AKWAME NKRUMAH UNIVERSITY OF SCIENCE & TECHNOLOGY

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BANK CREDIT AND RURAL DEVELOPMENT: A CASE STUDY OF ATWIMA KWANWOMA RURAL BANK (AKRB) LIMITED

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BY

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DECLARATION

I declare that, this thesis is my own initiative and original exercise carried out by me during the 2007/2008 academic year. To the best of my knowledge it contains no material whatsoever published by another person and it has not been presented for the award of any other university degree elsewhere.

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DEDICATION

This work is dedicated to my beloved wife, Maafia Oppong-Adjare for her moral support, understanding and encouragement that made the work a reality.

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ABBREVIATIONS

- AKRB - Atwima Kwanwoma Rural Bank
- FAO - Food and Agricultural Organization
- IDA - International Development Association
- PCL - Personal Credit Line
- RFI - Rural Financial Institution
- DANIDA - Danish International Development Agency
- ARB - Association of Rural Banks
- AFRACA- African Rural and Agricultural Credit Association
- FDI - Foreign Direct Investment
- IBRD - International Bank for Reconstruction and Development
- GDP - Gross Domestic Product
- USDA - United State Department of Agriculture

ABSTRACT

It is estimated that over 60% of the Ghanaian population live the rural areas where farming is the major occupation. One basic characteristic of rural life in developing countries of which Ghana is no exception is poverty. This has led to low income in the rural areas, lower standard of living, rural urban drift and ultimately low productivity.

The rural problem is attributed to unavailability of credit. It was against this backdrop that rural banking concept was introduced in Ghana in 1976 by the Bank of Ghana to make credit available to the rural community in order to promote rural development. Thereafter successive governments have pursued the rural development agenda.

The import of this study is to examine the impact of bank credit on rural development using Atwima Kwanwoma Rural Bank (AKRB) as a case study. Development was considered in terms of poverty reduction, increase in income, improvement in standard of living, and creation of employment. The four main occupations of the Amansie West District were considered which include agriculture, commerce, construction and manufacturing.

The study was conducted by examining the various kinds of credit facilities offered by the bank to the people in the community, measuring the impact of credit/loan on income and standard of living of the people in the community, and assessing the contribution of the bank in the provision of public goods and services especially in education, health and water and sanitation in the development of the community.

The study used both primary data in terms of questionnaires and interviews and secondary data in terms of annual reports of Atwima Kwanwoma Rural Bank and simple table showing percentages, frequencies, cross tabulation, pie charts and bar charts for the analysis.

The results of the study are that the Atwima Kwanwoma Rural Bank basically provides about seven types of credit facilities to its customers. Also for the four year period the bank increased its loan portfolio to customers by about 214%.

It was also found that the loans granted by the bank have impacted positively on the community in terms of development. Respondents found improvement in incomes levels, standard of living, and employment. The study therefore supported the view of institutional credits as a tool for poverty reduction. It was further discovered by the study that the AKRB as part of its social responsibility has contributed to other communities beyond its operational areas.

CHAPTER ONE

1. 1: Background to the Study

Access to finance has been seen as a critical factor in enabling people to transform their production and employment activities and to exit poverty (Banerjee and Newman 1993; Aghion and Bolton 1997; Banerjee, 2001). Countries with better developed financial systems, it is argued, should be better able to exploit growth opportunities (Schumpeter, 1934; Greenwood and Jovanovic, 1990; Bencivenga and Smith, 1991). In short, lack of access to finance may be a key reason as to why people and countries stay poor.

Rural development requires the availability and access to adequate credit by the rural inhabitants to finance their economic activities involved in the development process. Whether rural development takes the form of agricultural production or cottage craft activities, some amount of credit is needed by the various producers to finance the production activities. According to the Moshi Conference (1969), the purpose of rural development is "a rise in the standard of living and favourable changes in the way of life of the people concerned." Rural Banks development is a strategy intended to improve the economic and social life of the rural poor (World Bank 1975).

Traditionally, credit for financing rural development activities comes from two main sources: institutional and non-institutional sources. The non-institutional sources of credit include moneylenders, relatives, friends, traders, commission agents, cooperatives societies, 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 and the total credit from these non-institutional sources is insufficient to meet the demands for credit to finance rural development activities. To ensure a high growth rate of rural development, larger sources of credit need to be created. This is found in the formal financial institutions such the commercial banks, development banks, and other formal lending institutions. In Ghana, for instance, the institutional sources of credit are the commercial banks, the Agricultural Development Bank, the National Investment Bank, and the Bank of Ghana Rural Banks. However, most of these formal financial institutions concentrate their activities in the big cities and towns and pay very little attention to the rural areas of the country. Thus, rural development does not receive the needed credit it requires. 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 also, 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, to provide credit to productive rural ventures and promote rural development.

1. 2: Problem Statement

The population of Ghana was estimated to be 22 million in the year 2000 and about 60% of this figure lives in rural areas of the country (Ghana Statistical Service, 2000). The rural inhabitants of Ghana also depend heavily on agriculture as their main economic activity.

The importance of Rural Banks as providers of financial services to ensure growth in a predominantly agro-based rural economy cannot, therefore, be over-emphasized. In Ghana, inadequacy of capital has been a major set back to the establishment of large-scale industrial, manufacturing, and commercial operations. This has resulted in many Ghanaians engaging in small-scale economic activities. Solving the credit needs especially of people in the rural areas should therefore receive serious attention. This will increase their productivity, incomes and for that matter reduce poverty in rural communities so that their standard of living will be raised. Rural banks are, therefore, the main vehicle for financial intermediation, capital formation and retention in the rural areas. Rural banking system therefore seeks to address one of the most pressing needs confronting the international development community "how could productivity be raised among rural poor in developing countries"?

It is against this backdrop that this study seeks to ascertain the availability of rural bank credit to rural dwellers as well as ensuring the utilization of the credit and its impact on rural development. Thus, do the rural people have easy access to the required amounts and within the expected time frame, is the approved credit put to effective use in consonance with the purpose for which the loan was applied, and have the lives of the people been improved by the development projects of the rural bank?

1. 3: Objectives of the Study

The main aim of the study is to examine the impact of credit from rural banks on rural development in Ghana using Atwima Kwanwoma Rural Bank Limited (AKRB) and Amansie West District in Ashanti Region. The specific objectives are:

(i) To identify the various types of credit facilities provided by Atwima Kwanwoma Rural Bank Limited to its customers in Amansie West District.

(ii) To assess the impact of credit from Atwima Kwanwoma Rural Bank Limited on the economic productivity of its customers in Amansie West District.

(iii) To assess the credit delivery challenges confronting Atwima Kwanwoma Rural Bank Limited and its operations in the Amansie West District.

(iv) To make recommendations aimed at solving the various impediments on rural credit delivery and to enhance the development of not only the Amansie West District but also all rural areas in Ghana to alleviate poverty.

1. 4: Justification for the Study

With the majority of the Ghanaian population living in rural areas who are engaged in agriculture and small-scale activities as their main economic activity and producing the bulk of nation's output, these rural dwellers must have their standard of living improved. This can be achieved through a comprehensively planned and implemented rural credit programme to facilitate the rate of economic development. It was in the light of this that the Bank of Ghana established the rural banks in order to extend institutional credit to the rural dwellers in their respective areas of operations and thereby assist to increase productivity, create wealth and hence improve standard of living.

The significance of this study lies in the fact that there are limited systematic studies on the impact of rural banks activities on rural development. Furthermore, the opening of rural bank branches in some cities and towns in Ghana currently is on the ascendency as opposed to their initial mandate of operating in the rural areas. It is therefore pertinent to examine the operations of the rural banking sector to ascertain whether they are substantially deviating from their traditional role of providing formal institutional credit to the rural community. In this regard this study is expected to find out how far the rural banks activities have impacted in the rural credit delivery so that future researchers may use the findings to do further research.

Lastly, the dissertation will fulfill the partial academic requirements for the award of a postgraduate degree in Business Administration by the KNUST School of Business.

1.5.1: Scope

The scope of the study has been limited to assessing the impact of credit from Atwima Kwanwoma Rural Bank Limited on rural development in terms of poverty reduction in the Amansie West District. The study which was conducted to cover the period between 2004 and 2007 considered seven towns and villages within the Amansie West District whose residents are the credit beneficiaries of AKRB within the bank's catchment areas.

1.5.2: Sources of Data

The study shall assess the impact of bank credit on rural development with the focus on AKRB. Two main sources shall be used. These are

- Primary sources
- Secondary sources

1.5.3: Primary sources

The primary source of data will consist of the field data that will be collected from the field survey. Two types of questionnaires will be administered. One will seek to elicit information from residents of the communities in which the bank is operating. The other one consists of the bank's records on its loan portfolio over the last five years. Both questionnaires and interviews were used to elicit information after the 120 respondents have been selected using random sampling and snowballing techniques after the bank officials had helped the researcher to identify the respondents from a population of 600.

1.5.4.: Secondary source

On the other hand secondary data will consist of already conducted studies and well-established theories on the field of rural banking services in terms of credit delivery, rural development and their interrelations.

1.5.5: Analysis of Data

Both quantitative and qualitative tools will be used to analyze the data collected from the field survey. The primary and secondary data obtained will be analyzed using Microsoft Spread Sheets and Statistical Package for Social Scientists (SPSS). The results will be presented in descriptive statistical methods such as tables, graphs and charts along with their interpretations.

1.6: Organization of the Study

The study is structured into five chapters. Chapter one presents the background to the study, the problem statement, objectives, significance of the study, organization and limitations of the study. Chapter Two contains the conceptual framework and related literature on the impact of bank credit on rural development. Chapter Three describes the research methodology and profile of Atwima Kwanwoma Rural Bank as well as the Amansie West District. Chapter Four presents the analysis and findings of the study while Chapter Five states summary, conclusions, and recommendations.

1.7: Limitations of the study

It must be noted, that there are several reputable commercial banks dotted all over the rural areas of Ghana which have been included in the study. However, time and financial constraints necessitated the selection of a manageable study area to ensure meaningful results from the study. The limited period set for conducting the study and financial difficulties on the part of the researcher made it impossible to conduct an extensive study that would include a number of rural banks and rural communities in the country. Financial requirements in the areas of acquisition of relevant materials and access to information could be a limitation to the study.

CHAPTER TWO

LITERATURE REVIEW

2. 1: Introduction

This chapter reviews literature on institutional credit in rural areas vis-à-vis rural development both in the theoretical and local context. It is contended by both development scholars and practitioners that access to finance is a critical factor in enabling people to transform their production and employment activities and to exit poverty (Banerjee and Newman, 1993; Aghion and Bolton 1997; Banerjee, 2001). Countries with well-developed financial systems, it is argued, are better able to exploit growth opportunities (Schumpeter, 1934; Gerschenkron 1962; Greenwood and Jovanovic, 1990; Bencivenga and Smith, 1991). While these arguments have often provided the theoretical justification for widespread government intervention in the banking sector, evidence on the success of such interventions in reducing poverty remains limited.

2.2: Developments in the rural banking system

Ganzel (1992) traced the history of rural banks and examined the main purpose of establishing rural banks. Farmers need credit – that is, loans – in order to start up, expand and survive in the agricultural economy. In the late 1940s, a complex system of credit institutions fuelled good times where farmers required credit in the form of long term loans to buy land and machines as well as short-term loans to buy the "inputs" they need to farm each year. They needed money to buy seeds, fertilizer, herbicides, pesticides and other production items.

According to Bank of Ghana (BOG, 2008) there are currently 129 rural banks operating in Ghana. With only one bank established in 1976, the number increased to 106 in 1986 and went up further in the subsequent years to 126 in 1996 and by 1999 the number had increased to 134. Of that number, 23 were distressed by 1999 as they were insolvent and could not meet withdrawal claims by depositors. Between February and April 1999, the Bank of Ghana withdrew the licenses of the distressed banks, which brought the total of rural/community banks in operation to 111. As at January 2001 the number of rural banks in Ghana stood at 115.

According to the Advisor/Head Banking Supervision Department, Bank of Ghana, the rapid growth in the number of rural banks particularly between 1980 and 1985 could be attributed to interest shown by rural communities to establish their own bank and also the introduction of the Economic Recovery Programme introduced in 1983. In addition the Bank of Ghana had to promote the establishment of more rural banks in cocoa growing areas to assist in the purchase of cocoa through the Akuafo Cheque System, which had been introduced by the Government.

The bank of Ghana has observed that fraud and malpractice have often been perpetuated at rural banks where managers have remained at post without taking their annual leave. Acting on the believe that perpetuation of fraud in rural bank would be minimized if the managers were made to take their annual leave on regular basis and also as part of ensuring the observance and maintenance of strong internal controls in rural banks, Bank of Ghana has created a pool of managers with the relevant professional qualifications and practical banking experience to relieve rural bank managers to enable them proceed on regular annual leave (Asiedu-Mante, 2001).

Another important development in rural banking is the establishment of the Apex Bank. The Bank of Ghana in conjunction with IDA and DANIDA has sponsored the establishment of the ARP Apex Bank, which provides specialized services to rural banks to wide on their scope of operations. These include clearing of rural banks. Cheques through the national clearing system, organizing appropriate training programmes for both staff and directors, conducting inspection of operations to strengthen internal control practices providing funds management services sourcing domestic and external credit lines for on-lending and instituting deposit insurance scheme to cover depositors among others.

2. 3: Objectives of Rural Banks

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; and

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

The original objective of the rural banks was to bring progress with social justice to the rural poor, who were generally denied access to financial services from rural cooperatives as well as commercial banks (Machiraju, 1999). The rationale was that during the 1960s and 1970s, rural cooperatives were dominated by wealthy farmers, and the commercial banks had an urban bias. Therefore, most poor people turned to informal sources for their financing needs. In an effort to provide credit to the poor from institutional sources, the concept of rural bank in India was established in 1975. The number of Regional Rural Banks (RRBs) increased from 6 in 1976 to 196 in 1999, and the number of branches increased from 17 to over 14,000 during the same period. It was thought that these banks would combine the rural focus of the cooperatives with the business orientation of the commercial banks, to make credit widely available to rural disadvantaged communities.

Thus, from its very inception, the focus of the RRB system was to promote social justice through credit disbursement. Serving the poor and making a profit were seen as inherently contradictory. Since increasing outreach and covering costs was neither a stated objective nor a performance measure, financial viability was never made a priority by any stakeholder.

Yidav and Singhal (2005) did an extensive work on the role of regional and rural banks in rural development in India, because it was basically an agricultural country, and its rural development had attracted the attention of economists, planners and social scientists. They noted that rural banks in India were state-sponsored, regionally based and rural oriented, functioning specifically to meet the credit needs of the weaker section of rural population including small and marginal farmers and landless labourers. Rural Banks were seen as great sources and tools of economic planning geared towards attaining the goals of rapid regional development.

According to the report of ASB Bank Limited in 2007, ASB has been lending to rural people in Northland and around Auckland since the 1850's. In fact, ASB's first ever loan was made to a rural customer for 400 pounds on a 60 acre farm on the corner of Mt Eden and Balmoral Roads in Auckland. The purpose was, and still is, to provide a better banking service to the rural communities through enhanced development and opportunities. That level of growth is a strong indication that rural dwellers around New Zealand recognize and value the unique combination of banking expertise and farming improvements that ASB can bring to the rural banking sector.

Documentation of credit demand in rural areas is sparse. Bitler *et al* (2001) examined access for credit in rural areas of the U.S. Firstly, the report indicates that data collection is fraught with difficulties. In particular, it states that researchers usually must rely on limited survey data that usually shows that borrowers in rural areas are satisfied with their credit or obtaining loans is not a priority for them. While the report suggests that financial institutions provide necessary loans for rural communities, the report documents differences between operations of banks in urban and rural areas and emphasizes lack of competition in rural markets. This leads to unmet needs for credit in some communities. The study also reveals that while farm sectors and housing are well served, credit needs for rural development projects and non farm businesses need additional attention.

On the contrary, according to Anyemadu (2007), banks are not committed to rural development and that they access projects based on financial viability and their criteria do not give rural projects any advantages. The banks do not find rural projects attractive enough to warrant financing. He buttressed this with statistics indicating that over 80% of all new projects with Foreign Direct Investment (FDI) participation in Ghana happen in Accra - Tema metropolis. However it is wrong to think that the rural folks do not generate any business ideas and so they do not approach the bank. Many people are urged to simply change the location of the same original business plan to access the bigger city market, and the same banks finance them. The common excuse of non availability of market in the rural areas where the goods and services are created for refusal to finance rural projects is not watertight. Markets do not necessarily have to be geographically located at where the goods and services are created.

The 1998 Mt. Auburn Associates report, Capital and Credit Needs in the Appalachian Region, conducted for the Appalachian Research Commission is one of the few attempts to comprehensively measure credit needs in a predominantly rural region. Mt. Auburn Associates measured and assessed demand for small business credit through a series of telephone interviews of 200 small businesses with more than 5 employees located in Appalachia. Mt. Auburn found that survey respondents from non-metropolitan counties were less likely to seek financing for their business than respondents from metropolitan counties.

In the related study of Adams et al 1984; Braverman and Guasch 1986 on India, it was discovered that not only was formal subsidized credit ineffective in reaching the poor, it may even have undermined rural development and increased rural poverty. Social banking programs were set up precisely to attack poverty by expanding access to credit. However, by virtue of their vintage, social banking episodes, though numerous and large in scale, have largely escaped serious evaluation. And this is despite the fact that, even today, state provided finance remains the dominant source of formal finance in the rurai areas of developing countries (Besle1995).

India is an appropriate place for such an evaluation, both because of the size and scope of the social banking experiment and also because India is home to close to a third of the world's poor, the bulk of whom are located in rural areas (Deaton and Dreze, 2002). The rapid increase in the Indian rural branch network and rural credit and savings share after bank nationalization in 1969 and the subsequent slowdown post 1990 has been widely documented (Nair 2000).

Bell (1990) and Kochar (1997) claim that the role of commercial banks in promoting rural development has been limited. These studies, however, take limited account of the potential bias in their estimates caused by endogenous branch placement.

Much of the literature reviewed holds that rural financing follows demand; it is not led by the supply of credit. Desai and Mellor 91984) argue that the availability of new technology, which spawns an increased need for financial services, and the emergence of rural financial institutions should be simultaneous.

According to Robert Collender (1997) Restructuring of U.S. banking markets has raised concerns that insufficient access to loanable funds will limit economic growth in some rural areas. Access to non local funds can provide public benefits through enhanced competition and efficiency, but subsidized access to non local funds can create economic distortions. Because most rural areas are served by few lenders, public benefits may be limited if additional access does not encourage new competition. Unsubsidized market mechanisms could address the liquidity, risk management, and competitive challenges that some small rural banks may face. At the same time, market mechanisms can promote efficiency-enhancing use of non local funding and limit distortions.

Beside the governments efforts in providing rural credit for development as reviewed above, other writers have assessed the impact of regional financial institutions on rural finance and development. The African Rural and Agricultural Credit Association (AFRACA) is an association of banks and financial institutions which are directly or indirectly involved in providing financial services for rural development. It is a membership organization open to all central banks, commercial banks, government institutions and other institutions involved in rural development. AFRACA was formally established in 1977 and has a liaison status with the FAO of the United Nations.

The promotion of rural finance policy is a second major activity of the association. This is due to the realization that rural financed intermediation can be made successful if supportive policies for the provision of rural finance among member countries are put in place. AFRACA organizes workshops, seminars and conferences to promote the development and the diffusion of policy issues among member and non-member institutions. These are preceded by studies and research on financial policies and practices.

2. 4: Definition of Rurality

The continuing use of the term rural, in some respects, derives as much from policy discourse as from academic work. Many academics have long been wary of using the word 'rural' in anything other than a loose and generic sense, with some suggesting that it is unhelpful to use it at all (Hoggart 1990).

According to Kudiabor (1974), the Ghanaian government defines "rural" to be a village of 5,000 inhabitants or less and that most Ghanaian villages fit into this definition.

As Hodge and Monk (2003) explain:

> ''While we may recognize an urban to rural transition, this takes place across many different variables, such as density of human settlement, remoteness from urban centre, balance of particular economic sectors and patterns of land use. These variables transform continuously at rates in different locations. There can be no logical point at which 'urban' changes to 'rural' and the character of rural areas varies between places and through time. Any search for a single definitive definition of rural must be arbitrary at best and potentially futile'' (p2).

According to Davies et al (2007), inspecting what individuals and households do in rural areas helps dismiss two frequent misconceptions about rural populations.

The first is the belief that rural households are either all farmers or all diversified. To the contrary, there is a considerable heterogeneity in what they do and in the relative importance of what they do for their incomes. A large majority of rural households are engaged in some agricultural activity, but many derive a large part of their income from off-farm activities and from migration. Individuals participate in a wide range of occupations, but occupational diversity does not necessarily translate into significant income diversity in households.

The second misconception is the belief that the type of activities households pursue determines their success in moving out of poverty. This is not so because of the considerable heterogeneity within activities. Livelihood strategies in agriculture are characterized by dualism between market oriented smallholder entrepreneurs and smallholders largely engaged in subsistence farming. There is a parallel dualism in the labour market between high-skill and low skill jobs, and between migrations with high and low returns. Nor is diversification always a sign of success.

Hodge and Monk, (2003) admonished that it is more appropriate to consider economic activities that take place in rural areas by the people. It therefore makes sense for the purpose of this study to use population definitions of rural areas and to consider those economic activities that are important to the residents of defined rural areas. It is similarly important to recognize that there will be other people living in defined rural areas who work outside those rural areas.

2.5: Rural Development and Ghana's Rural Banks

The meaning of "development" has changed several times over the years. In the 1960's, development became synonymous with technological improvements and rapid economic growth (Rostow 1961). More recently, definitions of development have included improvement in material conditions, holistic and multi-dimensional development, good health, education, increased consumption, gender equality, human freedom and sound environment (Okonjo 1986).

According to Kudiabor (1974) the Ghanaian government has made several attempts to promote rural development in an effort to increase the living standard of the people who reside in rural areas since its independence. But these projects have failed for several reasons, including the power of lobbying groups, the high cost of living for farmers, and the lack of coordination between government agencies (Amonoo 1977; Brown 1986; and Opoku-Afriyie 1974). In the last three decades, the Ghanaian government has instituted new changes in government organization and developed new sources of rural credit to encourage private investment.

The 1983 Economic Recovery Programme, the pressures exerted on the Bank of Ghana in the early 1980's by the Cocoa Board, and the demands of prominent local citizens to have Rural Banks in their communities (Bank of Ghana 1995) served as the main catalysts for the increase in the number of Rural Banks. As the number of these Rural Banks increased, the banks were seen as an alternative channel for providing financial intermediation at the rural level.

Non Governmental Organizations (NGO's) have also been important in Ghana's rural development plans. Some of the NGO's that have been instrumental include World Vision International, Global 2000, Association for the Advancement of Women in Africa, Amasachina, DANIDA, SASAKAWA, Planned Parenthood Association of Ghana, the Red Cross, and the Fishermen's Association of Ghana. Examples of their contribution are the provision of water, health, sanitation and agricultural facilities and schools.

2. 6: Concept of Credit

Credit, in commerce and finance, is a term used to denote transactions involving the transfer of money or other property on promise of repayment, usually at a fixed future date. In 'The Wealth of Nations', Adam Smith stated that "Money makes money" which means when you have got a little it is often easy to get more. The great difficulty is how to get that little.

The principal function of credit is to transfer property from those who own it to those who wish to use it, as in the granting of loans by banks to individuals who plan to initiate or expand a business venture. The transfer is temporary and is made for a price, known as interest, which varies with the risk involved and also with the demand for, and supply of, credit.

Web finance (2008) defined Bank credit as the borrowing capacity provided to an individual by the banking system, in the form of credit or a loan. The total bank credit that an individual has is the sum of the borrowing capacity each lender bank provides to that individual.

2.6.1: Sources of Credit

Bill Ganzel (2001) identified four major sources of credit that in the 1940s in Indian as Banks, life insurance companies, individuals and local businesses, and the federal government. During the 1940s, most rural banks were locally owned and operated. Life insurance companies were significant for example, lenders during the 20th Century. With large sums from premiums and the need to find stable, long-term investments, farming was a good investment for the insurance companies. Individuals and local businesses were a huge source of credit for farmers. Relatives or local wealthy people would often loan money to farmers starting up or expanding their farming activities. In fact, in 1930, almost 60 percent of farm debt was owed to individuals and local businesses.

The federal government has loaned farmers more and more money since the government got into the business when it established the cooperative Federal Land Bank system in 1916. Bill Ganzel found that in the 20th Century local banks, individuals and businesses extended over 80 percent of the loans to farmers.

2.6.2: Forms of credit

According to Encarta 2008, the principal classes of credit are as follows:

Mercantile or commercial credit- which merchants extend to one another to finance production and distribution of goods;

Investment credit- used by business firms to finance the acquisition of plant and equipment and represented by corporate bonds, long-term notes, and other proofs of indebtedness;

Bank credit- consisting of the deposits, loans, and discounts of depository institutions;
Consumer or personal credit-which comprises advances made to individuals to enable them to meet expenses or to purchase, on a deferred-payment basis, goods or service for personal consumption

Real-estate credit, composed of loans secured by land and buildings;

Public or government credit, represented by the bond issues of national, state, and municipal governments; and

International credit, which is extended to particular governments by other governments, by the nationals of foreign countries, or by international banking institutions, such as the International Bank for Reconstruction and Development (IBRD).

The SBA report, Financing Patterns of Small Firms (1998) provides detail on the types of credit used by type of small businesses. The SBA report, categorizes loan into Traditional loans and Nontraditional. Traditional loans are regarded as line of credits, mortgage, vehicle, equipment, and leasing loans. Nontraditional loans include loans from owners of the small businesses themselves and credit cards (business and personal).

It has been established that loans in rural areas are provided mostly by friends and relatives, who usually charge no interest or collateral (FAO 1994). This credit market is, however, small and the total credit from these non-institutional sources are insufficient to implement rural development programs.

Bhupat and Mellor (1984) examined how rural financial institutions (RFIs) are organized, how they can improve their financial viability, and how real interest rates affect the demand for rural loans, the supply of rural deposits, and rural savings. They noted that as economies grow, informal traditional sources of credit, such as relatives and moneylenders, give way to formal, often publicly supported, financial institutions, such as banks, credit societies, and cooperatives. How these institutions are organized is crucial to their success. In most countries, RFIs can be found in a variety of organizational forms, including public-sector banks, cooperatives, private commercial banks, and government loan departments. Desai and Mellor found, however, that RFIs in many developing countries lack adequate vertical organization and fail to provide broad enough coverage of the rural population and many of the functions needed to promote agricultural growth. Systems that meet these criteria are better able to realize rural growth with equity, integration of rural financial markets, and economies of scale. They are more likely to be financially viable because their transaction costs are lower. Banks or cooperatives that have many branches and offer a wide range of services can realize unit cost savings because their volume of business is larger.

Agricultural finance is a subset of rural finance dedicated to financing agricultural related activities such as input supply, production, distribution, wholesale, processing and marketing. Financial service providers face distinct challenges when dealing with this sector. For example, the seasonal nature of production and the dependence on biological processes and natural resources leaves producers subject to events beyond their control such as droughts, floods or diseases. Land is the most widely accepted asset for use as collateral but there are often problems with title and property rights in rural areas and small loans rarely justify the costs of legal action to call in a claim on land and then liquidate it. Moveable assets such as livestock and equipment are also fairly high risk without proof of ownership and insurance cover.

Udry (1991) identified the involvement of governments in ensuring rural credit. At other times, government involvement has been much more heavy-handed. Governments have, for example, enforced strict 'anti-usury' laws that capped market interest rates or acted to prohibit or constrain the participation of certain types of intermediaries. Directed credit programs have compelled national banks to open rural branches and allocate a specified fraction of total lending to agricultural lending. For decades, state-sponsored finance was the dominant form of institutional lending in most developing countries, although access by different strata of farmers varied greatly by region.

2.6.3: Bank credit

Banks basically grant three types of loans namely, commercial and industrial loans, consumer loans, and mortgage loans. Commercial and industrial loans are loans to businesses or industrial firms. These are primarily short-term working capital loans (loans to finance the purchase of material or labor) or transaction or longer-term loans (loans to purchase machines and equipment). Most commercial banks offer a variable rate on these loans, which means that the interest rate can change over the course of the loan.

Whether a bank will make a loan or not depends on the credit and loan history of the borrower, the borrower's ability to make scheduled loan payments, the amount of capital the borrower has invested in the business, the condition of the economy, and the value of the collateral the borrower pledges to give the bank if the loan payments are not made.

Consumer loans are loans for consumers to purchase goods or services. There are two types of consumer loans: closed-end credit and open-end credit. Close -end credit loans are loans for a fixed amount of money, for a fixed period of time (usually not more than five years), and for a fixed purpose (for example, to buy a car). Most closed-end loans are called installment loans because they must be repaid in equal monthly installments. The item purchased by the consumer serves as collateral for the loan. For example, if the consumer fails to make payments on an automobile, the bank can recoup the cost of its loan by taking ownership of the car.

The SBA report, Financing Patterns of Small Firms (1998) indicated that bank credit constituted the single largest source of credit to small businesses.

2.6.4.: Distribution of credit

Available research indicates that bank credit is skewed in favour of men. On the distribution of labour in agriculture, it may be observed that the role of women in the production, processing and marketing processes is very significant.

Adoo-Adeku and Tagoe (2002) found out that Women farmers tend to be smallholders specialising in food production, with their operations being less commercialised and therefore less able to access credit, receive extension services, and other inputs. However the contribution of women to agriculture culminating in rural development has been variously estimated to be between 55% and 60%. This is not surprising considering that it is easier for men to find off-farm employment. Women also dominate in on-farm crop processing activities, in particular making maize or cassava flour, and these products are often sold on the market. It is worth noting that women also virtually monopolise the trade in foodstuffs, with the exception of yams (Hutchful 2002).

Cavaluzzo, Cavaluzzo and Wolken (2001) assessed the connection between discrimination and the ability to access credit by small business Borrowers.

Wolken concluded that gender and race discrimination cannot be omitted when assessing differences in credit application and denial rates.

Bitler, Robb and Wolken (2001) compared the use of credit by small businesses over time by comparing the 1998 and 1993 Surveys of Small Business Finance and found that over the reporting period, the percent of small businesses using vehicle loans, equipment and "other" loans decreased.

Credit usage and availability depends on the firm's age; the portion of young firms (less than 5 years old) that receive credit lines, loans, or leases is smaller than the percentage of older firms. Along the same lines, Haynes et al (1993) found that large banks are more likely to lend money to larger and older small businesses.

Documentation of credit demand in rural areas is sparse. The USDA's study titled *Credit in Rural America* examined access for credit in rural areas of the U.S. The report indicates that data collection is fraught with difficulties. In particular, it states that researchers usually must rely on limited survey data that usually shows that borrowers in rural areas are satisfied with their credit or obtaining loans is not a priority for them. While the report suggests that financial institutions provide necessary loans for rural communities, it documents differences between operations of banks in urban and rural areas and emphasizes lack of competition in rural markets. This leads to unmet needs for credit in some communities. The study also revealed that while farm sectors and housing are well served, credit needs for rural development aimed at alleviating poverty needs additional attention.

A World Bank Report on Agricultural Credit (1975), written at about the height of the Bank's lending for agricultural lending, noted that less than 1 percent of farmers in certain African farmers obtained access to subsidized lending, whereas in a country like Taiwan almost all farmers had access (World Bank 1975). The report also noted that in Latin America and Asia it was not uncommon for 70 to 80 percent of small farmers to have virtually no access to such credit. Where such farmers did have access to institutional credit, it had generally been used for short-term loans to finance current inputs, such as seed, fertilizer and pesticides.

Although institutional lines of credit to buy animals, tractors or equipment are sometimes provided over a period of two to five years or longer, longer-term institutional credit has typically remained scarce (Deininger 2003).

2.6.5.: Cost of Credit

High interest rates certainly make it extremely difficult for the poor to access credit. Desai and Mellor (2002) contend that in developing countries the demand for rural loans expands or contracts depending on the interest. The total costs of production are affected by changes in the interest rates they pay on loans. If the interest rate is too high, farmers for instance, will borrow less, which will adversely affect rural productivity.

According to Booth et al (2004), in Ghana the interest rates reached remarkably high levels in the latter part of the 1990s and in 2000, at over 45% and this seriously affected bank borrowers thereby reducing overall profits.

Another area of considerable concern after several years of macroeconomic reform has been the difficulty of containing high inflation which serves as set-back to effective credit delivery. Over the period 1990-2001 the inflation rate in Ghana stayed between 20% and 40%. At the end of 2003, inflation was 23.6%. But the current policy goal of the government was to achieve single digit inflation in 2004, and in July 2004 the inflation rate was reported by the Monetary Policy Committee of Bank of Ghana as 12.4%.

The continued failure of governments to effectively grapple with inflation is derived from budget management weaknesses and government deficit financing to satisfy political goals associated with the return to democracy in 1992. Indeed, the interesting thing about inflation is the fact that it has tended to accelerate during election years with the consequent effect of both depreciating and destabilizing the exchange rate (Booth et al, 2004). High (and variable) inflation has been a major contributor to macroeconomic instability in Ghana.

There is correlation between inflation and interest rates. High inflation has tended to push up interest rates considerably, thus increasing the cost of credit to the private sector. The combined effects of these rates have tended to shake investor confidence in the economy, and at the same time contracted the economy via a credit squeeze to the industrial and agricultural sectors.

2.7: The concept of poverty

Since the study is about the impact of bank credit on rural development in terms of poverty alleviation, it is important to consider the concept of poverty and its effects and also to review the literature on poverty.

Universally there is no single accepted definition for the concept of poverty hence various authors have different views on it. Generally, many scholars include conditions of having insufficient resources or income as an important measure in their comparison between poor and rich nations. A country may be called "poor" if its real income per head is low relative to those prevailing in the countries commonly called developed countries, Birmingham (1970). In purely economic interpretation, this is attributed to lack of capital, which according to him, repeats itself in involves a number of "vicious cycles".

Rein (1970) supporting the same view, also sees poverty as the lack of income needed to acquire the minimum necessities of life such as food, shelter and clothing. Poverty is also considered beyond income levels by some researchers. According to Titmus (1962), poverty is more than lack of income and that the concept encompasses non-economic variables such as prestige, power and social services.

According to Asenso-Okyere et al (1991) poverty is a state in which an individual or group of persons cannot meet the basic necessities of life either because they cannot afford them or the necessities are not available or both. Similarly, Townsend (1970) sees poverty as not only as the lack of resources needed to live a normal life, but also lack of resources used by the rich.

Corbert (2007) identified that the nature of poverty in the developed world differs greatly from that in the developing world. In developed countries, the majority of people commonly earn over 200 times the per capita income of the poorest developing countries.

The Ghana Poverty Reduction Strategy (2002-2004) sees poverty as an unacceptable physiological and social deprivation. This may be caused by: the lack of capacity of the poor to influence social processes, public policy choices and resources allocations; low capabilities through lack of education, vocational skills, entrepreneurial abilities, poor health and poor quality of life; the disadvantage position of women in society; exposure to risks through lack of financial, social or physical security; low levels of consumption through lack of access to capital, social assets , land and market opportunities exposure to shocks due to limited use of technology to stem effects of droughts, floods, pests, diseases, and environmental degradation; inadequate environmental protection measures lack of micro-economic stability that erodes the resources of the poor through inflation and other variables; the inability of the national economy to optimize benefits within the global systems; habits and conventions based upon superstition and myths giving rise to anti social behavior; and other factors leading to vulnerability and exclusion (GOG, 2002) .

2.7.1: Characteristics of poverty

How people and institutions portray and try to cope with poverty depends to a considerable extent on how poverty is measured. The differences between relative poverty (having less than others) and absolute poverty (not having enough to survive) are great. However, there are a wide variety of options for measuring wealth and well-being and for establishing lines that separate the poor from the nonpoor. Economists have traditionally chosen income as the basis for measuring and defining poverty, but even that choice allows for a multitude of options. While no one measure is necessarily correct, experts argue that some are better than others.

According to Corbert (2007), levels of poverty also depend on how income and resources are distributed. Countries with high Gross Domestic Product (GDP) can have low levels of poverty if people have relatively equal amounts of income and resources, such as in Scandinavia. On the other hand, countries with equally high GDP will have higher poverty rates if a few people have far more income and resources than the rest, for instance the United States.

Any serious attempt to consider the issue of poverty must also focus on its location, extent and characteristics. The most valid generalization about the poor is that they are disproportionately located in the rural areas and that they are primarily engaged in agriculture and associated activities.

Todaro (2000) found that data from a cross-section of Third World countries indicate that, about two-thirds of the very poor live on subsistence agriculture either as small farmers or low-paid farm workers. The remaining one-third are located partly in rural areas engaging in petty services and partly on the fringes and marginal areas of urban centres where they engage in various forms of self employment such as street-hawking, trading, petty services and small-scale commerce

Another important generalization about poverty is that it affects a disproportionate number of women. The fact suggests that the poverty of households headed by women such as in Scandinavia. On the other hand, countries with equally high GDP will have higher poverty rates if a few people have far more income and resources than the rest, for instance the United States.

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Another important generalization about poverty is that it affects a disproportionate number of women. The fact suggests that the poverty of households headed by women and the poverty of women in general is directly related to their status. Women are usually less educated, have fewer employment opportunities, and receive lower wage than men.

Furthermore, they have less access to land, capital and technology, and this lack of access greatly diminishes the efficiency of production both inside and outside the home (Todaro, 2000).

2.8: Measuring impact of credit on poverty

The question of whether and how finance and poverty are linked is a key theme within development economics (Banerjee, 2001). Whereas some researchers have discovered a positive effect on bank credit and poverty reduction which ultimately leads to rural development, others are at variance to this.

According to Jean Dreze (1997) on his work titled 'Credit in rural India: A case study' the contribution of formal institutional credit to rural development is hard to assess. Farmers and farm laborers are certainly in great need of well functioning credit arrangements at reasonable rates, but the failures of public lending institutions are also far from negligible. Observations of bureaucratic, corrupt and inequitable mode of functioning in institutional credit have also been made in a large number of other studies: Bhende (1983, 1986), Walker and Ryan (1990), Olsen (1996).

The distributionally regressive impact of public lending institutions in particular has been extensively documented; Krishnan (1990), Banik (1992). This can take at least four different forms: (1) larger farmers have disproportionate share of subsidized institutional credit; (2) larger farmers have higher default rates, largely due to their greater clout and greater connections (Bhende 1986, Sarap 1987); (3) larger farmers pay effectively lower interests, because they take larger loans with lower transaction costs (Banik 1992); (4) disadvantaged groups are the principal target of fraudulent accounting practices as Bell and Srinivasan (1985) aptly put it " the ruling principle appear to be : 'to him that hath shall be given', although the poor are by no means excluded" (p.10)

Reporting on the supply of credit to different categories of businesses most likely understate the needs of small businesses for credit. A significant number of small businesses that desire credit do not apply because they fear rejection. Cavaluzzo et al. (2001) found that almost half of all small businesses in the 1998 SSBF desired credit but half of these firms did not apply because they feared rejection. Because of large-scale fear of rejection, patterns of lending do not necessarily indicate that credit needs of various types of small businesses are satisfied.

On the contrary, Burgess (2003) made a central finding that rural branch expansion in India significantly reduced rural poverty, while leaving urban poverty unaffected. The implied elasticity of rural poverty to rural branch expansion was found to be 0:42. There was no evidence that the program 'undermined' rural development. Rather, the arrival of banks into rural areas led to increases in aggregate economic growth, and that the program appears to have played a significant role in enabling rural Indians – that previously had no access to banks – to escape rural poverty.

According to Burgess et al (2003) evidence from the Indian social banking experiment estimates suggest that a 1.0% increase in the number of rural banked locations reduced rural poverty by 0.36 percent and increased total output by 0.55 percent. The output effects are solely accounted for by increases in non-primary sector output — a finding which suggests that increased financial intermediation in rural India aided output and employment diversification out of agriculture. Banerjee (2001) also found that due to the high interest rates charged by moneylenders which exceeded those charged by commercial banks, the entry of banks in the rural areas thus provided the rural populations access to a cheaper credit than was previously available. It may have also exerted downward pressure on interest rates charged by moneylenders.

2.9: Challenges of granting credit

The issue of low repayment of loans resulting in losses makes the RRB system highly unprofitable and continues to remain a major challenge to most financial institutions. In analyzing this problem the tendency has been to focus on the inadequate incentives that the borrower has to repay. This concern is prominent, for instance in principal-agent relationship models of the relationship between borrower and lender. According to Pulley (1989), the problem can best be solved through instituting better repayment incentives based for instance on group lending and other means of making the borrower credit-worthy. Although the RRB system was seen as non-viable mainly due to losses arising from high default rate it is still celebrated in political and administrative circles as a success, mainly because of its immense coverage in areas where other banks would not operate. Consequently, the report issued by the Narasimhan Committee in 1976, showed optimism to the extent that any losses incurred by the RRBs would be a price worth paying, given the social benefits that would be attained.

According to Jean (1996), bank managers have poor incentives to recover their loans, and sometimes even have positive incentives not to recover them.

Similarly, Hoff, Karla, and Stiglitz (1992) discovered that cancellation of institutional loans had been used by various political parties in the 1990s as a major plank in spite of mounting fiscal crises.

The lack of appropriate institutional arrangements for punishing and rewarding program staff can also undermine the performance of development finance initiatives (Hulme & Mosley, 1996). This is especially true when civil service personnel policies do not sanction inferior performance and reward superior performance in an appropriate and timely fashion. Reports of successful development finance initiatives from around the world indicate that staff incentive structures, especially those that incorporate proper mixes of fixed salary and bonuses, can go a long way in enhancing a program's efficiency and productivity (Baydas, Graham, & Valenzuela, 1997).

Rural banks rely primarily on local deposits for loanable funds, but because reliance on local funds alone can sometimes limit community growth, some rural-headquartered banks are seeking greater access to nonlocal funds, (US Dept of Agric, info. bulletin no.724 1997.) Reliance on local funds can limit growth in rural areas where local savings are insufficient to meet economically viable credit demand or where seasonal increases in credit demand coincide with seasonal withdrawals of savings deposits. Elizabeth Laderman, (1997).

These banks fear the flow of deposits may be disrupted by ongoing competitive and demographic changes, such as easier entry into banking markets (following, for example, the lifting of restrictions on bank branching), increased acceptance of mutual funds and other uninsured vehicles for household savings, reduced consumer commitment to local financial institutions, and improved information processing and telecommunications.

However, USDA, 1997, rural banks make considerably less use of non-deposit funds than do banks headquartered in metropolitan areas, but in most rural banking markets, some banks do use nonlocal funds to some extent.

CHAPTER THREE

METHODOLOGY

3. 1: Introduction

This chapter describes the research methodology and socio-economic characteristics of Amansie West District. It states the research design, population and sampling techniques, as well as data collection and analyzing techniques.

3. 2: Study Area

Seven towns and villages were used to conduct this study and they include Pakyi No. 1, Pakyi No. 2, Manso Nkwanta, Manso Atwedie, Antoakrom, Bonsaso, and Kumpese. The choice for these areas stems from the aim to find the impact of Rural Banks credit on rural development in terms of poverty reduction, increase in income, provision of employment, and improvement in the standard of living in the catchments areas of Atwima Kwanwoma Rural Bank. Pakyi No. 1 and No. 2 were chosen because it is the head office of AKRB and this makes the two towns the immediate beneficiaries of the bank's services. Manso Atwedie and Antoakrom were also selected from the district due to cultivation of rice and pineapples on large scale. Manso Nkwanta and Kumpesa are significant because they have oil mills located there which serves the community. Bonsaso was selected as the 'Millennium Village of Ghana' in 2006 under the UN Millennium Project. Among others the village got the President's Special Initiative on cassava project, hence its inclusion in the study.

It is predominantly an agricultural community with about 80% engaged in the field. The major crops that are cultivated include cassava, maize, plantain, vegetables, citrus, rice, pineapple, cocoa, oil palm. Public employees such as rural bank staff, teachers, health practitioners, miners and police officers are few in the area. Beside agriculture, commerce plays a very important role in the area. Various kinds of commodities ranging from agricultural goods which are produced in the area to industrial goods such as clothing, provisions, farm implements, footwear, building materials etc, are traded. The area also promotes a number of small scale cottage industries such as dressmaking, hairdressing, carpentry, soap making, pito brewing, palm kernel brewing, groundnut oil brewing, corn milling, etc. Another significant occupation in the area is construction. This includes builders, architects, and sand winners.

3.3: Data collection procedure

Credit recipients of AKRB who are involved in the main economic activities in the area namely farming, commerce, manufacturing and construction were targeted for the study.

The researcher used both primary and secondary data for the study. Collection of the primary data involved a face-to-face interview with the help of a questionnaire.

The primary data collection technique like questionnaire and guided interview was used with the aim to illicit accurate information from the respondents. The secondary data used for the study included the annual reports of the bank, information from the bank's brochures, as well as other relevant newspaper publications concerning the bank. These secondary data were used to enable the researcher find further information in support of the primary data.

A random sample of 120 credit recipients was drawn from the total recipient population of 600 with the assistance of the bank's officials. This 20% sample was chosen because of the high money cost and difficulty of contacting credit recipients who are scattered over a wide area. Snowball technique was also use where by contacted respondents provided information about other possible respondents. Through random sampling and snowball technique 40 credit beneficiaries engaged in agric sector were selected. Systematic random sampling as well as snowballing technique was used to select 38 credit recipients in the commercial sector. Those selected from manufacturing and construction sectors were 18 and 22 respectively. All these categories were then interviewed.

The second questionnaire and interview were designed to elicit information from the AKRB staff. The micro finance manager was assisted in answering questions concerning factors relating to the bank's credit policies, social responsibility and any other issues considered important for rural development on the bank agenda. Other key officials responsible for the loan portfolio issues at the bank were also interviewed. These included accountants, project officers, and investment analyst.

3.4: The Data Analysis and Presentation Techniques

Both quantitative and qualitative tools were used to analyze the data collected from the field survey. Microsoft Spread Sheets and Statistical Package for Social Scientists (SPSS) were used to compile and tabulate the quantitative data. Tables showing percentages, frequencies, cross tabulation and bar charts were used for the analysis of the first objective of the study. Tables and Bar Charts were used to show trend of credit facilities offered by the bank for the 2004-2007 period which the study covers.

The second objective was addressed using the data collected from the field survey. Simple tables showing, percentages and frequencies from cross tabulation were used to assess the effects and identify the relationship between some of the variables.

The information provided by the officials of AKRB was used to address the third objective and the same was used to discuss the bank's contribution to the community aimed at poverty reduction.

3. 5: Profile of Atwima Kwanwoma Rural Bank (AKRB)

Atwima Kwanwoma Rural Bank was established on 6th September, 1983 as a financial institution empowered by the Bank of Ghana to provide financial services and intermediation within a defined operational area of 32 km radius from the main office at Pakyi No. 2. As the 6th rural bank to be established in the country and the 13th in the Ashanti Region, the bank has gone through many changes since its establishment. The bank started with initial ordinary shares capital of ¢1.0 million and ¢125,000 preference shares contributed by the indigenous people in the locality and the bank of Ghana. At the moment, the bank has 13,346 shareholders with 76,900,000 numbers of shares.

The Bank is registered under Ghana's Companies Code 1963 (Act 179) and operates under the Banking Law, 2004 (Act 73).

The bank's vision is to be "a leading international microfinance banking institution". This vision will be achieved through the newly adopted mission statement:

> "*To be the leading microfinance banking institution in Ghana, poised to transform and improve the lives and businesses of our customers and thereby reducing poverty through motivated and competent human resource, customer-driven products and the use of modern technology*".

The nature of the businesses that the Bank is authorized to carry on are

- To provide finance for farmers, small and medium scale merchants and industrialists.
- The provision of current and deposit account for customers.
- The provision of savings and fixed deposit accounts for its customers.
- To act as agent of other financial institutions in the country.
- To accept and discount bills of exchange.
- To act as executors or trustees of Wills for people in the community.

The bank in its policy of bringing banking to the doorsteps of small and medium scale customers operates through 5 branches located at Pakyi No. 2, Santasi, Old-Tafo, New-Tafo, Ayigya, and Atonsu Agogo. The bank currently has 203 highly skilled and motivated staff and Sales Executives who work hard to the objectives of the bank.

AKRB provides the following services to its customers Current Account, Savings Account, Fixed Deposit, 'Susu' Savings Accounts, Domestic Money Transfer Services, Foreign Transfers, Loans (Agriculture, Commerce and Personal), Overdraft Facilities, Salaried Workers Loans Package and Advisory Services. Account holders could be individuals, joint accounts, trustees, minors, associations, clubs, partnerships, sole traders, companies and governmental agencies. AKRB is also a member of the prestigious body of 100 best managed companies in Ghana 'Ghana Club 100'.

CHAPTER FOUR

RESEARCH FINDINGS AND ANALYSIS

4.1: Introduction

The purpose of this study was to assess the impact of bank credit on rural development in the Mansie West District of Ashanti region for the period between 2004 and 2007.

A total of 150 respondents were selected from a population of 600. Out of this number, 120 returned completed questionnaire representing 80% return rate. 64 of the respondents representing 53.33% were females whilst 56 i.e. 46.67% were males.

4.2: Socio-demographic characteristics.

The table below shows the socio-demographic characteristics of the sample by gender and their corresponding.

TABLE 1: SOCIO-DEMOGRAPHIC CHARACTERISTICS

Characteristic	No. of Male	No. of Female	Percentage
Level of education			
None	4	7	**9.17**
Primary/JHS	34	45	**65.83**
Snr. High	13	10	**19.17**
Tertiary	5	2	**5.83**
Marital status			
Single	11	14	**20.83**
Married	43	40	**69.17**
Widowed	-	5	**4.17**
Divorced	2	5	**5.83**
Religion			

Christian	40	55	**79.17**
Moslem	10	8	**15**
other	6	1	**5.83**

Source: Field survey, 2008.

It is discernible from the table 1 that 65.83% of the respondents had primary or junior secondary education whilst 19.17% had senior secondary (High) education. Whereas only 5.83% had tertiary education a significant 75% were semi-literates who constitute the bank's clientele.

Additionally, a significant number of 69.17% of the respondents were married as against 20.83% who were singles. Both widowed and divorced respondents constituted a total of 10%. It is evident that more married than singled people do business with the bank. When assessed the religious backgrounds of the respondents, a majority of them i.e. 79.17% were found to be Christians whilst Moslems formed 15%. The remaining 5.85% remained neutral to the two main religions of the area.

4.3.0: TYPES OF CREDIT FACILITIES GRANTED BY AKRB

The micro finance manager of the bank provided the credit facilities offered by the bank to the customers of its catchment areas to include the following:

4.3.1.: Group loans

Atwima Kwanwoma Rural Bank lends mainly to groups. Before granting a loan to a group, the Bank requires that there be mutual trust and respect among members. In the case of a group loan approval, members are held jointly and severally liable. The group cannot exceed 20 members, and the group leader must have a clean loan record. In addition to groups, individuals, sole proprietors, partnerships and companies also keep accounts and benefit from credit facilities. The bank is involved in the formation and monitoring of the groups from the very beginning to the gestation of the group. The groups are of 2 types namely:

- Church Groups – whose membership is drawn from the various church organizations and whose elders are very much involving in the lending process and
- Societies and Clubs – made up of members of the public in the catchment areas of the Bank and whose executives and guarantors are drawn from these communities and or neighbourhoods.

The Bank's credit officers and mobile banking staffs market its various products through outreach programmes such as educating the public at various for a (like funerals, communal labour days, church services or specially arranged meetings) on the advantage of forming groups to receive and access credit from the Bank to expand their businesses. The staff as part of the group animation exercise assists the groups to draw their constitution / bye-laws, teaching members basic book keeping to enable them keep track of their finances and the writing of group meeting minutes. They also attend their subsequent meetings occasionally and help the groups' executives to resolve any difficulties they have in processing loan requests.

Each group has an executive committee which coordinates the groups' activities, articulates the members' needs and liaises with the Bank officials. Most of the group members are individuals who engage in petty trading and the marketing or processing of agricultural produce. The formation of each group is a process that takes a period of about 8 weeks to complete, though close contacts continue to be maintained by the Credit Officers. The group lending process takes the further form of the individual members, upon the advice of the Credit Officers, to open individual savings accounts with the Bank. The individual's loan request is channeled or disbursed through the savings account. The practice of making the individual group member operate a personal savings account is to inculcate the savings habit in them and also assist in mobilizing funds for the Bank.

Apart from the savings accounts for the individual members, the groups maintain group accounts through which they build a weekly 'Susu' contribution from each member, the quantum of which is determined by the group and the size of the member's own future loan requirement. This 'Susu contributions is a step in the lending process to enable the group members mobilize enough cash security for funds access. The credit need of each group member is agreed with the group executives and an application made to the Bank for the loan. The loan is normally of 6 months duration with two weeks grace period. Where a group member defaults, the group is held liable for the member's loan repayment; a persistently defaulting member is removed from the group by consensus for subsequent loan requests.

Individuals and sole proprietors have also benefited form loans. Repayment is calculated and received on weekly or bi-weekly basis for group loans but loans to individual business entities have no benefit of moratorium and pay a higher annual interest rate of 36%, as compared to 32% for groups. As part of the monitoring and reporting process the Credit Officers prepare quarterly loan report for Management attention.

4.3.2: Dwetire group loan

This product is targeted at traders, artisans, service providers and women groups. The product is classified into two:

- Dweite Group Loans
- Large Group Loans

Under the Dwetire Group Loans bank staff undertake outreach programmes in communities within the catchment areas of the bank to form groups. The loan clients are then trained and nurtured for 8 weeks in order to be able to have access to loan facilities. Having been granted a maximum loan of ¢10million per individual client, the group graduates from Dwetire group to Medium group where the maximum loan limit per client is ¢30 million. From the medium group loan, groups graduate to the large group when they can access a maximum loan of ¢50million per client.

- Group formation is by self selection
- Group members shall be located in one area
- Group size should e between 8 – 15
- Repayment is between 6months and 12months.

4.3.3: Church development loan scheme

The church development loan scheme product is to assist churches obtain funding for church development projects and programmes. The bank meets the churches in its development projects like church buildings, pastors' residence, schools and other projects like renovation within the churches, church needs like public address system, musical instruments, acquiring a building plot, acquiring church furniture or purchasing a vehicle for the church or the pastor.

- The church should be recognized and registered
- The church must operate an account with the bank for a period of not less than three months.
- The church must provide 20% of the loan amount as security
- The church executives shall guarantee
- The church must submit its financials for past three years.

Repayment duration is up to 36months

4.3.4: SMEs/Institutional loans

This product is designed to assist well established and registered institutions like public and private schools, hospitals and clinics, hotels, transport unions, media houses to obtain funds for expansion and running of such institutions.

- The institution must be registered

- The institution must operate a current account for at least 6 months
- The institution must submit its accounts for the past three years.
- Repayment duration shall not exceed 36 months
- The institution must provide at least 20% of the loan amount as security in its savings account.

4.3.5: Salary loans

This facility is granted to salaried account holders who have their salaries passing through the bank. The purpose of such loan includes acquiring a plot for building, acquiring a set of furniture, acquiring home appliances like fridges, T.V., Mobile phones, paying school fees and meeting urgent commitments.

- Applicants' salary must have been channeled through the bank for not less than 3 months.
- The employers shall guarantee to continue to channel employees' salary through the bank.
- Two salaried workers who collect their salaries through the bank shall guarantee
- The Maximum repayment duration of salary loan shall be 36 months

4.3.6: Motor vehicle loans

Motor vehicle loan is a type of long-term financing whereby the bank approves the amount for the purchase of a means of transport for its loyal customers. When a new machine is being purchased or presently owned vehicle is used as collateral, usually from 50 to 80 percent of the value of the vehicle can be financed depending on its salability. Motor vehicle loans can be approved in favour of registered institutions, churches and individual salary workers.

4.3.7: Overdrafts

An overdraft facility is approved by the bank to a customer after preliminary arrangements to enable the customer withdraw an amount over and above the customer's credit balance with the bank. The overdraft facility can be enjoyed by only current account holders but not any form of savings account.

4.3.8: Personal credit line

Personal credit line (PCL) is the form of cash flow financing most frequently used by entrepreneurs. In arranging for a PCL to be used as needed, the customer pays a 'commitment fee' to ensure that the bank will make the loan when requested and then pays interest on any outstanding funds borrowed from the bank. Frequently, the loan must be reduced to a certain agreed-upon level on a periodic basis.

4.3.9: Travel finance loan

This loan was advanced to applicants mainly students who traveled outside the country through specialized agents of the bank. An applicant need not to be an account holder of the bank provided requisite documents are satisfied with the bank's agents who finally reimburse the bank. The travel finance loan was terminated in the 2007 financial year.

4.4: APPRAISING CREDIT

The microfinance manager was requested to prioritize the bank's basic considerations in appraising credit request. The manager was requested to rank in ascending order from 1 to5 with '1' being the highest score and '5' being the least to be considered in granting loans. The factors found to be in order of importance to the bank were as follows:

- Ability to raise enough cash to meet loan repayment
- Sound credit history
- Past financial performance of applicants.
- Relationship with other banks
- Collateral being offered

The respondents were asked whether they have received a credit facility from AKRB before. 115 respondents representing 95.83% responded in the affirmative whilst only 5 people indicated that they had not taken a loan with the bank. A related question was asked to find out whether the respondents seek financial assistance from other sources besides AKRB and a larger majority of 110 people representing 91.67% indicated in the affirmative. Here 45 respondents i.e. 40.91% sourced financial assistance from savings and loans schemes, 20 respondents i.e. 18.18% from NGOs. The rest solicited for funds from sources such as the District Assembly common fund, Rotating savings and money lenders.

Since the area is predominantly an agricultural community with commerce and construction also playing major roles, it was imperative to find how much loans the bank allocates these sectors. It was found contrary that a greater percentage of the bank's loan i.e. 52% goes to commerce, 47.80% to salary workers and institutions like churches, and 0.20% to agriculture as shown in the table below.

Table 2: Showing bank loan portfolio to sectors.

SECTOR	PERCENTAGE
Commerce	**52.00**
Agriculture	**0.20**
Manufacturing	-
Construction	-
Others	**47.80**
TOTAL	**100.00**

Source: field survey, 2008

From table 2 above, it is clear that the bank grants a greater proportion of its loans to the commercial sector i.e. 52%. This is closely followed by the 'others' category which constitutes 47.80%. The category combines all salary loans, church development loans as well as institutional loans. Agriculture in the area is made up of peasant farmers, food and cash crop growers, livestock and poultry farmers, traditional and non-traditional crop farmers. The percentage of the bank's loan to this sector is 0.20%. The manufacturing sector which comprises artisans such as carpenters, mechanics, soap and palm oil makers, gari processors, bread bakers, etc has no allocation of the bank's loans. Loan for construction purposes for builders, architects and sand winners also has no allocation on the bank's portfolio.

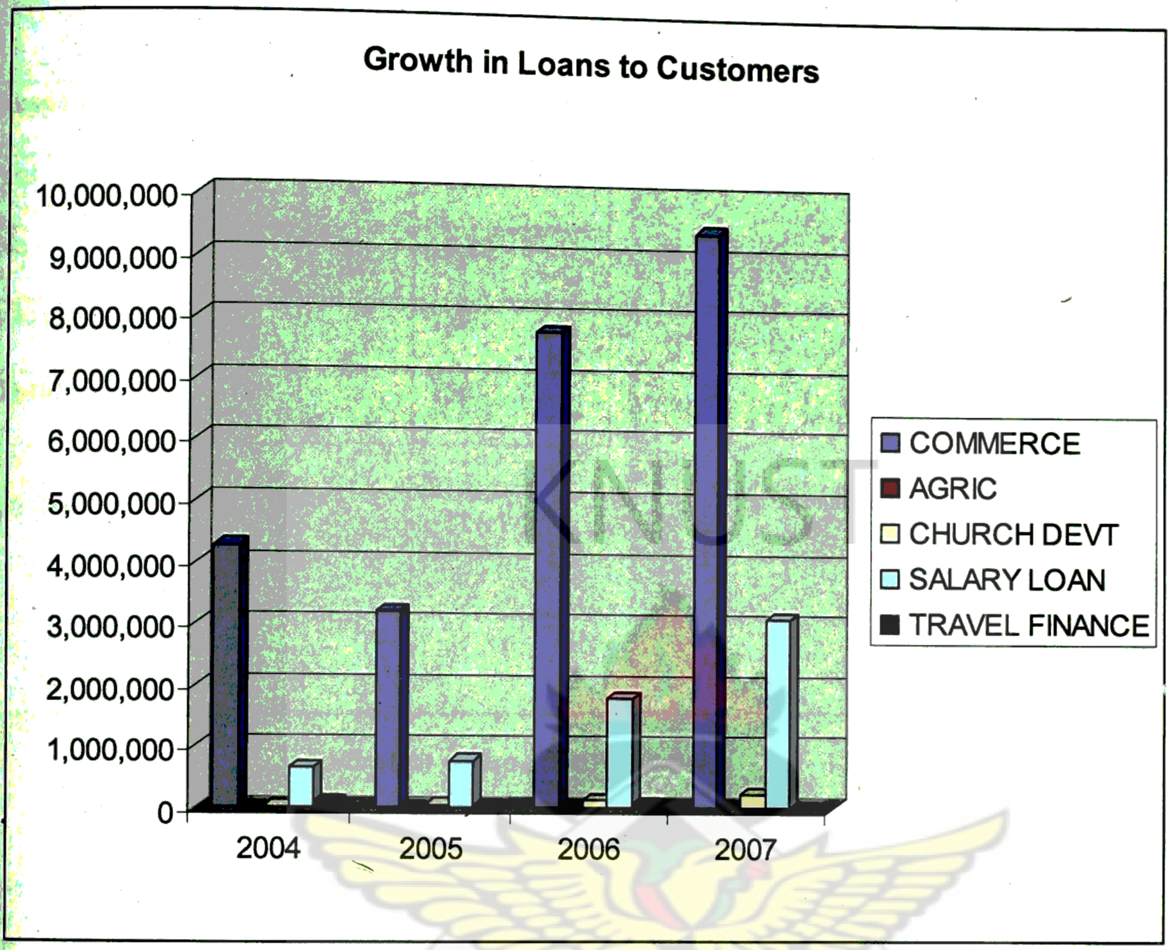
4.5: Pattern of loan in AKRB

It was important to assess whether the bank has been recording increases in loans granted to the community to buttress the claim that it is making credit accessible to its catchment areas. The following table shows the types and amounts of loans granted over the four-year period ending 2007. Even though total loans granted in 2005 reduced by 19% from GHC 5,061 million in 2004, the credit officer explained that as a deliberate policy of management intended to recover all outstanding loans. There was an appreciable increase from GCH 4,076 million in 2003 to GHC 12,818 million in 2007 representing a huge increase of 214%. Table 3 and the bar chart explain the pattern of the various types of loans granted over the period.

Table 3: Showing growth in loans to customers

Loan Type	2004	2005	2006	2007
Commerce	4,277,400.00	3,208,326.00	7,798,013.00	9,455,123.00
Agric	10,720.00	8,041.00	19,544.00	23,697.00
Church Devt	22,000.00	53,000.00	132,200.00	225,450.00
Salary loan	660,350.00	777,760.00	1,816,430.00	3,105,857.00
Travel Finance	90,975.00	29,186.00	69,767.00	8,514.00
Total	**5,061,445.00**	**4,076,313.00**	**9,835,954.00**	**12,818,641.00**
% change		19.00	141.00	30.00

Source: field survey, 2008



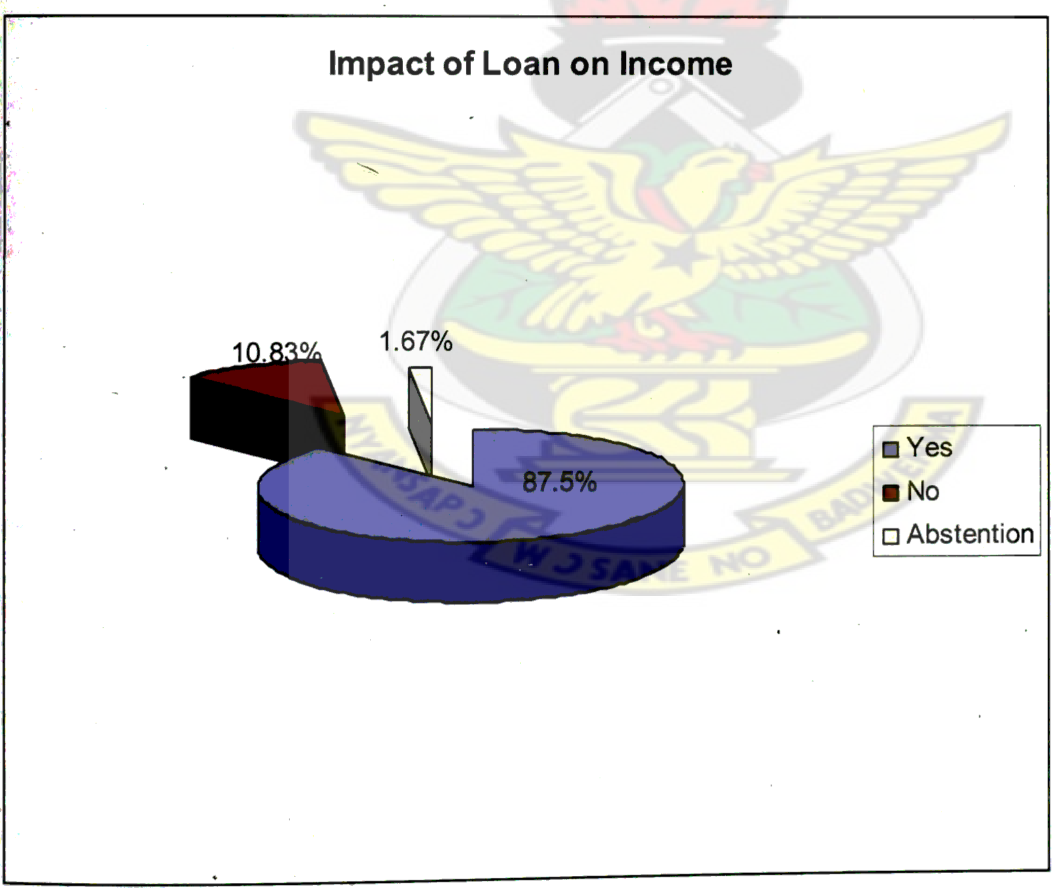
4.6.1: Effect of loan on Income

The respondents were asked as to whether their households had experienced an increase in income over the last four year. An increase in income was answered by Yes/No response. 105 respondents, thus 87.50% said they had experienced an improvement, 13 respondents representing 10.83% saw no improvement in their income level whilst 2 people i.e. 1.67% abstain to answer as shown in the table 4 below. The results have also been presented in a pie chart.

Table 4 Impact of loan on income

Response	**Respondents**	**Percentage**
Yes	105	87.50
No	13	10.83
Abstention	2	1.67
Total	**120**	**100**

Source: field survey, 2008



Source: field survey, 2008

4.6.2: Effect of loan on Standard of Living

A subsequent question was asked to find out in which areas that respondents' standard of living have bettered. The parameters used for this assessment included an improvement in basic necessities such as: food/water, shelter, cloths, health, quality education, personal effects, enhanced social status etc.

Table 5 Effect on standard of living after loan by respondent (percent)

Parameter	Respondents
Food/Water	100
Shelter	100
Cloths	95.28
Health care	100
Enhanced status	66.67
Personal effects	93.27

Source: field survey, 2008.

From the table it can be gathered that the loan beneficiaries had their food/water, shelter, and health care needs improved by 100%. They saw an improvement of 66.67%, 93.27% and 95.28% in their social status, personal effects and clothing respectively.

4.6.3: Effect of loan on Employment

The respondents were asked to indicate the number of employees they had before and after accessing the bank loan. This was done with the aim of assessing the impacts of the loan (if any) on the activities of the respondents in the rural community. The results are presented in table below:

Table 6 Effect on employment before and after loan.

Occupation	Period	No. of employees		
		1	2-3	>3
Commerce	Before	27	48	25
	After	0	57	43
Agriculture	Before	60	30	10
	After	15	32	53
Construction	Before	52	38	10
	After	10	67	23
Manufacturing	Before	55	32	13
	After	11	72	13
TOTAL	Before	45	28	27
	After	8	40	52

Source: field survey, 2008.

The table shows a significant improvement in the number of employee engaged in the four main occupations in the area, i.e. commerce, agriculture, construction, and manufacturing. Before the loans were taken, as much as 45% of the respondents could employ only 1 person but after acquiring the loans only 8% of them had 1 employee. Secondly, the number of respondents who could employ between 2 and 3 workers increased from 28% to 40% after taking the loan. Similarly, there was a significant increase in the respondents who could employ more than 3 workers after taking the bank loan. Whereas only 27%

could afford the services of more than 3 workers on their jobs without any bank loans, 52% could now employ more than 3 workers after accessing the bank loans. All the respondents attributed the increase in the number of employees they could afford to the positive effect that the bank's loan had brought onto their various occupations and the consequential effect of reducing poverty.

A subsequent question was asked to elicit information about how easy or otherwise it was for customers to get their loans processed. The responses were indicated as follows:

Table 7: Application processing speed

Speed	Respondents	Percentage
Very fast	7	5.83
Very cumbersome	15	12.5
Very long procedures	68	56.67
Fairly easy	30	25
TOTAL	**120**	**100**

Source: field survey, 2008

It is clear from table 7 that a significant number of the respondents i.e. 68, representing 56.67% described the bank's loan processing requirements follow very long procedures. Only 7 applicants i.e.5.83% indicated the processing requirements as very fast and easy. Those who said it was fairly easy accounted for 25% whilst still 15 respondents i.e. 12.5% saw it was very cumbersome.

The credit manager, on a similar question intimated that the bank takes between two and three weeks to process a loan application depending on the particular loan product. However, salary loans require a maximum of 48 hours to process.

4.7: Interest paid on loan

Because interest rates form an integral part of every loan processing requirement, it was equally essential to examine the respondents' view as far as the rate charged by the bank was concerned. Ranges of interest rates were given for the respondents to indicate what percentage they pay on the loans offered by the AKRB and the table below was produced.

Table 8 Interest rates paid on loans:

Interest rates paid	Respondents	Percentage
18% - 21%	5	4.17
22% - 24%	9	7.50
25% -28%	11	9.17
29% - 32%	25	20.82
33% - 36%	68	56.67
Others	2	1.67
TOTAL	**120**	**100**

Source: field survey, 2008

Out of the 120 credit beneficiaries, 68 of them representing 56.67% indicated that they paid interest rates between 33% and 36% on the loans whereas a further 25 respondents representing 20.82% paid between 29% and 32%. One of the 2 respondents in the "others' category indicated not having any knowledge at all about interest on bank loans whilst the other respondent claimed the payment of 42% interest rate.

A follow up question was asked to sample the respondents' perception of the interest rates they paid on the loan. To ascertain this they were to state whether the interest rates were Very High, High, Normal or Low. Majority of the respondents representing 61.67% indicated that the bank's interest charged on loans were Very High. Additionally, 35 respondents i.e. 29.17% also found the interest rate to be High whereas 6.66% said it was Normal. Only 3 respondents said that the bank's interest rate was Low and this represents 2.5% of the sample. Table 9 below depicts the beneficiaries' opinion on the bank's interest on loan.

Table 9 The recipients' opinion on interest paid:

Interest rate	Respondents	Percentages
Very high	74	61.67
High	35	29.17
Normal	8	6.66
Low	3	2.50
TOTAL	**120**	100

Source: field survey, 2008

Subsequently, an attempt was made to find out whether the rate of interest paid affected the respondents, and to what extent the effect was. A significant 88% of the respondents said yes whilst 14 of them representing 12% said they were not affected. It was amazing to note that 100% of those who said they were affected by the high interest rate also emphatically opined that the high interest rate translate into lower profits.

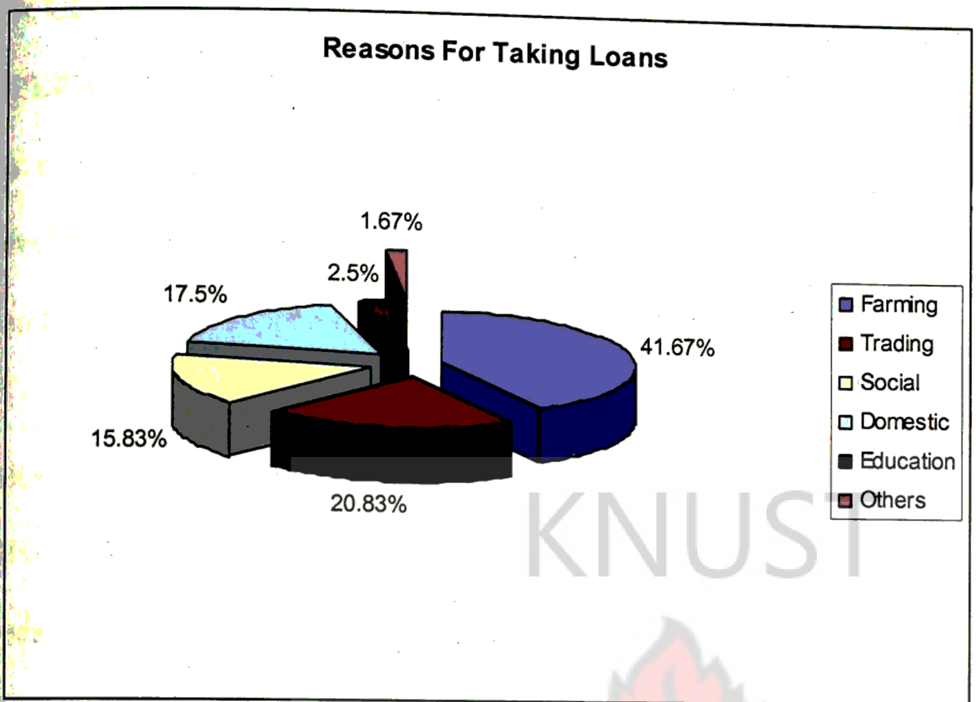
4.8: Reasons for loan application

The respondents' reasons for taking the bank loan was sampled to check if they are development oriented. The various responses are produced in table 10.

Table 10 Reasons for taking loans

Reason	No. of respondents	%
Farming	50	41.67
Trading	25	20.83
Social	19	15.83
Domestic	22	17.50
Education	3	2.5
Others	2	1.67
Total	**120**	**100**

Source: field survey, 2008



It is evident from the table that 50 respondents, i.e.41.67% applied for the loan to expand their farms whilst 25 of them, i.e. 20.83% to engage in trading. The Bank of Ghana requires that of all rural credit resources, 50% support agriculture, 30% support small-scale industry, and 20% support rural area service sectors. Credit for these purposes is called "direct production credit." However, credit for production activities, such as farming, trading, and 62.50% of the total loans in the sample.

Social and domestic needs which are counter productive were common reasons given for acquiring a loan from the bank, they accounted for 33.33%. Credit for these purposes is called "social credit" and recipients use this loan for family obligations, health, and consumer items in the home. Another 1.67% of the respondents admitted misapplying credit from productive to social investment.

4.9: CONTRIBUTIONS OF AKRB TO THE DEVELOPMENT OF THE AREAS OF OPERATION

As a development oriented institution, AKRB has provided funding for a number of development projects and its impacts can be seen in areas like Education, Health, Sanitation, Water supply and Electricity.

AKRB adopted The S.D.A Hospital in the year 2000 and has since donated cash support of GHC 6000 towards construction of nurses' quarters together with provision of furniture, beds, television, video and deck. The bank has also concerned itself with the environmental cleanliness to avert disease. In the light of this the bank has provided KVIP places of convenience to several communities including Dominase, Kantinkyeren, Konkori and Konkomase.

The bank has done a lot to improve the educational standards of its catchment areas. It has provided duplet desk, teachers' tables to 35 basic schools. In 2004, a scholarship of GHC 6,000 was granted to 150 pupils to pay for their fees and study material. Additionally, scholarship was awarded to 180 senior high students in 2006 in the district. In 2005, a total of 12 schools were renovated. Junior High School workshop at Kwanwoma and a 9-classroom school block at French were completed. Again AKRB set up a Community Library at Pakyi No. 2 to assist children in the area to read and research to enhance their education. Furthermore, the bank has begun the construction of a model Senior High School for the Pakyi community in which GHC 150,000 has been spent as at 2008.

The bank continues to support the construction of boreholes at Pakyi No.1 and No. 2, and grants assistance for the supply of electricity, construction of culvers, bridges, gutters, and drainages to the Amansie West district. As part of its social responsibility, the bank donated GHC 6,000 to the Kumasi Metropolitan Authority for the beautification of the city and also spent GHC 17,500 for the beautification of Ahodwo roundabout by mounting a gigantic metallic horse at the roundabout. The Komfo Anokye Teaching has also received enormous support from the bank. The bank has made a donation of wheelbarrows, pick axes, and shovels for clean up exercise at Old Tafo. To protect the community, the bank spent GHC 850 to renovate the old Tafo police station.

4.9.1: CHALLENGES TO CREDIT DELIVERY IN AKRB

Despite the bank's contribution to the development of Amansie West District, the study unearthed the following challenges to its credit delivery. The bank is faced with the challenges associated with contemporary banking. Competition is very high in the banking industry as banks introduce new products and services to capture low cost deposit affecting margins. New banks have entered the bank's catchment area with large resources and competing in its credit delivery.

Secondly, the bank is in competition with certain non-institutional credit providers in the rural community such as moneylenders, relatives, friends, traders, commission agents, cooperatives, consumers, distributors of farm inputs, and processors of agricultural products. It was revealed that 20 respondents i.e. 18.18% of those who sought financial assistance outside the bank had their needs met by money lenders. They explained that usually they are not charged interest or collateral and this was preferred to the bank's slow pace and bureaucracy in handling loan requests.

Furthermore, there is the issue of multiple borrowing. This has to do with a loan beneficiary of the bank who simultaneously borrows from one or more credit givers, whether individuals or banks. This reduces credit recipients' ability to repay the principal and interest since they have to remain committed to the various individuals and institutions they have borrowed from. Unless a serious effort is made to recover loans, the bank will always record high default rates.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1: SUMMARY

Since the colonial era, successive governments have made several attempts to promote rural development in Ghana in order to improve upon the living standards of the people in the rural areas. However, access to credit has been a major setback to achieve this feat. The effect of this has been lower productivity and income, high rate of poverty, unemployment and rural-urban drift. In the bid of the government to overcome many of these difficulties, the concept of rural banking was introduced into the country in 1976 through the Bank of Ghana, to meet the credit challenges of the rural folk to enhance productivity, bridge the rural-urban gap, and alleviate poverty in the rural communities. The objective of this thesis was sought to access the impact of bank credit on rural development in terms of poverty reduction with specific reference to Atwima Kwanwoma Rural Bank in the Amansie West district, and to identify any pitfalls in order to address them and to ensure whether these banks are carrying out their mandate of promoting rural development.

To achieve the above-mentioned objectives, the researcher contacted two categories of respondents. They included respondents who have benefited from the credit support of the AKRB in the Amansie West district on the one hand and the bank official on the other hand who produced information on the bank's credit delivery system. Basically, the study was conducted by examining the various kinds of credit facilities offered by the bank to the people in its catchment area, the effects of these credit facilities on income, standard of living and employment of the people. The bank's contribution to the development of the community has been evident in the field of education, health, water and sanitation, and supply of electricity as part of its corporate social responsibility agenda.

The study examined the concept, types, cost and distribution of credit. The concept of poverty and its characteristics and how access to credit has impacted on poverty reduction was outlined. The origin, developments, performance and the assistance of rural banks to rural communities were also discussed. Both primary and secondary data and simple tables showing percentages, frequencies cross tabulation and bar charts and pie charts were used for the analysis.

5.2: CONCLUSION

Among the objectives set in the thesis, the institution, AKRB, provides various types of credit facilities including loans offered to salaried workers, farmers, group loans, church development loans, commercial loans to finance micro-enterprises and institutional loans to well established and registered institutions. It was discovered that with respect to salary loans two salaried workers who collect their salaries through the bank must guarantee before an application can be considered.

The study further established that for the four-year period between 2004 and 2007 there was a significant increase in the bank's loan portfolio. This was as result of the high patronage of loans by the customers to improve their lot that the bank experienced during the period. Over the reporting period the increase in demand for loans rose from GHC 5,061million to GHC 12,818 million representing 153%.

Furthermore, the study has shown that, there is a direct correlation between the loans granted by the AKRB and rural development. Most respondents, i.e.105 representing 87.50% experienced increase in income. Households that could not meet certain basic necessities hitherto indicated their affordability for those necessities after taking the bank loans and this indicates that the bank is aggressively carrying out its mandate of reducing rural poverty.

The study also discovered an increase in the standard of living of the community after taking the bank loan. This was revealed in the appreciable improvement in the area of food/water, shelter, health, clothing, and gaining high social image due to contributions and donations made to society after taking the bank loans.

Additionally, the study identified increase in job opportunities after acquiring bank loans. The bank loans led to increase in output and consequently additional workers were needed in the main occupations of the community. The study showed that 52% of the respondents could employ more than 3 workers in the various occupations after taking the loan as against 27% before the loan. It is therefore remarkable that the bank loans provide employment to the rural folk which have a multiplier effect in reducing poverty.

5.3: RECOMMENDATIONS

Among key Recommendations for the study are the following:

5.3.1 Diversion of loan funds

It was discovered in the study that AKRB grants 52% to commerce, 47.80% to salary earners/institutions and only 0.20% to Agriculture. No allocation is made for manufacturing and construction ventures which are equally important and serve as means of livelihood for a section of the community. However, the loan recipients divert the funds to purposes other than those for which they are granted such as farming, manufacturing and construction to make their living. Respondents recorded improvements in their various occupations after accessing the bank's credit facilities as they were able to employ more workers than before. An interview with a loan recipient confirmed that after being denied the loan the first time, the purpose for application was changed and the loan was approved after all. The researcher hereby recommends, firstly, that the credit team of AKRB embark on regular visits to the loan beneficiaries to ascertain that the use of loan is in consonance with the purpose. Secondly, management should ensure that a fair proportion of the bank's loan is channeled to all sectors of the rural economy to promote development.

5.3.2 Job opportunity

According to the study 52% of the respondents indicated that they were able to employ more than 3 workers after acquiring the bank the loans as against 27% before the loan. This means that as producers get more access to institutional credit their productive activities are capable to create job opportunities for other people. It is therefore clear that through the bank's loan administration the acute problem of unemployment in the rural communities and rural-urban drift in the country can the reduced. In the light of this the researcher recommends a significant enhancement in lending to the economically viable activities in the area which will increase output and consequently employ more workers.

5.3.3 Inadequacy of loan amount

The study indicates that the major constraint faced by credit recipients is the inadequacy of the credit amount. This was confirmed by the credit manager to the extent that the customers demand for credit facilities usually exceeds the bank's loanable funds especially in peak periods. With inadequate credit for direct production, rural investors are not able to expand operations to employ enough hands, increase output and income, and consequently increase purchasing power. The inadequacy of rural credit has negatively affected the direct contribution to community development. If the effectiveness of the Rural Bank program is to be improved, more credit must be shifted to direct producers who will invest in productive activities. Further research should focus on the sufficiency of bank credit.

5.3.4 Long credit delivery process

The study found that majority of the respondents indicated that the bank's loan processing requirement is very long. Sometimes the delays make the loan outlive its usefulness especially if it is to be used to meet a particular seasonal demand, to enable the customer execute a particular time bound contract, or enable the customer take advantage of a particular business contract. When this happens the customer will most of the time still access the facility but divert the funds for purposes other than the one for which the facility was sought. However, the credit officer intimated that the long delay can sometimes be attributed to the applicants who relax in submitting the requisite information to enable the credit process to begin. The researcher therefore suggests that loan processing speed of AKRB and all other Rural Banks in Ghana be improved to give ready access to meet the timely credit demands of the recipients.

5.3.5 Salary loan guarantee

The study found out that in the case of salary loans, two salaried workers who collect their salaries through the bank must guarantee before an application can be honoured. This practice was found to be frustrating and limits the scope of guarantors for the customers. The researcher recommends that it should be sufficient for the bank if the applicants' employers shall guarantee to continue to channel employees' salary through the bank. This done the inconvenience that some applicants undergo will be minimized if not eradicated.

5.3.6 Loan to agric sector

According to the Bank of Ghana mandatory sectorial allocation for Rural

Bank loans, a minimum of 50% of total loans outstanding should be allocated to agriculture. Cottage Industries should receive approximately 30% whilst Trade and Transport gets a maximum of 20%. The lending allocation ensures that the bulk of the resources go to agriculture, the priority sector in Rural Bank lending to ensure that resources assist small farmers. The study however found that 0.20% of the banks loans went to the agric sector where about 80% of the area's population is engaged. The researcher recommends that higher budgetary allocation of loans be made available to the farmers to expand their farming activities in proportion to their numbers in the rural areas to foster rural development.

5.3.7 Social Responsibilities

From the study it was discovered that a significant proportion of the bank's profit has been allocated to social responsibility over the period. The bank's immense contributions to the Amansie West community have mainly been in the fields of education and health which have generally bettered the living conditions on the people. The researcher therefore proposes a continuous commitment of the bank and all rural banks to their corporate social responsibilities and also the extension of this to areas which have been regarded as the domain of the central government such as road construction and electrification.

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KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI

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RESEARCH TOPIC: BANK CREDIT AND RURAL DEVELOPMENT: CASE STUDY OF ATWIMA KWANWOMA RURAL BANK IN THE AMANSIE WEST DISTRICT, ASHANTI REGION.

QUESTIONNAIRE: *(FOR OFFICIALS OF THE ATWIMA KWANWOMA RURAL BANK)*

This information requested for in this questionnaire is needed for conducting an MBA dissertation. Your answers would be used for purely academic purposes and your anonymity is guaranteed. To make the survey very successful, please be as frank and open as possible in answering the questionnaires.

(1).What is your position in Atwima Kwanwoma Rural Bank (AKRB)?

(2). Indicate what percentage of your bank's services goes to the following sectors of the economy?

i. Commerce

ii. Manufacturing

iii. Agriculture

iv. Construction

v. Others (specify)..

(3). List the types of credit facilities offered by your bank to its customer?

A.

B.

C.

D.

E.

F.

G.

H.

I.

(4). What is the basic consideration in appraising credit request in your bank? Please rank with 1 being the highest score and 5 being the least score.

i. Ability to raise cash flow to meet loan repayment

ii. Collateral being offered

iii. Sound credit history

iv. Past financial performance

v. Relationship with other banks

(5). How much loans did your bank disburse for the following years in GHC?

	2004	2005	2006	2007
Commerce……				
Agriculture……				
Manufacturing……				
Construction……				
Funeral performance……				
Church development……				
Educational ……				
Marriage ……				
Others (specify)……				
TOTAL				

(6). How do you describe the interest rates of loans offered by your bank in relation to the banking sector?

i. Low ii. Moderate iii. High iv. Very high

(7). How many days or weeks does your bank take in processing requirements of your facilities?

(8).What are the maximum repayment periods of your loans for the following purposes?

Commerce...

Agriculture...

Manufacturing..

Construction...

Funeral performance..

Church development...

Educational ....

Marriage ....

Others (specify)...

(9). What is the general repayment situation of the loan portfolio of your bank?

a. poor b. fair c. average. d. good e. very good

(10). What were the loan default rates for the following years?

2004 .... 2005..

2006 .... 2007..

(11). How does your bank recover defaulted loans?

....

....

....

(12). How is the general patronage of your loans like?

....

(13). Does your bank engage in social responsibility activities? Yes No

(14). If yes, what are some of these social responsibility activities in the bank's catchment are?

i. .... ii. ....

iii .... iv. ....

v.. vi. ....

vii...... ....

(15). What percentage of your bank's profit was spent on social responsibility (indicated in question 14 above) in the following periods?

a. 2004...................................... b. 2005.......................................

c. 2006 .... d. 2007.......................................

(16). Would you say that your activities have brought real development to the people in the localities in which you operate?

Yes [ ] No [ ]

(17). If yes, how do you explain?

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(18). What would you say constitutes challenges to the credit delivery of your bank in communities you serve?

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KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI

COLLEGE OF ARTS AND SOCIAL SCIENCES

KNUST SCHOOL OF BUSINESS (KSB)

RESEARCH TOPIC: BANK CREDIT AND RURAL DEVELOPMENT: CASE STUDY OF ATWIMA KWANWOMA RURAL BANK IN THE AMANSIE WEST DISTRICT, ASHANTI REGION.

QUESTIONNAIRE: *(FOR CLIENTS OF THE ATWIMA KWANWOMA RURAL BANK)*

This information requested for in this questionnaire is needed for conducting an MBA dissertation. Your answers would be used for purely academic purposes and your anonymity is guaranteed. To make the survey very successful, please be as frank and open as possible in answering the questionnaires.

TRANSACTIONS WITH ATWIMA KWANWOMA RURAL BANK (AKRB)

1. Have you ever transacted business with AKRB?

   Yes [ ]   No [ ]

2. What is your main occupation?

   (i). Agriculture   (ii). Commerce   (iii). Manufacturing   (iv). Construction

   Others (specify)........................

3. Have you applied for a loan or credit from the AKRB before?

   Yes [ ]   No [ ]