES resulted in a positive leverage. These results are consistent with the capital structure theory by Modigliani and Miller (1958) and corrected in 1963. The theory argues that firms can use debt, in this case loan / credit to lower the cost of capital and maximizes the firms' value.

A gain, the research also revealed that, there has been a dramatic increase in the number of small and medium-scale enterprises in the country. These businesses engage in, wholesale trade, retailing, manufacturing and service industries and can take the form of sole proprietorship, partnership, cooperative or Limited Liability Company. Small and medium scale enterprises are noted for their contribution to economic development in the nation through job creation, provision of goods and services, innovation, development of the entrepreneurial and management skills.

Small and medium scale enterprises require startup capital to establish the business and working capital to run the affairs of the business after the business has been established. The two major forms of financing for small and medium scale enterprises are debt and equity financing. The sources of this capital are obtained from personal savings, friends and relatives, Rural Banks and other financial institutions.

Again, it was also revealed that most small and mediums scale enterprises do not invest the entire credit in the business and divert part of the money for other purposes.

Moreover, some small and medium scale enterprises categorically stated that managerial problems had stalled their progress in their business endeavors.

It was also revealed that rural banks are the most common source of debt capital to small and medium scale businesses. Loans are either short term, medium or long term as well as secured or unsecured. Secured loans call for an asset or personal guarantors to cover the loan and unsecured loans required no collateral. This Rural bank base their lending decisions on the borrower's character, the capacity of the borrower to repay the loan, the capital commitment of the borrower to the business, the collateral to secure the loan and the current economic conditions in terms of inflation, prevailing base rate, the level of demand for loans and the rules and regulations by regulatory bodies like the Bank of Ghana that governs the financial institutions.

Other essential requirement for lending money to small and medium scale enterprises are the integrity of the borrower, the availability of resources to ensure repayment, the financial performance of the business and the technical ability of the business and borrower. Furthermore, the amount required, the purpose of the loan, the collateral, repayment schedule and the position of the bank should the borrower default in payment are all additional requirements the bank takes into consideration before granting loans to small and medium scale businesses.

The bank also faces some difficulties in lending to small and medium scale businesses, among them are the risk of default which result in bad debt, increase in demand for loans and improper books of account resulting in inadequate information to assess the financial position of the SMEs make lending very difficult.

The researcher used both quantitative and qualitative methodology in the research. Data was gathered through personal interviews and questionnaires. Findings of the research indicated that Rural Banks had impacted positively in financing small and medium scale enterprises.

5.1 CONCLUSION

From the findings, the researchers concludes that Rural Banks have had a positive impact in granting loans to small and medium scale businesses even though much is still expected from them. Small and medium scale businesses are in genuine demand for finance to be able to compete with larger firms.

The majority of small and medium scale enterprises obtain their external funds from rural banks when they are able to meet the appropriate requirements. However, most small and medium scale business obtained their startup capital from family and friends and personal savings. Few of them used funds from banks at the formation stage of their businesses as a result of fear that, they might be arrested in case of default.

5.2 RECOMMENDATIONS

Based on the findings from the research, the researchers recommend the following;

- The credit officers of rural banks should educate the SMEs entrepreneurs on the need to invest all the loan facility into the business and not to divert it into other businesses since it was revealed in the study that some clients did not invest the entire credit into their businesses.
- Sekyere rural bank should also encourage the customers to form groups. This will reduce the trouble of the customers to find collateral to secure the loans contracted. The members can guarantee among themselves and it will serve as check and balance.
- Selection of debt as source of capital finance should be done in line with the costs and benefits associated with its use (debt). Cost such as interest charges, bankruptcy cost and agency cost should be weighed against the benefit of debt. The initial stage to assess the impact of using debt on firm's returns should start by comparing expected OPM to the estimated STLDR. The reason for using OPM is higher than the STLDR.

- Rural bank loans should be made attractive in terms of collaterals demanded, interest rate charges and the timing of granting the loan facility. In relation to startup capital, the rural banks should consider providing a percentage of the initial capital needs of SMEs and offering the owners' technical assistance or advice on how to efficiently and effectively run their businesses to minimize the rate of collapses of the SMEs which in turn may reduce the rate of default. Since the research revealed that, most SMEs have managerial problems and inadequate capital formation.

- The loan officer and managers should also visit the clients regularly to see the progress of their business activity. This would give them fair idea as to whether they would be able to pay the loan collected.

- In other to equip the customers in their respect businesses, management should organize training programmes and seminars to give them education in organizing their businesses for every six months.

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APPENDIX I

QUESTIONNAIRES FOR BANK MANAGERS / LOANS OFFICER AND STAFF

Questionnaire on the topic: assessing the impact of Advances to SMEs by Rural Banks on their profitability (Evidenced from Sekyere Rural Bank Ltd). This research seeks to determine the contribution impact of credit /loans from rural banks in financing small and medium -scale enterprises in the country. The objective of the study is purely for academic purposes and not in any way an attempt to assess individuals.

You are assured that all the information supplied will be treated as confidential. Please, respond as honestly and carefully as you can. Tick or provide as appropriate.

1. What types of account do you have for your customers?

   (i) Savings accounts [ ] (ii) Current accounts [ ]

   (iii) Susu accounts [ ] (iv) fixed accounts [ ]

   (v) Aku sika account [ ] (vii) Bronya anidaso and Medaakye [ ]

2. Do you give loans to small and medium -scale businesses?

   (i) Yes [ ] (ii) No [ ]

3. Who qualifies to obtained loan?

   (i) Current account holders [ ] (ii) savings account holders [ ]

   (iii) Susu accountholders [ ] (iv) Group accountholders [ ]

4. How many loans were given to small and medium – scale enterprises for following years?

   (i) 2007 between 500 - 1,500 [ ] (ii) 2008 between 1,500 – 2,000 [ ]

   (iii) 2009 between 2,000 - 2,500 [ ]

5. What have been your greatest challenges in giving out loans to small and medium - scale enterprises?

(i) Diversion [ ] (ii) Decongestion [ ] (iii) Default in payment [ ]

(iv) Death of clients [ ]

6. Are you able to collect back all the loans given to small and medium scale enterprises? (i) Yes [ ] ii) No [ ]

7. What was the total amount of loans granted to small and medium- scale businesses in the following year?

2007 i) Below GH¢20,000 [ ] ii)GH¢20,000–GH¢50,000 [ ]

iii) GH¢50,000 – 80,000 [ ] iv) AboveGH¢10,000[ ]

2008 i) Below GH¢20,000 [ ] ii) GH¢20,000 –GH¢50,000[ ]

iii) GH¢50,000 – 80,000 [ ] iv) Above GH¢10,000[ ]

2009 i) Below GH¢20,000 [ ] ii) GH¢20,000 – GH¢50,000[ ]

iii) GH¢50,000 – 80,000 [ ] iv) Above GH¢10,000[ ]

8. What are the types of loans mostly granted to small scale businesses?

i. Overdraft [ ] ii. Short – term loans [ ]

iii) Long-term loans [ ]

9. Do you grant the businesses the exact amount of loans they request?

i. Yes [ ] ii. No. [ ]

10. What prevents the bank in granting the requested by the customers?

i) Insufficient security [ ] ii) Non-customer [ ]

iii) Purpose of loan [ ] iv) acquisition of guarantors [ ]

v) Inactive accounts [ ]

11. Do you consider guarantors working capital before granting loans?

i) Yes [ ] ii) No [ ]

12. Do you have any plans of increasing or reducing the level of lending to small scale businesses? i) Yes [ ] ii) No [ ]

13. Do you demand only collateral as guarantee for loans granted?

i) Yes [ ] ii) No [ ]

14. Do you have any special package for small and medium scale businesses that engage in export?

i) Yes [ ] ii) No [ ]

15. How had loans granted to small and medium scale businesses have impacted on your business activities?

i) Positive [ ] ii) Negative [ ]

16. Do the credit officers and managers do follow ups after the loans have been granted to the customers? i) Always [ ] ii) Not always [ ]

APPENDIX II

QUESTIONNAIRES FOR SMALL AND MEDIUM SCALE ENTERPRISES.

Questionnaire on the topic, assessing the impact of Advances to SMEs by Rural Banks on their profitability (Evidenced from Sekyere Rural Bank Ltd. This research seeks to determine the contribution impact of credit/loans from rural banks in financing small-scale businesses in the country. The objective of the study is purely for academic purposes and not in any way an attempt to assess individuals.

You are assured that all the information supplied with the treated as confidential. Please, respond as honestly and carefully as you can. Tick or provide as appropriate.

1. How do you finance your business?

   Loans from Rural banks [ ] ii) Retained earnings [ ]

   Family and friends [ ] iv) Others, (Please specify)………

2. What business activities are you offering?

   Retailing [ ] ii) Servicing [ ] iii) Wholesaling [ ] iv) Manufacturing [ ]

3. What type of businesses are you into?

   Sole proprietorship [ ] ii) Co-operation [ ] iii) Partnership [ ] iv) Manufacturing [ ]

4. How long have you saved with Sekyere Rural Bank?

   Below 6 months [ ] ii) 6 – 12 months [ ] iii) Above 12 months

5. What kind of account do you operate at Sekyere Rural Bank?

   Savings account [ ] ii) Current account [ ]

   iii) Susu accounts [ ] iv) Group accounts [ ]

   v) Aku sika accounts [ ] vi) Bronya and Medaakye [ ]

6. Do you frequently take loan from SRB Ltd?

   Yes [ ] ii) No [ ]

7. Do you invest the entire credit facility in the business?

Yes [ ] ii) No [ ] iii) Sometimes [ ]

8. Have you seen expansion in your business after obtaining a loan from the bank?

Yes [ ] ii) No [ ]

9. What was the total amount of loans obtained from Sekyere rural bank Ltd in the following years?

2007 i) Below Gh¢3,000 [ ] ii) Gh¢3,000 – 10,000 [ ] iii) Above Gh¢10,000 [ ]

2008 i) Below Gh¢4,000 [ ] ii) Gh¢4,000 – 10,000 [ ] iii) Above Gh¢10,000 [ ]

2009i) Below Gh¢5,000 [ ] ii) Gh¢5,000 – 10,000 [ ] iii) Above Gh¢10,000 [ ]

10. Were you able to repay the loan granted? Yes [ ] ii) No [ ]

11. What has been your greatest difficulty or challenge in financing your business?

i) Managerial problem [ ] ii) Inadequate finance [ ]

12. Do you have any other external source of funds? Yes [ ] ii) No [ ]

13. What is the total amount of external source of funds obtained for the following years?

2007 i) Below Gh¢5,000 [ ] ii) Gh¢5,000 – 10,000 [ ] iii) Above Gh¢10,000 [ ]

2008 i) Below Gh¢5,000 [ ] ii) Gh¢5,000 – 10,000 [ ] iii) Above Gh¢10,000 [ ]

2009 i) Below Gh¢5,000 [ ] ii) Gh¢5,000 – 10,000 [ ] iii) Above Gh¢10,000 [ ]

14. How were your returns like after the loan was granted?

i) Low [ ] ii) Moderate [ ] iii) High [ ]

15. What has been the impact of SRB Ltd loans on your business?

i) Positive [ ] ii) Negative [ ]

16. What is the relationship of the staff towards you the customers?

i) Excellent [ ] ii) very good [ ] iii) Good [ ] iv) satisfactory [ ] v) poor

17. Where do you normally get loans or credits from?

i) rural banks [ ] ii) retained earnings [ ] iii) friends and family members [ ]

APPENDIX

Table 1 gives information on loans and population

TYPES OF LOANS	LOANS IN MILLIONS C	POPULATION/CUSTOMERS
SUSU LOAN	5.587	2811
AKU SIKA LOAN	5.681	3477
OVERDRAFT	5.799	104
COMMERCIAL LOAN	6.235	656
TOTAL	**23.73**	**7048**

Source: Field Work 2012

Table 2 gives information about type of loans and population/customers

TYPE OF LOANS	POPULATION/CUSTOMERS	PERCENTAGE (%)
SUSU LOAN	**2811**	**18**
AKU SIKA LOAN	**3477**	**22**
OVERDRAFT	**104**	**1**
COMMERCIAL LOAN	**656**	**4**
TOTAL	**7048**	**45**

Source*: *Field W2ork 2012