

**THE ROLE OF BOARD OF DIRECTORS AND MANAGEMENT IN EFFECTIVE
CREDIT ADMINISTRATION: CASE STUDY OF FIASAMAN RURAL BANK LTD**

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DECLARATION

I hereby declare that this submission is my own work towards the award of Commonwealth Executive Master of Business Administration (CEMBA) 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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ABSTRACT

The banking sector has grown rapidly in recent times and has witnessed tremendous performance in the areas of lending. Granting of loans and overdrafts has always represented the largest commitment of funds to various customers of banking institutions. However, effective credit administration has always become a major problem particularly to the Rural Banks in Ghana.

The general objective of the study is to establish how effective credit administration is handled by the BOD, Management, Credit Staff and Auditing Staff would enhance credit operations in Rural Banks in Ghana. The specific objectives are also to examine the lending policies of the bank, to find out why some customers find it difficult paying their loans. The study also examines the measures adopted by the Rural Banks in recovering credits granted to customers and also make suggestions and recommendations that would inform sound policies for effective credit administration. The researcher used questionnaires and interviews in gathering information for this work. Questionnaires were issued to the Board of Directors, General Manager, Customers, Branch Managers, Credit Officers and Internal Auditors. All of these people were also interviewed. The findings revealed that only three BOD are involved in the approval of loans and only two Credit Staff at the Head Office are trained. Those Credit Officers at various branches are not trained. There is also the problem of cash security being provided by loan customers. The interest rates and commitment fees are high. Also most of the loans were given to salaried customers to the detriment of agriculture and cottage industry. The study also revealed that the rate of bad debt was high due to cocoa loans which were not paid in the year 2008. In conclusion, it is an evident that the Bank's loan portfolio contained almost loans and advances made of salaried workers which has low default rate and higher repayment. Nevertheless the bank has to pay much attention to other sectors since mining in the area can come to an end.

DEDICATION

This work is dedicated to my lovely wife Sophia Kanra and children, McDonnell Agyiri, Sabina Agyiri, Fred Agyiri and the staff of Fiaseman Rural Bank Ltd Prestea Branch.

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My appreciation goes to all parties whose diverse contributions enabled me complete this work successfully.

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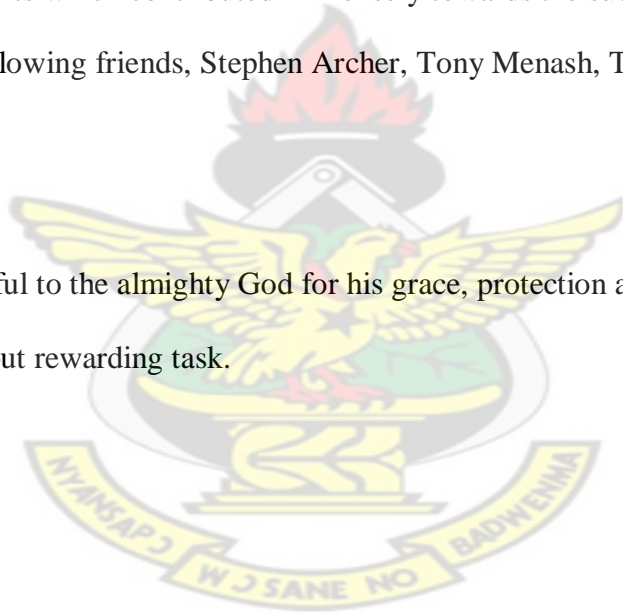


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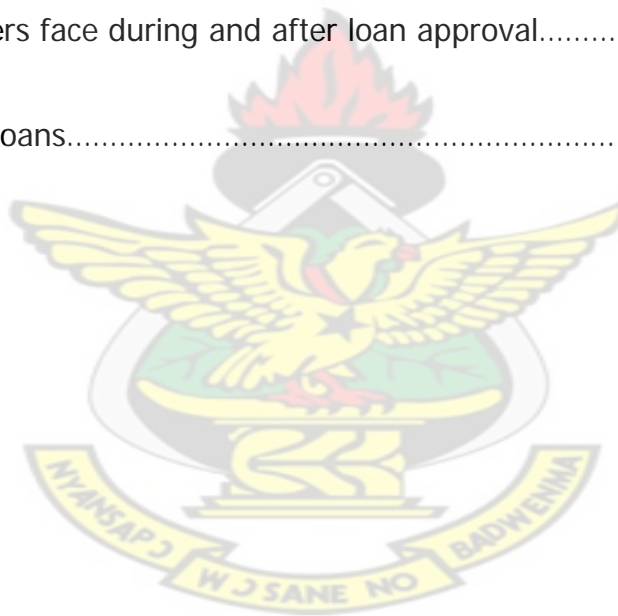
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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Loans and advances made to personal customers constitute the largest proportion of assets of retail and rural banks and the interest accrued on them forms the main source of revenue to such banks (Inkoom, 1998). Rural Banks' incomes which are derived from loans and overdrafts in the form of interests and commitment fees constitute more than fifty percent of total income earned in any financial year (Bank of Ghana, 2004).

Ghana, like other Sub-Saharan African countries, has traditionally experienced low productivity, low income levels, low domestic savings, unemployment and malnutrition. In 1976, the Ghanaian government, through the Bank of Ghana, established Rural Banks to channel credit to productive rural ventures and promote rural development. Rural development is a strategy intended to improve the economic and the social life of the rural poor (World Bank, 1975). Rural credit has been used in Ghana to enable the poor to weather shocks without selling the productive assets the poor needs for protection against future shock (FAO, 1994).

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 the small farmers producing

about 90% of foodstuffs, credit facilities to them are grossly inadequate. The farmers' co-operatives and associations have not developed into dependable sources of credit for them.

1.1. BOARD OF DIRECTORS

Board of Directors (BOD) forms the highest level of authority in the governance of a company and includes elected individuals who represent the interest of the shareholders. They ensure that the strategic decisions of the Chief Executive Officer (CEO) best protect and benefit anyone who has equity ownership in the business. For non-profit organizations, the BOD serves the interests of the public and the organization. Under the guidance and scrutiny of a BOD, the CEO strategically aligns resources to achieve the company objectives in the most efficient way.

The BOD becomes fiscally accountable. It sets the amount of dividends paid to the shareholders and how much fund is reinvested into the company. Furthermore, BOD members need to ensure that the financial disclosures are accurate and truly represent the state of the company. This accountability is enforced by the Sarbanes-Oxley Act of 2002 that created the Public Company Accounting Oversight Board (PCAOB) that can audit the financial reports of companies and flag accounting fraud that may result in penalty fines and sometimes imprisonment.

On October 4, 2010, the Basel Committee on Banking Supervision issued a final set of principles for enhancing Corporate Governance in the sector. The principle states the practices of Board management which emphasis on the ultimate responsibilities of BOD which includes risk strategy, organizational financial soundness and governance.

The Board is trusted with fiduciary responsibilities which encompass three legal duties: care, loyalty and obedience. It must act in good faith and for the interest of the shareholders and the organization. It must also keep the good name of the organization in mind and not base the decision on personal interests, and finally, the Board must obey the policies stated in the governing documents of the corporation (bylaws) and the regulation of the industry.

Lending is a very essential role performed by most financial institutions in Ghana which all Rural Banks are of no exception. Granting of credits either in the form of loans or overdrafts represent the largest commitment of funds to various customers of financial institutions. Credit granting brings the largest income to financial institutions in their various operations.

Nevertheless, it is through lending that all financial institutions face the problems of credit recovery from their various customers resulting into bad debt which has caused a lot of both Commercial and Rural Banks into liquidation. Some Banks find it difficult to pay dividends to their shareholders and in some cases, unable to expand their operations to other areas. Some Rural Banks find it difficult to pay realistic salaries to

their staff. Most Rural Banks incomes are derived from loans and overdrafts in the form of interest and commitment fees which form more than fifty percent of total income earned at any financial year. (BOG, 2004).

The Ghanaian banking industry is characterized by relatively a wide mix of ownership structure and by differences in clientele base. Bank of Ghana is the country's Central Bank and is responsible for issuing the national currency. The financial system in Ghana falls into three main categories: formal, semi- formal and informal. The commercial banking system which is dominated by a few major banks among the total of 19, reaches only 5% of households most of which are constrained by high minimum deposit requirements. There is approximately 60% of money supply outside the commercial banking system (World Bank, 1994).

The Rural Banks, savings and loans companies, and the semi- formal and informal financial systems play particularly important roles in Ghana's private sector development and poverty reduction strategies. The assets of Rural and Community Banks are nearly 4% of the commercial banking systems, with savings and loans and credit unions adding 2% (World Bank, 1994). While the term "Rural and Micro Finance Industry" is used to refer collectively to the full range of these institutions, they use different methodologies to reach different clientele among farmers, rural households, the poor

and micro enterprises, and hence different regulatory and supervisory instruments may be required.

At the end of the year 2004, there were seventeen banks in Ghana (BOG, 2004). These consisted of nine commercial banks, five merchant banks, and three development banks. The nine commercial banks were: Ghana Commercial Bank, Social Security Bank, Barclays Bank Ltd, Metropolitan and Allied Bank Ltd, Standard Chartered Bank Ltd, Stanbic Bank Ltd and Uni- Bank Ltd. Others were the Trust Bank and International Commercial Bank Ltd. The merchant banks include: Merchant Bank Ghana Ltd, Ecobank Ghana Ltd, CAL Merchant Bank Ltd, First Atlantic Bank Ltd, and Amalgamated Bank. The development banks include Agriculture Development Bank, National Investment Bank and Prudential Bank Ltd. However, about 25% of total assets and 20% of deposits are held by a single state- owned commercial bank, the Ghana Commercial Bank (GCB). The development banks and merchant banks, which focus on medium and long term financing and corporate banking respectively, together share about 30%. The five small commercial banks operate on a much smaller scale. Foreign investors hold about 53% of total shares in eight commercial banks which is below the Sub- Saharan Africa average, and three banks are state –owned (Bank of Ghana, 2004).

The Banking sector grew rapidly between 1996 and 2000, reflecting partly financial deepening as well as loose monetary conditions. After reaching 44% in the year 2000,

the ratio dropped to 38% at the end of the 2002 as the trend of financial deepening resumed (Bank of Ghana, 2004). As at September 2001, net loans constituted 38% of total assets as banks preferred to invest their resources in liquid, low- risk assets such as government securities, the later constituting 25% of total assets, (Amoah, 2004).

1.2. STATEMENT OF THE PROBLEM

The banking sector has grown rapidly in recent times and has witnessed tremendous performance in the areas of lending. Granting of loans and overdrafts has always represented the largest commitment of funds to various customers of banking institutions. However, effective credit administration has always become a major problem particularly to the Rural Banks in Ghana.

In spite of the fact that rural credit has been used to assist Rural Bank customers, most customers fail to honor their financial obligations to the banks. As a result, most Rural Banks have a high rate of bad debt provision in their financial statements. Therefore BOD and Management of Rural Banks have to administer their credit portfolio through sound credit policies formulated by Board of Directors and being implemented by Management, Credit Staff and Internal Auditing Staff of the various Rural Banks to avoid the expansion of the level of bad debts that have the potential of drawing the Rural Banks into liquidation.

It is for this reason the study is conducted in order to come out with recommendations that would enhance the implementation of policies that would ensure effective credit administration by the Rural Banks in Ghana.

1.3. OBJECTIVES OF THE STUDY

The general purpose of the study is to establish how effective credit administration handled by the Board of Directors, Management, Credit Staff and Auditing Staff would enhance credit operations in Rural Banks in Ghana. The specific objectives of the study are:

- I. To examine the lending policies of the Rural Banks and the period of processing of credit applications,
- II. To examine why customers find it difficult to pay their credit on schedule;
- III. To identify the measures adopted by the Rural Banks to recover credits granted to customers
- IV. To identify the credit recovery rates of the Rural Bank under study and its credit portfolio management;
- V. To make suggestions and recommendations that would inform sound credit policies for effective credit administration by the Rural Banks.

1.4. RESEARCH QUESTIONS

- What is the role of BOD in the formulation of credit policies for the Bank?
- What procedures used by Board of Directors and Management in granting credit to customers?
- Who qualifies to obtain credit and the conditions to be fulfilled before facility is granted?
- Who ensures that credit granted to customers are paid back on schedule?
- Which credit portfolio poses problems for effective credit administration in the bank?
- What is the credit recovery rate of the Bank for the past four years?
- What are customers' response to credit repayment in relation to Bank charges and repayment periods?

1.5. SIGNIFICANCE OF THE STUDY

- Justification of the study lies in the fact that it will create an opportunity for other researchers who might have access to this work to identify or know Rural Banks procedures for granting credits.
- It will also serves as a document for other researchers who may write on the same topic.
- This will help those who will have access to this work know how Rural Banks administer their credit portfolio.
- Will help other researchers to identify measures that Rural Banks Management, Board of Directors and Credit Staff put in place. This is for effective credit administration and to avoid bad debts.

1.6. ORGANIZATION OF THE STUDY

The study is organized into five chapters. Chapter one stated the background of the study, profile of the study company, the objectives of the study, research questions, significance of the study, scope, limitations and organization of the study. Chapter two focuses on review of relevant literature while Chapter Three explains the research design and methodology used. Chapter Four dealt with data presentation and discussions. Chapter Five dwelt on the summary of the findings, recommendations and conclusion of the study.

1.7 LIMITATION OF THE STUDY

Time was a limiting factor for this work. Access to data was also a constraint in view of the confidentiality of financial information to both customers and researchers. This limitation was reduced by relying on published annual reports and other documents which are available to the public. Nevertheless, the researcher's good relationship with the Bank as Staff assisted in getting some information. Another limitation was funds for the study. A lot of funds were used in accomplishing the work. This is in the areas of telephone calls, travelling to head office, visiting my supervisor and other miscellaneous expenses. In spite of all these, the study has been completed.

LITERATURE REVIEW

2.1. INTRODUCTION

This chapter covers the literature review of the research work.

2.2. THE CONCEPT OF RURAL BANKING SYSTEMS AND RURAL CREDIT

Ampah (1996) argues that the idea of providing credit facilities to the rural folks for economic activities has been a problem for policy making in Ghana since 1963. According to Ampah (1996), the rural credit scheme of Bank of Ghana (BOG) established in 1964 was aimed at solving this problem of credit inadequacy of the rural dwellers. The scheme was to study the problems involved in cottage industries, agriculture and small scale business activities. The government later found that the rural communities did not benefit because the credit scheme was not assisting them to achieve the desired goal.

In 1978, by Act 355 of parliament, a rural development fund was set up with an autonomous Ministry called the Ministry of Rural Development. The main task of the Ministry was to carry out development projects to improve economic activities in the rural areas in Ghana. Attention was to focus on the agricultural sector where most of the farmers are poor and practice peasant farming and small livestock. These farmers need to be supported financially through credits in the form of loans and the provision of farming inputs so as to improve upon their economic livelihood. The problem of rural

credit led to the establishment of rural banks in the country in 1976 to provide credit facilities to farmers, artisans, cottage industrialist and petty traders (Anaman 1998). Among the services that the rural banks are to provide are savings mobilization, granting of credit, safe keeping of valuable items, provision to support the various rural communities and the payment of dividend to shareholders.

2.3 THE CONCEPT OF LENDING AND LOAN SYSTEMS

Any business success is determined by the way it turns its limited resources and distribute them to society leading to growth and development. Addeah, (1998) defined business of banking as acceptance of deposits of money from the public which is payable on demand by the use of cheques, savings withdrawal form, Payment Order and Bankers draft. Appleby (1994), argues that granting of credit facilities form the most indispensable banking business. (1994). He argues further that without loans and overdrafts, business activities of banks cannot thrive on successfully. The sources of banks' income are derived from credits given to their customers. This income is in the form of interest and commitment fees charged on credits to customers. It is therefore important that rural banks manage their credits very well through proper credit policies, good recovery methods and efficient monitoring system.

2.4. BORROWER DEPENDENCE ON BANKS

The view that some borrowers are dependent on banks for financing stems from economic models of asymmetric information that help explain credit market

imperfections. The central idea is that the costs of obtaining information about a firm's condition, as well as bankruptcy costs, are differentially greater for smaller firms (Diamond 1984; Fama, 1985). Thus, small firms find it more difficult and more costly to obtain credit. In addition, a special feature of banks is that they may have a comparative advantage over other intermediaries in information processing and monitoring that enables banks to lend to smaller firms at lower cost (Thakor, 1995; Swank, 1996; and Neuberger 1998). These theories provide a rationale for observing differences in large and small firm financing.

Generally speaking, larger firms have a greater array of financing options, including equity, long-term debt, and short-term debt, in addition to bank loans and internal cash flow. In contrast, smaller firms appear to have much less access to capital markets and depend more on bank loans, trade credit, and internal funds for financing (Marsh, 1982 and Abor, 2004). This means that the greater dependence of smaller firms on bank financing, in turn, suggests they may be more vulnerable than larger firms to disruptions in credit availability.

A number of studies have provided evidence that these credit market imperfections may explain differences in behavior of small and large firms during periods of tight credit. For example, small firms appear to account for a larger share of the decline in manufacturing activity and reduced inventory demand that follow a monetary tightening (Gertler and Gilchrist 1994).

Similarly, small firms appear to have less access to bank and non-bank external finance in periods of monetary tightening (Oliner and Rudebusch 1994). This behavior is consistent with the view that restrictions in the availability of bank credit could have macroeconomic consequences by affecting the investment and spending decisions of bank-dependent borrowers. This gives a clear indication that credit administration for all banks is very indispensable for economic growth in all the sectors of the economy and should be seriously considered by the board of directors and management.

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2.5. BANK PORTFOLIO BEHAVIOR

One approach to identifying a bank lending channel is to see how Banks alter their assets and liabilities during periods of monetary restraint. Accordingly, a number of studies have examined how banks adjust loans, securities, and deposit and non-deposit liabilities to changes in monetary policy. Several stylized facts about bank portfolio behavior have emerged from this line of research (Bernanke and Blinder 1992; Romer and Romer 1990). First of all, in response to a tightening of policy, bank transactions deposits or core deposits fall immediately, then total Bank loans decline, but only after a significant lag of two to three quarters. Subsequently, Banks are able to maintain lending in the face of a decline in core deposits by selling securities and issuing managed liabilities such as time deposits and Eurodollar borrowings.

Finally, the eventual decline in Bank lending is roughly contemporaneous with a decline in economic activity as measured by industrial production. Taken as a whole, these

results do not resolve the debate over the existence of a credit channel. While there is some evidence that Bank lending declines when policy is tightened, the time lags appear quite long. Moreover, the contemporaneous decline in loans and output is consistent with a reduction in lending as it causes output to fall. According to Morris and Sellen (1995) this is equally consistent with a decline in output causing a fall in loan demand.

An additional problem with many of these studies is that they use total Bank loans, which include consumer and real estate lending rather than business loans. Based on the discussion of credit market imperfections, business lending would appear to be the more appropriate measure in testing for a credit channel. Indeed, given the large number of non Bank credit sources for consumer and real estate lending and the extensive securitization of these loans, it is difficult to believe the informational problems that make small businesses dependent on bank credit apply to other types of lending (Morris and Sellen 1995). Focusing on business lending still does not necessarily resolve the debate.

Gertler and Gilchrist (1993) conducted a study that specifically looked at how Bank business lending responds to policy tightening. Their study reveals that business lending does not decline when policy is tightened. They concluded that the entire decline in total lending comes from a reduction in consumer and real estate loans. Moreover, they added, when the analysis is narrowed further to loans to manufacturing firms, Bank

lending actually shows a significant increase in response to tighter policy. Indeed, for manufacturing firms, most of the increased lending appears to go to large firms; while loans to small manufacturing firms are largely unaffected by policy tightening. Thus, there is little evidence banks actually reduce lending to small firms when monetary policy is tightened.

In contrast to Gertler and Gilchrist (1993) study, Kashyap and Stein (1995) find evidence that business lending may respond to a tightening of monetary policy. They examine the lending behavior of small and large Banks, rather than loans received by small and large firms. They find that when policy is tightened, both total loans and business loans at small banks fall, while loans at large banks are unaffected. The differential response of small Banks may indicate they have less access to alternative funding sources than large banks and so are less able to avoid the loss of core deposits when policy is tightened. Since small Banks lend primarily to smaller firms, their finding is consistent with the view that monetary policy may work, in part, through a credit channel.

Another line of research consistent with Kashyap and Stein examines the behavior of business loans not made under terms of a loan commitment (Sofianos, et al 1990 and Morgan (1992). These loans would appear to be most vulnerable to monetary tightening. Their study reveal that uncommitted loans fall in periods of monetary tightening, while loans made under the terms of an existing commitment are

unaffected. Thus, restrictive policy may work primarily by reducing the availability of bank credit to business borrowers without a loan commitment.

2.6. TYPES OF CREDIT FACILITIES

The various types of credit facilities have been categorized by Turner, D. E and Turner D. H. (1994) as follows:

- Overdraft
- Loans
- Discounting bills of exchange

OVERDRAFT

Overdraft is one of the means through which Banks lend money to their respective customers. This occurs when a customer is allowed to withdraw in excess of funds from his or her account upon agreement with the Bank for a specific period of time. This type of credit is granted to commercial customers of the Bank when the necessary arrangements between the authorities of the bank and the customer have been agreed upon. Interest could be charged on the facility by using the product approach or final debit balance standing in the account. Salary advance is another type of overdraft which is solely given to salary customers. Overdraft is given to only current account holders who qualify by satisfying all the necessary credit conditions. The Bank allows customers to provide security and this applies only to commercial applicants. An overdrawn account is subject to an interest charge depending on interest rate of the bank at a particular time.

2.7. LOANS

A Bank loan is created when an agreed sum of amount has been credited to the applicant's account and debited to his loan account. This is done when an application for the loan has been appraised and approved by a higher authority when the necessary documents have been satisfied and the customer agreeing to the necessary credit conditions of the Bank. Interest is paid on the amount granted and mostly repayment is on monthly basis. Repayment could be made semi annually or the total amount and interest are paid at the end of the expiry period. However, this will depend on the credit policy of the Bank.

It should be clearly stated that most of the Rural Banks use the monthly repayment due to the matching concept in accounting. Commitment fee is charged on all loans granted to customers. Bank loans could be short term, medium and long term and the periods vary from one Bank to the other.

SHORT TERM LOANS

These are loans granted to customers for period not exceeding twenty four months. These are facilities granted to salary customers and commercial customers who are into small scale of business and need some assistance to increase their working capital.

MEDIUM TERM LOANS

These are loans granted to medium scale businesses. Examples are loans granted to contractors to support their existing working capital and commercial farming in which gestation period ranges from two years and above. The repayment period is between two and five years.

LONG TERM LOANS

These are loans granted to customers for more than five years. The loan is used to purchase capital goods such as machineries and capital equipments. These loans are huge in nature and are used to finance capital intensive projects.

2.8. CREDIT ADMINISTRATION AND CONTROL OF RURAL BANKS

According to Haley W. (1991), credit administration is the planning and controlling of banks deposits. The money which Banks lend as loans and overdrafts comes in the form of Savings deposits Micro-Finance deposit, Demand deposit and Fixed deposits from customers. This places a responsibility on rural banks to extend credits to reliable prospective customers who will be in position of paying back the credit on schedule. To ensure proper administration of credit, rural banks are to adopt pragmatic credit policies which must be fulfilled by customers. Some of these measures could be in the form of proper securities, proper credit appraisals, qualify credit officers and strict monitoring system.

Subject to advisory machinery of BOG under the relevant provision of Act 192 the management of a rural bank shall be left entirely in the hands of the Board of Directors who have been elected by the shareholders who shall be residents or inhabitants of the area in which the bank is located. However, the Bank of Ghana plays a supervisory role with ARB Apex bank also supporting BOG in the management of Rural Banks in the country. The corporate power of Rural Banks is vested in the hands of the shareholders and the Board of Directors based on their respective competencies.

2.9. AIMS AND OBJECTIVES OF RURAL BANKS

According to Turner (1993), the aims and objectives of Rural Banks have been summarized. Firstly, it is to relax the problems involved in granting of credit facilities to the rural dwellers.

Secondly, Rural Banks are to provide effective and realistic approach to the credit problems of small-scale farmers. Thirdly, it is to eliminate poverty in the rural communities gradually by actively involving the inhabitants in the development process of the local area. The rural banking system aims at providing credit funds to their customers. To operate solely in the rural communities by offering banking services and breaking the difficulties the rural dwellers go through from the Commercial Banks.

2.10. FUNCTIONS OF RURAL BANKS

According to Ampah (1996), the primary functions of rural banks are to provide credit to small-scale farmers and cottage industrialist, act as agents and trustees of their customers, accepting deposits, securities and valuable items for safe keeping on behalf of their customers and to engage in any economic activity that will promote social and economic development of their area.

2.11. CREDIT POLICY

Credit policy is the means by which senior management and the Board are guided during lending activities. The policy imposes standards which are to be observed. It is also a statement of the Bank's basic credit philosophy. It also provides a framework for achieving asset quality in a manner which is consistent with the strategic objectives of the bank. Credit policies vary from one financial institution to the other. However they all seek to achieve effective credit administration or management. Generally, financial institutions credit policies are administrative and documentary controls. The responsibilities of credit administration will vary from Bank to Bank. Credit administration is the operations arm of the lending function. Credit administration

includes the function of loan processing, loan disbursement, recovery, monitoring, collateral documentation and lien perfection.

Credit administration is an essential control mechanism for sound asset management. Credit administration is periodically reviewed by Management, Board of Directors, Credit Officers and the internal audit section of the Bank. In granting credit there are some risks which have to be considered in order to have a better credit administration. Poor credit administration will lead to loan classification and the necessary provisions as depicted below.

2.12. LOAN CLASSIFICATION AND PROVISION

Loans are classified into five categories including current, other loans especially mentioned (OLEM), substandard, doubtful and loss (Bank of Ghana, 2008). The classifications indicate the level of provisions banks are required to make to reflect the quality of their loan portfolio. Indeed the various classifications clearly group loans into performing and nonperforming in line with banking regulations. These categories further help Banks to know the structure of their loan portfolio and for that matter their assets quality. In Ghana, a major factor considered in making loans is the ability of the borrower to repay the loan. However, to mitigate the risk of default, banks ensure that loans are well secured. Though advances shall be granted on the basis of the borrower's ability to pay back the advance and not on the basis to pledge sufficient

assets to cover the advance in case of default. It is highly desirable for all advances made to customers and staff to be well secured. This means that in the event of default the bank shall fall on the collateral used in securing the facility to mitigate the effect of loss of principal and interest (Banking Act, 2004).

In view of the above, Banks take into account the assets used in securing the facility to determine the level of provision to be made. Bank of Ghana regulations indicate that certain amount of provisions are made on the aggregate outstanding balance of all current advances, and aggregate net unsecured balance of all other categories.

2.13. DELIQUENCY

- 1 Current 1% 0-less than 30
- 2 OLEM 10% 30-less than 90
- 3 Substandard 25% 90-less than 180
- 4 Doubtful 50% 180-less than 360
- 5 Loss 100% 360 and above

Source: Section 53(1) of Banking Act 2004

The review of the above literature on classifications and provisioning implies that the higher the non-performing loan category the higher the provisions and charges for such bad loans. For example in December, 2008, the total non-performing loans increased from 6.37% in 2007 to 7.68% in 2008 (Bank of Ghana, 2008).

2.14. TERMS OF BANK LENDING

Most researchers agree that analyses of aggregate Bank balance sheets need to be supplemented with more detailed information on Bank lending behavior. One limitation of balance sheet data is that they contain no information on the rates banks charge on new loans or on other terms of loan contracts. In addition, the value of loans on Banks' balance sheets may change for a variety of reasons having little to do with monetary policy. For example, while loans on balance sheets could decline as a consequence of restrictive monetary policy, they could also fall as a result of increases in nonperforming loans or because banks sell loans to other financial institutions.

Information on the terms of Bank lending may also be useful in distinguishing between the "lending view" and the "credit rationing" explanations of Bank credit channel. In this case, Kashyap and Stein (1995) noted that the lending view is a statement about the relative magnitude of shifts in the demand for and supply of loans.

According to the lending view, the volume of new loans should decline and loan rates should rise relative to market rates when policy is tightened. This behavior added would indicate loan supply shifts relatively larger than loan demand shifts. In contrast, most theories of credit rationing suggest that, while the volume of new loans should decline when policy is tightened, Bank loan rates should actually increase less than market rates. Recent studies on Bank lending using survey data on the terms of lending have found little evidence in favor of either credit rationing or the lending view. Berger and Udell (1992) find little supporting evidence. In particular, they noted that interest rates

on loans made under commitment are as sluggish as rates on uncommitted loans. While Berger and Udell (1992) do not directly examine the lending view, the stickiness of Bank loan rates found in their study suggests Banks do not reduce the supply of new loans when monetary policy is tightened.

2.15. CREDIT CULTURE AND RISK PROFILE

Understanding the credit culture and the risk profile of the Bank is central to successful loan portfolio management. Because of the significance of a Bank's lending activities, the influence of the credit culture frequently extends to other Bank activities. Staff members throughout the Bank should understand the Bank's credit culture and risk profile. The knowledge should pass from the chief credit policy officer to account officers to administrative support. Directors and Senior Management should not only publicly endorse the credit standards that are a credit culture's backbone but should also employ them when formulating strategic plans and overseeing portfolio management.

A Bank's credit culture is the sum of its credit values, beliefs, and behaviors. It is what is done and how it is accomplished. The credit culture exerts a strong influence on a bank's lending and credit risk management. A Bank's risk profile is more measurable than its credit culture. A risk profile describes the various levels and types of risk in the portfolio. The profile evolves from the credit culture, strategic planning, and the day-to-day activities of making and collecting loans. The risk profile will change over time as

portfolio composition and internal and external conditions change. Credit culture varies from Bank to Bank.

Some Banks approach credit very conservatively, lending only to financially strong, well-established borrowers. Growth-oriented banks may approach lending more aggressively, lending to borrowers who pose a higher repayment risk. These cultural differences are grounded in a Bank's objectives for asset quality, growth, and earnings. Emphasizing one of these objectives over another does not, in and of itself, preclude achieving satisfactory performance. However, the emphasis will influence how lending activities are conducted and may prompt changes in credit policies and risk control systems. For example, a Bank driven to achieve aggressive growth targets may require more detailed credit policies and more controlling administrative and monitoring systems to manage credit risk properly.

Successful banks consistently achieve a balance between asset quality, growth, and earnings. They have cultural values, credit policies, and processes that reinforce each other and that are clearly communicated, well understood, and carefully followed. The culture, risk profile, and credit practices of a Bank should be linked. If the credit practices and risk-taking activities of a bank are inconsistent with the desired culture and policies, management should find out why and initiate change to bring them back in balance.

When practices do not correspond to policies, lenders may not clearly understand the culture, credit controls may not be effective, policies and systems may be inappropriate for the credit environment, or employees may be rewarded for behaviors that are different from those advanced by policy. If the risk profile deviates from cultural norms, management should reassess the limits, policies, and practices. Senior management and the board should periodically evaluate the Bank's credit culture and risk profile.

Because the credit culture influences every aspect of the credit process, Management should regularly confirm that the culture is consistent with the desired appetite of risk. Independent audit and internal loan review functions should help with this assessment. Significant cultural confusion can surface in merged and acquired companies.

2.16. GENERAL RISK ADMINISTRATION

This is concerned about how the risk administration function is handled in the banking industry and highlights on the importance given to this function by managers and the institutional environment influencing its effectiveness and efficiency. This cut across the major risks faced by all financial institution worldwide. This will consider items such as the allocation of resources to risk management activities, governance issues, record keeping, communication within the organization and internal audit. As pointed out by Cumming and Hirtle (2001) the difference between risk measurement and risk management is that while risk measurement deals with the quantification of risk exposures, risk management deals with the overall process that a financial institution

follows to define a business strategy, to identify the risks to which it is exposed, to quantify those risks and to understand and control the nature of risk.

It is important to know that the main objective of Bank risk Managers is that shareholders wealth is maximized. In pursue of this, there should be a trade-off between risk and returns. In order to increase shareholders wealth, a company has to generate returns greater than its opportunity cost of capital .The opportunity cost of capital is the perceived cost to the Bank of raising equity and keeping shareholders happy.

The Basle Committee on Banking Supervision developed a discussion paper for the sixth International Conference in Frankfurt in October 1990, on measuring and controlling large credit exposures. The paper received broad approval and after taking into account various comments made is now being reissued as a guide to best practice for bank supervisors in the monitoring and control of large credit exposures. The Basle Committee believes that it is important for supervisors to consider measures limiting Bank's exposures to concentrated forms of credit risk in general and large borrowers in particular.

2.17. CREDIT RISK

For most banks, loans are the largest and most obvious source of credit risk. However, there are other pockets of credit risk both on and off the balance sheet, such as the investment portfolio, overdrafts, and letters of credit. Many products, activities, and services such as foreign exchange, and cash management services expose a Bank to credit risk. The risk of repayment i.e., the possibility that an obligor will fail to perform as agreed, is either lessened or increased by a Bank's credit risk management practices.

A Bank's first defense against excessive credit risk is the initial credit-granting process with sound underwriting standards, an efficient, loan Portfolio Management approval process, and a competent lending staff. Because a Bank cannot easily overcome borrowers with questionable capacity or character, these factors exert a strong influence on credit quality. Borrowers whose financial performance is poor or marginal, or whose repayment ability is dependent upon unproven projections can quickly become impaired by personal or external economic stress. Administrators of credit risk, however, must continue after a loan has been made, for sound initial credit decisions can be undermined by improper loan structuring or inadequate monitoring. Traditionally, banks have focused on oversight of individual loans in managing their overall credit risk. While this focus is important, banks should also view credit risk management in terms of portfolio segments and the entire portfolio. The focus on managing individual credit risk did not avert the credit crises of the 1980s. However,

the portfolio approach to risk management augmented these traditional risk management practices; Banks might have at least reduced their losses.

Effective administration of the loan portfolio's credit risk requires that the Board and Management understand and control the Bank's risk profile and its credit culture. To accomplish this, they must have a thorough knowledge of the portfolio's composition and its inherent risks. They must understand the Portfolio's product mix, industry and geographic concentrations, average risk ratings, and other aggregate characteristics. They must be sure that the policies, processes, and practices implemented to control the risks of individual loans and portfolio segments are sound and that lending personnel adhere to them.

Banks engaged in international lending face country risks that domestic lenders do not. Country risk encompasses all of the uncertainties arising from a nation's economic, social, and political conditions that may affect the payment of foreigners' debt and equity investments. Country risk includes the possibility of political and social upheaval, nationalization and expropriation of assets, governmental repudiation of external indebtedness, exchange controls, and currency devaluation or depreciation. Unless a nation repudiates its external debt, these developments might not make a loan uncollectible. However, even a delay in collection could weaken the lending Bank. (Comptroller, 1981) However, the size of loan is not sufficient to measure the risk because risk has two dimensions thus the quantity of risk, or the amount that can be

loss, plus the quality of risk which is likelihood of default. The quality of risk is often appraised through some form of credit ratings. These ratings may be internal to a Bank or external or when they come from credit rating agency. Measuring risk quality finally leads to quantifying the default probability of customers, plus the likelihood any recovery in the event of default. The probability of default is obviously not easy to quantify.

Historical data on credit defaults by credit class can be obtained from the industry. The effectiveness of the credit administration can lead to the reduction of both credit and the default risks by Board of Directors, Management and the entire Staff of the Bank. Administering the lending function in retailing banking, though based on the same broad principles, it differs from wholesale banking in several ways the first obvious difference concerns the size of the loan commitment. Bad corporate loans can be very serious for Banks because of the size of amount of money involved.

The recent big corporate failures have caused more than serious headache to Banks. High profile failures such as Eron have left Banks with huge bad loans. Retail lending on the other hand, unlikely to create serious consequences for a Bank in case of retail loan default. An accurate credit administration decision, given a Bank's credit standard, is the one that maximizes the value of the credit for the bank and minimizes the risk of default. Consequently, gathering, processing and analyzing information on potential borrowers are the steps in risk management.

2.18. LIQUIDITY RISK

Because of the size of the loan portfolio, effective management of liquidity risk requires that there be close ties to, and good information flow, from the lending function. Obviously, loans are a primary use of funds. And while controlling loan growth has always been a large part of liquidity management, historically the loan portfolio has not been viewed as a significant source of funds for liquidity management. Practices are changing, however. Banks can use the loan portfolio as a source of funds by reducing the total volume of loans through sales, securitization, and portfolio run-off. In fact, banks are taking a more active role in administering their loan portfolios. While these activities are often initiated to manage credit risk, they also improve liquidity.

Banks increasingly are originating loans “for sale” or securitization. Consumer loans (mortgages, installment loans, and credit cards) are routinely originated for immediate securitization. Many larger Banks have been expanding their underwriting for the syndicated loan market. Additionally, banks are also expanding the packaging and sale of distressed credits and otherwise undesirable loans. As part of liquidity planning, a bank’s overall liquidity strategy should include the identification of those loans or loan portfolio segments that may be easily converted to cash. A loan’s liquidity hinges on such characteristics as its quality, pricing, scheduled maturities, and conformity to market standards for underwriting. Loans are also a source of liquidity when used as collateral for borrowings. The ease with which a Bank can participate or sell loans to

other lenders or investors and the terms on which the Bank can do so will vary with market conditions, the type of loan, and the quality of loan. Information provided for liquidity analysis should include an assessment of these variables under various scenarios. Liquidity is also affected by the amount of the Bank's commitments to lend and the actual amount that borrowers draw against those commitments.

A Bank should have systems to track commitments and borrower usage. Knowledge of the types of commitments, deals in the normal usage levels, and historically high usage levels are important in assessing whether available liquidity will be adequate for normal, seasonal, or emergency needs.

Management information systems should distinguish between commitments that the bank is legally obligated to fund and those that it is not. Any analysis of a Bank's ability to reduce or cut existing commitments must consider more than its legal obligation to lend. It should also consider reputation risk and the potential for lender-liability actions. The withdrawal or reduction of commitments can have significant ramifications for a bank. From a strategic perspective, any tightening of commitments may adversely affect a Bank's ability to maintain or grow a customer base if it is perceived as an unreliable lender in tight credit markets. A Bank's reputation may also suffer if it is perceived as unwilling to support community credit needs. Given these ancillary risks, Bank Management must carefully assess the implications of curtailing lending lines. Banks have incurred increased credit risk when information systems failed to provide

adequate information to identify concentrations, expired facilities, or stale financial statements. Banks have incurred losses because they failed to perfect or renew collateral liens to obtain proper signatures on loan documents; or to disburse loan proceeds as required by the loan documents.

According to Barbara Casu, Claudia Girardone and Philip Molyneux (2006), Banks face liquidity risk when there is an unexpected withdrawal when the Bank is unable to meet it. The importance of liquidity goes beyond the individual Banks, since a liquidity shortfall at a single institution can have system- wide repercussions. Sound liquidity management can reduce the probability of serious problems. They explained that if bank experiences temporary liquidity problem, and is either unable or unwilling to borrow on the interbank market, the Central Bank can provide funds in the form of loans and advances. However, Central Bank borrowing not only attracts interest, it has damaging effects on the reputation of the Bank. Liquidity problems can cause by high loan default rates and unexpected cash withdrawals by customers.

2.19. MARKET RISK

Market risk is the risk resulting from the adverse movements in the level or the volatility of market prices of interest rate instrument, equities, commodities and currencies.

Market risk is usually measured as the potential gain/loss in a portfolio that is associated with the price movement of a given probability over a specified time horizon.

Financial institutions always face market risk, however, the sharp increase in asset trading in the 1980s increased the need to ensure that these institutions have the appropriate management systems to control the risk posed by market-related exposures. As a risk, market risk gained a high profile when the Basle Committee on Banking Supervision published the treatment of market risks in 1993, in which it was first time proposed that market risks, in addition to credit risk, needed to be taken into account for the calculation of Bank capital requirements. (Casu, Girardone and Molyneux ,2006)

2.20. COMPLIANCE RISK

Lending activities encompass a broad range of compliance responsibilities and risks. By law, a bank must observe limits on its loans to a single borrower, to insiders, and to affiliates; limits on interest rates; and the array of consumer protection and Community Reinvestment Act regulations. A Bank's lending activities may expose it to liability for the cleanup of environmental hazards. A Bank may also become the subject of borrower-initiated "lender liability" lawsuits for damages attributed to its lending or collection practices. Supervisory activities should include the review of the bank's internal compliance

process to ensure that examiners identify and investigate compliance issues.
(Comptroller, 1981)

2.21. RISK TESTING

Stress testing depends on the accuracy of the “model” used to quantify the sensitivity of loan performance to the selected variables. The results of any such stress testing must always be interpreted with caution, because important additional variables, or interrelationships among variables, may have been omitted from the analysis. Even if the Bank cannot attach probabilities to the scenarios, stress tests can reveal the kinds of events that might present problems. Banks should test the debt service coverage of credits whose coverage is thin. Credits in significant loan pool concentrations should also be stress tested as indicators of the strength of those pools.

Based on the results of stress testing, Management can develop contingency plans for the credits or pools that stress testing indicate are vulnerable. These plans might include increasing supervision, limiting further advances, restricting portfolio growth, devising exit strategies, or hedging portfolio segments. Credit portfolio stress testing is a relatively new analytical tool. Bankers are encouraged, however, to expand their capabilities. Banks of all sizes will benefit by supplementing stress testing of individual loans with portfolio stress testing. They may also want to consider credit modeling software as it becomes more refined and readily available for stress testing.

2.22. LOAN PROCESSING IN BANKS

There is risk in the provision of credit to borrowers. This risk exists because an expected payment may not occur. Credit risk is defined as potential losses arising from the inability of credit customers to pay what is owed in full and on time. Bank lending involves a bank, providing a loan in return for the promise of interest and principal repayment in the future (Kay Associates Limited, 2005). Available literature on lending indicates the lender's role in ensuring good decisions relating to provision of loans in order to minimize credit risk.

Rouse (1989) explained that a lender 'lends' money and does not give it away. There is therefore a judgment that on a particular future date repayment will take place. The lender needs to look into the future and ask whether the customer will repay by the agreed date. He indicated that there will always be some risk that the customer will be unable to repay, and it is in assessing this risk that the lender needs to demonstrate both skill and judgment. The lender should aim at assessing the extent of the risk and try to reduce the amount of uncertainty that will exist over the prospect of repayment. The lender must therefore gather all the relevant information and then apply his or her skills in making judgment. Though there might be pressures from customers and elsewhere which may sway away the lender's judgment, the lender must seek to arrive at an objective decision. In view of these credit risks that might lead to bad loans, banks have some loan request procedures and requirements contained in their credit policy documents to guide loan officers in the processing of loans for customers.

Among the criteria for processing of loans, credit vetting or appraisal is one of the crucial stages in the loan processing procedures. This is because this stage analyses information about the financial strength and creditworthiness of the customer. Kay Associate Limited (2005) identified five techniques of credit vetting known as the five Cs framework used in assessing a customer's application for credit. Firstly, the character of the customer is assessed. This determines the willingness of the customer to pay the loan and may include the past credit history, credit rating of the firm, and reputation of customers and suppliers. Secondly, the capacity of the customer which is described as his or her ability to pay in terms of cash flow projection is critically assessed.

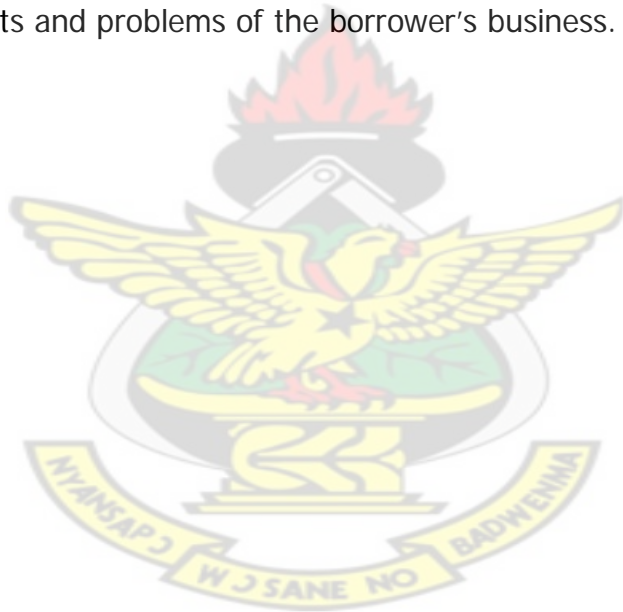
Besides, the capital or soundness of the borrower's financial position in terms of equity is assessed. The conditions such as the industry and economic conditions of the business are also assessed. These are important because such conditions may affect the customer's repayment ability. The last C is collateral. This is referred to as the secondary source of repayment. This is considered in appraising the customer's request.

2.23 MONITORING AND CONTROL

According to Rouse (1989) this is an area which many lenders pay little attention but, if it is properly carried out, the occurrence of bad debts can be reduced considerably. He

identified internal records, visits and interviews, audited accounts and management accounts as some of the things that help in the monitoring and control process.

Monitoring can minimize the occurrence of bad loans through the following major purposes that it serves Firstly to ensure the utilization of the loan for the agreed purpose, Identify early warning signals of any problem relating to the operations of the customer's business which will likely affect the performance of the facility .Secondly, to ensure compliance with the credit terms and conditions and lastly, it enables the lender discusses the prospects and problems of the borrower's business.



CHAPTER THREE

RESEARCH METHODOLOGY

3.1. INTRODUCTION

This chapter presents the methodology adopted and used for the study. These include the concept of population and sample, sample or research design, sample units, instrument of data collection, sources of data collection.

3.2 PROFILE OF THE CAE STUDY (FRBL)

The Fiaseman Rural Bank (FRBL) was established in the year 1983 with the purpose of channeling financial resources to the productive ventures in the rural area. It has a share capital of GH¢20,000 Ordinary shares with no par value. Out of this capital there is GH¢12.50 preference shares contributed by the government of Ghana and this amount is still in the books of the Bank. The Head Office of the bank is at Bogoso in the Western Region. The bank was formerly called Bogoso Area Rural Bank Ltd. It was changed to Fiaseman Rural Bank to have a fair reflection representing an institution for the Wasa Fiase area. This decision was taken by the shareholders at one of their Annual General Meetings held at the Head Office at Bogoso.

The current Board members stand at seven and it has a General Manager. The Bank has branches at Prestea, Tarkwa, Aboso, Huni-Valley, Damang and Atieku all in Western Region. Currently, the Bank is among the strongest Rural Banks in the country and first among Rural Banks in Western Region (ARB Apex Bank, 2010). The Bank has also been selected on three occasions to receive the prestigious club 100 award due to its

outstanding performance for the periods. The Bank operates Demand Deposit Account, Savings Account, Fixed Deposit Account, Micro-Finance and “Susu” Account, and One Touch Loan product.

Administration of credits in any financial institution has been a problem and needs to be carefully examined and managed through sound credit policies put in place by Board of Directors and properly handled by Management and other supervisory bodies such as Bank of Ghana (BOG) and ARB Apex Bank in the case of Rural Banks. Proper credit administration policies ensure a 95% recovery rate which is accepted in the banking

3.3. THE CONCEPT OF POPULATION AND SAMPLE

The population can be said to be the total number of all the units of the phenomenon to be studied that exist in the study area. A sample of the population consists of the proportion of the units selected for the study. Sampling involves the study of selected proportion of the units of the phenomenon with the view of extending the knowledge gained from the study to the whole of the unit selected for the study.

Fiaseman Rural Bank has five branches within Western Region. The Head Office is composed of five Departments namely Credit, Operations, Internal Auditing, Micro-Financing, and Fund Transfers. The Board of Directors constitutes the decision makers of the Bank. Members of the Board of Directors, Management, staff and the customers constitute the population for the study. A sample of loan customers was drawn from all

the branches. Research bias was avoided in the selection of the interviewee. This ensured that the relevant information relating to the topic was obtained for the study. The method led to convenient access to the data needed to achieve the objectives of the research.

3.4. DATA COLLECTION PROCEDURE

Data collection and their sources and the instruments used in gathering them are discussed as follows. Both quantitative and qualitative methods were used to collect data for the study. There has been a differing opinion on the use of quantitative and qualitative instruments in data gathering. While one school of thought argues that the world is composed of deductible and empirical facts, another school is of the view that the real world is socially carved, complex and ever changing. (Inkoom, 1999). In order not to have unbiased result, the research appropriately combined both quantitative and qualitative approaches in the exercise of data collection.

3.4.2. PRIMARY DATA

Both structured questionnaires and interview guides were used in the data collection.

While the structured questionnaires were used to get the unbiased opinion of respondents, the interviews were used for clarifications of some unclear issues such as

factors that account for high bad loans in agriculture sector, how poor credit appraisal result in bad loans among others. Specimens of the questionnaire and interview guides are attached as Appendix. These data collection instruments made it very convenient for respondents to give the data needed for the analysis. Participants were first contacted on telephone and briefed about the study. They were allowed to schedule the interview time and dates convenient for them. Some of the interviews were conducted outside working hours, late in the evening whilst others chose weekends for the interview.

Information on the issues to be covered was given to the respondents to enable them do some little preparation as some of the questions may need some figures in view of their technicalities. The major questions were the research questions combined with some follow up and probing questions where necessary, that sought answers necessary to the questions of the study. The flexible nature of these data collection instruments enabled the researcher to probe some of the responses obtained. Interviewees were also afforded the opportunity to build on their answers or give further explanation when the need arose in the data collection process.

3.4.3. SECONDARY DATA

The secondary data were sourced from the published annual reports and financial statements of the bank. The information covered a period of four years from 2007 to 2010. This category of data was mainly in quantitative form. Access to the data was not

a problem as these were published annually in the financial statements certified by external auditors for public consumption. The researcher benefited in so many ways from the use of this type of information for the study. First, this was less expensive to collect, in terms of time and money. It afforded the researcher the opportunity to collect high quality data which would not have been of the same quality if the researcher were to collect it in its primary form. Saunders et al, (2007) quote Stewart and Kamins (1993) as stating that secondary data are likely to be of higher-quality than could be obtained by collecting empirical data. The data collected contained the main information needed to answer the research questions like loan portfolio of the bank, provisions and charge for bad loans and sectorial classification of loans and advances.

3.5. INSTRUMENT OF DATA COLLECTION

Both quantitative and qualitative methods were used to collect data for the study. There has been a differing opinion on the use of quantitative and qualitative instruments in data gathering. While one school of thought argues that the world is composed of deductible and empirical facts, another school is of the view that the real world is socially carved, complex and ever changing. (Inkoom, 1999). In order not to have unbiased result, the research appropriately combined both quantitative and qualitative approaches in the exercise of data collection.

3.6. RESEARCH DESIGN

The researcher adopted exploratory and explanatory approaches. Exploratory was used to help the researcher find out more about the roles of Board of Directors, Management and Credit officers in effective credit administration. Robson (2002), cited in Saunders et al (2007), described exploratory study as a valuable means of finding out what is happening in order to seek new insights, to ask questions and assess phenomenon in a new situation. Thus, a combination of this approach with in-depth interviews and the use of questionnaire as data collection techniques were very useful in the study of the roles that Board of Directors and Management play in achieving effective credit administration in Fiaseman Rural Bank.

Explanatory study approach was employed to establish how effective credit administration affects the performance on the bank's operations. Saunders et al (2007) indicated that explanatory studies establish the causal relationship between variables. For example this approach established the link between effective credit administration and the roles of Board and Management of the Bank.

3.7. PRE-TESTING

A pre-testing activity of the data collection instruments was carried out to test the construction of the English language, validity and reliability of the questions. It was

carried out at the head office of the bank. The pilot study was very helpful to the researcher because it gave the researcher the confidence that the questions were going to elicit the required information needed for the study. It gave a signal to the researcher that there were going to be sub-questions or follow up questions aimed at clarifying some answers to the questions. This made the researcher prepared in advance with possible questions which made the interview very successful.

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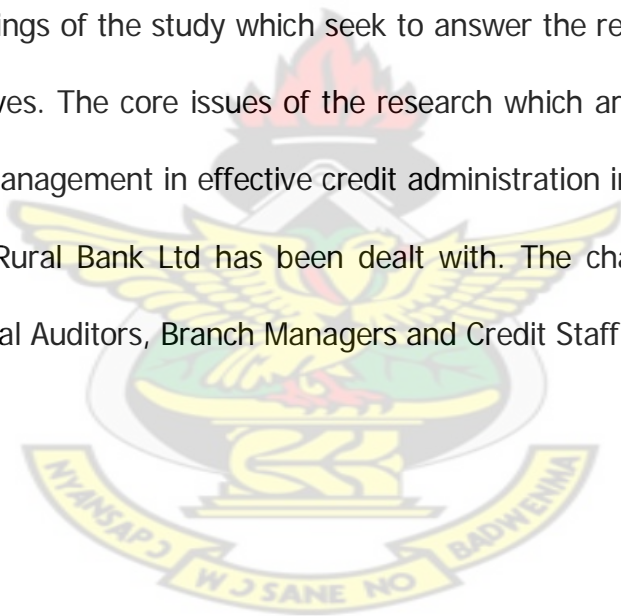
3.9 LIMITATION OF DATA COLLECTION

Generally, the data gathering exercise was successful. However, as the nature of the instruments demand one-on-one contact either through face-to-face or on telephone, the researcher faced some few difficulties in terms of the time for the interview like evenings where the researcher had to spend the night outside his place of residence. Besides, others re-scheduled the meeting time and dates to suit their programmes. The interviews conducted through telephone were also characterized by telephone reception problems, especially respondents in the remote areas like Atieku. With regard to the questionnaire, there were some few limitations like multiple responses provided by majority of the respondents. The data were ranked in descending order to determine major and minor factors for easy analysis of the data. Thus the use of these strategies enabled the researcher to manage these challenges and obtained the required data for the study.

3.10. DATA ANALYSIS

The secondary data obtained were scrutinized to determine their suitability, reliability, adequacy and accuracy. Tables and statistical diagrams like bar charts, pie charts and histogram also aided in the data presentation. The primary data were presented by some of these statistical tools and by way of narration. Presentation of the data on these statistical tools made the analysis very easy. The statistical tools used conveyed the meaning of the figures captured and as such made the analysis straight forward.

It also shows the findings of the study which seek to answer the research questions vis-à-vis the study objectives. The core issues of the research which are the roles of Board of Directors (BOD) and Management in effective credit administration in Rural Banks in Ghana specifically Fiaseman Rural Bank Ltd has been dealt with. The chapter also covers roles being played by Internal Auditors, Branch Managers and Credit Staff.



DATA PRESENTATION AND DISCUSSIONS

4.1. INTRODUCTION

This chapter covers the presentation and analysis of the data used in the study.

4.2. FACTORS CONSIDERED IN ASSESSING THE CREDIBILITY OF LOAN APPLICANT

This analysis is to establish the credibility or otherwise the factors the bank uses in assessing the credibility of any customer that applies for facility from the bank.

TABLE 4.1 LOANS RECOVERY PERCTANGE RATES

FACTORS	FREQUENCY	RECOVERY RATE %
Debit & Credit turnovers	2	15
Type of business & cash flows	2	15
*CAMPARI & 5Cs	3	70
TOTAL	7	100

SOURCE: FIELD WORK 2010

*Explanation has been given in the study

Out of the seven Directors who were asked to answer on the factors that the bank uses in assessing the credibility of loan applicants, the first two said the applicant's debit and credit turnovers are used to assess their credibility. Debit turnover is the sum total of funds the applicant has withdrawn from his or her account for the period under consideration. Credit turnover shows the funds the applicant has deposited for the period under consideration. Using only the turnovers, the recovery rate of loan and advances is 15%. This is because it only shows how the customer makes deposits and withdrawals without considering the character, the ability of the customer, margin of loan to capital holding of the customer.

The turnovers also do not consider any security covering the facility. The other two also explained that the type of business the applicant is into and the cash flow patterns of the applicant are considered. Using the type of business and cash flows will only lead to a loan recovery rate of 15%. The last three who are members of the loan committee that approves loans and advances mentioned the CAMPARI and 5 Cs acronyms which stand as

C.....Character of the applicant. The applicant should be honest and has integrity in the society.

A..... Ability of customer to repay the facility on time.

M.....Margin of the loan to the capital base of the customer.

P..... Purpose for which the loan is applied for should be in line with the bank's credit policy.

A..... Amount of facility being applied for and how much the bank deems appropriate.

R..... Repayment terms should be considered.

I..... Insurance that should be provided against loans and advances of the Bank.

The 5 Cs used in assessing the credibility of loan applicant are the character of the customer, stable and adequate capital base, capacity to generate adequate cash flows to cover debt service, collateral that the customer will pledge against the facility and the last is the conditions of economic activities whether it is favorable for business. Using the 5 Cs and the CAMPARI gives a loan recovery rate of 70%. In achieving effective credit administration, the character of the customer in the society, ability to repay the facility within schedule time, purpose of the loan, the amount involved, the terms of repayment and insurance covering the facility are all essential ingredients which should be considered. This analysis clearly shows that the Directors who use the CAMPARI and 5 Cs understand the basic conditions that a financial institution's Directors need in approving loans and advances in order to achieve effective credit administration.

4.3. ANALYSIS OF FACTORS THAT ACCOUNT FOR BAD LOANS

TABLE 4.2 FACTORS ACCOUNTING FOR BAD LOANS

TYPE OF QUESTIONS	NUMBER OF RESPONDENTS	PERCENTAGE
Delayed loan approval	1	14.29
Poor credit appraisal	1	14.29
Diversion of loans	1	14.29
Timing	1	14.29
Ineffective monitoring	1	14.29
All of the above	2	28.55
TOTAL	7	100

SOURCE: FIELD WORK 2010

Bad loans are those facilities granted to customers whose recovery turn out to be doubtful because of no collateral or collateral that has difficulty in liquidating. These loans are normally written off against the profit of the Bank. The factors listed above can create bad debt for any bank if they are not checked. When the respondents were asked about the factors that cause bad loans in Fiaseman Rural Bank, two of the Directors who are among the loan committee, stated that all of the factors listed contribute to causes of bad debt in the bank. This constitutes 28.55% of factors that lead to bad debt in the Bank.

4.4. SECTORIAL CLASSIFICATION OF LOANS AND ADVANCES FROM 2007-2010

TABLE 4.3 LOANS AND ADVANCES FROM 2007-2010

SECTOR	2007	2008	2009	2010
-	GH ¢	GH ¢	GH ¢	GH ¢
AGRICULTURE	212,975.11	178,774.19	182,000.38	83,743.07
TRANSPORTATION	24,312.99	2,586.94	19,251.00	40,871.71
COTTAGE INDUSTRY	5,284.30	15,541.95	-	-
TRADING	337,963.64	347,031.45	518,617.73	654,101.90
OTHERS	798,336.90	1,182,639.59	1,439,273.60	2,545,604.79
TOTAL	1,378,872.94	1,726,574.12	2,159,142.71	3,324,321.47

SOURCE: AUDITED FINANCIAL STATEMENT OF ACCOUNTS 2007-2010

Classification of Loans and Advances shows how the bank groups its facilities in relation to Bank of Ghana requirements. Loans classified as others or miscellaneous are those funds for building, medicals, education, payment of bills etc. Considering the advances for the bank for the years under review, a greater percentage of the advances went into sector classified for building, education, medicals, purchase of household items etc. This sector covers salary earners such as mining, government workers and private security personnel.

Asked why the sector has the highest loan portfolio, it was explained the request for loans by those in the mining sector are high with high recovery levels. This is associated with low defaulting rates. The loan portfolio increased by 219% from 2007 to 2010 with absolute figure of GH¢ 1,747,267.89. This is a significant improvement.

This is followed by the trading sector which includes customers in businesses such as clothing, cosmetics, soaps, wholesalers and distributors of alcoholic and non alcoholic beverages and petty traders. This sector is captured under loans and advances given for micro financing. Agriculture which was supposed to have been the sector to have the highest portfolio kept on reducing from year to year because of the competitive nature of the returns from the mining as against agriculture. As a result, those in the sector find it difficult to secure financial assistance from the bank because of the conditions attached to Agriculture loans. Some of the conditions are the one third cash security, salaried guarantors' repayment terms and many others. The study area is characterized with a lot of mining activities ignoring farming as a lucrative venture. The sector reduced in advances by 60.68% from 2007 to 2010 showing absolute reduction of GH¢ 129,232.04.

The transportation and cottage industry sectors are not receiving the necessary attention. The focus of the Bank is in areas of salaried and trading loans where there is high income and has the least risk of default in terms of repayment. For instance, the cottage industry had no loans and advances for the years 2009 and 2010. The sector is either not receiving the necessary financial support from the Bank or the people in the area do not patronize

the sector. The Transportation sector only had GH¢ 40,871.71 as at the end of 2010 financial year with insignificant contribution of 1.23% to the total loans and advances.

4.5 ANALYSIS OF LOANS AND ADVANCES WITH PROVISIONS FOR BAD AND DOUBTFUL DEBTS (PFBDD)

TABLE 4.4 PROVISIONS FOR BAD AND DOUBTFUL DEBT ON LOANS

LOANS & ADVANCES		PFBDD	%OF PFBDD/LOANS ADVANCES
YEARS	GH ¢	GH¢	%
2007	1,378,872.94	50,056.26	3.63
2008	1,726,574.12	195,981.80	11.35
2009	2,159,142.71	145,964.22	6.76
2010	3,324,321.47	129,645.19	3.90

SOURCE: AUDITED FINANCIAL STATEMENT FROM 2007-2010

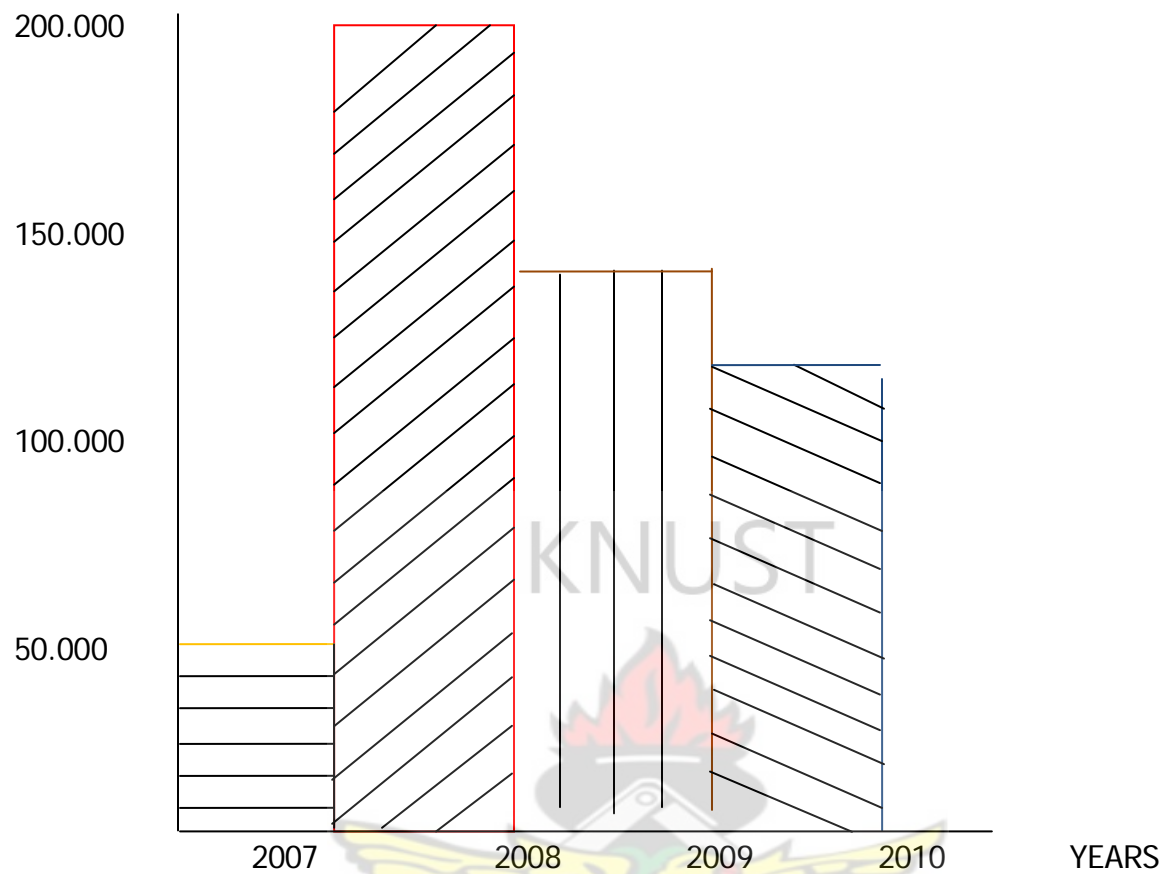
Provision for bad and doubtful debts (PFBDD) are made having regard to both specific and general risks. The specific element of the provision relates to those existing losses which have been identified as non recoverable. The general element of the provision relates to those existing which have not been specifically identified but are known from experience to be present at any year end in the Bank's portfolio of loans and advances. Looking at the provision for 2007 and 2008, there was an increase in an amount of GH¢145, 925.54 of the

provision made with a percentage increase of 291.52. In considering the increase in the loans and advances between the two years, there was an amount of GH¢ 347,701.18 which shows only 25.22 percent upwards as compared to 291.52% in provisions made.

Investigation revealed that the 2008 huge provision was as a result of cocoa loans granted to cocoa farmers who were not able to pay back the loans on schedule and this affected the provisions for the year. From 2009 to 2010, loans and advances increased by absolute figure of GH¢1, 165,178.76 with a percentage change of 53.97%. In the same years, provision for bad and doubtful debts reduced by GH¢ 16, 319.03 with a downward decline of 42.31%. Considering the amount of loans and advances given to customers in the year 2010, the sector classified as Others had 76.57 % which the Bank considers to be less risky and has the highest loan recovery rate of about 99%. This is followed by the trading sector with amount of GH¢ 654,101.90 giving 19.68 %. Unfortunately, the agriculture and transportation sectors had 2.52 % and 1.23% respectively. In total, the bank loan portfolio was GH¢ 3,324,321.47 for the year which is 54 % over the 2009 loans and advances granted to customers. The Provision for Bad and Doubtful Debt (PFBDD) is represented in Figure below. It is evident that the provision for bad and doubtful debt kept on reducing from 2009 to 2010. The Bank recorded 6.76% and 3.90 % respectively for the last two years for the periods under consideration. This is a remarkable improvement over the previous years considering the loans and advances figures for the past two years.

Figure 4.1 PROVISION FOR BAD AND DOUBTFUL DEBT (PFBDD)

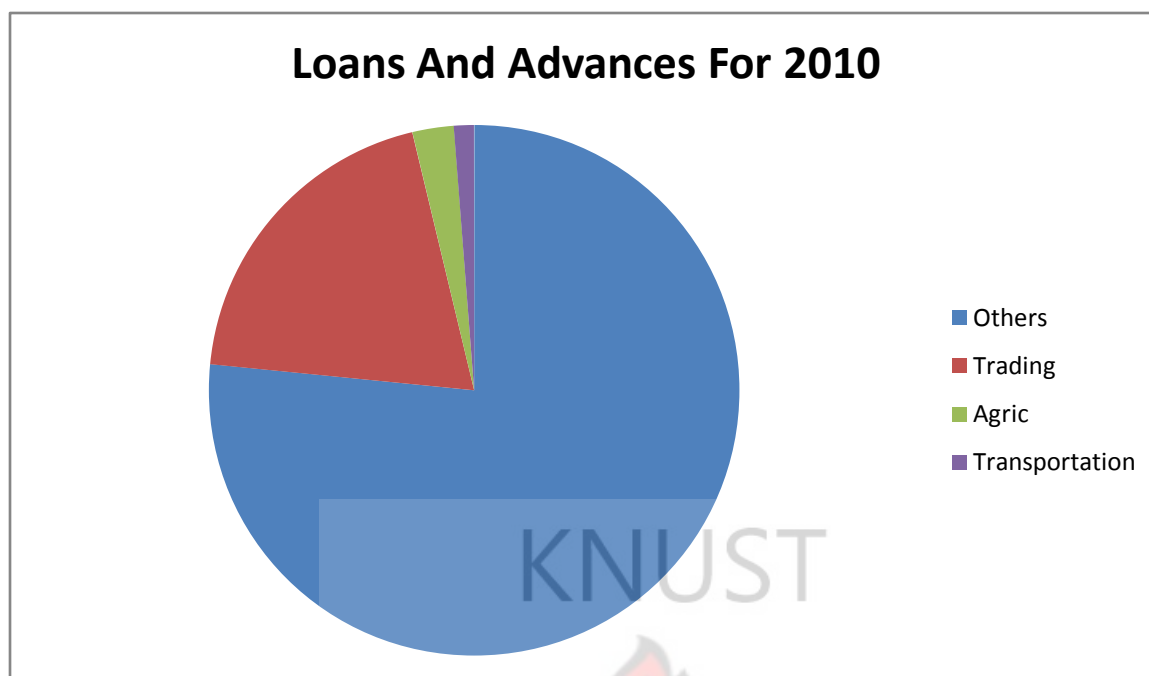
GH¢



SOURCE: AUDITED FINANCIAL REPORT FROM 2007 TO 2010.

FIGURE 4.2

A chart Depicting Loans and Advances the Bank granted to Various Customers during 2010 Financial Year



SOURCE: AUDITED ANNUAL FINANCIAL REPORT FOR 2010

Figure 4.2 shows that the year 2010, the sector classified as Others which is mostly salaried loans obtained by workers from the mining and government institutions had disproportionately high figure of GH¢ 2,545,604.79 representing 76.57% of the total loan given in 2010. The chunk of advances and loans went to Others because the sector is considered the least risky in terms of default. It has the highest recovery rate of over 98%. The second sector is trading which involves customers who deal in petty trading, wholesale business, alcoholic beverages, clothing, bakery etc. The sector had absolute figure of GH¢ 654,101.90 representing 19.68%. The agriculture and transportation sectors followed with 2.52% and 1.23% respectively. The Bank increased its loans and advances by GH¢ 1,165,178.76 with 54% over the 2009 total loan portfolio of GH¢ 2,159,142.71.

4.6 MEASURES TO ENSURE EFFECTIVE CREDIT ADMINISTRATION

Respondents were asked the measures put in place to ensure effective credit administration. The respondents were the entire BOD, General Manager, Branch Managers, Internal Auditing and the Credit Officers of the Bank. Some of the measures put in place were credit investigation, credit appraisal, effective monitoring, timely disbursement of loans, good documentation, regular review of loan portfolios and effective collateralization.

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TABLE 4.5 MEASURES TO ENSURE EFFECTIVE CREDIT ADMINISTRATION

Factors	Frequency	Rank
Credit investigation	2	3 rd
Credit appraisal	2	3 rd
Regular monitoring	3	2 nd
Timely disbursement of loan	1	4 th

Good documentation	2	3 rd
Regular review of loans	2	3 rd
Effective collateralization	2	3 rd
All of the above	8	1 st
Total	22	-

SOURCE: FIELD STUDY 2010

CREDIT INVESTIGATION

Table 4.5 revealed that before the Bank grant credit to any customer, investigation is conducted into the applicant's business whether the said applicant's business is lawful. Investigation is also done into customer's credit records to ascertain the customer's financial obligations with individuals and other organizations or otherwise. This gives information to the head of credit to proceed to the next step. Two of the respondents cited this as a very important measure.

CREDIT APPRAISAL

Credit appraisal gives detailed information about the customer's credit and debit turnovers, business risk, personal guarantors, other securities, terms of repayment, the amount involved and all the necessary documentations which are properly filled and endorsed. Two respondents said this should be considered for effective credit administration. This is depicted in the table 4.5.

EFFECTIVE MONITORING

Effective monitoring of loans and advances involves close watch over such facilities to ensure that they do not fall overdue. The likelihood is that not only one person but a number of customers may default in repayment. Default by a single customer should ring a bell for the Credit Officers to find out what the situation is for the necessary actions to be taken with immediate effect. This is done by printing out past due loan customers account at the end of every month. Three respondents gave this recommended measure as very important in ensuring effective credit administration. This is shown in the figure 4.5.

TIMELY DISBURSEMENT OF LOANS

Timely disbursement of loan assists loan customers to plan their business activities properly so as to make good use of the facility in order to pay back on schedule so as to avoid default. Two respondents suggested this measure as means of ensuring effective credit administration and ranked it fourth in the diagram.

GOOD DOCUMENTATION, REGULAR REVIEW OF LOANS AND EFFECTIVE COLLATERALIZATION

Good documentation starts from the commencement of the appraisal stage to disbursement. This involves the processing of documents, clarity and understanding of documents by the customer so that in case of default the customer can be prosecuted at the law court. Regular review of loans assists in determining those loans which are entering into hard core and to ensure that the necessary provisions are made. This is mostly done on quarterly basis. Collateralization is the security required by the bank against any loans and advances granted to customers. The bank requires securities such as personal guarantors, cash, insurance and title deeds of properties. Good documentation, regular review of loans and effective collateralization is ranked third in the diagram.

ALL OF THE ABOVE

In figure 4.5, eight respondents which included the internal auditors, loan committee members of the BOD, the credit staff at the head office and the General Manager said all of the above factors put together will ensure effective credit administration in the bank. They further explained that for effective credit administration to be achieved there should be a holistic approach by the BOD, General Manager, Credit Staff, Branch Managers and the Internal Audit department to utilize all the above measures to ensure effective credit administration.

4.7 ANALYSIS OF PROBLEMS CUSTOMERS FACE DURING AND AFTER LOAN APPROVAL

TABLE 4.6 PROBLEMS CUSTOMERS FACE DURING AND AFTER LOAN APPROVAL

Problems	Frequency	Percentage
Short repayment period	6	20
High interest & commitment fee rates	12	40
Delay in approval of loans	7	23
One third cash security requirement	5	17
Total	30	100

SOURCE: FIELD STUDY 2010

Customers who apply for loans and advances sometimes go through some of the problems stated above. In all, thirty selected loan beneficiaries were asked about the problems they faced during and after their facilities were approved to them. The customers were drawn from the various branches of the bank. Indeed, the respondents were sampled from the categories namely salaried loan beneficiaries, micro- finance loan applicants, commercial customers, transportation and agriculture.

SHORT REPAYMENT PERIOD

The respondents who were mostly commercial customers expressed short loan repayment period as problem they face. The bank has the longest loan repayment period of eighteen

months for commercial loans as compared to salary applicants who have a maximum period of three years. They explained that this put a lot of pressure on them to fulfill the scheduled repayment period in order not attract any additional cost on overdue interest. They explained that if even the period could be extended to twenty four months, it would reduce the pressure on the monthly loan repayment so as to be more committed to the Bank. The respondents who cited this were six constituting 20% out of the total percentage.

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HIGH INTEREST AND COMMITMENT FEE RATES

Forty percent of the customers said the interest rate on loan and commitment fee charges were on the higher side thereby making it difficult to repay their facilities. They complained that the thirty percent interest rate and three percent commitment fee charge on facilities they apply for erode profit margins and that causes a lot of them to dishonor their loan repayment conditions. The Bank interest rates charged on various loans are presented in table 4.7.

TABLE 4.7 INTEREST RATES ON LOANS

Sector	Rate of interest
Salary loan for one year	26% Per annum
Salary loan for two years	28% Per annum
Salary loan for three years	30% Per annum
Commercial loan	30% Per annum
Micro- Finance loan	42% Per annum
Cocoa loan	42% Per annum

Source: Fiaseman Rural Bank credit policy document

DELAYED APPROVAL OF LOANS AND ADVANCES

The study revealed that there was delayed in loan approval to customers of the Bank. Sometimes the customers facilities spent more than one month before they are approved. This affects their working capital and brings about distortions in their business planning activities. The study established that, the delays sometimes cause loans to be approved at the wrong time which affects their businesses.

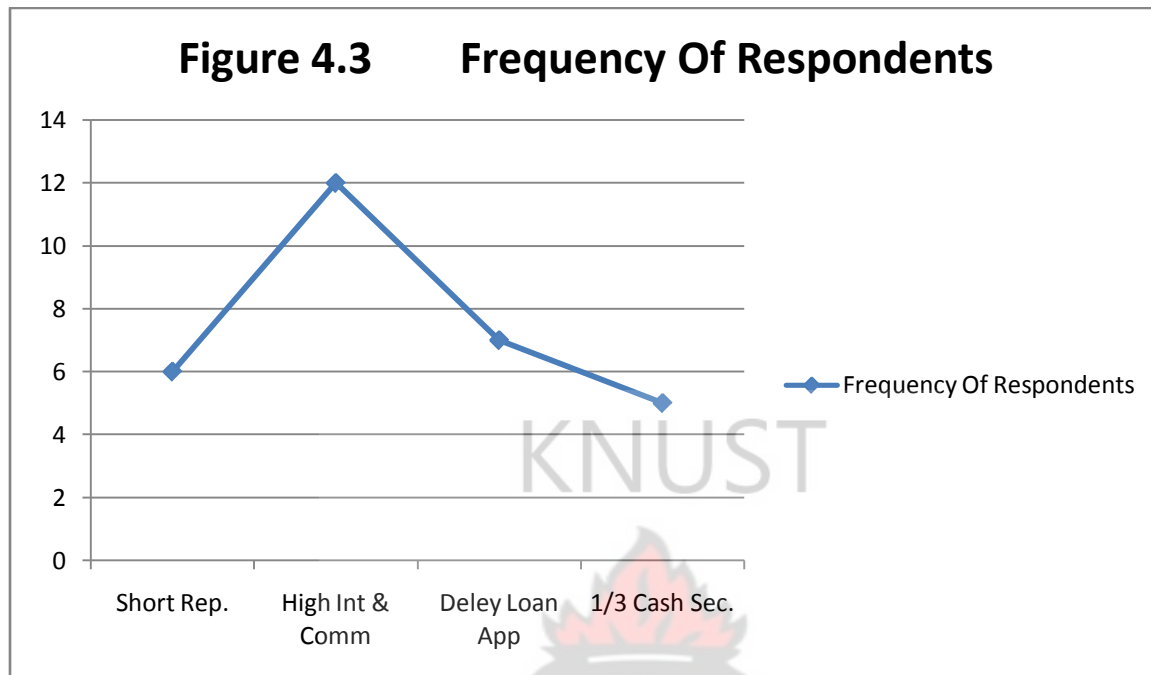
Most of the respondents are commercial traders who normally need credit at a time that business is booming. In all, seven customers complained about delays in loan approval which is 23% of the total percentage figure.

ONE THIRD CASH SECURITY REQUIREMENT

The study identified that all commercial loan customers provided one third cash security before their approved loans were disbursed to them. Cash security is the amount required by the bank on any commercial loan applied by customers. The bank's credit policy requires that any commercial applicant of any facility should provide one third cash security on the amount of loan applied for. This amount should be deposited in a savings account and should not be withdrawn until the loan is fully paid for. The study established that this condition is not favorable to the loan customers because it eventually reduces their working capital. In disguise, the bank takes full hundred percent interest on the facility granted to them but the loan is reduced by the one third cash security. The customers always work for the bank because a greater proportion of their profits go to the bank. In all, five customers complained about the one third cash security requirement and pleaded for a reduction in the cash security requirement.

Below is a diagram showing the various problems loans and advances customers face during and after loan approval.

FIGURE 4.3. FREQUENCY OF RESPONDENTS



CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.0. INTRODUCTION

This chapter entails the research findings, recommendations and conclusion. This is very essential as it gives the implications of the findings and the possible measures that could help to improve effective credit administration by BOD, Management and Credit Staff of Fiaseman Rural Bank Ltd.

5.1. SUMMARY OF FINDINGS.

The study revealed that not all the seven Directors are involved in loan approval processes. Three of the Directors are constantly involved in all approval of loans and advances. This clearly shows that the rest have little knowledge in credit administration. The Credit Staffs that are more qualified to handle credit issues are only at the head office. Those at the various branches are not trained Credit Officers and their work has to be reviewed by the Branch Managers and the Head of Credit before they are submitted to the General Manager for his comments. Effective credit administration is very essential for sound growth of Rural Banks in the country and as such all Directors and Credit Staff should have adequate knowledge in credit administration.

The finding also revealed that, most of the loans and advances are channeled to salary workers and traders to the detriment of cottage industry, agriculture and transportation. These sectors kept on reducing in terms of the acquisition of loans and advances from year to year. For instance, agricultural sector which should have received a high credit attention from the Bank, reduced in loan outflow from GH¢212,975.11 in 2007 to GH¢ 83,743.07 in the year 2010. This shows a percentage reduction of 60.86. Cottage industry had no balances as at 2009 and 2010 which means either people do not patronize the sector or the Bank is not willing to assist in this direction. The transportation sector has also reduced in terms of the sizes of loans and advances. It was also revealed that these areas have high risk of default. Indeed, the salaried loan sector increased from GH¢798,336.90 to GH¢ 2,545,608.79 with absolute figure of GH¢ 1,747,267.89 showing 218.86% increase. The simple reason is that the

sector has the least risk in terms of repayment. However, it is believed that Banks should not always rely on salaried earners for their operations since they least make deposits in their accounts as compared to commercial customers. However, Banks risk in concentrating on mining workers for their development since there could be a possible collapse of these mining companies as happened in certain places in Ghana.

The findings also established that, there was a high rate of bad debt provision in the year 2008. This was as a result of cocoa loans given to some farmers who could not repay their facilities on schedule. The findings also indicated that the necessary effective credit appraisal was not made to ascertain the default risk. The then Credit Officers did not consider the timing of releasing the loans. They failed in visiting the farmers on regular basis. For instance, the provision for 2007 was 3.63% and went up to 11.35% in 2008. The Bank quickly did well in reducing the provision to 6.76% and 3.90% in the two subsequent years respectively.

Considering the loan and advances quantum in the year 2010 (GH¢3, 324,321.47) the provision was only 3.9% and this could be one of the best in the history of the Bank in terms of provision for bad and doubtful debts.

The finding also revealed that, interest rates and commitment fees charges are on the high side. There were the issues of short repayment period, delay in the approval of

facilities which distorts most of their business plans since most business in the rural areas are seasonal.

One third cash security requirement on commercial loans demanded by the Bank was another revelation which came to light. The one third cash security naturally reduces the quantum of loan approved to them by the same margin. However customers pay full interest rate on approved loans which eventually reduces their profit margins.

5.2. CONCLUSION

The findings as briefly summarized gave rise to some recommendations that were drawn from the analysis. It is an evident that the Bank's loan portfolio contained almost loans and advances made of salaried workers which has low default rate and with higher repayment. Indeed, the bad debts provision for 2009 and 2010 were one of the best in the banking industry. Nevertheless, the Bank has to pay much attention to other sectors since mining in the area can come to an end which will affect future operations. However, BOD, Management, Internal Auditing and Credit Staff should be given the needed resources, training and motivation to perform creditably.

5.3. RECOMMENDATIONS

The foregoing findings reveal a worrisome situation about the cocoa loan given to farmers in 2008 which increased the provision of bad debts of the Bank. A critical review of the analysis shows that this eventually affected profit for the year. In view of

the important role the Bank plays in the economic development in the area and Ghana as a whole, it is very essential for all stakeholders, especially BOD and Management to adopt pragmatic measures to minimize the problems associated with cocoa loans and focus on innovative ways which will ensure effective credit administration. Some recommended measures have been explained below.

•REGULAR TRAINING FOR CRDIT STAFF AND ALL BOARD OF DIRECTORS

It is recommended that management should organize regular training programmes for all credit staff in areas like credit management, risk management and financial analysis. This would sharpen the knowledge and skills of Credit Officers so as to improve on the quality of credit appraisal, prevent delayed loan approvals, and appreciate the need to comply with credit policy and further enhance monitoring of credit. It is also believed that through training programmes, Credit staff and Board members would be able to conduct effective analysis of loan portfolio structure of their branches and give much attention to loans with warning signals. Management should also ensure that Credit Officers give much attention to all facilities approved to prevent them from falling into non-performing asset categories. Management can achieve this by engaging experts or consultants in the financial industry such as the ARB Apex Bank and Bank of Ghana for assistance.

•EFFECTIVE MONITORING AND SUPERVISION OF CREDIT FACILITIES

Another important way of achieving effective credit administration is through effective monitoring and supervision of loan facilities. This would prevent diversion of funds into other business ventures rather than the agreed purposes for which the loans were granted. It will help loan officers assist customers who are facing some business management problems such as improper record keeping, and overtrading that affect their business operations. To ensure effective monitoring, management should ensure that credit offices at all branches are adequately resourced in terms of training, incentives and other logistics, to support monitoring activities. Again, BOD, Management and Internal Auditing need to show commitment to justify the provision of these resources at all branches. Management should also ensure regular supervision of Branch Managers and Credit Officers at branches through the Bank's internal credit auditing systems. It is worth emphasizing that effective monitoring of loan facilities through field visits and reviewing of customers accounts on regular basis, enables the lender assesses borrowers current financial conditions, ensures the adequacy of collaterals, ensure that loans are in compliance with the terms and conditions of the facility, and identify potential problem loans for action to be taken.

•ADEQUATE COLLATERAL PROVISION BY LOAN BENEFICIARIES

In view of the fact that Banks and other lenders cannot tell from the looks of people's faces whether they are good borrowers or bad borrowers as indicated by Kwarteng (2007), it is recommended that loans granted to customers should be well secured in

terms of adequacy of the collateral provided and also ensure that proper legal documentation is put in place. This would reduce the losses arising from problem loans and minimize the effects of such loans in the form of bad debt provisions, and also on the financial performance of the bank. It is essential to point out that once the facility is adequately secured, it is difficult for customers to default willfully since the collateral would be used or sold for repayment of the loan. A key respondent indicated that collateral gives a signal of customers' creditworthiness as indicated by the findings of Chan and Kanatas (1985) cited in Hao (2003). Management should therefore review its collateral requirements as contained in the credit policy in line with this recommendation and ensure that loan requests without adequate collateral are declined. This would maximize effective credit administration.

•THE USE OF CREDIT REFERENCING AGENCIES AND CREDIT BUREAUS

Credit bureaus keep information on people for the purpose of assessing their creditworthiness in the granting of credit to them. According to Bank of Ghana (2007), this credit reporting system is to provide timely, accurate, and up-to-date information on the debt profile and repayment history of borrowers. This would enable the Bank identify good customers and thus minimize loan default. The Management of the Bank should therefore ensure that all Credit Officers and loan approving authorities utilize the services of these institutions when conducting credit appraisals before loans are granted. It is further suggested that Management can ensure the use of credit bureaus in processing loans by incorporating it into the bank's credit policy for all Credit Officers to adopt. This would improve effective credit administration in the Bank.

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APPENDIX ONE

Interview guide for Board of Directors

Research Questions

1. How do you access the credibility of loan applicants in your bank?
2. How many board of directors approve loan facilities?
3. Do you face problems in the approval of credit facilities?
4. How do you monitor your credit facilities?
5. Why is effective credit administration good for rural banks?
6. Do you have any knowledge in credit appraisal?
7. Do you consider the liquidity position of the bank when approving credit?
8. Under which conditions do you decline loan application?
9. What problems do you face in loan recovery?
10. Do customers find it difficult to repay their loans?

Yes/No

11. If yes, what are the problems?
12. Which credit portfolios pose problems for your bank?
13. List the various risks you consider when approving credit?
14. Do Internal Auditors play any role in loan approval?

Yes / No.

If yes, what are the roles?

- a.....
- b.....
- c.....

15. What challenges do Internal Auditors face in ensuring effective credit administration?

a.....

b.....

c.....

d.....

e.....

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APPENDIX TWO

Interview guide for General Manager

Research Questions

1. What is your position in the bank?
2. For how long have you been in that position?
3. Do General Managers approve credit?
Yes/No
4. If yes, what is your limit of approval?
5. What types of credit are available to customers of your bank?
6. What criteria do you use when approving loans and advances?
7. Which credit portfolios pose problems for your bank?
8. What control measures do you use to achieve effective credit administration?
9. List the various risks you consider when approving credit?
10. How do you monitor loans and advances?
11. How many times do you review your credit portfolio?
12. Do your bank have loan committee board members?
Yes/No
13. If yes, what are their responsibilities?
14. Do you visit your loan customers?
Yes/No
15. If yes why do you visit them?
16. How many times do you visit the customers in a year?
17. Which returns do you submit to Bank of Ghana on every month?

18 Are they mandatory?

19 Do you submit credit reports to the Board of Directors?

20. What is your credit portfolio for the following years and recovery rates?

2007

2008

2009

2010

21. What is the total loan granted to the following sectors and their recovery rates for 2010?

Agriculture

Commerce

Transportation

Others

22. Do you have any hard core loans within your credit portfolio?

Yes/No

23. If yes, how did they occur?

24. What provisions do you provide on your credit portfolio and their percentages?

25 What percentage of your total deposit should be given as loans and advances?

26. What problems do you face in loan recovery?

27. Do customers find it difficult to repay their loans?

Yes/No

28. If yes, what are the problems?

29. Do Internal Auditors play any role in loan approval?

Yes / No.

If yes, what are the roles?

a.....

b.....

c.....

d.....

30. What challenges do Internal Auditors face in ensuring effective credit administration?

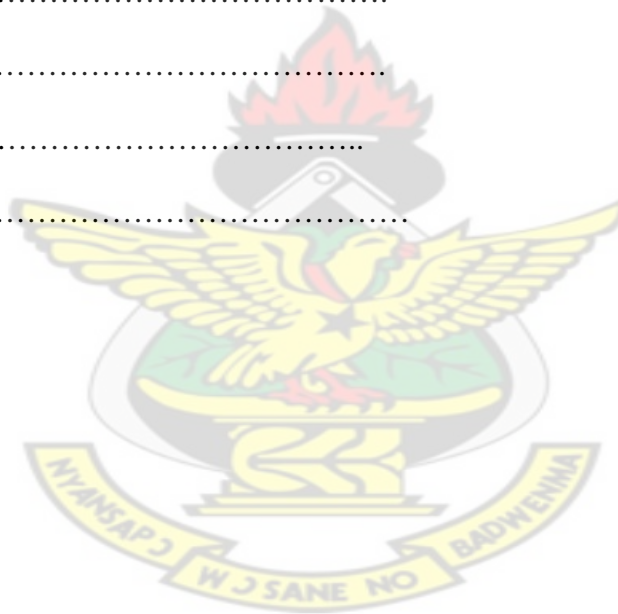
a.....

b.....

c.....

d.....

e.....



APPENDIX THREE

Interview guide for loan customers

Research Questions

1. Have you taking a loan from the bank before?

Yes/No

2. If yes, what are the conditions did you fulfill before the loan is granted?

3. Did you face problems during and after the loan has been approved?

Yes/No

4. If yes what are the problems

a.....

b.....

c.....

d.....

e.....

f.....

5. What security did you use to guarantee the loan?

6. Do you receive business and financial advice from your bank?

Yes/No

7. If yes, what advice?

a.....

b.....

c.....

APPENDIX FOUR

Questionnaire for Credit Staff

The following questionnaire is meant to collect data for academic study. Your response to this questionnaire would be highly appreciated.

1. In your opinion, which of the following factors account for bad loans?

i Delayed loan approval [] vi Timing []

ii Ineffective monitoring []

iii Poor credit appraisal [] vii marketing problems []

iv Diversion of loans []

v Lack of business management knowledge []

vi under financing []

Others, (please specify).....

.....

2. Do you think non-compliance with credit policy accounts for an ineffective credit administration?

(a) Yes (b) No

3. If yes, which of the following accounts for that?

(a) Customer pressure

(b) Management pressure

(c) All the above

(d) Others (please specify).....

4. What problems do credit officers face in achieving effective credit administration?

i

ii

iii

iii

iv

v

5. Which of the following factors hinder effective monitoring of loans?

- (a) Lack of logistics
- (b) Under staffing
- (c) Ineffective supervision by management
- (d) Poor road to project site
- (e) All of the above

6. What are the causes of delayed loan approval?

- (a) Rigid approval procedures
- (b) Customers inability to meet approval requirements to loan acquisition.
- (c) Liquidity problems
- (d) Poor credit appraisal

7. Which of the following reasons account for loan diversion by customers?

- (a) Lack of proper monitoring
- (b) Anticipation of high gains in other business ventures
- (c) Ignorance of terms and conditions attached
- (d) Differences in interest rate applied on loans in different sectors

KNUST



(e) Inadequate financing

8. What account for the problem of under financing of projects?

(a) Poor credit appraisal

(b) Inadequate collateral

(c) Liquidity problems

(d) Low account turnover

9. Which credit portfolio poses problem in achieving effective credit administration?

a. Transportation

b. Agriculture

c. Commerce

d. Cottage Industry

e. Miscellaneous

10. What measures should credit officers put in place to ensure effective credit administration?

a)

b)

c)

d)

e)

f)

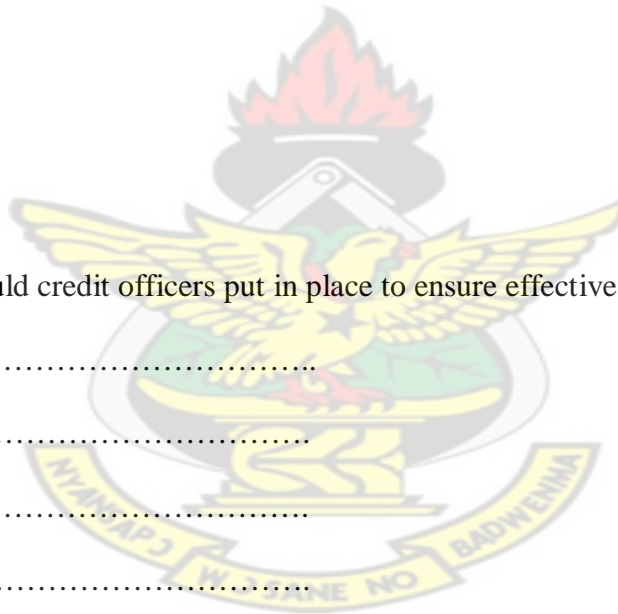
g)

h)

11. What is the credit recovery rate for Cocoa loans for the under mentioned years?

2007

KNUST



2008

2009

2010

12. Do credit officers approve loans/advances?

Yes/No

13. Who qualifies to take loan/advance from the bank?

14. What procedures do credit officers' use when appraising loans?

a.....

b.....

c.....

d.....

e.....

15. What types of risk do you consider when appraising a credit facility?

16. How do credit officers monitor loans/advances granted to customers?

17. Who qualifies to obtain loan from your bank?

18. What are the qualifications?

a.....

b.....

c.....

d.....

e.....

19. What is the loan product mix of your bank?

20. What are the various interest rates charged on loans of the bank?

21. Do you pay visits to customers that have taken facilities from the bank?

Yes/No

If yes, how many times do you visit the customer before the final repayment?

22. Do customers find it difficult to pay their loans?

If yes what are the reasons?

23. Does the bank have a credit policy that guides credit officers in doing their work?

Yes /No



APPENDIX FIVE

Research Questions for Branch Managers

1. Do you recommend loan for approval?

Yes/No

2. If yes, what criteria do you use?

3. What limit do you have for the approval of credit facility?

4. How do you monitor the branch's credit portfolio?

5. What problems do you face in loan recovery?

6. Do customers find it difficult to repay their loans?

Yes/No

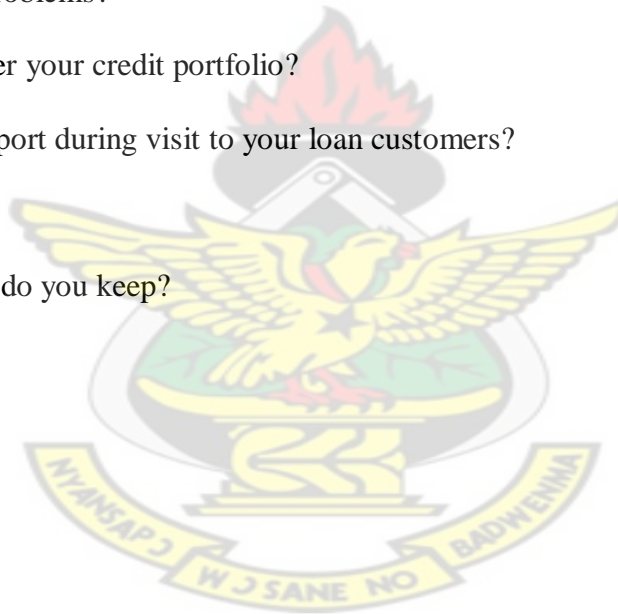
7. If yes, what are the problems?

8. How do you administer your credit portfolio?

9. Do you keep field report during visit to your loan customers?

Yes/No

10. If yes what records do you keep?



APPENDIX SIX

Interview Guide for Internal Auditing Officers

Research questions

1. How do Internal Auditors administer credit in rural banks?

a

b

c.....

d

2. Do Internal Auditors review the loan portfolio of their banks?

Yes/ No

If yes how is done?

3. Why do loans go bad?

4. Do loan officers observe credit procedures during credit appraisal?

5. What accounts for the failure to observe loan appraising procedures by credit officers?

6. What are the effects of improper credit administration?

a.....

b.....

c.....

d.....

c.....

7. Do Internal Auditors play any role in loan approval?

Yes / No.

If yes, what are the roles?

a.....

b.....

c.....

d.....

8. What advice do internal Auditors give to Management in ensuring effective credit administration?

9. What challenges do Internal Auditors face in ensuring effective credit administration?

a.....

b.....

c.....

d.....

e.....

10. Do your bank has loan authorization limit for those involve in credit approval?

Yes /No.

If yes, what are the authorization limits for the General Manager, Operations manager and Branch managers?

11. What measures does Board of Directors put in place to ensure effective credit administration?

