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EFFECTS OF ACCESS TO FINANCE ON THE GROWTH AND SUSTAINABILITY OF RURAL MICRO AND SMALL – SCALE ENTERPRISES (MSES) IN GHANA

By

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List of Acronyms

AfDB	-	African Development Bank
ARB	-	Association of Rural Banks
BAC	-	Business Advisory Center
BDOs	-	Business Development Officers
BDS	-	Business Development Services
BoG	-	Bank of Ghana
BSR	-	Baseline Survey Report
CGAP	-	Consultative Group to Assist the Poor
DAs	-	District Assemblies
GCI	-	Global Competitive Index
GLSS	-	Ghana Living Standards Survey
GoG	-	Government of Ghana
GRATIS	-	Ghana Regional Appropriate Technology Industrial Service
GSGDA	-	Ghana Shared Growth and Development Agenda
GSS	-	Ghana Statistical Services
IFAD	-	International Fund for Agricultural Development
LBAs	-	Local Business Associations
MFIs	-	Microfinance Institutions
MoTI	-	Ministry of Trade and Industries
MoFA	-	Ministry of Food and Agriculture
MSEs	-	Micro and Small – Scale Enterprises
MSMES	-	Micro, Small and Medium – Scale Enterprises
NBSSI	-	National Board for Small Scale Industries
PCMU	-	Programme Coordination and Monitoring Unit
PFIs	-	Participating Financial Institutions
REP	-	Rural Enterprises Programme
RTFs	-	Rural Technology Facilities
SDGs	-	Sustainable Development Goals

EXECUTIVE SUMMARY

Micro and Small – Scale Enterprises (MSEs) have been accepted as instrument of economic growth and development. They are catalyst in the socio – economic development of any country and are critical to achieving national macroeconomic objective, thereby contributing substantially to the Gross Domestic Product (Kombo, Justus, Murumba and Makworo 2011; Oni and Daniya, 2012). Ghana's economy has a significant presence of the MSEs whose efficiency and competitiveness are crucial to the country's economic growth, employment generation and poverty reduction. The statistics from Registrar General's Department suggested that about 90% of firms registered are Micro, Small and Medium Scale Enterprises (MSMEs) which account for 85% of Manufacturing employment and 70% of Ghana's Gross Domestic Product (GDP).

The study was conducted to deepen the understanding of the effects of access to finance on the growth and sustainability of the rural MSEs in Ghana. The study recognized the socioeconomic qualities of the rural MSEs and various challenges confronting their access to finance and subsequently, inhibiting their growth and sustainability. Based on these, the study analysed the inherent challenges on the part of the rural MSEs and the ones from the supply side, identifying those ones that are significant to the sustainable growth of the rural MSEs.

Figure 1: A palm oil processor with her household fetching water for production in Betiako in Ahafo Ano North Municipality

Poverty is predominantly a rural phenomenon in Ghana and creating an enabling business environment for the rural MSEs is strategic in battle against poverty, hunger and inequality in the rural areas. efforts to develop the rural areas. Unlimited access to affordable and regulated financial services to rural Micro and Small – Scale Enterprises (MSEs) could turn them to an important t al, 2017). Strengthened financial intermediation can provide the rural MSEs with more consistent cash flows, expands entrepreneurial option for aggregation, adoption of improved technologies and other activities that reduce transaction costs and expand value addition. (IFAD Rural Development Report 2016).

Rural Enterprises Programme (REP), which is in the third phase represents an important national vehicle for the development of the full potentials of rural MSEs and solution to key bottlenecks confronting this sector. in Ghana to develop the full potential of . is part of the efforts of Government of Ghana (GoG) to reduce poverty and improve living conditions in the rural areas. It is an excellent example of collaboration and commitment of GoG, International Fund for Agricultural Development (IFAD) and African Development Bank (AfDB) to upscale and mainstream a district – based MSEs support system implemented by Rural Enterprises Project (Phases I & II) within the public and private institutional systems. This was implemented from 1995 – 2011 in 66 districts nationwide. The success of which led to the metamorphosis of the project to programme in the Phase III currently being implemented in 161 rural District and Municipal Assemblies across the 10 regions of the country.

Table 1: The Phases of Rural Enterprises Programme (REP)

Project	Phase	Duration	Total Cost ($'m)	Districts Covered	Regions Covered	Status
Rural Enterprises Project	I	1995 – 2002	21.16	13	Ashanti & Brong-Ahafo	Completed
Rural Enterprises Project	II	2003 – 2011	125.20	66	Nationwide	Completed
Rural Enterprises Programme	III	2012 – 2020	193.10	161	Nationwide	Ongoing

Source: REP, 2013

The sample for the study comprised of 426 rural MSEs purposively selected from the database of Business Advisory Centres (BACs) in Sekyere South District (298) and Ahafo Ano Municipality (128) in Ashanti Region of Ghana. Data collected were analysed using descriptive and inferential statistics and general linear model.

The findings revealed that the importance of the internal factors of rural MSEs cannot be overemphasized in enabling unrestricted access to finance. Two major sources of finance, Internal and External sources of finance. The internal sources also referred to as informal sources of finance include savings, family and friends while external is the funds sourced from outside the enterprise. Likewise, using SWOT Analysis (Strength, Weakness, Opportunities and Weaknesses), the growth of rural MSEs is from the Internal factor and External factor. The internal factors are the strength and weaknesses the rural MSEs have control over and can deploy to better the lot of their business while the external factors are opportunities and threats that the rural MSEs do not have control over but can mitigate to their comparative advantage.

The first objective sought to examine the components of the internal factors and external factors that actually influence the growth of the rural MSEs. The 54% proportion of female to male revealed the objective of the programme to assist female entrepreneurs (minimum of 50%). Also, the age distribution of the respondents was over 70% for both the borrowing and non – borrowing categories. The education status showed 81% of the borrowing category having maximum of secondary high school while that of non – borrowing was 71%.

Using Chi Square Test of Significance, it was discovered that, age ($p =0.013$), gender ($p=0.002$), business type ($p=0.012$), business location, business development training ($p<0.001$) and access to finance ($p=0.001$) are all significantly associated with the growth and sustainability of the rural MSEs. These characteristics are considered by the Participating Financial Institutions (PFIs) before making credit facilities available to the rural MSEs. However, the years in business/business experience ($p=0.438$) and human resources ($p=0.591$) were not significantly associated with the rural MSEs' growth and sustainability. These factors were so important in the PFIs arriving at credit decision. Moreso, majority of the rural MSEs had put in so much year as apprentices before gaining freedom to be on their own. This number of years in apprenticeship could as well serve as business experience. The apprentices are made to serve and work without any form of emolument.

In identifying the challenges confronting the rural MSEs as per the second objective, the access to and usage of financial products views were explored. The non – borrowing group had more dormant accounts and had loan rejection, business downtime and staff attitude as topmost reasons for abandoning the accounts. 72% of the borrowing group's responses was on access to finance, market and loan documentations. It takes a PFI an average of 66 days to approve a loan. This rather than enhance growth will impede growth and stifle sustainability.

The third objectives examined the effect of access to finance on the growth of the rural MSEs, comparing the borrowing and non -borrowing group with the hypothesis that the borrowing group is not better off with access to finance. The ANCOVA and Repeated Measure Anova were used considering the analysis of the pre and post intervention measurement. From the findings, $F(2, 423) = 33.691$, $p ==0.001$. There is a significant difference in mean average income between the borrowing and non – borrowing group. The partial Eta Squared value of 0.02 indicates the effect size and comparing it with Cohen's guidelines means that the difference is of small effect.

Figure 2: Administering questionnaire at Tepa in Ahafo Ano North Municipality

Based on our findings, eleven recommendations were made to guide policy making based on the findings. Some of the recommendations include building the capacities of the rural MSEs in financial literacy, business development and other technologies; downward review of interest rates; Financial Institutions' innovation in churning out rural MSE – oriented financial services and not product focused, dependence on cheap deposit mobilization from rural areas than wholesale funds with its attendant cost, moratorium concession among others.

CHAPTER ONE

INTRODUCTION

1.1 Problem Statement

The growth and sustainability of small businesses and not just their existence is critical for their indispensable contribution to the growth and development of economies all over the world. There is apparent positive association between MSE's growth and economic prosperity (Churchill, 2013; IFC, 2010). The sector represents about 85 percent of businesses, largely within private sector, and contribute about 70 percent of Ghana's Gross Domestic Product (GDP) (ITC Report, 2016).

In spite the catalytic impact of MSEs on economic growth, most of these MSEs dies prematurely within the first – five years of establishment (Idemobi, 2012; FERMA, 2006; Kenyan National Bureau of Statistics, 2014). There are several challenges influencing the growth and sustainability of these small businesses (Mabe & Cudjoe, 2012). In developing countries, large segments of MSEs are still having restricted access to financial services Global Competitiveness Index (2017) Report points out access to finance as the most problematic factor for doing business in Ghana.

In Sub – Saharan African and Ghana in particular, the MSEs in the rural areas are not immune to risk exposure compared to their contemporaries in the urban centers or larger firms. They are more vulnerable to the impact of unfavorable business conditions because of their sizes, location and structures. All these restrain business models, financial services' offerings and not just the growth, but the sustainability of the rural MSEs.

The rural MSEs' growth and sustainability largely depend on the availability of sufficient and affordable financial resources (Gill, Biger and Nagpal, 2011). Though, it has been established that granting unrestricted access to finance to the rural MSEs is necessary to achieve tremendous development in the rural areas, it does not guarantee a sustainable growth.

1.2 Research Questions

The research questions are as follows:

i. How does the business and entrepreneur's background influence the access to finance?
ii. What are the challenges facing the rural MSEs' growth and sustainability as a result of access to and usage of financial services in the study area?
iii. How does access to rural finance influence the growth and sustainability of rural MSEs in Sekyere South District and Ahafo Ano North Municipality?

1.3 Objectives of the Study

The main objective of this study was to assess the effect of access to rural finance on the growth and sustainability of the rural MSEs in the study areas and specifically addressed the following objectives:

i. To determine the influence of business and entrepreneur's characteristics (internal factors) on access to finance.
ii. To identify and assess the challenges of rural MSEs in access to and usage of rural financial services in the study area.
iii. To assess the effect of access to rural finance on the growth of the rural MSEs (REP beneficiaries) in the study area.

1.4 Justification for the Study

The rural MSEs are quite a heterogenous group with differing characteristics in background, business choices and resource base. Addressing their access to finance needs should be in the context of the peculiarity of their conditions and operations. So far, majority of studies on access to finance in rural areas have focused on economic and social sustainability with little or no regard for the environmental factor. This a relatively narrow when it comes to the sustainability of the rural MSEs. There is no rigorous assessment of the sustainability of these ventures after the intervention of funds. The surveys from Global Entrepreneurship Monitor 2001 – 2010 observed that apart from the problem of access to finance which is the focus of this research, Ghana also suffers from poor management skills which is as a result of lack of adequate training and education. Much emphasis has been on the managerial and marketing factor with little consideration for the importance of financial education. (Nunoo and Andoh, 2012).

Contemporary academic studies have been done extensively on access to finance and its significant influence on MSMEs growth in Ghana (Osei, 2013), emphasizing on economic and social well-being of the rural MSEs. However, not much has been done to ascertain the significant contribution of the attendant business risk on the sustainability of the rural MSEs' growth. There is need to consider the sustainability of the rural MSEs in the economic and social terms without harming the environment. Some of these academic studies have not been consistent and are characterized with mixed or conflicting report (Owusu et al., 2017).
In each of the stages, there are different sets of business characteristics, challenges and managerial interventions required. Therefore, in order to survive owner-managers are required to take note of the challenges and risks along enterprise life cycle, those originating from the external and internal environment, and how these will impact upon their organizations performance and growth. Consequently, they put in measures to cushion the enterprises against these risk challenges. Previous studies have barely touched on risks and their impact on performance and growth of MSEs. Therefore, it is against this background therefore that the researcher sought to assess the risk mitigation decision of the rural MSEs in sustaining the growth of their businesses.

Several empirical studies on determinants of access to finance have been limited to internal factors such as firm characteristics and entrepreneur's characteristics; thus, creating paucity in the empirical evidences (Danso-Abbeam, Ansah & Ehiakpor, 2014).

1.5 Scope of the Study

This study focuses on 2 out of 161 rural district and municipal assemblies across the 10 regions of the country where Rural Enterprises Programme (REP) covers. This study focused on the effect of access to rural financial services/products on the growth and sustainability of the rural MSEs in Sekyere South District and Ahafo Ano North Municipal Assemblies in the Ashanti Region of Ghana. Sekyere South District had benefitted from the project since inception while Ahafo – Ano North is just starting to enjoy the dividend the programme offers under the ongoing Phase III. The financial services under assessment are limited to the two intervention funds REP offered through the Participating Financial Institutions (PFIs): **Rural Enterprises Development Fund (REDF)** and **Matching Grant Fund (MGF)** and does not seek to cover the broad financial services or products being offered by the PFIs.

1.6 Outline of the Study

The study is represented in six (6) chapters.

The first chapter introduces the research problem statement, research questions, objectives as well as the justification and scope. In the second chapter, the study looks at the general overview and various related components of the Rural Enterprises Programme. The chapter three lays emphasis on theoretical framework, existing literatures and discussed conceptual and empirical issues.

The chapter four described the conceptual framework and focused on the research methodology adopted for this study. It described the research design, population and sample, sampling techniques. The fifth chapter presents the research findings in charts, tables and interpretations, while the chapter discusses the conclusions and offers policy implications as per the research objectives.

1.7 Limitation of the Study

The period for this research was not sufficient to adequately assess the effect of access to finance and business risks on the growth and sustainability of the rural MSEs in the two study areas. Much could not be achieved in the areas of assessing the attitude of the rural MSEs to the environmental sustainability.

CHAPTER TWO

BACKGROUND TO THE STUDY

2.1 An Overview of Ghanaian Economy

Formed from the merger of the British colony of the Gold Coast and the Togoland trust territory, Ghana in 1957 became the first Sub – Saharan country in colonial Africa to gain its independence. Ghana is a democratic country located on the west coast of Africa with an estimated population of about 27.5 million (CIA Factbook). Endowed with gold, oil palms, cocoa, hydrocarbons and industrial minerals has earned the country the second biggest gold producer in Africa after South Africa and second largest cocoa producer in the world after Cote d'Ivoire.

Owing to GDP rebasement, in 2011 Ghana became the fastest growing economy in the world and has given the country one of the highest GDP per capita in West Africa. The economy grew 6.8% year on year (YoY) in the first quarter of 2018, easing from a 8.1% gain in the previous year.

Ghana's strong and inclusive economic growth in the past two decades helped cut the country's poverty rate in half, from 51.7% to 24.2% between 1992 and 2013. In fact, **Ghana** was the first country in Sub-Saharan Africa to achieve the Millennium Development Goal (MDG) 1, which is the target of halving extreme poverty. Extreme poverty declined even more, dropping from 37.6% in 1992 to 9.6% in 2013. This result is a function of the GoG's continuous identification of key areas of growth for rural communities, pursuit of poverty related policies and implementation of systems that empowers the rural MSEs to be productive in order to sustain development overtime.

Generally, Ghana's economy in terms of employment could be classified as predominantly informal since most of the currently employed persons 15 years and older are engaged in the informal sector of the economy (GSS 2014, Aryeetey and Baah-Boateng, 2016). The structure of the economy and the background of the labor force are not in consonance with the status of the country as a lower middle-income country.

In Ashanti Region, the unemployment rate in rural areas is higher than the rate in urban areas. However, the proportion of youth unemployed is lower in the rural areas (10.4%) than urban

(13.6%) (GSS 2016). Ghana's impressive growth performance has not translated into jobs for the labor force. Underutilizing the skills of the youth has not only brought about social exclusion but triggered intergenerational poverty. Fig.1 shows unemployment rate in Ghana increased from 2.26 in 2016 to 2.36 percent 2017 from 2.30 percent in 2016.

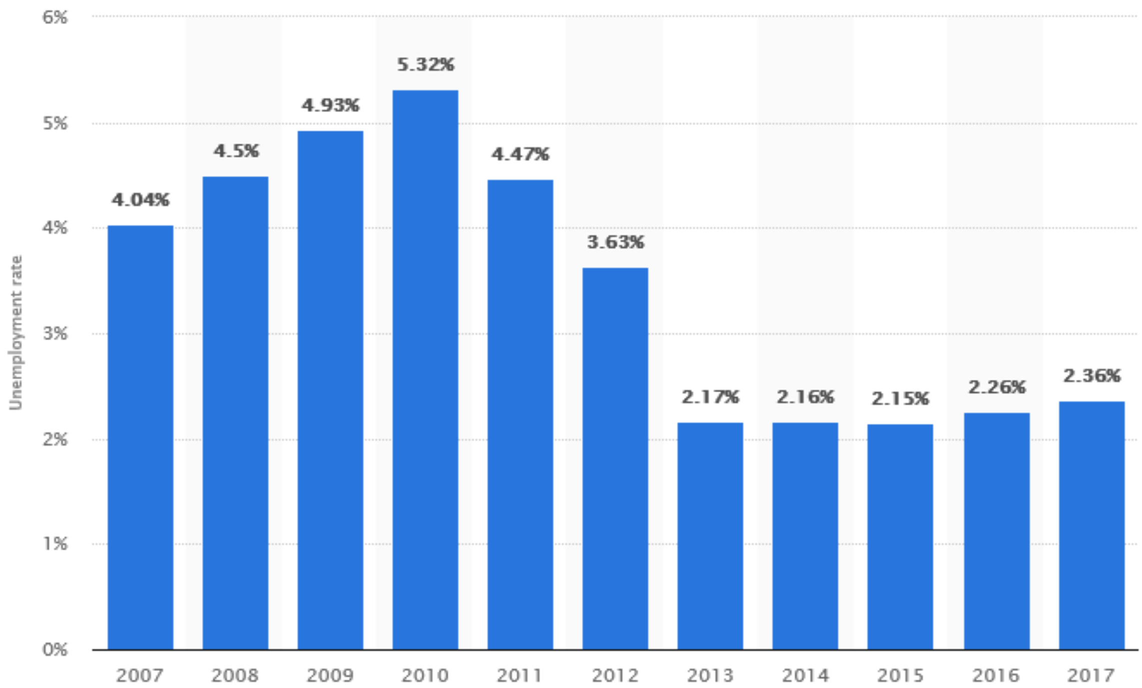


Figure 3: Ghana Unemployment Rate 2007 – 2017 *Source: Statista 2018*

2.1.1 Ghana Poverty Reduction Strategies (GPRS)

Since independence, several policies and programmes to accelerate the growth of the economy of Ghana and raise the living standards of the people have been pursued with varying degrees of success. Ghana adopted the MDGs as the minimum objective of socio – economic development and mainstreamed them in its medium – term national development policy frameworks. Ghana has prepared medium – term national development frameworks since MDGs. Under these strategic programmes, significant progress was made towards the realization of macro – economic stability and the achievement of poverty reduction goals. However, structural challenges characterized by large fiscal and balance of payment deficits have remained.

The Government of Ghana aims to create wealth by transforming the nature of the economy to achieve growth, accelerated poverty reduction and the protection of the vulnerable and excluded within a decentralized, democratic environment. The Ghana Shared Growth and Development Agenda (GSGDA) II is the fifth in the series of medium – term national development policy frameworks and is currently Ghana's blueprint for growth, poverty reduction; skills improvement; promotion of the use of appropriate technologies; improvement of access to capital resources for the rural entrepreneurs; and capacity building in agricultural commodity processing. Rural Enterprises Programme focuses on all these to foster economic growth and fight poverty. It identifies and confronts the most important development challenges Ghana currently faces.

2..2 Background Information of Rural Enterprises Programme (REP)

The IFAD/AfDB co – funded Rural Enterprises Programme is a good example of scaling up, where structures at the district level have been replicated and scaled up, eventually on a national scale. The programme benefits from systems and experiences gained over two decades during the project.

In its first phase (1995 – 2002), the project was implemented in only 13 districts of 2 regions in Ghana (Ashanti and Brong – Ahafo). Rural MSEs promotion as a key tool for rural poverty reduction was piloted, tested and evaluated. The experience showed there was a great potential for replication and scaling up.

The second phase (Phase II), launched in 2002, covered 66 districts in all 10 regions of Ghana and included co – financing from the African Development Fund. Based on the maturity of the project implementers and on important lessons learned, the Rural Enterprises Project made substantial contributions to institutional change within the decentralization framework for Ghana. It promoted the establishment and growth of rural MSEs through the provision of Business Development Services (BDS), access to technologies and financial services through the establishment of Business Advisory Centres (BACs) and Rural Technology Facilities (RTFs). It set up district assembly subcommittees for rural MSEs development that became a precursor to the decentralized Departments of Trade and Industry (DoTI) to support MSEs.

The government, with support from IFAD and AfDB, designed the current third phase (Phase III) and reinvented the project as the national Rural Enterprises Programme in 2012 to lead institutional development and the creation of a favourable environment for MSE development in all rural districts of Ghana. (REP III, 2012)

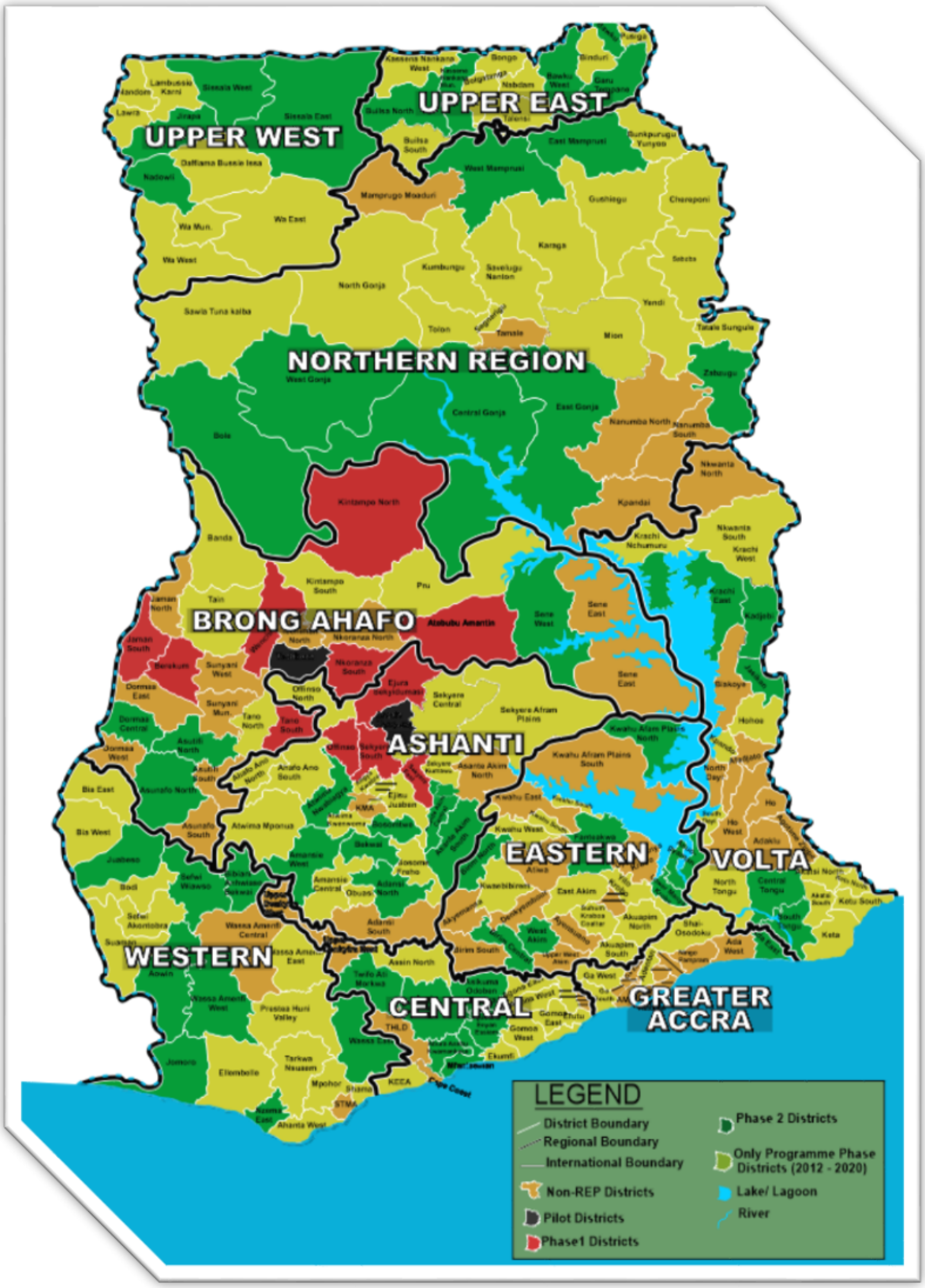


Figure 4: Map of Ghana showing REP coverage areas *Source: PCMU, (REP) (2018)*

As a national programme, REP is expected to provide an increased role in the coordination of the various stakeholders involved in rural MSEs development; in conformity with the national objectives of poverty reduction through economic growth.

2.2.1 Goals and Development Objectives of Rural Enterprises Programme (REP)

The objective of REP is to increase the number of rural Micro and Small – Scale Enterprises (MSEs) that generate profit, growth and employment opportunities, to support the goal of improving their income and livelihoods (REP Report 2013, 2014, 2016).

2.2.2 The role of the REP in achieving the United Nations' SDGs

In September 2015, the United Nations (UN) General Assembly adopted the 2030 Agenda for Sustainable Development (SD), along with a new set of development goals called **Sustainable Development Goals (SDGs)**. The most immediate link between REP's work in responsible inclusive finance, rural development and the SDGs is with Goal No. 1: No Poverty. Links with other SDGs (2, 5, 8, 9 and 11) as shown in Fig. 4. REP contributes in no small measure to the achievement of SDG Goals and the recent ranking of the country in the 2018 SDG Index and Dashboard Report. Ghana has considerably well compared to the likes of Nigeria and other countries in Sub – Saharan Africa.

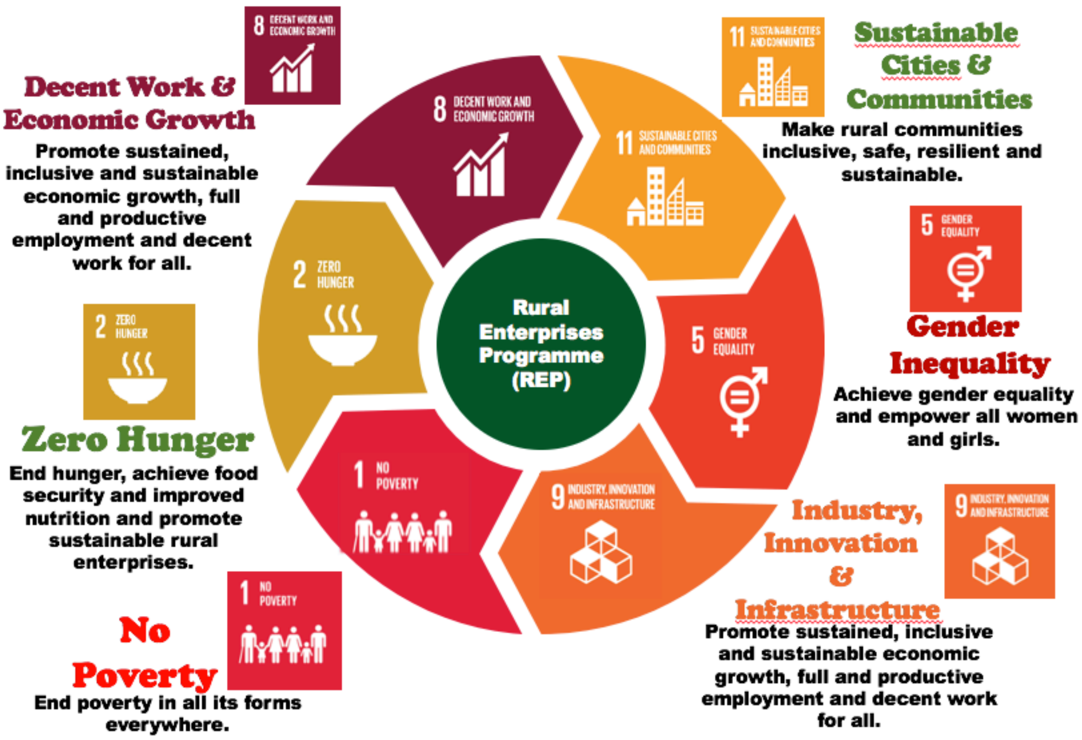


Figure 5: Role of REP in achieving SDGs

Source: Field Survey 2018

2.2.3 Components of Rural Enterprises Programme

The current phase of REP aims at scaling up the impact and outcome of results of earlier phases (REP I & II). It has four components: (1) Creation of Business Development Services (BDS); (2) Development of Agricultural Commodity Processing Infrastructure (ACPI); (3) Access to Rural Finance (ARF) and Institutional Development (ID); and (4) Programme Coordination and Management (PCM).

2.2.3.1 Business Development Services (BDS)

BDS are managerial and technical services offered to entrepreneurs at various stages of their business needs. They offer training, creation of marketing platforms, facilitating reThis aims at upgrading the technical and entrepreneurial skills of rural MSEs by providing access to business development services at the district level. The BACs which are established with support from the DAs and NBBSI, are the main delivery mechanism for BDS at district level. The district provides the space and fund the Business Development Officer (BDO) for a BAC and has an MSE Subcommittee.

2.2.3.2 Agricultural Commodity Processing Infrastructure Development (ACPID)

This aims at upgrading the level of technology of the rural MSE sector by facilitating promotion and dissemination of appropriate technologies in the form of skills training, manufacture of processing equipment, testing and promotion of prototypes.

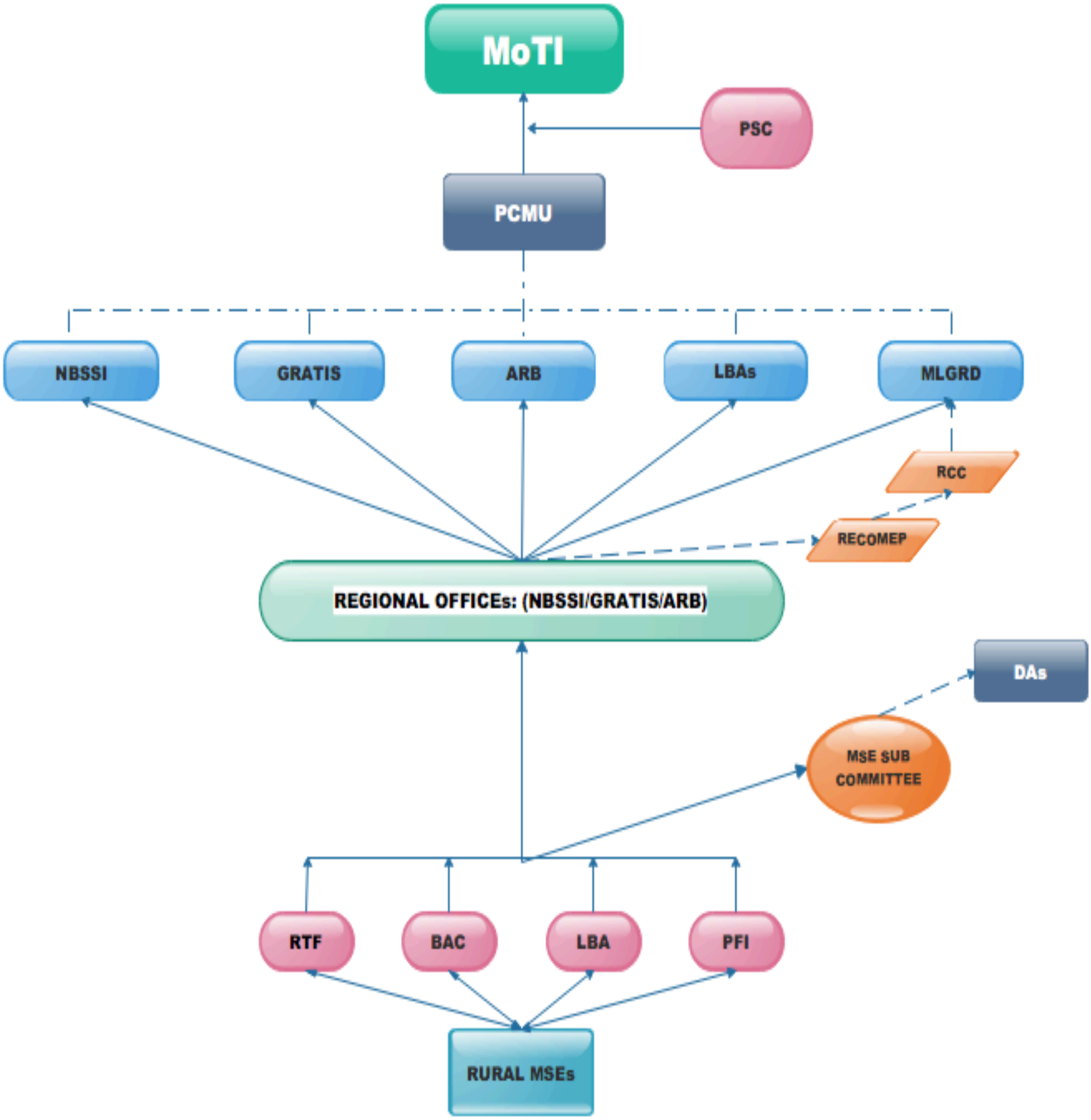
2.2.3.3 Access to Rural Finance (ARF) and Institutional Development (ID)

Difficulty accessing finance is persistently cited as a principal constraint on the ability of rural MSEs to invest, raise productivity and grow. This aims to enhance access of rural MSEs to rural finance and enhance the capacities of the PFIs to lend to rural MSEs to establish savings accounts and meet credit worthiness criteria. REP is partnering PFIs that meet performance criteria and can use their own credit funds to support the MSEs' businesses. REP is continuing the implementation of Rural Enterprises Development Fund (REDF) as a whole sale credit fund. In addition, a Matching Grant Fund (MGF) is being implemented to enhance access to production and processing equipment.

Institutional Development aims to strengthen and mainstream MSEs' development within support institutions countrywide and contribute to the creation of a favourable environment for growth of rural MSEs. At the National level, the Ministry of Trade and Industry (MoTI) has the overall responsibility for the implementation of REP, overseeing the activities of the Programme Coordinating and Monitoring Unit (PCMU). MoTI also chairs the Programme Steering Committee (PSC).

At the Regional level, the Regional Coordinating Councils (RCCs) monitor and coordinate the implementation of MSE development in the districts of their respective regions. The PCMU is responsible for the coordination, management monitoring and evaluation and knowledge management of the programme. The PCMU is based in Kumasi and is headed by National Director.

Figure 6: REP's Institutional Framework



Source: REP PCMU, 2018

At the District level, REP is supporting the mainstreaming of the subcommittee on MSE promotion as well as the effective implementation of the Department of Trade and Industry

(DoTI) within the DA structure. The National and Regional Offices of NBSSI and ARB Apex Bank are being strengthened to ensure implementation and intensive technical backstopping. The illustration in Fig. 3 provides an indication of the main stakeholders that are active in MSE support on an on-going basis from the National level to the client level. Included as well are the main Sector leaders in Trade (MoTI) and in Agriculture (MoFA), and specific activity facilitators, such as the District Administrations, their Business Advisory Centres and Rural Technology Facilities, and the Private Financing Institutions.

2.2.3.4 Programme Coordination and Management (PCM)

This Component is responsible for the coordination, management, M&E and knowledge management of the Programme. The Programme Co-ordination and Management Unit (PCMU) based in Kumasi carries out the day-to-day implementation of the Programme. It is headed by a National Director. The PCM is the link between the BACs, PFIs and BoG. The unit processes the accreditation of the PFIs and forward to BoG for approval. It subsequently receives, appraises and approves the PFIs' applications for funds and forward to BoG for release of funds to be disbursed to the various rural MSEs. The unit is not involved in the consideration and approval of the rural MSEs loan applications, it is sole responsibility of the PFIs (REP Report 2013, 2014, 2016).

2.2.4 Review of REP Baseline Survey Report (BSR)

The purpose of the Baseline Survey Report (BSR) report was conducted in 2012 and was to provide guidance for the implementation of REP as well as a database that can be used to track performance and impact of the third phase of the programme. The BSR has two principal main objectives:

- ⇒ To assess the present status of the district, Regional and National Framework of MSE support institutions (Public and Private)
- ⇒ To assess the present status of MSE clients and their communities that will be supported by the programme.

The survey covered 24 district assemblies within the 10 Regions (24 with REP intervention and 10 without REP interventions) as portrayed in the Table 3.

Table 2: Districts included in the Baseline study distinguishing those with and without REP

REGION	REP DISTRICTS		NON-REP DISTRICTS		REGION TOTALS
	With RTF and BAC	**With BAC only**	**With (NBSSI) BAC only**	**Without BAC or RTF**	
Upper West	Nadowli			Wa East	2
Northern	East Gonja			Savelugu Nanton	2
Upper East	Kassena Nankana			Talensi Nabdan	2
Brong Ahafo	Asunafo North Techiman		Nkoranza North (Served by BAC now in Nkoranza South)		3
Ashanti	Bekwai Mampong	**Sekyere South**	**Ahafo Ano North**		4
Western	Amenfi West			PresteaHoni Valley	2
Central	Assin South		Awutu Senya		2
Eastern	West Akim	Asuogyaman		YiloKrobo	3
Greater Accra		Dangme East	Dangme West		2
Volta	North Tongu			Ketu North	2
With/Without REP	**14**		**10**		**24**
With RTF& BAC	11				11
With BAC only			7		7
Without BAC					6

Source: REP Baseline Survey Report (2012)

Major issues elucidated by the BSR:

- **Inappropriate categorization of rural MSEs**: The reality of the rural MSEs did not conform to the definitions of MSEs as defined by NBSSI. It was observed during the baseline survey that none of the sampled respondents had US$10,000.00 worth of asset or met the standard of being referred to as MSEs.

- **High level of illiteracy among the rural MSEs**: 22% were without formal education while 34% primary, 38% secondary, 3% Diploma and 3% Graduate, 78% had reached formal levels of education from primary schooling and above.
- **Lack of Interest on the part of FIs**: The FIs were not willing to participate in the programme as a result of the political interference based on the structure of the funding and location of the BACs.
- **Lack of Capacity to Finance**: The FIs are faced with liquidity problems and lack of capacity to lend to the rural MSEs. Some are unable to meet the requirement of BoG to be accredited. The FIs were expected to lend 60% of the funding requirement under MGF and 20% under REDF.
- **Lack of Collaboration between PFIs and BACs**: Structurally, the onboarding of the rural MSEs for the capacity building, skills acquisition and access to finance should be the collaboration between the PFIs and BACs but it was observed that there was no synergy between the two establishments in some Regions.
- **High Interest rate**: The PFIs offered different interest rates ranging from 38% to 54% annually. The reason for this was as a result of the cost of fund on 80% of REDF released to the PFIs for onward lending to the rural MSEs.
- **Delay in Loan Disbursement**: It was observed that some delay the disbursement of funds to the rural MSEs for as long as 3 to 6 months
- **Loan Default**: Some of the rural MSEs were unable to meet the obligation of repayment as and when due. The high interest rate was one of the contributing factors to this menace.
- **Poor Loan Monitoring**: The PFIs were not visible in managing the credit portfolio as result of inadequate staffing resources. The PFIs only followed up when there was default and not to monitor the performance of the rural MSEs.
- **BAC Staffing Issue**: The embargo on employment by the GoG affected the staffing of the BACs, the programme area coverage is far too wide for meagre staffing to handle.
- **Inadequate Accredited Financial Institutions**: There are inadequate suppliers of financial services in the targeted areas as a result of the rigorous exercise and scrutiny of the prospective FIs. It took so long for BoG to accredit these intending FIs and thereby limit the number of the FIs in each location to provide the services. This was

also responsible for the high interest rates being charged by some of the PFIs because of lack of competition.

2.2.5 REP Intervention Funds

Despite the large number of Financial Institutions (FIs) in Ghana and most vibrant financial sector in Sub – Saharan Africa, their credit appetite for clients with good track record limits the availability and high interest rate lowers the affordability to accessing finance. The Hence, the conception of REP's two financial products to achieve the set objectives in provision of enabling environment by way of enhancing the PFIs' capacities.

2.2.6 Matching Grant Fund (MGF)

The Matching Grant Fund (MGF) covers up to 30 percent of the cost of production and processing equipment purchase, with the rural MSEs paying a minimum equity contribution of 10 percent and the remaining 60 percent being covered by the PFI's loan. Rural MSEs whether individuals, groups or enterprises are eligible for MGF to leverage their equity contribution in order to obtain a medium – to – long term loan of atleast 12 months for investment in machinery, equipment or building.

Matching Grants are contingent upon rural MSEs' completion of training by the BAC; operating an active account with the PFIs; depositing atleast 10 percent of the investment cost into an account at the PFI with loan approval for the 60 percent of the investment cost. (REP MGF Manual, 2013)

2.2.7 Rural Enterprises Development Fund (REDF)

The micro – finance scheme known as Rural Enterprises Development Fund (REDF) is a wholesale credit line at the Bank of Ghana (BoG), for rural MSEs' development. The fund is made available to the PFIs through BoG, saddled with responsibilities of accreditation of the prospective FIs and administration of the fund.

The BoG makes available as a term line of REDF credit to PFIs to finance 80% of the loan component of longer-term investment (19 – 36 months) and also for shorter term micro loan (18 months or less). Thus, the REDF can be used for working capital loans as well as longer term loans for the purchase of processing/production equipment (REDF Manual, 2013).

2.2.8 Social Targeting

The Programme by its nature focuses on the 'entrepreneurial poor,' who are best able to translate training, technology and financial services into increased productivity and incomes. It targets atleast 600,000 beneficiaries of which atleast 50% women. The Programme disburses the Rural Enterprises Development Fund (REDF) to about 27,000 MSEs and the Matching Grant Fund (MGF) to about 5,000 MSEs. REP will provide employable skills to beneficiaries through community-based skills training and technical skills training; training in marketing, literacy and numeracy, business management, occupational safety, health and environmental management, quality assurance and control; and business counselling, among other business support services. These will generate at 100,000 additional jobs, strengthen 70,000 existing businesses, and establish 36,000 new businesses. Hence, reaching out to the extremely poor and vulnerable was a challenge. So, the BACs located so close to the rural MSEs are saddled with the responsibilities of reaching out to them through media, trainings, various skills acquisition initiatives and collaboration with Local Business Associations (LBAs) and Financial Institutions (FIs).

2.2.9 Gender Strategy

REP has a particular attention for vulnerable groups including rural women and the youth. The programme addressed gender issues through the design and implementation of a Gender Action Plan (GAP) and operational measures to ensure strong participation of women in programme activities.

This will include:

i. Focus on supporting rural women's access and participation in professional organizations;
ii. Adequate capacity-building in targeting of gender and youth for the PCMU, key service providers, and core stakeholders from the onset of the Programme;
iii. Supporting and monitoring women's active participation in BAC/RTF activities, District Sub Committees on MSE Promotion, Regional Working Groups on MSE Promotion;
iv. Using gender-disaggregated output, outcome and impact indicators in the logical framework in order to monitor its outreach to women;
v. Encouraging and monitoring participation of women in training sessions, access to financial services and start-up kits; and credit enhancement to facilitate access of productive groups to affordable finance.

2.2.10 Rural Youth Entrepreneurship

The relatively high rates of crime in Ghana has been attributed to youth employment (Glover, 2013) which is about 48% (World Bank, 2016). REP developed strategic interventions and approaches to attract the youth to MSE and value chain opportunities, in order to face challenges of unemployment and underemployment of the youth. This is aimed at tackling the challenge of creating descent job opportunities for the youth or engaging them in some form of skills training to improve their chances of employment or being self-employed. The implementation of Youth Action Plan would support the youth through a process of graduation from basic skills training to obtaining commercial loans for enterprise growth.

2.2.11 Programme Cost and Financiers

The total cost of the Programme is US$193 million and financed by Government of Ghana, International Fund for Agricultural Development (IFAD) and African Development Bank (AfDB). The breakdown in US dollars is as follows:

i. IFAD - $31.78 million
ii. AfDB - $76.52 million
iii. Govt of Ghana - $24.41 million
iv. Participating District Assemblies - $39.76 million
v. PFIs - $8.74 million
vi. Clients - $11.68 million

2.2.12 Updated Logical Framework

Table 3: Updated REP III Logical Framework Source: REP Report, 2013

	RESULT CHAIN	PERFORMANCE INDICATOR	MEANS OF VERIFICATION	RISK/ASSUMPTIONS
Goal	To improve the livelihoods and income of rural poor Micro and Small Entrepreneurs	Reduced % of rural poverty prevalence Reduced unemployment rates (by gender) Reduced prevalence of child malnutrition	National Household Expenditures Surveys National Statistics on MDGs	
Project Development Objective	To increase the number of rural MSEs that generate profit, growth and employment opportunities	100,000 employment opportunities created (by gender and age) 35,000 businesses created (by gender and age) 70,000 existing businesses strengthened (by gender and age) 20,000 enterprises graduating from survival to normal and rapid growth categories(Growth Measures) (by gender and age) 38,000 enterprises in operation after 3 years (Sustainability Measure) (by gender and age) 30% increase in Household Income	REP Database Reference Surveys, Studies Tracer Study Client Profile and Poverty Analysis	
Outcomes	#1 Business Development Services (BDS) accessible to MSEs in rural districts	Atleast 150 operational REP model BACs (161 BACS currently operational Turnover of BACs (Target: US$25,000.00) Level of Institutional performance of BACs (Average efficiency of0.80 by Year 8) Level of effectiveness (60%) of BDS training	REP and NBSSI Records Institutional Performance Surveys Tracer Study	Decentralization policy remains supportive for integration of BAC in DA
	#2 Technical skills transferred and technologies disseminated	At least 51 operational RTFs - (21 RTFs operational) Turnover of RTFs (target US$20,000.00) 23,000 NVTI certifications	GRATIS Records REP Database & Reports Tracer Study	Decentralization policy remains supportive for sustainability of RTFs
	#3 Access of MSEs to Finance is ensured	27,000 active borrowers of which at least 50% % reduction of portfolio at risk	BAC Quarterly Reports PFIs Quarterly Reports REP Reports	Effective linkages with other IFAD projects (mainly RAFiP)
	#4 Pro poor MSE support institutions and policies in place	Disbursement rate of Das at least 80% NBSSI is operational knowledge for BACs GRATIS is operational knowledge centre for BACs	MSE Subcommittee Reports Supervision Reports	NBSSI and GRATIS are restructured and have capacity to fulfill their role
Outputs	#1 BACs are established and strengthened Capacity of rural MSEs and their associations strngthened	At least 84 new BACs established (95 new BACs so far established) 600 staff of BACs (re)traned - (859 BAC staff so far (re)trained as participants) 74,000 rural MSEs counselled (by gender and age) [8,519 clients (3,296 Males/5,223 Females so far trained) 2,000 LBAs supported (training by gender)	NBSSI Records REP Database & Reports	
	#2 RTFs are functional Capacity of rural master carft persons and apprentices developed	30 new RTFs established 153 staff of RTFs (re)trained 51 RTF Management Boards operational 90% of RTFs use accounting software 30,000 master craft persons trained by type of trining and gender (87 master crafts persons - 75 Males/12 Females 30,000 traditional apprentices trained by type of training and gender (2 traditional apprentices - both male so far trained) 1,750 technical apprentices trained by type of training and gender (17 technical apprentices - all males so far trained) 19,000 graduate apprentices provided with start - up kits (by gender) - (120 graduate apprentices - 46 Males/74 Females provided with start - up kits)		Co - financing available in time GRATIS Foundation continues support to RTFs
	#3 PFIs capacity improved MGF operational REDF operational	Number of staff of PFIs (re)trained (by gender) (53 staff of PFIs so far (re)trained) Partnership with at least 80 PFIs 7,000 MSEs accessing MGF MGF amount disbursed (by gender and age) 22,000 MSEs accessing REDF % REDF disbursed (by gender and age)	ARB Apex Bank Reports REP Reports BoG Reports ARB Apex Bank Reports	PFIs capacities remain sufficient to handle a portfolio of small loans
	#4 Institutions strengthened at District and Regional Level Support to policy dialogue	150 MSE subcommittes functional 150 DOTI,MSE Subcommittee, DA trained 8 RWGMSE operational at RCCs 100 functional ASSI branches at District level Establishment of 20 Light Industrial Estates supported Number and quality of policy initiatives emanating from REP and Das	REP Reports NBSSI Reports Supervision Reports	

CHAPTER THREE

LITERATURE REVIEW

3.1 Introduction

This literature review focuses on what other scholars have written in respect of the research and seeks to clarify some conceptual, theoretical and empirical issues on the access to rural finance and MSEs growth. It seeks to understand what has been researched and written on effect of access to finance on MSEs' growth and development demonstrating how these different approaches have particular strengths and weaknesses in their historiography and analysis.

3.2 Review of Conceptual Issues

3.2.1 Concept of Rural Micro and Small Enterprises (MSEs) and Growth

There is no uniformly or universally accepted definition or classification for Micro, Small and Medium Enterprises (MSMEs). According to European Commission, MSMEs are businesses which employ below 250 staff with an annual turnover of less than EUR50m and/or with balance sheet of less than EUR43mRecently, India changed the classification for the MSMEs from investment in plant and machinery to annual turnover (Ministry of MSMEs, Government of India, 2018). The interpretation of the concept depends on the country, institution or programme. The classification of MSEs has been a major concern in literature (Abor and Quartey, 2010). In South Africa, the National Small Business Act adopts the number of employees, annual turnover and gross assets to define the categories of enterprise while in Ghana, the National Board for Small Scale Industries (NBSSI) which is the regulatory body for MSMEs adopts the number of employees and assets base as shown in Table 4.

Table 4:Classification of MSMEs in Ghana.

Classification	No. of Employees	Value of Assets Base
Micro Enterprises	1 – 5	\$1,000.00 - \$10,000.00
Small Enterprises	6 – 29	\$10,001.00 - \$100,000.00
Medium Enterprises	30 – 99	\$100,001.00 - \$1,000,000.00

Source: NBSSI, Ghana (2011)

However, the classification is not in anyway applicable to the situation in the rural areas. REP had to redefine the rural MSEs under the REP Subsidiary Loan Agreement between the PFIs and BoG Article V Subsection 4.2:

“The terms of granting of sub – loans by PFI to clients shall be as follows:

Clients: Target clients shall be poor entrepreneurs engaged in rural micro and small enterprises employing not more than 10 person and having asset value of not more than

- US$1,000.00 for rural micro enterprises; or
- US3,000.00 for the average rural small-scale enterprises.

3.2.2 Characteristics of Rural Micro and Small Enterprises (MSEs) In Ghana

Micro and Small-Scale Enterprises are sources of livelihood for majority of people in the rural areas who do not have higher education, generating income and creating employment. Rural MSEs can be classified into Formal and Informal enterprises. The Formal MSEs are registered in the Registrar General’s Department (RGD) and have no tax records while the Informal ones have no record with the RGD or any tax records. Based on these definitions, Ghana’s enterprise structure is predominantly informal (about 90.5%) with MSEs largely contributing to this (Trombetta et al, 2017)

The general characteristics of rural MSEs in Ghana include the following:

- The rural MSEs are owned and controlled by one person making all major decisions. With little or no formal education, the entrepreneur has developed the skills from solely managing and controlling the day to day activities.
- The management structure is weak with little or no succession plan. His death means the end of the business in most cases. This is a key man factor which prevents the formal FIs from availing the rural MSEs credit facility.
- Due to little or no formal education, the technical know – how is lacking, thus inhibiting the acquisition of skills and modern-day technology.
- The business startup is usually financed from personal savings or family and friends.
- Intuitive approach to running of business operations
- Labor intensive

3.2.3 Growth of Rural Micro and Small Enterprises (MSEs)

Though rural MSEs are characterized with slow growth and high risk, their sustainability depends on their growth (Coad et al. 2013; Moreira, 2016). It is essential to grow and develop rural MSEs in order to develop national economies (Zheng, O'Neil & Morrison, 2011). According to Achtenhagen et al. (2010), growth can be measured in terms of increase in the number of employees, increase in profit, increase in sales turnover, increase in the firm's value and internal development. Although, number of employees was not necessarily considered a sign of growth (Machado, 2016), it is the most relevant indicator for many government policy makers since MSE growth is perceived as an important tool for reduction of unemployment (Coad et al. 2014; Bah et al., 2011).

Growth is not automatic but achieved through a consistent process (Davidsson et al., 2002; Wright & Stigliani, 2012) with a function of good management of resources, acquired information, capacities, financial counselling and access to credit (Dauda and Nyarko, 2014; Coad et al. 2013). Entrepreneurs' educational qualification and experience may determine the rural MSEs' growth (Rauch & Rijskik, 2013). However, as previous experience of successful venture can aid growth so is the risk factor, fear of failure (Hermans et al., 2012). The inability of the entrepreneurs to take risk, make decisions and seize opportunities as a result of fear of failure may limit growth even with access to finance (Wright & Stigliani, 2012). The role of entrepreneur cannot be overemphasized in business formation and growth (Knight, 1921; Schumpeter, 1939).

Though, Nkuah and Gaeten (2013) observed that access to credit is a dominant problem in Ghana, Mason (2013) argued that not all MSEs are credit worthy or should be granted access to finance considering the characteristics of the entrepreneur and business. Granting such an enterprise capital or funds will not guarantee growth. A business that has a wrong location or far from the market access will continue to struggle to grow, no matter the quantity or quality of finance available. Hence the emphasis of Rouse & Jayawarna, 2011 on location of MSEs as a major factor for growth or sudden death.

3.2.4 Sustainability of Rural Micro and Small Enterprises (MSEs)

The concept of sustainability, in this context, is referred to the rural MSEs' continuing commitment to grow and behave ethically while improving their livelihoods, family, workforce, the local and global community as well as future generations (Crals and Vereek, 2004). It is an extent to which the rural MSEs' access to and usage of financial services will generate income, growth and create employment beyond REP intervention.

The aim of an average rural MSEs endures beyond meeting immediate needs. Growth, expansion and leaving a legacy constitute rural MSEs' objectives. However, more than 70% of rural MSEs are likely to die within the five years of commencing business (Idemobi, 2012). This is a major risk that the financial institutions had to contend with in supplying financial services to rural MSEs and one of the reasons for credit rationing and shorter repayment. A venture which requires a longer period and much funds will definitely require a collateral.

3.2.5 Rural Finance in Ghana

Rural finance is the provision of financial services for rural farming and non – farming populations at all income levels (CGAP, 2013). The role of the financial market in Ghana is to mobilize financial resource within the economy and channel them into productive economic activities. Blessed with the most vibrant financial system in Sub – Saharan Africa, Ghana's financial sector is in three tiers as shown in Table 6. The formal sector caters for less than 35% of the population's financial needs (Trombetta et al., 2017). Commercial banks are mostly established in urban areas and usually finance urban economic activities at the expense of the rural enterprises. About 80% of the Financial Institutions in Ghana focuses more on bankable clients and areas (GHAMFIN, 2013).

The FIs established in the rural areas see the rural settlement as instrument for deposit mobilization but too risky and expensive to be granted loan facilities. They prefer to deal with civil servants or salaried workers in the rural areas who care little about the high interest rate since they have regular sources of repayment - their monthly salaries. Rather than the FIs to focus on the productive and innovative potentials of the rural MSEs, they dwell on their inherent problems; thereby limiting the accessibility of the rural MSEs to the provided financial services. The FIs in a way provides these services but with stringent conditions and ridiculous interest rates. This invariably, discourages the vulnerable rural MSEs and responsible for their inability to make use of the available services due to affordability.

Table 5: Tiers of Ghana's Financial Sector

Type	Definition	Institutions	Services	Clients	Outreach
Formal	Licensed by BoG	Commercial Banks, Development Banks	Deposits, Loans, Foreign Exchange, Funds Transfer, Insurance	Large Businesses, Government	Urban
		Rural Community Banks	Deposits, Loans, Social Investments, Funds Transfer	SMEs, Large Enterprises	Rural
Semi - Formal	Provisionally licensed as of January 2013	Credit Unions	Deposits, Loans or members only	Low-income self employed	Rural
		Savings & Loans companies. Microfinance Institutions, Financial NGOs	Deposits, Loans	Microenterprises, Entrepreneurial Poor	
Informal	Not legally registered at national level	Susu Institutions, Informal Moneylenders	Deposits, Loans	Self-employed, Poor	Rural

Source: (BoG, 2013)

It is against this 'finance gap' that the concept of rural finance was conceived by the GoG in 1976 with the introduction of Rural and Community Banking Scheme. Rural Banking started in response to the dire needs and demand to make institutional credit and banking services accessible to the small – scale farmers and rural MSEs for the improvement of their incomes, production and productivity (Kodom, 2015).

3.2.5 Major Rural Finance Products and Services

There are four (4) major loan products and services offered by the PFIs. These are microfinance, salary loans, susu loans and commercial loans (Nair and Fissha, 2010). The ability of the PFIs to make these loan products available to the rural MSEs greatly depends on the deposit base. The popular saying of you cannot give what you do not have is applicable to the PFIs. Without deposits, there can never be loan portfolio. The race for deposit mobilization in order to boost credit lending has pushed a lot of these RCBs to the urban centres. is is more of the reasons most of these RCBs are seeing in the urban areas.

The reality of deposit mobilization and the risk involved in supplying financial services to the rural MSEs brought about the two-intervention financial products REP introduced, Matching

Grant Funds (MGF) and Rural Enterprises Development Fund (REDF). MGF reduced the risk and cost of borrowing by the 30% grant component while the REDF improves the funding position of the PFIs up to 80% (REP Operation Manual, 2013).

Table 6: Major Loan Products of Rural FIs in Ghana

Product Type	Description
Microfinance Loans	These are provided to groups of individuals to finance small and micro income generating activities. For some banks, the group is the borrower. For others, each member of the group is a borrower. In both cases, the group is jointly liable for the loan. The size of a microfinance loan ranges between GHc50.00 and GHc1,000.00; however, most loans are between GHc100.00 and GHc500.00. The term and condition of microfinance loan is is four to six months, and the interest ranges between 30 and 36% per annum
Susu Loans	These loans are provided to individuals following a three - month Susu deposit. The size and terms of Susu loans are similar to those of microfinance loans, but Susu loans are provided to individuals.
Salary Loans	These loans are provided to salaried individuals and are secured by the individual's salary which is domiciled with the bank. The bank automatically deducts loan repayment installment from the salary payments. Salary loans are used for consumption and investment, as well as social purposes. The size of the loan is determined by the salary of the borrower. The maximum term of a salary loan is 48 months, and the interest ranges between 30 and 33% per annum.
Commercial Loans	These loans are provided to companies and individual entrepreneurs for working capital or fixed capital. The maximum loan size is GHc100,000.00, the maximum term is 36 months, and the interest ranges between 28% and 35%.

Source: Nair and Fissha, (2010)

3.2.6 Concept of Micro, Rural and Agricultural Finance

The concept of Rural Finance is wider than Agricultural and Microfinance. Though there are overlaps in the financial sector among Micro, Rural and Agricultural finance, there are distinctions between them (CGAP, 2010). Not all Agricultural and Micro finance are rural; and not all Rural Finance are micro or agricultural finance (CGAP, 2018). Hence the reason, REP and IFAD deliberately and carefully used Participating Financial Institutions (PFIs) instead of Microfinance Institutions (MFIs) in order not to limit the scope to MFIs since Commercial Banks, Agricultural Development Banks, Rural & Community Banks, Financial Cooperatives, NGOs, Credit Unions are also involved in the scheme of delivering financial services to the rural areas:

i. **Microfinance**: Financial services that focus on low-income households and small-scale businesses in both rural and urban areas. Growing beyond microcredit, microfinance has blossomed since the early 2000s to include a range of financial services targeted to low-income clients, including savings, money transfer and insurance products

ii. **Rural finance**: Financial services that focus on households and businesses in rural areas, encompassing both agricultural and non-agricultural activities, and targeting poor and non-poor women and men. Rural finance encompasses the full range of financial services that farmers and rural households require.

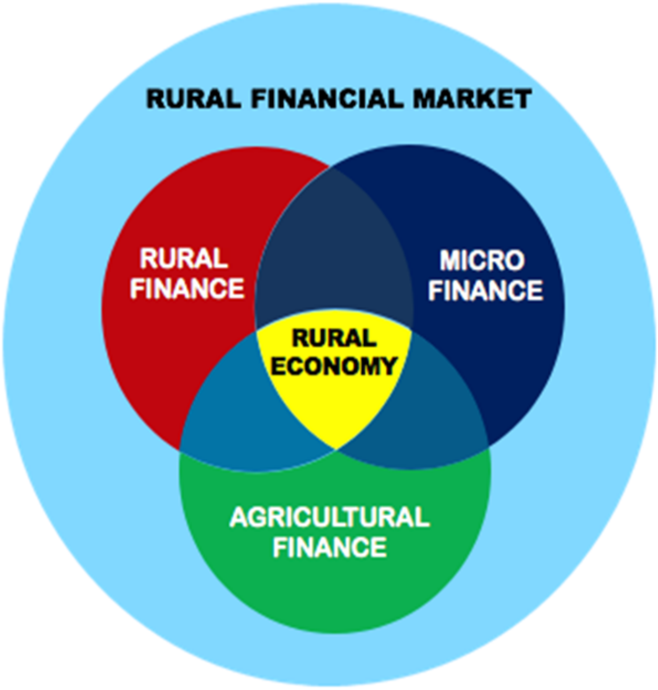


Figure 7: Interrelationship between Rural Finance, Micro Finance and Agric. Finance

Source: CGAP 2010

iii. **Agricultural finance**: Financial services that focus on on-farm activities and agricultural businesses, without necessarily targeting poor people. Fresh thinking has identified some of the key features of successful agricultural microfinance, replacing the heavily subsidized, unsustainable and unsuccessful approaches of the past.

iv. **Rural Microfinance**: Financial services that focus on relatively small-scale products and services targeted to poor clients in rural areas. Given its focus on women, youth, indigenous peoples and poor people in rural areas, this is IFAD's main area of focus.

3.2.7 Sources of Finance

There are two types of sources of finance: Internal and External Sources.

3.2.7.1 Internal Sources of Financing MSEs

Internal Sources of finance are raised from within the enterprise. These are usually the low-cost fund which can only meet limited needs. It is quicker to access and involves no stringent conditions or documentation. It is good for startup business which has no track record or experiences in the line of business. According to Myers (1984) Pecking Order Theory (POT), enterprises always prefer to finance their businesses through internal sources of finance.

3.2.7.2 External Sources of Financing MSEs

These are funds sourced from outside of the organization (Ayyagari et al., 2010) and sometimes referred to as formal source of finance. Examples are loans from the commercial banks, NFIs, supplier's credit, lenders, investors. This path is less travelled by startup business because of stringent conditions, formality, collateral, business experience and equity contribution (Angelucci, Karlan & Zinman, 2013; Kodom, 2015).

3.2.7.3 Cost of Sourcing Finance

The cost of borrowing is critical to rural MSEs and determines their behavior in the usage of the available financial products or services. This is also referred to as Interest Rate if expressed in percentage. It is the amount charged by a lender or FI to a borrower for the availed loan. High interest rate put so much stress on the rural MSEs to improve the meagre business income enough to meet the huge cost of borrowing (Karlan and Zinman, 2010).
High transaction cost can affect both the PFIs' willingness to supply the financial services and the rural MSEs' willingness to use the available financial services (Karlan et al., 2016)

Aliero & Yusuf, 2017 in analyzing the constraints to credit access for SMEs in Sokoto Metropolis of Nigeria observed that internal factors such as, entrepreneur's age, level of education, enterprise size, collateral and ownership structure do not constrain access to credit facilities but observed a significant constraint in high interest rates. In view of the huge cost of supplying the financial services, various financial institutions have deployed means of covering their cost by the high interest rates for these financial services. Angelucci, Karlan and Zinman (2013) concluded that access to finance does more harm than good, particularly when offered at high cost. Government intervention is required to reduce the cost of transaction (Akinrogun, 2012).

3.2.8 Access to Rural Financial Services and Challenges

The rural space is home to about 49% of Ghana's population and about 80% of it is poor. Access to Finance is crucial not just for the growth of Micro and Small – Scale Enterprises (MSEs) but the rural economic growth and development. However, access to finance is still a challenge to most MSEs, especially those in developing economies and it is also still a key issue both within the private and public sectors. The Association of Ghana Industries (AGI) stated that lack of adequate access to finance is the most problematic factor stifling the growth of small businesses in Ghana (AGI, 2011, GCI Report 2017).

Access to rural Finance (also referred to as Financial Inclusion) can be seen as the absence of both price and non-price barriers in the use of financial services in the rural areas. In Ghana, financial markets cannot operate efficiently because of these barriers: high interest rates, biased sectoral policies, lack of basic infrastructures, mission drift on the part of the FIs, excessive bank reserve requirement and the rural MSEs inherent challenges such as entrepreneurial skills, experiences, structure.

The inherent challenges facing the people in the rural areas are daunting both from the demand and supply sides. In literature, there are many supporting and skeptical arguments about SMEs access to credit. Lending to small businesses can be seen to be time consuming and costly for banks and other financial intermediaries. Such small firms lack proper accounting procedures and owners easily mix their business and personal finances, making their financial statements often unreliable.

3.3 Theoretical Framework

3.3.1 Financial Growth Theory

Berger and Udell (1998) developed the theory of Financial Growth which was later cited by Babajide (2011) and Akande (2012). This theory was based on the changes in financial appetites and options of MSEs. The theory suggests an organic style of growth for MSEs especially startups, exploring all internal sources of finances before exploiting the external sources. The consistent growth founded on huge experience and transparency will create unlimited access to finance.

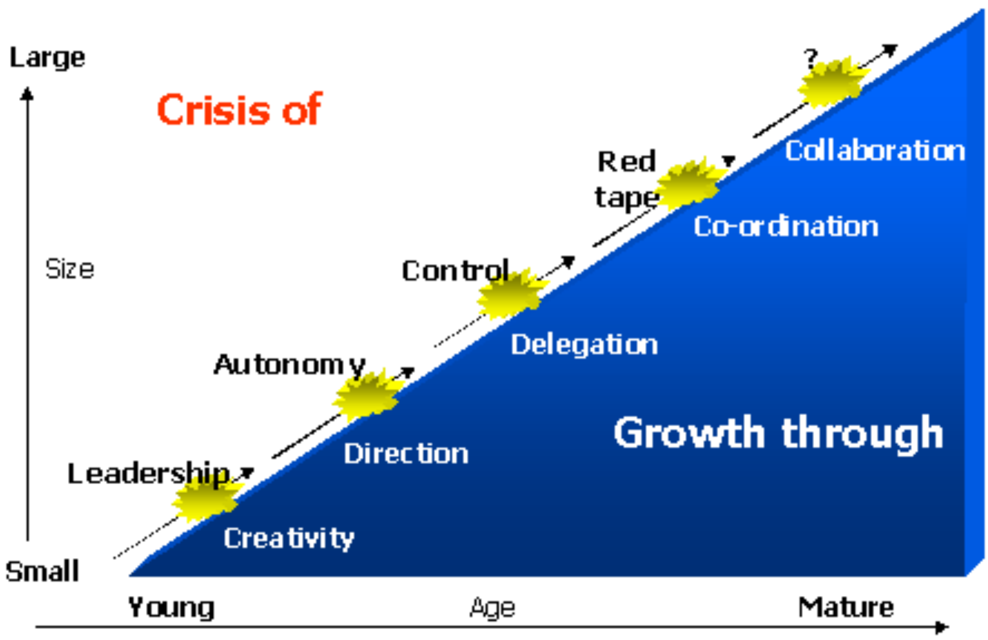
This theory predicts that access to finance is the outcome of the sustainable growth. The implication of this theory is that MSEs need internal source of finance before approaching the external sources. This is because the size of the loan and asymmetric information on the quality of operation force the financial institutions to protect their investment by demanding adequate collateral or higher rates of return, which come in the form of high interest rate, and definitely high cost of capital for the MSEs.

The rural MSEs in an attempt to avoid higher cost of capital, are pressurized to request for small loans on short tenor, maximum of one year. smaller firms are then forced to use more short-term loan, which carries lower costs but raises the MSEs' risk and eventually reduce their profitability and growth.

3.3.2 Greiner's Business Growth Model

The organizational growth model by life cycle theory by Larry E. Greiner analyzed organizations' growth concept in five phases as shown in Fig. 6. based on the Age of the Organization, Size of the Organization, Evolution Phases, Revolution Phases and Industry Growth Rate. (Greiner, 1972).

Figure 8: Phases of Growth and Crisis



Source: Greiner (1998)

Greiner proposed that the ability of an organization to grow sustainably (evolution) from stage of creativity to collaboration depends on the way the crises which he called 'revolutions' are handled. Each evolution or stage of growth creates its own revolution or challenges. The he implication of this is that growth has cost implication and lies in the growth achieves is a function of the way and manner the organization is able to handle management crises and other every situation that confronts it.

3.3.3 Resource Based View (RBV) Theory

The Resource Based – View Theory is one of the dominant theories on MSE's growth determinant. This theory considers the ability of an enterprise to utilize its valuable, rare, inimitable, non-substitutable resources and capabilities to achieve a higher growth than the competitors. Adopting Albert Humphrey's SWOT analysis (Strength, Weakness, Opportunities and Threat), it assumes that all enterprises face the same external opportunities and threats which most times are beyond their control. However, the enterprise that is able to harness its entrepreneurial characteristics such as owner, gender, age, education level, management skills and experiences will not only take advantage of the opportunities to grow but mitigate the threats (Janda et al., 2013; Habtamu, 2012; Mbugua et al., 2013).

Though the theory's emphasis on the contribution of internal resources to the MSEs growth seems to be on the right track; the assumption that all enterprises are under the same environmental or external factor is the weakness. The challenges a rural entrepreneur is facing cannot be compared to an urban entrepreneur who has the closer access to the market and better infrastructures.

3.3.3 Industrial Organization Model

This model attributes the growth of an enterprise to the external factors. For an enterprise to achieve a competitive advantage or growth, it must put into consideration the environment it chooses to operate, carve and implement strategies that best suit that external factors. The external or firm related factors such as age, initial capital, size, location of industry, infrastructures, market, technology, social responsibilities and legal and regulatory frameworks have been associated with the MSEs' growth (Kefale and Chinnan, 2012; Ahiawodzi & Adade, 2012; Admasu, 2012; Gichana and Barasa, 2013).

3.3.4 Agency Theory

This theory studies the relationship between the principal (lender) and agent (borrower) and explains the mismatch of resources and abilities (Armendariz de Aghion and Morduch, 2005).

The relationship between the PFIs and the rural MSEs is said to be contractual since it involves acceptance of terms and conditions guiding the transactions in form of loan offer letter. If this offer letter is properly designed, it would reduce the possibility of the rural MSE acting in ways that fuel his personal motives and goals. The inability of the lender to monitor or evaluate the progress of the financed project and lack of mechanism to punish the borrower in case of default, tend to give the borrower an upper hand and audacity to divert funds or choose not to repay the loan.

However, Townsend (1997) with his concept of costly state verification proposed a regulatory framework to predict the outcome of the financed project as well as a governance mechanism to control the action of the borrower.

3.3.5 Information Theory and Communication

Ekumah & Essel (2000) submitted that information asymmetric occurred as a result of the low-level education of the rural MSEs and lack of transparency on the part of both the PFIs and the rural MSEs. The rural MSEs may likely make a poor decision based on inability to comprehend the financial services being offered or inadequate/non-disclosure of information on the part of the PFI. The inability of the rural MSEs to understand some financial terms makes them victims of whims and caprices of the FIs. Majority of the low-income borrowers received little disclosure of information from FIs or have the slightest idea of interest rate on their savings deposit (Kumah & Agbogah, 2001; Gine et al., 2014).

3.3.6 Credit Rationing Theory

This is one of the most important theories that focused on the limitation of access to finance. Stiglitz & Weiss (1981) defined Credit Rationing as a situation in which the FIs are not willing to lend to their clients even when they are willing to pay an interest rate far higher than that of prevailing market. The reason is that FIs are not just interested in the interest income on loan but much more on the riskiness of the loan portfolio. The possibility of earning more in interest income is certain but the default losses may increase more than the increased interest revenue. In attempt to mitigate the loan portfolio risk, FIs perform credit analysis on the entrepreneurs and enterprises applying for the loan facilities. One of such credit analysis methods is the **5 Cs of Credit**: Capacity, Capital, Conditions, Character and Collateral. Though, collateral is usually considered least, Bester (1987) emphasized its importance as an instrument that FIs use to discriminate between high and low risk business or ventures. The FIs offer their credit products with different combination of interest rate and collateral (Mancusi & Vezzulli, 2014). A low risk venture will be willing to offer more collateral at a reduced interest rate since the assurance of repayment is high (Duarte, Matias Gama & Esperança, 2016).

3.4 Review of Empirical Studies

3.4.1 Determinants of Access to Finance

Danso-Abbeam, Ansah and Ehiakpor (2014) carried out s study using primary data collected from 140 randomly selected MSMEs in Kasoa Municiality in Ghana. The empirical results showed that years of business experience, educational level, collateral, and business location significantly influence the chances of MSME's access to finance. Also, the study showed that the depth of access to finance is critical to MSME's growth than outreach. Using Paired T – Test, they revealed that the amount of credit received was significantly lower than the amount of credit requested by the MSMEs.

Noor (2012) investigated the determining factors that influence financial inclusion among Small and Medium – Scale Enterprises (SMEs) in Harare Metropolitan, using analyzed data from 10 Financial Institutions and 50 SMEs that have been in operation from 2010 – 2015. The findings of the study showed that all the identified factors from the demand side, supply side and infrastructures significantly related to financial inclusion identifying high banking charges, lack of confidence in Banks and as the key determinants negatively impacting on financial inclusion. The limitation of this empirical study was the narrowness and shallowness considering the number of respondents and their urban locations, it may not truly represent the views of the majority of population. (Williams, 2011)

Aryeetey et al. (1994) conducted a study on financing constraints for MSEs and startups with a survey of 133 enterprises in various industrial sectors in Ghana. It was discovered that only 10% of the MSEs were granted loan facilities while the medium scale enterprises and older companies were granted loan facilities three times more than the MSEs. The main reason for this behavior are lack of credit history, insufficient collateral, poor business performance and keyman factor (North et al., 2010)

Nguyen et al (2018) examined the empirical analysis of credit accessibility of SMEs in Vietnam, focusing on the identification of factors affecting the access to finance and interest charged. With 487 SMEs, the study was able to demonstrate the influence of inequality on credit accessibility. Male SMEs outnumbered the females while the MSEs who have personal relationship with the FI's managers or staff had more access than those without networks. The limiting factors were not exhaustive. All the factors analyzed were more of demand driven than supply.

F. Afful, Hejkrlik & Doucha (2015) observed an impact of rural finance in the area of incomes, savings and employment generation. However, effect of seasonality for the farm based was highlighted for the fluctuations in income and growth despite their access to finance. This can however be mitigated if the farmers are educated on the climate change issues as well as commercial agriculture.

3.4.2 Effects of Access to Finance on the Growth of MSEs

Kenyatta (2014) carried out a study on effect of microfinancing on SMEs growth in Mombasa County using sampled respondents of 102 from total of 157 SMEs. The findings showed that microfinance has positive effects on growth of SMEs. Majority of the respondents indicated that MF has enabled them to expand businesses, build their assets and generate profitability.
Karlan and Zinman (2010) asserted that expansion of access to finance to the MSEs promotes business growth and reduces poverty. After surveying a small sample of 78 SMEs in Manufacturing sector in Ho Municipality, Ahiawodzi and Adade (2012) concluded that access to credit exerts a significant positive effect on SMEs' growth. Though the limitation of this study has to do with the small sample, this study will be looking at about 426 rural MSEs. However, Fatoki and Odeyemi (2010) observed that lack of access to finance can stifle and impede the MSEs' growth.

3.4.3 Sustainability of Participating Financial Institutions (PFIs)

The emphasis of the Phase III of Ghana's Rural Enterprises Programme is to enhance the capacities of the PFIs in order to respond to the demands from the rural MSEs on a sustained basis. The GoG's approach in enabling the rural MSE's environment includes a supportive legal and regulatory framework that permits the transfer of wholesale funds to the PFIs for onward lending to the rural MSEs and provision of intervention funds, Matching Grant Fund (MGF) and Rural Enterprises Development Funds (REDF).

Under the REDF, BoG disburses 80% of the total loan portfolio through BoG, while the PFIs contribute 20% of their own fund and lend to the rural MSEs. This comes at an interest rate of 18 percent per annum. The PFIs afterwards considering the cost of transaction and other risk element, give it to the rural MSEs at interest rates ranging from 36% - 44% per annum excluding flat charges of about 4%.

The MGF is one – off and has a grant component of 30% of the loan while the rural MSE provides an equity contribution of 10% and the PFI provides 60% of the loan. This is meant to reduce the effect of cost of borrowing on the rural MSEs. Armendaris de Aghion and Morduch (2005, 2010:246 – 247) argued that the financial institutions should be subsidized and not the borrowers. The subsidized financial institutions will pass on fewer costs to the clients. They also argued that subsidizing a startup and not ongoing operations leave the clients at the mercy of the financial institutions.

Adusei (2015) studied the profitability of 112 Rural and Community Banks (RCBs) in Ghana. The result generally showed that enhancing the capacities of the RCBs positively impacts their stability, with the RCBs putting in place a proper legal framework to mobilize cheap deposits from both rural and urban clients. These deposits expected from various savings and current accounts are far better and cheaper than wholesale fund or any form of deposit.

3.4.4 Financial Literacy

Financial illiteracy is one of the major factors responsible for financial exclusion. The utilization of financial services is the function of the understanding rural MSEs have about finances (Levi D'ancona, 2014). Financial literacy us defined as the ability of individuals to assimilate and process information to make informed personal financial decisions (Guarav and Singh, 2012).

Studies have revealed that financial knowledge is linked to finance (Behrman et al., 2012; Bucher-Koenen and Lusardi, 2011); Cole, Sampson and Zia (2009) discovered that higher financial literacy can lead to better risk management and savings. They observed huge patronage of the Insurance and Savings products. However, Miller et al (2013) observed that none of the 188 financial educational programs evaluated through meta-analysis has had a positive impact on financial knowledge and behaviour. The approach and means of delivering this education/training programs go a long way to have positive impact on the beneficiaries (Levi D'Ancona, 2014).

3.5 Review of Methodological Issues

Karlan and Zinman (2011) conducted a study of microloans given out to nearly 1,000 small business owners and entrepreneurs in the Philippines. They found that, contrary to widely held beliefs, the loans did not generate bigger businesses, higher income, or greater subjective well-being for the recipients. Instead, the loans led to fewer businesses and a lesser sense of well-being. However, the practice did result in stronger risk management.

Karlan and Zinman developed a new method for evaluating the impact of access to finance, working in partnership with First Macro Bank, which made loans to 921 men and women in the Manila area. The team randomly approved loans for a subset of applicants who had been pre-selected based on their credit scores and conducted follow-up surveys with the loan recipients 11 to 22 months after they had applied for the loans. The surveys showed that the entrepreneurs who received loans actually shrank, rather than grew, their number of business activities, and that their self-reported sense of well-being (including life satisfaction, self-esteem, optimism and stress levels) did not improve, but in fact got slightly worse.

However, they also discovered that the loans did provide a buffer against income fluctuations and unexpected expenses, allowing the recipients to manage risk without relying on formal insurance. The small business owners' access to informal credit, such as financial assistance from friends and family, also increased as a result of the loans.

Asa and Shalendra (2014) examined comprehensively the factors that determine sustainable growth in MSEs. About 50 SMEs and 134 key informants participated undertook a comprehensive examination using Odds and Odds Ratio and Logistic Regression (Chi – Square and P – Value) to analyze the data gathered. The critical factors that were considered in defining the factors that determine sustainable growth in Namibia did not include access to finance. They were customer relations. service, market/competition, Government networks, leadership/human resource, business strategies and innovation/product.

CHAPTER FOUR

METHODOLOGY

4.1 Conceptual Framework

The conceptual framework for this study is research based; the framework is depicted in Figure 8. In the framework the researcher intends to determine how internal and external factors and access to finance influence the growth and sustainability of rural MSEs.

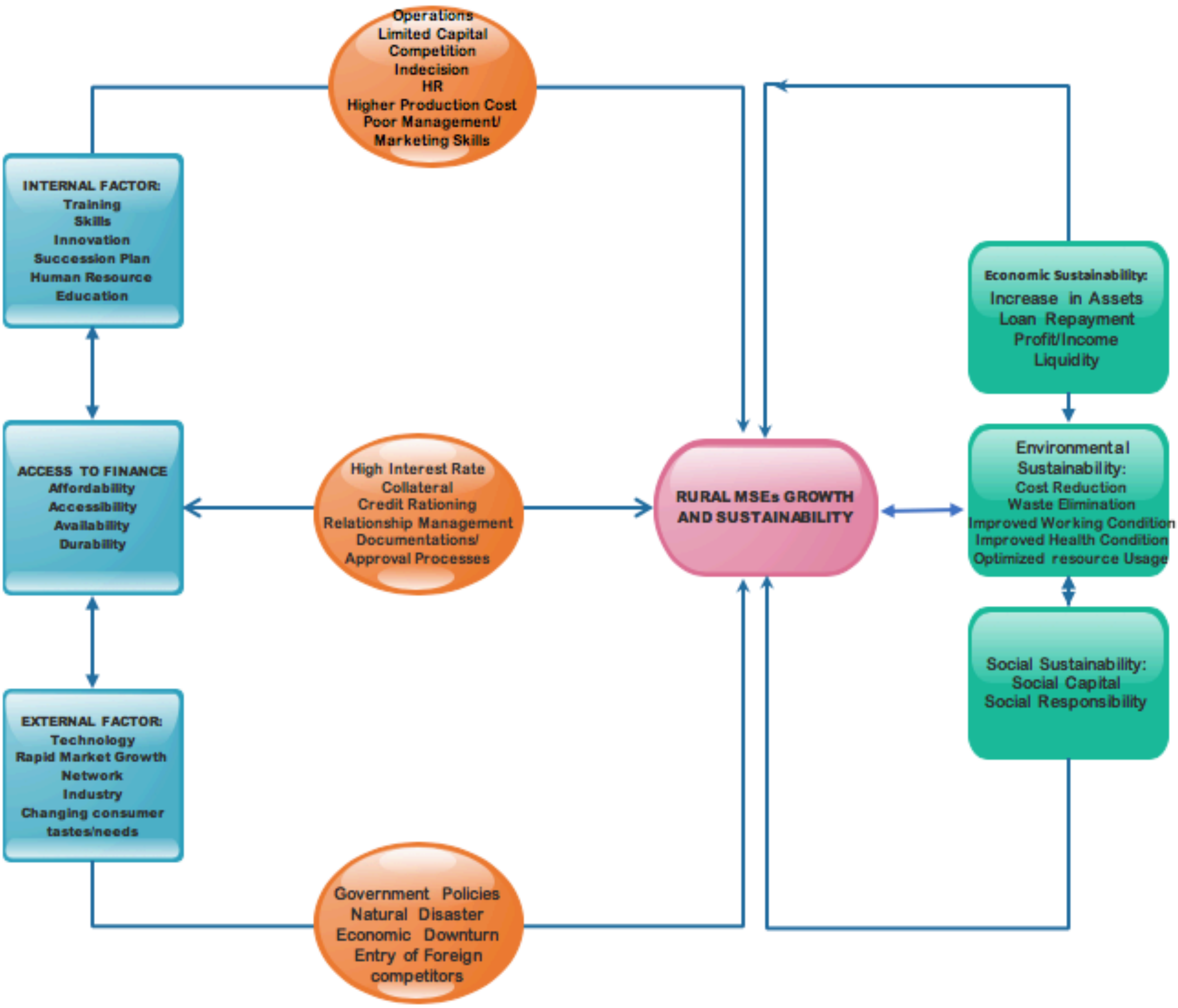


Figure 9: Conceptual Framework

Source: Field Survey, 2018

4.2 Statement of Hypotheses

1. Null Hypothesis (Ho1): There is no significant association between the rural MSEs

characteristics and their growth and sustainability.

2. Null Hypothesis (Ho2): The challenges restricting the access to and usage of financial services do not affect the growth and sustainability of the rural MSEs in the study areas.
3. Null Hypothesis (Ho3): There is no significant difference in the income of rural MSEs before and after REP intervention funds.
4. Null Hypothesis (Ho4): There is no significant difference in the savings/investment of the rural MSEs before and after the Rep intervention funds.

4.3 The Ashanti Region and Study Area

Occupying 10.2% of the total land area in Ghana (a land size of $24{,}390km^2$), the Ashanti Region is the most populated region with a population of 4,780,380 according to 2011 census, out of which 47% are in the rural areas.

Figure 10: Map of Ashanti Region showing the 2 study areas. Source: Google Map

It has 30 districts (1 Metropolitan, 7 Municipals and 22 Districts) and has a large proportion of hard to reach rural areas among which are Sekyere South District and Ahafo Ano North Municipality which have been selected for the purpose of this research. The capital city is Kumasi.

4.3.1 Sekyere South District Assembly

Sekyere South District, formerly known as Afigya Sekyere District is one of the 30 district/municipal/metropolitan assemblies in the Ashanti region. The district is located in the North Central part of the region occupying a total land area of 584km^2 and a total population of 94,009 with a growth rate of 3.1% annually. capital is Agona which is about 22kms from the capital city, Kumasi.

The Sekyere South District is a predominantly rural economy, with agriculture and its ancillary activities being the main live stay of the people. Agriculture employs 45% of the active population. The annual levels of agricultural production and profitability therefore determine household income levels. Thus, it is not unusual to note a remarkable improvement in household incomes and expenditure during the food and cash crops harvest seasons, especially during the cocoa buying seasons of September to February.

Figure 9: District Map of Sekyere South

The District Assembly, as the Planning Authority, relies heavily on the taxes it collects from rural agricultural producers in generating funds, especially during market days, to service its administrative machinery. The main revenue generating centers are Agona, Jamasi, Wiamoase, Bepoase, Asamang Tano Odumase Kona, Bipoa and Boanim.

Banking

The district has three major financial institutions currently operating with some of them having two or more branches in the district. These institutions are Ghana Commercial Bank, Okomfo Anokye Rural Bank, Kwamanman Rural Bank and Sekyere Rural Bank all located in Agona, the District Capital. In addition to these financial institutions, there is a number of Micro Finance Operators currently operating in the district. The availability of these financial institutions in the district creates easy access to credit facility for investment in the district. With the presence of these institutions in the district, businesses and individuals can source funding to finance their investment and personal needs.

4.3.2 Ahafo Ano North Municipal Assembly

Ahafo Ano North District is among the 30 Administrative Districts in Ashanti Region created by an Act of Parliament with its capital at Tepa. The District was created in 1988 by Legal Instrument 1402.

The Ahafo Ano North District is located between Latitude 6˚47'N and 7˚ 02'N and Longitude 2˚ 26'W and 2˚ 04'W as shown in figure 1.5. It shares boundaries with six districts, namely Tano North and Tano South to the North, Asutifi North and Asutifi South to the West, Ahafo Ano South District to the East and Atwima Mponua to the South. The 2010 Population and Housing Census indicate that the district covers a total land area of 593.7km^2.

The unique and strategic location of the district which is sandwiched btween Kumasi and Sunyani offers it easy access to major markets and facilities in these two regional capitals. However, there is a negative development where most of the youth migrate to Kumasi and Sunyani in search for better jobs. This has left the agriculture sector which is the mainstay of the district economy in the hands of the aged. There is, therefore, an ageing farmer population in the district. This has negative implications for agriculture production as the district is agrarian one and food security in the district and the nation at large.

Population

The District has a population of 96,737 of which 50,303 are Males and 46,434 are Females with a growth rate is 2.9% per annum. Out of this population, 46,724 are in the labour force while 50,013 are infants and aged.

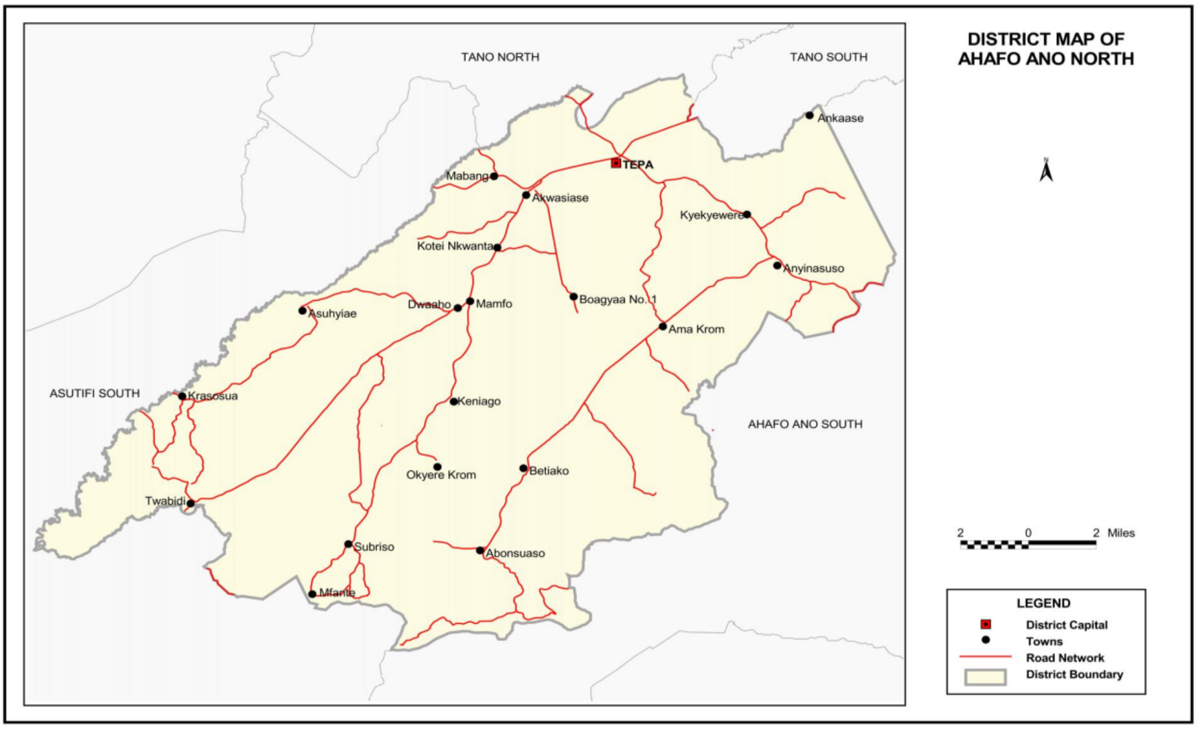
Economic

As an agrarian economy, the agriculture sector alone absorbs 78.7% of the labour force, while services and Commerce absorb 9.4% and 7.1% respectfully. Major farm produce in the District are Plantain, Cassava, Cocoyam, Rice, Maize, Tomatoes, Garden Eggs and Yam. These farm produce, apart from Rice and Maize which are normally produced twice within the year, are produced once. The produce from the farms are sold locally to community or few buyers from outside the District.

Cash Crops

Cocoa is the major cash crop grown in the District followed by Oil Palm and Coffee which have been traditional crops in the District. There has been the emergence of non-traditional crops like, Citrus, Pineapple, Mango, Pawpaw, Banana, and Coconut. Few farmers are into the growing of these non-traditional crops as ready market is not available and also method of preservation is also not modernized.

Figure 11: District Map of Ahafo Ano North Municipality



Source: GSS, 2016

The Municipal did not have REP intervention until the commencement of the Phase III in 2013. The number of registered rural MSEs with BAC was 303 as at May 2018 when the research was conducted.

4.4 Selection Criteria for Study Area

The study area was chosen after careful understudy of the Baseline Survey 2012 Report which identified the regions with and without REP intervention. This is to achieve one of the objectives which compared the effect of access to finance on the growth of the rural MSEs (REP beneficiaries and non – beneficiaries). Also, the distance between the 2 locations were also considered to ensure that the set objectives were achieved within the set time to conduct the research. Ghana also have its share of incessant Fulani Herdsmen – Farmers clash and this was considered to choose the location.

4.5 Nature and Sources of Data

Both qualitative and quantitative data were collected during the course of this study. Key informants were selected from the rural MSEs and from the staff of both the PFIs, REP and BAC offices. Purposive and simple random sampling techniques were employed to select about 426 rural MSEs (304 REP borrowers and 124 REP non-borrowers) from the database of the 963 beneficiaries in both locations (660 in Sekyere South and 306 in Ahafo Ano North). These beneficiaries were selected from twelve (12) communities in Sekyere South and five (5) in Ahafo Ano North districts from different business sectors. The selected communities from Sekyere South include: Agona, Bepoase, Jamasi, Abrakaso, Bipoa, Boanim, Domeabra, Kona, Tano Odumase, Wiamoase and Akrofonso while those selected from Ahafo Ano North were the following: Tepa, Betiako, Boagyaa I and Mabang and Akwasiase. A total of 426 (which is the sample size for this study) questionnaires were recovered and analysed

Table 7: Sampled Respondents Per Study Area

Study Area	Total MSEs as @ 31/05/2018	Sampled MSEs	%
Sekyere South	660	298	45%
Ahafo Ano North	306	128	42%
Total	**966**	**426**	**44%**

Source: BAC GIS Agona & Tepa (2018)

4.6 Method of Data Collection

The study employed a combination of several different methods in data collection. The main instrument for data was questionnaires and document analysis. Questionnaires were administered to rural MSEs to collect primary data while documents analysis involved reviewing the contents of related documents or journals with the view of obtaining relevant secondary data. The sources included materials from the BACs, REP and PFIs.

Key Informants (KII) were selected and interviewed to determine the actual effect that the REP Intervention Funds had on the growth of the rural MSEs. Focus Group Discussion and in-depth interviews were also held with some officials of the Participating Financial Institutions (PFIs) and Local Business Associations (LBAs) to further understand the concerns and challenges of the beneficiaries and the financial institutions.

The recommendation from the findings of the report should help the GoG to determine how best to channel these interventions to assist the rural MSEs which are very predominant in the two selected districts to ensure they operate at the maximum capacity in order to meaningfully contribute to the Country's GDP.

4.7 Analytical Methods/Techniques

Data collected was analyzed using Descriptive and Inferential Statistics on SPSS 24 Mac Edition and Microsoft Excel 2010. Before data analysis, quantitative data collected from the field survey was subjected to filtering and then coded for running statistical analyses while qualitative data was interpreted as content analysis using quotations in addressing significant issues discussed.

Different analytical techniques were utilized in this study to arrive at results. They include the following: Descriptive analysis which included frequency distribution, computation of mean, mode, median, standard deviation and cross tabulation (chi square); inferential statistics which include ANOVA and ANCOVA were carried out to determine level of income, savings and growth status before and after the REP intervention. Data is presented in the form of frequency distribution, percentages, charts and cross tabulations.

4.8 Validity and Reliability of Research instrument

Selecting the non – borrowing group which is the control group is not trivial. The group consists:

- Rural MSEs with similar characteristics to the participating entrepreneurs also referred to as the borrowing group.
- Their applications for REP Intervention fund were turned down
- They do not have borrowing relationship with any bank

It is a known fact that the most carefully constructed instrument cannot guarantee to obtain a 100% reliable data, however, to ensure the adequacy of the instrument, a pilot study was carried out by administering questionnaires to the small sample of rural MSEs who are also beneficiaries of REP intervention in Ejisu Juaben Municipality to assess the ability of the respondents to interprete and answer the questions correctly. Thereafter, the opinions of the respondents were compiled to review the practicality, relevance, reliability and validity of the instrument. The pilot study involved conducting face-to-face interviews and pre – testing survey. A total of fifteen rural MSEs and two staff of the Business Advisory Centre (BAC) were selected.

The outcome of this exercise was successful and brought about the reduction of the instrument from 10 pages to 4 pages. The ambiguous and repeated questions were removed, thereby reducing the average period the respondents are expected to complete the survey.

CHAPTER FIVE

RESULTS AND DISCUSSION

5.1 Demographic Characteristics of the Respondents

This chapter presents the analysis and interpretation of data collected

5.1.1 Types of Banking Relationship

The respondents indicated the kind of relationship they have with the Financial Institutions, whether borrowing or non – borrowing.

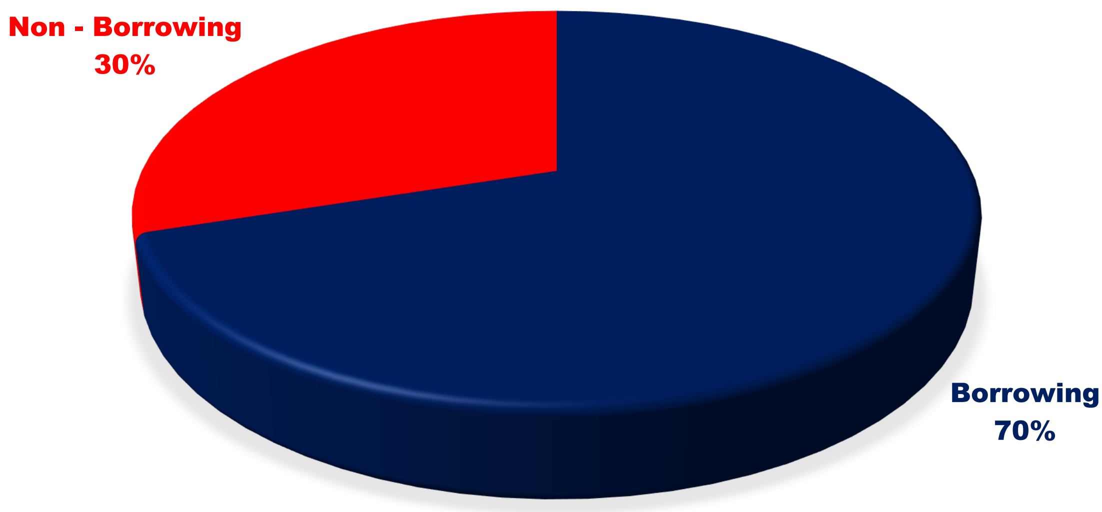


Figure 12: Types of Banking Relationship

Table 8: Chi Square Test on the Borrowing and Non - Borrowing Groups

	Observed N	Expected N	Residual Value		
Borrowing	298	213	85	**Chi-Square**	67.840[a]
Non - Borrowing	128	213	-85	df	1
Total	**426**			Asymp. Sig.	0.000

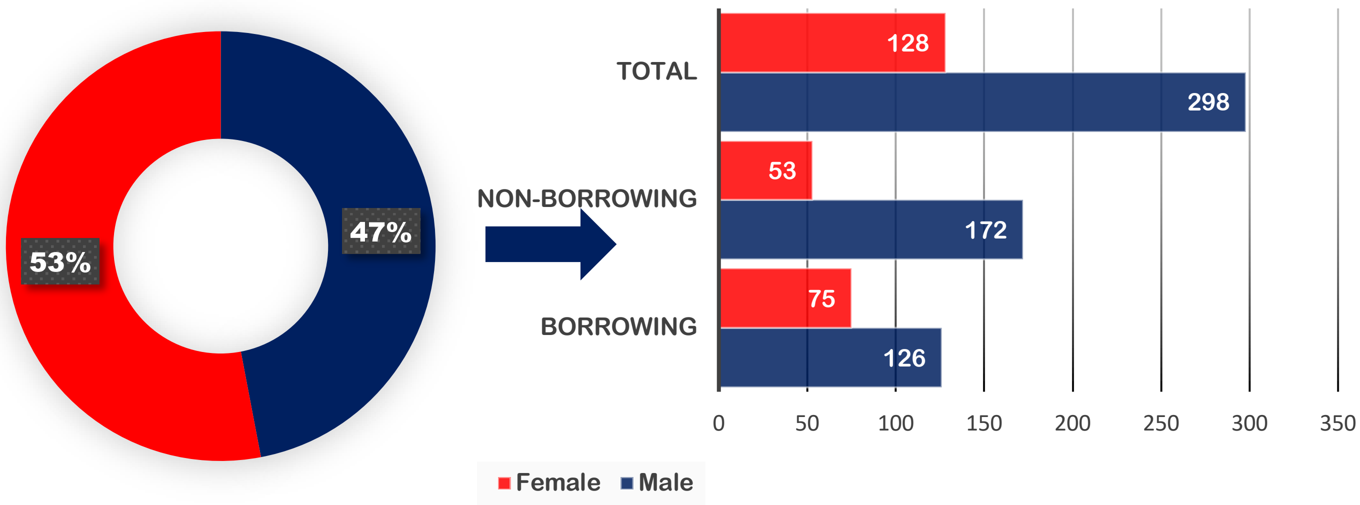
a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 213.0.

The above result showed a higher residual value of 85. The difference between the borrowing and non – borrowing group is not as a result of chance. There are more borrowing beneficiaries than non – borrowing. As at the time of research, over 75% and 10% of the rural MSEs in Sekyere South and Ahafo Ano North have benefitted respectively from the REP intervention funds. With the accreditation of new PFIs and onboarding of new rural MSEs, the figures are likely to keep going up.

5.1.2 Gender

Majority of the total respondents is female (53%). The prgramme is not just about onboarding female entrepreneurs, but ensuring that atleast 50% of them have access to rural finance. This finding confirmed the achievement of one of REP objectives to assist the rural MSEs of which women must be 50% minimum.

Figure 13: Gender Distribution of Respondent



Source: Field Survey, 2018

5.1.3 Marital Status of the Respondents

For both groups, the majority of the respondents is married. REP is focused on improving the livelihood of household.

Table 9: Marital Status of rural MSEs in the study areas.

	Borrowing		Non - Borrowing	
Marital Status	**Frequency**	**Percentage**	**Frequency**	**Percentage**
Single/Never Married	46	15%	26	20%
Married	221	74%	90	70%
Separated	18	6%	9	7%
Divorced	7	2%	2	2%
Widowed	6	2%	1	1%
Total	**298**	**100%**	**128**	**100%**

Source: Field Survey, 2018

5.1.4 Age of Respondents

The working age group in Ghana is between 15 and 64 years. From Fig. 8, 100% of the borrowing group and 96% of the non – borrowing is within this age group. The median class for both groups is 35 – 44 which falls within the prime working age – about 52% of the borrowers and 48% of the REP non – borrowers are within this age group. REP targets youth and people within the age bracket of productivity and eligibility to access financial services. The age of the entrepreneur is one of the characteristics considered before a loan is granted by the financial institutions. (Ouadah, Houalef & Ainous, 2018).

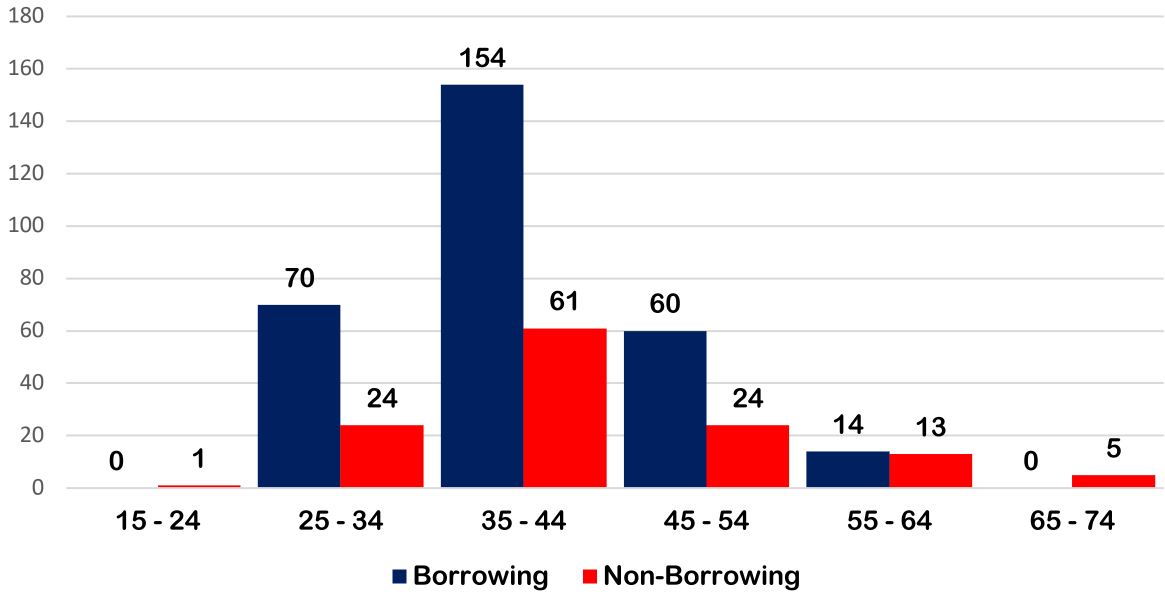


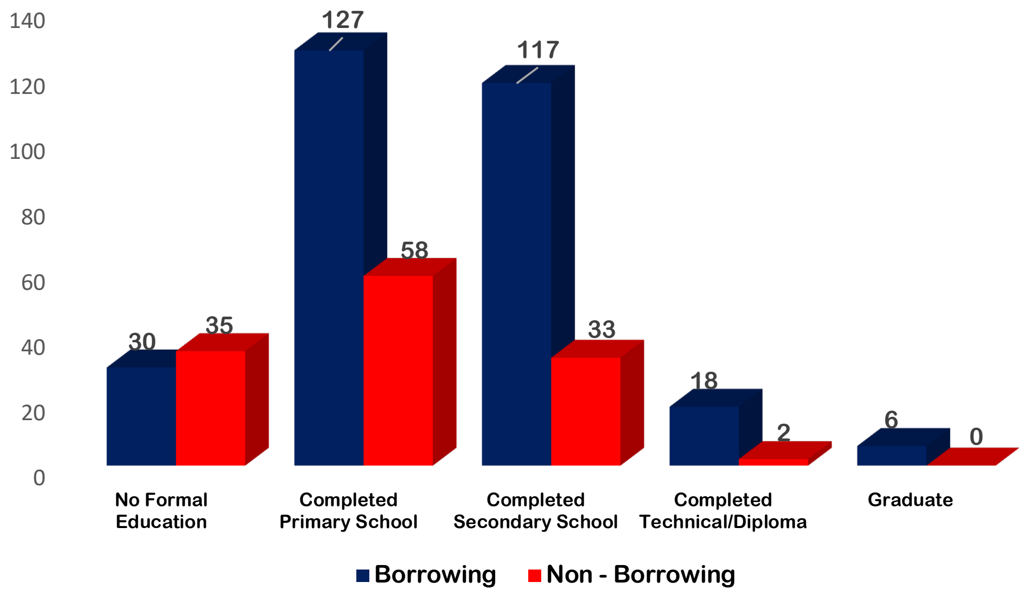
Figure 14: Age Distribution of Respondents Source: Field Survey, 2018

The working age group in Ghana is between 15 and 64 years. From Fig. 8, 100% of the borrowing group and 96% of the non – borrowing is within this age group. The median class for both groups is 35 – 44 which falls within the prime working age – about 52% of the borrowers and 48% of the REP non – borrowers are within this age group. REP targets youth and people within the age bracket of productivity and eligibility to access financial services. The age of the entrepreneur is one of the characteristics considered before a loan is granted by the financial institutions. (Ouadah, Houalef & Ainous, 2018).

5.1.5 Education Level of Respondents

It would be observed from Fig. 14 that the majority of the rural MSEs had formal education. However, majority of them (43% for borrowing and 45% for non – borrowing) had only primary education. The exposure of rural MSEs to formal education could help improve their access to finance as unrestricted access to financial services can be associated with educational background and financial literacy. This can enable a rural MSEs make use of financial information in arriving at conclusive financial decision making.

Figure 15: Educational Background of the rural MSEs in the study area



5.1.6 Industrial Classification of the Rural MSEs

Industrial activities in the rural areas are classified into 6 major sectors as analyzed in Table 10. It is no surprise Services has the highest percentage, 37% for the borrowers and 38% for non - borrowers. In Ghana, Services sector remains the largest with increase in share of GDP from 54.6% in 2015 to 56.5% in 2016 (GSS, 2016).

Table 10: Industrial Classification of the rural MSEs

Industrial Sector	Borrowing		Non - Borrowing		Total	
	Freq	Percent	Freq	Percent	Freq	Percent
Farm Based	40	13%	10	8%	50	12%
Agro Processing	47	16%	10	8%	57	13%
Agro Industrial	36	12%	15	12%	51	12%
Traditional Craft	21	7%	8	6%	29	7%
Primary Fabric & Repair	21	7%	22	17%	43	10%
Pre & Post Harvest	23	8%	12	9%	35	8%
Services	110	37%	51	40%	161	38%
Total	**298**	**100%**	**128**	**100%**	**426**	**100%**

Source: Field Survey, 2018

5.1.7 Degree of Informality

A business is said to be formal, if the business name or an enterprise is registered with the Registrar General's Department (RGD) and has professionals managing accounting and tax records. The degree of informality (96.4% for borrowers and 99.2% for non – borrowers) reflects in the outcome of the respondents' responses to whether their businesses are registered and their inability to deal cashflows for the purpose of loan application since they do not have any records or professional managing their records. In Ghana, the enterprise is dominated by informality (90.5%) (Trombetta et al. 2017).

Ayyagari et al. (2007) observed that a negative correlation between GDP per capita and the size of the informal sector. Therefore, in order to facilitate increase in GDP per capita, the rural MSEs will have to grow out of informality.

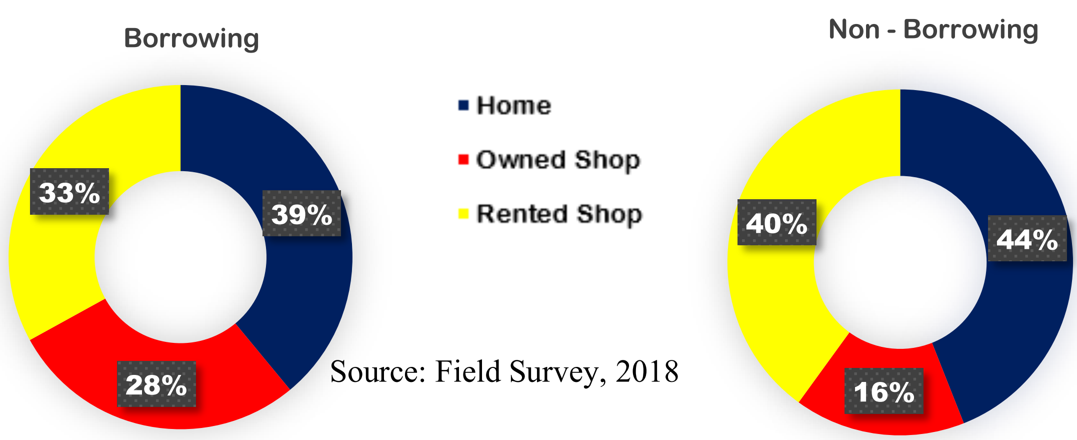
Table 11: Degree of Business Formality

Is your business formally registered?	Borrowers		Non - Borrowers	
	Frequency	Percent	Frequency	Percent
Yes	11	3.6%	1	0.8%
No	291	96.4%	123	99.2%
Total	**302**	**100.0**	**124**	**100.00**

5.1.8 Business Location

In Table 12, the rural MSEs indicated where their business operations were located. The majority of the borrowing class has rented shops. However, the borrowing group has 33% of their own shop while the non – borrowing has 13%. The majority of the non – borrowing group has their businesses running from their residences, thereby saving cost by using the same domestic facilities including their household members for their businesses. The female microentrepreneur in Fig. 1 had to use her household members to fetch water from the public borehole for the processing of oil palm as well as for their domestic use.

Figure 16: Pie Charts showing the proportion of business location between the borrowing and non – borrowing.



Source: Field Survey, 2018

5.2 The Effects of Rural MSE's Characteristics on their Growth and Sustainability

Table 12: Effect of rural MSEs' Characteristics on their Growth and Sustainability

Variables	Details	Borrowing		Non-Borrowing		Chi Sq. Significant
		Freq	**%**	**Freq**	**%**	
Age Group	15 - 24	0	0%	1	1%	P=0.013
	25 - 34	70	23%	24	19%	
	35 - 44	154	52%	61	48%	
	45 - 54	60	20%	24	19%	
	55 - 64	14	5%	13	10%	
	65 - 74	0	0%	5	4%	
	Total	**298**	**100%**	**128**	**100%**	
Gender	Male	126	42%	75	59%	P=0.002
	Female	172	58%	53	41%	
	Total	**298**	**100%**	**128**	**100%**	
Education	No Formal Education	30	10%	35	27%	P<0.001
	Completed Primary School	127	43%	58	45%	
	Completed Secondary High	117	39%	33	26%	
	Completed Technical/Dip.	18	6%	2	2%	
	Graduate	6	2%	0	0%	
	Total	**298**	**100%**	**128**	**100%**	
Business Types /Sector	Farm Based	40	13%	10	8%	P=0.012
	Agro Processing	47	16%	10	8%	
	Agro Industrial	36	12%	15	12%	
	Traditional Craft	21	7%	8	6%	
	Primary Fabric. & Repair	21	7%	22	17%	
	Pre-& Post Harvest Business	23	8%	12	9%	
	Services	110	37%	51	40%	
	Total	**298**	**100%**	**128**	**100%**	
Business Location	Home (Far from the Market)	83	28%	56	45%	P<0.001
	Owned Shop (Market)	97	33%	20	20%	
	Rented (Market)	118	40%	52	42%	
	Total	**298**	**100%**	**128**	**100%**	
Source of Finance	Personal Savings	278	69%	117	60%	P=0.001
	Family and Friends	82	20.2%	55	28%	
	Rural Bank/MFI/CCU	33	8.2%	10	5%	
	Commercial Banks	2	0.4%	1	1%	
	LBAs/ROSCAS/Others	9	2.2%	13	6%	
	Total Occurrences	**404**	**100%**	**196**	**100%**	

Variables	Details	Borrowing Frequency	Borrowing %	Non-Borrowing Frequency	Non-Borrowing %	Chi Square
Business Succession Plan	Yes	164	55%	46	36%	P=0.001
	No	98	33%	59	46%	
	No Response	36	12%	23	18%	
	Total	**298**	**100%**	**128**	**100%**	
Employee	No Employee	177	59%	94	73%	P<0.001
	1 - 3	101	34%	27	21%	
	4 - 6	14	5%	6	5%	
	7 - 9	6	2%	1	1%	
	Total	**298**	**100%**	**128**	**100%**	
Financial Education	Yes	262	88%	18	91%	P<0.001
	No	36	12%	110	9%	
	Total Occurrences	**298**	**100%**	**128**	**100%**	
Business Seasonality	Yes	13	4%	58	45%	P<0.001
	No	285	96%	70	55%	
	Total	**298**	**100%**	**128**	**100%**	
Decision to go into business	Financial Independence	238	80%	70	55%	P<0.001
	Family Business	20	7%	12	9%	
	Unemployment	28	9%	16	13%	
	No formal education	12	4%	30	23%	
	Total	**298**	**100%**	**128**	**100%**	
Years of Business Experience	1 – 10	194	65.1%	72	56%	P=0.438
	11 – 20	76	25.5%	43	34%	
	21 – 30	23	7.7%	11	8%	
	31 – 40	4	1.3%	2	2%	
	41 – 50	1	0.3%	0	0%	
	Total	**298**	**100%**	**128**	**100%**	

Source: Field Survey, 2018

There is statistically significant relationship between the demographic characteristics of the rural MSEs in Table 13 (except for the business experience, p>0.05) on the growth and sustainability of the rural MSEs.

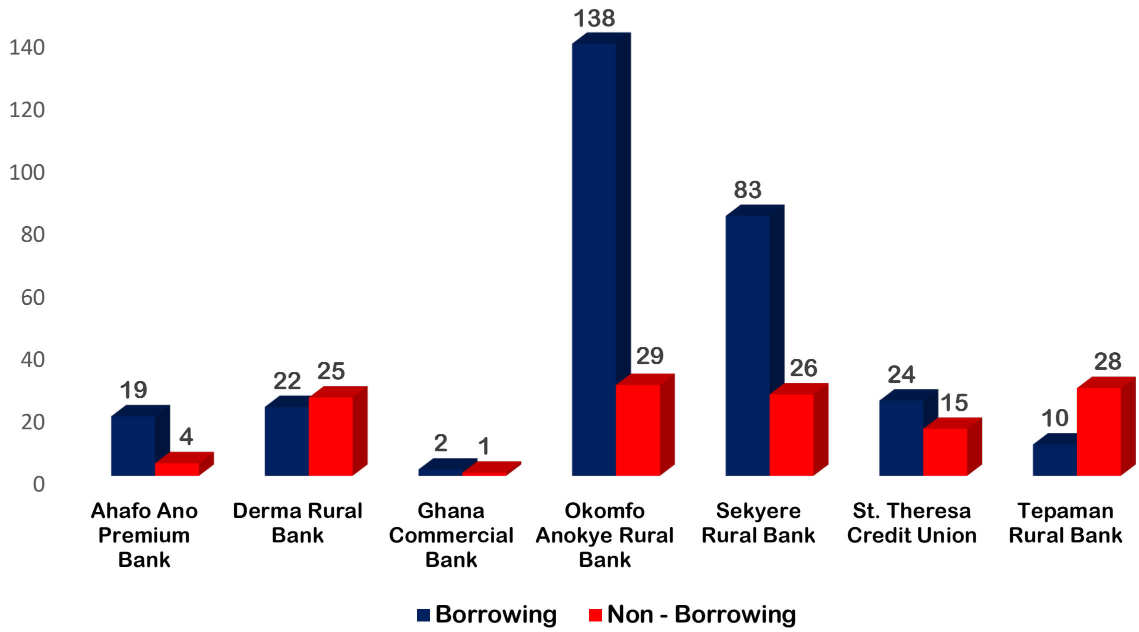
5.3 Challenges facing rural MSEs in Access to and Usage of Financial Services

There are various challenges confronting the rural MSEs both on the demand and supply sides. On the supply sides, the rural MSEs were asked if they have a bank account running with any FIs/NFIs and to provide their names.

5.3.1 The Availability of Financial Institutions and level of rural MSEs' Patronage

In Fig. 16, Ghana Commercial Bank, the only commercial (universal) bank in the list has the least level of patronage of rural MSEs. It is therefore not surprising that Ghana Commercial Bank (GCB) has the lowest patronage both on borrowing or non – borrowing relationships. This shows the credit appetite of the commercial banks and their lack of interest in serving the rural MSEs (Oteng-Abayie, 2017; Trombetta et al. (2017).

Figure 17: Financial Institutions in the study areas and level of patronage



5.3.2 The Constraints Facing both the Borrowing and Non – Borrowing Groups

In order to understand the reasons for the rural MSEs' restricted access to financial services

Table 13: Constraints Facing the rural MSEs both borrowing and no – borrowing Source: Field Survey, 2018

Internal and External Environments	Borrowing		Non - Borrowing	
	Counts	%	Counts	%
Access to Market	122	21%	74	22%
Electricity	19	3%	29	9%
Access to Finance	291	51%	101	30%
Cost of Production	9	2%	43	13%
Natural Disaster/Risk	58	10%	11	3%
Lack of Infrastructures	41	7%	21	6%
Inadequate Skills & Technology	20	3%	54	16%
Government Policies/Regulations	12	2%	1	0%
Total	**572**	**100%**	**334**	**100%**

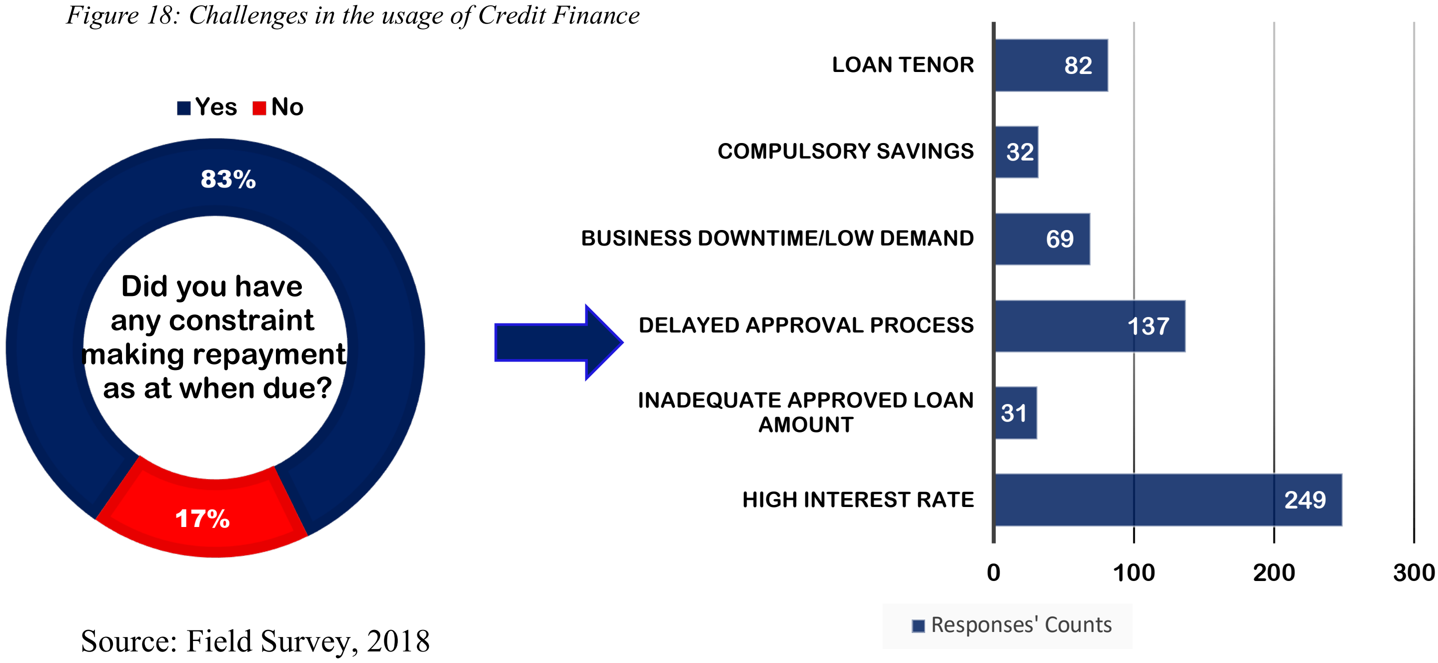
and effect on their growth and sustainability, it is crucial to understand the internal and external environments in which they operate.

The question about the most pressing needs allowed multiple responses from the rural MSEs. The total counts or responses were 572 for the borrowing category and 334 for the non-borrowing. The majority of the 2 categories identified Access to Finance as most pressing need, followed by access to market. The capacity of the rural MSEs to compete lies on their access to finance, market and technology. The innovation and technology required to drive the quality of products and services that meet the marketing standard nationally and internationally required financial resources (Anderson, 2011).

5.3.3 The Challenges confronting the Borrowing Group on access to and usage of the loan products and services

The beneficiaries in the borrowing category were further required to answer a ‘Yes’ or ‘No’ if they have challenges in the repayment of credit finance. 83% of the beneficiaries indicated Yes. Out of the responses that were in the affirmative, majority (42%) said high interest rate was the reason for default; 23% on the delay in the approval process; 14% complained about the short time given for the loan repayment. 12% complained of business downtime and low demand. The inadequate approved loan amount (5%) and compulsory saving scheme (5%) were one of the reasons given that affect the ability to make loan repayment as at when due.

Figure 18: Challenges in the usage of Credit Finance



Source: Field Survey, 2018

The number of respondents that said Yes was further checked against the Industrial Sector to know who is having most challenges:

Table 14: The rural MSEs having challenges with loan repayment/Industrial Sector

Did you have any constraint making loan repayment?	Total no. of borrowing rural MSEs	Total no. that said Yes	Percentage
Farm Based	40	37.0	93%
Agro Processing	47	42.0	89%
Agro Industrial	36	28.0	78%
Traditional Craft	21	5.0	24%
Primary Fabrication & Repair	21	17.0	81%
Pre & Post Harvest Business	23	20.0	87%
Services	110	94.0	85%
Total	**298**	**243.0**	**100.0**

Source: Field Survey, 2018

Virtually all the business sector had challenges with loan repayment except for the Traditional Craft that has 24%. However, it is interesting to note that Farm Based has the highest (93%) and the reason was because of the Poultry farmers in this sector. About 90% of the poultry farmers not only had issues with loan repayment but actually defaulted or had bad loan. One of the poultry farmers in Jamasi expressed his feeling: "I was using my residence for the poultry business before I was introduced to BAC and the PFI that availed me the loan to procure a land, build a borehole and build a birdhouse. I applied for Matching Grant Fund and was given GHc15,000.00 to pay in 12 months. I have not completed the birdhouse when I started making loan repayment. By the time I got the Day – Old – Chicks (DOCs) to put in the birdhouse, I had serviced the loan from the loan amount for 3 months. After 6 months I had exhausted the loan amount and started having challenges feeding the birds. The PFI was not ready to assist me any further but bothering me with repayment of their loan".

Figure 19: Interviewing one of the Poultry Farmers in Jamasi

The repayment tenor of 12 months without moratorium for this sector will not only cause more non – performing loans but impede growth and sustainability of rural MSEs.

5.3.4 Duration of Loan processing and Approval

Approval process is one of the factors causing challenges in loan repayment. It takes the PFIs an average of 66 days to approve and disburse loan for the rural MSEs to procure the required raw materials for production. Failure to disburse loan to the rural MSEs at the required time and season for them to lock in their raw materials does not only increase cost of production but creates a huge setback when the time comes for repayment.

Table 15: Duration of Loan Processing and Approval

	N	Range	Minimum	Maximum	Mean
How long did it take for the loan to be disbursed from the day application is submitted (in days)	302	166	14	180	65.67

5.3.5 Dormant/Inactive Accounts

In order to further understand the challenges facing the rural MSEs, questions were asked around dormant accounts. 26% of the rural MSEs confirmed that they have dormant/inactive accounts with the following reasons:

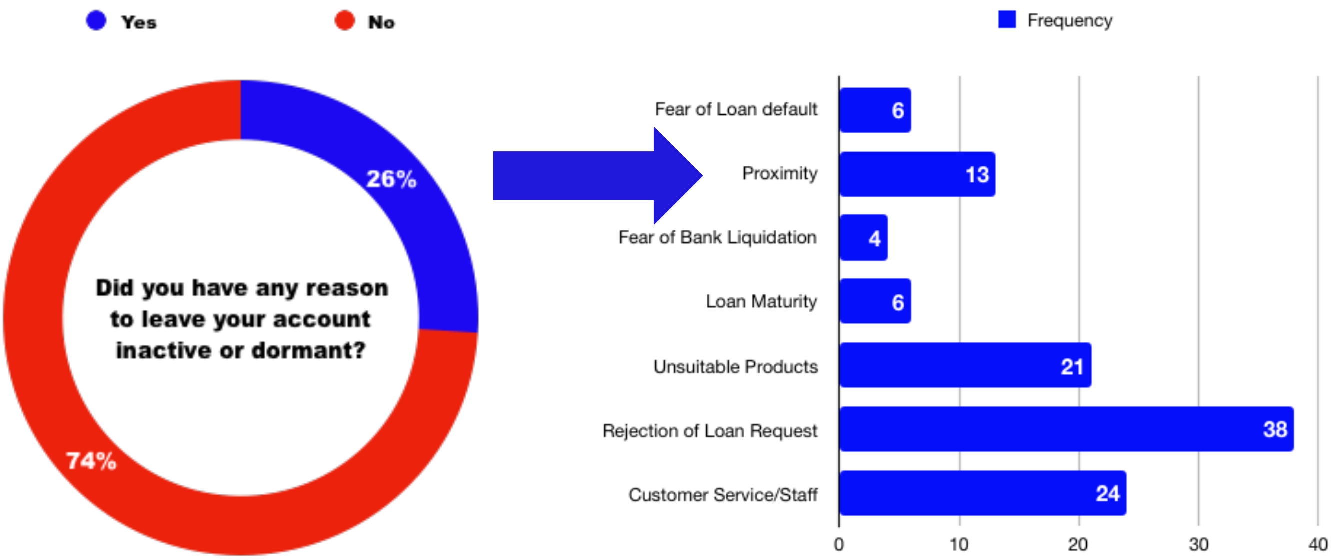


Figure 20: Dormant/Inactive Accounts

It is interesting to find out that majority of the respondents abandoned their accounts because of the rejection of their loan requests. Another reason given was the customer service/excellence, the way and manner they were treated by the FIs' staff. One of the beneficiaries of the REP Matching Grant Fund who is into poultry farming expressed his feeling that he would have no reason to continue using his account with a particular PFI as soon as the loan is paid off. He made an interesting comment: "The banks are not interested in our growth and well-being but to collect their repayment. The bank officers only come around when there is default. The roof of the house where I kept all my birds fell, killing about two – third. I immediately called my bank manager to inform him and that he should come and verify. He didn't come until after 4 days. His coming was not to sympathize with me but to ask how I intend to pay back the loan". This comment poses a serious challenge for the growth and sustainability of the rural MSEs.

The Branch Manager of one of the PFIs confirmed that lack of professionalism on the part of the Bank officers is doing so much harm. He commented: "It is quite unfortunate that most of the staff engaged to deal with the rural clients are not skilled or trained in the act of microfinance. I have heard an officer raining insults and foul languages on a client because the client could not meet up with his obligation as at when due". This raises serious problems about the PFIs' capacities to render quality services to the rural MSEs. The staff are expected to contribute to the delivery of excellent customer service and effective relationship management.

5.4 Effect of Access to Finance on the Growth and Sustainability of rural MSEs

5.4.1 Effect of Access to Finance on Average Gross Monthly Income of the rural MSEs

Using descriptive statistics, the income after REP Intervention of the borrowing group seems better than the non – borrowing group that has no intervention as the mean weight is greater.

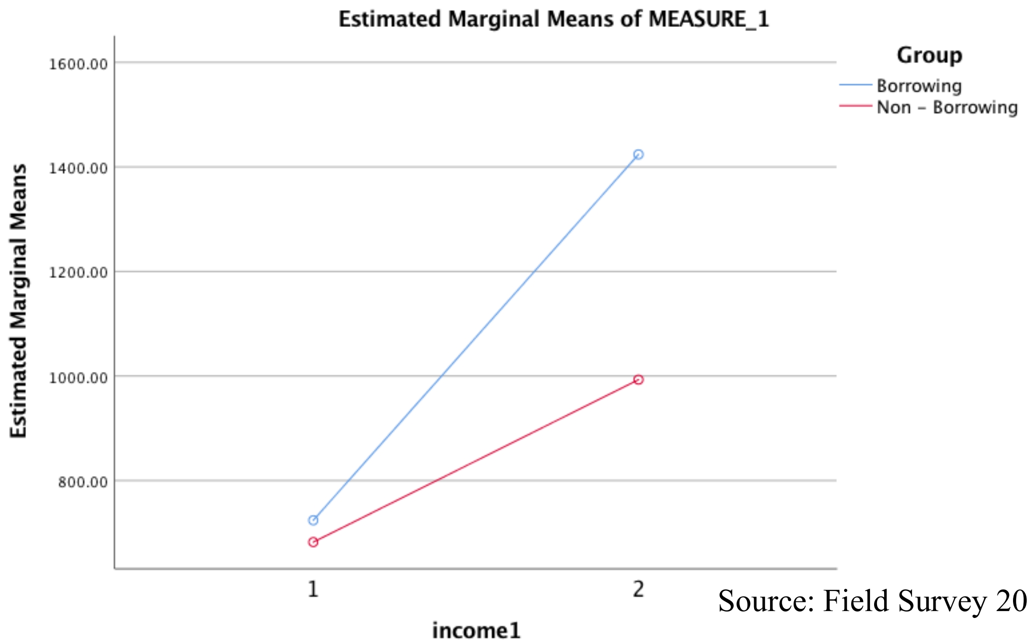
Table 16: Effect of Access to finance on Average Monthly Income of Rural MSEs.

Descriptive Statistics	Group	Mean	Std. Deviation	N
Average Monthly Income before REP intervention	Borrowing	723.9430	323.47332	298
	Non - Borrowing	682.1875	228.14189	128
	Total	**711.3967**	**298.39924**	**426**
Average Monthly Income after REP intervention	Borrowing	1423.9094	870.99071	298
	Non - Borrowing	993.0469	419.60904	128
	Total	**1294.4484**	**788.58786**	**426**

Source: Field Survey, 2018

This is represented by the graph in Fig. 19. Both groups have a marginal difference before REP Intervention at point 1, with the marginal gap getting wider after the intervention. Though the two groups experienced increase in average monthly income, that of the borrowing group is so distinct and greater.

Figure 21: Estimated Marginal Means of Access to finance on Average Monthly Income of Respondents



Source: Field Survey 2018

Table 17: Effects of Access to Finance on Average Monthly Income using ANCOVA method

Dependent Variable: Average Monthly Income after REP intervention						
Source	**Type III Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**	**Partial Eta Squared**
Corrected Model	117000666.100[a]	2	58500333.1	168.001	.000	.443
Intercept	234382.723	1	234382.723	0.673	.412	.002
INCB4REP	100378253	1	100378253	288.266	.000	.405
Access2Fin	**11731585.13**	**1**	**11731585.1**	**33.691**	**.000**	**.074**
Error	147294429.3	423	348213.781			
Total	978099225	426				
Corrected Total	264295095.4	425				

a. R Squared = .443 (Adjusted R Squared = .440)

Source: Field Survey, 2018

From Table 16, an analysis of variance showed that the effect of access to finance on average monthly income after REP Intervention Fund was significant, $F(1, 423) = 33.691$, $p < 0.001$. The partial Eta Squared value of .074 indicates the effect size and comparing it with Cohen's guidelines means that the difference is of small effect.

Since main ANOVA is significant, Post Hoc Tests is carried out to see which of the groups differ. There is a significant difference between the borrowing and non – borrowing groups (p < 0.001) but the borrowing group has greater difference as shown in Table 18.

Table 18: Pairwise Comparisons between the borrowing and non – borrowing groups.

Dependent Variable: Average Monthly Income after REP intervention

(I) Group	(J) Group	Mean Difference (I-J)	Std. Error	Sig.[b]	95% Confidence Interval for Difference[b] Lower Bound	Upper Bound
Borrowing	Non - Borrowing	362.717*	62.490	.000	239.887	485.547
Non - Borrowing	Borrowing	-362.717*	62.490	.000	-485.547	-239.887

Based on estimated marginal means

*. The mean difference is significant at the .05 level.

b. Adjustment for multiple comparisons: Bonferroni.

5.4.2 Effect of Access to Finance on Average Monthly Expenditure of Rural MSEs using Repeated Measures Anova

The Dependent Variables are the Average Monthly Savings before and after REP Intervention. The descriptive statistics Table 19, shows that there is positive variance between the mean of the Borrowing Group before and after REP Intervention while that of non – Borrowing group has negative variance. The beneficiaries under the REP Intervention are mandated to open Savings account. Some of the non – borrowing group whose loan applications were turned down stopped running the account and this accounted for the decrease.

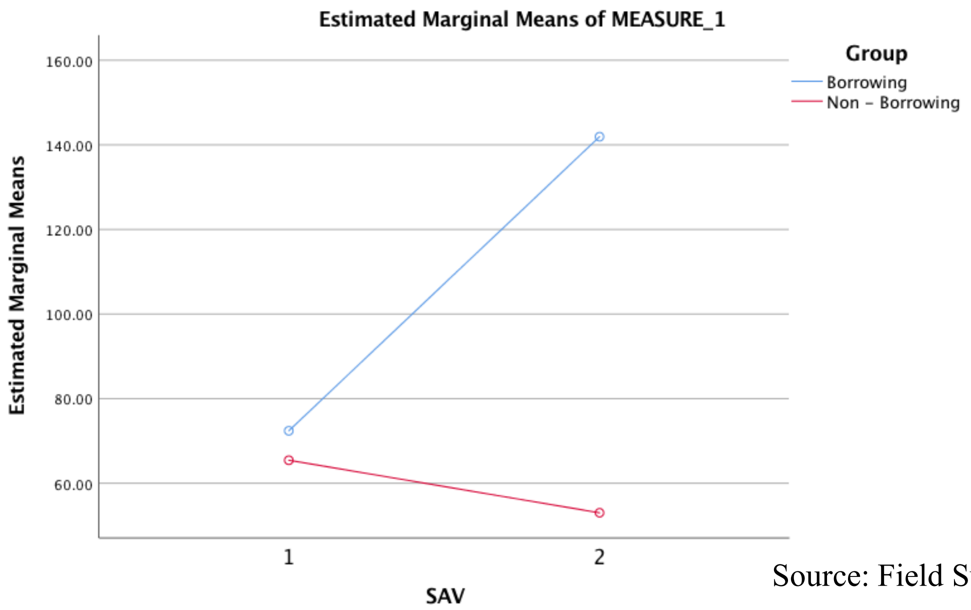
Table 19: Descriptive Statistics of the Average Monthly Savings of the Respondents

Descriptive Statistics	Group	Mean	Std. Deviation	N
Average Monthly Savings Before REP Intervention	Borrowing	72.3943	32.34733	298
	Non - Borrowing	65.4375	19.34712	128
	Total	**70.3040**	**29.21067**	**426**
Average Monthly Savings After REP Intervention	Borrowing	141.9211	86.94825	298
	Non - Borrowing	53.0078	26.63060	128
	Total	**115.2054**	**84.62028**	**426**

Source: Field Survey, 2018

This is also represented by the graph in Fig. 20. The Both groups have a marginal difference before REP Intervention at point 1, with the marginal gap getting wider after the intervention. Though the two groups experienced increase in average monthly income, that of the borrowing group is so distinct and greater.

Figure 22: Estimated Marginal Means of Access to Finance on Average Monthly Savings of Respondents.



Source: Field Survey, 2018

From Table 16, an analysis of variance showed that the effect of access to finance on average monthly savings after REP Intervention Fund was significant, $F(1, 424) = 92.259$, $p < 0.001$. The Partial Eta Squared value of .179 indicates the effect size and comparing it with Cohen's guidelines means that the difference is of high effect.

Table 20: Test of Between - Subjects Effect of Access to Finance on Average Monthly Savings of Respondents

Tests of Between-Subjects Effects

Dependent Variable: Average Monthly Savings after REP intervention

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Intercept	4957364.182	1	4957364.182	1111.496	.000	.724
Acc2Fin	411484.248	1	411484.248	92.259	.000	.179
Error	1891074.733	424	4460.082			

Source: Field Survey, 2018

5.4.3 Effect of Access to Finance on Average Monthly Expenditure of Rural MSEs using Repeated Measures Anova

The Dependent Variables are the Average Monthly Savings before and after REP Intervention. The descriptive statistics Table 19, shows that there is positive variance between the mean of the Borrowing Group before and after REP Intervention while that of non – Borrowing group has negative variance. The beneficiaries under the REP Intervention are mandated to open Savings account. Some of the non – borrowing group whose loan applications were turned down stopped running the account and this accounted for the decrease.

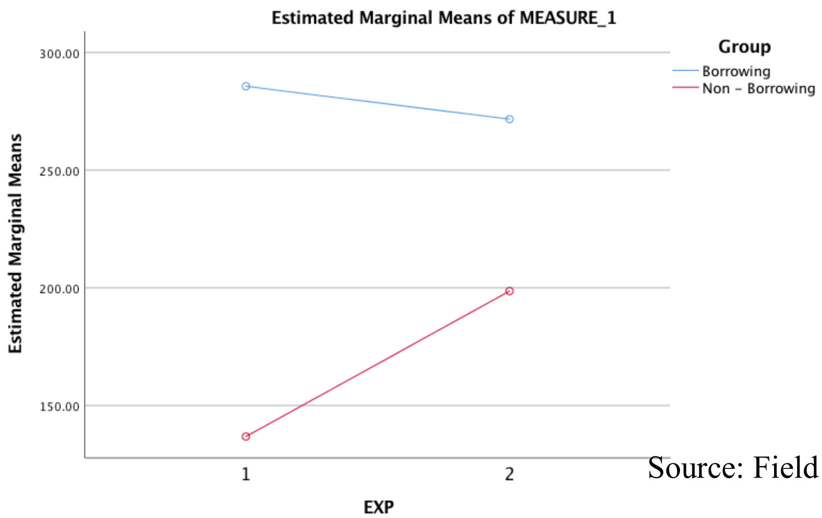
Table 21: Descriptive Statistics of the Average Monthly Expenditures of the Respondents

Descriptive Statistics	Group	Mean	Std. Deviation	N
Average Monthly Expenditure before REP intervention	Borrowing	285.6644	174.34658	298
	Non - Borrowing	136.7813	45.18116	128
	Total	**240.9296**	**162.85568**	**426**
Average Monthly Expenditure After REP Intervention	Borrowing	271.6745	157.77136	298
	Non - Borrowing	198.6094	83.92181	128
	Total	**249.7207**	**143.61157**	**426**

Source: Field Survey, 2018

The Estimated Marginal Means of the monthly Expenditures is represented graphically in the Fig. 22. The Borrowing group's line nose-dived as a result of the decrease in the cost of production. Access to finance enabled the beneficiaries to be able to procure raw materials in bulk and during the off – peak season to store against the peak period. The non – borrowing used all they had gathered from their sales proceeds, savings and family to procure raw materials but at higher cost. This is also the reason why the beneficiaries in the non – borrowing group would not want to save when there is need to procure raw material.

Figure 23: Estimated Marginal Means of the Monthly Savings of the Respondents



Source: Field Survey, 2018

5.5 Results on Research Hypotheses

- Null Hypothesis (Ho1): There is no significant association between the rural MSEs characteristics and growth and sustainability of rural MSEs.

The summary of the chi test result on the characteristics of the rural MSEs are already stated in Table 22. Therefore, the Ho is rejected and the alternate Hypothesis is upheld. There is a significant association between the rural MSEs characteristics and growth and sustainability of rural MSEs.

Table 22: Chi Square Result of Socio - Demographic and Characteristics of Rural MSEs

Socio-Demographic and Characteristics of Rural MSEs	Value	df	Pearson Chi Square Asymptotic Significance 2-Sided
Age	14.484	5	P = 0.013
Gender	9.560	1	P = 0.002
Education Status	28.688	4	P < 0.001
Buusiness Location	16.299	2	P < 0.001
Industrial Sector	16.358	6	P = 0.012
Business Decision	43.750	3	P < 0.001
Business Succession Plan	31.997	2	P < 0.001
Business Network/Association	5.454	1	P = 0.020
Financial/Business Training	211.535	1	P < 0.001
Business Seasonality	108.108	1	P < 0.001
Sources of Finance	9.660	3	P = 0.001
Employees	136.636	6	P < 0.001

Source: Field Survey, 2018

- Null Hypothesis (Ho2): There is no significant relationship between the challenges restricting the access to and usage of financial services and the growth and sustainability of the rural MSEs in the study areas.

Table 23: Pearson Chi Square Result of Challenges Confronting Rural MSEs

Pearson Chi-Square Tests	Access to Finance	
The Most Pressing Needs	**Chi-square**	246.126
df	8	
Sig.	.000*	

Results are based on nonempty rows and columns in each innermost subtable.

*. The Chi-square statistic is significant at the .05 level.

The result in Table 23. P<0.001 showed that there is significant association between the challenges confronting the rural MSEs and their growth and sustainability.

- Null Hypothesis (Ho3): There is no significant difference in the income of the borrowing group and non – borrowing group of the rural MSEs after REP intervention The null Hypothesis is rejected, there is statistical significance in the income of the borrowing group and non – borrowing group of the rural MSEs after REP intervention

Table 24: Effect of Access to Finance on Income of the Rural MSEs

		Sum of Squares	df	Mean Square	F	Sig.
Average Monthly Income before REP intervention	Between Groups	156114.425	1	156114.425	1.756	.186
	Within Groups	37686779.530	424	88883.914		
	Total	**37842893.960**	**425**			
Average Monthly Income after REP intervention	Between Groups	16622413.090	1	16622413.090	28.457	.000
	Within Groups	247672682.300	424	584133.685		
	Total	**264295095.400**	**425**			

- Null Hypothesis (Ho4): There is no statistics significance difference in the savings/investment of the rural MSEs before and after the REP intervention funds. The null hypothesis is also rejected, there is significant difference in the savings of the rural MSEs after REP intervention as shown in Table 25

Table 25: Effect of Access to Finance on the Savings of the Rural MSEs

		Sum of Squares	df	Mean Square	F	Sig.
Average Monthly Savings Before REP Intervention	Between Groups	4333.463	1	4333.463	5.128	.024
	Within Groups	358303.420	424	845.055		
	Total	**362636.883**	**425**			
Average Monthly Savings After REP Intervention	Between Groups	707864.889	1	707864.889	128.516	.000
	Within Groups	2335386.389	424	5507.987		
	Total	**3043251.278**	**425**			

CHAPTER SIX

POLICY RECOMMENDATIONS AND CONCLUSION

6.1. Introduction

This chapter summarizes, discusses and makes conclusions on the findings of this study in relation to the objectives put forward in chapter one. It also discusses recommendations for further research as well as recommendations for policy and practice.

6.2. Summary of Findings

6.2.1 Internal Factors of Rural MSEs

The description of the socio – economic attribute of the rural Micro and Small Entrepreneurs was described. The rural MSEs in both study areas were young and productive (with mean age of 40 years for borrowing and 42 years for non – borrowing). They are literate of the rural MSEs generally literate, programme obviously is making progress in addressing gender inequality, about 56% in favor of female were availed credit facilities. The sources of start – up capital were more from personal savings, family and friends. It resolved that personal attributes are essential in managing rural MSEs. The courage and motivation of the business owner will make so much difference even in the absence of access to finance.

6.2.2 Challenges restricting Rural MSEs' access to Finance

The challenges that showed that rural MSEs are facing are daunting and many but the most problematic is Access to Finance. The rural MSEs require a long – term and consistent funding. So far so good it has been about outreach but the depth of the various financial intervention must always be considered. Also, issue of high interest rate was evidenced from both the borrowers and non – borrowers.

6.2.3 Effects of Access to Finance on Growth and Sustainability of rural MSEs

The main objective of this study is to assess the effect of access to finance on the rural MSEs' growth. The comparative analysis between the borrowers and non – borrowers showed that the REP beneficiaries are better off. They were able to reduce their cost of production by the opportunity of the financial access which subsequently impacted on their growth compared to the non – borrowing group.

6.3 Conclusion and Policy Recommendations

The effect of access to finance on the growth and sustainability of the rural MSEs cannot be overemphasized in the 2 districts studied. However, for, rural MSEs to achieve the REP's tripartite objectives of profitability, growth and creation of employment opportunities, certain policies and issues need to be addressed. Such policies are embedded in the following recommendations arising from the findings of this detailed as follows:

i. The reliance on the vulnerable and deplorable situation in the rural areas is enough to erode the kind of confidence and boldness expected from a rural MSE. The problem of low capital investment and credit accessibility implies that the depth (not outreach) of rural finance to build resilience and productivity of the rural MSEs in the Ghana must be put on the front burner of public policy making.
ii. There is also need to consolidate and build the public – private – partnerships (PPP) in Ghana to assist the rural MSEs to across the business value chains improve their productivities and marketing of their products.
iii. The curricular of the business development should be introduced at primary school level to assist those who may not make it to secondary school. Large percentage of the rural MSEs never made it to secondary school level and the earlier they have an idea of what going into business entails the better for them.
iv. Government should play a facilitating role through provision of enabling environment for rural MSEs to thrive. This could be done through provision of public infrastructure such as good roads, power supply, and favourable macroeconomic policies that will stimulate export market penetration.
v. The issue of all – in – Interest rates ranging from 38% to 50 percent observed for rural finance calls for radical intervention. The 30% matching grant is not enough to really make up for this cost of borrowing.
vi. The BoG should review downward the interest rates being offered to the PFIs for onward lending to the rural MSEs. In Nigerian context, the maximum fee the Central Bank of Nigeria takes is 2% and with this the country has been able to maintain the interest rate for the MSME's sector below 10% per annum all – in – all.

vii. Proximity of the PFIs to the rural MSEs is still a challenge and prevents them from easy access to finance. The PFIs should reinforce their strategies and human resource capacities to be able to reach out to the rural MSEs not just for loan collections.

viii. The curricular of the business development training and skills acquisition for the rural MSEs should be reviewed to incorporate practical teachings and extended beyond the one – week duration. Most of the rural MSEs are faced with the problems of keeping their business records. It was found out that it took an average MSEs between 20 to 90 days to forward their request to the financial institutions. Most of them do not have an idea of what cashflow is and subsequently affects their ability to access credit from the PFIs.

ix. Though, it has been established that access to finance enhances the growth and sustainability of rural MSEs, the stakeholders must help them to minimize the risks that will draw them backwards from their frontiers of efficiency. Such risks include price volatility, financial risks and climate variability. A poultry farmer had his birds killed by natural disaster and the PFI did not insure the birds but just the life of the business owner.

x. The peculiarity of the rural MSEs requires the innovation of the PFIs to come up with client-oriented services and not product focused. The different segment of the sector should be addressed on case by case. The term and conditions offered to a trader cannot work for a poultry farmer who requires a moratorium to go through the gestation period of rearing his/her birds from day old to the point generating revenue.

xi. The PFIs should comply with regulatory framework in administering the intervention funds to the rural MSEs. The intervention funds allow 3 to 6-month moratorium and tenor from 6 – 18 months or more. All the PFIs offer 12-month tenor irrespective of the industrial sector and grant no moratorium. This has become Achille's heel in terms of repayment and the reason for some of these rural MSEs' lackof enthusiasm to obtain financial assistance. The short – term tenor cannot guarantee ease of repayment and consequently, put so much pressures on them.

xii. The BoG and REP should work on the downward review of interest rates on the MGF and REDF. Central Bank of Nigeria releases the MSME Development Funds to PFIs at 2% for on-lending to the MSMEs at a maximum rate of 9% per annum (CBN, 2013)

xiii. The sustainability of the PFIs is in the deposit mobilization. PFIs should ensure the culture of daily, weekly savings and not fixed deposit. There is serious liquidity in the rural areas and it is a strong potential for deposit mobilization which is cheaper and better than the wholesale fund they are getting from BoG. St. Theresa Cooperatives and Credit Union in Sekyere South District has no accreditation from BoG but gives loan to the rural MSEs at interest rate of 22% per annum.

6.4 Suggestions for Further Research

The limitation of this study offers the opportunities for future research. The 3 – month research period is too short to achieve vigorous assessment on the pre and post intervention of the Rural Enterprises Programme on the rural MSEs. Tremendous progress has been made in the release of Matching Grant Funds to the rural MSEs, but many questions and financial needs still remain. The MGF is given once in a life time of a rural MSE and this has not really helped reduce the cost of debt. The PFIs in, a way treat this Grant as if it is strictly for cost of borrowing. This obviously take us back to the theory of Armendariz de Aghion and Morduch (2010) to subsidize the PFIs and not the rural MSEs.

The threat of carrying on business by the rural MSEs without any consideration for the environmental impact and various environmental risks are capable of destroying essence of lives provides a basis for investigation and research.

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APPENDICES