UNIVERSITY OF CAPE COAST

THE ROLE OF RURAL AND COMMUNITY BANKS IN PROVISION OF CREDIT FACILITIES TO THE SMALL AND MEDIUM ENTERPRISES IN GHANA; A CASE OF EKUMFIMAN RURAL BANK

BY

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Dissertation submitted to the Department of Finance of the School of Business, College of Humanities and Legal Studies, University of Cape Coast in Partial Fulfillment of the Requirements for the Award of Master of Business Administration Degree in finance

SEPTEMBER 2021

DECLARATION

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: Francis Afari

Supervisor's Declaration

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

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

Name: Prof. Siaw Frimpong

ABSTRACT

The study sought to assess the role of rural banks in the provision of credit facilities to the small business sector in the Ekumfi District. The purpose of the study was achieved by considering Ekumfiman Rural Bank as a case. The study employed descriptive statistics as the research design and quantitative research approach. A sample of 218 respondents was considered under the study. A questionnaire was used as the data collection instrument. The study found out that collateral, creditworthiness, guarantors, profitability, borrowers repayment history, the capacity of the bank to grant the loan, cash flow statement, earnings, character were factors that determine lending decisions at Ekumfiman Rural Bank. In relation to benefit of the provision of credit, the study found out that loans ensure business expansion, help people better manage financial distress, payment of fees, enhance or diminish consumer and social welfare and lastly, help manage large debts. The study also analysed the factors leading to credit default among clients of Ekumfiman Rural Bank. These included customers' business failure, diversion of loans, loans for social purposes, inadequate monitoring, inadequate security, inadequate documentation, inadequate appraisal, staff influence, inadequate credit staff, staff attitude. Lastly, the study also assessed the areas and criteria for an appraisal done by rural banks before credit is given to customers. Also, areas such as the character of the client, credit utilization experience, the extent of involvement in the business, entrepreneurial quality, cash flow statement, repayment history, distribution channel, size and strength of the existing market were considered before credits are being advanced to customers. The study recommended that proper and adequate monitoring teams must be established to monitor what the customers use the loaned funds for.

ACKNOWLEDGEMENTS

I owe a huge debt of gratitude to my supervisor, Prof. Siaw Frimpong for his time, patience, advice, and brilliant contributions and feedback that helped me finish this project.

My profound gratitude to each and everyone who contributed immensely to the completion of the work.

DEDICATION

To my wife, Stella Ayibella Azika and Children Pantsil Oppong Tawiah Fynn, Adwoa Kyei-Nimako Danquah and Kofi Kwaw Tawiah-Fynn

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CHAPTER ONE

INTRODUCTION

The introduction of Rural banks and Community banks into the Ghanaian economy has contributed enormously to the reduction of the high incidence rate of poverty on the rural folks, especially the poor in Ghana. Rural banking as a term generally refers to the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to the poor and low-income households and their micro-enterprises in the rural area (Khawari, 2004). This study seeks to analyse the role of rural banking and community banks in the provision of credit to Small and Medium Enterprises in Ghana."

Background to the Study

According to Otero (1999), the aim of a rural bank is not only to provide capital to the poor in order to tackle poverty on an individual level in the rural sector. It also has a position at an institutional level. It aims to establish institutions that provide financial services to the vulnerable, who are often overlooked by the formal banking system. Littlefield and Rosenberg (2004), argue that the poor are largely excluded from the financial services sector of the economy so rural banks have arisen to counter this market failure in the form of financial services to poor. Rural banks can become part of a country's formal financial system and thereby access capital markets to finance their lending portfolios, enabling them to significantly expand the number of poor they can cover (Otero, 1999). Rural banks play a vital role in achieving the Millennium Development Goals, according to commentators such as Littlefield, Murduch, and Hashemi (2003), Simanowitz and Brody (2004), and the IMF (2005).

Rural banking and microfinancing, according to Simanowitz and Brody (2004), is a crucial strategy for achieving the Sustainable Development Goals and developing global financial structures that meet the needs of the poorest people. According to Littlefield, Murduch, and Hashemi (2003), rural banking is a vital contextual element that has a significant effect on the SDGs' achievement. As a result, the rural bank is unique among development initiatives in that it can provide social benefits on an ongoing, permanent, and large-scale basis. Rural banking also helps to protect poor farming households from the acute vulnerability that they face on a daily basis. Loans, investments, and insurance will help to smooth out income volatility and keep spending levels consistent even during lean times. The availability of these financial services serves as a shield against unexpected crises, market risks, seasonal slumps, or incidents such as floods or even a family death, which can lead to financial ruin (Littlefield, Murduch & Hashemi, 2003).

Pischke (2005), on the other hand, defines a line separating the formal and informal financial sectors. Many living outside the border, he claims, may not have daily access to formal financial services. They are a diverse group with varying degrees of financial exclusion and varying distances from the poverty line in their respective countries (Hulme & Mosley, 1996). In this regard, microfinance essentially aims to provide financial support to those who have been overlooked by commercial banks over time.

Families that engage in rural bank programs have an improvement in household income, according to overwhelming evidence (Murdoch & Haley, 2002). Consumption smoothing and the potential to maintain gains over time are also advantages (Khandker 1998; Murdoch & Haley 2002; Simanowitz & Walter 2002; Wright 2000). More than just household income is influenced by rural banks. According to studies, rural banks have a significant impact on the poor's nutrition and health, especially for their children (Wright, 2000). Some schools of thinking, however, remain skeptical about the position of rural banks in Ghana's growth and poverty alleviation. While recognizing the role rural banks can play in reducing poverty by providing services to the poor and small businesses, Hulme and Mosley (1996) found that most current schemes are less successful than they should be. The authors stated that rural banks are not a panacea for poverty alleviation, and that in some situations, they have made the poorest people worse off (Hulme & Mosley 1996).

Despite this, rural banking has emerged as a leading and successful strategy for poverty reduction with the potential to have a far-reaching impact on the lives of the poor in countries all over the world. It is argued that rural banks will help achieve the Sustainable Development Goals (SDGs) as well as National Policies aimed at reducing poverty, empowering women, assisting disadvantaged communities, and raising living standards.

It is critical to ensure that everybody, including the poor in SMEs, has access to capital for investment in order to bridge the gap between the micro-economy, individual opportunities, and the macroeconomic output of the economy. As a result, in a country like Ghana, where SME creation is a priority, it's critical to consider the position of certain credit facilities. Given the benefits rural banks have provided to the poor in Asia and Latin America, Ghana could not help but enter the ranks of the many developing countries that have embraced rural banking as a means of reducing or alleviating poverty among the country's rural residents and SMEs.

For a variety of reasons, the evolution of rural banks and their effect on poverty alleviation in Ghana over time is worth studying. Rural banks in Ghana have grown from strength to strength since their inception, especially in the case of Ekumfiman Rural Bank. Once the activities of rural banks have become established in Ghana, it is essential to assess their contribution to poverty alleviation and the effect they have on their clients. However, the question is whether rural banks will be able to significantly reduce poverty in Ghana by providing credit to the SMEs sector.

Rural banks, according to Morduch (1999), are one of the few economic projects that can provide adequate competencies for successful credit provision. It is paramount to know more about the position of rural bank in the provision of credit in Ghana particularly in Ekumfi in the Central Region of Ghana. The current trend of rural banks in credit provision necessitates an examination of their position at all levels of the economy, especially in the small and medium enterprise sector. As a result, rural banks have proved to be an important and efficient tool for poverty reduction through credit provision.

The SMEs is regarded as one of the most important sectors in any economy. The sector is in charge of generating revenue for the government by paying taxes to the government. In addition, the industry has created a large number of jobs. This has boosted the economy. Investing in the small and medium enterprise would not only improve the individual well-being of the people but also reduction in poverty level in Ghana. As a result, it is imperative to research ways to boost small and medium businesses.

This study therefore seeks to assess the role of rural banks in the provision of credit to the small and medium enterprise. Rural banks still have a long way to go in the poverty alleviation in Ghana. It is against this backdrop that this research needs to be carried out to help identify the roles of rural bank in poverty alleviation through provision of credit to small and medium enterprises.

Statement of the Problem

Poor people need access to financial markets, according to a World Bank (2017) report. Low-income households and microenterprises, like all economic agents, will benefit from credit, savings, and insurance services. These programs assist the vulnerable in reducing risk in the face of volatile agricultural yields and costs, economic shocks, and even natural disasters. Larger investments can be made more accessible with the aid of savings and credit facilities, allowing people to take advantage of profitable market opportunities and improve their earning capacity (World Bank, 2018).

Several studies have identified various factors that contribute to a country's poverty. Some claim that one of the causes of poverty in developed economies is that the poor lack access to credit for working capital and small business investment (Chummun & Bisschoff, 2014). Aryeetey et al. (1996) found that the methodologies used by banks in awarding loans, as well as the processes and principles for developing services by banks, are a major barrier to obtaining loans from financial institutions. The methodologies cover how financial institutions deal with issues including lack of knowledge, high transaction costs, risk management, and funding sources (savings mobilization, grants, credit lines, and capitalization), which in many cases limit SMEs' access to loans due to conditions imposed by banking methodologies.

Inadequate financing and credit arrangements in Ghana stifle the growth of companies, especially small and medium-sized enterprises in rural areas (Chummun & Bisschoff, 2014). Given that these industries provide the primary source of income for a significant portion of the population, their poor output makes combating poverty much more difficult. SMEs must be well-capitalized and possess the necessary skills and expertise in business-related activities in order to boost their livelihood security and contribute meaningfully to the nation's GDP. They should be in good health and capable of and eager to work hard. This necessitates the provision of credit to SMEs in order for them to obtain the requisite education, skills, and inputs, resulting in higher revenue, profitability, and improved livelihoods.

Series of studies have done in relation to role of financial institution in terms of credit provision. However, limited studies have been done on the role of rural banks in credit provisions. Despite this evidence, the question whether Rural Banks play any role in providing credit to SMEs remains unanswered. It is against this backdrop that this study seeks to examine the role of rural bank in the provision of credit facility to the small business sector in the Ekumfi District in the Central Region of Ghana.

Purpose of the Study

The general objective of the study is to assess the role of rural and community banks in the provision of credit facilities to the small business sector in the Ekumfiman District.

Research Objectives

The specific objectives of the study are to:

1. examine factors that determine lending decisions at Ekumfiman Rural Bank.
2. evaluate the purposes for credit advancement at Ekumfiman Rural Bank.
3. examine benefits customers derive from accessing loans from Ekumfiman Rural Bank.
4. analyse the factors leading credit default among clients of Ekumfiman Rural Bank.
5. assess the factors used in the appraising customers at Ekumfiman Rural Bank.

Research Questions

The study will be guided by the following research questions:

1. What are the factors that determines lending decisions at Ekumfiman Rural Bank?
2. What are the purposes for credit advancement at Ekumfiman Rural Bank?
3. What are the benefits customers derive from accessing loans from Ekumfiman Rural Bank?
4. What are the factors leading credit default among clients of Ekumfiman Rural Bank?
5. What are the factors used in the appraising customers at Ekumfiman Rural Bank?

Significance of the Study

The study will be useful to rural banks, economists, policymakers, government officials, and non-governmental organizations (NGOs) who want to understand the role of rural banks in poverty alleviation through credit provision to SME's and ensure successful poverty alleviation programs to promote effective economic growth and development. The research will also aid in improving the performance of Ghana's rural banks.

The study's findings may also aid in identifying the challenges that rural banks face when it comes to credit provision and suggesting solutions. The flaws found could be useful to financial institution stakeholders who are looking for solutions to problems. As a result, the study's findings would provide consistent guidelines for policy development in the field of poverty reduction. Finally, the findings of this study will add to what is already known about the position of rural banks in poverty alleviation through SMEs credit provision. The findings may be used as a starting point for future research in rural banks and related fields of study.

Delimitation of the Study

The study sought to explore the role of rural and community banks in the provision of credit facilities to small and medium enterprises using Ekumfiman Rural Bank as a case. In this regard, the scope of the study was limited to the setting within which the study was conducted, which is Ekumfiman Rural Bank. The findings of the study cannot be generalized to other rural banks within the country even though majority of these banks are situated in similar socio-economic settings and hence share similar mode of administration.

Limitations of the Study

This study will be limited by a high cost of collecting data from the respondents at different times at the Ekumfiman Rural Banking hall. Moreover, the researcher will be limited in the timeframe to complete the study within the stipulated time period allotted by the college. In addition, it will be difficult at certain times to access information from respondents at the Ekumfiman Rural Bank due to expected excessive pressure from clients trying to either apply for new loans for their businesses. Accuracy of data that will be provided, especially, by service providers may be a problem and might affect the findings of the study.

Organisation of the Study

The research is divided into five parts. The first chapter covers the context to the project, the problem statement, the study's goals, research concerns, the study's meaning, as well as the study's delimitation, restriction, and organization. The second chapter examines relevant literature on microfinance institutions and their position in credit provision in general. It provides the study's theoretical and conceptual context, as well as empirical proof. The study's methodology, which included the research design, study field, target population, data sources, sample and sampling procedures, research instrument, data collection procedure, and data analysis procedures, was discussed in Chapter 3. The fourth chapter discusses the study's conclusions and their implications. The study's overview, findings, and recommendations will be discussed in Chapter 5, which is the final chapter.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter delves into some of the fundamentals of microcredit and the provision of credit to small and medium-sized businesses. The definition of microfinance, the growth of microfinance institutions in Ghana, types of microenterprises, microfinance products and services, the provision of microfinance services to clients, minimal equity requirement, microfinance institution organization, poverty alleviation and development, challenges of microfinance institutions, empirical studies, and the microfinance triangle are all discussed in this chapter. Economic and psychological theories serve as theoretical foundations for this research.

Theoretical Review

Access to credit is thought to be a critical factor in small business growth. Credit is thought to increase wages, create employment, and thereby minimize poverty. Poor people are thought to benefit from access to credit because it allows them to overcome their liquidity constraints and invest in things like farm technology inputs, resulting in an increase in agricultural production (Hiedhues, 2005). The main aim of microcredit, according to Navajas et al. (2000), is to improve the welfare of the poor by providing better access to small loans that are not offered by conventional financial institutions. Inadequate credit access by the poor just below or just above the poverty line, according to Diagne and Zeller (2001), may have negative consequences for SMEs and overall welfare. Credit boosts SMEs' risk-taking skills, increases risk-taking strategies, and allows for consumption smoothing over time. Based on these arguments, microcredit is thought to improve the well-being of the vulnerable. Rural banks with a high outreach and financial sustainability, it is said, have a better livelihood and also have a positive effect on SME growth because they provide poor people with long-term credit access.

Buckley (1997) claims that the performance metrics for microcredit programs, such as high repayment rates, outreach, and financial sustainability, ignore the effect on microbusiness operations, instead concentrating solely on "microfinance evangelism." After conducting research in three countries: Kenya, Malawi, and Ghana, Buckle (1997) concluded that there was little evidence to suggest that microfinance services had any significant and sustained impact on clients in terms of SME development, increased income flows, or level of jobs. This supplement argues that increasing poor people's access to microfinance and the economy is inadequate unless it is followed by technological and/or methodology improvements. According to Zeller and Sharma (1998), micro-credit will aid in the development or start of a family company, potentially bridging the gap between poverty alleviation and a financially secure life. Microfinance, on the other hand, according to Burger (1989), appears to stabilize rather than raise income and to maintain rather than build employment.

The village bank credit, according to Coleman (1999), did not result in a substantial increase in physical assets. The women were forced to borrow from money lenders at high interest rates to repay the village bank loans so that they could qualify for more loans because they used the money from the village banks for consumption. The study's key finding was that credit was not an important tool for lifting the poor out of poverty or improving their economic situation. It also concluded that the poor are too poor due to a number of other factors, including a lack of access to markets, price stocks, and unequal land distribution, but not a lack of credit. This was a point of agreement between Adams and Von Pischke (1992).

Household income continues to decrease as debtors' income and asset status improves, according to Mosley and Hulme (1998). Diagne and Zeller (2001) found in a study conducted in Malawi that microcredit has no significant effect on household income, suggesting that it has no impact on SME growth. Investing in SME activities would have little impact on household income because the infrastructure and demand for them are not built.

Female empowerment as an effect measure, according to some studies, has a negative impact on microcredit (Goetz & Gupta, 1994; Ackerly, 1995; Montgomery et al, 1996). The majority of married women had no leverage over the loans they took out, according to a "managerial impact" index used as a measure of women empowerment. The credit program, on the other hand, was mostly aimed at women. The administration of the loans is done by men, which prevents the development target of lending to women from being met (Goetz & Gupta, 1994). (1994, Goetz & Gupta). Women are disadvantaged when it comes to credit, according to evidence from an accounting knowledge as a measure of women empowerment (Ackerly, 1995).

Credit Rationing Theory

The credit rationing theory was used in the analysis of the effect of financial institutions' credit on the development of SME. Credit rationing refers to lenders limiting the amount of additional credit available to borrowers who need money, even if they are willing to pay higher interest rates. As a result, demand exceeds supply at the current market interest rate, but lenders are unwilling to either loan more money or raise the interest rate charged. This hypothesis proposes that a group of people in the population are unable to receive loans at any interest rate with a given supply of credit, despite the fact that they will be able to do so with a large supply of credit (Converse, Fermand, Rachmanto & Tao, 2012). This hypothesis was used in the study because bank and non-bank financial institutions are worried about lending money to SMEs that will repay it or to borrowers who will not default after taking out a loan. According to the report, incomplete knowledge is the primary explanation why certain lending institutions opt to exempt such borrowers" (Atieno & Shem, 2001).

Conceptual Review

This section delves into the different principles that underpin the research. SMEs, the position of rural banks, and other main concepts are discussed.

SME (Small and Medium Business)

Small and Medium Enterprises (SME) are privately owned and operated companies, partnerships, or sole proprietorships with few employees and a low sales volume. There is no generally agreed-upon concept of a small or medium-sized enterprise. As a result, a number of definitions have been proposed for academic purposes. Surprisingly, these various concepts from around the world generally consider the number of people working in the sector as well as the company's asset base.

On the other hand, numerous studies have attempted to define a consistent definition using a variety of methods, the most popular of which is the number of employees working approach. Furthermore, the concept of a small business varies by region. SMEs, for example, are defined as businesses with 15 to 500 employees under the Australian Fair Work Act 2009, while the European Commission defines them as businesses with fewer than 250 employees. Small businesses are typically run by a single individual, with the owner making all of the big decisions. Other studies go into greater depth about the unique existence of SMEs. The characteristics of SMEs are very common in many countries around the world, according to research findings on SMEs. Among the most notable of these findings is Mwaniki's African trust research project for the International Network of Alternative Financial Institutions (INAFI) (2006). SMEs, according to the European Commission (2003), are companies with less than 250 employees, an annual turnover of less than EUR 50 million, and a balance sheet of at least EUR 43 million.

The centre for Assistance to SMEs (CASME) in Cameroon also describes SME as an enterprise that is fully owned and operated by the Cameroonian, with an owned capital of at least 52 percent , 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). (Enquobahrie, 1997). It has become evident in Ghana that the trend of defining SMEs is a reaction to the changing economic climate. The longer the term has lasted, the more stable the world has become. SME is described as any business with a capital base of between GH100 and GH10000 and an average of one to fifteen employees in this study. Based on the definition provided by the Bank of Ghana, this choice of definition is accepted.

The most popular concept of a small business in the country is based on the total number of workers. With this standard, however, there are controversies with the cut off points used by the various official records (Dalitso & Quartey, 2000). (Dalitso & Quartey, 2000). Small businesses are described by the Ghana Statistical Service (GSS) as those with fewer than ten employees, whereas medium and large businesses have more than ten employees. Small-Scale Enterprises are described by the National Board for Small Scale Industries (NBSSI) as businesses with less than nine employees and plant and machinery valued at less than GH10 million (excluding property, buildings, and vehicles). SMEs are divided into four categories by Osei, Baah-Nuakoh, Tutu, and Sowa (1993); micro enterprises have less than six employees; (ii) very small enterprises have six to nine employees; small enterprises have ten to 29 employees; and medium sized companies have between 29 and 50 employees.

Furthermore, those characteristics and attributes can be linked to major businesses in Ghana's economy. The biggest problem or obstacle has been determining how to locate and recognize these businesses as SME's. SSNIT, as quoted in Mensah's work, is a good example of a straightforward case scenario (2004). According to data from the Social Security & National Insurance Trust (SSNIT), Ghana's private sector is highly skewed, with 90% of businesses employing less than 20 people and a limited number of large-scale businesses. As a result, for the purposes of this report, SMEs are described as companies with fewer than 50 employees.

History of Rural Banking in Ghana

In 1976, the Bank of Ghana launched the rural banking scheme in Ghana. This was achieved, however, after a 1970 analysis of the rural credit system exposed a huge gap in the current banking and credit system, with inadequate funds flowing to a large number of small-scale farmers who needed credit the most. Consequently, a team from the Bank of Ghana was sent to the Philippines to research the operations of their rural banking system based upon which they launched the rural banking system in 1976. Since it was one of the few countries that had successfully run such banks on a large scale, the Philippines was chosen. The other explanation was that their stage of economic development seemed to be more important to ours regarding rural economic problems and small-scale farming system.

The first Rural Bank, however, opened in Agona Nyarkrom in the Central Region in July 1976, and it took eleven years for it to become operational (1976-1987). The program was implemented in each of the country's ten regions. By 1987, 117 Rural Banks in Ghana had accounts with 14 percent of the rural population, or 553,000 individuals. Deposits totalled GH¢2.2 billion and deposits per person had climbed 2,913 over this time to hit GH¢3,978 ($US 25.87 at the prevailing exchange rate) in 1987.

The loan portfolio for the program was estimated at $US4.12 million, or $634 million. The Rural Bank program was extremely successful during its first decade of service. However, by the late 1980s, many individual Rural Banks were struggling and failing to meet their specified goals. The government attempted to reintroduce the policy through a macroeconomic and financial liberalization effort that began in 1988, as well as a Rural Bank consolidation effort that began in 1990. Despite these efforts, by the mid-1990s, the 115 Rural Banks were unable to meet their commitments and were financially struggling (Amonoo, 1977). These may be linked to issues that have hampered rural people's businesses. Small loans intended for previously identified classes were instead channeled to government employees and middle-income consumers. Farmers were allowed to put up their land as collateral, but the majority of them did not, and many of them still do not own the land they farm on today. As a result, institutional credit was out of control for Ghana's small landowners.

As a result, rural banks were more hesitant to lend to their target demographic (thus farmers, fishermen and many others in rural industrial activities). Instead, banks gave credit to salaried employees, who were thought to be less risky because of their daily salaries. As a result, the banks began to deviate from the scheme's legislative credit allocation requirement. The percentage of total credit provided to agriculture dropped by half between 1977 and 1988. According to Udry (1994), by 1988, the credit scheme had become inadequate due to a dependence on seasonal agriculture, a relatively high rate of default loan payments, and a high cost of credit management. The activities of rural banks were led by a set of primary goals and objectives.

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.

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 the transportation cost of beneficiaries.
4. Rural Banks are trustworthy since they have built their reputations in communities, they operate.

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 a 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 face a variety of challenges when starting up and running their businesses. Due to a lack of economies of scale, they are unable to bear high fixed costs. In Ghana, access to finance remains a major constraint for small businesses. According to reports, credit was cited as a major constraint by 38% of SMEs polled in 1995. (Parker, Riopelle & Steel, 1995). Since SMEs have restricted access to both the domestic and foreign capital markets, this is the case. This is due in part to the SME business sector's perception of high risk, knowledge barriers, and increased intermediation costs. As a result, SMEs are unable to secure long-term debt or equity financing. Banks are hesitant to invest in SMEs in developing countries because they are considered to be too risky. As a result, banks consider SMEs to be high-risk, and monitoring their activities costs them money. According to Sia (2003), banks are hesitant to lend to SMEs because they are deemed high-risk. Banks are wary of investing in SMEs because they have little financial resources, assets, and can easily go bankrupt in the event of a business failure (Sia, 2003).

One of the difficulties faced by small and medium-sized business owners is determining where to go for external funding and at what time and expense. The two key types of external funds have been listed by many researchers as equity and debt financing (Hisrich & Peters, 2002; Hodgetts & Kuratko, 2001; Megginson et al, 1994). Furthermore, due to various conditions imposed by the security and exchange commission (SEC) and the Ghana Stock Exchange, most small and medium-sized companies are unable to raise funds through the issuance of stock.

Equity financing is described by Hisrich and Peters (2002) as "obtaining funds for the business in return for ownership" (pg.366). Personal investments, Small Business Investment Companies (SBICs), and customers are among the numerous sources of equity funding listed by the authors. They also said that, unlike debt financing, equity financing does not necessitate the pledging of any security or collateral. The investor, on the other hand, is entitled to a share of the company's ownership. Debt financing is a type of financing that uses an interest-bearing instrument, typically a loan, that must be repaid on a set date. Personal investments, friends and families, investment capital, investors; internal funds trade credit, commercial banks rural banks, small business administration; and other private sources such as insurance firms, finance companies, and other factors are all significant sources of debt capital for small and medium-sized businesses.

Furthermore, the cost of borrowing from these banks for short-term funds is heavy, which prohibits SMEs from borrowing (Meagher, 1998). For

SMEs, the application process for short-term funds is lengthy and difficult to follow (Hossain, 1998). Banks typically include fixed assets as collateral for loans, which most SMEs do not have. 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). Knowledge asymmetry is the most significant barrier to SMEs receiving support from outside sources. This is the degree to which the lending institutions' requirements for information accuracy are violated (Bakker, Udell, & Klapper, 2004). Cash flows and profitability are used by banks to assess a company's worthiness. This is a very costly and ineffective way of assessing SMEs' creditworthiness. Social factors affect rural production and distribution, which are often overlooked by companies in developed countries (Otero, 1994).

Similarly, SMEs face challenges in obtaining sufficient technologies and knowledge about their operations. This limits the scope for creativity. According to research, old equipment is one of the most important barriers to SME expansion for 18 percent of SMEs and 18.2 percent of 18.2 percent (Aryeetey, Baah-Nuakoh, Duggleby, Hettige & Steel, 1994). In addition, SMEs employ rudimentary equipment that does not necessitate the use of highly skilled staff. However, where skilled workers are needed, a scarcity of qualified workers can limit specialization options, raise costs, and limit the versatility with which SME operations are managed. Again, high start-up costs for SMEs place undue and unnecessary burdens on the businesses. This is compounded by high legal dispute resolution costs and needless delays in court proceedings. Inadequate property rights security also limits SMEs' access to foreign technologies. Furthermore, one of the major challenges facing SMEs is the entrepreneurial capacity needed to effectively and efficiently manage the production process. Despite the fact that SMEs attract inspired bosses, they are unable to compete with larger corporations. There is a scarcity of management experience, which has a disproportionate impact on SMEs. There is also a lack of support systems for SMEs due to ineffective cost-effective management solutions. Again, a lack of awareness and time to take advantage of available resources results in low demand.

In addition, there is a lack of cohesiveness among SMEs, which limits their ability to support their collective concerns and effectively collaborate in civil society. In comparison to those within larger companies, associations that represent the interests of SMEs in the policy-making process have lower participation rates. Several of these organizations have yet to make the transition from their protectionist goals to competition goals. Inadequate markets for small-scale enterprises' goods are another barrier. Since the majority of small-scale businesses manufacture low-quality goods, patronage for their products is also low (Awiah, 1996). The majority of Ghanaians prefer international products to local ones. Poor transportation networks often make rural businesses unavailable, and government trade liberalization policies are a challenge to SMEs (NBSSI, 1994).

SMEs in developing countries face various obstacles when it comes to obtaining credit. Despite most countries' wide-ranging financial reforms and the presence of a variety of financial institutions, Steel and Webster (1991) observed that Access to capital remains a major stumbling block for small businesses. Respondents in a survey conducted by Parker et al. cited credit restrictions related to working capital and raw materials . Credit was listed as a constraint by 38 percent of the SMEs surveyed in Ghana, and 17.5 percent of the total sample in Malawi, according to Aryeetey et al. (1994). (Daniels & Ngwira, 1993). This is due to SMEs' restricted access to both domestic and foreign capital markets. As a result, SMEs often struggle to access long-term debt and equity financing.

The demand for collateral by financial and microfinance institutions is another obstacle that small and medium-sized businesses face. They claim that the availability of collateral influences banks' willingness to meet private-sector demand. In the event of non-payment, collateral provides an opportunity to repay and cover damages. Nearly 75% of the sample SMEs that required loans requested this collateral. The study also showed that 65 percent of the total sample SMEs had at various moments applied for bank credits for their companies. Despite this, a significant number of SMEs had their applications turned down by banks. There was a nearly 2:1 chance that a loan application would be denied for businesses that submitted one.

Services Provided by Ekumfi Rural Bank Ltd.

According to the Operational Manual of Ekumfi 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

Deposits, according to Ampah (2010), are assets that consumers leave in their accounts, whether they are current accounts for "current" money that isn't meant to be saved or savings accounts for money that won't be needed right away. Customers who have a current account with the bank are normally given a cheque book, which allows them to write checks instructing 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 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.

Effect of Rural Banking Services on the Development of SMEs

The contribution of rural banks has an impact on the country's SMEs growth. People in rural areas seldom save any money they earn, owing to the dangers of robbery and other crimes. They engage in litigations or disputes over possessions of assets such as land because they have money at their disposal; there is also the issue of expensive funeral spending rather than investing their income to yield them more and/or better returns. Rural banks exist to allow people to put their money into viable businesses (Preko & Armah-Tetteh, 2005). Banks provide financial advice and savings opportunities to these SMEs to assist them in enhancing their different occupations. Rural banks also provide credit to SMEs in order to help them expand their businesses. This improves the lives of rural residents, allowing them to make a significant contribution to increasing or improving growth in rural areas and the country as a whole (Ofosu-Djamerah, 1999). The majority of SMEs are unable to collect the necessary funds to fund their projects.

Rural banks, according to Preko and Armah-Tetteh (2005), provide loans and overdraft facilities to these SMEs to help them overcome their lack of capital. Due to a lack of resources, the majority of SMEs are unable to engage in large-scale development. These loans enable them to obtain the necessary implements and remuneration for labor in order to increase productivity by ensuring proper execution of the work at hand. When the loans are disbursed, the banks appoint a team to track the recipients to ensure that the funds are being used for the intended purpose. If efficient uses of these resources are registered, productivity will eventually rise, income levels will rise, and more employment will be generated from the income of SMEs (Preko & Armah-Tetteh, 2005). The development of more SMEs would greatly reduce social issues such as armed robbery and prostitution.

According to Ofosu-Djamerah (1999), rural banks set aside a portion of their income to fulfill social obligations. The rural banks donate to a variety of causes, including education and health care, to name a few. Before one can ensure an improvement in efficiency, one must understand the social welfare of the people. As a result, providing or promoting education and health would undoubtedly improve the living standards of rural residents, as well as assist them in establishing more SMEs so that they can contribute to the growth of the economy's dominant sectors, such as agriculture. Agriculture produce will increase as the agriculture sector develops, resulting in an increase in total exports and increased internal consumption. All other things being equal, the majority of the paths and roads connecting the different farms with the towns will be improved as part of the rural banks' social responsibility (Preko & Armah-Tetteh, 2005).

The banks then make arrangements for institutions to buy the SMEs' items. Alternatively, banks can seize the people's produce as a means of recouping loans made to them. This relieves them of the cost of transportation and selling their products. As a result, SMEs are encouraged to generate more. The Akuafo cheque scheme, for example, is used to pay cocoa farmers. Many SMEs in the agricultural sector no longer have to travel long distances to urban centers to cash their checks after the establishment of rural banks.

Apart from the above roles, banks engage in direct investment to diversify their capital base. SMEs who want to invest their money in successful projects can also get investment and technical advice from rural banks. It can be deduced from the outlined functions that rural banks stimulate local economic activities and encourage the growth of SMEs.

Empirical Study

Earlier research on microfinance in Ghana looked at whether microcredit programs hit the poorest and most vulnerable people in the country. Studies have found evidence of a positive influence on the first five Sustainable Development Goals (Adamu, 2007; Irobi, 2008; Wrigth, 2000; Zaman, 2000; McCulloch & Baulch, 2000), all of which subscribe to the belief that microfinance is an important and efficient tool for poverty reduction (Adamu, 2007; Irobi, 2008; Wrigth, 2000; Zaman, 2000; McCulloch & Baulch, 2000). Amin, Rai, and Topai (2003), for example, concentrated on microfinance's potential to reach the vulnerable and asserted that microfinance has benefited people both below and above the poverty line.

Empirical evidence shows that microfinance can benefit the poorest people in terms of social well-being, and that this can be accomplished without jeopardizing the financial stability of microfinance institutions (Zaman, 2000; Robinson, 2001; Dahiru & Zubair, 2008). In several related studies using statistical methods on assessment of microfinance effect among three Bangladeshi programs, Khandker (2008) found that every additional taka lend to a woman adds 0.18 taka to annual household expenditure. In an updated study using panel data in Bangladesh, Khandker (2005) discovered that each additional 100 takas of credit to women increases total annual household expenses by more than 20 takas. In these studies, increased income and decreased vulnerability were shown to have enormous benefits.

Some academics, on the other hand, have challenged the effectiveness of microfinance in alleviating poverty. While acknowledging the role of microfinance in reducing poverty, Hulme and Mosley (2006) found that most existing microfinance schemes are less effective than they could be based on their study. They said that microfinance is not a panacea for poverty alleviation, and that in some cases, it has worsened the situation for the poorest people.

According to Adamu (2007), microfinance institutions in Ghana have grown significantly as a result of growing informal sector activities and commercial banks' reluctance to fund new microenterprises. The number of people who benefit from microfinance institutions, on the other hand, is a small proportion of the total number of people who need microfinance services. Formal microfinance institutions are expected to serve less than one million clients in a world where more than 70% of the population lives in poverty (Dahiru & Zubair, 2008). These results suggest that microfinance is insufficient to address the needs of the poorest and most disadvantaged people.

It's important to note that microfinance isn't a panacea for poverty alleviation when considering its position in poverty alleviation and development. MFIs have five major culpabilities, according to Rogaly (2006). He argues that they advocate a single-sector approach to allocating resources to fight poverty, that microcredit is useless to the poorest people, that an excessively simplistic concept of poverty is used, that scale is overemphasized, and that learning and improvement are inadequate.

According to Wright (2000), many people are suspicious of “MFIs because they "fail to meet the poorest, have a marginal effect on wages, drive women into greater dependence on their husbands, and fail to provide additional services desperately required by the vulnerable." Furthermore, many development practitioners claim that microfinance is not only inefficient, but also diverts funds away from more important or urgent initiatives such as health and education, according to Wright (Wright, 2000).

All interested in microfinance and development should investigate how effective microfinance has been in alleviating poverty. The effectiveness of microfinance as a tool for directly reducing poverty, as well as the characteristics of those it assists, are still fiercely debated (Chowdhury, Mosley & Simanowitz, 2004). Microfinance program effect on poverty is notoriously difficult to measure, as Sinha (1998) discovered. This is due to the fact that money is fungible, making credit effects difficult to isolate, as well as the fact that the definition of poverty, how it is described, and who constitutes the "poor" are all contentious issues (Sinha, 2008).

Chapter Summary

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), objectives of rural banks, products and presented the types of credit facilities available for SMEs in the Ekumfiman 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, challenges Credit/loans SMEs Operations banks and SMEs.

CHAPTER THREE

RESEARCH METHODS

Introduction

This study aims at assessing the role of microfinance in the provision of credit facility to the agricultural sector in the Ekumfi District. This chapter focuses on the research methods of the study. Issues in this chapter are organized as follows; the research design, study area, population, sampling procedure, data collection instrument, data collection procedure as well as data processing and analysis.

Research Design

The basis for selecting a descriptive survey design is to accurately describe and assess meaning related to an observable phenomenon. The descriptive survey design was used for this study. The study adopted descriptive research design, because it helps the researcher to obtain information concerning the phenomena under study and describe "what exist" with respect to the conditions being investigated. The descriptive design was used because it aids in describing the role of microfinance in the provision of credit facility to the agricultural sector. It also helped in describing characteristics of the population being investigated (Dutton, 2003). This study was descriptive in nature, and was designed to assess the role of microfinance in the provision of credit facility to the agricultural sector in the Ekumfi District. Primary data was obtained from the selected staff and clients of Ekumfiman Rural Bank in the Ekumfi District.

Study Population

The population for the study was made up of all the clients of the Ekumfiman Rural Bank in the Ekumfi District. This is made up of one hundred and twenty thousand, five hundred and ten (120,510) clients.

Sample Size and Sampling Procedure

The sample include all the clients who fell within the purview of the study who could conveniently respond to questionnaires of the study. As with most studies, the study could not cover the entire population of the study so a sample was chosen. The total sample for the study was two hundred and twenty-eight (228) respondents made up of two hundred and twenty (220) clients and ten (8) staff of the Ekumfiman Rural Bank. The simple random sampling techniques were used in selecting the sample for the study. The simple random sampling technique was used to select the clients while the purposive sampling technique was used to select the staff. Two hundred and twenty (220) clients were selected from the Ekumfiman Rural Banking hall where every fifth client who came to transact business was selected for questionnaires administration.

Data Collection Instrument

The instrument that was used for data collection from customers was questionnaires. The first part of the instrument dealt with socio-demographics, the second part was on the legibility criteria used in the assessment of legible client by the Ekumfiman Rural Bank, the fourth section focused on access to working capital while the final part focused on the economic and social changes that has occurred in the lives of the beneficiaries in the Ekumfi District. Both closed-ended and open-ended questions were used in the preparation of the instrument. The closed-ended questions provided relevant answers from which respondents were required to choose the most suitable answers in their context. These limited respondents as to the kind of answers or responses they could give in line with the objectives of the study. However, some open-ended questions were also employed. The objective was to give respondents the opportunity to share other relevant information which are not captured in the closed-ended questions and to express other opinions as well.

Data Collection Procedure

Data was collected by using questionnaire, which were hand-delivered to respondents at the study area in the Ekumfi District. This method is chosen because of its suitability. The data collection process took three weeks in order for the researcher to obtain the required data for the study. The respondents were visited at the Ekumfiman Rural Banking hall in the Ekumfi District in the Central Region. This continued every morning (8:30am-11:30am) until the end of the scheduled period.

Data Processing and Analysis

In analyzing the data collected, STATA Version 14 was used with tools such as frequency tables, chart, graphs and percentages. This method was adopted to make the results easy to understand and allow for easy interpretation.

Ethical Issues

Several ethical concerns related to the data gathered include staff disclosing information that may have an impact on the organisation. To address this, the respondents were informed about the study's intent. As a result, respondents' permission was requested. They were also assured of confidentiality, and that the information gathered from the respondents would be treated with respect.

Chapter Summary

This chapter discussed the research methods. This include processes involved in data collection for the study. The processes discussed are research design, study area, sampling and sampling procedure, data collection instrument, methods of data collection, data analysis and procedures and the ethical issues.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

The presentation and interpretation of data collected from respondents are the topics of this chapter. Frequency was used to analyze the data both quantitatively and qualitatively. The data was represented using tables and bar charts. Based on the study, conclusions were drawn. The data was analyzed in accordance with the study's goals. The study's main goal is to evaluate the role of microfinance in the Ekumfiman Rural Bank's provision of credit to small and medium-sized businesses.

Socio-Demographic Information of Respondents

The study analysed the demographic characteristics of the respondents. Respondents were asked of their gender, age, marital status, educational level and religiosity. The demographic information explained characteristics of the respondents on the basis on their gender, age, marital status, educational level and religiosity. Table 1 gives the results of the demographic characteristics.

Table 1: Demographics of Respondents

Variables	Frequency	Percentage
Male	90	41.3
Female	128	58.7
Total	218	100.0
Age of respondents		
20-29	89	40.8
30-39	48	22.0
40-49	64	29.4
50-59	17	7.8
Total	218	100.0
Educational level among clients		
Basic	49	22.5
Secondary	100	45.9
Tertiary	47	21.6
No formal education	22	10.1
Total	218	100.0
Marital Status		
Married	122	55.96
Single	81	37.16
Divorced	9	4.13
Widowed	6	2.75
Total	218	100
Religion of respondents		
Christian	154	70.6
Muslim	59	27.1
Traditionalist	5	2.3
Total	218	100.0

Source: Field Survey (2020)

From Table 1, out of 218 respondents of the study, 90 of the respondents were male representing 41.3 percent. 128 of the respondents were female which was representing 58.7 percent. The age range among the respondents were between 20-59. 89 out of 218 respondents were between the age of 20-29 years. This represented 40.8 percent of the total respondents. 48 out of 218 respondents were between the ages of 30-39 years. This represented the 22.0 percent of the respondents. 64 out of 218 respondents were between the ages of 40-49 years. This represented 29.4 percent of the respondents. 17

of the 218 respondents were between the age of 50-59 years. This is representing 7.8 percent of the respondents.

Table 1 also shows the results of respondent's educational level. Out of 218, 49 had basic education. This represented 22.5 percent of the respondents. 100 out of 218 respondents had secondary certificate. This represented 45.9 percent of the respondents. 47 out of 218 respondents had tertiary certificate. This represented 21.6 percent of the respondents. 22 out of 218 respondents had no formal education. This also represented 10.1 percent of the respondents.

Out of 218, 122 of the respondents were married. This represented 55.96 percent of the respondents. 81 out of the 218 were single, representing 37.16 percent. Also, 9 of the respondents were divorced which also represented 4.13 percent of the respondents. 6 out of 218 respondents were widowed representing 2.75 percent of the respondents of the study.

Lastly, 154 out of the 218 respondents considered under the study were Christians. This represented 70.6 percent. This was the highest religion which was recorded. This was so because the Ekumfi District is dominated by Christians. 59 out of 218 respondents were Muslims. This represented 27.1 percent of the total respondents. 5 out of 218 of the respondents were traditionalist. This represented 2.3 percent of the respondents.

Factors that Determine Lending Decisions at Ekumfiman Rural Bank

Table 2 examines the factors that determine whether Ekumfiman Rural bank will grant a loan to applicant. The mean score ranking order was used to assess in order of importance, the factors that determines the decision of the bank to grant an applicant a loan.

Table 2: Factors that Determines the Lending Decisions

	Factors	Mean Score Ranking Order
1	Collateral	4.27
2	Credit Worthiness	4.23
3	Guarantors	3.99
4	Profitability	3.89
5	Borrowers Repayment History	3.53
6	Capacity of the Bank to grant the loan	2.98
7	Cash Flow Statement	2.78
8	Earnings	2.54
9	Character (past loan payment period)	2.34
10	Liquidity/Working Capital Activity	2.12
11	Experience in Credit Utilization	1.52
12	Geographical Limit	1.19

Source: Field Survey (2020)

Based on the studies Johnson & Rogaly (1997), lists of factors were presented to respondents to choose those factors that determines the lending decisions at Ekumfiman Rural Bank. Out of the twelve factors listed, collateral as a factor that determines lending decisions at Ekumfiman Rural Bank had the highest mean score of 4.27. This was followed by credit worthiness with a mean score of 4.23. This confirms the study conducted by Ellis (2000).

Availability of guarantors was the next factor that determines lending decision at Ekumfiman Rural Bank. Its mean score was 3.99 which was third on the list of factors. According to Ghatak and Guinnane (1999), availability of guarantors facilitates the acquisition of loan from rural banks. This also confirms the study by Morduch, Haley (2002).

Profitability was the next factor that determines the lending decision of Ekumfiman Rural Bank. The mean score was 3.89. The next factor that determines the lending decision of Ekumfiman Rural Bank was "Borrowers

Repayment History". The mean score was 3.53. "Capacity of the Bank to grant the loan" was next factor that determines lending decision of Ekumfiman Rural Bank. The mean score was 2.98. Cash flow statement was the next factor. The mean score was 2.78. This contradicts the study by Woller, Dunford and Woodworth (1999).

Earnings was the next factor that determines lending decision of Ekumfiman Rural Bank. The mean score recorded was 2.54. Character was the 9th factor that determines the lending decisions of Ekumfiman Rural Bank. The mean score was 2.34. Liquidity and Working Capital Activity was the 10th factor that determines the lending decision of Ekumfiman Rural Bank. The mean score for liquidity was 2.12.

Last but not least, experience in credit utilization was the eleventh factor that determines the lending decision of Ekumfiman Rural Bank. The mean score for experience in credit utilization was 1.52. Lastly, geographical limit was the least factor that determines the lending decision at Ekumfiman Rural Bank. The mean score was 1.19.

Purposes for Credit Advancement

The second research question sought to determine the reasons for which consumers are given loans and whether the loans are used for their intended purposes. The study defined key purposes / variables for granting loans to customers, such as customers using loans to buy vehicles, customers applying for loans for construction projects, customers accessing loans to finance their business, and loans being given to pay school fees. A statistical mean and standard deviation test was used to accurately analyze the central position, uncertainty, and effects of each intent of granting loans to customers.

Table 3: Purpose of Credit Advancement

	N statistics	Mean Statistic	Std. Error	Std. Deviation Statistic
Customers used loans to purchase vehicle	218	4.23	.097	.871
Customers apply loan for building projects	218	4.11	.133	1.191
Customers access loans to support their business	218	3.93	.130	1.167
Loans are granted to pay school fees	218	3.80	.130	1.163

Source: Field Survey (2020)

(i) Customers who used loans to buy vehicles were statistically substantially different from one another, according to Table 3, suggesting that each variable serves a different function. According to the findings, the majority of customers obtain a loan for the purpose of buying a car. According to Battilana and Dorado (2010), taking out a loan provides a larger sum of money to complete a project. According to Burton, some clients find it difficult to repay these loans, but they still want to apply for them because of their financial circumstances. According to Burton, the majority of people apply for loans for the following reasons:

(ii) I For the purpose of purchasing or renovating a home. Customers of Rural Banks apply for loans to buy a house or renovate their current home to suit their the family. Rural banks can offer such a loan if the customer meets the minimum requirements.

(iii) (ii) To repay a previous loan. A consumer can need a loan but already owes money on another loan. Rural banks will encourage customers to apply for an additional loan to pay off their current loan balance, and the difference will be used to fund the new loan. As a result, the new lending facility is spread out over a period of time for repayment.

(iv) (iii) Having a car. Customers may get a loan from Rural Banks to buy a car for personal use. This type of loan has two options: the bank can buy the car for the borrower, or the customer can apply for a car loan and repay it over a certain period of time.

(v) For personal, educational, and other purposes. Rural Banks provide loans to customers for the payment of their children's school fees, as well as loans for the expansion or support of business activities. Customers apply for loans for personal reasons that only they know about, which Rural Banks also approve.

Benefits Customers Derives from Accessing Loans

The third objective of the study was to describe the benefits customers banks derive from loans. Results is presented in the Table 4.

Table 4: Benefits of loan to customer

No	Benefit to customers	SD%	D%	U%	A%	SA%
1	Business expansion	6.2	6.2	13.8	38.8	35
2	Help people better manage financial distress	2.5	7.5	11.2	40	38.8
3	Loans are granted to pay school fees	2.5		15	46.2	36.2
4	Enhance or diminish consumer and social welfare	6.2	8.8	11.2	41.2	32.5
5	Help manage large, on-going debts.	13.6	10	8.9	35	32.5

Source: Field Survey (2020)

Table 4 shows responses to the questionnaire instrument on what are the benefits customers derived from accessing loan. As indicated in item 1 of Table 8, the respondents were asked whether business expansion was the main benefits customers derived from accessing loans. So, there is the need to grant loans to customers for business expansion. The study shows that 38.8% of respondents agree that business expansion was the main benefits customers derived from accessing loans. 35 % strongly agree and 13.8% were uncertain. However, 6.2% disagrees whilst a further 6.2% strongly disagrees.

The respondents were asked whether loans help people to manage financial distress, was the benefits customers derived from accessing loans. The study shows that 40% of respondents agree that loans help people to better manage financial distress was the benefits customers derived from accessing loans, 38.8% strongly agree and a significantly 16% were uncertain. However, a significant of 7.5% disagrees and the remaining 2.5% were strongly disagreeing.

The respondents asked whether Loans are granted to pay school fees was the benefits customers derived from accessing loans. The study shows that 46.2% of respondents agree that Loans are granted to pay school fees was the benefits customers derived from accessing loans. 36.2% strongly agree and 15% are uncertain. However, further 2.5% strongly disagrees

The respondents asked whether loan enhance or diminish consumer and social welfare was the benefits customers derived from accessing loans. The study shows that 41.2% of respondents agree that loan enhance or diminish consumer and social welfare were the benefits customers derived from accessing loans. 32.5 % strongly agree and 11.2% were uncertain. However, 8.8% disagrees whilst a further 6.2% strongly disagrees

The respondents asked whether loans help to manage large, on-going debts was the benefits customers derived from accessing loans. The study shows that 35% of respondents agreed that loan help to manage large, on-going debts was the benefits customers derived from accessing loans. 32.5 % strongly agree and 8.9% were uncertain. However, 10 % disagrees whilst a further13.8 % strongly disagrees

Factors Leading to Credit Default Among Clients of Ekumfiman Rural Bank

The fourth objective of the study was to analyse the factors leading credit default among clients of Ekumfiman Rural Bank. Table 5 depicts the results from respondents.

Table 5: Credit Default Factors

	Factors	Mean score ranking order
1	Customers Business Failure	4.32
2	Diversion of Loans	4.00
3	Loans for Social Purposes	3.89
4	Inadequate Monitoring	3.71
5	Inadequate Security	3.46
6	Inadequate Documentation	3.29
7	Inadequate Appraisal	3.18
8	Staff Influence	3.00
9	Inadequate Credit Staff	2.61
10	Staff Attitude	2.18

Source: Field Survey (2020)

Table 5 examines the factors that lead to credit default among clients of Ekumfiman Rural Bank. The mean score ranking order was used to show in order of magnitude which of the factors prominently leads to credit default among clients of the bank. From the results, it was found that, the most prominent factor that led to credit default among clients of Ekumfiman Rural Bank is Customers Business failure which had the highest mean score value of 4.32.

The second most prominent factor that leads to credit default of clients is the diversion of loans for other purposes by clients which had the second highest mean score value of 4.00. The third most prominent factor that contributes to credit default among clients of the bank is the use of loans acquired for social purposes which had a means score value of 3.89. Inadequate monitoring was identified as the fourth most prominent factor that led to credit default among clients of Ekumfiman Rural Bank (Mean Score=3.71).

With a mean score value of 3.46, inadequate security was identified as the fifth factor that led to credit default among clients while inadequate documentation was identified as the sixth factor that led to credit default among clients of the bank (Mean Score=3.29).

Inadequate appraisal was identified as the seventh factor with a mean score of 3.18 while staff influence was the eighth factor responsible for credit default risk among clients of Ekumfiman Rural Bank (Mean Score=3.00).

Inadequate credit officers were identified as the ninth factor (Mean Score=2.61) while staff attitude was the tenth or least factor responsible for credit default among clients of Ekumfiman Rural Bank.

Appraisal of the clients

The final objective was to describe how staffs appraises clients before credit was being channeled to them.

Table 11 Areas and criteria of appraisal by the bank on the customers

	Low %	Medium %	High %
"Character"	20	40	40
"Credit Utilizations experience"	20	50	30
"Extent of involvement in the business"	20	40	40
Entrepreneurial Quality	15.8	52.6	31.6
SWOT Analysis – Appraisal	36.8	31.6	31.6
Cash flow statement	10	55	35
Profit and Loss	42.1	26.3	31.6
Security	15	25	60
Ability to pay	30	5	65
Repayment History	25	25	50
Expertise of Management	15.8	57.9	26
Mix of management qualities	27.8	50	22.2
Management Leadership style	35	45	20
Availability of market	15	60	25
Size and strength of existing market	10	60	30
Distribution Channel	25	60	15

Source: Field Survey (2020)

It was clear from the results that a series of appraisals were performed in order to offer the loans to the clients. The following findings were made from the officials' perspective based on the parameters used in the areas below. When it came to using character as a criterion for evaluating consumers before giving them loans, 20.0 percent thought it was a bad idea, while 40.0 percent thought it was fine. On the other hand, 40.0 percent classified character of a prospective borrower as high criteria when it comes to lending out money. Fundamentally, the issue arises because lenders are imperfectly informed about the character of prospective borrowers, and it may be difficult, as a result, for lenders to separate ‘good’ borrowers from ‘bad’ ones (Fraser, 2004). (Fraser, 2004). As Fraser notes, longer and deeper partnerships increase the amount and flow of knowledge to lenders, allowing successful borrowers to gain greater access to finance over time.

When it came to the level of a customer's interest in the company, 20.0 percent thought it was an appropriate criterion, while 40.0 percent thought it was fine to weigh it before approving a loan. Meanwhile, 40.0 percent ranked it as high criteria to be considered. More specifically, 15.8% of respondents viewed the prospective borrower's entrepreneurial rating as poor, while 52.6 percent felt it was appropriate to consider the criterion. Meanwhile, 31.6 percent of respondents classified this criterion as very important. When it came to the borrower's credit utilization experience, 20.0 percent of respondents gave it a low rating, while 40.0 percent said it was fine. On the other hand, 40.0 percent ranked this criterion as high. In the borrower's SWOT study, 36.8% rated this criterion as low, while 31.6 percent rated it as acceptable. Another 31.6 percent classified this criterion as very important. As regards the cash flow statement of the borrower, 10.0 percent of respondents found this criterion as poor while 55.0 percent regarded it as okay. 35.0 percent, on the other hand, gave it a high rating. 42.1 percent of borrowers viewed the credit and statement criteria as bad, while 26.3 percent thought it was fine. Meanwhile, 31.6 percent of respondents classified this criterion as very important. In the same way, 15% of respondents classified the security requirements as bad, while 25.0 percent rated them as acceptable. Meanwhile, 60.0 percent of respondents classified this criterion as very important. Furthermore, when it came to the borrower's willingness to repay the loan, 30.0 percent thought the conditions were too strict, while 5.0 percent thought it was fine. 65.0 percent, on the other hand, gave it a high rating. When it came to the borrower's repayment background, 25.0 percent thought it was a low criterion, while another 25.0 percent thought it was fine. Meanwhile, 50.0 percent thought it was excellent. 15.8 percent of respondents viewed the borrower's management experience as a low criterion, while 57.9 percent thought it was okay. Meanwhile, 26.3 percent thought it was excellent. Similarly, the borrower's strong mix of management efficiency was ranked as a low criterion by 27.8% of respondents, while 50.0 percent thought it was okay. 22.2 percent, on the other hand, gave the criterion a high rating.

The borrower's management leadership style was rated as a low criterion by 35.0 percent, while 45.0 percent thought it was okay. Meanwhile, 20.0 percent of respondents gave the criterion a high rating. The availability of a demand for the product or service was rated poor by 15.0 percent of respondents, while it was rated okay by 60.0 percent. Meanwhile, it received a high rating from 25.0 percent of respondents. Furthermore, 10.0 percent of respondents rated the size and intensity of the current market as poor, while 60.0 percent rated it as okay. 30.0 percent, on the other hand, gave it a high ranking. On the part of distribution channel, 25.0 percent rated it as a low criterion while 60.0 percent saw it as okay. Meanwhile, 15.0 percent thought it was excellent.

Chapter Summary

This chapter discussed the findings in line with the purpose of the study, assessing the role of microfinance in the provision of credit facility to the small business sector in the Ekumfiman Rural Bank. These objectives were to assess the factors that determines lending decisions at Ekumfiman Rural bank and to assess the purpose of credit advancement in Ekumfiman Rural Bank. The chapter also analysed the benefits of credit to the bank and individual customers. The factors that cause credit default among clients of Ekumfiman Rural Bank was described and lastly, the factors which are considered during appraisal was analysed.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This section is the last chapter of the study. It is demarcated into three sections which includes summary, conclusion and recommendation. Specifically, the chapter covers issues bordering on summary and conclusions drawn from the study. The chapter also presents relevant recommendations drawn from the findings of the study.

Summary of the Study

The study sought to assess the role of microfinance in the provision of credit facility to the small business sector in the Ekumfi District. The purpose of the study was achieved by considering Ekumfiman Rural Bank as a case. The specific objectives of the study included; to examine factors that determines lending decisions at Ekumfiman Rural Bank; to evaluate the purpose for credit advancement at Ekumfiman Rural Bank; to examine benefits customers derive from accessing loans from Ekumfiman Rural Bank; to analyse the factors that lead to credit default among clients of Ekumfiman Rural Bank; lastly, to assess the areas and criteria that Ekumfiman Rural Bank use to appraise customers. The study employed quantitative data type. A sample of 218 respondents were considered under the study. Questionnaire was used as the data collection instrument.

In relation to the first objective of study, the study found out collateral, credit worthiness, guarantors, profitability, borrowers repayment history, capacity of the bank to grant the loan, cash flow statement, earnings, character, liquidity, experience in credit utilization and geographical limit were the factors that determines lending decisions at Ekumfiman Rural Bank.

With respect to the purpose of granting loans, the study found out that most of the customers were using credit given to them to purchase vehicle. This was followed by people customers who uses loans to build projects. Customers who access loans to support their business was the next purpose of granting loans. Finally, loans granted to pay school fees was the next purpose for granting loans to customers.

In relation to benefit of provision of credit, the study found out that loans ensure business expansion, help people better manage financial distress, payment of fees, enhance or diminish consumer and social welfare and lastly, help manage large debts.

The study also analysed the factors leading to credit default among clients of Ekumfiman Rural Bank. These included customers business failure, diversion of loans, loans for social purposes, inadequate monitoring, inadequate security, inadequate documentation, inadequate appraisal, staff influence, inadequate credit staff, staff attitude .

Lastly, the study also assessed the areas and criterial for appraisal done by rural banks before credit is given to customers. The study found out that areas such as character of the client, credit utilization experience, extent of involvement in the business, entrepreneurial quality, cash flow statement, profit or loss, ability to pay, security, repayment history, distribution channel, size and strength of existing market.

Conclusion

The study sought to assess the role of microfinance in the provision of credit facility to the small business sector in the Ekumfi District. From the results of the study, the researcher concludes that, the Ekumfiman Rural Bank enables businesses to expand, help small and medium enterprises manage their financial distress, enhances consumer and social welfare and lastly, enable business mange large debts. Notwithstanding, there are a couple of challenges that needs attention in ensuring that, the company continues to achieve these objectives.

Recommendations

Based on the study, the following recommendations are presented;

1. Management of various banks must educate and assist customers in order to avoid business failure. This will avoid default in payment of the loan.
2. Proper and adequate monitoring teams must be established in order to monitor what the customers use the loaned funds for.
3. Management of microfinance must also ensure proper appraisal methods in order to know the right person to give out loans to. This will reduce the number of customers who default in payment of the loan.
4. Management must also assess the authenticity of the reason behind why the customer will come for a loan. This will proper utilization of borrowed funds from the credit union.

Suggestions for Further Research

Subsequent can analyse the study using inferential statistics since it enables researchers to infer on the population.

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APPENDIX

QUESTIONNAIRE

Questionnaire for data collection from Small and Medium Scale

I would be very grateful if you could spend some time to respond to these questions for us. You are assured that any information provided would be used for academic purposes only and will be held strictly confidential.

Please, tick [√] or fill in as appropriate.

A. DEMOGRAPHICS (To provide a detailed profile of Small and Medium Scale Enterprises)

1. What is your Gender

Male [ ] Female [ ]

2. What is your Age

20-29 [ ] 30-39 [ ] 40-49 [ ] 50-59 [ ]

3. What is your highest educational level?

Basic [ ] Secondary [ ] Tertiary [ ] No formal Education [ ]

4. What is your marital status?

Marital Status [ ] Married [ ] Single [ ] Divorced [ ] Widowed [ ]

5. What is your Religiosity?

Christian [ ] Muslim [ ] Traditionalist [ ]

SECTION B: FACTORS THAT DETERMINES THE LENDING DECISIONS

	Factors	1	2	3	4	5
1	"Collateral"					
2	"Credit Worthiness"					
3	"Guarantors"					
4	"Profitability"					
5	"Borrowers Repayment History"					
6	"Capacity of the Bank to grant the loan"					
7	"Cash Flow Statement"					
8	"Earnings"					
9	"Character (past loan payment period)"					
10	"Liquidity/Working Capital Activity"					
11	"Experience in Credit Utilization"					
12	"Geographical Limit"					

SECTION C: Purpose of Credit Advancement

	1	2	3	4	5
"Customers used loans to purchase vehicle"					
"Customers apply loan for building projects"					
"Customers access loans to support their business"					
"Loans are granted to pay school fees"					

SECTION D: Factors Leading to Credit Default Among Clients of Ekumfiman Rural Bank

	Factors	1	2	3	4	5
1	"Customers Business Failure"					
2	"Diversion of Loans"					
3	"Loans for Social Purposes"					
4	"Inadequate Monitoring"					
5	"Inadequate Security"					
6	"Inadequate Documentation"					
7	"Inadequate Appraisal"					
8	"Staff Influence"					
9	"Inadequate Credit Staff"					
10	"Staff Attitude"					

SECTION E: AREAS AND CRITERIA OF APPRAISAL BY THE BANK ON THE CUSTOMERS

	1	2	3	4	5
"Character"					
"Credit Utilizations experience"					
"Extent of involvement in the business"					
"Entrepreneurial Quality"					
"SWOT Analysis – Appraisal"					
"Cash flow statement"					
"Profit and Loss"					
"Security"					
"Ability to pay"					
"Repayment History"					
"Expertise of Management"					
"Mix of management qualities"					
"Management Leadership style"					
"Availability of market"					
"Size and strength of existing market"					
"Distribution Channel"					