KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF HUMANITIES AND SOCIAL SCIENCES

KNUST SCHOOL OF BUSINESS

ASSESSING THE IMPACTS OF MARKET FIRES ON THE PERFORMANCE OF SAVINGS AND LOANS COMPANIES IN GHANA: THE CASE OF FIRST ALLIED SAVINGS AND LOANS LIMITED

A THESIS WORK SUBMITTED TO THE KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF MASTERS OF BUSINESS ADMINISTRATION DEGREE IN ACCOUNTING

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BY

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DECLARATION

I hereby declare that this thesis is the true account of my own research work except for references to other people's work which have been fully acknowledged.

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DEDICATION

This work is dedicated to the entire members of my family for their prayers and support in diverse ways.

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ABSTRACT

Ghana has in recent years witnessed frequent outbreaks of fire in the various market centers. Unfortunately, each occurrence of fire outbreak impacts negatively on traders who fall victims and the performance of banks, particularly savings and loans companies which have most of their loan customers in the market centres. This phenomenon of market fire outbreaks have created a situation where savings and loans companies are confronted with the challenge of having to deal with huge amount of non-performing loans. The study administered questionnaire to sixty-seven credits officers and twenty customers of First Allied Savings and Loans Limited (FASL) as well as an interview session with the assistant credits manager to collect primary data. It was found out that market fires have become one of the causes of loan default in FASL and account for 15% of all the causes of loan defaults. Again, it was found out that GHS500, 000.00 has been written-off as bad loan as a result market fire outbreaks. Another finding of the study is that 50% of customers who responded to the questionnaire still have huge outstanding loan amounts they are struggling to pay due to market fires. In order to reduce the effects of market fire outbreaks, it has been recommended that the central government must resource the Ghana National Fire Service with more fire fighting vehicles and equipment. Also, the government has been advised to reconstruct all old markets to make them more accessible and equip all such markets with fire hydrants. Again it is recommended that the Ghana National Fire Service must on regular basis educate traders at the various market centers on fire safety measures.

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INTRODUCTION

1.1 Background of the study

Lending has been, and still is, the core of banking business, and this is more true to emerging economies like Ghana where capital markets are not yet developed. It provides the bulk of income for every bank; however, lending involves huge risks to the lender. Usually depositors are put in jeopardy when a particular bank with which they deposit, has high credit risk which leads to bankruptcy risk. (Achou, 2008).

According to Brownbridge (1998), the important benefits that the local banks in the four sub-Saharan African (SSA) countries: Kenya, Nigeria, Uganda and Zambia could provide to these economies has been jeopardized because the local banks have been vulnerable to financial distress. Substantial number of banks has failed, mainly because of non-performing loans. Poor loan quality has its roots in the informational problems which afflict financial markets.

According Amoabeng, (CEO - UT Bank), Ghana’s Banks have huge challenges with regards to the proportion of loans they give that decline into non-performing loans. In 2010, D. K. Mensah (Executive Secretary of the Association of Ghanaian Bankers) revealed that, the problem loans ratio which expresses the ratio of loans losses to gross advances declined from 16.2% in 2009 to 17.6% in 2010.

The challenge of having to deal with bad loans is more prevalent in the informal sector. The sector is dominated by the small and micro enterprises(SME’s).These are in the hands of people who lack higher education , knowledge in business management and notorious for misapplication of funds.

Because of these challenges, the Universal banks have focused very little attention on businesses in the informal sector. However, according to Mr. Tony Oteng Gyasi (former president of association of industries), the structure of the Ghanaian economy is such that about 70% of the working population is in the informal sector. In response to the urgent need to satisfy players in the SMEs sector, the Government of Ghana in 1993, passed a legislation, the Non-Banking Law (PNDC Law 328) to regularize the activities of other financial institutions referred to as Non-Bank financial institutions of which Savings and Loans Companies are part. According to Mr. Millison Narh, deputy Governor of Bank of Ghana, Savings and Loans Companies were established to bridge a gap, a gap that was created by the neglect of the self- employed, artisans and small scale operators in our urban centres. That is micro business that are reputed to be the growth poles of our developing economy. (Source: graphic online 2011).

However, Savings and Loans Companies are confronted with a number of challenges; one of them is large amount of non-performing loans. Several authors have written on the causes of non- performing loans amongst Savings and Loans Companies in Ghana. Factors such as poor appraisal of credits officers, poor post loan monitoring, deliberate application of borrowed monies to project outside what was stated as the purpose for the loan facility and natural disasters have been cited as possible causes of non-performing loans.

One cause which seems to have impacted on the performances of Savings and Loans Companies is the issue of frequent outbreak of market fires. This phenomenon has not received the needed attention and this has motivated the researcher to investigate the effects of market fire outbreak on the performances of savings and loans companies in Ghana.

1.2 Statement of the Problem

Non-Performing Loans (NPLs) have become a major challenge facing all financial institutions in Ghana. Banking survey report released in 2010 revealed that, from 2007 to 2009, the total income of the banking industry more than doubled from GHS793, 000,000 in 2007 to GHS1, 500,000,000 in 2009. Within the same period, the loan portfolio quality of the industry deteriorated so rapidly to the extent that impairment charges for NPLs increased from GHS60, 000,000 in 2007 to GHS266, 000,000 in 2009.

Again, the central bank of Ghana also revealed that, NPL ratio which measures the ratio of loan losses to gross loan advances, worsened from 16.2% in December 2009 to 17.6% as at December 2010. Researchers have attributed non-performing loans to several factors. For example, Berger and De Young (1997) reported that non-performing loans could be caused by poor credit decisions by management. Whilst Fofack (2005), attributed non-performing loans to economic downturn, Bloem and Gorter (2001), thought non-performing loans are caused by prices of petroleum products, exports, foreign exchange rates or sudden changes in interest rate. Again Afolabi (2010) opined that loan default is sometimes caused by natural calamities such as floods, earthquakes and storms.

But it appears disasters like market fires which also impact negatively on the portfolio quality of banks have not received the needed attention. This has created a knowledge gap which has to be filled. The impact of market fires on banks has been dire and an urgent and decisive measures need to be employed to reduce its impact. For example, the country recorded 2,201 fire outbreaks in the first quarter of 2014 with markets centres being the most affected. This resulted in a loss of GHS16, 000,000.00. Again, in 2012, a total of 4,577 cases of fire outbreaks were recorded and as usual markets centres were the most affected. Cost of damage was put at GHS10, 321,963.00 (source: data from GNFS Ashanti Regional office).

What has made fire outbreak a serious issue, is the continued reliance by savings and loans companies on market women and men for the patronage of their products like the daily susu. Available data from First Allied Savings and Loans Limited indicate that out of 2,300 loan customers of the bank in the Kumasi metropolis alone, 500 of them are in the central market. Various governments in the country have failed to find a lasting solution to the problem. Non-performing loans impact negatively on the profitability levels and deposit base of savings and loans companies. In view of the fact that the nation seems not to find a lasting solution to the issue of market fires in Ghana, this thesis proposed to investigate the effects of market fires on the performances of savings and loans companies in Ghana using First Allied Savings and Loans Limited as a case study.

1.3 Objective of the Study

The main objective of the study is to examine the impact of market fires on the performances of savings and loans companies in Ghana. Specifically, the study seeks to:

1. To assess the effect of market fires on affected customers.

2. To assess the effect of market fires on profit and deposit levels of First Allied Savings and Loans Limited.

3. To investigate strategies employed by First Allied Savings and Loans Limited to mitigate the effects of market fires on their non-performing loans

1.4 Research Questions

The study attempted to seek answers to the following research questions:

1. What have been the effects of market fires on non-performing loans of savings and loans companies?
2. What have been the effects of fire outbreak on affected market women and men?
3. What strategies have been employed to mitigate the effects of market fire outbreaks?
4. What has been the effect of market fires on deposits of savings and loans companies?

1.5 Significance of the Study

This research work will be of immense benefits to various groupings such as students, Credits managers of the various Savings and Loans Companies, credit analysts, and the Government. These benefits will the take the form of the following:

It will enable Savings and Loans Companies to do proper classification of customers to determine those who carry high risks.

Government will be reminded about the effects of market fires on the economy and the need to institute urgent measures to permanently curb the incidence of fires at market centres.

Students, who intend to conduct research on other disasters which negatively impact on bank loan portfolio, will be motivated to consider other factors such as decongestion exercises. It will also serve as a reference and guidance material for students who intend to undertake research into banking and finance.

It will also help the regulators of financial institutions to appreciate the type of risks the financial institutions are exposed to. This will enable them to formulate the appropriate and effective policies.

1.6 Limitation of the Study

The research work had never been without some limitations. First, a number of Savings and Loans Companies should have been involved in the study but time constraint became a major hindrance. Affected customers of the bank in all the market centres in the country should also have been contacted, but once again, time was a huge impediment.

1.7 Organization of the Study

The study is organized into five chapters.

Chapter one is the introductory part which comprises of background to the study, the problem statement and objectives of the study as well as the limitation and significance of the study.

Whilst Chapter two presents the theoretical framework and reviews related literature concerning the study. Chapter three is the process and the methods adopted for collecting and analyzing data. Chapter four deals with analysis of the data and finally, chapter five, presents a summary as well as conclusions and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2. Introduction

This chapter reviews the existing literatures related to the research problem and it is sub-divided into headings: Overview of the banking industry in Ghana, Contemporary banking in Ghana, Financial sector reforms, Banks and Non-Bank institutions, Risks in banking, functions of banks, loan classification and provisioning, loan default, causes of loan default and the consequences of loan default.

2.1 Overview of the Banking Industry in Ghana

The Ghanaian banking and financial sector spans over a century. The banking sector started with the establishment of the first Government savings bank in 1888 and served as a branch of the British Bank of West Africa. A decade later, the Government's savings bank metamorphosed into the creation of the first commercial bank purposely established as a depository banks. Another bank thus the Colonial Bank was established in 1917 however, these banks operated over a long period of time without any formal regulatory system until 1957 when the Central bank was established under the Bank of Ghana ordinance of 1957. The Bank of Ghana Ordinance (1957) was established to perform two distinctive roles thus issuing roles and banking roles. To address the general regulatory and supervisory vacuum in the 1957 banking ordinance, the Bank of Ghana Act (1963) was established. This Act segmented banking institutions into investment banking (Ghana investment bank), Agricultural Development Bank; Merchant banking and Social security banking (Osakunou, 2009).

In tandem with the economic direction of the regime at that time, all the banks mentioned above were incorporated as state-owned banks. The repercussions of the centralized system of operations were prevalent in the late 1960's when the country plunged into serious economic crisis leading to the overthrow of the central Government. The country further experienced severe economic crises leading to the overthrow of three successive regimes until 1983 when the International Monetary Fund (IMF) agreed to assist the country to be on its feet by introducing the Economic Recovery Programme **(**ERP**)** which has the objective of ensuring that the economic difficulties at the time were resolved. The program witnessed the introduction of a market economy where banks were privatized and the central government diversifying its interests in most public corporations. The new development led to the enactment of the banking law in 1989 where private were permitted to apply for banking and- non-banking license. This witnessed the incorporation of Ecobank, Cal bank, Home Finance Bank (HFC), Meridian bank and other financial institutions.

(Source: Bank of Ghana Bulletin 2009).

2.2 Contemporary Banking in Ghana

In view of the improvement in banking profitability in Ghana, the number of banks rapidly increased to eighteen (18) in the year 2007 (Aboagye, 2008) necessitating the recapitalization of banks in 2007 (ISSER, 2009). The unique feature of the Bank of Ghana Act of 2007 was the Risk-based supervision framework formulated by the Bank of Ghana to develop risk profiles for all banks by encouraging them to set-up risk management department which will aid them in identifying, measuring and managing risks inherent in their activities (Bank of Ghana, 2007). The period witnessed the increase of total assets of banks and NBFI's by 49.1% to GS¢8,588.3 million. The 2007 banking Act further provided a general framework for licensing Banks by categorizing this process into Class I Banking license, Class II Banking license and Class III Banking license.

The Class I Banking license allows holders to conduct domestic banking business which is currently classified as Universal banking. The Class II license permeates the holders to transact business and investment banking with non-residents and allows foreign banks to establish branches in Ghana. The Class III license on the other hand, permits holders to transact business in both Class I and Class II banking business in and from within Ghana. The bank of Ghana increased the minimum capital requirement of the banks in November 2007 from GHS7, 000,000 to GHS60, 000,000 for the Universal banks. The measures introduced at the time applied equally to both domestic and foreign banks.

The recapitalization is aimed at empowering banks to undertake larger transactions to support the country’s economic growth and also to make the banking industry internally competitive (ISSER, 2007). The directive expects banks to complete the recapitalization process by the year 2012 however, as at August 2012 the number of banks operating in Ghana has increased twenty six (26) in spite of the recapitalization (Bank of Ghana report, 2012).

Between these periods, financial analysts assert that it provided a favorable atmosphere for businesses thereby depicting the high number of banks being attracted to the Ghanaian banking sector. For instance, the Ghanaian banking industry recorded an average increase of 18.5% 2007 to 28.5% in 2008. The five top banks in Ghana had their market share increased from 51.6% in 2006 to 57.6% in 2008 (Bank of Ghana report, 2008).

2.3 Financial Sector Reforms

Reforms in the financial sector in Ghana began as part of the overall effort of introducing the Economic Recovery Programme (ERP) in Ghana with the sole objective of ensuring that the wheels of the Ghanaian economy of are back on track. Before the implementation of the programme, the Ghanaian economy was not doing well as expected. According to Owusu T. (1993), the introduction and the implementation of the Financial Sector Adjustment Programme (FINSAP), under the Economic Recovery Programme (ERP) had the intention of ensuring that the overall financial industry, which includes the informal non-bank sector in Ghana, was strengthened. In the late 1980's substantial number of susu and finance companies sprang up and their main objective was to ensure that deposits were mobilized apparently for on -lending to their customers. Owusu T (1993) reported that a lot of petty traders, who were overwhelmed by the readiness of these companies to grant credits, made the petty traders, mostly women to deposit large amount of monies with them.

Unfortunately, it became evident that these companies had ulterior motive as the deposits they collected from the traders were misappropriated by the owners and the employees of to the disadvantage of depositors.

As part of effort to ensure that discipline was instilled into the system, the Bank of Ghana initiated some steps in 1990 to grant the susu /finance companies the license under the classified name of Savings and Loans companies. The overall objective of regulating and introducing modernity into the operations of the traditional/informal savings societies was to achieve much higher growth in savings mobilization to assist economic ventures as a supplement to the improvement to the formal banking sector (Owusu, 1993). A new law, PNDCL 328 known as Financial Institutions (Non-Banking) Law was to regulate the Non-Bank financial institutions.

The financial system in Ghana has the Non-Bank Financial Institutions as an integral part and their importance cannot be eroded by the fact that they were registered under different law. In the view of Atta Bronya (1995), the difference between the Universal banks and the Non-Bank Financial Institutions is that the Non-Bank Financial Institutions cannot create money just like the Universal banks do. Subsequent to the passage of the Non-Banking Law in 1993, a lot of Savings and Loans Companies were established and had grown in number.

Unlike the Universal banks, the Savings and Loans Companies are restricted to limited services. Savings and Loans Companies use microfinance methodologies in their operations and are mostly active in microfinance and small-scale intermediation. Because Savings and Loans Companies are located in urban and peri-urban areas, they have been very effective in reaching out to large number of savers.

A license issued to a Non-Bank Financial Institution could be withdrawn if the under-listed are found to have aided a particular Non-Bank Financial Institution in obtaining an operating license:

- By fraud;
- A breach of any provision of the law or any terms and conditions upon which the license is obtained
- Failure to maintain the minimum paid-up capital

2.4. Banks and Non-Banks Financial Institutions

This aspect of the study looks briefly at the background of a few of the various organizations which come under banks and Non-Bank Financial Institutions. Organizations under consideration are: the Universal Banks, Savings and Loans Companies, Rural Banks and the Credit Unions.

2.4.1 The Universal Banks

The Universal Banking model refers to the corporate structure where large banks operate extensive network of branches, providing many different services, hold several claims on firms (including equity and debt), and participate directly in the corporate governance of firms that rely on banks for funding or as insurance underwriters Under the model, both commercial banking and securities activities are conducted within a single corporate entity. As a result, the integration of activities can be achieved at the lowest cost and resources can be shared among the organization's various departments with maximum flexibility allowing the bank to realize informational advantages and economies of scope and scale. Moreover, it increases banks' ability to diversify its sources of revenue. Several countries have adopted the Universal banking concept. A total of 28 universal banks exist in Ghana as at June 2015. (http:// www.ghanabusinessnews.com)

2.4.2 Savings and Loans Companies

Savings and loans companies (S&Ls) are deposit taking financial institutions which are regulated by the Bank of Ghana under the Non-Bank Financial institution (NBFI) Law 1993 (PNDCL 328), with a minimum capital requirement much lower than that of the universal banks but above that for rural and community banks.

Following the promulgation of the NBFI Law, a number of Financial Non-Governmental organizations transformed themselves into savings and loans companies doing business in the urban and peri-urban areas in the country.

Those financial institutions served the economic active but the unbanked population with specifically designed products to suit this category of the population. Savings and Loans companies are not allowed by law to offer certain range of financial services as compared with the universal banks. These financial services include: mobilizing deposit, providing credit to low income clients and SMEs, money transfer and literacy in financial matters. They appropriate the method employed by microfinance institutions to serve their client.. As at January 2015, the number of Savings and Loans Companies stands at 28. (Source: graphic online.com)

2.4.3 Rural Banks

Rural Banks are financial institutions owned and managed usually by residents of a particular community. Such financial institutions are registered and regulated under the company's Act 1963, Act 179.They are also licensed by the Bank of Ghana to engage in the business of banking. As unit banks, they are not permitted to open branches but are allowed to open agencies within their catchment area for deposit mobilization. Rural banks have the mobilization of deposits and the granting of credits to their customers as their basic functions. The Central Bank believes that the financial intermediation roles that rural banks are expected to play, if well played, will fast-tracked the development of the rural communities in Ghana.

2.4.4 Credit Unions

Credit unions are also registered by the Department of Co-operatives as cooperative thrift societies in Ghana and are allowed to accept deposits just like the rural banks and also allowed to give loans to their members. It is refreshing to note that the first credit Union in Africa was established and operated in Ghana, specifically in the Northern part of Ghana by the Canadian Catholic missionaries in 1955. All Credit Unions have an association called CUA.This association is self-regulatory and acts the apex body for its affiliates.

2.5 Risks in Banking

Biney, a senior lecturer at the National Banking College, understood risk within the context of banking as "the possibility that something bad or unpleasant (such as a loss) will happen." According to him, risk is inescapable in almost everything that we do as humans. Risk occurs in driving as well as when one plays.

Risk arises from different sources and occurs either as a result of the occurrence of expected or unexpected events in the economy or the financial market. Risk can also occur from staff oversight. Risk causes the reduction in value of assets when it occurs.

When a credit facility is granted, the money may not be paid as expected either due to the failure of business or due to adverse changes in interest rates, the market value of bonds or equities may decline. Another reason for non-payment is that a derivative contract to purchase foreign currency may be defaulted by a counter party on the due date. These types of risks are inherent in the banking business. Biney (2008), classified risks as:

1. Credit risk
2. Market risk
3. Operational risk
4. Liquidity risk
5. Business risk
6. Reputational risk
7. Systematic risk
8. Moral hazard

Out of these eight risks, credit risk, market risk, and operational risk are the three major risks that banks face. Systematic risk and moral hazard are unrelated to routine banking operations, but they do have a big bearing on a bank's profitability and solvency.

All banks set up dedicated risk and monitoring department to continuously monitor and measure the different types of risks. The department of risk and monitoring of every bank assists the management of every bank by continuously measuring the current portfolio of assets, or loans, liabilities, deposits and other exposures. The risk department communicates the bank's risk profile to the other functionally units of the bank, steps are then taking to directly or in collaboration with other bank functions to reduce the possibility of loss or to mitigate the size of the potential loss..

2.5.1 Credit risk

Credit risk is defined by the Basel Committee on Banking Supervision as the probability that a borrower may not be able pay his/her loan obligations according to the terms and conditions of the loan contract agreed with the bank. Credit risk also includes the uncertainty involved in meeting the loan repayment obligations.

2.5.2 Market risk

Market risk arises when there is movement in market prices which leads to losses. This is how The Basel Committee on Banking Supervision views market risk. It is the most important risk for banks which are involved in investment banking.

2.5.3 Operational risk

When internal processes fail or the systems and people are inadequate, the loss which arises as a result of that is referred to as operational risk. This type of risk includes legal risk.

2.5.4 Liquidity risk

A bank is described as being liquid when it has enough financial resources to grant as loans and is able to meet its payment obligations as and when they fall due. However, there are times that the bank may not be able to honour its payment obligation or grant loans due to lack of funds. This type of risk is referred to as liquidity risk.

Making provision for sufficient liquidity in a bank is very important since any liquidity challenge which makes it difficult for a bank or any financial institution to honour its obligations to banks and other financial institutions may dent the image and reputation of the bank as well as the prices of the bank's bond in the money market.

2.5.5 Business risk

Banks just like any other goal-oriented organization prepares long-term business strategy. Risk arises when the business strategy is unable to keep up with the ever changing competition in the business environment. This type of risk is referred as business risk. It can also arise from a bank not being able to design and implement the right business strategy.

2.5.6 Systemic risk

Systemic risk is the name of the most nightmarish scenario you can think of. This type of scenario happened in 2008 across the world. Broadly, it refers to the risk that the entire financial system might come to a standstill. It can also be stated as the possibility that default or failure by one financial institution can cause domino effects among its counter parties and others, threatening the stability of the financial system as a whole.

2.5.7 Other risks

There are some other minor types of risks that a bank carries. These aren't as important as the previous risks discussed. These are:

2.5.8 Legal risk

Legal risk is where a bank suffers a financial loss as a result of a legal suit or for applying a law wrongly. This type of risk is referred to as legal risk.

2.5.9 Country risk

A bank that operates in many countries also faces country risk when there's a localized economic problem in a certain country.

However, it appears that one risk factor which has been overlooked in Ghana is the risk caused by market fires. This last risk is the focus of this research work.

2.6 Functions of Banks

The various banks whether a Universal bank, Savings and Loans Company or Rural Bank, perform several functions such as the acceptance of deposit from customers and the granting of loans. These form the major functions of all banks. However, there are other subsidiary functions such as the provision of safe custody for valuable items, bank guarantee and consultancy services. In the course of granting loans, banks are exposed to the management of two major types of loans. These are performing and non-performing loans.

2.6.1 Performing Loans

A contractual agreement between two or more parties where one party provides a sum of money to the other party with a promise from the beneficiary party to pay the principal amount , interest and all incidental charges according to the terms and conditions of the amount granted is termed a credit facility. This credit facility may be paid in lump-sum or by installment over a period of time. Sometimes the borrower is required to make additional payment in the form of interest, commissions, arrangement fees and others.. These additional payments make up the interest income to the lender. When the expected principal amount and all the interest are paid in full and on schedule, the loan facility is described as performing.

According to the Bank of Ghana (BoG), classification, a loan facility in which the principal and interest are up to date in terms of payment are termed as current loan.

Again , the Bank of Ghana describes an overdraft facility as current if the account receives regular inflows of deposits and that there is no sign of hard core on the account.(BoG. 2008). Performing or current loans constitute the healthy asset portfolio of every bank.

2.6.2 Non-Performing Loans

Non-Performing Loans (NPLs) and Bad Loans are usually used to mean the same thing. The terms Non-Performing Loans, Bad Loans and impaired Loans are also sometimes used interchangeably as identified by Fofack (2005). Berger and De young (1997) however, used "problem loans" to mean Non-Performing Loan. Generally, loans which have remained unpaid in both interest and principal for some time and contrary to the terms and conditions of the loan contract are considered as non-performing loans. Non-performing loans have been given varied description by different researchers. Whilst some countries describe non-performing loans quantitatively, such as the number of days that the loan facility has remained outstanding; others used qualitative criteria to describe non-performing loans. These criteria include the current financial status and management judgment about future payment. (Bloem and Gorter, 2001).

According to Patel, A., (2005), non-performing loans are loans which are ninety days or more past due or no longer described non- performing loans as loans that are ninety days or more past due or no longer accumulating interest. Von Pischke, J.D. (1980) as cited in Fofack (2005), see non –performing loans as loans in which for a longer period of time, no income is generated from it. That is the principal as well as the interest are unpaid for a period of at least 90 days. A non-performing loan can equally be described as a type of loan which does not generate income any longer and that the expected payment of principal or interest is no longer anticipated or a type of loan for which principal or interest is 90 days or more and or the date for full payment, which is the maturity date has passed. (http://teachmefinance.com/FinanceTerms/nonperformingloan.html).

The above descriptions of non -performing loans give a clear indication that loans which have remained unpaid for at least 90 days are considered as non-performing loans. According to Berger and De Young (1997), non-performing loans have the capacity to injure the performance of all financial institutions.

2.7 Loan Classification and Provisioning

Financial institutions which are licensed are by the Bank of Ghana are by law obligated to on regular basis monitor and review their loan portfolio and credit risk assets at least once in every quarter. Loan portfolio is classified into four grades of risks. These are: (i) standard; (ii) sub-standard ;(iii) doubtful; and (iv) loss. Loan Assets in risk grades (ii) to (IV) are considered as non-performing and that no income may be accruing on them. The Bank of Ghana has stated prudential norms for microenterprises and small business finance which consider the peculiar characteristics of the enterprise and business in these two categories. All Microfinance and small business loans are required to be reviewed once every month and are to be classified into (i) current, or (ii) delinquent. A loan is said to be delinquent when payment of interest or agreed principal payment has not been paid or received on the due date. The Bank of Ghana however, does not permit interest income to be accrued on delinquent loan accounts.

2.8 Loan Default

When a borrower is unable to pay the agreed loan instalment amount according to schedule, a loan default is said to have occurred. It also occurs when the borrower does not comply with any other agreement made on the promissory note. Usually default occurs when a borrower fails to make full payment (principal and interest) by the expiry or due date of a facility. According to Balogun and Alimi, (1990) a loan is said to have been defaulted when a borrower is unable to honour his or her loan repayment obligation.at the agreed date of payment. Default and delinquency are used interchangeably. However, According to Siwal (2003), it is crucial to distinguish between the two terms. He affirms that default begins as delinquency. Biney (2008) affirms that Loan delinquency is often an early stage on the path to a default. Occasionally, most delinquent loans ultimately end up in default.

Loan default is essentially of two basic types. The first and the most common type occur when the debtor defaults on a payment of interest or principle. This might be because the debtor is either unable or unwilling to repay the debt. The second type of default occurs when the debtor violates any of the agreements made on the promissory note either purposely or unintentionally. (www.canadian-money-advisor.ca)

When a borrower is unable to fulfill the contractual agreement which governs a particular loan facility, such a breach is termed default in business and finance. This type of default includes when a borrower breaks a rule in the loan agreement or misses payment date .Banks take several actions when default occurs. These actions include issuing reminders to full scale legal action all aimed at recovering in full what is owed. All types of loan including mortgages, students' bursaries, and store credit can record default. (www.financialdictionary.net). the above indicate that loan default occurs not only the loan facility has not been paid by the borrower but also when the terms and conditions of the loan contract have been disrespected. For instance if there is a condition that prevent the borrower from selling property or particular stocks and he goes ahead and make the sale, it would be treated as a violation of the agreement and the lender has the right to take action against the borrower even if the loan is being paid as scheduled.

According to Amoabeng, the CEO of UT Bank, Ghanaian financial institutions are threatened by bad loans. (Referenced from www.ghanabizmedia.com) affirms that Ghanaian banks grapple with high default rates. The Bank of Ghana through its Monetary Policy Committee (MPC) reported that the Ghanaian economy witnessed a situation where the Non-Performing Loans (NPL) ratio declined from 16.2 percent in December 2009 to 17.6 per cent as at December 2010. It was emphasized by the then Deputy Finance Minister Seth Terkper that in 2009, activities of fraudsters and non-performing loans compelled a multinational bank which was operating in Ghana to write –off an amount equivalent to GHS46,900,000 from its books. Earlier in 2007, the same bank had written-off a total amount of GHS5, 500,000 as a result of non-performing loans. The cumulative loss to the bank constitutes a third of the total amount of GHS150, 068,000 written-off in 2008 by all the banks in the banking industry.

Following the write-off of GHS3, 000,000 from the books of another bank in 2009, the Universal banks in the country have been reviewing their internal controls, credit appraisal and risk management policies to ensure that the high rate of default is reduced. According to Dr. Joe Abbey (Executive Director of the Center for Policy Analysis), the high default rate in the country if not checked quickly could lead to the collapse of the banking sector. About 75 per cent of the banks in the country have recorded very high loan default rate or bad debts in their books.

2.8.1 Types of Loan Default

Loan default has been variously categorized by researchers. Independent Financial Portal (FinancialWeb) categorizes Loan default into Sovereign defaults, Strategic default, Technical Default and debt service default.

2.8.2 Sovereign defaults

A loan default is described as sovereign default when a country or a nation such as Ghana fails or refuses to honour its loan repayment obligation. Sometimes a government may formally declare its intention not to pay a loan it took or may declare to make only partial payment for its debt. Borrowers which are sovereign nations are generally not subject to bankruptcy courts in their own jurisdiction. Such borrowers may be able to default without legal consequences. A clear example is North Korea which defaulted in 1987 in the payment of some of its loans . In most cases, the country which has defaulted may renegotiate with the creditor the interest rate, the loan facility duration as well as the principal payments. The financial crises which hit Russia in 1998, Russia defaulted on its internal debts, but was able to honour its external Eurobonds. Again in 2002 when Argentina faced economic crises, it defaulted in the payment of its $1,000,000,000 debt owed to the World Bank.

2.8.3 Strategic default

Strategic default occurs when the debtor chooses not to pay the loan even though he/she has the means to make full payment for the loan. Strategic default is common for non-recourse loans; when the creditor cannot make any further claims on the debtor.

2.8.4 Debt Service default

Debt service default arises when a borrower misses a scheduled instalment on a loan. Usually the credit agencies are notified as soon as a loan instalment has been late for 60 days or more. Several loan recovery options are opened to the lender as soon as a loan facility goes into default status. Such loan recovery options such as placing a garnishee order on wages, funds at the bank or withholding the money from annual tax refunds may be exercised by the bank.(www.finweb.com)

2.8.5 Technical default

Loan facilities have terms and conditions which must be respected by both the borrower and the lender. Sometimes a condition of a particular loan facility may be breached by the borrower. This breach of loan condition is referred to as technical default. This type of default has nothing to do with missing an agreed loan instalment. Loan facilities for business purposes have covenants which are both affirmative and negative. Covenants which are affirmative usually agree to something whilst negative covenant are restrictive in nature. For example, a negative covenant may restrict the borrower from disposing off any asset or changing the nature of business.

2.9 Causes of Loan Default

Several researchers in their research work have been able to identify many factors as major causes of loan default. Just as loans vary in nature so also the causes of loan default vary from one financial institution to the other. In the view of Afolabi (2010), causes of loan default can be grouped into controllable and uncontrollable factors. Factors which are uncontrollable are beyond the bank and the borrower and may include natural disasters such as earthquakes, floods, fires, changes in government policy, illness, and death.

The Credit Union Collection Policies and Procedures (2006), also categorizes the causes of loan default into Organizational factors and those related to the borrower.Whatever the case, the reason may be due to inefficiencies of the lenders, the borrower's inappropriateness and the economic conditions pertaining at a particular point in time. Delayance in the time of loan delivery, poor supervision, undue government intervention with operations of government sponsored programmes have been identified as some of the causes of loan default by Balogun and Alimi (1988**)**. Political instability as a result of conflict in the society leads to risk and uncertainty thereby giving different signals to lenders and borrowers. When the borrowers experience such uncertainties, it affects their businesses and affects their loan repayment capacities. In the view of Dzamboe (2001), the extent to which any SMEs succeed is largely dependent on a stable political and economic environment. Again in the opinion of Okorie (1986), certain factors affect the repayment ability of borrowers .To him high loan default rates are unavoidable if the time of disbursement is not right or when there is inadequate supervision as well as low level of profit of the enterprise which becomes a beneficiary of a loan facility.

Basley and coate (1995) affirms that recovery will not be 100% at a positive interest rate. That is a higher interest rate increases cost of production, reduces profit from business leading to loan default among borrowers. Aryeetey et al (2000), cited in Amonoo et al(2003), remarks that interest rate may encourage borrowers to use the money to settle previous loans rather than finance working capital or investment. Unfavourable repayment terms can also be a determinant of loan default. Shorter grace period was identified by Lasort and Clavier (1989) as a factor that lead to loan default. To him, when the period between the disbursement of loan and start of repayment is short, it fails to serve the intended purpose of protecting the financial institution thereby leading to the inability of the borrower to ensure repayment. Loan default can also be as a result of not giving the customer the right type of loan. Aryeetey et al (1994) reported that most financial institutions do not have the personnel who are skilful and innovative enough to develop appropriate loan products for SMEs. A research work conducted by Afolabi (2010) on Analysis of Loan Repayment among Small Scale Farmers in Oyo State, Nigeria disclosed that about 17.31% of loan default was as a result of premature disbursement of credit facilities. Loans which are not disbursed on time can affect the repayment of the loan. For example, Agriculture production is time specific and as such a loan facility for agricultural purpose must be disbursed on time. The implication is that beneficiary farmers who are supposed to utilize the loan facility for the intended purpose may eventually misapply the loan facility**.** Goldstein and Turner (1996) also identified some factors that contribute to loan default. According to them, economic downturn, macroeconomic instability, high rate of interest, excessive reliance on overly high-priced inter-bank borrowings, insider lending and moral hazard contribute greatly to problem loans.

2.9.1 Improper selection of an entrepreneur

In conducting credit appraisal and evaluation, one factor which requires prudence, due diligence and a high sense of judgment is the selection of the right entrepreneur. Banks are advised to prudently consider the intention of the borrower to repay the loan facility and the capacity to pay. The profitability of many banks has suffered as a result of the improper selection of entrepreneurs. The borrower must be subjected to proper appraisal to ensure that the loan facility is granted to the right person who has not only the willingness to pay but the ability to pay. One of the best ways of protecting the investment of the bank is to ensure that unbiased survey report of the site and capability of the Entrepreneur are verified by the surveyor. The credit worthiness of the borrower and the project to be executed must undergo proper and adequate scrutiny before the loan facility is sanctioned and disbursed.

2.9.2 Deficient analysis of project Viability

Poor loan recovery is attributable to several causes. One reason for poor loan recovery is wrong selection of projects. According to Rouse, (1989), the lack of good skills and judgment on the part of the lender is a cause of loan default. In minimizing the rate of loan default, the role of the lender in taking good decisions is crucial. According to Rouse (1989), a lender lends money not for lending sake but with the sole aim of getting back the loan lent and all accrued interest. Rouse (1989), gave the indication that because the possibility of non-payment of the loan facility exists, the bank approving authority must be responsible enough to exercise good judgment in taking a decision on the loan application. Because a loan facility is granted over a specified period, the lender must do proper evaluation of the risk element attached to the loan facility and take measures to mitigate the impact of the risk during the tenure of the loan facility.

The credits analysts or officers are expected to collect and gather the relevant information which will aid the approving authority to make good credit decisions. The availability of raw materials, transportation, railways, skilled labour, communication facilities, markets determine the viability of a project which eventually leads to the successful execution of a project. If any of the relevant factors above are unavailable to the entrepreneur, high cost of the project will be inevitable. The absence of the above, can also lead to delay in production, which can easily lead to default in the payment of the loan facility by the borrower. Several examples exist where banks agree to invest in projects which are deficient in one or more of the factors discussed. In most cases entrepreneurs present their loan proposal and business plan in such a way that will make it very difficult for the unavailability of the primary requirements to be identified. Areas that will make the proposal weak are masked whilst the strong points are underscored.

2.9.3 Inadequacy of Collateral Security/Equitable Mortgage against Loan:

Borrowers are usually required to provide property to secure their loan facilities. Usually when borrowers become conscious of the fact that either no collateral or worthless property has been provided as collateral, they turn to default. This is so because the absence or insufficient collateral will not put any fear in the borrower to honour his/her loan repayment obligation because he will not loss anything. But where the borrower pledges a valuable property to secure a loan facility, the fear of losing the valuable property will compel him/her to ensure that full payment for loan facility is made on time. But a borrower realizes that he loses nothing when a default occurs, he/she becomes relax and slow in making payment.

2.9.4 Unrealistic Terms and Schedule of Repayment

It is very common for credit officers/analysts of a lending bank to present an appraisal report on a loan application with full good impressions about the viability and worthwhile of credit proposal just to convince approving authority to positively consider the credit proposal. When this rosy picture about the proposal is able to win the support of approving authority, chances are that terms and repayment schedule which are unrealistic but prepared on the basis of the good impression painted earlier, default of such a facility becomes inevitable. Many at times personal interests of credits analysts /officers are allowed to take precedent over good judgment and project proposals are pushed through even though the project is bound to fail. The import of the above is that where terms and loan repayment schedules are unrealistic based on improper appraisals report.

2.9.5 Lack of Follow up Measures

Regular follow-up activities keep the borrower on his/her toes. Berger and De Young (1997), reported that poor management is one of the causes of problem loans. They argue that most banks have difficulty in managing their problem loans because managers of these banks fail to practice adequate loan monitoring and control. Bloem and Gorter (2001) made a similar observation by reporting that deficient bank management and poor supervision are some of the factors which affect the performance of loan facilities. A lot of problems will be avoided if such follow-up measures are regularly done by keeping the borrower on high alert and guiding them to rectify their mistakes in the first opportunities or extending them a helping hand in tiding over their tight times. Naturally, regular monitoring activities make it very difficult for the borrower to deviate from the terms and conditions of the loan contract. Funds diversion can also be avoided through regular monitoring activities.

2.9.6 Default due to natural calamities

Sometimes loan default is caused by natural disasters such as storms, earthquakes and floods. Afolab i (2010) affirms that 3.85% of farmers who default attribute the default to crop failures. Crop failure is as a result of bad weather including excessive rainfall and draught. This occurrence is beyond human control. Sometimes a certain amount of due diligence, would suggest that precautionary and preventive measures such as the analysis which is topographical and meteorological in nature will help greatly in minimizing the amount of risk involved. Natural disasters do not only affect the borrower directly but also put excess burden on the government by way of waivers and relief measures etc. Some borrowers would take advantage of such natural disasters in order to avoid or unduly delay the payment of the loan, thereby increasing the level of default.

2.10 Consequences of Loan Default

Loan default has fundamental effect on both the lender and the borrower. According to Baku and Smith (1998), the negative effects of loan delinquencies are felt by both the borrower and the lender. The Urban Program for Livelihood Finance and Training manual (UPLIFT) identified a number of loan default effects on the borrower as :delayed future loans or loss of access to future loans, possible legal action and costs incurred, the possible loss of collateral, the loss of access to other programme services from the MFI. Loss of reputation that can damage the image of the defaulter as a result of frequent pressure by the loan officer and external collection agency was also identified as cost to the borrower. Additionally the following are identified as cost to the defaulter.

- Collection costs: In addition to the amount owed, the defaulter will probably also have to pay collection fees to the collection agency that handles his case.
- Acceleration: Depending on what kind of loan, if there is a default, the lender can accelerate the terms of the loan, which means that the entire amount can be made due by the next scheduled payment.
- Increased interest rates: the borrower also run the risk of having his interest rates increased, not only for the loan or line of credit on which he has defaulted, but for other and loans as well. Lenders use increased interest rates to offset the risk of lending to the defaulter. By defaulting, there is a proof of the risk of not repaying your debts, so the interest rates can be raised.
- Lowered credit score: Defaulting on a loan can seriously affect the borrower's credit report and credit score, so it can be quite difficult to get other loans or lines of credit. This can be especially hard to face if he is planning on getting student loans for his children to go to college, or if he wanted to buy a house or a car. Lenders use credit report and credit score as a general indicator of creditworthiness, so if he default on one loan or credit card, they might think that he will also fail to repay them, which can cost them a great deal of money.

For the financial institutions, loan default tends to affect the performance of these institutions. Aballey (2009) affirms that when loans go bad they have some adverse effects on the financial health of banks. This is because in line with banking regulations, banks make adequate provisions and charges for bad debts which impact negatively on their performance. It also has direct effect on the profitability of the financial institutions since the bad debt is treated as expense against the profit and loss account. The effect of provision for non-performing loans made by banks does not only impair the loan portfolio quality of the bank but also reduces interest income on the loans. According to

Price Water-House Coopers (2009), referenced from Aballey (2009), Barclays Bank Ghana Limited in its 2008 financial statement reported that the loss that the bank recorded was partly attributable to the amount of bad debt which increased from GH¢5,540,000.00 in 2007 to GH¢46,890,000.00 in 2008.

Loan default also affects the liquidity position of the financial institutions thereby reducing their ability to lend. In the view of Bloem and Gorter, (2001), large amount of problem loans could impair the level of confidence of depositors and foreign investors who may decide to withhold their deposits thereby creating liquidity challenges for the banks.

Loan default can also lead to collapse of the financial institution in question. Berger and De Young (1997), cited in Aballey (2009), gave the indication that banks which fail usually have large amount of non-performing loans prior to failure. Statistically, asset quality has been an important predictor of bankruptcy. A report by Caprio and Klingebiel (2002), indicate that the over sixty Indonesian banks that collapsed in 1997 was as a result of nonperforming loans which represented about 75% of the total loan portfolio of these banks. This implies that if the financial institutions holding huge bad loans in their portfolio are not able to recover, they can become bankrupt.

2.11 Five Cs of Credits

One of the major preoccupations of every approving authority of a bank is to devise ways of determining the credit worthiness of would –be borrower. Universally accepted method of achieving the determination of the credit worthiness of a borrower is the use of the five Cs**.** The five Cs determine and measure the probability of loan default. Baiden (2011) affirms that the five Cs of credit are the 'tools' or framework used for credit analysis. The lending process which is due diligence is very necessary for 'safe and sound lending' and it is facilitated by the use of 5 financial analysis themes or tools which are commonly referred to as the five Cs if credit. These tools are helpful guides in credit analysis for the lender to come to a lending decision. When it is critically taken into consideration in the loan delivery process, it will help minimise the rate of loan default. These tools include Character, Capacity, Capital, Collateral, Conditions.

2.11.1 Character

The financial history of a borrower is as critical as the amount to be approved itself. This financial history is typically shown by a credit score. Banks are interested in a credit report which reveals the credit record of every borrower. This exercise becomes more useful especially when the amount involved is huge. In the view of Ruth (2004), borrowers who lack character do not attach much priority to repaying debts and are quick to hind behind the least sign of any financial trouble to default in the payment of loans. In the view of Baiden (2009), the best prepared financial statements, loan documents and even the most valuable collateral will not prevent a default if the borrower has unacceptable character.

2.11.2 Capacity

Capacity denotes the ability of the borrower to generate sufficient financial resources to honour loan repayment obligation. This includes both the principal and the interest on the loan facility. In determining the capacity of a borrower, a number of factors are considered. However, the most critical of all the factors is a positive cash flow statement. This is because the cash flow determines the sources of inflow of cash to the business as well as how the cash inflows are spent. Banks ignore the capacity of borrowers in loan appraisals to the detriment of the bank's profitability level.

2.11.3 Capital

Capital refers to the amount of resources provided by the owner(s) of a business. In determining the solvency of a business, the capital is usually compared with the amount of debt of the business. These resources provided by the business find expression in the form of machinery, equipment and stock as well as building. From the point of view of project financing, capital is sometimes equated with "equity," Lenders become comfortable when a particular borrower has significant amount of capital in a particular project the lender is financing. It shows that the lender is sharing the amount of risk in the project with the borrower.

2.11.4 Conditions

The larger political, economic and regulatory environment within which a business operates is normally referred to as conditions. Conditions also relate to factors such as industry trends and the general marketplace demand. Financial institutions which do not take into consideration the peculiar economic and socio -political conditions relating to a particular applicant's business may take unnecessary risks. Businesses which are cyclical and seasonal in nature are particularly difficult to finance as a result of the irregularity of the business cash flow. Because cyclical businesses are common in rural communities and considering the critical roles that such businesses play, loan approving authorities are advised to exercise a lot of caution in taking a decision to reject a loan application from a borrower whose business faces unpredictable cashflow trends. Such facilities must introduced flexibility into the loan repayment structure to ensure that default is avoided.

2.11.5 Collateral

Loan facilities are not granted just like that. Borrowers are required to provide an asset of value to secure the loan facility. This property of value is what is referred to as collateral. It takes different forms such as buildings, equipment, cash investment, inventory etc.

These properties pledged as collateral are valued and the necessary legal documentation perfected before the loan facility is disbursed into the customer's account. Banks are always interested in properties which can easily realized into cash when a default of loan occurs. Properties provided as collaterals serve as a check on the borrower to work very hard to repay the loan facility and all interest so as to retrieve the asset pledged as collateral.

CHAPTER THREE

RESEARCH METHODOLOGY

3. Introduction

This chapter presents an outline of the methods and techniques for the design of instruments and the collection of data for the research. This includes the research design, the population and sampling, data collection procedures and the method of data analysis.

3.1 Research Design

In undertaking a research project, the nature of a particular research project will inform the researcher which particular research strategy to use from the many research strategies which exist. Examples of research strategies are: experiment, survey, case study, grounded theory and archival research. (Saunders et al, 2007). According to Saunders et al, 2007, no research strategy can claim superiority or otherwise over the other. However, the most important consideration is that a particular research strategy when chosen, should be able to help the researcher to adequately answer the research questions and realize the objectives (Saunders et al, 2007).This study used a case study approach because the strategy involves a systematic investigation into a single institution. The case study approach is very flexible method that allows the use of questionnaires, interviews, observation and documentary analysis. First Allied Savings and Loans Limited (FASL) was selected as a case study for the research because it is one of the oldest savings and loans companies in Ghana and with its Head Office in Kumasi, accessibility will not be a problem. Additionally, FASL has greater proportion of its loans portfolio in the hands of people mostly in the informal sector with most of them found in the various markets. Characteristically, almost all savings and loans companies in the major cities have a number of their customers in the various market centers and therefore the choice of FASL was appropriate and representative enough of all savings and loans companies in Ghana.

3.2 Population and sampling

First Allied Savings and Loans Limited has twenty- three (23) branches as at May 2015 .These are: Adum, Roman Hill, Asafo, Suame, Sokoban, Obuasi, Nkawkaw, Mpraeso, Suhum , Madina, AbosseyOkai, Adabraka, Tudu, Kasoa, Mankessim, Cape Coast, Takoradi, Elubo, Berekum, Goaso, Techiman, Nkoranza and Tamale branches. The company also has sixty-seven (67) credits officers, twenty- three (23) branch managers, one (1) assistant credits manager and a head of credits. The credits arrangement of FASL is that each credit officer is charged with the responsibility of conducting the assessment of the applicant and making a recommendation for the loan application to be approved or otherwise by the approving authority. They are also to undertake subsequent monitoring of loan facilities as well as the preparation of monthly reports on the status of each loan portfolio. Because of this structure, a census approach was used to involve all but two credits officers in answering the questionnaire. The two credits officers excluded were officers for Sokoban and Tamale branches. The reason was that whilst Sokoban branch which is located at the Kumasi woodvillage and has never had some of the customers falling victims to market fires. Tamale is a new branch which has not even started giving out loans to customers. The assistant credits manager was selected for interview on a number of issues not thoroughly answered by the questionnaire. The sampling technique used for selecting the customers was convenience sampling. Convenience sampling, according to Neuman, 2000, involves haphazard selection of those cases that can easily be obtained for the sample.

3.3 Types of Data

This research work mainly relied on primary data to achieve the objectives of the research. Secondary data could have also been used, but the researcher was not granted access to the financial statements, deposit profile and others relevant documents. However, the quality of the project was never affected.

3.3.1 Primary Data

This study used questionnaires and interviews for primary data collection. According to Owens(2002), the use of questionnaires offer the advantages of being straightforward and less time consuming for both the researcher and the participants. Two sets of questionnaires were prepared .One for the credits officers and the other for the loan customers. The assistant credits manager was interviewed to seek his perspective about the effects of market fires on the loan portfolio quality of FASL.

3.4 Data collection procedure

The questionnaires which were meant for the credits officers were given to the Head of Credits of the institution to ascertain the objectives of the study. The researcher sent the questionnaires personally to the head of credits. Before then the researcher had had face to face interaction with the authority and explained the purpose of the study to him. The completed questionnaires were left with the authority and were collected in seven days' time. Due to lack of time, only loan customers in the Kumasi metropolis were contacted. To this end, the researcher was led by two selected credits officer to some loan customers. In all twenty (20) loan customers were contacted and the questionnaire administered to them.

3.5 Research Ethics

Promoting the aims of a research such as knowledge, truth and avoidance of errors is enhanced if there is strict adherence to ethical norms. The second reason is that, in research a great deal of cooperation and co-ordination among the many different people in different disciplines and institutions, adhering to ethical norms promotes the values which are essential to collaborative work. These values include trust, accountability, mutual respect, and fairness. Being aware of the need to observe ethical norms, certain principles such as guidelines for authorship, copyright and patenting policies, data sharing policies and the various writers, commentators whose work used for this research have been acknowledged by way of referencing .

3.6 Data Analysis

The responses from the credits officers in the questionnaire as well as responses from the loan defaulters served as input of the data analysis. Both qualitative and quantitative techniques were employed in the analysis. Microsoft excel was used as a tool for the analysis of quantitative data. Tables, pie chart and bar charts were used to present the outcome of the analysis.

3.7 Profile of First Allied Savings and Loans Limited

First Allied Savings and Loans Limited(FASL) was incorporated as a private limited liabilitiy company on 24th May 1995 under the Ghana Companies Act, 1963(Act179). First Allied was incorporated as a deposit-taking non- Bank financial institution to operate a savings and loans business in Ghana. It commenced official business on 25th September 1996 after the Bank of Ghana granted the license to operate fully as a Savings and Loans Company under the non-Bank financial institutions law (PNDCL328).

The company was established mainly to accept deposits from the public and to offer credits assistance qualified customers..

The institution commenced operation with the mission “to offer convenient access to efficient, innovative and responsive financial services to the micro and small scale entrepreneur on a sustainable basis for the mutual benefit of all stakeholders. The vision of the institution is “to create an excellent institution and be a leader in the provision of quality financial services to the micro and small enterprise sectors in Ghana.

3.7.1 Governance and Management of FASL

First Allied Savings and Loans Ltd, has put in place an effective organizational structure with line of authority clearly spelt out. The members of the board occupy the highest on the institution’s hierarchy. The Chief Operating Officer becomes the next personality on the hierarchy, followed by the heads of departments who constitute management team. Other officers who report directly to the board are the company’s secretary and the internal auditor.

The members of the board, who are seven in number, are all non-executive directors. The Board of Directors has the onerous duty to come out with strategies and the means to monitor the activities of the team who make the management.

The Chief Operating Officer assisted by the heads of department, manage the company on daily basis.

3.7.2 Credit Authorities

The authority to consider a loan application is in the hands of the members of the board.

Various committees such as the special committee of the board, the Management Advance Committee, the Advances Committee, the Chief Operating Officer, and the Branch Level Committee have been established to consider loan applications according to the amount requested.

An applied loan amount which exceeds the approving authority of the various credit committees, is referred to the members of the board for deliberations and decision. The loan approving limit as set by the institutions for the various committees are as follows:

Boards special committee for credits-Above GHS50, 000.00

- Management advances committee- up to GHS50, 000.00
- Loans committee-up to GHS25, 000.00
- Chief Operating Officer-up to GHS10, 000.00
- Branch level committee: up to GHS 10,000.00

In reviewing credits for approval, the BSCC constitutes the following:

- Chairman of the Board, Chairman
- Chairman, Audit Committee, Member
- Chairman, Executive Committee, Member.

The Branch Level Committee is headed by the Branch Manager; other members are the credits officer responsible for the branch and the relationship officer for the credit to be approved. The Advances committee includes the sectional Heads for Group and Individual loans Sections, and the relationship Manager. The committee meets on every Thursday. The Management Advance Committee comprises; the Chief Operating Officer, Head of Finance, Treasury & IT, Head of Credits and Head of Branch Operations. The Chief Operating Officer chairs this committee.

3.7.3 Loan Products of First Allied Savings and Loans Limited

FASL has variety of loan products which have been categorized into commercial and susu loans designed for companies, enterprises, small groups and individuals including salaried workers. The various loan products are: Commercial Loan (LCOM), Consumer Loan (LCON), Travel Loans (LTRA), Salary credits (LSAC).

The Susu Products is made up of individual and group loans. The individual Susu loan is given to individual who make payment on daily basis through customer intermediaries. The group loans are also designed for groups of five people who contribute on weekly basis and it is meant for business purposes. This is made up of Group Allied Mpontu Loan Scheme (LGMP), Loan Distance Banking Loans (LDIS): and Premium Golden Susu (LPGS).

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSIONS

4. Introduction

This chapter presents and interprets data collected from field work. The information obtained from respondents were analyzed and interpreted to assess the extent to which market fires have impacted on non-performing loans of FASL and also to assess the effect of market fires on affected customers. The analysis was also done to investigate the strategies employed to reduce the impact of market fires.

4.1 Descriptive Analysis of Respondents

This analysis seeks to present the characteristics of loan customers who were involved in the study. It includes the gender of respondents, age distribution, level of education, line of business and business experience.

4.1.1Gender distribution of respondents

The table below captures the gender distribution of respondents.

Table 4.1: Gender distribution of respondents

Response	Frequency	Percentage (%)
male	5	25%
Female	15	75%

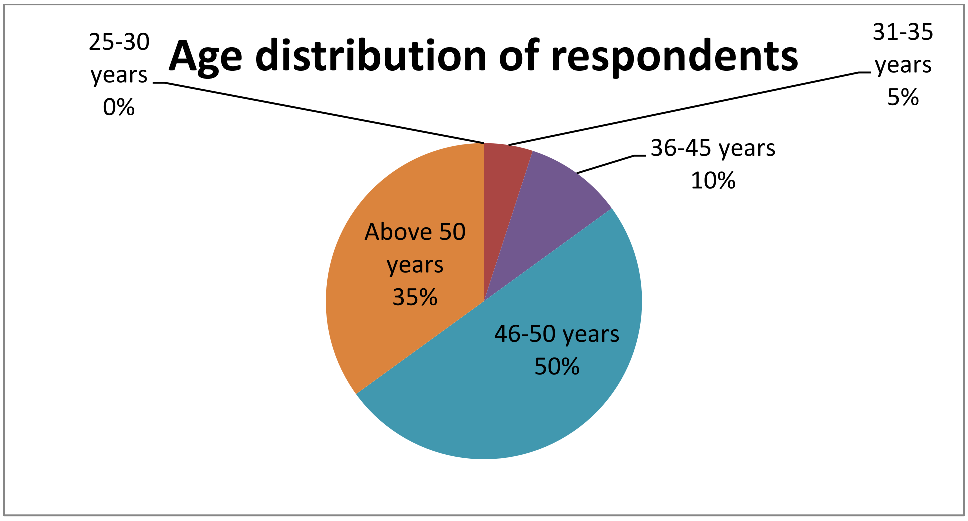
Source: field report June 2015

Table 4.1 shows that 75% of total respondents were female whilst 25% were male. This means that the bank has more women as loan customers than men. The possible cause for this is that men naturally preferred working in the formal sector to the informal. It is also assumed that men desire to work in formal organizations where there is a clear pattern of structure with definite system of work progression.

4.1.2 Age distribution of respondents

The ages of respondents were considered which is represented in a pie chart below:

Figure 4.1: Age distribution of respondents



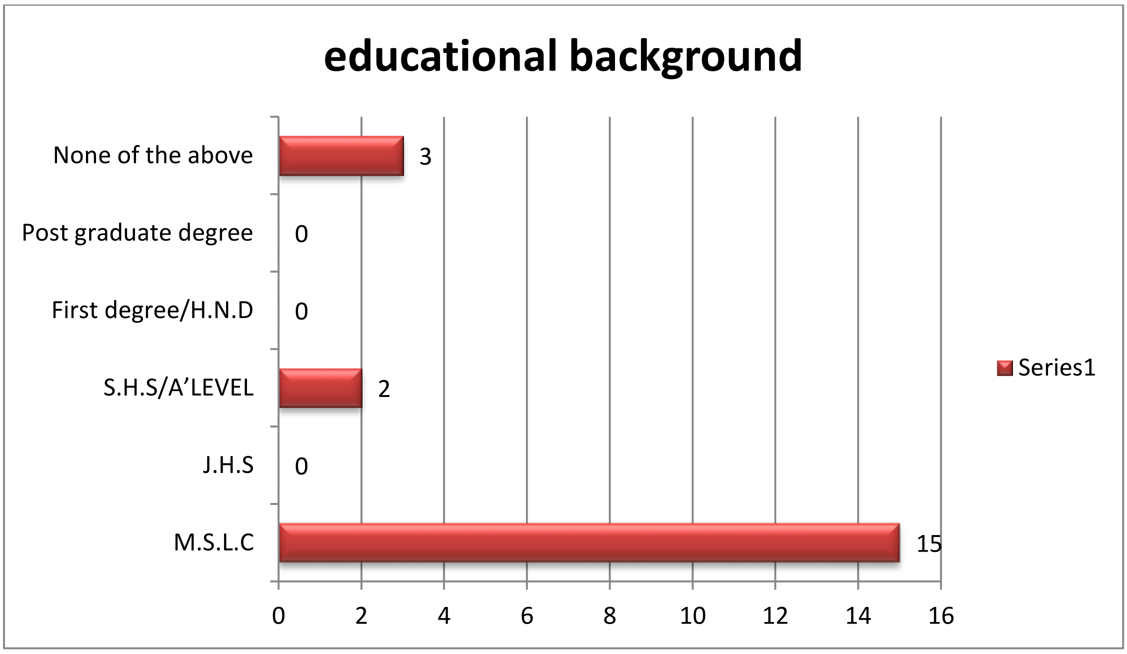
Source: field report June 2015

Figure 4.1 indicates that loan customers who are between ages 46-50 years constitute 50% of total respondents. This is so because the youth whose ages range between 25 to 35 years are either have completed tertiary institutions and desire to work in the formal sectors of the economy and therefore have left trading activities at the markets to the elderly. The age distribution of respondents is demonstrated further in the pie chart below:

4.1.3 Educational Background of Respondents

Another important characteristic considered was the educational backgrounds of respondents. Out of the twenty (20) respondents, fifteen (15) of them, which represents 75% had studied up to the middle school certificate level. Three (3) customers representing 15% had never gone to school before whilst Two (2) which formed 10% of the total had studied up to the senior high level. The obvious inference that can be made from the ages analysis of respondents is that people who have not gone far academically are the majority in the various market centers. This is so probably because trading at the market centers is not attractive to people who have gone far academically. The bar chart below further illustrates the educational backgrounds of respondents:

Figure 4.2 Educational Backgrounds of Respondents

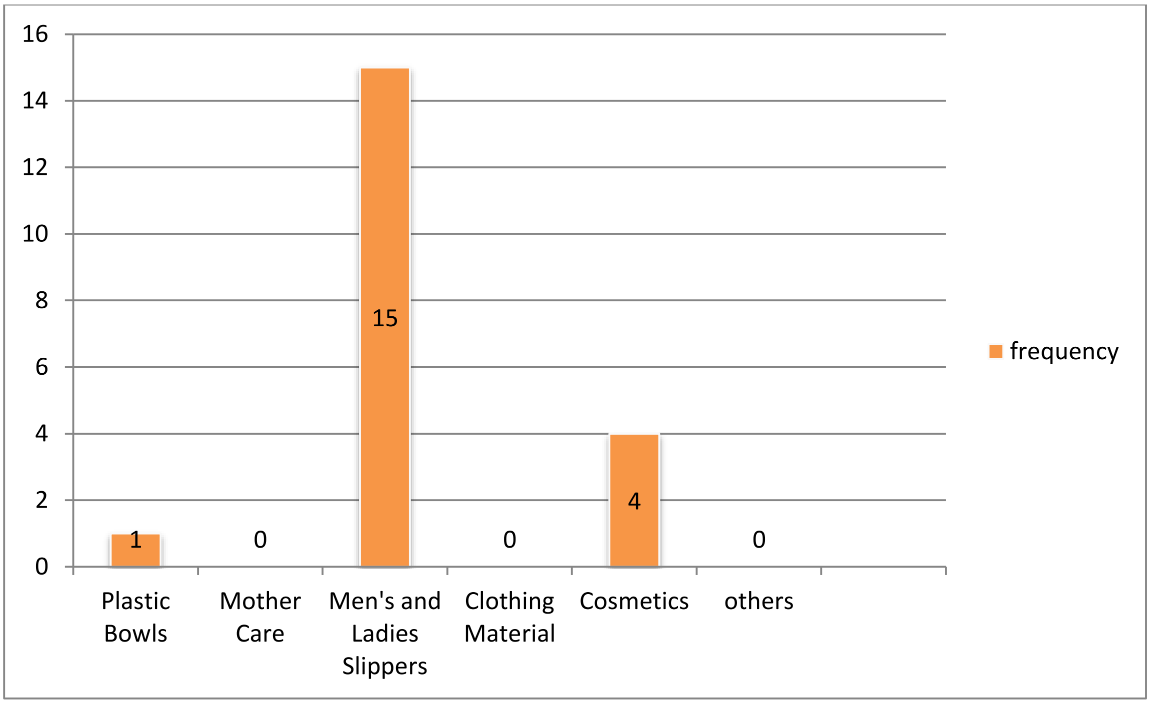


Source: Field report June 2015

4.1.4 Nature of Business

The nature of business of respondents was considered as very important as far as the issue of fire outbreaks at the market centers was concerned. This is because a fair idea about the line of business which suffers most when an outbreak of fire occurs will enable FASL to do proper classification of businesses which are prone to market fires. Of the twenty (20) respondents, Fifteen (15) of them were into the sale of men's and ladies slippers whilst four (4) were into the sale of cosmetics and one (1) person also into the sale of plastic bowls. The implication of this analysis is that dealers in men's and ladies slippers are the most affected in fire outbreaks and the possible reason that can be assigned is either the location of such businesses has activities which attract fire or the traders themselves are careless. This is represented graphically below:

Figure 4.3 Nature of Businesses of Respondents



Source: Field report June 2015

4.1.5 Business Experience

The experiences of the respondents were also considered. In all three (3) customers each had been in business for between 1 year to 5 years and 6 to 10 years. Fourteen (14) respondents revealed that they had been in business for years equivalent to 11 to 15 years. Additionally, the number of years respondents have been in business relationship with FASL was analyzed. In all, fifteen (15) respondents said that they had been in account relationship with FASL for five years and above. The other five (5) respondents had been in business relationship with FASL for between 3 to 4 years.

4.2 The number of times affected by market fire

Respondents were asked to indicate the number of times they had been affected by market fire. Five (5) customers indicated that they had fallen victim to market fires for three times whilst fifteen (15) customers revealed that they had been affected by market fires for more than three times. The implication of the responses is that market fires indeed have become a huge challenge which faces traders in the markets.

4.3 Impact of Market Fires and Customer Business

The effect of market fires on customers' business usually results in the victims losing a greater part of their inventories, loss of shop, depletion of working capital and above all being confronted with the challenge to pay a huge outstanding loan balance. Being aware of the above effects, respondents were asked to choose from four possible effects of market fires as depicted below:

Table 4.3: Impact of Market Fires on customers' business

Effect of market fires	**frequency**
I lost my entire working capital	3
I lost part of my working capital	5
I have a huge outstanding loan to pay	10
I am out of business	0

Source: Field report June 2015.

The above responses from respondents showed that ten (10) out of the total respondents had huge outstanding loans to pay after the outbreak of fire at the market, whilst five (5) people revealed that they had lost part of their working capital. Three (3), respondents however, indicated that they lost their entire working capital. This underlines the enormity of the issue of market fires and the researcher strongly feels that several market fire victims are either out of business or might have committed suicide in the process.

4.4 Sources of finance to revamp business after fire outbreak

To help the researcher determine how customers managed to revive their businesses after fallen victims to market fires, a question which required respondents to indicate how they managed to revamp their businesses after fire outbreak was asked. They were required to tick the under listed options as was appropriate:

Table 4.4: Sources of finance to revamp business after fire outbreak

Sources of finance after fire outbreak	**frequency**
I used my past savings	0
I received financial support from husband/family member(s)	0
I operate on credit purchases	13
I took a loan from the bank	7
I used proceeds from the sale of property	0

Source: Field report June 2015

From able 4.4, Thirteen (13) respondents hinted that they only operate on credit purchases whilst seven (7) of them indicated that they took loan facilities from FASL. None of the respondent relied on either past savings, support from husband /family member or proceeds from the sale of personal property(ies). The responses established one fact which is that fire outbreaks indeed affect customers who become victim. This is because; the taking of additional loan to revamp the business goes with the payment of interest, an amount which could be used to either expand the business or invest in a profitable investment instrument such as treasury bill. Again goods supplied on credit basis are more expensive because of the margin of the seller. Additionally, buyers may not have the luxury to purchase in the quantities they so desire.

4.5 Insurance policy and customers business

Because of the dire consequences of market fires on customers and the frequent nature of its occurrence, attempt was made to find out whether customers had hedged their businesses against fires. They were asked to indicate a yes or no answer to the question. All the twenty (20) respondents gave a no answer. Which means that inspite of the negative effect market fires have on businesses, none of the respondent had insured the business against market fires.

The implication of the answers provided is that customers will continue to be at the mercy of the frequent market fire outbreaks with its resultant negative impact on businesses, taxes to the state and the inability to repay loans taken from banks.

4.6. Other insurance policies and customers

Apart from market fire insurance policy, the researcher was also interested in finding out whether customers had other insurance policies such as child education insurance, motor insurance policy, life insurance policy or insurance against theft. Of the twenty (20) respondents, twelve (12) of them indicated that they had no insurance policy whilst eight (8) customers gave an indication that they have motor insurance policy. The obvious inference from the responses is that had it not been the compulsory nature of motor insurance, the eight customers who have motor insurance would have probably joined those who had no insurance policy.

4.6.1 Perception of Traders about Insurance Companies

Related to 4.6.0, the researcher was very much interested in finding out whether traders were just averse to insurance policies or they had specific world view about insurance companies which makes it difficult to purchase some insurance policies. Respondents were therefore asked to state their perception about insurance business. All the twenty (20) people who responded were of the view that insurance companies deceive people to purchase their policies without disclosing all the details about a particular policy. In the opinion of the researcher, this perception is part of the reasons why traders do not consider it necessary to go for one form of insurance policy or the other.

4.7 Causes of Loan Default

As a first step towards finding out whether indeed market fires have been a cause of loan default in First Allied Savings and Loans Limited, selected credits officers of FASL were asked to rank from the highest to the lowest, seven (7) possible causes of loan default. These were:

- misapplication of funds
- market fires
- poor loan monitoring by credits officers
- inappropriate timing of disbursed loans
- insufficient disbursed loan amount
- poor credit appraisal by credit officers
- high interest rate.

Responses from the credits officers are represented in a table below:

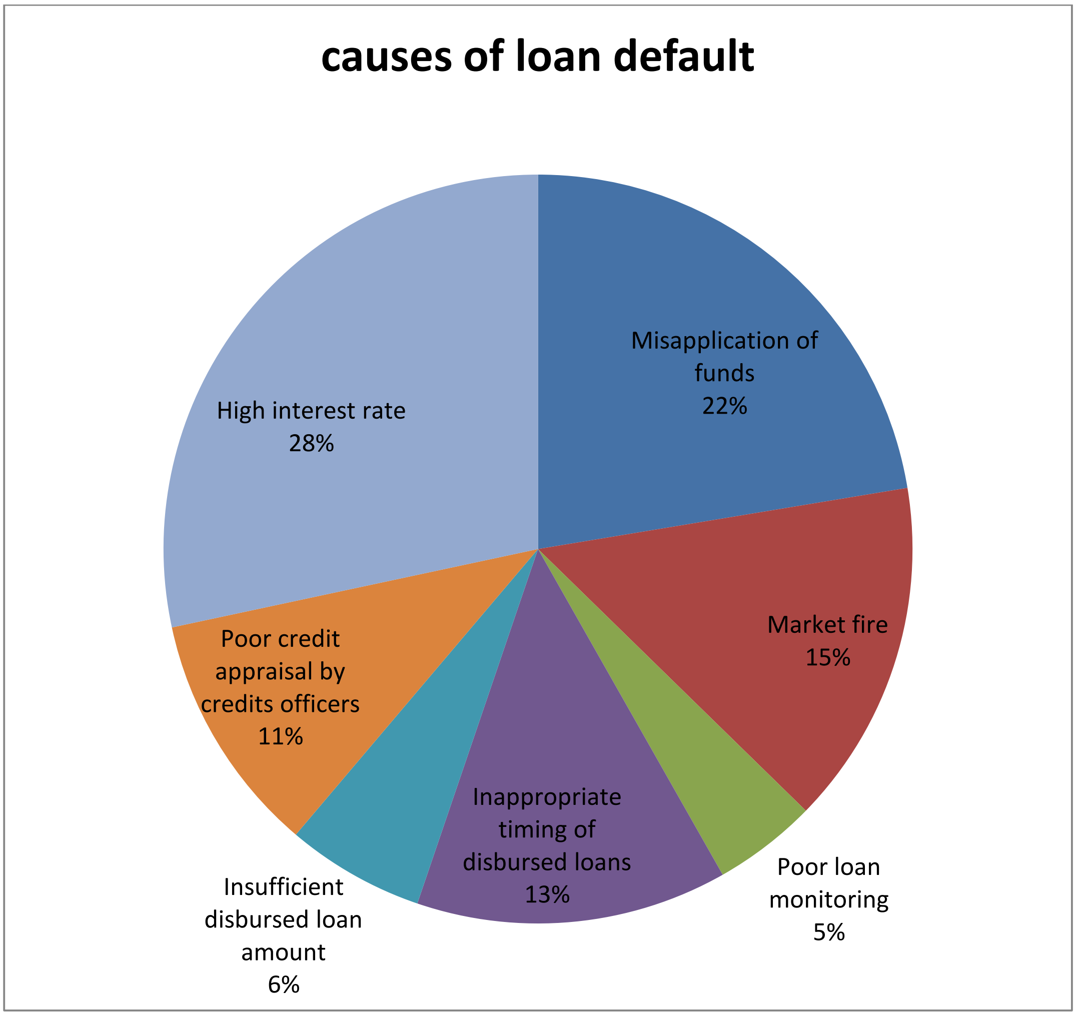
Table 4.5: Ranking of possible causes of loan default

Causes of loan default	Responses (frequency)	position
High Interest rate	19	1st
Misapplication of funds	15	2nd
Market Fires	10	3rd
Inappropriate timing of disbursed loans	9	4th
Poor credit appraisal by credits officers	7	5th
Insufficient disbursed loan amount	4	6th
Poor loan monitoring	3	7th

Table 4.5 captures all the responses obtained from the credits officers who participated in answering of the questionnaire. The table reveals that whilst nineteen (19) and fifteen (15) credits officers respectively ranked high lending rate and misapplication of borrowed funds as the number one and two causes of loan default by customers, ten (10)

credits officers, which represents 15% of total respondents were of the firm belief that market fire is the number three cause of loan default in First Allied Savings and Loans Limited. Nine (9) respondents viewed inappropriate timing of loan of disbursed loans as the number four cause of loan default. The rest were seven (7), four (4) and three (3) credits officers ranking poor credit appraisal, insufficient loan amount and poor loan monitoring as the number five, six and seven causes of loan default respectively. The responses obtained were also demonstrated in a pie chart below:

Figure 4.3: Ranking of possible causes of loan default



Source: Field report June 2015

4.8 The Frequency of Market Fires

To find out whether market fires as a cause of loan default were not just a one-off event, respondents were requested to indicate the number of times customers at their branches have had the experience of market fires. The results were overwhelming as fifty-four (54) credits officers all indicated that some of their loan customers had experienced market fires between 6-7 times. Seven (7) credits officers responded that their loan customers at their branches have never experienced market fires, four (4) credits officers however, responded that some customers at their branches have been victims of market fires for between 4-5 times. Lastly, two officers revealed that their customers have experienced market fires for between 1-3 times. This underscores the point that market fires indeed have never been a one –off event but a major challenge Savings and Loans Companies have been grappling with in recent years.

4.9 Bad Loans in FASL

Bad loans have the capacity to completely erode all the gains made by banks. And so a number issues related to bad loans and it impact on FASL were considered. These were; bad loans caused by market fires, loans written -off as a result of market fires and total amount that has been written –off as bad loans due to market fires.

4.9.1 Problem loans in Loan Portfolio caused by Market Fires

Problem loans or non-performing loans have the capacity to reduce deposit. In most cases customers whose loans have gone bad, may be facing liquidity challenges and as a result are unable to operate their account. Sometimes customers may still be in profitable business but because they have the intention of not paying their outstanding loans, will willfully decide not to make deposit into their account. To find out whether the above scenario has been the case, credits officers were asked to provide a yes or no answer to the above question. Interestingly, sixty (60) credits officers who had earlier admitted that some of their customers at their branches had had some experiences of market fires, provided yes answers to the question to show that they still have in their loan portfolio problem loans caused by market fires. This definitely will impact negatively on income, deposit and profitability of FASL because interest which could have been earned on the loans may not be realized which by extension may affect profit and finally customers who have contributed to the problem loans might have stopped operating their accounts thereby reducing deposit of the institution.

4.9.2 Loans Written-Off due to Market Fires

Credits officers were again asked to provide a yes or no answer to the question as to whether some loan default caused by market fires have been written- off before. Since loans written –off as bad, reduce income and profitability, the objective at this point was to establish whether there have been such instances. All the sixty- seven (67) credits officers gave yes answers to indicate that indeed some loan default caused by market fires have been written off as bad before.

4.9.3 Total Amount Written-Off as Bad Loans

Loans declared as bad and eventually written –off affect income, profitability, and future expansion of financial institutions. To get a clear picture as to how much has been written –off as bad loans, credits officers were requested to provide specific amount which has been written-off as bad loans due to market fires. Sadly, only one (1) credits officer gave an amount of Five- Hundred Thousand Ghana cedis (GHS500, 000).The rest were unable to provide specific amount which have been written –off as bad loan due to market fires. The researcher see this as an indictment and a failure on the part of credits officers after having admitted that some loans had been written-off as bad due to market fires.

4.9.4 Problem Loans and Additional Interest

One of the subtle means through which banks massage their interest income which leads to huge reported profit figures is the issue of additional interest on non- performing loans. Usually such interests are earned on paper but not actually realized. The reason is that problem loan customers leave their accounts dormant for a long period sometimes years and so adding interest on such accounts only worsen the portfolio quality of the company.

To find out whether problem loans attract additional interest and how such interests are accounted for, a question which required a yes or no answer was posed to the credits officers. All the credits officers gave yes answers indicating that problem loans attract additional interests.

A follow up question which sort to find out how additional interests on problem loans have been treated was posed to the credits officers. They were to indicate whether such interests are put in a separate suspense account or added to interest on performing loans. Responses to the question indicated that interests on problem loans are treated as part of interests on performing loans.

The researcher holds the opinion that a practice like this will not only lead to inflated net profit but also has the capacity to cause liquidity challenges for the bank.

Liquidity challenges can result from diverse ways. One of such ways is the current treatment of additional interest on problem loans by FASL. Shareholders will on the basis of the huge reported profit figure demand higher dividend. A huge amount is very likely to be paid to the Ghana Revenue Authority as corporation tax. All these combine can lead to liquidity challenge.

4.10 Refinance of market fire victims after payment of Loans

The researcher wanted to find out how market fire victims who defaulted on their loan facilities were treated. That is to find out whether such customers were rejected outright or some form of financial assistance with much flexible terms were extended to them. Responses obtained indicated that all the credits officers whose customers had been victims of market fires but were able to complete the payment of their loans were refinanced. This is seen as a positive sign because such customers in most cases are able to recover to run good businesses. However, the caution is that if the re-financed amount is either too small or without flexible terms, such customers may find it very difficult to make payment on time and that may worsen the arrears situation of the company.

4.10.1 Refinanced loans and arrears

It is not enough to re-finance market fire victims who had defaulted in the payment of loans but being able to recover all such loans is critical. The objective the researcher wanted to achieve at this stage was to find out whether the bank was not just throwing out money but was doing the serious business of recovering loans granted to people who had defaulted. So respondents were required to indicate a yes or no answer to the question as to whether some loans in arrears are attributable to refinanced loans to market fire victims.

Again all the credits officers who had been confronted with the challenge of having to deal with market fire victims, gave yes answers to indicate that some loan arrears in the books of the bank are attributable to market fire victims who were refinanced.

This was again seen as unfortunate development because such situations contribute to non-performing loans and by extension the incidence of huge loans write- off.

A follow-up question which intended to find out whether credits officers would still recommend for approval, credit request from customers who had defaulted several times due to the incidence of market fires, attracted one hundred percent (100%) yes answers. The main reason assigned was that if such requests are not recommended for approval, they are likely to lose such customers to their competitors.

4.11 Market Fires and its impact on the Profitability of FASL

The frequency of the occurrence of market fires should inform every affected financial institution of the urgent need to devise strategy (ies) to reduce the impact. However, one cannot devise an effective strategy if the full impact has not been established. This fact guided the researcher to find out from the credits officers whether an exercise aimed at establishing the full impact of market fires on the profitability level and the deposit base of FASL had been made. Apart from one credits officer who was specific in his response to the effect that a total amount of Five Hundred Thousand Ghana Cedis (GHS500, 000) had been written- off as bad loan, all the other respondents indicated that they had not thought of conducting such an exercise. This is not a healthy development and so all financial institutions who so desire to remain in business must in future take such catastrophic incidence serious and conduct impact analysis to inform the appropriate strategies needed.

4.12 Strategies to reduce Market Fires impact and it Effectiveness

Specifically, the researcher asked respondents to indicate whether specific strategy (ies) has been employed by FASL to deal with the incidence of market fires. The answers were positive since all of them said that an insurance policy known as 'micro insure' had been purchased from Enterprise Insurance Limited. Again they gave an indication that the insurance policy had been very successful and effective since its implementation.

4.13 Result of interview with Assistant Credits Manager

Because some clarity was needed on certain critical issues, an interview session was arranged with the assistant credits manager. The interview session which lasted for thirty minutes touched on the under listed issues:

1. Whether some market fire victim customers had stopped operating with FASL
2. Whether the micro insurance policy purchased cover every property destroyed through fire outbreak
3. Who pays for the premium
4. Clarity on conditions which have to be fulfilled before claim can be made

4.13.1 Market Fire victims and account operation with FASL

During the interview session, the question as to whether some market fire victim customers had stopped doing business with FASL was asked. In response, the assistant credits manager admitted that though he was very much aware that some customers who were victims to the series of fire outbreaks that had occurred in the various markets were no longer doing business with FASL, he was however not in a position to put a figure on the exact number of customers. According to him, until the interview session, such a thought had not occurred.

4.13.2 Insurance and properties destroyed through Market Fires

During the research work one important issue which emerged was the insurance policy FASL had purchased and so effort was made to find out exactly how the policy works. The assistant credits manager revealed that the insurance policy covers only outstanding loan amount equivalent to One Hundred Thousand Ghana Cedis (GHS100, 000).The shops, stocks and all properties destroyed are not covered under the policy.

In terms of who pays for the premium, the assistant credits manager again disclosed that it is the customer who bears the responsibility for the payment of the premium. This according to him was achieved by requiring every loan customer to pay an amount equivalent to 1% of every loan amount granted. On the question of conditions which need to be fulfilled before insurance claims are made, he said that no condition has been placed on the borrower but rather it is the bank which must inform the insurance company with lists of loan customers who have fallen victims to market fires with an attached written report from Ghana National Fire Service (GNFS).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5. Introduction

This chapter presents the summary of findings from the research work, the conclusion drawn and recommendations made.

5.1 Summary of Findings

Based on the data collected from the field and the analysis of the data collected in chapter four, significant findings and deductions were made. First, the study found that market fires have been one of the causes of loan default in First Allied Savings and Loans Limited and constitute 15% of all the causes of loan defaults.

It was also found from the study that market fires have contributed to the non-performing loans that FASL has had to manage. A total amount of GHS151, 000,000 of non-performing loans of FASL as at the end of June 2015, market fires alone constitute 20%. Also 50% of customers who responded to the questionnaire indicated that they had huge outstanding loans that they unable to pay after they became victims of market fires. Another significant finding from the study is that the actual performances in terms of deposit mobilization and profitability levels have been affected by market fires. One issue which emerged from the research was how additional interests on Non-performing loans were treated. It was evident from the data collected that interests on non-performing loans were added to interests on performing loans. This accounting practice leads to inflated profit figures and by extension the payment of huge corporation tax to the Ghana Revenue Authority. It has been an established fact that many at times customers who contribute to non-performing loans, are either due to challenges they face in their businesses are unable to operate their accounts or Some of them willfully refuse to make deposit into their accounts because they do not want to pay their loans. This also indirectly reduces deposits of FASL.

It was also found out from the research that some loan customers who have been victims of market fires have become poorer .From the study, it became evident that 25% of customers who participated in the research questionnaire had lost part of their working capital as a result of market fire outbreaks. Additionally, 15% of respondents had lost their entire working capital and the loss of working capital is attributable to market fire outbreaks. There were still others who as a result of market fires were given additional loan facilities but were unable to pay and therefore had huge outstanding loans to deal with.

Again, it became evident from the study that FASL had taken a giant step in trying to reduce the impact of market fires on the bank. This follows the purchase of an insurance policy called “micro insure” from the Enterprise Insurance Company Limited. However, the only concern identified was the fact that the insurance policy covers a loan amount up to One Hundred Thousand Ghana Cedis (GH¢100,000).

Lastly, another finding from the study has to do with the negative perception that traders in the market have about insurance companies. During the data collection exercise, loan customers disclosed that they are averse to insurance policies because they see the insurance companies as institutions which take delight in deceiving people and not disclosing the actual benefits that policy holders stand to get and the conditions that have to be fulfilled before claims are made.

5.2 Recommendations

From the study findings, the following recommendations are made:

First of all, the central government must resource the Ghana National Fire Service (GNFS) with modern equipment. The number of Fire Service vehicles must also be increased. Many at times because of the paucity of vehicles, when an outbreak occurs it takes the GNFS several minutes or hours before they are able to come to the rescue of victims.

It is also recommended that as a long term solution, government should consider constructing specific lanes in the major cities for GNFS vehicles .This will facilitate the movement and responses of GNFS officials when an outbreak occurs. Again, the Government must consider reconstructing all old markets to have sufficient access routes for GNFS vehicles. Modern fire hydrants must be installed in all the markets centers and must be visible.

It is also recommended that regular education on fire safety measures must be given to all traders in the various market centers.

Another recommendation is that traders at the various market centers must be advised strongly to convert all their stores into concrete and must also engage qualified electricians to re-wire all their stores.

Also it is recommended that traders must be encouraged to form groups and engage the insurance companies in a discussion leading to the purchase of insurance policies against disasters such as fires and decongestion. Such insurance policies must cover stocks, stores and possibly lives.

5.3 Areas of Further Research

The study recommends that further research should be done on the effect of decongestion exercises in the country on the performances of financial institutions and traders.

5.4 Conclusion

The findings from the research work clearly indicate that fire outbreaks in market centers in Ghana have become a major challenge facing the nation for which the central government and the various banking institutions as well as traders in the various markets, must take urgent and decisive measures to drastically reduce the occurrence and impacts .Traders in particular must form groups and engage the insurance companies for the possible purchase of market fire insurance policy. Finally, other savings and loans companies must be encouraged to follow the path taken by First Allied Savings and Loans Limited for taking the bold and innovative ways of reducing the impact of market fires on their performances through the purchase of insurance policy.

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APPENDICES

APPENDIX I

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS

QUESTIONNAIRE (for Credits Officers)

Dear Respondent,

This questionnaire forms part of a research on the topic: Assessing the effects of market fire outbreaks on the performances of Savings and Loans Companies in Ghana. The case of First Allied Savings and Loans Limited and it is in partial fulfillment of requirements leading to the award of **Master of Business Administration (Accounting) degree**. The questions below are being asked to enable me to gather information to undertake the study. I wish to assure you that information provided will be treated confidentially.

Thank you for your co-operation.

1. Please based on your experience as credits officer, rank the under listed causes of loan default on a scale of 1 to 7, with 7 being the highest and 1 the lowest.

   ( ) Misapplication of borrowed funds

   ( ) Market Fire outbreak

   ( ) Poor loan monitoring by credits officers

   ( ) In appropriate timing of disbursed loans

   ( ) Insufficient disbursed loan amount

   ( ) Poor credit appraisal by credits officer

   ( ) High interest rate

2. How many times have customers at your branch experienced market fires since your branch became operational? Please tick.

   ( ) 1-3 times

( ) 4-5 times

( ) 6-7 times

( ) None of the above

3. Have you ever written- off loans as bad which was caused by market fires?

( ) Yes

( ) No

4. If yes to the above, how much has been written – off as bad loans in total?

GH¢ …………………………………………

5. Do you still have problem loans in your portfolio caused by market fires?

( ) Yes

( ) No

6. Have you ever re-financed market fire victims who defaulted on their loans?

( ) Yes

( ) No

7. If yes, are such re-financed loans still in arrears?

( ) Yes

( ) No

8. If yes to the above, will your branch still recommend applications from such customers for approval if they are able to complete full payment of loans?

( ) Yes

( ) No

9. If yes why?

10. If no why?

11. Do problem loans attract additional interest?

( ) Yes

( ) No

12. If yes to the above question, how are such interests accounted for?

( ) they are put in a suspense account

( ) they are added to normal interests on performing loans

( ) state other treatment other than above

13. Have you ever determined the full impact of market fires on the profitability of your organization?

( ) Yes

( ) No

14. Have market fires negatively affected your deposit base?

( ) Yes

( ) No

15. If yes to question 14, to what extent have market fires affected your deposit base? Please provide figures if possible. GH¢……………………………….

16. Have your company specifically employed strategy (ies) to reduce the impact of market fires on your loan portfolio?

( ) Yes

( ) No

17. If yes to question 16, state or describe the nature of the strategy (ies)

18. If yes to question 16, how effective have the strategy (ies) been in reducing the impact of market fires on loans? ………………………………………………

APPENDIX I1

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF BUSINESS

QUESTIONNAIRE (for loan customers)

Dear Respondent,

This questionnaire forms part of a research on the topic: Assessing the effects of market fire outbreaks on the performances of Savings and Loans Companies in Ghana. The case of First Allied Savings and Loans Limited and it is in partial fulfillment of requirements leading to the award of **Master of Business Administration (Accounting) degree**. The questions below are being asked to enable me to gather information to undertake the study. I wish to assure you that information provided will be treated confidentially.

Thank you for your co-operation.

1. Gender, Please tick the appropriate box below:

   ( ) Male

   ( ) Female

2. Age of Respondent

   ( ) 25-30 years

   ( ) 31-35 years

   ( ) 36-40 years

   ( ) 41-45 years

   ( ) 46-50 years

   ( ) > 50 years

3. Educational background

   ( ) M.S.L.C

   ( ) J.H.S

( ) A’ Level

( ) S.H.S

( ) H.N.D

( ) Bachelor’s Degree

( ) Postgraduate degree

( ) others

4. Line of business

   ( ) Biscuits

   ( ) plastic bowls

   ( ) mother care

   ( ) men’s and ladies slippers

   ( ) clothing material

   ( ) cosmetics

   ( ) others, specify

   GH¢ ……………………………………………

5. Business experience

   ( ) 1-5 years

   ( ) 6- 10 years

   ( ) 11-15 years

   ( ) 16 years or more

6. Have many years have you been in business relationship with First Allied?

   ( ) less than 1 year

   ( ) 1-2 years

   ( ) 3-4 years

   ( ) 5-6 years

( ) 7 years or more

7. How many times have you been affected by fire outbreaks?

   ( ) once

   ( ) twice

   ( ) thrice

   ( ) more than three times

8. Have you insured your business against fire?

   ( ) Yes

   ( ) No

9. Apart from fire insurance what other insurance policy do you have

   ( ) child education insurance

   ( ) motor insurance

   ( ) life insurance

   ( ) insurance against theft

   ( ) I have no insurance policy

10. What is your perception about insurance companies

    ( ) they deceive people to purchase insurance policy

    ( ) they have failed to do proper education about the benefits of insurance policies

    ( ) they are not useful institutions

    ( ) the insurance industry is likely to collapse in the not too distant future

11. After the fire outbreak, how were you able to raise money to revamp your business?

    ( ) I used my past Savings

    ( ) I took a loan from my bankers

( ) I received financial support from my husband or family members

( ) I operate on credit purchases

( ) I used proceeds from the sale of my personal properties

12. Please to what extent have your business been affected by fire outbreak?

( ) I have lost my entire working capital

( ) I have lost part of my working capital

( ) I have a huge outstanding loan to pay

( ) I am now out of business

13. Has there been any difference between the level of account operation before and after market fire outbreak?

( ) my account operation has been the same

( ) I have stopped operating my account

( ) my account strength has reduced after the incidence of market fires