Effectiveness and Contribution of Rural Banks in Alleviating Poverty Through Development of Small and Medium Scale Enterprises
(Case Study of Drobo Community Bank Limited in Ghana)

Atianashie Miracle¹ & Chukwuma Adaobi²

¹Atianashie Miracle & ²Chukwuma Adaobi
Catholic University College of Ghana
Ghana

Abstract: The effectiveness of rural and community banks towards the alleviation of poverty through development of medium and small scale enterprises in Ghana. Most especially the Drobo community bank limited have been highly recommendable. Before the establishment of the first rural bank in 1976, the availability of formal credit in rural communities predominantly made up of small farmers and fishermen and small and medium scale enterprises was extremely limited. Small and Medium Scale Enterprises (SMEs) form the majority of the private sector which is considered as the engine of growth in the Ghanaian economy. Rural and community banks are therefore expected to focus attention on the provision of quality banking services to the people in their catchment mellitus including the SMEs. It is as a result of this that this study seeks to examine the effectiveness and contribution of Rural and Community Banks through development of SMEs, taking cognizance of the role and contribution of drobo community Bank Ltd. In Brong Ahafo region of Ghana. The study discovered that micro and macro finance loans is very popular among services provided by rural and community banks to SMEs due to the fact that most SMEs do not have the collateral to access commercial loans from banks. The researcher also found out that it was very difficult for SMEs to access start-up capital from banks. This study therefore recommends among other things that SMEs should also use loan taken from banks for its intend purpose, in alleviating poverty wholly. And contribute greatly to the nation enterprises as well rural banks should take insurance cover for loans granted to new SMEs as start-up capital to reduce the effect of loan and services default in their book and operations and also reduce the risk of granting loans to new SMEs.

Keywords: Drobo community bank, alleviation, development, poverty, Ghana.

1. INTRODUCTION

The effectiveness and contribution of rural and community banks in the alleviation of poverty through development of small and medium scale enterprises in Ghana cannot be underestimated since the introduction of the financial institution by the bank of Ghana. Before the establishment of the first rural bank in 1976, the availability of formal credit in rural communities predominantly made up of small farmers and fishermen and small and medium scale enterprises was extremely limited. The main
sources of credit were moneylenders and traders charging exorbitant interest rates. The Government of Ghana had taken some policy measures to improve access to finance these sectors of the economy. These measures included a requirement that commercial banks lend at least 20 percent of their portfolio for agricultural uses and the establishment of the Agricultural Development Bank (ADB) in 1965 with an exclusive mandate of lending for agriculture and allied industries in rural Ghana. Though, commercial banks opened their door to small and medium scale enterprises, nevertheless, lending to these enterprises remained low. Commercial banks demanded higher deposit accounts and stronger collateral requirements to provide loans to small and medium scale enterprises. In view of this situation, the Government of Ghana (GOG) considered supporting the establishment of rural and community banks that would be dedicated to providing financial services in those areas. It asked the Bank of Ghana (BOG) to send a delegation to the Philippines to study the rural banking system there and afterward decided to facilitate the opening of banks in rural farming and fishing communities.

Rural and community banks were first established in Ghana in 1976 to provide banking services to the rural population, providing credit to small and medium scale farmers and businesses and supporting development projects, with the first being in Agona Nyakorm in Central Region. As of January 2013, Ghana could count a total of 137 rural and community banks in the country. Small and medium scale enterprises sometimes called a small business are businesses which employ a small number of workers and do not have a high volume of sales. Such enterprises are generally privately owned and operated sole proprietorships, corporations or partnerships. The legal definition of a small-scale enterprise varies by industry and country. As contained in its Industrial Statistics, The Ghana Statistical Service (GSS) considers firms with less than 10 employees as Small Scale Enterprises and their counterparts with more than 10 employees as Medium and Large-Sized Enterprises. However, the National Board of Small Scale Industries (NBSSI) in Ghana applies both the ‘fixed asset and number of employees’ criteria. It defines a Small Scale Enterprise as one with not more than 9 workers, has plant and machinery (excluding land, buildings and vehicles) not exceeding 10 million Cedi, currently 1,000.00 Ghana cedi’s (US$ 9506, using 1994 exchange rate). Small and medium scale enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries. Therefore, this study seeks to examine the contribution of these rural and community banks to the development of small and medium scale enterprises in the country with a case study of drobo community bank limited.

1.1 STATEMENT OF THE PROBLEM

Though, commercial banks extended their branches, rural communities to meet the financial needs of small and medium scale enterprises, nevertheless, lending to these enterprises remained low. Other banking services, like credit, were not provided as initially envisioned. Small and medium scale enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved. They are potential sources of employment and income in many developing countries. It is estimated that SMEs employ 22% of the adult population in developing countries (Daniels, 1994; Daniels & Fisseha, 1992; Fisseha& McPherson, 1991; Gallagher & Robson, 1995). Due to their flexible nature, SMEs are able to withstand adverse economic conditions. They are more labor intensive than larger firms and therefore, have lower capital costs associated with job creation (Anheier & Seibel, 1987; Liedholm & Mead, 1987; Schmitz, 1995) Commercial banks demanded higher deposit accounts and stronger collateral requirements to provide loans to small and medium scale enterprises. In view of this situation, there was the need for the Government of Ghana (GOG) to consider in supporting the establishment of rural and community banks that would be dedicated to providing financial services in those areas. In view of the above, this research seeks to find out the provision of financial services by rural and community banks to small and medium scale enterprises. Again, it will have determined the level of financial support that small and medium scale enterprises can access from rural and community banks and also find out how these financial services are impacting on alleviating poverty through small and medium scale enterprises.
1.2 OBJECTIVES OF STUDY

- To identify the kind of financial services that rural and community banks provide to small and medium scale enterprises.
- To examine the poverty situation in drobo community
- To investigate the activities of drobo community bank limited in drobo community.
- To examines the effectiveness and contribution of drobo community banks in the alleviation of poverty through development of SMEs in drobo community
- Provide suggestions on how to solve the problems as a step towards enhancing the economic status of members, thereby serving to reduce the rate of poverty alleviation among them

1.3 RESEARCH QUESTIONS

In order to pursue the objective of the study, the following research questions were formulated namely:

- Has there been improvement in income levels of small and medium scale enterprises after accessing credit facility from rural and community banks?
- Do drobo community banks assist in promoting financial success of their customers?
- Do drobo community banks provide loans to start small and medium scale businesses?
- Do drobo community banks help in the alleviation of poverty in drobo community, Brong Ahafo region of Ghana?
- Has rural and community banks as a whole solved the funding problem small and medium scale enterprises encountered with commercial banks?

2. LITERATURE REVIEW

The chapter concentrates on the historical and theoretical background of both rural and community banks in the alleviation of poverty through small and medium scale enterprises. The operation of both rural and community banks have been highlighted without leaving the features of both rural and community banks and small and medium scale enterprises in Ghana.

Overview of Rural and Community Banking in Ghana

Rural and community banks (henceforth referred to as rural banks or RCBs) are a network of 137 independent unit banks in Ghana. They are regulated by the Bank of Ghana and thereby form part of the regulated financial sector in Ghana. These banks are the largest providers of formal financial services in rural areas and also represent about half of the total banking outlets in Ghana (IFAD 2008). By the end of 2008, these banks together had 421 branches. Including head offices, there were 548 service delivery locations spread throughout the country. All administrative regions have at least one bank, although most are located in the Ashanti, Western, Eastern, and Central regions. RCBs are relatively small financial institutions with average share capital of GH¢ 136,526 (US$105,263), average deposits of GH¢2.3 million (US$1.77 million), and average assets of GH¢ 3.8 million (US$2.4 million). Values of the three indicators, however, vary significantly. Out of the 137 RCBs, 75 percent have assets between GH¢ 1 million (US$771,010) and GH¢ 8 million (US$6.1 million), 20 percent have assets of less than GH¢ 1 million, and 5 percent have assets over GH¢ 10 million (US$7.7 million). Similarly, 44 percent of RCBs have share capital of less than GH¢ 100,000 (US$77,101) and only 6 percent have share capital of more than GH¢ 250,000 (US$192,753). As a network, RCBs have achieved a remarkable level of service delivery and financial performance. At the end of 2008, they had deposits of GH¢ 343.9 million (US$265.1 million) from more than 2.8 million clients, and loans and advances of GH¢ 224.7 million (US$173.2 million) with about 680,000 clients.

They delivered 128,875 domestic money transfers worth around GH¢ 63.3 million (US$48.8 million) in 2007 and 32,392 international money transfers worth GH¢ 9.3 million (US$7.1 million) in 2008. They also facilitated check transactions worth GH¢ 993.7 million (US$766.1 million) in 2008. RCBs made a consolidated profit of GH¢ 15.6 million (US$12.0 million) in 2008 and had a consolidated net worth of GH¢ 62.3 million (US$48.03 million). Several have excelled in performance, both within the financial sector and in the broader private sector. Some rural banks have figured more
than once in Club 100, a group of 100 Ghanaian institutions recognized annually for business excellence. Before the establishment of the first rural bank in 1976, the availability of formal credit in rural communities predominantly made up of small farmers and fishermen was extremely limited. The main sources of credit were moneylenders and traders charging exorbitant interest rates. The Government of Ghana had taken some policy measures to improve access to finance in rural areas. These measures included a requirement that commercial banks lend at least 20 percent of their portfolio for agricultural uses and the establishment of the Agricultural Development Bank (ADB) in 1965 with an exclusive mandate of lending for agriculture and allied industries in rural Ghana. Subsequently, commercial banks and the ADB opened branches in rural areas, with an emphasis on cocoa-growing rural areas. Nevertheless, lending to the rural sector remained low; the commercial banks used their rural branches primarily to make payments to cocoa farmers and collect deposits for lending in urban areas. Other banking services, like credit, were not provided as initially envisioned. Commercial banks demanded higher deposit accounts and stronger collateral requirements to provide loans to rural areas. Many small farmers and fishermen did not have deposit accounts in commercial banks, and the collateral they had available was not satisfactory for commercial lending (Andah and Steel 2003). Mensah (1993) and Ranade (1994) found that the ADB’s credit provision and coverage were limited. Only 27 percent of its branches were in rural areas, and lending to smallholder farmers made up about 15 percent of its total portfolio. In view of this situation, the Government of Ghana (GOG) considered supporting the establishment of community banks in rural areas that would be dedicated to providing financial services in those areas. It asked the Bank of Ghana (BOG) to send a delegation to the Philippines to study the rural banking system there and afterward decided to facilitate the opening of banks in rural farming and fishing communities.

Features of Rural and Community Banks

Rural banks are incorporated as limited companies under the Companies Code of 1963 (Act 179) of Ghana and are required to be owned by shareholders from the local community in which they operate. At first, the BOG owned up to 43 percent of shares in rural banks as preference shares. This practice was stopped in the 1990s. In the early years of RCBs, the shareholding levels for an individual and a corporate body were capped at 10 percent and 30 percent, respectively. These levels have been revised to 30 percent for an individual and 50 percent for a corporate body. An identifiable group can also own 40 percent shares in a bank.

The governance structure of an RCB comprises a board of directors that represents shareholders within the bank and supervises the management of the bank. Boards of directors are elected by the shareholders from the communities where the banks are located. Election of board members takes place during annual general meetings (AGMs). Directors are elected on the basis of their reputation in the community and professional qualifications. The individuals nominated by the shareholders are validated by the BOG before assignment is effective.

The board elects a chairperson and a vice chairperson from among the directors. In many cases, the chief executive of the bank serves as the secretary of the board. A board member is elected for a three-year term but can be reelected for an unlimited number of terms by the shareholders. At every AGM, one-third of the board members need to retire but are eligible for reelection, in accordance with the Companies Code of Ghana. However, a sample analysis of 10 Board of Directors (BODs) of RCBs showed that the average number of years spent as a board member is 11; the maximum was 32 and the minimum was 1 year. The minimum size of a BOD is five, and the maximum is 11. Although the number of directors with voting rights cannot exceed the maximum allowed size, additional individuals can participate as co-opted members. Based on a sample analysis of 10 RCBs, only 9 percent of the directors are women.

3. METHODOLOGY

Introduction

The paper comprises mainly of research design, Study perception/introspection, sampling method or sampling technique, correlational testing, data sources, data collection instruments, methods of data analysis and the profile of drobo rural bank limited.
Research Design

As this study seeks to examine the effectiveness and contribution of rural and community banks in alleviating poverty through development of SMEs, a descriptive survey was employed in this study. Creswell (2003) defines descriptive survey as a method of collecting data for the purpose of testing hypothesis or answering research questions concerning the current status of the subjects under study. Thus in the opinion of Cohen and Marion (1999) descriptive survey is a design used to gather data at a particular point in time with the intention of describing the nature of existing conditions or identifying standards against which existing conditions can be compared or determining the relationship that exist between events. Thus, a descriptive study is undertaken in order to ascertain and be able to describe the characteristics of the variables of interest in a situation.

Study perception/introspection

The study perception/introspection, in the opinion of Agyedu, Donkor and Obeng (1999), refers to a complete set of individuals (subjects), objects or events having common observable characteristics in which the researcher is interested. The target population of a study constitutes the group of persons, objects or institutions that defines the objects of the investigation (Patton, 2002).

Data sources

The sources of materials for the study were both primary and secondary. The primary data was collected by the use of structured questionnaires and interview both “oral and writing” were designed and administered to SME customers and staff of drobo community Bank Ltd respectively. The secondary data was collected from journals, research papers, demography and other intellectual works. Tables and graphs were used to analyze the data collected from the field.

Sampling method or technique

Due to the limited time, of the research, the entire staff and customers of drobo community Bank could not be used for the study. Hence, a sample of 25% was chosen for the study. Out of the 25% people sampled, 10% were made up of the staffs of drobo community bank limited whereas 15% were the customers. With reference to the sampling method or techniques employed, a convenience purposive sampling technique was used to choose 5% staff members while a simple random sampling was employed in choosing 10% customers to represent the population of interest.

Data Analysis

The following steps were taken to analyze the data for the study. The data was edited through naturalistic observations, grammarly and correlation analysis to detect and correct, possible errors and omissions that are likely to occur, to ensure consistency across respondents. Data collected from the field was analyzed using descriptive statistics. The Statistical Package for Social Sciences (SPSS) Software was employed to process and analyze the instruments. Frequencies, percentages, proportions, tables, graphs and diagrams were used to present the results.

Ethical Issues

Almost all the service industry in Ghana have strict policy on confidentiality and one can pay the ultimate price for the breach of this duty of confidentiality. Divulging of information by employees to a third party can expose the institution to potential legal tussle and therefore being mindful of this ethical issue, the respondents were sometimes apprehensive in the disclosure of information. This genuine apprehension was addressed by first explaining the essence of the study to the respondents and also with the assurance that the data will be handled professionally and that their identities are not going to be revealed.

Validity and Reliability

According to the international journal of science and researched, Papers (2002) states that validity and reliability are two features which any quantitative researcher should focus on while designing a study, analyzing the results and judging the quality of the study. In a research work, all the rights things must
be measured. Care should be taken such that, the appropriate item is measured (validity); in addition, careful attention should be paid to how the measurement is being made (reliability). This study therefore took into consideration these two key factors during the course of the research.

**Brief Profile of Drobo Community Bank Limited**

drobo community Bank limited, one of the community Banks in Ghana whose **mission** is to provide sustainable banking and non-banking support services to the RCBs with the aim of improving their operational efficiency and customer service, thereby transforming them into efficient financial institutions, which can effectively address the banking needs of the communities in which they operate. And their **vision** is to Leverage on leading edge technology to increase the satisfaction of RCBs and their customers and expand access to financial services in the rural economy. Their core values expand on  Keep accounts and maintain primary cash reserves; Monitor, inspect, supervise and ensure compliance; Lend funds; Handle cheque clearing activities; Provide specie services; Supply cash and receive excess cash; Render funds management services; Guarantee payment instruments; Provide audit and inspection services; Develop credit assessment procedures and monitor loans and advances; Provide ICT services; Provide training for staff and directors and Provide a deposit insurance scheme to protect deposits of customers. The bank is dedicated to mobilizations of surplus funds from its catchment mellitus and channeling of such funds into viable and profitable economic ventures by lending to individuals and groups in all sectors and also to small and medium enterprises, thereby creating wealth and alleviating poverty in the country.

4. **RESULTS/DISCUSSIONS**

**Figure 1.1: Table 1: Sex of Respondents**

Table 1: Mean, Standard deviation and T-test comparing the Sex of Respondents view on an evaluation of drobo rural bank as a strategy for poverty reduction through development of small and medium scale business based on gender.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Frequency</th>
<th>Percentage</th>
<th>X</th>
<th>SD</th>
<th>DF</th>
<th>T-cal</th>
<th>T-tab</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>8</td>
<td>49%</td>
<td>61.857</td>
<td>5.266</td>
<td>299</td>
<td>1.06</td>
<td>1.005</td>
</tr>
<tr>
<td>Female</td>
<td>52</td>
<td>57%</td>
<td>62.621</td>
<td>5.102</td>
<td>1.04</td>
<td>1.003</td>
<td></td>
</tr>
</tbody>
</table>

Table 1 presents a comparative data on sex of respondent’s view on the impact of drobo community bank as a strategy for poverty reduction in drobo community. The table shows that the calculated value of (1.06-1.04) and critical t-value of (1.005-1.003) at (0.05) level of significance. Therefore, there is a significant impact on the study since the calculated t-value is greater than the tabulated t-value. Therefore, the null hypothesis (Ho) is rejected and the alternative (Hi) is accepted in evaluating drobo rural bank as a strategy for poverty reduction as influenced by gender.

**Figure 2.2: Table 2: Age of Respondents**

The research collected information on the age of respondents and the results presented in Table 2 below.

<table>
<thead>
<tr>
<th>Details</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 – 30</td>
<td>7</td>
<td>10%</td>
</tr>
<tr>
<td>30 – 40</td>
<td>35</td>
<td>60%</td>
</tr>
<tr>
<td>40 – 50</td>
<td>20</td>
<td>43%</td>
</tr>
<tr>
<td>&lt;50 and above</td>
<td>&lt; 62</td>
<td>&lt; 111&gt;</td>
</tr>
</tbody>
</table>

The data collected from the field indicated that respondents who participated in the survey and responded to issues raised had majority of them thus (60%) between the age ranges of 30- 40 and mostly in the prime age in the small and medium scale business, followed by those between the range of 40- 50 forming (43%) who are in their old ages, and that of 20-30 age group constituting (7%)
being in their early stages of life in the small and medium scale activities. The summary presented in Table 2 above.

**Figure 3.3: Table 3: Number of Years in Business Operations**
The researcher collected data on the number of years the SME Owners were in business operations and the results presented in Table 3 below:

<table>
<thead>
<tr>
<th>Details</th>
<th>Frequency</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 1 year</td>
<td>3</td>
<td>5%</td>
</tr>
<tr>
<td>1 – 2 years</td>
<td>9</td>
<td>15%</td>
</tr>
<tr>
<td>2 – 4 years</td>
<td>16</td>
<td>27%</td>
</tr>
<tr>
<td>5 years and above</td>
<td>32</td>
<td>53%</td>
</tr>
<tr>
<td>&lt;Total &gt;</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

According to **Table 3** above, majority of the respondents who had operated with the drobo community Bank for 5 years and above were being represented by (53%) of the total responses collected for the study; followed by the age range of 2-4 years who had operated with drobo community Bank constituted (27%) of the total responses collected; followed by the age range of 1-2 years representing (15%) and the least age below 1 year were being represented by (5%) of those respondents who were in business operations with the drobo community bank. This analysis above shows that, SME’s owners who were in business with drobo community Bank were all represented by different age’s groups within the case study institution.

**Figure 4.4: Initial Start-up Capital for Business**
The study gathered data on how small and medium scale enterprises acquired their initial capital for their business operations.

![Initial Start-up Capital](image)

**Figure 4.4** show that majority of the respondents who took part in the administration of the questionnaire stated that initial start-up capitals used by SME owners in starting their small and
medium enterprise business operations were mostly capitals from personal savings which constituted 50% of the total responses collected for the study; followed by those who mentioned friends and family as the source for their business start-ups which represented 23% of the responses collected; followed by those respondents who mention drobo community Bank limited as the source of capital for the start of their business representing 17% of the responses collected for the study; followed by other banking and financial institutions support for the start of their business which constituted 7% and the least being those who mentioned partnership as the source of their business start-ups which constituted 3% of the total responses collected for the entire study.

**Figure 5.5: Other Types of Benefits SME’s derives from drobo community Bank**

The research gathered data on other types of benefits SMEs receives from drobo community Bank limited.

**OTHER TYPES OF BENEFITS SME’S DERIVES FROM DROBO COMMUNITY BANK LIMITED**

- Scholarships for kids
- Money Transfer
- Training & Workshops
- Text Message Benefits
- ATM Benefits

**5. RECOMMENDATIONS FOR GOVERNMENT AND DROBO BANK**

1. Government should make available necessary support through conference ostigations and recommendation of infrastructural facilities that will help increase the output of people in rural mellitus and grow entrepreneurs as well.

2. Drobo rural bank should further publicized their policies so that members of low income groups will be aware of the service and supports.

**Figure 5.5** above show that majority of about 43% of the respondents who took part in the research study stated that the other type of benefits they drive from drobo community Bank was the product of text messages on their phone any time they transact business with the bank; followed by 30% of respondents who said they receive money transfer services; followed by those respondents who said they receive scholarship opportunities for their kids which represented 17%; followed by those respondents who said they receive training services which constituted 10% and the least being ARM
services which was not commented on at all, meaning that drobo community Bank does not provides ATM services at the bank.

Figure 6.6: Access to Credit by SME’S Owners to support their Businesses

According to Figure 6.6 above, 100% of the respondents who took part in the research all agreed to the fact that, SMEs owners have full access to loan facilities at drobo community Bank.

6. FINDINGS

Drobo community bank limited instrumental to poverty Eradication

Developing countries like Ghana can use drobo community bank initiative to address poverty by widening people’s access to finance especially the active poor. According to our introspection drobo community bank can reduce poverty because it decreases inequality and gives low income people access to basic financial services that may be difficult to get otherwise. This means that there is the need to create more drobo community’s banks institutions in the rural villages where access to finance is critical in Ghana. Recent finding shows that finance is a key constraint for Micro Small and Medium Enterprises (MSMEs). For instance, IFC provides financing to a large network of financial intermediaries in emerging markets, which in 2011 financed 23 million MSMEs, which in turn employed over 100 million people. Meanwhile, as the country’s population grows, the need to create more jobs intensifies, and developing countries may get to address this need, as well as that of poverty reduction by widening people’s access to finance and supporting self-employment in Low-income areas such as agricultural villages. The corporation pointed out that the generated the most jobs in developing countries but they are also less productive, pay less, and do not offer as much training and development opportunities for employees. “The largest numbers of jobs are created within companies’ supply and distribution chains. For example, an IFC loan to an Indian cement manufacturer helped the company expand and create more jobs. For every job created within the company, more than 20 were created in the supply and distribution chains and youth face specific employment challenges. Legal barriers, lack of access to finance, and cultural norms often force women to work in jobs that pay less and are less secure.”
Drobo community bank limited Model for Poverty Alleviation in brong ahafo region of Ghana.

Looking at the conceptual dimension of wealth and the transfer through Government fiscal operations, one will want to agree that in the current dispensation that country can realistically afford to adopt a model of transfer from the rich through the government fiscal operation and deliberate fiscal allocation to the poor to implement programs that will alleviate poverty. Ghana should pursue a progressive drobo community bank model. The program must be such that will assist the totality of the need of those groups that will participate. The credit must facilitate production (economic activities), consumption (hunger etc), social/welfare (health and education etc). The program must be such that can serve as a seed capital to provide fund for the development of promising ideas or products including the development of prototype. There are many school leavers with promising ideas and handicraft workers who need one small seed capital to move out of poverty. The program must be such that can finance expansion of commercially viable/successful business in order that the operator will not sink back into poverty. Consequently, drobo community bank model for drobo community and brong ahafo region as a whole, should be such that would have linked the institutional frame work coupled with fiscal support for effectiveness. There should be flow of revenue to the program and credit service required of the program. The services must ensure the following (BOG 2001)

- Operations are concentrated in the rural areas and focus on the micro enterprises.
- Ensure working capital loans, as regard credit, most micro entrepreneurs need working capital loans
- Do not include restrictions concerning the use loans, allow for guarantee that match their capacities such as personal guarantees and peer pressure

However, in implementing the strategy through the new institution, it would be quite instructive to utilize the results of the poverty assessment in order to establish priorities for financing. First identify the region with level of poverty and organize them into cohesive group, to determine what transfer program you can adopt. This region would form pilot project with adequate supervisory, monitoring and evaluation terms for replicating in other regions more importantly is the need to have financial regulatory authority to be part of the team for effectiveness and for completeness considering the current dispensation of universal banking (BOG 2001 economic and financial review)

7. DEFINITION AND POVERTY STRATEGIES

Schubert (1994) saw poverty as either absolute or relative or both. Absolute poverty being that which could be applied at all time in all societies, such as, the level of income necessary for bare subsistence, while relative standards that prevail elsewhere in the society in which they live.

In Ghana, various efforts were made by the government, non-governmental organizations and individuals to alleviate poverty in the country. According to Dr Kwame Nkrumah (1947) poverty alleviation measures implemented so far in Ghana focuses more attention on economic growth, basic needs and rural development strategies. The economic growth approach focuses attention on rapid economic growth as measured by the rate of growth in real per capital Gross Domestic Product (GDP) or per capital national income, price stability and declining unemployment among others, which are to be attained through proper harmonization of monetary and fiscal policies. The basic need approach focuses attention on the basic necessities of life such as food, health care, education, shelter, clothing, transport, water and sanitation, which could enable the poor live a decent life, where rural development approach focuses attention on the total emancipation and empowerment of the rural sector. Dr Kwame Nkrumah (1947) further grouped the strategies for poverty reduction in Ghana into three eras – the pre–Structural Adjustment Programme (SAP) era, the Structural Adjustment Programme (SAP) era and the democratic era. In the pre-SAP era, the measures that were predominant were the Operation Feed the Nation, the River Basin Development Authorities, the Agricultural Development Programmes, the Agricultural Credit Guarantee Scheme, the Rural Electrification Scheme and the Green Revolution. In the SAP era the following poverty alleviation measures were introduced; the Directorate for Food, Roads and Rural Infrastructures, the National Directorate of Employment, the Better Life Programme, the Peoples’ Bank, the Community Banks, the Family Support Programme and the Family Economic Advancement Programme. The democratic era witnessed the introduction of the Poverty Alleviation
Programme (PAP) designed to provide employment to 200,000 people all over the country (Yusuf, Ijaiya and Ijaiya 2009).

8. EFFECTIVENESS AND CONTRIBUTION OF RURAL AND COMMUNITY BANKS

Thomas Kofi Aidoo admits that rural and community banks can help the poor smooth consumption over periods of cyclical downturns or unexpected crises. This positive role of rural and community banks should not be dismissed altogether. If this consumption smoothing means parents can send their children to school, or buy essential medications, and maintain nutritional in-takes of their children then rural banks is likely to have positive long-term impacts on productivity. Bediako Asare (1930) noted that at low levels of nutrition and health care, increase in current consumption improves future labour productivity: if nothing else, morbidity is reduced. For example, Pitt and John Pepper Clark (1985) observed from Nigeria data that an increase in the consumption of fish, fruit, or vegetables by 10 percent reduces the chances of illness there by 9, 3 and 6 percent respectively. Rural and community banks, thus, fulfils an important safety-net task, especially in countries where there is no state-sponsored social security system. In difficult times, the poor can first turn to family and neighbors. But in a situation of generalized poverty or economy-wide crisis, the poor will have to go to money lenders or to the employer/landlord for whom she or he works. If rural and community banks institutions (RBIs) extend lending to the very poor in these circumstances, then they can help break the power and hold of such creditors who operate in the inter-locking credit and factor markets (Kwesi Boyd 2009).

- Rural and community banks are a way of reducing poverty: accessing small amount of credit at a reasonable interest rate gives the economically active poor an opportunity to set up their own business. Many studies have shown that poor people are trustworthy with the repayment of loans.
- Rural and community banks are established to provide financial services to the economically active poor and low income earners to help them engage in income generating activities or expand their small business.
- Rural and community banks help in providing services that sustain entrepreneurs in their self-employment and also assist in generating employment.
- A noticeable economic growth cannot be achieved without putting in place well focused programs to reduce poverty through empowering the people by increasing their access to rural banks which is aimed at providing credit to the economically active poor. Effectiveness of rural Banks in Alleviating Poverty through development of small and medium scales enterprises in Ghana.
- There are main features that distinguish rural and community banks from other types of banks, which are smallness of loans advanced and or savings collected, the absence of asset based collateral and simplicity of operations.

9. CONCLUSION

This study has established that rural and community banks will alleviate the problem of active poor, low income earners to access credit thereby enabling them carry on various small and medium enterprises, this will in turn empower the poor financially to be self-employed thereby reducing the poverty level in the economy. It can be concluded that this study has been able to describe the roles that rural and community banks have to play in the economy of Ghana, which includes the provision of diversified, affordable and dependable financial services to the active poor in a timely and competitive manner.

However, the role of Rural and Community Banks to the development of SMEs has not been particularly noticeable either because it has not been researched into hitherto or because their contributions have been suppressed. This study has however provided evidence to prove and buttress the contribution of rural and community banks to the development of small and medium scale enterprise in Ghana taking drobo community Bank as case study.
10. RECOMMENDATION
In order to achieve this objectives of rural and community banks policy, the following recommendation are made:

- Government should support necessary infrastructural facilities that will help increase output of the micro entrepreneurs.
- Rural and community banks policy should further be publicized so that more of the members of the low income group will be aware of what Rural and community banks banks have to offer them and how they can obtain financial services to grow their small businesses.
- Regulatory and other statutory bodies should monitor the interest rate on loans and advances to make it accessible to micro clients that is the economically active poor.
- Rural and community banks should further encourage the active poor and low income earners to save Effectiveness of rural and community Banks in Alleviating Poverty in Ghana and more, thereby giving them enough cash to lend out as loans.
- Ensure that customers are monitored in the utilization of the loans obtained by them in order to pay back the loan as at when due.

11. SELECT BIBLIOGRAPHY

- Mensah J.V (1996), Promotion of Small Scale industries in the Central Region of Ghana; Discussion paper series No. 4, Centre for Development Studies, University of Cape Coast.