THE IMPACT OF SAVINGS ON CREDITS: A CASE STUDY OF ATWIMA KWANWOMA RURAL BANK (2000 – 2007)

By

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A long essay submitted to the Department of Accounting and Finance. Kwame Nkrumah University of Science and Technology in Partial Fulfillment of the Requirements for the Degree of

MASTER OF BUSINESS ADMINISTRATION

KNUST School of Business

College of Arts and Social Science

JUNE 2008

DECLARATION

I hereby declare that this long essay is my own work towards the MBA and that, to the best of my knowledge, it contains no material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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ABSTRACT

During the last years the banking business has come under considerable competitive pressure and bank managers often express concern regarding its savings and credits vis-à-vis other activities. The paper examined the impact of savings on credits of Atwima Kwanwoma rural bank from 2000 to 2007 financial years. The researcher employed both financial and non-financial analysis. The bank charges different rate of interest for various customers on the basis of risk and nature of loan. Also there are eight steps involved in the loan processing that is the processing of the loan application, credit analysis, the loan officer determines whether the report accurately describes the borrowing capacity and characteristics of the borrower, loan operation, the recording of the loan, loan servicing and administration and finally the loan officer may receive periodic delinquency information and need to follow up on this with borrowers.

Empirical results from estimating the model on 2000 to 2007 data from the bank's financial statement indicates that total deposits has been increased from ¢8.692 billion to ¢152.65 billion respectively. Also the analysis in the study period indicates that credits has increased from ¢1.559 billion in 2000 to ¢110.42 billion in 2007. Descriptive analysis of the findings established that there is a positive relationship between total deposits and credits. This shows that as total deposits increased the amount to lend also increased.

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ACKNOWLEDGEMENT

It is not possible to individually acknowledge all the persons and organisations or sources that contributed to this paper. Some of these people deserve special mention however.

My first appreciation goes to Almighty God who has brought me this far.

I am indebted to my supervisor (Mr. Kingsley Opoku Appiah) for helpful comments and suggestions. I am also grateful to Mr. Oteng Stephen a colleague of KSB.

My final appreciation goes to Mr. Odame Asare (Chief Executive Officer, AKRB), Mr. P.V. Yeboah-Asiamah (AKRB), Irene Ofori, Ama Serwaa Bonsu, Augustine Acheampong, Amina Alhassan, Suzuna Boateng, Charity Donkor for helping to bring this project to successful end.

APPENDICES

CHAPTER ONE: THE RESEACH INTRODUCTION AND CONTEXT

1.0 BACKGROUND OF THE STUDY

This chapter being the first of this write-up covers the general introduction to the study which is composed of the background of the study, statement of the problem, objectives of the study, justification of the study and the methodology. The chapter also covers methodology, scope of the study and limitation of the study.

The governments of countries in Sub-Saharan Africa (SSA), and aid agencies including the World Bank, have long recognised the importance of financial sector reforms and rural financial markets development in realising the goals of real sector growth, food security and poverty alleviation. To meet such an ambitious target, SSA-countries will have to dramatically raise domestic savings and investments. A sound financial sector, supported by appropriate macroeconomic policies and institutional infrastructure are prerequisites in creating such an environment. A strong and vibrant rural financial market should be an integral part of this effort. Great emphasis is therefore being placed on developing rural financial markets, particularly on the mobilisation of rural savings and the efficient allocation of resources to the most productive investments and activities in the rural areas.

The World Bank Development Report 1989, recognising the non-viability of the financial sector in most of the developing countries, and having reviewed the lessons of past experience, stressed the need for efficient financial systems. The Report emphasized the importance of governments having to lay the foundations of well-functioning financial systems, through financial liberalisation, increasing competition, restructuring institutions, improving a locative efficiency, prudential oversight functions of central bank, and increasing resource mobilisation to ensure sustainability. While recognising that properly designed administrative interventions might be desirable in special circumstances, the Report cautions against

(a) Their possible adverse impact on the financial viability of the lending institutions,

(b) Inefficient resource use.

(c) Compounding distortions in the financial market.

(d) The retarding of the development of the financial sector itself.

The Bank policy on financial sector operations reiterates the importance of such interventions their having to be designed and carried out in the context of a coherent strategy for sustained development.

Rural credit markets in SSA countries, as in other developing countries, have been subject to policy interventions during the last two decades and more. Until recent times, the main focus of African governments and aid agencies alike was on providing agricultural credit, largely with funds external to the rural financial systems. The targeting/directing and subsidisation of credit, often delivered through state-owned specialised financial institutions, neglected the overall development of the rural financial market. Experiences of such heavy-handed approaches abound in SSA countries where the infusion of soft external funds to meet perceived credit gaps have at best produced only mixed results. Improvement in agricultural performance - whether in the form of investments, productivity increase, production, food security, poverty alleviation or social equity - has not been as spectacular as hoped for. There are instances of the economic environment, the financial systems, and the rural community as a whole having suffered from such a misdirected approach. Such financial system distress is, however, not unique to Africa.

The results of many of the World Bank's traditional agricultural credit operations, and the special credit schemes supported by other donors and governments too have been disappointing. Causes and consequences in a number of cases have also been researched and recorded. It is evident, as reported in these various studies, that subsidized and directed credit does not always reach the beneficiaries, while at the same time jeopardising the financial viability of the lending institutions and discouraging domestic savings.

It is against this background therefore that, the Bank of Ghana in line with the Banking Act 1970 undertook a study into rural credit needs of the country, which culminated in the introduction of rural banks in 1976. The establishment of the rural banking system was justified from the viewpoint that in spite of the fact that Ghana is an agrarian country with farmers dwelling in the rural areas, credit facilities to them are grossly inadequate. Again, the need to set-up rural banks is evident from the failure of the commercial banks to provide adequate financial institutions responsible for mobilizing and channeling rural communities in which they are located.

The first rural bank was established in 1976 at Agona Nyarkrom in Central Region of Ghana. At present there are 125 rural banks distributed among the regions as follows; Greater Accra (6), Ashanti (22), Eastern (22), Volta (14), Central (22), Brong Ahafo (18), Western(14), Upper East (2), Northern (3) and Upper West (2).

Savings of rural banks have grown from year to year as the number of banks and their agencies and the number of account holder's increase. This could be attributed among other things to extension of agencies to urban centers even though the Banks of Ghana in its rules and regulations governing the activities of banks disallows the establishment of agencies without prior approval from the Bank of Ghana. Over the years, the idea of agency operation was abused and prompted the Bank of Ghana to issue circular No. BG/RB/87/4 dated 28/09/87 to caution banks on the need to conform to the guidelines of agency operations.

1.1 STATEMENT 0F THE PROBLEM

Ghana's financial industry has seen major structural improvements over the past two decades especially in the past five years. The introduction of Rural Banking in 1976 has since then given birth to 125 rural banks as at 2007. One basic objective of the rural banking is to provide financial intermediation services to the nation's rural majority. Thus, the influx of rural banks is necessary for savings mobilisation especially in the countryside. This, notwithstanding, many rural banks have find their way to the urban areas to operate branches and agencies. Whether this is in compliance with regulatory authorities or not, the issue of concern should be how far these rural banks have contributed to banking the non-banked populace. A recent publication in the business and financial times reported that Ghana has close to about 2.3 million bank accounts as at the end 2007 out of a population of over 20million. Also, the Bank of Ghana in the conduct of its recent redenomination exercise revealed that less than 30% of the total money supply in the economy can be found at the banks. Thus, the financial sector still has a long way to go in respect of savings mobilisation. This study will therefore assess and analyze the savings mobilisation of Atwima Kwanwoma Rural Bank and how it influenced credits.

1.2 OBJECTIVES OF THE STUDY

In general, this study tents to assess the financial performance of Atwima Kwanwoma Rural Bank over the past eight years. However, the study will consider the following four specific objectives.

1. To identify the trend in total deposits for the period 2000 to 2007. (accomplished in pages 45 to 48)
2. To identify the trend in credits for the period 2000 to 2007. (accomplished in pages 49 to 54)
3. To determine the relationship between total deposits and credits for the period 2000 to 2007. (accomplished in pages 54 to 59)
4. To recommend to management on new ways of achieving core objectives. (accomplished in pages 62 to 65)

1.3 THE HYPOTHESIS TO BE TESTED

This study will cover new grounds by providing empirical evidence concerning the relationship between total deposits and credits of rural banks.

To contribute to the debate surrounding the relationship this research poses two hypothetical problems.

The null hypothesis: Credits has no relationship with total deposits.

The alternate hypothesis: Credits has relationship with total deposits.

1.4 RELEVANCE OF THE STUDY

The concept of rural banking in Ghana was basically to provide financial intermediation services to the rural majority who are mainly farmers. This notion is based on the assumption that with over 70% of Ghanaians engaged in farming, adequate funding for the agric sector could be a panacea for economic development. There is therefore adequate justification to study the impact of savings on credits of the leading rural bank in Ghana.

The current study seeks to address the issue of deposits and how they impact on credits and the improvement in the standard of living of the people. It also reveals how prudent management system can raise confidence and restore the fortunes of an organization. The research findings will give policy recommendation to the Bank of Ghana to either review or uphold its policy guidelines on the classification of rural banks.

The Atwima Kwanwoma Rural Bank Ltd has been selected for the purpose of this study based on geographical location, easy access to the bank and availability of documented data. It could be counted among the well endowed rural banks, in fact, the leading rural bank in the country. The bank commenced on 6th September, 1983 under the Companies Code 1963 Act 179.

1.5 SCOPE OF THE STUDY

The study was conducted on Atwima Kwanwoma Rural bank while using the Pakyi no. II branch as focal point because it is the bank's head quarters and also where I can get the executive management. The emphasis of this work lies on the performance of the Atwima Kwanwoma Rural Bank Ltd over the past eight years (2000-2007) in terms of savings and credits. The study utilised both financial and non-financial information from the bank in reaching conclusions. In reviewing related literature work on the research topic, both foreign and local sources were resorted including newspapers and other related journals.

1.6 LIMITATIONS OF THE STUDY

Atwima Kwanwoma Rural Bank was particular selected for this study on grounds of its current position as the leading rural bank in the country. The bank had six branches as at 2007. A study of this nature would have been best conducted by involving a lot if not all of the branches of the bank. But this study was conducted on only one branch which is

Pakyi No. 2 branch. This notwithstanding, sampling and sampling procedures were conducted in a manner that ensured representativeness and objectivity.

1.7 ORGANIZATION OF THE STUDY

The study is organised into five chapters. Chapter one provides a background of the study, the statement of the problem, the objective, relevant of the study, limitation of the study. Chapter two focuses mainly on the existing literature on rural bank savings and credits. Chapter three addresses the methodology used and organisational profile. Chapter four discusses the results of the study. Finally, chapter five summarises the study, makes some recommendations and draws conclusions on the study.

1.8 CHAPTER SUMMARY

This chapter was designed to present a general overview of impact of savings on credits of Atwima Kwanwoma rural bank from 2000-2007 financial years. It covers the background of the study, statement of the problem, objectives of the study, justification of the study, hypothesis, scope and limitation of the study.

The next chapter is going to review literature on the study.

CHAPTER TWO: REVIEW OF RELEVANT PRIOR LITERATURE

2.0 INTRODUCTION

This chapter reviews relevant literature on rural bank system. It includes an overview of saving mobilisation by rural banking system in Ghana. It also reviews studies conducted by researchers with particular reference to savings mobilisation, credit supply and rural financial markets. The understanding of these concepts helps to establish an analytical framework for the present study.

2.1 IMPORTANCE OF SAVINGS

Savings, which is define as the part of incomes not immediately, consumed, but reserved for future consumption, investment or for unforeseen contingencies is considered as an indispensable weapon for economic growth and development. Its role is reflected in capital formation through increased capital stock and the impact it makes on the capacity for an economy to generate more and higher incomes. Rose (1986) sees the importance of savings beyond capital formation. To her, savings are a catalyst for capital formation but equally, a major determinant of the cost of credits based on the law of scarcity, which holds that 'when the former is low and scarce, it becomes more costly to obtain'.

The classics as well as modern growth models hold that savings constitute the principal parameter, and determinant of economic growth. This idea is upheld by (World Bank, 1989) which showed that on the average, third world countries with higher growth rates incidentally are those with higher saving rates.

Capital mobilised from domestic sources is very fundamental for a country's development not only because it has a low cost, but also due to the fact that it is durable and permanent. Adam (1985) considers that most of this domestic savings will come from the rural areas especially in countries with a dominant rural because there is a greater saving capacity and growth potentials. Thillairajah (1994) and Padmanabhan (1988) sharing the same opinion, explain the high marginal propensity to save by the unstable economic conditions that generally prevails in these areas (unstable incomes, fluctuations in harvest etc).

But unfortunately, in spite of these advantages, most of the saving potentials of rural communities in developing economies remain not mobilised especially in respect to the formal financial system on which an economy depends for growth (Nwankwo, 1994). To permit an efficient and sustainable mobilisation of savings in general and rural savings in particular, a number of factors must be fulfilled.

These, according to (Hussein & Thirlwall, 1999) are classified into the capacity to save and the willingness to save. Whereas the capacity to save is influenced by the level of per capita income, growth of these incomes, population age structure and income distribution; the willingness to save on the other hand depends more on the country's financial system through variables such as the level of financial deepening, and inflation. They however concludes that the number, proximity and diversity of financial institutions (willingness to save factor) serving the various needs of savers play a dominant influence over the primeval factor of the capacity to save. But there appear to be a strong link between the rates of growth of financial circuits and how develop and efficient a country's financial system can sustainable mobilise domestic savings.

Bomda (1998) stressed on the influence of certain factors on the supply of savings and empirically showed the existence of a negative correlation between the rate of savings and the costs/risks incurred by customers. These include transportation cost and risk involve in moving with large sums of money through long distances. Whatever motive an individual may have for savings, the rate of savings in any given community according to (Toluhi, 1968; Schmidt & Kropp, 1988; Padmanabhan, 1988) depends on the available savings institutions which themselves must fulfill conditions like an efficient number, diversity, accessibility, attractive terms of operations, perfect knowledge on their existence and the usefulness and trust people have on them. Thus, an efficient and sustainable savings mobilisation will certainly depend on the availability and or number of financial variables, their accessibility and nature of and the way such services are rendered to customers. Unfortunately, Cameroon's formal financial system seems poorly developed, poorly diversified and inefficient. It is also fragmented and records a low financial deepening ratio (M2/GDP), which witnessed a decline from 22 percent in 1989 down to 17 percent in 1995 according to (Heidhues&Weinschenck, 1989; Kammogne, 1988). Due to this low financial deepening ratio, Cameroon was ranked behind countries like Gambia, Ghana, Nigeria, Senegal and South Africa whose respective per capita incomes were far lower than hers during the same period. But to ensure that the banking industry is efficiently spread equally requires financial soundness of these institutions.

2.2. THEORIES OF SAVING

Savings fundamentally is about choosing between current and future consumption. Savings theories traditionally predict that current consumption is related not to current income, but to a longer-term estimate of income.

The life-cycle hypothesis (Modigliani, 1966) predicts that individuals hold their consumption constant over their lifetime; they save during their working years and draw down their savings during retirement. The permanent income hypothesis (Friedman, 1957) argues that consumption is proportional to a consumer's estimate of permanent income. These theories of savings were developed with industrial economies in mind.

Deaton (1989) suggests at least four reasons why these two theories might be of limited use in developing nations. First, households in developing countries are larger than in industrialised countries and are more likely to contain several generations. As a result there is less need to save for retirement or for intergenerational transfers.

Second, income in many of these economies is uncertain and cyclical, making estimation of longer-term income flows difficult. Third, individuals are likely to be credit constrained, so that borrowing in early years will be difficult.

Finally, these combined factors suggest that savings in developing economies often plays an important role in buffering between income and consumption. Individuals often save small amounts at frequent intervals to smooth income, rather than accumulate or save for retirement.

Economic theories of inter-temporal choice generally assume exponential discounting that implies a constant marginal rate of substitution among future periods. In other words, deciding between consumption in one month versus two months from now should be no different than deciding between consumption in 20 months versus 21 months, all else equal. However, a long literature suggests that many individuals suffer from a time inconsistency problem and do not discount the future exponentially (O'Donahue and Rabin, 1999; Laibson, 1997; Thaler, 1992, 1990; Lowenstein and Thaler, 1989).

Experimental evidence indicates that many individuals have preferences that reverse as the date of decision making nears. Psychological experiments suggest that preferences are roughly hyperbolic in shape, implying a high discount rate in the immediate future, and a relatively lower rate over periods that are further away (Ainslie, 1992; Lowenstein and Prelec, 1992). Commitment mechanisms that bind an individual to future actions or restrict individual choice in the future can overcome these inconsistencies.

How widespread is the problem of commitment? There is evidence that consumers are willing to pay to have their options limited, even in economies like the United States with developed financial markets and low transactions costs. Individuals often choose to save in ways that delay or limit their ability to access funds, what Laibson refers to as the "golden eggs" property of assets (Laibson, 1997). Over two-thirds of U.S. household assets in 1994 were held in illiquid assets such as pension funds, homes, and life insurance reserves.

Many Americans also make use of the tax system to save by over withholding on taxes to receive a lump sum (but non-interest bearing) refund at tax time (Neumark, 1995; Mullainathan and Thaler, 2000). Among poor and unbanked households in the United States a number of savings commitment strategies have been documented including choosing savings accounts that charge per withdrawal, postponing the cashing of paychecks, giving money to a trusted individual to hold, opening an account at a branch that is inconveniently located, and choosing not to have an ATM card (Beverly et al., 2001). Benartzi and Thaler (2002) show that individuals who participate in an employee savings program that commits them (in a nonbinding way) to commit higher proportions of future earnings to retirement plans do in fact save more.

Behavioral economics also suggests that individuals do not treat the components of their wealth as fungible, as the life-cycle theory implies. Instead, individuals divide their wealth into broad mental accounts such as current income, current assets, and future assets with differing marginal propensities of consumption for each account (Shefrin and Thaler, 1988). For example, data from Japan show that the marginal propensity to consume out of income from predictable semi-annual bonuses is substantially lower than for regular income (Ishikawa and Ueda, 1984). The use of savings commitment technologies or mental accounting heuristics is not limited to developed economies, but there is little systematic, empirical evidence on these effects in developing countries. Gugerty (2001) provides evidence that rotating savings and credit association (ROSCA) participants in Kenya explicitly design their ROSCAs to provide self-control. Shipton (1992) documents the use of lock boxes in the Gambia

Rutherford (1999) also cites several commitment devices that villagers in East Africa use to stick to savings plans, including buying a lock box and throwing away the key and the use of "money guards" in which individuals entrust their savings to someone else so that they cannot spend it. There is evidence that in Latin America and Africa, households use tree crops and tubers as a relatively illiquid store of savings (Godoy, Frank et al, 1996). The demand for savings commitment devices may also result from intrahousehold or intravillage allocation dilemmas.

Some researchers have argued that ROSCAs are popular in developing economies because they provide "spouse control" devices, allowing individuals to hide money from their spouse, or otherwise remove it from the household economy (Anderson and Baland, 2002). Vonderlack and Schreiner (2001) suggest that women are in particular need of savings commitment devices. Households in developing countries are also part of a web of informal contracts that include credit, debt, and insurance (Udry, 1994; Townsend, 1995). If less cash is on hand, or savings are not easily accessed, then an individual is more empowered to turn down requests for withdrawals or loans from family or peers. This limited access, however, might also have the negative effect of reducing informal insurance mechanisms within families or villages.

2.3. The Theoretical Paradigms of Financial Market

In the theoretical literature, two main positions have been advanced regarding the malfunctioning of the financial markets in the developing economies. The two main explanations are anchored on policy induced outcomes and structural and institutional outcomes (Aryeetey et al, 1997). The financial repression hypothesis of McKinnon (1973) and Shaw (1973) attributes outcomes to government policy failures. These policies placed ceilings on deposit and lending rates which fuel the demand for credit and reduce credit supply. In such credit supply situations, rationing through means other than the interest rate was embarked upon by the suppliers of credit. These resulted in a fragmented market which favoured a limited number of borrowers that have connections with banking officials. The majority of loan seekers' demand could not be satisfied through the formal or semi-formal financial system. These groups have no choice but to borrow from informal credit market with high interest rates.

The model which addresses policy induced-bottlenecks leading to market failure stipulates that the removal of restrictive financial policies will lead to even-keel expansion of the formal credit system which will crowd out the inefficient informal sector. It was also expected that the model will reduce the spread of borrowing and lending rates and will enhance the flow of funds between all segments in the financial system. Ex-ante credit seekers like the Poor and SMEs who were marginalized under the repressive financial system will now have access to credit. Another expected outcome was that depositors will shift from short-term to interest bearing longer-term deposits.

Another theoretical paradigm of financial market is that of Stiglitz and Weiss (1981), This theory of credit market postulates asymmetrical information as the cause of poor workings of the financial market in developing countries. The imperfect information unleashes two outcomes, namely, adverse selection and moral hazards. Two main features of the model can be formulated as follows: lenders allocate monies to projects which are risky and may not be bankable; and credits are given out at the cost which is equal to the opportunity cost of funds, for example, the supply price paid to savings or fixed depositors (Besley, 1994).

Adverse selection can be explained as follows: ex-ante, it is assumed that borrowers of money know better the level of risk associated with their projects. The individual with a high risk project may succeed in getting credit at a high rate of interest. At this high rate of interest an individual with less risky project may be refused credit because it will not make the business viable and threaten his/her loan repayment potential. If the interest rate is raised and the borrower with a higher risk is favoured and defaults, this will threaten the capital base of the lender. Lenders who want to minimise risk will give out their funds at lower rather than higher rates of interest. A realignment of the average quality of the lender's loan portfolio may mean that interest rate mechanism will not bring about market rate equilibrium; rather, rationing of access to credit at a lower interest rate will follow. If lenders do not maintain different loan portfolios, according to Hoff and Stiglitz (1990) interest rates will rise faster.

Moral hazard phenomenon is part of the problem of imperfect information concerning borrowers' actions. It is the misapplication of borrowed funds that shifts the risk to the lender, especially, if the project does not succeed. Borrowers may be tempted to divert approved loans to other projects with high risk, thereby reducing loan repayment possibility. Lenders may refuse to take actions that will enhance loan repayment due to incentives and enforcement problems (Hoff and Stiglitz, 1990). If the moral hazard phenomenon occurs, solution advocated by the model is credit rationing.

2.4. INTEREST RATES

Interest rates can be defined as the premium received by the lender after a stated period of time. From the borrower's point of view, it is the cost of capital at the time of obtaining a loan. There are several schools of thought regarding the interest rates.

According to the Classical school, the rate of interest is the main determinant of savings and investment. This school asserted that aggregate investment is inversely related to the rate of interest. This relationship has been observed to be a weak one; that is, investment tends to be fairly interest inelastic because it is influenced by businessmen's expectations, and yields are normally estimated within a particular range, for example 10% to 15%, that is if a small increase in the interest rate occurs, it will not disturb the long run expansion of the enterprises.

The Neo-Classical school maintains that the interest rate is determined by supply (savings) and demand (marginal efficiency of capital). Autonomous increase in savings reduces the interest rate and the additional cost of capital. Because additional investment contributes to diminishing returns, this will cause a 'switch' from less capital intensive to more capital-intensive methods of production. The phenomenon of re-switching has led to the two Cambridge's controversy of capital theory (Hardwick, Khan and Langmead, 1990). Keynes believed that the quantity of money played a key role in determining the rate of interest. He viewed the equilibrium interest rate as that rate which equates the supply of money with the demand for money. In a more fundamental sense, the equilibrium rate of interest is determined by factors affecting the supply of money and the money demand. The modern view of interest rates is based on the imperfect information paradigm as explained by Hoff and Stiglitz (1990).

Operationalising interest rate in the context of the demand for credit by the SME's shows the interplay of several factors. According to Funkoř (2000), some of these factors include high inflation, cost of intermediation, high credit risk, exchange rates, high bank rate and high Treasury bill rates. The average Ghanaian business operator in the private sector, views interest rate as a measure of the price paid by a borrower to a lender for the use of financial resources for a time interval. This research views interest rate as the cost of borrowing money within a stated period.

Before 1988, interest rates were administratively set by the Bank of Ghana (BoG). The financial sector suffered from the distorted macroeconomic policies and deteriorated greatly. Cheap credit was directed to the favoured borrowers, mostly the public sector, at the expense of economic efficiency and productive investment. As a result, financial intermediation in the economy declined. People abandoned the banking system deposits that yielded negative real interest rates of return. These rates were fixed below the rate of inflation, and this resulted in negative real interest rates. The "high negative" values that were recorded were as a result of the heightened economic crisis caused by the rippling effect of petroleum shocks in 1975, drought, etc.

The liberalization of the financial sector sought to inject efficiency through competition into the financial system. The liberalization of interest rates occurred in 1988 as part of the Financial Sector Adjustment Programme (FINSAP). This action programme aimed at restructuring distressed banks, strengthening the regulatory and supervisory framework of the BoG, developing financial and capital markets and more generally, liberalizing the financial environment to improve efficiency of resource (savings) mobilization and credit allocation. Thus, a major policy initiative under the FINSAP was financial liberalisation in line with the theoretical postulates of McKinnon (1973), Shaw (1973) and Galbis (1977) among others.

2.5 DEMANDS FOR CREDIT

The role of credit is to bridge the gap between enterprise owner's financial assets and the required financial assets of the enterprise. Due to persistence of this imbalance, enterprises are forced to demand credit. Demand for credit, according to Aryeetey et al (1994) can be categorised into perceived, potential and revealed demand. Perceived demand is represented by a situation where enterprises that assume to be in need of cash, mention finance as a constraint. Potential demand is characterised by a desire for credit which is not actualised due to market imperfections and institutional barriers. Revealed demand is characterised as written application for financial support at a given rate of interest.

This study agrees with the above categorisation of demand for credit. However, in the case of revealed demand definition which is of cardinal importance to both lenders and borrowers, a further distinction needs to be underscored because the application for credit, even if backed by a bankable project, may not necessarily be translated into effective demand. Gale (1991) defined effective demand as the amount of loans that lending institutions are prepared to release to borrowers. We agree with Gale, but in addition, our definition of effective demand is the actual amount released to the borrowers.

The debate on whether high interest rates affect the demand for credit is inconclusive and may go on indefinitely. There are two main schools of thought.

The first school advocates that high interest rates negatively affect the demand for credit because only limited borrowers with high risk projects may have their demand satisfied. Prominent among this school are Stiglitz and Weiss (1981), Stiglitz (1989) and Besley (1994) who argue that high interest rates encourage adverse selection of loan seekers. Those who take high risk and get their loans approved are those with high default rates. These high risky enterprises may not include the Poor and SMEs because they cannot afford risky and high cost investment. In his analysis of demand for rural credit among farmers in Sao Paulo, Brazil, Nehman (1973) observed that borrowing costs strongly affect the willingness of the rural poor to seek loans from formal lenders. Although Aryeetey et al (1994) did not make it explicit; they acknowledged implicitly that demand for credit at 30% interest rate was somewhat weaker among medium-sized firms.

The second school of thought's assertion is that high interest rates do not affect the demand for credit. The study by Aryeetey et al (1994) indicated that the high interest rates were not a major concern for SMEs. In that study, SMEs considered an average annual interest rate of 19.5% to be fair and reasonable; and this fell below the minimum market rate at that time by seven percentage points.

Non-availability of credit for SMEs prevents them from engaging in productive enterprises or expanding their businesses. Limited access to bank credit can be attributed to bureaucracy and high interest rates which are in line with the first school of thought's assertion. This means that the high interest rates constrain the demand for credit (Boon,1989). Evidence on the impact of financial sector liberalization on SMEs shows the following: Steel and Webster (1992), Aryeetey et al (1994) and Nissanke and Aryeetey (1995) revealed that the financial sector liberalization did not improve access to borrowing by SMEs. They attributed this to tightening of monetary controls, introduction of high yielding securities to mop up liquidity, and efforts to raise the performance of loan portfolios. Steel and Webster (1989) also pointed out that growth of SMEs has been hampered by the difficulty of financing working capital and new investment. In our view, the latter implies that limitations on the credit to the Poor and SMEs can be explained by the information asymmetry model which portrays limited access to financial capital.

There is opportunity cost attached to decisions to lend monies to SMEs given the relative scarcity of finance. Banks normally feel reluctant to lend to SMEs and this affects the supply of credit to SMEs. Preliminary estimates from recent survey conducted in the year

2000 showed that out of the 16 commercial banks in Ghana, only six provided credit equivalent to ¢10 billion to the micro finance sub-sector which was in need of total credit demand of ¢380 billion. The provision of credit to the tune of ¢10 billion constituted only 1% of the loans and advances in the same year (Opare, 2001).

Most commercial banks appear not to have proven-lending methodology for the financing of the SMEs. Banks underestimate bankable SMEs' demand for credit because they have not developed techniques for overcoming high transaction costs and risks (Aryeetey et al, 1994; Opare, 2001). This problem has contributed to the closure of their branches at the district and sub-district levels. These same banks readily disburse donor loans to SMEs because of the possible foreign exchange gains. Appraisal systems are relaxed because these funds are either guaranteed or provided by donors (Opare, 2001).

High yield of Government of Ghana's risk-free assets particularly treasury bills coupled with unfavourable macroeconomic environment also contributed to the limitation of credit supply. Credit supply limitation was mentioned by Quaicoo (2001). According to her, Akatakyiman Rural Bank's deposit base registered a remarkable growth of ¢800.6 billion in the 2000/2001 financial year whilst the same bank's investment in treasury bills alone stood at ¢600 billion. This means that less financial resources could be made available to borrowers including the Poor and SMEs. Furthermore, the decline of donor funds due to fatigue and the quest for commercialisation of micro-lending have both contributed to the low level of credit to SMEs. In sum, the literature on the demand for credit portrays the difficulty in deriving reliable estimates of demand for credit. A fact acknowledged by Aryeetey (1996).

2.6 Loan Repayment

Lenders of funds in the formal financial sector use the deposits of their clients whilst lenders operating in the informal sector use mainly their own funds to advance money to borrowers. In either case, the transactions are expected to lead to recouping the financial capital. If this does not happen, borrowers benefit at the expense of lenders. Assuming this continues, bankruptcy will be the ultimate result and this will reduce financial intermediation.

According to Stiglitz and Weiss (1981), high interest rates lead to adverse selection of loan seekers that affect loan repayment. Besley and Coate (1995) also made it clear that repayment rate will not be 100% at a positive interest rate. Assuming the project return is very low, borrowing at zero interest rate will still not make the borrowers capable of repaying the loan. Thus a positive interest rate increases cost of production, reduces returns from a productive activity and promotes loan default among borrowers.

The modern approach to the problems of credit markets - especially markets which serve SMEs - is based on the theoretical exposition of Hoff and Stiglitz (1990) which emphasises imperfect information and imperfect enforcement of loan contracts. The two authors based their observations on screening, incentive and enforcement problems. The screening problem is due to the inability of lenders to determine satisfactorily the extent of risk inherent in projects submitted for credit facilities. The incentives problem is the cost which lenders would have to incur to make certain that borrowers take the appropriate actions to enhance loan repayment. The enforcement problem, essentially, occurs due to limitations of legal provisions for the enforcement of payments of loans, for example, the selling of collaterals.

Empirical evidence indicates that higher loan repayment performance occurs in Asia as compared to Africa. High loan repayment performance of 80% to 98.6% was reported for four successful rural finance institutions in Asia. These are Bank for Agriculture and Agriculture Co-operatives (BAAC) in Thailand, the Badan Kredit Kecamatan (BKK) and the Bank Rakyat Indonesia Unit Desa (BUD) in Indonesia, and the Grameen Bank (GB) in Bangladesh (Yaron, 1994). According to Yaron (1994), three main factors contributed to the success story of the aforementioned banks. First, the time of submission of application and disbursement of loans ranged between 1 and 2 weeks for the first time borrowers and in the case of repeat borrowers, the period was just about a day.
Second, the use of existing social structures or peer groups to ensure prompt payment and thirdly, the rigid structure of loan repayment and routine meetings, especially of GB group members, in which social pressure was applied to achieve prompt payment and the flexible loan repayment terms that were tailored to cash flow patterns from specific income earning activities of lenders.

In Africa, loan repayment performance has been poor, for example, 14% to 20% for commercial banks in Tanzania (Bagachwa, 1996), and about 45% for small agricultural loans in Ghana (Aryeetey and Nissanke, 2000). In Ghana, such success stories of loan recovery are not easy to come by. We may pose the following question: what is it that has been impeding the loan recovery rates? Besley (1994) asserted that enforcement of loan repayment constitutes a major difference between rural credit markets in developing countries and credit markets in developed countries. Most lending institutions do not have experienced personnel capable of developing innovative financial products suitable for SMEs (Aryeetey et al, 1994). The repayment of loans by the Poor and SMEs was recognised as one of the most troublesome problems facing rural financial institutions in Africa. Collateral, access to local information and appropriate local mechanisms to enforce loan repayment are important. A study into the effectiveness of persuasive pressure exerted on default borrowers in Edumafa in the Central Region of Ghana concluded that this can lead to improvement in recovery rates (Kamara and Micah, 2000). Africa compared with EU countries showed that the latter's commercial banks are closer to SMEs due to their wide networking and proven experience in loan recovery. A close supervisory and monitoring relationship between financial institutions and clients enhances loan recovery. In the case of Ghana and other African countries, there is evidence of poor supervision and monitoring by banks (Lassort and Clavier, 1989; Aryeetey et al, 1994).

Loan misapplication and its consequences for loan repayment have been recognised by several authors. It is a phenomenon that can be described as moral hazard. There are several factors that can lead to misapplication of loans. In the first instance, the delay in the release of funds can contribute to this. This viewpoint was brought up vividly by Armah (2001) when she posed this question: "Of what use is a loan to a woman who cultivates groundnuts after the farming season is over?" In the second instance, the percentage of the amount granted tends to be lower and this affects the working capital of SMEs (Aryeetey et al, 1994; Armah, 2001). Eventually, the low amount granted affects the returns and the repayment of loans. If the percentage of the amount granted is considered low by the borrower, he/she may misapply the loan, that is, use it for consumption purposes which endangers loan repayment. According to Armah (2001), a woman who became the breadwinner due to the retrenchment exercise under the Structural Adjustment Programme, took a loan of ¢700,000 under the PAF programme. After settling her personal bills, she was left with only ¢200,000 to expand her business. We share the view of the author when she posed this question: "Is it practically possible to expand one's business with as meager an amount as ¢200,000?" Aryeetey et al (2000) also remarked that high interest rate may encourage borrowers to use the money to settle previous loans rather than finance working capital or investment. Several lending practices showed that the grace periods2 have been too short to serve their intended purpose. Especially, this can be felt in the start-up phase of the business. The grace period also affects repayment of loans, although it is intended to protect the lending institutions. (Lassort and Clavier, 1989).

Conflicts in society lead to political instability and fuel risk and uncertainty because they can contribute to different signals given to actors in the financial sector. SMEs get caught in the uncertainties and this affects their ability to pay back loans. We agree with Steel and Webster (1989) and Dzambo (2001) that the success of SMEs credit programmes is contingent upon a minimum level of economic and political stability. Political instability induces changes in political orientation leading to changes in policy paradigms that undermine SME projects (Steel and Webster, 1989).

Political pressure for loan disbursement has been the banc of all SME credit programmes initiated by governments. Political pressure for loan disbursement without knowledge about borrowers' working environment has been recognised by McGregor (1994) to be among the major causes of poor loan recovery. This is the adverse selection outcome. Evidence in Ghana and several countries indicate that the subsidised schemes are not self-sustainable due to political pressure in the disbursement of loans. For example, out of ¢245.7 million disbursed under the PAF by the Ho District Assembly, only 16.4% has been paid back. Due to the poor loan recovery performance, the District Assembly has temporarily suspended further disbursement of the fund (Agbelie, 2001). In the Bawku West District in Ghana, the District Chief Executive also reported that ¢62.12 million out of a total of ¢127 million disbursed to beneficiary groups and individuals for income generation activities has been recovered. This amount represents less than 50% of the total loan disbursed (Seini, 2001). The low rate of recovery can be attributed to the poor strategy used in the project appraisal. Many beneficiaries acknowledge such loans as "thank you from government", therefore, they do not see the need to pay back such loans.

2.7 CHAPTER SUMMARY

The review of literature has shown that there are theoretical and empirical gaps. The direct link between total deposits and credit could not be made manifest by all the studies under review. Also, the literature does not establish positive relation between total deposits and credits. Therefore, there is the need to close the gap and this is exactly what this study aims at. The present study investigated the impact of total deposits or savings on credits of Atwima Kwanwoma rural bank from 2000 to 2007 financial years. The investigation was conducted through different means as discussed in the next chapter.

CHAPTER THREE

RESEARCH METHODOLOGY AND ORGANIZATIONAL PROFILE

3.0 INTRODUCTION

This chapter entails the research methodology adopted in the conduct of the study. It also looks at the profile of Atwima Kwanwoma Rural Bank, the bank chosen for this case study.

3.1 RESEARCH METHODOLOGY

The research methodology involves the method used in collecting data for the study, sample size determination, sampling technique. It also includes the presentation and analysis of data.

3.1.1 METHOD OF DATA COLLECTION

Data for the study was gathered from both primary and secondary sources. The primary source dealt with information gathered from selected members of executive management of the bank under study.Data collection was achieved by the use of interview guide to interview executive management and also from financial statements of the bank as indicated in the appendix.

3.1.2 SAMPLE FRAME

The sample frame of this study was all financial statements of Atwima Kwanwoma Rural Bank since 1983.

3.1.3. DETERMINATION OF SAMPLE SIZE

The sample size of this study was made up of financial statements of Atwima Kwanwoma Rural Bank for the past eight years that is from 2000 to 2007.

This period was chosen for the study because it was the period where banking industry in Ghana faced a lot of competition from foreign banks. It was within this same period that Atwima Kwanwoma Rural Bank did so well and was considered the best performer among rural banks in the country; a position still held by the bank. (ARB, APEX BANK).

3.1.4 SAMPLING TECHNIQUES

Two sets of respondents were involved in this study. First, the financial statement of the banks was collected. Second, the credit manager was interviewed to explain why there were differences in credits given to clients for various years.

The data collected were analyzed by the used of frequency tables, percentages, bar charts and also descriptive analysis to determine the relationship between the total deposits and credit. Information gathered from various respondents were first edited and tallied in frequency table. The values corresponding to frequencies were later converted in percentages to facilitate comparison between the responses. Microsoft Excel (spread sheet) was employed for the analysis.

3.2 ORGANISATIONAL PROFILE OF ATWIMA KWANWOMA RURAL BANK LTD.

3.2.1 HISTORY

Atwima Kwanwoma Rural Bank Limited was established on 6th September 1983 as a financial institution licensed by the Bank of Ghana with the prime aim and objective of providing financial services and intermediation within a defined operational area of 20 miles or 32km radius from Pakyi No.2 the Bank's main office. As the 68th Rural Bank to be established in Ghana, and the 13th in the Ashanti Region, the Bank has had a chequered history, going through a lot of teething problems before experiencing a positive turn around.

Atwima Kwanwoma Rural Bank Limited started with an initial share capital of 1,000,000.00 ordinary shares which was raised by the indigenes residing within the community and the 125,000.00 non Redeemable Preference shares contributed by the Bank of Ghana. Over the years, the bank has progressed steadily to become the pacesetter and the leading Rural Bank in Ghana. The Bank presently has 6 Branches located in the following areas:

1. Pakyi No.2 (off Obuasi Road)
2. Santasi (opposite Sarfo Hotel)

3. Old Tafo (near the market)

4. New Tafo (Statue House opposite the Bolga lorry station)

5. Ayigya (Near Top High)

6. Atonsu – Agogo (Monaco Junction)

3.2.2. OBJECTIVES AND SET-UP OF THE BANK

Atwima Kwanwoma Rural Bank was established on 6th September, 1983 at Pakyi No. 2 in the Ashanti Region to provide rural financial services and intermediation.

As the 68th rural bank to be established by the Bank of Ghana and the 13th in the Ashanti Region, the bank went through initial set up problems. The main objectives of the bank included.

- Mobilization of Rural Savings.
- Extension of credit to micro-enterprises in the rural areas to improve upon their living standards.
- Inculcation of saving habits among the rural folks in Pakyi and its surroundings.
- To provide financial products to meet the needs of the area.

3.2.3. TURBULENT PERIOD (1989-1993)

The fate of the bank started to deteriorate from 1989. The bank experienced high staff turnover. Dismissed staff turned against the bank, this led to low confidence in the bank. There was huge capital deficit of over GHC2.1million. There were several fraud cases and imbalances in the banks' book. The confidence in the bank was lost.

3.2.4. TURNING POINT

In 1993, Mr K.K. Mensah took over as the Board Chairman. It was within the same period that the Rural Financial Sector Restructuring Programme (FINSAP) initiated by the Bank of Ghana came to the bank to identify the problems facing the bank among which were:

1. Weak Management
2. Weak Internal Control
3. Embezzlement and Fraud
4. Large non-performing loans
5. Investment in non-profitable subsidiary.
6. Huge deficit in the bank's capital adequacy.
7. No system of motivating staff.
8. Large staff turnover.
9. Poor banking environment.
10. Lack of skilled personnel.

Solutions were recommended and the bank was restructured. A new management was put in place after the restructuring exercise and that started to restore the fortunes of the bank.

3.2.5. SAVINGS PRODUCTS OF AKRB

3.2.5.1 CURRENT ACOUNTS:

This type of account is normally termed a business account that is recommended for individuals, corporate bodies, enterprise and those who are engaged in brisk business. The minimum initial deposit required to open an account is set at a low level of ¢50,000.00 to enable small business, individuals and salary workers to open accounts within the bank.

3.2.5.2. FIXED DEPOSIT:

The fixed deposit product is typically a savings account which is lodged for a fixed tenure of 3 months, 6 months etc. minimum deposit is ¢100,000.00 and is in multiples of ¢100,000.00. A certificate is issued to the holder.

3.2.5.3 SAVINGS ACCOUNT:

The purpose of this product is to allow clients save for investment or to raise capital. Interest is paid quarterly on the minimum balance maintained within the period.

3.2.5.3. SUSU DEPOSIT ACCOUNT:

This innovative savings product is designed for clients with small cash holdings and who find it difficult to leave their homes and work places. It gives them the unique opportunity to save with the Bank through the network of the Banks mobile banking staff.

3.2.5.4. GOLDEN DEPOSIT ACCOUNT:

This is insurance and investment account type designed for clients who wish to nurture and grow funds for investment purposes and also benefit from insurance life cover.

3.2.6. LENDING PRODUCTS

3.2.6.1. SUSU LOAN:

The Susu loan product is to give financial assistance to clients to expand their businesses. The loan product is designed to enable the client repay such loans on daily or weekly bases.

3.2.6.2. TRADITIONAL LOANS AND OVERDRAFTS:

This is a business loan/facility targeted at current account holders such as individuals, corporate bodies and enterprises that need working capital for business expansion.

3.2.6.3. SALARY LOAN:

This facility is granted to salaried account holders who have their salaries passing through the bank.

3.2.6.4. CHURCH DEVELOPMENT LOAN SCHEME:

The church development loan scheme product is to assist churches obtain funding for church development projects and programmes.

3.2.6.5. TRAVEL FINANCE LOANS:

This product is to finance the airfare of clients who wish to travel abroad and do not readily have funds.

3.2.6.6. FUNERAL LOAN:

The family funeral loan is to enable the client access funds to perform the funeral of a deceased relation.

3.2.6.7. MICRO FINANCE:

The Bank is deeply involved in micro finance activities as a means of making credit available to people who in one way or other could not have any direct business relation with the Bank. In line with government's programmes to alleviate poverty, one effective means of making this possible is reaching the vulnerable, therefore the Bank's development programme to help achieve this.

3.2.6.8. DWETIRE GROUP LOANS:

The Dwetire Group loan is designed to enable organized women groups to access working capital for their businesses. The client (in this case) the group would be expected to save with the bank for eight consecutive weeks, which qualifies them to access loan four times their savings. Loan repayment is on weekly basis.

3.2.7. LOAN OUTREACH AND STRATEGY

Atwima Kwanwoma rural bank lends mainly to groups, besides individuals, sole proprietors, partnerships and companies kept accounts with the Bank and benefit from credit facilities. The Bank is involved in the formation and monitoring of the groups from the very beginning to the gestation of the group. The Bank has two types of groups.

CHURCH GROUPS: Membership is drawn from the various church organizations whose elders are very much involved in the lending process.

SOCIETIES AND CLUBS made up of members of the public in the catchments areas of the Bank and whose executives and guarantors are drawn from neighborhoods. The Bank credit officers and mobile banking staff markets its various products through outreach programmes such as educating the public at various for a (funerals, communal labour days, church services or specially arranged meetings) on the advantages of forming groups to receive and access credit from the Bank to expand their business.

3.3 Chapter Summary

This chapter was designed to outline the research methodology and profile of Atwima Kwanwoma rural bank. This entails method of data collection, sample frame, determination of sample size, sampling techniques and profile of Atwima Kwanwoma rural bank to the research has been discussed in their relevant headings.

This chapter has set the foot for a suitable research methodology to achieve the objectives, which is analysed and discussed in the next chapter.

CHAPTER FOUR: EMPIRICAL FINDINGS, ANALYSIS AND DISCUSSION

4.0 INTRODUCTION

This chapter deals with the empirical findings, analysis and discussion in Atwima Kwanwoma rural bank. It includes an overview of interest rate charge by the bank, Process of lending activity, the trend in total deposits from the period 2000 to 2007, the trend in credits from the period 2000 to 2007 and establishing the relationship between total deposits and credits.

4.1 INTEREST RATE CHARGES BY AKRB

The bank charges different rate of interest for various customers on the basis of risk and nature of loan. These are the bank-lending rate for various groups of customers: Salary workers 25%, Micro Finance 27%, Agriculture between 20 – 22% and others include trading 28%. The bank also charges commitment fee of 3% on it customers. The bank repayment durations range from 6 to 24 months. The deferent rate of interest charge on various customers is based on the level of risk and nature of loan. The bank decided to charge a lower rate of interest on its agriculture customers because of the fundamental objective of establishing the bank. The bank was established to help improve the living standard of the rural inhabitants who are predominantly farmers. The bank also charges moderate rate of interest on its salary workers because of low level of default associated with these types of customers.

4.1. PROCESS OF LENDING IN THE BANK

There are eight steps involved in the loan processing.

The first step of the loan process is the application, which is conducted by a loan officer. This step covers the initial interview and screening of a loan request and gives the loan officer the opportunity to gather information about the borrower, for example, his or her previous credit history, current outstanding loans, and current financial statement. The loan officer then forward the information gathered to credit department.

The second step is the credit analysis conducted by the credit department. The analyst in the department conducts a comparative and historical analysis of the company's financial data. And recommendations are made to the loan officer.

In the third step, the loan officer then grants the loan with or without considerations of collateral.

The fourth step is the loan operation. Here it is necessary to prepare primary notes, agreements, collateral or non-collateral agreements.

In the fifth step, the loan officer obtains the loan officer determines whether the report accurately describes the borrowing capacity and characteristics of the borrower borrower's signatures and receives collateral; then the loan operation is closed and the loan proceeds.

The sixth step is the recording of the loan conducted by the loan operation and credit department staff. A loan operation clerk classifies and codes the loan for entry into the commercial loan system, and he or she reviews the loan for compliance with the bank's loan policies.

The seventh step is loan servicing and administration conducted by a loan operator, a loan officer, a credit department staff and a financial analyst. The loan operation staff prepares the loan payment notice to notify the borrower and the officer is responsible for receiving periodic payments. The loan officer makes periodic visits and customer calls to obtain new financial statements from the borrower and provides that information to credit department and reviews the loan for compliance with the loan agreement. A credit department financial analyst also receives and reviews the borrower's periodic financial statements.

In the eighth stage, the loan officer may receive periodic delinquency information and need to follow up on this with borrowers. The loan officer also needs to adjust loan terms and conditions as deemed necessary, and to take legal action if non-collectible procedures and foreclosure on the loan are required.

After analyzing these lending activities, values chain activities can be identified, and the rationale for determining how values are created can be determined.

4.3. MONEY TRANSFER SERVICES

The Atwima Kwanwoma Rural Bank Ltd. Has entered the money transfer business to make available to beneficiaries remittance services form migrant workers from Ghana to the industrialized countries.

4.4 THE TREND IN TOTAL DEPOSITS IN AKRB

TABLE 1: THE GROWTH TREND IN TOTAL DEPOSITS

YEARS	DEPOSITS (BILLON)	PERCENTAGE (%)	PERCENTAGE CHANGE
2000	8.692	1.60%	
2001	16.888	3.11%	1.51%
2002	31.931	5.88%	2.77%
2003	53.014	9.76%	3.88%
2004	78.046	14.37%	4.61%
2005	82.059	15.11%	0.74%
2006	119.698	22.04%	6.93%
2007	152.65	28.11%	6.07%
TOTAL	542.978	100.00%	

Source: Atwima Kwanwoma Rural Bank Credit Department

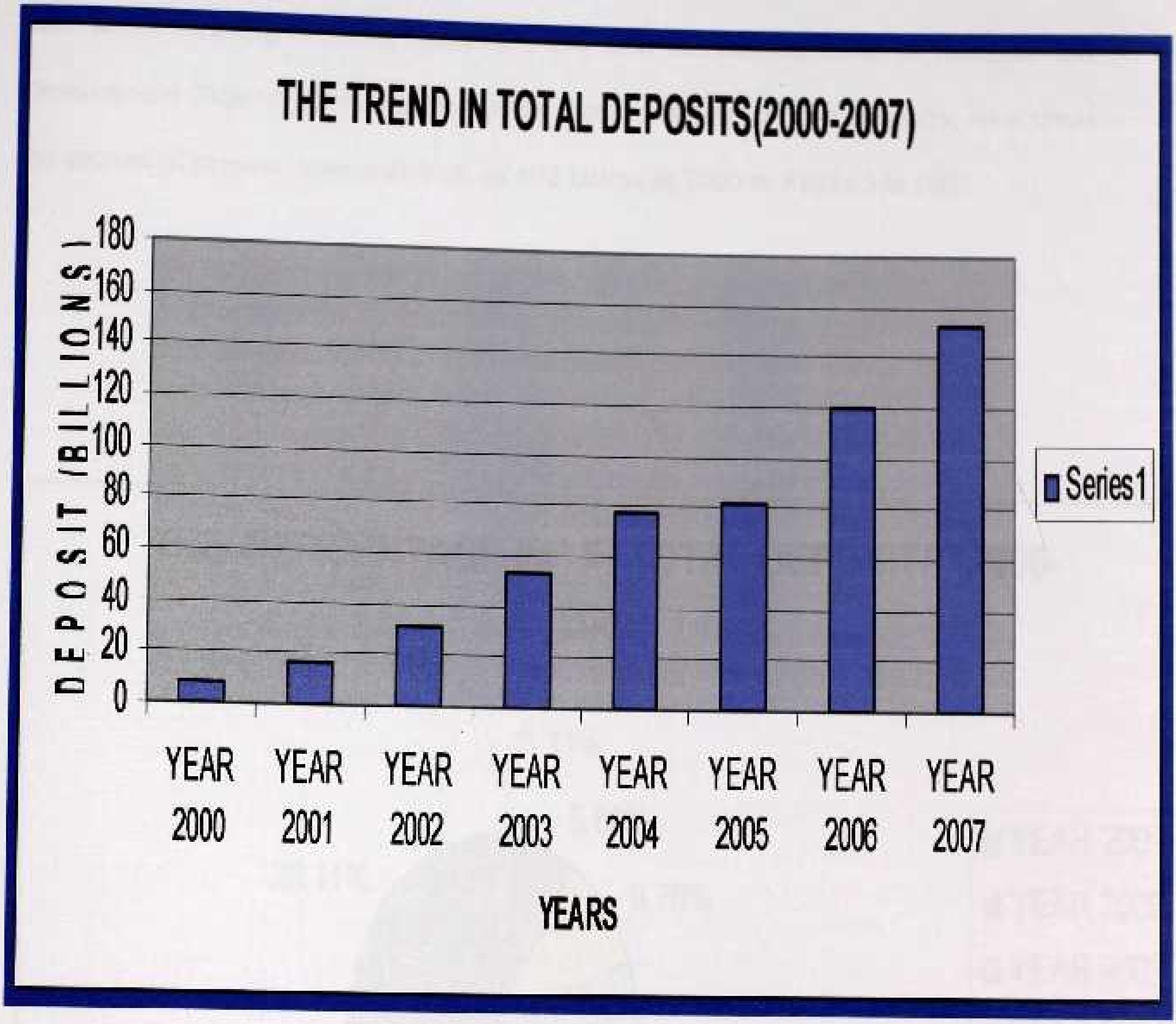
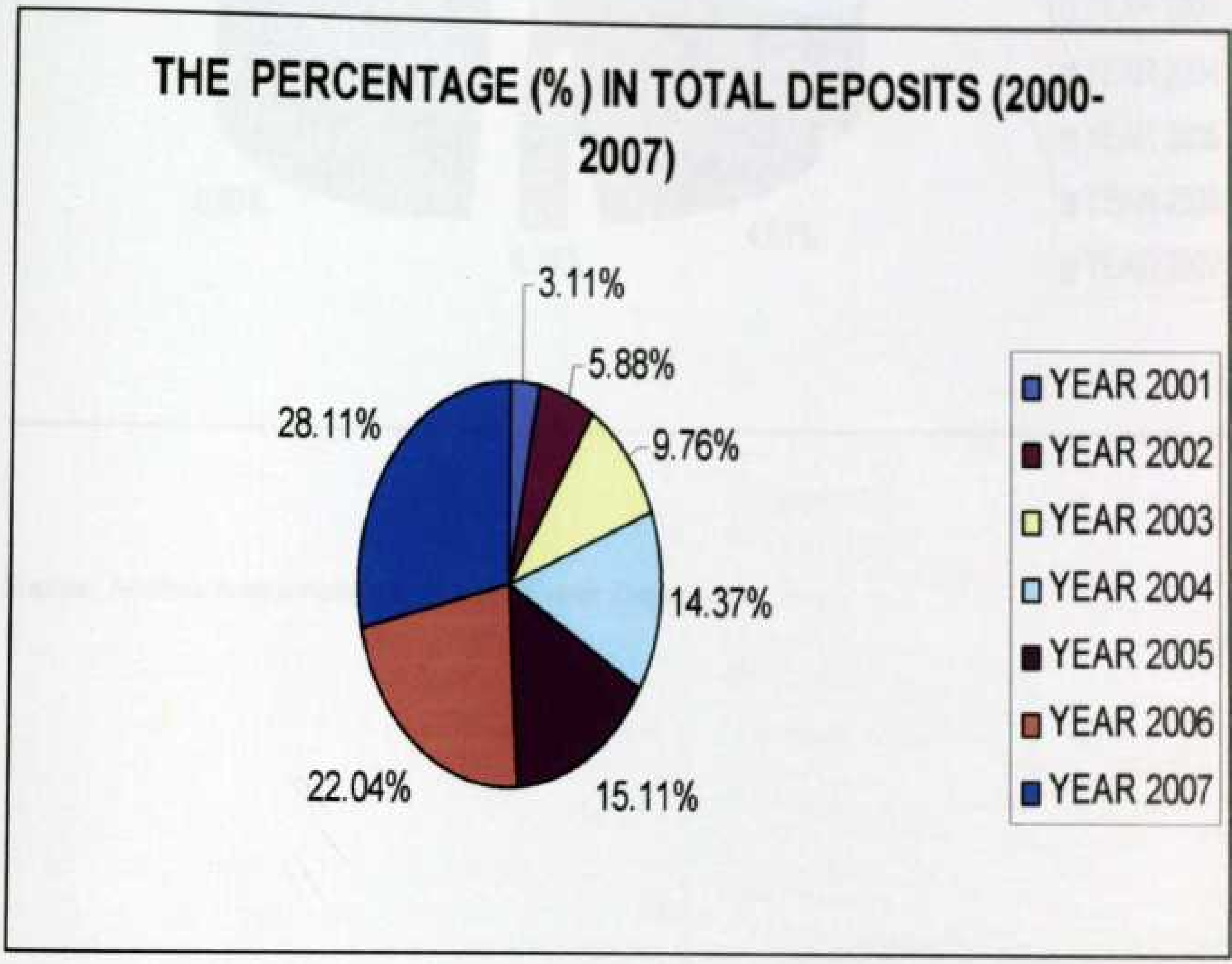


FIG 1

Source: Atwima Kwanwoma Rural Bank Credit Department

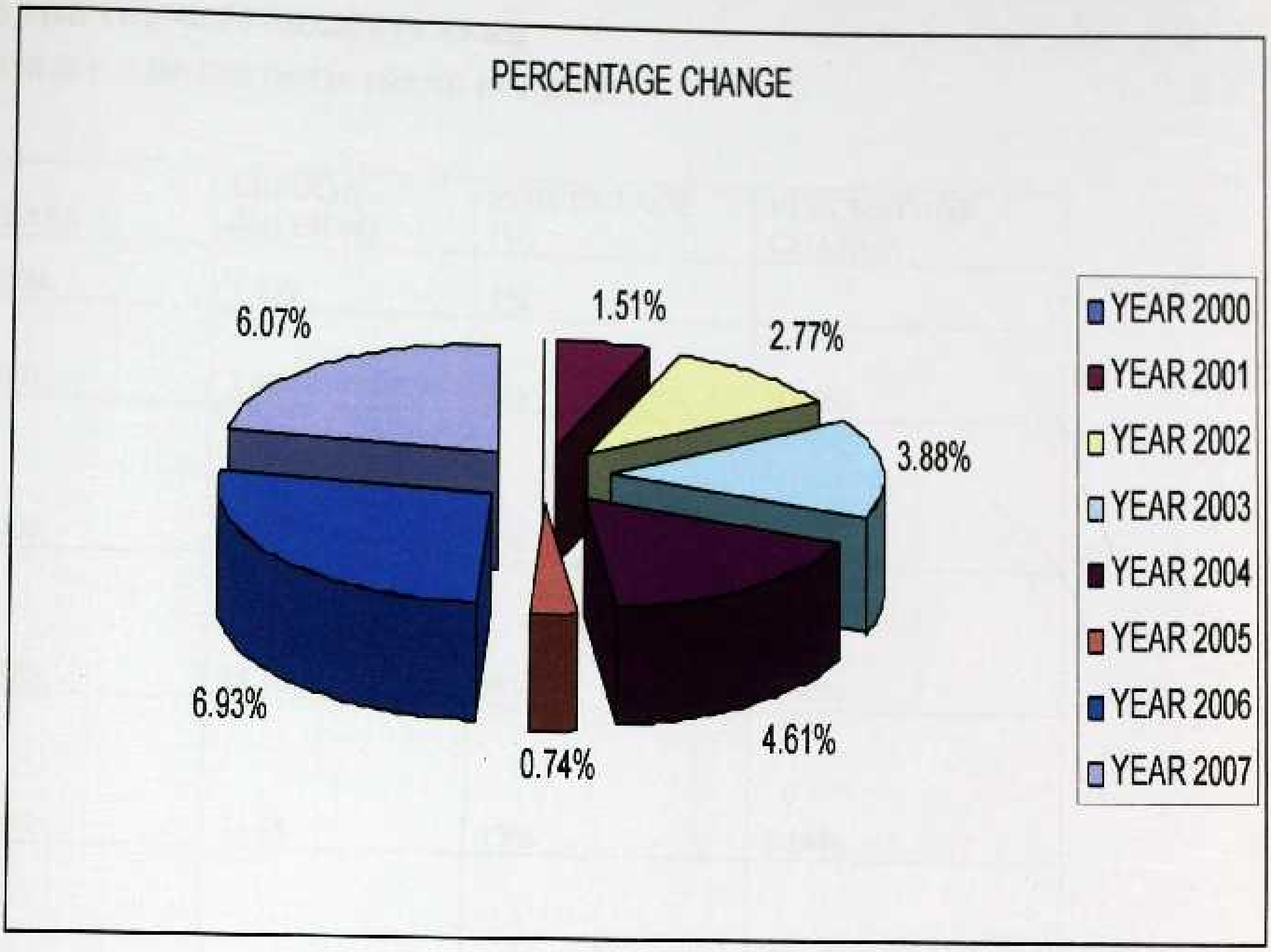
It is observed that total deposits continuously increase over the period shown in Figure 1. The deposit was slow from ¢ 8.692 billion to ¢ 16.888 billion in 2000 and 2001 respectively. However, there was a sharp increase in the deposits from ¢ 31.931 in 2002 to ¢ 78.046 in 2004. This increased may be attributed to establishment of branches in Santasi, Old Tafo, New Tafo and Ayigyi and Atonsu. From 2005 to 2007 also experienced increase in the total deposits. The micro-finance product of the bank takes the staff to the doorsteps of their customers and also the establishment of Business and Development Department which always come out with new savings products. As a result the amount of deposits increased from ¢8.692 billion in 2000 to ¢152.65 in 2007.

FIG 2



Source: Atwima Kwanwoma Rural Bank Credit Department

FIG 3



Source: Atwima Kwanwoma Rural Bank Credit Department

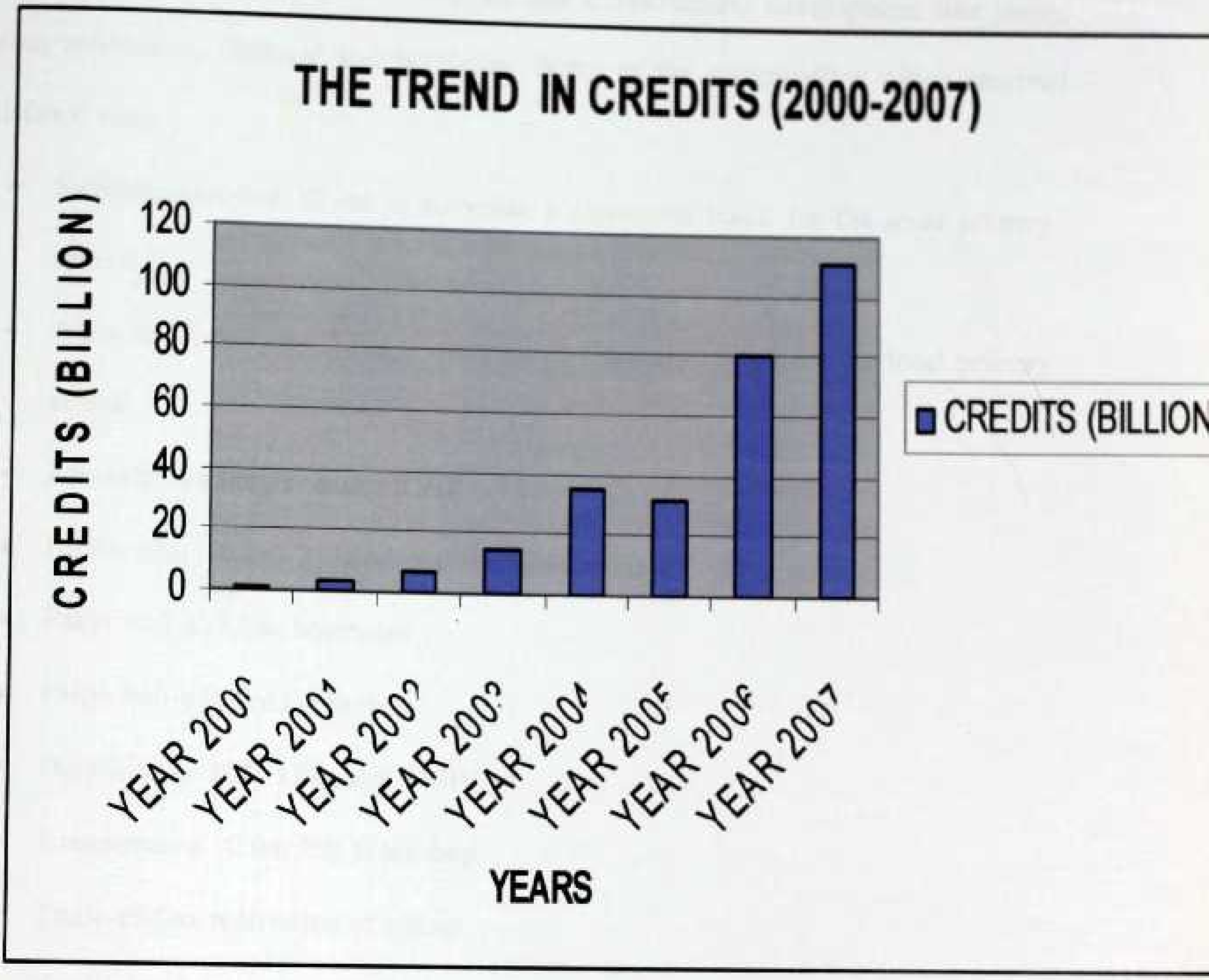
4.5 THE TREND IN CREDIT IN AKRB

TABLE 2: THE GROWTH TREND IN CREDITS

YEARS	CREDITS (BILLION)	PERCENTAGE (%)	PERCENTAGE CHANGE
2000	1.559	1%	
2001	3.429	1%	0.66%
2002	7.35	3%	1.38%
2003	14.428	5%	2.50%
2004	34.65	12%	7.14%
2005	31.649	11%	-1.06%
2006	79.874	28%	17.02%
2007	110.42	39%	10.78%
TOTAL	283.359	100.00%	

Source: Atwima Kwanwoma Rural Bank Credit Department

FIG 4



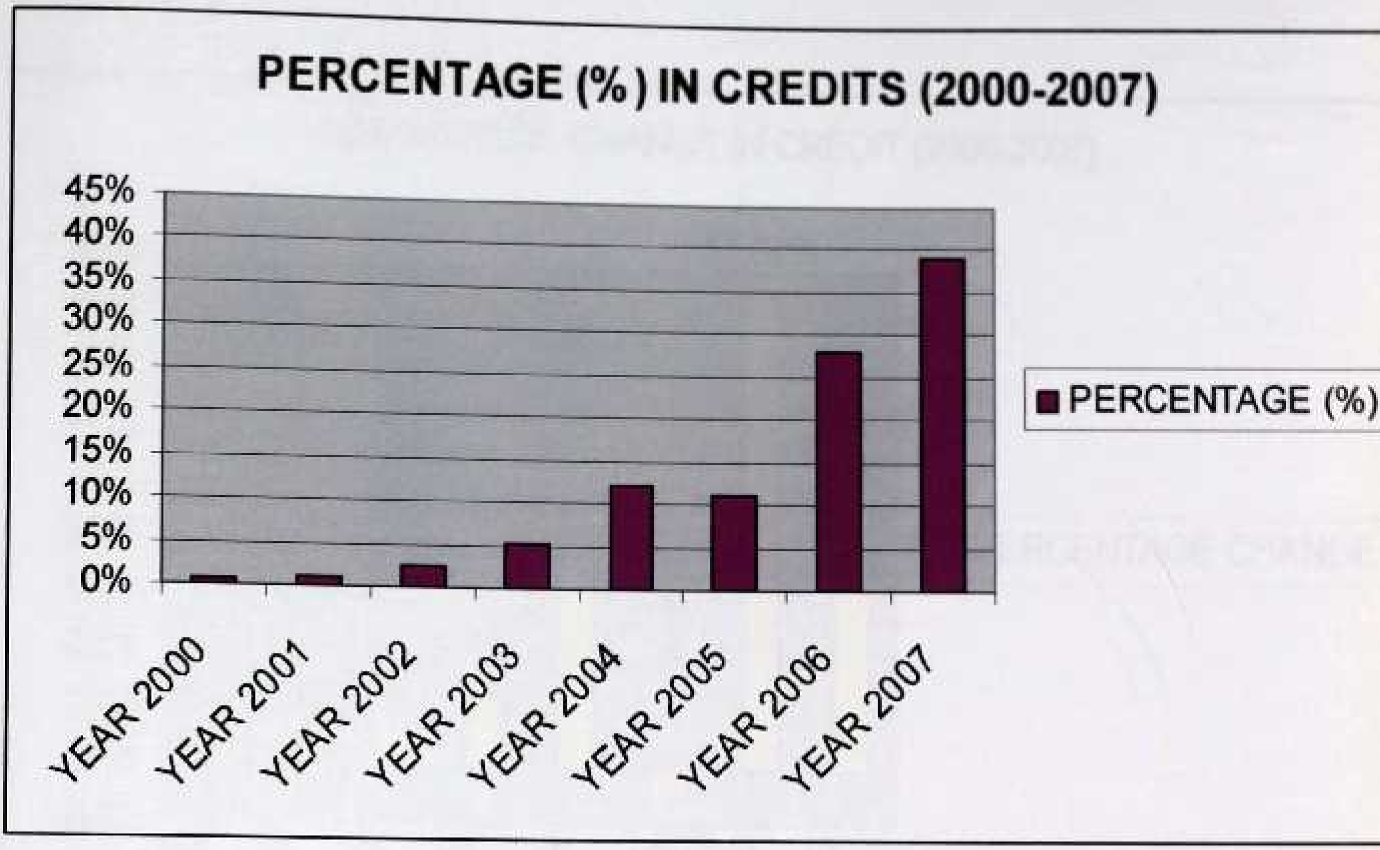
Source: Atwima Kwanwoma Rural Bank Credit Department

It is observed that credits increased over the first four years from ¢1.559 billion in 2000 to ¢ 34.650 billion in 2004 as shown in Figure 2. This increment was due to the fact that the bank did not undertake any massive investment in infrastructure and also less social responsibility took place. However, there was a decreased in credits to ¢31.649 billion in 2005 even though there was an increase in total deposits that year. This fall in credit was due to increase in the bank's social responsibilities like assistance went to hospital support, orphanage, infirmary and the handicapped and infrastructural development like police station renovation, drainage and boreholes. Some of the communities which received assistance were:

- Samanhyiakrom-¢ 10.0m to complete a classroom block for the local primary school.
- Ahenema Kokoben-¢ 8.0m to complete a classroom block for the local primary school.
- Afrancho- ¢8.0m 12- seater KVIP.
- Brofoyedru -10.0m, 2 classrooms for Kindergarten
- Pakyi No2-¢12.0m, boreholes
- Pakyi No1-¢10.0m boreholes.
- Dorminase-¢ 10.0, 12-seater KVIP
- Kwawoma- ¢ 10.0m JSS Workshop
- Trede-¢8.0m, renovation of school
- Konkori- ¢ 8.0m seater KVIP
- SDA Hospital- ¢ 5.0m, TV and deck for educational campaigns.

Also the bank increased credits activities from ¢79.874 billion to ¢110.42 billion in 2006 and 2007 respectively. This increased in credits was due to effective savings mobilization by the bank as a result of establishment,of new department (business and development) which always come out with new products.

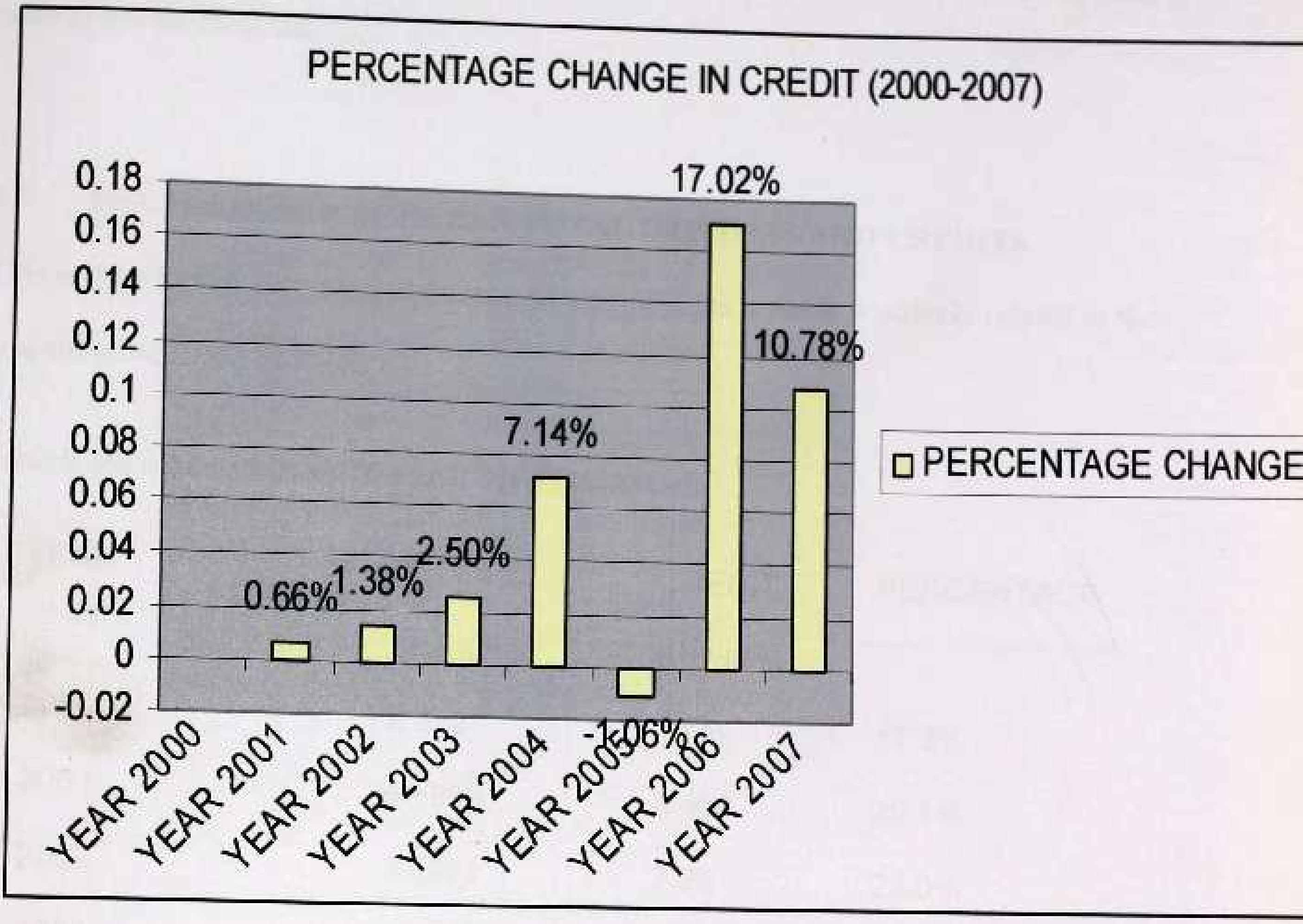
FIG 5



Source: Atwima Kwanwoma Rural Bank Credit Department

It was observed that the bank credit activities increased from the year 2000 to the year 2004 representing 22% for the entire period of study. However there was a fall in 2005 which represent 11% for the period under study due to massive social responsibilities that took place. In the year 2006 and 2007 there was a sharp increased in the bank credit activities representing 28% and 39% respectively. This was due to the fact that the bank established another department (Business and Development) which always come out with new savings products that led to increase in total deposits and hence more were given out as credit.

FIG 6



Source: Atwima Kwanwoma Rural Bank Credit Department

It was observed that the bank credit activities increased from the year 2000 to the year 2004 having a percentage change of 11.68%. However, there was a fall in 2005 giving a percentage change of -1.06%. This was due to massive social responsibilities that took place which made the bank reduced credits. The year 2006 and 2007 recorded the highest percentage change of 17.02% and 10.87% respectively. This was due to the fact that the bank established another department (Business and Development) which always come out with new savings products that led to increase in total deposits and hence more were given out as credit.

4.5 RELATIONSHIP BETWEEN TOTAL DEPOSITS AND CREDITS

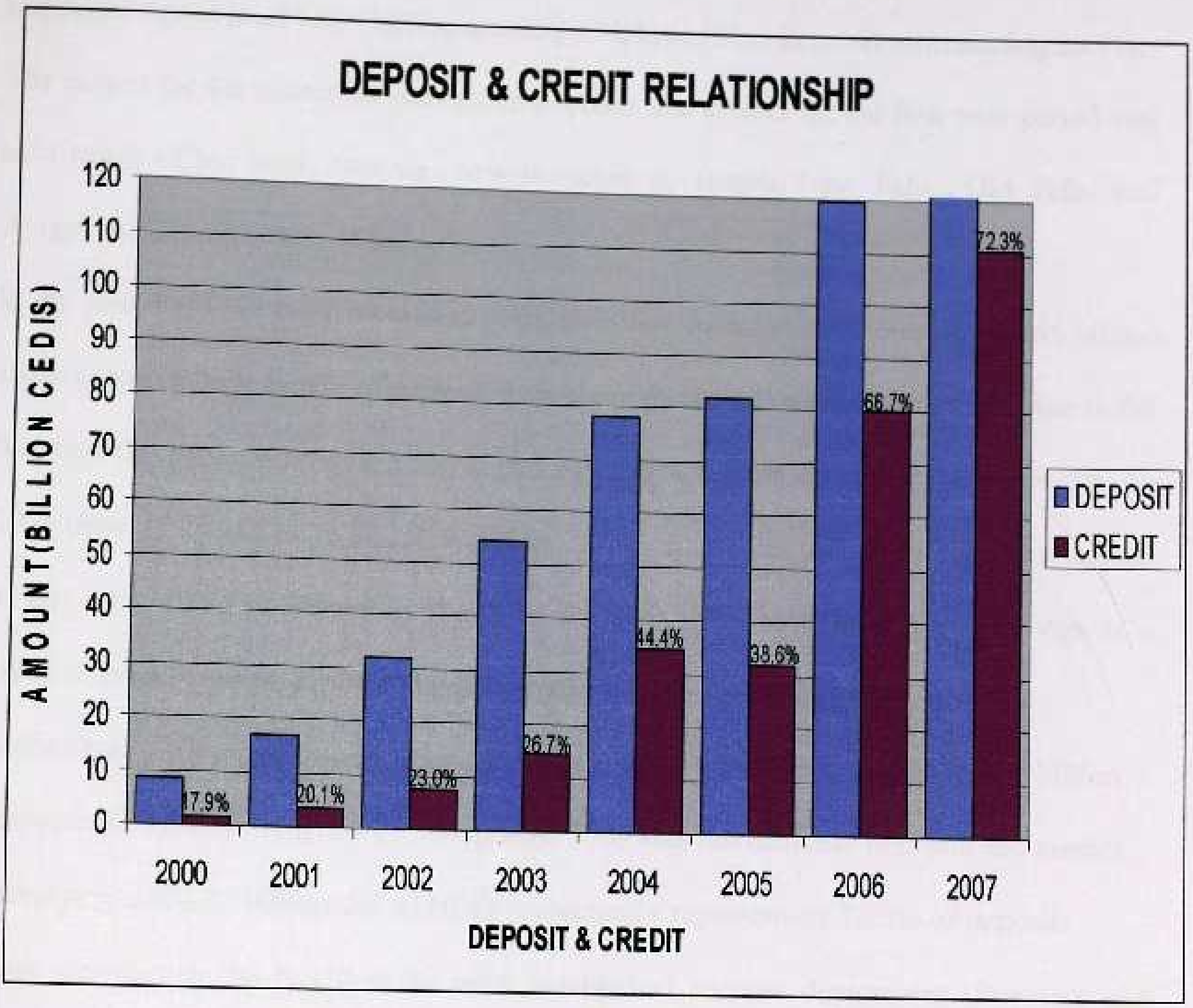
This section tests the hypothesis that the amount of loans made is positively related to the amount of deposit a bank has.

Table3: the relation between the total deposit and loans

YEAR	DEPOSIT BILLION	CREDIT BILLION	PERCENTAGE
2000	8.692	1.559	17.9%
2001	16.888	3.400	20.1%
2002	31.931	7.35	23.0%
2003	54.014	14.428	26.7%
2004	78.046	34.65	44.4%
2005	82.059	31.649	38.6%
2006	119.698	79.874	66.7%
2007	152.65	110.42	72.3%
TOTAL	**543.978**	**283.33**	**52.1%**

Source: Atwima Kwanwoma Rural Bank Credit Department

FIG 7



Source: Atwima Kwanwoma Rural Bank Credit Department

The relationship between deposits and credit over the period under review showed that the bank improved its deposits year after year. In the year 2000 the bank mobilized ¢8.692billion in deposit but created ¢1.559 billion credits representing 17.9% of deposit. Mobilisation of deposits increased again in 2001 with ¢16.888billion as against credit of ¢3.400 billion representing 20.1% of the deposit. The bank's deposit mobilization drive appreciated again in 2002 with an amount of 31.931 billion and created an increase in credit of ¢7.350 billion representing 23.0%. The deposit increased again in 2003 with an improved figure of ¢54.014 billion creating ¢14.428 billion in credit representing 26.7%. The reason for the continues increase in deposits and credits for the four year period was as a result of the bank opening new branches at Atonsu, New Tafo , Old Tafo and Ayigya all in the Kumasi Metropolis.

In the year 2004 the bank mobilised ¢78.046 billion in deposit but created ¢34.65 billion credits representing 44.4% of deposit. This sharp increased in credit given was due to the fact that the bank undertook a lot of promotional activities on radio, television etc. In 2005 deposits increased to ¢82.059 billion. However, credit creation in 2005 depreciated to ¢31.649 billion representing 38.6% of deposits. This reduction in credits was as a result of bank's policy to divert funds to their social responsibility programmes.

In the years 2006 deposits and credits increased to ¢119.698 billion and ¢79.874 billion respectively representing 66.7% of deposits. 2007 was not different deposits and credits increase to ¢152.65 billion and ¢110.42 respectively representing 72.3% of deposits. This was due to the fact that the bank established another department (Business and Development) which always come out with new savings products that led to increase in total deposits and hence more were given out as credit.

4.6 CHAPTER SUMMARY

This long assay seeks to assess the impact of savings on credits of Atwima Kwanwoma rural bank from 2000-2007. Both financial and non-financial analysis was used to assess the impact of savings on credits.

Under the non-financial analysis there were interest charges by the bank, eight steps taken by the bank in the processing of loan and money transfer services.

The analysis of total deposits revealed that savings had increased from ¢8.692 billion in 2000 to ¢152.65 billion in 2007. The analysis of credits also revealed that credits had increased from ¢1.559 billion in 2000 to ¢110.42 billion in 2007. Also with the used of descriptive analysis to find out the relationship between the total deposits and credits established that there is a positive relation between the two variables.

CHAPTER FIVE: SUMMARY, RECOMMENDATIONS AND CONCLUSION

5.0 INTRODUCTION

This chapter summarises the findings of the research and conclusion drawn and recommendations made as per the objectives of the research in chapter one. It also gives some recommendations that may help to improve savings mobilisation for poverty alleviation and national development.

5.1 SUMMARY OF RESEARCH FINDINGS

From the analysis of the data in the previous chapter ,the main findings are presented below.

1. The Atwima Kwanwoma Rural Bank Ltd has developed from a small unit bank into an agency banking and mobilizing the bulk of its total deposit from their agencies. The development has been so rapid mainly because it operates under a rural and urban environment.

2. The success in mobilizing savings has resulted in an increase in the granting of loans from 1.559 billion cedis in 2000 to 110.42 billion cedis in 2007.

3. The analysis also showed that there is a positive relationship between total deposits and credit because as deposit increase, credit also increases.

4. The Rural Bank's classification of December 2003 by the Bank Of Ghana showed that the Atwima Kwanwoma Rural Bank Ltd emerge as the first rural bank among all the one hundred and twenty-five (125) rural banks in the country in terms of investments, deposits, lending and total assets.

5. The bank adopted an internal measure approach to monitor the value added at each stage along the vertical chain of lending activity. The internal measure adopted by the bank was in line with the purpose of Basel 11.

6. From the analysis, the Atwima Kwanwoma Rural Bank is faced with challenges associated with growth and expansion. These include;

- The maintenance of the first position of being the leading rural bank in the country.
- How to come out with attractive packages of new products or repackaging old products to increase the savings mobilization of the bank.
- A monitoring system to maintain and improving the image of the bank.

5.2. RECOMMENDATIONS TO ATWIMA KWANWOMA RURAL BANK

Based on the findings addressed in section 5.1 of this chapter the following recommendations are made.

1. Rural banks should consistently educate the rural people in the catchment's area on the benefits of savings and also encourage them to save.

2. Rural banks should continue to intensify the introduction of more innovative banking products in the view of the rapid changes and the competition in the banking industry.

3. It is also imperative for constant revision of the minimum deposit with high interest rates on savings by rural banks to reflect current economic conditions so as to make savings more attractive especially to rural and low income earners.

4. The Bank of Ghana should source for more funding especially for the agricultural sector and channeling them through the rural banks to be equally distributed to farmers in the rural areas.

5. To enhance the ability of a lending department to review a borrower's capacity and condition, the bank should provide more training programs in business strategy and organizational management to the employees in the lending department.

6. The bank can enhance credit discipline by the involvement of experienced credit professionals in the approval process who are independent of line lending functions. Such staff can play a vital role in ensuring adherence to formal policies of the institution. These independent credit professionals can be most valuable if they have the authority to reject a loan that does not meet the institutions credit standards, or alternatively, if they must concern with a loan before it can be approved.

7. The bank can also help ensure a careful loan approval decision by requiring thorough and standardized loan approval documents. Thoroughness can be enhanced by requiring formal analysis of the borrower's financial analysis of entities providing support or guarantees, and formal forward-looking analysis appropriate to the size and type of loan being considered. In cooperating such elements into standardized formats, and requiring that analysis and supporting commentary be complete and in adequate, allows approving authorities access to all relevant information on the risk profile of the borrower.

Loan approval documents should also include all materials details on the proposed loan agreement itself, including key financial covenants.

Standardization of formats and to some extent content can be useful in assuring that all relevant information is provided to management and other approving authorities, and in a manner that is understandable. Standard formats also draw attention to cases in which certain key information is not presented.

8. The management information systems of the bank that support the loan approval process should clearly indicate the composition of the banks current portfolio and/or exposure, to allow for consideration of whether a proposed new loan regardless of its own merits might affect this composition sufficiently to be inconsistent with the bank's risk appetite.

   In addition to portfolio information, the bank should acquire or develop information systems that provide ready access for lenders and credit analysis of proposed loans. Depending on the nature of the bank borrowers, appropriate information sources may include industry financial data, economic data and forecasts, and other analytical tools such as bankruptcy scoring and default probability models.

9. The lending system should be structured in such a way that timely repayment of an initial loan should qualify the borrower for bigger amounts of loans. This will serve as an incentive for prompt repayment of loans.

And also a percentage of loans granted should be set-aside at the time of disbursement as compulsory savings to be used as "insurance guarantees".

Further study regarding team decision as well as the separation of decision management and control of lending inside a bank organization might be two of the directions future research can take regarding the prevention of employee fraud to increase profitability.

5.3 CONCLUSION

The key motives to use deposit facilities are the safety and security of the savings, easy and immediate access, and a positive real return. It is commonly agreed that poor people have a significant capacity to save, proven by the existence of various informal savings mechanisms found throughout the world and by a few recent empirical studies. It is further understood that many people, particularly in rural households, are obliged to save during certain times of the year, such as harvest, in order to compensate for periods when their income is drastically reduced, such as the dry season. It is widely accepted that though only a certain number of people will need credit at any given time, virtually all people will need to save at any given time. We can therefore conclude that poor people will deposit their savings in a financial institution if an appropriate institutional structure and appropriate savings products exist to the depositor's mix of savings needs.

In accessing the impact of savings on credits of the Atwima Kwanwoma Rural Bank Ltd, it is an undeniable fact that it has improved upon its mode of savings mobilization and credit allocation tremendously since the year 2000 to 2007. The study also indicated that there was a positive relationship between savings and credits. What is left is for the bank to extend their outreach as well as the size of credits to make their impact on the rural banking concept more meaningful in reducing poverty and for national development.

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ATWIMA KWANWOMA RURAL BANK
PROFIT AND LOSS ACCOUNTS FOR THE YEAR ENDED 31ST DECEMBER....

	2000 ¢	2001 ¢
Interest Income	2,368,316,714.00	4,751,995,113.00
Interest Expenses	523,510,323.00	820,997,800.00
NET INTEREST INCOME	**1,844,806,391.00**	**3,930,997,313.00**
Commission and Fees	190,283,098.00	316,939,158.00
Other Income	17,095,690.00	552,940,541.00
TOTAL INCOME	**2,052,185,179.00**	**4,800,877,012.00**
Charge for Bad and Doubtful Debts	39,376,378.00	128,183,165.00
Operating Expenses	1,325,262,220.00	2,775,489,750.00
TOTAL EXPENSES	**1,364,638,598.00**	**2,903,672,915.00**
PROFIT BEFORE TAX	**687,546,581.00**	**1,897,204,097.00**
National Reconstruction Levy	-	-
Taxation	80,384,475.00	153,552,773.00
PROFIT AFTER TAX	***607,162,106.00***	***1,743,651,324.00***
	1,254,321,785.67	

BALANCE SHEET

ASSETS	2000 ¢	2001 ¢
Cash and Short Term Funds	1,100,751,993.00	2,967,086,521.00
Short Term Investment	7,070,000,000.00	13,000,000,000.00
Advances	1,382,411,600.00	3,191,542,571.00
Other Assets	368,025,351.00	358,243,054.00
Investments in Subsidiary	-	20,000,000.00
Fixed Assets	581,733,363.00	1,038,977,079.00
TOTAL ASSETS	***10,502,922,307.00***	***20,575,849,225.00***
LIABILITIES AND SHAREHOLDERS FUND		
Deposits and Current Accounts	8,692,490,698.00	16,888,231,975.00
Creditors and Accruals	488,186,290.00	596,350,398.00
Borrowings	-	-
Taxation	37,946,455.00	90,552,774.00
Others	63,352,610.00	35,442,460.00
TOTAL LIABILITIES	**9,281,976,053.00**	**17,610,577,607.00**
Stated Capital	230,704,546.00	337,162,506.00
Capital Grants	-	-
Statutory Reserved	316,040,293.00	536,417,958.00
Income Surplus	614,201,415.00	1,891,691,154.00
Other Funds	60,000,000.00	200,000,000.00
SHAREHOLDERS' FUNDS	**1,220,946,254.00**	**2,965,271,618.00**

ATWIMA KWANWOMA RURAL BANK LTD.

BANK'S PROFILE

INDICATOR YEAR	2001	2002	2003	2004	2005	2006	2007
TOTAL DEPOSIT	16.888 Billion	31.931 Billion	53.014 Billion	78.046 Billion	82.059 Billion	119.698 Billion	152.65 Billion
NO. OF CUSTOMERS	34,487	44,423	50,538	64,373	66,498	86,553	102,404
NET ADVANCES	3.429 Billion	7.350 Billion	14.428 Billion	34.65 Billion	31.649 Billion	79.874 Billion	110.42 Billion
TOTAL ASSETS	21.312 Billion	37.623 Billion	62.724 Billion	97.48 Billion	108.602 Billion	157.670 Billion	208.24 Billion
INVESTMENTS	13.0 Billion	19.0 Billion	32.326 Billion	40.56 Billion	44.560 Billion	38.40 Billion	33.0 Billion
ORDINARY SHARES	301.595 Million	544.37 Million	856.86 Million	1.233 Billion	2.785 Billion	2.909 Billion	2.97 Billion
NET PROFIT	2.152 Billion	1.293 Billion	3.625 Billion	7.432 Billion	7.641 Billion	7.942 Billion	11.55 Billion