FACTORS RESPONSIBLE FOR LOAN DEFAULT: SURVEY OF ASOKORE AND NWABIAGYA RURAL BANKS

by

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DECLARATION

I hereby declare that this submission is my own work towards the MBA and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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DEDICATION

This thesis is dedicated to Mrs. Comfort Boadi for her prayers and steady show of motherly affection, and also to Mrs. Linda Osei Afriyie for her support.

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First of all, inspirations are drawn from within, and all that a man needs is within him. A diligent and a hardworking attitude is a hallmark of a great man. The cooperated efforts of many gifted people have made this study a reality. This work is a product of countless individuals whose thoughts, ideas, perspectives, and work have given me the exposure to the knowledge I have placed in this study.

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ABSTRACT

Rural and community banks have made positive impact in the Ghanaian banking industry. They have made impact not only in the banking sector but also in advancing credit facilities to their clients. However, just like other financial institutions, rural and community banks experience many cases of loan defaults which have led to the inability of the banks to increase loan advance to clients. This study mainly focused on factors responsible for loan default in the rural banking sector using Nwabiagya and Asokore Rural Banks as case studies. Both qualitative and quantitative research design were adopted in the study. Questionnaires and interviews were employed to collect data from the employees and customers of both banks. Hence, a total of 300 questionnaires were distributed but 265 of them were correctly filled and collected indicating a response rate of 88.3%. The collected data was coded into the SPSS program and the mean and standard deviation tests were performed and used for the final analysis. The study found that borrowers keep on defaulting the repayment of their loans and the five main factors responsible for loan default are government intervention like demolitions, relocation etc, and delays in granting loans to borrowers, improper keeping of business records and diversion of borrowed funds to risky investments once granted the loan to borrowers. It was also found that unemployment, interest rate and inflation are the major economic factor responsible for loan default. The study recommends to banks to liaise with the land commission and the metropolitan assembly to ensure that the places where borrowers businesses are located have not been assigned for any future project which will call for demolition before approving loan for a customer. The study also recommends to banks to organise training for borrowers before and after granting them loans.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The early banks in Ghana were mostly accessed by the people living in the urban cities in the country, people in the formal sectors and the rich in the society. Farmers and the poor in the society were not able to do transactions with the early banks because of the prestige attached to the banks and their operations and for that matter there was the need for a bank that can serve farmers and the poor in the society. This influences the formation and establishment of rural banks in Ghana (Andah and Steel 2003). Historically, Nyakrom Rural Bank was the first rural bank established in Ghana in the Central Region in the year 1976. It was established purposely to serve the farmers within Nyakrom and its surrounding towns. Later, many rural banks were introduced in all the other regions in Ghana. By the year 1980, Ghana had recorded the establishment of twenty (20) rural banks in the country. Most rural communities became interested in establishing their own banks thereby contributing to the increased in the number of rural banks in the country. As at December 2014, the total number of registered rural banks in Ghana had reached One Hundred and Thirty-nine (139) according to ARP Apex Bank (2014) report.

Agwe, et al. (2007) defined rural banking as the banking activity that concentrate on the provision of financial services to the rural communities in order to improve the livelihood of the people in the community. Rural banks have been performing and contributing positively towards the banking industry in Ghana. A report by BOG (2010) revealed that in the year 2008 rural banks received a total deposit of 343.9 million while the total customer based of rural banks was 680,000 clients. Some of the rural banks have been appearing in the Ghana Club 100 list indicating that rural banks have been contributing towards the economic growth in the country. Brohman (1996) indicated that rural banks have improved the wellbeing of the poor in most developing countries by granting loans to individuals, petty traders, small businesses and other forms of businesses. Bank of Ghana, (2008) reported that the total loans advanced to clients by all community and rural banks in Ghana stood at GH¢71.63 million in 2005 and this increased to GH¢115.10 million in 2006, thus indicating 35.4 per cent increase. Loan advances amounted to 224.7 million in 2008. The report given by ARP Apex Bank (2014) shows that, rural banks continue to increase in loan advances by 14.5% against 2013.

According to Shekhar & Shekhar (2007) the upward-trending of loans to individuals, small businesses, groups and others indicates that rural banks have been advancing loans to their clients. However, some of the loans given out by the banks to the customers are not paid and eventually result in loan default. According to Choudhury et al. (2002) the issue of loan defaults has become an increasing problem that threatens the sustainability and operations of rural and community banks. This has influenced this thesis in order to reveal the determinant of loan default among rural and community banks in Ghana. According to Karim et al (2010) loan default results in increasing the bad debt of a bank which stifles the financial growth of banks. Hence, understanding the determinants of loan default can help rural banks to be better positioned in devising strategies to control the high rate of loan default.

1.2 STATEMENT OF THE PROBLEM

Rural and community banks have made positive impact in the Ghanaian banking industry. They have made impact not only in the banking sector but also in advancing credit facilities to their clients. However, just like other financial institutions, rural and community banks experience many cases of loan defaults which have led to the inability of the banks to increase loan advance to clients. Studies including Karim et al (2010) and Kuo et al. (2010) have discovered that the main effect of loan default or bad loans on banks is the fact that increasing bad loans limit the financial growth of banks. This consequence is as a result of the fact that bad loans deprive banks of the needed liquidity and limit their capability to fund other potentially viable businesses and make credit facilities available to individuals. Karim et al. (2010) argues that there are a lot of other viable businesses that the bank cannot explore as a result of the fact that its funds are caught up in bad loans.

In the face of these consequences, the bank experiences a shortfall in generated revenues and this translates into reduced financial performance. Customers who need loans to pursue their businesses are denied due to inadequate capital. This has negatively affected the perceptions customers have on banks. Moreover, the inability of banks to advance more loans and generate revenue from the interest on loan also limits banks to achieve their targeted profits. The influence of loan default on the financial performance of rural banks has necessitated this study which aimed to establish the factors responsible for loan default among rural banks in Ghana.

1.3 OBJECTIVES OF THE STUDY

Generally, the research is aimed at revealing the factors responsible for loans default in the rural banking sector in Ghana. Specific objectives included;

1. To determine the trend of loan default at Asokore and Nwabiagya Rural Banks in Ghana.
2. To discover the factors responsible for loan default at Asokore and Nwabiagya Rural Banks in Ghana.
3. To examine how the economic situation in the country contributes to loan default.

1.4 RESEARCH QUESTIONS

The above objectives were achieved through the answering of the questions below;

1. What is the trend of loan default at Asokore and Nwabiagya Rural Banks in Ghana?

2. What factors are responsible for loan default in the rural banking sector in Ghana?

3. How does the economic situation in the country contribute to loan default?

1.5 SIGNIFICANCE OF THE STUDY

A study on the factors responsible for loan default is very important given the role the rural banks are expected to play in the development of the Ghanaian economy towards attaining the middle income-status. It would help management of the rural banks to put in place measures that addressed the factors relating to loan default. It would also assist rural banks to identify other factors that will help them to reduce or eliminate the rate of loan defaults by their customers, thereby ensuring sound, secured and profitable rural banks in Ghana. This would enhance the ability to play their intermediation role effectively and to prevent them from liquidation.

The study will reveal to the financial institutions about the trend of loan default by the rural banks. By understanding this trend will help them reduce loan defaults in order to have significant improvement in their business performance by providing satisfactory credit services to customers. In this case by understanding and documenting the views of the staff members and customers on their perception on the factors responsible for loan default, other financial institutions will be more aware of what is required for them to stay healthy in their operations.

The work will again serve as a reference material for the banking sector in making decisions concerning ways of developing strategies to mitigate loan default. Also, the data from this study will serve as benchmark data for any further investigation, and as a useful material for academic purposes, and as an added literature to the existing knowledge.

1.6 SCOPE AND LIMITATION OF THE STUDY

The study focused on the factors responsible for loan default among rural banks in Ghana. Asokore Rural Bank and Nwabiagya Rural Bank were selected as the organizations for the study. Hence, the study will be limited to the branches of the two rural banks in only Ashanti region. The data to be collected will be limited to issues pertaining loans of the banks and their performances.

The researcher also encountered some challenges regarding access to data, as some of the management members were reluctant in given out the needed data even though permission was obtained from the general managers of the banks.

1.8 ORGANIZATION OF THE STUDY

The research was logical conducted and arranged in five chapters. The chapter one dealt with the introduction of the research, chapter two concentrated on review of existing literature on the topic whereas chapter three dealt with the methodological aspect of the research. Chapter four presented the research findings and discussions while chapter five dealt with conclusions and recommendations based on the salient issues emerging from the research.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This section of the thesis concentrated on the review of literature on the subject matter. The key areas of the literature review included the concept of banking and rural banking, the operations of rural banks in Ghana, the concept of bank lending and loan default, factors responsible for loan default and the theoretical model for the study.

2.2 THE CONCEPT OF BANKING

According to Hart (1931), there is no definite definition for a bank and for that matter a bank or banking can be described in a number way. As a result, Hart (1931) defined a banker or bank as a person or a company responsible for carrying the business of receiving money, paying out money and handling cheques transactions. Hart (1931) further explained that there two main primary functions performed by banks. The first function is accepting deposits while the second one deals with lending money. According to Hart (1931) the most important function of banks is to activate deposits from the public. People have surplus income and seek to find means to save them by depositing them at banks. Hence, the bank becomes a custodian of customers' money. The second important function of banks is to grant loans and advances to customers. The loans and advances are given to customers at a higher rate of interest than allowed by banks on various deposit accounts. The secondary functions of banks which is lending is purely agency services and much more important to this study.

Pilbeam, (1998) defines a bank as an institution which deals in money and credit. Banks basically accept deposits from clients and grants loans and advances to the clients who are in need of funds for various purposes. According to Pilbeam, (1998) the main banking task is to accept deposits from customers for the purpose of lending or investing. In addition to accepting deposits and lending funds, banking also involves providing various other services along with its main banking activity. A banker is one who undertakes banking activities, accepting deposits and lending money for different purposes. A bank is an organization, usually a corporation, chartered by a state or federal government, which does most or all of the following: receives demand deposits and time deposits, honors instruments drawn on them, and pays interest on them; discounts notes, makes loans, and invests in securities; collects checks, drafts, and notes, certifies depositor's checks and issues drafts and cashier's checks (Devlin, 2001).

In summary, banking is an activity by financial institutions that involves accepting deposits from customers, giving advances and loans to customers with interest, investing customers' deposits for returns and providing other agency services.

2.3 THE CONCEPT OF RURAL BANKING

The introduction of rural and community banks shortly known as rural banks is not new in the banking industry worldwide and in Ghana as well. The first rural bank was introduced in the central region of Ghana in the year, 1976. This indicates that rural banks have been operating in Ghana for a number of years.

Agwe, et al. (2007) defined rural banking as the banking activity that concentrate on the provision of financial services to the rural communities in order to improve the livelihood of the people in the community. According to Shekhar and Shekhar (2007) a rural bank is any financial institution operating like a co-operative which offers a range of financial services. Shekher and Shekher (2007) explained that mobilization of savings from the low income earners and the poor is the first function of every rural bank. This is followed by the provision of credit facilities to the rural dwellers in the society. They mentioned that rural banks also focus on provision of credit facilities to small and medium scale enterprises and young entrepreneurs. Schreiner and Colombet (2001) have also defined rural and community banking as banking services that deal with the mobilization of savings and giving out loans to poor and low income earners who have been neglected by the commercial banks. Schreiner and Colombet (2001) revealed that rural banks offer variety of banking products including credit facilities, savings mobilization, internal money transfer and insurance services. The above definitions suggest that rural banks are established to meet the financial needs of the poor, low income earners and small scale businesses.

In a study, Chowdhury (2009) revealed that rural banks have positively transformed the live of rural dwellers in India. According to the study, the establishment of rural banks in rural communities in India has contributed to the elimination of poverty, structural changes and stimulated the spirit of entrepreneurship. Brohman (1996) indicated that rural banking has improved the wellbeing of the poor in most developing countries that are dominated by poor and rural dwellers. Hence, Brohman (1996) concluded that rural banks have achieved their aim by helping to reduce unemployment, making it possible for low income earners to have access to public goods and helping to solve the problem of income inequalities in poor countries.

Formal financial institutions in Ghana are described as those institutions incorporated under the Companies Code 1963 and have been given license by the Bank of Ghana (BOG). The license issued by the Bank of Ghana is into two categories; license issued under the Banking Law 1989 and the one under Financial Institutions (Non-Banking) Law 1993 (NBFI Law). Each license gives a financial institution the mandate to provide financial services under Bank of Ghana regulation. Rural and Community Banks (RCBs) operate in Ghana as commercial banks under the Banking Law. However, they are not allowed to operate fully like the other commercial banks. For instance, rural banks are not permitted to undertake foreign exchange activities, the minimum capital requirement demanded from them is relatively low and their clientele is mostly drawn from their local catchments area where the bank is located (Andah and Steel 2003).

The Bank of Ghana is particular about the minimum capital requirement needed to operate a rural and community bank in Ghana. Specifically, the Bank of Ghana has raised the minimum capital requirement of RCBs from GH¢150,000 to GH¢300,000 and all rural banks were expected to have a minimum capital of GH¢300,000 as at 31st December 2015. The minimum capital requirement BOG expects from rural and community banks increased from GH¢300,000 to GH¢500,000 in 2016 and expect all rural and community banks to have this new capital requirement by 31st December 2016. By 31st December 2017, BOG requires all rural and community banks in Ghana to have a minimum capital requirement of GH¢1,000,000. However, new banks seeking the opportunity to enter into the rural and community bank industry are expected to begin with a minimum capital requirement of GH¢1,000,000. The BOG has increased the capital requirement for the rural banks purposely to ensure that the banks are liquid enough to finance all their capital expenditure (BOG 2012 and ARB Apex Bank 2013).

For lending activities, Bank of Ghana has a number of regulations that restrict the activities of rural banks in Ghana. The Bank of Ghana requires from rural banks to grant loan to a group not exceeding twenty members. Before granting a loan to a group, Bank of Ghana requires from the rural banks to ensure mutual trust and respect among members and the group leader must have a clean loan record. There is a mandatory sectorial allocation for rural bank loans which guide them on how to give out loans to clients. The policy demands that the bulk of rural banks' loan is given to Ghanaian farmers. To ensure that resources assist small farmers, the Bank of Ghana requires that the maximum acreage a loan-eligible farmer can cultivate is ten acres for vegetables and hundred acres for staple crops (Andah and Steel 2003).

Loan repayment conditions are determined with reference to the borrower's capacity to repay. A "grace period" is allowed between the loan approval date and the time the borrower is expected to generate sufficient income to repay the loan. During the "operation period" of the loan, the Bank's Loan Officer monitors the borrower to ensure proper use of funds and punctual repayment. Routine and emergency visits by the Loan Officers are common during the operation period of the loan. Rescheduling may be allowed if there are circumstances which the loans committee or board of Directors accepts as "unforeseen developments." If there is default on the loan, the case is sent to the Bank's lawyer(s) for action (Andah and Steel, 2003).

By 1990, the rural banks were experiencing negative profitability resulting in capital inadequacy and, in some cases, the inability to meet depositors' withdrawal demands. The Bank of Ghana ordered a restructuring of the Rural Banks. Today, the rural banks are still given the opportunity to determine who should benefit from their credit resources. There is substantial anecdotal evidence of misdirection and misapplication of rural credit by the Rural Banks and the rural people. Many rural banks appear to give credit to people who do not fall into the Bank of Ghana target groups. It is not uncommon to see many credit recipients spending borrowed credit on land litigation and funeral ceremonies instead of productive venture. The Bank of Ghana initiated the rural bank system with the hope that small-scale rural producers and small towns would benefit from the new credit resources. It is uncertain whether or not the rural banks are fulfilling the basic functions for which they were created (Andah and Steel, 2003).

2.4 THE CONCEPT OF BANK LENDING/LOAN

Raghavan (2005) explains a loan as a debt provided by an organization or individual to another organisation or an individual at an interest rate, and is proven by a note which contains information regarding the principal amount, the interest rate and the date of repayment. Alternatively, a loan is considered as a form of financial assistance a company or individual receives from a financial institution where the company or the individual repays an amount higher than the initial amount collected. The banking loan is such that the borrower initially receives an amount of money known as the principal from the lender (bank) and is obligated to later pay back an amount of money which is usually higher than the initial amount received from the bank. Paying a higher amount than the initial amount received from the bank is an indication that loans are offered at a cost known as interest on loan, which usually becomes the key motivational factor that influences a bank to offer loan to a client.

Various studies such as Woo (2000) and Oboh (2005) have concluded that the most common form of companies' capital is bank loan and as such the main task of banks is to provide loan to customers. Some institutions issue debt contracts in a form of bonds as a source of funding to business enterprises. The bond is issued and repaid at an amount higher than the initial amount received by the borrower. Banks usually require from borrowers to provide security for the loan to be granted. However, some customers like start-up businesses are sometimes exempted from the provision of collateral security before being grated loan. In such cases, personal guarantees are usually provided by the business.

According to Osayemeh (1981) a bank loan is described as a credit facility available to bank customers especially the customers of commercial banks. Osayemeh (1981) classified credit facilities available to banks into four major categories namely Short term credit, Medium term credit, Long term credit and secured and unsecured credits. Short term credit is described as the form of credit facility by which repayment period spans within a year. Typical example of short term credit facility is bank overdraft. Medium term credit facility is described as the form of bank credit that demands repayment within five years. It is required to finance or acquire capital assets which yield a commensurate return within the credit period. Long term credit facility is any form of credit given to borrowers in which maturity period is usually after five years. Such credit usually involves a large sum of money. Typical examples of such credit include industrial credit and equipment leasing credit.

Both secured and unsecured credits relate to the use of collateral securities in securing loan from a bank. A secured credit facility is the type of loan where banks grant loan to client on the basis of tangible collateral securities pledges by the borrower in favour of the lending bank. Unsecured credit facilities are those credits obtained by clients without any requirement of collateral securities. Banks often offer unsecured credit facilities to customers when they realize that customers are credit worthy, reliable and honest. Adewumni (2005) recall that for an unsecured credit to be successful, banks officials are expected to work due diligently and strictly adhere to the KYC (Know Your Customer) norms. Bank officials must also follow the prescribed Fair Practice Code on Lenders Liability. Failure to adhere to the cautions above might lead to loan default (Osayemeh 1981 and Adewumni 2005).

2.5 THE CONCEPT OF LOAN DEFAULT

Okorie (2004) has defined loan default the inability or failure of borrowers to repay loan collected from a lender on time or failure to repay the loan at all. According to Okorie (2004) loan default seriously affect the operations of banks to the extent that it can lead to the collapse of banks. Okorie (2004) recorded that loan default lead to waste of human resource of banks, causes high cost of operation and lowers the turnover of banks. Studying rural banking, Okorie (2004) discovered that the major reason why most borrowers fail to repay their loan is failure to use the loan for productive venture. Other reasons include natural disaster such as heavy rain or drought that affect agricultural products, drop in the prices of agricultural products and deliberate failure to repay loan.

Choudhury et al. (2002) also describe loan default as a situation where banks seize to receive interest on loan as scheduled or seize to receive repayment of loan from borrowers. Loan default arises when bank customers who have collected loan from banks fail to honor the repayment of loan. According to Choudhury et al. (2002) loan default is also known as nonperforming loans (NPLs) because the loan no longer performs as expected or no longer generates income for the bank. High rate of loan default negatively affect the confidence investors have in banks and are deterred to pump money into the bank. Customers who become aware of high rate of loan default also begin to redraw their savings thereby leaving banks with little financial resources for it operations (Choudhury et al. 2002).

Researchers like Richard et al (2008) and Santomero (1997) have provided a simple description for loan default on the basis of three main characteristics. First, they describe that loan default arises when banks fail to receive income from loans given to borrowers. Second, they describe that loan default arises when the full payment of the principal and interest is not done. Third, loan default has been defined as any loan which the re-payment period is 90 or more days late where the maturity date has passed and the payment has not been completed. The sequence of loan default is such that, at the beginning borrowers delay repayment daily delays, followed by weekly delays and then becomes monthly. During these periods banks try to interact with customers to encourage them to repay their loans are even forced to impose "fines" which are added to the amount the borrowers have to pay based on the set percentage for the loan.

2.6 STUDIES ON FACTORS RESPONSIBLE FOR LOAN DEFAULT

Despite the controls put in place to prevent delays in the repayment of loans and avoid loan default or non-performance, banks still experience huge amount of bad debt arising from loan defaulters. This section therefore throws more light on some of the studies on loan default and repayment delays. There are numerous studies that have been done on why customers are unable to repay loans granted to them and why they delay payment. A critical review of the various studies revealed that the factors responsible for non-payment of loan are categorized into macroeconomic factors, sociocultural factors, natural factors, borrowers' factors and financial institutional factor. However, results from previous studies reveal a mixed of the factors. The section below provides summary of some previous studies.

2.6.1 Failure of the Energy and Agricultural Sector

In a study by Keeton and Morris (1987) in the United State of America, it was discovered that most borrowers could not pay their loans because of the failure in the energy and agricultural sectors as well as the poor economic condition the country faced during that time. In their study, it was found that the prices of agricultural products fell and that affected the ability of the farmers who have taken loans from the financial institution to repay their loans. The poor economic condition causes interest on loan to be high and that made the cost of loan very high for borrowers to repay.

2.6.2 Banks' Interest Rate

Sinkey and Greenwalt (1990) conducted a research in America on loan default rate of banks and found that macroeconomic factor such as high interest rate was the highest determinant of loan default and was followed by unnecessary granting of loans by financial institution and unpredictable fund. Sinkey and Greenwalt (1990) discovered in their study that the customers who were interviewed mentioned that they might have repaid their loans if the interest rate was reduced by even 3%. High interest rate was also found by Hoggarth et al (2008) as the main determinant factor of loan default in the United Kingdom. Hoggarth et al (2008) found inflation rate as the second major determinant factor that affect the ability of borrowers to repay their loans. These two factors were classified under the economic factors and for that matter Hoggarth et al (2008) concluded that macroeconomic factors have the greatest influence on borrowers' ability to repay their loans. Another study relating to determinant of loan defaulting is the study by Okpugie (2009) in Nigeria. In his study, it was found that high interest charged on loans was the main reason why clients fail to repay loans. Other studies that support high interest charge on loans as the major reasons why loan defaulting keeps on increasing include Vandel (1993), Olomola (1999) and Rajan and Dhal (2003).

2.6.3 Gross Domestic Product (GDP)

In addition to inflation rate, Vogiazes and Nikolaidu (2011) discovered high expenditure on investment in construction, external debt to GDP, money supply and high unemployment rate as alternative factors that affect borrowers' ability to repay loans in Romania. In their study, it was revealed that most of the companies and agencies that collected loan from the financial institutions invested them in the construction industry which yielded little returns. Again, most borrowers used their loan to feed their unemployment families and the negatively affected their ability to repay their loans.

In Spain, Salas and Sanrina (2006) also conducted a research and discovered that high interest rate was the highest determinant of loan default. Aside interest rate, GDP growth and soft credit were the other factors responsible for the inability of borrowers to repay their loans. In Greek, Louzis, et al (2011) revealed that GDP growth in the country has the highest influence on loan default. This was followed by lending policies of banks. The quality and competency of the management members of financial institutions was the third determinant factor that causes loan default. The high unemployment rate in Greek was the fourth factor while public debt was rated as the fifth factor that causes loan default among the borrowers.

Even though studies such as Nkusu (2011), Vogiazes and Nikolaidu (2011) and Louzis, et al (2011) have reported that GDP growth positively affect non-performing loans, Khemraj and Pasha (2009) revealed that growth of GDP has no effect on loan default. This indicates that the factors responsible for loan default or non-repayment of loans cannot be generalized. However, the factors must be treated independently. In developing economies and Africa, various studies have been conducted on loan default and factors responsible for it. De Bock and Demyanets

(2012) revealed in their study that GDP growth was the major determinant of loan default. The study discovered that growth in the economic makes it possible for businesses to increase sales and hence pay for their loans. The second determinant factor was depreciation of the currency against the US dollar and was followed by weaker terms of trade and outflows of debt.

2.6.4 Size of Borrowers Family and Business

Additionally, Akinwumi and Ajayi (1990) conducted a research on why small scale farmers fail to repay loans granted to them by rural banks. The study discovered that the size of the borrowers' farm was rated the highest determinant factor and was followed by the family size and living expenses of the borrowers. Small scale farmers faced the challenge of little sales and because of that they are not able to repay their loans. Borrowers with large family size were unable to repay their loans because much of the loan was spent on feeding the family instead to using it for production purpose in order to generate returns. Farm management techniques used by the farmers was also discovered as one of the factors that influence the ability of the farmers to repay loans. Similar research was conducted by Balogun and Alimi

(1988) on factors that affect the ability of farmers to repay loan.

According to Balogun and Alimi (1988) delays in loan disbursement became the number one reason why borrowers fail to honor their loan repayment obligations. It was followed by high interest on loan which affected the profit of borrowers thereby delaying the repayment of loan and sometimes fails to repay at all. Additional factor that determine the ability of borrowers to repay loan as discovered by Balogun and Alimi (1988) included; farm size of borrowers, age of borrowers, poor supervision and unnecessary government intervention on banks' credit programmes.

2.6.5 Inappropriate Business Practice of Borrowers

A study by Kasozi (1998) revealed that most borrowers fail to repay loans mainly because of inappropriate business practices. In Kasozi (1998) study, it was revealed that most of the borrowers lack managerial knowhow and for that matter they do not keep proper records of their business, they do not monitor their business performance and they do not undertake stock until the payback period is due. These factors have contributed to loan defaults. Similarly, Ahmad (1997) found in his study that the willingness of borrowers to repay loans was the highest factor that causes loan default and was followed by the diversion of funds by borrowers. For no reason, some borrowers become reluctant in repaying for a loan they have collected.

Some customers found of using loans for investments other than those meant for the loans that are documented by the lender (financial institution). Hence, the research conducted by Ahmad (1997) recommended regular supervision as a tool to reduce loan default. Brownbridge, (1998) also discovered in his study that some borrowers tend to divert the funds to risky investments once they are granted the loan and because of that they have not been able to repay their loan. Hence, diversion of loan to pursue other businesses by borrowers causes loan default.

2.6.6 Bank's Administrative Factors

Some studies have attributed the failure of borrowers to pay loan to the attitude of some banks. According to Sheila (2011), failure of loan department in investigating the creditworthiness of borrowers has led to non-repayment of loans. Sheila (2011) found that most loan officials are in hurry to grant loans to loan applicants who do not qualify for loan. Most loan officers do that in order to meet their targets and hence do not diligently investigate the background and credit worthiness of borrowers.

Brownbridge, (1998) also conducted a research and found that imprudent lending strategies of loan officers have led to the refusal of borrowers in repaying their loans. Some officers were found in the practice of insider lending at high interest rates to borrowers. Mean why some studies have revealed that high interest on loan affect the ability of borrowers to repay their loan. Again, Bichanger and Aseya, (2013) also conducted a similar research and revealed that bank practices have contributed to failure of borrowers in honoring their loan obligation. Specifically, they found that bank officers' delay in the granting of loans to loan applicants and this makes borrowers used the loan for other purposes or venture that may not be profitable.

Another factor discovered by Bichanger and Aseya, (2013) that contribute to loan default is the concentration of power where only district managers of the bank have the right to approve loan for an applicant. In their study, Bichanger and Aseya, (2013) revealed that when only district managers have the mandate to approve loans, there is the possibility of granting loan to borrower who is not credit worthy thereby making repayment of loan delayed and sometimes result in loan default. Another issue concerning the administrative factors that affect the inability of borrowers to repay their loan is poor supervision. Adediran (2004), defined supervision as the process of keeping a regular watch on activities to ensure that business practice is in the right direction. In a study, Adediran (2004), discovered that bank officials who regularly visit borrowers to monitor their activities to ensure that the loan taken by borrowers are used for the particular business for which the loan was granted recorded low rate of loan default than those banks who do not supervise borrowers activities.

In Nigeria, Okorie (1986) undertook a research in Ondo state on why customers fail to pay their loans. The study discovered a number of factors that contribute to loan defaulting with loan disbursement time being the factor with the highest influence on loan default. The research conducted by Okorie (1986) revealed that loans are collected to pursue an identified business opportunity and for that matter if the time for loan disbursement delays the identified business opportunity might have been seize by other business that had available funds. Hence the loan collected would be used for other purposes that may not necessary be profitable making thereby making repayment of loan a challenge to the borrower.

The next determinant factor discovered by Okorie (1986) was profitability of the borrower and was followed by lack of supervision. Obviously, businesses that make losses may find it difficult to repay their loans. As a results bank official must perform thorough feasibility studies to ensure that borrowers businesses for which they are collecting loans are viable. Other significant factors discovered by Okorie (1986) included the type of loan granted to borrowers, interest on loan and the transaction cost of borrowing.

2.7 ADVERSE ECONOMIC CONDITIONS AND LOAN DEFAULT

The world's economic situation is also a major determinant of loan default. This indicates that the economic condition of a country has influence on the ability of borrowers to repay their loans. Park, (2012) reported that the shape reduction in the prices in the 1980s created a downward slope in the economic growth of oil producing countries. This negatively affected the expenditure habit of households, corporate organisations and the government. Financial institutions were severely affected in the sense that corporate organisations, government and individuals borrowers were unable to repay their loans thereby leaving most banks with high rate of bad debts. Park, (2012) therefore summarized the effect of adverse economic conditions by reporting that adverse economic condition leads to high government fiscal deficits, low rate of economic growth, high inflation, heavy corporate and individual debt and high rate of loan default.

Olomola, (1999) also mention that the Structural Adjustment Programme (SAP) which was introduced as a macro-economic reforms in 1986 particularly affected the ability of borrowers to repay their loans thereby leaving financial institutions with high rate of nonperforming loans. According to Olomola, (1999) the devaluation of the country's currency (naira) and the deregulation of bank's interest rate structure worsen the situation. In the view of Olomola, (1999), the devaluation of currencies in the cost of raw materials and other inputs for manufacturing thereby reducing production level but increasing the prices of goods which eventually lead to low demand. Consequently, corporate borrowers are unable to repay their loans thereby constituting to loan default.

According to Vallascas, and Keasey, (2012) devaluation of a country's currency account for the deterioration of the balance sheet of firms and banks' since the exercise signifies a denomination of debt in foreign currency. Again, higher inflation rate results in higher interest rates since financial institutions may have to be secured against a loss of purchasing power when they lend. Higher interest rates cause loan interest to be high thereby making the repayment of loan a burden to borrowers and eventually leading to loan default.

Magri and Pico (2011) pointed out that economic indicators such as interest rate, inflation rate, depreciation of currencies and the prices of assets affect the ability of borrowers to repay their loans. However, interest rate has the greatest influence on the ability of borrowers to repay their loan. Esteban and Estrada (2013) revealed that during the late 1990s to the early 2000s financial institution in Columbia suffered high rate of loan default due to the house prices which led to the high outstanding of mortgage debts. Foos et al (2010) revealed that there is a relationship between the most macroeconomic variables such as the prices of assets, GDP variation, interest rates, level of debt and the financial burden of borrowers and loan default.

2.8 CONCEPTUAL FRAMEWORK FOR THE STUDY

Generally, the study is aimed at assessing the factors responsible for loan defaults among rural banks in Ghana. Based on previous studies and the information gathered from the literature, the figure below was used as the conceptual framework for the study. The conceptual framework is necessary because it helps to provide a better overview of the study.

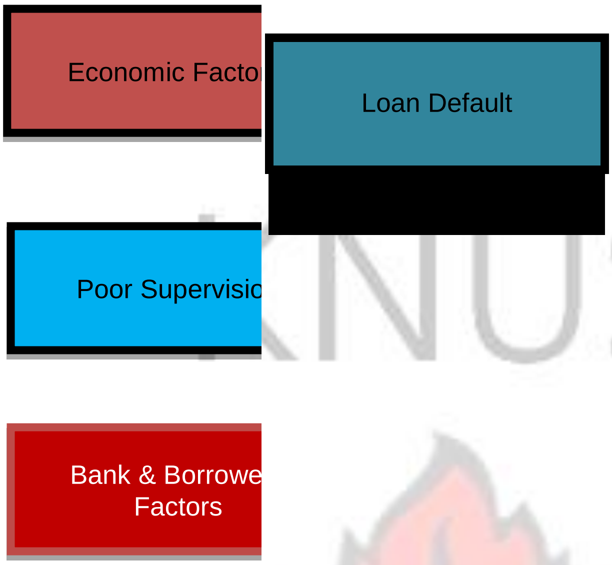

Figure 2.1: Conceptual Framework Source: Authors Construction, 2016

Miles and Huberman (1994) defined a conceptual framework as a visual display or written item which provides either graphical or narrative information about the main things being studied. The conceptual frame work entails the key concepts, variables and factors being studied and shows the relation among them.

In this study, economic factors such as interest rate, GDP, inflation, unemployment etc serve as one of the independent variables that cause loan default. Poor supervision is considered as another factor that causes loan default as well as banks and borrowers attitude such as delay in loan processing, diverting loan fund for purposes other than the one the loan was intended for, improper record keeping of borrowers business and so forth.

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

This chapter discusses the research methodology which contains the process through which data was collected, analysed and presented. It discusses all procedures used in the research design, collection and analysis of the data.

3.2 RESEARCH DESIGN

The research design for the current study is both quantitative and qualitative research. Creswell (1994), defined qualitative research as any research aimed at understanding a social or human problem from multiple perspectives and conducted in a natural setting in order to obtain holistic picture of the phenomenon of interest whilst quantitative research is aimed at identifying a problem, based on testing a theory composed of variables, and measured with numbers. The current study also aimed at understanding the factors responsible for loan default among rural banks and also seeks to identify the trend of loan default at the two banks. Therefore, it is appropriate to adopt both quantitative and qualitative research.

However, a descriptive approach to data analysis was adopted in the study. According to Robson (1993) descriptive research presents a picture of the specific detail of a situation, social setting, or relationship. This matches with this study since it seeks to identify the factors that influence the inability of borrowers to repay their loans thereby leading to loan default.

3.3 POPULATION OF THE STUDY

The target population for the study was composed of customers, staff, management and directors of both Asokore Rural Bank and Nwabiagya Rural Bank in the Ashanti region of Ghana. The selection of these two rural banks was influenced by easy access to data. Selection of two banks will help to generalise the finding of the study. The total population for the study is estimated to be 100,000.

3.4 SAMPLE SIZE AND SAMPLING TECHNIQUES

To obtain a representative of the population for the study, 300 participants were selected as the sample size for this study. 300 participants were selected based on the recommendation by researchers such as Comrey, (1978); Gorsuch, (1983); Hair et al., (1979) and Lindeman et al., (1980) These researchers recommend that a minimum sample size of 100 to 200 is appropriate for large population such as that of this study. The recommendation for a minimum sample size of 100 to 200 observations is probably based on the argument that the mean value becomes an adequate estimator of the population when sample sizes reach this level (Kayastha, 2011).

The choice of the sample size is justified by using the formula;

$$n = \frac{z^2 pq}{d^2}$$

Where; n = the desired sample size z = the standard normal deviate, usually set at 1.96 which corresponds to 95% confidence level.

p = the proportion in the target population estimated at 80% (0.80)

q =1.0 – p d = degree of accuracy desired, usually set at 0.05

$$n = \frac{(1.96)^2(0.8\times0.2)}{(0.05)^2}$$

$n = 245.86$

Which is rounded to be 246

Non response rate of 20% of the calculated sample size was used.

Non response rate = $\frac{20}{100} \times 246 = 49.2$

The total sample size for the study is 246 + 49 = 295.

Convenient non-probability sampling method was employed. This method was employed because the respondents are not located at one place thereby making it impossible to use other methods. However, attempt was made to select customers who have actually taken loan from the banks so that they can share their experience with the researcher. An additional attempt was also made to achieve gender balance and to select customers and staff from different branches of the banks.

3.5 DATA COLLECTION

The study used both primary and secondary data. This helped in the comparison and generalization of the study findings.

Secondary data was obtained from books and journals, annual reports of the banks, previous related research works and also data from the internet.

Primary data were collected from the customers and the workers of both Asokore Rural Bank and Nwabiagya Rural Bank in Ashanti region of Ghana. Questionnaire administration and interview were employed to obtain data from the study respondents.

Two main data collection instruments were used for the collection of data from the respondents. They were questionnaires and interviews.

Questionnaire was one of the techniques adopted to collect primary data. Questionnaire was used in the data collection because it provides an efficient way of collecting data from a large sample like that of this study. deVaus (2002) defined questionnaire as a technique used in data collection in which each person is asked to respond to the same set of questions in a predetermined order. Saunders et al (2009) explained two types of questionnaires namely self-administered questionnaire where the respondents complete the questionnaire and interviewer administered questionnaires which are recoded by the interviewer on the basis of each respondents answer. This study however adopted both self-administered and interviewer-administered types since some of the respondents were illiterate.

Before the actual survey, the questionnaire was piloted to test how the respondent would respond to the questionnaires. Twenty of the respondents from the Adum branch of Nwabiagya Rural Bank were selected to fill the questionnaire. Choosing to conduct the pilot questionnaire among those respondents was a matter of convenience. Through the pilot test, the researcher learned from the respondents that it takes more than 30 minutes to complete the questionnaire and this seemed overwhelmed looking at the deadline for the submission of the project and the number of respondents involved. The researcher also learnt that some of the questions were unclear to the students and called for a review. As a result, the researcher dropped the open-ended questions and restructures some of the questions.

The final survey consists of the administering of the research questionnaires. 300 questionnaires were distributed and self-administered. However, some few customers who could not read were guided by the researcher. Out of the 300 questionnaires issued, 265 of them were received by the researcher indicating 88.3% response rate. Systematically, the researcher first administered 150 questionnaires to the respondents at Asokore Rural Bank. The convenience non-probability sampling technique was used to select the 150 respondents. Efforts were made to select customers from each of the branches of the bank in the Ashanti region. The researcher visited the bank on several different days and times in order to capture the different customers of the bank so that the sample size will fairly represent the population of the study.

Secondly, the remaining 150 questionnaires were administered to the respondents at Nwabiagya Rural Bank. The convenience non-probability sampling technique was again employed to select 150 respondents from the various branches of the bank. Similar procedure used in the collection of data from the respondents from Asokore Rural Bank was followed in collecting the data from the respondents from Nwabiagya Rural Bank.

The questionnaires for the study were of four sections A, B, C, D and E. Section 'A' was designed to collect the personal data of the respondents. 'B'- 'E' contained questions relating to the main objectives of the study. The sections utilise mainly 5-points semantic differential scale on which the respondents were required to indicate their opinions between two extreme choices.

An interview which provides the grounds for the respondents to share their views was also employed. According to Kahn and Cannell (1957), an interview is a purposeful discussion between two or more people. It could be structured, non-structured or semi-structured. Two different kinds of semi-structured interview were conducted to supplement the survey findings.

Firstly, the researcher interviewed some of the respondents from Asokore Rural Bank and secondly, interviewed those from Nwabiagye Rural Bank. The interviewer was guided by a semi structured questionnaire which was mostly open ended questions. Forty respondents were conveniently selected from the participants who took part in the surveys. Face-to-face interview was used and each interview conducted with each respondent lasted for fifteen to twenty minutes. The interviews were documented with notes.

3.6 DATA ANALYSIS

The data from the surveys was first coded into appropriate categories of the Statistical Package for the Social Sciences (SPSS) program. The SPSS program was used to analyse the data in order to identify the responding trends. The SPSS and Microsoft Excel was used to draw all the statistical diagrams for the analysis of the data. After initial analysis of the results from the surveys, the digitally recorded data from the interviews was transcribed into interview note and was used for comparisons. Additionally, mean and standard deviation test were performed to reveal the weight of each factor.

3.7 RELIABILITY AND VALIDITY OF DATA

Data validity and reliability is an important issue to be addressed in every research. In simple terms, validity deals with the research instruments' ability to measure what is supposed to be measured whilst reliability deals with the consistency, stability and accuracy of the study results. Reliability also relates to the repeatability of the findings under similar conditions (Seale 2004).

A number of steps were taken to enhance data validity and reliability. First, the questionnaire was pre-tested. This was to guards against threat of instrumentation as well as testing. Second, respondents were given adequate time to fill the questionnaire. Third, the researcher discussed the validity of the result his supervisor who offered valuable feedback. Fourth, the same questionnaires were issued to all respondents. This indicates that the questionnaire can be used elsewhere, hence the study is repeatable. Finally, the use of multiple sources of data also gives an opportunity for proving corroboration to the study findings. Therefore, the researcher is convinced that data validity and reliability has been achieved.

3.8 ETHICAL CONSIDERATION

Ethical considerations were taken into account as part of achieving the objectives of this research. The ethical considerations included seeking approval from the authorities, voluntary participation, no harm to respondents, anonymity and confidentiality and identifying purpose of the study. Each of these guidelines are further addressed and explained individually to help eliminate or control any ethical concerns.

First, an approval was sought from the management for clearance which was duly considered. Upon the approval, the researcher informed the participation in this research that the research was completely voluntary. The second ethical consideration was to avoid abusive words to respondents. This could be in the form of embarrassment or respondents feeling uncomfortable about questions. In order to avoid possible abusive words to respondents, the study did not include sensitive questions likely to cause embarrassment or uncomfortable feelings.

The third ethical consideration was to protect the respondent's identity. This will be accomplished in the study by the researcher exercising anonymity and confidentiality. Lastly, ethical considerations will be taken care of by the researcher briefing the respondents as to the purpose of the research, their relevance in the research process, and expectations from them.

3.9 PROFILE OF THE STUDY BANKS

This section is concerned with a description of the study areas. Specifically, it looks at how the two banks started and how they have been operating up to date.

Nwabiagya Rural Bank Limited is a community owned Financial Institution that was established in August 1987 and incorporated under the Ghana Companies Code 1963 (Act 179) and the Banking Act 673 (2004). The bank has shown persistent growth over the years and continues to meet all statutory requirements of the Bank of Ghana. The vision of the bank is to become the best managed and leading rural bank in the provision of competitive and affordable financial services in the country. Its main activities include mobilisation of funds, giving out loans and offering financial advice to clients. At the apex of the decision making process is the Board of Directors who offers the policy formulation and direction for implementation by management team.

For effective and efficient implementation of various directives, various functions including Operations, Finance and Administration, Credit and Marketing, Audit and Investigations take up, disseminate and monitor tasks to achieve set goals. Currently, the bank has eight branches with head office located at Barekese in Nwabiagya district. The branches include Bohyen, Magazine, Sagoe Lane, Barekese, Abuakwa, Offinso, Anwiam and Bompata branches. It is a plan of the bank to open 15 more branches by the close of 2013 (Nwabiagya 2014).

On the fifth day of December 1980, Asokore Rural Bank was opened as the fourth rural bank in the Ashanti region of Ghana. The opening of the bank was sphere herded by Nana Yaw Gyimah II, who was the then Paramount Chief of Asokore Traditional area in the Ashanti region. However, the chief and his elders were supported by some prominent people including Mr. Agyepong Boateng the then director of the Rural Finance Department of the Bank of Ghana (BoG), Mr. Asiedu Mantey who was the then director of BoG and many others including Mr. Antwi Boasiako, Col. P. K. Agyekum and Dr. S. K. B. Asante (ARB 2015).

The bank started with an initial share capital of One Hundred Ghana Cedis (100). Out of this amount, the shareholders provided seventy-five percent (75) whiles Bank of Ghana took the remaining twenty-five percent (25). Two people who made remarkable contribution towards the initial share capital of the bank were Mr. Boateng Boaitey and Dr. S.K.B. Asante.
The first branch of the bank was the branch located at Asokore which is now the head office of the bank. Currently, the bank has six additional branches located at Effiduase, Kwadaso, Dadease, Oforikrom, Sokoban and Oduon. All the branches are located in the Ashanti region

of Ghana. The customer based of the bank stands at 47, 584 clients segmented as traders, farmers, civil servants, corporations, artisan and transporters. The bank has a board made up of seven members and staff strength of eighty-five (ARB 2015).

Asokore Rural Bank offers various forms of loan packages to its clients. Some of the loan packages are salary loan which targets customers whose salaries pass through the bank. The bank also has special form of loan for farmers known as agriculture loan. Other forms of loans offered by the bank include traders' loan, funeral loan and corporate loan. Each loan package has it processing procedure and conditions (ARB, 2015).

CHAPTER FOUR

DATA PRESENTATION AND DISCUSSIONS

4.1 INTRODUCTION

This chapter details the main findings of the study and presents the data analysis of the study. A total of 300 questionnaires were distributed to the management, directors, employees and customers of Asokore Rural Bank and Nwabiagya Rural Bank. Out of the 300 questionnaires, 265 were filled properly and returned, representing a valid response rate of 88.3% response rate. Considering the audience and users of the report, frequency tables, charts and mean values were used for the presentation of the survey results

4.2 BACKGROUND OF RESPONDENTS

Basic factual data was collected relating to the personal data of the respondents and they included gender, age group, position, number of years they have been working with the bank and the longevity of transacting with the bank. The findings are presented in the sub sections below. The size of the response across available response categories is indicated in percentage (%) terms.

4.2.1 Gender distribution

The gender details of both the employees and customers of the bank were obtained and the results are presented on table 4.1 below.

Table 4.1: Gender distribution

	Male (%)	Female (%)
Staff	56 (40.9%)	81 (59.1)
Customers	54 (42.2%)	74 (57.8)

Source: Field data, 2016

From the table, out of the 137 respondents who represent the management and staff of the bank, 40.9% were males whilst 59.1% were females. This means that the rural banks have more female employees and management staff than males. This might result from the high number of female 'susu' collectors from the banks. Concerning the customers of the banks, majority (57.8%) of them are females, whereas the remaining 42.2% are males. This shows that both male and female customers were captured in the study which helps to mitigate bias that might attribute to gender association in the study. Again, the findings indicate that rural banks have more female customers than male customers.

4.2.2 Age Distribution of Respondents

Table 4.2 shows the age distribution of the employees and customers of the bank.

Table 4.2: Age distribution

	Below 20(%)	21 – 30(%)	31 – 40(%)	41 – 50(%)	51 – 60(%)
Staff	4 (2.9%)	29 (21.2%)	57 (41.6)	38 (27.7%)	9 (6.6%)
Customers	16 (12.5%)	26 (20.3%)	48 (37.5%)	30 (23.4%)	8 (6.3%)

Source: Field data, 2016

The table above shows that there are varied categories of age groups from the respondents. According to the table, most (41.6%) of the employees recorded age groups of 31 – 40 years, followed by those in the age bracket of 41 – 50 years with 27.7%. this was followed by those between 21 – 30 years which is represented by 21.2% and finally those between 51 – 60 years and those below 20 years respectively amassed 6.6% and 2.9%. With regards to the customers, the study noted that majority of them which represents 37.5% and 23.4% respectively fall between the age categories of 31 – 40 years and 41 – 50 years. Moreover,
20.3% and 12.5% accounted for those in the age groups of 21 – 30 years and below 20 years respectively, with the least percentage (6.3%) of the customers falling within the age group of 51 – 60 years.

Statistically, the average age group of both the employees and the customers are between 31 – 40 years. The findings are indication that both Asokore and Nwabiagya Rural Banks have a balanced work force and for that matter succession would not be a problem to the banks. For the customers, the findings show that they are matured and can be liable for their responses.

4.2.3 Banks category

Table 4.3 presents the number of employees and customers from the two main rural banks under study.

Table 4.3: Bank represented

	Nwabiagya Rural Bank (%)	Asokore Rural Bank (%)
Staff	52 (38.0%)	85 (62.0%)
Customers	68 (53.1%)	60 (46.9%)

Source: Field data, 2016

The results from the table reveals that, majority of the staff members which represents 62% are from Asokore rural bank while 38% represents Nwabiagya rural bank. With reference to the customers, more than half (53.1%) of them reported that they save with Nwabiagya rural bank and 46.9% mentioned that they bank at Asokore rural bank. This result shows that the study captured the staff and customers of the two banks under study.

4.2.4 Longevity of transacting and working with the banks

The length in years served by the employees in working for the bank and the number of years customers of the banks have been transacting business with the banks are presented on table 4.4 below.

Table 4.4 Longevity of transacting and working with the banks

	Below 1 year(%)	1 – 5 years(%)	6 – 10 years(%)	11 – 15 years(%)
Staff	17 (12.4%)	61 (44.5%)	45 (32.8%)	14 (10.2%)

Customers	13 (10.2%)	44 (34.4%)	35 (27.3%)	36 (28.1%)

Source: Field data, 2016

According to the table, majority (44.5%) of the employees of the bank mentioned that they have worked for the bank for 1 – 5 years, 32.8% have served the bank for 6 – 10 years, with 12.4% and 10.2% respectively claiming that they have served for below a year and 11 – 15 years. Among the customers of the bank, the study recorded 34.4% of them saving with the banks for 1 – 5 years, 28.1% have saved with the bank for 11 – 15 years, with 27.3% and 10.2% saying that they have transacted with the banks for the periods of 6 – 10 years and below 1 year respectively. Since, the number of years served by both the employees and customers of the banks are quite long, their responses are deemed to reflect what actually takes place in the bank.

4.2.5 Positions of the Respondents from the Banks

Figure 4.1 below details the various positions of the respondents from the banks.

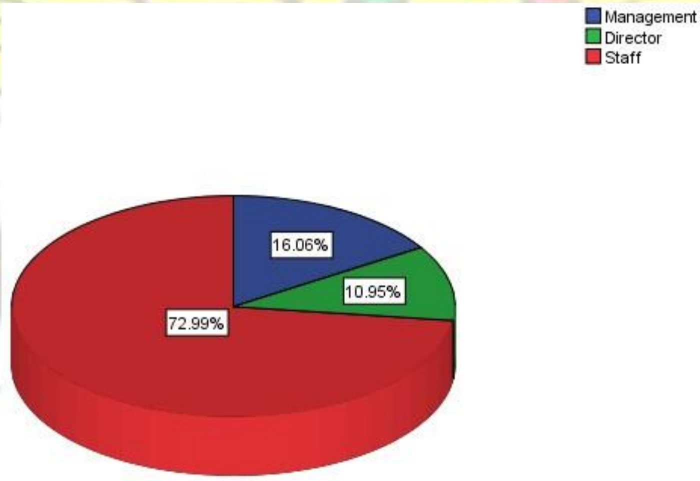

Figure 4.1: Positions of Employees

Source: Field data, (2016)

More than half (72.99%) of the respondents reported that they the staff members which comprises of those who are tellers, *susu* collectors, and personal bankers. This is followed by those who hold management positions and directors with percentages of 16.06% and 10.95% respectively.

4.3 TREND OF LOAN DEFAULT

As part of this study, the trend of loan default among the two rural banks under study was identified. To do that, data concerning loan granted and loan repaid from the year 2011 to 2015 was collected from the banks and the findings are presented below;

4.3.1 Trend of loan granted and repaid of Asokore Rural Bank

Figure 4.2 below shows the trend of loan amount granted by Asokore Rural Bank and loan amount paid by the customers.

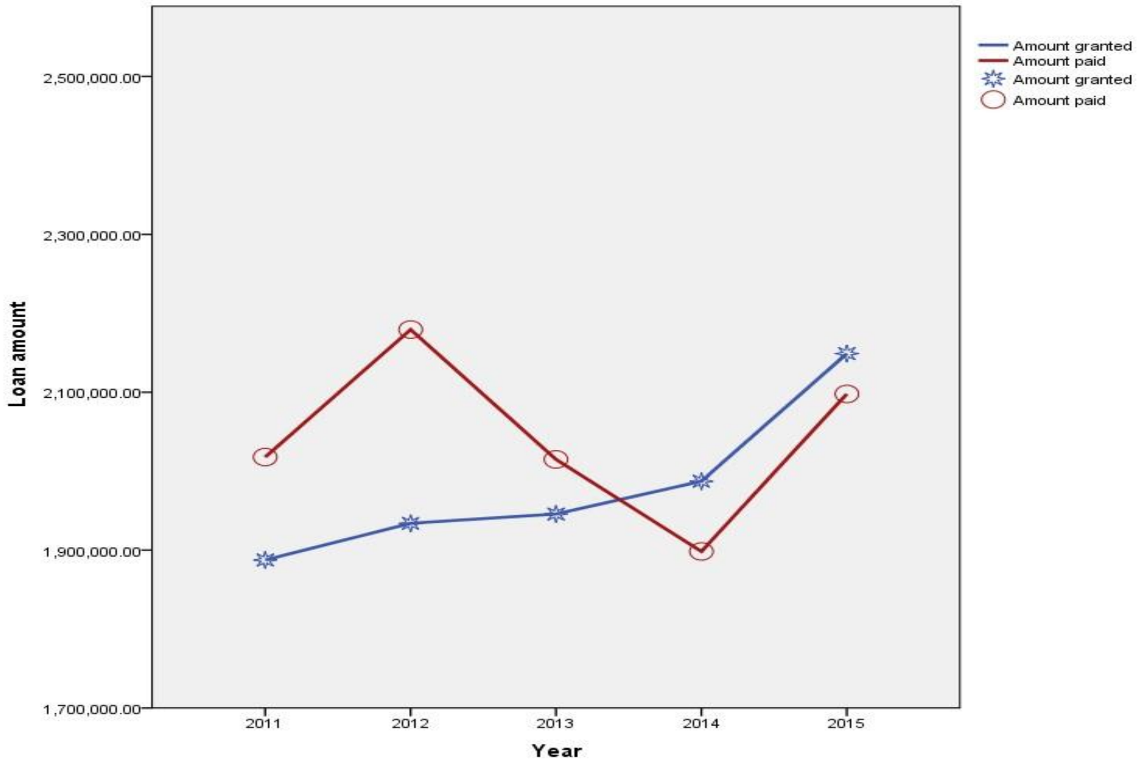

Figure 4.2: Trend of loan granted and default of Asokore Rural Bank
Source: Field data (2016)

As illustrated on the figure, in the year 2011 Asokore rural bank granted a total loan of GHC 1,887,490 to their customers of which an amount of GHC 2,017,840 was paid. In the preceding years of 2012 and 2013 a loan of GHC 1,933,980 and GHC 1,945,770 were respectively released to the customers and the customers on their part paid GHC 2,179,410 and GHC 2,014,930 in those years respectively. The bank recorded a loan amount of GHC 1,987,320 and GHC 2,148,960 as being granted in the years 2014 and 2015 respectively of which the customers paid GHC 1,898,340 and GHC 2,097,890 out of the total loan granted to them. In all, the bank experienced a high loan repayment by their customers in the years 2011, 2012 and 2013.

Of these years, 2012 was the best year the bank recorded a high loan repayment. However, the loan repayment for the years 2014 and 2015 was small as compared to the total amount of loan granted in those years. This implies that bank might witnessed a financial lose in terms of loan given out in 2014 and 2015.

4.3.2 Trend of loan granted and repaid of Nwabiagya Rural Bank

Figure 4.3 below displays the trend of loan amount granted by the bank and loan amount paid by the customers of Nwabiagya Rural Bank.

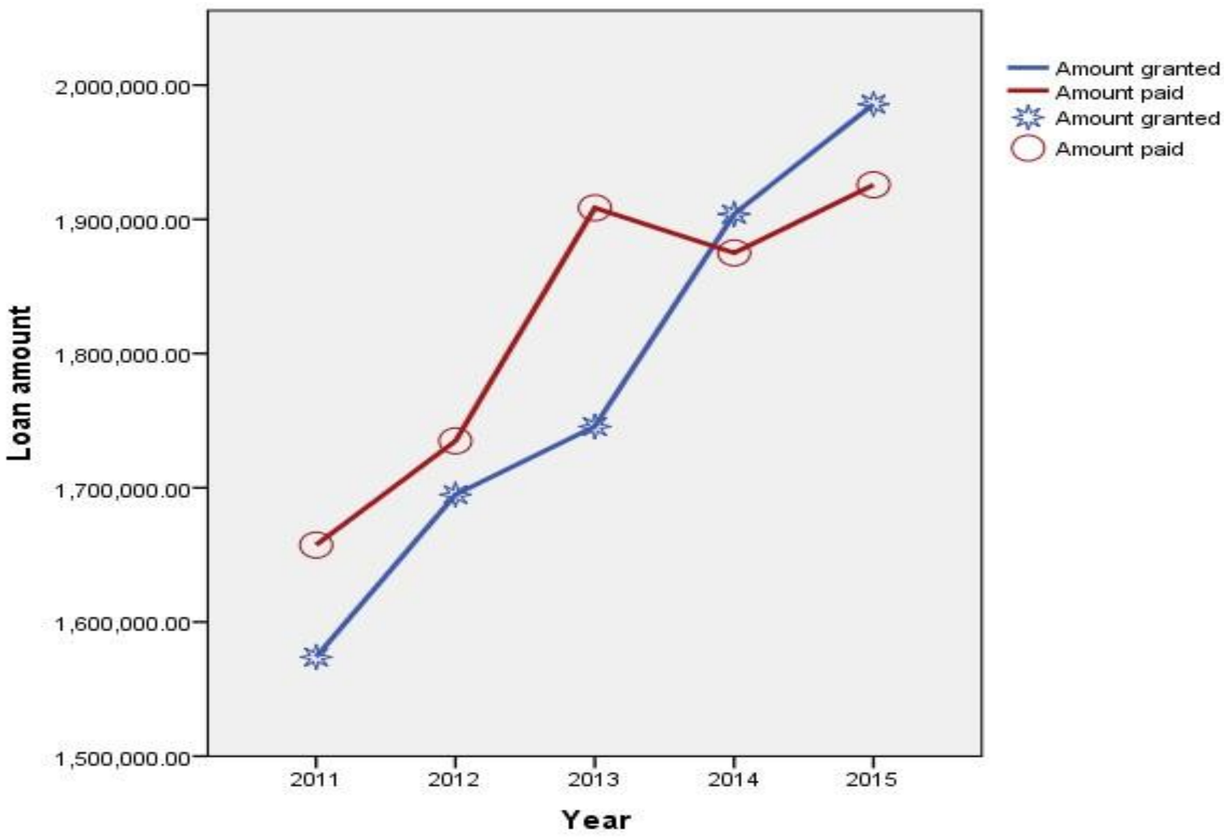

Figure 4.3: Trend of loan granted and default of Nwabiagya Rural Bank Source: Field data (2016)

From the figure, it is clearly evident that the loan granted by Nwabiagya rural bank to their customers from the years 2011 to 2015 was on an increasing smooth trend. That is the bank on every year increase its amount of loan granted to their customers. In the years; 2011, 2012 and 2013 the repayment rate of loan by the customers of the bank was good as the amount of loan repaid by the customers exceeded the total amount of loans granted to them. The customers showed a different behaviour of their loan repayment for the years 2014 and 2015 as the bank recorded a decrease in the amount of loan paid by the customers as compared to the total amount of loans granted to the customers. It is clear that some of the loans have been paid while others are outstanding.

This implies that the banks are experiencing loan default and indicate that the trend of loan default will continue if measures are not put in place to rectify the situation. According to

Karim et al (2010) loan default results in increasing the bad debt of a bank which stifles the financial growth of banks. As proposed by Choudhury et al. (2002), if borrowers fail to repay their loans, banks are likely to shut down. Hence care must be taken by the banks to remedy this situation.

4.4 FACTORS RESPONSIBLE FOR LOAN DEFAULT

Both the employees and the customers of the bank shared their views on the factors that account for loan default. The respondents ranked these factors on a five point likert scale. The mean values and standard deviations are used for the interpretation of the results.

Table 4.5: Employees responses to Factors Responsible for Loan Default

	SD	D	N	A	SA	Mean	Std. Deviation
Government intervention like demolitions, relocation etc	(0.0%)	(0.0%)	(15.3%)	(38%)	(46.7%)	4.31	.72
Delays in granting loans to borrowers	(0.0%)	(0.0%)	(13.9%)	(45.3%)	(40.9%)	4.27	.69
Failure to investigate the creditworthiness of borrowers.	(0.0%)	(2.9%)	(15.3%)	(41.6%)	(40.1%)	4.19	.81
Improper keeping of business records	(0.0%)	2(1.5%)	(24.8%)	(43.1%)	(30.7%)	4.03	.78
Diversion of borrowed funds to risky investments once granted the loan	(0.0%)	(0.0%)	(21.2%)	(56.9%)	(21.9%)	4.01	.66
Borrowers lack managerial skills	(0.0%)	(7.3%)	(19%)	(53.3%)	(20.4%)	3.87	.82
Inability of borrowers to monitor the performance of the business	(7.3%)	(16.8%)	(22.6%)	(24.8%)	(28.5%)	3.66	1.27
Transaction cost in borrowing	(11.7%)	(22.6%)	(21.2%)	(26.3%)	(18.2%)	3.17	1.29
Unwillingness of borrowers to repay their loan	(13.1%)	(22.6%)	(24.8%)	(19%)	(20.4%)	3.11	1.33
Incompetent bank staff	(24.8%)	(28.5%)	(15.3%)	(21.2%)	(10.2%)	2.44	1.33

NB: SD = Strongly Disagree; D = Disagree; N = Neutral; A = Agree; SA = Strongly Agree

Source: Field data, 2016

The results from the table shows that, government intervention like demolitions, relocation etc, delays in granting loans to borrowers, failure to investigate the creditworthiness of borrowers, improper keeping of business records and diversion of borrowed funds to risky investments once granted the loan are the five most influential factors that respectively cause customers to default loan repayment. From the mean table, these factors have respective mean values of 4.3, 4.27, 4.19, 4.03 and 4.01. These mean values fall on the agree scale of 4 on the rate scale, which confirms their agreement to these factors. The standard deviations of 0.73, 0.69, 0.80, 0.78 and 0.66 respectively to these factors signal that the employees have varied opinions to these factors. These values of variability is shown by the different agreement and disagreement levels. That is 38% and 46.7% agreeing and strongly agreeing to government interventions, 45.3% and 41.6% respectively agreeing to delays in granting loans to borrowers and failure to investigate the creditworthiness of borrowers.

Some of the respondents were also with the view that borrowers lack of managerial skills and the inability of borrowers to monitor the performance of the business also cause loan default by assigning respective mean values of 3.87 and 3.66 to these factors. These mean values approximately fall close to the agree scale of 4 on the rate scale. To further confirm this assertion, 38% and 46.7% respectively agree and strongly agree to borrowers, lack of managerial skills, with 24.8% and 28.5% respectively agreeing and strongly agreeing to inability of borrowers to monitor the performance of the business. However, the corresponding standard deviations of 0.82 and 1.27 respectively to these factors show that the employees have different responses to these factors.

Moreover, the employees understanding on transaction cost in borrowing, and unwillingness of borrowers to repay their loan revealed mean values of 3.16 and 3.11 respectively which tend towards the midpoint scale of 3, indicating that they were indecisive whether these two factors strongly account for loan default. The significant standard deviations of 1.29 and 1.33 suggest some hidden high variability in their views to these factors.

Majority of the employees which represents 28.5% disagree that the bank staff is incompetent, 24.8% strongly disagree to it, whilst 21.2% and 10.2% respectively agree and strongly agree to it. However, the mean value of 2.44 assigned to it which tends towards the disagree scale of 2 concludes that the employees slightly disagree to it as a factor causing loan default. The standard deviation value of 1.33 signals that, the employees differ in their responses by the different agreement and disagreement levels.

Table 4.6: Customers' responses to the factors responsible for loan default

	SD	D	N	A	SA	Mean	Std. Deviation
Lack of managerial skills	(0.0%)	(0.0%)	(14.8%)	(37.5%)	(47.7%)	4.33.	72
Delays by the bank officials in granting loans	(0.0%)	(0.0%)	(14.1%)	(45.3%)	(40.6%)	4.27	.69
Improper keeping of business records	(0.0%)	(1.60%)	(24.2%)	(42.2%)	(32%)	4.05	.79
Diversion of funds to risky investments once they are granted	(0.0%)	(0.0%)	(20.3%)	(56.3%)	(23.4%)	4.03	.66
Government intervention like demolitions, relocation etc.	(0.0%)	(7.8%)	(18.8%)	(52.3%)	(21.1%)	3.87	.84
Large family size and high living expenses affect borrower's ability to repay loan	(3.90%)	(13.3%)	(28.1%)	(32%)	(22.7%)	3.76	1.09
Low profitability	(7.8%)	(13.3%)	(25%)	(31.1%)	(22.7%)	3.48	1.20
High transaction cost of borrowing	(10.9%)	(22.7%)	(20.3%)	(26.6%)	(19.5%)	3.21	1.29

NB: SD = Strongly Disagree; D = Disagree; N = Neutral; A = Agree; SA = Strongly Agree

Source: Field data, 2016

The results from the table shows that lack of managerial skills, delays by the bank officials in granting loans, improper keeping of business records and diversion of funds to risky investments once they are granted are the four most influential factors that are responsible for loan default from the customers point of view. From the mean table, these factors have respective mean values of 4.33, 4.27, 4.05 and 4.03. These mean values fall on the agree scale of 4 on the rater scale, which confirms their agreement to these factors. However, the standard deviations of 0.72, 0.69, 0.79 and 0.66 respectively to these factors mean that the employees have varied opinions to these factors.

Some of the respondents also considered government intervention like demolitions, relocation etc and large family size and high living expenses as additional factors responsible for loan default. These factors were assigned respective mean values of 3.87 and 3.76 which approximately fall on 4 on the rater scale. However, the standard deviations of 0.84 and 1.10 respectively to these factors signify that the employees have varied opinions to these factors.

From the table, high transaction cost of borrowing has the least influence on loan default and was followed by low profitability. These factors were assigned mean values of 3.21 and 3.48 respectively. However, the corresponding standard deviations of 1.30 and 1.20 respectively to these factors show that the employees have different responses to these factors.

The work of Brownbridge, (1998), Kasozi (2000), also supports the findings of this study by discovering that high interest rate on loan, lack managerial knowhow, failure to investigate the creditworthiness of borrowers and large family size and high living expenses of borrowers are the detrimental factor accounting for loan default.

Comparatively, from Table 4.5 and Table 4.6 both the employees and customers have similar views on the factors responsible for loan default. For example, issues on government intervention like demolitions, relocation etc, delays in granting loans to borrowers, diversion of funds to risky investments once they are granted, and improper keeping of business records are the four main factors that both the customers and the staff members equally agreed to cause loan default since they both assigned high mean values to these factors.

Therefore, these factors are used for further analysis as presented on table 4.7 below.

Table 4.7: Customers and employees' responses to the four most agreed factors causing loan default.

FACTORS	SD	D	N	A	SA
Government intervention like demolitions, relocation etc	(0.0%)	(3.8%)	(16.9%)	(44.9%)	(34.4%)
Delays in granting loans to borrowers	(0.0%)	(0.0%)	(14.0%)	(45.3%)	(40.7%)
Diversion of funds to risky investments once they are granted	(0.0%)	(1.5%)	(17.7%)	(50.4%)	(32.1%)
Improper keeping of business records	(0.0%)	(1.5%)	(24.8%)	(42.6%)	(27.2%)

NB: SD = Strongly Disagree; D = Disagree; N = Neutral; A = Agree; SA = Strongly Agree

Source: Field data, 2016

The presentation from the table reveals that, government intervention like demolitions, relocation etc is the factor that has the highest influence on loan default. Majority (44.9%) of the both the customers and bank staff agree that government intervention like demolitions, relocation etc account for loan default among borrowers, 34.4% strongly agree with it and 16.9% were indecisive to this factor. Lack of proper data concerning traders and businesses make it difficult to trace borrowers who have relocated there by leaving banks with bad debts.

The second factor is delays in granting loans to borrowers. Majority of the respondents represented by 45.3% agreed that delays in granting loan to borrowers cause loan default. 40.7% of the respondents strongly agree to this factor while, 14% of them were indecisive to this causative factor. Banks may have to make sure that borrowers are capable of repaying the loans granted to them. This involves various feasibility studies on the borrower which takes some days or weeks. However, loans are taken for a purpose usually to take advantage of business opportunity which passes away with time. Hence, when the process of granting loan delays borrowers are likely to misuse the loans thereby ending up not able to repay them.

Moreover, 50.4% of the respondents claim that diversion of funds to risky investments once they are granted is a causative factor for loan default. 32.1% of the respondents strongly agree to this factor while 17.7% of them were indecisive, leaving 1.5% to refute this fact. The customers accept that sometimes they used loan for other venture which is riskier than the businesses they used in securing the loan and this makes it difficult for them to be able to repay their loan.

The respondents further believed that improper keeping of business records by borrowers is the fourth most causative factor for loan default as 42.6% and 27.2% respectively agree and strongly agree to this assertion. 24.8% of the respondents were indecisive while 1.5% of them disagree. Most petty traders who are mostly the market for the rural banks do not keep records of their businesses. Hence, they become unaware when they are running at a loss and for that matter repaying loan becomes impossible.

In a study conducted by Nguta and Huka (2013) in Kenya revealed similar results in this study. Nguta and Huka (2013) found that government interventions have the highest influence on the failure of borrowers to repay their loan. Nguta and Huka, (2013) found that government demolitions have caused most borrowers to run away with bank loans. Again, the findings of a study undertaken by Bichanger and Aseya, (2013) also support the findings of this study by revealing that bank officers' delay in the granting of loans to loan applicants contributes to loan default.

4.4.1 SUPERVISION AND LOAN DEFAULT

The study also sought to reveal the extent to which supervision causes loan default. Various questions were asked and the responses are presented by the figures below;

4.4.1.1 Competence Level of loan Supervisors

Figure 4.4 displays the ratings of the employees about the competent level of the loan supervisors.

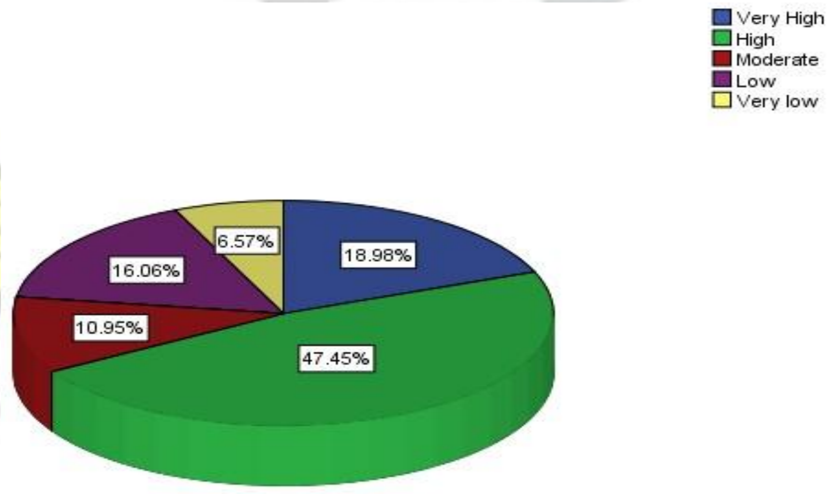

Figure 4.4: Competence level of loan supervisors

Source: Field data, (2016)

As reflected on the figure, 47.45% of the respondents claim that the competent level of the supervisors is high, 18.98% rated it very high, 16.06% said the competent level of the supervisors is low, with 10.95% and 6.57% proposing that the supervisor's competent level is moderate and very low respectively. This is a clear indication that on the average, the loan supervisors have high competent level in their operations as loan officers

4.4.1.2 How often Bank Officials visit Borrowers

Figure 4.5 reveals the responses concerning how frequent bank officials visit borrowers.

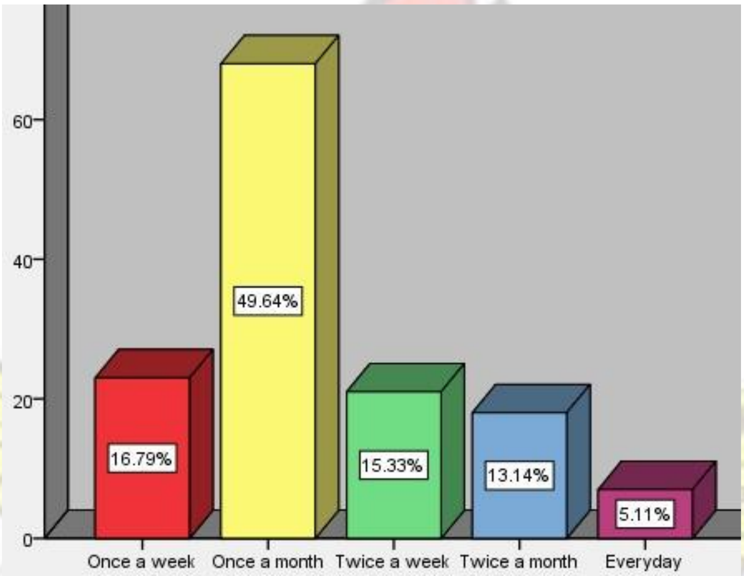

Figure 4.5: Frequency of bank officials visiting borrowers

Source: Field data, (2016)

Figure 4.5 shows that majority of the respondents (49.64%) claimed that bank official visit borrowers once in a month. This is followed by 16.79% who noted that the bank officials visit the borrowers once a week. 15.33% said the bank officials visit the borrowers twice a week. Moreover, 13.14% and 5.11% respectively opined that bank officials visit borrowers twice a month and on daily basis. This means that the number of times the bank official visit the borrowers is not encouraging and for that matter the bank officials must improve.

4.4.1.3 Monitory of Supervisory Officials

The extents to which the management of the banks monitor the activities of supervisory officials are presented on figure 4.6 below.

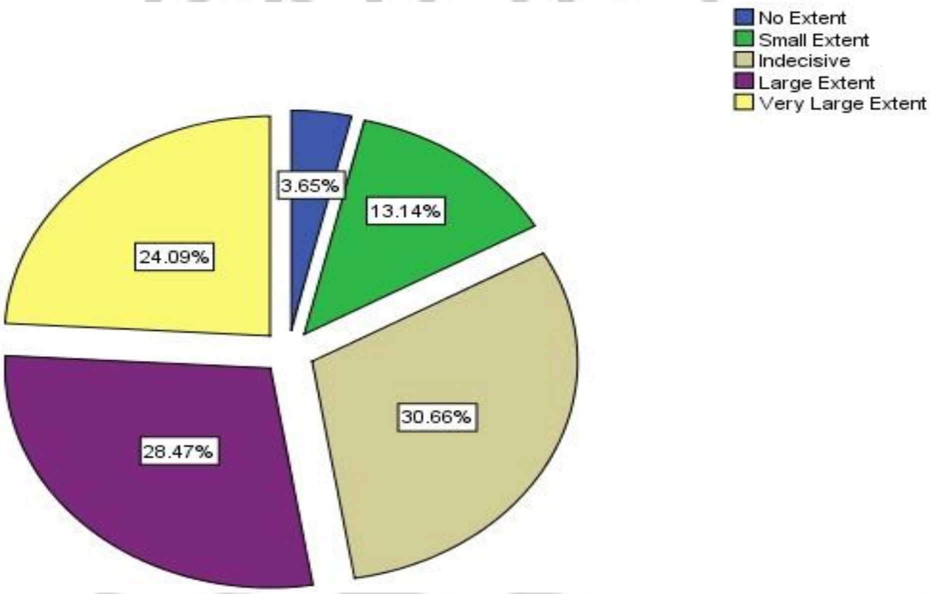

Figure 4.6: Management supervision of bank officials

Source: Field data, (2016)

From the figure, majority of the employees which represents 30.66% mentioned that they are indecisive as to whether the management of the bank monitors the activities of supervisory officials or not, 28.47% and 24.09% respectively claim that the extent to which the management of the banks monitor the activities of loan officials is large and very large. Meanwhile, 13.14% of the respondents mentioned that the extent to which management monitors the activities of loan officials is small while 3.65% claim that management do not monitor the activities of loan officials at all. The findings clearly show that the managements of the banks do not frequently monitor the activities of the loan officials to see to it that loan officials actually visit borrowers.

4.4.1.4 Training of Borrowers

Table 4.8 shows the extent to which training and orientation are given to borrowers before and after receiving the loan.

Table 4.8: The extent of training, and orientation to borrowers before and after receiving the loan

Statements	NE	SE	UD	LE	VLE
Borrowers receiving training and orientation before being granted the loan	(0.0%)	(9.5%)	(26.3%)	(16.8%)	(47.4%)
Borrowers receiving training after being granted the loan	(21.2%)	(56.9%)	(19.0%)	(2.9%)	(0.0%)

NB: NE = No Extent; SE = Small Extent; UD = Undecided; LE = Large Extent; VLE = Very Large Extent

Source: Field data, (2016)

From table 4.8, majority (47.4%) of the respondents said that the extent to which borrowers receive training and orientation before being granted the loan is very large, 16.8% rated it to a large extent while 26.3% were indecisive. Meanwhile, 9.5% mentioned that the extent to which borrowers receive training and orientation before being granted the loan is small. The finding shows that borrowers are offered some amount of training and orientation before being granted loan. This will help them to be able to manage the loan well.

Again, the table above reveals that majority (56.9%) of the respondents mention that the extent to which borrowers are given training and orientation after being granted loan is small. This is followed by 21.2 of the respondents who recorded that borrowers are not given any training and orientation after being granted loan. 19% of the respondents were indecisive while 2.9% of them mention that the extent to which borrowers are given training and orientation after being granted loan is large. This shows that training is not given to borrowers after granting them loans and this is a contributor to the default of loan.

These results are found to confirm the findings of Sheila (2011) who noted that poor supervision is responsible for loan default. Adediran (2004), also discovered that bank officials who regularly visit borrowers to monitor their activities to ensure that the loan taken by borrowers are used for the particular business for which the loan was granted recorded low rate of loan default than those banks who do not supervise borrowers' activities. This is in conformity with the findings of this study. The findings about organizing training to borrowers is consistent with what Bichanger and Aseya (2013) discovered in their study that one good activity that helps banks to reduce many loan defaulters was organising training for borrowers before and after being granted loan.

The opinion of the customers concerning how supervision affects loan default are analysed below.

4.4.1.5 Visitation by bank Officials

Figure 4.7 graphically displays the number of times bank officials visit borrowers.

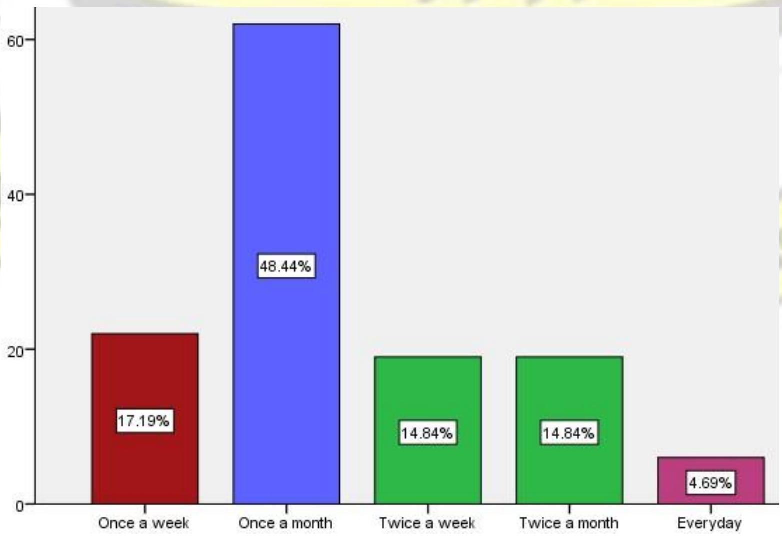

Figure 4.7: How frequent bank officials visit borrowers
Source: Field data, (2016)

The illustration on figure 4.7 shows majority of the customers which represents 48.44% reported that they are visited by the bank officials once in a month, 17.19% noted that they are visited once in a week and a tie of 14.84% of the customers stating that they are visited twice a week and twice a month respectively. This finding is in accordance with the earlier report made by the employees that they visit the borrowers once a month. Visiting customers frequently helps banks to become aware of how borrowers are using the loan and the possibility of repaying the loan.

4.4.1.6 Training and Orientation before granting loan

Figure 4.8 displays the extent to which borrowers receive training and orientation before being granted the loan

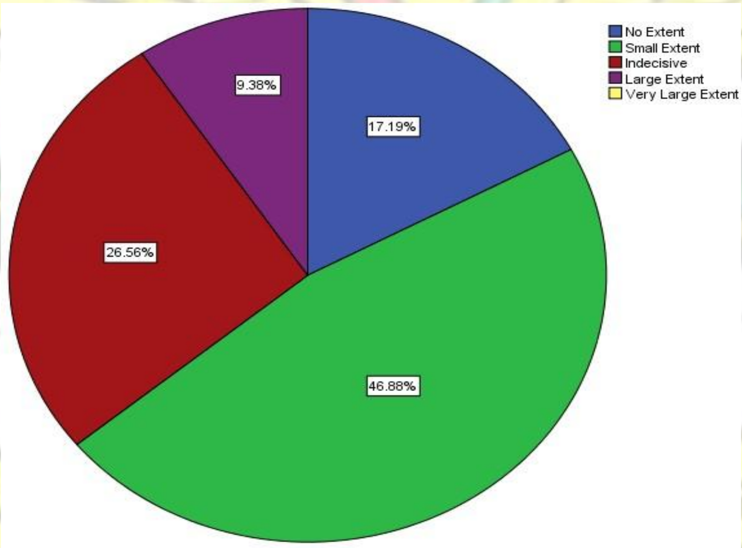

Figure 4.8: Training and Orientation before being granted loan

Source: Field data, (2016)

According to the figure, 46.88% of the customers claim that they receive training and orientation on a small extent before they are granted with the loan, 26.56% were indecisive, 17.19 stated they were not given training and 9.38% rated the training given to them on a large extent. This implies that the customers consider the training given to them before receiving their loans as insufficient to enable them manage their loan which in the long run cause loan default.

4.4.1.7 Training and Orientation after receiving loan

The extents to which the customers are given training after receiving loan from the banks are graphically displayed on figure 4.9 below.

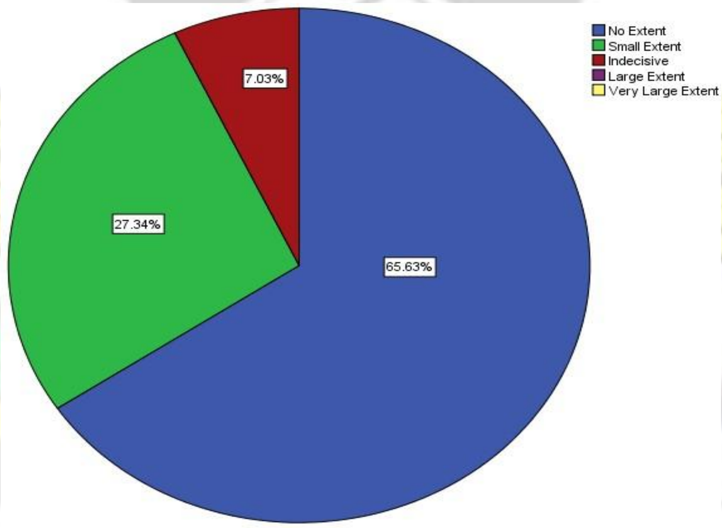

Figure 4.9: Training after receiving loan

Source: Field data, (2016)

It is very clear from the figure that the customers have little opposing view to the employees by majority (65.63%) of the customers proposing that they received no training after receiving loan from the bank, 27.34% said they have received training after the receiving the loan and even the training they received was on a small extent. Offering training to borrowers after granting them the loan serves as a means of monitoring the business of the borrowers to ensure that good business practices are put in place.

4.5 ECONOMIC FACTORS AND LOAN DEFAULT

Apart from the factors that account for loan default that have been discussed above, literature reveals that adverse economic conditions also contributes to loan default. Based on this the researcher sets one of his objectives to investigate the economic factors accounting for loan default. The employees and the customers both presented their views with regards to this issue. Means and standard deviations were used for the presentation of the results. Table 4.9 shows the views of the employees concerning the economic factors that accounts for loan default. The factors on the table are arranged in descending order of mean values for easy interpretation.

Table 4.9: Employees responses to Economic factors on loan Default

	NE	SE	UD	LE	VLE	Mean	Std. Deviation
Unemployment	(0.0%)	(0.0%)	(15.3%)	(47.4%)	(37.2%)	4.22	.69
Interest Rate	(0.0%)	(0.0%)	(8%)	(62.8%)	(29.2%)	4.21	.57
Inflation	(0.0%)	(3.6%)	(7.3%)	(54.7%)	(34.3%)	4.20	.73
Gross Domestic Product (GDP)	(0.0%)	(5.8%)	(20.4%)	(35.8%)	(38%)	4.06	.91
The energy situation in the country	(2.2%)	(7.3%)	(16.8%)	(40.1%)	(33.6%)	3.96	.99
Depreciation of the currency against the hard currencies	(3.6%)	(13.3%)	(26.3%)	(38%)	(19%)	3.45	1.06
The Ghanaian Taxes system	(8.8%	(15.3%)	(24.8%)	(33.6%)	(17.5%)	3.36	1.19
Devaluation of the currency	(7.3%)	(16.8%)	(41.6%)	(19%)	(15.3%)	3.18	1.11

Source: Field data, 2016

From the table, the staff of the banks noted that unemployment and interest rates are the leading economic factors that contribute to loan default. Assigning a respective mean values of 4.22

and 4.21 respectively to these economic factors confirm that. These mean values tend towards the rank of 4 which represents large extent in the scale. However, the corresponding standard deviations of 0.69 and 0.57 respectively to these economic factors show that the employees possess varied understanding about these factors.

Some of the staff also proposed that inflation, Gross Domestic Products (GDP) and the energy situation in the country are also economic factors affecting loan default. These factors were assigned mean values of 4.20, 4.06 and 3.96 respectively to these factors. Nevertheless, the corresponding standard deviations of 0.73, 0.91 and 1.00 reflect the variability in the responses provided by the employees with regards to these factors.

From the mean table, devaluation of the currency has the least influence on loan default and as assigned a mean value of 3.18 which falls on the 3 of the rater scale and it represents neutral. A standard deviation value of 1.11 assigned to this factor shows that respondents had varied views on this factor. Also, the respondents were indecisive with respect to the influence of depreciation of the currency against the hard currencies and the Ghanaian Taxes system. These factors received mean values of 3.45 and 3.36 respectively which approximately fall close to 3 which represents neutral. However, respective standard deviation values of 1.06 and 1.19 assigned to these factors show that respondents had varied views on the factors.

Table 4.10: Customers' responses to the Economic factors that causes loan Default

	NE	SE	UD	LE	VLE	Mean	Std. Deviation
Interest Rate	(0.0%)	(0.0%)	(8.6%)	(61.7%)	(29.7%)	4.23	.69
Unemployment	(0.0%)	(0.0%)	(14.9%)	(46.9%)	(38.3%)	4.21	.58
Inflation	(0.0%)	(5.5%)	(20.3%)	(35.2%)	(39.1%)	4.19	.74
The energy situation in the country	(1.6%)	(7.8%)	(17.2%)	(39.1%)	(34.4%)	3.99	.90

The Ghanaian Taxes system	(0.0%)	(3.9%)	(7.8%)	(53.9%)	(34.4%)	3.97	.99
Devaluation of the currency	(7.8%)	(16.4%)	(41.4%)	(18.8%)	(15.6%)	3.50	1.06
Gross Domestic Product (GDP)	(9.4%)	(10.2%)	(24.2%)	(32.8%)	(23.4%)	3.41	1.22
Depreciation of the currency against the hard currencies	(3.9%)	(13.3%)	(26.6%)	(37.5%)	(18.8%)	2.18	1.13

Source: Field data, 2016

The results of the survey as reflected in Table 4.10 revealed that the interest rate, unemployment and inflation are the economic factors that have the highest influence on loan default among borrowers. These economic factors have respective mean values of 4.23, 4.21 and 4.19 which tend towards the large extent scale of 4. However, there were variations in responses to these factors as revealed by the standard deviations of 0.69, 0.58 and 0.74 respectively.

Moreover, the energy situation in the country and the Ghanaian Taxes system were also considered as important economic factors that cause loan default. These factors were assigned mean values of 3.99 and 3.97 respectively which proximately fall close to 4 which represent the large extent scale. However, the standard deviations of 0.90 and 0.99 20.74 indicate that the respondents did not equally agree to these economic factors as causing loan default to a large extent.

In addition, the respondents were indecisive with regards to the influence of devaluation of the currency and Gross Domestic Product (GDP). These factors were ranked on the scale of 3.50 and 3.41 respectively which also falls close to 3 which is close to the neutral level on the scale. The standard deviations of 1.06 and 1.22 respectively to these factors raise concern that the respondents were not of equal opinion to these economic factors.

From the mean table above, depreciation of the currency against the hard currencies has the least influence on loan default among borrowers of rural banks. Depreciation of the currency against the hard currencies received a mean value of 2.18 which approximately fall on 2 on the scale which represents small extent. However, the respondents have different views about this particular factor because of the standard deviation value of 1.12 assigned to this factor.

From the findings on the mean table, unemployment, interest rate, inflation, and GDP were the leading economic factors that accounts for loan default, since they received high mean values, hence details about these factors are presented on table 4.12 below.

From Table 4.9 and Table, 4.10, it is clear that both the customers and the employees were on equal consensus that unemployment, interest rate and inflation are the best three economic factors that causes loan default. Their responses to these three economic factors are presented on table 4.11 below.

Table 4.11: Customers and employees responses to three most economic factors that causes loan default.

Economic factors	NE	SE	UD	LE	VLE
Unemployment	(0.0%)	(0.0%)	(15.1%)	(47.2%)	(37.7%)
Interest Rate	(0.0%)	(0.0%)	(8.3%)	(62.3%)	(29.4%)
Inflation	(0.0%)	(4.5%)	(13.6%)	(45.3%)	(36.6%)

NB: NE = No Extent; SE = Small Extent; UD = Undecided; LE = Large Extent; VLE = Very Large Extent

The analysis of the results in table 4.11, reveal that 47.2% of both the customers and employees confirm that to the large extent unemployment causes loan default, 37.7% rated it to be a very large extent and 15.1% were indecisive. When people are not getting job, it put pressure on the few ones who are employed to cater for the rest of their family. This leads to spending loan on family matters instead of using it to invest in business and this result in loan default.

To a large extent interest rate contributes to loan default according (62.3%) of the respondents. This is followed by 29.4% who mentioned that to a very large extent interest rate contribute to loan default while 8.3% of them were indecisive. Interest rate adds up to the cost of borrowing. A high interest rate represents a high cost of borrowing and this makes it difficult for borrowers to repay their loans.

The presentation from the table reveals that to a large extent inflation causes loan default as witnessed by 45.3% of the respondents. 36.6% of them claim that inflation causes loan default to a very large extent. 13.6% of the respondents were indecisive while 4.5% indicated that to a small extent inflation causes loan default. When the prices of goods and services become high traders capital losses it value thereby preventing borrowers from repaying their loan.

The results in this section are in tandem with Okpugie (2009), Olomola Bichanger and Aseya, (2013), Vallascas, and Keasey, (2012) and Sinkey and Greenwalt (1990 (1999) who supported that high interest rate on loan was the causes loan default. Vallascas and Keasey (2012) further found that inflation was the second economic factor that causes loan default after devaluation of the country's currency which is consistent with the findings of this study. Unemployment as an economic factor that causes loan default in this study is in line with the findings of De Bock and Demyanets (2012).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter is the final chapter of the study. It comprises of the summary of the main findings of the study, conclusion and recommendations made.

5.2 SUMMARY OF FINDINGS

This section of the study provides a summary of the main research findings. The section has been arranged according to the main objectives for the study.

The study sought to reveal the trend of loan default among the bank. It was discovered that the banks have granted loans to the customers from one year to the other. Some of the loans have been paid while others are outstanding. This implies that the banks are experiencing loan default and indicate that the trend of loan default will continue if measures are not put in place to rectify the situation. Even though the researcher acknowledges that loans are spread for years, the ability of the banks to continue to grant loan depends on the rate at which borrowers are repaying their loans.

The second objective for this study was to identify the factors responsible for loan default in rural banking. The views of both customers and employees of the bank were sought. From the responses given by both parties, government intervention like demolitions, relocation etc, delays in granting loans to borrowers, improper keeping of business records and diversion of borrowed funds to risky investments once granted the loan to borrowers appeared in the first five factor that are responsible for loan default. This means that the factors above are the major factors that are responsible for the inability of borrowers to repay their loans.

The study also sought to find out the influence of economic factors on loan default. Once again, the opinions of both bankers and customers were sought. It has been discovered in the study that unemployment, interest rate, inflation, Gross Domestic Product (GDP) and the energy situation in the country are the main economic factors responsible for loan default in rural banking in Ghana.

On how poor supervision causes loan default in rural banking, data was collected from both the customers and the employees and management of the bank. It has been discovered that the loan officers of the banks are competent, borrowers are visited once a month, management monitor loan officials' activities, borrowers receive training and orientation before being granted the loan but borrowers do not receive training after being granted the loan.

5.3 CONCLUSION

Rural and community banks have been performing and contributing positively towards the banking industry in Ghana. They have also contributed toward the economic development in the country to the extent that some of the rural banks have been appearing in the Ghana Club 100 list indicating that rural banks have been contributing towards the economic growth in the country. The activities of rural banks in Ghana have also benefited their clients by advancing credit facilities to them. Hence, loans are being granted to individuals, small businesses, groups and others indicates that rural banks have been advancing loans to their clients. However, some of the loans given out by the banks to the customers are not paid and eventually result in loan default. This study mainly focused on revealing the factors responsible for loan default in the rural banking sector in Ghana and concludes that government intervention such as demolitions and relocation is the main cause of loan default in the rural banking sector in Ghana. Conclusion is also made that there are other factor that are also responsible for loan default in the Ghanaian rural banking sector. These factors include; delays in granting loans to borrowers, improper keeping of business records and diversion of borrowed funds to risky investments once granted the loan to borrowers. The study equally concludes that the economic situation in the country also cause loan default among borrowers in the rural banking sector with unemployment being the number one economic factor responsible for loan default. Conclusion is also made that there are other economic factors that are responsible for loan default and they include interest rate, inflation, Gross Domestic Product (GDP) and the energy situation in the country.

The final conclusion is that poor supervision also causes loan default in the rural banking sector in Ghana. It is being concluded that when borrowers are frequently visited and monitored, they are able to repay their loans and on time. However, failure to visit and monitor borrowers increase loan default. Again, the study concludes that offering training and orientation to borrowers before and after granting them loans help to reduce loan default and the vice versa.

5.4 RECOMMENDATIONS

Based on the findings of the study the following recommendations were made.

1. The study recommends that since government demolition exercises cause loan default, loan officers as part of their feasibility studies must liaise with the land commission and the metropolitan assembly to ensure that the places where borrowers businesses are located have not been assigned for any future project which will call for demolition before approving loan for a customer.

2. A recommendation is also made to banks to clearly communicate the number of days or weeks it will take borrowers to receive loan after applying for it. This will help customers to make inform decisions concerning loan application and also help to avoid delays associated with loan processes. Besides, loan officials must also work extra hard not compromising on quality feasibility to process loan on time.

3. Another way by which banks can increase the receipt of loan repayment from borrowers is to offer free training and workshop to clients. The training should centre on financial management so that borrowers would be able to keep proper records of their business, monitor the progress of their business and efficient revenue management. This training should be done before and after granting loan to borrowers.

4. Additionally, it is being suggested to bank officials to regularly visit the work places of borrowers in order to monitor how the business is being run. At least ones a week would be helpful so that in the event of relocation the loan official would be aware and take the necessary action.

5. Finally, the study recommends to loan officials to be guided by economic indicators like unemployment, interest rate and inflation when processing to grant loan to customers.

5.5 RECOMMENDATIONS FOR FURTHER STUDIES

Having considered our research findings, future studies may be conducted to build upon our research into the factors responsible for loan default using Asokore Rural Bank and Nwabiagya Rural Bank as case study. Possible suggestions for further research arising from the study are as follows;

1. As this research had a small scope, future research could focus on a wide scope investigating the factors responsible for loan default.
2. Further investigation with the same structure can be conducted by adding the challenges and loan recovery strategies used by the rural banks.
3. Further investigation could focus on the effects of loan default on the financial performance of the banks.

4. Again, as this research applied deductive/quantitative methods on the customers' responses, an inductive/qualitative evaluation of a certain sample which involves personal interviews and direct interaction with the customers should achieve a clearer understanding of the issues using different methods to test the conclusions validation is encouraged

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APPENDICES

APPENDIX A

QUESTIONNAIRE FOR BANK STAFF

Dear Respondent,

I am pursuing my Master's Degree at the Kwame Nkrumah University of Science and Technology Business School and I am undertaking a thesis work entitled '***assessing the factors responsible for loan default among rural banks in Ghana; a case study of Asokore Rural Bank and Nwabiagya Rural Bank***. I am therefore by this questionnaire requesting you to share your experience with me to help complete my thesis. Be informed the content of your response would be treated confidently and your identity is not required.

Thank you in advance.

Section A: Background of Respondents

1. What is your Gender? Male [ ] Female [ ]
2. What is your Age? Below 20 [ ], 21 – 30 [ ] 31 – 40 [ ] 41 – 50 [ ] 51-60 [ ] Above 60years [ ]
3. Which of the banks do you represent? Nwabiagya Rural Bank [ ] Asokore Rural Bank [ ]

4. Please indicate your Position: Management [ ] Director[ ] Staff [ ]

5. How long have you been working for bank? Below 1year [ ] 1 to 5 years [ ] 6 to 10 years [ ] 11 to 15 years [ ] Over 15 years [ ]

Section B: Factors Responsible for loan Default

6. To what extent do the following factors cause loan default among rural banks in Ghana?

Please mark your response with [**x**] where 1 represents strongly disagree, 2- disagree, 3- Neutral, 4- Agree and 5- for strongly Agree

Loan Default Factors	1. Strongly Disagree	2 Disagree	3 Neutral	4 Agree	5 Strongly Agree
1. Diversion of borrowed funds to risky investments once they are granted					
2. Improper keeping of business records					
3. Inability of borrowers to monitor the performance of the business					
4. Government intervention like demolitions, relocation etc.					
5. Borrowers lack managerial skills					
6. Delays in granting loans to borrowers					
7. Incompetent bank staff					
8. Transaction cost in borrowing					
9. Unwillingness of borrowers to repay their loan					
10. Failure to investigate the creditworthiness of borrowers.					

7. Are there any other factors other than those above? Pleases specify

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Section C: Economic factors and loan Default

8. To what extent does each of the economic variables in the table below contribute to loan default? Using a scale of 1-5 where;

1. No Extent - NE
2. Small Extent - SE
3. Undecided - UD
4. Large Extent - LE
5. Very Large Extent - VLE

Economic Factors	**1. NE**	**2. SE**	**3. UD**	**4. LE**	**5. VLE**
The Ghanaian Taxes system					
Gross Domestic Product (GDP)					
Unemployment					
Depreciation of the currency against the hard currencies					
Interest Rate					
Devaluation of the currency					
Inflation					
The energy situation in the country					

9. Are there any other economic factor(s) that affect loan default? Please specify

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Section D: Supervision and Loan Default

10. How do you rate the competent level of the loan supervisors? Very High [ ], High [ ], moderate [ ], low [ ] Very Low [ ]

11. How often in a month do bank officials visit borrowers?

Once a Week [ ], Once a Month [ ], Twice a week [ ], Twice a month [ ], every day [ ]

12. To what extent does the management of the bank monitor the activities of supervisory officials?

No Extent [ ] Small Extent [ ] Undecided [ ], Large Extent [ ] Very Large Extent [ ]

13. To what extent were borrowers given training and orientation before being granted the loan?

No Extent [ ] Small Extent [ ] Undecided [ ], Large Extent [ ] Very Large Extent [ ]

14. To what extent were borrowers given training after being granted the loan?

No Extent [ ] Small Extent [ ] Undecided [ ], Large Extent [ ] Very Large Extent [ ]

15. To what extent were collateral verified before granted the loan to the borrower?

No Extent [ ] Small Extent [ ] Undecided [ ], Large Extent [ ] Very Large Extent [ ]

Section E: Trend of Loan Default

This section MUST be completed by the **Management of the bank only.**

Please fill the table below by providing the data relating to loan advances and repayment.

Year	Expected Loan Repayment **GH¢**	Actual Loan Repayment **GH¢**	Loan Default **GH¢**
2000			
2011			
2013			
2014			
2015			

End of Questionnaire, Thank You

APPENDIX B

QUESTIONNAIRE FOR BANK'S CUSTOMERS

Dear Respondent,

I am pursuing my Masters Degree at the Kwame Nkrumah University of Science and Technology Business School and I am undertaking a thesis work entitled '***assessing the factors responsible for loan default among rural banks in Ghana; a case study of Asokore Rural Bank and Nwabiagya Rural Bank***. I am therefore by this questionnaire requesting you to share your experience with me to help complete my thesis. Be informed the content of your response would be treated confidently and your identity is not required.

Thank you in advance.

Section A: Background of Respondents

3. What is your Gender? Male [ ] Female [ ]
4. What is your Age? Below 20 [ ], 21 – 30 [ ] 31 – 40 [ ] 41 – 50 [ ] 51-60 [ ] Above 60years [ ]

3. Which of the banks do you save? Nwabiagya Rural Bank [ ] Asokore Rural Bank [ ]

4. How long have you been saving with the bank? Below 1year [ ] 1 to 5 years [ ] 6 to 10 years [ ] 11 to 15 years [ ] Over 15 years [ ]

Section B: Factors Responsible for loan Default

6. To what extent do the following factors cause loan default among rural banks in Ghana? Please mark your response with [**x**] where 1 represents strongly disagree, 2- disagree, 3- Neutral, 4- Agree and 5- for strongly Agree.

Loan Default Factors	1. Strongly Disagree	2 Disagree	3 Neutral	4 Agree	5 Strongly Agree
1. Large family size and high living expenses affect borrower's ability to repay loan					
2. Diversion of funds to risky investments once they are granted					
3. Improper keeping of business records					
4. Low profitability					
5. Government intervention like demolitions, relocation etc.					
6. lack of managerial skills					
7. Delays by the bank officials in granting loans					
8. High transaction cost of borrowing					

7. Are there any other factors other than those above? Pleases specify

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Section C: Economic factors and loan Default

8. To what extent does each of the economic variables in the table below contribute to loan default? Using a scale of 1-5 where;

1. No Extent - NE

2. Small Extent - SE

3. Undecided - UD

4. Large Extent - LE

5. Very Large Extent - VLE

Economic Factors	1. NE	2. SE	3. UD	4. LE	5. VLE
The Ghanaian Taxes system					
Gross Domestic Product (GDP)					
Unemployment					
Depreciation of the currency against the hard currencies					
Interest Rate					
Devaluation of the currency					
Inflation					
The energy situation in the country					

9. Are there any other economic factor(s) that affect loan default? Please specify

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Section D: Supervision and Loan Default

10. How often in a month do bank officials visit borrowers?

Once a Week [ ], Once a Month [ ], Twice a week [ ], Twice a month [ ], every day [ ]

11. To what extent were you given training and orientation before being granted the loan?

No Extent [ ] Small Extent [ ] Undecided [ ], Large Extent [ ] Very Large Extent [ ]

12. To what extent were you given training after being granted the loan?

No Extent [ ] Small Extent [ ] Undecided [ ], Large Extent [ ] Very Large Extent [ ]

13. To what extent were collateral verified before receiving loan from the bank?

No Extent [ ] Small Extent [ ] Undecided [ ], Large Extent [ ] Very Large Extent [ ]

End of Questionnaire, Thank You

INTERVIEW GUIDE

1. What do you think is the major cause of loan default?
2. How does it contribute to loan default?
3. Are there any other factors responsible for loan default?
4. How?
5. Does the economic situation in Ghana contribute to the high rate of loan default among banks?
6. Could you explain further?
7. Which economic variable has the greatest influence on loan default and why?
8. Is there any relationship between loan default and poor supervision?
9. How, please explain further?
10. What do you think could be done to reduce the high rate of loan default among banks?