RURAL BANKING AND AGRICULTURAL FINANCING- A CASE STUDY OF KWAMANMAN RURAL BANK LTD

KNUST

By

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DECLARATION

'I hereby declare that this submission is my own work towards the Master of Business Administration (Banking and Finance option) degree and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the university, except where due acknowledgement has been made in the text'.

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ABSTRACT

The study examined Rural Banks and agricultural financing a case study of Kwamanman Rural Bank Ltd. The objectives that underline this study were to find out the amount of finance the bank has provided to the agricultural sector from 2009 to 2013, to analyze the amount of deposit mobilized by the bank from the agricultural sector and the challenges in agricultural financing. In trying to achieve these objectives questionnaires were used to solicit for answers from the Head of Credit of the bank and 80 customers of the bank.A conclusion was deduced from this study based on the data gathered from the bank and the respondents. From the study it was realized that not even 10% of the total bank loans offering to their customers were given to the agricultural sector. The various literatures suggest that the success of agricultural is also the success of the economy of any country especially a developing country like Ghana. With more finance to the agricultural sector, it will enable the farmers to develop and improve upon their finances which in the long help them to increase their transactions with the bank for them to also increase on their profits.

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DEDICATION

This Thesis Work is first and foremost dedicated to the Almighty God for successfully seeing me through my Post-Graduate Studies.

Also, I dedicate this work to these honourable people: Professor Joseph Magnus Frimpong (Immediate Past Dean, School of Business - KNUST); Mr. Edward Yeboah (Deputy CEO, Nwabiagya Rural Bank) and Mr. Ahmed Musah (Lecturer, University of Education- Kumasi).

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CHAPTER ONE

GENERAL INTRODUCTION

1.0 Background of the study

As banks are the main intermediaries for mobilization of considerable part of a country's fund, it is reasonable to expect their involvement in the process of giving financial service to the development of the agricultural sector. Moreover, the situation on the ground has been otherwise. The agricultural sector has been receiving the least level of credit facilities from the banking sector (Koza, 2007).Especially, providing micro credit by the banking sector has been low. To conclude, the agriculture sector has been the most neglected sector in the banking businesses for credit due to the various dangers it poses, such as lack of collateral security and unpredictable earning structures.

Agricultural lending is the process where small- scale farmers are giving money to resolve their farming activities. Therefore, giving out credit to the agricultural sector is very important to an economic development of a nation. The domestic models of agricultural household models also advocate that, farm credit is not only influenced by the restrictions of self-finance, but also by insecurity pertaining to the level of output and the timely interval between inputs and output. Thus, other economic sectors have higher growth rate of investments than that of the agriculture sector. Therefore, in developing country like Ghana it is very important to finance agriculture to help develop rural areas. Generally, in spite of the importance of loans in agricultural production, its purchase and repayment are burdened with a number of problems especially in small holder farming (Awoke, 2004).In most of the loan facilities guided and reinforced by government high rate of default has been a recurrent problem. A large amount of the default arose from loan diversion, improper organizational processes, credit and unwillingness to pay back the credit facility. For this reason, lenders develop different institutional mechanisms meant to reduce the risk of loan default (pledging of collateral, third-party credit guarantee, use of credit rating and collection agencies, etc.).In the situation of providing credit to the rural asset-poor, what is essential is institutional modernism that combines cautious and sustainable banking principles with effective selection and monitoring strategies that are not based on physical collateral (such as land).Bell et al. (2007) cited that credit markets in developing countries work uneconomically due to a number of market imperfections such as (1) Interest rate ceilings usually imposed by the government; (2) Monopoly power in credit markets often exercised by informal lenders; (3) Large transaction costs incurred by borrowers in applying for loans; (4) Moral hazard problems.

The banks therefore shied away from giving loans to farmers as a result of the continuous declining loan repayment performance by the farmers.

1.1 Statement of the Problem

Agricultural finance is scandalously unsafe. Lots of farmers require credit to procure seeds and other inputs, as well as to harvest, process, market, and transport their crops. Whereas borrowing on the basis of projected crop production might seem logical where collateral assets are few, such loans depict the lender to production and price risk. Natural disaster, a decline in market prices, unexpectedly low yields, the lack of a buyer, or loss due to poor storage conditions are just some of the factors that can result in lowerthan-expected revenues. Such a fall in revenues can often lead to high default rates on agricultural loans. The statement of the problem is that the inadequate or lack of training on loan repayment by farmers has led to the high loan repayment default rate by this means causing the financial institutions to be running away from extending credit facilities to farmers. This study therefore seeks to ascertain that prior to the disbursement of credits or loans to farmers and farmer groups appropriate mechanism needs to be in place to ensure that the credit facilities are thoughtfully and resourcefully managed and paid back within the precise time frame.

1.2 Objectives of the Study

The objectives of this study are:

1. To find out the amount of finance Kwamanman Rural Bank has provided to the agricultural sector from 2009 to 2013.
2. To analyse the amount of deposit mobilisation and other financial services given to the agricultural sector by the Kwamanman Rural Bank.
3. To assess the challenges in agricultural financing at Kwamanman Rural Bank.

1.3 Research Questions

The followings are the research questions used the this study;

1. What is the total amount of finance Kwamanman Rural Bank has provided to the agricultural sector from 2009 to 2013?
2. How much deposit has Kwamanman Rural Bank mobilized from the agricultural sector?
3. What challenges are Kwamanman Rural Bank facing in financing agricultural sector?

1.4 Justification of the Study

The outcome of this study will contribute to awareness and literature in the subject under investigation.

To policy makers like the Ministry of Food and Agriculture (MOFA), the findings and outcome of this study will provide very useful insights and a more dependable guide to monitoring the impact of Agricultural financing in the life of farmers. This will also be a bench mark for measuring moderately their respective policy goals and objectives. Predominantly, this will facilitate massively the MOFA to enable them to achieve some of their policy goals, which include: enriching the dependability and effectiveness of the loan repayment by farmers. It will also help the banks and other financial intermediaries to ease the accessibility of credit to the farmers, to ensuring that default rate is low.

To stakeholders like investors, shareholders, employees, pressure groups, farmer associations, etc., the study will provide very useful information that will allow them to provide useful suggestions to the development and training on loan repayment by small scale farmers in Ghana.

1.5 Scope of the Study

This research focuses on issues linking to Agricultural financing by Rural Banks in Ghana. The researcher is limiting the study to the Kwamanman Rural Bank. The study should have been expanded to all the rural banks in Ghana, but due to time, financial and other constraints, the work was limited to the Kwamanman Rural Bank.

1.6 Limitations of the Study

The first limitation was the sample selected. Answers for the questionnaire might be different from a branch to another branch. Base on this, generalizing findings might be difficult. Also, respondents remain reluctant in answering the form due to inadequate period on their side to answer them. This might have control on the way respondents answered questionnaires. Another challenge which affected the quality of the work is finance. It was very expensive to gather data from the respondents and printing cost was also very high. Finally, in a study like this students may need additional time to produce solid work.

1.7 Organization of Study

The thesis work is organized in five chapters. Chapter one is the general introduction, the review of literature is chapter two, research methodology is chapter three, data presentation, analysis and discussion of findings is chapter four, and finally the Chapter five will be based on the summary, conclusions and recommendations.

CHAPTER TWO

REVIEW OF THE LITERATURE

2.0Introduction

Lack of access to finance is one main difficulty disturbing Africa's agricultural modernization systems. In Ghana like many other West Africa nations, insufficient access to credit has remained an essential distress to farmers and a key restriction to the transformation and diversification of their activities.

This chapter seeks to review the general agricultural financing activities of rural banks in Ghana, the concept and theoretical perspective of loan acquisition, deposit mobilisation by banks and challenges in loan administration by banks.

2.1 Definition / Meaning of Agricultural Finance

Agriculture finance refers to public or private funds in the form of equity, gift or loan for improving social welfare through expansion of agricultural sector (Shreiner andYaron, 2001). It encompasses not only government funds but also funds of non-governmental organizations that use matching grants to attempt to encourage community and sector development, income equal opportunity and local empowerment. Public funds are subsidized funds and private funds regardless of their price, are not subsidized, unless a contribution is tax free or the market price is affected by an explicit or implicit state guarantee of the liabilities of a development finance institution (Shreniner and Yaron, 2001).

2.2.1 The concept of loan administration

According to Nwankwo (2000), credit constitutes the largest single income-earning asset in the portfolio of most banks. This explains why banks spend enormous resources to estimate, monitor and manage credit quality. This is understandably, a practice that impact greatly on the lending behaviour of banks as large resources are involved.

Loan administration is a function performed within financial institutions to improve and control credit policies that leads to increased revenues and lower risk including increasing collections, reducing credit cost, extending more credit to creditworthy customers, and developing competitive credit terms. The effective management of credit risk is a critical a comprehensive approach to total risk management and is fundamental to the safety and soundness of financial institutions. Appropriate policies, procedures and systems should be implemented at each financial institution to effectively identify measures, monitor and control credit risk (Eastern Caribbean Central Bank, 2009).

The credit policy serves as a manual for banks in the day to day credit administration. The policy contains the principles and standards of the bank as differs from bank to bank. It spells out how loans are to be appraised, disbursed, monitored and recovered. Sinkey (1992) believes that a bank must have a written loan policy. Some principles contained in the credit policy are: establishing an appropriate credit risk environment; operating under a sound credit granting process; maintaining an appropriate credit administration, measurement and monitoring process; and ensuring adequate controls over credit risk. The credit also serves as a tool for managing credit since it serves as a guide for credit officers. On who to formulate the credit policy of the bank, Summers and Webb (2005), argued that the board of directors has the responsibility of formulating bank loan policy and to monitor compliance.

We note however that because financial institutions are monitored by external regulatory agencies, bank board may not influence loan policy.

2.2.2 Types of Loans by Banks

Banks in Ghana lend to salaried customers, pre-financing of contracts, exports and import finance, guarantee, mortgage facilities, agricultural credit, small and medium enterprises loan, microfinance loans. Many researchers have confirmed this for example, Kaufman, (1993) is of the view that banks can be evaluated on their credit delivery which forms the core of banking operations. Akakpo, (1994) maintains that, banks profitability depends so much on lending that their performances and success depends on how effectively they manage their lending activities. Conversely, the view of Agyeman, (1987), is divided on the issue. While recognizing the importance of bank lending, he is also of the view that it has caused polarization of the rich from the poor and concentration of economic activities in the urban areas causing rural urban migration. Webster and Fidler, (1996) hold the view that, banks in making loans tend to favor large well established firms (mostly in the urban areas) as against small and newly established ones in the rural areas because large firms offer greater financial security.

2.2.3 Products and Services of Rural Banks and Microfinance Institutions

Rural banks as one of the financial organizations give related products and services to their customers. Even though the modes of delivery are different, the fundamental product and service are the same. "In spite of this, to date most efforts to formalize Rural Banks have focused on enterprise lending which remain by far the prevailing product offered by Rural banks", Nourse (2001) and Woller (2002). However, the situation is now changing. Gradually the rural banks have started offering extra services such as domestic transfer, e-zwich card savings and withdrawals, international money transfers and training in financial management to the general public.

Nourse (2001) has argued that in in giving the rural bank products and services there is the need to consider the poor and not just the credit products. To him it is better for financial institutions to focus their lending services for the benefit of the poor rather than the rigid loan products being giving out. Eyiah (2001) has supported the above statements using a small constructions model that was based on the management of contractors and financial institutions in developing countries that provides loan facilities to contractors of micro enterprise contractors.

Such product can also be found in Ghana where the rural banks give loans to the very poor people in our community. To be able to acquire a credit facility from the rural bank, the applicant must have an active account with the bank for a period of six month and above. Again the applicant must be seen in activities undertaken by that particular financial institution. NBSSI (1992).

Wenner (1995) opines that traditional microcredit is extended without security. Should there be a need for collateral security; most customers of the financial institution would not be in a position to provide due to their extreme poverty status. To overcome this situation most of the lending institutions have adopted group lending as a form of social collateral. “Social collateral also works through reputational effects on group members in which repayment of loans is seen by group members as obligatory to preserve their social reputation in the community”. WoolCock (1999)

The group lending methodologies involves the principle of joint liability. Thus the group takes overthe guaranteeing, monitoring, and execution of the credit agreements from the bank.

Under jointly and severally guarantee, each group member is responsible for the settlement of the loan of other group members. In a situation where one member defaults, all the other members are obliged to make payment with their own profit else they loose access to future opportunities. It is therefore important for all members to ensure prompt payment to avoid any future consequences. Almost all the rural banks in Ghana use similar process in granting loans to their customers.

In the credit granting purpose of rural bank, loans should be grouped into agricultural loan, salary loan, transport loan it is useful to divide loans into enterprise loans and consumption/emergency loans. As mentioned above, the loan programmes typical of MFIs almost entirely consist of enterprise loans. Nonetheless, significant unfulfilled market demand also exists for consumption and emergency loans, Woller (2002). The demand for consumption of emergency loan is evident in developing countries by the thriving business of the local money lenders.

Alongside the credit granting purpose, with the lending function, there should be a marketplace available for poor societies across the nation. Rural banks services accessible to the people in the community should be grouped into obligatory and charitable savings. With the obligatory, people in the society are oblige to make savings and this is beyond the charitable savings. This is mandatory for group loan participants or the microfinance applicants to make savings up to a particular amount. The obligatory savings provide the bank more information on the savings culture of your customers. In reality, the obligatory savings serves as a security for the customers, there are rules amendable for withdrawals by clients. In Ghana a non-financial institution, Sinapi Aba Trust Limited also adopted the same style above in operating microcredit in the country,

Steel et al (1991).

2.2.4 Conditions for accessing loan by customers.

In this environment, small businesses generally have been upbeat about credit conditions. In order to increase the chance of loan repayment therefore, banks require potential borrowers to fulfill some basic requirement. Ekumah et al (2010) found in their study that a potential borrower is required to have an account (saving, demand or time) deposits with the bank for at least six month. The application for credit is first examined by the project manager and then passed on through the process for approval by the manager, the credit committee, and the board of directors depending on their respective credit approval limit.

A recent study by Monge et al (2001) explored institutional arrangement and banking practices present in Costa Rica for enforcing financial contracts. He found out that banks use the value and liquidity of the collateral presented by customer as a key criterion for granting credit. Other processes that bank use in granting credit is the previous experience with borrowers. Most small business lack detailed balance sheets and other financial information, upon which lending typically rely in making underwriting decision. In practice, many banks undergo a fairly lengthy credit review process for small business loans that involve several layers of an institutions credit department hierarchy. It also entails having credit officers extended visits to the business site.

2.2.5 Factors constraining customers from benefiting from loans

Early theoretical models of entrepreneurship assume directly that credit contracts for business start-ups and ongoing financing are very limited Monge et al, (2001). For example, in the model of Bernhardt et al, (2000) there are no credit possibilities at all. The operation and formation of firms have to be funded by the entrepreneurs accumulated saving and firms past profitability. In other models, the maximum credit agents can obtain to fund their productive venture is modeled as a direct function of wealth or available collateral.

Asiedu-Mante (2000) lamented on the inadequate access to funds and high cost of capital in Ghana, as a bane of the development of the private sector especially SMEs. He also said the cost of capital which is currently 20%, is still too high. A study conducted by Mensah (2004), revealed the spread between savers and borrowers. The study also disclosed that lending rate was too high to induce investment at the core of low private sector investment in Ghana. It is widely known that only a small percentage of medium scale enterprises get access to formal credit as the formal financial sector, rarely take much interest in the informal sector and micro entrepreneurs. In fact evidence suggest that the larger the enterprise the more likely they can obtain formal credit.

Mensah, (2004).

According to Mensah (2004) banks line of credit, known as revolving credit facilities, are viable liquidity substitute only for firms that maintain high cash flow. Firms with low cash flow are less likely to obtain a line of credit, and rely more heavily on cash in their corporate liquidity management. An important channel for this correlation is the use of cash flow-based financial covenants by banks that supply credit lines. Firm must maintain high cash flow to remain compliant with covenants, and banks restrict firm access to a line of credit is a more statistically powerful measure of financial constraints than traditional measures used in literature.

The collateralization of loan contracts is at the intersection of several fields: in financial sector development, the possession of collateral largely determines whether certain categories of economic agents obtain access to the financial market and whether financial contracts are efficiently concluded, thus with least losses. Lack of collateral is a major constraint for small land micro-enterprises, and especially new entrants to the financial market; it is also a constraint for banks to the extent that it prevents the financing of (probably) safe small-scale investments.

2.3.0 Deposit Mobilization by Banks

Deposit mobilization is defined as the method or procedures put in place to cheer clients on how they can be more interested in the banks products and services and save with the bank by Elser et al (1999). From institutional perspective the main purpose for mobilizing funds is that it involve cutting down cost in mobilising cash.

Kutan *et al* (2010) proposed that banks are the main intermediaries where their core mandate is accepting commercial and individual deposits (savings) and giving them out to customer as loans for investments. From the time when the acceptance of the several moneys in the year 2009, the native financial institutions were able to go on a enormous savings which was as a results of by contributing a variety of products and services personalized to exact clients which help the bank in the mobilisation of cash.

2.3.1 Types of deposit accounts

2.3.2 Basic Savings

According to Yang (2009), traditionally one of the simplest and most suitable ways to save have been bank savings account. The restrictions in making withdrawal from these accounts are few and characteristically have the lowest minimum requirements to deposit. However, of any of the alternatives they often pay the lowest interest rate. Singh (2010) proposed that to entice more deposit in a competitive environment there should be a considerable interest rate for banks. On the other hand in a newly liberalized economy by feeble policies this approach of high deposit rate according to Kraft (2000) may fail to work. He establish in his Croatian studies that most of bank that are risk loving used high deposit rate in mobilizing deposits, thereby subjecting them in increasing the financial dangers. Since client fail to pay their loan calamity can befall the bank.

2.3.3 Money Market Account

These are similar to the savings accounts. Although the money market account pays higher interest rates. The balance requirement for money market is higher than the savings account and also different interest rates may be applied to different account balances. For instance the rate on the balance below Ghs1000.00 may be different from the rate on the balance above Ghs5000.00. Again larger amount is needed to open money market account.

2.3.4 Money Market Mutual Funds

There are similarities in the money market mutual funds and money market accounts in numerous ways according to Yang (2009).The interest payment is typically of a similar percentage many give them the right to issue cheque to customers. One limitation between the money market mutual fund and the money market account is that, security is assured by management with the money market account.

2.3.5 Time Deposit /Certificates of Deposit (CDs)

Certificates of deposit are time deposit. In a distinctive time CD deposits are accepted by the banks within a particular period generally provided by the bank and interest will be paid when the time is due. After maturity you have the option to take the money invested or roll over the actual money plus the interest. However, your intention on whether the bank should roll over your account on maturity should be made clear to the bank before maturity, if not they may reinvest with the same rate; but may get better percentage from a different bank.

2.3.6 Current Account or Cheque

Singh (2010) a current account or cheque can be define as a transactional deposit account apprehended by the financial institutions bank to make deposits and also withdraw your money. Elser et al convoluted to the fact that amount deposited in the current account are highly liquid, and can be withdraw by means of automated cash machines, cheque and electronic debits, in the midst of other methods. This type of account have some advantages over the other accounts such as savings time deposit etc, a current account can be in a form of business accounts student accounts and joint accounts with many others which offer similar features. A cheque account allows frequent withdrawals and unlimited deposits.

2.3.7 Demand Deposit Account (Call Account)

Yang (2009) proposed demand deposit is a type of account from which customer can withdraw their money any time without notice to the bank. The operation of this account is very flexible because you can "demand" or "call" for cash whenever you need it, not like a term deposit that deposit and withdrawal can be made within a particular time.

2.3.8 Savings Behavior Theories

There are three major theories behind saving presents in an existing literature to date, these are: Life cycle hypothesis Modigliani & Brumberg, 1954), Permanent Income hypothesis (Friedman, 1957) and Buffer stock hypothesis (Deaton, 1991).The first hypothesis is the life cycle hypothesis which deals with the total income of a person and the amount they are able to save. The theorem also states that the main reason for saving is retirement accretion. However there is the need for every individual to save more at his or her working age and consume at the time he is old (Ozcan, Gunney & Ertac, 2003).

The permanent income hypothesis attempts to differentiate between permanent and transitory income as the determinants of private savings. Changes in income perceived by households to be permanent tend to reduce current savings because they can justify higher consumption today and in the future. On the other hand, income changes perceived to be transitory induce smoothing consumption, whereby today's income is saved for tomorrow's higher consumption.

In its basic form, the Buffer stock hypothesis of savings behavior proposes that users accumulate resource to be cautious against unpredictable income fluctuations. It is anticipated that consumers are likely to spent more and save little, whenever their wealth is above a certain target, while, individual become prudent when their present income is below supposed wealth it can increase savings.

2.3.9 Relationship between Deposit Mobilization and Savings

Domestic savings encompasses public and private savings. In order to promote individual savings the percentage of interest must be encouraging. Again, there should be proper mechanism for mobilizing resources. In order to promote economic growth the savings should be channel to the production and agricultural sector. In light of this McKinnon (1973) and Shaw (1973) hypothesis that countries with repressed financial system find it hard to raise deposits as interest rates on deposits are controlled by the government, hence the need for financial liberalization. This is evidence that financial liberalization led to higher interest rate which equates the demand and supply of savings. The authors expressed their view that higher interest rates lead to increased savings and financial intermediation in improving the efficiency of savings and investment. The higher real interest rates increase the extent of financial intermediation which in turn raises the rate of economic growth in developing countries (Kemal, 2002). The growth of any economy depends on capital accumulation, and this requires investment and equal amount of saving to match it (Thirlwall, 2004).

The major center of attention of every financial institution is mobilizing financial resources from excess zone lending to the deficit unit as loans for economic development, this is termed as financial intermediation. The depositors are assured of a specific amount of interest on the savings made, the safety of their money, thus the money will be available when needed. On the other hand the banks are lure by the interest received from the borrowers for the loan granted to them which help them in their business activities. However the amount of money receive from depositors determines loans that can be granted to customers.

In the African context financial liberalization proved to be a failure; as it failed to leave to its expectations. Honohan & Beck (2007) argue that financial liberalization leads to capital flight as envisaged by the high ratios of offshore deposits to domestic bank deposits. Upadhyaya (2011) agrees that financial liberalization in Sub-Saharan Africa failed to perform to its expectations, leaving academics and the corporate world with the main question: why did liberalization fail?

Nabar (2011) assesses how interest rate affects household savings in Chinese provincial level administrative units between 1996 and 2009. A very good and reliable connection linking domestic savings the percentage of interest was recognized; signifying that the people China save money to solve numeral needs for example old age expenditure. This situation helps to raise the level of savings very high and depositors receive high interest rate on their savings.

According to Mohan (2012), deposit mobilization by cooperative banks in India. The study showed that cooperative banks should rely on individual's depositors as well as cooperative societies. Their efforts should be oriented towards the mobilization of more savings and current accounts deposits through continuous publicity, effective marketing management and providing good service to the clients.

Das & Das (2002) discuss the relationship deposit interest rates and the interest amount. They observed that the method of calculating the interest amount can substantially affect the interest paid. Depositors should take into consideration the interest rate computation over and above the quoted nominal rates. Since 89% of the customers are depositors, a high degree of transparency is needed in regard to effective rates offered to customers.

Laurenceson (2004) "drawing on a panel data of 101 countries between 1994 and 2001 examined the relationship between bank franchise values and deposit mobilization. Results show that negative relationship between franchise value and a decrease in deposits; suggesting that increased competition leads to improvements in service quality which tempts households to raise their holdings of savings deposits".

2.3.10 the Effects of Poor Deposit Mobilization

There are a number of effects that are brought about as a result of the poor deposit mobilization. These include Inability to disburse loans to qualifying members on demand, inability to meet operation costs, inability to service debts, unstable board of directors due to frequent reshuffle as disgruntled members vote officials out, quitting of members to competitors, falsification of financial reports. These can cause the voting out of elected officials on accusations of fraud, financial mismanagement practices (Wasike, 2012). In addition, dissatisfied members can quit in large numbers to join alternative and emerging micro-finance institutions for fear of losing their savings if the situation deteriorates.

CHALLENGES IN LOAN ADMINISTRATION

2.4.0 The concept of loan default or credit risk

Credit (or default risk) which is the major challenge in loan administration is a situation where customers who receives loan facility from the bank refused to pay back. As the bank major assets are the loans they gives to their customers which forms a greater percentage of their assets, a high default rate pose the bank to high risk, and a serious purpose of every financial institution is represented by the decision of credit (Adams & Mehran, 2004).

Credit risk arises whenever a lender is exposed to loss from a borrower, counterparty, or an obligor who fails to honor their debt obligation as they have agreed and contracted Colquitt (2007). For most banks, loans are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the balance sheet.

With most rural banks cited in rural Ghana, the risks are greater and as result, most banks have neglected the rural areas (Webster and Fidler, 1996). A similar view pointis held by Anderson, (2001) who is of the view that, Agriculture, an intrinsically risky activity is cited as the major doings of the people in the rural setting. The risks faced by rural residents depend on the local farming systems, climate, infrastructure and the policy and institutional settings, (Anderson, 2001).

2.4.2 Causes of Loan Default

According to Amidu and Hinson, (2006), larger banks have higher credit risk and the capital structure (equity to total assets) of banks is positively related to banks' credit. According to Sinkey, (1992), the credit risk (or quality) of a bank's loan portfolio depends on two sets of factors: these are those factors that external to the bank such as macroeconomic factors, natural disasters, death etc. The others are those factors that are subject to managerial discretion.

Macroeconomic indicators such as inflation, interest rate and exchange rate, natural disasters and death can have serious consequences on the credit portfolio. An increase in inflation means that the purchasing power of customer has reduced. In another words, it means that an individual cannot buy the same quantity of a product s/he hitherto bought.

The exchange rate is another major exogenous factor that affects the credit risk management. Exchange rate risk is the effect of that, an anticipated exchange rate changes have on the value of the firm. This section will look at the effect of currency fluctuations on lenders businesses and particularly their ability to repay loans on schedule. Currency fluctuations can have both negative and positive effects on businesses in the local economy depending on how the changes occur. Some internal or endogenous factors also affect the riskiness or quality of a bank's loan portfolio.

These are improper credit appraisals, lapses in the bank's loan policy, the quality and integrity of the credit staff, willingness of management, and industry best practices among others. Dunkman,(1996) attributes the causes of loan defaults to either failure of credit officers to judge repayment ability of the borrower correctly or a change in the condition of the industry or the economy as a whole. The bank is supposed to make proper assessment of their customers before granting them loan this term as Credit appraisal. A number of factors should be considered in the appraisal which includes the character of the borrower, the previous records of savings, the type of security available, the source of revenue, background of the job of the borrower and other factors in the credit rating of the bank. Improper or poorly done credit appraisals can create big problems when it comes to loan repayment.

2.4.3 Overview of Agricultural Financing

"Agriculture is central to food security and economic growth in developing countries and provides the main source of livelihood for three out of four of the world's poor"(Wheelerand Kay, 2010). In most developing countries, agricultural finance is considered an important factor for increased agricultural production and rural development because it enhances productivity and promotes standard of living by breaking the vicious cycle of poverty of small scale farmers and fishers (Adebayo and Adeola, 2008). Credit or loan able fund is regarded as more than just another resource such as land, labour and equipment, because it determines access to most of the resources required by farmers. The explanation is that the adoption of new technologies necessarily requires the use of some improved inputs which may be purchased. Credit also acts a catalyst for rural development by motivating latent potential or making underused capacities functional (Oladeebo and Oladeebo, 2008).

Infact, inadequate resources and technology in the agricultural sector accounts for the low productivity in the sector and this is due to the inability for farmers to access credit from the bank. Furthermore, the problem of insufficient credit facility in the agricultural sector has in the long run depressed the young people in the society to engage them in the sector. The Food and Agriculture Organization (FAO) argues that studies in Africa show that the poor achievement of the agricultural goals on the continent in terms of efficiency, sustainability and equity is due to the predominant practice of directing resources to men only (FAO,1993).

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This section gives details on how the research was organized as well as methods for collecting and analyzing the data. This includes research scope, profile on organisation, research design, sampling techniques and procedures, target population and sample size; the instruments used for the data collection exercise, data collection methods and data sources. It also intends to tackle the projects' research questions within the limitations of the survey study.

3.1 Research Design

Abili(2009) describes quantitative research as involving measurement of variables and the delivery of findings in numerical form in which research findings are described by text of significance, confidence intervals, and mathematically demonstrated relationships. He further describes qualitative research as a paradigm, which is conducted to find out what people do, think, know and feel. Such a study aims at understanding and explaining a phenomenon that focuses on "why" and "how" questions as well as in depth and detailed "what" questions. It is important to note that many researchers such as Abili (2009) have agreed that a study may have a mixture of both quantitative and qualitative paradigms.

This study is based on both qualitative and quantitative paradigms. On one hand, words will be used in describing and explaining relationships between variables which make it a qualitative research. On the other hand, some numerical data will be collected and analyzed using descriptive statistics.

The approach and methodology involved a purposive sampling, stratified and random sampling which were used to collect data. These data were collected for specific purposes. The essence of obtaining such data is to ensure that the exact information wanted for the study were obtained.

Although this research adopted a more quantitative approach in analyzing data through the questionnaires administered, a qualitative approach was adopted in explaining the relationship between the data gathered. This was necessary to help the researcher have an in depth understanding into aspects of the lending activities of microfinance used at the bank. A purposive sampling and stratified sampling techniques were used to select the needed respondents for the study. However, a simple random method was used to select respondents within each stratum to ensure elimination of bias.

3.2.0 Population

The target population for this study comprised of one credit Officer of Kwamanman Rural Bank and the farmers. The total population is 435 which consists of, 7 Credit Officers and 428 Farmers.

Sampling and Sample size

The researcher used purposive sampling to select the Head of Credit and stratified sampling was also used to group the customers of the Bank according to their geographical area of farming. The purposive sampling was used for the selection of the Head of Credit Department because of the objective of the study. Stratified sampling was used to select the farmers. The farmers were grouped into four strata namely Beposo, Mampong, Kwamang and Nsuta. This was done in order to give fair presentation to all the farming communities which transact business with the bank. Random sampling was used to select representative from each strata.

Sample size for the survey was eighty-one (81) made up of the Head of Credit of Kwamanman Rural Bank Ltd and 80 farmers from the four geographical areas (strata). The table below shows the population and the sample size

Group	Population	Sample size
Credit Officers	7	1
Farmers from Beposo	54	10
Farmers from mampong	208	40
Farmers from Kwamang	103	20
Farmers from Nsuta	63	10
Total	435	81

Research procedure

Questionnaires were anonymously filled out. They were largely structured and designed to ensure that respondents could easily understand and provide the right responses to the survey questions. They included instructions which were purposed to help respondents to provide answers to the questionnaire. A letter was attached to the questionnaires explaining the purpose of study. It was estimated that each respondent would use approximately 5 to 10 minutes to complete a questionnaire. Respondents who still faced difficulties in completing their forms were assisted to do so in order to reduce errors in their responses.

Closed-ended questions were measured using a four point Likert-scale questionnaire. The Likert scale is characterized with the quality ranks that respondents were asked to choose- mainly from “high or low using five or seven levels. This technique presented respondents with a series of attitude dimensions for which they were asked how strongly, they agree or disagree, using one of a number of positions on a four-point scale that is

Strongly Agree, Agree, Disagree, Strongly Disagree. Use of likert-scale is beneficial for both the administer and respondent since it is fast, less time consuming and organized.

3.2 Method of Data Collection

The main instrument adopted for the conducting of this study is the use of questionnaire to fish out information from respondents.

Saunders, (2000) gives out that, when collecting data, there are secondary data and primary data to collect in the research. Secondary data refers to data that has been collected by others while primary data is new data that is collected by the researcher.

Extensive secondary and primary data sources were used for this research.

3.2.1 Primary data

Is the data gathered purposely for this research work. Questionnaire were distributed to the Head of Operations, Head of Credit and the Clients of the Kwamanman Rural Bank Ltd to gather data from them for this work.

3.2.2 Secondary data

Secondary data are data which have already been collected elsewhere for some other purpose but which can be used or adapted for the survey been conducted. The financial statement of Kwamanman Rural Bank Ltd for the financial years ended 31st December, 2009 to 2013 were also used for this survey.

3.3 Method of Data Analysis

This study has used a general analytical strategy which relies on previous theories and studies. The collection of data, analysis of data and the comparison of data will rely on those studies and theories together with the research questions.

Data collection took a period of 1 week, during the period of July, 2015. A pilot study was conducted amongst five clients of the Kwamanman Rural Bank Ltd, Mampong, before the questionnaires were administered. This was to make out probable ambiguities in the formulation of questions, orders and the analysis of questions. Modifications were then made taking into account issues raised by these respondents.

The raw data from the field survey was entered into SPSS and Excel were used in analyzing data and the results and its analysis are presented in chapter four (4) of this work. Descriptive analysis was used to analyze the results.

3.4 Organisational Profile

Kwamanman Rural Bank was incorporated in Ghana to carry on the business of banking under the Banking Act, 1970 (Act 339) on the 27th of August, 1982 as the 5th Rural Bank in the Ashanti Region and the 38th in the whole country.

The establishment of Kwamanman Rural Bank came about when a group of progressive elders of Kwaman met to brainstorm on the possibility of setting up a bank in Kwaman. These men, and a few others were united in their vision that a bank at Kwaman would provide the badly needed financial intermediation for the rapid socio-economic development .Their vision was also to alleviate the needless poverty and suffering that had engulfed the community and its surrounding villages at the time when they had to travel long distance of over 38 kilometers to have access to Banking services and to cash their Akuafo Cheque at the Ghana Commercial Bank at Nsuta and Mampong, the Bank

then at the time.

The Bank has since that time achieved unprecedented growth over the years. The bank's agency network has increased from the parent office at Kwaman to eight (8) branches found in the following locations;

Branch	Date Established
Kwamang	1982
Beposo	1988
Mampong	1989
Nsuta	1992
Old Tafo	1993
Amakom	1995
Tanoso - UEW-K	2003
Kejetia	2010

In addition to the above agencies, the bank can also boast of four Mobilization Centres namely; Atonsu, Aframs & Birem(A.J.A), Adanwomase and Kona.

3.4.1 Corporate vision statement

"Our vision is to be among the pace setters of the banking industry through rigorous application of the best practices and procedures for excellent customer service and stakeholder satisfaction"

3.4.2 Mission statement

- To promote credit creation through vigorous savings mobilization
- The application of best practices and procedures for quality service delivery and customer satisfaction

- To encourage private entrepreneurship by supporting micro enterprise and agrobased production concerns with adequate and timely credit
- The recruitment and development of the best human resources to carry out the bank's mandate.

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CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter is devoted to the organization, description, analysis and interpretation of results. The data was based on the research questions as they were put in the questionnaire. The analysis were made using the data collected on the questionnaires administered and the results were presented in accordance with the three main objectives or purpose of study with the exception of certain basic information from the respondent such as sex, age, educational background, how long they have been in operation, operational capital, number of employees and types of business they are engaged in, the level of book keeping knowledge of the book keeper.

4.1 Amount of finance Kwamanman Rural Bank has provided to the agricultural sector from 2009 to 2013

On the result on amount of finance Kwamanman Rural Bank has provided to the agricultural sector from 2009 to 2013, the following questions were asked and the following results were gathered.

On the question of the number of people who have applied for agric finance between 2009 to 2013: the results were 400 – 600 customers.

On how many of the applicants loans were approved, the result was 200 – 400 applicants.

On the type of loans been applied for by farmers, it was realized that Agricultural loans was what they applied for.

On the total credit facility the bank has offered to their customers, the results are shown for the years under study.

Table 1: Table showing total loans offered to customers by the bank

2009 – Gh¢	2010 - Gh¢	2011 - Gh¢	2012 - Gh¢	2013 - Gh¢
3,104,016.86	4,468,193.93	6,884,028.14	9,195,815.45	10,124,215.60

Source: Field Data (2015)

From Table 1, 2013 was the year that the bank offered out more loans to their customers, followed by 2012, 2011, 2010 and 2009. This shows that the bank continuously increases their loans to their customers every year.

Table 2: Table showing total loans allotted to the agric sector out of the total bank loans to the agric sector.

2009 – Gh¢	2010 - Gh¢	2011 - Gh¢	2012 - Gh¢	2013 - Gh¢
210,550.00	169,412.30	478,013.04	403,497.85	421,621.10

Source: Field Data (2015)

On the amount of the total credit facility that was allocated for the agric sector, the results is shown for the years under study.

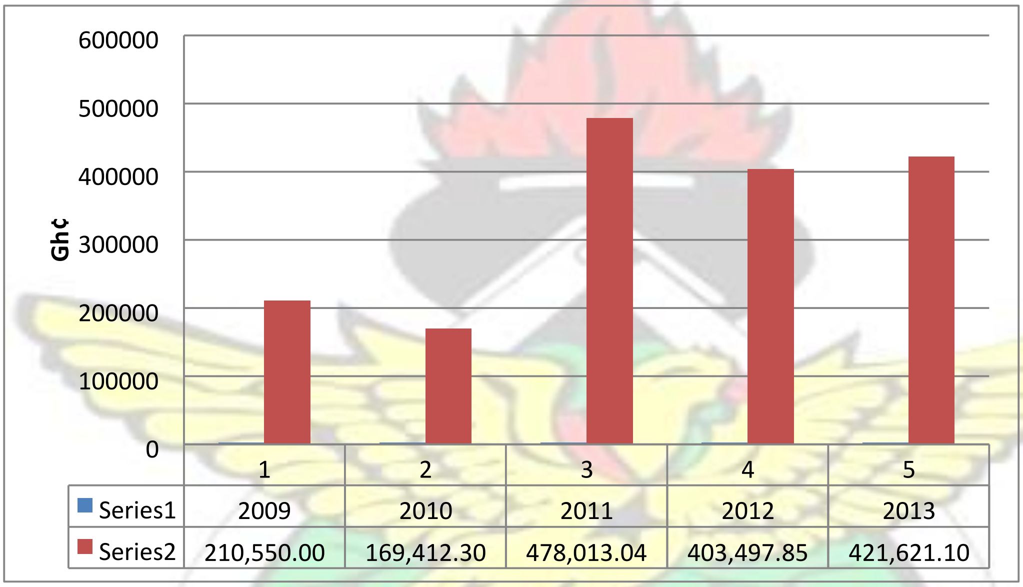

Chart 1: representing amount of money given as loans to the agric sector

Source: Field Data (2015)

Table 3: Representing the percentage of loans to the agric sector out of the total loans to the customers of the bank.

2009	2010	2011	2012	2013
6.78%	3.79%	6.94%	0.04%	4.16%

Source: Field Data (2015)

From the data above 6.78% of total loans offered to customers was given to those of the agric sector in 2009, 3.79% of total loans given to customers of the bank was for those in the agric sector in 2010, 6.94% was allotted to the agric in 2011. In 2012 0.04% of the total loans were allotted to the agric sector and in 2013 4.16% was allotted to the agric sector.

From this one can deduce that 2011 recorded the highest year where more loans were given to the agric sector and 2012 had the lowest percentage of loans allotted to the agric sector.

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On the application procedure for agricultural loans, it was realized a customer can only secure a loan if he or she has been a customer of the bank for a period of six months. The next requirement for the agric loan is that the farmer needs to show to the bank where his or her farm is and the kind of agricultural activities he or she is engaged in.

On the question of the documents required by the bank from the customer before granting loans, the result was that personal data of the farmer is taken and two customers of the bank who are also farmers or salary workers guarantee for the applicant.

On what was normally the duration of the bank for loan repayment, the result was 12 – 24 months.

4.2 Deposit mobilization and other financial services to the agricultural sector

The question on the type of savings and others services rendered by the bank to the agric sector, they were:

- Me Daakye Savings Account
- Agricultural Loan
- Current Account
- Child Educational Loan
- Normal Savings
- Financial knowledge

On the type of accounts that farmers normally open, the result was that most of the farmers normally openCurrent Account and Me Daakye Savings Account.

On the question, What is the banks total deposit mobilization from the agricultural sector for the following years? The results from the bank are presented in the table and chart below.

Table 4: Representing total deposit mobilization from the agric sector from 2009 to 2013

2009 – Gh¢	2010 - Gh¢	2011 - Gh¢	2012 - Gh¢	2013 - Gh¢
289,850.99	405,137.37	589,716.56	423,540.03	320,262.35

Source: Field Data (2015)

From the Table 4, it was discovered that, the customers made highest deposit in the year 2011 and the least savings was in the year 2009. The savings of the agric sector increased by39.8% in 2010 over that of 2009, in 2011 the deposit increased again by 46% over that of 2010 but in 2012 it decreased by 28% and again went down by 24.4%. This can be attributed to the unstable source of income by the farmers. Some of the farmers said that, they made savings after they have sold their crops and realized some money.

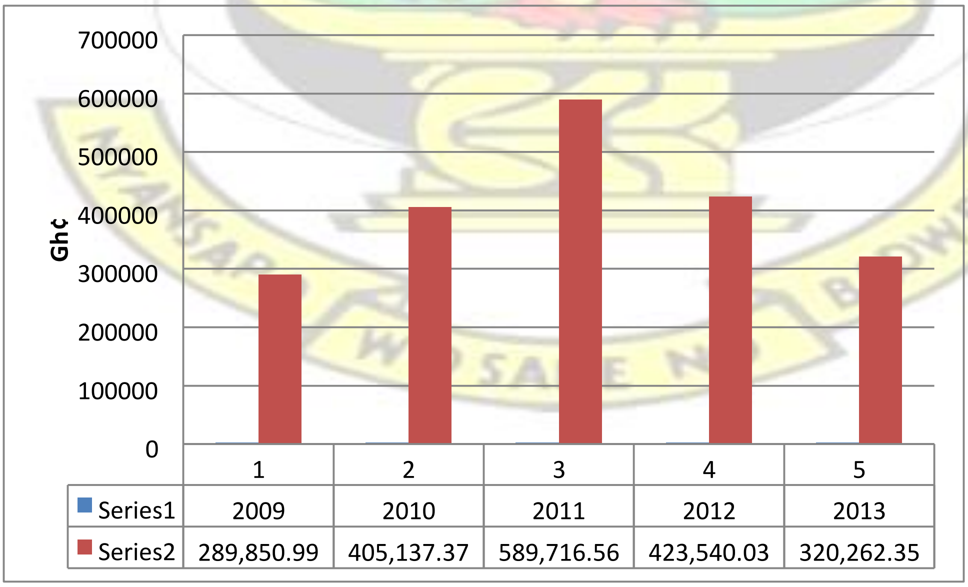

Chart 2: Representing deposit mobilization from the agric sector

Source: Field Data (2015)

Table 5: Representing percentage of agric deposit to the total bank deposit mobilization

2009	2010	2011	2012	2013 - Gh¢
20%	25%	15%	12%	15%

Source: Field Data (2015)

From the Table 5, it can be seen that, the savings from the agricultural sector is very low as compared to the trading and transport sectors. The savings from the agricultural sector reached its peak in the year 2010 when it contributed 25% of the total deposit mobilised by the bank. The savings from the agricultural sector reached its lowest in the year 2012 when it contributed only 12% of the total deposit mobilised by the bank. This can be seen from the Chart 3 below:

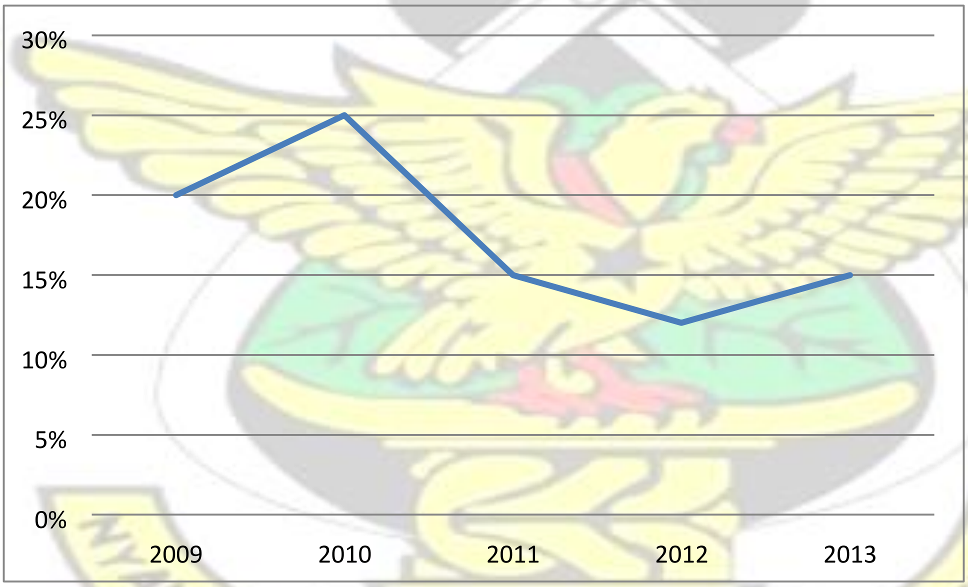

Chart3: Representing percentage trend of agric deposit to total deposit mobilization by the bank

Source: Field Data (2015)

On the question of other services that the bank performs for the farming communities the result was that the bank offers financial literacy programs for them.

On the issue of the type of corporate social responsibility that the bank has done for the farming communities, the result was that the bank has offered scholarships to the brilliant but needy children in the community.

4.3 Challenges Kwamanman Rural Bank is facing in financing the agricultural sector

According to the Head of Credit Department of the Kwamanman Rural Bank, the attitudes of farmers on loan repayment was poor. On how the loan default rate was at the bank for the agricultural sector the result was that it was Moderate.

According to the Head of Credit, the default rate has negative effect on the profit of the bank, that is why they have changed their loan portfolio and now larger percentage of their loans portfolio is given to the salary workers and traders and they have reduced the percentage of loans given to the farmers.

The Head of Credit Department of the Kwamanman Rural Bank again said the cost incurred by the bank in chasing customers to repay their loans are sometimes high and most of the farmers depends on the rain water for their yield. Therefore if the rain does not come at the right time it affects their yield and their inability to pay back the loans collected for the farming. This makes the agricultural financing in Ghana a high risk area and therefore the bank which gives more percentage of their loan portfolio to the agricultural sector is exposing itself to higher risk. .

In the opinion of the bank, the major factor that causes loan defaults is Poor credit appraisal by bank, loans diversion and over dependence on the on the rain water. Delay in granting of the loans is also another factor which is affecting the ability of the farmers to pay back the facility.

On the question of how to recover bad loans from the banks customers, the Head of

Credit said that, they only call the guarantors.

On the question of measures that management should put in place to reduce loan defaults the following suggestions were given;

- Loan should be granted in time.
- See to it that the loans are used for their purposes.
- Educate the farmers on the money taken.
- Ensure proper appraisal of loans.

4.4 Responses from Customers (Farmers)

On questionnaire for the clients of Kwamanman rural bank, the profiles of the respondents were taken and the results are shown below;

Table 6: Profile of Respondents

Variable	Frequency	Percentage
Gender:		
Male	63	78.75
Female	17	21.25
Total	**80**	**100**
Age Range:		
20-29	15	18.75
30-39	31	38.75
40-49	21	26.25
50-59	13	16.25
Total	**80**	**100**
Marital Status:		
Single	14	17.5
Married	27	33.75
Divorced	24	27.5
Widow/Widower	15	18.75
Total	**80**	**100**
Educational Background:		
J.H.S	53	66.25
S.H.S	17	21.25
Tertiary	10	12.5
Total	**80**	**100**
Family Size:		
Less than 5	24	66.25
Between 5 – 10	51	21.25
Over 10	5	12.5
Total	**80**	**100**
Type of Agric Business:		
Crop farming	45	56.25
Fishery	6	7.5
Livestock	12	15
Farm inputs	7	8.75
Poultry	10	12.5
Total	**80**	**100**

Source: Field Data (2015)

From the Table 6, a total of 80 respondents representing the customers answered to the questionnaire. Of all the respondents 63 of them were males representing 78.75% and 17 were females representing 21.75%. This shows that majority of the respondents were males.

Age range of the respondents were from 20-29 years were 15 representing 18.75%, 3039 years were 31 representing 38.75%, 40-49 years were 21 representing 26.25 and lastly 50-59 years. From this data majority of the respondents were 30-39 years and minority of them were 50-59 years.

On marital status of the respondents 14 respondents representing 17.5% were single, 27 respondents representing 33.75% were married, 24 respondents representing 27.5% were divorced and 15 of the respondents were widows and widowers representing 18.5%.

The educational level of respondents were mostly J.H.S graduates who were 53 representing 66.25%, S.H.S graduates were 17 representing 21.25% and 10 were Tertiary graduates representing 12.5%.

On the type Agro business that respondents were engaged in, 45 of them were into crop farming representing 56.25%, 6 were into fish farming representing 7.5%, those who are into livestock were 12 representing 15%, those into farm inputs and 10 were into poultry representing 12.5%

On how much credit facility the farmers have received from the Bank the following questions were asked and the results were:

On whether farmers often do take credit facility from the bank 50 of the respondents representing 62.5% Strongly Agreed that they do take loans 10 of the respondents representing 12.5% Agree that they take loans from the bank for their agricultural activities,12 of the respondents representing 15% Disagree that they have received credit facility from the bank. 8 of the respondents representing 10% Strongly Disagree that they take credit facility from the bank for their farming.

On whether respondents get the amount of loan they request from the bank 35 of the respondents representing 43.75% strongly agreed that they get the amount of loan they request from the bank. 30of the respondents representing 37.5% agree that they get the amount request from the bank as loans. 12 of the respondents representing 15% Disagree that they get the amount of loan they request from the bank and 3 of the respondents representing 3.75% Strongly Disagree that they get the amount of loan they request from the bank.

On whether respondents are able to repay their loans took from the bank 24 of the respondents representing 30% strongly agreed that they are able to repay the loans they take from the bank. 32 of the respondents representing 40% said they Agree that they pay the loans taken from the bank, 10 of the respondents representing 12.5% said that they Disagree that they repay the loan they take from the bank and 14 of the respondents representing 17.5% said they Strongly Disagree that they repay the amount of loan they take from the bank.

4.5 Deposit mobilization and other financial services to the agricultural sector.

On issue of deposit mobilization by respondents, they were asked about whether they are able to save money into their accounts for a period of time 15 of the respondents representing 18.75% strongly agree that they are able to save representing while 30 of the respondents representing 37.5%s aid they agree that they are able to save. 26 of the respondents representing 32.5% said they Disagree that they deposit money into their accounts with the bank and 9 of the respondents representing 11.25% Strongly Disagree that they are able to save into their accounts. This is illustrated in the Table 7

Table 7 Deposit by farmers

Response	Frequency	Percentage (%)
Strongly Agree	15	18.75
Agree	30	37.50
Disagree	26	32.50
Strongly Disagree	9	11.25
Total	80	100

Source: Field Data, 2015

This shows that most of the farmers make some deposit into their accounts. 35 of the respondents representing 43.75% said they do not make regular deposits. It is therefore not surprised for the Head of Credit to say that the default is moderate at the bank

Again respondents were asked about whether they engage in other services of the bank, all respondents Strongly agree that they do engage in other services of the bank representing 100%.

4.6 Challenges face in getting finance by the Farmers

Customers were asked as to whether they faced some challenges in securing finance from the bank 25 of the respondents representing 31.25% said they Strongly Agree that they encounter a whole lot of challenges in getting credit facilities from the bank. 28 of the respondents representing 35% said they Agree that they face challenges in securing credit from the bank, while 19 of the respondents representing 23.75% said they Disagree and 8 of the respondents representing 10% said they Strongly Disagree. This is represented in the Table 7 below:

Table 7: Challenges faced by the Customers in getting finance

Response	Frequency	Percentage (%)
Strongly Agree	25	31.25
Agree	28	35.00
Disagree	19	23.75
Strongly Disagree	8	10
Total	80	100

Source: Field Data, 2015

4.6.1: Loan Default Rate by the Customers of the Bank

The respondents were asked whether they have ever defaulted in the repayment of their loans, 18 of the respondents representing 22.5% Strongly Agree that they have ever defaulted in their loans repayment, 16of the respondents representing while20%said that they Agreed of ever defaulted in the loans repayment. 33 of the respondents representing 41.25% said that they Disagreed for ever defaulted in their loans repayments and 13 of the respondents representing 16.25% Strongly Disagree that they have ever defaulted in their loan repayment. This is presented in the Table 8

Table 8: Loan Default Rate

Response	Frequency	Percentage (%)
Strongly Agree	18	22.50
Agree	16	20.00
Disagree	33	41.25
Strongly Disagree	13	16.25
Total	80	100

Source: Field Data, 2015

4.6.2 Whether the Loan has been Beneficial to the Farmers

On whether the bank loan helped the farmers in their agric business all respondents agreed that the loan they took helped them in their agric business representing 100%.On whether respondents could be discouraged from taking future loans if interest became very high all respondents strongly agreed that they will be discouraged representing 100%.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of findings from the analyses of data, the conclusion drawn from the analyses and some recommendations on how to improve agricultural financing by the Rural Banks in Ghana.

5.2 Summary of Findings

This study assessed agric financing in Ghana with reference to Kwamanman Rural Bank Ltd in Ghana. The objectives of this study were to find out the amount of finance Kwamanman Rural Bank has provided to the agricultural sector from 2009 to 2013, to analyse the amount of deposit mobilisation and other financial services given to the agricultural sector by the Kwamanman Rural Bank and the last objective was to assess the challenges in agricultural financing at Kwamanman Rural Bank Ltd.

From the study it was realised the bank finance agricultural. On the question of the number of people who have applied for agricultural finance between2009to 2013, the result was 400 – 600 customers.

On the number of the applicants whose loans were approved, the result was 200 – 400 applicants. On the type of loans been applied for by farmers, it was realized that Agricultural loans was what they applied for.

On the issue of the amount of loans offered by the bank to the agric sector, 6.78% of total loans offered to customers was given to those of the agric sector in 2009, 3.79% of total loans given to customers of the bank was for those in the agric sector in 2010,

6.94% was allotted to the agric in 2011. In 2012 0.04% of the total loans was allotted to the agric sector and in 2013 4.16% was allotted to the agric sector.

From this one can deduce that 2011 recorded the highest year where more loans were given to the agric sector and 2012 had the lowest percentage of loans allotted to the agric sector.

On the application procedure for agricultural loans, it was realized a customer can only secure a loan if he or she has been a customer of the bank for a period of six months. The next that farmer needs to provide is to show the bank where his or her farm is and the kind of agricultural activities he or she is engaged in.

On the question of the documents required by the bank from the customer before granting loan, the result was that personal data of the farmer is taken and two customers of the bank who are also farmers or salary workers guarantee for the applicant.

On what was normally the duration of the bank for loan repayment, the result was 12 – 24 months.

On the issue of whether the loan defaults has affected the banks operations, the result was that the bank agrees that it has affected them. The reason is that the cost incurred by the bank in chasing defaulted customers to repay their loans are sometimes high. This increases the operational cost of the bank.

In the opinion of the bank, the major factor that causes loan defaults is Poor credit appraisal by the bank.

About the question on the type of savings and others services rendered by the bank to the agricultural sector, they were Me Daakye Savings Account, Agricultural loans, current account, child education loan, normal savings and the giving of financial knowledge to the farmers.

On the type of accounts that farmers normally open, the result was that most of the farmers normally open was Current Account and Me Daakye Savings Account.

On the responses from the respondents thus the farmers, it was realized that majority of them were males, married, and the educational level of majority of them was J.H.S graduates. Most of them were into crop farming, and other agric business like fishery, livestock, poultry and dealers in farm input were few.

5.3 Conclusion

A conclusion can be deduced from this study based on the data gathered from the bank and the respondents. From the study it was realized that not even 10% of the total bank loans offering to their customers were given to the agricultural sector. This is alarming because the Rural Banks core mandate is to help the farmers in the rural areas but with this little quota given to the agricultural sector is very alarming and there is no hope for the agricultural sector if this trend should continue. The rate of loans default level by the farmers also poses a threat to the operations of the banks and also discourages them to offer future loans to farmers since the cost involved to recover these loans by the banks is very high. Again the major cause of these loans default according to the bank is as a result of poor credit appraisal by the bank. Most farmers agreed that securing a loan from the bank helps them in their agricultural activities.

5.4 Recommendations

Studies done by other researchers have confirmed that the success of agricultural sector is also the success of the economy of any country especially a developing country like Ghana. The overall finance available to farmers in general was very low when compared to the other sectors.

Based on the result of the study the researcher recommends the following:

- Banks, especially Rural Banks should always set out at least 30% their loan to farmers since they are mostly in the rural areas. With more finance to the agricultural sector, it will enable the farmers to develop and improve upon their finances which in the long run help them to increase their transactions with the bank for them to also increase on their profits.
- The Government of Ghana should also set soft loan facilities to farmers since majority of the Ghanaian populace are farmers. This will encourage more people to go into farming to reduce unemployment in the country.
- The banks should give proper training to their credit officers so that they can also do proper loan assessment before granting out loans to any farmer. After the facility has been disbursed the credit officers should monitor the clients to ensure that the loans are used for their intended purposes, this will enable the bank to reduce their bad loans which are accrued from defaulting clients.

The bank can also do the following;

- Loan should be granted in time.
- See to it that the loans are used for their purposes.
- Educate the farmers on the money taken.
- Ensure proper appraisal of loans.

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APPENDICES

Appendix I

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY
COLLEGE OF ARTS AND SOCIAL SCIENCES

SCHOOL OF BUSINESS QUESTIONNAIRE FOR STAFF OF KWAMANMAN RURAL BANK

This research is being conducted on the financing of agricultural sector; a case study of Kwamanman Rural Bank for my MBA degree programme. Data gathered is for academic purposes only, and it shall be treated with strict confidential. Your response to this questionnaire would be highly appreciated.

Section A: Amount of finance Kwamanman Rural Bank have provided to the agricultural sector from 2009 to 2013.

1. How many people have applied for agric-financing between 2009 to 2013 operating years?

400 - 600 customers [ ] 601 - 800 customers [ ] 801 - 1,000 [ ]

1,001 - 1,200 customers [ ] 1,201 -1,400 customers [ ] above 1,400 customers [ ]

2. How many of the applications were approved?

200 - 400 applications [ ] 401 - 600 applications [ ] 601 - 800 applications

801 -1,000 applications [ ] above 1,000 applications [ ]

3. What types of credit facilities are normally applied for by farmers at your bank?

Agricultural loan [ ] Overdraft [ ] Salary loan [ ] Commercial Loan [ ]

e. Susu Loan [ ] f. Others, Specify……………………………………………..

3. What is the banks total credit facility for their customers for the following years?

2009…………………………………

2010 ………………………………… 2011……………………………………

2012…………………………………

2013………………………………….

4. What amount of the total credit facility was for the agricultural sector?

2009…………………………………

2010 ………………………………… 2011………………………………….

2012…………………………………

2013………………………………….

5. What is the application procedure for agricultural Loans?

....

……………………………………………………………………………………....

………………………………………………………………………………………

6. What documents are normally requested for before the facility is processed?

Please state your comments...

....

7. What is normally the duration of your Loan facility?

6 – 12 months [ ] 12 - 24 months [ ] more than 24 months [ ]

8. Please kindly give data on the amount of money approved to the male and female farmers over the years from 2009 to 2013

Year	Male (Total)	Female (Total)	Type of farming
2009			
2010			
2011			
2012			
2013			

Section B: Deposit mobilization and other financial services to the agricultural sector.

9.What Savings and other services do you have for the agricultural sector?

a. ……………………………………… b. ……………………………………….

c. ……………………………………… d. ………………………………………

e. ……………………………………… f. ……………………………………….

10. What type of account do farmers normally open?

………………………………………………………………………..

………………………………………………………………………..

....

11. What is the banks total deposit mobilization from the agricultural sector for the following years?

2009…………………………………

2010 ………………………………… 2011………………………………….

2012…………………………………

2013………………………………….

12. What is the percentage of agricultural deposit to your total deposits mobilized?

2009…………………………………

2010 ………………………………… 2011………………………………….

2012…………………………………

2013………………………………….

13. Apart from the Savings and Credit facilities what other service do you perform to the farming communities?

Money transfer [ ] Financial literacy [ ] Advise on modern farming techniques [ ]

Concessional loan to farmers [ ]

14. What other benefits the community can boast of through the Corporate social Responsibilities of the Kwamanman Rural Bank?

Construction of school block for the community [ ] Bore hole for the community [ ]

Construction of clinic in the community [ ] Scholarship to the brilliant but needy children [ ]

Other ....

Section C: Challenges Kwamanman Rural Bank is facing in financing the agricultural sector

22. What are the attitudes of your clients towards loan repayment?

a. Better [ ] b. Good [ ] c. Poor [ ] d. Worse [ ]

23. How is the loan default rate in your bank for the agricultural sector?

a. High [ ] b. Very High [ ] c. Moderate [ ] d. Very Moderate [ ]

24. Has the default rate affected your bank's operations?

a. Agree [ ] b. Strongly agree [ ] c. Disagree [ ] d. Strongly Disagree [ ] Please give reasons for your answer...

....

....

25. In your opinion, which of the following are the factors which cause agricultural loan defaults at your bank?

a. Delayed loan approval [ ] b. Poor weather conditions [ ] c. Poor credit appraisal [ ]

d. Marketing problems [ ] e. Lack of business management knowledge [ ]

f. Diversion of loans [ ] g. Under financing [ ] h. Term of the loan [ ]

i. Ineffective monitoring [ ] j. Unwillingness to repay loans [ ] Others, please specify…

………………………………………………………………………………………….

26. What are the problems faced in your loan recovery?

....

27. How do you recover bad loans from your clients?

a. Through court action [ ] b. Seizure of collateral and company assets [ ]

c. Call on guarantors [ ]   d. Sale of collateral provided by clients [ ]

28. What measures should management put in place to reduce loan defaults? a)

…………………………………………………………………………………………

b)

………………………………………………………………………………………..….

c)

…………………………………………………………………………..………….

d) ……….…………………………………………………………………..…………

1. What is your position in the bank?

....

2. How long have you been with the bank?

....

3. What is your educational qualification?

a. SHS [ ]   b.HND [ ]   c. First Degree [ ]   d. Master's Degree [ ]

4. Do you have any professional qualification?

a. Yes [ ]   b. No [ ]

5. If Yes, which professional qualification do you have?

a. CIB [ ]   b. ICA [ ]   c. ACCA [ ]   d. CIMA [ ]   e. ACCE [ ]

Thank You

Appendix II KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF ARTS AND SOCIAL SCIENCES

SCHOOL OF BUSINESS QUESTIONNAIRE FOR THE CLIENTS OF KWAMANMAN RURAL BANK

This research is being conducted on the financing of agricultural sector; a case study of Kwamanman Rural Bank for my MBA degree programme. Data gathered is for academic purposes only, and it shall be treated with strict confidential. Your response to this questionnaire would be highly appreciated.

Section A: Personal Data of the Respondent

1. Please tick your Gender

a. Male [ ] b. Female [ ]

2. Kindly tick your age range.

a. 20-29years [ ] b. 30-39years [ ] c. 40-49years [ ] d. 50-59years [ ]

3. What is your Marital status:

a. Single [ ] b. Married [ ] c. Divorced [ ] d. Widow [ ]

4. What is your educational background?

a.JHS [ ] b. Secondary [ ] c. Tertiary [ ]

5. What is the size of your Family?

a. Less than 5 [ ] b. Between 5 – 10 [ ] c. Over 10 [ ]

6. What type of agricultural business are you involved in

a. Crop farming[ ] b. Fishery [ ] c. Livestock [ ] d. Dealer in farm inputs [ ] e. Poultry [ ]

Section B: How much Credit facilities you have received from the Kwamanman Rural Bank

7. You often do you take credit facility from the bank?

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly disagree [ ]

8. What is the average of loan you normally take?

Gh¢…………………………………

9. You always get the amount you request from the bank.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly disagree [ ] 10.

You are able to repay your loan as scheduled?

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly disagree [ ]

Section C: Deposit mobilization and other financial services to the agricultural sector.

11. What is your current deposit in your account?

Gh¢...

12. You always save money into your account for a period of time. Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly disagree [ ] 13. You engage in other services of the Bank.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly disagree [ ] 14.

You pay for charges on your bank account.

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly disagree [ ]

Section D: What are the challenges you face in getting finance?

15. Have you ever defaulted in the payment of your loan?

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly disagree [ ]

16. Do you think high interest rates can discourage you from taking future loans?

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly disagree [ ] 17

Did the Bank loan helped you in your agric business?

Strongly Agree [ ] Agree [ ] Disagree [ ] Strongly disagree [ ]

Thank You