AN EXAMINATION OF THE CREDIT MANAGEMENT PRACTICES OF RURAL BANKS: A CASE STUDY OF ASOKORE RURAL BANK LIMITED

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DECLARATION

I hereby declare that this submission is my own work towards the Master of Business Administration (Finance Option) and that, to the best of my knowledge, it contains no material previously published by another person or material which has been accepted for the award of any other degree of University, expect where due acknowledgement has been made in the text.

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DEDICATION

I dedicate this to the creator of Heaven and Earth – Almighty God, for the strength, wisdom and the courage to come out with this work. I am also grateful to Francisca Boateng and Nsiah Richard for their moral support and prayers.

ABSTRACT

Many rural banks have sustained heavy losses because of poor credit activities. The main objective of the research was to examine credit management practices of rural banks. Specific objectives were to assess the mechanism of granting loans at rural banks, investigate how non- Supervision of borrowers influences the loan repayment, to establish how the diversion of loan funds by borrowers leads to default in loan repayment and to ascertain the problems encountered by rural banks in credit recovery. The study adopted a descriptive research design which assisted to examine the objectives of the study. The sample size as well as the population of the study was thirty and fifty respectively. The response rate was at 100%, which comprised staff of the bank in charge of credit. Data was gathered using a questionnaire and analysed using SPSS 16 and Microsoft excel. The study found out that the loan repayment default was as a result of non supervision of borrowers of the bank staff, and also as a result of inadequate training of borrowers on utilization of loan funds before they received loans. The findings also revealed that most borrowers did not spend the loan amount on intended and agreed projects. It came out that there are gaps in the credit management of the bank, which requires immediate response to safeguard the future of the bank. The study recommends that for the bank to reduce default in loan repayments, they should monitor the borrowers regularly so as to ensure that they use the loans they received for the agreed and intended purpose. Also training of borrowers before and after receiving loans should be done focusing on areas such as business management, bookkeeping and savings. Finally, the study recommends that since there are weakness in the credit management system of the bank staff should be trained in modern and efficient appraisal and recovery method. Further studies should be done on how credit management can increase financial stability of rural banks in Ghana. This will offer a broad analysis on impact of credit on profitability in Ghana.

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CHAPTER ONE

1.1 Background of the study

This chapter introduces the phenomenon understudy. It constitute the background of the study, problem statement, objectives of the researcher in carrying out the study and the importance of the study to the organisation in which the study is conducted, scope and limitation of the study. The chapter finally outlines the structure of the thesis.

Universal associations are going to the realization that Rural banks and Micro Finance Institutions (MFIs) are veritable and viable channels to guarantee program implementation adequacy, especially in neediness alleviation ventures and firsthand information of the needs and enthusiasm of poor people (Okumadewa, 1998). As per Chossudovsky (1998), the World Bank Sustainable Banking with the Poor undertaking (SBP) in mid-1996 assessed that there were more than 1,000 microfinance foundations in more than 100 nations, every having at least 1,000 individuals and with 3 years of experience. In an overview of 2006 of such organizations, 73 percent were NGOs, 13.6per penny credit unions, 7.8 for every penny banks and the rest investment funds unions. A greater part of the world's poor live in the underdeveloped nations. Different methodologies have been utilized in mitigating destitution of which procurement of credit that objectives the poor is one. Numerous are currently of the conclusion that permitting the poor to have order over assets through credit can contribute towards destitution lightening. Kiteme (1992) contends that the most ideal approach to take care of destitution is to let the individuals do their own particular thing. No one will have more inspiration to change his circumstance than the sufferer himself/herself.

Loaning which may be on short, medium or long haul basis is one of the administrations that deposit cash banks do render to their clients. As it were, banks do stipend loans and advances to people, business associations and also government with a specific end goal to empower them to leave on venture and improvement exercises as a method for helping their development specifically or contributing toward the monetary advancement of a nation (Felicia, 2011)

As indicated by Rosenberg (1999), Micro Finance Institutions (MFIs) are progressively a focal wellspring of credit for the poor in numerous nations. Week by week collection of repayments by bank staff is one of the key components of micro credit that is accepted to decrease default risk without guarantee and make credit to the poor practical. A percentage of the variables that prompt credit default incorporate; deficient or non-monitoring of miniaturized scale and small businesses by banks, prompting defaults, delays by banks in preparing and disbursement of advances, over-centralization of choice making, where all advances are needed to be endorsed by the banks Zone/Head office.

Banking is exchange activity carried on by any individual or firm occupied with giving monetary services to consumers, organizations, or government undertaking. In the broadest sense, managing an account comprises of defending and exchange of funds, giving or encouraging loans, ensuring credit value and trade of cash.

The Ghanaian financial sector is made up of numerous banks, a wide blend in possession structure and by contrasts in customer base. The bank of Ghana was set up in 1957; it is Ghana's national bank and issues the national currency. Since 1967 the money related unit has been the cedi of 100 pesewas. Following numerous devaluation around 1981 and 1983 the new cedi was adopted (9,152.73 old cedi broke even with US 1 dollar in mid 2006). The financial industry in Ghana falls into three primary classes: formal, semi-formal and informal. The major banks, which is overwhelmed by a couple of main banks (among the aggregate of 28), ranges just around 10% of family units, a large portion of which are prohibited from minimum deposit prerequisites. With 60% of the cash supply outside the major banks, the rural banks, funds and credit organizations, and the semi-casual and casual framework assumes an especially essential part in Ghana's private segment advancement and destitution decrease techniques. Assets base of community and rural banks are almost 4% of the main stream banking systems, with savings and loans and credit unions, having 2% (World Bank, 1994). The term “Rural and Micro Finance Industry” is used to refer collectively to the full range of these institutions, they are different methodologies to reach different (albeit overlapping) clientele among farmers, rural householders, the poor, and micro enterprises, and hence different regulatory and supervisory instruments may be required.

Credit is a difficult activity in any setting, especially in the emerging economy, where a lawful/legal requirement is frail, where data about the applicant capacity and ability to pay is not promptly accessible and where a hefty portion of the forthcoming lenders are from a poor family unit/firms; a large portion of whom have at no other time acquired and can't vow insurance to ensure repayment (Gonzalez-Vega, 2003; Conning and Udry, 2007). Lending in Ghana is a direct compare of the predominant components in creating nations counted previously.

1.2 Problem Statement

According to Shekhar, 1985, credit plays an important role in the lives of many people and in almost all industries that involve monetary investment in some form. Credit is mainly granted by banks including to several other functions like mobilizing deposits, local and international transfers, and currency exchange service.

Hence, the issue of credit management has a profound implication both at the micro and macro level. When credit is allocated poorly it raises costs to successful borrowers, erodes the fund, and reduces banks flexibility in redirecting towards alternative activities. Moreover, the more the credit, the higher is the risk associated with it. The problem of loan default, which is resulted from poor credit management, reduces the lending capacity of a bank. It also denies new applicants' access to credit as the bank’s cash flow management problems augment in direct proportion to the increasing default problem. In other words, it may disturb the normal inflow and outflow of fund a bank has to keep staying in sustainable credit market.

Hence, credit evaluation decisions are important for the financial institutions involved due to the high level of risk associated with wrong decision. The process of making credit evaluation decision is complex and unstructured. This complex and unstructured decision making process of credit evaluation needs proper credit management by the concerned banks.

Research Objectives

The study has a general objective of examining the credit management practices of rural banks (A case study of Asokore Rural Bank) specifically; the study has the following objectives:

1. To assess the mechanism of granting loans at rural banks.
2. To investigate how the non-Supervision of borrowers influences the loan repayment financed by rural banks.
3. To establish how the diversion of loan funds by borrowers leads to default in loan repayment to rural banks.
4. To ascertain the problems encountered by rural banks in credit recovery.

1.3 Research Questions

1. What are the mechanisms of granting loans at rural banks?
2. How the non-Supervision of borrowers influences the loan repayment financed by rural banks
3. How the diversion of loan funds by borrowers does leads to default in loan repayment to rural banks?
4. What are the problems encountered by rural banks in credit recovery?

1.4 Scope of the Study

The study focused on Asokore Rural bank Ltd specifically five (5) of its branches (Asokore, Effiduasi, Oforikrom, Kwadaso and Oduom) geographically, the study was conducted in Ashanti region where the bank is located. Thirty (30) questionnaires were used for the study.

1.5 Relevance of the Study

The feedback on the study would be imperative for the banking industry, as they would have the capacity to build up the credit administration of rural banks and consequently comprehend their part in the achievement of desired financial development for the nation.

The study would likewise be of significance to different partners in the financial sector among them are bank's clients, they should know why the cost of borrowing have risen in recent time. Understanding the impact of credit on the Financials of loaners would help applicants make an efficient borrowing decision.

The study would help the central government to understand the credit administration of rural banks. The administration accomplices with banks to guarantee value, premium rates and conversion scale security and improve monetary advancement through the procurement of reasonable credit.

Furthermore the study would be profitable to the business community and researchers, as it would frame a premise for further research. Finally, this study would add to the pool of information on the credit administration in Ghana and along these lines add to scholarly reference materials.

1.7 Limitation of the study

This research is limited to the examination of the credit management practices of rural banks. Again, there are other limitations in the number of consumer and employee respondents. Obtaining data from the bank was a great challenge and the management in some few branches of the bank were not cooperative, luckily the researcher managed to obtain the data from the respondents.

The study confronts the difficulty of time assets constraining the gathering of data for the study especially where the respondents delay in filling the poll and going for accumulation of filled the questionnaires.

The study faces different restrictions. The respondents were observed to be uncooperative from the respondents due to the precious of the data needed for the study. The researcher conquer this by disclosing to the respondents that the data they gave was to be held classified and was just for academic reason only.

1.8 Organisation of Chapters

Chapter one: The structure of this piece of study has been organised to gain insights into the above purpose and thus includes five chapters, namely introduction, literature review, methodology, presentation of results, analysis and discussion and then finally conclusion and recommendation. A brief outline of each of them is given below:

Chapter two: The literature review provides the theoretical framework and reviews the literature on the subject matter that is examination of the credit management practices of rural banks.

Chapter three: looks at the methodological framework of the study. The chapter discusses the types and sources of data, sampling techniques, size and procedures for the collection of data. Furthermore the basis for the selection of the sample size is disclosed.

Chapter four: reveals the analysis and interpretation of the responses which were collected during the interviews. A wide range of sub-topics under this theme has been touched upon; some of the results are consistent with the literature review and some opposing.

Chapter five: talks of the findings of the study and draws conclusion. Answers to specific objectives of the study are discussed in this chapter and recommendation are made based on the findings of the and analysis of data, this section also denotes an extensive area appropriate for future study and finally divulge the managerial implication which would facilitate in a better management of the subject area.

Chapter Two

Literature Review

2.1 Introduction

This part contains review of writing as exhibited by different writers and researchers in light of the objectives of the study. The literature review gives a clarification of the hypothetical reason of the issue being mulled over and what study has as of now been done and how the discoveries identify with the current issue.

2.1.1 Definition of Credit Management

There are many definitions given for credit management by different scholars. Among these some are here cited as follows:

Credit administration is actualizing and keeping up an arrangement of strategies and methodology to minimize the measure of capital tied up in indebted individuals and to minimize the presentation of the business to terrible obligations. (http://www.smallbusiness.wa.gov.au/assets/SmallBusiness-Briefs/small-business-brief-credit-management.pdf).

Credit Management, from a debtor's point of view, is managing finances especially debts so as not to have a tail of creditors lurking behind your back. Credit management is a responsibility that both the debtor and the creditor should seriously take (http://www.selfgrowth.com/articles/Tabije3.html). When it functions efficiently, credit management serves as an excellent instrument for the business to remain financially stable.

2.1.2 Process of Credit Management

The process of credit administration starts by precisely evaluating the credit-value of the client base and his/her business feasibility. This is especially vital if the organization decides to expand some sort of credit line or spinning credit to specific clients. Consequently, fitting credit administration is setting particular criteria that a client must meet before accepting the proposed credit course of action. As a feature of the assessment procedure, credit administration likewise calls for deciding the aggregate credit line that will be stretched out to a given client.

A few components are utilized as a feature of the credit administration procedure to assess and qualify a client for the receipt of some type of business credit. This incorporates gathering information on the potential client's present monetary condition, including the present credit reputation that reveals the character of a client in meeting commitments and additionally insurance esteem. The present proportion in the middle of salary and exceptional money related commitments will likewise be contemplated.

Skilled credit administration looks to not just ensure the bank or any money related organization included from conceivable misfortunes, additionally shield the client from making more obligation commitments that can't be settled in an auspicious way.

At the point when the procedure of credit administration works proficiently, everybody included advantages from the exertion. The money related establishment, for example, banks has a sensible measure of certification that advances conceded to a customer will be paid back inside of terms, or that standard least installments will be gotten using a credit card record equalizations.

Clients have the chance to fabricate an in number affinity with the loan boss and along these lines make a strong credit reference (http://www.wisegeek.com/what-is-creditmanagement.htm).

2.1.3 Types of Credit

- There are four essential kind of credit. By seeing how every function, financial institution will have the capacity to get the most answer for their credit recuperation and abstain from paying superfluous charges.

- Service credit is regularly scheduled installments for utilities, for example, phone, gas, power, and water. You frequently need to pay a store, and you may pay a late charge if your installment is not on time.
- Loans: Loans can be for little or huge sums and for short or long stretches. Advances can be reimbursed in one irregularity entirety or in a few normal portion installments until the sum obtained and the account charges are ponied up all required funds. Additionally, advances can be secured or unsecured.
- Installment credit: is depicted as purchasing on time, financing through the store or the simple installment arrangement. The borrower takes the products home in return for a guarantee to pay later. Autos, real apparatuses, and furniture are regularly bought along these lines. You normally sign an agreement, make an initial installment, and consent to pay the equalization with a predefined number of equivalent installments called portions. The money charges are incorporated in the installments. The thing you buy may be utilized as security for the advance.
- Credit cards are issued by individual retail locations, banks, or organizations. Utilizing a MasterCard can be what might as well be called a sans interest credit - in the event that you fork over the required funds toward the end of eve (http://www.urbanext.illinois.edu/ww1/04-03.html).

2.1.4 Credit Policies and Procedures

A Credit Policy is not something that is only operated by the Credit and risk Department. All workers included with clients, in any capacity, should be mindful of the credit strategy and guarantee that it is worked reliably (http://www.bwaresolutions.com/).

Keeping in mind the end goal to be successful, credit strategies must be conveyed all through the association, executed through proper techniques, observed and intermittently overhauled to consider changing inward and outer circumstances.

They ought to be connected, where suitable, on a solidified bank premise and at the level of individual subsidiaries. Furthermore, the strategies ought to address just as the essential elements of evaluating.

Monetary conditions and the association's credit strategies are the boss impacts on the level of a company's record receivable. Monetary conditions, obviously, are to a great extent outside the ability to control of the money related chief. Similarly as with other current resources, be that as it may, the administrator can fluctuate the level of receivables in keeping with the tradeoff in the middle of benefit and danger. Settling for the easiest option may invigorate request, which, thusly, ought to prompt higher beneficial receivables, and in addition a more serious danger of awful obligation.

The credit and accumulation strategy of one firm are not free of those of different firms.

On the off chance that item and capital markets are sensibly focused, the credit and accumulation practices of one organization will be impacted by what different organizations are doing.

Such practice identified with the valuing of the item or administration and must be seen as a major aspect of the general aggressive procedure.

The examination of certain approach variables infers that the focused procedure is represented in the determination of the interest capacity and in the open door expense connected with tackling extra receivables. The approach variables incorporate the nature of the exchange records acknowledged; the length of the credit period, the money rebate, any uncommon terms, for example, occasional dating and the gathering project of the firm.

Together, these components to a great extent focus the normal accumulation period and the extent of awful obligation misfortunes (Horne, 1995: 361).

2.1.5 Credit Analysis

Credit investigation is the essential system in decreasing the credit hazard on a loan solicitation. This incorporates deciding the monetary quality of the borrowers, assessing the likelihood of default and decreasing the danger of non repayment to an adequate level. When all these are done, credit assessments are in view of the credit officer's subjective appraisal (or judgmental evaluation strategy).

When a client asks for a credit, bank officers examine all accessible data to figure out if the advance meets the bank's danger return targets. Credit investigation is basically default hazard examination, in which an advance officer endeavors to assess a borrower's capacity and eagerness to repay.

Correspondingly Compton (1985) recognized three unmistakable ranges of business danger examination identified with the accompanying inquiries:

1) What dangers are innate in the operations of the business?

2) What have been done or neglected to do in moderating those dangers?

3) How can a moneylender structure and control its own dangers in supplying trusts?

The main inquiry drives the credit examiner to produce a rundown of variables that show what could hurt a borrower's capacity to reimburse.

The second perceives that reimbursement is to a great extent an element of choices made by a borrower. Is administration mindful of the critical dangers, and has it reacted? As Tomothy (1995:665) cited, the last question drives the investigator to indicate how dangers can be controlled so the bank can structure to a satisfactory advance assention.

A bank's credit experts regularly utilize the five C's of credit to center their investigation on the key measurements of a candidate's financial soundness.

Lawrence (1997:776-777), recognized five C's of credit. They incorporate; Character, Capacity, Capital, Collateral, and Conditions.

1. Character: The candidate's record of meeting past commitments, money related, contractual, and moral. Past installment history and in addition any pending or determined legitimate judgments against the candidate would be utilized to assess its character.

2. Capacity: The candidate's capacity to repay the asked for credit. Money related articulation investigation, with specific accentuation on liquidity and obligation proportions, is normally used to survey the candidate's ability.

3. Capital: The money related quality of the candidate as reflected by its proprietorship position. Investigation of the candidate's obligation in respect to value and its productivity proportions are every now and again used to survey its capital.

4. Guarantee: The measure of benefits the candidate has accessible for utilization in securing the credit. The bigger the measure of accessible resources, the more prominent the chance that a firm will recuperate its trusts if the candidate defaults.

An audit of the candidate's financial records, resource esteem examinations, and any legitimate cases documented against the candidate's advantages can be utilized to assess its security.

5. Conditions: The current monetary and business atmosphere and any exceptional circumstances influencing either gathering to the credit exchange. For instance, if the firm has overabundance stock of the things the candidate wishes to buy using a loan, the firm may be willing to offer on more positive terms or to less trustworthy candidates.

Examination of the general financial and business conditions and also unique circumstances that may influence the candidate or firm is performed to evaluate conditions.

The credit expert normally gives essential consideration regarding the initial two C's-character and Capacity-on the grounds that they speak to the most fundamental prerequisites for stretching out credit to a candidate. Thought of the last three C's-Capital, Collateral, and Conditions-is essential in organizing the credit administration and settling on the last credit choice, which is influenced by the credit investigator's experience and judgment.

As indicated by Golden and Walker (1993), there are five Cs of terrible obligation; which speak to things to prepare for to help anticipate issues. They include: Complacency, Carelessness, Communication breakdown, Contingency, and Competition.

Lack of concern alludes to the propensity to accept that in light of the fact that things were great in the past they will be great later on. Normal cases are an over dependence on underwriters, reported total assets, or past credit reimbursement achievement in light of the fact that it's generally worked out previously.

Thoughtlessness includes poor endorsing, commonly confirm by deficient advance documentation, an absence of current monetary data or other appropriate data in the credit records, and an absence of defensive pledges in the advance assention. Each of these makes it hard to screen a borrower's advancement and distinguish issues before they are unmanageable.

Advance issues frequently emerge when a bank's credit goals and arrangements are not obviously conveyed. This is correspondence breakdown. Administration ought to expressive and uphold credit strategies, and advance officers ought to make administration mindful of particular issues with the current advances when they show up.

A possibility alludes to banks' propensity to play down or overlook circumstances in which an advance may in default.

Rivalry includes taking after contenders' conduct as opposed to keeping up the bank's own credit principles.

2.2 Attributes of Good Lending

A lender can recover the amount of loan giving out to the borrower provided these guidelines are adhered to:

Liquidity: Is ability of the borrower to meet repayments when they fall due. This is done through monthly repayment of interest and principal by the borrower. When the amount is paid, it boost the income and cash situation of the lender in every month, hence lender must evaluate thoroughly the financial strength of the borrower before the loan is granted to avoid default rate.

Profitability: Profitability is measured in terms of the income generated by the advance in terms of interest and fees.

Safety: The lender needs to ensure that funds lent are safe and that the lender's own financial position is sound. It can be understood in different context that the borrower has the legal capacity to borrow, and to provide security as well.

2.2.1 Impact of lending on rural banks

Rural and community banks are to maintain a primary reserve of 8% and 5% at ARB Apex Bank, 30% as secondary reserves in any risk free Government securities. The sum of all the reserves for Rural and Community banks must keep will be 43% leaving 57% for other investment. It is out of this amount that the Rural Banks lend to their various customers to aids them to generate income in the form of interest and fees. Commitment fees are received in addition and early redemption also protects them against unanticipated loan closures. The banks are able to reduce risk by requiring the borrower to take out insurance. (BOG, 2014)

Furthermore, the banks get interest on full amount of the outstanding loan and they are not faced with situation in which an agreed credit facility is unutilized or underutilized. A fixed amount of money can also be lent for a definite period which enables the sector to predict earning at a particular point in time. Since most loans are secured on fixed charges on the asset being financed, they are able to charge competitive rate of interest making them very vibrant in the industry.

However, the financial institutions faced a risk that the borrowers fail to make repayments in accordance with the agreed contract or breach any of the covenants which go a long way to affect their performance. The asset secured as collateral may not realize an amount that can be used to offset the loan balance owed by the borrower.

2.2.2 Loan classification and provisioning

The portfolio of credit and risk assessment must be monitored by all licensed financial institutions at least every quarter on a regular basis. Assets are classified into five grade of risk. They are current, olem, substandard, doubtful and loss. The aggregate of substandard, doubtful and loss are called non-performing loans or high risk. Loans can be classified as current or delinquent. A loan is said to be delinquent when both the interest and principal have not been received as of due date.

The Rural banks normally consider the ability and willingness of the borrower to honour the obligation on the due date before they grant the loans. They also require collateral from the borrowers in the form of guarantee or lien up to 30% of the amount requested for in order to mitigate any future loss in an event the borrower could not pay the loan.

A general loss provision of 1% is required to be made by the rural banks according to BOG requirement for aggregate current loan outstanding. They are also expected to disclose separately, in their reports and financial accounts, the general and specific loss provisions made for delinquent and current loan assets.(BOG, 2014)

CATEGORIES	NO OF DAYS DELIQUENCY	PROVISIONING RATE
a. Current	up to 30 days	1%
b. Olem	30-90 days	10%
c. Substandard	90-180 days	25%

d.	Doubtful	180-360 days	50%
e.	Loss	360 days and above	100%

2.2.3 Assessment of Loan Portfolio Quality

Loan portfolio quality can be assessed using the parameters below:

1. **Loss Category to Total Non-Performing Loan Ratio**

   This determines the loss component in the entire non-performing loan portfolio and provides further test of worse character of the portfolio. An increasing trend is unacceptable since this indicates persistent deterioration in the loan portfolio quality.

2. **Overdue Loan Ratio**

   This measures the proportion of overdue loans in the gross loan portfolio outstanding. A declining ratio is desirable but this should not emanate from new credit facilities granted. A healthy situation should be from recoveries of overdue loan outstanding.

3. **Non –Performing Loan Ratio**

   The non-performing loans are the aggregate of substandard, doubtful and loss categories which pose high difficulty for recovery. The ratio is also referred to as high risk and is derived by relating the component to total loan portfolio. An increasing trend shows development of a hardcore portfolio, arising from weakness in the credit management process.

   An increasing trend exhibited by the loan portfolio quality depicts an unfavourable development, which requires the institution of far reaching measures to strengthen credit management. These may include taking credit decision based on objective appraisal report, attesting to good track record of the customer, effective monitoring of utilization of funds to forestall any diversion, supervision to ascertain state of activities being financed and institution recovery schedules.

2.2.4 The lending cycle

Lending comprises a succession of or a recurring of or a recurring series of events. Lending in Asokore Rural bank Ltd consist of three cycles, among them are credit granting process, credit monitoring process and credit recovery process. (BOG, 2012)

Credit granting process

The credit granting process begins with submission of application forms. Application forms are carefully drawn up with the assistants of solicitors in order to comply with legal and regulatory requirements. The prospective borrower is required to submit an application for credit facilities on a prescribed form. The format for the application forms differ depending on the nature of the credit facility sought and can be obtained from all the branches of the bank. The applicant has to complete the various relevant sections of the form before submission.

Evaluation of the loan is the next item considered after the forms have been submitted. Lenders use this stage to evaluate the credit worthiness of the applicant in order to make relevant decision with respect to granting the facility. The bank should dependably go for surveying the degree of risk connected with the giving and attempt to diminish components that can upset repayment. The moneylenders ought to go along these lines to gather all the important data that will help in landing at sound credit choice. Because of high default rate by the borrowers, the country banks have embraced a standard advance solicitation strategy which contained in credit approach manual to guide advance officers and clients. The criteria or canons of lending which rural banks consider before granting loans include the following.

1. The primary security is the character of the borrower which comprises integrity, history and background.
2. Ability of the prospective borrower to manage the business and technical competence to handle the affair.
3. Margin (the percentage of loan to value, profit potential, interest margin and other commission and fess.
4. The purpose for which the finance is required.
5. Adequacy of amount of loan required
6. Repayment (source from which and period over which loan will be repaid must be credible)
7. Insurance (security offered by the customer)

These criteria are expressed in the form of mnemonics (CAMPARI) which individuals and incorporated organizations that apply loans from Asokore rural bank must go through prior to obtaining approval.

2.2.5 Credit monitoring process

Lending is an activity that caries risk, but appropriate follow up action can minimize credit losses. Checking and control of credit exercises are key, especially in light of the fact that banks are liable to the issue of moral risk (Carlettie ettal 2007). Loan specialists need to screen credit applicants keeping in mind the end goal to:

1. Assess the general condition and proceeded with productivity of the advance portfolio

2. Confirm data gave by the client about wage and active

3. Ensure that legitimate and administrative necessities are met

4. Set aside provision for credit

5. Ensure that documentation and charges over insurance security are adequate.

6. Detect unfriendly patterns and potential issue advances as ahead of schedule as would be prudent

7. Become mindful of the forward circumstance to guarantee that the borrower is credit commendable and that getting stays inside of the ability to repay.

2.3 Empirical Review

The 2013 Ghana Banking Survey indicates that many commercial and rural banks in Ghana are encountering massive bad loans (lending). The situation is considered serious because the country's major banks such as Ghana Commercial Bank, Ecobank (Ghana) Limited, Stanbic Bank (Ghana) Limited and Standard Chartered Bank (Ghana) Limited are facing the same problem. The report does not reveal the exact repercussions of the situation; but based on other evidences, it is certain that bad loans appeal the financial condition of banks.

At large, the main effect of lending to banks is the fact that increasing bad loans limit the financial growth of banks (Karim, Chan & Hassan, 2010; Kuo et al., 2010). This outcome is as a consequence of the way that awful credit deny banks of the required liquidity and point of confinement their abilities to support other possibly practical organizations and make credit offices accessible to people. Karim et al. (2010) contends that there are a great deal of other reasonable organizations that the bank can't investigate as a consequence of the way that its trusts are gotten up to speed in awful credits. Even with these outcomes, the bank encounters a deficiency in producing incomes (Ghana Banking Survey, 2013), and this deciphers into lessened money related execution (Karim et al., 2010; Nawaz et al. 2012; Ghana Banking Survey, 2013).

Another basic effect of bad loans on the bank is a reduction in the bank's lending potential (Karim et al., 2010). Though this has been acknowledged earlier, it is important to discuss it as a primary independent effect. The Banks make a greater part of their revenues and profit from lending activities (Karim et al., 2010; Nguta & Huka, 2013). As a result, when banks lose much of their lending capital to bad loans, it is likely that a greater part of their revenue is lost.

Once revenue is lost in one financial year, the capability of the bank to provide access to credit facilities to other businesses and individuals would practically fall in the following financial years. This means that the bank would fail to lend, or it would reduce its amount allocated to lending in the next financial year. In this study, the amount located to lending is referred to as annual “loan size”.

Research studies have shown that the effect of bad loans on the bank in terms of net financial performance (i.e. Return on investment/net profit) and lending potential (i.e. annual loan size) is practical and realistic. These studies would be identified from the perspectives of foreign countries and Ghana. The studies of Karim et al. (2010), Obamuyi, (2007), Nguta & Huka, (2013), Nawaz et al., (2012), Fidrmuc & Hainz (2009), Chelagat (2012) and Aballey (2009) provide such evidence in a foreign country context. Apart from the report in Ghana Banking Survey (2013), a few other studies (Appiah, 2011; Awunyo-Vitor, 2012) have shown that bad loans negatively influence banks in terms of financial performance and lending potential in Ghana.

Despite the above research-related evidences on the credit management on banks, it is realised that the general contribution to academic debate on the subject is weak. This is because studies on the subject are generally few, and most of them provided their evidences based on meta-analysis and literature reviews. The same gap is identified with studies conducted in a Ghanaian context. However, a lack of related studies in a Ghanaian context is direr. The special interest of the researcher in this study is to provide related evidence using primary, secondary data and empirical analysis, which provides a more valid and verifiable estimation of the credit manadement on the financial performance of banks. This study is however limited to rural bank lending in Ghana because much of the lending activities falls under this sector.

Felicia (2011) used regression analysis to investigate the determinants of commercial banks lending behaviour in Nigeria. The study discovered that commercial banks deposits have the greatest impacts on their lending behaviour.

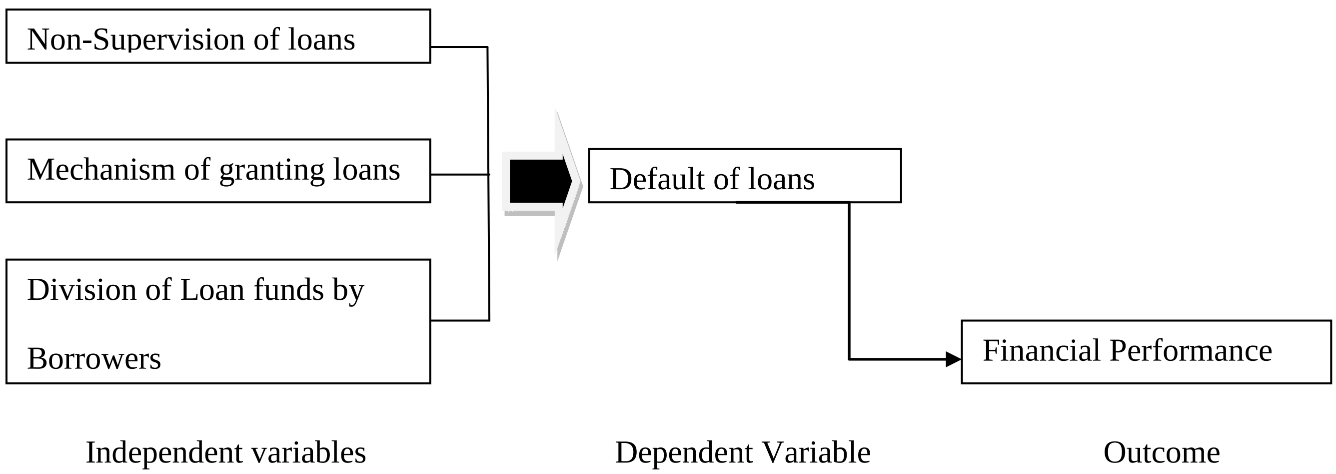
Khat and Bathia (1993) used non-parametric method in his study of the relationship between interest rates and other macro-economic variables, including savings and investment. In his study he grouped (64) Sixty-Four developing countries including Nigeria and Ghana into three bases on the level of their real interest rate. He then computed economic rate among which were gross savings, income and investment for countries. Applying the Mann - Whitny test, he found that the impact of real interest was not significant for the three groups.

2.4 Conceptual Framework

The diagrammatic representation of applied structure indicates how the variables are connected.

Non – Supervision of borrowers, Mechanism of granting loans, Division of Loan funds by borrowers.

Figure 2.1 Conceptual Framework



2.5 Chirwa’s Theoretical Framework for the study

Chirwa (1997), indicated an integrity model to evaluate the determinants of the likelihood of credit reimbursement among smallholders in Malawi. The model takes into consideration examination of borrowers as being defaulters or non-defaulters. Different determinations of the X-vector were investigated by step-wise end. The informative force of the model is conceivable with the log probability factually critical at 1-percent. Four free variables – sex, measure of credit, club experience and family unit size were not measurably critical in different determination.

The theory is significant to this study in that the credit repayment by the borrower is reliant on different viewpoints, for example, the provincial banks observing money related and business execution of the borrower, the condition of the nation's economy and preoccupation of the advance stores by the borrowers to different purposes not settled upon.

2.6 Repayment recurrence and default in rural banks

The average repayment timetable offered by a RCB comprises of week by week reimbursement beginning one to two weeks after advance dispensing. Week by week gathering of reimbursement portions by bank staff is one of the key elements of small scale fund that is accepted to lessen default hazard without insurance and make giving to the poor feasible - Vogelgesang (2003). Furthermore, visit gatherings with a credit officer may enhance customer trust in advance officers and their eagerness to remain focused with reimbursements.

2.7 Rural territory credit procurement Challenges

The literature review presents a complete rundown of difficulties influencing country rural finance establishments furthermore offer fascinating and creative thoughts to address them. A few difficulties confronted by country establishments are like those confronting any microfinance association while others are particular to rural organizations offering loans for ranch based exercises.

A few variables remarkable to rural and horticultural markets that oblige both the supply and interest for account in those zones incorporate;

1. High exchange costs for both borrowers and banks

2. High dangers confronted by potential borrowers and investors because of the variability of earnings, exogenous financial stuns and restricted apparatuses to oversee hazard

3. Regularity – overwhelming focus on farming and horticulture related exercises uncovered customers and foundations to various dangers

4. Absence of solid data about borrowers and absence of business data and/or business access

5. Frail institutional limit – including poor administration and working framework.

2.8 Theory of Borrower Dependant on Banks

The perspective that a few borrowers are subject to banks for financing stems from monetary models of lopsided data that help clarify credit market flaws. The focal thought is that the expenses of acquiring data around an association's condition, and in addition chapter 11 expenses, are differentially more noteworthy for littler firms (Diamond, 1984; Fama, 1985; and so forth.). Accordingly, little firms think that its more troublesome and all the more excessive to get credit. Furthermore, an uncommon element of banks is that they may have a near favorable position over different middle people in data handling and checking that empowers banks to loan to littler firms at lower expense (Thakor, 1995; Swank, 1996; and Neuberger, 1998).

These theories give a justification to watched contrasts in expansive and little firm financing. As a rule, bigger firms have a more prominent exhibit of financing alternatives; including value, long haul obligation, and transient obligation, notwithstanding bank credits and inner income. Interestingly, littler firms seem to have a great deal less access to capital markets and depend more on bank loans, exchange credit, and internal for financing (Mash, 1982; and Abor, 2004). This implies that the more prominent reliance of littler firms on bank financing, thusly, proposes they may be more power less than bigger firms to interruptions in credit accessibility. Various studies have given confirmation that these credit market flaws may clarify contrasts in conduct of little and substantial firms amid times of tight credit. For instance, little firms seem to represent a bigger offer of the decrease in assembling action and lessened stock request that takes after a money related fixing (Gertler and Gilchrist, 1994). Additionally, little firms seem to have less access to bank and non-bank outside fund in times of financial fixing (Oliner and Rudebusch, 1994). This conduct is reliable with the perspective that confinements in the accessibility of bank credit could have macroeconomic outcomes by influencing the venture and spending choices of bank-ward borrowers.

2.9 Bank portfolio behavior

One way to deal with distinguishing a bank loaning channel is to perceive how banks change their advantages and liabilities amid times of money related restriction. In like manner, various studies have inspected how banks modify advances, securities, and store and non-store liabilities for changes in money related arrangement. A few adapted truths about bank portfolio conduct have risen up out of this line of exploration (Bernanke and Blinder, 1992; Romer and Romer, 1990). As a matter of first importance, because of a fixing of arrangement, bank exchanges stores or center stores fall instantly, then aggregate bank advances decrease, yet when a noteworthy slack of a few quarters. In this manner, banks have the capacity to keep up loaning even with a decrease in center stores by offering securities and issuing oversaw liabilities, for example, time stores and Eurodollar borrowings. At last, the possible decrease in bank giving is generally contemporaneous with a decrease in financial action as measured by modern creation.

Taken all in all, these outcomes don't resolve the verbal confrontation over the presence of a credit channel. While some confirmation bank monetary execution loaning decays when approach is fixed (giving rate builds), the time slacks show up long. In addition, the contemporaneous decrease in credits and yield is reliable with a diminishment in loaning as it causes the yield to fall. As indicated by Morris and Sellen (1995) this is similarly reliable with a decrease in yield creating a fall in advance interest.

An extra issue with a significant number of these studies is that they utilize aggregate bank credits, which incorporate buyer and land giving, instead of business advances. In light of the dialog of credit business blemishes, business loaning would seem, by all accounts, to be the more suitable measure in testing for a credit channel. To be sure, given the substantial number of non bank credit hotspots for customer and land giving and the broad securitization of these advances, it is hard to trust the instructive issues that make little organizations reliant on bank credit apply to different sorts of giving (Morris and Sellen, 1995).

Concentrating on business loaning still does not so much resolve the open deliberation. Gertler and Gilchrist (1993) led a study that particularly took a gander at how bank business loaning reacts to approach fixing. Their study uncovers that business giving does not decay when approach is fixed.

They presumed that the whole decrease altogether giving originates from a lessening in customer and land advances. In addition, they included, when the examination is contracted further to advances to assembling firms, bank loaning really demonstrates a noteworthy increment because of more tightly strategy. Undoubtedly, for assembling firms, the vast majority of the expanded giving seems to go to extensive firms; while advances to little assembling firms are to a great extent unaffected by strategy fixing. Subsequently, there is little proof banks really lessen loaning to little firms when financial arrangement is fixed.

Rather than Gertler and Gilchrist (1993) study, Kashyap and Stein (1995) discover proof that business giving may react to a fixing of money related arrangement and so far as that is concerned influences the bank's budgetary execution. They look at the giving conduct of little and substantial banks, as opposed to credits got by little and expansive firms. They find that when strategy is fixed, both aggregate advances and business advances at littler banks fall, while credits everywhere banks are unaffected. The differential reaction of little banks may demonstrate they have less access to option subsidizing sources than extensive banks as are less ready to evade the loss of center stores when strategy is fixed. Since little banks loan essentially to littler firms, their finding is steady with the perspective that money related approach may work, to some degree, through a credit channel. A different line of exploration predictable with Kashyap and Stein looks at the conduct of business advances not made under terms of an advance responsibility (Sofianos et al., 1990; and Morgan, 1992). These advances would seem, by all accounts, to be most defenseless against fiscal fixing. Their study uncovers that uncommitted credits fall in times of money related fixing, while advances made under the terms of a current duty are unaffected. Hence, prohibitive approach may work essentially by decreasing the accessibility of bank credit to business borrowers without an advance duty.

2.9.1 Terms of bank lending

Given these clashing results, most researchers concur that examinations of total bank financial reports should be supplemented with more point by point data on bank loaning conduct. One restriction of asset report information is that they contain no data on the rates banks charge on new advances or on different terms of credit contracts. What's more, the estimation of credits on banks" accounting reports may change for a mixture of reasons having little to do with financial arrangement. Case in point, while advances on asset reports could decrease as an outcome of prohibitive money related strategy, they could likewise fall as an aftereffect of expansions in nonperforming credits or in light of the fact that banks offer advances to other monetary foundations.

Data on the terms of bank giving may additionally be valuable in recognizing the "giving perspective" and the "credit proportioning" clarifications of a bank credit channel. For this situation, Kashyap and Stein (1995) note that the giving perspectives is an announcement about the relative extent of movements in the interest for and supply of advances when arrangement is fixed. As per the giving view, the volume of new credits ought to decay and advance rates ought to rise with respect to market rates when strategy is fixed. This conduct they included would demonstrate advance supply moves are generally bigger than advance interest movements. Conversely, most speculations of credit proportioning recommend that, while the volume of new advances ought to decrease when strategy is fixed, bank advance rates ought to really increment not as much as business sector rates.

Late studies on bank giving utilizing overview information on the terms of giving have discovered little proof for either credit proportioning or the loaning perspective. Berger and Udell (1992) discover small supporting proof. While they do locate a key component of apportioning, a lazy reaction of bank advance rates to market rates, different qualities of proportioning are not present. Specifically, they noticed that intrigue rates on credits made under duty are as languid as rates on uncommitted advances. While Berger and Udell (1992) don't specifically inspect the giving view, the stickiness of bank credit rates found in their study recommends banks don't lessen the supply of new advances when fiscal approach is fixed.

2.9.2 Reasons for High Lending Rates

When interest rates are high there is typically concern that certain sectors of the economy bear a disproportionate share of the effects of high interest rates. Regardless of this fact a certain school of thought believe that interest rate must go high. Below are some of the reasons why.

2.9.3 The impact of inflation on interest rates

Since inflation diminishes the buying influence of cash, expansion and the desire that it will proceed with reasons moneylenders to request higher premium rates on loans. This is on the grounds that banks need to be adjusted, not just for giving up the utilization of their cash and accepting a danger in giving, additionally for the normal decrease in the obtaining influence of their cash amid the life of the credit. Furthermore, there is a propensity for borrowers, likewise expecting the estimation of the cash to decay before they reimburse the credit, to be willing to pay higher rates to obtain cash. The eagerness to pay higher rates to get is fortified if the borrower utilizes the cash to purchase something that is adept to increment in worth with the expansion, (for example, a house). In this manner, expansion and inflationary desires can squeeze interest rates upward. In view of the effect of expansion \on premium rates, financial analysts recognize the business interest rate and the genuine interest rate. Fisherian Hypothesis affirms that, if the normal genuine rate is steady and in this way 10.

Independent of expected inflation, each percentage point rise in the nominal rate of interest. This hypothesis is $i = r + \beta$

i – Denote the nominal interest rate

r –denote the real interest rate

β – Is a constant of 1? - denote the inflation rate

2.10 Risks of investment

There is dependably a risk that the borrower will go bankrupt, steal away, bite the dust, or generally default on the credit. This implies that a moneylender by and large charges a danger premium to guarantee that, over his ventures, he is adjusted for those that come up short. Franco Fiordelisi , David Marques-IbanezAnd Phil Molyneux (2010)Efficiency And Risk In European Banking

2.13 Key players

Key players in the business incorporate banks and supporting originations. The working institutions incorporate both foreign and local commercial banks, Rural and Community Banks (RCBs), Savings and Loans Companies (SLCs) and other finance and leasing organizations. The quantity of organizations existing in the different classifications toward the end of April 2008 was as per the following (GIPC, 2009):

Table 2.1 Key Players

Organization	**Number**
Banks	28
Rural and Community Banks	129
Non-Bank Financial Institutions	44
Forex Bureau	273
Insurance Companies	17
Reinsurance Companies	2
Insurance Brokers	35
GSE Listed Companies	35
GSE Licensed Stockbrokers	16

2.13.1 Banks

The banks currently operating in Ghana are; Access Bank, Energy Bank, Sahel-Sahara Bank (BSIC), Standard Chartered Bank Ghana Limited; Ghana Commercial Bank Limited; SG-SSB Limited; Ecobank Ghana Limited; UT Bank, International Commercial Bank Limited; UniBank Ghana Ltd; National Investment Bank Ltd; Agricultural Development Bank Limited; Prudential Bank Ltd; Universal Merchant Bank (Ghana) Limited; CAL Bank Limited; HFC Bank Ltd; United Bank for Africa (Ghana) Ltd.; Stanbic Bank Ghana Ltd; Bank of Baroda (Ghana) Limited; Zenith Bank (Ghana) Limited; Guaranty Trust Bank (Ghana) Limited; Fidelity Bank; First Atlantic Merchant Bank Ltd; Bank Of Africa (Ghana); Barclays Bank of Ghana Ltd.; The Royal Bank Ltd.; First Capital Plus Bank Ltd.; ARB Apex Bank; Citibank N.A. Ghana Rep. Office; Ghana International Bank PLC.

2.13.2 Supporting Institutions

The following are the supporting institutions;

Bank of Ghana; Securities and Exchange Commission; ARB Apex Rural Bank; National Insurance Commission; Association of Rural Banks; Ghana Cooperative Credit Unions Association; the Ghana Microfinance Institutions Network.

2.14 Credit Risk

"Would you lend your money to this?" This hoary question has been asked by loan providers, investors, and credit analysts all over the world as an assessment of the commitment of the one (Ganguin, 2004). Each business face credit risk as it exists at whatever point installment or execution of a contractual understanding by another element is normal, and it is the probability of a misfortune emerging from default or disappointment of another substance. Credit risk is defined as the "potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms" (BIS 1999; Reto 2003; Banks 2004).

In particular, financial institutions generally have considerable credit exposure due to their prominence on lending and trading (Horcher, 2005), and the international interbank market is not an exception. According to Aikman (2008), interbank markets are subject to types of risk, i.e. borrower default and market risk, which will be discussed in details below (Aikman (2008).

According to Anson et al. (2004) credit risk is specified as three types of risk, i.e. default, downgrade and credit risk (Anson et al. (2004).

2.15 Default Risk

Horcher (2005) asserted that, generally, credit risk is related to lending, investing, and credit disbursement exercises and concerns the arrival of borrowed cash. On the other hand, an incredible wellspring of credit risk in money related markets emerges from the execution of counterparties in contractual understandings e.g. given a monetary commitment, which is not completely released, either because of the counterparty handicap to satisfy his or her commitments which may bring about a misfortune. In the writing, these credit dangers are alluded to as counterparty dangers since they emerge from exchanges with counterparties (Horcher, 2005). Yet, as per Anson et al. (2004) counterparty danger is characterized as default danger, where the issues of a bond or the borrower on an advance would not replay the extraordinary obligation in full. Default danger can be finished given that no measure of the bond or credit would be reimbursed or incomplete, given that some piece of the first obligation would be recouped (Anson et al. 2004). The probability of the default happening is perceived as the likelihood of default. The probability of a recuperation relies on upon a few components and additionally the lawful status of the lender, henceforth if an establishment comes up short because of huge exceptional commitments or misfortunes, later accumulations may be troublesome or incomprehensible (Horcher, 2005).

2.16 History about Banking and credit in Ghana

Ghana has an extremely created financial service framework system that was used comprehensively by past governments to back tries to add to the local economy. By the late 1980s, the banks had encountered noteworthy setbacks different dreadful advances in their portfolios. In like manner, cedi weakening had raised the banks' outside liabilities. Remembering the deciding objective to strengthen the dealing with a record portion, the lawmaking body in 1988 began broad changes. In particular, the altered saving money law of August 1989 obliged banks to keep up a base capital base practically identical to 6 percent of net assets adjusted for risk and to set up uniform accounting and assessing measures. The law in like manner familiar purposes of repression on threat presentation with single borrowers and ranges. These measures invigorated national bank supervision, improved the managerial framework, and logically upgraded resource get together and credit assignment.

Distinctive attempts were made to encourage the totaled weight of horrible advances on the banks in the late 1980s. In 1989 the Bank of Ghana issued between time promissory notes to supplant non-performing credits and other government-guaranteed responsibilities to state-asserted endeavors as of the end of 1988 and on private-portion propels in 1989. The later was then supplanted by eagerness bearing bonds from the Bank of Ghana or were offset commitments to the bank. Satisfactorily, the lawmaking body wandered in and repaid the credits. By late 1989, an estimate of ¢62 billion non-performing assets had been adjusted or supplanted by national bank bonds totaling about ¢47 billion.

In the mid 1990s, the keeping cash structure fused the national bank (the Bank of Ghana), three tremendous business banks (Ghana Commercial Bank, Barclays Bank of Ghana, and Standard Chartered Bank of Ghana), and seven discretionary banks. Three merchant banks had some aptitude in corporate trust, consultative organizations, and money and capital business works out: Merchant Bank, Ecobank Ghana, and Continental Acceptances; the late two were both developed in 1990.

These and the business banks put transient stores with two refund houses set up to enhance the progression of Ghana's nearby cash business: Consolidated Discount House and Securities Discount House, set up in November 1987 and June 1991, independently. At the base of the level were 100 common banks, which spoke to only 5 percent of the sparing cash structure's total assets.

Prior to the end of 1990, banks had the limit meet the new capital adequacy requirements. In addition, the organization reported the establishment of the First Finance Company in 1991 to help disturb however conceivably plausible associations to recapitalize. The association was developed as a part of the fiscal section change program in light of requesting for more straightforward access to credit for associations hit by ERP approaches. The association was a joint try between the Bank of Ghana and the Social Security and National Insurance Trust.

Notwithstanding offering a rate of the most hoisted advancing rates in West Africa, Ghana's banks took pleasure in extended business in the mid 1990s because of high store rates. The Bank of Ghana brought its rediscount rate up in stages to around 35 percent by mid-1991, driving, money business part and business bank premium rates well over the rate of swelling, in this way making authentic premium rates liberally positive. As swelling decelerated as the year progressed, the rediscount rate was acquired stages down to 20 percent, chopping advancing rates down as requirements be.

Meanwhile, more money moved into the sparing cash structure in 1991 than in 1990; time and speculation trusts stores created by 45 percent to ¢94.6 billion and premium stores rose to ¢118.7 billion. Advances moreover rose, with banks' cases on the private territory up by 24.1 percent, to ¢117.4 billion. Banks' cases on the central government continued contracting in 1991, tumbling to an irrelevant ¢860 million from ¢2.95 billion in 1990, an impression of continued with spending arrangement surpluses. Claims on nonfinancial open endeavors rose by 12.6 percent to ¢27.1 billion.

Remote records, which were hardened not long after the PNDC came to power, have been permitted resulting to mid-1985, in a move to assemble neighborhood supplies of outside exchange. Remote money records may be held in any of seven affirmed banks, with premium rejected from Ghanaian accuse and of trades abroad free from outside exchange control imprisonments. Outside exchange benefit from tolls, regardless, are especially stayed away from these courses of action.

The Ghana Stock Exchange began operations in November 1990, with twelve associations thought to be the best performers in the country. Regardless of the way that there were stringent minimum hypothesis criteria for enlistment on the exchange, the assembly assumed that share proprietorship would engage the course of action of new associations and would extend subsidizes and wander. Following one and just month in operation, regardless, the exchange lost a foremost French branch, which diminished the starting business capitalization to about US$92.5 million.

Prior to the end of 1990, the aggregate effect of worth and volume improvements had achieved a further 10.8 percent lessen in business segment capitalization. Trading constantly extended, on the other hand, and by mid July 1992, 2.8 million shares were being traded with an estimation of ¢233 million, up from 1.7 million shares with an estimation of ¢145 million in November 1991. The business division continued being small, posting only thirteen associations, more than half in retailing and mixing. In June 1993, Accra emptied exchange control repressions and offered approval to non-occupant Ghanaians and pariahs to place assets into the exchange without previous recommendation from the Bank of Ghana. In April 1994, the exchange got an amazing backing after the organization sold bit of its property in Ashanti Goldfields Corporation. (BOG, 1994)

2.17 The Need for the Rural Credit

The 1992 Constitution of the Republic of Ghana makes a commitment to rural development as part of a national strategy to improve the living conditions in rural areas. In an effort to mitigate the government agency coordination problems, the constitution incorporates a decentralization approach under which the national government establishes political and administrative Regions and Districts. The decentralization follows a fused hierarchy model, with close ties between the center and periphery. Each of Ghana's 110 Districts is governed by a District Assembly, which is partly elected (75%) and partly appointed (25%). Ghana's District Assembly system requires government appointees and elected representatives to plan district activities together. Local participation for rural development is fostered. There is anecdotal evidence that the efforts of the District Assemblies are making improvements in the lives of the rural people. The primary areas of development have included the rehabilitation and building of new schools, feeder roads, places of convenience (public toilets), market places, health centers, and water treatment facilities. Despite the District Assembly governments' successes, the national government has recognized a need for rural credit. Access to rural credit increases the participation of rural people in development activities. A rural credit policy that mobilizes rural resources and redistributes them to the rural sectors creates the potential for more development. Traditionally, rural development credit has been provided by two types of sources: institutional and non-institutional. In rural communities, non-institutional credit is provided by moneylenders, relatives, friends, traders, commission agents, cooperatives, consumers, distributors of farm inputs, and processors of agricultural products. Research has shown that the most common providers of loans in rural areas are friends and relatives who usually charge no interest or collateral (FAO 1994). This credit market is small, however, and the total credit from these non-institutional sources is insufficient to implement rural development programs. For rural development to proceed at a smooth pace, larger institutional sources of credit need to be created. In Ghana, institutional sources of credit are the commercial banks, the Agricultural Development Bank, the National Investment Banks, and the Bank of Ghana, Rural Banks. Until recently very few rural people, other than wealthy farmers and businessmen, had access to credit from these sources. The lack of interest in small rural credits by the National Investment Bank and the commercial banks is explained by the high cost of administering a large number of small credits spread over a wide area, coupled with the comparatively high level of default that has often accompanied small credits. The inability of rural borrowers to offer adequate security for loans, and the enormous risks associated with agricultural production, are the typical reasons given for the urban-based bias of commercial lending. The Agricultural Development Bank was created to service the rural sector in particular. It too, however, eventually began to concentrate on traditional urban-based banking activities. To overcome many of these difficulties, the Ghanaian government, through the Bank of Ghana, introduced the idea of rural banking into the country in 1976. According to the Association of Rural Banks (1992), "The aims of Rural Banks are:

i. To stimulate banking habits among rural dwellers;

ii. To mobilize resources locked up in the rural areas into the banking systems to facilitate development.

iii. To identify viable industries in their respective catchments [areas] for investment and development."

CHAPTER THREE:

METHODOLOGY AND ORGANIZATIONAL PROFILE

3.1 Introduction

To be able to effectively decide on a suitable research method for this project, consideration was given to variety of research methodology, data capture and data analysis technique. This chapter seeks to explain the rationale for the chosen research method as well as outline sampling technique and data collection tools employed.

3.2 Research Design

The study utilized descriptive research design as unmistakable examination outline aides depict the situation as it is at present. A descriptive study endeavors to portray or characterize a subject, frequently by making a profile of a gathering of issues, individuals, or occasions, through the accumulation of information and arrangement of the frequencies on exploration variables or their cooperation as demonstrated by Cooper and Schindler (2003).

Descriptive research is more unbending than an exploratory research and tries to depict uses of an item, focus the extent of the populace that uses an item, or anticipate future interest for an item. Kombo and Tromp (2006) notes that the decision of descriptive survey is made in a study when the exploration is intrigued on the situation effectively existing in the field and no variable would be controlled.

These portrayals of descriptive research coordinated the motivation behind this study, as the expectation of this study was to examine the credit management practices of rural banks.

3.3 Target Population

The population of enthusiasm of this study was the staff of Asokore rural bank Ltd. The study was conducted in five branches. The target populations are the head of credit section, credit officers, branch managers, micro finance officers and operations managers.

3.4 Sampling Techniques

Purposive sampling was utilized to choose respondents for the study; the study had 30 respondents who were utilized as part of information gathering. The objective specimen size was chosen since they are the primary drivers of credit strategies and practices in rural banks.

Table 3.1: Population of the Study

Section /unit	Population	Sample size
Credit	40	22
Branch managers	8	6
Operations managers	2	2
Total	50	30

Source: Field work (2015)

3.5 Sample size

The specimen was drawn from the five branches of Asokore rural bank Ltd. utilizing purposive sampling. The choice for a purposive sampling to choose the respondents was a result of the way that they are included in plan of credit strategies in the bank and hence the credit behavior of the bank is much dependent on these departments.

3.6 Data Collection Methods and Procedures

3.6.1 Type and Sources of Data

Data are the basic input to any decision-making process in business. Data processing therefore gives statistics of importance of the study. Data can be classified into primary data and secondary data.

3.6.2 Data Collection Instruments

For the purpose of this study, both primary and secondary data were adopted. Interviews and questionnaires are used to collect primary data. Unstructured interview is prepared and administered to the staff working in the loan area and branch managers and operation managers of the Bank. This helped to address the research questions more specifically or to concentrate more on the topic itself.

Interview is undertaken by the researcher himself in order to effectively gather pertinent information to the study. Secondary data is collected from clients' files, reports, directives, manuals, annual financial report and bulletins of the bank by the researcher.

3.6.3 Validity of Research Instrument

As indicated by Fraenkel and Wallen (2000) validity is the quality ascribed to recommendation or measures to the extent to which they fit in with set up learning or truth. A disposition scale is viewed as substantial, to the extent to which its outcomes adjust to different measures of ownership of the state of mind. Legitimacy in this manner alludes to the degree to which an instrument can quantify what it should gauge. It along these lines alludes to the degree to which an instrument solicits the right inquiries in wording from precision. Mugenda and Mugenda (2003) validity is the exactness and seriousness of surmising, which are in view of examination results.

The substance legitimacy of the instrument decided in two ways. In the first place the researcher talked about the things in the instrument with the supervisors and lecturers from the division. These individuals are required to show by tick or cross for each thing in the poll in the event that it quantifies what it should quantify or not. The counsel incorporates recommendations, illuminations and different inputs all together. Also, content legitimacy of the instrument was resolved through steering, where the reactions of the subjects are checked against the exploration destinations. This additionally gives a reason in the matter of why substance was utilized. For an exploration instrument to be viewed as substantial, the substance chose and included in the poll must be important to the variable being examined contends Mutai (2000).

3.6.4 Reliability of the Instrument

Reliability alludes to the consistency of estimation. Including so as to un waver quality is expanded numerous comparable things on a measure, by using so as to test a differing specimen of people and uniform testing strategies. Unwavering quality gives the inward consistency of information gathered. This guarantees that the information has specific inner reliable example. At the point when no example is found in the reactions, this demonstrates that most likely the test is excessively troublesome and therefore the respondents simply figure the answers through a pilot study that was done in other bank, other than those used in this study, selecting a pilot group of 10 respondents haphazardly.

Reliability of the research was improved. The respondents were helpfully chosen following measurable conditions are redundant in the pilot study (Cooper and Schindler, 2003). The pilot information was excluded in the genuine study. The pilot study took into consideration pre-testing of the examination instrument. This dependability assessment was measured utilizing Cronbach Alpha coefficient (α). Nunnally (1978) prescribes that instruments utilized as a part of examination ought to have dependability of around 0.70 or more.

3.6.5 Administration of Research Instruments

The researcher himself gave the questionnaires to the respondents and wants for them later for analysis using drop and picks later method.

3.7 Data Analysis and Presentation

In the broadest sense, data analysis consists of systematically looking for patterns in recorded observations and formulating ideas that account for those patterns. (Bernard, 1998) At the end of the entire data collection process, the data are entered into statistical Package for Social Sciences (SPSS). Plausible checks were conducted and inconsistent data was cleared. Analysis based on the objectives was appropriately run. The study was wholly descriptive in nature. Statistical tools such as graphs, tables, frequencies and percentages were adopted.

3.8 History and Background of Asokore Rural Bank Limited

On 5th December, 1980 the Bank was officially opened making it the fourth rural bank in the Ashanti region after Atwima, Sekyedumase and Adansi rural bank respectively.

The initial share capital floated was one million cedis (GHS100.00) out of which shareholders were to provide seventy five percent (75%) and Bank of Ghana, twenty five percent (25%).

Asokore rural bank ltd. has seven branches located at Effiduasi, Oforikrom, Kwadaso, Dadease, Sokoban, Oduom, Asokore and the Head office At Asokore. All these branches are in Ashanti region of Ghana. The bank board is composed of seven (7) non- executives' members and one executive member (Chief executive officer) responsible for providing direction and guidance with respect to corporate governance. Presently, the client base of the bank is sixty five thousand two hundred and ninety one (65,291) in its catchment area; Sekyere east district and part of Kumasi metropolis.

3.8.1 Vision

The vision of Asokore rural bank is to be among the best five rural banks in Ghana.

3.8.2 Mission Statement

Asokore rural bank's mission is to provide quality, innovative, profitable and socially responsive financial products and services to its customers from 2014-2019.

3.8.3 Corporate value statements

Asokore rural bank subscribes to the following values:

- Quality service comes first.
- Customers are the focus of everything we do.
- We believe in creating a friendly working environment.
- Integrity is never compromised.
- Our employees are our greatest assets

3.8.4 Objectives

- To ensure client satisfaction.
- To increase productivity
- To increase wealth maximization
- To demonstrate corporate social responsibility.

3.8.5 Present Strategy

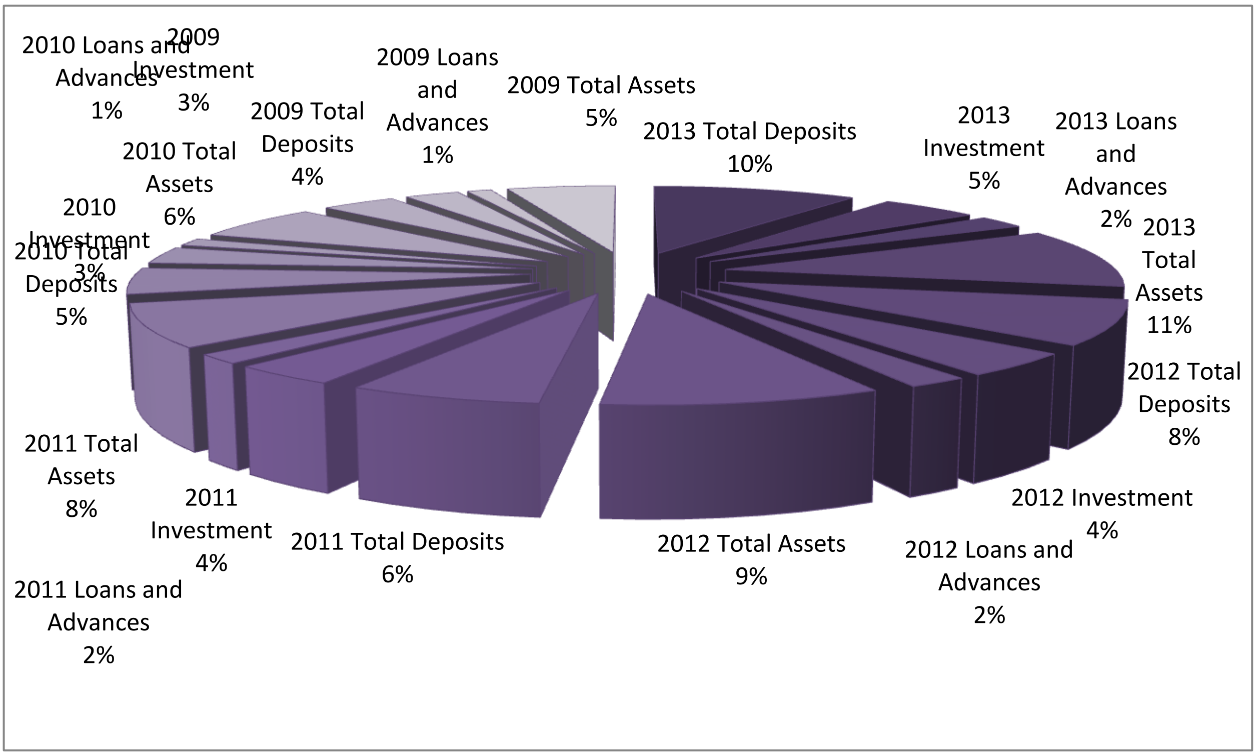
- Concentrating on poor people. The Bank is moving to all encompassing genius poor rural improvement and the upgrade of profits to work and area.

- Encouraging expansive based development. While reaffirming its dedication to horticulture as the principle motor of rural financial development, the Bank perceives the significance of non-ranch monetary exercises and the private division.

- ❖ Tending to the whole rural space. The Bank is moving to cross-sectorial methodologies for the more drawn out term - and far from fleeting segment by-area approaches - yet tending to specifically the deficiencies of prior top-down, non-comprehensive approaches.
- ❖ Forging alliances of all stakeholders. The Bank is expanding wide based partner investment in undertaking and project configuration and execution.

3.8.6 Performance over the Past Five Years

The figure 3.1 below depicts the performance of Asokore rural bank Ltd. over the past five years.



From the pie chart it clearly shows that the bank is gradually doing well in its field of endeavor. (Banking services) Asokore rural bank is on edge to be the market leader in the rural banking industry through oriented and aggressive marketing.

CHAPTER FOUR

ANALYSIS AND DISCUSSION OF FINDINGS

4.1 INTRODUCTION

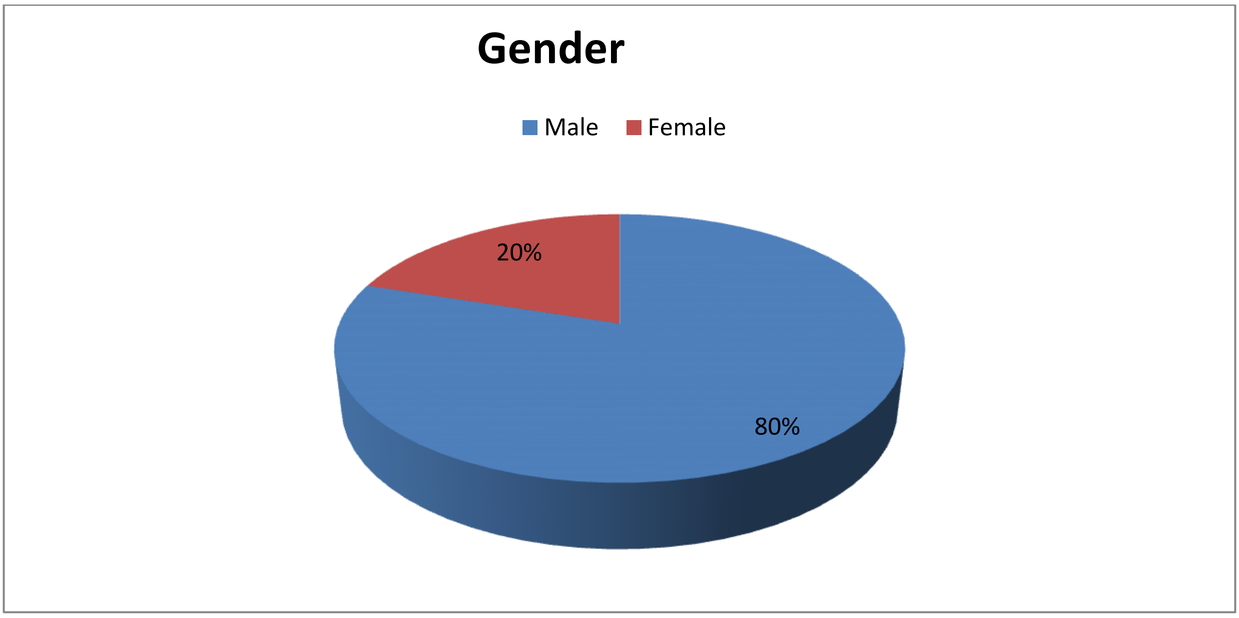
This chapter comprises presentation and analysis of data from the field work on examination of the credit management practices of rural banks. The data are represented in tables and figures. In all 30 questionnaires were administered to the respondents and all the questionnaires were received. This constitute 100% response rate.

In this analysis the respondents were credit/micro finance officers, branch managers and operations managers, the study requested the respondents to state the period that they have been working in the organization in order to make sure that the information given is relevant. From findings it was found out that the responders had worked with the bank for more than 10 years, 5 to10 years, 2 to 5 years, and less than 1 year. 50% of the respondents have worked with Asokore rural bank for more than 10 years, 20% 5 to 10 years, 25% 2 to 5 years and 5 % less than 1 year. This is good for the researcher because it suggests that the majority of the respondents are experienced people and for that matter they know what they are saying. All the respondents were staff of Asokore rural bank Ltd.

The age brackets of respondents were as follows: 21% between the age of 25 to 35 years, 53% 35 to 45 years and 26% 45 to 55 years. This is good for the bank since the majority of their staff is within the youthful age bracket, hence energetic work force.

4.1.1 Gender of respondents

The analysis of gender is as follows



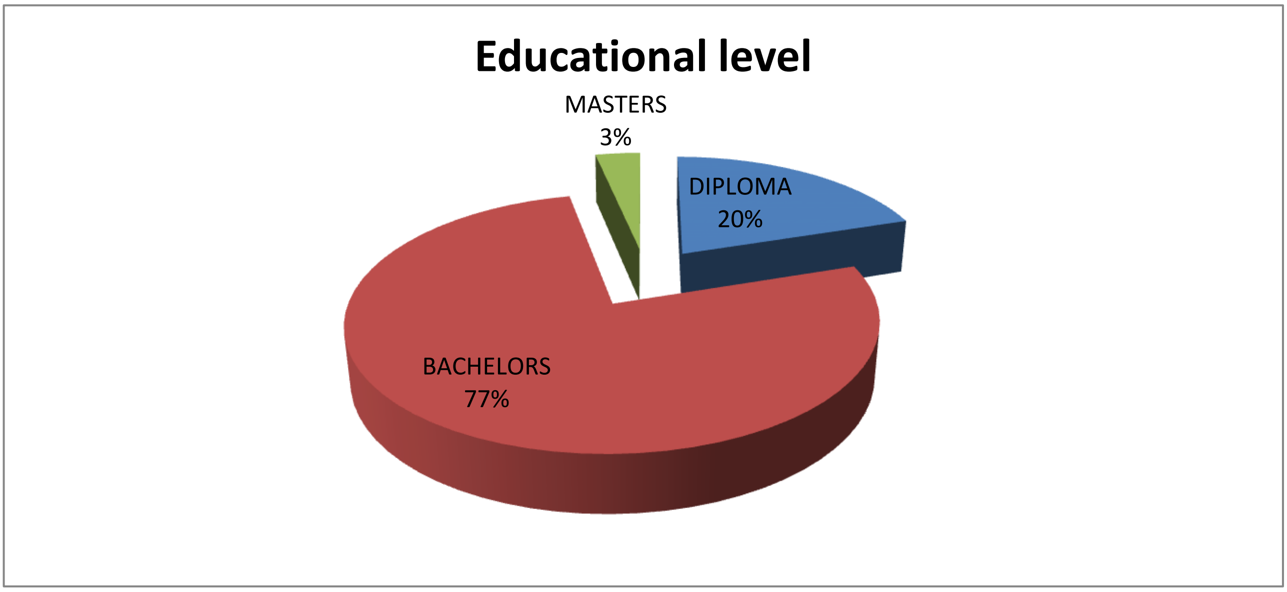
Source: Research Findings

Figure 4.1.1 above presents the distribution of gender 80% and 20% of the respondents were male and female respectively. This depicts that most of the respondents in the analysis who answered in the study were male. This reveals that there are more male employees in the bank than their female counterpart.

4.1.2 Level of Education

In this study the respondents have a different level of education in the rural bank. The study of their experience has helped the researcher to analyze the credit management of the bank. The figure below shows the level of education of the respondents.

Figure 4.1.2 Level of education for respondents



Source: Research Findings

This figure shows that the majority of the respondents have degree level where they represented 77% then 3% represented the respondents with masters degree finally 20% represented the respondents with diploma level.

4.2 The process of applying for loan at Asokore rural bank Ltd.

Loan processing commences from loan application and collection of information from varied sources confidentially and interviewing the applicants in order to screen their eligibility. This enables to mitigate risks that can face after the loan is granted. Nevertheless the manner of application denotes the integration of the bank towards potential loan applicants and the effort of the employee in mobilizing and treating loan applicants as loan is the main source of income to banks. The study seeks to find the procedure used by the bank in determining the credit worthiness of clients with respect to their business plans, collateral and consciousness of the risk element.

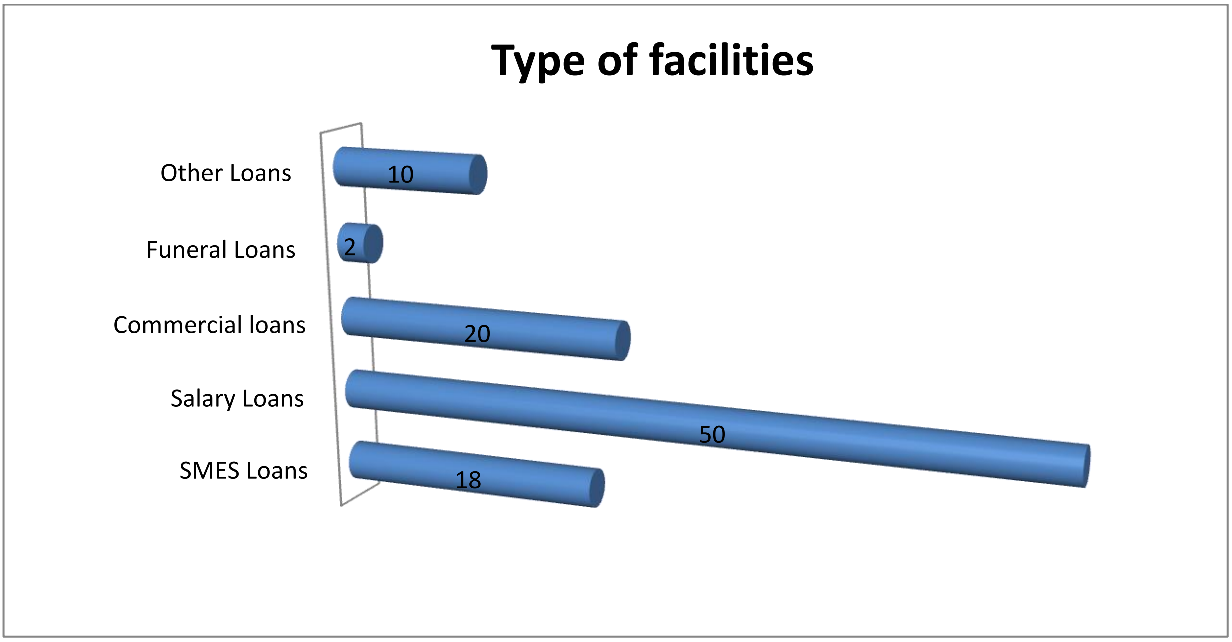
Loan processing is one of the critical measurements of credit management in banks and other financial sectors such as rural finances. Hence, the processing procedure, transparency, and length of time are some of the factors determining the convenience of lending facilities which contributes to loan growth and lasting client - bank relationship.

From the feedback received, credit disbursements depend on the type of income generating activities of the loan applicant, 85.1% affirmed this position whereas 14.9% dissented.

Per the response received from the staff loans customers are assessed based on these parameters, Character, Cash flow, security, ability to pay and SWOT analysis. When the credit manager is satisfied with the conditions specified above the loan will then be disbursed.

4.3 Facilities that are normally applied for

The figure 4.3.3 below shows the facilities that customers normally applied for

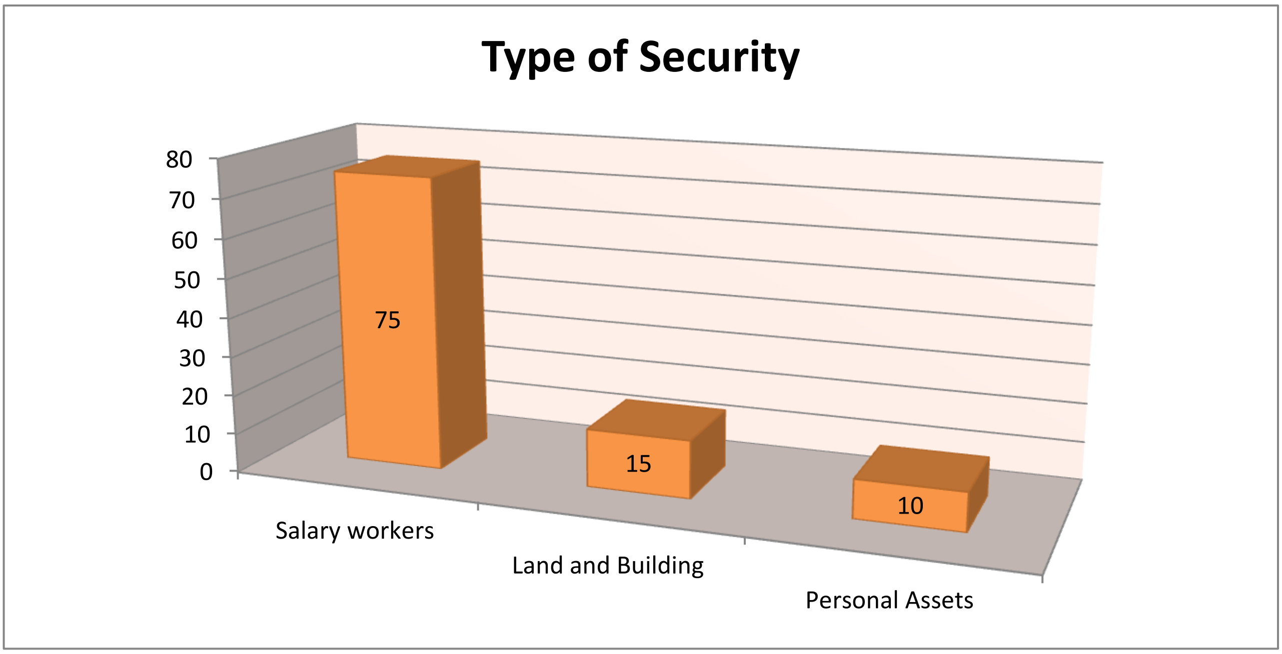


Source: Research Findings

From the figure above it clearly depicts that majority of Asokore rural bank Ltd. Loan portfolio is salary loans 50%, commercial loans 20%, SMEs loans 18%, other loans 10% and funeral loans 2%. This presumes that majority of its loan portfolio are salary workers (50%), since the monthly deduction is easily deducted with ease. But also half of it loan receivables are in other forms, so the bank should have an effective recovery programme in place to safeguard its funds.

4.4 Security required before the facility can be processed

Figure 4.4.4 demonstrates the type of security required by Asokore rural bank Ltd.



Source: Research Findings

With inference to table 4.4.4 As regards the type of security respondents require, 75.0% made mention of two or more salary workers, 15.0% said land and building whilst 10.0% mentioned personal asset.

4.5 loan approval and recommendation

Respondents were asked to state those in charge of the approval and the recommendation of loans. The table below depicts their response from the study.

Table 4.5.1 Recommendation and approval of loans

Responses	Frequency	Percentage
Board of Directors	20	66.67
General Manager	7	23.33
Credit Officer and Branch managers	3	10
Total	30	100.00

Source: Research Findings

From table 4.5.1, the approval and recommendation are been done by these people: board of directors, general manager, credit officers and branch managers. According to the respondents all salary loans are done by the credit officers and the branch managers, commercial, micro and susu loans are also done by the general manager with a of limit of GHS 3000.00 any amount beyond this is sent to the board of directors. Staff loans are approved by the board.

4.6 Rate of monitoring

Table 4.6.2 the frequency of which bank officials monitors the loans

Response	Frequency	Percentage %
Daily	0	0.00
Weekly	2	6.67
Monthly	12	40.00
Above quarterly	15	50.00
No monitoring	1	3.33
Total	30	100.00

Source: Research Findings

On the question of how often the bank monitors its loans from table 4.6.2, 6.67% said weekly whilst 40% said they do the monitoring on monthly bases. On the other hand, 50% confirmed they monitor on quarterly bases whereas 3.33% said they do not do any monitoring. The response from the study shows that the bank does not monitor loans on daily basis. Majority of them (50%) said they do it on quarterly basis which is not good for the bank. For customers to pay their loans in due time the bank needs to check on them on regularly basis otherwise the loans will go bad.

4.7 Trends in loan repayment

As part of the objective of the study, the researcher sought to find out the trends in the loan repayment of the bank, to determine the default in loan repayments. Findings are denoted as follows:

4.7.1 Loan repayment period

Respondents were asked to outline their repayment period majority representing 60% said between 13-24 months, 15% 6-12 months, 10% 25- 36 months, 9% 6-12 months and 6% 37 and above.

This means that the average repayment period at Asokore rural bank Ltd is two (2) years. The time is short for borrowers to effectively pay the loans, so the bank should reconsider its repayment period to attract more customers

4.7.2 Level of loan default

Table 4.7.3 shows the level of loan default at Asokore rural bank

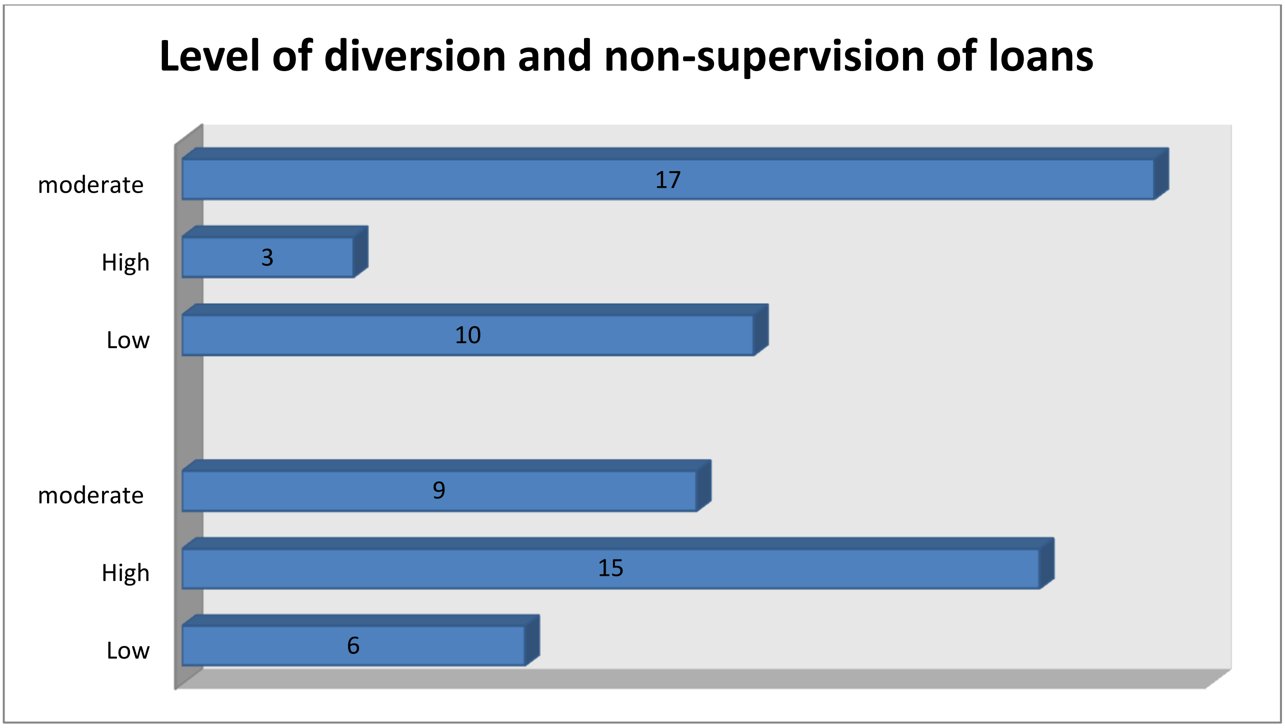
Response	Frequency	Percent %
High	7	23.3
Low	8	26.6
Moderate	15	50.1
Total	30	100

Source: Research Findings

From table 4.7.3 50.1% of respondents are saying that the level of default is moderate, 26.6% low and 23.3% high. This means that there is something wrong with the bank current recovery programme and for that matter, it needs to redesign its recovery and disbursing programme. In order to reduce default rates to minimal levels as this affect the profitability of the bank.

4.7.3 Level of non-supervision and diversion of loans

Figure 4.7.5 present the level of non- supervision and diversion of loans at Asokore rural bank



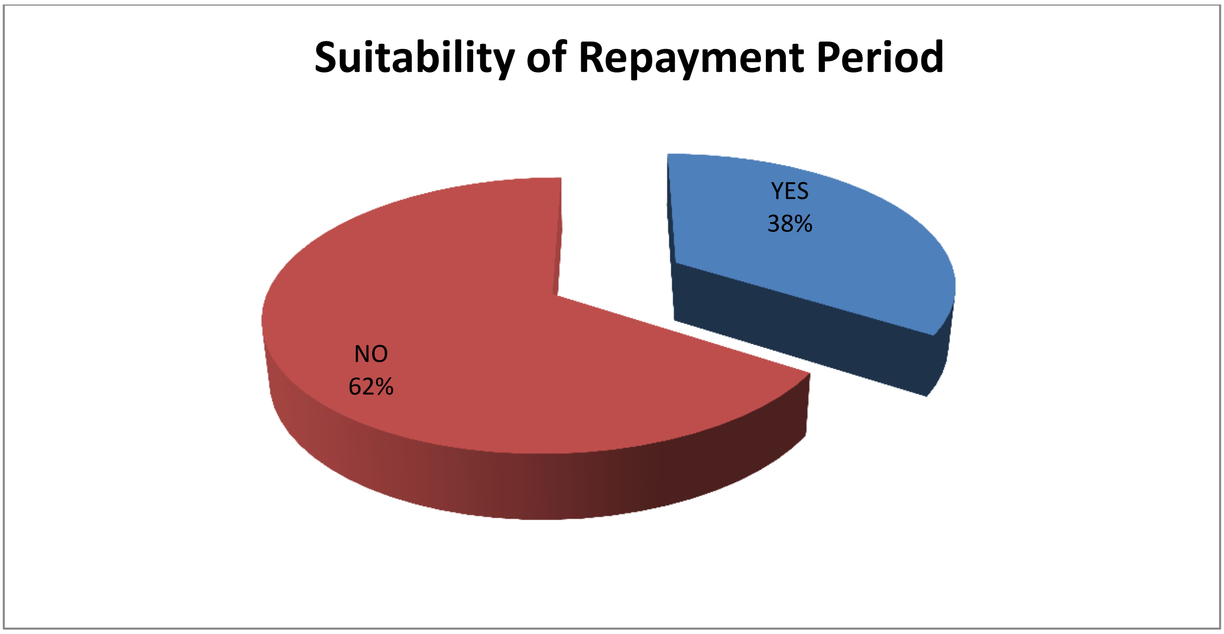
Source: Research Findings

With the diversion of loans 17 of the respondents said is moderate, 10 low and 3 high. From these findings where 17 people are saying the level of loan diversion from borrowers is moderate. It suggests that the bank monitoring activity is not effective; hence they need to energize their monitoring programme. On supervision of loans as 15 respondents are saying that is high, 9 moderate and 6 low. The supervision of loans at Asokore rural bank is very low, the bank needs as a matter of urgency ensure that all credit and micro finance officers who disburse loans monitors the latter and present monthly supervision reports on all facilities granted as this have a major impact on the bank liquidity.

Respondents were also asked if bad loans have an influence on credit potentials and financial performance of Asokore rural bank. All their answers were in affirmative. This means that the staff of the bank is aware that credit has an effect on financial performance.

4.8 Suitability of repayment period

Figure 4.8.6 Repayment Period



Source: Research Findings

The results from figure 4.7.6 reveals that 62% of the respondents said the loan repayment period is not suitable for loan customers, on the contrary 38 % believe that the repayment period is adequate, respondents suggested that the repayment period should be extended to the meet the needs and expectation of both current and potential loan applicants going forward.

4.9 Status of loans

Table 4.9.4 Loan Status

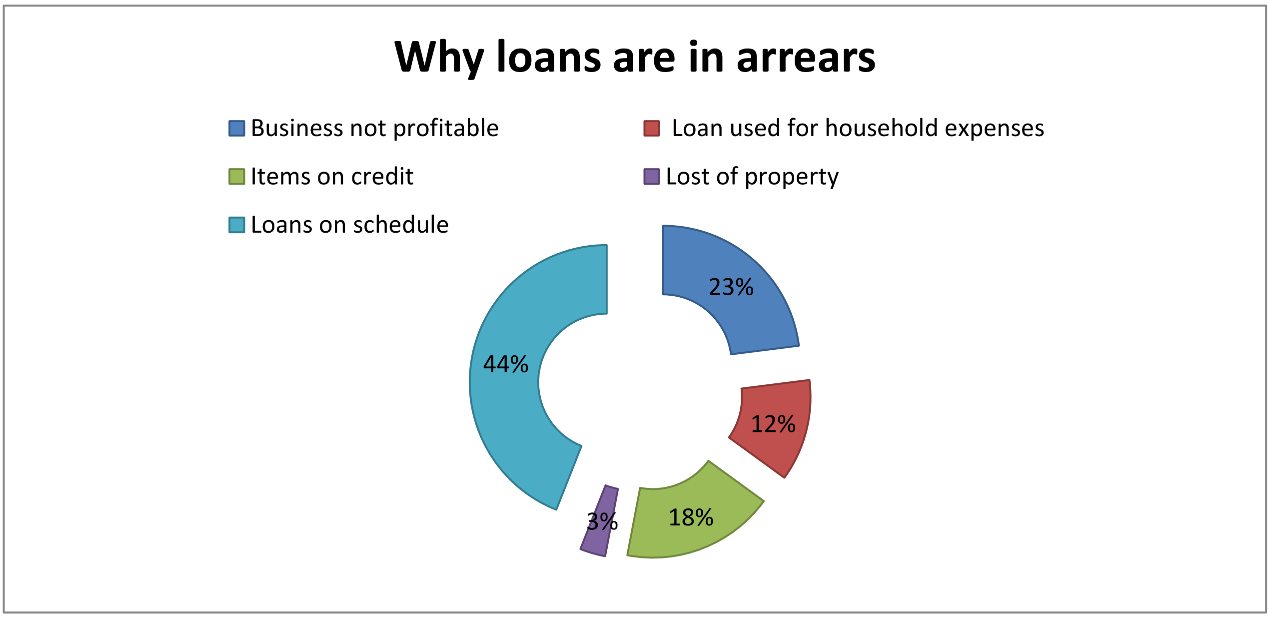
Response	Frequency	Percent
Loan fully repaid	10	33.3
Loan repayment on Schedule	8	26.7
Loan repayment in arrears	12	40.0
Total	30	100.0

Source: Research Findings

From the analysis above 33.3% of the loan customers had fully repaid their current facilities, 26.7% had their loan repayment on course (paying), whilst 40% had their loans in arrears. This confirms that majority of the bank loans are in arrears; hence the bank needs to put paradigmatic measures in place to recover non- performing loans as quickly as possible. Since it can lead to serious liquidity problem and also affect the finances of the bank.

4.10 Reasons for non-repayment

Figure 4.10.7 Loans Arrears



Source: Research Findings

Figure 4.9.7 denotes that 23% of loans are in arrears, respondents attributed that borrowers claim that business was not profitable, 12% confirm that loan applicants used the loan contracted to honor their household expenses hence making it difficult for them to pay their facilities on time. In addition, 18% of applicants were unable to make repayments as expected due to items sold on credit, 3% because loan customers have lost their property and 44% reveals that loans are on schedule that is, they are paying as planned.

4.11 Factors that compels borrowers to pay their loans on time

Table 4.11.5

Response	Frequency	Percent
Claim against personal	5	16.7

wealth		
Claim against Guarantors	8	26.7
Social sanctions (loss of status)	6	20.0
Fear of losing future loan	1	3.3
No reason	10	33.3
Total	30	100.0

Source: Research Findings

From table 4.11.5, 16.7% of the respondents said the most critical perspective driving them to pay their loans in time was the case staked against their personal wealth, while 26.7% was because of case staked against the guarantors. 20% were compelled to repay on the grounds that social sanctions, particularly trepidation of loss of status and 3.3% were repaid on time in light of apprehension of losing future credit from the bank. 33.3 % did not have any specific reason which is great as this must be seen to imply that the greatest number of respondents felt the commitment to repay credits in time.

4.12 Supervision, Advisory Visits and Training

This study explores how supervision/non-supervision of borrowers influences the loan repayment financed by rural banks in Ghana. To that impact, the researcher inquired as to whether they had ever directed borrowers with respect to loan use and repayment, whether they considered the supervision being vital for the credit repayment, in the event that they do train borrowers before they give them the loans and record keeping.

4.12.1 Supervision on Loan Utilization

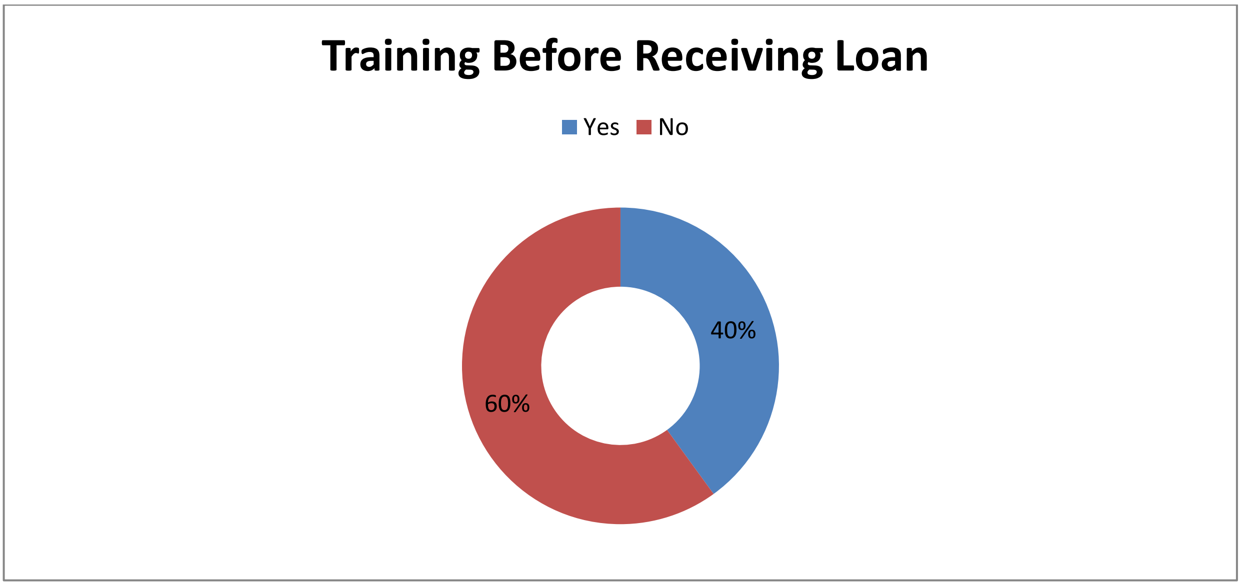
The findings demonstrate that 48% of borrowers had been supervised by the bank staff on credit usage while 52% had not been supervised by same. Non supervision of borrowers on loan usage of the bank is a pointer that rate's default could be higher since no commitment weight will be on the borrowers.

4.12.2 Supervision on Loan Repayment

On credit repayments, 53% of the respondents showed that borrowers had been monitored by the bank staff on loan repayments, on the contrary 27% of the respondents demonstrated that they had supervised customers on repayment. The discoveries demonstrate that Asokore rural bank Ltd must put more accentuation on supervision of credit reimbursements instead of supervision of use of the credit. The study likewise uncovered that most rural banks carried out credits, repayment supervision on a quarterly premise and a couple on a month to month basis.

4.12.3 Training before receiving loans

Since the general objective of the study was to assess the performance of credit management in the bank. Respondents were consulted to determine whether borrowers are trained before facilities are finally processed and their implication on borrowers' profit. The findings from respondents are denoted below.



Source: Research Findings

From figure 4.12.8 Majority of the respondents 60% indicated borrowers did not receive any form of training before the loan was granted to them, on the contrary 40 % affirms that loan applicants had received training before disbursement was done. The training of borrowers is very necessary, since it paves the foundation for them to appreciate basic bookkeeping, management and the repayment structure. This help to reduce the level of default.

Respondents were asked if training had increase the profit of borrowers 90% of them reveal that training helped to boost the profit of customers, whilst 10% dissented that training had not helped in any way.

4.13 Loan diversion and default

One of the specific objectives of the study was to determine how loan diversion by borrowers leads to default in loan repayment to rural banks. Respondents were asked whether loan customers do use the amount contracted for their intended purpose and its implication on repayment.

Per the feedback received from Asokore rural bank Ltd 39% confirmed that borrowers do use the loan for the purpose in which it was contracted for on the other hand 61% of respondents said that borrowers do not used the loan for their intended purpose. This contributes to some of the reasons that result default in loan repayments. Since diversion of loans funds by borrowers will lead to misapplication and bad loans.

4.14 Ways of improving the credit management at the bank

Respondents were further asked to state ways of improving the credit programme of the bank.

Table 4.14.6 Ways of improving credit

1.	Reduction in the number of guarantors of salary loans**.**
2.	Expansion of the repayment period.
3.	Educating customers on loan policies.
4.	Effective recovery programme should be adopted.
5.	Staff needs to be trained to abreast themselves with modern and effective appraisal technique.
6.	Qualified people should be employed to value securities that customers use as collateral.
7.	Advertising of the bank's loan products.
8.	Training and advising customer before granting them loans.
9.	There should be a clear credit policy.
10.	The Credit score of the individual borrower needs to be critically studied by the staff before a loan is granted.
11.	The rules and criteria use in granting credit should be amended to reflect the current financial climate of the borrower.
12	The institution must set target as to the amount of loans expected to be disbursed within a period to avoid liquidity problem.
13.	Redesigning of the credit product to attract and appeal to people.
14.	The government through the central bank should restructure the economic fundamentals that affect the operation of rural bank to help fight the changes in the policy rate and inflation.

15.	Bank of Ghana should hold cash reserve ratio constant so as to mitigate the changes in credit rates by rural banks.

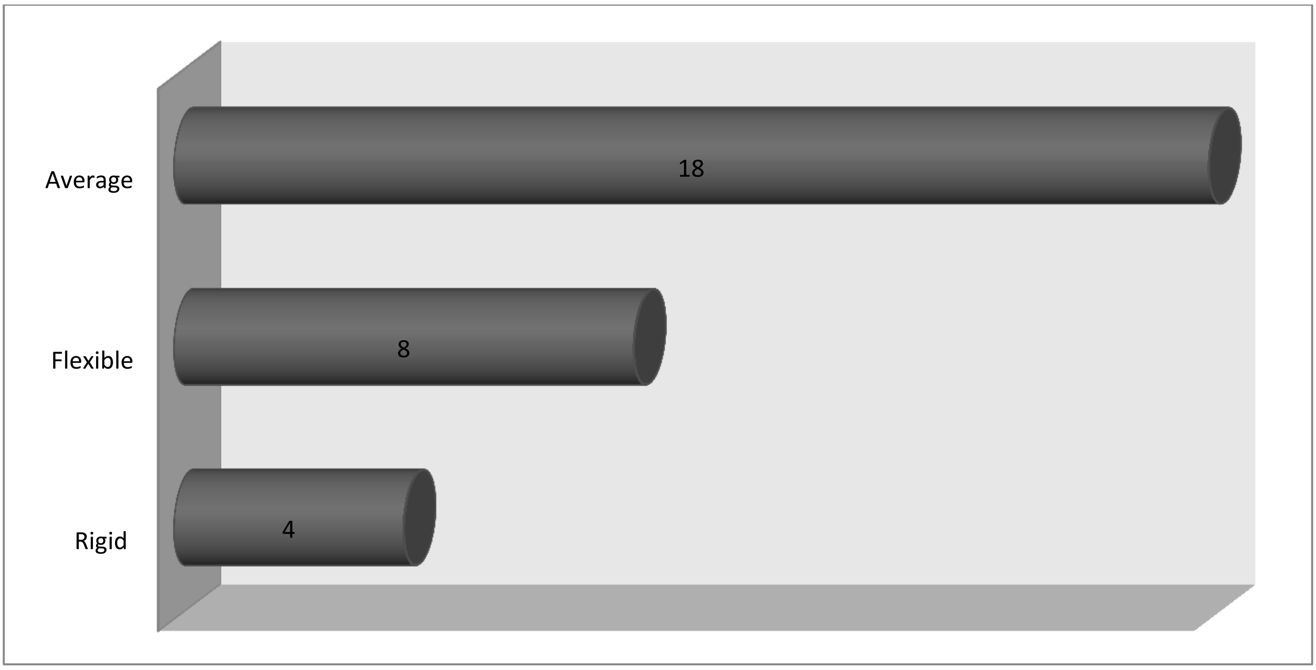
Source: Research Findings

From table 4.14.6 it demonstrates that when these measures are implemented it will go a long way to help the bank to improve its credit activities thereby enhancing the financial stability of the bank in general.

4.15 Nature of credit policy and procedure

Respondents were first asked whether the bank have a credit policy and the all responded in the affirmative. The figure below shows their views on the nature of the credit policy and nature at the bank.

Figure 4.15.9 Nature of credit policy and procedure



Source: Research Findings

In conformity to the policy of the regulating body, all banks formulate their own credit policies and procedures which assist them to provide different type of credit within each credit policy dimension to their loan customers. Therefore knowing the statues of credit policy and procedure from the prospective of staff is very important for effective credit management.

Hence, In order to know the position of the Bank's credit policy, the researcher raised questions for the credit officers of the Bank and consulted the credit manager and also the branch managers. Apparently, as revealed in figure 4.14.9, 18 of the respondents said the credit policy and procedure of the bank is on average in its workability and 4 confirmed as it is rigid. Whilst, 8 of them asserted that the credit policy of the Bank is flexible. In an unstructured interview conducted with the credit manager he agreed on the importance, attractiveness and convenience of the flexibility the credit policies and procedures should in order to assists in loan creation and growth of the bank.

4.16 Status of Credit providing mechanism

Table 4.16.7 status of credit providing mechanism

Response	Frequency	Percentage %
Moderate	17	56.67
Conservative	10	33.33
Based on creativity	3	10.00
Total	**30**	**100.00**

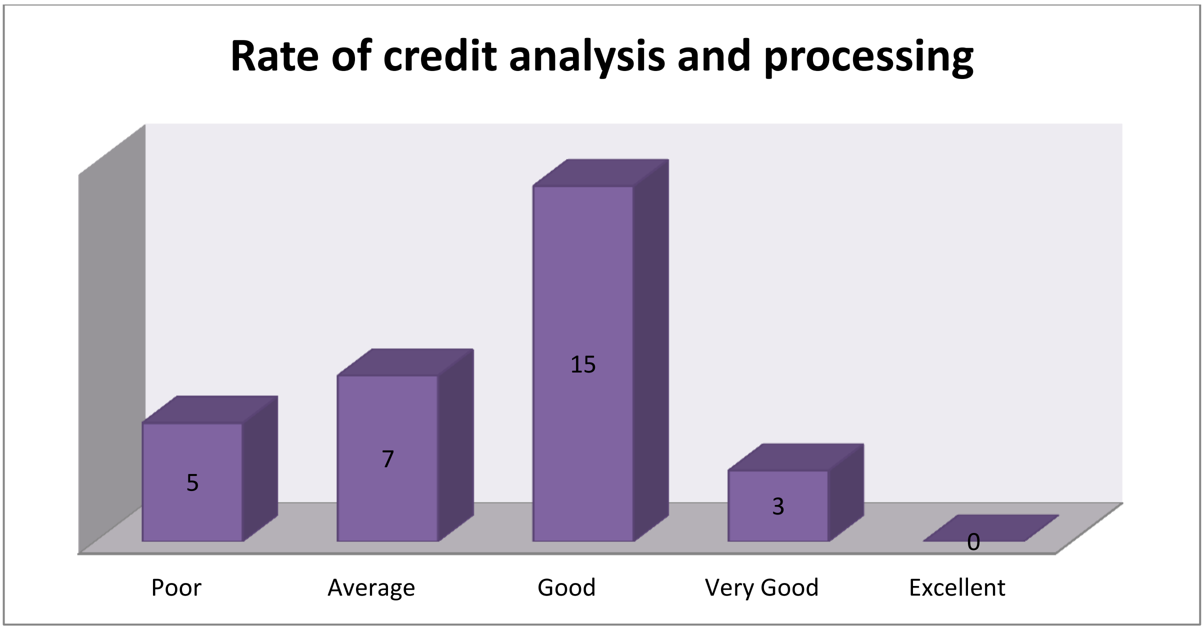
Source: Research Findings

Inference from table 4.15.6, 56.67 % t of the respondent said the credit providing mechanism of the Bank is moderate and 33.33% acknowledged it as conservative. While 10 percent of the respondents alluded the credit delivery is based on creativity. All of their responses have significant impacts on the performance of the credit management and growth of the bank.

4.17 Credit Analysis and processing

Loan applications should be carefully analyzed and appraised effectively and efficiently in accordance with the current credit policy and procedures. Financial statements should be analyzed to determine the financial soundness of the loan applicants. All type of risks such as ownership risk, management risk, business risk, financial risk, collateral risk and legal risk should be assessed with utmost care and with relevant model.

Figure 4.17.10 Rate of credit analysis and processing at Asokore rural bank



Source: Research Findings

With respect to credit analysis and processing, as shown in figure 4.16.10 15% of the bank respondents rated the credit analysis of the bank good, 7% rated averages, and 5% rated poor whilst 53 percent rated very good and excellent recorded zero. This clearly suggests that, there is a variance in credit analysis and loan processing and therefore quick responds is needed to correct this gap.

This can lead to the problem of non-performing loans which will eventually affect the financial stability of the bank.

4.18 Problems encountered by the bank in its recovery programme

The respondents were asked to outline the problems they encounter in their loans administration and recovery activities. The table below depicts their views.

Table 4.18.8 problems encountered by the bank

1. The problem of Liquidity.
2. Board and staff influence on approval, disbursements and recovery.
3. Delay in approval of loans
4. High overdue rate used by the bank
5.Poor house numbers of loan customers
6.Lack of appropriate security on the part of loan applicants
7.Inadequate information about the customers business
8.Inadequate documentation submitted by loan customers
9.Customer business failure due to mismanagement
10.Improper attitude of Staff
11.Inadequate monitoring by staff
12.Inadequate number of credit staff
13.Inadequate appraisal of loan applications
14.Loans contracted for social purpose
15.Loan diversion on the part of customers

Source: Research Findings

From the table above it clearly demonstrates that the bank is facing some challenges in its loan recovery excises. Hence there is the need for management to take a critical look, to safeguard the credit programme of the institution as poor performance associated with credit delivery will drastically affect the financial stability of the bank.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

From the analysis, data collected and findings the foregoing discussions, conclusions and recommendations were made. The chapter also outlines possible areas for further studies.

5.2 Summary

The main objective of this study was to examine the credit management practices of rural banks. The study had four specific objectives of establishing the mechanisms of granting loans, non-supervision of loans, diversion of loans and the problems encountered by the bank in its recovery programme.

The study distributed questionnaires which assisted in the examination of the credit management practices of rural banks. The sample size was thirty (30) and the population of the study was also fifty (50). This comprised staff involved in loan disbursement at the bank. Data was gathered by analysing the answers from the respondents.

The study denotes that majority of the respondents agreed that client default loan payments are due to non supervision and diversion of loans on the part of credit officers and borrowers respectively. The study found the approaches that are used by the bank in screening before awarding credit to clients. From the findings, most of the respondents revealed that collateral, business plans, and consciousness of the risk associated with a particular business are mostly used in screening and risk analysis. There are two other approaches mentioned, which were character of the borrower and collateral or security these were two other crucial approaches used by bank to award credit to a client.

Training before and after loan disbursement on the part of borrowers is very low on the bank and recovery programme is also not effective. Some of the credit officers are not up to the task on loan appraisal, disbursement and recovery.

Respondents confirmed that monitoring of loans is not done regularly as majority of them said that recovery programme are carried out on a quarterly basis, which is not in the best interest of the bank. On credit analysis and processing respondents admits that there are challenges in the way and manner appraisal and processing of loans are executed at the bank. With the status of the credit mechanism at the bank respondents acknowledge that it is mainly moderate and conservative and therefore needs to change.

Also loan approval and recommendation are done in stages with limitation at various levels, but the most interesting one is the general manager's limit which is GHS 3000.00 of which respondents repeatedly said is too small for the general manager and hence the board must amend it.

Respondents also alluded number of problems that the bank usually encounter in its recovery programme that requires urgent attention, or else will affect the financial position of the bank.

5.3 Conclusions

In light of the revelations from the data analysis and findings of the study, one can conclude the following, taking into account the objectives of the study; on the examination of the credit management practices of rural banks. It concludes that the credit management system at the bank have some lapses which requires improvement due to the findings and analysis from the study.

The consequence of this study reasoned that insufficient supervision of borrowers by the bank's staff on credit usage and loan repayment lead to default on repayments. Supervision is a vital angle since it urges borrowers to be conferred; a truth communicated by respondents who said they considered supervision vital in loan repayments. On the preparation of borrowers before getting facility from Asokore rural bank, it was inferred that preparation is critical; it gives borrowers abilities in business administration, savings and in accounting. In the meantime the study reasoned that borrowers who did not get any preparation before accepting credits from the bank defaulted in repayments since they were not able to manage their income efficiently.

The study inferred that a decent number of borrowers did not utilize the loans they got from the bank for the planned and concurred purposes. Such redirections were the motivation behind why they were not able to stay up with the latest with their repayments.

The study concludes that, the bank should always plan its credit programme in such a way that, it rate will not be fluctuating any time the central bank reviews its monetary policy, even though the policy rate is beyond the control of the bank. In such cases the bank should mitigate the impact of the shock on financial performance. It also came to light that some of the staff in charge of loan disbursement are not abreast of the job and will require additional training to enable them perform their duties accordingly. This will help enhance the monetary status of the bank and diminish the risk of granting bad loans to customers. In addition the study concludes that monitoring should be carried out on timely basis to supervise the activities that clients are using the loan money for, also credit analysis and processing should also be done in an efficient and effective manner. The credit procedures should be innovation so as to accommodate varied loan application since every loan may have a different need and requirement.

Finally the study concludes that, there are gaps in the credit management of the bank, which requires immediate response to safeguard the future of the bank.

5.4 Recommendations

The study felt that with a specific end goal to minimize the rate of deferral in credit repayments, the bank needs to have compulsory supervision by a loan supervisory team to monitor borrowers on credit usage and reimbursement, which ought to be done quarterly. Such supervision will empower Asokore rural bank Ltd to monitor the activities of borrowers effectively. Additionally training of borrowers before loans are disbursed ought to be done. Concentrating on areas like, business administration, accounting and savings, such measures will cut down the rate of the defaulters.

The study recommends that in order for Asokore rural bank Ltd to decrease default in credit repayment, they ought to screen the borrowers routinely to guarantee that they utilize the loans they got for the concurred and expected reason. This should be possible through getting standard record proclamations from borrowers and physically going by the borrowers to monitor and assess the advancement of their respective loan projects.

Keeping in mind the end goal to minimize default in repayment, the bank ought to guarantee that whoever they grant credit to meet a base edge in resource esteem before advances are granted. Likewise, the bank ought to instruct the borrowers on the need to spend less on family unit utilization in order to lessen the default rate to upgrade the money related execution of the bank.

The current loan policy of the bank must be fashioned in a way that it will be customer oriented. It must take into account the needs and the aspiration of the customers to come out with loan products and services that will be beneficial to the customer to enhance repayment thereby helping to increase the profitability of the bank.

In order for the institution to solve the numerous problems is facing, those in charge of affairs (management) must be proactive rather reactive in credit delivery activities. Management needs to ensure that the bank work within the applicable framework set by bank of Ghana on deposit ratio to help solve liquidity challenges. The bank officials, credit officers in particular need to be ensure that they receive the relevant details about the loan applicant before the loan is disbursed to the applicants this will reduce the rate of loan default. Together with the property as a guarantee the organisation may implement communal credit where the mass guarantee, care and honesty are enough for economic participant mediocre to repay the credit in good time to avoid individual default. Furthermore, it is suggested that loan applicants receive the loan as and when it is requested to mitigate unfortunate credit misapplication due to delays on the part of authorities. The bank as a matter of urgency must prevent staff and board interference to allow efficient institutional procedures to work in the credit delivery programme and the institution as a whole.

For the bank to meet the statutory repayment target by the bank of Ghana, All staff in respective of the department must ensure that credits are recovered within reasonable time. Because it is a key source of revenue of the bank and the industry at large. Even though recovery maybe a core duties of specific officers. Monitoring of loan customers and their businesses should be done on a daily basis to improve the loan recovery exercise of the bank.

The credit policy and mechanism of the bank should take into account the ideas of the customers and staff for it to become more accepting and unique in today's competitive banking environment and also for the bank to meet its vision and mission. Similarly, it is prudent for the institution to make its credit policy flexible to meet the expectation of its potential and existing loan clients and thereby implementing a better administrative set up that improves credit management. The timely repayment plan of the bank should be flexible by considering the nature and operation of the applicants' business as repayment duration has an impact on the performance of loan collection.

As it is revealed in the analysis section of the study most of the loan applicants and staff of the bank have complaints on the credit policy and procedures regarding valuing of collateral, loan discretion, length of loan processing time, repayment schedule, and substandard analysis. These are serious gaps that have a negative effect on client reputation and that hampers' the attraction of potential loan applicants. Therefore, the institution should embark on the remarkable changes in its credit policy and procedures regarding the above aforesaid drawbacks in order to solve the current challenges and achieve the client reputation and trust.

Staff of the bank must be trained in modern and efficient method of credit analysis and procedures, in order to improve the existing credit management practice of the bank and to win the confidence and loyalty of both existing and potential clients.

The present loan processing and approving direction of the bank is moderate inclined to be conservative, particularly with respect to the collateral and analysis. This is seriously affecting the loan potential and growth of the branches in particular and the bank as a whole. Thus, the bank should follow creative way of loan processing and approving direction that assists to meet the loan demand of potential loan applicants and the required level of loan growth as it is the primary source of revenue for the banking industry.

5.5 Suggestion for further Research

The study investigated credit management practices of rural banks. Other researchers may focus on the nexus between credit management and financial performance in Ghana with emphasis on rural or commercial banks.

Another study can be conducted in Ghana but should expand the variables. Other variables that could be included are the diversification of assets and portfolio of asset quality in banks. This kind of study will have an advantage of having many variables.

The study also suggests that a further study should be carried out to determine how credit management can increase financial stability of rural banks in Ghana. This will offer a broad analysis on impact of credit on profitability in Ghana.

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Questionnaire

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS

PROJECT QUESTIONNAIRE

THE CREDIT MANAGEMENT PRACTICES OF RURAL BANKS

A CASE STUDY OF ASOKORE RURAL BANK

This research seeks to examine the credit management practices of rural banks in Ghana. The intention is purely for academic purposes, and not, in any way attempt to assess individuals' institutions. You are assured that all information supplied will be held confidential.

Please answer the following Questions Correctly and Tick (x) the Appropriate Boxes Where Applicable

General Information

1. Gender. Male [ ] Female [ ]

2. What is your age bracket? Below 25 years [ ] 25 to 35 years [ ]

35 to 45 years [ ] 45 to 55 years [ ] Above 55 years [ ]

3. What is your level of education? (Tick where appropriate) SSCE/GCE [ ] Diploma [ ] Bachelors [ ] Master [ ] PhD [ ] Other [ ]

4. What is your relationship with the bank? [ ] Staff [ ] other please specify…………………

5. Number of years with the bank?

Less than 1year [ ] 2 to 5 years [ ] 5 to 10 years [ ] More than 10 years [ ]

6. What is the process for applying for loan in your institution? Please state……………………...

……………………………………………………………………………………………………

……………………………………………………………………………………………………

7. What type of facilities is normally applied for in your bank?

[ ] SMEs Loans [ ] Salary Loans [ ] Commercial Loans [ ] Funeral Loams [ ] Any other please

specify……………………………………………………………………………………….,

8. What security are required before a facility can be processed?…………………………...

……………………………………………………………………………………………………

9. Who are responsible for the approval and recommendation of loans at your bank?

[ ] Board of Directors [ ] General Manager [ ] Credit officers and branch managers

10. How often does the bank monitor loans?

Daily [ ] Weekly [ ] Monthly [ ] Above Quarterly [ ] The bank do not monitor [ ]

11. What is the repayment period of your facility? [ ] 1-5 months [ ] 6-12 months [ ] 13-24 months [ ] 25-36 months [ ] 37 months and above

12. What is the level of loan default in your institution [ ] High [ ] Low [ ] Moderate

13. Kindly rate how the following factors affect credit in your institution. (1- Low, 2- Moderate, 3- High, 4- Very High, 5- Not Applicable)

A. Non- Supervision of loans. [ ] 1 [ ] 2 [ ] 3 [ ] 4 [ ] 5

B. Diversion of loan funds by borrowers. [ ] 1 [ ] 2 [ ] 3 [ ] 4 [ ] 5

14. Does bad loans have an impact on the credit potentials and financial performance of your bank?

[ ] Yes [ ] No [ ] Neutral

15. Is the repayment period suitable for you? [ ] Yes [ ] No

16. What is the status of your loan? [ ] Fully paid [ ] Repayment on schedule [ ] Repayment in arrears

17. Why are your loans in arrears? [ ] Business not profitable [ ] Loan used for household expense [ ] Sold on credit [ ] Loss of assets [ ] Not in arrears

18. Which of the following force borrowers to pay their loans. [ ] Claim against personal wealth [ ] Claim against Guarantor [ ] Social sanctions (loss of status) [ ] Fear of losing future loan [ ] No reason

19. Does the bank supervise loan utilization? [ ] Yes [ ] No

20. Does the bank supervise loan repayment? [ ] Yes [ ] No

21. Do borrowers receive training before receiving loans? [ ] Yes [ ] No

22. Are loans used for intended purposes? [ ] Yes [ ] No

23. Does your bank have credit policy?

Yes [ ] No [ ]

24. What is the nature of your credit policy and procedure?

Rigid [ ] Flexible [ ] Average [ ]

25. What is the status of your credit providing mechanism at your branch?

[ ] Moderate [ ] Conservative [ ] Based on creativity

26. How would you rate the credit analysis and processing at your bank?

[ ] Poor [ ] Average [ ] Good [ ] Very Good [ ] Excellent

27. What are some of the problems that the bank encounters in its credit administration and recovery

programme?...

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28. What are some of the things that can be done at your bank to improve credit programme?

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Thank You for Participating!