UNIVERSITY OF CAPE COAST

THE IMPACT OF RURAL BANKS IN DEVELOPING SMES IN SUNYANI

MUNICIPALITY (A CASE STUDY OF FIAGYA RURAL BANK)

BY

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Administration in Finance.

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DECLARATIONS

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature: ………….………….   Date: ………………….

Name: CHARLES YAW APPIAH

Supervisor's Declaration

I hereby declare that the preparation and presentation of this dissertation were supervised in accordance with the guidelines on supervision of thesis laid down by the University of Cape Coast.

Supervisor's Signature: …………………..   Date: ………………

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ABSTRACT

The aim of this research was to examine the impact of Fiagya Rural Bank on SMEs profitability and growth. Through the stratified sampling method, a sample size of 156 respondents was selected to examine the impact of Fiagya Rural Bank on SMEs profitability and growth. The research design used in the study was descriptive research type. Data was collected through the administration of questionnaire. It was found out that overdraft and loans were the types of credit facilities available for SMEs in the Fiagya Rural Bank and these loans affect SMEs operating profit margin by increasing profit, speeding up operations, and making operational cost low. Additionally, loans and credit given by Fiagya Rural Bank to SMEs aids in expanding their businesses by securing raw materials on time, employ a lot of people, increase sales and growth rate. The findings also revealed a strong positive relationship between accessibility of credit and growth of SMEs. The study recommends that Fiagya rural bank should develop other special package for SMEs aside the overdraft and loans that they have been providing. Also, since loans and credit affect SMEs profitability and growth, Fiagya rural bank should increase the credit or loans allocated for SMEs.

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DEDICATION

To my late mother, Deaconess Georgina Peprah, my only daughter Juanita

Peprah Appiah Kubi and all loved ones.

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CHAPTER ONE

INTRODUCTION

Introduction

This is the first chapter of the study, and it thus introduces the study to readers. The chapter has the background of the study, the problem statement, the research objectives, research questions, significance of the study, the scope of the study, limitations of the study and the organization of the study. The chapter gives the essence of the study.

Background to the Study

In developing countries, the interest in the role of small and medium scale enterprises (SME's) in their development process continues to be at the forefront of policy debates. All businesses no matter their size, complexity and ownership are formed to encourage competitive prices. It was in this regard that Ariyo (2005) raised his opinion that SME's are the primary economic units and catalyst for boosting economic growth and development in almost all the sectors of an economy. The world as it stands today has small and medium scale enterprises (SME's) accounting for 99% of the entire business population and contributes 40% to 50% of GDP (Adediran, Josia, Bosun-Fakunhle & Imuzeze, 2012).

An important element to the development of the SME sector is access to finance. Firm-level data collected by the World Bank indicate that SMEs' lack of access to finance is the main obstacle to their survival and growth (World Bank, 2010). Various studies have confirmed that, lack of financing is a greater obstacle for SMEs than for other large firms, particularly in the

developing world, and that access to finance adversely affect the growth of the SME sector more than that of large companies (Schiffer & Weder, 2001; Beck, Demirgüç-Kunt, Laeven, & Maksimovic, 2006).

The European Commission (2003) defined medium enterprise as an enterprise which employs less than 250 people; has an annual turnover of less than €50m and balance sheet assets of less than €43m, and has no more than 25% of its capital or voting rights owned by a larger firm or public body. SMEs are believed to possess limited access to deposits, credit facilities and other financial support services provided by Financial Institutions. This is due to financial institutions claiming that the associated risks involved in lending to SMEs make it unattractive to deal with them (World Bank, 1994).

The situation is not different in Ghana. On January 19th, 2016, the then Minister of State in-charge of Private Sector Development, Rashid Pelpuo, speaking at the launch of SMEs Finance Fair in Accra, reiterated the fact that the significance of SMEs to Ghana's development cannot be overemphasized. He said the SMEs sector accounts for over 90 per cent of registered businesses in the country and access to capital by SMEs remains a key challenge if not addressed could harm the economy (Mubarik, 2016). Mr. Pelpuo added that due to the challenges faced by these SMEs; it has had a devastating effect on the nation's export performance, competitiveness, employment creation and revenue generation. He concluded by advocating for a good collaboration between rural banks and SMEs through knowledge sharing to raise SMEs sustainability since over 40 percent of Ghana's GDP is generated from SMEs.

The rural banking sector in Ghana was established under Ghana Rural Banking Legislation (The banking Act, 2004, Act 673). The legislation aimed

at creating banks which would serve populations which are cut off from formal financial services in the country. Thus the establishment of rural banks was necessary to build a sound and responsive banking services to the poor by improving their access to loans and technical assistance. Rural banks were therefore established or designed to serve small borrowers and depositors of financial resources. These people include farmers, fishermen, small scale enterprises, cottage industries and many others who are located in the rural and peri-urban areas (Gyimah, Opoku, Tweneboah, Agyemang & Owusu, 2013).

According to Fonteyne (2007), rural banks are increasingly viewed more like a major catalyst of SMEs sustainability and local economy development, due to their rural territorial coverage and their significant market share, regarding deposits and credit. Among their many roles, SMEs mobilize funds which otherwise would have been idle (Kayanula & Quartey, 2000). SMEs form a seed-bed for indigenous entrepreneurship, are labour intensive, employing more labour per unit of capital than large enterprises and seek to encourage indigenous technical know-how. Furthermore, due to their regional dispersion and their labour intensity, they promote a more equitable distribution of income than large firms in Ghana. They also improve the efficiency of domestic markets and make productive use of scarce resources and thus facilitating long term economic growth.

Also, rural banks were established or created to lend a helping hand in eradicating poverty and unemployment in the rural areas by assisting in the overall development of rural areas and the rural folks. Access to finance is considered a major key to business development, investment and innovation

are not possible without adequate financing. Rural banks, therefore, provide funds to farmers, fishermen, small scale enterprises, cottage industries and many others to; set up their businesses; expand them; recruit labourers or workers, management purposes, machinery among others (Opoku, Abratt, Bendixen & Pitt, 2012).

Statement of the Problem

SMEs 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 banks was to enable the SMEs to obtain financial support (Opoku et. al, 2012).

A recent study by Oteng, Batola and Addai (2016) stated that the problem of lack of finance to SMEs and high-interest rate in Ghana has resulted in the collapse of most SMEs. The study added that those SMEs, which survived tend to lay off some of their employees and when this happens, unemployment increases, and thereby, a reduction in the rate of economic growth. They finally advocated for research in this area to ascertain the relationship between access to loans by SMEs and its effect on their operations. This was in support of an earlier study by Gyima et al. (2013) stating that rural banks need to have a second look at SMEs sustainability strategies through financing and a gradual reduction in interest rates. Such a policy direction, will result in a reduction of financial burden on firms and subsequently help those SMEs to create more jobs for households, and thereby, improve the economy as a whole.

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Hitherto, these SMEs were receiving support from small scale Susu collectors, family members and friends who have excess funds and were ready to lend 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 Bank of Ghana to enable the SMEs at Rural areas have access to credit especially for areas where the universal banks are not covering and are not willing to give out loans because of collateral issues.

Despite the reasons for establishing rural banks and the impacts of rural banks on the economy of Ghana, there is no or few empirical evidence on the impacts of rural banks on the SMEs, especially, in the Sunyani Municipality. Therefore, this study seeks to examine the impacts of Fiagya Rural Bank in developing SMEs in the Sunyani Municipality. It is expected that the study will contribute to the depth of knowledge/literature in this area which has not received much attention over the years.

Purpose of the Study

The main purpose of the study is to examine the impact of Fiagya Rural Bank in developing SMEs in Sunyani Municipal.

Specific Objectives

The objectives of the study were to:

1. identify the types of credit facilities available for SMEs in Fiagya Rural Bank

2. assess the impact of loans to SMEs from Fiagya Rural Bank on their operating profit margin over the last three years.

3. examine the effect of SMEs acquisition of loans from Fiagya Rural Bank on the growth of the SMEs

4. investigate the challenges, the SMEs face in accessing loans from Fiagya Rural Bank.

Research Questions

1. What are the types of credit facilities available for SMEs in the Fiagya Rural Bank?

2. What impact have loans from Fiagya Rural Bank had on the operations of SMEs?

3. What are the effects of Fiagya Rural Bank on SMEs in the growth of their business?

4. What challenges have SMEs encountered in accessing loans from Fiagya Rural Bank?

Significance of the Study

It is hoped that this study will be a useful tool in the hands of individuals, firms and the nation at large. Also, it is envisaged that the results of this study will help create awareness of the functions of the rural banks with regards to economic development.

The study will give insight into problems SMEs encounter in accessing loans from financial institutions. This will be beneficial to the managers of the various SMEs to know what is required of them before they can smoothly

collaborate with financial institutions. Keeping this information will raise their eligibility for accessing loans which will also be of benefit to the financial institutions.

In addition, the research would serve as a guide to Government to have a second look at the sustainability problems of SMEs in the country since this will cause an outgrow of many SMEs, thus resulting in capital inflows which will have a positive effect on the economy.

Finally, it will add up to literature and serves as a reference for future researchers to aid them in further research work.

Delimitation of the Study

The study was limited to SMEs in the Sunyani Municipality. However, there are many SMEs, but only those who have access to credit facilities with the Fiagya rural bank was considered. Research design was solely descriptive which employed questionnaires as the only research instrument for data collection. The content scope of the study was to examine the impact of Fiagya Rural Bank on SMEs profitability and growth.

Limitation of the Study

Some challenges were encountered in undertaking this project and these include the unwillingness at first hand of some people to respond to questionnaires. Responses were however obtained after convincing and explaining issues and essence of the study to the respondents. There were also financial limitations with regards to the printing of data collections instruments and travelling to study areas.

Organization of the Study

The study is organized into five chapters. The first chapter looked at the background of the study, statement of the problem, objectives of the study, research questions, significance of the study and scope of the study. The chapter two of the study reviews relevant literature on the topic under study. The third chapter describes the methods that will be used for the study. Specifically, the chapter will discuss the research design, brief description or profile of the study area, the target population, data source to be used, sample size and sampling procedure, tools for data collection, and data analysis. The fourth chapter will also contain the presentation and interpretation of the result of the study, and the last chapter, Chapter five, will present the summary, conclusion, and recommendations of the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

This chapter looks at the credit rationing theory, definition of Small and Medium Enterprises (SMEs), history of rural banks in Ghana, objectives of rural banks, products and types of credit facilities available for SMEs in the Fiagya Rural bank. It also encompasses literature on the challenges the SMEs face in accessing loans or credits from rural banks and the effects of rural banks on the operations of SMEs.

Credit Rationing Theory

The study in the formulation of the impact of credit of financial institutions in the developing of SMES has adopted credit rationing theory. Credit rationing is the limiting by lenders of the supply of additional credit to borrowers who demand funds, even if the latter are willing to pay higher interest rates. Thus, at the prevailing market interest rate, demand exceeds supply, but lenders are not willing to either loan more funds or raise the interest rate charged. This theory postulates that group of individuals in the population who with a given supply of credit are unable to obtain loans at any interest, even though with a large supply of credit they would (Converse, Fermand, Rachmanto & Tao, 2012). The study adopted this theory because bank and non-bank financial institutions are concerned in lending money to SMEs operators who are going to return it or to borrowers who are not likely to default after taking the loan. Based on the study the issue of the imperfect

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information is the main reason to some lending institutions to choose exclude some borrowers (Atieno & Shem, 2001).

Definition of SMEs

Small and Medium Enterprises are businesses that are privately owned and operated, partnerships, or sole proprietorships with few personnel, and a relatively low volume of sales. No universally accepted definition of a small and medium-sized business exists. As such, many definitions have been brought up for academic purposes. Interestingly, these different forms of definitions across the world primarily take into consideration the number of people employed in the business as well as the asset base of the company. Different studies have on the other hand sought to establish a standard definition using various approaches, but the most commonly used is the number of employees employed approach.

Additionally, the definition of SMEs also depends on the country. For example, under the Australian Fair Work Act 2009, SMEs are classified as businesses having employees ranging from 15 to 500 while the European Commission classifies them as businesses which employ fewer than 250 persons. SMEs are usually dominated by one person, with the owner taking all the major decisions.

Other studies give a more detailed form of the peculiar nature of SMEs. Research findings on SMEs have confirmed that the characteristics of SMEs are quite similar amongst many countries in the world. Prominently amongst these findings is that of the International Network of Alternativ Financial Institution) (INAFI) African trust research project conducted by

Mwaniki (2006). The European Commission (2003) defines SMEs as businesses which employ fewer than 250 persons and have an annual turnover that does not exceed EUR 50 million, and have at least an EUR 43 million annual balance sheet.

The centre for Assistance to SMEs (CASME) in Cameroon also defines SME as an enterprise that is completely owned and managed by the Cameroonian, with an owned capital of at least 52%, has a turnover not exceeding 100 million CFA, total investment not exceeding 500 million CFA, and a short term outstanding cash credit of not more than 2 million CFA in 1989 (Enquobahrie, 1997).

In Ghana, it has become clear that the pattern of the definition of SMEs is in response to the changing economic environment. The more stable the environment, the more lasting the definition has been. In this study, SME is considered as any business with capital base between GH¢100 and GH¢10000 and having one to fifteen employees on the average. This choice of definition is accepted based on the definition given by Bank of Ghana.

The most commonly used definition of SMEs in the country is based on the total employees of the firm. With this standard, however, there are controversies with the cut off points used by the various official records (Dalitso & Quartey, 2000). The Ghana Statistical Service (GSS) defines a small business as any enterprise that has less than ten employees while those having more than ten people being Medium and Large-Sized Enterprises. According to the National Board for Small Scale Industries (NBSSI), enterprises with not more than nine workers with plant and machinery (but excluding land, buildings and vehicles) not exceeding GH¢10 million are

considered as Small Scale Enterprises. Osei, Baah-Nuakoh, Tutu and Sowa (1993) categorised SMEs into four; micro enterprises are those that have less than six employees; (ii) very small enterprises constitute those having 6-9 employees; small enterprises are business having between 10 and 29 workers while medium sized businesses are those that have between 29 to 50 employees.

Additionally, certain traits and characteristics can be identified with major businesses within the Ghanaian economy. However, the main difficulty or challenge has been how to identify and classify these businesses within the SME bracket. A clear case scenario happens to be that of SSNIT as cited in the work of Mensah (2004). In his work, data from the Social Security & National Insurance Trust (SSNIT) indicated that the Ghanaian private sector is highly skewed, with 90% of companies having less than 20 employees and a small number of large-scale enterprises. Hence, for this study, SMEs are businesses that have not more than 50 employees.

History of Rural banking in Ghana

The Bank of Ghana introduced the rural banking scheme in the country in 1976. This was however done after a study into the rural credit system in 1970 revealed that there was a wide gap in the existing banking and credit system, with insufficient funds flowing through the system to a large number of small scale producers who needed credit most. Consequently, a team from the Bank of Ghana was sent to the Philippines to study the operations of their rural banking system based upon which they introduced the rural banking system in 1976. The Philippines were chosen because it was one of the few

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countries, which had successfully operated such banks on a fairly large scale. The other reason was that their stage of economic development appeared to be more relevant to ours regarding rural economic problems and small scale farming system.

However, the first Rural Bank opened for business in July 1976 at Agona Nyarkrom in the Central Region and over eleven years (1976-1987). The programme spread to all the ten regions of the country. By 1987, 14% of the rural population or 553,000 people held accounts at 117 Rural Banks across Ghana. Deposits totalled GH¢2.2 billion and deposits per person had climbed 2,913 over this period to reach GH¢3,978 ($US 25.87 at the prevailing exchange rate) in 1987.

The programme's loan portfolio was valued at ¢634 million or $US4.12 million. Within the first decade of its operations, the Rural Bank programme proved to be very successful. By the late 1980s, however many individual Rural Banks were struggling and not living up to their stated objectives. The government attempted to reinvent the programme via macroeconomic, financial liberalization effort initiated in 1988 and accomplish the Rural Bank restructuring exercise began in 1990.

Despite these efforts, in the mid-1990s, the 115 Rural Banks were in general not fulfilling their obligations and struggling financially (Amonoo, 1977). These could be associated with problems which crippled the businesses of the rural folks. Small loans to be given to originally targeted groups were channelled to government workers and middle-income customers. Farmers were required to put up their land as collateral but most of them did not and

today still do not own the land they farm on. Institutional credit was therefore beyond the reach of Ghana's small land holders.

As a result, the Rural Banks became increasingly reluctant to lend to their target population (thus farmers, fishermen and many others in rural industrial activities). Instead, the banks delivered their credits to salaried workers who were perceived to be less risky due to regular incomes. The banks thus increasingly violated the scheme's statutory credit allocation mandate. From 1977 to 1988 the proportion of total credit extended to agriculture fell by half. By 1988, credit scheme according to Udry (1994) became insufficient due to reliance on agriculture which is seasonal, relatively high rate of default loan payments and a high cost of credit management. Rural Banks had primary goals and objectives which guided their operations.

Objectives of Rural Banks

The rural banks were to bring formal banking services down to the doorsteps of the rural populace to encourage them to cultivate the habit of saving in the banking way instead of allowing their resources to lie idle without yielding any returns.

Secondly, the banks were to mobilize and channel the ideal rural funds into productive ventures, which were to help the rural business entrepreneurs invest in small and medium scale enterprises that will generate income for themselves and the youth. This second objective is in recognition of the fact that rural areas contain vast agricultural resources as well as potentials for the establishment of cottage industries, which have to be fully exploited and utilized for the benefit of the nation.

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Thirdly, the rural banks were to support and sustain community development programs designed to enhance the quality of lives of the people. Ultimately, the rural banks were expected to pioneer community development and economic growth rate of rural areas whereby private investors will come in to take up business opportunities and transform them into large scale businesses. Also, the rural banks were to serve as powerful tools for the fulfilment of a system whereby there will be an integrated community development of rural areas. This goal is significant because rural ventures have been the backbone of the private enterprise system in the advanced countries of the world.

Advantages also realized from the rural banks are as follows:

1. Rural Banks interact closely in the communities where rural industrialists and most beneficiaries reside and work.

2. The speed of delivering services is much faster than categories of banks.

3. The proximity of rural banks reduces transportation cost of beneficiaries.

4. Rural Banks are trustworthy since they have built their reputations in communities they operate in.

Consequently, certain factors have led to the poor performance of rural banks in Ghana, therefore, weakening the purposes for which they were established. These are; poor supervision by Bank of Ghana has given way to a very high level of corruption and management in the rural banks. There were also a lot of funds embezzlement by bank officials and influential persons in the community; local people lost interest in rural banks as a result of high collateral which was demanded from them; loans given were not paid back as result of poor loan recovery programmes by the rural banks; and rural folks

still feel alienated from the rural banks located in their communities because of attitudes of staff and managers thereby resulting in lost of interest in banks

Challenges SMEs face in accessing Credit Facilities

SMEs encounter various constraints during start-up and within their operations. They are unable to absorb large fixed cost with the absence of economies of scale. Access to finance remains a dominant limitation to small scale enterprises in Ghana. Reportedly, 38% of the SMEs in 1995 surveyed mentioned credit as a major limitation (Parker, Riopelle & Steel, 1995). This is due to SMEs having limited access to both local and international capital market. This is in part due to the perception of high risk within the SME business sector, information barriers and increased costs of intermediation. Hence, SMEs cannot obtain long-term finance in the form of debt or equity.

SMEs in developing countries are perceived to be too unstable for banks to invest in. Due to this, banks consider SMEs to have high risk and it costs these banks to monitor the activities of the SMEs. Sia (2003) posited that banks are unwilling to lend to SMEs since SME activities are considered very risky. Banks find it risky to invest in SMEs, since in the event of unfavourable business circumstances, they have little financial power, assets, and they easily go bankrupt (Sia, 2003).

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, 1994). Moreover, most of the small and medium scale businesses are unable to raise funds through the issuance of stock due to numerous

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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 a 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 sources such as insurance companies, finance companies and other factors.

Also with short term funds, the cost of borrowing from these banks is high, and this also prevents SMEs from borrowing (Meagher, 1998). The application process for short term funds is long and difficult for SMEs to adhere to (Hossain, 1998). The collateral required by banks for loans is based on fixed assets which most SMEs do not possess. SMEs which have these assets cannot afford the high prices associated with these collaterals which usually include; estates and other fixed assets valued more than double the loan amount (Meagher, 1998).

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The major impediment to SMEs getting funding from external sources is that of information asymmetry. This is the extent of the deviation of the correctness of information that is required by the lending institutions (Bakker, Udell, & Klapper, 2004). Banks use cash flows and profitability to ascertain the worthiness of businesses. This is very expensive and, not a good method to measure the credit strength of SMEs. Production and distribution in the rural areas are influenced by social factors that are usually neglected by businesses in developing countries (Otero, 1994). Agriculture is the main activity in developing countries and its output is dependent on the weather. This sector is perceived risky because its outcome is unpredictable.

Similarly, SMEs have difficulties getting appropriate technology and needed information on their activities. This restricts for innovation. Research confirms that 18% of SMEs and 18.2% cited old equipment as among the most significant limitations to SME expansion (Aryeetey, Baah-Nuakoh, Duggleby, Hettige & Steel, 1994).

Also, SMEs use naive technology which does not need highly skilled employees. However, where skilled employees are needed, a deficient supply of skilled workers can restrict the specialization possibilities, increase costs, and reduce flexibility in managing the SME operations.

Again, high start-up costs for SMEs impose excessive and needless burdens on the firms. This is coupled with high costs of resolving legal claims and unnecessary delays in court proceedings. Also, inadequate protection for property rights restricts SMEs access to foreign technology.

Moreover, the entrepreneurial ability required to effectively and efficiently manage the production process is one of the major difficulties

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facing SMEs. Even though SMEs attract motivated supervisors, they can barely compete with larger firms. There is a lack of management expertise which has a magnified influence on SMEs. Lack of support services due to inappropriate cost effective management solutions for SMEs also exist. Again, the absence of information and time to take advantage of existing services results in weak demand for them.

Also, there is absence of cohesiveness among SMEs which restricts their ability to support their collective concern and their effective cooperation in civil society. Associations providing the voice for the interest of SMEs in the policy-making process encounter limited participations compared to those within larger firms. Several of these associations are yet to achieve the transition of their aims of protection to competitiveness.

Another constraint to small-scale enterprises is inadequate markets for their products. The small-scale enterprises often experience low patronage for their products because most of them produce low-quality products Awiah (1996). Most Ghanaians fancy the foreign goods to the local ones. Poor transportation systems also make firms in rural areas inaccessible and mostly the policies of trade liberation by government poses a threat to SMEs (NBSSI, 1994).

SMEs in developing countries encounter numerous challenges in accessing credit. Steel and Webster (1991) observed that notwithstanding the wide-ranging financial reforms instituted by most countries and the existence of all kinds of financial institutions.

Access to finance remains a dominant constraint to small scale enterprises. Credit constraints about working capital and raw materials are

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cited by respondents in a survey conducted by Parker et al. (1995). Aryeetey et al. (1994) reported that 38% of the SMEs surveyed in Ghana mention credit as a constraint; in the case of Malawi, it accounted for 17.5% of the total sample (Daniels & Ngwira, 1993). This is as a result of SMEs having limited access to capital markets, both local and international. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity.

Another challenge that the small and medium scale enterprises face is the demand of collateral by the financial and micro finance institutions. They claim that the availability of collateral plays a major role in the willingness of banks to satisfy the demand of the private business sector. Collateral gives an incentive to refund and offset losses in case of non-payments. This collateral was demanded by nearly 75 percent of sample SMEs that needed loans. The study also showed that 65 percent of the total sample SMEs had at various moments applied for bank credits for their business. Nonetheless, a large proportion of the SMEs had their application rejected by banks. For firms that put in loans applications, there was almost 2:1 probability that the application would be rejected.

Services of Rural Banks

There are many services rendered by the various rural banks in Ghana. Though they are not many and complex as the commercial banks, they render several services that are of infringed benefits to the households and SMEs in the rural areas or communities. These services included; deposits, loans, money transfer, payments, and social investments

Deposit products

In general, an institution providing deposit services does not need a large number of products. "A savings account allowing countless transactions, a time deposit account which includes various options for relatively short maturity times, potentially contractual savings account to promote education, retirement, housing, or upcoming ceremonies are sufficient" (Ledgerwood, Julie & Candace, 2013). They must be carefully designed through a balance of product features, security, convenience, and price to allow them to be used in different combinations for different purposes by all types of savers-poor and non-poor, individuals and institutions" (Robinson, 2006). "Deposit products available from regulated providers include; current accounts, savings accounts, contractual savings accounts, time deposits, and long-term savings or micro pensions" (Ledgerwood et al., 2013).

Current accounts

"Current accounts are considered to be more of a transaction account than a savings account. They provide the account holder with the ability to manage daily cash flows and transfer funds and make payments. Also called checking accounts or demand or site deposits, current accounts are fully liquid accounts in which the depositor may deposit and withdraw any amount at any time with no advance commitment or notice. Current accounts may be set up with automatic transfers, for example, to pay bills each month or to transfer to another account. Customers often must deposit a minimum amount to open a current account and maintain a minimum balance to keep it active. Current accounts do not pay any interest but charge clients fees either on a monthly or

a transaction basis or both. If clients overdraw from their current accounts, they may be charged a penalty or the payment may be rejected outright" (Ledgerwood et al., 2013).

Passbook savings accounts

"A basic savings account or passbook savings is an account that is fully liquid (that is, money can be freely deposited and withdrawn by the account holder) or semiliquid (that is, the number of transactions are restricted). For example, for savings accounts with no minimum balance requirement, to compensate for the small balances held in these accounts, providers may restrict the number of monthly transactions and limit withdrawals to lower-cost access points such as automated teller machines or mobile phones. Passbook savings offer clients interest on the funds deposited, although many providers also charge transaction and other fees associated with services. The main advantages with passbook accounts are liquidity and higher interest rates compared to current or transaction-based accounts. Passbook savings accounts are used for short-term savings for cash flow management or emergencies or unexpected opportunities. Interest paid is normally lower than that paid on time deposits" (Ledgerwood et al., 2013).

Contractual savings accounts

"Contractual savings accounts (also called commitment savings or target savings) require clients to commit to regularly deposit a fixed amount for a specified period to reach a predetermined date or amount. Clients are prohibited from or penalized for withdrawals before the maturity date. After the maturity date, the customer can withdraw the whole amount plus the

interest earned. Contractual savings accounts help clients accumulate funds to meet specific expected needs, such as school fees or to pay for an upcoming celebration such as a marriage.

The interest paid on contractual savings is similar to other savings accounts, the primary benefit being the discipline they provide. Contractual savings products can be used as a first entry point for youth in micro finance. Often only small modifications are needed to tailor a regular product for youth, including, for example, low or no minimum balances or a link to a financial education program. An innovative savings product similar to contractual savings is borrowing to save" (Ledgerwood et al., 2013).

Time deposits

"Time deposits-also called fixed deposits, term deposits, or certificates of deposit-are savings products in which a client makes a one-time deposit that cannot be withdrawn for a specified period or term without penalty. At the end of the term, the client can withdraw the entire amount with interest or roll over the deposit for another term. Financial institutions offer a range of possible terms and usually pay a higher interest rate on time deposits than on passbook or contractual savings accounts because these accounts offer the institution larger amounts of capital for longer periods at lower costs"(Ledgerwood, et al., 2013).

Long-term contractual savings

"Long-term contractual savings (LTCS) products can be used to prepare for retirement and to build resources for life-cycle events anticipated

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in the future. LTCS products work much like other contractual savings products whereby clients make small regular deposits over time and then withdraw either the lump-sum amount or, like micro pensions described above, with an annuity allowing a regular stream of payments over time after a certain age. Although clients appreciate the illiquid nature of L TCS products as well as the benefits of discipline (like other contractual savings products), they necessarily compare the options of investing elsewhere and the associated risks. The risk of L TCS products is that the person may die before the savings goal is reached. This risk is addressed with retirement and life products offered by insurance companies" (Frankiewicz & Churchill, 2011).

Services Provided by Fiagya Rural Bank Ltd.

According to the Operational Manual of Fiagya Rural Bank Ltd (2014), the bank was established with the primary objective of assisting the rural folks in their activities in the area of its operation. The major occupation of the people includes; farming, food vendor business, artisans, retailers/ trading activities. However, the capital involvements of these people are very low which make their work difficult to operate. The problem of inadequate capital has prompted the bank to extend its credit facilities to meet the financial constraints of these people in their area of operation as well as other areas who may also be in need of such scheme. The major activities of the bank rendered to their customers and non-customers of the bank include the following:

Accepting deposits

According to Ampah (2010), deposits are the funds that customers leave in their accounts, whether these are current accounts, which are for 'current' money that is not intended to be saved or savings accounts for money that will not be needed immediately. The customers of the bank with a current account are usually issued with cheques book which enables them to write out cheques to instruct the bank to pay cash from their accounts to other people. Deposits and savings account holders do not have the benefits of cheques book; instead they are paid interest on monies left with the bank. They are also given passbooks and withdrawal books which enable them to either make deposit into their accounts or 'withdraw' from their accounts.

The bank also operates on fixed deposits and treasury bills as part of its banking services to the customers. This helps customers to earn high interest on the money deposited with the bank, and it is in the form of a contract which has a fixed period before it can be withdrawn by the depositor.

Advances

Cox (1998) states that "advances are the monies lent by the bank, generally in the form of an overdraft on a current account, by which the customer draws out more than what he has in the accounts. It could also be in the form of commercial loan or personal loan. Interest is charged on all advances, the rate varying with the type of the credit facility, the credit worthiness of the client including the length of time for which the funds are borrowed. Advances represent that part of customers' deposits which the bank

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considers may safely be lent, while the remainder is retained in the form of cash and other assets.

According to the operational Manual of the bank, advances (loans) forms about 70% of the bank's services and also a major source of income to the bank. The advances of the bank are grouped into three (3) main categories. The first advance is called credit with education. It is a form of microfinance loan which is granted to women such as the fishmongers, retailers, petty traders and small scale business women. In this type of loan, women are given education on simple bookkeeping and proper way to run their businesses without incurring loss. According to Anin (2000), microfinance is 'the provision of basic financial services (comprising mainly savings facilities and small loans) to micro-entrepreneurs and other disadvantaged groups including women'.

From the perspective of the credit facility to petty traders and small scale industries, the microfinance is established to; assist small scale and petty traders to get access to credit facilities; mobilizes savings among these traders; educate beneficiaries in the management and wise use of money; provide credit or loans to its beneficiaries at reasonable rate of interest; and establish the extent to which the stated objectives of the microfinance had been achieved.

The second credit facility is overdraft which is granted to government workers who receive their salaries from the bank and other customers who operate current account. Salary overdrafts are granted to workers who receive their salaries from the bank and may need immediate money to be able to cope with life before the month ends. The deduction is made when the salary is

credited to the customer's account, and it is usually one-month duration. This, however, enables government workers who draw their salaries from the bank to have money to pay their children's school fees and other things they may need in the month before their salaries are credited to their account. Commercial overdrafts are given to customers who operate the current account. They enter into contract with the bank to overdraw their account by the amount they agreed upon, and it has a maximum period of one year. Both overdraft facilities attract charges, and it helps customers to access short term fund.

The third credit facility is personal and commercial loans. These are loans which can be granted to all categories of customers. The personal loans are usually granted to customers for personal purposes like school fees, rent, funeral, etc. But the commercial loans are granted to customers for trading, farming, business expansion and other commercial activities. The loans are usually granted on the short term, medium term or long term basis depending on the size and the intended purpose.

Money Transmission

This enables customers to make payments without having to carry around large sums of cash because the cheques are a convenient method of settling the debt. Equally, a customer can also pay in money directly into his account at another agency of the bank or transfer money to any rural bank by using Apex link transfer. This system of operation only works between rural banks in Ghana. This has reduced the burden of businessmen and women to carry money with them for an attempt of an armed robbery and lost in transit.

Families and friends can receive monies sent to them by their loved ones through any rural bank in Ghana. Businessmen and women can transfer their monies upfront and withdraw them from another town or village where there is a rural bank also working on such operation.

The Bank of Ghana has introduced Automated Clearing House (ACH) which allows interbank transfers. Rural banks can now transfer money into customers account at the commercial and other banks and also receive transfers from them through ACH. Foreign transfers like Western union, Money gram, Vigo, Samba, etc. are also done at the rural bank.

Other services of the bank

Besides the normal banking services provided by the bank, the bank also keeps other valuable items such as 'Will', gold items and indentures for safekeeping by the bank.

The Effect of Rural Banking Services on the Development of SMEs

The contribution of rural banks affects the level of SMEs development in the country. People living in the rural areas hardly save any profits they make mainly because of the risks of theft and the like. Since they have their monies at their disposal, they engage in litigations or disputes with regards to possessions of assets like land; there is also the issue of expensive funeral spending instead of investing their income to yield them more and/or better returns. Rural banks operate to encourage these people to invest their incomes on profitable ventures (Preko & Armah-Tetteh, 2005). The banks encourage

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these SMEs with financial advices and saving options to help them in improving upon their various occupations.

The rural banks also grant credit to SMEs for the expansion of their businesses. This helps to improve the life of the rural dwellers so that they can contribute immensely to increase or improve productivity in the rural areas and the country at large (Ofosu-Djamerah, 1999). Most of the SMEs are unable to raise the needed capital to finance their projects. According to Preko and Armah-Tetteh (2005), rural banks grant loans and overdraft facilities to these SMEs to help them solve the issue of inadequate capital. Most of the SMEs are unable to engage in large-scale production as a result of inadequacy of capital.

These loans enable them to acquire the needed implements and remuneration for labour with regards to the proper execution of the work at hand so as to increase productivity. When the loans are given out, the banks assign a team to monitor the beneficiaries so as to ensure that the loans are being used for their intended purpose. Eventually, productivity will increase, income levels will also increase and more jobs will be created out of the income of the SMEs if efficient uses of these resources are recorded (Preko & Armah-Tetteh, 2005). Upon the creation of more SMEs, social problems like armed robbery and prostitution will be reduced drastically.

Ofosu-Djamerah (1999) said that rural banks devote part of their profits to meet social responsibilities. The rural banks make donations to support education, and health to mention but a few. Before one can ensure an increase in productivity, the social welfare of the people must be put into consideration. Therefore providing or supporting education and health will

definitely improve the living conditions of the rural dwellers and also help provide them open more SMEs so that they can contribute to the development of the dominant sectors of the economy like agriculture. Once the agriculture sector is developed, there will be an increase in agriculture produce, hence an increase in total exports and increased internal consumption. As part of the social responsibility of the rural banks, most of the paths and roads linking the various farms with the towns will be enhanced all other things being equal (Preko & Armah-Tetteh, 2005).

The banks go on to arrange for institutions to purchase the produce from the SMEs. Alternatively, the banks may take over the produce of the people as a means of repayment of loans granted them. This way, the burden of transportation and marketing of their produce is taken off. This in effect encourages the SMEs to produce more. An example is the Akuafo cheque system designed to pay cocoa farmers. With the establishment of the rural banks, many SMEs within the agricultural sector no longer travel long distances to the urban centres to cash their cheques.

Apart from the functions already mentioned, banks embark on direct investment in order to broaden their capital base. Rural banks also offer investment advice and technical advice to SMEs who intend to invest their funds in profitable ventures. Considering the outlined functions it can be deduced that; rural banks stimulate local economic activities and promote SMEs development.

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            │   Rural banks   │
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│  Challenges   │─▶│   Credit/loans  │
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            │ SMEs Operations │
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            │  Profitability  │
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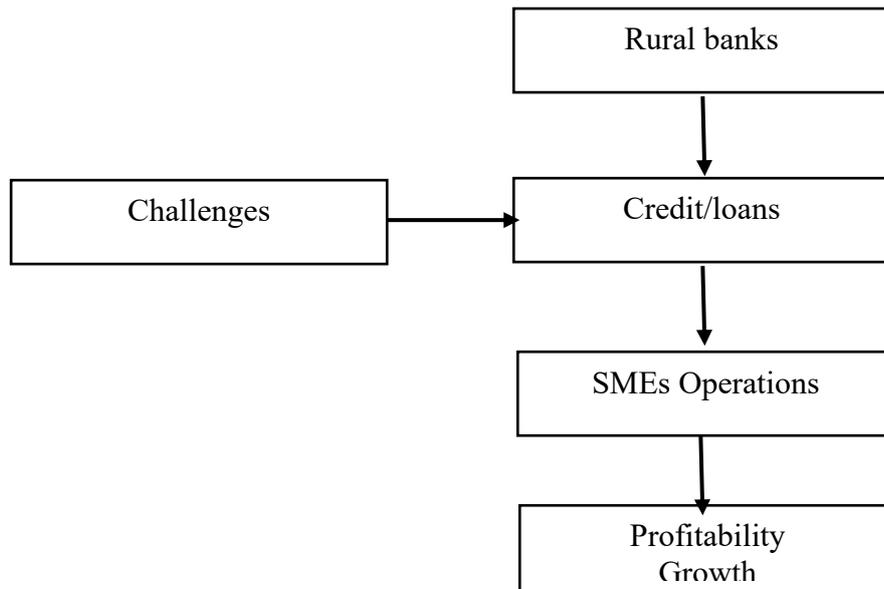
Figure 1: Conceptual framework on the impacts of loans on SMEs development

Source: Author Construct, Appiah (2017)

Figure 1 shows that credit or loans from rural banks affect the operation of SMEs operations, thus, its profitability and growth. However, barriers such as interest rate, collateral and imperfect information limit the amount or access to credit or loans given out by the rural banks.

Summary Chapter

The chapter gave a theoretical basis of the study based on the credit rationing theory. It then proceeded to give definition of Small and Medium Enterprises (SMEs), history of rural banks in Ghana, objectives of rural banks, products and presented the types of credit facilities available for SMEs in the Fiagya Rural bank. It also encompasses literature on the challenges the SMEs face in accessing loans or credits from rural banks and the effects of rural banks on the operations of SMEs. The study also gave an empirical underpinning of the study which consists of various works conducted on rural

banks and SMEs. Finally, the conceptual framework guiding the study was produced.

CHAPTER THREE

RESEARCH METHODS

Introduction

The chapter presents the methods of data collection and analysis that was used for the study. The methods for this study are captured under the following themes: research design, study area, study population, sampling procedure, sampling size, the source of data, data collection instrument as well as data processing and analysis.

Research Design

A research design is the structuring of investigation aimed at identifying variables and their relationship to one another. This is used for the purpose of obtaining data to enable the researcher test hypothesis or answer research questions. It is an outline or scheme that serves as a guide to the researcher in his effort to generate data for his study. This study adopts the descriptive survey design with the aid of quantitative approach. The survey research design is aimed at discovering the inter-relationship between variables. It entails the collection of data through the use of questionnaires. This data collection method was chosen for the study because it allowed the data to be collected in a short period (Fraenkel & Wallen, 2000).

Study Area

The Brong Ahafo region is located in the middle part of Ghana and has a population of 2,310,983 (GSS, 2010). It has eight Municipalities and 19 District Assemblies. There are four universities and other tertiary educational

facilities in the region. There are 19 rural /community banks in the region. Besides, there are other bank and non-bank financial institutions located within the region. The capital city of Brong Ahafo is Sunyani, and it has a population of 123,224 (GSS, 2010).

Fiagya rural bank which has its head office at Busunya in the Nkoranza North district has four branches namely; Nkoranza, Techiman, Sunyani and Afrancho in the Ashanti region. The bank was registered on 14th July 1983, but commenced business on the 17th August 1994 and was incorporated on the 13th July 2005. The total workforce is one hundred and two (102), seven (7) directors, eleven management staff. It also has thirty-one thousand, three hundred and ninety-seven (31,397) customers according to important financial indicators of the prudential returns of the bank as at 31st December 2016. It has numerous products including; savings account, current account, susu, fixed deposits, foreign and domestic transfers, micro finance loans, credit with education loans (women traders only), overdrafts, salary loans, funeral loans, commercial loans, susu loans among others.

The study is conducted in the Sunyani branch of the Fiagya rural bank limited in the Brong Ahafo region of Ghana because there are many SMEs set up in Sunyani and also the championing role of Fiagya Rural Bank in providing support to the SMEs.

Study Population

Amedehe and Gyimah (2002) defined population as the entire aggregation of cases that meet a designated set of criteria. This means that the target group about which the study is interested in gaining information and

drawing conclusion was SMEs in Sunyani who benefited from the credit and other services of Fiagya Rural Bank. Credit serves as the backbone of SMEs operation and the one of the main goals of Fiagya Rural banks is to provide credit to SMEs for socio-economic development. According to Fiagya Rural Bank, there were 386 SMEs that were in operation currently in Sunyani Municiapal.

Sample Size

With the aid of Krejcie and Morgan (1970) sample size formula, 156 SMEs were selected out of 386 to form part of the study. These SMEs operations fall under the following categories namely manufacturing, trade/commerce and service. These were SMEs who operate with Fiagya Rural Bank and have also received support from the bank. The Krejcie and Morgan (1970) formulae depicts; $\quad n = \dfrac{N}{1+N\,(e)2}$

Where:

n= sample size

N = Population size

e= error of margin

$$n = \dfrac{386}{1+386(0.08)2} = 156$$

Sampling Procedure

Sampling is the process of carefully selecting a portion of the population to present the entire population. According to Anthony-Krueger and Sokpe (2006), a sample is a representative of a population. Stratified sampling technique was used to select respondent from the SMEs. This was

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used because it assured the SMEs for each selected category have equal chance to be selected. It also helped in calculating how accurately the sample reflects the population from which the sample was drawn.

Sources of Data

This study relied on primary data. The reason for this was to provide adequate data for understanding more about the issue and the different variables that were involved. The primary data for the study was represented by the survey results that were acquired from the respondents through the administration of questionnaires. Primary data is original data collected directly by the researcher for the research work. The study adopted questionnaires, formal and informal interviews with clients, management and staff of the Fiagya Rural Bank.

Data Collection Instrument

Data, according to Frankel and Wallen (2000), is referred to as the empirical evidence or data that researchers carefully assemble based on specific procedures or rules. A collection of data, however, is needed by researchers to address research problems. The instrument used for the collection of data for this study is a questionnaire. The questionnaire contains relevant questions for this study. A questionnaire is usually about asking people questions to find out what they think or know about something. The questionnaires were verbally administered in Twi and English.

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Reliability and Validity

Reliability refers to the degree of consistency with which an instrument measures the attribute it is designed to measure (Wallen & Fraenkel, 2001). Pre-test of the research instruments was carried out in some SMEs to ensure that, high quality data collection instruments were used during the field work period. Five SMEs were used. Their views were collated and studied closely by the researcher and supervisor to remove ambiguous statements among others. All the necessary corrections and changes were made before the data collection.

According to Wallen and Fraenkel (2001), an instrument is valid if it measures what it is intended to measure and accurately achieves the purpose for which it was designed. Validity involves the appropriateness, meaningfulness, and usefulness of inferences made by the researcher on the basis of the data collected. The researcher needs some kind of assurance that the instrument being used resulted in accurate conclusions. Careful examination of the instruments was done to check inconsistency. The researcher also gave the instruments to the supervisors to vet for reliability and inconsistency before fieldwork.

Data Collection Procedure

Permission was sought from the management of Fiagya rural bank and the purpose of the instrument was specified and the essence of the study was also explained to inform their consent. After establishing the necessary contact with the managers and the various SMEs, permission was granted for the administration of the instrument. The researcher administered questionnaires to the selected respondents at their various retail business premises. The

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questionnaires were completed and given back to the researcher on the same day except few of them that were not around. The questionnaire was administered from 12:30 pm to 1:30 pm for two weeks. This time was favourable since it was the lunch time for most of the respondents.

Data Processing and Analysis

The statistical techniques employed in analysing data collected in this study was descriptive statistics, mainly frequency distribution and percentages were used to ensure easy understanding of the analyses. Tables were used to arrange facts and figures in columns and rows in order to effectively order and summarize the quantitative data. These facts and figures can be systematically examined. Also, percentages were used to show the distribution of respondents according to their responses by translating frequency counts into a percentage. The linear regression was used in ascertaining the impact of the rural bank on the growth of SMEs. The collected data was accumulated, categorized and analysed keeping in mind the objectives of the study. The analysis was done with the aid of statistical tools like Statistical Package for Social Science (SPSS) version 22 and Microsoft Excel and interpretations of data are based on statistical generalization.

The Linear Regression Model

The linear regression analysis was used to determine the impact of the rural bank on the growth of SMEs. Linear regression is an approach for modeling the effect between a scalar dependent variable y and one or more

explanatory variables (or independent variables) denoted X. The case of one explanatory variable is called simple linear regression. The equation has the form Y=a+bX, where Y is the dependent variable (which is customer care in this study), X is the independent variable (which is customer retention), b is the slope of the line and 'a' is the y-intercept.

The data obtained was analyzed and presented using a simple statistical tool called the Relative Importance Index (RII). Subsequently, the indices of the variables were ranked according to their relevance. The indices ranging from 0.71 – 1.00 were classified as high, 0.41 – 0.70 as medium and greater than 0.00 – 0.40 as being low.

The response categories ranged between "Strongly Agree" to "Strongly Disagree" which is subsequently divided into four point verbal-numerical scale. The verbal-numerical scale are SA= strongly agree, A= agree, DIS= disagree, and SD= strongly disagree formula below, the relative importance index of the various variables were determined: Relative Importance Index =

$$\frac{\Sigma w}{AN}$$

Where w is the weighting giving by the respondents ranging from one to five. "A" is the highest weight; which is four in this study and N is the sample size.

Chapter Summary

This section outlined the research methodology used to explore the research objectives in the study. It provided the justifications for the various research methods adopted. The research design, population and sampling methods were explained. A description of the study area was also given.

Again, the type of data, research instruments and procedures for data collection, ethical considerations and data analysis were elaborated. The results and interpretations of the study were detailed in the next chapter.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter considers the analysis of the data. It uses descriptive statistics, percentages and frequencies to describe the data that was collected. It was mainly based on the questionnaires administered to the respondents (SMEs). It aimed at examining the impact of Fiagya Rural Bank in the developing of SMEs in Sunyani Municipal. The return rate was 96.2 percent, thus, 150 out of 156 questionnaires were retrieved from the field which formed the basis for data analysis.

Demographic Information on Respondents

This section presents information on the demographic characteristics of the respondents, that is, sex, age, marital status, educational, religion, occupational status, household size and average monthly income. Table 1 gives the outcome from the study.

From Table 1, out of the 150 respondents who participated in the study, 66% were females while 34% were males. This means that majority of the respondents were females and this was because females dominate the number of customers in the rural banks.

Also, out of 150 respondents, 32% of the respondents were between the ages of 40-49 years, 25.3% were between the ages of 30 – 39 years, 22.7% were between 50-59 years, 12% were between the ages of 20 – 29 years and 8% of the respondents were at 60 years and above. This means that majority of the respondents who partook in this study were below 55 years of age. Thus,

the majority of the youth were saving, and this is the best period to save to cater for a pensioning and retiring period.

Table 1: Demographic Information

Variable	Category	Frequency	Percentage
Sex	Female	99	66
	Male	51	44
	Total	**150**	**100**
Age	20 – 29 years	18	12.0
	30 – 39 years	38	25.3
	40 – 49 years	48	32.0
	50 – 59 years	34	22.7
	60 years and above	12	8.0
	Total	**150**	**100**
Level of Education	No Formal Education	30	20.0
	Basic	36	24.0
	Secondary and Senior	57	38.0
	High	27	18.0
	Tertiary	**150**	**100**
	Total		
Religious Affiliation	Christianity	90	60.0
	Muslim	57	38.0
	Traditionalist	3	2.0
	Total	**150**	**100**
Type of Business	Sole proprietorship	117	78
	Partnership	30	20
	Limited Liability Company	3	2
	Total	150	100
Line of Business	Manufacturing	18	12
	Commerce	87	58
	Service	45	30
	Total	**150**	**100**
Number of Years in Business	1-5 years	15	10
	6-10 years	87	58
	11-15 years	48	32
	Total	**150**	**100**
Level of Capital	Ghc 100- 1000	80	53.3
	Ghc 1100-10000	33	22
	Ghc 11000-50000	27	18
	Ghc 51000-100000	10	6.7
	Above Ghc 100000	0	0
	Total	**150**	**100**
Number of Employees	1-9 people	135	90
	10-29 people	9	6
	30-99 people	6	4
	Total	150	100

Source: Field Survey (2017)

On educational background of the respondents, secondary education leavers had the highest number of respondents of 38%, followed by basic of 24% and tertiary leavers representing 18%. However, a significant number of the respondents, representing 20% of the respondents have had no form of formal education. This implies a relatively above average literacy rate among the respondents. Therefore, they were able to read and respond to the demands of the questions asked in the study

The study wanted to ascertain the type of business that respondents were engaged in. Table 1 indicates that majority of the respondents were into sole proprietorship, followed by partnership (20%) and 2% of them were into limited liability company. This means that majority of the respondents were into sole proprietorship.

On respondents' line of business, more than half of the businesses are in line with commerce (58%), 30% of the businesses are into services and 12% are manufacturing businesses. A lot of the businesses are in line of commerce, thus, it involves a lot of retailing business such as food stuff selling, fruit selling among others.

With the number of years of business operation, Table 1 shows that 10 percent of the respondents have been in businesses between the ages of 1-5 years, 58 percent of the respondents have worked between the ages of 6-10 years, and 32 percent of the respondents have worked for 11-15 years. This means that majority of the respondents have worked for not less than five years, but not more than ten years.

The level of capital required for operation of the respondents' business was also determined from the questionnaire. Table 1 shows that 53 percent of

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the respondents require GH¢100-1000 for their operation, 22 percent of the respondents require GH ¢1100-10000, 18 percent of the respondents require GH ¢ 11000-50000 and 6.7 percent of the respondents require GH ¢51000-100000. This means that majority of the respondents require less than GH¢10000 to operate because their business line involves commerce, which is full of retail businesses.

Concerning the number of employees in respondents' business, 90 percent of the respondents employ less than ten people, 6% of the respondents employ between 10-29 people and 4% of the respondents employ 30-99 people in their businesses. This means that majority of the respondents were employing less than ten people due to the nature of their business.

Type of Credit Facilities available for SMEs

Objective one sought to find out the type of credit facilities available for the various SMEs. In response, Table 2 contain the results.

Table 2: Sources of business capital for the respondents

	Frequency	Percentage
Self	91	41.9
Friends and relatives	41	18.9
Partnership	19	8.7
Banks	64	29.5
Microfinance institutions	2	1
Total	217	100

Source: Field Survey (2017)   Multiple response*

Table 2 shows that 41.9% of the responses indicated that respondents financed their businesses themselves, followed by 29.5% of the responses that indicated their source of funds from various banks, 18.9% of the respondents have their source of funds for their businesses from their friends. Only 1% of the responses have their source of funding of business from some microfinance institutions. This means that majority of the respondents were funding their businesses and this is because the nature of their own business does not employ more than ten people. Therefore, they can provide funds for such businesses.

The study also wanted to ascertain the number of respondents who had access to credit facilities from Fiagya Rural Bank. In response, the results are indicated in Table 3.

Table 3: Respondents' access to loans or credit from Fiagya Rural Bank

	Frequency	Percentage
Yes	135	90
No	15	10
Total	150	100

Source: Field Survey, Appiah (2017)

Out of the 150 respondents who participated in this study, Table 3 shows that 90% of them have access to loans or credit from Fiagya Rural Bank while 10% of the respondent do not have access. This means that majority of the respondents had access to the loans or credit given out by the Fiagya Rural Bank. The findings are in agreement with Yakubu (2004), who stated that rural banks offer such functions as accepting deposits from the community, granting loans, giving overdrafts and all the functions mentioned by the

respondents of this study. Ahiable (2012) also in a study, discovered that rural banks offer services including savings, mobilization of funds, direct services and offering of technical training and advice to its customers.

To find out how loans acquired from Fiagya Rural Bank differ from those in other rural banks and financial institutions, respondents were further asked to state from their experience how different are the loans acquired from Fiagya Rural Bank as compared to others banks or sources of funds for their businesses. The results are indicated in Table 4.

Table 4: Was loans or credit from Fiagya Rural Bank different from others

Response	Frequency	Percentage
Same	24	16
Reduced rate	21	14
High rate	6	4
Flexible repayment	99	66
Total	150	100

Source: Field Survey, Appiah (2017)

In assessing the loans or credit given out by the Fiagya Rural Bank and other financial institutions, Table 4 shows that 16% of the respondents see these loans or credit to be the same, 14% of the respondents perceived that the loans or credit of Fiagya Rural Bank is of a reduced rate in terms of their interest rate, thus, it has lower interest rate as compared to other banks, however, 4% of the respondents viewed their interest rate to be high. Nevertheless, 66% of the respondents perceived their services charge on loans or credit as flexible as indicated in the repayment arrangements. This means that credit or loans given out by the Fiagya Rural Bank were far better than

other financial institutions loans or credit given out to the people for their businesses in terms of the interest rate and the repayment arrangement. How respondents pay the loans was also determined. Table 5 contains the results.

Table 5: Repayment mode of the respondents

Response	Frequency	Percentage
Daily	78	52
Weekly	12	8
Monthly	60	40
At the end of the period	0	0
Total	150	100

Source: Field Survey, Appiah (2017)

Table 5 shows that 52% of the respondents pay their loans on a daily basis, followed by 40% of the respondents who pay their loans on monthly basis while 8% of the respondents do so on weekly basis. This means that majority of the respondents pay their loans on a daily basis and monthly bases.

How do respondents perceive the effect of the loan or credit taken from the Fiagya Rural bank on their nature of business? This was what the next question sought to answer. Respondents were therefore asked to state their perceptions on the bank's loan intervention to embark on their business.

Table 6: Perception of the respondents on Fiagya Rural Bank intervention towards their nature of business

	Frequency	Percentage
Average	60	40
Good	66	44
Very good	24	16
Total	150	100

Source: Field Survey (2017)

According to Table 6, 40% of the respondents perceived the intervention of Fiagya Rural Bank services towards their nature of business as average, 44% of the respondents viewed it as good and 16% of the respondents perceived it to be very good. This means that majority of the respondents perceived the services of the Fiagya Rural Bank towards their nature of business as good.

The impact of Fiagya Rural Bank on the growth of SMEs

The second objective of the study was to examine the impact of the services of Fiagya Rural Bank on the growth and operations of SMEs. This was analysed based on the number of employees, infrastructural development, production level/output, and raw materials. The descriptive results are presented in Table 7.

Table 7: The impact of Fiagya Rural Bank on the growth of SMEs

	Disagree	Slightly agree	Moderately agree	Highly agree
Increase the number of employees	4%	36%	60%	0
Expand infrastructure	0	34%	30%	36%
Increase production	0	10%	62%	28%
Increase sales	0	4%	52%	44%
Increase purchase of raw materials	2%	8%	50%	40%

Source: Field Survey (2017)

Table 7 shows that only 4% of the respondents disagreed that credit given to SMEs helps to increase the number of employees while the majority of the respondents agreed that credit given out by the Fiagya Rural Bank helps SMEs to employ a lot of people in their various businesses. On expansion of infrastructure, all the respondents agreed to the notion that credits accessed from Fiagya Rural Bank help their businesses to secure additional infrastructure for production. On sales, 44% of the respondents highly agreed that credit is given by the Fiagya Rural Bank helps SMEs to increase sales and this was supported by 52% of the respondents.

This means that all the respondents accepted the notion that it aids SMEs to increase sales. On raw materials, only 2% of the respondents did not see any increment in the purchase of raw materials while the majority of the respondents agreed that credit given by the Fiagya Rural Bank assist the SMEs to increase the purchase of raw materials for effective and efficient production.

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Furthermore, a regression analysis was adopted to find the effect of the SMEs acquisition of loans on the growth of SMEs. With this, accessibility of loans from Fiagya Rural bank formed the independent variable while the growth and operations of SMEs formed the dependent variable. The growth of the SMEs (dependent variable) were evaluated based on the number of employees, infrastructural development, production level/output, and raw materials. These items were aggregated and regressed with the independent variable. Since the number of employees, infrastructural development, production level/output, and raw materials measure the same variable; growth; their aggregation measures the same variable. This aggregation variable formed the dependent variable. The results are indicated in Table 8 and 9.

Table 8: Anova statistics

	Sum of squares	df	Mean square	F	Sig.
Between groups	.369	5	0.062	3.045	0.023
Within groups	40.699	145	0.043		
Total	41.068	150			

Source: Field Data (2017)

The One way analysis of variance test (F=3.045, sig. = 0.023) shows that there is a significant difference between the independent factors that impact on the growth of the SMEs. Thus, the variation caused by these independent variables is not by chance.

Table 9: Model Summary of the Regression

Model	R	R Square	Adjusted R Square	Std. Error	Sig.
1	0.620	0.385	0.384	0.869	0.000

Source: Field Data (2017)

R-squared is the coefficient of determination which tells us the variation in the dependent variables due to change in the independent variables. From the findings in the above Table 9, the value of the R squared is 0.385. This value gives the variation of the dependent variable explained by changes of the independent variable. The value of 0.385 indicates that there was a variation of 38.5% (0.385 * 100%) on the growth of SMEs due to acquisition of loans from the bank at 5% standard error. What this means is that 38.5% of the variations in the growth of SMEs are accounted for by accessibility of loans from the bank, and the remaining 61.5% are accounted by other factors contained in the standard error.

R is the correlation coefficient which shows the relationship between the study variables. The correlation coefficient ranges from 0 to 1. Values ranging from 0 to 0.5 are said to exhibit low correlation, values from 0.5 to 0.6 are moderate correlation while values from 0.6 to 1 are high correlation. From these findings, there was a strongly positive relationship between the study variables as indicated by 0.620. The regression mode is therefore stated as:

Growth of SMEs = 0.620 + 0.385*(operations of rural banks)

The impact of loans to SMEs from Fiagya Rural Bank on their operating profit margin over the last three years

This looks at how the services and loans/credit of Fiagya Rural Bank affected the profit margin of the SMEs. To answer this objective, respondents were asked to indicate their level of agreement or disagreement with statement relating to the effects of identified challenges on their operations. The data obtained was analyzed and presented using a simple statistical tool called the Relative Importance Index (RII). Subsequently, the indices of the variables were ranked according to their relevance. The indices ranging from 0.71 – 1.00 were classified as high, 0.41 – 0.70 as medium and greater than 0.00 – 0.40 as being low.

Table 10: The impact of loans to SMEs from Fiagya Rural Bank on their operating profit margin over the last three years

Statement	RII
Increase profit	0.88
Makes operational cost very low	0.81
Speed up operations	0.71
Reduces interest on credit	0.71
Reduces pressure on the business	0.69
Increase growth rate	0.68
Raw materials are secure on time	0.62

Source: Field Survey (2017)

From Table 10 above the relative importance indices of the various variables are: increase in profit (0.88), makes operational cost very slow (0.81), speed up operation (0.71), reduces interest on credit (0.71), reduces

pressure on the business (0.69), increase growth rate (0.68) and raw materials are secured on time (0.62). Generally, the greater the RII values, the higher respondents perceives the impact of the item. According to Johnson and LeBreton (2004), RII aids in finding the contribution a particular variable makes to the prediction of a criterion variable both by itself and in combination with other predictor variables. The highest RII value was recorded from increase in profit (0.88) which implies that respondents ranked this factor as having the greatest impact concerning the reason why they seek for loans from the bank.

Challenges SMEs face in accessing micro-credit

This objective was to examine the problems faced by the SMEs in accessing loans or credit from the Fiagya Rural Bank. Data was gathered on the cost of loan application, interest rate, collateral requirements, repayment mode among others and the results are presented in Table 10. However, respondents were first asked to indicate whether they face challenges in assessing credits from Fiagya Area Rural Bank. In response, Table 11 contains the results.

Table 11: Whether the respondents face challenges in assessing loans or credit at Fiagya Rural Bank

Response	Frequency	Percentage
Yes	96	64
No	54	36
Total	150	100

Source: Field Survey (2017)

Table 11 shows that majority of the respondents (64%) faced a lot of challenges in assessing loans or credit at Fiagya Rural Bank while 36% of the respondents do not face any challenge.

Table 12: Challenges faced by SMEs in accessing loans or credit from Fiagya Rural Bank

	Not at all	Moderate	High	Very high
Cost of loan applications	6%	90%	4%	0
Interest rate	2%	30%	18%	50%
Collateral requirement	8%	30%	14%	48%
Responses by officers (harsh)	42%	30%	20%	8%
Repayment mode favours my business	4%	26%	36%	34%
Training programmes	64%	30%	6%	0

Source: Field Survey (2017)

Table 12 shows that more than half of the respondents view interest rate of Fiagya Rural Bank as very high and supported by 18% of the respondents who see it as high while few (30%) of the respondents view it as moderate or normal. However, 2% of the respondents see the interest rate as nothing at all to influence their business. On the cost of application, majority (90%) of the respondents see it as normal rate while only 4% of the respondents rated it as high. This means that high cost of loan applications of credit of Fiagya Rural Bank is very high which prevents SMEs in accessing credit from it. Collateral requirement, 48% of the respondents rated it as very high, and it was supported by 14% of the respondents see the collateral requirements of Fiagya Rural Bank as high.

However, 30% of the respondents see it as normal requirements. This implies that majority of the respondents are obstructed with the collateral requirements by the Fiagya Rural Bank. On workers behaviour, majority of the respondents see them as normal. This means that Fiagya Rural Bank has a good quality of service.

Summary Chapter

The chapter centered on the analysis and discussion of the data. It used descriptive statistics, regression analysis as well as the Relative Importance Index to describe the data. It was mainly based on the questionnaires administered to the respondents (SMEs). It aimed at examining the impact of Fiagya Rural Bank on SMEs profitability and growth. First the chapter looked at the demographic data of the respondents. The remaining of the chapter was carried out in relation to the research objectives of this study.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

In this chapter, the significant findings and the valuable information obtained or achieved by this study have been carefully summarized. The chapter by far is made up of the summary of the research, and the conclusion drawn from this research study. Also, significant recommendations for further studies were given from the analysis of the available data in this study.

Summary of the Study

The study was to examine the impact of Fiagya Rural Bank in SMEs developing in Sunyani Municipal. Specifically, the study sought to;

1. analyse the impact of loans to SMEs from Fiagya rural bank on their operating profit margin over the last three years.

2. examine the impact of Fiagya rural bank on SMEs in expansion of their business

3. determine the challenges the SMEs face in accessing loans /credits from Fiagya rural banks.

The study employed the quantitative approach of a descriptive design of which the targeted population was SMEs who were clients of Fiagya Rural Bank. One hundred and fifty-six SMEs were selected with the aid of simple random sampling techniques. Questionnaire was the main data collection instruments.

Furthermore, the data were analysed with the help of statistical software known as Statistical Product for Service Solution (SPSS version

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22.0) and interpreted by using percentages and frequencies and presented by using tables, and charts using Excel 2013 version.

Key Findings

Majority of the respondents were into sole proprietorship. Among the businesses operated or managed by the respondents, more than half of the business is in line with commerce (58%), 30% of the businesses are into services and 12% are manufacturing businesses. With regards to the number of years of business operation, majority of the respondents have worked for not less than five years and not more than ten years. On the level of capital required for the operation of business, majority of the respondents require less than ¢10000 to operate and therefore, they could employ less than ten people due to the nature of their business.

More than one-fourth of the respondents financed their businesses with others relying upon banks. Majority of the respondents were having access to the loans or credit given out by the Fiagya Rural Bank. Among those who have access to these loans, majority of them have overdraft while few of them have loans from the Fiagya Rural Bank.

In assessing the loans or credit given out by the Fiagya Rural Bank and other financial institutions, it was found out that credit or loans given out by the Fiagya Rural Bank were far better than other financial institutions loans or credit given out to the people for their businesses.

A little above half of the respondents pay their loans on the daily basis and the monthly bases. Respondents agreed that credit is given to them by Fiagya Rural Bank help them to employ a lot of people or labour for their

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work, expansion of infrastructure, increase sales and securing of raw materials on time. Majority of the respondents agreed that credit from Fiagya Rural Bank aids in securing raw materials on time, followed by an increase in growth rate, increase profit (90%) reduces pressure on the business and speed up operation while few of the respondents disagreed with this notion.

Respondents faced a lot of challenges in assessing loans or credit at Fiagya Rural Bank which include; the collateral requirement, harsh response from officers of the Fiagya Rural Bank and lastly, interest rate.

Conclusions

The descriptive study was well conducted through appropriate methodology, and the following inferences were made over the findings based on the objectives of the study.

Among the sources of business capital for SMEs in the Sunyani Municipality included self, friends and relatives, partnership, banks and microfinance institutions. However, most of the respondents source their business capital through their own savings. Most of the respondents agreed that they have access of credit facilities from Fiagya Rural Bank and they pay the facility on a daily basis. Respondents also agreed that credit or loans given out by the Fiagya Rural Bank were far better than other financial institutions' loans or credit

Moreover, respondents agreed that access to credit from Fiagya Rural Bank helped them to increase their number of employees, expand their infrastructure base and increase sales. Additionally, they are able to increase purchase of raw materials which translates into increase in production. The

study indicated a positive relationship between access to loans and growth of SMEs and this translated into a 38.5% variation of the growth of SMEs being accounted for by accessibility of loans from the bank.

Lastly, respondents agreed that they encounter challenges in accessing loans from Fiagya Rural Bank. Among the challenges stated included cost of loan applications form, high interest rates and requirements for collaterals by the bank.

Recommendations

Based on the findings and conclusions drawn, the following suggestions are put forward for consideration;

Fiagya Rural bank should develop other special packages such as business advisory and consultancy services for SMEs and special loans/overdraft for SMEs since most of them stated that they finance their business themselves. Other packages the bank could look at, is SMEs insurance which could protect and save SMEs in times of disasters. Similarly, the bank could leverage its relationship with a large corporation and proceed to incorporate the SMEs to cross-sell an integrated package of products to the SMEs. Moreover, Fiagya Rural Bank can offer similar products across SMEs with a small customization to meet fir-specific or sector-specific needs.

Furthermore, Fiagya Rural Bank should increase the credit or loans allocated for SMEs since loans and credit affect SMEs profitability and growth. It will also be prudent if the bank could expand its credit base to cover more SMEs and develop strategies that could reduce the difficulties these SMEs face when accessing credit from the bank.

Lastly, loan applications should be given free of charge by Fiagya Rural Bank and items used as collateral could be reduced by grouping the SMEs to jointly and severally guarantee each other. In addition, the credit worthiness of SMEs could be ascertained and those with high credit scores could be given loans or overdraft at a reduced interest rate by Fiagya Rural Bank.

Suggestions for Further Research

The study found out that credit affect the number of employees, expansion of infrastructure base and increase purchase of raw materials and sales. Therefore, further studies should consider the effects of Rural banks on poverty reduction. Also, other researchers can also examine the challenges faced by households in accessing credit from rural banks.

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APPENDIX A

QUESTIONNAIRE

UNIVERSITY OF CAPE COAST

SCHOOL OF BUSINESS

DEPARTMENT OF FINANCE

QUESTIONNAIRE FOR RESPONDENTS

I am a Master of Business Administration-Finance student from the School of Business of the University of Cape Coast conducting a study on the topic **"the impact of Rural Banks in developing SMEs in Sunyani Municipality (A case study of Fiagya Rural Bank).** The study is purely for academic purpose. Your identity would neither be required nor disclosed in any way and confidentiality would be strictly assured.

INSTRUCTION

Please tick or provide responses to the questions in the spaces provided:

SECTION A: BACKGROUND OF RESPONDENTS

1. Sex: a. Male   [   ]   b. Female   [   ]

2. Age: a. below 20 [   ]   b. 20-29   [   ]

     c. 30-39   [   ]   d. 40-49 [   ]

     e. 50-59   [   ]   f. 60 and above [   ]

3. Marital status: a. Married [   ] b. Divorced [   ]

     c. Widowed [   ] d. Single [   ]

4. Religion: a. Christian [   ] b. Muslim   [   ]   c. Traditionalist   [   ]

5. Educational level:

a. No formal education   [   ]

b. Basic education   [   ]

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c. Secondary   [   ]

d. Tertiary   [   ]

e. Others specify:………………… …………………………………………

6. What type of business do you engage in?

a. Sole proprietorship [   ]

 b. Partnership   [   ]

 c. Limited Liability Company [   ]

7. What is your line of business?

a. Manufacturing [   ]

b. Commerce   [   ]

c. Service   [   ]

d. Others (Please specify)...

8. How many years has the business been in operation?

a. 1 – 5 years   [   ]

b. 6 – 10 years   [   ]

c. 11 – 15 years [   ]

9. What is the level of capital required for the operations of this business?

a. Ghc 100 – 1000   [   ]

b. Ghc 1100- 10000   [   ]

c. Ghc 11, 000 – 50, 000   [   ]

d. Ghc 51,000 – 100, 000 [   ]

e. Above Ghc 100,000 [   ]

10. What is the number of your employees?

a. 1-9 people   [   ]

b. 10-29 people   [   ]

c. 30-99 people   [   ]

SECTION B: SOURCES OF FUNDS AVAILABLE TO SMES

11. What is (are) the source(s) of your business capital? (Tick as many as apply)

        a. Self   [   ]

        b. Friends &Relatives   [   ]

        c. Partnership   [   ]

        d. Banks   [   ]

        e. Microfinance institutions [   ]

        f. Others specify:………...................

12. Have you accessed loans or credit from Fiagya Rural Bank before?

        a. Yes [   ]   b. No   [   ]

13. If yes, state the type of credit facilities you received from Fiagya Rural Bank

        a……………………………………..

        b……………………………………..

14. How different was that from other loans?

        a. Same [   ]

        b. Reduced rate [   ]

        c. high rate   [   ]

        d. Flexible repayment   [   ]

        e. Others specify …………………………………..

15. What was the repayment mode?

        a. Daily   [   ]

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b. Weekly   [   ]

c. Monthly   [   ]

d. At the end of the period [   ]

e. Others specify………………………

16. What is your perception of Fiagya Rural Bank intervention towards your nature of business?

a. Very bad [   ]   b. Bad [   ]   c. Average [   ]

d. Good [   ]   e. very good [   ]

SECTION C: THE EFFECT OF FIAGYA RURAL BANK ON THE GROWTH OF SMES

17. What effects have loans accessed from Fiagya Rural Bank had on the growth of your business?

Effects	Disagree	Slightly agree	Moderately agree	Highly agree
Increase the number of employees				
Expand infrastructure				
Increase production				
Increase sales				
Increase purchase of raw materials				

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SECTION D: THE IMPACT OF LOANS TO SMES FROM FIAGYA RURAL BANK ON THEIR OPERATING PROFIT MARGIN OVER THE LAST THREE YEARS.

18. How do the loans accessed from Fiagya Rural Bank affect your operation?

Effects	Disagree	Slightly agree	Moderately agree	High agree
Increase profit				
Makes operational cost very low				
Speed up operations				
Reduces interest on credit				
Reduces pressure on the business				
Increase growth rate				
Raw materials are secure on time				

SECTION F: CHALLENGES SMES FACE WHEN ACCESSING

MICRO-CREDIT

19. Do you face challenges in accessing credit from the Rural Banks in the

municipality?

      a. Yes [   ]   b. No [   ]

20. If yes, what are these challenges?

      a. High Interest rate   [   ]

      b. Collateral requirement   [   ]

      c. Harsh responses by officers [   ]

      d. Others specify ……………………………………………

21. Rank the following challenges as you have encountered in accessing micro

credit

Challenge	Not at all	Moderate	High	Very high	Extremely high
Cost of loan applications					
Interest rate					
Collateral requirement					
Responses by officers (Harsh)					
Repayment mode favours my business					
Training programs from the MFIs					

Thank you