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CREDIT MANAGEMENT PRACTICES OF ODOTOBRI RURAL BANK

BY

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DECLARATION

I, Opoku Ampofo Adjei, do hereby declare that this work is the result of my own research and has not been presented by anyone for any academic award in this or any other university. All references in this work have been fully acknowledged.

I bear sole responsibility for any shortcomings.

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DEDICATION

This thesis is dedicated to the Almighty God, and to my daughter Yaa Oduraa Ampofo. My siblings, parents and nephews share the same allegiance. Most importantly, many thanks go to Jerry, Theophilus and Kafui. I love you all, God richly bless u!

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ABSTRACT

The study explores the credit management practices of Odotobri rural bank in the Obuasi Municipality. A sample size of one credit Officer (key informant) is purposively selected for the study. A face to face interview with the help of a well-structured questionnaire is employed to collect primary data for this study. The study identify the type of loan offered by Odotobri rural bank as susu loans, salary loans, micro loans , ordinary loans and overdrafts, funeral and social loans. The study indicates that the three most pressing factors that influence access to credit are collateral surety, net profit per month and level of savings. The study recommends, among other things that the due credit delivery processes should be followed strictly to minimize the incidence of high loan default. And that appropriate training programmes should be offered to credit officers, directors and management personnel to facilitate the making of good credit decisions. The study recommends that the credit collection section should be provided with the logistics needed to carry out its main task of debt collection.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

According to Kwapong (2004), efforts in the past decades to encourage commercial banks to spread their network and provide credit to the agricultural sector failed to achieve the desired impact. This was due to the relatively high cost and risk associated with financing the agricultural sector. Kwapong further stated that the banks were rather interested in the financing of international trade, urban commerce and industry where the risks were relatively lower. This created a gap in the provision of institutional finance to rural agricultural sector. The underlying reasons which made commercial banks shy away from financing agriculture, the mainstay of the Ghanaian economy, in the view of the researcher include the following: Reliance on rain-fed agricultural practice depending on the impulses of the weather which makes yields uncertain. This affects the expected revenue of the farmer to adequately liquidate any credit facilities provided by a bank in a period of poor rainfall;

The subsistence nature of agriculture in the rural areas makes repayment of credit facilities highly risky; Lack of acceptable assets to pledge as collateral for credit facilities

Amounts requested by farmers are relatively small and these make their management very expensive and thus eventually unprofitable for banks; the absence of guaranteed pricing system and storage facilities for food crops compel farmers to sell below economic price during periods of bumper harvest;

Inaccessibility to farm gates due to absence of motorable road network, causes produce to get rotten on farms thus causing loss of revenue to repay any debt.

The above-enumerated factors among others have contributed to farmers' inability to raise sufficient revenue from their produce to repay any credit facilities utilized. Consequently, the banks have been shying away from extending credit to the development of agriculture, the bedrock of the Ghanaian economy especially in the rural areas, in view of the underlying high credit risk. Rural Banking in Ghana takes its origin from the early 1970s. Asiedu-Mante (2011) suggests, the main operators in the rural financial market comprised branches of commercial banks, credit unions as well as other entities in the informal sector such as money lenders, traders and "susu" collectors". The traditional commercial banks failed to be attracted to the rural sector because they believed that the rural folks were mostly of the low-income group, and were scattered over a wide and almost inaccessible areas. This coupled with the fact that such rural poor could not provide the required collateral security necessary to support effective commercial financial operations, served as a disincentive to the commercial banks.

Given events of 1976, the number of registered rural banks in the country has grown to 135 (BOG, 2011). Baduman Rural Bank was established in the year 1982. This was in response to the need and the concern to make institutional credit and other formal financial and banking services easily available to the people of Badu and its environs. It has its headquarters at Badu in the Tain District of the Brong Ahafo Region. The main purpose of its inception was to help inculcate the habit of saving into the rural folk within its catchment areas and alleviate rural poverty by granting credit to the people. Today, the bank has six (6) agencies in the Brong Ahafo Region of Ghana. The operations of the bank are mainly focused on income generating activities by advancing loans to its customers, especially, women to help them start businesses on their own. In an article titled "Rural Bank in Ghana collapsing" Ampah (2010) indicated that rural banks in Ghana are contending with huge challenges in managing their loan loss reserves due to bad loans and poor management systems applied by the banks. As a result, majority of these Rural and Community Banks have been rendered insolvent and could soon fold up if austerity measures were not taken to reverse the trend. The article indicated that the poor performance of Rural and Community Banks stemmed from both unfavourable operating environment and capacity constraints. Rural banks have unfavorable environment to mobilize scattered rural incomes at a high cost into savings, and lend to the people with virtually no collateral to support such credits.

1.2 PROBLEM STATEMENT

Micro-credits are the largest asset of banks and the main source of income to the rural banks. Yet, credit tends to be a bane, the funds lent out do not actually belong to the bank, and must be returned to depositors in the future, the bank are usually under stress to ensure that loans granted are recovered on schedule.

In Ghana, there has been an upsurge in default stemming from the low quality of the loan books written in prior years resulted in the nonperforming assets in recent years for which rural banks are still burdened with the associated costs but receive no interest income (Ghana Banking Survey, 2013).

This is evident that a provision of loans to customers leads to risk. This makes banks insist on high interest margins on loans to curb the moral hazards. However, debt collection is very difficult in Ghana as well as small companies give rise to risk since they have small cash flows. A good quality loan is that which satisfies the bank's quest for maximizing returns and also have a low default risk. To achieve this, rural banks need effective credit management practices to avoid possible fold up. It is in this light that this research seeks to find out how effective Odotobri rural bank is managing its credit.

1.3 RESEARCH OBJECTIVES

1.3.1 SPECIFIC OBJECTIVES

To assess credit management practices of Odotobri Rural Bank.

1.3.2 GENERAL OBJECTIVES

1. To identify the types of loan offered by Odotobri rural bank.
2. To identify the factors that affect access to credit from Odotobri rural bank.

3. To ascertain the loan recovery methods used by Odotobri rural bank.

1.4 RESEARCH QUESTIONS

1. What types of loan does Odotobri rural bank offer?

2. What are the factors that affect access to credit from Odotobri rural bank?

2. What are the methods Odotobri rural bank uses to recover its debts?

1.5 SCOPE OF THE STUDY

The scope of this study is to describe the credit management practices of Odotobri rural bank in bthe Obuasi Municipal Assembly and suggest measures that could be adopted to minimize high incidence of loan delinquency.

1.6 LIMITATION OF THE STUDY

The researcher is optimistic that he will experience the following challenges:

1. Budget Constraints**: -** this included finances needed to type and print questionnaires and the study and all other expense to incurred in the course of the study. To overcome this, the researcher used his own finances to execute these duties.

2. Time: **-** Time factor was one of the setbacks of this study, owning to combination of academic work and office duties as well as parental controls.

3. Availability of respondents to respond quickly to the interviews and questionnaire.

4. The limitation of validity cannot be totally eliminated.

Despite these limitations, even though the above factors may have influenced the quality of the research; they were however not to a greater extent, able to degrade the quality of the research

1.7 ORGANIZATION OF THE STUDY

The study is organized into five chapters. Chapter one provides the introduction, problem statement, objectives and justification of the study. Chapter Two gives an overview of literature relevant to the study. Chapter Three outlines the methodology employed to achieve the objectives of the study and the sampling techniques adopted for the data collection. In Chapter Four, the descriptive and empirical results are provided and conclusions from the study are distilled in Chapter Five.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter discusses other literary materials or work done on credit management practices. Furthermore, the chapter makes comparative analysis and attempts to evaluate the credit management practices with respect to Odotobri rural banks in Obuasi Municipality. This literature review is important because it seeks to help answer questions the thesis attempts to answer. The performance of credit risk management practices will be evaluated as to whether it has helped curb credit risk. This chapter focuses on reviewing the extent issues such as rural banks, credit risk management, lending and principles of lending are discussed.

2.2 RURAL BANKS IN GHANA

These banks are the largest providers of financial services in rural areas and also represent about half of the total banking outlets in Ghana (IFAD 2008). By the end of 2008, these banks together had 421 branches. Including head offices, there were 548 service delivery locations spread through- out the country. All administrative regions have at least one bank, although most are located in the Ashanti, Western, Eastern, and Central region.

The Government of Ghana has taken some policy measures to improve access to finance in rural areas. These measures included a requirement that commercial banks lend at least 20 percent of their portfolio for agricultural uses and the establishment of the Agricultural Development Bank (ADB) in 1965 with an exclusive mandate of lending for agriculture and allied industries in rural Ghana. Subsequently, commercial banks and the ADB opened branches in rural areas, with an emphasis on cocoa-growing rural areas. Nevertheless, lending to the rural sector remained low; the commercial banks used their rural branches primarily to make payments to cocoa farmers and collect deposits for lending in urban areas. Other banking services, like credit, were not provided as initially envisioned. Commercial banks demanded higher deposit accounts and stronger collateral requirements to provide loans to rural areas. Many small farmers and fishermen did not have deposit accounts in commercial banks, and the collateral they had available was not satisfactory for commercial lending (Andah and Steel 2003). Mensah (1993) and Ranade (1994) found that the ADB's credit provision and coverage were limited. Only 27 percent of its branches were in rural areas, and lending to smallholder farmers made up only about 15 percent of its total portfolio. In view of this situation, the Government of Ghana (GoG) considered supporting the establishment of community banks in rural areas that would be dedicated to providing financial services in those areas. It asked the BoG to send a delegation to the Philippines to study the rural banking system there and afterward decided to facilitate the opening of banks in rural farming and fishing communities.

Rural banks are a network of 127 independent unit banks in Ghana. They are regulated by the Bank of Ghana and thereby form part of the regulated financial sector in Ghana. These banks are the largest providers of formal financial services in rural areas and also represent about half of the total banking outlets in Ghana (IFAD 2008). By the end of 2008, these banks together had 421 branches. Including head offices, there were 548 service delivery locations spread throughout the country. All administrative regions have at least one bank, although most are located in the Ashanti, Western, Eastern, and Central regions. Rural banks are relatively small financial institutions with average share capital of GHc136,526 (US$105,263), average deposits of GHc2.3 million (US$1.77 million), and average assets of GHc3.8 million (US$2.4 million). Values of the three indicators, however, vary significantly.

Out of the 127 rural banks, 75 percent have assets between GHc 1 million (US$771,010) and GHc 8 million (US$6.1 million), 20 percent have assets of less than GHc 1 million, and 5 percent have assets over GHc10 million (US$7.7 million).Similarly, 44 percent of rural banks have share capital of less than GHc 100,000 (US$77,101) and only 6 percent have share capital of more than GHc 250,000(US$192,753).As a network, rural banks have achieved a remarkable level of service delivery and financial performance (IFAD,2008).

At the end of 2008,they had deposits of GHc343.9million (US$265.1 million)from more than 2.8 million clients, and loans and advances of GHc 224.7 million (US$173.2 million) with about 680,000clients. They delivered 128,875 domestic money transfers worth around GHc 63.3 million (US$48.8 million) in 2007 and 32,392 international money transfers worth GHc 9.3million (US$7.1 million) in 2008.They also facilitated check transactions worth GHc 993.7 million (US$766.1 million) in 2008. Rural banks made a consolidated profit of GHc 15.6 million (US$12.0 million) in 2008 and had a consolidated net worth of GHc 62.3 million (US$48.03 million) (IFAD, 2008).

Several have excelled in performance, both within the financial sector and in the broader private sector. Some rural banks have figured more than once in Club 100, a group of 100 Ghanaian institutions recognized annually for business excellence. Several challenges, however, remain. The Bank of Ghana (BoG) rated the performance of 17 of the 127 rural banks in operation as mediocre, based on capital adequacy, and it categorized 5 banks as distressed. Among the banks whose performance is categorized as mediocre, 6 rural banks have negative net worth. The Apex bank the network bank, which was created primarily to provide services to rural banks, is not yet fully financially self-sufficient and has inadequate resources to effectively perform its functions. The Bank of Ghana (BoG), which is primarily responsible for supervising rural banks, is constrained in effectively performing its supervision role because of political and civil society pressures, resource constraints, and limited delegation of supervisory functions to the Apex Bank.

Rural banks are incorporated as limited companies under the Companies Code of 1963 (Act 179) of Ghana and are required to be owned by shareholders from the local community in which they operate. At first, the Bank of Ghana owned up to 43 percent of shares in rural banks as preference shares. This practice was stopped in the 1990s. In the early years of rural banks, the shareholding levels for an individual and a corporate body were capped at 10 percent and 30 percent, respectively. These levels have been revised to 30 percent for an individual and 50percent for a corporate body. An identifiable group can also own 40 percent shares in a bank (www.worldbank.org/rural).

The governance structure of a rural bank comprises a board of directors that represents shareholders within the bank and supervises the management of the bank. Boards of directors are elected by the shareholders from the communities where the banks are located. Election of board members takes place during annual general meetings (AGMs). Directors are elected on the basis of their reputation in the community and professional qualifications. The individuals nominated by the shareholders are validated by the Bank of Ghana before assignment is effective. The board elects a chairperson and a vice chairperson from among the directors. In many cases, the chief executive of the bank serves as the secretary of the board.

A board member is elected for a three-year term but can be re-elected for an unlimited number of terms by the shareholders. At every AGM, one-third of the board members need to retire but are eligible for re -election, in accordance with the Companies Code of Ghana. However, a sample analysis of 10 Board of directors of rural banks showed that the average number of years spent as a board member is 11; the maximum was 32 and the minimum was 1 year. The minimum size of a board is five, and the maximum is 11. Although the number of directors with voting rights cannot exceed the maximum allowed size, additional individuals can participate as co-opted members. Based on a sample analysis of 10 rural banks, only 9 percent of the directors are women. The sample analysis also showed that a limited number of directors have experience in banking. The board of a rural bank has three to five supervisory subcommittees covering the main aspects of managing and operating the bank (www.worldbank.org/rural).

. Members of the supervisory subcommittees are elected from the board based on specialization and interest. The following are the main subcommittees and their respective responsibilities: portfolio quality; follows up on previous meeting actions; reviews reports from supervisory subcommittees of the board; and undertakes strategic decisions and guidance for management. The minutes of the meetings are recorded and submitted to the

Bank of Ghana for monitoring and information purposes. Shareholder services—such as share registries that are essential to attract investors—are weak in rural banks. Share registries of many rural banks are not up to date. (Source; Agriculture and rural development discussion paper 48, Rural Banking: The Case of Rural and Community Banks in Ghana, www.worldbank.org/rural).

The rural banking industry which began in Ghana in 1976 has grown significantly in terms of assets and its contribution to the economic growth of Ghana. It has unique characteristics in terms of ownership structure, management structure and operations features. Unlike the large commercial banks, RCBs are community-owned and community-run unit banks. This gives them geographical advantages which facilitate the proper management of moral hazards and adverse selection. The main roles of (Bank of Ghana, 2006) RCBs are:

1. To mobilize savings in the rural communities and channel them into the provision of credit to rural microenterprises, agro-based firms and cottage industries.

2. Monetize the rural communities by way of inculcating in rural folks the culture of formal banking.

3. Serve as tools for the growth and development of microenterprises in the rural communities to facilitate rapid rural industrialization for the overall enhancement of the national economy.

Financial intermediation in rural Ghana was at a very low level compared to the situation in urban areas. Before the establishment of the rural banks in the 1970s and the subsequent expansion of other services providers in the areas, access to credit was scarce (Nair & Fissha, 2010). In many rural areas secure and convenient savings and payment facilities did not exist. Many rural dwellers had to travel long distances to receive payment, transfer funds, and cash cheques for their produce.

2.3 EMERGENCY AND GROWTH OF RURAL AND COMMUNITY BANKS (RCB)

The first rural bank was established in 1976 in the Central region of Ghana with paid-up capital of 60,660 old Ghana cedis (old GHc60, 660, or about US$52,000). It was established in Nyakrom, a farming community. Capital contributions were mainly drawn from farmers in the community. A second bank was opened in the following year at Biriwa, a fishing village also in the Central region. By 1980 the number of rural banks had reached 20 (Nair and Fissha, 2010). Managers and directors of these rural banks founded the Association of Rural Banks (ARB) to promote the exchange of information and to improve the performance of rural banks as a whole.

Over the period 1980–1984 the number of rural banks rose rapidly and reached 106. This growth was driven by rising interest among rural communities in establishing their own banks and by the introduction of Akuafo Cheque operations in cocoa-growing areas in 1982.

The rural banks provided mainly savings and credit services products. With the increase in the number of rural banks, the number of individuals with bank accounts also increased. Salary and pension deposits for civil servants were transferred using rural bank networks. With the addition of credit lines, the consolidated loan portfolio of these banks grew. The repayment performance of these loans however, worsened, with non-performing loan increasing from 5% in 1982 to 70% in 1986. The capital available in most banks was not sufficient to cover the cost of bad debt (Nair and Fissha, 2010). This contributed to the deteriorating state of these banks.

2.4 THE ASSOCIATION OF RURAL AND COMMUNITY BANKS

In an attempt to address these and other problems that were hampering the smooth operation of rural banks, a suggestion was made by the bank of Ghana to the rural banks to form an association.

In 1981, the 31 rural banks came together to form the rural bank association. The name was later changed to the association of rural banks, Ghana. It was registered under the companies code, 1963, (Act, 179), as a non-profit, non-governmental organization limited by guarantee Asiedu-Mante, (2011).

The aims and objectives of the Association of rural banks as enshrined in its Regulations were as follows:

1. To provide and exchange information on rural banking services in Ghana, to serve as a forum for the discussion of common problems of rural banks and their possible solution.
2. To promote and strengthen cordial relationship among rural banks in Ghana, and achieve the objectives of the rural banking system,
3. To undertake the education of rural communities on the purpose and work of rural banks.
4. To serve as an advocate for the well-being of rural banks in Ghana.
5. To place the services of the Association at the disposal of the bank of Ghana and other organizations both inside and outside Ghana in pursuance of matters relating to rural banking and rural development.
6. To ensure that rural banks are generally seen as instrument of national development in rural areas.

The Association therefore acts as a representative of all rural banks at all levels and in all matters relating to rural banking and the well-being of all rural banks (Asiedu-Mante, 2011).

2.5 CONSOLIDATION OF RURAL AND COMMUNITY BANKS

In the attempt to respond to the worsening financial performance of the rural and community banks (RCBs), the Bank of Ghana introduced some financial reforms. These included a review of the sector specific credit quotas and a reduction in agricultural; increase in the primary and secondary reserve requirement; closure of distressed banks and stronger role of the Bank of Ghana in examination and control of the banks (Andah and Steel, 2003).

At the end of the 1990's two major decisions was made to strengthen the supervision of the rural and community banks. One was to support the establishment of an Apex Bank which would provide support services to the rural banks and the second was to emerge the Rural Financial Inspections Department (RFID) of the Bank of Ghana with Banking Supervision Department (BSD) (Nair and Fissha, 2010).

The government of Ghana decided to borrow from the World Bank and other donors to establish the ARB Apex Bank and for other activities to strengthen the rural financial sector. The Rural Financial Sector Project (RFSP) co-financed by the World Bank, the International Fund for Agriculture Development (IFAD), and the African Development Bank (ADB) was approved by their respective Boards in 2000.

The Rural Financial Service Project (RFSP) became effective in 2001, and the ARB Apex Bank created by the rural and community banks commenced business in 2002 with financial support provided under the Rural Financial Service Project (RFSP).

Several key regulatory changes were made during this period. The secondary liquidity reserve requirement was reduced from 52% to 30% in 2006. The capital adequacy ratio was also increase from 6% to 10% and the paid up capital for exiting rural banks was raised to GHC150, 000 and that for the establishing a new rural bank was raised to GHC500,000 (Bank of Ghana, 2006). The Bank of Ghana delegated part of its supervisory function to the ARB Apex Bank Ltd and launched on electronic reporting system to ensure efficient supervision.

Moreover, some rural and community banks adopted a more commercial business model, and introduced innovative products such as microfinance, savings, and loans products. Many rural banks also started to use new techniques namely, group savings with credit and credit with education (CWE) to improve their performance (Andah and Steel, 2003).

2.6 PERFORMANCE OF RURAL BANKS

Harker and Zenios (1998) define the performance of financial institutions as an economic performance which is measured in both short and long-term by a number of financial indicators such as price-to-earnings ratios, the firm's stock beta and alpha, and Tobin's q-ratios.

The financial performance of RCBs is influenced by internal factors or bank-specific factors and external or macroeconomic factors. Zaman (2005) and Yaron et al., (1998) have studied the factors underlying improved financial performance of RCBs.

Yaron et al. delved into three active Asian RCBs which have achieved leadership in the provision of financial services at unprecedented levels to millions of rural households and microenterprises. Zaman on the other hand conducted an in-depth study into how four RCBs in Bangladesh have made great strikes in financial intermediation.

Both Zaman (2004) and Yaron et al. (1998) summarized the factors underpinning effective financial performance as visionary leadership, management autonomy in formulating operational policies, efficient staff recruitment and remuneration systems, innovative and technology-driven products; flexible low-cost delivery system keen supervision of loan portfolio; effective management information system that promotes proper planning and enhances management ability to control operational expenses and ensures adequate internal control systems. The crucial influence of microeconomic stability and a conducive regulatory environment was also alluded to.

Aboagye and Otieku (2010) contended that for RCBs to continue in business, they must make enough money through lending and fiduciary activities or services to cover their operational and financing costs, plough back retained earnings to finance future operations. This will enhance not only the survival of RCBs but their growth and profitability.

Historically, profitability from lending activities has been cyclic and dependent on the needs and strengths of the loan customers (Annor, 1998). Bank loans are expected to be the source of income and are expected to have a positive impact on profitability. All other things being equal, the higher the amount of loans given out, the higher the profitability level. For example, Naceur (2003) claims that, loans have a significant positive relationship with profitability.

With respect to the relationship between liquidity and banks profitability, Buyinza (2010) posited that, liquidity has a significant relationship with profitability. However, this relationship is a negative one.

According to Achou and Tenguh (2008), non-performing loans (NPL) has an inverse relationship with banks' profitability. Another variable which previous empirical studies have identified as having an impact on banks' profitability is size as represented by total assets.

However, the available evidence indicates that, the relationship between total assets (size) and banks' profitability is an inconclusive one. For instance, Berger et al., (1987), argued that a bank can achieve cost savings as its size increases. The findings of Berger et al., (1987) lend support to that of Shaffer (1985), specifically, Shaffer showed that as a bank's size increases, significant economics of scales are achieved which enhances financial performance.

However, other studies have found a negative relationship between size and bank's financial performance, for example Naceur (2003) revealed that, large banks tend to have lower levels of profit as a result of inefficiencies associated with diseconomies of scale. Buyinza (2010) has confirmed the findings of Naceur (2003) by indicating that bank size is negative and significantly correlated with profitability.

Wong et al. (2007) posited that bank consolidation, cost efficiency, and the ability of a bank to take on more risk as the key determinants of banks' profitability, whereas market structure, as measured by market concentration, and size were found to have a negative association with profitability. On the other hand, Okazaki (2006) has a slightly different opinion as his findings show that policy-oriented consolidation has a positive impact on deposits, though it may have a declining effect on bank's profitability. Clair (2004) established that proper management of lending activities, credit quality and expense control enhance bank's financial performance. The study also found that interest rates may place significant downward pressure on capital and liquidity, and that non-performing loans erode profits.

Delis and Papanikolous (2009) adopted a semi-parametric model to evaluate the impact of bank- specific factors, industry–specific and macroeconomic variables on banks' efficiency and performance. They discovered that bank size is statistically significant and has a direct relationship with banks' efficiency and performance. Kosak and Zajc (2006) researched into cost efficiency of banks as a parameter of growth and improved financial performance in the banking sector. Their findings were consistent with that of Delis and Papanikolous (2009). In particular they found a direct association between financial development and banks' cost efficiency.

Hansan and Bashir (2003) showed that given a stable macroeconomic environment and improved financial market system, high capital and improved loan–to-asset ratios have positive effects on banks financial performance.

In Asia, Malhotra (2002) delved into the impact of location on the financial performance of regional rural banks in India. He concluded that geographical location of rural banks is not a limiting factor of rural banks' performance.

In another study of the Indian rural banking industry, Ibrahim (2010) evaluated the financial performance of RRBs2 in specific areas such as number of agencies or branches, district coverage, deposits mobilization, loans portfolio and investments. The study concluded that bank consolidation has enhanced the financial performance of RRBs. This has facilitated growth in branch network, the closure of underperforming RRBs and an increased coverage of the number of districts served by the RRBs. Again, total capital funds have increased tremendously after amalgamation took place in the year 2005-06. He further discovered that credit-deposit ratio has grown over the years indicating a remarkable deployment of credit facilities by RRBs in rural areas.

Robison and Barry (1977) showed that the liquidity challenges of rural banks are mainly due to loan delinquencies and default as well as low levels of deposits. They claimed that banks whose loan portfolios have low risk are less efficient than those with high-risk loan portfolios. Robison and Barry further concluded that the level of asset quality and availability of liquidity may help to reduce the risks of rural banks.

2.7 CREDIT MANAGEMENT

According to Van Horne (1995), Credit Management refers to the efficient blend of the four major credit policy variables to ensure prompt collection of loans granted to customers and at the same time boost their confidence in and loyalty to the bank. The first variable is the assessment of the quality of the customer account. This examines the ability of the customers to repay on time. The second policy variable is that of setting the credit period. In so doing, the bank ought to give enough time to allow the customers derive the full benefits of the credit. Such period must not be too long to put the bank at a disadvantage. The third variable is the discount or the enticement to credit beneficiaries to repay credit on time. Such enticement must be motivating enough before the aim can be achieved.

The last variable considers the expenditure level that could be incurred in the collection exercise. This implies that the bank must not grant credit where the amount to be expended on collecting the debt will likely be greater than the debt itself. To blend these variables into an efficient workable system requires careful planning, controlling and co-ordination of all available human and material resources. According to Asiedu-Mante (2011) credit management involves establishing formal legitimate policies and procedures that will ensure that: the proper authorities grant credit, the credit goes to the right people, the credit is granted for the productive activities or for businesses which are economically and technically viable, the appropriate size of credit is granted, the credit is recoverable and there is adequate flow of management information within the organization to monitor the credit activity.

Office of the Comptroller of the Currency (2011) however defined Loan portfolio management as the process by which risks that is inherent in the credit process are managed and controlled. It involves evaluating the steps bank management takes to identify and control risk throughout the credit process. The assessment focuses on what management does to identify issues before they become problems. Office of the Comptroller of the Currency identified nine elements that should be part of a loan portfolio management process. The nine elements are:

1. Assessment of the credit culture,
2. Portfolio objectives and risk tolerance limits,
3. Management information systems,
4. Portfolio segmentation and risk diversification objectives,
5. Analysis of loans originated by other lenders,
6. Aggregate policy and underwriting exception systems,
7. Stress testing portfolios,

8. Independent and effective control functions,

9. Analysis of portfolio risk/reward trade-offs

Guidelines for Commercial Banks for Ghanaian Banks (2009) also see credit management as managing credit risk where Credit risk arises from the potential that an obligor is either unwilling to perform on an obligation or its ability to perform such obligation is impaired resulting in economic loss to the bank. According to Risk Management Guidelines for Commercial Banks & DFIs (2009) a typical Credit risk management framework in a financial institution may be broadly categorized into the following main components.

a) Board and senior Management’s Oversight

b) Organizational structure

c) Systems and procedures for identification, acceptance, measurement, monitoring and control risks.

2.8 LENDING

Lending according to McNaughton (1992) is one of the core pillars of financial intermediation and for that matter a significant activity in the operations of banks. It is at the same time highly risky. This is suggested by McNaughton (1992), who emphasized that risk taking is central to banking and banks are successful when the risk they take are reasonably controlled and within their financial reserves and credit competence. McNaughton was also of the view that to survive the numerous lending risks and to prosper, bankers must re-examine their bureaucratic tendencies in order to become responsible to the financial needs of the economy. The bureaucratic tendencies could thus cause lots of frustrations for loan applicants to obtain credit at the right time, which may hamper the success of projects.

In the area of credit delivery, Rouse (1989) also asserted that a lender ‘lends’ money and does not give it away. The lender needs to look into the future and ask, will the customer repay by the agreed date?

However, there will always be some risk that the customer will be unable to repay, and it is in assessing this risk that the lender needs to demonstrate both skill and judgment. The success of rural banks, hinges on their ability to identify the financial services the public demands, produce those services efficiently, and sell them at a competitive price. Again, Rouse (1989), Lending is perceived as an art because it involves imagination and creativity. It could be contended that credit management prescribes the guidelines to be followed and their religious adherence is very crucial for good credit management practices. The appropriate judgement depends on the skills, knowledge and foresight of the manager. This should embrace skills and knowledge in financial analysis, the performance of the sector receiving credit, the overall macroeconomic condition, the psychology in determining the perceived and indirect intentions of the borrower, the type of soil and climatic pattern in terms of agricultural loans and the perceived impact of the credit on the performance of the lending institution. In this vein, lending operations encompass various disciplines of economics, finance, law, accounting, geography, science, psychology, and culture among others. The situation makes lending activity very challenging since substantial significant slip causes undesirable financial losses and for that matter threatens the very existence of the lending institution. In this respect, persons with the right attitude, knowledge and skills devoid of all egoistic sentiments, are needed to superintend lending activities.

Olashore (1988) identified four interested parties in bank lending and these are the depositor, the borrower, the lending bank and government. Whilst the depositor wants the highest possible interest on his deposits, the borrower cherishes lowest interest rate on lending; the bank wants the highest spread between lending and borrowing rates of interest, and the government places emphasis on the responsiveness of lending to the sectoral needs of the economy. In spite of these interest groups, the lending bank ensures that its interest supersedes that of the others. In a liberalized and deregulated economy, banks dictate both borrowing and lending interest rates and determine the direction of credit to sectors which are considered less risky and more profitable.

2.8.1 RISK ASSOCIATED WITH LENDING

OCC (2011) however has acknowledged fundamental credit risk management principles as sound underwriting, comprehensive financial analysis, adequate appraisal techniques and loan documentation practices, and sound internal controls. In view of this, Rose and Kolari (1995) view credit risk as the possibility that borrowers will default in repaying loans taken. Kay (2002) on the other hand envisaged Credit risk as distribution of financial losses due to unexpected changes in the credit quality of counterparty in a financial agreement. He also sees it as the probability of default or any type of failure to honour a financial agreement. There is clear indication that the probability of default is estimated by specifying a model of investor uncertainty; a model of the available information and its evolution over time; and a model definition of the default event.

Risk assessment as defined by Smook (1997) is "The overall process of risk identification, quantification, evaluation, acceptance, aversion and management. He indicated that risk management includes risk assessment and risk control. In the article he indicated that Risk evaluation is a complex process of developing acceptable levels of risk to individuals, groups, or the society as a whole. It involves the related processes of risk acceptance and risk aversion. Risk acceptance implies that a risk taker is willing to accept some risks to obtain a gain or benefit, if the risk cannot possibly be avoided or controlled. The acceptance level is a reference level against which a risk is determined and then compared. If the determined risk level is below the acceptance level, the risk is deemed acceptable. If it is deemed unacceptable and avoidable, steps may be taken to control the risk or the activity should be ceased. The perception and the acceptance of risks vary with the nature of the risks and depend upon many underlying factors.

The risk may involve a "dread" hazard or a common hazard, be encountered occupationally or non-occupationally, have immediate or delayed effects and may affect average or especially sensitive people or systems. Risk aversion is the control action taken to avoid risk

Risk management is concerned with the outcome of future events, whose exact outcome is unknown, and the development of strategies to deal with these uncertainties, over a range of possible outcomes. In general, outcomes are categorized as favourable or unfavourable, and risk management is the art and science of planning, assessing, and handling future events to ensure favourable outcomes.

2.8.2 PRINCIPLES OF LENDING

Gaurav (2010) has identified general principles of good lending which every banker follows when appraising an advance proposal as follows:

- **Safety:** The banker ensures that the money advanced by him goes to the right type of borrower and is utilized in such a way that it will not only be safe at the time of lending but will remain so throughout, and after serving a useful purpose in the trade or industry where it is employed, is repaid with interest.

- **Liquidity:** The borrower must be in a position to repay within a reasonable time after a demand for repayment is made

- **Purpose:** The purpose should be productive so that the money not only remain safe but also provides a definite source of repayment

- **Profitability:** the bank must make profit from the loan

- **Security:** Security is considered as an insurance or a cushion to fall back upon in case of an emergency

- **Spread:** the diversification of advances

- **National Interest, Suitability:** Compliance with all local legislation

The Gaurav (2010) further explained that in the changing concept of banking, factors such as purpose of the advance, viability of the proposal and national interest are assuming a greater importance than security, especially in advances to agriculture, small industries, small borrowers, and export-oriented industries.

2.9 CREDIT RISK

According to GARP (2013), Credit risk arises from the potential that a borrower or counterparty will fail to perform on an obligation. For most banks, loans are the largest and most obvious source of credit risk. However, there are other sources of credit risk both on and off the balance sheet. Off-balance sheet items include letters of credit unfunded loan commitments, and lines of credit. Other products, activities, and services that expose a bank to credit risk are credit derivatives, foreign exchange, and cash management services. The granting of credit facilities is underpinned by the risk of being repaid when due. Williams and Heins (1985) again indicated that risk identification is the process by which a business systematically and continuously identifies property, liability, and personnel exposures as soon as or before they emerge. The first step in business risk management in their view is to identify the various types of potential losses confronting the firm, and secondly, to measure these potential losses with respect to such matters as their likelihood of occurrence and their probable severity. It is therefore pertinent to assess the inherent risk of a credit facility, the existing operational management to mitigating the risk and determining the underlying actual risk. This assessment gives the idea of intended quality of the credit facility.

The unlikelihood that there will be a loss arising from default at repayment of a credit facility granted is referred to as credit or default risk. The primary danger in granting credit is the chance that the borrower will not repay the loan. Rouse (1989) again buttressed this by stating that a lender 'lends' money and does not give it away and there will always be some risk that the customer will be unable to repay. This therefore calls for critical assessment of any credit request with reasonable assurance that repayment would not be of much problem. A bank further covers the uncertainty of the repayment by demanding collateral. Credit risk has the repercussion of liquidity risk, which in the extreme instance can lead a bank to severe financial crisis, resulting in erosion of capital, insolvency and could ruin the bank.

2.9.1 PROCESS OF CREDIT RISK MANAGEMENT

In the book Credit Risk Management, by Gestel et al (2009), states that credit risk is managed in various ways. The most important techniques to manage credit risk are:

Selection: A good credit risk management starts with a good selection of counterparts and products. Effective risk assessment models and qualified credit officers are key requirements for a good selection strategy. During this stage, important credit decisions are made at credit committees. Further, counterparts with a higher default risk, more collateral is required in order to reduce recovery risk. Recovery risk is also reduced by requiring more stringent covenants, examples, on asset sales. A good selection strategy also implies a good pricing of the products in line with the estimated risk.

Limitation: This step helps to restrict the exposure of the bank to a given counterpart, it avoids the situation that one loss or a limited number of losses endanger the bank's solvency. The total amount of exposure to riskier counterparts is more restricted by a system of credit limits. The limit setting of the bank determines how much credit a counterpart with a given risk profile can take.

Diversification: This has got to do with the allocation process of banks will provide a good diversification of the risk across various borrowers of different types, industry sectors and geographies. This method spread the credit risk in order to avoid a concentration on credit risk problems. It is also easier for large and international banks.

Credit enhancement: The authors described this step as when a bank observes it is too exposed to a certain category of counterparts; it does this buying credit protection in the form of guarantees from financial guarantors or via credit derivative products.

By the protection, the credit quality of the guaranteed assets is enhances. This is also known as credit risk mitigation.

Basel committee on Banking Supervision (1999) elaborates on the basic principles for the assessment banks' management of credit risk. One of the principles is establishing an appropriate credit risk environment. Therefore management should have responsibility for approving and periodically reviewing the credit risk strategy and important credit risk policies of the bank, and banks should be able to identify and manage credit risk inherent in all products and services. The second principle mentioned in the article operating under a sound credit granting process, this is where banks operates under sound, well-defined credit-granting criteria.

These criteria include a thorough understanding of the borrower or counterparty, as well as the purpose and structure of the credit, and its source of repayment suggested by Basel Committee on Banking Supervision (1999). To identify and address risk associated with credit management, the Basel Committee on Banking Supervision however in its Publication outlined the following measures:

Establishing an appropriate credit risk environment

The Board of Directors should have responsibility for approving and periodically (at least annually) review the credit risk strategy and significant credit risk policies of the bank. The strategy should reflect the bank's tolerance for risk and level of profitability the bank expects for incurring various credit risks. Senior Management should have responsibility for implementing the credit risk strategy approved by the Board of Directors and for developing policies and procedures for identifying, measuring, monitoring and controlling credit risk. Such policies and procedures should address credit risk in all of the bank's activities and at both the individual credit and portfolio levels. Banks should identify and manage credit risk inherent in all products and activities. Banks should ensure that risks of products and activities new to them are subject to adequate risk management procedures and controls before being introduced or undertaken, and approval in advance by the Board of Directors or its appropriate committee.

Operating under a sound credit granting process

- Banks must operate within sound, well-defined credit granting criteria. These criteria should include a clear indication of the bank's largest market and a thorough undertaking of the borrower or counter-party, as well as purpose and structure of the credit, and its source of payment;
- Banks should establish overall credit limits at the level of individual borrowers and counter-parties, and groups of connected counter-parties that aggregate in comparable and meaningful manner different types of exposures, both in banking and trading book and on and off balance sheet;
- Banks should have a clearly established process in place for approving new credit as well as the amendment, renewal and re-financing of existing credits; and
- All extension of credit must be made on an arm-length basis. In particular, credit to related companies and individuals must be authorized on an exceptional basis, monitored with particular care and other appropriate steps taken to control or mitigate the risk of non-arm's length lending.

Maintaining an appropriate credit administration, measurement and monitoring process

The process entails the following:

- Banks should have in place a system for the ongoing administration of their various credit risk bearing portfolios and a system for monitoring conditions of inadequate credits, including determining the adequacy of provisions and reserves.
- Banks are encouraged to develop and utilize an internal risk rating system in managing credit risk. The rating system should be consistent with the nature, size and complexity of a bank's activities.
- Banks must have information system and analytical techniques that enable management to measure the credit risk inherent in all on-and-off balance sheet activities. The management information should provide adequate information on the composition of the credit portfolio, including identification of any concentration of risk;
- Banks must have in place a system for monitoring the overall composition and quality of the credit portfolios and take into consideration potential future changes in economic conditions when assessing individual credits and their stressful conditions.

Ensuring adequate controls over credit risk

Banks must establish a system of independent, on-going assessment of the bank's credit risk management process and the results of such reviews should be communicated directly to the Board of Directors and senior management. Banks must ensure that the credit granting function being properly managed and the credit exposures are within levels consistent with prudential standards and internal limits; and must further have a system in place for early remedial action on deteriorating credit, managing problem and similar workout situations.

The role of supervisors

On the role of supervisors, the Basel Committee (2000) advised that supervisors should require that banks have an effective system in place to identify, measure, monitor and control credit risk as part of an overall approach to risk management. The Basel Committee (2000) further stressed that supervisors should conduct an independent evaluation of a bank's strategies, policies, procedures and practices related to the granting of the credit and the ongoing management of the portfolio. In addition, supervisors should consider setting prudential limits to restrict bank exposures to single borrowers or groups of connected counter-parties. The issues that were raised in the Basel Committee Publications (2000) are very relevant and pertinent credit risk management. The Board of Directors should approve and periodically review credit risk strategy whilst senior management should ensure its effective implementation.

This issue may not be vividly pronounced in the rural banks but the other major commercial banks are alive to it. A sound credit management process provides the basis for assessing the credit worthiness of beneficiaries and creates facilities to be followed through. This ensures the utilization of the credit for the intended purpose and also unveils any bottlenecks, which may arise for appropriate remedial action to be enforced. This mitigates the risk of the facility not achieving the intended purpose and generating sufficient cash flows to service as well as liquidate the principal amount. Projects with high-risk profile should be given close and continuous monitoring to ensure being managed efficiently. The role of supervisors in ensuring good credit management practices has been in force. The single borrower exposure limits, insider lending (as stipulated in Part VI of the Banking Act, 2004 (Act 673)) and stringent provisioning rules are strictly enforced by the Central Bank. Recently the Central Bank has requested all banks to nominate risk officers to coordinate the various measures instituted to control the risks confronting them. In the case of rural banks, further credit limits have been set by the Bank of Ghana, beyond which such facilities should be submitted for ratification before disbursements are made. However, with these methods and principles of credit risk management can be prevented or reduced among financial institutions. With effective and efficient use of these methods financial institutions can attain high financial performance and remain solvent.

2.9.2 THE COST OF BORROWING

It is always a good idea to do your homework before you make a major purchase or enter into a financial transaction, and private student loans should be no exception. The more you understand about the cost of borrowing before you borrow the better. However, Business Dictionary (2013) defines cost of borrowing as “The total charge for taking on a debt obligation that can involve interest payments and other financing fees”.

The concept of a loan is pretty straightforward: first you borrow money, and then you repay it. But the amount that you must repay is more than the amount you borrow. This is due to interest and fees, which is what a lender charges you for the use of its money. It is also referred to as a finance charge. A finance charge is the dollar amount that the loan will cost you. Lenders generally charge what is known as simple interest. The formula to calculate simple interest is:

Principal x Rate x Time = interest (with time being the number of days borrowed divided by the number of days in a year). The level of lending interest rates is also influenced by the availability of loanable funds and the competing ends. In situations where Government needs to borrow substantially to support its business, high interest rates are offered to crowd out the private sector. This was the situation in 2000 where the Treasury bill rate reached a peak of 45.0 per cent per annum as claimed by Bank of Ghana (2000). The level of inflation also affects interest rate since a higher regime bears direct relationship with interest rates. This view was highly promoted by Cox (1988), when he indicated that, interest rates were influenced by supply and demand for funds, risk premium, inflationary factors and amount of loan. Before the liberalization of the economy in 1990, the Bank of Ghana regulated interest rates. During the pre-liberalization period, interest rates were fixed by the Bank of Ghana for the various sectors for which the banks were to comply. However, this system was abolished and banks were to determine their own interest rates according to the market forces and the dictates of the macroeconomic conditions. The Bank Rate of the Bank of Ghana seemingly becomes the benchmark but it takes time for the banks to adjust appropriately to it especially when there is downward revision of the rate.

2.10 COMPOUNDING INTEREST

Adding interest to the principal balance is known as compounding interest. Depending on the lender, interest can be added to the loan on a monthly, quarterly, semi-annual or annual basis. It is always best to pay accrued interest before it is added to the balance of the loan. You will save money in the long run by doing so. If your lender compounds accrued interest annually over a period of four years on a Ghc2,500.00 loan with an interest rate of 5.00%, you will end up having Ghc538.78 added to the balance of the loan by the time you begin repayment. The more frequently a lender adds the interest to the principal loan balance, the more interest a borrower will pay.

2.10.1 ANNUAL PERCENTAGE RATE (APR)

Federal law requires that lenders provide a Truth in Lending Act disclosure to consumers. This act requires the lender to disclose an annual percentage rate, or APR. The APR tells you the true cost of your loan, and is the cost of your credit expressed as a yearly rate. While the APR may not always include all costs, it does include the rate of interest being charged and all fees collected at the time the loan is made, so it is a reasonable indicator of the cost of your loan.

2.10.2 OTHER FEES

Some lenders charge additional fees, besides interest, for the privilege of borrowing money. Generally, these additional fees are a percentage of the loan amount that is deducted from the amount you receive, and they are charged immediately upon your receipt of the loan proceeds. For example, if the lender assesses a fee of 5% and the loan amount is Ghc2,500.00, the fee will be Ghc125.00 and you will receive Ghc2,375.00. You must, however, pay back Ghc2,500.00 to the lender.

These fees are usually considered part of the finance charge; or, more specifically, a prepaid finance charge. Other charges to be aware of include late charges, loan processing fees, and deferment and forbearance fees. Not all lenders assess these fees. The key to understanding the fees associated with your private student loan is to read the credit agreement, also known as a promissory note or note. This is a contract between you and the lender that says the lender will loan you money and you will repay it. Read it carefully, and do not hesitate to discuss it with the lender and your school financial aid administrator.

2.11 DETERMINING BORROWERS' CREDIT WORTHNESS

According to Okyere (2014), before lenders decide whether or not to grant credit or a loan, they evaluate a potential borrower's credit worthiness, or the borrower's ability to assume and pay back credit. In their evaluations, lenders consider the following:

Character: This refers to the borrower's integrity and willingness to repay the financial obligation as well as his or her reliability and trustworthiness. Answers to questions such as the following help a lender determine a borrower's character when applying for a personal loan:

- Do you pay your bills on time?
- Have you used credit before?
- How long have you lived at your current address?
- Where do you work, and how long have you held your present job?

Character can also be a factor when a business applies for a loan. The company must have a good reputation and have consistently paid back its loans in the past.

Capacity: This addresses the borrower's cash flow and ability to repay the debt from ongoing business operations. Unforeseen business difficulties will always arise. Accordingly, the use of the borrowed funds must generate sufficient funds during the period of the loan to cover these contingencies, and still have a generous amount left over in order to service any remaining debts. If an individual's income or a business's revenue is unsteady or low, the borrower may not be able to handle more or any credit. Even with a high income, a borrower may not be able to handle more credit because of other debts.

Capital: This is the borrower's financial net worth. A significantly positive net worth has the potential to offset insufficient cash flows, because financiers perceive the borrower still has more than adequate means to repay the loan. The value of a borrower's capital gives a lender concrete evidence of whether or not the borrower will be able to meet his or her credit obligations. In assessing a borrower's capital, a lender asks this basic question: "What does the borrower have of value that could be sold if he or she does not repay the debt?"

Collateral: This refers to any property owned by the borrower that can be pledged for security. If the property has been previously pledged against another loan, financiers would probably not consider it available to be pledged again until the previous loan has been paid off.

Conditions: These refer to economic, industrial and company-specific prospects and events that may occur during the period of the loan that could have a significant effect on your company. These might include rising raw material prices, an employee strike, increasing interest rates, etc.

Inventories: In addition, bankers will look at the company's inventories. Don't assume a large inventory represents collateral that can be readily pledged against a loan. Bankers realize that if a company defaults on a loan, the financiers would be lucky to recoup five cents on the dollar from the pledged inventory. Instead, bankers will look at how rapidly you rotate your inventory, and the faster the better. If you have enough inventory on hand for the next year, you are negatively impacting cash flow. Such a condition probably indicates people are not buying your product, another reason for worry. However, if you are "turning" your inventories every month, your financiers should be very happy.

Receivables: How well are you doing at collecting your debts? If you give your customers 30-day terms, are they paying on time? If your receivables are averaging 60 days, it will cost you both money and the confidence of your bankers.

Monitoring

Monitoring of credit facilities granted to customers is a significant function in ensuring the success of the project for which repayment is made. Huppi and Feder (1990) revealed that effective monitoring leads to higher recovery of loans by exposing possible dangers (like loan diversions) and reminding borrowers of their obligations to the lending bank (i.e. calling for redoubling of efforts towards loan repayments). Monitoring of credit facilities has been concentrated typically on ensuring repayment when there are signs of defaults for either payment of interest or principal repayment by instalment. Such practice, in the view of the researcher, fails to achieve desirable loan repayments since the facility might have already gone bad.

The researcher believes that monitoring of loans should be total by following events right from the disbursement of the facility, ascertaining the deployment of funds on the intended project, following up and reviewing progress of the project, identifying shortcomings for possible advice through field visits and discussions, ensuring prompt repayment of proceeds from the project and advising on further expansion or re-direction of the project among others. 'Armed-chair' monitoring invariably becomes a factor for non-repayment of credit facilities. Effective monitoring should be instituted by a lending institution and apprise management of the state of affairs of each project. Just as you must pay careful attention to these guidelines to secure your own bank financing, so should you demand no less from your major "borrowers," those who purchase large amounts from you on credit? Otherwise, their overdue accounts with you will impact your company's own creditworthiness.

2.11.1 CREDIT APPRISAL TECHNIQUES

Guidelines for Rural Banks for Ghanaian Banks indicated that, Banks must operate within a sound and well-defined criteria for new credits as well as the expansion of existing credits. Credits should be extended within the target markets and lending strategy of the institution. Before allowing a credit facility, the bank must make an assessment of risk profile of the customer or transaction. This may include:

- Credit assessment of the borrower's industry, and macro-economic factors.
- The purpose of credit and source of repayment.
- The track record / repayment history of borrower.
- Assess/evaluate the repayment capacity of the borrower.
- The Proposed terms and conditions and covenants.
- Adequacy and enforceability of collaterals.
- Approval from appropriate authority

Stigliz (1990) also dispute that group members have better access to information on reputation, creditworthiness and an intended purpose of peer borrowers than the bank official. Fundamentally, the problem arises because lenders are imperfectly informed about the characteristics of potential borrowers, and it may be impossible, as a result, for lenders to distinguish 'good' borrowers from 'bad' ones as suggested by Fraser (2004). According to Ahmad (2001) there is no guaranteed procedure for ensuring loans do not go bad as certain circumstances can go against the best of borrowers. Ahmed (2001) however suggested the general procedure for reviewing short term lending proposals in the following areas; Company Profile / Ownership, Purpose of facility:, Source of repayment, Security, Financial Analysis, Management Evaluation, Risk Areas, Checking, Loan Profitability. According to Maness (1988), credit analysis is the process of deciding whether or not to extend credit to a given customer.

Maness (1988) again outlined certain individual traits that must be used for such analysis, which he referred to as the 5Cs, namely, the customer character, capacity to pay, collateral to support the loan, capital or asset-base of the customer, and the general economic condition under which the customer operates. Andrews (2004) believes that Credit analysis includes financial and non-financial factors, and these factors are all interrelated. These factors include the environment, the industry, competitive position, financial risks, management risks, and loan structure and documentation issues. Where formal financial institutions rely on quantitative data such as credit histories in order to assess and mitigate risk, MFIs have found that a reliance on trust can result in extremely low default rates; in fact, a high-quality MFI will typically see default rates of below 3%. The poor rarely have formal credit histories, and are unable or unlikely to be able to offer anything of value as collateral to secure a loan as claimed by Kereta (2007).

CHAPTER THREE

METHODOLOGY AND ORGANIZATIONAL PROFILE

3.1 INTRODUCTION

To ensure that the study is properly tailored to the objectives, proper care has been taken in drawing up the research design. This chapter highlights target population as well as the data collection instruments in order to solicit information for the analysis. It looks at the determination of the sample size, sampling procedure and the reliability of the study would be tested.

3.2 STUDY TYPE AND DESIGN

The objective of this design is to provide a framework for the collection of and analyzing of data. It defines the general plan of how the research questions in chapter one will be answered and specifies the sources from which data will be collected. The function of the research design is to ensure that the evidence obtained enable us answer the initial questions as unambiguously as possible. Findings are conclusive and usually descriptive in nature and used to recommend a final course of action. The research will however answer both what and why questions about the determinants of investment selection in occupational productivity making the research explanatory and descriptive.

3.3 STUDY POPULATION

The study population for the research will include the credit Officers of the Odotobri rural bank in the Obuasi Municipality. These categories of people are chosen because they are the key stakeholders of the banks and are in a better position to offer firsthand information on credit management practices. Polit and Hunger (1999) on the other hand refer to the population as an aggregate or the totality of all objects, subjects or members that conform to a set of specifications.

3.4 SAMPLE SIZE AND SAMPLING TECHNIQUES

A purposive sampling approach was employed to select one key informant, thus the credit officer in the head Office. This implies that only one respondent was sampled for this study.

3.5 DATA COLLECTION TOOLS AND TECHNIQUES

Relevant information that would be used for this study would be collected using the two main types of data collection. Thus, data that would be used for this study include both primary and secondary data. Under the primary data collection method, the researcher uses interview while under the secondary data collection the researcher will obtain information from published documents which include; written reports, management annual reports, articles, information from Odotobri rural bank website.

3.5.1 PRIMARY AND SECONDARY DATA SOURCES

According to Kotler and Keller (2006), primary data are freshly gathered for a specific purpose. Although primary research is often time consuming and expensive, therefore the researcher consider it as a reliable source of information because it is direct from the consumer and is specifically designed to meet the objectives of the study. The primary data for this research would be designed through:

- Survey by administering structured questionnaire that would comprise of open and close ended questions to the representatives of Odotobri rural bank.
- Interactive discussions with the respondent.

Another route that could be used to pursue the course of this research is that of using existing materials or "secondary sources". Secondary sources would be collected from the bank records, archives, internet, and the company's website. Secondary data occur as raw data or processed. If raw data is available, then the data can be reworked. More often, however, only published reports are available. Similarly, many longitudinal studies such as this involve secondary data analysis.

3.6 INSTRUMENT

A face-to- face interview aided with interview guide prepared in line with the study objectives was used as the maintain data collection instrument.

3.7 DATA PROCESSING AND ANALYSIS

Since data collected were descriptive in nature, the descriptive approach to data processing has been used to analyze the data. It involved description of the credit management practices of the Odotobri rural bank.

3.8 ETHICAL CONSIDERATIONS

When humans are used as study participants in a research investigation, care must be exercised that the rights of those individuals are protected (Polit & Hungler 1999). Research ethics observed in this study are in accordance with those stated by Polit & Hungler (1999), namely the principles of beneficence, of respect for human dignity and of justice.

3.9 PROFILE OF ODOTOBRI RURAL BANK

This section presents the description of the rural bank under study.

3.9.1 HISTORICAL BACKGROUND

The establishment of Odotobri Rural Bank Limited was a response by the Government to Odotobri Cocoa Farmers' appeal to help alleviate their plight at a time when they had to travel long distances of over 20km, most often on foot to cash their Akuafo Cheques at Ghana Commercial Bank and Agricultural Development Bank in Bekwai, Obuasi and Kumasi as the case may be. Odotobri Rural Bank Ltd. was incorporated by shares on March 29, 1982 with registration number 20476 under the Companies Code of 1963(Act 179). The Bank was issued with a license to commence Banking Operations on September 7, 1982 under the Banking Act 1970 (Act 339). The Bank started actual operations to the public on September 16, 1983.

3.9.2 VISION

To be an Accomplished Giant in Unit Banking.

3.9.3 MISSION

To provide efficient financial services through customized products, good corporate governance, well-motivated human resource, maximization of shareholders' wealth, consistent application of improved technology and being socially responsible.

3.9.4 ORGANIZATIONAL STRUCTURE

A Seven-Member Board of Directors governs Odotobri Rural Bank. The Board is at the Apex of Bank's Organogram and is the highest decision making body of the Bank. The Board exercises its oversight role and responsibilities through the following standing committees:

1. Credit Committee
2. Human Resource & Compensation Committee
3. Local Board Committee
4. Scholarship Committee
5. Asset & Procurement Committee
6. Risk & Compliance Committee
7. Audit and Finance Committee

3.9.5 MANAGEMENT TEAM

The Board is assisted by a Management team with varied and rich working experiences in Banking. The Management headed by the Chief Executive Officer is responsible for the day to day Administration and Operations of the Bank. Inclusive in the Management team are the Deputy General Manager, Central Accounts Manager, ICT Manager, Credit Manager, Audit Manager, and Human Resource/Administrative Manager.

3.9.6 PRODUCTS AND SERVICES

The Bank offers a variety of services to its clientele such as savings and loan products:

3.9.7 DEPOSITE PRODUCTS

Our Deposit Products are essentially made up of the following:

a) **Savings Account:** The purpose of this product is to allow clients save for investment
or to raise capital. This account attracts interest.

b) **Current Accounts:** This account type is normally termed a business account that is recommended for individuals, corporate bodies and those engaged in brisk business.

c) **Salary Accounts:** This account type is designed for salaried workers whose salaries and allowances are paid through the bank.

d) **Susu Savings Account:** This innovative Savings Products is designed for clients who find it difficult to leave their homes and workplaces to visit the Bank and for those with small cash holding who cannot meet the Bank's minimum deposit requirement to open Savings Account. It gives them the unique opportunity to save with the Bank through the network of the Bank's Sales Executives (Mobile Banking Staff).

e) **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 rate of return is relatively higher.

f) **Cash collection services:** Under this product the bank's accredited officials undertake cash collections at the door steps of customers who are too busy to visit the bank. These collections are then deposited with the Bank on the behalf of the clients in their respective accounts.

3.9.8 LENDING PRODUCTS

a) **Susu Loans:** The Susu Loans Product is to provide financial assistance to clients to expand their business. The loan product is designed to enable the clients repay such loans on daily or weekly basis.

b) **Ordinary Loans and Overdraft:** This is a business loan/facility targeted at Current

Account holders such as individuals, Corporate Bodies and Enterprises that need working capital to expand their businesses.

c) **Salary Loans:** This facility is granted to salary account holders who have their salaries channeled through the Bank.

d) **Funeral and Social Loans:** The Funeral and Social Loans are designed to enable clients' access funds to perform the funeral rites of a deceased person and wedding ceremonies.

e) **Micro Finance Loans:** Loans are granted to men and women groups who own small and micro enterprises or are engaged in productive activity.

3.9.9 MONEY TRANSFER

The Bank is engaged in both foreign and domestic money transfer services with Apex Bank and other collaborators.

b) **Western Union Money Transfer:** This product is designed to enable clients and the general public to funds from Europe, America, Asia and Far East and other

African countries through Western Union Money Transfer and Standard Chartered Bank Limited to the Bank.

c) **MoneyGram:** The Bank in Partnership with the ARB Apex Bank Ltd. also provides Money Gram Services to clients.

d) **Mobile Money:** The Bank strives to keep a competitive edge. It therefore offers Mobile Money services in addition to its traditional banking products and services. Odotobri offers MTN Mobile Money as well as Airtel Mobile Money. Plans are underway to provide Tigo Cash.

3.9.10 CORPORATE SOCIAL RESPONSIBILITY

The Bank always seeks to improve the lives of citizens in its catchment area and Ghanaians as a whole. Against this background bursaries are granted to brilliant but needy students annually to contribute to nurturing human resources for the country at large. In the 2014 financial year for instance, scholarships and bursaries granted totaled GH¢26,568.50. In the same year, the Bank spent an amount of GH¢103,594.00 as part of its corporate social responsibility to support socio-economic activities in the communities it operates in and beyond. Beneficiaries of the support included various Metropolitan, Municipal and District Assemblies, Ghana Education Service, Ghana Police Service, Senior High Schools to mention but a few

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.0 INTRODUCTION

This chapter analyzes the responses received from the key informant from Odotobri rural bank. The chapter is into three divisions; The first divisions talks about the types of loan offered by Odotobri rural bank, evaluation and appraisal of clients as the second and recovery of debts is the last.

4.1 TYPE OF LOANS OFFERED TO ODOTOBRI RURAL BANK CUSTOMERS

As indicated by Rose and Kolari (1995) the appropriate balance of each type of loan in the loan portfolio needs to be specified and any specification must be made with due regards to the demand of the local economy as well as the size of the rural bank and the expertise of its management. As regards to the types of loans Odotobri rural bank offer for its customers, the respondent agreed that they included Susu loans, Salary loans, Micro Finance loans, Ordinary loans and Overdrafts and Funeral and Social loans.

4.1.1 SUSU LOANS

The Susu Loans Product is to provide financial assistance to clients to expand their business. The loan product is designed to enable the clients repay such loans on daily or weekly basis.

This is passbook daily saving programme designed to assist small-scale entrepreneurs to expand their businesses. Contributors may, after two months savings, be eligible for loans. Repayment of the loan is made through a flexible repayment package covering a period of between six and twelve months.

4.1.2 SALARY LOANS

This facility is granted to salary account holders who have their salaries channeled through the Bank. This type of loan is accessible by salaried workers in public institutions such as teachers, nurses and other permanent staff positions in the private sector in obuasi municipality. The requirements for this loan are, the applicant should be a comfirmed and a permanent staff of his/her organization. The applicant should produce two months recent pay slips in addition to three months bank statement.

4.1.3 MICRO FINANCE LOANS

Micro finance loans are granted to men and women groups who own small and micro enterprises or are engaged in productive activity. These are loans given to borrowers who typically lack collateral, steady employment and a verifiable credit history.

4.1.4 ORDINARY LOANS AND OVERDRAFT

This is a business loan/facility targeted at Current Account holders such as individuals, Corporate Bodies and Enterprises that need working capital to expand their businesses.

4.1.5 FUNERAL AND SOCIAL LOANS

The Funeral and Social Loans are designed to enable clients' access funds to perform the funeral rites of a deceased person and wedding ceremonies.

4.2 FACTORS INFLUENCING ACCESS TO CREDIT

The factors that affect a client access to credit in Odotobri rural bank according to the informant are; collateral surety, Net profit per months, level of savings, interest rate, business type as well as age of business, business location, age of client and level of education.

4.2.1 COLLATERAL SECURITY

According to the informant, collateral surety is the foremost factor that influences a client access to credit in their institution. It is property or assets that a person who is going to borrow from the bank offers to secure a loan. This is done to avoid the moral hazards that are associated with lending. In this case if the borrower is unable to fulfill his/her loan obligation, then the bank can confiscate the property or asset to retrieve its losses. According to the respondent the collateral securities that bank accept from its borrowers are all the properties that are registered in the name of the borrower with certificate of registration. Examples are houses, cars, lands, shops; business premises (Buildings), etc.

4.2.2 NET PROFIT PER MONTH

The second factor that is said to be influencing access to credit by borrowers in Odotobri bank is net profit per month. Net profit is defined as the profit obtained after deducting all cost and taxes. It can also be defined as the actual profit after working expenses not included in the calculation of gross profit. The respondent posited that the bank is able to ascertain the net profit of the borrowers by requesting for their monthly profit and loss account as well as their balance sheet. The respondent also reported that the alternative way by which the bank ascertains the credit worthiness of the borrower is to undertake feasibility study on the borrowers' activity. The credit officer then write appraisal report on the data gathered for recommendation.

4.2.3 LEVEL OF SAVINGS

Level of savings in this perspective does not only refers to the amount the borrower already have in his/her account but also, how long he/she has been working with the bank. How the individual transact with the bank from day-to-day is also factored here. The respondent acknowledged that the bank is very cautious about the level of savings. This is due to the fact if the bank only considers the amount in the person's account it can be disastrous due to the fact that the individual can borrow money from elsewhere and deposit into his/her account to make it worthy for loan. The respondent added that most of the borrowers who secured loans through this mean default at the end of the day.

4.2.4 INTEREST RATE

The interest rate in this regard can be explained as the proportion of a loan that is charged as interest to the borrower, typically expressed as an annual percentage of the loan outstanding. Interest rate on borrowing was listed as the fourth factor that influences individual access to credit in the bank according to the respondent. The respondent posited that higher interest on borrowing mostly serves as a hindrance for majority of the borrowers to come for loan. Loan access in times of higher interest is mostly done by well to do businesses. The respondent added that petty traders are mostly crowded out in terms of borrowing in the situation of higher interest rate. The respondent stated that they normally charge high interest due to the high level of default.

4.2.5 BUSINESS TYPE

This is one of the factors that influence access to credit according to the respondent. The respondent asserted that before the bank will disburse loan to an individual they access the business the person is into. This is mostly done to prevent the bank helping an individual to indulge in illegal activities. The respondent added that no rural bank will ever give a loan to support illegal activities like drug business or galemsey. This implies that, the purpose for which the loan is being accessed should first and for most be on legal activities. The study further found that, banks grant loans meant for specific activities such as overdraft, agricultural loan, personal loan, asset finance and construction. Limits are set on each of these, making it easier for anyone who falls within such limits to access the loan without difficulties.

4.2.6 AGE OF BUSINESS

The age of the business was also reported by the respondents to be one of the factors that influence an individual access to loan in the company. The respondent asserted that how businesses collapse nowadays have render them very cautious in disbursing loans to newly established business owners. This is also to help avoid the moral hazards that is associated with loan disbursement. Nonetheless, old business is not also a must to be granted loan to, the owner should have a good credit and other records with the company.

4.2.7 BUSINESS LOCATION

Business location is also considered to be a factor that influences customer access to loan from the bank. The respondent reported that the business of the borrower should somehow be close to the bank and must be a location that can be accessed. The location should not be a place far from the community in which the bank operates. This will help the credit officer to go there once in a while to monitor the activities of the borrower. The respondent added that the monitoring is normally done on the borrowers businesses. The respondent added that it is done based on their past experience where a borrower switch from the activity upon which the loan was intended for and it led to high level of default in the bank operations.

4.2.8 AGE OF THE CLIENT

The age of a Client is another factor taken into consideration when granting credits to customers. Persons under 18years cannot access credits from any bank because they are considered as minors. The study found that the bank is cautious when granting loan to the aged. It was also found that, most often huge loan granted to the aged should be supported with adequate collateral security. This suggests that it is quite easier for young and middle age customers to access loans from the banks than the aged could do.

4.3 APPRAISAL OF THE CLIENTS

In a bid to offer the loans to the clients, it was obvious from the results that series of appraisals were made. From the respondent's point of view, considering character as criteria for appraising customers before they are given loans, considered it as medium criteria when it comes to lending out money. Fundamentally, the problem arises because lenders are imperfectly informed about the character of potential borrowers, and it may be impossible, as a result, for lenders to distinguish 'good' borrowers from 'bad' ones as suggested by Fraser (2004). As Fraser observes, longer and broader relationships increase the amount and flow of information to lenders, enabling good borrowers to obtain better access to finance over time. On the part of the SWOT analysis of the borrower, the respondent rated this criterion as medium. As regards to the cash flow statement of the borrower, the respondent considered that to be low. In the same vein, as regards to security the respondents rated it as high. On the part of the repayment history of the borrower, the respondents rated it to be low.

4.4 TRAINING, MONITORING AND EVALUATION OF THE CLIENTS

The work was to find as well, the extent to which the bank educates and supervises the customers on the ventures they wanted to enter into. This was to help and monitor the activities of the clients. The major item here was whether the rural bank organized training programmes for their clients. The informant responded in the affirmative without denying that training programmes are organized before granting the loans. According to Adams and Von (1992), the economically active poor tends to know their businesses and to understand their financial needs better than the institutional staff who train them. Therefore general training programs that can reach large numbers of people are typically inappropriate for the heterogeneous needs of microfinance clients. Trainers often have little understanding of the dynamics of the informal economy and the local markets in which the borrowers operate.

Yunus (1999) on the other hand indicated that customers do not need the bank to teach them how to survive; they already know. So rather than wasting the bank’s time teaching them new skills, it was prudent to try to make maximum use of their existing skills. Giving the poor access to credit allows them to immediately put into practice the skills they already know.

TABLE 4.4: THE PURPOSES OF TRAINING CLIENTS

ITEMS	RANK
To enable them manage their business	2
Repayment schedule education	1
Train them in customer care	3

Source: Researcher's Field Survey, 2014

As regards the purpose of the training programmes, the respondent ranked enable clients manage their business as second, educates clients about repayment schedules as first and they use the occasion to train clients about customer care as third.

4.4.1 MONITORING CLIENTS

The monitoring process involve the following-up on adherence to approval conditions, utilization of funds for the intended purpose, tracking of repayment schedules, sending of reminders for repayments, keeping surveillance on collateral provided, reviewing performance or repayment trends and making call or field visits to ascertain progress of the customers' businesses to which funding had been provided. On the question of how often they monitor their loans, the respondent indicated that they monitor it weekly and quarterly.

4.4.2: EVALUATION OF CLIENTS

TABLE 4.3: EVALUATION OF CLIENTS

	Low	Medium	High
Interest rate on savings	*		
Loan repayment safety	*		
Lower service charges		*	
Access to common bond to people		*	
Access to credit facility			*
Loan interest rate			*
Turnaround time for loans		*	
Quality loan portfolio management			*
Commitment and processing fees	*		
Liquidity challenges in meeting withdrawal and loans demand	*		
Collateral requirement			*

Source: Researcher's Field Survey, 2014 * indicate the grade

The assessments of some conditions about the loans have individually been assessed and graded and the summary showed the general view point of the respondent from the rural bank. The Table 4.3 presents the result of the evaluation

4.4 CRITERIA USED IN IDENTIFYING CLIENTS WORTHY OF THE LOANS FACILITY

The study among others intended to explain the criteria used in identifying clients worthy of the loans facility in terms of their business plans, collateral and consciousness of the risk they want to venture into. Thus, to assess the operational procedures used in managing credit facilities. The situation of giving preference to the type of income generating activities before the loans were offered to the prospective borrower, the informant responded in the affirmative.

TABLE 4.4: CRITERIA USED IN IDENTIFYING CLIENTS WORTHY OF THE LOANS FACILITY

ITEMS	RANK
Bank Premises	4^{th}
Advertisement	1^{st}
Through Phone	2^{nd}
Visitation	3^{rd}

Source: Researcher's Field Survey, 2014

From the Table 4.5 it can be inferred that the respondent ranked advertisement as the first in identifying client's credit worthiness followed by phone calls and visitation. The bank premises were ranked last (4^{th})

TABLE 4.5: CREDIT APPLICATION REQUIREMENT

COLLATERAL	RANK
Two potential customers (Guarantor)	2
Application letter	4
Personal Asset	1
Bank statement (print out)	3

Number of collaterals was presented to the respondent to rank from the most pressing to the least pressing. Personal asset of the customer was ranked as the first followed by two potential customers, bank statement is ranked as third and application letter is ranked fourth (last).

4.5 LOAN RECOVERY METHODS USE BY ODOTOBRI RURAL BANK

According to the respondent, the legal system provides a number of measures to enable Odotobri rural bank to recover a debt owed once it falls due, but that is considered as the last resource. The following methods were mention as the techniques Odotobri rural bank uses to ascertain its loan recovery.

4.5.1 COMPREHENSIVE CREDIT CHECK

The respondent asserted that the bank does a comprehensive credit checks before they do business with their clients. The respondent stated that this method is the most basic protection against future bad debts. It helps them to decide what terms of trade to extend and whether they can do business with the client at all.

4.5.2 SECURITY OVER AN ASSET

The respondent asserted that they have the option of taking security over an asset of the client by a charge or some other means of security. That means it enable the bank to seize the property which is the subject of the security, rather than waiting for the client to be in the queue of other unsecured creditors.

4.5.3 RETENTION OF TITLE CLAUSE

The respondent asserted that they have in place a properly drafted retention of tittle clause on the invoices of their client. Since payment of invoice of the client is made to the client bank account sited with Odotobri rural bank, they become the first entity to have access to the client money and they deduct their share before other creditors of the borrower is paid.

4.5.4 INSERT A CLAUSE IN THEIR TERMS OF TRADE

According to the respondent, this is the method where Odotobri rural bank put a properly drafted clause in the terms of trade with the client which enables the bank to place a caveat over the company or properties of the directors of the company if the company default repayment.

4.5.5 DIRECTORS' PERSONAL GUARANTEES

The respondent asserted that the bank have the right to insist that the directors of the company assure them with their personal guarantee should the company default. The respondent gave an example as, when a client comes for funeral loan using the donation as a guarantee. In the case where the donation did not offset the loan and the family default payment, the properties of the guarantor (Abusuapani) is seize to offset the loan.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 INTRODUCTION

This section of the research work presents a summary of the main findings, draws conclusion and make recommendations. The summary of findings begins the presentation, followed by conclusion; the recommendation section ends the presentation.

5.1 SUMMARY OF FINDINGS

The purpose of this study was to describe the credit management practices of Odotobri rural bank in Obuasi Municipality, with the view of identifying the process the bank follows in giving out loans and the types of loans the bank offers, identifying the factors that affect access to credit from Odotobri rural and ascertain the loan recovery methods the bank uses to redeem loan repayment.

The data were collected by the researcher with a help of a well structure questionnaires at the premises of Odotobri rural bank during banking hours. The study identifies the following as the types of loans offered by Odotobri rural bank: Susu loans; Salary loans; Micro loans; Ordinary loans and overdrafts and Funeral and Social loans. The findings gathered are as follows: The study indicates that three most pressing factors that influence access to credit are collateral surety, net profit per month and level of savings. It was ascertain that Odotobri rural bank uses the following techniques as a method to recover debts from clients: Comprehensive credit checks; Security over an asset of the client; Insert a clause in the terms of trade with borrowers; Retention of tittle clause where the bank becomes in charge of the client invoices (receivables) and Directors personal guarantee, that is when directors personal belongings a seize to offset loan debts. The findings of the study illustrate that credit management practices by Odotobri rural bank in Obuasi Municipal is run in the following ways: credit assessment, the purpose of credit is known, track records of applicants is evaluated, assessment of repayment, Proposal of terms and conditions pertaining the credit, adequacy of collateral security, monitoring and controlling are considered to be the methods that enhances the reduction of credit risk. The Process Odotobri rural bank adopts to control credits includes ensuring compliance with internal guidelines and completeness of credits applications forms. The main credit collection strategies used in managing credits at the rural bank includes established collection section in the credits management department and established payment guidelines. The findings of the research study are further contrasted and compared with other studies for consistency.

5.2 CONCLUSION

The study reveals that collateral, age of business, level of savings, interest rate, gender, market product traded, business location, business type, level of education and net profit per month were the factors identified for influencing the access to credit. Among these, collateral, net profit per month and level of savings are the three most pressing factors that influence access to credit.

The study again revealed that ensuring completeness of internal guidelines, ensuring completeness of credit application, ensuring signing of collateral agreement and confirming of applicant compliance with condition were the mechanism through which Odotobri rural bank use to control their credit disbursement so as to avoid the moral hazards associated with it. Among these ensuring completeness of internal guidelines was ranked as first mechanism followed by confirmation of applicant compliance with condition. From the results from the study it can be argued that Odotobri rural bank has efficient and effective credit management systems. However there is room for improvement.

5.3 RECOMMENDATIONS

The study found that the main factors influencing access to credits are collateral security, net profit per month, level of savings, business location, client history and cash flows of clients. It is therefore recommended that the policy of access should be flexible so that customers can easily access credits. In addition, management should not rely on only client history and cash flows but should look at the variability of business plan and the past financial statement to take a decision on the variability of credit worthiness. It is recommended that the credit collection section should be provided with the logistics needed to carry out its main task of debt collections. The loan policy of the bank must be customer oriented. It must take into consideration the needs and the aspiration of the customers to come out with loan product that will be beneficial to the customer to enhance repayment.

The credit appraisal system should be strengthened by adequately assessing the viability of project proposals through application of project and financial analyses techniques as well as onsite inspection of project facilities. These requires tailored training programmes for Managers and Project/Credit Officers to enhance their knowledge and skills in basic financial statement analysis and interpretation, project appraisal techniques and project report writing.

Monitoring and supervision of credit facilities should be effective by way of constant review of repayment performance, sending of demand letters for repayment defaults, documented field visits to assess state of affairs and provision of needed logistics like motorbike/bicycle to ease mobility and increase frequency of working visits.

Classification of loans should not be confined solely to the period of overdue but should take into consideration other extraneous circumstances like compliance with repayment schedule, the state of project, the availability of the beneficiary among others. The required loan loss provision is to be made in order to reflect the true profit/loss and shareholders' funds positions. This would portray the required single borrower exposure limit, actual capital adequacy ratio and declaration of realistic dividends.

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QUESTIONNAIRE

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

GRADUATE SCHOOL OF BUSINESS

MASTERS OF BUSINESS ADMINISTRATION

The aim of this questionnaire is to assess credit management practices on three rural b anks in Obuasi Municipal Assembly. This is undertaken purely for academic purposes and information given would be treated as confidential. Thank you in advance.

Section A

1. What are the factors that inhibited access to credits?

Age of client ☐

Customer History ☐

Stringer Policy rule ☐

Purpose of Loan ☐

Amount ☐

Cash Flow ☐

Others (Specify)…………..........................

2. Factors that influence access to credit

   Please circle the most appropriate

Inicators	Measurement
Net profit per month (Income)	1 = Yes 0 = No
Level of education	1 = Yes 0 = No
Gender	1 = Yes 0 = No
Age of the business	1 = Yes 0 = No
Interest rate	1 = Yes 0 = No
Level of savings	1 = Yes 0 = No
Business location	1 = Yes 0 = No
Business type	1 = Yes 0 = No
Market product traded	1 = Yes 0 = No

3. What measures are put in place by management to control the element of risk in granting credit?

Ensure compliance with internal guidelines

Ensure completeness of the credits application

Ensure signing of the credits and collateral agreement

Receipt of confirmation that the credits applicant

Has complied with the conditions imposed.

4. How can the credits control processes be improved?

Training

Effective Monitoring

Improve Internal Control System

Initiate Legal Processes Early

Provide remainder letters early

5. What credits collection strategies does management adopt in retrieving credit?

Establish payment guideline?

Consider prompt payment

Develop an account receivable section

Write to notify your debtors often

Provide incentive for prompt payment

Seek legal advice

6. What strategies do management adopt when clients till fail to pay their debt?

Provide legal warring letter

Hand them over to debt factoring company

Use the collateral security to defray the indebtedness

Reminder letters

7. How is Credit Management practiced in your firm?

....

....

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8. Under what basis is the effectiveness of credit risk management measured?
9. What type of loans do you have for your customer?

   Commercial Loans ☐ Salary Loans ☐

   Micro Loans ☐ Managed Loans ☐

10. What criteria do your outfit use in appraising customers for loans

	Very High	Average	Low
Character	☐	☐	☐
Quality as an entrepreneur	☐	☐	☐
Experience in credit utilization	☐	☐	☐
SWOT analysis	☐	☐	☐
Cash flow Statement	☐	☐	☐
Security	☐	☐	☐
Borrower repayment history	☐	☐	☐

11. How often do you monitor loans?

Weekly or less ☐

Every two weeks ☐

Monthly ☐

Quarterly or more ☐

12. What are the purposes of your training programmes?

To enable them manage their business ☐

Repayment schedule education ☐

Train them in customer care ☐

13. Tick as appropriate in each of the best descriptions about your bank

	Low	**Medium**	**High**
Interest rate on savings			
Loan repayment safety			

Lower service charges			
Access to common bond to people			
Access to credit facility			
Loan interest rate			
Turnaround time for loans			
Quality loan portfolio management			
Commitment and processing fees			
Liquidity challenges in meeting withdrawal and loans demand			
Collateral requirement			

14. A do you have loan policy in place? YES ▢ NO ▢
15. If your answer to question (above) is YES, please indicate in each case the extent of importance placed on the policy

This is measured as 1 Very Much, 2 Much, 3 Uncertain, 4 Not much, 5 Not at all Much

	Very Much	Much	Uncertain	Not Certain	Not at all
Policy on loan authorization					
Policy on limit on loan aggregate					
Policy on distribution of the loan category					
Policy on geographic limit					
Policy on desirable type of loan					
Policy on financial information of the customer					
Policy on collateral requirement					
Policy on margin requirement					
Policy on pricing requirement					
Policy on documentation standards					
Policy on repayment and write off					

Policy on reporting requirement					
Policy on loans participants					