MICRO-CREDIT MANAGEMENT IN RURAL BANK: THE CASE OF BADUMAN RURAL BANK LTD

BY

Takyi, Emmanuel Ankrah

(PG3093509)

A Thesis submitted to the Institute of Distance Learning, Kwame Nkrumah University of Science and Technology in partial fulfillment of the requirements for the degree of

COMMONWEALTH EXECUTIVE MASTERS IN BUSINESS ADMINISTRATION (CEMBA)

APRIL, 2011

DECLARATION

I hereby declare that this thesis is the result of my own research work towards the CEMBA under the supervision of Mr Ntoah Boadi. It contains no material previously published by another person non material which has been accepted for the award of any other degree of the university, except where due acknowledgement has been made in the text.

Takyi, Emmanuel Ankrah

(PG3093509) ……………………… ………………….

Student Name and ID **Signature** **Date**

Certified by:

Mr Ntoah Boadi ……………………… ………………….

Supervisor's Name **Signature** **Date**

Certified by:

Prof I.K Dontwi ………………………. ………………...…

Dean, IDL **Signature** **Date**

DEDICATION

I dedicate this study to my wife, children and Board of Directors of Baduman Rural Bank Limited.

ABSTRACT

Micro-credit is the largest asset and the main source of income to Rural Banks in Ghana. That notwithstanding, microcredit tends to be the bane of Rural Banks in Ghana: it is risky and expensive to manage. The study sought to assess how microcredit is managed in Baduman Rural Bank. It also examined whether the performance of micro loan was in line with Bank of Ghana benchmark. Additionally, it examined the criteria used in identifying credit worthy clients, the effectiveness of the loan disbursement procedures, the extent to which the banks educate and supervise the customers and problems encountered in recovering bank loans granted. Using the cross sectional survey design, structured questionnaire and purposive sampling strategy, primary data was collected from a sample of 220 respondents. The research revealed that the bank policies and credit management were in consonance, yet, in practical terms neither of them (bank policies and credit management) influenced the credit performance in the rural bank. The study showed that the bank had higher default rate, hence, operating far below the Bank of Ghana benchmark recovery rate. It was recommended that the bank should adopt innovative lending methodologies such as group lending and dynamic lending to joint-liable group to solve the problem of high default rate

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ACKNOWLEDGEMENT

A number of persons played key roles in making this work a success hence, the need to acknowledge my profound gratitude. My first indebtedness goes to Almighty God for his abundant provision which has seen me through the course.

I am most grateful to Mr. Ntoah Boadi of Sunyani Polytechnic for his constructive suggestions as well as valuable time spent in supervising this work.

My sincerest appreciation goes to Solomon Ankomah, Emmanuel Ofori, Board of Directors and the staff of Baduman Rural Bank for their contribution towards the success of this course.

I am indebted to my wife, my children, my parents and the rest of my siblings for their prayers and support towards the successful completion of this programme.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

According to Asiedu-Mante (2011) credit management involves establishing formal legitimate policies and procedures that will ensure that 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 (OCC) (2010) defined Loan portfolio management as the process by which risks that is inherent in the credit process are managed and controlled. Savings mobilization and lending are the major operating activities and life-blood of all banking institutions. The mission of the rural bank is as an instrument to help turn around the community it serves to foster national development.

In 2011 the World Bank report, entitled “Participatory Poverty and Vulnerability Assessment” indicated that one out of every three Ghanaian cannot afford basic necessities of life. The report indicated that 30% of Ghanaians are poor

The allocation of resources over the past years has been concentrated in the major cities and urban centres to the neglect of most rural areas. Hence, the poverty situation in rural Ghana is serious. This has fuelled the rate of rural-urban migration with its associated problems. The poverty situation in Ghana has caught the attention of successive governments in Ghana as well as non-governmental organizations (NGOs) to resource the rural folks. Ghana has over the years used rural banks as a conduit to channel aid funds to defined targets. Some of the schemes are Rural Enterprise Project (REP), Small Holder Credit Input, Supply and Marketing Project (SCIMP), Land Conservation and Rehabilitation Project (LACOSERP), Community Investment Fund (CIF), Food and Agriculture Budgetary Support (FABS) etc. Before the establishment of the first rural bank in Ghana in 1976 the existing formal banking system – owned and managed by expatriates- was usually located in big buildings on the high streets of the major towns which essentially catered for the needs of the government, the big external trading firms, some literate wealthy Ghanaians and some senior Civil servants (Asiedu-Mante, 2011). According to Asiedu – Mante majority of Ghanaian, non-literate and less affluent, feared to step foot in those building and had virtually no access to institutional credit and other banking facilities. Most Ghanaians were at the mercy of moneylenders who charged outrageous interest rates. In the history of microfinance, Microfinance Institutions have been the first to identify the vast un-served demand for microcredit in developing countries, develop methodologies for delivering small loans, and begin credit programs for the poor and recovering (Delfiner et al 2007).

Rural Banking in Ghana takes its origin from the early 1970s. Prior to that period, 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" (Asiedu- Mante 2011). 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. Since 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 five (5) 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 grappling 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 unfavourable 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. It is therefore, imperative to put in place legitimate policies and procedures that will ensure among other things that:

1. The proper authorities grant credit
2. Credit goes to the right people
3. Credit is granted for productive activities
4. The appropriate size of credit is granted
5. Credit is used for the purpose for which it was granted
6. Credit granted is fully recovered
7. There is adequate flow of management information within the organisation to monitor each credit activity

1.2 PROBLEM STATEMENT

Rural banks have unfavourable environment and capacity constraints to mobilize scattered rural incomes at a high cost into savings. In spite of this they lend to the people with virtually no collateral to support such credits. Lending small sums of money to very poor people, who have no credit history or can offer no other security, is very expensive and risky. The challenges in managing rural banks' loans have led to folding up of some rural bank in Ghana as a whole and Brong Ahafo Region in particular. Micro-credits are the largest asset of banks and the main source of income to the rural banks. Yet, microcredit tends to be the bane of rural banks in Ghana. 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.

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 banks need effective microcredit management to avoid possible fold up. It is in this light that this research seeks to find out how effective Baduman rural bank is managing its microcredit

1.3 OBJECTIVE OF THE STUDY

The objectives of the study are:

1. To assess the performance of micro loans in line with Bank of Ghana benchmark
2. To assess the criteria used in identifying credit worthy clients
3. To examine the effectiveness of the loan disbursement procedures, monitoring and the terms of payments.
4. To find the extent to which the banks educate and supervise the customers on the ventures they want to enter into
5. To assess the appropriateness of the credit policy in achieving the goals of the banks.
6. To ascertain the problems encountered in recovering bank loans granted.

1.4 RESEARCH QUESTIONS

In order to attain the set objectives of the study the following research questions were posed:

1. What is the performance of micro loan of Baduman Rural Bank?
2. What is Baduman Rural Bank's policy in terms of loan appraisal, disbursement and monitoring to ensure proper credit delivery?

3. What type of education and supervision does the bank give to loan client to enhance loan repayment?
4. To what extent is the loan policy of the bank effective in meeting credit risk requirement?
5. How does the bank solve the credit delivery related problems?

1.5 SIGNIFICANCE OF THE STUDY

A successful completion of this study would serve as a useful tool to various stakeholders who are into effective microcredit management. The study will ensure that cost effective intervention strategies for microcredit management which are incorporated into the rural banks operation. The study will add to the already stock of knowledge on credit management and to reveal if rural banking is a panacea in alleviating rural poverty.

1.6 SCOPE OF THE STUDY

This important research will concentrate on microcredit management in rural bank in Ghana in general and Baduman Rural Bank in particular, as all rural in Ghana shares the same conditions. Financial constraint and time constraint made it to be limited to Baduman Rural Bank Ltd.

1.7 LIMITATION OF THE STUDY

Due to the limited time within which the research had to be conducted and the difficulty of getting all the respondents at the given period of time, it became very difficult to distribute the questionnaires and conduct interviews on the respondents.

1. Financial problem was a major setback for the study. This was so because the researcher had to spend money on printing of the work, questionnaires and how to pay the one who typed scripts.
2. Some of the respondents failed in returning the questionnaires on time whiles others did not answer all the questions.

1.8 OVERVIEW OF THE METHODOLOGY

Well-structured questionnaires were administered to the staff and the customers of the bank. The respondents were the Board of Directors of the bank, management members, credit staff, other staff, and some selected loan customers of the bank.

1.9 ORGANIZATION OF THE STUDY

The thesis is in five chapters. The first chapter is the research proposal. It covers the background, the statement of the problem, objectives of the study; the research questions, the statement of hypothesis, the significance of the study and the scope of the study.

The second chapter reviews the related and relevant literature.
The chapter three focuses on methodology of the study that is, the population, the sampling size and the sampling method, the research instruments to be used for collecting relevant data and the limitation encountered in collection of data. The forth chapter is on the presentation and analysis of the data obtained from the field. Hence these data may be presented and evaluated in graphical form for better understanding.

The final chapter, the chapter five, is based on summary, recommendation and conclusion made by the researcher.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This part of the literature is divided into issues about microcredit in rural communities in general including rural banks and credit schemes, women investment in rural areas, impact assessment of schemes and challenges of the operations of the credit programmes. Most of the literatures in this part are Ghanaian based. The other part which covers every aspects of credit programmes are the related studies around the world.

2.1.0 REVIEW OF RELEVANT CONCEPT

2.1.1 Definition of Micro credit

Microcredit is recognised as the practice of offering small, collateral – free loans to members of cooperatives who otherwise would not have access to the capital necessary to begin small business (Hossain, 2002). The International Dictionary of Management referred to it as borrowing up to a certain limit by a bank, etc. to an individual or a company. Wood (1982) is of the view that 'credit' was derived from a Latin word, "Credere", which means "believe". From this he defined credit as an expression of belief in a person's ability and willingness to repay a loan. Robinson (2001) asserts: "It is sometimes forgotten —although generally not by borrowers— that another word for credit is debt. When loans are provided to the very poor, the borrowers may not be able to use the loans effectively because they lack opportunities for profitable self-employment, (thus being) unable to repay loan principal and interest."According to Yunus (1998), credit should not be seen as a luxury for the rich, it should be an opportunity for all: "Just like food is;

credit is a human right". It's not people who aren't credit-worthy. Its banks those aren't people-worthy'

2.1.2 Credit management

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 (Van Horne, 1995). 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) 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 Pakistan 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 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.

2.1.3 Risk Associated with Lending

OCC (2011) identified fundamental credit risk management principles as sound underwriting, comprehensive financial analysis, adequate appraisal techniques and loan documentation practices, and sound internal controls.

Rose and Kolari (1995) view credit risk as the possibility that borrowers will default in repaying loans taken.

Kay (2002) sees 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. Kay indicated 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.

Smook (1997) defined risk assessment as "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 effect 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.

2.1.4 Principle of lending

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

1. **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.
2. Liquidity: The borrower must be in a position to repay within a reasonable time after a demand for **repayment** is made
3. Purpose; The purpose should be productive so that the money not only remain safe but also provides a definite source of repayment
4. Profitability: the bank must make profit from the loan
5. Security; Security is considered as an insurance or a cushion to fall back upon in case of an emergency
6. Spread; the diversification of **advances**
7. National Interest, Suitability: Compliance with all local le**gislation**

The Gaurav 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.

2.1.5 Credit appraisal techniques

Guidelines for Commercial Banks for Pakistan Banks indicated 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/transaction. This may include:

a) Credit assessment of the borrower's industry, and macro-economic factors.

b) The purpose of credit and source of repayment.

c) The track record / repayment history of borrower.

d) Assess/evaluate the repayment capacity of the borrower.

e) The Proposed terms and conditions and covenants.

f) Adequacy and enforceability of collaterals.

g) Approval from appropriate authority

Stigliz (1990) also argues 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 (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. Fahim 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 of the process of deciding whether or not to extend credit to a given customer. He 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 (Kereta, 2007).

2.1.6 Loan policy

Guidelines for Commercial Banks for Pakistan Banks indicated the senior management of the bank should develop and establish credit policies and credit administration procedures as a part of overall credit risk management framework and get those approved from board. Such policies and procedures shall provide guidance to the staff on various types of lending including corporate, SME, consumer, agriculture, etc. At minimum the policy should include:

a) Detailed and formalized credit evaluation/ appraisal process.

b) Credit approval authority at various hierarchy levels including authority for approving exceptions.

c) Risk identification, measurement, monitoring and control

d) Risk acceptance criteria

e) Credit origination and credit administration and loan documentation procedures

f) Roles and responsibilities of units/staff involved in origination and management of credit.

g) Guidelines on management of problem loans.

The FDIC Manual of Examination Policies lists broad areas that should be addressed in written loan policies, regardless of a bank's size or location

- General fields of lending
- Normal trade area
- Lending authority of loan officers and committees
- Responsibility of the board of directors in approving loans
- Guidelines for portfolio mix, risk diversification, appraisals, unsecured loans, and rates of interest
- Limitations on loan-to-value, aggregate loans, and overdrafts
- Credit and collateral documentation standards
- Collection procedures
- Guidelines addressing loan review/grading systems and the allowance for loan and lease losses
- Safeguards to minimize potential environmental liability

2.1.7 Credit Administration

Guidelines for Commercial Banks for Pakistan Banks (2010) indicated ongoing administration of the credit portfolio is an essential part of the credit process. Credit administration function is basically a back office activity that support and control extension and maintenance of credit. A typical credit administration unit performs following functions:

a. **Documentation.** It is the responsibility of credit administration to ensure completeness of documentation (loan agreements, guarantees, transfer of title of collaterals etc) in accordance with approved terms and conditions. Outstanding documents should be tracked and followed up to ensure execution and receipt.

b. **Credit Disbursement**. The credit administration function should ensure that the loan application has proper approval before entering facility limits into computer systems. Disbursement should be effected only after completion of covenants, and receipt of collateral holdings. In case of exceptions necessary approval should be obtained from competent authorities.

c. **Credit monitoring**. After the loan is approved and draw down allowed, the loan should be continuously watched over. These include keeping track of borrowers' compliance with credit terms, identifying early signs of irregularity, conducting periodic valuation of collateral and monitoring timely repayments.

d. **Loan Repayment.** The obligors should be communicated ahead of time as and when the principal/markup installment becomes due. Any exceptions such as non-payment or late payment should be tagged and communicated to the management. Proper records and updates should also be made after receipt.

e. **Maintenance of Credit Files**. Institutions should devise procedural guidelines and standards for maintenance of credit files. The credit files not only include all correspondence with the borrower but should also contain sufficient information necessary to assess financial health of the borrower and its repayment performance. It need not mention that information should be filed in organized way so that external / internal auditors or SBP inspector could review it easily.

f. **Collateral and Security Documents**. Institutions should ensure that all security documents are kept in a fireproof safe under dual control. Registers for documents should be maintained to keep track of their movement. Procedures should also be established to track and review relevant insurance coverage for certain facilities/collateral. Physical checks on security documents should be conducted on a regular basis.

2.1.8 Loan monitoring

Credit risk monitoring refers to incessant monitoring of individual credits inclusive of Off-Balance sheet exposures to obligors as well as overall credit portfolio of the bank. According to the Guidelines for Commercial Banks for Pakistan Banks, Banks need to enunciate a system that enables them to monitor quality of the credit portfolio on day-to-day basis and take remedial measures as and when any deterioration occurs. Such a system would enable a bank to ascertain whether loans are being serviced as per facility terms, the adequacy of provisions, the overall risk profile is within limits established by management and compliance of regulatory limits. Establishing an efficient and effective credit monitoring system would help senior management to monitor the overall quality of the total credit portfolio and its trends. Consequently the management could fine tune or reassess its credit strategy /policy accordingly before encountering any major setback. The banks credit policy should explicitly provide procedural guideline relating to credit risk monitoring. At the minimum it should lay down procedure relating to:

a. The roles and responsibilities of individuals responsible for credit risk monitoring
b. The assessment procedures and analysis techniques (for individual loans & overall portfolio)
c. The frequency of monitoring
d. The periodic examination of collaterals and loan covenants
e. The frequency of site visits
f. The identification of any deterioration in any loan

2.2.0 Rural Banks and Credit Schemes

Andrews (2009) indicated that modern microfinance arose as a response to the fact that banks were not extending credit to the rural poor of developing countries, and as a result people were forced to endure the usurious practices of moneylenders. Though several microfinance programs came into being in different parts of the world at around the same time, the most celebrated of these —The Grameen Bank—traces its origin to 1974-1975, when a famine raged in the countryside of Bangladesh. At the time, Dr. Muhammad Yunus, the founder of Grameen Bank and co-recipient of the 2006 Nobel Peace Prize, was an economics professor at Chittagong University in rural Bangladesh. As Yunus writes in his book *Creating a World Without Poverty,* he "found it increasingly difficult to teach elegant theories of economics and the supposedly perfect workings of the free market in the university classroom while needless death was ravaging Bangladesh. Yunus decided to go into the villages to find out why the poor were not able to bring themselves out of poverty. What he saw were "people working hard to try to help themselves—growing crops in their tiny yards, making baskets, stools and other craft items to sell, and offering their services for practically any kind of labor." Yet despite their efforts, the majority of people were unable to increase their income. Yunus' great insight came to him thanks to a village woman, who showed him that the main problem lay in the fact that she "relied on the local moneylender for the cash she needed to buy the bamboo for her stools [that she sold in the market]. But the moneylender would give her the money only if she agreed to sell him all she produces at a price he would decide. Between this unfair arrangement and the high interest on her loan, she was left with only two pennies a day as her income."

Armed with this knowledge, Yunus and a student began identifying all the people in the village who were receiving loans from the moneylender, and found that dozens of villagers—42, in total—were borrowing an average of a measly $1.55 USD per person per week. He realized that if they could borrow the money at a reasonable interest rate, they would be able to pay back the loan and increase their income. To test the idea, he lent $26 USD to those 42 villagers, and after a successful pilot, began looking for ways of dramatically expanding the practice of micro lending. Yunus went to the local bank and suggested to the manager that he would provide loans to these poor people he had met in the village. The manager refused, arguing that the poor have no collateral, are not creditworthy and cannot read or write.

Also in other banks Yunus met the same mixture of unwillingness and disbelief. One bank was finally prepared to give loans, on the condition that Yunus provided collateral – and only after warning him several times that he would lose his money. Yunus however experienced the opposite. After a while the people who had received his loans paid back every last taka.

Because the bankers continued to refuse to grant loans to the poor without collateral from Yunus, he decided to start his own bank: a Grameen (village) Bank. He realized however that he had to develop a system that would guarantee that those who had received a loan would pay back. To ask for collateral was difficult as these poor people have hardly anything to offer as security. He devised a system of "social collateral". Those women who wish to receive a loan need to organize themselves in groups from 5 – 10 persons. One of the group members receive a loan, and upon repayment the next one, and so on. If one member has problems repaying, the others need to assist. Thus, solidarity, cooperation and social control replaced the traditional collateral. Employees of the Grameen Bank go out to their clients – on foot, by bike or by bus – to become acquainted with them in the surroundings of their own businesses. It turns out that poor borrowers in general are very faithful and repay their debts right on time. The average repayment is higher than 95 percent, whereas banks in developing countries are accustomed to having to write off much larger percentages of their debts.

The emergence of microfinance in Ghana is not a recent phenomenon. Traditionally, people have been saving and taking loans from local lenders or group of people with the aim of starting their own businesses or for farming purposes (Asiama *et al*., 2007). The authors confirmed that the Canadian Catholic missionaries in 1955 first established a credit union in northern Ghana. This was the first in Africa. However Susu which is another form of microfinance scheme in Ghana is thought to have originated from Nigeria to Ghana in the early twentieth century. Asiama*et al*., (2007) have broadly categories micro finance institutions in Ghana into three. That is the formal suppliers such as rural and community banks, semi-formal such as credit unions and informal suppliers like susu collectors.

Rosenberg (2004) have also indicated that the exclusion of the poor from general financial services sector of the economies have resulted in the creation of micro finance institutions to address this market failure. Financial sector policies and programmes by previous governments led to the establishment of rural and community banks. These banks were required to set aside 20% of total portfolio, to promote lending to agriculture and small scale industries in the 1970s and early 1980s (Asiama J. P. et al., 2007). The bank of Ghana promoted the establishment of rural banks in Ghana, with the aim of promoting banking habits among rural households and mobilizing rural savings for agriculture, fishing, forestry and other agro-based industries (IFAD Ghana, 2000).

Frimpong (2007) asserts that rural and community banks offer both financial and non- financial services to the communities they serve. The financial services include lending, savings and other banking services such as cheque clearing for cocoa farmers. Non-financial services include supply of agricultural input to farmers. The rural banks grant loans that are payable within 4-12 months, and accept flexible payments on weekly, bi-weekly and monthly bases. In some loan applications, the banks often require the beneficiaries to be already involved in some economic activity and to deposit about 25 percent of the intended amount before the loan is approved.

The bank of Ghana promoted the establishment of rural banks in Ghana, with the aim of promoting banking habits among rural households and mobilizing rural savings for agriculture, fishing, forestry and other agro-based industries (IFAD, 2000).

Addiah (2010) stated that rural banks in Ghana were created to re-enforce the government's commitment to rural credit as part of a national strategy to improve agriculture and the living conditions of rural farms. This scheme was to assist the rural dwellers especially small-scale farmers to find solutions to rural credit problems thereby increasing their output.

Asiama et al., (2007) noted that rural and community banks also play crucial role in microfinance in the country. Rural and community banks were established purposely to advance loans to small enterprises, farmers, individuals and others within their catchment areas.

Rural banks are autonomous, community based organizations regulated by the bank of Ghana. They were originally set up as community managed development banks to mobilize rural savings, furnish credit and support community initiatives. Rural banks are committed by mandate, to serve small scale economic enterprises in their service areas, although few of their clients are women and most loans are larger than the less than 300 dollars characteristics of poverty lending programmes such as credit with education (Mknelly et al., 1998). This was meant to help alleviate poverty in Ghana through saving, credit schemes and supporting of community initiatives towards development. Micro-finance is considered today as the most recent solution towards poverty alleviation.

Several factors have led to increased interest in micro-credit as a means of promoting growth. Many people have come to the recognition of the importance of empowering all people by increasing their access to all the factors of production, including credit (IFAD, 2001).

2.2.1 Collateral

The present of risk in loan transaction, above all in the agriculture sector where this factor is even important, underlines the fact the outreach services is influenced by the collateral that borrower can offer. Given the difficulties of the lender in determining the repayment capacity due to imperfect information, collateral emerges as visible element that is linked to that capacity. Collateral acts as a mechanism that indirectly influences the borrower's behaviour in taking action that are favourable to loan repayment. The more valuable the collateral of a loan, the more willing the borrower will be to take actions that are conducive to repayment of his debt. A deficiency in or an absence of collateral impedes the entry deepening of formal credit services in the rural environment, thereby limiting the development possibility of this sector (Association of Latin American Development Finance Institute (ALIDE) and the Food and Agriculture

Organisation (1995). From economic view point, not just any asset is able to serve as collateral for a loan; ideally, collateral should fulfil five basic attributes: be appropriable, be saleable or able to be converted into money in order to cover the loan obligation, create a sense of or constitute a loss to the borrower; be durable or sustainable during the loan contract time; and have transaction costs that are accessible to borrower, both with regard to the loan amount and the terms of the loan (ALIDE and FAO,1995). The report grouped collateral into conventional collateral that normally has been accepted as security by the orthodox banks and non-conventional collateral or social collateral which is based on the use of specified rules, incentives and penalties within existing organisations or those which are created ad hoc for the loan transaction.

Yunus argues that people can be held accountable to pay back loans even if they do not have any collateral (Yunus, 2007).

Borrowing groups are small cooperatives of borrowers who hold each other responsible for their loans. This enables very poor people to establish credit using social collateral instead of limited assets (Pollin, 2007).

As cited in Andrews (2009) there was reliance on trust, not credit. Where formal financial institutions rely on quantitative data such as credit histories in order to assess and mitigate risk, microfinance institutions (MFI) 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 necessity of this approach is obvious, as 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. What’s more, even if collateral were secured, the transaction cost to the bank of creating the legal documents and then collecting in the event of default would be prohibitive.

Instead, MFIs develop social collateral, which can be done in several ways. One of the most popular is the group-lending model pioneered by Grameen Bank. Under this approach

Groups of five prospective borrowers are formed; in the first stage, only two of them are eligible for, and receive, a loan. The group is observed for a month to see if the members are conforming to rules of the bank. Only if the first two borrowers repay the principal plus interest over a period of fifty weeks do other members of the group become eligible themselves for a loan. Because of these restrictions, there is substantial group pressure to keep individual records clear. In this sense, collective responsibility of the group serves as collateral on the loan.

2.3.0 Credit to the poor

Abbink et al (2006) see microfinance programmes as providers of poor people with small loans given to jointly liable self-selected groups. Follow-up loans provide incentives to repay. They experimentally investigate the influence of those features on strategic default. Each group member invests in an individual risky project, whose outcome is known only to the individual investor. Subjects decide whether to contribute to group repayment or not. Only those with successful projects can contribute. The experiment ends if too few repay. They investigate group size and social ties effects and observe robust high repayment rates. To them group lending outperforms individual lending. Self-selected groups show high but less stable contributions.

In Wahid's (1994) the term Grameen means (rural). Bank of Bangladesh has innovated a mechanism under which credit can be provided to the poorest of the poor on a group liability basis instead of any collateral. Based on this principle, over the last decade, the bank has been successfully operating with an unprecedented loan recovery rate.

Brett (2006) in his study revealed that having borrowed money from a microfinance organization to start a small business, many women in El Alto, Bolivia are unable to generate sufficient income to repay their loans and so must draw upon household resources. His article explores the range of factors that condition and constrain their success as entrepreneurs. The central theme is that while providing the poor access to credit is currently very popular in development circles, the social and structural context within which some women operate so strongly constrains their productive activity that they realize a net income loss at the household level instead of the promised benefits of entrepreneurship. His paper explores the social and structural realities in which women seek out and accept debt beyond their capacity to repay from the proceeds of their business enterprise. The paper argues for a shift from evaluation on outcomes at the institutional level to outcomes at the household level to identify the forces and factors that condition women's success as micro-entrepreneurs.

Van Bastelaer (2006) identifies factors associated with high repayment performance by collectively liable groups of seed borrowers in Southern Zambia. The findings suggest that some factors enhancing collective action within seed groups, such as their size, are associated with a higher repayment performance. Also, community-based cognitive social capital is shown to be strongly associated with repayment performance. This means that attitudes and values shared by community members create an environment in which seed borrowers honour their engagements, although church participation and fear of witchcraft can weaken mutual monitoring of loan use and peer pressure for repayment

2.3.1 Default rates

Balogun and Alimi (1988) see loan default as inability of a borrower to fulfil his or her loan obligation as at when due. As noted by Baku and Smith (1998) the costs of loan delinquencies would be felt by both the lenders and the borrowers. The lender has costs in delinquency situations, including lost interest, opportunity cost of principal, legal fees and related costs. For the borrower, the decision to default is a trade-off between the penalties in lost reputation from default versus the opportunity cost of forgoing investments due to working out the current loan.

According to Hampel and others (1994) the lending function represent the most diverse and complex activity, and the solvency and profitability of every bank largely depend on how efficient the risk of default is managed and control.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 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 limitation of the data.

3.2 THE RESEARCH DESIGN

Survey design has been used for this study. According to Kerlinger (1973) survey is the best research design for obtaining social facts, beliefs and attitudes. Thus, survey research could study large as well as small populations to discover relative distribution and interrelation of sociological and psychological variables. Survey uses questionnaire as a tool for data collection. Exactly, this was used to elicit information about the Effective Micro Credit Management in Rural Banks. Ajala (1996) proposed that descriptive survey is the best method where there is the need to capture people's opinion, experience, values and impressions about an issue. In this research, the experiences and opinions of the respondents gathered from the interviews provided informed inputs to the data. These data were analyzed and incorporated into the discussions of the findings. The study was to a large extent quantitative, so the questions were designed to suit quantitative analysis. As a result, most of the questions were closed ended, however, there were a few open ended. There were separate questionnaires for the staff and Board of Directors and the loan customers. Both questionnaires were structured into sections in which each object and other segments of the study were represented by a section of the question. The questionnaires for the staff and Board of Directors were structured as follow;

Section A: Demographic variables of the respondents;

Section B: Criteria and processes of accessing the credit worthiness of the loans customers and the loan monitoring;

Section C: the problems encountered by the bank in the credit delivery.

The questionnaires for the loan customers were structured as follow;

Section A: Demographic variables of the respondents;

Section B: Criteria and processes of accessing the credit worthiness of the loans customers and the loan monitoring;

Section C: Challenges of Working with the Loan

3.3 TARGET POPULATION

The target population of this study is Board of Directors, head office staff, all agencies staff and loans customers. In all, there are 7 Board of Directors, 50 staff members and 4000 loan customers at the bank. The staff is made up of 10 management members, 4 credit officers and 36 others staff.

3.4 SAMPLING PROCEDURE

Purposive sampling and accidental sampling techniques were used for this study. The purposive sampling allowed the picking of interview objects that fit the focus of the study (Osuala, 2001). Also, according to Kumekpor (1989) cited in Mensah (1997), with the purposive sampling, the sample units are selected not base on random procedure but intentionally selected for the study. This is based on the fact that they have certain characteristics that suit the study or because of certain qualities they possess, which are not randomly distributed in the universe but necessary for the study.

3.5 SAMPLING SIZE

The sample size was 220 made up of the following allocations

Table 3.1 Sampling Size

NO	TYPE OF POPULATION	POPULATION	SAMPLE SIZE
1	Board of Directors	7	2
2	Supervising Manager	1	1
2	Manager	1	1
3	Accountant	1	1
4	Head of credit	1	1
5	Agency Heads	5	5
6	Credit officers (responsible for various agencies	4	3
7	Other staff from all agencies	37	6
8	Loan customers from all agencies	4000	200
	Total	**4057**	**220**

Source: Field survey (May, 2011)

Sample was not necessarily based on scientifically known procedures. According to Ferguson et al (1989: 171), fewer sample size is appropriate for basic studies like students' thesis and dissertations. The sample size of 200 of the loan customers was 5% of the population while the sample size of 20 of the staff and the Board of Directors was about 35%.

3.6 SOURCE OF DATA COLLECTION

The researcher obtained data from primary and secondary data sources in order to obtain a reliable data and achieve the stated objectives of this study.

i. Primary Sources of Data

This primary source of data collection was employed through the use of questionnaires. The researcher used both quantitative and qualitative methods of data collection to gather the data. With the help of the credit officers of the bank, the loan customers were interviewed through the questionnaires as they go out for their normal monitoring. The researcher gave the questionnaire to the Board of Directors and the staff to give their response. The purpose of these techniques was to allow discussion and probing to ascertain the micro-credits management at the bank.

ii. Secondary Sources of Data

Secondary data was obtained from documentary sources such as books, journals, newspapers, reports, articles and other research related to this study. These sources were very useful in the literature review about micro-credits management. The literature reviewed served as both theoretical and empirical base for the analysis of the data collected.

3.7 INSTRUMENT AND PROCEDURE FOR DATA COLLECTION

The researcher used two set of structured questionnaire for the survey. One set was to be answered by the selected loans customers of the bank. The other set was also to be answered by selected and Board of Directors and the staff of the bank. Most of the questions were closed ended with 3 and 5 point scales, **Yes** and **No** questions, and categorical scaled questions. There were some open ended questions. The researcher used the following Procedure for Data Collection. As there were some semi illiterate and illiterate respondents the researcher trained the credit officers of the bank on how to administer the questionnaires to the customers. The researcher and the credit officers administered questionnaires through interviewing technique which involved asking the same questions on the questionnaire and the respondent supplying the answers which were recorded against the questions. However the questionnaires were given to the Board of Directors and the staff of the bank to fill.

3.8 DATA PROCESSING AND ANALYSIS

Data was analysed by using the Statistical Programme for Social Scientists (SPSS). Each of the questions was coded in variable view of the SPSS and the responses from the respondents were entered at data view of the SPSS. The data was analysed based on the stated objectives of the study using the computer especially the SPSS for tables and percentages. Other tools such as column graphs and pie charts were used in the presentation of results.

CHAPTER FOUR

PRESENTATION AND ANALYSIS OF DATA

4.0 INTRODUCTION

This chapter deals with the presentation and analysis of data which were collected from respondents. The data was analyzed both quantitatively and qualitatively with the use of frequency and Pearson Moment of Correlation Coefficient. Tables and bar charts were used to represent the data. Inferences were drawn based on the analysis. The data was analysed based on the objectives of the study. The main objective of the study is to assess the impact of good management practices involved in granting loans on the operation of the banks and its clients and to ascertain how effectively credits are managed in the rural banks in order to reduce defaults.

4.1 DEMOGRAPHIC CHARACTERISTICS' OF THE RESPONDENTS (STAFF)

Table 4.1: Socio-demographic variables of the bank official

Sex	**Valid Frequency**	**Percent**
Male	16	84.2
Female	3	15.8
Total	**19**	**100.0**
Age groups	**Valid Frequency**	**Percent**
16-25	1	5.0
26-35	7	35.0
36-45	8	40.0
46-55	3	15.0
56-65	1	5.0
Total	**20**	**100.0**
Marital status	**Valid Frequency**	**Percent**
Single	4	20.0
Married	16	80.0
Total	**20**	**100.0**
Level of Education	**Valid Frequency**	**Percent**
Secondary	4	23.5
Tertiary	12	70.6
Others	1	5.9
Total	**17**	**100.0**
Religious Affiliation	**Valid Frequency**	**Percent**
Christian	18	90.0
Traditional	1	5.0
Moslem	1	5.0
Total	**20**	**100.0**

Source: Field survey, 2011

Out of the total number of respondents, 84.2% were males whilst 15.8% were females. Their age ranges were as follows: 16-25 years, 5.0%, 26-35 years, 35.0%, 36-45 years, 40.0%, 46-55 years, 15% while 56-65 years also constituted 5.0%. Among these respondents, 80.0% were married whereas 20.0% were single. As regards their educational levels, 23.5% have had secondary education while70.6% have made it to the tertiary level. Those who had other forms of education, apart from the aforementioned constituted 5.9% of the respondents. Meanwhile on religious backgrounds of respondents, 90.0% were Christians, 5.0% were Muslims whilst yet another 5.0% were traditionalists.

4.2 Type of loans offered to the 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 bank and the expertise of its management. As regards the types of loans the bank offer for its customers, all the bank officials respondents agreed that they included Commercial loans, Salary loans, Micro loans and Managed loans.

4.3 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, 84.2% responded in the affirmative whereas 15.8% declined.

Table 4.2 How the bank officials reach out to clients

Response	Valid Frequency	Percent
Visitation	7	41.2
Advert	4	23.5
through phone call	4	23.5
customers come to the bank	2	11.8
Total	**17**	**100.0**

Source: Field survey, 2011

From the table above 41.2% the officials reached their clients by visitation, 23.5% each were through advertisement and telephone calls whilst 11.8% said the customers come to the bank themselves. On whether they collect collateral before issuing out the loans 98.0% responded in the affirmative whilst 2.0% remained silent.

Table 4.3 Type of guarantors the customers presented

Response	Valid Frequency	Percent
Two or more salaried workers	15	75.0
Landed properties	3	15.0
Personal asset	2	10.0
Total	**20**	**100.0**

Source: Field survey, 2011

As regards the type of guarantors respondents require, 75.0% made mention of two or more salary workers, 15.0% said landed properties whilst 10.0% mentioned personal asset.

4.4 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 point of view of the officials interviewed, the following observations were made based on the criteria employed in the areas below. In considering character as criteria for appraising customers before they are given loans, 20.0% rated it as low whilst 50.0% considered it as okay. On the other hand, 30.0% rated character of a prospective borrower as high 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 (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.

As regards the extent of a customer's involvement in the business, 20.0% considered it as acceptable criteria whereas 40.0% felt it is okay to consider this criterion before granting the loan. Meanwhile, 40.0% rated it as high criteria to be considered.

More so, as regards the entrepreneurial quality of the prospective borrower, 15.8% rated it as low whist 52.6% thought it is okay to consider the criteria. Meanwhile, 31.6% rated this criterion as high.

In considering the credit utilization experience of the borrower as criteria**,** 20.0% of respondents rated as low whilst 40.0% felt it is okay. On the other hand, 40.0% rated this criterion as high.

On the part of the SWOT analysis of the borrower, 36.8% rated this criterion as low whilst 31.6% saw it as okay. Meanwhile another 31.6% rated this criterion as high.

As regards the cash flow statement of the borrower, 10.0% of respondents considered this criterion as low whilst 55.0% rated it as okay. On the other hand, 35.0% rated it as high.

On the part of the credit and statement of the borrower, 42.1% rated the criteria as low whilst 26.3% felt it is okay. Meanwhile, 31.6% rated this criterion as high.

In the same vein, as regards to security, 15% of the respondents rated the the criteria as low whilst 25.0% rated as okay. Meanwhile, 60.0% rated this criterion as high.

Moreover as regards the ability of the borrower to pay back the loan, 30.0% considered the criteria as low whilst 5.0% saw it as okay. On the other hand, 65.0% rated it as high.

On the part of the repayment history of the borrower, 25.0% saw it as a low criteria whilst yet another 25.0% rated it as okay. Meanwhile, 50.0% rated it as high.

The borrower's expertise in management as a criterion was also rated low by 15.8% of respondents whilst 57.9% considered it as okay. Meanwhile, 26.3% rated it as high.

Equally, borrower's good mix of management quality was rated by 27.8% of respondents as a low criterion whilst 50.0% considered it as okay. On the other hand, 22.2% rated the criteria as high.

As regards the management leadership style of the borrower, 35.0 rated it as a low criterion whilst 45.0% saw it as okay. Meanwhile, 20.0% rated the criteria as high.

On the issue of the availability of market for the product or service, 15.0% of respondents rated the criteria as low whilst 60.0% rated it as okay. Meanwhile, 25.0% gave it high rating.

Besides, in considering the size and strength of existing market, as a criteria, 10.0% rated it as low whilst 60.0% rated it as okay. On the other hand, 30.0% gave it a high rating.

On the part of distribution channel, 25.0% rated it as a low criterion whilst 60.0% saw it as okay. Meanwhile, 15.0% rated it as high.

In considering the intensity of competition as a criterion, 25.0% rated it as low whilst 50.0% rated it as okay. On the other hand, 25.0% gave it a high rating.

On the issue of product pricing and quality, 30.0% rated the criteria as low whilst 55.0% rated it as okay. On the other hand, 15.0% gave this criterion a high rating.

As regards the scope for expansion or the likelihood of a downturn, 35.0% gave it a low rating whilst 50.0% rated it as okay. Meanwhile, 15.0% rated it as high.

On the part of the future prospects of the business, 25.0% gave the criteria a low rating whilst 45.0% rated it as okay. Meanwhile, 30.0% gave it a high rating.

As regards the issue of the capital structure, 35.0% gave it a low rating whilst 40.0% rated it ad okay. On the other hand, 25.0% rated it as high.
On the issue of liquidity and working capital, 35.0% rated it as low whilst 50.0% considered it as okay. Meanwhile, 15.0% gave it a high rating.

As regards the issue of the profitability of the business the borrower intends to transact, 25.0% rated it as low criteria whilst 30.0% considered it as okay. Meanwhile 45.0% gave it a high rating.

Table 4.4 Areas and criteria of appraisal by the bank on the customers

	Low	Medium	High	Total
Character	20	40	40	**100**
Credit Utilizations experience	20	50	30	**100**
Extent of involvement in the business	20	40	40	**100**
Entrepreneurial Quality	15.8	52.6	31.6	**100**
SWOT Analysis – Appraisal	36.8	31.6	31.6	**100**
Cash flow statement	10	55	35	**100**
Profit and Loss	42.1	26.3	31.6	**100**
Security	15	25	60	**100**
Ability to pay	30	5	65	**100**
Repayment History	25	25	50	**100**
Expertise of Management	15.8	57.9	26.3	**100**
Mix of management qualities	27.8	50	22.2	**100**
Management Leadership style	35	45	20	**100**
Availability of market	15	60	25	**100**
Size and strength of existing market	10	60	30	**100**
Distribution Channel	25	60	15	**100**
Intensity of competition	25	50	25	**100**
product pricing and quality	30	55	15	**100**
Expansion or the likelihood of a downturn	35	50	15	**100**
Future prospect	25	45	30	**100**
Capital Structure	35	40	25	**100**
liquidity and working capital	35	50	15	**100**
Profitability	25	30	45	**100**
Total	**573.3**	**1003.4**	**723.3**	**2300**

Source: Field survey, 2011

On the Areas and criteria of appraisal by the bank of the customers, the respondent generally had their best rate at medium which represented 1003.4 representing 44%. This was followed by high constituting 723.3 representing 31% whilst the low rate was the lowest with 573.3 representing 25%. STIGLIZ (1990) argues that group members have better access to information on reputation, creditworthiness and an intended purpose of peer borrowers than the bank officials.

4.5 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 bank organised training programmes for their clients. 44.4% responded in the affirmative whilst 55.6% denied.

On the part of those who organised the training programmes, almost all (99.8%) said they did this before granting the loans.

Adams and Von P. (1992) argued that 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) 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. Ahlin and Townsend (2005) on the contrary found that the most productive groups in terms of education have a better repayment performance.

Table 4.5 The purposes for the training the clients

Item	Valid Frequency	Percent
To enable them manage their business	6	75.0
repayment schedule education	1	12.5
Train them in customer care	1	12.5
Total	8	100.0

Source: Field survey, 2011

As regards the purpose of the training programmes, 50.0% said it enables clients manage their business well whilst 12.5% said it educates clients about repayment schedules. On the other hand, 12.5% claimed they use the occasion to train clients about customer care.

On whether respondents benefit from the training programme, all respondents (100.0%) responded in the affirmative.

4.5.1 Monitoring

Table 4.6 the rate/frequency at which officials monitor the loans

Responses	Valid Frequency	Percent
Daily	2	10.5
Weekly	1	5.3
Monthly	13	68.4
Above Quarterly	2	10.5
We do not monitor	1	5.3
Total	**19**	**100.0**

Source: Field survey, 2011

On the question of how often they monitor the loans, 10.5% said daily, 5.3% said weekly whilst 68.4% said they do the monitoring on monthly bases. On the other hand, 10.5% claimed they monitor on quarterly bases whereas 5.3% said they do not do any monitoring. Hampel and others (1994) argued that a good loan policy must require diligence on the part of all lenders to detect, and attempt to correct problem loans.

Interest Rate On the question of the interest rate being charged on loans, 98.0% claimed they charge 30% on salary worker loans and 32% for commercial loans. Rose and Kolari (1995) is of the view that interest rate charged should be varied from category to category in accordance with the perceived risk of each category.

.

4.5.2 View and assessments of other services and issues

Further assessments were also done on some other services and issues which were as well graded as either low, medium or high. It all started on the interest rate on savings, low constituted 25.0% whereas medium was 70.0%. However, just 5.0% said it is high.

Responding on service charges, medium had the highest rating with 68.4% followed with low rating 21.1% and high rating once again was as low as 10.5%.

Then, access to common bond to people had the medium rate as the highest with 50.0% followed by low rate constituting 35.0% whilst high rate amounted to 15.0%.

With access to credit facility, medium was the highest with 65.0% followed by high rate 25.0% and low rate 10.0%.

On the loan interest rate, medium was rated the highest rating of 80.0%, followed by high rating 15.0% and low rating 5.0%.

Also with the turnaround time for loans, medium had the highest rate with 55.0% followed by low rate 35.0% and high rate which was 10.0%.

Rating the quality of loan portfolio management, medium was rated 73.7% as the highest then was followed by high rate 15.8% and low rating 10.5%.

On the commitment and processing fees, medium rated the highest with the rating 63.2%, followed by low 26.3% and high 10.5%.

Rating Liquidity challenges in meeting withdrawal and loans demand, medium and high were rated 35.5% each and low rate was 30.0%.

For collateral requirement, high was 40.0% as the highest followed by low 35.0% and medium rating 25.0%.

Table 4.7 Assessments of conditions about the loans

Item	Low	Medium	High	Total
Interest rate of the Bank on savings	25	70	5	**100**
Loan repayment safety	25	65	10	**100**
Lower service charges	22	68	10	**100**
Access to common bond to people	35	50	15	**100**
Access to credit facility	10	65	25	**100**
Loan interest rate	5	80	15	**100**
Turnaround time for loans	35	55	10	**100**
Quality loan portfolio management	10.5	73.7	15.8	**100**
Commitment and processing fees	26.3	63.2	10.5	**100**
Liquidity challenges in meeting withdrawal and loans demand	30	35	35	**100**
Collateral requirement	35	25	40	**100**
Total	**257.9**	**650.3**	**191.3**	**1100**

Source: Field survey, 2011

The assessments of some conditions about the loans have individually been assessed and graded and the summary showed the general view point of the bank officials. Most of the conditions are graded at the medium rate, totalling 650.3 out of 1100. The view point of low grade was considerable and significantly above that of the high grade. Thus, even if the bank officials view or grade the conditions as low, the customers would find it difficult to see them as high. However, quite a number of the customers 191.3 found the conditions of the loans as high.

4.5.3 Assessments of the loan policies

One major objective was to assess how appropriate the existing credit policy is achieving the goals of the banks. With respect to whether the bank has loan policy, the rating was 100.0%.

Rating how does the loan policy specify credit authorization, very much had the highest rating as 65.0% followed by much rating 20.0%, not much rating 10.0% and uncertain rating 5.0%.

Responding how does the loan policy specify each loan type Limit on aggregate loan, much had the highest rating 45.0% followed by very much and uncertain rating 25.0% and not much rating 5.0%.

On whether the loan policy specify the Distribution of the loan category, much and uncertain rated 35.0% each followed by very much with 20.0%, not much and not at all much rating 5.0%.

Rating whether the policy specifies geographic limit, uncertain rated highest rating 42.1% followed by much rating 26.3%, very much, not certain, and not all much rating 10.5% each.

Responding to the policy on desirable type of loan, much rated highest with 40.0% followed by very much rating 25.0%,uncertain rating 15.0%,not much and not at all much rating 10.0% each.

Rating policy on financial information requirement of the customer, much rating was 36.8% followed by not much rating 21.1%, very much and uncertain rating 15.8% and not at all much rating 10.5%.

With responds to policy on collateral requirement, much was rating 38.9% as the highest, followed by uncertain rating 22.2%, very much and not much rating 16.7%,and not at all much rating 5.6%.

Responds to policy on margin requirement, much rating was the highest 36.8% followed by uncertain and not much rating 21.1% each, very much rating 15.8%, and not at all rating 5.3%.

Policy on pricing requirement, uncertain rating 42.1% was the highest followed by much rating 36.8%, not much rating 10.5%, very much and not at all much rating 5.3%.

Policy on documentation standards, much rating 40.0% was the highest followed by very much which was rated 20% uncertain was also 20%.

Rating on policy on loan repayment and write –off, uncertain and much was rated 35% and 30% respectively. Much was rated 44.4% on the policy on reporting requirement followed by very much at the rate of 22.2%.

On the policy on loans participations much was rated 35% followed by 25% for uncertain among others as detailed in the table 4.8

Table 4.8 Assessments of the loan policies

Item	Very much	Much	Uncertain	Not Much	Not at all	Total
1	65	20	5	10	-	100.0
2	25	45	25	5	-	100.0
3	20	35	35	5	5	100.0
4	10.5	26.3	42.1	10.5	10.5	100.0
5	25	40	15	10	10	100.0
6	15.8	36.8	15.8	21.1	10.5	100.0
7	16.7	38.9	22.2	16.7	5.6	100.0
8	15.8	36.8	21.1	21.1	5.3	100.0
9	5.3	36.8	42.1	10.5	5.3	100.0
10	20	40	20	10	10	100.0
11	5	30	35	15	15	100.0
12	22.2	44.4	16.7	11.1	5.6	100.0
13	15	35	25	15	10	100.0
Total	**261.3**	**465**	**320**	**161**	**92.8**	**1300.0**

Source: Field survey, 2011

1. Policy on loan authorization
2. Policy on limit on loan aggregate
3. Policy on distribution of the loan category
4. Policy on geographic limit
5. Policy on desirable type of loan
6. Policy on financial information of the customer
7. Policy on collateral requirement
8. Policy on margin requirement
9. Policy on pricing requirement
10. Policy on documentation standards
11. Policy on repayment and write off
12. Policy on reporting requirement
13. Policy on loans participations

4.6.0 Impact assessment of the loan from the view of the bank

On the issue of how the loan boosted the customers' production activities 95% as opposed to5% were affirmative. Explaining their positions, most of the 41.2% indicated that their businesses improved 11.8% each said it either increased in working capital or their customers satisfied with them and 23.5% said it increased their deposits among others as detailed in table 4.8.

Table 4.9 explaining how the loan boosted the production activities

	Valid Frequency	Percent
Repayment on schedule	1	5.9
Increase in deposit	4	23.5
Increase in working capital	2	11.8
Business improved	7	41.2
Improvement in standard of living	1	5.9
Customers testify	2	11.8
Total	**17**	**100.0**

Source: Field survey, 2011

Related to the above 94.4% as opposed to 5.6% the respondents faced high overdue loan rate.

4.6.1 Rating the causes of the problems

Many factors have been identified as major determinants of loan defaults. These are time of disbursement, supervision and profitability of enterprises which benefited from small holder loan scheme. Other critical factors associated with loan delinquencies are: type of the loan; term of the loan; interest rate on the loan; poor credit history; borrowers' income and transaction cost of the loans (Okorie, 1986). Stating the causes of the problems associated with bank a few issues were raised for the officials to make their judgements. For instance, on whether the problem was caused by **inadequate appraisal,** not much constituted 42.1% and much was rated 36.8% whereas very much was 21.1%.

Lack of monitoring as contributing factor to high overdue was rated as much 52.6% much and 36.8% very much and not much was 10.6%.

Board imposition as a contributing factor to high loan overdue was rate 38.9% much, 33.3% not much and 27.8% very much.

Also, staff influence as a contributing factor to high overdue was rated as 55.6% not for much and 38.9% for much. In another development,

High overdue rate caused by Staff attitude was rated 42.1% for not much and much each whilst very much was 15.0%.

Additionally, inadequate security was rated very much 36.8% and not much and much each represented 31.6% as reason for high overdue loan.

Not only that, loan diversion as reason for high loan overdue constituted 42.1% for much, 31.6% for not much and 26.3% for very much.

Moreover, customers' business failure as contributing factor to the high overdue rate was 63.2% for much and 26.3% for not much rating.

Again, Loans for social purpose was rated not much 47.4%, 31.6% much and very much 21.% as a contributing factor to high loan overdue rate.

As well, inadequate credit staff as regard high loan overdue was rated 36.85 for not much and 31.6% for much and Very much each.

Finally, inadequate documentation was rated 36, 8% for not much and much each and 26, 3% for very much as contributing factor to the high overdue and 36.9 for much

Table 4.10 Rating the causes of the problems

Item	**Not Much**	**Much**	**Very Much**	**Total**
Inadequate appraisal	42.1	36.8	21.1	**100**
Inadequate monitoring	10.6	52.6	36.8	**100**
Board imposition	33.3	38.9	27.8	**100**
Staff influence	55.6	38.9	5.5	**100**
Staff attitude	42.1	42.1	15.8	**100**
Inadequate security	31.6	31.6	36.8	**100**
Loan diversion	31.6	42.1	26.3	**100**
Customer business failure	26.3	63.2	10.5	**100**
Loans for social purpose	47.4	31.6	21.0	**100**
Inadequate credit staff	36.8	31.6	31.6	**100**
Inadequate documentation	36.8	36.9	26.3	**100**
Total	**394.2**	**446.3**	**259.5**	**1100**

Source: Field survey, 2011

The researcher assessed how the bank solves the above problems. Staff training as a means to solve high overdue loan was rated 41.1% and loan monitoring was rated 11.8%, recruitment of more credit staff, increase in loan recovery, not much effort is put in place and going by loan policy were 5.9% each.

4.7.0 Assessment of appraisal and policy factors and impact of the loans on the clients

The major assessment of the bank's operations was done by the officials in the areas called appraisal factors and policy factors. After that, the officials also gave their views on how the loans have affected the economic welfare of the clients. The correlation matrix table indicates the relationships among appraisal factors, policy factors and impact of the loans on the customers.

From the results, there was a strong positive correlation between the appraisal factors and the policy factors (.785/79). This means that the appraisal factors were line with the policy factors of the bank which is not a surprise anyway because organisations are appraised within the context of their policy. However, there was insignificant inverse correlation between appraisal factors and loan's impact on customer's productive activities (-.322). Thus, the appraisal factors did not address the issues that would have made the clients realize the socio-economic breakthroughs. In the same vein, policy factor had insignificant association with loan's impact on customer's productive activities (.149). In other words, the bank policy was not the one that can liberate its clients from the socio-economic doldrums or worsen their plights. Thus, there were no difference between the banks policies and the clients' conditions at the moment.

Table 4.11 Correlation matrix of Appraisal factors and policy factors and impact of the loans

	Pearson Correlation	Appraisal factors	Policy factors	Loan’s boost of customer's activities
Appraisal factors	Correlation	1	.785**	-.322
	Sig. (2-tailed)		.001	.208
	N	17	14	17
Policy factors	Correlation	.785**	1	.149
	Sig. (2-tailed)	.001		.581
	N	14	16	16
Loan’s boost of customer's activities	Correlation	-.322	.149	1
	Sig. (2-tailed)	.208	.581	
	N	17	16	20

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Field survey, 2011

Table 4.12 Mean and Standard Deviation of Appraisal factors and policy factors

Variables	Mean	Std. Deviation	Df	R	P
Appraisal factors	48.4706	10.79420	17	.785**	.001
Policy factors	29.5000	6.25033			

Source: Field survey, 2011

The results points out that there is a statistically significant difference between appraisal factors and policy factors. It is observed that appraisal factors score of M=48.4706, SD=10.79420 was found to be significantly different from policy factors score of M=29.5000, SD=6.25033, df = 17, r value = .785/79, p value = $p<.001$. The p value falls within the accepted range of $p<.05$. This means the appraisal factors make a significant difference from policy factors. In other words, the respondents who had higher score on the appraisal factors also had higher score on the policy factors whilst those who had lower score on appraisal factors had lower score on the policy factors. This supports the assumption that the policy factors of the bank are in line with the appraisal factors.

Table 4.13 Mean and Standard Deviation of Appraisal factors and Loan's boost of customer's activities

Variables	Mean	Std. Deviation	Df	R	P
Appraisal factors of the banks	48.4706	10.79420	14	-.322	.208
Loan's boost of customer's activities	1.0500	.22361			

Source: Field survey, 2011

The results points out on the contrary that there is no significant difference between appraisal factors and loan's boost of customer's activities. It is observed that appraisal factors score M=48.4706, SD=10.79420 was not found to be significantly different from Loan's boost of customer's activities score M=1.0500, SD=.22361, df = 14, r value = -.322, p value = p<.208. The p value falls outside of the accepted range of p<.05. This means the appraisal factors makes no significant difference from the loan's boost of customer's activities. In other words, the appraisal activities did not have any influence on loan's boost of customer's activities. This does not support the notion that the bank's appraisal factors affect the loan's boost of customer's activities.

Table 4.14 Mean and Standard Deviation of policy factors and loan's boost of customer's activities

Variables	Mean	Std. Deviation	Df	R	P
Policy factors	29.5000	6.25033	20	.149	.581
Loan's boost of customer's activities	1.0500	.22361			

Source: Field survey, 2011

In the same token, the result points that there is no significant statistically difference between policy factors and loan's boost of customer's activities. It is observed that policy factors score of M=29.5000, SD=1.0500 was not found to be significantly different from loan's boost of customer's activities score of M=1.0500, SD=.22361, df = 20, r value = .149, p value = p<.581. The p value falls outside the accepted range of p<.05. This means that the policy factors make no significant difference from loan's boost of customer's activities. The finding does not support the assumption that the policy factors of the bank are not in line with the loan's boost of customer's activities.

4.7.1 Views of officials on problems encountered by the Bank

In all, 90% as against 10% encountered problems in their activities. Liquidity problems and inadequate information about the customers were rated 26.3% each followed by high overdue which was rated as 21.1%. Lack of appropriate security was rated 10.5% among others as highlighted in table 4.15.

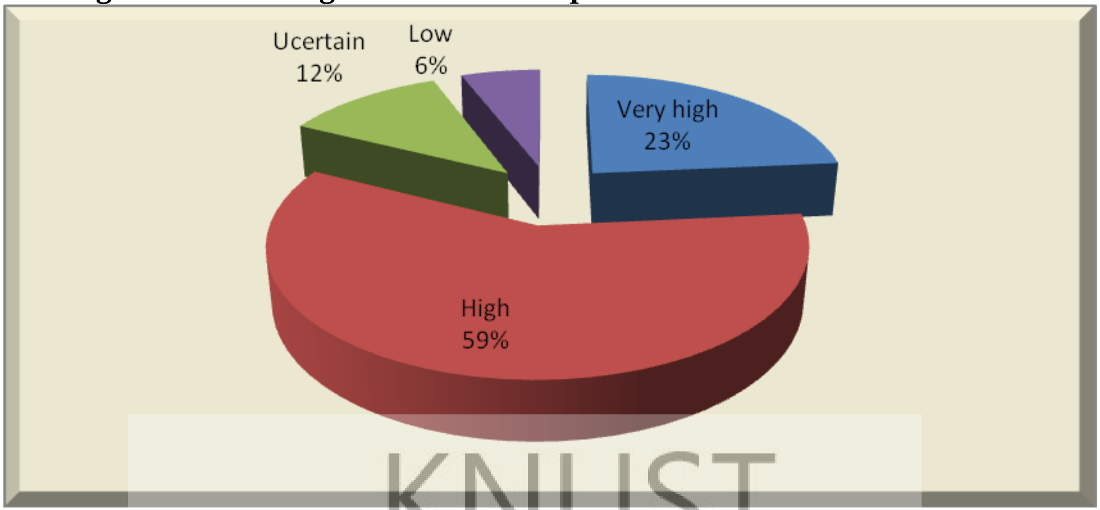
Table 4.15 The problems encountered with their business activities

Response	Valid Frequency	Percent
Liquidity problems	5	26.3
High overdue rate	4	21.1
Inadequate information about the customers	5	26.3
Lack of appropriate security	2	10.5
Poor house numbers	1	5.3
Delay in granting loans	1	5.3
Board and staff influence	1	5.3
Total	19	100.0

Source: Field survey, 2011

Rating the extent of the respondents' problem most of them 58.8% indicated it was high and very high was rated 23.5% whilst 11.8% were uncertain about the rate. Just 5.9% rated the problem as low. This indicated that the problem associated with working with the loan facility was extremely high.

Figure 4.1 showing the extent of the problems faced



Source: Field survey, 2011

Table 4.16: showing how the bank solved the problems

	Frequency	Percent
No action is taken	1	5.9
Through staff training	7	41.
By recruiting more credit staff	1	5.9
Intensify loan recovery	1	5.9
To go by loan policy	1	5.9
Through monitoring	2	11.8
Through proper appraisal	1	5.9
Through Board and management discussion	1	5.9
Collateral registration with BOG	1	5.9
Not much effort have been put in place	1	5.9
Total	17	100.0

Source: Field survey, 2011

4.7.2 Default rates

One of the major objectives was to assess the performance of micro loans in line with Bank of Ghana benchmark

The major problem of the bank in the whole business of granting loans to clients is the latter's inability to pay back the loan or total default on the part of beneficiaries of the loan. It is through that, 12 out of 20 respondents as opposed 8 did not respond to the item pertaining to default rate in 2008, 2009 and 2010. However, in each of the years under review majority of them responded that the default rate was within 50-65% indicated that the default rate was about 50%. The responses were almost the same and consistently within the years 2008, 2009 and 2010.

For instance, in the year 2008, 12.5% of the valid respondents thought that the default rate was below 20% and 12.5% indicated that the default rate was between 40% -50%. 50% indicated that the rate was between 50% -65% whilst 25% indicated that the default rate was above 65%. The same scenario was repeated in the year 2009. Thus, the only difference between 2010 and the two previous years was that 25% of the valid respondents thought that the default rate was between 50% -65% and above 65% each in the year 2010

Total 4.17: Showing default rates in 2008, 2009 and 2010

Response	**2008**		**2009**		**2010**	
	Freq	**%**	**Freq**	**%**	**Freq**	**%**
Below 20%	1	12.5	1	12.5	1	12.5
Between 20% -40%	-	-	-	-	1	12.5
Between 40% -50%	1	12.5	1	12.5	2	25.0
Between 50% -65%	4	50.0	4	50.0	2	25.0
Above 65%	2	25.0	2	25.0	2	25.0
Total	**8**	**100.0**	**8**	**100.0**	**8**	**100.0**

Source: Field survey, 2011

The description above may mean very little until it is explained against a stipulated benchmark or a standard of the bank of Ghana in terms of the accepted or permissible level of default. In the area of credit delivery, the Bank of Ghana does not accept anything below excellent work. Any bank which average work is under performing. And this is, if the bank cannot make well over 80% of recovery. This means that the default rate should not be more than 20% or anything above that is considered outrageous. To the extent that most of the respondents over the three years indicated the default rate of 25% and above is enough indication that the bank is not doing well.

To the bank's standard, the BOG was too generous by pegging the accepted default rate at 20%. That of the bank is over 35% as the quarterly reports suggest. And then again, the bank is performing abysmally (Okorie, 1986). Anderson (1982) spoke of default rates as varying from 10 per cent to 60 per cent or more in most developing countries. Meyer (2002) also stated that the financial un-sustainability in the MFI arises due to low repayment rate. Yunus (2007) however argues that people can be held accountable to pay back loans even if they do not have any collateral by using social responsibility, to assure that loans will be paid back. This was confirmed by Kereta (2007) who argued 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%.

4.8.0 Scio-demographic characteristics of the clients

Out of the total 200 respondents who are the clients of the bank, 60.0% are males as opposed to 40.0% male. In all nearly 15.0% half, 45.0% are within the age group of 36-45 followed by 35.0% age bracket of 36-45, 15.0% are within 46-55 year brackets. The youngest age, 15-25 constituted only 5.0%.

Table 4.18: Demographic Characteristics Respondents (Customers)

Sex	Frequency	Percent
Male	120	60.0
Female	80	40.0
Total	200	100.0
Age groups	Frequency	Percent
16 to 25	10	5.0
26 – 35	90	45.0
36 – 45	70	35.0
46 – 55	30	15.0
Total	200	100.0
Religious Affiliation	Frequency	Percent
Islam	50	25.0
Christianity	150	75.0
Total	200	100.0
Marital Status	Frequency	Percent
Single	20	10.0
Married	120	60.0
Divorced	20	10.0
Separated	40	20.0
Total	200	100.0
Level of Education	Frequency	Percent
Never attended any school	10	5.3
Basic	70	36.8
Secondary	110	57.9
Total	190	100.0

Source: Field survey, 2011

The only two religious groups represented are Islamic 25.0% and Christians 75.0%. On the marital status, the married respondents were 60.0%, separated were 20.0% whilst single and divorced were 10.0% each. On their educational background, those with secondary education were the majority representing 55.0% followed by those with basic education also constituting 35.0% whilst 5.0% of them did not attend any school at all.

All, 100.0% of respondents had operated with bank for more than 6 months before the acquisition of the loan. 85.0% of them made weekly or less deposit as opposed to 15.0% who rather made monthly deposit.

On where the project officer appraised the clients, 35.0% indicated their work places, while most of them 65.0% were appraised at the banking hall.

The research also assessed the views of the customer on how the bank the customer's credit worthiness. The appraisal was based on high, okay and low on a number of criteria:

On personal character, a high grade was largely represented with 75.0% and with okay being 25.0%. There was no low grade in terms of personal character of the respondents.

On the Extent of involvement in the business, high grade constituted 55.0% as against okay, 45.0%. That same represented quality as an entrepreneur.
However, the experience in credit utilization high was 15.0%, okay was the highest with 65.0% and low grade was 20.0%.

On SWOT analysis, low grade was the highest with 85.0% and okay followed 15.0%. Cash flow statement as appraisal criteria resulted in mostly low grade constituting 75.0% whilst okay was 25.0%.
On Profit and loss as appraisal criteria low was highest again with 70.0% followed by okay with 20.0% and high followed with 10.0%.

All 100.0% appraised Security as high. The respondents' ability to pay was graded mostly as high 90.0% as against low 10.0% 10. %.

Borrowers; repayment history was mostly okay 55.0% 35.0% high and 10.0% low. Customers' skill and expertise in business 55.0% okay and 45.0% low.

The customer management leadership skill had the same grade as 55.0% okay and 45 .0% low. However, market for the product as appraisal mostly okay 80.0% whilst low and high represented 10.0% each.

On size and strength of the existing and potential market appraisal okay was the highest, 70.0%, high followed with 25.0% whilst 5.0% was for low grade.

On Distribution of channel appraisal too okay was mostly represented with 80.0% and low marks 20.0%.

On the intensity of competition okay was 70.0%, low was 25.0% and the high grade was just 5.0%. On the issue of Product price and quality 80.0% Okayed it whilst 20.0% was the low grade.

In the future prospect of the business appraisal, 55.0% was okay and 45.0% high. On capital structure as well, okay was the highest grade with 80.0% whilst high and low grades were 10.0% each.

Liquidity and working capital was also graded mostly as okay 80.0% as against high of 20.0%. However, on profitability of the business appraisal, high grade was 55.0% as opposed to okay grade with 45%.

Table 4.19: Appraisal of the clients by the bank officials

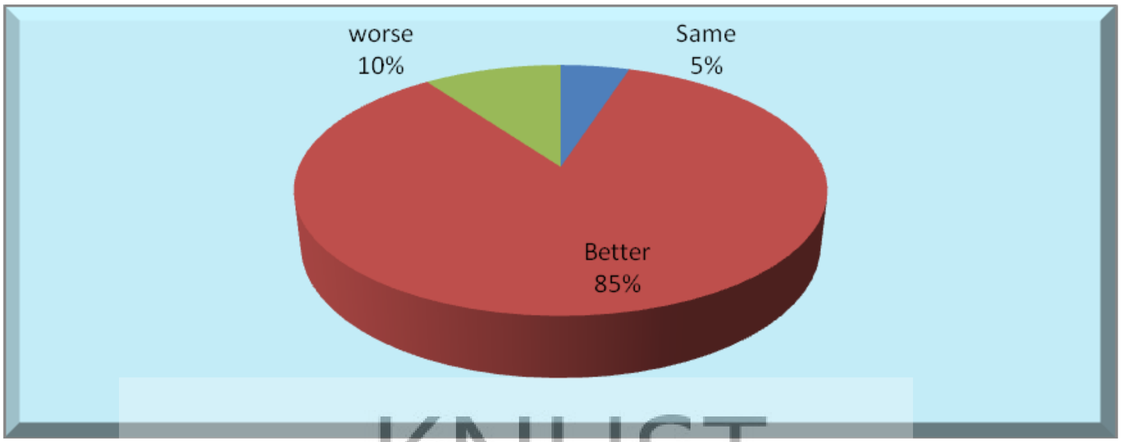
Item	Low	Okay	High	Total
Character as appraisal	-	25	75	**100**
Extent of involvement in the business	-	45	55	**100**
Quality as an entrepreneur	15	85	-	**100**
Experience in credit utilization	20	65	15	**100**
SWOT analysis as appraisal criteria	85	15	-	**100**
Cash flow statement as appraisal	75	25	-	**100**
Profit and loss as appraisal	70	20	10	**100**
Security as appraisal criteria	-	-	100	**100**
Ability to pay	-	10	90	**100**
Borrowers; repayment history	10	55	35	**100**
Customers skill and expertise in the business	45	55	-	**100**
Customer management leadership skill	45	55	-	**100**
Market for the product	10	80	10	**100**
Size and strength of the existing and potential market	5	70	25	**100**
Distribution of channel	20	80	-	**100**
Intensity of competition	25	70	5	**100**
Product price and quality	-	20	80	**100**
Future prospect of the business	-	55	45	**100**
Capital structure	10	80	10	**100**
Liquidity and working capital	-	80	20	**100**
Profitability of the business	-	45	55	**100**
Total	**435**	**1035**	**630**	**2100**

Source: Field survey, 2011

The total assessment of the clients on the criteria outlined in the table suggested that in most of the situations or cases, the clients were okay, thus, the okay was ranked first with 1035 out of 2100 representing 49%. Otherwise, the respondents had high marks to the tune of 630 out of 2100 representing 30%. The low rate was also quite considerable representing 435 representing 21%. The picture painted after the assessment is that in general, the customers confirmed the bank official assessment on appraisal. In all, the bank was doing average work as against excellent standard requirement set by Bank of Ghana as this was reflected in loan recovery.

On the actual loans given to the clients 75.0% as opposed to 25.0% of the respondents indicated the amount granted was adequate for the purpose. When the same question was posed again in different way those who used the loans for different purpose were 15.0% and 85.0% used it for the intended plan. Comparing the difference of their output before and after the loans 5.0% indicated nothing has changed, 85.0% said things are better whilst 10.0% said things are rather worse.

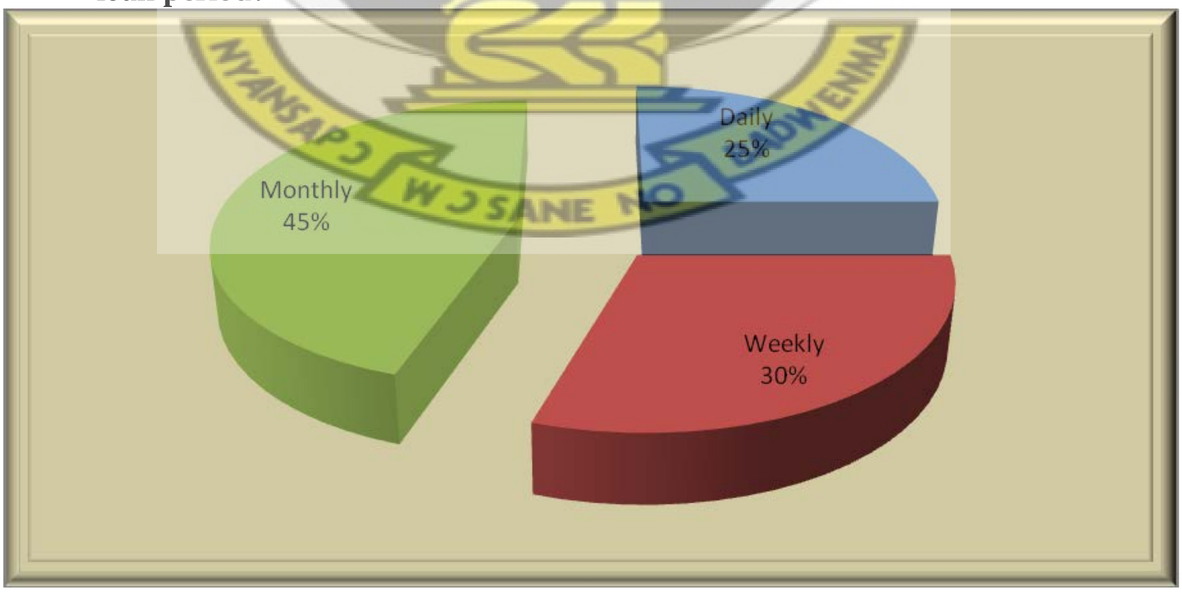
Figure 4.2: Comparison of output of customers after the loan



Source: Field survey, 2011

On how often Bank official contacted the respondent during the loan period 25.0% said it was on daily basis, 30.0% said it was weekly whilst to 45.0% it was monthly. According to Mohammad Yunus, the first principle of Grameen banking is that the clients should not go to the bank, it is the bank which should go to the people" (Yunus, 2005).

Figure 4.3: showing how often Bank official contact customers during the loan period?



Source: Field survey, 2011

Describing the bank's interest on the savings, 15.0% indicated it was low. 75.0% said it was medium whilst 10.0% said it was high. The bank service charges were high to 55% of the respondents whilst it was medium to 45% of them. Describing access to credit from the bank, 5.0% said it was low; those who said it was medium were 65.0% whilst 30.0% indicated it was high. Describing the bank's interest on loans those who said it was medium were 45.0% as against 55.0% who indicated that it was high. On the description of the length of time to approve loan by the bank, just 5.0% said it was low. In all 65.0% indicated it was medium and 30.0% said it was high. The results suggest that the bank's commitment fee is generally high as indicated by 90.0% as opposed to 10.0%. Describing the collateral requirement, 5.0% said it was low, 60.0% said it was medium, whilst 35.0% said it was high.

Table 4.20: Description of some of the services of the bank

	Low	Medium	High	Total
Describing bank interest on savings	15	75	10	**100**
Describing bank service charges	-	45	55	**100**
Describing access to credit from the bank	5	65	30	**100**
Describing bank interest on loans	-	45	55	**100**
Describing the length of time to approve loan	5	65	30	**100**
Describing bank charges on commitment fees	-	10	90	**100**
Describing collateral requirement	5	60	35	**100**
Total	**30**	**365**	**305**	**700**

Source: Field survey, 2011

The description of the quality of the services was based on whether they were low, medium or high. Mostly from the point of view of the respondents the quality was medium which constituted 365. The high grade was adjudged the second highest representing 305 out of the entire 700 whilst the lowest represented assessment of the services was low which constituted 30. The general impression about this is that the services are good.

100.0% of the respondents indicated that the bank did not organise any training at all for the client as required and on whether they face difficulties in meeting loan repayment 75% as opposed to 25.5% affirmed the assertion.

Stating the causes of the problem faced during the repayment, 8.0% said they lost their goods in transit, 5.0% said the loan was not approved on time, 25.0% indicated the business was good whilst 15.0% indicated repayment period was short for the project. In all 1.5% there was no grace period for gestation period, 10.0% said they had problem with my business 20.0% indicated daily sales was not enough to meet repayment whilst some of them 10.0% claimed that business was seasonal but repayment was monthly among others as outlined in the table below.

Table 4.21 Causes of problems faced in loan repayment by customers

	Frequency	Percent
I lost my goods in transit	16	8.0
The loan was not approved on time	10	5.0
Business was not good	50	25.0
Repayment period was short for the project	30	15.0
There was no grace period for gestation period	3	1.5
I had problem with my business	20	10.0
Daily sales was not enough to meet repayment	40	20.0
business was seasonal but repayment was monthly	21	10.5
Susu collector failed to visit me daily	10	5.0
Total	200	100.0

Source: Field survey, 2011

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENOTIONS

5.0 INTRODUTION

This chapter summarizes and briefly discusses the findings of the study. In some case literature is cited in support or refutes the findings. The study was conducted with a set of research objectives as a guide. It draws conclusions on the entire work and makes recommendations for the study.

5.1 SUMMARY OF FINDINGS

1. **Repayment rate against Bank of Ghana minimum benchmark.** The study showed that the bank had higher default rate and that the bank was operating far below Bank of Ghana minimum benchmark recovery rate. The bank was doing an average work as against Bank of Ghana excellent performance requirement. The high default rate could be attributed to number of reasons from the point of view of both bank official and the loan customers. Among the reasons were inadequate appraisal, inadequate monitoring, board imposition, staff influence, staff attitude, inadequate security, loan diversion, customer business failure, inadequate credit staff, inadequate documentation, daily sales was not enough to meet repayment, repayment period was short for the project, business was seasonal but repayment was monthly, some mobile bankers and credit officers failed to visit customers daily to collect loan repayment, the loan approval was not on time and there was no grace period for gestation period.

2. **Criteria used in identifying clients' worthy of the loans facility.** On the areas of criteria used in identifying clients' worthy of the loan facility it was found out that the bank used all the major criteria to appraise loan before any loan facility was granted. However the bank generally had their best rate at medium in terms of loan appraisal. Again there was insignificant inverse correlation between appraisal procedures and loan's impact on customer's productive activities and the subsequent loan repayment. Thus, the appraisal procedures did not all the time identify the credit worthy customers.

3. **Effectiveness of the loan disbursement, monitoring and the terms of payments.** The study revealed that on the average, amount granted to the customers was adequate for the purpose of the loans. From the point of view of the customers, the bank's interest on loan, access to credit from the bank, length of time to approve loan and collateral requirement were not so high or low. Thus, it was medium. Commitment fees and other charges were rather high. The study also established that majority of the loans were monitored on monthly and quarterly basis and in some cases the some of the loans were not monitored at all. On few occasions the loans were monitored on daily and weekly basis. The monitoring was done through phone calls and visitation by the bank officials to the loan clients.

4. **Assessment of appropriate credit policy in achieving goals of the banks.** It was established that the bank had written down loan policy to guide credit delivery in the bank. The policies covered the broad areas that should be addressed in written loan policies, regardless of a bank's size or location.

However, the policy factors had insignificant association with loan’s impact on customer's productive activities. In other words, the bank policy was not the one that can liberate its clients from the socio-economic doldrums or worsen their plights. Thus, there was no difference between the banks policies and the clients’ conditions at the moment.

5. **Extent of education and supervision given to the customers. Another** important point that emerged from the study from the point of view of the bank officials was that the bank did not often organise training for the loan client. The bank organised training for the customers on few occasions and the training was organised before the loan facility was granted. The purpose of the training were to enable the clients manage their businesses; educate them on the loan repayment schedule and to train them on customer care. The customers however did not see effort of the bank to organise training for them as significant.

6. **Problems encountered in collecting bank loans granted.** The study showed that the bank encountered problems in credit delivery and the extent of the problems was high. Notable problems faced by the bank were: liquidity problems, high overdue rate, inadequate information about the customers, lack of appropriate security, poor house numbers, delay in granting loans, board and staff influence. The major solutions to these problems by the bank as indicated by the respondents were staff training and loan monitoring

5.2 CONCLUSION

This study set out to assess the effectiveness of the microcredit management in Baduman Rural Bank in Brong Ahafo Region. The problem of the study was that there had not been enough studies and thus, there was very little knowledge documented in the area of effective microcredit management and thus, it was uncertain whether the current state of credit management is good enough to positively impact on the bank and on its customers. The literature review made the understanding of the work even clearer. The study design was a survey type with structure instrument. With a sample of 220 respondents drawn through a multi-stage sampling procedure, relationships and comparisons were made analytically. It was established mainly that, the bank policies and credit management were in consonance, yet in practical terms neither of the thus, none of them (bank policies and credit management) influenced or led to the customer's improvement in socio-economic and business well-being as even the bank's. Thus, the actual impact of the bank on its customers and even the bank itself has not been felt. In the case of the bank, even the rate at which customers repay loans is well below the benchmark of Bank of Ghana. In conclusion, the credit management policy of the bank is yet to bear fruits.

5.3 RECOMMENDATIONS

The following recommendations have been put across to make the research complete.

In rural areas where banks have high individual micro credit defaulting rate, group lending can improve repayment rate where the group is formed from areas with high degree of social connectedness. The most innovative lending methodologies that can be used by the bank are group lending, social intermediation and dynamic lending to joint-liable groups' these methodologies will solve the problem of inadequate appraisal, loan monitoring and high default rate. Group members have better access to information on reputation, creditworthiness of the group members and can put pressure on other members to repay the loans as the failure of any member to pay the loan will affect the whole group

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

To be able to solve the numerous problems of the bank, management must be proactive in credit delivery. Management must ensure that the bank work within advances to deposit ratio set by Bank of Ghana to be able to solve liquidity problems. The bank official must make sure that they get the necessary information about the loan customer before any credit is granted to the customers. In addition to physical asset as collateral the bank can adopt group lending where social collateral and trust are sufficient for economic active poor to repay the loan. Again, it is recommended that customer receive the loan as and when needed to avoid possible loan diversion. As much as possible the bank must avoid staff and board influence to allow institutional procedures to work.

To be able to meet at least 80% loan repayment requirement by Bank of Ghana**,** every staff of the bank must be responsible for every loan. The responsibility of loan monitory and recovery should be every staff responsibility. The monitoring should be done on daily basis to improve on loan recovery

REFERENCES

Abbink, K. Irlenbusch, B. Renner, E. (2006). *Group Size and Social Ties in Microfinance Institutions*: Economic Inquiry, Vol. 44, No. 4, pp. 614-628

Adams, D. W. and J. D. Von Pischke, (1992), *Microenterprise credit programmes: déjà vu.*: World Development, 20, 1463:70.

Addiah P. K., (2010). *The Effects of Rural Banks' Credit Scheme on Small – Scale food Crop Farming in Ghana*: A Case Study Of the Jomoro Rural Bank. EMBA thesis, KNUST

Ahlin, C. & Townsend, R. M, (2005), Working Paper *"Re-Packing the Rural Finance Sub sector in Ghana Poverty Gender and Rural Informal Sector Perspectives*" : Northern Ghana."

Ahmad, S., M.S. Naveed and A. Ghafoor, (2004). *Role of micro finance in alleviating rural poverty:* A Case Study of Khushhali Bank Program in Rahim Yar Khan Pakistan. Int. J. Agric. Biol., 6: 426–8

Ajala, V. O. (1996). *Scholarly Writing Guide For Researchers*. Ibadan: MayBest Publishers.

Ampah,S.K (2010), *Rural Banks in Ghana Collapsing,* Top Story www.theghanaianjournal.com 7th September, 2010

Anderson, D., (1982). *"Small Industry in Developing Countries: A Discussion of Issues":* World Development 10(11):913-948.

Andrew, F, (2004) credit Risk management, Elsevier Butterworth-Heinemann Linacre House, Jordan Hill

Asiama, J.P 2007, (Dr) - Research Department - Bank of Ghana and Victor Osei, Research Department, Bank of Ghana

Asiedu – Mante, E (2011), *Rural Banking in Ghana,* Combert Impression, Accra

Baku, E. and Smith, M., (1998) *Loan Delinquency in Community Lending Organisations*: Case Studies of Neighbour Works Organisations, Housing Policy Debate, 9(1):151-175.

Balogun, E.D. and Alimi, A., (1988). *"Loan Delinquency Among Small Farmers in Developing Countries: A Case Study of the Small – Farmer Credit Programme in Lagos State of Nigeria"*, Lagos, Nigeria: *CBN Economic and Financial Review*

Bank of Ghana (2004), Quarterly economic bulletin, special issues.

Brett, A. J (2006) *"We Sacrifice and Eat Less": The Structural Complexities of Microfinance Participation, Human organization"* Vol. 65, No. 1, Spr 2006, pp. 8-19.

Christen, R.P (1997). *Banking Service for the Poor: Managing for Financial Sucess: An Expanded and Revised Guidebook for Microfinance Institution*. Boston, MA: ACCION International

Delfiner, M, & Peron, S, (2007), *Commercial Bank and Microfinance:* University Library of Munich Germany in its series, MPRA Paper with number 10229

Fraser, S., (2004) A Report on the 2004 UK Survey of SME Finances. *"Finance for Small and Medium – Sized Enterprises"*, Http://www2.warwick.ac.uk/fac/soc/wbs/research/csme/annual-report, 4th June, 2011

Hempel, G.H et al (1994). *Bank Management: Text and Case*. New York, USA: John Wiley & Son

Holt,S (1994). *The Village Bank Methodology: performance and Prospects* IN

Hossain, F (2002) *Small Loans, Big Claims*: Foreign Policy 12, 79-82

IFAD *(2000) Rural Financial Services Project* Accra, Ghana: Pre-Appraisal Mission

IFAD, (2001) *The Impact of New Credit and Savings Opportunities for Women*. Rome, Italy

Kereta, B,. (2009) *"Outreach and Financial Performance Analysis of Microfinance Institutions in Ethiopia":* African Economic Conference www.uneca.org, 22nd June, 2011

Kerlinger, F. N. (1973). *Foundations of Behavioural Research*. New York: Holt, Rinehart and Winston Inc

Khandker, S. R. (1998): *"Fighting Poverty with Micro credit: Experience in Bangladesh"*.

Kumekpor, K. B. T. (2002), *Research Methods and Techniques of Social Research*, Sections 1-3, Accra, Ghana: Sonlife Press and Services,

Loan Portfolio Management, Office of the Comptroller of the Currency (OCC) handbook (2010) www.occ.treas.gov/publications/publications, 23rd July, 2011

Maness, T.S (1988*), Introduction to Corporate Finance*. New York: McGraw – Hill Book Company

Mensah, I. (1997): *"Non-Governmental Organisations and Rural Development. The Case of World Vision International in the Western and Central Regions of Ghana"*. Tromsø: University of Tromsø, Department of Planning and Community Studies. Unpublished Master's thesis.

MkNelly, B, and Kevane M., (2002), *"Improving Design and Performance of Group Lending: Suggestions from Burkina Faso"*: World Development 30 (11), pp.2017-2032

MkNelly, B. & Dunford, C., (1998) *"Impact of Credit with Education on Mothers and Their Young Children's Nutrition: Lower Pra Rural Bank Credit with Education Program in Ghana."* Davis, California: Freedom from Hunger.

MkNelly, B, and Kathleen E. Stack (1998). *Loan Size Growth and Sustainability in Village Banking Programmes.* Small Enterprise Development, 9 (2) p. 4-16.

Okorie, A., (1986) *"Major Determinants of Agricultural Loan Repayments" Savings and development"*

Osuala, E. C. (2001): "*Introduction to Research Methodology*". Onitsha: AFRICANA-FEP Publishers Ltd (Africana Academic Books).

Otereo, M and Rhyne,E.(Eds.), *The New World of Microenterprise Finance: Building healthy Institution for the Poor*, West Hartford, CT: Kumarian Press. 156-184

Owusu-Frimpong N., (2007): *An evaluation of customers' perception and usage of rural community banks (RCBs) in Ghana.* London, UK: Department of Business and Services Sector Management, London Metropolitan University

Risk Management Guidelines for Commercial Banks & DFIs (2001). http://www.sbp.org.pk/riskmgm.pdf (2nd July, 2009)

Robinson, M. (2001), *The Microfinance Revolution: Sustainable Finance for the Poor,* Washington DC: World Bank.

Rose, P.S and Kolari, J.W (1995), Financial Institution: Understanding *and Managing Financial Services.* Chicago: Irwin

Rosenberg, M. 2004. *"Never the twain shall meet"*, English Teaching Professional 11(35): 36-37

Stiglitz , J.E. (1990), "Peer monitoring and credit markets.",*The World Bank Economic Review,* Vol. 4, No.3., pp. 351 – 366
.

Van Bastelaer, T. and Leathers, H. (2006), *"Trust in lending: social capital and joint liability seed loans in southern Zambia":* World Development, vol 34(10), pp1788-1807

Van Horne, J.C (1995), *Financial Management and Policy*, New Jersey: Prentice Hall Inc

Von-Pischke, J.D., (1980) *"Rural Credit Project Design, Implementation and Loan Collection Performance"*: Savings and Development, IV(2):81–91.

Wahid, A. N. (1994). *The Grameen Bank and Poverty Alleviation in Bangladesh: Theory, Evidence and Limitations*: American Journal of Economics and Sociology, Vol. 53, No. 1,pp. 1-15.

Wahid, A. N. (1999) *The Grameen Bank and Women in Bangladesh*: Journal article Challenge, Vol. 42.

Wood J.C (1982), Consumer Today: Looking at Consumer, Canada,Gage Publishing Ltd

World Bank (2002), *Engendering Development Policy Research Report*, Washington, DC.

World Bank Report (2011) General News of Tuesday, *30% Of Ghanaians Are Poor:* The Chronicle, 2011 June 21, page 3 www.***ghana***web.net/***Ghana***HomePage/NewsArchive/artikel.php

Yunus, M (2003) *Banker to the poor: Micro-lending and the battle against world poverty*, New York: Public Affairs.

Yunus, M. . (2005) *Is Grameen Bank different from conventional banks?* http://www.grameen info.org/ bank/GBdifferent.htm [6] (2005, December) SKS milestones 12th October, 2011

Yunus, M, & A. Jolis (2000) *Banker to the Poor,* www.arvindguptatoys.com/arvindgupta/yunus.pdf, 15th February, 2011

Appendix A

Questionnaire No. 1

QUESTIONNAIRE FOR CUSTOMERS ON CREDIT MANAGEMENT IN RURAL BANKS

This research seeks to find out the procedures adopted by the Baduman Rural Bank Ltd. in the granting and collection of credits. Our intentions are purely for academic purposes, and not, in any way attempt to assess individuals. You are assured that all information supplied will be held confidentially.

Please kindly respond as honestly and carefully as you can. Tick [✔] as appropriate.

Section A: **Personal Data**

1. Sex Male ( ) Female ( )
2. Age 16-25 [ ] 26- 35 [ ] 36-45 [ ] 46- 55[ ] 56+ [ ]
3. Religion: Islam [ ] Traditional [ ] Christianity [ ] Others
4. Marital Status: Single [ ] Married [ ] Divorced [ ] Separated [ ] Widowed [ ]
5. Educational level: Never attended any school [ ] Basic [ ] Secondary [ ] Tertiary [ ]

Section B: **Appraisal**

6. How long did you operate with the Baduman Rural Bank Limited before contracting the loan?

   i. less than six (6) months [ ]

   ii. More than six (6) months [ ]

7. How often did you make deposits before the loan was given?

   i. Weekly or less [ ]

   ii. Every two weeks [ ]

iii. Monthly [ ]

iv Quarterly or more [ ]

8. Where did the project officer appraise you

i. at my work place [ ]

ii. At the banking hall [ ]

9. What criteria were used in appraising you?

Choose High **3** Okay **2** Low **1**

Appraisal factors			
Character	**1**	**2**	**3**
Extent of involvement in the business	**1**	**2**	**3**
Quality as an entrepreneur	**1**	**2**	**3**
Experience in credit utilization	**1**	**2**	**3**
SWOT analysis	**1**	**2**	**3**
Cash flow statement	**1**	**2**	**3**
Profit and loss statement	**1**	**2**	**3**
Security	**1**	**2**	**3**
Ability to pay	**1**	**2**	**3**
Borrower's repayment history	**1**	**2**	**3**
Skills/Expertise/Stability of the management	**1**	**2**	**3**
Management leadership style	**1**	**2**	**3**
Market for the product or service	**1**	**2**	**3**
The size and strength of the existing market	**1**	**2**	**3**
Distribution channels	**1**	**2**	**3**
Intensity of competition	**1**	**2**	**3**
Competitive products pricing and quality	**1**	**2**	**3**
Future prospects of the business	**1**	**2**	**3**
Financial/capital structure	**1**	**2**	**3**
Liquidity/working capital activity	**1**	**2**	**3**
Profitability	**1**	**2**	**3**

Section D: Challenges of Working with the Loan

1. Was the amount granted adequate for the purpose? YES [ ] NO [ ]

2. Did you use the loan for difference purpose YES [ ] NO [ ]

3. How do you compare your output before taking the loan and to your output after taking the loan? Same [ ] Better [ ] Worse [ ]

4. How often do the bank officials contact you during the loan period

   Daily [ ]

   Weekly [ ]

   Monthly [ ]

   Quarterly [ ]

   Semi Annually [ ]

5. Tick as appropriate in each of the best descriptions about Baduman Rural bank

Type Service	High	Medium	Low
14a Interest rates on savings,			
14c service charges on transaction			
14e Access to credit facility			
14f Interest rates on loan facilities			
14g Length of time to approve of loans or credit facility			
14i Charge on loan processing and commitment fees			
14k Collateral requirement			

6. Does the bank organize training for you about how to manage the credit? Yes( ) No ( )

7. Do you usually face difficulties in meeting repayment schedules?

   YES [ ] NO [ ]

Provide reasons for your answer above.

i. ……………………………………………………………………………

ii. ……………………………………………………………………………

iii. ……………………………………………………………………………

THANK YOU

Questionnaire No. 2

DEPARTMENT OF DISTANCE LEARNING, KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

QUESTIONNAIRE FOR BANK OFFICIALS ON CREDIT MANAGEMENT IN RURAL BANKS

This research seeks to find out the procedures adopted by Baduman Rural Bank Ltd. in the granting and collection of credits. Our intentions are purely for academic purposes, and not, in any way attempt to assess individuals. You are assured that all information supplied will be held confidentially.

Please kindly respond as honestly and carefully as you can. Tick [ ] as appropriate

Section A: Personal Data

1. Sex: Male ( ) Female ( )
2. Age groups: 16-25 ( ) 26-35( ) 36-45 ( ) 46-55( ) 56-65( ) 65+( )
3. Marital status: married ( ) single ( ) widow ( ) divorce ( )
4. Educational level: Never attended School ( ) Basic ( ) Secondary ( ) Teacher/Nursing/Vocational Training ( ) Tertiary ( ) other, (specify)…………………………......
5. Religious affiliation: Christian ( ) Traditional ( ) Moslem ( ) others, specify……………………………

Section B:

Criteria and processes of accessing the credit facility from the financial institutions

6. What types of loans do you have for your customers?

Commercial loan	
Salary loans	
Micro loans	
Managed loans	

6b. What criteria are used in appraising customers for loans?

Choose High **3** Okay **2** Low **1**

Appraisal factors			
Character	1	2	3
Extent of involvement in the business	1	2	3
Quality as an entrepreneur	1	2	3
Experience in credit utilization	1	2	3
SWOT analysis	1	2	3
Cash flow statement	1	2	3
Profit and loss statement	1	2	3
Security	1	2	3
Ability to pay	1	2	3
Borrower's repayment history	1	2	3
Skills/Expertise/Stability of the management	1	2	3
Good mix of management qualities	1	2	3
Management leadership style	1	2	3
Market for the product or service	1	2	3
The size and strength of the existing market	1	2	3
Distribution channels	1	2	3
Intensity of competition	1	2	3
Competitive products pricing and quality	**1**	**2**	**3**
Scope for expansion or the likelihood of a downturn	**1**	**2**	**3**
Future prospects of the business	**1**	**2**	**3**
Financial/capital structure	**1**	**2**	**3**
Liquidity/working capital activity	**1**	**2**	**3**
Profitability	**1**	**2**	**3**

7. Do you usually give preference to a type of Income Generating Activities (IGA)? Yes ( ) No ( )

8. How do you reach out to your clients ?..

9a. Do they need to have guarantors or collateral security before they are granted credit? Yes ( ) No ( )

9b. If yes, what type of guarantors do you need?..

10a. How often do you monitor the loans?..

10b. What is the rate of interest?..

11a. Do you organize training for the clients about how to manage the credit? Yes ( ) No ( )

11b. If yes, when, that is, is it before ( ) or after ( ) the credit has been received?

11c. What is the purpose of the training scheme?..

11d. Do the clients view the training beneficial? Yes ( ) No ( )

Q12a-12k Tick as appropriate in each of the best descriptions about your bank

Type Service	High	Medium	Low
12a Interest rates on savings,			
12b Safety in terms of loans repayment			
12c Lower service charges on transaction			
12d Access to common bond to people			
12e Access to credit facility			
12f Interest rates on loan facilities			
12g Length of time to approve of loans or credit facility			
12h Management of relatively smaller loan portfolios			
12i Charge on loan processing and commitment fees			
12j Liquidity challenges in meeting customers saving, withdrawal and loan demands			
12k Collateral requirement			

13. Do you have loan policy in place? YES [ ] NO [ ]

14. a-m If your answer to question (13) 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

13a. Loan authorities.	1	2	3	4	5
13b. Limits on aggregate loans	1	2	3	4	5
13c. Portfolio distribution by loan category and product.	1	2	3	4	5
13d. Geographic limits.	1	2	3	4	5
13e.Desirable types of loans.	1	2	3	4	5
13f. Financial information and analysis requirements.	1	2	3	4	5
13g. Collateral and structure requirements.	1	2	3	4	5
13h.Margin requirements.	1	2	3	4	5
13i. Pricing guidelines.	1	2	3	4	5
13j. Documentation standards.	1	2	3	4	5
13k.Collections and charge-offs.	1	2	3	4	5
13l.Reporting requirements.	1	2	3	4	5
13m. Guidelines for loan participations.	1	2	3	4	5
	1	2	3	4	5

14a. Do you think by granting credit the bank is able to boost customers' production activities?

Yes [ ] No [ ]

14b If yes, how do you know?...

…………………………………………………………………………………………………

Section C: Problems

15a. Do you encounter problems in your activities? Yes ( ) No ( )

15b. What are the problems confronting the bank in processing the loans? ....

…………………………………………………………………………………………………

15c. What extent is the problem? Very High [ ] High [ ] Uncertain [ ] Low [ ] very low [ ]

…………………………………………………………………………………………………

16a. Is the problem causing difficulty in terms of operational growth and improvements in the banks activities? Yes [ ] No [ ]

16b. What type of problems do you encounter?

Choose very much **3,** much **2,** and not much **1**

Factors	Overdue loans		
Inadequate appraisal	**1**	**2**	**3**
Inadequate monitoring	**1**	**2**	**3**
Board imposition	**1**	**2**	**3**
Staff influence	**1**	**2**	**3**
Staff attitude	**1**	**2**	**3**
Inadequate security	**1**	**2**	**3**
Diversion of loans	**1**	**2**	**3**
Customers business failure	**1**	**2**	**3**
Loans for social purpose	**1**	**2**	**3**
Inadequate credit staff	**1**	**2**	**3**
Inadequate documentation	**1**	**2**	**3**

16c. How does the bank solve these problems?

……………………………………………………………………………………………………

……………………………………………………………………………………………………

17 What has been the default rate for the last three years?

YEARS	2008	2009	2010
DEFAULT RATE			

THANK YOU