FINANCIAL PERFORMANCE APPRAISAL OF ASANTE AKIM RURAL BANK FROM THE YEAR 2003 TO 2007.

By

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

MASTER OF BUSINESS ADMINISTRATION

KNUST School of Business

College of Arts and Social Science

JUNE 2008.

DECLARATION

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

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DEDICATION

This is dedicated to my parents Mr. and Mrs. E.K. Agyekum who gave me a strong foundation in education and taught me to aspire for greater heights. Mavis Sarah Gyimah, my beloved wife and Adwoa Achiaamaa Tweneboa-Kodua, our daughter are also to share in the success of this work.

ACKNOWLEDGEMENT

It is extremely difficult to match exactly words with the invaluable contributions and support of some important personalities who have made the preparation of this work possible, but I sincerely hope that these few words that follow will suffice in showing appreciation from a most grateful heart.

First of all I would want to thank the most High God for sustaining my breath and carrying me through rain and shine. My deepest appreciation goes to Mr. P.K. Oppong - Boakye, the thesis supervisor for his great patience, guidance and supervision throughout the period of this research. I greatly want to thank Mr. Attah Gyamfi, the General Manager and Mr. Ishmael Boakye, the Administrative Manager of Asante Akyem Rural Bank, Head office, Juansa-Ashanti who made available to me all the necessary data that was used for this work. The effort of Mr. Jacob Donkor of Komfo Anokye Teaching Hospital – HIV Counseling Unit is also being acknowledged for his assistance in data accessibility.

I am also grateful to Mr. Alex Kesse Nyamesa, the Superintendent Pharmacist in the Agogo Presbytarian Hospital and my parents Mr. and Mrs. Agyekum for their support and advice in all aspects of my life.

I hereby also want to acknowledge the support of all the librarians in the Kwame Nkrumah University of Science and Technology, Kumasi for warmly accepting me any time I visited their libraries. God richly bless each of you.

ABSTRACT

The purpose of this study is to look at the financial performance appraisal of the Asante Akyem rural bank from 2003 to 2007. It became necessary that an in-depth study is conducted into the performance of the bank because of the fact that the financial systems across the world, more especially in the United States of America, has been bedeviled with a lot of problems, which puts the profitability of most banks also in question. In an attempt to review the performance of the Asante Akyem rural bank, the operations of rural banks both in and outside Ghana was looked at. Financial performance in general was exploited to give weight to this research. Again, other pertinent issues in the chain of activities of the banking business as well as financial ratios and their importance were critically examined. The performance of the bank was analysed using data from both electronic and print media including institutional reports, published and unpublished materials as well as an interview of key personnel. Through the analysis of the data it was realized that the bank, in general, achieved growth in its profitability within the study period, with year 2007 being the most outstanding. In spite of this, it was however revealed that the bank would not be able to withstand heavy financial shocks. Issues like poor management and weak internal controls as well as loan repayment default were identified as some of the factors undermining the efficiency of the bank. After analysis and identification of these problems, some recommendations were made. These included the need to embark on an intensive education on the importance of savings, training of staff in business strategy and organizational management and techniques in credit management to reduce risk of default. The bank also needs to increase loans and overdraft to customers, engage in profitable investments, intensify the introduction of more innovative banking products and employ mechanisation to increase profitability.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

The performance of banks, for some years now, has been of immense interest for both academic and business purposes. The increasingly growing competition in the financial sector makes it very crucial for individual and corporate investors, financial and non-financial institutions and all other stakeholders to continue to research into this field. The operation of a bank has become so sophisticated, and its survival and growth depends to a large extent on innovativeness and pro-activity, which can possibly be achieved through a critical analysis of the banking business environment in an economy.

The global shift to a knowledge economy and the increase in competitive pressures in the market place have placed the focus on intangible factors as the most critical factors in having a competitive edge. A lot of factors including management of knowledge, attracting the required labour, developing attractive products, developing and retaining talent in the banking sector etc. are highly crucial to the success of any bank. There is thus the continuous need to do an assessment to find out one's position in the market. Market share for companies keep on changing especially in economies where there is stiff competition. This is not different in the banking sector where, as the days go by, a lot of new banks spring up whiles the existing ones also strive to expand through various measures such as mergers and acquisition.

The appraisal of banks therefore has a positive implication for their direction and growth. For instance, in the 2006, Multilateral Development Bank (MDB) Common Performance Assessment (COMPAS) report, the MDBs jointly publish information on how they conduct business and organize themselves to ensure that their operations are geared towards results. The purpose of the COMPAS is to report on MDB performance, not on country-level results, which are a joint product of several actors, including the MDBs. For instance, the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank and the World Bank are making good progress in adopting Managing for Development Results (MfDR) practices, according to a joint report just released by them. These MfDR practices aim to improve the design, implementation, and evaluation of strategies and operations with a view to achieving relevant development results.

Whiles the giant banks have had to compete effectively through appraisal, research and innovations, the rural banks are also not left out of the competitive environment of the banking business. Rural banks evolved with the aim of providing the banking needs of the rural communities. "Inadequacy of the traditional banking system gave rise to the need of cooperative banks and regional rural banks combining resource and competence of the commercial banks with the rural orientation and democratic approach of the cooperative as well as low cost of establishment" (Bhaktapada, 2007). Even though they primarily evolved to serve the banking needs of the rural folks, they have been caught up with competition. This is because the commercial banks continue to find all possible means of expanding their customer base whiles most of the rural banks also have established

branches and/or agencies in urban settings for the same reason. Competition has therefore become an inevitable factor and even the rural banks are all striving to take their fair share of the market.

1.2 STATEMENT OF PROBLEM

Around the world, stock markets have fallen, large financial institutions have collapsed and some have been bought out, and governments in even the wealthiest nations have had to come up with rescue packages to bail out their financial systems. The extent of the problems has been so severe that some of the world's largest financial institutions have collapsed. Others have been bought out by their competition at low prices and in some cases, the governments of the wealthiest nations in the world have resorted to extensive bail-out and rescue packages for the remaining large banks and financial institutions.

In the meanwhile, smaller businesses and poorer people rarely have such options for bail out and rescue when they find themselves in crisis. It is therefore incumbent on them to strive to be profitable in order to survive in the mist of their numerous limitations.

In Ghana, the growing competitive nature of the banking industry coupled with the rippling effect of the global financial crisis poses a lot of threats to the survival of most financial institutions. Banks continue to expand by opening more branches and subsequently, to increase profitability. The Asante Akyem area from the year 2000 also witnessed an influx of banks and by 2003, stiff competition had been engendered among these banks threatening the survival of smaller banks like Asante Akyem Rural Bank. It

is against this background that this study seeks to investigate the financial performance of the Asante Akyem Rural Bank.

1.3 OBJECTIVES

The general objective of this study is to assess the performance of the Asante Akyem Rural Bank within the context of the changing business environment in the area.

The specific objectives include the following:

- To identify the profitability of the bank from 2003 to 2007.
- To measure the liquidity of the bank from 2003 to 2007.
- To examine the efficiency of the banks operations from 2003 to 2007.
- To identify factors militating against its operation and to make the necessary recommendations to remove most of the bottlenecks if not all.

1.4 METHODOLOGY

1.4.1 Scope of Study

This study seeks to assess the financial performance of the Asante Akyem rural bank within a five (5) year period from 2003 to 2007. For the purposes of comparison and clarification, references will be made to other banks both within and outside Ghana. Extracts will also be made from the profile of the Bank. Calculations and analysis of financial Ratios will be employed to determine the profitability, liquidity and efficiency in the operations of the Bank. Similar studies conducted by other writers will also be used to enrich this study. The study will also touch on some of the problems affecting the smooth running of the Asante Akyem rural bank whiles recommendations of substance

will be made to help address most of the identified problems.

1.4.2 Sources of Data

To make this study successful, data was drawn from both primary and secondary sources. Basically, the secondary sources included financial statements of Asante Akyem Rural bank from the period 2003 to 2007 as well as other printed documents of the bank. However, the electronic and print media also served as an important source of retrieving data for this exercise.

The primary source involved the use of an interview guide to interview key officials of the bank to provide reasons for the identified trends in the operations of the bank.

1.4.3 Analysis of Data

Financial ratios were calculated to determine the profitability, liquidity and efficiency of the bank for the various years under study. Analytical tools like frequency tables as well as bar charts were used to give a clearer and a graphical representation of the issues.

1.5 JUSTIFICATION

The Asante Akyem rural bank was set up basically to serve cocoa farmers who had to travel long distances to cash their Akuafo cheques by walking for more than 36 kilometres to the nearest financial institution in early 1980s. However, its operations also benefited other businesses and individuals within its catchment area. Today, the bank has expanded with even agencies in Afful Nkwanta, Oforikrom and Ayeduase, all in Kumasi

and serves so many customers including employees on government pay rolls.

Notwithstanding the strides made, there has been an increase in the number of banks in the Asante Akyem area. Currently, there are three (3) branches of Ghana Commercial Bank, Merchant Bank, Stanchart and two (2) branches of Barclays Bank. This has really engendered stiff competition among these banks.

In view of the growing competitive nature of the banking environment in the Asante Akyem area, it is necessary that a review about the banks performance is made to identify its strengths, weaknesses, opportunities and threats so that appropriate policies and recommendations could be implemented to ensure the continuous growth of the Bank.

1.6 LIMITATION OF THE STUDY

In pursuing a research into the performance of Asante Akyem rural bank, the researcher encountered the following problems:

i. The problem of inadequate funds limited the extent to which the researcher was able to move around to collect data.

ii. Lack of information was the major constraint because most of the financial institutions were unwilling to release data and this increased the period for conducting the study.

iii. As a part-time student combining work with studies, there was a limited time at my disposal to effectively meet deadlines.

iv. The outcome of each research depends to a large extent on the quality of the data collected. Thus, the trustworthiness of those who answered the questions may lead to inaccurate conclusion if false or adulterated information was provided.

1.7 ORGANIZATION OF THE REST OF THE STUDY

The first Chapter centered on the introduction of the study with a background that led to the problem, objectives, scope and methodology. Chapter two looks at literature review on the operation of rural banks both in Ghana and across the world. Chapter three will deal with the research methodology and the profile of Asante Akyem rural bank. Chapter four will deal with the analysis and interpretation of all available data on the subject matter as well as highlights some of the identified problems of the Bank. Chapter five deals with summary of findings, conclusions and recommendations to overcome those problems.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 INTRODUCTION

Fundamentally, rural banks sprang up with the aim of bridging the gap between the rural or smaller communities (mostly with agriculture as their main occupation) and the culture of banking.

According to the Philippines Institute for Development Studies' web, dirp.pids.gov.ph, Rural banks are "government-sponsored or assisted banks (which are privately engaged and largely privately-owned) that provide credit facilities on reasonable terms to farmers and merchants, or to cooperatives of farmers and merchants, or in general, to the people of the rural community".

Rural bank is also defined by wiki.answers.com as "a financial institution that helps rationalize the developing regions or developing country to finance their needs especially the projects regarding agricultural progress".

This chapter reviews relevant literature on rural bank system. It includes an overview of rural banks in other countries, the rural bank program in Ghana, debt ratio, total liability to total assets ratio, management efficiency, profitability, liquidity, interest rates, demand for credits and loan repayment. The understanding of these concepts helps to establish an analytical framework for the present study.

2.2 RURAL BANKS IN OTHER COUNTRIES

In India between 1977 and 1990, the Indian Central Bank mandated that a commercial bank can open a branch in a location with one or more bank branches only if it opens four in locations with no bank branches. This rule caused banks to open more rural branches which is a form of rural bank in the Indian States with lower initial financial development (Burges and Pande, 2003). It is through these rural branch expansions of commercial banks (rural banks) that the rural programmes are carried out across India.

In fact this trend is not restricted to India, for example, in the United States; the Community Reinvestment Act of 1977 requires a bank to meet the credit needs of its entire community, including lower neighbor hoods.

In Brazil banks are required to open branches in the rural areas for the execution of the National system of Rural Credit. The federal government defines amounts of capital programmes interest rates, limits for each contract, types of activities and products meant for farmers in accordance with the objective of the government. This form of banking is the rural banking in Brazil.

In Czech in Europe, the rural bank is a form of credit, which is organized to serve municipal interests. Savings banks and Schulze-Dehitzsch credit cooperative initially provided rural credit, primarily in the form of mortgage loans. This local financial institution which is the rural bank embraced a social mission for aiding the poor and promoting small producers.

The rural banking concept, introduced in 1976 by Bank of Ghana (BOG) was to fill the vacuum created by Agricultural Development Bank (ADB) and Ghana Commercial Bank (GCB) in the rural areas. The rural banking system in Ghana represented an innovative initiative by Bank of Ghana in that it broke away from traditional banking in the country. The Rural banks were independent locally owned and managed and catered to a local clientele unlike other banks which were all controlled from central head offices.

The Rural Banks in Ghana unlike their counterparts in the Philippines are owned by large numbers of persons in the local community. The banks as a "Unit banks" which means they are not allowed to operate more than one branch or office, yet they differ from "Village Banks" in other countries, example Mali in that each bank has a direct relationship with the Bank of Ghana which formally regulates and supervises the rural Banks operations.

Section 51 of the former Bank of Ghana Law (PNDCL 291) and section 18 of the Banking Law 1989 (PNDCL 225) conferred exclusive powers on Bank of Ghana to supervises all Banks in Ghana. Section 13 of the financial Institutions (Non – Banking) Law 1993 (PNDCL 328) confers similar powers on the BOG to supervise non-bank financial institutions. On the contrary, section 4 (2) of new BOG Act 612 (2002) confers powers on the BOG Board to authorized, by legislative instrument, any person to exercise the power of the Bank to regulate and supervises non-banking financial institutions. The equivalent provision for the banks is in clause 3(3) of the new Banking Act 2004 which gives BOG powers to authorize the ARB APEX Bank Ltd to supervise rural and community banks.

The legal status of the Nigerian Rural Banks is different from that of Ghana. In the case of Nigeria the major banks are obliged by law to open branches of their banks in the remote areas. It is those branches of the major banks opened in the rural areas that are called rural banks. However, the Nigeria rural banks have the same basic objectives as those in Ghana.

2.3 THE RURAL BANK PROGRAM IN GHANA

From the 1950s to the 1980s, Ghana employed the Directed Credit approach to intervention in rural credit markets, or what Essel (1996) terms the "Increased Agricultural Production Approach." Analysts operating in this tradition view the typical Ghanaian smallholder as being able to invest only a small percentage of his/her already-low income. Agricultural output and income, therefore, remain low over time, because farmers are trapped in what Owusu-Acheampong (1986) called the "Little Opportunities Circle": little capital outlay begets little marketable surplus, little income, and once again little capital outlay. The goal of the Increased Agricultural Production Approach is to break this circle by injecting credit into the farm sector at a point between little income and little capital outlay. The result would be a rise in smallholder disposable income. Savings and investment would increase accordingly, output would expand, farm incomes would rise, and rural poverty would be alleviated.

The Bank of Ghana made several attempts in the 1960s and 1970s to implement this approach. For example, it established a Rural Credit Department, charged with mobilizing investment funds for agriculture, in the early 1960s. In 1969 the central bank

sponsored a Small Borrower Credit Guarantee scheme through the commercial banks and Development Finance Institutions, in hopes of bringing smallholders within reach of the formal financial sector. The independent Ghana Credit Union, which had been funding investments in rural income-generating activities since 1955, received significant Bank of Ghana financial support in 1974. During this period the central government implemented additional measures to promote rural development via the Directed Credit Approach. For example, in 1965 the first Development Finance Institution dedicated to agriculture-the Agricultural Development Bank (ADB) was established. This bank, a typical "supply-led" financial institution in the tradition of Directed Credit programs around the developing world (Yaron, 1994) was given a mandate to funnel "outside money" (in the form of external grants and loans, and central government funds) to the small-scale rural sector on concessionary terms.

These interventions did little to alleviate the problem. By the end of the 1960s, institutional rural credit for smallholders was "nonexistent" according to Okyere (1990), and "virtually absent" according to Essel (1996). Despite all government efforts, including the imposition of sectoral credit-allocation requirements on commercial banks, by the early 1970s only nine percent of all commercial bank and Development Finance Institution credit was going to agriculture. Most of this, moreover, was absorbed by the large-scale, relatively rich farmers.

The formal financial sector, in sum, viewed lending to agriculture as unprofitable. The administrative costs associated with screening, monitoring, and enforcing repayment on

small loans dispersed over wide geographic areas were high, along with the perceived default risk. Formal institutions reacted to these costs and risks by imposing burdensome requirements upon would-be borrowers. To qualify for a loan, first of all, a farmer had to be literate: an active current (demand deposit) account at the bank and the ability to provide full business records were standard application requirements. In addition, would-be borrowers were forced to absorb significant non financial transaction costs such as the time involved in traveling to and from the institution's premises, and the time spent at the institution itself, during the loan application process. Finally, a farmer was required to put up the title to his/her land as collateral. But most rural dwellers did not (and today still do not) own the land they farm. Institutional credit, therefore, was beyond the reach of Ghana's smallholders.

In light of this situation, in 1970 the Bank of Ghana undertook a comprehensive study of the rural credit situation, which resulted in the decision to establish the Rural Bank program in 1976. Each Rural Bank is a unit bank, owned and managed by the local community, with a statutory operating radius of 38 km. The central bank must approve the establishment of an individual Rural Bank, help to finance it by purchasing shares equal to one-third of the initial share capital, and supervises its operations via the Rural Bank Department. The purposes of the Rural Bank program, according to the Association of Rural Banks (Essel, 1996), are:

1. To stimulate banking habits among rural dwellers;
2. To mobilize resources locked up in rural areas, for development;

3. To encourage saving among rural dwellers—by providing safe and accessible deposit facilities;
4. To provide credit facilities to small-scale farmers and cottage industrialists operating within the local area.

Rural Banks, therefore, are designed to serve small borrowers and savers. As the Governor of the Bank of Ghana put it in 1987, the Rural Bank program would remove some of the impediments facing farmers in formal credit markets by offering them banking services "at their doorsteps." The Ghanaian press, likewise, was enthusiastic about the program: the scheme was going to be a "God-sent relief (to rural dwellers) from the bureaucracy and out-of-reach demands of the commercial banks," and thus a "golden opportunity" for the Ghanaian farmer to "demonstrate his business acumen" (The Mirror: May 9, 1991; Daily Graphic: May 9, 1987).

The Rural Bank program, clearly, contains many elements of the Directed Credit Approach. Each bank is a formal financial institution, and is subject to all national commercial bank legislation and requirements. Furthermore, each Rural Bank must adhere to specific sectoral credit-allocation requirements: a minimum of 50 percent of its loan portfolio must be in agriculture, a maximum of 20 percent can be in trade and transport, and 30 percent should go to cottage industries. The Rural Bank scheme, however, is not a classic "traditional rural credit project." Rural Banks, in other words, are not mere disbursement windows for externally-provided funds (i.e., exogenous shocks designed to break the Little Opportunities Circle). Instead, this scheme can be

interpreted as an early attempt to employ the Financial Systems Approach to RFM reform and development. The focus of the Rural Bank program is on the creation of institutions (not "project centers") that hopefully will become permanent features of the local economic environment. Each bank's lending resources, for example, are to be generated internally-via explicit efforts to mobilize voluntary savings. Furthermore, each bank's local management has the authority to formulate its own operational policies, pursue branch-office expansion, and determine loan terms (i.e., sizes, maturities, interest charges) and thereby tailor its services to local needs. In this vein, Rural Banks are encouraged to engage in group based lending activities; explicit guidelines governing such activity, similar to those in more well-known group lending schemes such as the Grameen Bank of Bangladesh, are incorporated into the program.

In sum, the overarching purpose of the scheme is to bring desired financial services to local rural communities on a sustainable basis and hence to enhance the quantity and quality of rural financial intermediation. In this respect the Rural Bank program was ahead of its time, for it included many of the elements of RFI success identified in the Financial Systems Approach literature of the 1980s and 1990s. On the surface, at least, the program appeared built for success.

The first Rural Bank opened for business in 1976, and over the next eleven years (1976-87) the program spread to all 10 regions of the country. By 1987 fourteen percent of the rural population, or 553,000 people, held accounts at 117 Rural Banks across Ghana. Deposits totaled 2.2 billion cedis; deposits per person had climbed 2,913 percent over this

period, to reach 3,978 cedis ($US25.87 at the prevailing exchange rate) in 1987. The program's loan portfolio was valued at 634 million cedis, or $US4.12 million. Observers concluded that the program had been "quite successful" in mobilizing savings (Nissanke, 1991), and that its provision of safe and secure deposit facilities for rural dwellers was a "major achievement" (Okyere, 1990). Moreover, the Rural Bank scheme had contributed to the expansion of agricultural output, because its impact on farm profitability "could not be overemphasized" (Okyere, 1990). The dramatic growth of the scheme during the 1980s, in terms of outreach, can be traced to the Economic Recovery Programme (ERP) initiated by the government in 1983. The Rural Bank program was seized upon as the principal vehicle through which two of the ERP's medium-run goals for agriculture would be pursued:

1. Increases in "the level and efficiency of rural financial intermediation, in order to increase the role of the private sector in agricultural growth, especially small farmers and small rural entrepreneurs" (Okyere, 1990:75);

2. Improvements in the method of producer payment, particularly in the cocoa sector (Ghana's principal cash crop). The first of these goals was fully consistent with the original purpose and aims of the Rural Bank scheme. The second led to the government's decision to have the Rural Banks manage a new cocoa-farmer payment scheme. When selling cocoa to the Produce Buying Division of the Ghana Cocoa Marketing Board (GCMB-PBD), farmers were now to be paid with a special check—an "Akuafo Check." At the farmer's request, the PBD would specify the "beneficiary" of the check-the bank at which the farmer plans to cash the check. The central government would then distribute funds for check-redemption to the Rural Banks in each cocoa area, based upon

estimates of the area's total PBD purchases. The banks would purchase the checks from the farmers (and get reimbursed if the necessary money had not yet arrived), and receive commissions in the process. The Akuafo Check system represented a marked improvement over previous payment methods. But in most of the more remote cocoa areas, no formal financial institutions existed where farmers could cash their Akuafo Checks. Many farmers were thus forced to bear significant expenses (in terms of travel-time, transport fares, and security) in order to receive payment. The solution to this problem was to establish more Rural Banks in the cocoa areas.

The expansion of the Rural Bank network in the 1980s was thus designed, in part, to facilitate the new cocoa payment method. Furthermore, the banks' management of the Akuafo Check scheme had the potential to enhance their efforts to develop sustainable credit linkages with local cocoa-farming populations; a significant percentage of each Akuafo Check, hopefully, would be transformed into voluntary savings at the banks.
The initial results of the Akuafo Check-Rural Bank connection were encouraging. Okyere (1990: 76) noted that "prompt payment of cocoa farmers through the Rural Bank system" was leading to more patronage of the banks as financial institutions, and increased deposit-mobilization. By the end of the 1980s, according to Okyere (1990), the cocoa sector had become a "major beneficiary" of the Rural Bank scheme.

A significant loan-recovery problem, however, began to appear in the latter half of the 1980s. Default rates across most of the Rural Banks had become high, and were rising. Some borrowers were unable to repay, due to exogenous factors such as weather and/or

market conditions. Other recipients had misapplied their credit, diverting it towards non-productive uses such as land litigation and funeral ceremonies (Essel, 1996), and hence were also unable to service their debt. Still others were unwilling to repay. Since the Rural Banks were marketed as "for the communities," some borrowers "saw nothing wrong in owing their communities (the banks) indefinitely, when the means to repay was not there" (Essel, 1996: 46). Finally, Rural Bank credit was often perceived as outside money-grant money provided by the central government out of general tax revenues-that did not need to be repaid.

As a result, the Rural Banks became increasingly reluctant to lend to their target populations (i.e., farmers and fishermen). Instead, the banks diverted their credit to salaried workers (perceived as less risky due to a regular income stream), and to essentially risk-free government securities. By 1991 Rural Bank holdings of such securities comprised 30 percent of all interest-earning assets in the system (Essel1996). The banks thus increasingly violated the scheme's statutory credit-allocation mandate: from 1977 to 1988 the proportion of total credit extended to agriculture fell in half; by 1988 credit to agriculture comprised only 34 percent of the Rural Banks' combined loan portfolio (Nissanke, 1991).

The banks' target groups, not surprisingly, began to lose confidence in the scheme. For example, cocoa farmers began to divert their Akuafo Checks away from the Rural Banks and to the few big urban-based commercial banks that dominate Ghana's formal financial sector, despite the expenses that had to be absorbed. This exacerbated the default problem

of the cocoa-area Rural Banks, and hampered their savings-mobilization efforts. The public in general, moreover, had "begun to lose confidence" in some of the Rural Banks by the late 1980s, according to the Governor of the Bank of Ghana. A generalized solvency/liquidity crisis was looming; the President of the Association of Rural Banks reported in a 1989 speech that fully 70 percent of all banks were functioning "below the poverty line."

The central government responded to this crisis by implementing a Rural Finance Project in 1990, funded by the International Development Association. This project was one component of the government's Financial Sector Adjustment Program, initiated in 1988 under the auspices of the IMF and the World Bank, the goals of which were financial liberalization and a restructuring of the formal financial system. The initial phase of the Rural Finance Project, a comprehensive diagnostic study of each individual Rural Bank during 1991, confirmed the problems. Only two of the 123 banks were in full compliance with the Amended National Banking Law of 1989 (PNDC Law 225), and hence met all statutory capital adequacy, liquidity, and manpower requirements. These two banks, therefore, were the only two to receive the central bank's "Satisfactory" rating at that time. The other 121 banks, rated "Mediocre" by the Bank of Ghana, were suffering from capital inadequacy and/or illiquidity, accumulating losses, and having difficulty meeting the withdrawal demands of depositors. As the reform effort proceeded during 1991-94, some progress was made. For example, by the end of 1994 nearly half (44 percent) of the 125 Rural Banks in operation at that time were rated Satisfactory. Deposits in the scheme rose 192 percent during these years, and deposits per person stood at 22,500 cedis as of

1994 - a 465.5 percent increase over the 1987 level.

But problems persisted. Over half (56 percent) of the Rural Banks were still not in compliance with PNDC Law 225 by the end of 1994. Nineteen of these, moreover, had become officially categorized as "Distressed"-they were insolvent, accumulating heavy losses, unable (in the judgement of the central bank) to be repaired by capital injections or restructuring, and essentially collapsed. Furthermore, credit diversion by the banks continued unabated. By 1994 41.4 percent of all interest-earning assets held by the Rural Banks consisted of government securities. Total loans and advances had fallen to only 48.5 percent of deposits, more evidence of the banks' continued reluctance to lend to their target populations. Customer-Rural Bank relations as of 1994, therefore, were characterized by generalized "mistrust" (Essel 1996). The sporadic but spectacular cases of misappropriation and embezzlement of funds by bank officials that received national attention in the press during the early 1990s added fuel to the fire, so to speak. The cocoa farmers, as a result, continued to disengage from the scheme by diverting their Akuafo Checks away from the Rural Banks. During the 1991/2 cocoa season, for example, the 89 Rural Banks in cocoa areas purchased only 33 percent of the value of all Akuafo Checks issued in the country.

The central bank responded by implementing a restructuring program in 1994. This was an attempt "to arrest the situation before people totally lose confidence in the Rural Banks" (Essel, 1996: 70). For example, by 1995 the Bank of Ghana had scaled back significantly the lending operations of the Mediocre banks, and suspended entirely

all lending by Distressed banks. To protect depositors in the short term, most of these institutions' mobilized resources were channeled into safe government securities. Distressed Rural Banks, moreover, had to accept mandatory staffing reductions to cut administrative expenses.

As of 1996 the government sought to deepen this reform effort by implementing yet more restructuring measures: the central bank focused on making sure that Satisfactory Rural Banks remained in strict compliance with all commercial banking laws and regulations; with respect to the Mediocre and Distressed banks, the government continued to emphasize retrenchment and curtailment of operations. In terms of the Rural Bank scheme as a whole, the Bank of Ghana did not pursue a reengineering strategy, nor did it seek to re-invent them as the one it was originally intended to be. The government's response to the Rural Bank crisis during 1994-96, therefore, was similar to governmental responses to formal financial sector problems throughout Africa during these years: on a bank-by-bank basis the government focused on repairing the damage to, and strengthening, the formal financial system; at the macroeconomic level financial liberalization was pursued (African Development Bank 1994), (Aryeetey et al 1997).

2.4 FINANCIAL PERFORMANCE

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or

sectors in aggregation. It is also the measuring of the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value added, etc.

In today's increasingly global and competitive business environment, it's not enough to know where you want your business to go. You must plan faster and do more with potentially less budget and resources. At the same time, you must be incredibly efficient and more precise with every decision, while complying with regulatory requirements (www.businessobjects.com, 25/10/08).

Being responsible for profitability, growth, shareholder value, strategy, regulatory compliance, and investor relations, executives must prioritize strategic goals, modify plans based on financial and operational changes, and empower all stakeholders to make more calculated decisions. Understanding changes to enterprise performance requires monitoring, analysis, risk assessment, timely reporting, and action based on information coming from many different parts of the business – including external partners, vendors, and customers.

Demonstrating operational success entails closing the gap between strategy and operational execution by cascading corporate goals down into department relevant metrics; ensuring accountability, enabling intuitive modeling, monitoring, and analysis, and streamlining execution of strategy-guided plans (improving-financial-performance-through-clear-objectives.html, 25/10/08). Information needs to be available when your organization needs it to create a competitive edge and enable greater control of business operations. Improved business strategies and processes have the potential to significantly

increase financial performances. The problem is that often a purported solution to improve strategies and processes is explored and/or implemented before knowing the real question. In addition, these solutions are seldom linked to improvements in the key drivers of financial performance. By not knowing the real question and linkage to financial performance, the likelihood of a successful implementation is low. Moreover, it is nearly impossible to ascertain if there is an improvement in financial performance.

2.4.1 Performance-driven Organizations

Performance-driven organizations are characterized by above-average results, usually measured in financial terms, such as profit, earnings per share, revenue growth, and return on invested capital, product costs, and asset utilization (resources.bnet.com, 25/10/08). Strong financial performance is an indicator of excellence somewhere in the organization; these companies outperform their competitors in customer service and satisfaction, product quality, innovation, and productivity.

A successful financial performance is a masterful balancing act, and the treasurer walks a financial tightrope to ensure success. Today's economy has tipped the scale away from aggressive revenue streams. Yet companies seek profitability comparable to the days of double-digit, top-line revenue growth. Adaptability in the business world means ever adjusting to the economic winds of change and staying grounded in strategies that sustain long-term success. Companies must adjust to macro business factors-economic activity, interest rates, stock market valuations, and regulatory changes-over which they have little control. Working capital performance is fundamental to a company's ability to adapt in a

challenging economy, because it is both independent of macroeconomic factors and firmly within an organization's control.

Financial performance is limited to measures of how well a firm is using its financial resources, such as shareholder equity and debt. A few examples are return on assets, return on equity, Tobin's q, and risk adjusted market returns. As these examples show, performance is often measured from the owners' point of view. This is not a coincidence. The reason is that these principals normally are the residual claimants of the firm's profits and therefore stand to loose (or gain) the most from the firm's activities. The owners therefore normally have the strongest needs and incentives to be informed about financial performance.

2.5 FINANCIAL RATIOS / INDICATORS

A ratio is the relationship between numbers. For it to be meaningful it must measure progress. You should compute and graph each ratio for a period of three to five or ten years .The graph will highlight whether the business has strengthen, remain stable or weakened during the period under review. Besides it must be bench marked to compare the most recent result with appropriate high quality competitors or previous years result.

A definite accounting figures reported in the financial statement does not give the true reflection of the performance and financial position of the bank. It is important to note that an accounting figure conveys meaning when it is related to some other relevant information. For instance ¢1.8b net profit may look impressive however, the banks performance can be said to be good or bad only when the net profit figure is related to the

bank's investments. Thus the relationship between two accounting figures expressed mathematically is known as financial ratio

2.5.1 DEBT RATIO

The bank will be interested - bearing debt in a shorter period. It may therefore, compute debt ratio by dividing total debt (TP) by capital employed (CE) or net assets (NA). Total debt will include short and long - term borrowings from financial institutions, and debtor's payment arrangements for buying capital equipment, bank borrowings, probe deposits and any other interest - bearing loan. Capital employment will include total debt and net worth (NW). However the market valuc includes the value of intangible asset generated by research and development advertising staff training etc. (Myers, 2003). Thus, these assets are not saleable that a company can fall on during hard times since their value will disappear. It is therefore significant that you ignore this intangible asset. This is what lenders do when they insist that the borrower should not allow the book debt ratio to exceed a specific limit.

DEBT - EQUITY RATIO

It describes the lenders contribution for each cedi of the owner's contribution. The debt - equity (DE) ratio is computed by dividing total debt by net worth.

CAPITAL EMPLOYED TO NET WORTH RATIO

One will be interested in how much funds are being contributed together by lenders and shareholders for each cedi of the owner's contribution. We can get this by calculating the ratio of capital employed or net assets to net worth.

TOTAL LIABILITY TO TOTAL ASSETS RATIO

Current liabilities are not part when calculating leverage ratios. However it may be included on the ground that they are important determinants of the firm's financial risk because they are obligations and put pressure on the firm. It is a means to measure the proportion of total funds - short and long term provided by outsiders to finance total assets. It is estimated by dividing total liabilities by total assets.

2.5.2 MANAGEMENT EFFIECENCY

Sound management is key to bank performance but it is difficult to measure. It is primarily a qualitative factor applicable to individual institutions. Several indicators however can be used, for instance efficiency measure serve as an indicator of management soundness. The fact that firm efficiency is not an easy concept to measure does not mean that workforce management cannot be measured in an organization. Company keep data about the total number of employees, average time to fill - in days, average base salary and Global turnover Ratio. (Alberto Roldan 2001). Workforce management is known to be art rather than science. Therefore universal tools have not been developed to manage workforce management and its relation to generate revenue or earnings. The most important asset in an organization is the employee hence the ability to use those assets to generate revenue or earnings becomes a keystone in managing the financial affairs of an organization. (Alberto Roldan 2001). Growth in NRB, earning per employee and expenses ratio has been developed to measure this relationships. Again, organizations develop employee performance benchmarking as part of the growing trend for ensuring best practices implementation and the achievement and maintenance of competitiveness in the market

place. How organizations use models such as Economic value Added (EVA) and Return on Investment makes it possible to examine the performance of a bank

2.5.3 PROFITTABILITY

Compared with other indicators, trends in profitability can be more difficult to interpret, for instance unusually high profitability can reflect excessive risk taking. (Paul Hilbers, Russel Krueger and Marina Morreti 2000). An organization is organic. It survives and grows. Therefore, it is important that profit is earned. The fact that profit is important does not necessary mean that every activity initiated by management of an institution aimed at maximizing profit, no matter the social consequences, should be pursued. Thus profit maximization becomes the sole mission of some banks that, the cost of employees, customers and society are disregarded with impunity. These ratio provide not only means of measuring relative business efficiency but also focus attention on whether an adequate return has been earned in accordance with the expectations of the bank on the capital invested.

It is therefore necessary that sufficient profit must be earned to sustain the operations of the business to be able obtain funds for investors, for expansion and growth to contribute towards the social overheads for the welfare of the society. (Drunker PF, 1968) Profit is the difference between revenue and expenses over a period of time. The bank will not have any if it fails to make enough profits. The financial manager is therefore tasked to continuously evaluate the efficiency of the institution in terms of profit. The profitability is calculated to measure the operating efficiency of the company. Also management of the

organization, creditors and shareholders are also interested in the bank. Creditors want to get interest and repayment of principal regularly. Shareholders will want to get a required rate of returns on the investment. All these obligations can be met when the banks earn enough profits. There are two types of profitability ratios:

1 profitability in relation to sales

2 profitability in relation to investment

Gross profit (GP) is the difference between sales and the manufacturing cost of goods sold. Some firms define it as earnings before depreciation, interest and taxes (EBDIT) The most common measure of profit is profit after taxes (PAT), or net income (NI) which is the result of the impact of all factors on the firms' earnings. Taxes are not controllable by management and therefore profit before taxes may be calculated. If the assessment done by the investors (shareholders and lenders), then the operating profit would be used. Operating profit is similar to earnings before interest and taxes when the institution does not have non-operating income. Thus, examining the profit depicts earnings coming directly from commercial operations of the business without the effect of financing.

The gross profit margin shows the efficiency with which management produces each unit of product. The ratio shows the cost of goods sold and the sale revenue. When the gross profit margin is subtracted from 100 percent, the ratio of cost of goods sold to sales is obtained.

Net profit indicates the efficiency with which cost have been controlled in the generation of profit from sales. It does not differentiate between operating cost, administrative cost, distributive cost etc. (Watson & Head 1998). Thus net profit is obtained when operating expenses, interest and taxes are subtracted from the gross profit. It is calculated by dividing profit after tax by sales. If the net margin is inadequate, the firm will fail to achieve satisfactory return on shareholders funds. It also shows the firm's capacity to withstand adverse economic conditions. A firm with a high net margin ratio would be in an advantageous position to survive in the face of falling selling prices, rising cost of production or declining demand for the product. A high net profit margin firm can take advantage of favorable conditions such as rising selling prices, falling cost of production or increasing demand for the product. An institution of that nature can increase its profits at a faster rate than a firm with a low net profit margin.

For a firm's profitability to be interpreted meaningfully, both the gross margin ratio and net margin ratio should be jointly analyzed. If the gross profit margin has increased over years , but the net profit margin has either declined or remained constant or has not increased as far as the gross margin , it means the operating expenses relative to sales have been increasing .Gross profit margin may reduce due to fall in sale price or increase in the cost of production. As a result, net profit will decline unless operating expenses decrease significantly.

Operating Expenses show the average aggregative variations in expenses where some of the expenses may be increasing while others are falling. It explains the changes in the

profit margin ratio. It is calculated by dividing operating expenses via cost of goods sold plus selling expenses by sales. To get a detail in variations in the ratio, a number of years should be studied. It is affected by factors such as external uncontrollable factors, internal factors, employees and managerial efficiency which are difficult to analyze. Again the ratio can be used as a test of financial conditions in instances of those firms whose non-operating revenue and expenses form a substantial part of the total income.

Return on investment (ROI) - It refers to total assets or net assets. The funds in Net assets are called capital employed. Net assets equals net fixed assets plus current assets, minus current liabilities excluding bank loans .Capital employed is equal to net worth plus total debt. The convention of calculating return on investment (ROI) is to divide PAT by investment. Investment means pool of funds provided by shareholders and lenders while PAT is about residue income of shareholders, hence it is good to use PAT in the calculation of ROI.

It is more appropriate to use the following measures of ROI for comparing the operating efficiency of firms;

$$\text{ROI} = \text{ROTA} \qquad \frac{\text{EBT (1-T)}}{\text{Total assets}} = \frac{\text{EBIT (1-T)}}{\text{TA}}$$

$$\text{ROI} = \text{RONA} \qquad \frac{\text{EBIT (1-T)}}{\text{Net assets}} = \frac{\text{EBIT (1-T)}}{\text{NA}}$$

Thus the ROTA, return on total assets and return on net assets, RONA is the same as return on capital employed (ROCE). Capital employed is total assets less current liabilities or alternatively, capital employed is fixed assets plus net working capital.

Return on equity (ROE): while ROCE looks at overall return, return on equity compares the earnings attributed to the ordinary shareholder with the funds that they have invested in the business (Watson & Head 1998). Shareholders are legal owners of the firm whose share they hold. The return on shareholders capital is made up of dividend and capital gain. There are two types of shareholders: ordinary and preference. While preference shareholders receive dividend at a fixed rate, Ordinary shareholdings are not fixed. Also preference has priority over ordinary shareholders.

Net profit after taxes shows their return. The return is calculated to know the profitability of owners' investment. The shareholder equity or net worth will include paid-up share capital. Share premium and reserves and surplus less accumulated losses. Net worth can also be income by subtracting total liabilities from total assets.

Earnings per share (EPS) – It is the calculation of earnings per share by simply using the earnings attribute to ordinary shares. EPS shares show the profitability of the firm on a per share basis but it does not reflect how much is paid as dividend and how much is retained in the firm. In comparing EPS over a period, adjustments for bonus or right issues should be made. Bonus shares are free additional shares issued to the shareholders. The total wealth of a share holder before or after bonus issues remains the same. If a company

distributes all earnings to shareholders then, it can require new capital from the same form by issuing new shares known as right issue.

Dividends per share: The calculation is based on not the number of ordinary shares issued by a company. The net profit after taxes belongs to the shareholders. However the income they receive is the amount of earnings distributed to shareholders divided by the number of ordinary shareholders. The ratio is commonly used in discussion on dividend policy and share valuation. Earnings not distributed to shareholders are retained in the firm. Thus retained earnings are undistributed profits of equality capital. The retention of earnings can be considered as a form of raising new capital. Thus retention ratio is 1-payout ratio. If this figure is multiplied by the return on equity (ROE), we will then know the growth in the owners' equity as a result of retention policy.

Earnings yields: It shows how much an investor is prepared to pay for a share given a company's current earnings per share. It depicts the confidence in investors in the expected future performance of the company relative to that of other companies (Watson & Head 1998). The information about the market value per share is not generally available from the financial statements. It must be collected from external sources such as the stock exchanges or the financial news paper. It is also called earnings price ratio.

Price earnings ratio: this is widely used by the security analyst to value the bank's performance as expected by investors. It indicates investors' judgment about the firm's performance. Management is also interested in this market appraisal of the firms

performance and will like to find the case if PE ratio declines.

Dividend yields: The ratio gives a measure of how much an investor can expect to receive in exchange for purchasing a given share, although it fails to take into account capital gains due to increasing share prices.

Market Value-to-Book value Ratio: It is the ratio of share price to book value per share. It is the net worth divided by the number of shares outstanding.

2.5.4 LIQUIDITY

Initially solvent financial institutions may be driven toward closure by poor management of short-term liquidity. Indicators should cover funding sources and capture large maturity mismatches (Hilbers, Krueger and Morreti, 2000). Liquidity ratios measure the ability of the firm to meet its current obligations. Analyst of liquidity demands the preparation of cash budget and fund flow statements. Thus liquidity emphasize on the relationship between cash and other current assets to current obligation, provide a quick measure of liquidity. Current assets should be managed efficiently for safe guarding against the dangers of illiquidity and risk. A large investment in current assets under certainty would mean a low rate of return on investment of the firm, as excess investment in current assets will not earn enough return.

However a small investment in current assets would mean interrupted operations of the bank leading to inability to pay creditors. The bank should ensure that it does not suffer

from lack of liquidity and also it does not have excess liquidity.

Failure of the bank to meet its obligation due to insufficient liquidity will lead to poor credit worthiness, loss of creditor's confidence, or at times legal fail resulting in the closure of the bank. However a very high rate of liquidity is inappropriate, since idle assets aim nothing. The bulk of the bank capital would be unnecessary tied up in current assets. It is therefore necessary to come to a convert balance between high liquidity and lack of liquidity.

The common ratios use to find the extent of liquidity or lack of it is current ratio. Current assets include cash, marketable securities, debtors and inventories and prepaid expenses. Current liabilities include creditors, bill payable , accrued expenses, short term bank loan(deposits), income tax and long term debt maturing in the current year. As an acceptable rule, current ratio of 2 - 1 or more is considered satisfactory.

2.5.5 FINANCIAL RATIOS AND THEIR IMPORTANCE

Financial ratio analysis is the calculation and comparison of ratios which are derived from the information in a company's financial statements. The level and historical trends of these ratios can be used to make inferences about a company's financial condition, its operations and attractiveness as an investment.

Financial ratios are calculated from one or more pieces of information from a company's financial statements. For example, the "gross margin" is the gross profit from operations

divided by the total sales or revenues of a company, expressed in percentage terms. In isolation, a financial ratio is a useless piece of information. In context, however, a financial ratio can give a financial analyst an excellent picture of a company's situation and the trends that are developing.

A ratio gains utility by comparison to other data and standards. Taking our example, a gross profit margin for a company of 25% is meaningless by itself. If we know that this company's competitors have profit margins of 10%, we know that it is more profitable than its industry peers which is quite favourable. If we also know that the historical trend is upwards, for example has been increasing steadily for the last few years, this would also be a favourable sign that management is implementing effective business policies and strategies.

The existence of so many business units producing same, substitutes or similar products has made competition an inevitable phenomenon in the world today. Ratio Analysis enables the business owner/manager to spot trends in a business and to compare its performance and condition with the average performance of similar businesses in the same industry. To do this, compare your ratios with the average of businesses similar to yours and compare your own ratios for several successive years, watching especially for any unfavorable trends that may be starting. Ratio analysis may provide the all-important early warning indications that allow you to solve your business problems before your business is destroyed by them.

Financial ratio analysis groups the ratios into categories which tell us about different facets of a company's finances and operations. An overview of some of the categories of ratios is given below.

- **Leverage Ratios** which show the extent that debt is used in a company's capital structure.
- **Liquidity Ratios** which give a picture of a company's short term financial situation or solvency.
- **Operational or Efficiency Ratios** which use turnover measures to show how efficient a company is in its operations and use of assets.
- **Profitability Ratios** which use margin analysis and show the return on sales and capital employed.
- **Solvency Ratios** which give a picture of a company's ability to generate cash flow and pay it financial obligations.

It is imperative to note the importance of the proper context for ratio analysis. Like computer programming, financial ratio is governed by the GIGO law of "Garbage In, Garbage Out". A cross industry comparison of the leverage of stable utility companies and cyclical mining companies would be worse than useless. Examining a cyclical company's profitability ratios over less than a full commodity or business cycle would fail to give an accurate long-term measure of profitability. Using historical data independent of fundamental changes in a company's situation or prospects would predict very little about future trends. For example, the historical ratios of a company that has

undergone a merger or had a substantive change in its technology or market position would tell very little about the prospects for this company.

Credit analysts, those interpreting the financial ratios from the prospects of a lender, focus on the "downside" risk since they gain none of the upside from an improvement in operations. They pay great attention to liquidity and leverage ratios to ascertain a company's financial risk. Equity analysts look more to the operational and profitability ratios, to determine the future profits that will accrue to the shareholder.

Although financial ratio analysis is well-developed and the actual ratios are well-known, practicing financial analysts often develop their own measures for particular industries and even individual companies. Analysts will often differ drastically in their conclusions from the same ratio analysis.

2.6 INTEREST RATES

Interest rates can be defined as the premium received by the lender after a stated period of time. From the borrower's point of view, it is the cost of capital at the time of obtaining a loan. There are several schools of thought regarding the interest rates. According to the Classical school, the rate of interest is the main determinant of savings and investment. This school asserted that aggregate investment is inversely related to the rate of interest. This relationship has been observed to be a weak one; that is, investment tends to be fairly interest inelastic because it is influenced by businessmen's expectations, and yields are normally estimated within a particular range, for example 10% to 15%, that is if a

small increase in the interest rate occurs, it will not disturb the long run expansion of the enterprises.

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

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

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

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

2.7 DEMANDS FOR CREDIT

The role of credit is to bridge the gap between enterprise owner's financial assets and the

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

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

The debate on whether high interest rates affect the demand for credit is inconclusive and may go on indefinitely. There are two main schools of thought. The first school advocates that high interest rates negatively affect the demand for credit because only limited borrowers with high risk projects may have their demand satisfied. Prominent among this school are Stiglitz and Weiss (1981), Stiglitz (1989) and Besley (1994) who argue that

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

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

Non-availability of credit for SMEs prevents them from engaging in productive enterprises or expanding their businesses. Limited access to bank credit can be attributed to bureaucracy and high interest rates which are in line with the first school of thought's assertion. This means that the high interest rates constrain the demand for credit (Boon, 1989). Evidence on the impact of financial sector liberalization on SMEs shows the following: Steel and Webster (1992), Aryeetey et al (1994) and Nissanke and Aryeetey (1995) revealed that the financial sector liberalization did not improve access to borrowing by SMEs. They attributed this to tightening of monetary controls, introduction

of high yielding securities to mop up liquidity, and efforts to raise the performance of loan portfolios. Steel and Webster (1989) also pointed out that growth of SMEs has been hampered by the difficulty of financing working capital and new investment. In our view, the latter implies that limitations on the credit to the Poor and SMEs can be explained by the information asymmetry model which portrays limited access to financial capital.

There is opportunity cost attached to decisions to lend monies to SMEs given the relative scarcity of finance. Banks normally feel reluctant to lend to SMEs and this affects the supply of credit to SMEs. Preliminary estimates from recent survey conducted in the year 2000 showed that out of the 16 commercial banks in Ghana, only six provided credit equivalent to ¢10 billion to the micro finance sub-sector which was in need of total credit demand of ¢380 billion. The provision of credit to the tune of ¢10 billion constituted only 1% of the loans and advances in the same year (Opare, 2001). Most commercial banks appear not to have proven-lending methodology for the financing of the SMEs. Banks underestimate bankable SMEs' demand for credit because they have not developed techniques for overcoming high transaction costs and risks (Aryeetey et al, 1994; Opare, 2001). This problem has contributed to the closure of their branches at the district and sub-district levels. These same banks readily disburse donor loans to SMEs because of the possible foreign exchange gains. Appraisal systems are relaxed because these funds are either guaranteed or provided by donors (Opare, 2001).

High yield of Government of Ghana's risk-free assets particularly treasury bills coupled with unfavourable macroeconomic environment also contributed to the limitation of

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

2.8 LOAN REPAYMENT

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

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

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

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

group members, in which social pressure was applied to achieve prompt payment and the flexible loan repayment terms that were tailored to cash flow patterns from specific income earning activities of lenders.

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

Aryeetey et al, 1994).

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

(Lassort and Clavier, 1989).

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

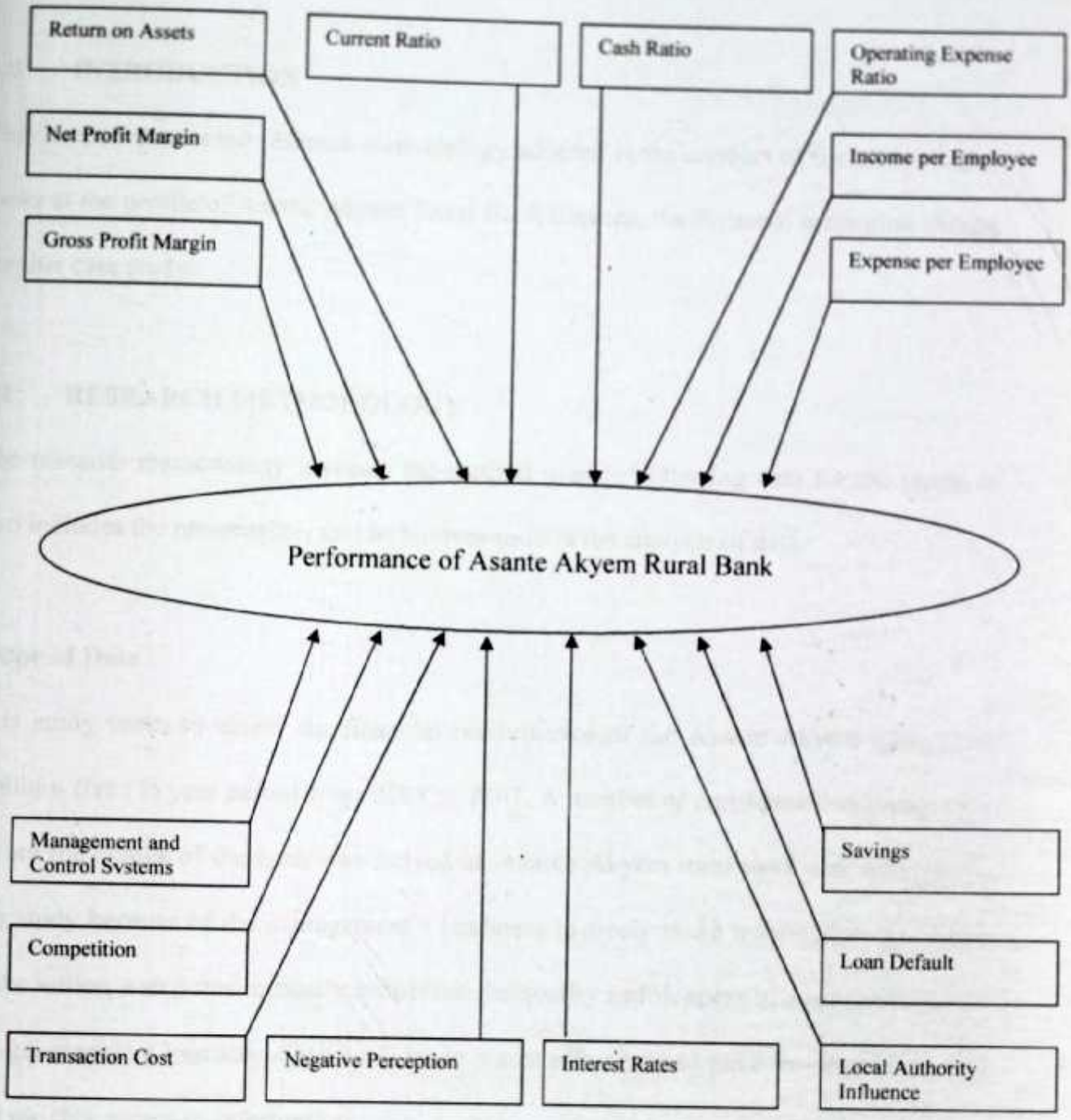
Political pressure for loan disbursement has been the bane of all SME credit programmes initiated by governments. Political pressure for loan disbursement without knowledge about borrowers' working environment has been recognised by McGregor (1994) to be among the major causes of poor loan recovery.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

strategy used in the project appraisal. Many beneficiaries acknowledge such loans as "thank you from government", therefore, they do not see the need to pay back such loans.

2.9 CONCEPTUAL FRAMEWORK

The factors anticipated to influence the performance of Asante Akyem Rural Bank are summarised in the conceptual framework below.

Figure 1: CONCEPTUAL FRAMEWORK OF THE PERFORMANCE APPRAISAL OF ASANTE AKYEM RURAL BANK FROM 2003 TO2007.



SOURCE: Tweneboa-Kodua Kwadwo, 2008 (Author)

CHAPTER THREE

THE RESEARCH METHODOLOGY AND THE PROFILE OF ASANTE AKYEM RURAL BANK

3.0 INTRODUCTION

This chapter entails the research methodology adopted in the conduct of the study. It also looks at the profile of Asante Akyem Rural Bank Limited, the financial institution chosen for this case study.

3.1 RESEARCH METHODOLOGY

The research methodology involves the method used in collecting data for the study. It also includes the presentation and techniques used in the analysis of data.

Scope of Data

This study seeks to assess the financial performance of the Asante Akyem rural bank within a five (5) year period from 2003 to 2007. A number of considerations were made before the choice of the bank was arrived at. Asante Akyem rural bank was selected for this study because of the management's readiness to freely make information accessible to the writer, a step that critically influences the quality and richness of a research. Again, the geographical location of the bank made it cost effective and gave the researcher easy and quicker access to information.

3.1.1 METHOD OF DATA COLLECTION AND ANALYSIS

To ensure that the outcome of this research gives the true reflection of the financial performance of Asante Akyem Rural Bank, data was gathered from both primary and secondary sources.

Primary Data

The primary source dealt with information gathered from selected members of executive management of the bank under study. Data collection was achieved by the use of interview guide to interview the management members. For the sake of reliability and convenience, the Managing Director and the Administrative Manager of the bank were interviewed to find first hand explanations to identified trends and problems in the operations of the bank through the use of the interview guide.

Secondary Data

Secondary data used included all financial statements of the bank from the year 2003 to 2007 as wells as other documented materials in the custody of bank. Data was also sourced from the print media, electronic media and other unpublished materials.

This period was chosen because the statements were available and followed consecutively for five (5) years. It also marked the time when the banking environment started experiencing stronger competition due the location of branches of some other banks within the Asante Akyem area.

Tools for Data Analysis

A greater portion of this work was based on the financial statements of the bank. Profitability, liquidity and efficiency ratios were calculated, analyzed and interpreted. With the aid of percentages, frequency tables and bar graphs, the pictorial representation of the various major issues were highlighted. Microsoft Excel (spread sheet) was employed for the analysis.

3.2 ORGANISATIONAL PROFILE OF ASANTE AKYEM RURAL BANK LTD

3.2.1 HISTORY OF THE BANK

The Asante Akyem rural bank was incorporated in December, 1980 and was authorized to carry on the banking business by the Banking Act (Act 339) on the 27th of March, 1981. It however commenced business in 1982 with one agency at Juansa in the Asante Akim North District. The bank was formed to basically serve cocoa farmers who had to travel long distances to cash their Akuafo cheques by walking for more than 36 kilometres to the nearest financial institution in the early 1980s.

3.2.2 MANAGEMENT OF ASANTE AKYEM RURAL BANK

The bank has an eight member Board with diverse background and experiences who are charged with the responsibility of formulating policies and directing the affairs of the bank. The management of the bank is composed of the senior manager as the head, Deputy Manager, Accountant, Senior Project officer, Administrative manager and all the seven (7) Agency managers, well supported by all clerical and non-clerical staff of the

bank.

3.2.3 THE BANK AND ITS AGENCIES

The Asante Akyem rural bank has its headquarters housed in a modern magnificent building at Juansa and has nine Agencies. One of the nine (9) Agencies shares accommodation with the headquarters. The rest of them are located at Agogo, Konongo, Odumase, Juaso, Amakom, Afful Nkwanta, Ayeduase and Ofoase, all in the Ashanti region.

3.2.4 SAVINGS PRODUCTS OF AARB

Current Acounts:

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

Fixed Deposit:

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

Savings Account:

The purpose of this product is to allow clients to save for investment or to raise capital.

Interest is paid quarterly on the minimum balance maintained within the period.

Susu Deposit Account:

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

Golden Deposit Account:

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

3.2.5. LENDING PRODUCTS OF AARB

Susu Loan:

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

Traditional Loans and Overdrafts:

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

Salary Loan:

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

the bank.

Church Development Loan Scheme:

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

Travel Finance Loans:

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

Funeral Loan:

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

Micro Finance:

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

Loan Outreach and Strategy

Asante Akyem rural bank lends mainly to groups. Besides individuals, sole proprietors,

and partnerships, companies that kept accounts with the Bank can benefit from their credit facilities. The Bank is involved in the formation and monitoring of the groups from the very beginning to the gestation of the group. The Bank has two types of groups.

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

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

CHAPTER FOUR: ANALYSIS AND DISCUSSIONS

4.0 INTRODUCTION

This chapter covers the analysis and discussions on the performance of Asante Akyem rural bank. Detailed analysis of the bank's profitability, liquidity and efficiency ratios will be conducted whiles in appropriate instances, references will be made to industry standards or benchmarks. Again, the various problems militating against the bank's operations will be discussed.

4.1 PROFITABILITY OF THE AARB FROM 2003 TO 2007

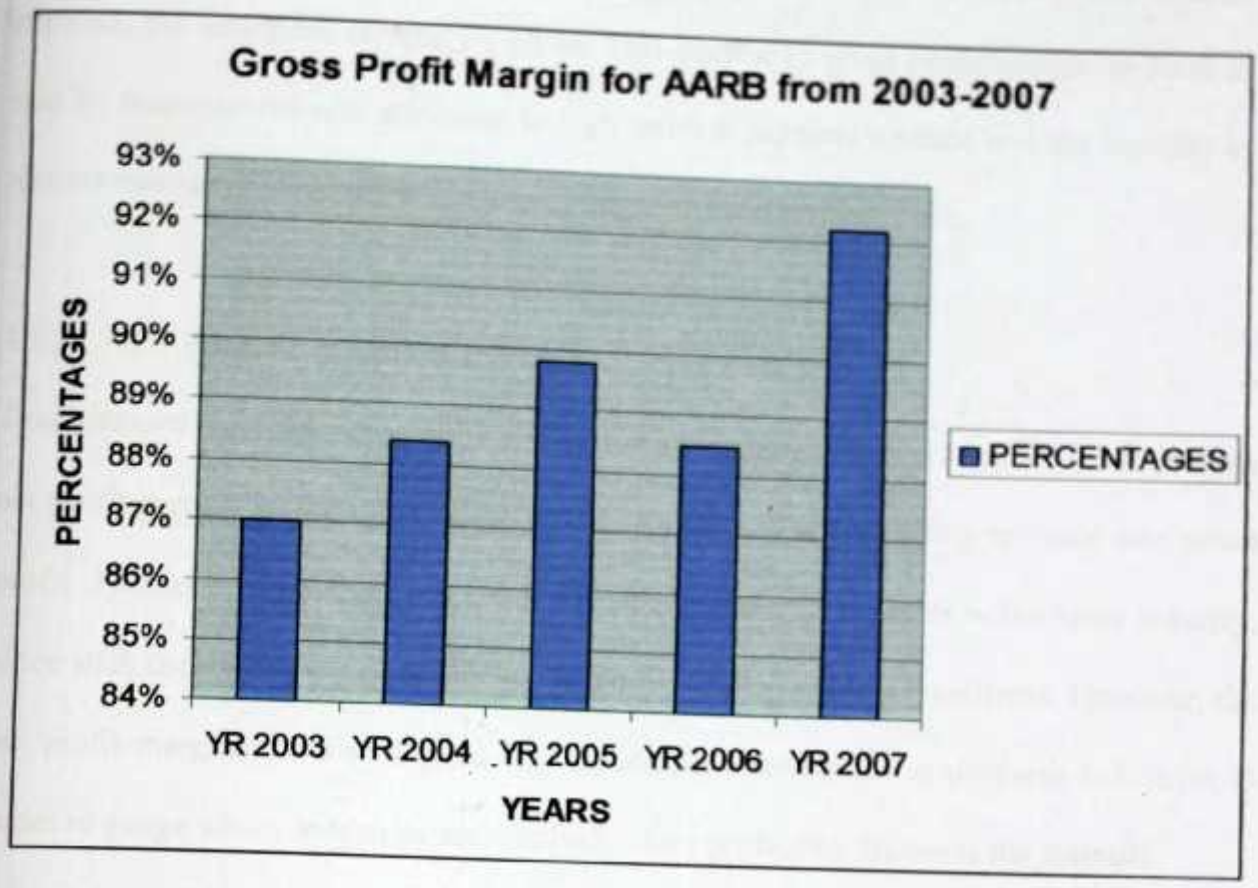
Here, discussions will be limited to gross profit margin, net profit margin and return on assets because of their suitability in the analysis of the financial performance of a bank.

4.1.1 GROSS PROFIT MARGIN (GPM)

The gross margin is not an exact estimate of the company's pricing strategy but it does give a good indication of financial health. Without an adequate gross margin, a company will be unable to pay its operating and other expenses and build for the future. Gross Profit Margin illustrates to us how efficient the management is in using its labour and raw materials in the process of production. The formula for calculating the gross profit margin is represented below;

$$GPM = \frac{\text{Interest income} - \text{Interest Expense}}{\text{Interest income}}$$

FIGURE 2:



SOURCE: FIELDWORK

Gross profit margin of AARB has been encouraging from 2003 to 2007. The year 2007 recorded the highest percentage of 92.2%. Asante Akyem Rural Bank recorded the lowest Gross profit margin in the year 2003 with percentage of 87%. Looking at Gross profit margin of AARB for various years understudy, it was observed that GPM had been increasing from year to year except in 2006 which recorded a fall in percentage. It was also observed that interest income was more than interest expense for all the years under review. It was evident from the profit and loss accounts for the various years under consideration that interest expenses were properly managed. The percentage increase in interest expense as compared to the interest income was low and even in some of the

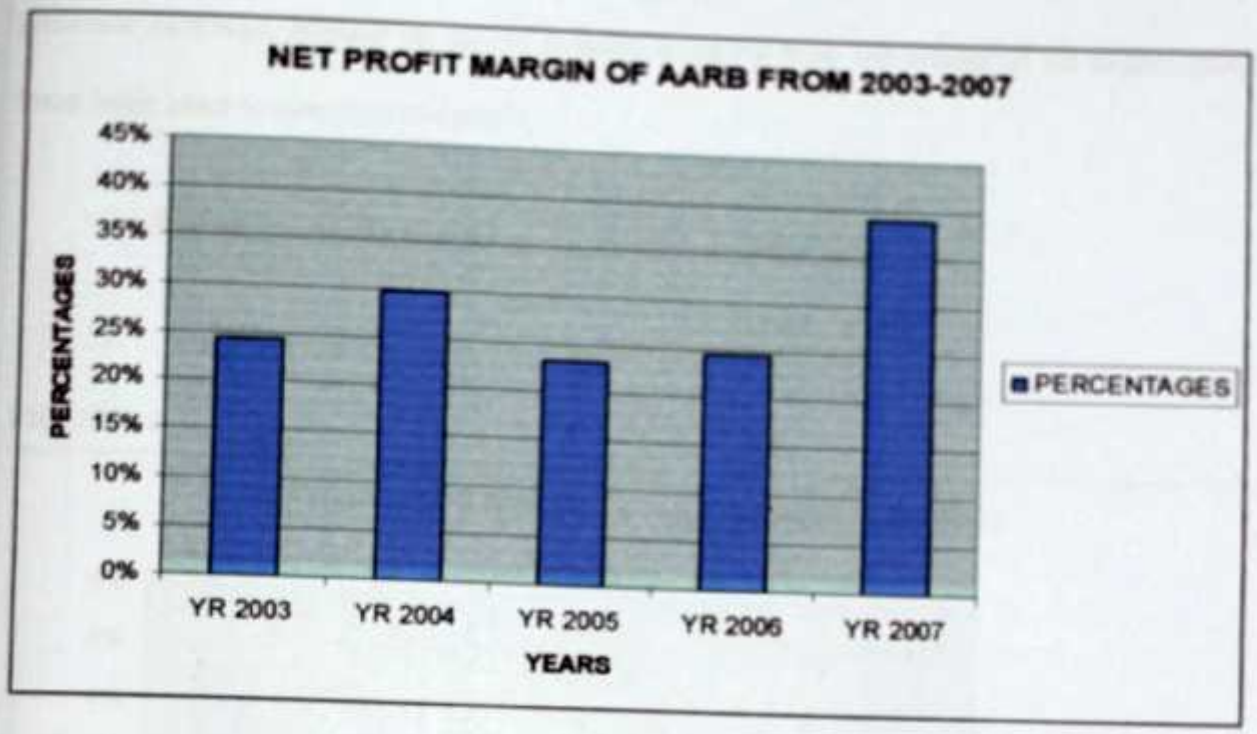
years, it rather fell. The greater the deference between interest income and interest expense, the better the company's GPM. This decline in gross profit margin in 2006 as said by management was attributed to high interest payment on debt and the inability to recover substantial amount of the loans granted to customers in 2006.

4.1.2 NET PROFIT MARGIN (NPM)

This measure is an indication of how effective a company is at cost control. The higher the net profit margin is, the more effective the company is at converting revenue into actual profit. The net profit margin is a good way of comparing companies in the same industry, since such companies are generally subjected to similar business conditions. However, the net profit margins are also a good way to compare companies in different industries in order to gauge which industries are relatively more profitable. Below is the formula.

$$\text{Net Profit Margin} = \frac{\text{Profit after Tax}}{\text{Interest Income}}$$

FIGURE 3:



SOURCE: FIELDWORK

The net profit margin shows how income from interest earnings in excess of interest expense has contributed to the net profit of the AARB. This ratio has taken into account only interest income. The net profit margin of Asante Akyem Rural Bank has been fluctuating over the period under study with 2007 recording the highest percentage of 39%. It is followed by 2004 with a percentage of 29.7%. The lowest net profit margin for the period was 23.2% in 2005. This rise and fall in net profit margin was due to rise and fall in depreciation charges as well as operating expenses for the period under review.

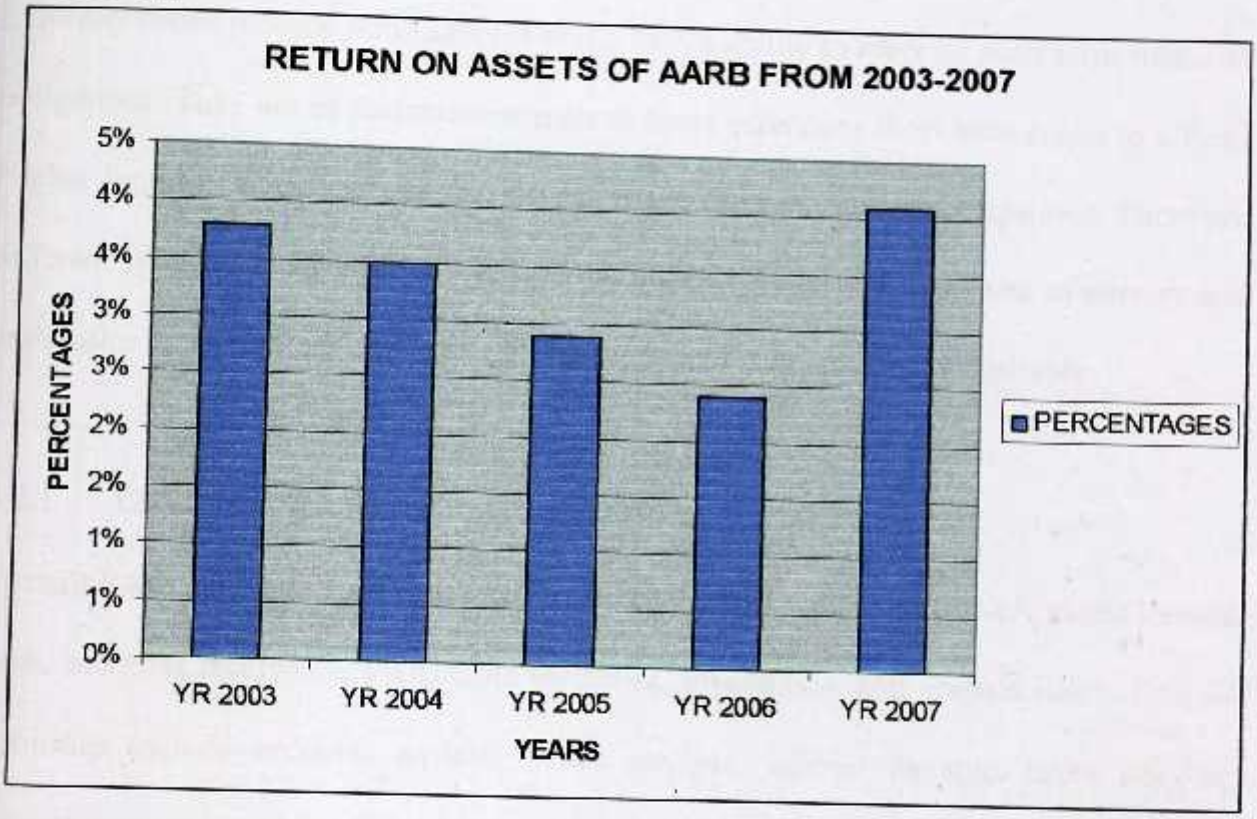
4.1.3 RETURN ON ASSETS (ROA)

Return on assets is an indicator of how profitable a company is relative to its total

assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Return on assets is used to show how the assets of an organization have been used to generate net profit.

$$\text{Return on Assets (ROA)} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

FIGURE 4:



SOURCE: FIELDWORK

The return on assets of Asante Akyem Rural Bank was 3.8% in 2003. It started declining and reached 2.4% in 2006 after which there was a sharp increased in 2007 with percentage of 4.1%. Between 2003 and 2007, the bank's assets were poorly managed and this resulted in the generation of an insignificant increase in net profit. Management responded that high operating expenses accounted for the fall in return on assets from the

period 2003 to 2006. However, in 2007, the return on assets short up and this was because the net profit for the bank increased remarkably. Operating expenses also increased but the percentage increased in net profit far out-weighed it to result in the highest ROA for the period under review.

4.2 LIQUIDITY OF THE BANK FROM 2003 TO 2007

Liquidity ratios provide information about a firm's ability to meet its short term financial obligations. They are of particular interest to those extending short term credit to a firm. Higher liquidity levels indicate that we can easily meet our current obligations. There are different types of ratios to monitor liquidity but this study will make use of current and cash ratios since they are applicable to this study and data required is available.

4.2.1 CURRENT RATIO

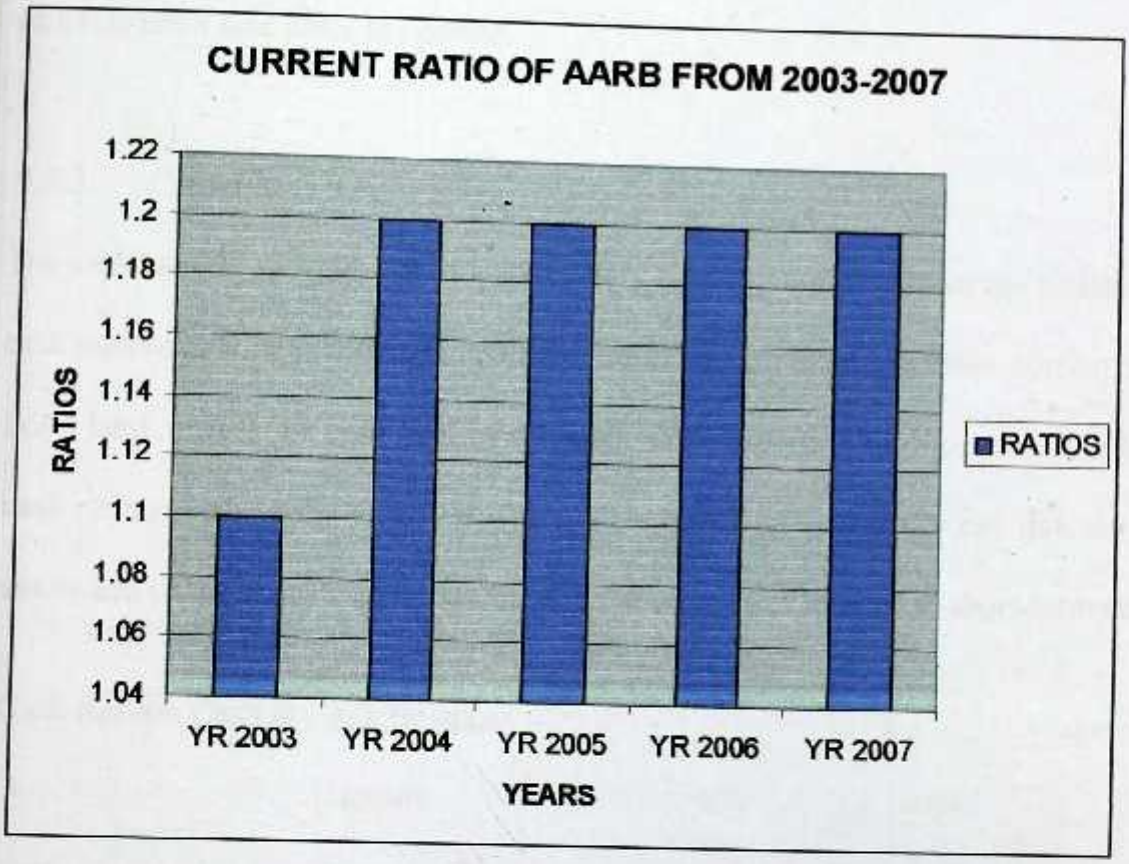
Current Ratio is simply current assets divided by current liabilities. Current assets include cash, accounts receivable, marketable securities, inventories, and prepaid items. Current liabilities include accounts payable, notes payable, salaries payable, taxes payable, current maturity's of long-term obligations and other current accruals.

Current ratio measures the relationship between current assets and current liabilities. According to the Accounting Issue web, www.accountingissue.info, the standard ratio should be 1:2 meaning for every one cedi of current liabilities, the company has two cedis worth current assets. The minimum acceptable current ratio is obviously 1:1 because any thing less than that would be alarming and would mean that the firm's current assets

would be less than its current liabilities. A current ratio of 1.5 or greater is usually sufficient to meet short term needs. Below depicts the situation of the current ratio for Asante Akyem Rural Bank.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

FIGURE 5:



SOURCE: FIELDWORK

Asante Akyem rural bank recorded the lowest current ratio of 1.1 in 2003 as a result of high liability incurred due to inefficiency, poor management and fraud. The bank recorded

a constant current ratio of 1:2 for the period 2004 to 2007. This is due to the fact that there was reduction in current liabilities as a result of reduction in deposits.

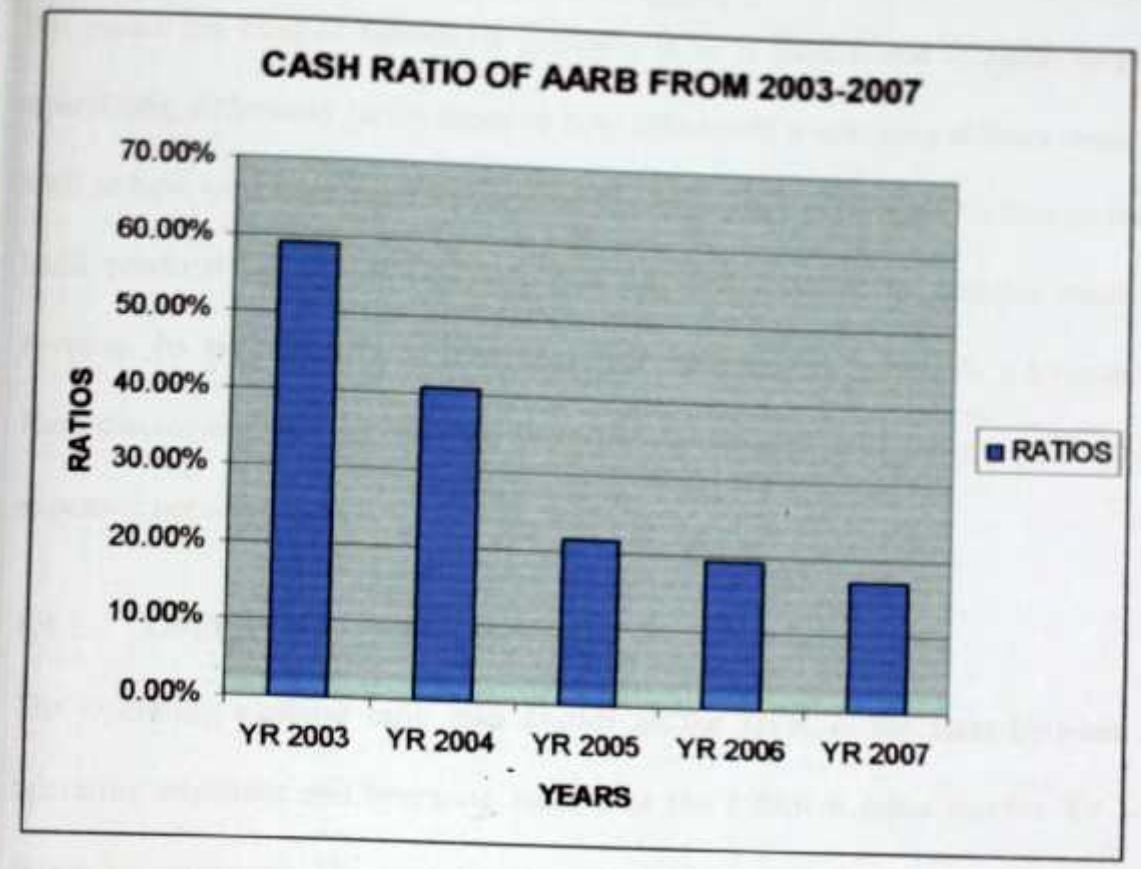
The higher the current ratio, the greater the margin of safety. The larger the amount of current assets in relation to current liabilities, the greater the bank's ability to meet its current obligations. In the case of AARB, it will not be able to meet all its obligation should the need arises. This means that AARB would not be able to withstand greater financial shocks since its current ratio revolves around the minimum acceptable ratio which is not a safe place to operate.

4.2.2 CASH RATIO

The cash ratio is an indicator of a company's liquidity and measures the amount of cash, cash equivalents or invested funds there are in current assets to cover current liabilities. For a bank, this is the cash held by the bank as a proportion of deposits in the bank. The cash ratio measures the extent to which a corporation or an entity can quickly liquidate assets and cover short-term liabilities, and therefore is of interest to short-term creditors.

$$\text{Cash Ratio} = \frac{\text{Cash \& Bank Balances}}{\text{Deposits}}$$

FIGURE 6:



SOURCE: FIELDWORK

Asante Akyem rural bank recorded the highest cash ratio of 59% in 2003 and this reduced to 40.90% in 2004. The bank recorded its lowest cash ratio of 17.10% in 2007 In fact, Asante Akyem rural bank's cash ratio is not encouraging. The trend as depicted in the graph above shows a continuous fall in cash ratio through out the study period. As a banking institution it is extremely dangerous to exhibit such a trend in cash ratio considering the fact that unexpected withdrawals could be made which can lead to bank failure. With the current state of percentages of cash ratios, it is obvious that the bank will be faced with liquidity problems in case of any slightest financial shock.

4.3 EFFICIENCY OF THE BANKS OPERATIONS FROM 2003 TO 2007

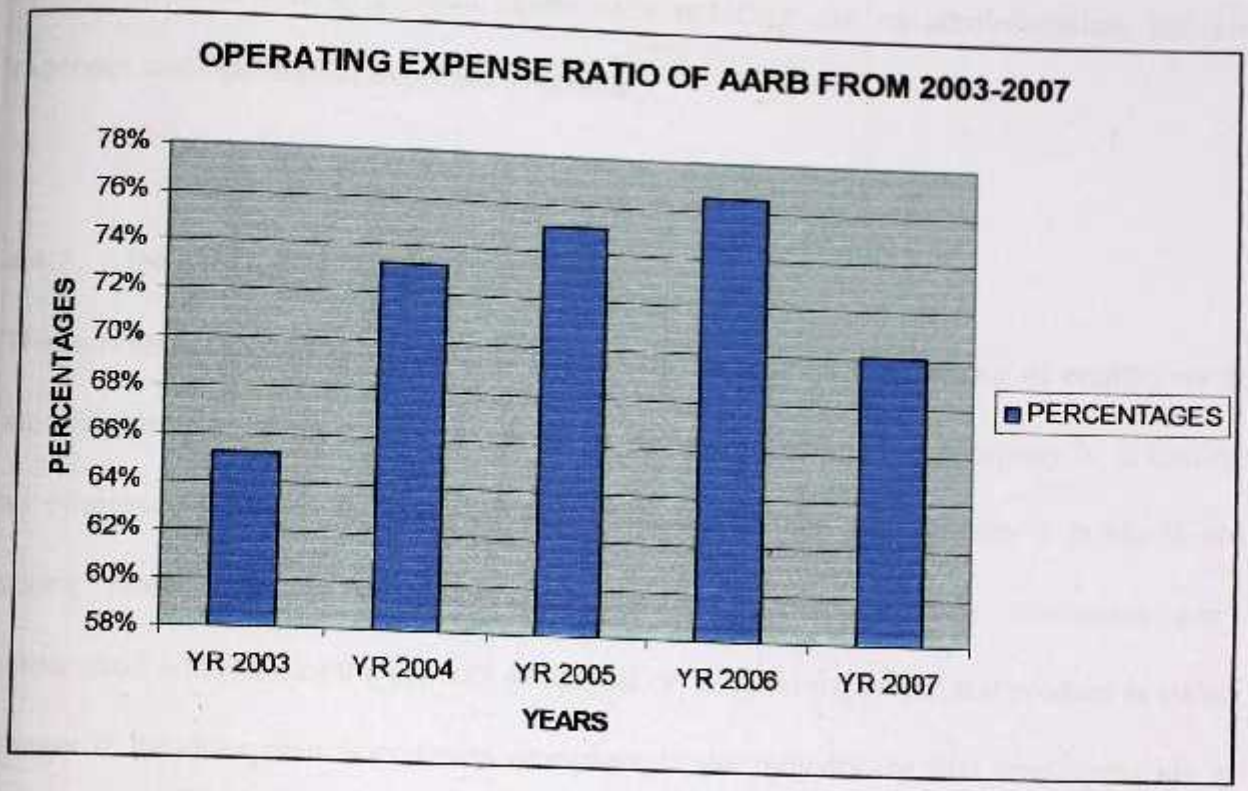
No matter the kind of business a company is in, it must invest in assets to perform its operations. Efficiency ratios measure how effectively a company utilises these assets, as well as how well it manages its liability. The efficiency ratio is the traditional measure for bank productivity. At its simplest, it is the cost required to generate each dollar of revenue. Its simplicity is an advantage, but the ratio always needs a business context. Here discussions will be centered on operating expense ratio, income per employee and expenses per employee.

4.4.1 OPERATING EXPENSE RATIO

The operating expense ratio also known as the OER is the ratio between the total operating expenses and operating income or the effective gross income for an income producing property. The operating expense ratio shows the percentage of a property's income that is being used to pay maintenance and operational expenses. Below is the operating expense ratio for Asante Akyem Rural Bank.

$$\text{Operating Expense Ratio} = \frac{\text{Operating Expense}}{\text{Operating Income}} \times 100$$

FIGURE 7:



SOURCE: FIELDWORK

From 2003 to 2006, the OER of AARB rose annually from 65% to 76.6% and fell to 70.1% in 2007. One can clearly see that much of the bank's income was being spent on maintenance and operational expenses as the years went by. For instance the least of the OER of AARB, 65% which was recorded in 2003 indicates that 65% of the bank's income was spent on maintenance and operational expenses whiles it rose to 76.6% in 2006 and fell to 70.1% in 2007. The most worrying factor was the yearly increase in the proportion of the bank's income on expenses. This, according to management was because of high expenditure on employees. Much of the cost was incurred in the recovery of loans through the purchasing of computers, vehicles and cost on monitoring exercises. Again, during that period there was inefficiency in the AARB, which therefore increased the cost on administration and operation. For instance, the lowest operating expense ratio

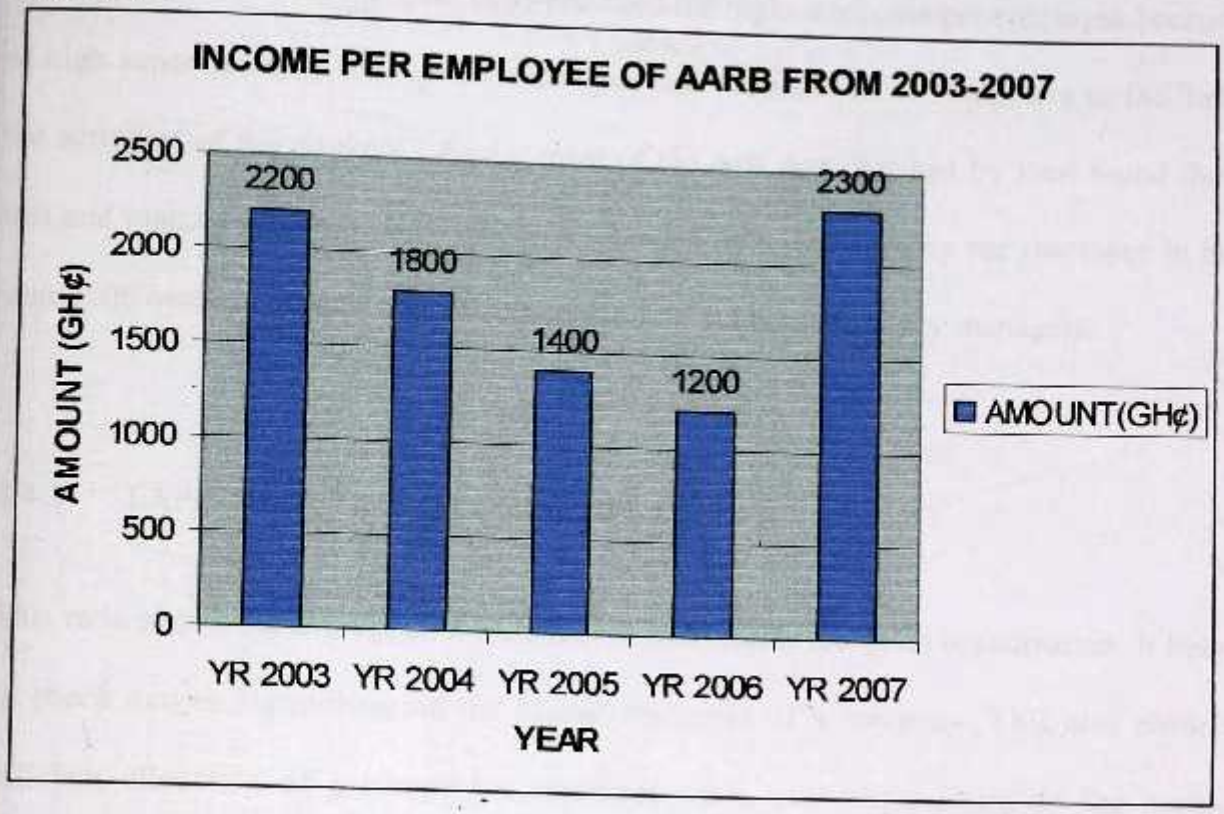
of 65% in 2003 was as a result of the bank reducing cost on administration, interest expenses and operational expenses in general.

4.4.2 INCOME PER EMPLOYEE (IPE)

This amount (calculated by dividing net pre-tax income by the number of employees at the company) gives an investor some clues about how efficient a company is at turning an employee's efforts into profits. It could indicate that the company's products are taking more hours to sell than competitors' or perhaps because customers don't understand what makes the product so special or, it could mean that the product is taking longer to produce than is common elsewhere in the industry, or that employees are so disgruntled that they are quitting your services, leaving the company with big expenses for training and inexperienced staff running the show. Thus, this ratio has the tendency to unveil the shortfalls of your staff for the necessary action to be taken. Below is the income per employee for AARB.

$$\text{Income per Employee (IPE)} = \frac{\text{Net Income}}{\text{No. of Employees}}$$

FIGURE 8:



SOURCE: FIELDWORK

Income per Employee is considered an indicator of management efficiency (www.money-zine.com,). Income per employee looks at the ratio of operating income to the number of employees required to produce that level of income. Therefore income per employee measures management's ability to use their employee resources effectively to create profits for the company.

Asante Akyem rural bank recorded its highest income per employee of GH¢ 2300 in 2007, followed by GH¢ 2200 in 2003. Year 2004 and 2005 recorded GH¢ 1800 and GH¢ 1400 respectively. The bank recorded its lowest income per employee of GH¢ 1200 in 2006.

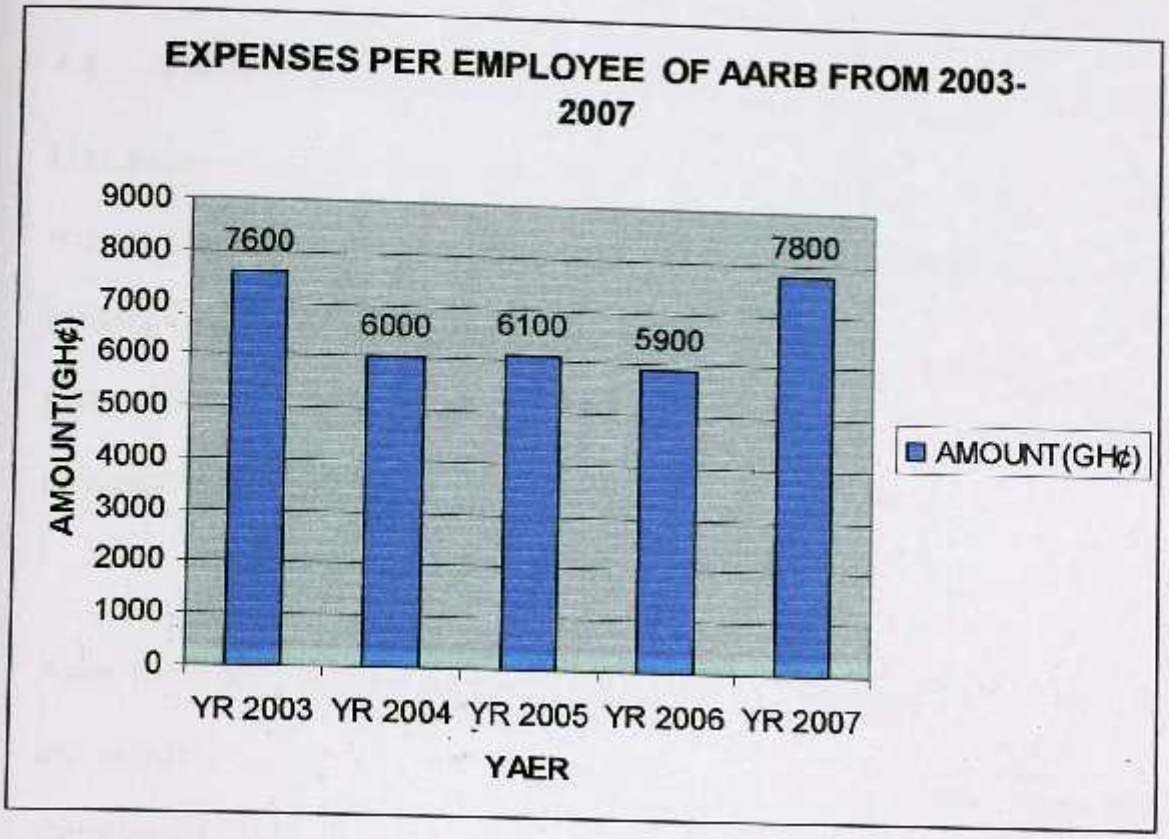
Management explained that year 2007 recorded the highest income per employee because of high supervision by the Agency managers and introduction of computers to facilitate the activities of the workers. Again, most of the new agencies had by then found their feet and making progress. The bank also recorded its lowest income per employee in the year 2006 because of poor internal supervision on the part of agency managers.

4.4.3 EXPENSES PER EMPLOYEE (EPE)

This ratio shows the average cost incurred on each employee of an organization. It helps to check excess expenditure on the human resources of a company. This also ensures efficient allocation of a company's resources since over expenditure on the human resources will effectively be control.

$$\text{Expenses per Employee} = \frac{\text{Total Expenses}}{\text{No. of Employees}}$$

FIGURE 9:



SOURCE: FIELDWORK

Asante Akyem rural bank recorded its highest expense per employee of GH¢ 7800 in 2007, followed by GH¢ 7600 in 2003. Year 2004 and 2005 recorded GH¢ 6000 and GH¢ 6100 respectively. The bank recorded its lowest expense per employee of GH¢ 5900 in 2006. In all, expense per employee was very high under the period of study and far exceeded the income per employee for all the years.

According to the management, year 2007 recorded the highest expense per employee because the bank undertook a massive training for its staff and the total number of staff also increased. The bank also recorded its lowest expense per employee in the year 2006

because of good internal control measures employed to avoid waste.

4.4 PROBLEMS MILITATING AGAINST ASANTE AKYEM RURAL BANK

Like most institutions Asante Akyem rural bank has also faced a lot of challenges that impede the smooth running of the company. As a bank initially set up to provide the banking needs of the rural community and now having to compete with giant companies such as Ghana Commercial Bank and others, it faces a number of problems which seriously needs attention.

Apart from the Afful Nkwanta, Oforikrom and the Ayeduase branches/agencies, the rest are located in rural areas where majority of the inhabitance are illiterates. There is therefore the existence of poor banking practices. Most of the inhabitants prefer to keep their monies in their homes rather than banking them. This, in no doubt, poses a threat to the growth in the customer base of the bank which also has an implication on its profitability and performance.

Loan default is another area of concern that was identified as an impediment to the profitability of the bank. Due to the informal nature of a lot of businesses in the rural areas, coupled with the high illiteracy levels, loans were mostly poorly managed. Even, in some instances they were not used for their intended purposes and their repayments were mostly undermined. Even though from 2003 up to 2007, the default rate was falling, the absolute amounts in terms of cash being defaulted increased tremendously due to the

increase in the loan portfolio offered to customers by the bank.

Unlike the big banks where external influences in banking processes are very low, Asante Akyem rural bank faces political influence from the opinion leaders, chiefs and other local authorities because of the issue of community ownership. Strict adherence to banking practices is therefore a problem leading to improper allocation of the limited financial resources of the bank most of which end up in bad debts and misappropriations.

Another factor that seriously threatens the profitability of most banks has been the inverse relationship existing between rising interest on loans and government Treasury bill rates and decreasing depositing rates to customers. A lot of customers are not motivated enough to save with the banks. Thus the profit margin of especially rural banks keeps on dwindling, notwithstanding the unattractive nature of loans from smaller or rural banks.

The poor practices and folding up of some rural banks have also painted a negative picture about rural banks in general. This really put them at a disadvantage since people find it very safe to deal with the other banks. This problem is not only limited to rural banks in Ghana. "Bank failures are at record high levels with about two-thirds of the failed banks in rural areas, especially farm areas. Most failed banks are purchased and reopened immediately with little disruption to rural communities except that new ownership turns towards lending practices that are more conservative than the average"

(Gajewski, Gregory, 1986). The knowledge of some of these occurrences has pushed some rural folks into loosing confidence in rural banks.

Just like other rural banks, Asante Akyem rural bank faces general problems such as the following;

- high transaction cost of servicing small rural accounts
- difficulty in attaining profitability,
- poor collection performance,
- infective management and control systems,
- unacceptable levels of bad debt, etc.

Considering the increasingly competitive nature of the banking industry in this country, which puts the profitability of most banks in question, it is very important that attention is given to these problems by management to ensure that the bank always becomes profitable.

5.0 CHAPTER FIVE: SUMMARY OF FINDINDS, RECOMMENDATIONS AND CONCLUSIONS

5.1 INTRODUCTION

Chapter five, being the last one will concentrate on the major findings identified in the course of the analysis of data. Conclusions drawn from the study will also be discussed under this chapter. As a necessity to every research, feasible recommendations geared towards addressing most of the issues of importance to the survival and growth of the Asante Akyem Rural Bank will also be made.

5.2 SUMMARY OF FINDINGS

This study has really exposed a lot of issues that have, directly or indirectly, influenced the performance of Asante Akyem Rural Bank within the period under review. Most of the major ones have been discussed below.

To begin with Asante Akyem rural bank is among the rural banks in Ghana that have faced financial problems during the early stages of operation. Notwithstanding this, the bank is still operating and below are enumerated most of the major findings of the study of the bank from the year 2003 to 2007.

With the exception of the year 2005, the bank achieved growth in its profitability for the rest of the years. Profitability increased gradually but was very significant in 2007 where the increase over the previous year alone was more than 230%.

Asante Akyem rural bank would not be able to withstand heavy financial shocks because it has a weak liquidity status. Throughout the period under study it was observed that the bank was not holding enough easily liquidated assets and/or cash and for that matter would not had been able to meet slightly increased short term financial obligations.

AARB has not been much efficient in its operations. Issues like poor management and weak internal controls as well as loan repayment default were identified as some of the factors undermining the efficiency of the bank.

One distinguishing issue was that, in spite of some of the identified and enumerated findings and problems, year 2007 was marked with a total transformation and improvement in all spheres of the bank's operation. Year 2007 saw a significant improvement in profitability, liquidity and efficiency in the activities of the bank.

5.2 CONCLUSION

Banks all over the world have had to continually serve the purpose of an intermediary between lenders and borrowers due to the complexities in exchanging financial resources. Borrowers would have had to move from one person to another in such of loans notwithstanding the insecurities, informalities and the arbitral nature that transactions would have been conducted.

The presence and impact of banks in any given economy is so crucial that governments all over the world make conscious efforts to regulate their operations. In developed

countries, banks offer wider range of services and competition is very keen. However, in less developed countries such as Ghana, the banking industry is not so much developed and fewer services with a lot of limitations are offered.

Asante Akyem rural bank, with an initial aim of providing banking services to the rural farmers within the District, has gone through great metamorphosis to become a fully blown bank, competing with other banks to survive.

Notwithstanding the upward trend in profitability, through out the period under study, the bank has been confronted with a lot of challenges such as running near bankruptcy or collapse, loans defaults and fraud, poor management and weak internal controls etc. These among others greatly affected the performance of the bank and have greatly retarded its growth and development.

With the growing challenges in the banking industry and the financial sector as a whole coupled with the global financial crisis that has hit majority of the economies in the world, it is imperative that the Asante Akyem rural bank strives to be very critical on the bank's operations and adopt prudent financial management to position itself to be very competitive.

The study has made some important findings and has as well, put across feasible and strong recommendations to help remove the obstacles confronting the bank. It is the belief of the author that if these recommendations are taken serious and implemented

fully, Asante Akyem Rural Bank would improve upon its operations, increase its profitability and grow to maturity.

5.3 RECOMMENDATIONS

After an in-depth and critical analysis of the performance of Asante Akyem Rural Bank and further obtaining knowledge of some of the problems inhibiting its smooth operations, recommendations were made to be considered by management to improve upon its operations. Below are stated the necessary recommendations.

1. Asante Akyem Rural bank should consistently educate the people in its catchment area on the benefits of savings and further encourage them to save just as was done on March 5, 2004 when the bank embarked on an intensive savings mobilization drive in the Agogo portion of the Afram Plains to help introduce the predominantly farming population of the area to the culture of doing business with the banks. Management also acknowledges that with the growing competitive nature of the banking business, such drives are very necessary to put the bank ahead of its competitors especially in areas considered as "virgin lands".

2. In view of the fact that the bank needs to position itself to compete fairly with the other banks in the District and beyond, Asante Akyem rural bank needs to increase its loans and overdraft to its customers to earn more interest in order to increase profitability. However, management emphasized that an increase in loans and

overdrafts comes with additional responsibilities in view of the fact that tighter measures need to be put in place to reduce defaults in loan repayment.

3. There is the need to identify and further engage in profitable investments such as mortgaging, purchase of shares of reputable organizations etc. in order to increase profitability of the bank. Management added that in addition to profitable and safe investments, the bank deals in money transfers all in a bid to increase the bank's profit margin and, other avenues are also being looked at.

4. The bank should provide more training programs in business strategy and organizational management to the employees and management team to ensure efficiency in their operations. Apart from this management also believes in strengthening the monitoring of personnel during working hours.

5. Management should train staff on techniques in credit management to reduce risk of default. Regular monitoring of high-risk areas of the bank's operations while managing current assets is also necessary. There should be proper trade-off to be achieved between profitability and liquidity. This will help to manage the liquidity of the bank. Management is also considering developing measures that has a human face and yet very effective in helping to recover loans in order to maintain a good relationship with customers and the communities as well.

6. Asante Akyem Rural bank should continue to intensify the introduction of more innovative banking products in order to cope with the rapid changes and the competition in the banking industry. The management hinted that serious considerations are being made to look at new products on the market that will serve the needs of its customers.

7. The bank, as a step to meeting the needs of majority of the people within the catchment area, should employ mechanization by purchasing enough computers for the various branches, installing local area networks (LAN) as well as putting in place inter-branch or agency networks to ensure effective and easy communication among all the agencies. Automated Teller Machines (ATMs) should also be considered to make that service available to its customers. Management said that such innovations are capital intensive but the installation of a LAN for the bank and the various Agencies has been completed whiles plans are underway to do the inter-branch networks.

It is the hope of the researcher that these outlined recommendations would be implemented by management of Asante Akyem Rural Bank to ensure that the bank is profitable and able to effectively position itself to grow even in the mist of increasing competitive environment and the effects of the global financial crisis.

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APPENDICES

Appendix 1: PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2003 – 2007

Years	2003	2004	2005	2006	2007
	¢	¢	¢	¢	GH¢
Interest Income	3,120,140	3,085,919	3,947,767	4,024.282	584,074
Interest Expense	405,474	358,198	404,595	464,233	45,847
Net Interest Income	2,714,666	2,727,721	3,543.172	3,560.049	538,227
Commission and Fees	760,871	907,405	1,085.900	1,731,363	440,390
Other Operating Income	-	19,030	130,625	417,304	41,487
Operating Income	3,475,537	3,654,156	4,759.697	5,708,716	1,020,104
Charges for bad & doubtful debts	380,767	18,000	200,000	260,000	54,343
Operating Expenses	2,265,945	2,678,938	3,575,037	4,370,579	714,722
Net Profit before Taxation	828,825	993,218	984,660	1,078,137	251,039
Taxation	71,593	77,660	70,362	92,568	23,192
Profit after Taxation Transferred to Income Surplus Account	**757,232**	**915,558**	**914,298**	**985,569**	**227,847**

Appendix 2: INCOME SURPLUS ACCOUNT – 31ST DECEMBER, 2002 – 2006

Year	2003	2004	2005	2006	2007
	¢	¢	¢	¢	GH¢
Balance Brought Forward	664,367	616,945	828,613	1,476,624	141,547
Prior Year Tax Adjustment			-	(69,183)	-
Net Profit for the Year	757,232	915,558	914,298	985,569	227,847
	1,421,599	1,532,503	3,147,911	2,393,010	369,394
Transfer to Statutory Reserve	(94,654)	(228,890)	(114,287)	(275,545)	(93,349)
Transfer to Development Fund	(500,000)	(200,000)	-	(50,000)	(30,000)
Transfer to Stated Capital			-	(500,000)	-
Proposed Dividends	(60,000)	(100,000)	(152,000)	152,000	(20,000)
Bonus Issue	(150,000)	(175,000)			
Balance at 31st December	**616,945**	**828,613**	**1,476,624**	**1,415,465**	**226,045**

Appendix 3: BALANCE SHEETS AS AT 31ST DECEMBER, 2003 - 2007

Year	2003	2004	2005	2006	2007
	¢	¢	¢	¢	GH¢
ASSETS Cash and Balances with other Banks	7,584,633	7,330,229	4,789,956	5,737,151	732,277
Investment	7,505,660	10,139,820	13,139,446	14,420,200	1,202,020
Loans & Advance	2,506,591	4,899,920	8,100,345	14,764,420	2,982,572
Other Assets	1,017,524	1,324,753	2,397,868	3,025,237	313,297
	18,614,408	**23,694,722**	**28,427,615**	**38,073,505**	**5,230,166**
Property & Equipment	1,173,668	2,148,208	2,987,777	3,025,237	402,010
Total Assets	**19,788,076**	**25,842,930**	**31,415,392**	**41,098,742**	**5,632,176**
LIABILITIES AND SHAREHOLDERS FUND	-				
Deposit & Current Accounts	12,865,418	17,937,224	22,134,537	29,731,080	4,295,285
Creditors, Accruals & Other Liabilities	4,558,235	2,178,859	1,170,642	2,642,845	250,723
Borrowing	-	1,065,765	2,362,725	2,190,175	217,917
Managed Funds	-	205,274	668,449	627,776	65,515
Total Liabilities	**17,423,653**	**21,387,122**	**26,336,353**	**35,191,876**	**4,829,440**
Stated Capital	506,923	240,230	575,062	1,138,503	118,052
Income Surplus Account	616,945	828,613	1,476,624	1,415,465	226,045
Statutory Reserve Fund	302,248	531,138	645,425	920,970	185,446
Development Fund	1,205,000	1,405,000	1,405,000	1,455,000	175,500
Grant Fund		1,184,134	976,928	976,928	97,693
Shareholders' Funds	**2,364,423**	**4,455,808**	**5,079,039**	**5,906,866**	**802,736**
Total Liabilities And Shareholders' Funds	**19,788,076**	**25,842,930**	**31,415,392**	**26,962,686,989**	**5,632,176**

Appendix 4: CALCULATION OF RATIOS

PROFITABILITY RATIOS

1. Gross Profit Margin (GPM) = (Interest Income - Interest Expense) / Interest Income

2003

GPM

= (3,120,140 - 405,474) / 3,120,140

= 0.870046

= 87%

2004

GPM

= (3,085,919 -358,198) / 3,085,919

= 0.8839

= 88.4%

2005

GPM

= (3,947,767 -404,595) / 3,947,767

= 0.8975

= 89.8%

2006

GPM

= (4,024,282 -464,233)/ 4,024,282

= 0.8846

= 88.5%

2007

GPM

= (5,840,740 -458,470) / 5,840,740

= 0.9215

= 92.2%

2. Net Profit Margin (NPM) = (Profit After Tax) / Interest Income

2003

NPM = 757,232 / 3,120,140

= 0.24269

= 24.3%

2004

NPM = 915,558 / 3,085,919

= 0.29668

= 29.7%

2005

NPM = 914,298 / 3,947,767

= 0.23160

= 23.2%

2006

NPM

= 985,569 / 4,024,282

= 0.2449

= 24.5%

2007

NPM

= 2,278,470 / 5,840,740

= 0.3901

= 39.0%

3. Return on Assets (ROA) = (Net Profit) / Total Assets

2003

ROA

= 757,232 / 19,788,076

= 0.0383

= 3.8%

2004

ROA

= 915,558 / 25,842,930

= 0.0354

= 3.5%

2005

ROA

= 914,298 / 31,415,392

= 0.0291

= 2.9%

2006

ROA

= 985,569 / 41,098,742

= 0.0240

= 2.4%

2007

ROA

= 2,278,470 / 5,632,1760

= 0.04045

= 4.1%

LIQUIDITY RATIOS

1. Current Ratio (CR) = (Current Assets) / Current Liabilities

2003

CR

= 18,614,408 / 4,558,235

= 4.1

= 4.1 : 1

2004

CR

= 23,694,722 / 2,178,859

= 10.9

= 10.9 : 1

2005

CR

= 28,427,615 / 1,170,642

= 24.3

= 24.3 : 1

2006

CR

= 38,073,505 / 2,642,845

= 14.1

= 14.1 : 1

2007

CR

= 52,301,660 / 2,507,230

= 20.7

= 20.7 : 1

2. Cash Ratio (CR) = (Cash and Balances with other banks) / Deposits

2003

Cash Ratio

= 7,584,633 / 12,865,418

= 0.5895

= 59.0%

2004

Cash Ratio

= 7,330,229 / 17,937,229

= 0.4087

= 40.9%

2005

Cash Ratio

= 4,789,956 / 22,134,537

= 0.2164

= 21.6%

2006

Cash Ratio

= 5,737,151 / 29,731,080

= 0.1930

= 19.3%

2007

Cash Ratio

= 7,322,770 / 42,952,850

= 0.1705

= 17.1%

EFFICIENCY RATIO

1. Operating Expense Ratio (OER) = (Operating Expense/ Operating Income). 100

2003

OER

= (2,265,945 / 3,475,537). 100

= 65.2%

2004

OER

= (2,678,938 / 3,654,156). 100

= 73.3%

2005

OER

= (3,575,037 / 4,759,697). 100

= 75.1%

2006

OER

= (4,370,570/ 5,708,716). 100

= 76.6%

2007

OER

= (7,147,220/ 56,321,760). 100%

= 70.1%

2. Income per Employee (IPE) = Net Income / No of Employees

2003

IPE

= 757,232 / 35

= 21,635.2

= 2.2

2004

IPE

= 915,558 / 51

= 17,952.1

= 1.8

2005

IPE

= 914,298 / 65

= 14,066.1

= 1.4

2006

IPE

= 985,569 / 82

= 12,019.1

= 1.2

2007

IPE =2,278,470 /98

= 23,249.7

= 2.3

3. Expense Per Employee (EPE) = Total Employee / No Of Employee

2003

EPE =2,671,419 / 35

= 76,326.3

= 7.6

2004

EPE

= 3,037,136 / 51

= 59,551.7

= 6.0

2005

EPE

= 3,979,632 / 65

= 61,225.1

= 6.1

2006

EPE

= 4,834,812 / 82

= 58,961.1

= 5.9

2007

EPE

= 7,605,690 / 98

= 77,609.1

= 7.8

Appendix 5: TABLES

TABLE 1: GROSS PROFIT MARGIN OF AARB FROM 2003-2007

YEARS	YEAR 2003	YEAR 2004	YEAR 2005	YEAR 2006	YEAR 2007
PERCENTAGES	87%	88.40%	89.80%	88.50%	92.20%

SOURCE: FIELDWORK

TABLE 2: **NET PROFIT MARGIN OF AARB FROM 2003-2007**

YEARS	YR 2003	YR 2004	YR 2005	YR 2006	YR 2007
PERCENTAGES	24%	29.70%	23.20%	24.50%	39.00%

SOURCE: FIELDWORK

TABLE 3: **RETURN ON ASSETS OF AARB FROM 2003-2007**

YEARS	YR 2003	YR 2004	YR 2005	YR 2006	YR 2007
PERCENTAGES	4%	3.50%	2.90%	2.40%	4.10%

SOURCE: FIELDWORK

TABLE 4: **CURRENT RATIO OF AARB FROM 2003-2007**

YEARS	YR 2003	YR 2004	YR 2005	YR 2006	YR 2007
RATIOS	1.1	1.2	1.2	1.2	1.2

SOURCE: FIELDWORK

TABLE 5: **CASH RATIO OF AARB FROM 2003-2007**

YEARS	YR 2003	YR 2004	YR 2005	YR 2006	YR 2007
RATIOS	59.00%	40.90%	21.60%	19.30%	17.10%

SOURCE: FIELDWORK

TABLE 6: **OPERATING EXPENSE RATIO OF AARB FROM 2003-2007**

YEARS	YR 2003	YR 2004	YR 2005	YR 2006	YR 2007
PERCENTAGES	65%	73.30%	75.10%	76.60%	70.10%

SOURCE: FIELDWORK

TABLE 7: **INCOME PER EMPLOYEE RATIO OF AARB FROM 2003-2007**

YEARS	YR 2003	YR 2004	YR 2005	YR 2006	YR 2007
AMOUNT(GH¢)	2200	1800	1400	1200	2300

SOURCE: FIELDWORK

TABLE 8: **EXPENSES PER EMPLOYEE RATIO OF AARB FROM 2003-2007**

YEARS	YR 2003	YR 2004	YR 2005	YR 2006	YR 2007
AMOUNT(GH¢)	7600	6000	6100	5900	7800

SOURCE: FIELDWORK

DEPARTMENT OF ACCOUNTING AND FINANCE - KSB
KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

INTERVIEW GUIDE FOR SENIOR MANAGEMENT

ASANTE AKYEM RURAL BANK (AARB)

Name of Interviewer .....

Position Held.....

Date .....

Place of Interview .....

Time started ..... Time ended .....

1. QUESTION: Gross profit Margin (GPM) shows how well costs of production have been controlled. From 2003, the AARB's profit margin has been improving but fell in 2006 and rose again in 2007. What specifically accounted for;

(a) increases from 2003 to 2007?

(b) the decrease in 2006?

2. QUESTION: The Net Profit Margin (NPM) indicates the efficiency with which costs have been controlled in generating profit from sales. The net profit margin of this bank has been fluctuating but attained its highest in 2007. What caused the fluctuation over the years?

3. QUESTION: The Return on Assets (ROA) is an indicator of how profitable a company is relative to its total assets. The ROA for AARB decreased annually from 2003

to 2006 and rose sharply in 2007. What resulted in this trend?

4. QUESTION: Current ratio measures a company's ability to meets its financial obligations as they fall due. Generally a ratio of around two is said to be normal. This means that AARB was performing below the norm. What are the reasons for this?

5. QUESTION: The cash ratio is an indicator of a company's liquidity and measures the amount of cash, cash equivalents or invested funds there are in current assets to cover current liabilities. The trend as depicted by AARB shows a continuous fall in cash ratio through out the study period. What has accounted for the fall?

6. QUESTION: The Operating Expense Ratio (OER) shows the percentage of a property's income that is being used to pay maintenance and operational expenses. The OER for AARB increased throughout the study period with the exception of 2007.

(a) What causes the increases?

(b) What did management do to arrest the situation in 2007?

7. QUESTION: Income per Employee (IPE) is considered an indicator of management efficiency. The IPE for AARB fell year after from 2003 and only increased in 2007.

(a) Why did IPE of the Bank fall for the rest of the years?

(b) What measure caused the increase in 2007?

8. QUESTION: The Expense per Employee (EPE) ratio shows the average cost incurred on each employee of an organization. The EPE of AARB fluctuated within the study period but was generally high as compared to the Income per Employee. What caused this trend?

9. As every organization is faced with challenges, I presume yours is not different. What are the problems that militate against the smooth operation of this bank?

10. What in your estimation can be done by management to bring the challenges stated above under control?

ABBREVIATIONS

AARB	-	Asante Akim Rural Bank
ADB	-	Agricultural Development Bank
ARB	-	Association of Rural Banks
ATM	-	Automated Teller Machine
BAAC	-	Bank for Agriculture and Agriculture Co-operatives
BKK	-	Badan Kredit Kecamatan
BOG	-	Bank of Ghana
BUD	-	Bank Rakyat Indonesia Unit Desa
CE	-	Capital Employed
COMPAS	-	Common Performance Assessment
DE	-	Debt - equity
DPS	-	Dividend Payout Ratio
EBDIT	-	Earnings before Depreciation, Interest and Taxes
EPE	-	Expense per Employee
EPS	-	Earnings per share
ERP	-	Economic Recovery Programme
EU	-	European Union
EVA	-	Economic value Added
FINSAP	-	Financial Sector Adjustment Programme
GB	-	Grameen Bank
GCB	-	Ghana Commercial Bank

GCMB	-	Ghana Cocoa Marketing Board
GCMB-PBD	-	Produce Buying Division of the Ghana Cocoa Marketing Board
GIGO	-	Garbage In Garbage Out
GP	-	Gross profit
GPM	-	Gross Profit Margin
IMF	-	International Monetary Fund
IPE	-	Income per Employee
LAN	-	Local area network
MDB	-	Multilateral Development Bank
MfDR	-	Managing for Development Results
NA	-	Net Assets
NI	-	Net Income
NPM	-	Net Profit Margin
NW	-	Net Worth
OER	-	Operating Expense Ratio
PAT	-	Profit after taxes
PBD	-	Produce Buying Division
PNDCL	-	Provisional National Defense Council
ROA	-	Return on Assets
ROCE	-	Return on Capital Employed
ROE	-	Return on Equity
ROI	-	Return on Investment
RONA	-	Return on Net Assets

ROTA	-	Return on Total Assets
SAP	-	Structural Adjustment Programme
SME	-	Small and Medium scale Enterprise
TP	-	Total debt