

**THE IMPACT OF RURAL BANKING ON RURAL DEVELOPMENT**

**KWAME AMOO GYIMAH BAFFOUR**

**PRINCE OPOKU BOAMPONG**

**FREDA TWENEBOAH KODUA**

**DORCAS AGYEMANG PREMPEH**

**PRINCE MICHAEL OWUSU**

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## STATEMENT OF AUTHENTICITY

We have read the university regulations relating to plagiarism and certify that this report is all our own work and do not contain any unacknowledged work from any other source. We also declare that we have been under supervision for this report herein submitted.

Name	Index Number	Signature	Date
Kwame Amoo Gyima B.	10135019	.....	.....
Prince Opoku Boampong	10149132	.....	.....
Freda Tweneboah Koduah	10136140	.....	.....
Dorcas Agyemang Prempeh	10135032	.....	.....
Prince Michael Owusu	10140711	.....	.....

### Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision laid down by Christian Service University College.

### Supervisor's Name

Miss Abigail Asamoah ..... ..

### Head of Department's Name

Kwaku Ahenkorah (Dr.) ..... ..

## **ABSTRACT**

The Bank of Ghana introduced the rural banking scheme in the country in 1976. This was done after a comparison study of urban and rural areas revealed there was a gap in terms of financial intermediation between the two areas. The main goal of the scheme was to fill the gap that existed in the rural areas so as to ensure development in their respective spheres of influence. From its humble beginnings the number of rural banks has grown or increased. However it has been noticed that most of them are establishing agencies in the urban areas. One begins to wonder whether this trend is going on at the expense of the rural areas because that gap is still apparent. This study therefore examines the roles of those rural banks with respect to what is expected of them. It also looks particularly at the roles they are performing in terms of local economic development. Questionnaires were prepared and administered at the headquarters of Juaben and Kumawuman Rural Bank respectively. A random sampling procedure was used to gather data from hundred (100) customers whiles data was also gathered from twenty (20) staffs and management level using the same sampling technique. It was found out that the banks are playing credible roles. They are operating according to the banking Acts of Ghana and the guidelines of the Bank of Ghana. They are also doing well in terms of local economic development particularly in areas of employment generation, increasing income, promoting gender development and helping promote human resource development (through their scholarship fund for needy but brilliant students). Moreover, they also have a development fund from which financial support is given to needy communities in the banks catchment areas. It is however recommended that the bank of Ghana and the government as well as the international community encourage these banks to perform well. Efforts should also be made to make sure that money is mobilized and made by the agencies in the urban areas are channelled back to the headquarters in the rural areas.

## **DEDICATION**

This work is dedicated to the Almighty God for the wisdom given to us throughout this research work successfully.

We also dedicate it to our families and lecturers for their support.

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# **CHAPTER ONE**

## **GENERAL INTRODUCTION**

### **1.1 Introduction**

The economy of Ghana is rural based. Without the development of rural areas of the country, one cannot think of its overall development. Majority of rural people spend their life below the poverty line and it is evident that their economic and social status are falling day by day. Earlier researches have shown that there exist a vast difference in the delivery of socio-economic facilities between the rural and urban areas such as schools, hospitals, roads etc all in favor of the urban areas. This condition has led to many problems such as rural-urban drift with its related negative social, economic and environmental effects. The development of these rural areas is not just a matter of economic importance alone but also of social significance and this partly because many governments have come to realize that the development of these areas is the foundation of their economies and consequently any effort at developing their economies will be meaningless and unsustainable if these rural areas are neglected.

One of the key reasons recognized over the years which militate against rural development is inadequate credit and low level of financial intermediation in rural economies. Thus, rural cottage industries, peasant farmers and many other producers are not able to expand significantly resulting in the use of primitive and traditional methods of production. This has adverse effect on production and productivity levels which consequently lead to the vicious cycle of poverty and deprivation which has a hand in the underdevelopment of these areas. The insufficiency of credit and credit facilities in rural areas can be explained from the fact that commercial banks prefer to operate more in the urban areas, lending mostly to large scale industries, salaried workers and commercial enterprises which are usually situated in the

urban areas to the neglect of producers in the rural areas with the main reason being that these commercial banks are able to make better returns from these industries and salaried workers. It is in this light that rural banks were established to take up the mantle in rural economic financing and help the people who have been left out by commercial banks.

The rural banking sector in Ghana was established under Ghana Rural Banking Legislation. The legislation aimed at creating banks which would serve populations which are cut off from formal financial services in the urban areas. Thus the establishment of rural banks was necessary to build sound and responsive banking services to the poor by improving their access to loans and technical financial assistance. Rural banks were therefore established or designed to serve small borrowers and savers of financial resources. These people include farmers, fishermen, small scale enterprises, cottage industries and many others who are located in the rural and peri-urban areas.

Also rural banks were established or created to lend helping hand in eradicating poverty and unemployment in the rural areas by assisting in the overall development of rural areas and the rural folks. This is to be done through the provision programmes launched by the government from time to time were to be implemented through these banks.

Currently there are one hundred and twenty rural banks operating in the country and their main aims are;

- To bring formal banking services to the rural folks
- Organize and channel rural idle funds into productive enterprises.
- Support and sustain community development programmes
- Eventually forge economic growth and development of rural areas

## **1.2 Problem Statement**

Despite the effort of using the rural banks to promote community or rural development, their performance as stated by Bank of Ghana (Rural Bank Manuel, 2003) “leaves much to be desired”. After twenty-nine (29) years of operation it is noticeable that their reason for establishment has not been sufficiently concentrated on. They have moved their scope of operation from rural areas and also shifted their focus of serving the rural folks to more stable customers such as salaried workers and large scale industries usually located in the urban areas. The gradual shift of operational emphasis from the rural front to the urban areas is an indication that the viability of rural economy is less attractive.

Small loans to be given originally to targeted groups such rural producers and rural folks are now channeled to government workers and middle income workers. There are few or no institutions which guarantee loans and other technical assistance to these local producers. This has affected rural producers such as agriculture producers, cottage industrialists etc strongly and have reduced their productive capacities and lowered their ability to increase productivity. A number of problems have arisen due to this problem. These include the vicious cycle of poverty which leads finally to low standard of living in the rural areas. As a result, the ability of rural inhabitants to develop their own communities has been affected. The other reason for their establishment which is championing the cause of rural development has almost been neglected and made second to profit making. Infrastructures like health, educational and social facilities which are needed to improve the living conditions of the rural areas have not been adequately provided.

Rural banks have not impacted much on their operating environment with a lot operating below the standards set by Bank of Ghana. Thus there is the need to look at the extent to which the rural banking scheme has accomplished its primary objectives and goals of mobilizing funds for rural economies and its impact on overall development of rural communities. This is important since it helps to make out the direction these banks are heading towards and bring out recommendation which will help put them on the right track.

### **1.3 Research objectives**

The main objectives of this study are to assess the impact of rural banks on the development of rural communities.

The specific objectives are:

- To assess the impact of rural banks in the area of employment opportunities to the rural folks.
- To assess the impact of rural banks on the economic live of the people through credit creation
- To assess the impact of rural banks on the development of the rural communities through corporate social responsibilities (CSR).

### **1.4 Research Question**

Research questions which arise are;

- How do the rural banks contribute to the economic life of the rural folks in terms of job creation?
- How flexible/easy it is for the rural folks to assess loans and technical financial assistance from the rural banks in their communities?

- Are the rural banks performing their corporate social responsibilities to the development of the rural communities in which they are located?

### **1.5 Scope of Study**

The scope of this study covers the operations and role of Juaben and Kumawuman Rural Banks in the development of their areas of operations. The study also looked at the historical development of rural banks and a brief background and insight into the concept of community development and its parameters. Also the study sought to delve into the primary functions of rural banks and how far they come in facilitating community development. Attempts were made to assess the performance of banks throughout the years and analyze how they have been effective in contributing to the community development within their catchment areas. Furthermore, useful suggestions have been offered in an effort to help put the rural banks on the right track.

### **1.6 Relevance of Study**

Rural banks have come of age and much is demanded of them in this era where the development of the entire nation has become more pressing. As already stated the assumed duties of rural banks have far not been achieved. Their main focus of providing banking services to the rural poor has been disregarded and programmes which will not serve the interest of their audience or customers are undertaken. This study will attempt to put the operations of rural banks in the lime light and try to determine their stated functions in assisting the rural folks such as farmers, fishermen, traditional manufactures, and in cottage industries etc. this project will tend to look at how far rural banks especially Juaben and Kumawuman Rural Banks have reached in ensuring development of communities in which they operate. It will serve as a re-examination of contribution of rural banks to the

development of local communities and the extent to which they have achieved this all important task.

### **1.7 Methodology**

Kumawuman and Juaben Rural Banks were selected as case studies because they are up and coming rural banks with much to offer and purposive sampling method was used. These banks are supposed to be operated in Kumawu and Juaben and its environs respectively. The research conducted has a dynamic view on matters affecting rural banks in community development. Primary sources of data connection were used in conjunction with secondary sources collected from various locations such as internet, libraries and achieves of the two banks.

In the primary sources of information, self administered questionnaires were employed. Questionnaire were prepared and administered at the headquarters of both banks. Two sets of questionnaire were prepared, one for bank officials and the other for customers of both the banks. A number of customers and bank officials will be interviewed to get information from them.

Secondary sources of information were obtained from Bank of Ghana, newspaper reports and literature from other sources. For examination and analysis of the research material, both qualitative and quantitative analyses were used. This will enable thorough examination of the information to be done through editing and by use of tables and mathematical models.

## **1.8 Limitations**

Some challenges were encountered in undertaking this project and these include the unwillingness at first hand of some people to respond to questionnaires. Responses were however obtained after convincing and explaining issues to the respondents. There were also financial limitations with regards to the printing of data collection instruments and travelling to study areas.

## **1.9 Organization of Study**

This study is divided into four (5) chapters. The first chapter is the introductory chapter which contains the statement and justification of the problem, the objectives, the methodology and the scope of study. The second chapter deals with literature review on rural banking in Ghana and the concept of community development. An appraisal of the activities of Kumawuman and Juaben Rural Banks will also be done here. Chapter three looks at the discussion and analysis part of the study. Findings and recommendations of the study are also represented in chapter four and conclusion takes chapter five (5).

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Rural banking in Ghana has become a pivot of development and more significantly rural banks have come of age in providing useful services to communities within which they dwell or operate. Much literature has been written to offer useful information on the activities of rural banks. This chapter gives an overview of banking in general their performance in the country throughout the years. It looks at various literatures which have been written in journals, periodicals, internet, reports, textbooks and other secondary sources.

#### **2.2 History of Rural banking in Ghana**

The Bank of Ghana introduced the rural banking scheme in the country in 1976. This was however done after a study into the rural credit system in 1970 revealed that there was a wide gap in the existing banking and credit system, with insufficient funds flowing through the system to a large number of small scale producers who needed credit most. Consequently a team from the Bank of Ghana was sent to the Philippines to study the operations of their rural banking system based upon which they introduced the rural banking system in 1976. Philippines were chosen because it is one of the few countries, which had successfully operated such banks on a fairly large scale. The other reason was that their stage of economic development appeared to be more relevant to ours in terms of rural economic problems and small scale farming system.

However, the first Rural Bank opened for business in July, 1976 at Agona Kwanyarko in the Central Region and over eleven years (1976-1987). The programme spread to all 10 regions of the country. By 1987 14% of the rural population or 553,000 people held accounts at 117



Rural Banks across Ghana. Deposits totaled ₵2.2 billion and deposits per person had climbed 2,913% over this period to reach ₵3,978 (\$US 25.87 at the prevailing exchange rate) in 1987. The programme's loan portfolio was valued at ₵634 million or \$US4.12 million.

During its first decade of operations, the Rural Bank programme proved in general to be a success. By the late 1980s, however many individual Rural Banks were floundering and not fulfilling their stated directives. The government attempted to reinvigorate the programme via macroeconomic financial liberalization effort initiated in 1988 and accomplish Rural Bank restructuring exercise began in 1990.

Despite these efforts, in mid 1990s the 115 Rural Bank in operation were in general not fulfilling their promises and struggling financially (Amonoo 1977). These could be attributed to a number of problems which resulted in crippling the businesses of rural folks. Small loans to be given to originally targeted groups were channeled to government workers and middle income customers. A farmer was also required to put up the title to his/her land as collateral but most rural dwellers did not (and today still do not own the land they farm on. Institutional credit was therefore beyond the reach of Ghana's small land holders.

As a result, the Rural Banks became increasingly reluctant to lend to their target population (thus farmers, fishermen and many others in rural industrial activities). Instead, the banks delivered their credits to salaried workers (perceived to be less risky due to regular incomes). The banks thus increasingly violated the scheme's statutory credit allocation mandate. From 1977 to 1988 the proportion of total credit extended to agriculture fell by half. By 1988, credit scheme according to C. Udry (1994) are insufficient capital, covariant risk due to reliance on agriculture which is seasonal, relatively high rate of default loan payments and

high cost of credit management. Rural Bank had primary goals and objectives which guided their operations.

### **2.3 Objectives of Rural Banks**

The rural banks were to bring formal banking services down to the doorsteps of the rural populace to encourage them cultivate the habit of saving in the banking way instead of allowing their resources to lie idle without yielding any returns.

Secondly, the banks were to mobilize and channel the rural idea funds into productive ventures, which are to help the rural business entrepreneurs invest in small and medium scale enterprises that will generate income for themselves and the youth. This second objective is in recognition of the fact that rural areas contain vast agricultural resources as well as potentials for the establishment of cottage industries, which have to be fully exploited and utilized for the benefit of the nation.

Thirdly, the rural banks were to support and sustain community development programs designed to enhance the quality of lives of the people. Ultimately, the rural banks were expected to pioneer community development and economic growth rate of rural areas whereby private investors will come in to take up business opportunities and transform them into large scale businesses. Also the rural banks were to serve as powerful tools for the fulfillment of a system whereby there will be an integrated community development of rural areas. This goal is significant considering the fact that rural ventures have been the backbone of the private enterprise system in the advanced countries of the world. Big manufacturing corporations have sprung up from rural industrial units. (Daily Graphic, April 7, 2000)

Advantages also realized from the rural banks are as follows:

1. Rural Banks interact closely in the communities where rural industrialists and most beneficiaries reside and work.
2. Speed of delivering services is much faster than categories of banks.
3. Proximity of rural banks reduces transportation cost of beneficiaries.
4. Rural Banks are trustworthy since they have built their reputations in communities they operate in.

Consequently certain factors have led to the poor performance of rural banks in Ghana therefore weakening the purposes for which they were established. These are;

1. Poor supervision by Bank of Ghana has given way to a very high level of corruption and management in the rural banks. There were also a lot of funds embezzlement by bank officials and influential persons in the community.
2. Local people lost interest in rural banks as a result of high collateral which were demanded from them
3. Loans given were not paid back as result of poor loan recovery programmes by the rural banks.
4. Rural folks still feel alienated from the rural banks located in their communities because of attitudes of staff and managers thereby resulting in lost of interest in banks.

## **2.4 Procedures for Operating Rural Banks**

During the early periods of rural banking in the country, the choice to situate a rural bank rested with the Bank of Ghana. This has changed because non-governmental initiative is now paramount in their set up. The decision to set up a rural bank in the country rests on either the

Bank of Ghana or individuals or groups of persons (advocates) concerned in establishing the bank. The advocates must be citizens of Ghana and of good character and integrity and must have good credit standing. The Rural Finance Department of Bank of Ghana takes delivery of the application and dispatches questionnaires to the advocates' requesting for information on the area involved in terms of economic activities, infrastructure, social amenities and population. After studying the answers to questionnaire an appraisal team from Bank of Ghana conducts an economic appraisal of the area to ascertain whether the area can support the to be established. After the studies have been completed, an approval letter is forwarded to the promoters upon which an interim management committee is formed.

If the Bank of Ghana endorses the set up of the rural bank, the advocates are supposed to integrate a public company and acquire a banking license in accordance with the company code 1963 and the banking Act 1970. Shares are issued to shareholders and are by law issued with a share certificate. The bank of Ghana which settles on the minimum share capital also has shares with the bank. It must be noted that all rural banks are public companies limited by shares. The basic law of the bank called the regulations of the bank is agreed on. It embraces all important matters such as the name of the banks, its objectives, the value of its shares and rules regarding meetings. The regulations are registered with the registrar general of companies.

Once the registrar general of companies incorporates the bank, the advocates can apply for a banking license from the Bank of Ghana in fulfillment of the requirement under section (2) (i) of the Banking Act 1970. If it obtains the license it can pursue the business of banking if lastly the bank acquires a certificate to commence business.

Business activities of rural banks according to (Addae, 1989) the Banking Act shall be conducted with special emphasis on the organizing or mobilizing rural savings, granting of loans and advances under reasonable terms of small-scale farmers, businesses and small merchants in rural areas. The Banking Act allowed loan to go to agriculture, commerce and industry for improving farms, commercial and industrial activities. It was made obligatory that minimum of 50% of loans should go to agriculture, 30% to cottage industry and the rest to other sectors. But it was realized that the directory was posing a lot of problems on the smooth operations of the rural banks. The Bank of Ghana then loosened the system and allowed the minimum to agriculture to be 20% and more and then allowed the banks to determine the rest themselves. (Bank of Ghana Banking law, 1989).

## **2.5 Achievements of Rural Banks**

Since its inception, the rural banking scheme has chalked successes in a whole array of national development. At the end of 1999, total deposits of rural banks and increased tremendously to ₵14.4 billion, while the loan portfolio had increased from ₵58.94 billion in 1998 to ₵66.8 billion in 1999. (Daily Graphic, Dec 1, 2005)

Performance of rural banks at the end of the year 2001 stood at the following;

1. Their total assets of ₵500 billion meant that rural banks share in the banking industry total assets increased from 2.6% to 3.5%.
  2. Rural banks market share of deposits improved from 3.0% to 4.4%.
  3. Their investments surged up from ₵144.1 billion to ₵239 billion, moving the market share of rural banks from 4.6% to near 6%
  4. Rural Banks' market share in loans and advances held firm at just above 2%.
- Shareholders' funds improved from ₵23.8 billion to ₵45.1 billion.

Between 2000 and 2003, rural banks' share of shareholders funds increased from 3.3% to 5.4%. Market share of deposits went up from 3.2% to 5.8% while share of outstanding loans and advances moved from 1.9% to 3.2% within the same period. The share of rural banks' investments in government paper mostly treasury bills arose from 3.9% to 9.2% of the total holdings while total assets of rural banks as a group were now ₵1,517.6 billion. (Daily Graphic, April 8, 2000)

Generally, the performance of the rural/community banks during the 2003 review period fell below expectation. Out of the 120 banks, only 60 were classified by Rural Finance Department as satisfactory that is complying with Capital Adequacy Requirement. Furthermore, only 92 reported regularly to the central Bank; thus making it difficult to supervise and monitor their operations. Bank of Ghana has identified a number of problems confronting the rural banks and more effective measures are being taken to improve management skills and instill financial discipline into the system in the coming years. During the year 2004 review period, total assets held by rural banks and more effective measures are being taken to improve management skills and instill financial discipline into the system in the coming years. During the year 2004 review period, total assets held by rural banks went up by 8.9% (₵123.8 billion) to 1,517.6 billion. A classification of these banks using the capital Adequacy Ratio of 6% revealed that 99 were satisfactory and the rest were mediocre. Of importance is the shift in rural/community banks' investment preference into providing credit to rural communities instead of investments in bills and bonds. This may be attributed to the continuous decline in Treasury bill discount rate in the first half of 2004. Total deposits of rural/community banks stood at ₵1,133.7 billion reflecting an increase of 6.7% (₵71.4 billion) over the previous quarter's position. (Bank of Ghana Quarterly Economic Bulletin 2004)

The first and second quarter of the year 2005 continued to improve in line with the generally favorable economic conditions. The Bank of Ghana Quarterly Economic Bulletin for the second quarter had it that it had a classification of one hundred and twenty operational banks, using the capital Adequacy Ratio (C. A.R) of 6% indicated that ninety-seven (97) were satisfactory and twenty (20) mediocre with three (3) unexamined. Developments in the consolidated sheet of rural/community bank revealed a continuous improvement in financial intermediation by the banks.

Total assets of the industry grew by 6% (¢106.7 billion) to ¢ 1, 897.2 billion in the first quarter of 2005. This may be compared with an increase of 8.7% (¢112.1 billion) in the corresponding quarter of 2004. The increase in the total asset during the period was funded by increase of 5.3% (¢72.2 billion) in deposits and shareholders' fund respectively. Of importance during the quarter was apparent in the rural/community banks investment into holdings of bills and bonds followed by granting of credit.

Rural banks since 1987 have been engaged in purchase of Akuafo Cheques giving relief to cocoa farmers during the cocoa buying season. Through this the rural banks have made substantial profit and paid taxes and dividends to the shareholders and government. Rural banks have made substantial profit and paid taxes and dividends to the shareholders and government. Rural banks have inculcated banking culture among people in the catchment areas; they have contributed to the national development effort by bringing banking services closer to the doorsteps of rural community.

Furthermore, rural banks are involved in clearing system and are collaborating with the Association of Rural Banks in money transmission services dubbed Apex Link “Ewo

Bebiaa”. They mobilize both long and short-term resources in the form of capital and deposits. Much of these funds are channeled into some productive sectors in the form of loans and advances, with a good portion invested in risk-free community ventures.

Rural banks have contributed in no small way in breaking the “myth” about savings behavior and credit worthiness of rural dwellers or poor households. This is as a result of the sense of social responsibility and a good deal of banking prudence with which they have realized. Rural banks have also helped socially to improve social amenities and infrastructural facilities; setting up scholarships for student, promoting gender development by granting loans to women and even family planning practices. Some have even engaged in forestation programmes.

The Bank of Ghana is still committed to the development of an efficient system of rural and community banks as an integral part of the banking system in Ghana. The policy direction is to use these banks to advance banking services more to the rural areas and to inculcate the banking habit into the people.

## **2.6 Problems of Rural Banks**

A lot of the problems affecting rural banks can be attributed basically to poor supervision of Bank of Ghana.

There are many teething problems affecting rural banks and these are difficulties associated with rural banks;

1. Low capital base
2. The subsistence nature of economic activities of catchment areas
3. Poor management practices



4. Absence of computer equipment
5. Poor customer service delivery
6. Weak marketing approach
7. High loan default rates
8. Low caliber of staff

These problems have together combined to make some rural mediocre and have led to the collapse of some of them.

### **2.6.1 Rural Banks and Community Development**

Many scholars equate development with economic growth which is understood as referring to two main issues: the production capacity of a nation vis-à-vis its ability to meet primary material needs and the distribution of the fruits among different sectors of society. However, a review of the accumulated data stemming from planning schemes in the developing countries indicates that economic factors are not sufficient to explain the workings, success and failures of development projects.

Various scholars have defined development differently and according to Dalton (1974) development are growth plus change and change involves society as a whole. Todaro (1994) contents that development is a multidimensional process involving major changes in social structures, popular attitudes and national institutions as well as the acceleration of economic growth, the reduction of inequality and eradication of poverty.

Development therefore is a multi-dimensional concept that embraces economic and non-economic factors. The economic factor of development “reflects a concern with production or output and related activities, particularly with the commercial or monetary aspects of these

activities”. (Conyers and Hills, 1984). The non-economic factors are the social, institutional or political and environmental indicators which measure elements such as demographic characteristics, information on health, education, availability of and access to social services, social well-being, freedom of speech, political structure and participation in decision making as well as the quality of the physical environment.

### **2.6.2 The concept of Community Development**

Communities in this research refer to rural communities as against urban ones. These are settlements with population less than 5000 people with majority of its residents engaged in primary production such as farming, fishing and small scale mining. Rural development or the more generic term, community development aims at helping local people to identify and articulate their needs and problems, stimulating the participation of individuals and families in community affairs, encouraging self-help action and “grass-roots” efforts to larger developmental objectives.

In Ghana, agriculture and rural settlement are inseparable because agriculture is practiced mainly in rural areas. The fact that Ghana is an agricultural and a rural country suggests that for her development activities to be achieved in the long run, special emphasis have to be placed in developing the agricultural sector in particular and the rural areas in general. (daily Graphic, April 9, 2000)

One of the various definitions of community development states that it is a strategy designed to improve the economic and social life of specific group of people. It involves extending the benefits of development to those who seek their livelihood in the local communities (Alacevich, 1975). According to Moshi Conference (1969), “Community development also

calls for a set of projects and policies so designed and coordinated that it will raise the whole pattern of living of a given local population from one level to a markedly higher level, and in so doing create a society which will therefore be dynamic economically and socially”

An analysis of the above and other definitions of community or rural development reveals some key elements which included the following:

1. It entails an integrated approach or coordinated of different activities and projects to attain development.
2. Both the economic and social dimensions of development are indicated to be equally important and not just the economic aspect alone.
3. Community or rural development relates to local populations living in rural or non-urbanized settlements.
4. Empowering local populations to take part in development process.

From the above ideas gathered, community development is defined as consisting of the simultaneous change in all spheres of activities and life in general of local communities in the temporal, long-term and spatial dimensions of economic growth, in the value system and in social dynamism. It aims at helping local communities to identify their development needs and through their own initiatives with external support, projects and programmes is designed to lift them out of poverty and empower them to make use of opportunities. The principle of community development is based on the acceptance of the fact that government resources are not enough to provide all their needs as such their own efforts, resources, initiatives and cooperation are necessary.

### **2.6.3 Objective of community Development**

According to the overseas Development institute (ODI), there are three main objectives of community development. These are economic, social and cultural objectives.

#### **Economic Objectives**

These include promoting efficient utilization of resources to ensure equitable distribution of incomes and to increase productivity in the local communities.

#### **Social objectives**

These are to stimulate the desired social changes in education, health, water and sanitation among others to commensurate with the development of material resources and to create social institutions inclined to accept and promote much changes.

#### **Cultural objectives**

They are to promote as much as possible traditional values in the local communities to equip the local population with the necessary techniques to attain the goals of economic and social development.

On this issue, developing nations like Ghana encounter socio-economic problems like low productivity, high level of illiteracy, poverty, high unemployment rate, environmental hazards and so on. Many solutions have been outlined by countless number of people and aspect is development through financial institutions. The role they play is very crucial in the society because they are one of the few avenues where broad policies of development can be implemented through. The rural banks are pivotal in this duty. They are more nearer to the

people than other financial institutions. Moreover, the confidence reposed in them is much higher than other banks.

On the fore front, rural banks are heavily involved in employment creation, increasing market opportunities, improving labour skills, increasing incomes of the people, gender development, service spread and the development of small scale industries.

A lot of development projects and poverty reduction strategies are being channeled through the rural banks. For instance, since September 2003 under the Ghana Poverty Reduction Strategy (GPRS), ₵85 billion have been disbursed through rural banks to serve as micro credit to economically active but poor in rural areas for them to improve their quality of lives. (Daily Graphic, Dec 1, 2005). Also educational sponsorship packages for basic education school children have been introduced in various communities in the entire country. This project was advocated in conjunction with existing rural banks in the various rural areas. Thus through this project it is estimated that the number of school going children will be considerably increased.

Also, loans are being giving to beneficiary groups in various professions to help them raise the needed capital. Again, it is worth making the point that a critical light should be once thrown on the activities and operations of rural banks to make its impact felt more on the ground.

Finally, the role of rural banks has not really materialized within the context of rural development. According to the Moshi Conference (1969), the purpose of rural development is “a rise in the standard of living and favorable changes in the way of life of the people

concerned”. The contributions of rural banks are still not fully ripe and much is expected from them. Some are performing better and others are below standard. The ones still in business are in the process of transforming into business oriented institutions. Some have embraced good banking practices but still suffer the consequences with weak capital base, non-attractive products and lack of clear savings mobilization strategies. A lot more can be done if prudent, effective and efficient measures are taken in banking supervision, regulation and coordination among various banks.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 INTRODUCTION**

This chapter discusses the research design, the population and sample. It also discusses the instruments used in the data collection, the procedure for data collection and the method for data analysis. The chapter also includes the sources of data collection and the profile of the bank used in this research work.

#### **3.1 RESEARCH DESIGN**

The research design used is survey design. Research design is the specific data analysis techniques or methods that the researcher intends to use. The survey design involves the collection and analysis of data, and finding out the answers concerning the current status of the subject. Also, it is a study of variables in their natural setting or under usual circumstances. This comprises observation of facts, formulation of hypothesis, collection and classification of data, interpretation of data, formulation of theories, application of facts and predictions. Since human behaviour is difficult and cannot be predicted, it makes the results of the research at times not to be applicable to the population.

#### **3.2 POPULATION**

The target population is the staff and customers of Juaben Rural Bank in the Ejisu – Juaben Municipality, specifically Juaben area.

### **3.3 SAMPLE AND SAMPLING TECHNIQUE**

The random sampling procedure was used to gathered data from 100 customers whiles data was also gathered from(20) staffs and management level using the same sampling technique. Random sampling was used because we didn't want to neglect the illiterates n focus basically on the literates to end up being bias.

### **3.4 SOURCES OF DATA**

Two main sources of data were used by the researcher in this research work. These are the Primary source and Secondary source of data.

#### **3.4.1 Primary Sources**

This is the kind of data that is collected at first hand. In this research the main instrument used in collecting the primary data is the use of questionnaire. The other forms of primary data collection used are interviews.

#### **3.4.2 Secondary Sources**

This type of data collection is the one based on already existing data. In this type of research, the secondary data was mainly collected from textbooks, articles, journals and already existing information in the Bank's database.

### **3.5 DATA COLLECTION TECHNIQUE**

In all 120 questionnaires were given out to the respondents to answer. Due to the nature of the respondents that is with some being illiterates and some literates, the data collection for the study was in two phases. The first phase, which was mainly interviews, directed to



illiterate respondents. Here, the aims and objectives of the researcher were made clear to the respondents.

The second phase was solely questionnaires which dealt with a cross section of bank officials and customers. The reason was to allow them to air their views on papers so that there would be more room for self-expression in order to get a variety of opinions. Data collected technique mainly used to collect data from the respondents took the form of interviews and questionnaires.

### **Interviews**

This took the form of conversation, where questions were posed to respondents; that is, there was face-to-face interaction between the researcher and the respondents. Questions were asked at random but they were in line with the objectives of the study. This flexibility gave the researcher more room for clarification of questions and answers. The researcher preferred to use interviews due to the fact that some of the respondents are unable to read and write.

Again, it was necessary to use the interview method in order to translate the questions in the local dialect which was a suitable device for collecting the data from the illiterate bank customers; hence it was easy to access the mood of the people.

### **Questionnaires**

The questions used were derived from the research questions in Chapter One. They were objective questions seeking definite information on the bank has had in the development of the area.

The questionnaires were given out to some of the bank officials as well as the customers who could read and write to answer. The researcher assured the respondents of anonymity and

confidentiality and agreed on a reasonable time and the method by which questionnaires were to be returned.

### **3.6 METHODS OF DATA ANALYSIS**

SPSS software, Microsoft Word and Excel were used to analyze data into meaningful information and graphs to be understood by all and sundry.

### **3.7 PROFILE OF JUABEN RURAL BANK**

#### **JUABEN RURAL BANK LIMITED**

Juaben Rural Bank Limited was incorporation on 24th October 1984 as a Rural Bank and has since then built a reputation as one of the leading Rural Banks in Ghana. The Head Office of the Bank is location at Juaben, in the Ashanti Region about 30 kilometers away from Kumasi. In addition to the main office the bank has agencies at Bonwire, Ejisu and Kwaso/ Juaben District. The initial paid up capital of the Bank which was 2.20 million in 1984 has increased to 1.63 billion as at July 2006.

The vision of the bank is to be the preferred rural / community bank in the Ashanti Region within the next two years.

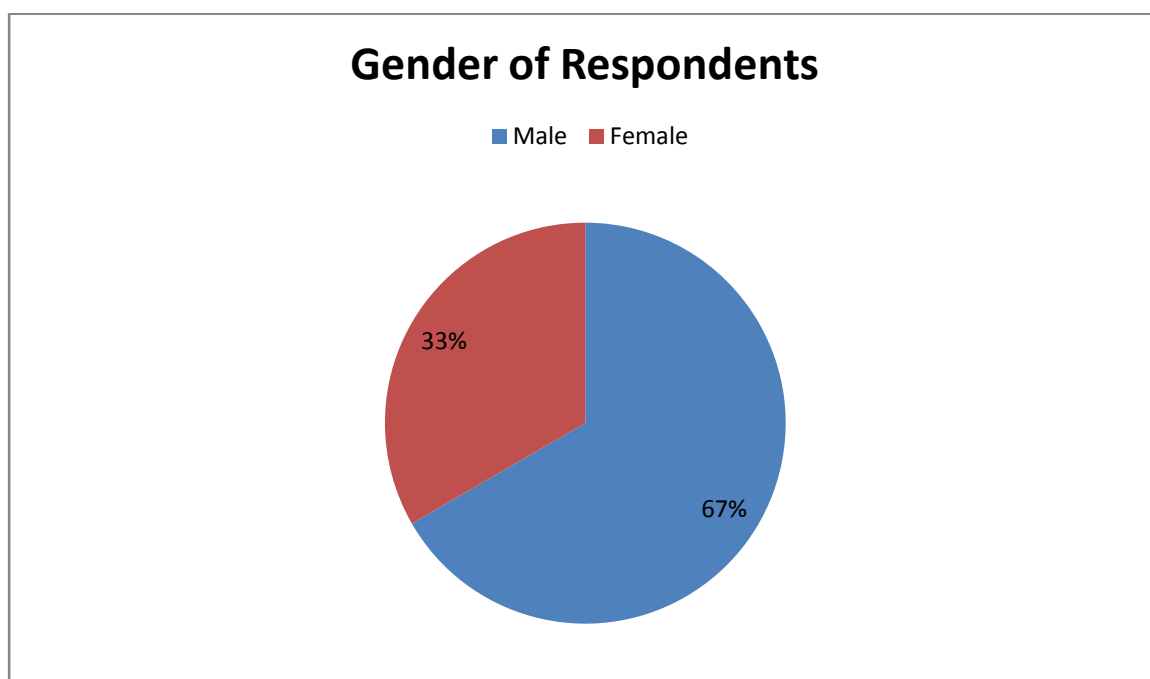
## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND DISCUSSION

#### 4.1 ANALYSIS OF DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

The data collected through questionnaires that were administered to the customers of the banks to assess the impact of the rural bank in the development of the rural areas. Out of the 115 questionnaires sent out, 100 of the questionnaires were received.

Figure 4.1.1 **Gender of Respondents**



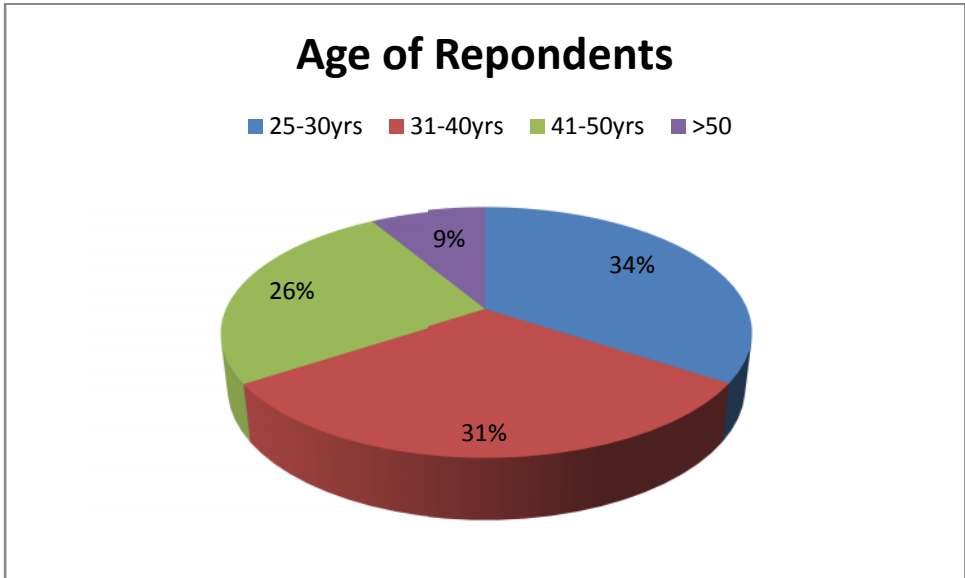
Source: Researcher's field survey, May 2013

##### 4.1.1 Gender of Respondents.

An inquiry made into the gender of the respondents show in figure 4.1.1 that more than half of the respondents are males which represent 67%. Whiles the rest of the 33% of the respondents are females. This shows that majority of the customers are males. Therefore in

dealing with customers, the needs of the males should be identified differently from the females.

**4.1.2 Age of Respondents**

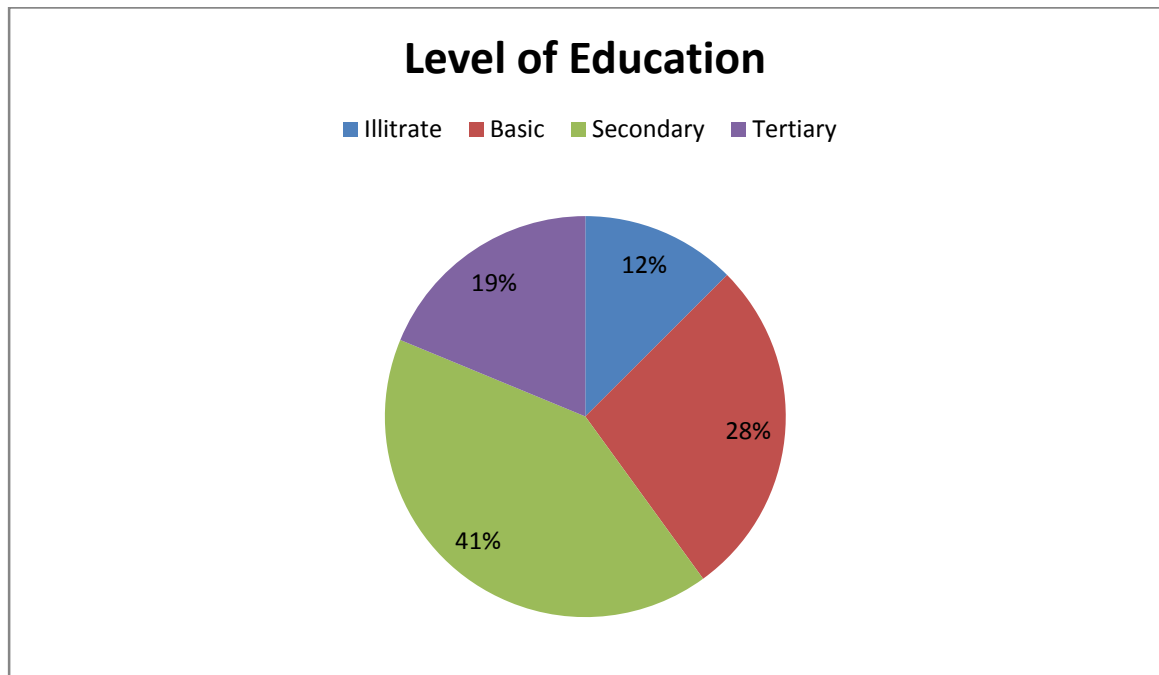


Source: Researcher’s field survey, May 2013

**4.1.2 Age of Respondents**

An inquiry into the age of the respondents was made through the questionnaires distributed. The results in figure 4.1.2 show that 31% of the respondents are aged between 25 – 30 years. 31% and 34% of the respondents are aged between 35 – 40 years and 41 – 50 years respectively. The results from the inquiry further showed that 26% and 9% of the respondents are between the ages of 41-50 years and less than 50 years respectively. From the data on the ages of the employees, it can be deduced that, majority of the customers are aged between 35-40 years and 25-30 years.

### 4.1.3 Level of Education of Respondents

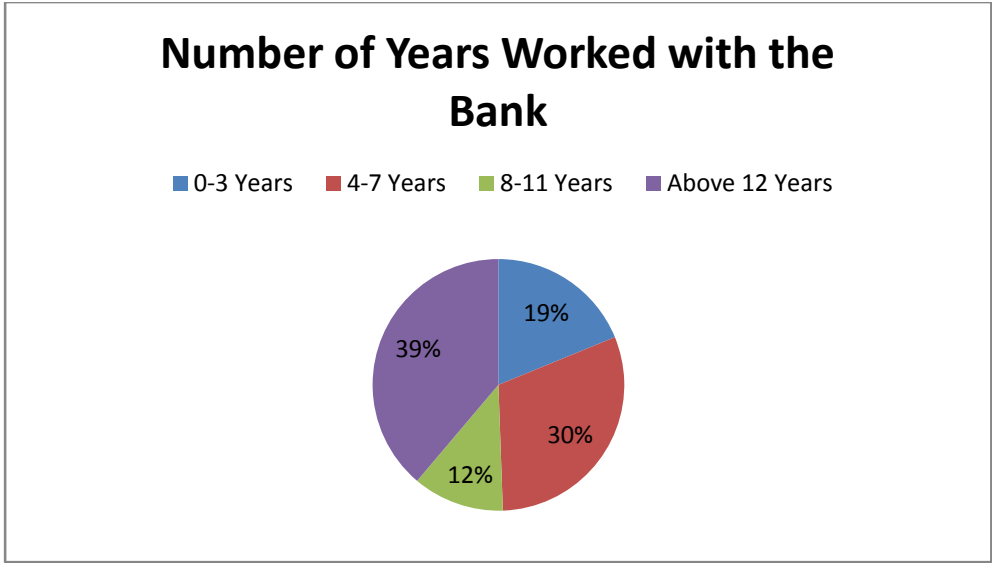


Source: Researcher's field survey, May 2013

### 4.1.3 Level of Education of Respondents

The findings from figure 4.1.3 show that there is wide education gap between the customers who patronize the banks product. 41 % of the customers have attained secondary education while 28% have attained basic education. On the contrary, 19% have attained tertiary education and 12% are illiterates. This infers that in providing help to the customers, this data can be used in determining the level of skills each of them has attained.

4.1.4 Current Position on the Job

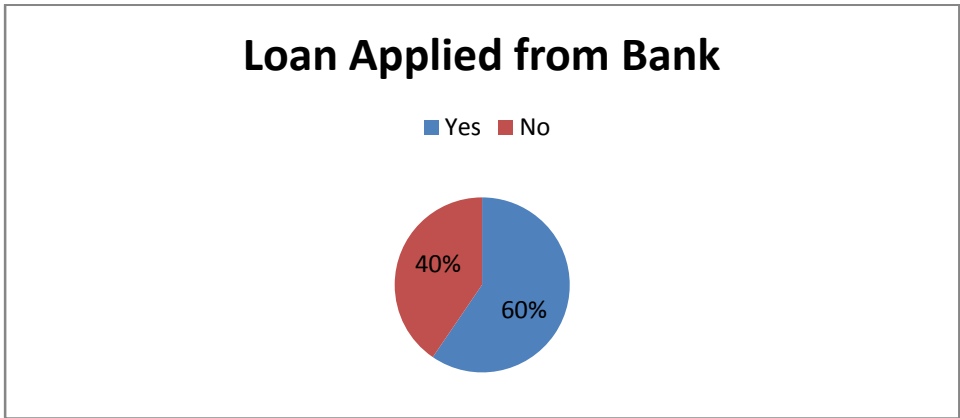


Source: Researcher’s field survey, May 2013

4.1.4 Current Position on the Job

Figure 4.1.4 shows that most of the respondents have saved with the bank for several years and this represents 39% (above 12).30% of the respondents have saved with the bank between 4-7 years. Whiles 19% and 12% of the customers have saved with the bank between 0-3 years and 8-11 years.

Figure 4.1.5 Loans applied from Bank

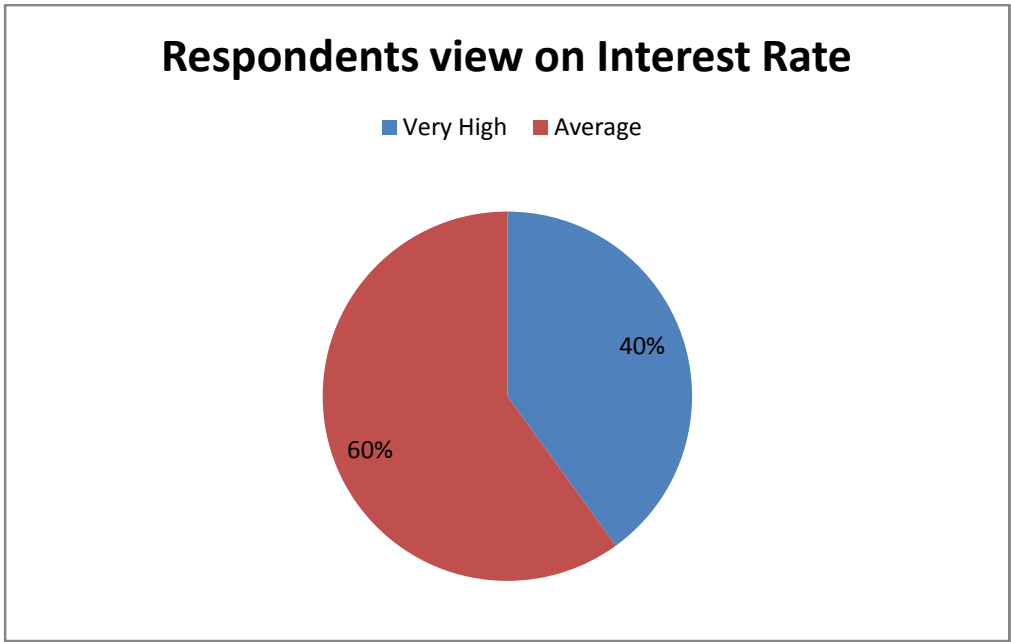


Source: Researcher’s field survey, May 2013

**Figure 4.1.5 Loans applied from bank**

The results from the results above shows that more than half of the bank’s customers usually apply for loans from the bank. 60% of the customers confirmed taking loans from the bank by answering yes whiles the remaining 40% answered no.

**4.1.6 Respondents view on Interest Rate**



Source: Researcher’s field survey, May 2013

**4.1.6 Respondents view on Interest Rate**

Figure 4.1.6 shows that most of the customers satisfied with the interest rate charged by the bank. It was revealed that as compared to the other banks the customers are satisfied with the interests of this bank. Eventhough 60% think the interest rate is average as compared to the others, 40% of the customers think it is very high.

4.1.7 Improved Standard of Living

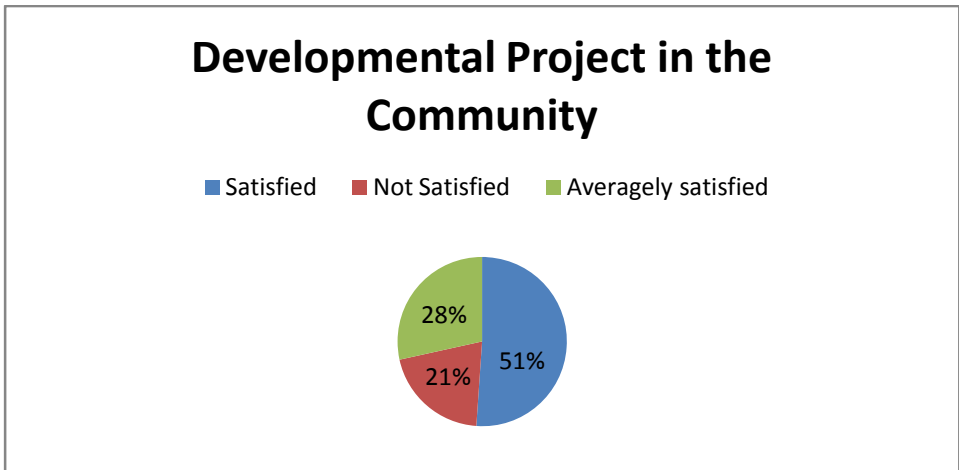


Source: Researcher’s field survey, May 2013

4.1.7 Improved Standard of Living

It can be inferred from figure 4.1.7 that in terms of standard of living of the respondents, the bank has really done its best. This is due to the fact that 60% of the customers are satisfied with the level of improvement in their standard of living. On the contrary, 40% are not satisfied.

4.1.8 Developmental Projects in the Community



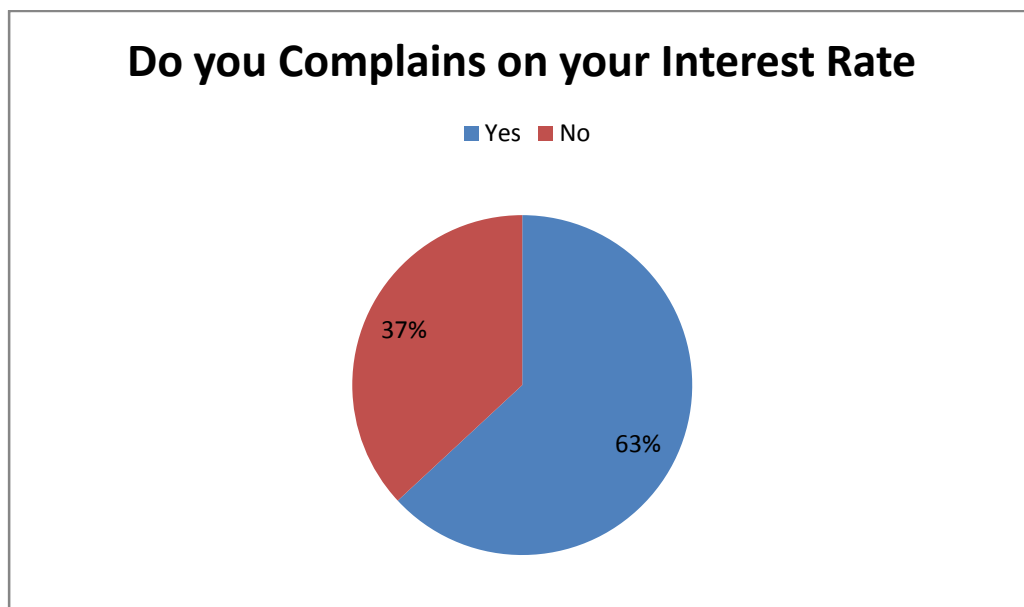
Source: Researcher’s field survey, May 2013



#### 4.1.8 Developmental Projects in the Community

The inferences drawn from figure 4.1.8 shows that more than half of the customers in the community are satisfied with the number of developmental projects in the community. 51% and 28% are satisfied and averagely satisfied with the developmental projects in the community. On the other hand, 21% of the respondents are not satisfied with the developmental projects going on in the community and think that the bank can do more.

#### 4.1.9 Complains made by Respondents on Banks Interest Rate.



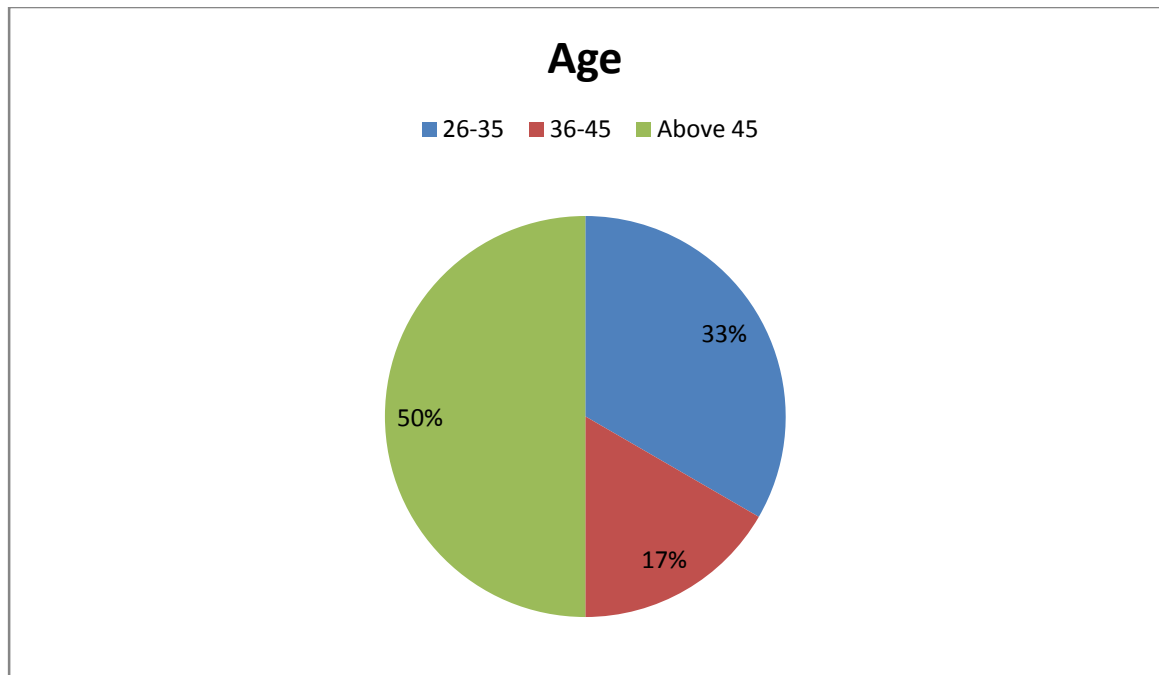
Source: Researcher's field survey, May 2013

#### 4.1.9 Complains made by Respondents on Banks Interest Rate.

An inquiry into whether respondents complain to the bank on their interest rate shows that 63% of the respondents answered yes and the rest of the respondents answered no.

## 4.2 ANALYSIS OF RESPONSES FROM MANAGEMENT

**Figure 4.2.1 Age of Respondents**

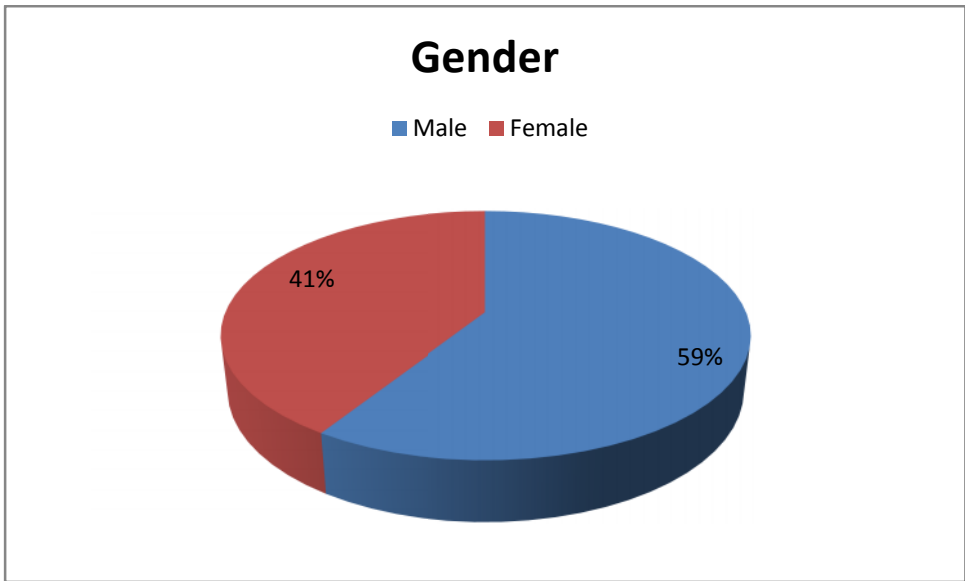


Source: Researcher's field survey, May 2013

**Figure 4.2.1 Age of Respondents**

The results from the inquiry into the ages of the respondents indicate that more than half of the respondents representing 50% of the respondents are aged above 45 years. Whiles 33% and 17% are aged between 26 -35 years and 36-45 years.

**Figure 4.2.2 Gender of Respondents**

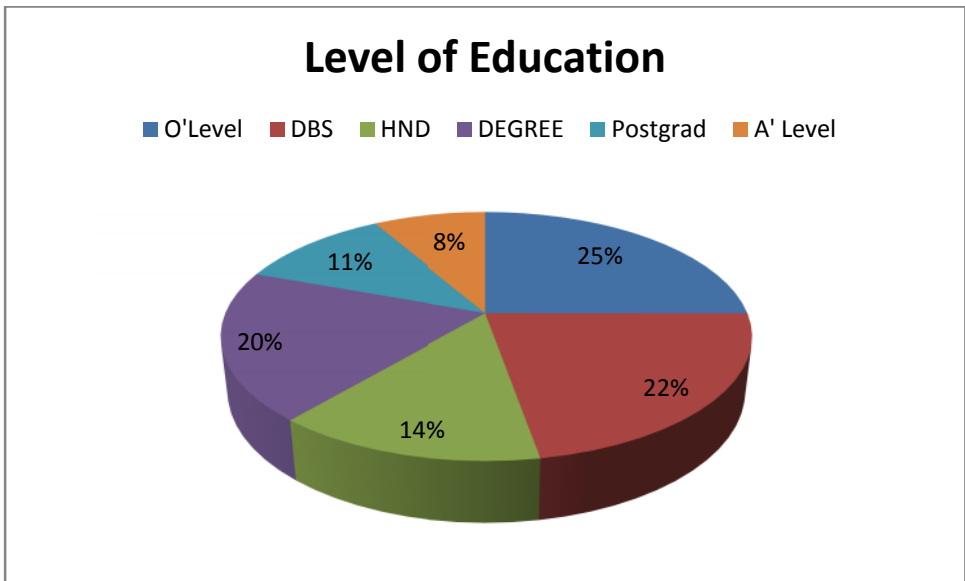


Source: Researcher’s field survey, May 2013

**Figure 4.2.2 Gender of Respondents**

Figure 4.2.2 shows that the respondents who answered in terms of gender are such that 59% of them are males whiles the remaining 41% are females.

**Figure 4.2.3 Level of Education of Respondents**

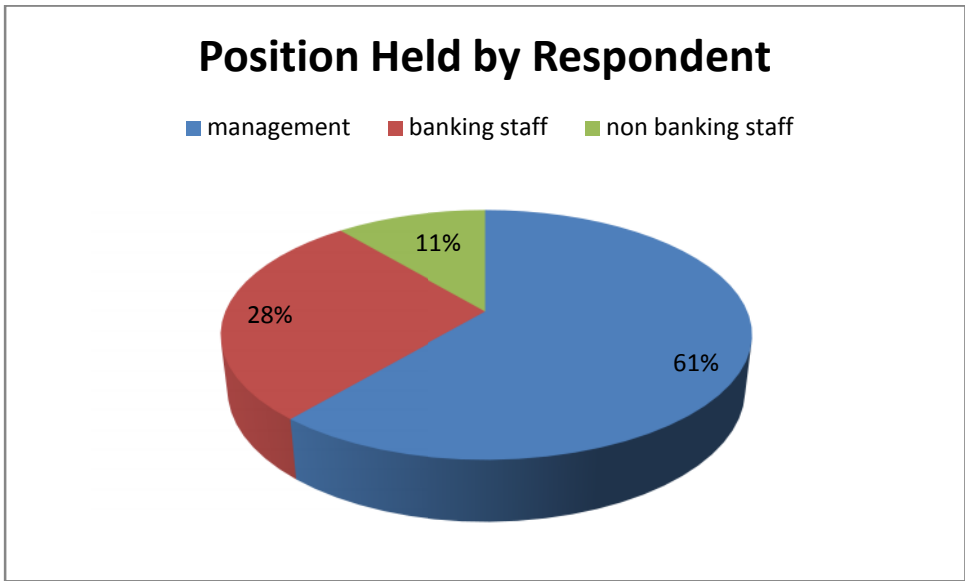


Source: Researcher’s field survey, May 2013

**Figure 4.2.3 Level of Education of Respondents**

Figure 4.2.4 shows an inquiry made into the level of education of respondents. The results from the inquiry shows that 25% of the respondents are ‘O’ Level certificate holders with 22% and 20% of the respondents being DBS certificate holders and degree holders respectively. 14% of the rest of the respondents are HND certificate holders. The remaining respondents representing 11% and 8% hold Postgraduate and ‘A’ Level certificates respectively.

**Figure 4.2.4 Position Held by Respondents**

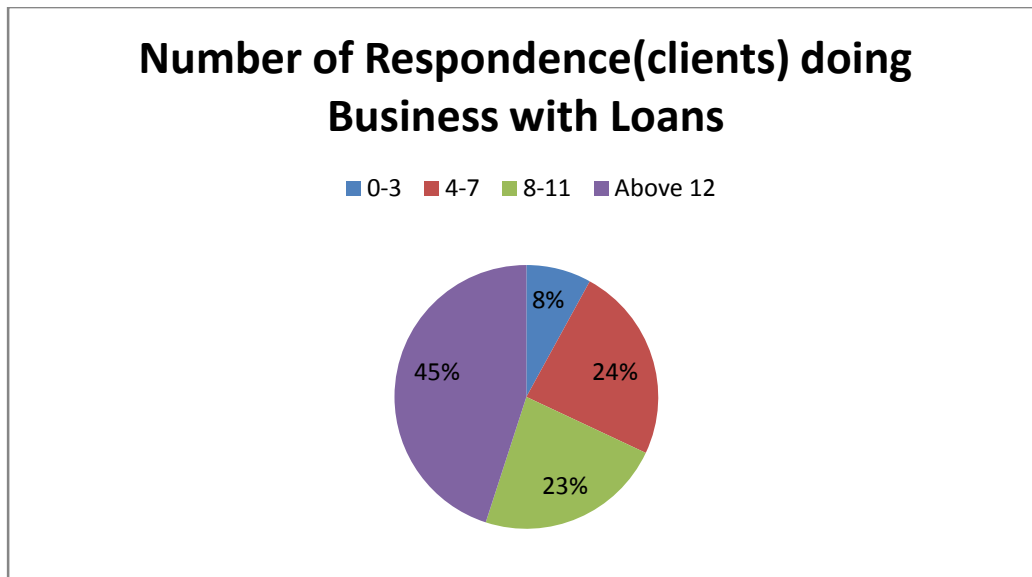


Source: Researcher’s field survey, May 2013

**Figure 4.2.5 Position Held by Respondents**

Figure 4.2.5 shows that more than half of the respondents representing 61% are management members’ whiles 28% are part of the banking staff. 11% of the respondents are with the non banking staff.

**Figure 4.2.6 Respondents who use their Loans for Businesses**

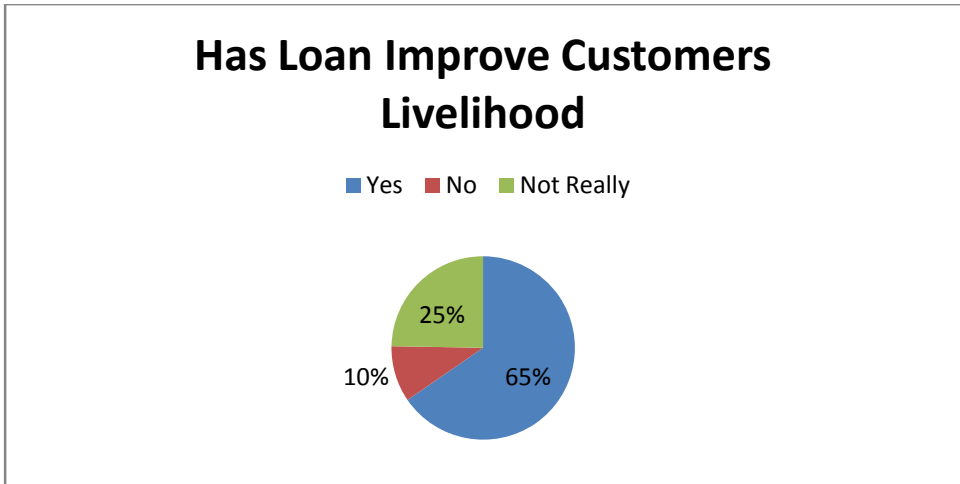


Source: Researcher's field survey, May 2013

**Figure 4.2.6 Respondents who use their Loans for Businesses**

The inferences made from figure 4.2.6 shows that more of the respondents answered that the customers who take loans use the loans to improve their businesses and this represent 45% of the respondents. The results further show that between 8 – 11 representing 23% customers who take loans also use their loans to improve their businesses whiles between 4 -7 customers representing 24% also use the for the purpose with which they went for it. On the contrary few customers who take loans do not use the loans to improve their businesses and this is represented by 8% which goes to people between 0 -3.

**Figure 4.2.7 How has Loans improved the Livelihood of Customers**

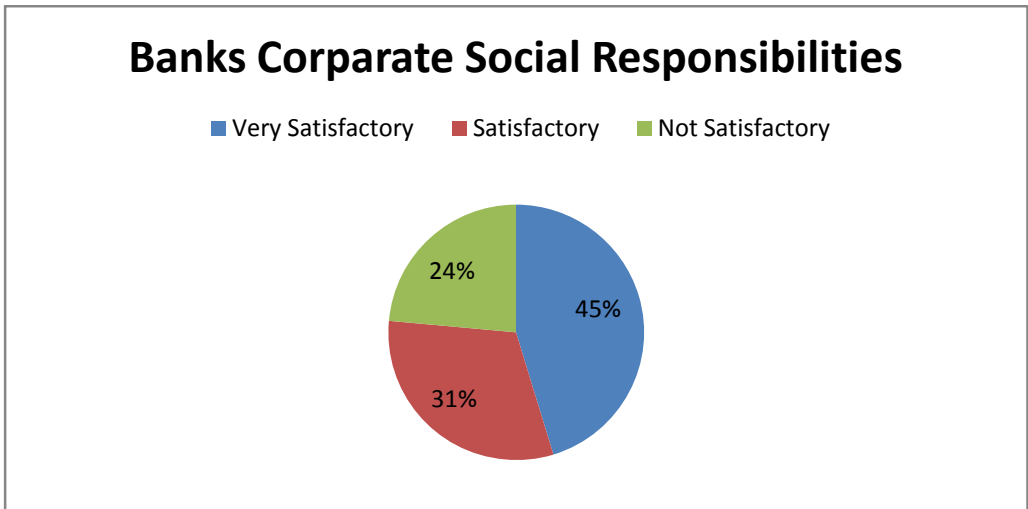


Source: Researcher’s field survey, May 2013

**Figure 4.2.7 How has Loans improved the Livelihood of Customers**

It can be deduced from figure 4.2.7 that the loan given to the customers by the bank has really improved their standard of living and this is represented by 65% of the respondents. 25% and 10% of the respondents were not all that satisfied with the standard of living of the people who come loans from the bank and they answered No and Not Really. This further show that the bank can do much more to help their customers.

**Figure 4.2.8 Level of Banks Corporate Responsibility**

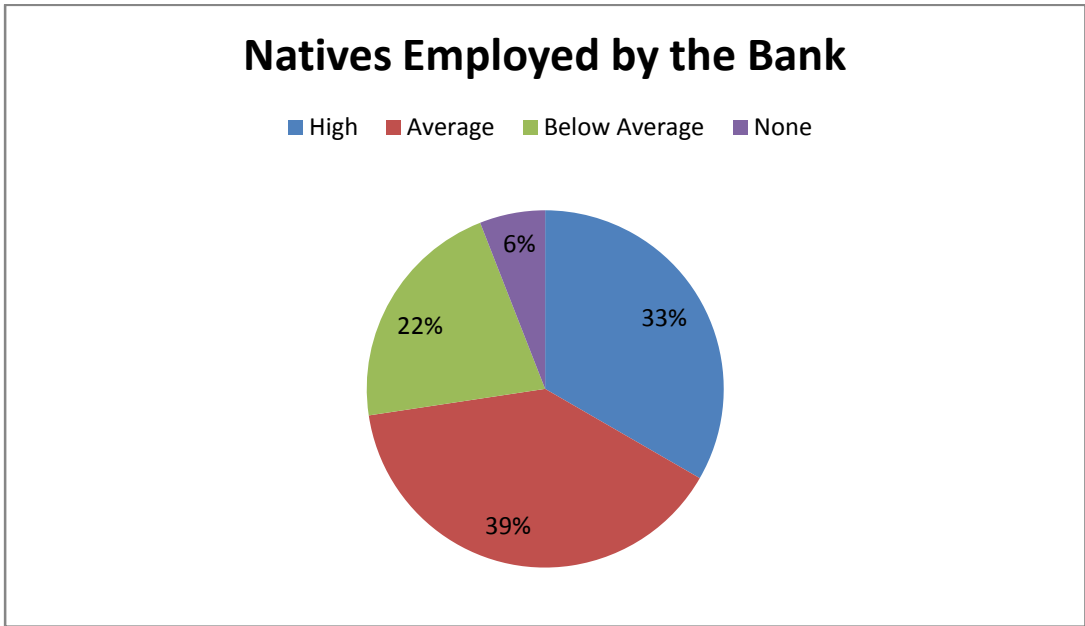


Source: Researcher’s field survey, May 2013

**Figure 4.2.8 Level of Banks Corporate Responsibility**

Inferences drawn from figure 4.2.8 shows that 45% of the respondent are very satisfied with the bank’s level of corporate social responsibility whiles 31% say they are satisfactorily satisfied with the bank’s level of corporate social responsibility. On the flip side 24% are not satisfied and therefore implies that the bank needs to work more to increase its corporate social responsibility.

**Figure 4.2.9 Natives Employed by the Bank**



Source: Researcher’s field survey, May 2013

**Figure 4.2.9 Natives Employed by the Bank**

The result from figure 4.2.9 infers that there is a high possibility of natives been employed by the bank to work in its numerous branches and this is represented by 33% and 39% from the results. On the contrary, 22% are skeptical about the possibilities of the bank employing the natives from the rural areas whiles the remaining 6% say the bank does not employ natives to work with them.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 SUMMARY OF FINDINGS**

The results from the research on number of year's customers have worked with bank shows that most of the customers have worked with the bank for quite a long time. The results also shows that more than half of the customers apply for loans from the bank for and the loan they get have had a positive impact on their lives since most of them use the loans to enhance their businesses. The customers also see the interest rate the bank charge on their loans as average as compared to that of other banks. In all the comparisons done on the banks interest rates, the customers are very much satisfied with the kind of development that the bank is engaging in the community.

On the side of the management and staff, the results show that most of the customers have saved with the bank for several years. Results gotten from the management and staff also show that the loans that the customers took have really impacted positively on the lives of those who took the loan. The results also show that the bank has done very well in terms of its corporate social responsibility to the rural community that they operate in. The results of the data provided by the management and staff also show that the bank is highly willing to employ the natives from the rural community in which they operate provided they meet the academic qualification.



## **5.2 CONCLUSIONS**

From the above findings, it can be concluded that the rural banks used as case studies are all playing the part in ensuring that the community in which they operate develops to the satisfaction of the natives in the community. It was also deduced that from the company's target with respect to their corporate social responsibility, they are doing their very best.

## **5.3 RECOMMENDATIONS**

Based on the findings of the research, the following suggestions or recommendations are made:

- (1) Government should help in creating a natural database on citizens or inhabitants.
- (2) Additional credit unions should be set up in the localities.
- (3) There should be more co-operations between the financial institutions and the people in the rural community in which they operate.
- (4) In addition, The Prime Rate charged by the central bank should be minimized to allow the other financial institutions to also reduce their interest rates.
- (5) Natives in the rural community should be educated on how to establish, manage, sustain and expand their businesses.

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**APPENDIX I**  
**CHRISTIAN SERVICE UNIVERSITY COLLEGE, KUMASI**  
**DEPARTMENT OF BANKING AND FINANCE**  
**QUESTIONNAIRE FOR CUSTOMERS**

**A STUDY ON THE IMPACT OF RURAL BANKS IN RURAL DEVELOPMENT**

Dear Sir / Madam, We are a group of students from Christian Service University College (CSUC), Kumasi conducting a research work on the impact of rural banks in rural development. Please kindly help us in this survey processes by filling the questionnaire given below. Please kindly ticks where appropriate, thank you so much for your cooperation.

(1)Gender: M (        )                      F (        )

(2)Age:     21 – 30   (    ) 31 – 40 (    ) 41 – 50   (    ) 50 – above (    )

(3) Level of Education: Illiterate ( ) Basic ( ) Secondary ( ) Tertiary ( )

(4) Marital status: Single ( ) Married ( ) Divorced ( ) widow/er ( )

(5) Occupation:

(6) Are you a client of Juaben Rural Bank?

(7)How long have you been dealing with the bank?

(8)Have you ever applied for credit from the bank?

Yes ( ) No ( )

(9)What are some of the conditions for credit application?

(10)What can you say about their rate of interest charged on loans?

(11)What did you use the loan for?

(12)Are you saying that the credit given you have improved your business or livelihood in anyway? Please explain.

(13)Are you aware of any native of the community who has been employed by the bank?  
Please state number if any.

(14)Are you aware of any developmental project undertaken by the bank? Please state.

(15)What are some of the problems the community is facing with the banks operation?

**CHRISTIAN SERVICE UNIVERSITY COLLEGE, KUMASI**

**DEPARTMENT OF BANKING AND FINANCE**

**QUESTIONNAIRE FOR CUSTOMERS**

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(2)Age:     21 – 30 (    ) 31 – 40 (    ) 41 – 50 (    ) 50 – above (    )

(3) Level of Education: Illiterate ( ) Basic ( ) Secondary ( ) Tertiary ( )

(4) Marital status: Single ( ) Married ( ) Divorced ( ) widow/er ( )

(5) Occupation:

(6) Are you a client of Kumawuman Rural bank?

(7)How long have you been dealing with the bank?

(8)Have you ever applied for credit from the bank?

Yes( ) No( )

(9)What are some of the conditions for credit application?

(10)What can you say about their rate of interest charged on loans?

(11)What did you use the loan for?

(12)Are you saying that the credit given you have improved your business or livelihood in anyway? Please explain.

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(14)Are you aware of any developmental project undertaken by the bank? Please state.

(15)What are some of the problems the community is facing with the banks operation?

## APPENDIX II

### CHRISTIAN SERVICE UNIVERSITY COLLEGE, KUMASI

#### DEPARTMENT OF BANKING AND FINANCE

#### QUESTIONNAIRE FOR THE MANAGEMENT AND STAFF OF JUABEN RURAL BANK.

##### A STUDY ON THE IMPACT OF RURAL BANKS IN RURAL DEVELOPMENT

Dear Sir / Madam, We are a group of students from Christian Service University College (CSUC), Kumasi conducting a research work on the impact of rural banks in rural development. Please the following questions are aimed at collecting information that will help the researcher assess the impact of Juaben Rural Bank to the development of the area. This is purely for academic work. All information provided by the respondents will be treated confidentially.

Tick as appropriate:

(1) Sex: Female ( ) Male ( )

(2) Age: .....

(3) Marital status: Single ( ) Married ( ) Divorced ( ) Widow/er ( )

5. Level of Education: Illiterate ( ) Basic ( ) Secondary ( ) Tertiary ( )

6. Position

7. How long have you been working with the bank?

8. What services do you offer?

9. What type of credit do you offer to your clients?

(10)What is the rate of interest charged on these loans?

(11)Have you received any complaints from your clients regarding your rate of interest?

Yes ( ) No ( )

(12)If yes what was their complaint and how have you addressed that?

(13)How many of your clients are actually doing business with the credit given them?

(14)Do you believe the loans given to your clients have improved their businesses and livelihood in anyway? Yes ( ) No ( )

(15)If Yes, please explain

why.....

(16)If No, please explain why.....

(17) Do you have any corporate social responsibility towards the community in which you operate?

Yes ( ) No ( )

(18) How far have you honored this responsibility? Please list the project undertaking in the community, and the years respectively.

(19) Apart from contributing to employment in the community through credit provision to clients to set up their own business, is it the policy of the bank to employ natives from the community?

Yes ( ) No ( )

(20) If yes, how many have you employed so far?

(21) If No, why?

(22) What are some of the challenges you are facing with the community?

(23) How are you addressing these problems?

**CHRISTIAN SERVICE UNIVERSITY COLLEGE, KUMASI**

**DEPARTMENT OF BANKING AND FINANCE**

**QUESTIONNAIRE FOR THE MANAGEMENT AND STAFF OF KUMAWUMAN  
RURAL BANK.**

**A STUDY ON THE IMPACT OF RURAL BANKS IN RURAL DEVELOPMENT**

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(2) Age: .....

(3) Marital status: Single ( ) Married ( ) Divorced ( ) Widow/er ( )

5. Level of Education: Illiterate ( ) Basic ( ) Secondary ( ) Tertiary ( )

6. Position

7. How long have you been working with the bank?

8. What services do you offer?

9. What type of credit do you offer to your clients?

(10)What is the rate of interest charged on these loans?

(11)Have you received any complaints from your clients regarding your rate of interest?

Yes ( ) No ( )

(12)If yes what was their complaint and how have you addressed that?

(13)How many of your clients are actually doing baseness with the credit given them?

(14)Do you believe the loans given to your clients have improved their businesses and livelihood in anyway? Yes ( ) No ( )

(15)If Yes, please explain

why.....



(16) If No, please explain why.....

(17) Do you have any corporate social responsibility towards the community in which you operate?

Yes ( ) No ( )

(18) How far have you honored this responsibility? Please list the project undertaking in the community, and the years respectively.

(19) Apart from contributing to employment in the community through credit provision to clients to set up their own business, is it the policy of the bank to employ natives from the community?

Yes ( ) No ( )

(20) If yes, how many have you employed so far?

(21) If No, why?

(22) What are some of the challenges you are facing with the community?

(23) How are you addressing these problems?