

LOAN ADMINISTRATION AND DEFAULT IN RURAL BANKS
(A CASE STUDY OF ATWIMA KWANWOMA RURAL BANK)

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A DISSERTATION SUBMITTED TO THE CHRISTIAN SERVICE
UNIVERSITY COLLEGE IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE AWARD OF A BACHELOR OF ARTS
DEGREE IN BUSINESS STUDIES
(BANKING AND FINANCE OPTION)

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DECLARATION

We have read the university regulation relating to plagiarism and clarify that this report is 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.

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ABSTRACT

The roles played by rural and community banks in Ghana cannot be overemphasized. The objective is to investigate loan administration and default in rural banks using Atwima Kwanwoma rural bank as a case study. Loan default is the failure of an applicant to fulfil his/her obligation with respect to repayment of outstanding loan. Loan default lowest the financial capacity of the agency to fulfil its promise to other applicants.

The study employed structured questionnaire containing eighteen questions were administered to twenty management and staff of the bank and another questionnaire containing thirteen questions were administered to seventy-eight customers of the bank. Purposive and sampling was used to select some respondents. The stratified random sampling technique and face-to-face interview methods of data collection were also used.

The study showed that there are certain conditions that customers need to satisfy before they are granted loan, such as having an impressive account with the bank, collateral security or having high turnover. But it was revealed that beside all these conditions customers still default in their loan repayment because of high interest, misapplication of loan, and multiple loan contraction. It was also revealed that customers do not access loans because of credit limit, lack of collateral security, and the fear of being imprisoned for unforeseen reasons they are not able to settle the loan at the due date.

The research recommends that credit officers from the bank should visit credit customers on regular basis to know the state of their business. It also recommends that the bank should make their terms of loan repayment flexible by granting defaulters some grace period and also they should make the interest rate clear to customers.

DEDICATION

We dedicate this work, first and foremost, to the most high God who granted us abundant grace and wisdom in carrying out this work and secondly to our families for all their support in our education. We hope we have made you proud beyond measure.

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We are first and foremost grateful to the Almighty God who gave us the strength and wisdom to conduct this study. Our profound gratitude also goes to Miss Abigail Asamoah, our supervisor, who spared some of her precious time both day and night to guide and supervise us during the conduct of this study.

We are particularly thankful to management and staff of Atwima Kwanwoma rural bank for their immense support and interest and allowing us to use the bank as a case study in conducting of this research.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

In most developing countries like Ghana, rural communities are faced with poverty, low savings, inadequate credit facilities, transfer disorders and other financial services which ensure economic growth and stability. Due to these, the people are affected with poor health, low income, high unemployment and social neglect. This has affected the development of rural communities.

The establishment of rural banks is in answer to a long search for a suitable institution arrangement for providing credit facilities to the rural dwellers. The rural banking concept is a hybrid between commercial and development banking and has been set up as a unit bank so that they would be required to mobilize savings and lend to the people in the areas they are located.

In order to ensure that the rural banks serve the interest of the local people, the ownership, management, control and the general operations of the bank are vested in the hands of the people in that area. Subject to the supervisory machinery of the Bank of Ghana, the management of the rural banks is left in the hands of the Board of Directors who are chosen by the shareholders in general meeting. The corporate powers of rural banks are thus vested in the shareholders and the Board of Directors (ARB Apex Bank).

Rural banks perform functions such as the acceptance of deposits and lending to their clients like the commercial banks do. Their main function is to mobilize savings in the rural areas

and lending to borrowers in these areas to enable them finance agriculture, small and medium scale industries in order to raise their standard of living. Rural Banks help channel surplus funds from rural savers to rural borrowers who put the money to work. In return for their funds, lenders receive the principal in addition to percentage of interest added to the principal. Access to these facilities (loans) is seen as a way of cushioning and providing opportunities to clients. Some years ago the rural banks were thought to be the best instruments to channel financial resources to the rural areas but for what- reasons they are moving their offices to the urban areas.

Loan default is a crucial aspect of the financial activities of any bank; it creates a certain level of cost for the institution. This sometimes leads to the collapse of the banks because the banks are not able to recover their capital given as forms of loan to keep them in business. This research therefore tries to analyze and assess the loan administration and default in rural banks.

1.2 STATEMENT OF THE PROBLEM

Rural banks as financial institutions play a very important role in the economic and social development of the lives of the people in the communities in which they operate. However, it has been a common practice in many organizations to reveal misappropriation and embezzlement of funds. It has also come to light that most rural banks have folded up due to inability of the banks to retrieve loans granted to their customers (Annual report, Association of rural banks: 1992).

The banks which are not able to retrieve the loans granted to their customers are left with small capital. They are forced to cut down the staff strength and other operations which lead to reduction of profits of the bank and eventual wind up.

This therefore motivated the researchers to investigate into the loan administration and default in rural banks with particular emphasis on Atwima Kwanwoma Rural Bank.

1.3 OBJECTIVES OF THE STUDY

The general objective of the study was to find out loan administration and default in rural banks with particular emphasis on Atwima Kwanwoma Rural Bank Ltd. The specific objectives were:

1. To find out the conditions for accessing loans at the Atwima Kwanwoma Rural Bank Limited
2. To find out the factors constraining Customers from accessing loans at the bank.
3. To find out the reasons for loan default.
4. Recommendation so as the banks can prevent loan default.

1.4 RESEARCH QUESTIONS

The analysis of the purpose of the study indicated that the following research questions were appropriate to form the basis of the study.

1. What are the conditions for accessing loans at the bank?
2. What are the factors constraining customers from accessing loans at the bank?
3. Why customers default payment of loans?
4. What the bank can do to prevent loan default?

1.5 SIGNIFICANCE OF THE STUDY

The research would be of significant benefits to stakeholders of rural banking systems especially stakeholders of Atwima Kwanwoma Rural bank Ltd. The research would help to identify the causes of loan default in the rural banks. It will also help the bank to gain more customers and make more profit if the procedures for giving out loans are adhered to. This study will help management to put a good mechanism in place to check those lapses in giving out and retrieving of loans and also assist both management and customers in understanding the new measures put in place.

Finally, the study will be of assistance to other researchers who will be interested to research on this topic.

1.6 SCOPE OF THE STUDY

The study is limited to loan administration and default in rural banks. The study will further be limited to the Atwima Kwanwoma rural bank limited in the Atwima Kwanwoma district of Kumasi. Also the study will be limited to the credit staff and management of Atwima Kwanwoma and their credit clients. Financial constraints and time constraints made the study to be limited Atwima Kwanwoma rural bank ltd.

1.7 LIMITAITON OF THE STUDY

Due to time constraint and high cost of the study, the researcher was not able to administer questionnaire to many, conduct interview with many, and delve as deep as expected into existing literature on the subject.

Again, the scope of the study was based on staffs and employees of Atwima Kwanwoma Rural Bank Ltd and the results could not be applied to other banks or organizations.

1.8 ORGANIZATION OF THE STUDY

The study was systematically structured into five chapters. Chapter one gives the introduction comprising the background of the study, statement of the problem, the purpose of the study, the research question, significance of the study, timescale and the organization of the study.

Chapter two deals with the literature review. It is the collection of other views, research reports and statement of other authors related to the study.

Chapter three deals with the method and strategies used to gather the information for the study. It describes the research design, population and sample, research instruments, data analysis and data collection procedures.

Chapter four relates to the results of the findings while the summary, conclusion and recommendations of the study are captured in chapter five.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews literature relevant to the study. The section seeks to find out what others have written about the subject matter: loan administration and default in rural banks. The review has been grouped under the following headings:

- The concept of rural banking in Ghana
- Objectives of rural banking
- The concept of loan Administration
- The concept of loan default
- Conditions for assessing loans
- Factors constraining customers from benefiting from loans

2.2 THE CONCEPT OF RURAL BANKING IN GHANA

Before the late 1970s, rural dwellers in Ghana had almost no access to institutional credit for farm and nonfarm activities, and in many communities, secure, safe convenient savings and payment facilities hardly existed. In response to this situation, the government of Ghana took several measures to increase access to credit in rural areas, including facilitating the establishment of rural and community banks (RCBs).

The first rural bank was established in Ghana in 1976 to provide banking services to the rural population, providing credit to small-scale farmers and businesses and supporting development projects with the first being in Agona Nyakrom in the central region.

According to J.B Clottey (2005), the rural banks undertake a mix of commercial and micro financing activities structured to satisfy the needs of the communities they serve. Rural Banks are essentially owned by their depositors. They follow the concentration of economic activity and they thrive on their intimate knowledge and relation centered on communities they serve. They are in the position to practice effective know your customer principles and prudent lending. The rural banks are called upon to facilitate the purchases of cocoa and coffee in current system. They have extended the reach of financial intermediation to many people in the various communities. They play a major role in inculcating banking habits, encouraging saving, access to credit, establishing saving creditor-borrower relationship among the wider population. The fact remains however, that rural banks are small scale enterprises and they do confront some of the problems that usually face such enterprises in doing business. Over 60% of Ghanaian population lives in the rural areas. Similarly, over 60% of the poor are rural dwellers. It is therefore fundamental that any programme targeted at reducing poverty in Ghana improves the rural economy.

Asiedu-Mante (2004) addresses this issue and supported by a major proposal to transform Ghana payment system by integrating the rural banks and savings and loans institutions effectively into national payments system. A significant part of Ghanaian population (rural dwellers in particular) finds the banking in predominately cash-based payments which involves high transaction costs. The high cash-based nature of the economy does not result in the economies of scale necessary to reduce the cost of banking. Also the high costs of banking transactions further alienate the general form of operating bank accounts.

2.3 OBJECTIVES OF RURAL BANKING

According to Asiedu-Mante (2004), the main objectives of all rural banks are to mobilize and channel funds through savings for economic development within the catchment areas. The general objectives can be summarized as follows;

2.3.1 To cultivate banking habits

The growth in rural bank has made possible for rural financial intermediation a possibility. The rural banks are now within the reach of people in various rural communities such as Atwima Kwanwoma Rural area in Ashanti. Rural banks have played a major role in inculcating banking habits in the rural folks. Also, patronage in rural banking has gone up because the rural folks have realized that credits are given only to those customers of the banks who are credit worthy and sometimes who have collateral security. Abdul-Kader (2006), urges banks to educate customers on savings habit since an increase in deposit will bring about increase in investment.

2.3.2 Funds Mobilization

The rural banks expansion in mobilization of funds is important and in the right direction. Banking institutions have urged to inculcate the saving habits into the minds of Ghanaians in order to mobilize more savings and deposits at all times. With this, much idle money in the system will be recycled for the benefit of the productive sector.

For example, Atwima Kwanwoma Rural Bank Ltd was able to mobilize GH¢ 36,847,165.15 at December, 2011 (29th annual general meeting at pakyi number two, 2011)

2.3.3 Assistance to Rural Development

Rural Banks contribute a lot to development projects in their catchment areas. The Atwima Kwanwoma Rural Bank was established among others to provide the needed assistance for the socio-economic development of its catchment area.

As a development oriented institution, Atwima kwanwoma rural bank has provided funding for a number of development projects. The bank focus is to assist the communities to help themselves and their environment by providing resources, sharing knowledge and building capacity. The socio-economic impact of the bank can be seen in the areas like education, health, sanitation, water supply, and electricity. The bank is promoting war against diseases, poverty and ignorance.

Since 1995, the bank has spent GH¢ 509,650.00 on development projects in their catchment area.

In support towards disease prevention, the S.D.A hospital in Dominase was adopted in the year 2000 and donated cash support towards the construction of a nurse quarters and out-patient department. The bank has also provided K.V.I.P place of convenient to communities including Dominase, Kantinkyeren, Konkori, and Konkomase near Atasomanso.

In the year 2002, the bank helped to construct two nursery schools at Atasomanso and Brofoyeduru while 805 duplet desks were distributed to 32 basic schools in 2003. They also assisted in the construction of Atwima Kwanwoma Presbyterian Senior High School with an amount of GH¢ 73,650.00 and award academic scholarships to needy but brilliants students in their catchment area.

2.3.4 Credit to Rural Public

The bulk of mobilized funds by the rural banks are granted as loans and advances to agricultural sector and rural industries. It is important to note that beneficiaries of credit facilities which rural banks granted are largely small scale borrowers in the rural areas. For example Atwima Kwanwoma Rural Bank (AKRB) has given loans to small scale farmers for purchasing farm inputs, tools, chemicals, and farm maintenance. Loans are also granted to salary workers for their personal welfare. The interest rates attached to the loans are very minimal. Customers are also given long period for repayment. In 2011 the bank loans and advances stood at GH¢ 9,204,953.98 as compared to GH¢ 7,770,381.49 of 2010.

2.3.5 Employment Generation

Agriculture and micro-enterprises contributes immensely to job creation, and are of particular interest to all Rural Bank in rural areas. Rural banks have so far engaged in extending credits and other services to many rural enterprise and hence generating employment and promoting entrepreneurship. The promotion of employment in rural areas by rural banks covers the following areas; blacksmithing, gold-smiting, watch repairing, bicycle repairing, basket weaving, barbering, palm wine tapping, cloth weaving, dyeing, food selling, carpentry, brick-laying, pot-making, leather works and drumming. Even though found in urban areas, these industries are more prominent in the rural areas. It has, therefore, been acknowledged that the rural setting is an arena of many industries, which could be developed to contribute significantly to the national economy, just as rural people are more frequently self-employed than urban people

2.3.6 Funds Transfer / Remittances

There has been a widespread of rural banks throughout the country. This has become very convenient to remit money or undertake business away from home and in all parts of the country without carrying cash along. This is done by the ARB-Apex Bank which has been established to function as a mini-central bank for Rural and community Banks (RCBs) in Ghana. The introduction of the Western Union Money Transfer in the rural banks has also helped rural folks to receive money from their relatives abroad without difficulties.

2.3.7 Other Social Responsibilities

The social responsibilities contributed to the communities by the rural banks are very great. The rural banks have helped in the provision of borehole drinking water, scholarships and bursary awards to pupils and students in school as well as donations to churches. For example, Atwima Kwanwoma Rural Bank has supported in the construction of drainage system at Old Tafo. Also, Atwima Kwanwoma Rural Bank has supported the sponsorship of Tafo watchdog committee with equipments. The bank also assisted in the Pakyi number 2 electrification project.

The bank spent GH¢ 17,500.00 for the beautification of the Ahodwo roundabout by mounting a gigantic metallic horse to beautify the roundabout.

2.4 THE CONCEPT OF LOAN ADMINISTRATION

Loan administration encompasses the activities by which a bank ensures-from origination to final payoff-proper loan documentation, accurate loan accounting systems, and disbursement and collection of principal and interest. These activities include: Documenting loans at origination, booking new and renewed loans to the bank's system of record, making principal

advances, Generating invoices, Collecting and posting loan payments, Quoting payoffs, and Releasing collateral. Although roles and responsibilities vary from one bank to the next (several activities listed above may be performed in middle or back offices, for example), all successful banks define an approach to each of these tasks.

Loan administration is a function performed within financial institutions to improve and control credit policies that leads to increased revenues and lower risk including increasing collections, reducing credit cost, extending more credit to creditworthy customers, and developing competitive credit terms. The effective management of credit risk is a critical a comprehensive approach to total risk management and is fundamental to the safety and soundness of financial institutions. Appropriate policies, procedures and systems should be implemented at each financial institution to effectively identify measures, monitor and control credit risk (Eastern Caribbean Central Bank, 2009).

The credit policy serves as a manual for banks in the day to day credit administration. The policy contains the principles and standards of the bank as differs from bank to bank. It spells out how loans are to be appraised, disbursed, monitored and recovered. Sinkey, (1992) believes that a bank must have a written loan policy. Some principles contained in the credit policy are: establishing an appropriate credit risk environment; operating under a sound credit granting process; maintaining an appropriate credit administration, measurement and monitoring process; and ensuring adequate controls over credit risk. The credit policy also serves as a tool for managing credit since it serves as a guide for credit officers. On who to formulate the credit policy of the bank, Summers and Webb (2005), argued that the board of directors has the responsibility of formulating bank loan policy and to monitor compliance. We note however that because financial institutions are monitored by external regulatory agencies, bank boards may not influence loan policy.

2.5 THE CONCEPT OF LOAN DEFAULT

Credit (or default risk) refers to the probability of borrowers not repaying their loans. Since a great percentage of bank assets are in the form of loans, credit risk is the major risk a bank faces, and the credit decision represents a critical bank function (Adams & Mehran, 2004).

Credit risk arises whenever a lender is exposed to loss from a borrower, counterparty, or an obligor who fails to honour their debt obligation as they have agreed and contracted (Colquitt, 2007). For most banks, loans are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the balance sheet.

With most rural banks cited in rural Ghana, the risks are greater and as result, most banks have neglected the rural areas (Webster and Fidler, 1996). A similar viewpoint is held by Anderson, (2001) who is of the view that, Agriculture, an intrinsically risky activity is cited as the primary activity of the great majority of rural households. The risks faced by rural residents depend on the local farming systems, climate, infrastructure and the policy and institutional settings (Anderson, 2001). Rapid changes in rules of trade, technology and climate often increase the risks that confront the rural folk. The most common forms of credit risk encountered in trading activities are issuer credit risk and counterparty credit risk which are defined as follows:

Issuer risk is the risk of default or credit deterioration of an issuer of instruments that are held as long positions in trading portfolios. While the short term horizon of trading activities often limits much of the issuer credit risk for relatively high quality and liquid instruments, other less liquid instruments such as loans, emerging-market debt, leveraged derivative transactions and below-investment-quality debt instruments, may be the source of significant issuer credit risk.

Counterparty risk is the most significant component of credit risk faced in trading activities. Settlement risk is the risk of loss due to counterparty's failure to perform on a contract or agreement during the life of a contract. For most cash instruments, the duration of this risk exposure is limited to hours or days from the time a transaction is agreed upon until settlement. It is also important to do a thorough assessment of the customer's ability to repay before the advancement of credit to each customer.

2.5.1 Causes of Loan Default

According to Amidu and Hinson, (2006), larger banks have higher credit risk and the capital structure (equity to total assets) of banks is positively related to banks' credit. According to Sinkey, (1992), the credit risk (or quality) of a bank's loan portfolio depends on two sets of factors: these are those factors that external to the bank such as macroeconomic factors, natural disasters, death etc. The others are those factors that are subject to managerial discretion.

Macroeconomic indicators such as inflation, interest rate and exchange rate, natural disasters and death can have serious consequences on the credit portfolio. An increase in inflation means that the purchasing power of customer has reduced. In another words, it means that an individual cannot buy the same quantity of a product s/he hitherto bought.

The exchange rate is another major exogenous factor that affects the credit risk management. Exchange rate risk is the effect of that, an anticipated exchange rate changes have on the value of the firm. This section will look at the effect of currency fluctuations on lenders businesses and particularly their ability to repay loans on schedule. Currency fluctuations can have both negative and positive effects on businesses in the local economy depending on how

the changes occur. Some internal or endogenous factors also affect the riskiness or quality of a bank's loan portfolio. These are improper credit appraisals, lapses in the bank's loan policy, the quality and integrity of the credit staff, willingness of management, and industry best practices among others.

Dunkman, 1996 attributes the causes of loan defaults to either failure of credit officers to judge repayment ability of the borrower correctly or a change in the condition of the industry or the economy as a whole. Credit appraisal is the process by which the lender assesses the credit worthiness of the borrower. It revolves around character, collateral capability and capacity. It takes into account various factors like income of the applicants, number of dependents, monthly expenditure, repayment capacity, employment history, number of years of service and other factors which affect credit rating of the borrower. Improper or poorly done credit appraisals can create big problems when it comes to loan repayment.

2.5.2 Loan/Credit Management

The goal of credit management is to optimize the company's sale and profits by keeping both credit risk and payment delinquencies within acceptable limits. Sound credit management involves finding the right balance in the risk/reward relationship between sales and bad-debt losses. There are a number of ways to manage credit risk. The most common include; Accepting risk, controlling risk, Avoiding risk and Transferring risk (Dennis, 2008).

Avoiding risk can be accomplished by refusing to extend credit to high-risk accounts. However, in most companies this is not a viable option since so many customers could be classified as high risk that refusing to sell to them would reduce sales to unacceptable levels.

Controlling risk involves developing a comprehensive plan to reduce credit risk in the company's accounts base, then implementing that plan, and monitoring the credit department's effort to carry out the plan.

Accepting risk involves a decision to do business with customers identified as high risk. These tend to be companies trying to gain market share, companies with high profit margins, companies with excess inventory, and companies with adequate reserves for the bad debt losses that are almost certain to accompany this policy.

2.5.3 Types of Loans

Banks in Ghana lend to salaried customers, pre-financing of contracts, exports and import finance, guarantee, mortgage facilities, agricultural credit, small and Medium enterprises loan, microfinance loans. Many researches have confirmed this for example, Kaufman, (1993) is of the view that banks can be evaluated on their credit delivery which forms the core of banking operations. Akakpo, (1994) maintains that, banks profitability depends so much on lending that their performances and success depends on how effectively they manage their lending activities. Conversely, the view of Agyeman, (1987), is divided on the issue. While recognizing the importance of bank lending, he is also of the view that it has caused polarization of the rich from the poor and concentration of economic activities in the urban areas causing rural urban migration. Webster and Fidler, (1996) hold the view that, banks in making loans tend to favour large well established firms (mostly in the urban areas) as against small and newly established ones in the rural areas because large firms offer greater financial security.

2.5.4 Types of Loan in Rural Banks

The credit products offered by rural banks include micro-finance loans, personal loans, salary loans, Susu loans, and overdraft facilities. Rural bank loans are used for agriculture, cottage industries, and trading.

2.5.5 The Credit Granting Process

The credit process begins with the submission of an application letter by the borrower to the bank. In the application letter, the amount applied for both in words and figure, the purpose for which the loan will be used for and the duration of payment must be stated. An application form is filled and signed by the applicant. In processing the application, the credit officer has to assess the exact nature of an obligation, sources of funds for repayment, financial statements, and a forecasted cash flow covering the duration of the loan. When it is a salaried loan, banks ensure that the debt service coverage ratio or gearing ratio does not exceed 45%. According to Sinkey, (1992) the use of the five Cs namely Character (good citizen), Capacity (cash flow), capital (Wealth), Collateral (security) and Conditions (economic, especially downside vulnerability) in the administration of credit. The process or act of quantifying these Cs so that meaningful and consistent decisions can be made regarding a borrowers' credit worthiness is termed credit analysis. From the credit analysis it will be clear if the credit can be advanced. Other lending guides are: CCCPARTS (Character, Capital, Capability, Purpose, Amount, Repayment, Terms and Security), PARSER (Person, Amount, Repayment, Security, Expediency, Remuneration and CAMPARI which is Character, Ability, Margin, Purpose, Amount, Repayment and Insurance (Journal of Chartered Institute of Bankers).

2.5.6 Loans Repayment

When loans are granted, management has to ensure that borrowers repay their loans because it determine the ability to grant further credit, profitability and sustainability of depositors' funds. Because borrowers sometime do not repay loans as scheduled, Dunkman, (1996) believes that whereas financial statements determine ability to repay loans, willingness to repay loans can be determined by past records. On that note if, prior to making a loan, there is evidence that repayment is questionable, the processing is a non-starter. To criticize Dunkman, (1996), good past financial statements and past records are no guarantees for future repayment.

Another area where repayment should be looked at is from group lending activities. The ideal size of a group is a subject of debate. Huppi and Feder (1990), contend that, successful lending schemes work well with homogenous groups with joint liability for default. This makes individuals in the groups responsible for the default of other members and vice. If a member of the group default, members of the group are unlikely to receive further credit. This has a tendency to encourage members in these lending groups to ensure that members of the group are people they know and are confident will repay the loan. It also makes locating borrowers easier as all members of a group are not likely to vacate the residences.

Since loan non repayment is likely, several studies have come out with pre-lending measures. Holden, (1987), identified the following: to ensure that the borrower has the legal right to borrow, ability to judge the character and credit worthiness of the borrower, and finally to ascertain whether or not an amount approved is adequate for the given purpose. With profit maximization and or risk minimization on their minds, lending banks need to balance

between profitability on one side and liquidity and solvency on the other side. (Agyeman, 1987) and (McNaughton, 1992).

2.6 CONDITION FOR ACCESSING LOAN

In this environment, small businesses generally have been upbeat about credit conditions. In order to increase the chance of loan repayment therefore, banks require potential borrowers to fulfill some basic requirement. Ekumah et al (2010) found in their study that a potential borrower is required to have an account (saving, demand or time deposits with the bank for at least six month. The application for credit is first examined by the project manager and then passed on through the process for approval by the manager, the credit committee, and the board of directors depending on their respective credit approval limit.

A recent study by Monge et al (2001) explored institutional arrangement and banking practices present in Costa Rica for enforcing financial contracts. He found out that banks use the value and liquidity of the collateral presented by customer as a key criterion for granting credit. Other processes that bank use in granting credit is the previous experience with borrowers. Most small business lack detailed balance sheets and other financial information, upon which lending typically rely in making underwriting decision. In practice, many banks undergo a fairly lengthy credit review process for small business loans that involve several layers of an institutions credit department hierarchy. It also entails having credit officers extended visits to the business site.

2.7 FACTORS CONTRAINING CUSTOMERS FROM BENEFITING FROM LOANS

Early theoretical models of entrepreneurship assume directly that credit contracts for business start-ups and ongoing financing are very limited Monge et al, (2001). For example, in the model of Bernhardt et al, (2000) there are no credit possibilities at all. The operation and formation of firms have to be funded by the entrepreneurs accumulated saving and firms past profitability. In other models, the maximum credit agents can obtain to fund their productive venture is modeled as a direct function of wealth or available collateral.

Asiedu-Mante (2000) lamented on the inadequate access to funds and high cost of capital in Ghana, as a bane of the development of the private sector especially SMEs. He also said the cost of capital which is currently 20%, is still too high. A study conducted by Mensah (2004), revealed the spread between savers and borrowers. The study also disclosed that lending rate was too high to induce investment at the core of low private sector investment in Ghana. It is widely known that only a small percentage of medium scale enterprises get access to formal credit as the formal financial sector, “rarely take much interest in the informal sector and micro entrepreneurs”. In fact evidence suggest that the larger the enterprise the more likely they can obtain formal credit (Mensah, 2004).

According to Mensah (2004) banks line of credit, known as revolving credit facilities, are viable liquidity substitute only for firms that maintain high cash flow. Firms with low cash flow are less likely to obtain a line of credit, and rely more heavily on cash in their corporate liquidity management. An important channel for this correlation is the use of cash flow-based financial covenants by banks that supply credit lines. Firm must maintain high cash flow to remain compliant with covenants, and banks restrict firm access to a line of credit is a more

statistically powerful measure of financial constraints than traditional measures used in literature.

The collateralization of loan contracts is at the intersection of several fields: in financial sector development, the possession of collateral largely determines whether certain categories of economic agents obtain access to the financial market and whether financial contracts are efficiently concluded, thus with least losses. Lack of collateral is a major constraint for small- and micro-enterprises, and especially new entrants to the financial market; it is also a constraint for banks to the extent that it prevents the financing of (probably) safe small-scale investments.

2.8 FAILURE IN PAYING CREDIT FACILITIES BACK

Traditionally, however, Ghana has been cautious with lending to SMEs because of high default rates and risks associated with the sector. A dishonest and untruthful individual or business with the reputation of lack of integrity in business dealings, and sluggishness in loan repayment or meeting other financial obligation is not credit worthy (UNIDO Regional Workshop, 2004). The report further said that, capacity refers to the borrower's ability to repay the loan under consideration. Loans will be repaid only if enough money can be generated from the business to cover borrower's needs and family expenses as well as the principal and interest payment on loans.

According to FAO Corporate Document, high interest rate charged by banks is a common disincentive to borrowing in Sub-Saharan Africa. They arise for a number of reasons, which include perceived high risk of the venture being financed. This high interest rate will make customers default in payment of loan.

Clottey (2005) said in his research that there are number of reasons why customers fail to pay back credit facility. These are the growing number of lending institution, development of financial market and stock exchange and the weakness in the banking supervision roles of Central Bank.

Mensah (2004) believes that firms are ten times more likely to default on bank debt. He said that negative earnings shocks lead to “technical default” or violations of these covenants by borrowing firm. Such violations are in turn associated with restriction of bank financing, and in particular with restriction on the unused of the line of credit.

Lenders and creditors generally renegotiate these when their employees have determined that there is a good reason for the borrowers’ failure to make timely payment. The lower the standard form interest rate and the longer the standard form repayment period, the greater the number of good, honest borrows who will repay the credit on time Monge et al, (2005).

According to Abdul-Kader (2006) customers who are genuinely unable to repay facilities fall into four categories: Customers’ inability to assess the external threats in operations of the customers. These have been instances where facilities have been given based on specific exchange rate. Inability of customers to manage change since the Ghanaian economic situation is sensitive to a number of factors. The third category is one that relies on one major buyer, and therefore when difficulties set in the business of the major buyer, then the ability to repay is seriously impaired. The last category is the scientists or technologically inclines customers who desire is to see to the commercialization of their research findings, ideas perceived projects or innovation with little regards for profitability, market, management.

It was further said that there exist customers and clients whose intention is to default in loan repayment. They also fall into four categories. Customers who use familiarity or socialites to

obtain facilities, rather than the norms of the very business they are engaged in. such customers go at length to research and search into social fabric how best to approach a personality in the financial institution instead of using their ability to perform. Following this category closely are those who disclose very limited information required to assess their business.

CHAPTER THREE

METHODOLOGY

3.1 INTRODUCTION

This chapter discusses how the necessary data needed for this research was gathered. The section provides information on the research methodology and techniques used to conduct the study. It defines the population from which the sample was selected and describes the sampling procedures used to select the sample size. It also discusses the research design and the method of data collection which mainly involved in-depth interview. Data organization and analysis are also included in this chapter.

The primary source make use of questionnaires, interview, and records written by people who bear witness to an event and also direct observation, participant observation and physical artifacts. The researchers used the following to collecting primary data (i.e. Personal interviews and Questionnaire).

The secondary data was mainly from already existing information and made use of publications such as books, journals, articles, the internet sources and many other already established facts.

3.2 RESEARCH DESIGN

The study adopted descriptive research which describes phenomena as they exist. Descriptive research is used to identify and obtain information on the characteristics of a particular problem or issue. Under the descriptive research, data collected is often quantitative and statistical techniques are used to summarize the information. This approach was adopted to gather the data because it helps to get opinions, attitudes and description. Also the researcher

collected data on one occasion with the same respondents rather than on the same subject at different times.

3.3 POPULATION AND SAMPLING

3.3.1 Target Population

Welman and Kruger (1999:18) contend that “a population encompasses the entire collection of cases (or units) about which we wish to make conclusions.” The above definition is supported by Huysamen (1998:2), who described a population as “the total collection of individuals who are potentially available for observation and who have the attributes common to those which the research questions refer”. The target population of this study is employees and customers of Atwima Kwanwoma rural bank. The target population for the study was seven thousand four hundred and twenty (7420) credit customers of the bank.

3.3.2 Sample Size

Saunders *et al.* (2007) indicated that the size of the sample and the way in which it is selected will definitely have implication for the confidence you can have in your data and the extent to which you can generalize. Owing to the fact that the population of Atwima Kwanwoma Rural Bank is very large, the study selected twenty (20) employees and seventy-eight (78) customers which fell with the target group. Sample size selection was based on the reliability of the response.

For the selection of the sample size, the statistical formula below was used:

$$n = N / [1 + N (e^2)]$$

Where: n = the sample size, N = the total population, e = the margin of error.

In light of this and with a confidence level of 90 per cent and a margin of error of 10 per cent, the respondents were selected out of seven thousand four hundred and twenty (7420) populations.

3.3.3 Sampling Techniques

Sekaran (2003) wrote that sampling is the process of selecting a sufficient number of elements from a population so that by studying the sample and understanding the properties or characteristics of the sample, researchers will be able to generalize the properties of the sample to the population. Convenience sampling was used to select the respondents. With this method, sample is chosen for ease or convenience rather than through random sampling. This is often used, at least, in pilot studies or short term projects where there is insufficient time to construct a probability sample. This ensured that all categories of employees and customers have the chance of being selected as respondent. It was used to ensure greater representation thus, avoiding any significant bias on the part of the researchers.

3.4 SOURCES OF DATA

The researchers collected data for the study from two main sources. These sources are primary and secondary sources of data.

The primary sources of data are those collected by the researcher through the administration of questionnaires and interviews granted. They are first-hand information collected by the researchers.

The secondary data are data collected by the researcher from magazines and other sources like quotes by researchers on this topic. They were already in existence.

3.5 DATA COLLECTION INSTRUMENTS

3.5.1 Questionnaire

In this study, questionnaires were used as the primary research instrument. The questionnaires included mostly closed- ended type of questions (pre-coded) that make it simpler for the respondents and also for easy analysis. The nature of the study was explained to respondents, and respondents' confidentiality of any information provided was also assured. Respondents were provided with detailed instructions as to how the questionnaires will be completed and returned. The rationale behind providing clear instructions and assuring confidentiality of information was based on the fact that, this significantly reduces the likelihood of obtaining biased responses (Sekaran, 2003).

The questionnaire used is in two folds. The first fold is designed for management and staff, and the second fold for customers.

The questionnaire for management was put into three sections. The first section (Section A) of the questionnaire assessed the demographic profile of the respondents. The demographic profile included items such as: gender, age, marital status, level of education, etc.

Section B examined the conditions for accessing loans. This section seeks answers to whether there are conditions for accessing loans, and if customers adhere to such conditions.

Section C assessed the condition constraining people from accessing loans. This section access the lead time for processing loans and whether borrower are able to get the amount they need or not.

The questionnaires for clients are put into two sections. The first section assesses the demographic profile of respondents, and the second section assess requirement for assessing loans.

3.5.2 Unpublished and Published Data

Secondary sources of data collection were obtained for additional information. The study relied on both unpublished and published data such as, articles from academic journals and the internet which were related to the topic. Sources of all secondary data are duly acknowledged at the reference section of the research.

3.6 DATA ANALYSIS

The data collected were grouped and presented in tabular form. The data are grouped according to characteristics of the respondents, conditions for accessing loan, factors constraining customers from accessing loan and reasons for loan default

3.7 HISTORY OF ATWIMA KWANWOMA RURAL BANK LIMITED

Atwima Kwanwoma Rural Bank (AKRB) was established on the 6th of September, 1983 as a financial institution empowered by the Bank of Ghana to provide financial service and intermediation within a defined operation area of 32km radius from the office of Pakyi number two. As the 68th to be established in the country and the 13th in the Ashanti region, the bank has gone through a lot of changes. The bank started with initial ordinary share capital of ₵1.0 million (GH₵100.00) and ₵125,000 (GH₵12.5) preference share capital contributed by the indigenous people in the locality and the bank of Ghana. Thirty years on, Atwima Kwanwoma rural bank has its own state –of-the-art Head Office complex for

administration purposes and a banking hall for operations at Pakyi No.2. Atwima Kwanwoma continues to get close to its customers through branch expansion.

3.7.1 Mission and Vision Statement of the Bank

Atwima Kwanwoma Rural Bank Limited has this mission statement, “to be the leading micro-finance banking institution in Ghana, poised to transform and improve the lives and businesses of our customers and thereby reducing poverty through motivated and competent human resources, customer-driven products, and the use of modern technology”.

“The bank’s vision is to be a leading international micro-finance banking institution”.

3.7.2 Banking Objectives

The bank’s long term objectives are as follows:

- i. To intensify deposit mobilization through a network of agencies sprung up in the Atwima Kwanwoma districts and the Kumasi Metropolis.
- ii. To ensure sustained growth in profitability and payment of reasonable returns to shareholders through capital appreciation and payment of reasonable dividends.
- iii. To institute effective training programmes to increase skills of both directors and staff.
- iv. To ensure effective service delivery to reduce customer turnaround time.
- v. To improve the quality and standard of living of the bank’s customers through the packaging of innovative products.
- vi. To be counted among the best managed rural banks and re-licensed as a community bank.

CHAPTER FOUR

INTERPRETATION, ANALYSIS AND FINDINGS OF DATA

4.1 INTRODUCTION

This chapter explains information gathered from the field through questionnaires. These are analyzed to emphasize response from respondents using various forms of graphical representations. This chapter is also divided into sub-headings to throw more light on questions asked on the field. The first part deals with employees (credit officers) of Atwima Kwanwoma Rural Bank while second part deals with the credit customers of the bank. A total of one hundred and thirty questionnaires (thirty for management and staff, and 100 for customers) of which twenty and seventy-eight representing 75.4% of the total questionnaires were received from management and staff, and credit customers respectively.

SECTION A : STAFF OF ATWIMA KWANWOMA RURAL BANK

This section deals with the analysis of all the questionnaires received from staff of Atwima Kwanwoma Rural Bank.

4.2 GENERAL DESCRIPTION OF RESPONDENTS

The general descriptions of respondents were sought. The characteristics that are looked at in this section include sex of respondents, age, employee qualification, number of years served in the bank, and position held. In general, 60% of the employees were males while the 40% were females of which 20% are below 30 years, majority of the respondents fall between the ages of 30-35 years representing 35% of the respondents sampled, 30% are between the ages of 36 – 40 and 15% were above 40 years.

From the survey, only 15% have the post graduate degree with the majority representing 85% having their first degree. The survey also revealed that the number of years employees have worked at Atwima Kwanwoma Rural Bank showed that 35% of the respondents have worked at the Bank for a period of 1 - 3 years, 15% have worked between the period of 4 – 6 years, 7 - 10 years represent 30% while 20% of the employees have worked for more than 10 years respectively. The details are presented in Table 1 below.

Table 1: Demographic Profile of Respondents

PROFILE	CATEGORY	NUMBER	PERCENTAGE (%)
Gender	Male	12	60
	Female	8	40
	Total	20	100
Age	Below 30	4	20
	30 -35	7	35
	36 - 40	6	30
	Above 40	3	15
	Total	20	100
Qualification	HND	0	0
	Degree	17	85
	Post graduate	3	15
	Total	20	100
Years Served	1 - 3	7	35
	4 - 6	3	15
	7 - 10	6	30
	Above 10	4	20
	Total	20	100
Position	Credit Officers	20	100

Source: Field Survey, May 2013

4.3 CONDITIONS FOR ACCESSING LOANS

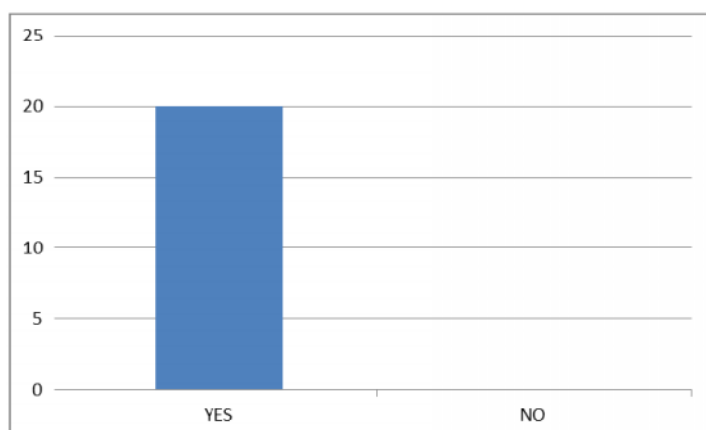
Table 2: Are there Conditions for Accessing Loans

Response	Frequency	Percentage (%)
Yes	20	100
No	0	0
Total	20	100

Source: Field Survey, May 2013.

All the twenty respondents representing 100% said there are conditions that customers have to meet when accessing loans at the bank. All the respondents said one needs to have an impressive account with the bank and must have operated this account for at least three months. The applicant must have a guarantor or a collateral security that can be used defray the debt. The customers who meet the above requirements can then have their loans processed.

Fig 1: Strict Adherence to Conditions



Source: Field Survey, May 2013

Fig. 1 indicates that all the respondents were of the view that customers adhere strictly to the conditions of accessing loans at the bank.

4.4 FACTORS CONSTRAINING CUSTOMERS FROM ACCESSING LOAN

Question	Agree	Disagree
Loan facility approval takes a longer time	0	20
Credit limit for SMEs customers can be more than 50% of their profit	6	14
Credit limit for salary workers is more than 50% of their salary	14	6

Source: Field Survey, May 2013

On factors constraining customers from accessing loan, all the respondents disagreed to the question that loan facility approval takes longer time; six respondents representing 30% agreed to the question that credit limit for SMEs customers can be more than 50% and the remaining fourteen respondent representing 70% disagreed. On the question on if credit limit for salary workers is more than 50% of their salary, 14 respondents representing 70% of the sampled agreed to question while six respondents representing 30% disagreed.

Factors that Prevent Customers from Accessing Loans

Factors	responses	percentage
Lack of collateral	15	75
Interest rate	0	0
Credit worthiness	4	20
Afraid of being arrested in case of default	1	5
Total	20	100

Source: Field Survey, May 2013

On factors preventing customers from accessing loans, fifteen respondents representing 75% attributed this to lack of collateral, four respondent representing 20% chose lack of credit worthiness, while the remaining 5% attributed this to afraid of being arrested in case of default.

4.5 CAUSES OF LOAN DEFAULT

Causes	Responses	Percentage (%)
Multiple loan contraction	13	15.7
Misapplication of loan	12	14.5
Mismanagement of business by borrowers	17	20.5
High interest rate	9	10.5
death	3	3.6
Over/under funding (Improper appraisal)	10	12.0
Diversification	14	16.9
Natural disaster	5	6.0
Total	83	100

Source: Field Survey, May 2013

From table above, 20 staff and management members were asked to list the greatest causes of loan defaults. 13 respondents representing 15.7% said that the recent high default is as a result of multiple borrowing by customers. Customers after they have borrowed from the bank are able to borrow from other institutions and this leaves borrowers with a high exposure leading to their inability to repay loans they take from the bank. Another response from the study conducted indicated that 14.5% of the respondents in this category stated that the defaults are as a result of misapplication of the loans by borrowers. While 12% believe it is as a result of improper appraisals, 10.5% cited high interest rates with 20.5% citing mismanagement of business by borrowers. Only 3 responses representing 3.6% cited death of borrowers. 14 responses representing 16.9% cited diversification of fund a one of the causes of loan default in recent times. From the view of staff and management, multiple borrowing,

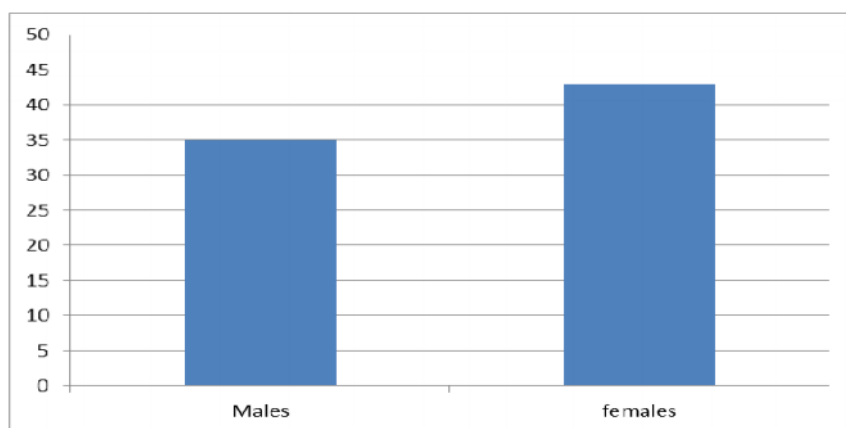
misapplication of loans, mismanaging of loans by borrowers, and diversification are the major causes of loan default faced by the bank.

SECTION B : CREDIT CUSTOMERS OF ATWIMA KWANWOMA RURAL BANK

This section deals with the analysis of all the questionnaires received from credit customers of Atwima Kwanwoma Rural Bank.

4.6 DEMOGRAPHIC PROFILE OF RESPONDENT

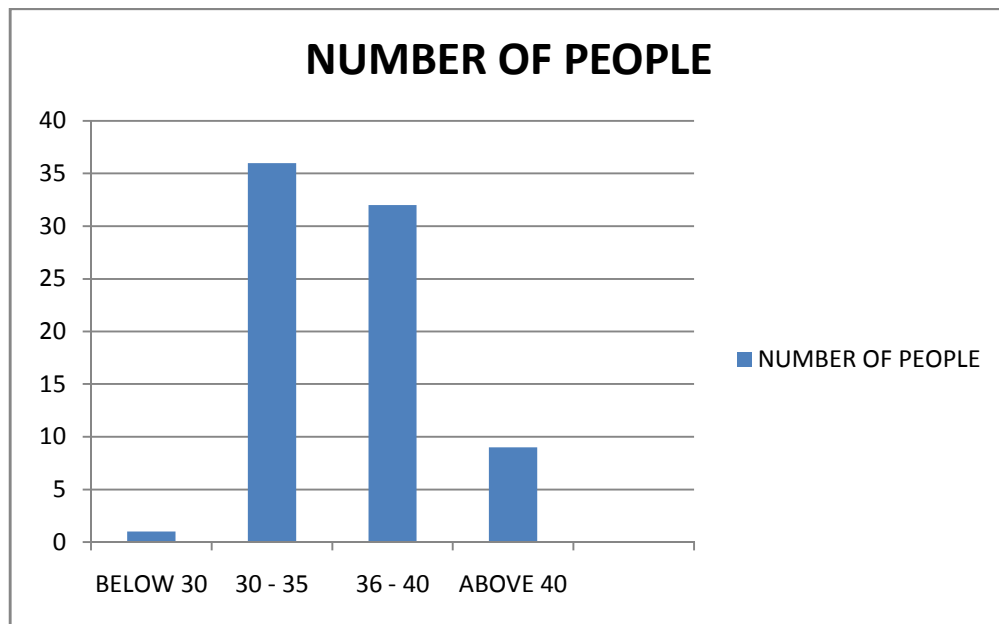
4.6.1 Gender of respondents



Source: Field Survey, May 2013

The figure above Show that thirty-five out of the seventy-eight respondents representing 44.9% was male while the remaining forty-three representing 55.1% were females. This shows that the respondents were dominated by female.

4.6.2 Age Distribution

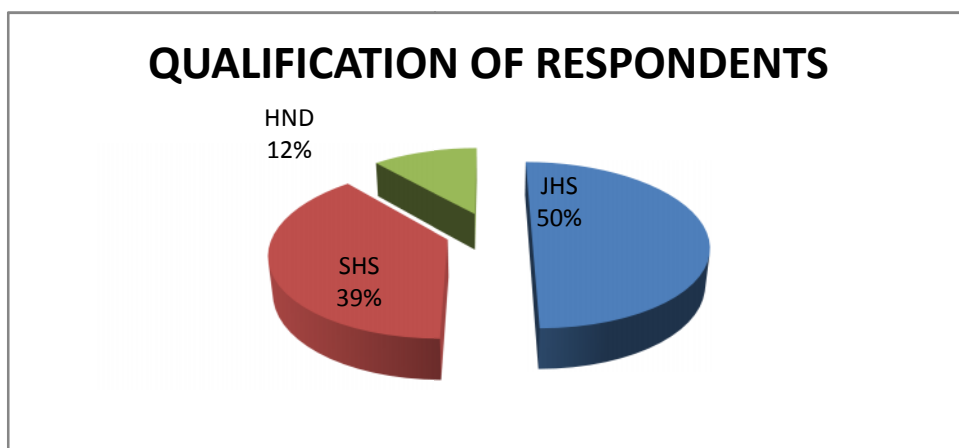


Source: Field Survey, May 2013

On the issue of age, respondents were categorized into the following age groups below 30, 30-5, 36-40, and above 40 years of age.

A respondent was below the ages of 30 years representing 1.3%, thirty-six (36) respondents were between the ages of 30-35 years representing 46.2%, thirty-two (32) respondents were between 36-40 years representing 41%, ten (10) while nine (9) of them were above forty (40) years of age representing 11.5%.

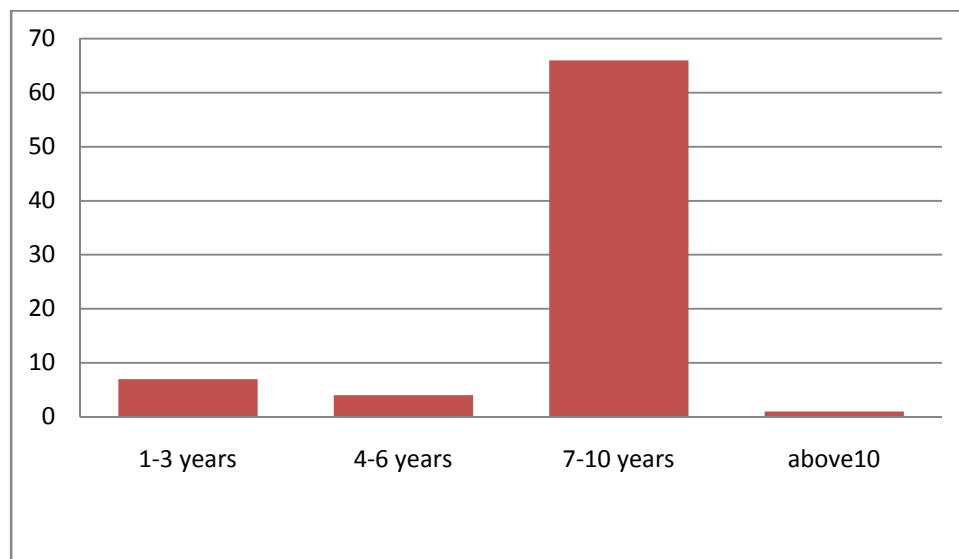
4.6.3 Education background of respondents



Source: Field Survey, May 2013

From the chart above, thirty-nine respondents representing 50% of the sampled population were junior high school (JHS) graduates, thirty respondents representing 38% were senior secondary school graduate (SHS), while nine respondent representing 12% were HND holders.

4.6.4 Number of years served as a customer



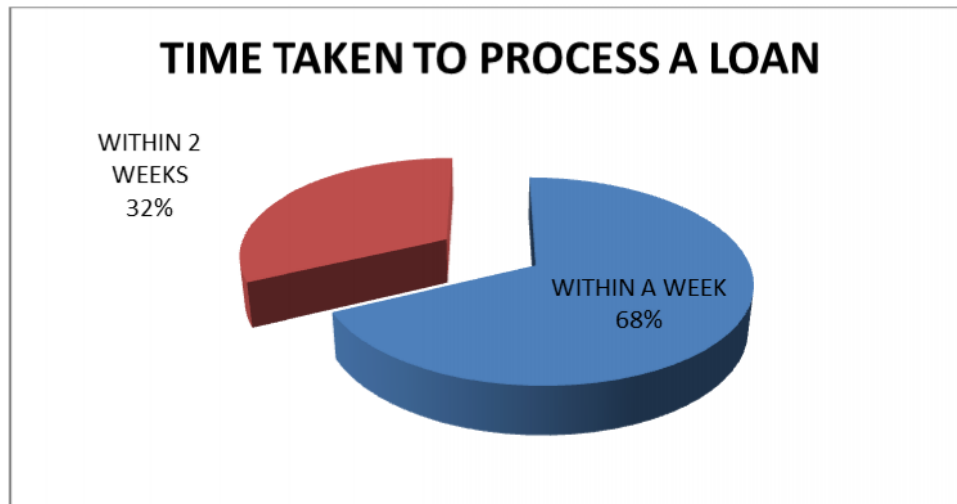
Source: Field Survey, May 2013

Fig. 5 shows the number of years the respondents have been with Atwima Kwanwoma rural bank. Seven respondents representing 9% of the sampled claimed to have been with the bank between the period of one and three years, four respondent representing 5.1% have been a customer between four to six years. Majority of the respondents claimed to have been with the bank between the period of seven and ten years while one respondent claimed to have been with the bank for more than ten years.

4.7 TIME TAKEN TO PROCESS THE LOAN FOR THE CUSTOMER

Of the seventy-eight respondents, fifty-three representing 67.9% were of the view that it took them one week to get their loan while the remaining twenty-five respondents representing 32.1% claimed it took them within two weeks to get their loan processed.

The details are presented in chat below:



Source: Field Survey, May 2013

4.8 LOAN DEFAULT

Table 3: Rate of Loan Repayment and Default

Response	Frequency	Percentage (%)
Yes	10	12.8
No	68	87.2
Total	78	100

Source: Field Survey, May 2013

Table 3 shows that out of the seventy-eight respondents, only ten respondents representing default 12.8% defaulted in their loan repayment.

4.8.1 Contributing Factors of the Loan Default

Factors	Responses	Percentage (%)
Multiple loan contraction	1	10
High interest rate	4	40
Natural disaster	1	10
Under funding	1	10
Diversification	3	30
Total		100

Source: Field Survey, May 2013

From the table above, the ten defaulters were asked what contributed to their loan default. Four respondents representing 40% of the defaulters attributed it to high interest, three respondents representing 30% attributed theirs to diversification, while the remaining three

respondents attributed theirs to multiple loan contraction, burnt of business, and underfunding respectively.

4.8.2 Recommending Atwima Kwanwoma Rural Bank (AKRB) to others

Table 4: Have you been recommending AKRB to others?

Responses	frequency	percentage (%)
YES	64	82
NO	14	18
Total	78	100

Source: Field Survey, May 2013

From table 4 above, respondent were asked if they have been recommending AKRB to other, sixty-four respondents representing 82% answered YES citing good customer relation for their reason while fourteen respondents representing 18% answered NO citing high interest as their hindrance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 INTRODUCTION

This chapter captures the main issues addressed in the study. It presents summary conclusions and recommendations which would be of interest to various stakeholders.

5.2 SUMMARY OF FINDINGS

The study was on loan administration and default in rural banks with particular emphasis on Atwima Kwanwoma Rural Bank.

The study adopted a survey in which questionnaires and interviews were used to collect the data. Twenty workers and seventy-eight customers were selected using simple random sampling procedure.

The study shows that there are certain conditions that customers need to satisfy before they are granted loans. Customers must have an account with the bank, collateral security or have a high turnover before he or she can access loan at the bank.

It was found out that the bank charges high interest rate which becomes a hindrance for the customers to apply for credit facility.

The study again revealed that the repayment period is short for customers to sell their products and able to recoup the cost incurred. It was also disclosed that the loan facility takes longer period before it is approved.

The findings showed that majority of customers one way or the other fail to pay credit facility back when it is due.

The findings again showed that high interest rate of the bank, improper financial management on the part of the customer and multiple loan contractions are the major reasons why customers default in payment of credit facility.

5.3 CONCLUSION

Atwima Kwanwoma Rural Bank Ltd, has a large extend, been contributing to the economic development of the district and the nation as a whole. The bank has been helping the people in the catchment areas by providing many services for them.

The bank has being providing many services in the areas they operate. Prominent among these services includes savings and current accounts, loans administration, security for properties and offering of financial consultation to the rural folks.

From the findings it can be concluded that customers have to satisfy certain condition before they are granted loans. This includes provision of collateral, account with the bank and volume of sales of the customers.

From the findings it could be said that the interest rate at the bank is too high for the customers, which makes loan facility unattractive to customers.

5.4 RECOMMENDATION

On the basis of the findings and conclusion drawn on the study, the following recommendations are made to improve access to credit at Atwima Kwanwoma Rural Bank Ltd.

There is the need for the bank to educate their customers and people in the communities they operate on the processes involved in accessing credit facilities at the bank. This can take the

form of dramas and adverts in the radio station in the communities in which they operate. Sales consultants can also be engaged to go round to advertise the products or loan facilities of the bank to people in their catchment areas.

Small and Medium scale enterprises need to be properly organized to make them able to access loans from the bank. Most SMEs have not been able to access loans because over the year they have not been able to prepare their accounts properly.

Complex requirement such as four guarantors who have an account with the bank with certain balance which have to be provided by the customers should be minimized so that access to credit facilities from the bank can be easily accessed. The bank should grant credit facilities on time so that customers will be able to make profit activities and also meet their obligation to the bank. The customers must also apply for the loan on time.

The officials of the bank must visit the customers on regular basis to know the state of their business. The bank should also negotiate their interest rate with customers to suit the commercial going rate.

In addition stated capital of the bank should be increased tremendously as to cover the numerous applicants to benefits from the bank's assistance to prove in cost living in the economy.

Again the government should grant some tax exemption to rural bank. When the banks are given this tax exemption, they would be able to improve upon its allocation of funds for granting loans to its beneficiaries. This will increase the bank's lending power to the rural folks.

In order to attract more customers, the bank should make their terms of loans repayment flexible by granting defaulters some grace period. When the bank takes court action to receive the loan, it will deter more customers from approaching the bank for financial assistance.

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APPENDIX A

CHRISTIAN SERVICE UNIVERSITY COLLEGE, KUMASI

BUSINESS STUDIES DEPARTMENT

TOPIC: LOAN ADMINISTRATION AND DEFAULT IN RURAL BANKS: A CASE STUDY OF ATWIMA KWANWOMA RURAL BANK

QUESTIONNAIRE FOR MANAGEMENTS AND STAFFS

This study intends to find out loan administration and default in rural banks. This study is purely for academic purpose and the confidentiality of the information is assured.

Please tick [✓] the box or write your response to the following questions.

SECTION A: BACKGROUND INFORMATION

1. Gender: Male [] Female []
2. Age range: a. Below 30 [] b. 30-35 [] c. 36-40 [] d. Above 40 []
3. Educational Background

Never been to school	[]
HND graduate	[]
Degree	[]
Post graduate	[]
Others (SSCE, Diploma, etc.)	[]
4. What is your position in the organization?
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5. Number of years served: a. 1 – 3 [] b. 4 – 6 [] c. 7 – 10 [] d. 11 and above []

6. Are you given monthly and annual target? Yes [☐] No [☐]
7. If yes, what is your monthly loan disbursed?
- a. Below GH¢10,000.00 [☐]
- b. Between GH¢10,000.00 and GH¢15,000.00 [☐]
- c. Between GH¢15,000.00 and GH¢20,000.00 [☐]
- d. Above GH¢20,000.00 [☐]

SECTION B: CONDITIONS FOR ACCESSING LOANS

8. Are there conditions for accessing loans? Yes [☐] No [☐]
9. If yes, what are the conditions for accessing credit facility at Atwima Kwanwoma rural bank Ltd?
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10. Do customers strictly adhere to the conditions for accessing loans? Yes [☐] No [☐]
11. If No, what do you think are some of the reasons why customers do not adhere to these conditions?
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SECTION C: FACTORS CONSTRAINING CUSTOMERS FROM ACCESSING LOAN

12. Loan facility approval takes a longer time. Agree [☐] Disagree [☐]
13. Credit limit for SMES customers can be more than 50% of the company's profit
Agree [☐] Disagree [☐]
14. Credit limit for individuals (salary workers) is more than 50% of his/her salary?
Agree [☐] Disagree [☐]
15. What prevent customers from accessing loans?
- Lack of collateral [☐]
- Interest Rate [☐]

Credit Worthiness []

Specify if any other

SECTION C: FAILURE TO PAY BACK LOANS

16. Do customers default in loan repayment? Yes [] No []

17. If yes, what are the reasons given by clients for their default?

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18. How does the bank recover loan due but not paid?

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APPENDIX B

CHRISTIAN SERVICE UNIVERSITY COLLEGE, KUMASI

BUSINESS STUDIES DEPARTMENT

TOPIC: LOAN ADMINISTRATION AND DEFAULT IN RURAL BANKS: A CASE STUDY OF ATWIMA KWANWOMA RURAL BANK

QUESTIONNAIRE FOR CLIENTS

This study intends to find out loan administration and default in rural banks. This study is purely for academic purpose and the confidentiality of the information is assured.

Please tick [✓] the box or write your response to the following questions.

1. Gender: Male [] Female[]
2. Age range: **a.** Below 30 [] **b.** 30-35 [] **c.** 36-40 [] **d.** Above 40 []
3. Educational Background

Never been to school []

HND graduate []

Degree []

Post graduate []

Others (SSCE, Diploma, etc.) []
4. How long have you been a customer to Atwima Kwanwoma rural bank ltd?
a. 1 – 3 [] **b.** 4 – 6 [] **c.** 7 – 10 [] **d.** 11 and above []
5. Have you ever taken a loan from Atwima Kwanwoma rural bank ltd?

Yes [] No []

6. If Yes, how many loans have you taken?
a. 1–3 times [] **b.** 4 – 7 times [] **c.** 8 and above []
7. How long did it take for your loan to be processed?
 A. Within 1 week []
 B. Between 1 and 2 weeks []
 C. Between 2 and 3 weeks []
 D. 3 weeks and above []
8. What is the maximum loan amount you have taken?
 GH¢
9. Have you ever defaulted in your loan repayment(s)? Yes [] No []
10. If Yes, how were you treated?

11. What are the factors for your loan default?
 A.
 B.
 C.
 D.
12. Have you been recommending AKRB to other people for loans? Yes [] No []
13. What are your reason(s)?

