

**CHRISTIAN SERVICE UNIVERSITY COLLEGE,**

**DEPARTMENT OF BUSINESS STUDIES**

**THE IMPACT OF RURAL BANKS IN RURAL DEVELOPMENT IN GHANA;**

**(A CASE STUDY ON KUMAWUMAN RURAL BANK LTD)**

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We have read the university regulation relating to plagiarism and clarify 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.

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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

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## **ABSTRACT**

This research aims to look at the impact of rural banks in the development of the Ghanaian rural economy.

According to the Moshi Conference, (1969), held in Tanzania, the purpose of rural development is to achieve “A rise in the standard of living and favorable changes in the way of life of the people concerned”.

Thus, the Rural and Community Banking (RCBs) system was promoted by the Bank of Ghana some 32 years ago when it opened a dialogue with the Ministry of Finance about what was called junior league of banking institutions to serve the special needs of the rural population in Ghana and to fill the financing gap which had been created in the rural community as a result of the failure on the part of the main commercial banks to penetrate the rural economy.

At the time, the traditional licensed banking institutions were all structured, equipped and managed as city-centered institutions with their clients mostly in the export/import business and in the mining sector. It was, therefore, necessary to bring the rural population into the banking system under rules designed to suit their socio-economic circumstances and the peculiarities of their occupation in farming and craft-making.

The objective of the rural banking system was therefore to mobilize domestic savings and to help finance rural economic activities thereby promoting growth among the rural settlers. It was also intended to introduce organized banking to the doorsteps of the rural population and fill the institutional gap in the rural financial sector

But providing banking services alone does not necessarily guarantee growth, leading to the voluntarily fulfillment of other corporate and social responsibilities to the profitable but neglected rural communities

Rural banks therefore play an important role in the economic development of these rural communities in which they are situated. The provision of jobs, funding support for electrification project, provision of educational centers' ,health centers' and, other social amenities are just to mention but a few.

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## **DEDICATION**

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

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 BACKGROUND TO THE STUDY.**

Basically rural banks are established to provide banking services to rural communities in which they operate. Rural banks channel its investments mainly in the agricultural sector of the economy and in small and medium scale enterprises. It also contributes in sectors such as Currently the Ghanaian population is estimated to be 24.5 million with 49% in the rural areas and 51% in the urban centers (2010 population census according to [www.cia.gov/library/publications/the-world-factbook/geos/gh.html](http://www.cia.gov/library/publications/the-world-factbook/geos/gh.html)).The government of Ghana seeks to raise the living standards of the people in the rural areas and encourage the culture of savings and is therefore encouraging the establishment of more rural banks in the rural areas. In general terms, rural development is the actions and initiatives taken to improve the standards of living in an urban neighborhood, countryside and remote villages (source- U.S dept of agriculture). Rural development actions mostly aim at the social and economic development of these areas. Since rural development is very broad, this research will be narrowed to credit accessibility aspect and how rural banks perform in that direction.

According to the Bank of Ghana list of rural banks as at 2009, there are 135 rural banks in Ghana. These rural banks therefore operate as quasi commercial banks under the Banking Act, 738 of 2007 except that they cannot undertake foreign exchange operations and also their minimum capital requirement is significantly lower than that for commercial banks.

The importance of Rural/Community Banks as providers of financial services to ensure growth in a predominantly agro-based economy cannot therefore be over-emphasized.

“These rural banks undertake a mix micro finance and commercial banking activities structured to satisfy the need of the rural areas and according to addo, 1998, “the main objective of Rural and Community Banks are to mobilize savings and to provide credit as well as other banking facilities to the people within their operational areas especially in rural communities not served by the rural banks”.

They provide banking services by way of funds mobilization and credit to cottage industry operators, farmers, fishermen and regular salaried employees. They also grant credits to customers for the payment of school fees, acquisition/rehabilitation of houses and to meet medical expenses.

Some of the banks have subsidiary companies engaged in customer credit and other developmental activities. Rural/Community banks devote part of their profits to meet social developmental activities such as donations to support education, health, traditional administration and the needy in their respective communities. Some of the banks have specific gender programs focusing on women-in-development and credit-with-education activities for rural women.

Rural/Community banks are, therefore, the main vehicle for financial intermediation, capital formation and retention of rural dwellers in the rural areas.”

A research conducted by the central bank of Ghana on credit systems in 1970’s recommended the establishment of rural banks in rural communities. A team from Ghana was sent to Philippines to study the operations of their rural banking system since they had successfully operated such banks on a large scale.

In 1976, the first rural bank was opened at Agona Nyarkrom. Rural banks are units banks organized in rural areas which are managed and owned by the people in the community. The

Bank of Ghana plays a supervisory role and is a stakeholder according to (Act 1963) Act 183 and banking Act 339.

All rural banks in Ghana belong to an association of rural banks an umbrella organization formed in 1982. Currently ARB (Apex Bank) Bank has been certified by the Bank of Ghana as a primary dealer in Government Securities and, therefore trades in government treasury bills and bonds on behalf of rural/community banks and their customers

## **1.1 STATEMENT OF THE PROBLEM**

The idea of Rural and Community Banking (RCBs) system was promoted by the Bank of Ghana in the early 1970s to fill a financing gap which had been created in the rural community as a result of the failure on the part of the main commercial banks to penetrate the rural economy.

The main objective of the rural banking system was to mobilize domestic savings to help finance rural economic activities and promote rural growth and development. It was also intended to introduce organized banking to the doorsteps of the rural population and fill the institutional gap in the rural financial sector. A key objective in development economics is to work out ways to lift people out of poverty. Access to finance has been seen as a critical factor in enabling people to transform their production and employment activities and to exit poverty (Banerjee and Newman 1993; Aghion and Bolton 1997; Banerjee, 2001).

Many rural banks claim and profess to assist in the activities of rural dwellers especially in the agricultural sector, which is the main occupation of the rural communities, the issue is why then are the rural communities lacking development?



Then also, rural banks are supposed to be situated in the rural areas but are of late relocating to the urban areas. What has informed this new development?

## **1.2 RESEARCH OBJECTIVES**

- To find out whether a banking relationship, exists between the rural banks and their main stakeholders, the rural dwellers.
- To ascertain whether the purpose for which Rural Banks have been set up, which is, to take banking services to the rural areas neglected by the commercial banks is being achieved.
- To find out the weaknesses inherent in the operations of rural and community banks in serving the rural areas
- To attempt to offer suggestions and recommendations on the development of rural areas based on the findings of this research.

## **1.3 RESEARCH QUESTION**

The leading questions we proposed to pursue are:

- What benefit do you get from rural banks?
- What role do rural banks play in your community?
- Why are branches of the main rural banks situated in urban areas
- Generally, what impact do rural banks have in the development of the rural areas

#### **1.4 SIGNIFICANCE OF THE STUDY**

This study aims to inform and educate the general public on the contributions of rural community banks to the development of the communities. Also people will be able to know whether these contributions towards rural development have a positive or negative impact on their livelihood or not.

- To ascertain the future of rural banks in the development of the rural economic areas
- To make suitable policy recommendations concerning the role and workings of the rural banks so as to make them contribute more to the development of the rural economy
- To add to secondary academic data, as future reference materials

#### **1.5 REVIEW OF LITERATURE**

Our review of related literature would be based on secondary data and we intend to acquire them through journals, on the internet, and other literature works known about the subject

#### **1.6 METHODOLOGY OF THE STUDY**

Basically, this study would be conducted with primary and secondary data as well as quantitative and qualitative forms of data.

Our primary data would be obtained with coordination from some selected rural banks from the twenty six (26) rural banks in the Ashanti region of Ghana as well as information from people from rural areas who deal with these banks.

Our second form of data acquisition would be from quantitative data, where our study if required, would be presented, descriptively, in the form of production tables, diagrams and charts such as the bar charts and the pie charts.

Qualitative data would be obtained through interaction with people in the rural areas, workers of the selected rural banks and other stakeholders connected with the selected rural banks.

We would therefore use questionnaires, interviews, and case study on some selected rural banks

## **1.7 TIMESCALE**

Our research will be complete in a period of three to four months. The first month would be used for research proposal and the literature review. Data collection will be done in the second month, data analysis in the third month and finally the interpretation of the analysis will be completed in the fourth month.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 INTRODUCTION**

This chapter shows what has already been done by other researchers on this topic and its related topic. The literature is reviewed on the following themes, the structure and performance of rural and micro finance industry, rural and community banks, savings and loans companies, credit unions, nongovernmental and community based organizations, informal sector finance, government credit programs, interest rates, rural banks operations and rural finance in Africa. This will throw more light on the rural finance industry and other financial sectors that also contribute to rural development. It will also assess the contribution of government in terms of providing credit facilities

#### **2.1 STRUCTURE AND PERFORMANCE OF RURAL AND MICRO FINANCE INDUSTRY**

Ghana financial institutional system falls into three main categories: the formal, the semi-formal, and the informal financial systems:

- The Formal financial institutions are those incorporated under the Companies Code 1963 and licensed by the Bank of Ghana (BOG) under either the Banking Law 1989 or the Financial Institutions (Non-Banking) Law 1993 (NBFIL Law) to provide financial services under Bank of Ghana regulation. Therefore Rural and Community Banks (RCBs) operate as rural commercial banks under the Banking Law, except that they cannot undertake foreign exchange operations, their clientele is predominantly drawn from their operating areas and their minimum capital requirement is significantly lower. Among the nine

specified categories of non-bank financial institutions (NBFIs), the Savings and Loans Companies (S&Ls), which are restricted to a limited range of services, are most active in micro and small-scale financial intermediation using microfinance methodologies.

- Under the semi formal contributors to rural development are the Non Governmental Organizations (NGOs) and Credit Unions (CUs). They are legally registered by the Department of cooperatives but not licensed by the Bank of Ghana. NGOs are incorporated as companies limited by guarantee (not for profit) under the Companies Code. Their poverty focus leads most of them to provide multiple services to poor clients, including micro credit, though mostly on a limited scale. They are not licensed to take deposits from the public and hence have to use external (usually donor) funds for micro credit. Credit Unions are registered by the Department of Cooperatives as cooperative thrift societies that can accept deposits from and give loans to their members. Although credit unions are nominally included in the (Non Banking Financial Institutions) NBFI Law, BOG has allowed the apex body Ghana Cooperative Credit Union Association to continue to regulate the societies pending the introduction of a new Credit Union Law.
- The informal financial system covers a range of activities known as *susu*, including individual savings collectors, rotating savings and credit associations, and savings and credit “clubs” run by an operator. It also includes moneylenders, trade creditors, self-help groups, and personal loans from friends and relatives. Moneylenders are supposed to be licensed by the police under the Moneylenders Ordinance 1957. The commercial banking system is dominated by a few major banks (among the 17 total) and reaches only about

5% of households, most of which are excluded by high minimum deposit requirements. With 60% of the money supply outside the commercial banking system, the RCBs, S&Ls, and the semi-formal and informal financial systems play a particularly important role in Ghana's private sector development and poverty reduction strategies. The assets of RCBs are nearly 4% of those of the commercial banking system, with S&Ls and CUs adding another 2%. While "RMFIs" is used to refer collectively to the full range of these institutions, they use different methodologies to reach different (albeit overlapping) clientele among farmers, rural households, the poor, and micro enterprises, and hence different regulatory and supervisory instruments may be appropriate.

## **2.2 RURAL AND COMMUNITY BANKS**

Rural Community Banks are unit banks owned by members of the rural community through purchase of shares and are licensed to provide financial intermediation. They were first initiated in 1976 to expand savings mobilization and credit services in rural areas not served by commercial and development banks. The number expanded rapidly in the early 1980s, mainly to service the government's introduction of special checks instead of cash payment to cocoa farmers – though with adverse consequences for their financial performance (Nissanke and Aryeetey 1998). Through a combination of rapid inflation, currency depreciation, economic decline, mismanagement of funds and natural disasters, combined with weak supervision, only 23 of the 123 RCBs qualified as "satisfactory" in 1992. The obvious need for re-capitalization and capacity-building was addressed during 1990-94 under the World Bank's Rural Finance Project, with half of them achieving "satisfactory" status by 1996. The combination of very high (62%) primary and secondary reserve requirements imposed by BOG in 1996 and high Treasury

bill rates helped to reduce the risk assets and increase net worth, further improving their financial performance. The number of RCBs reached a peak of 133 in 1998, but fell to 111 in 1999 with the closure of 23 distressed banks and the commissioning of one new bank. These closures sent a strong signal to the remaining rural banks to maintain or improve their operations in order to achieve satisfactory status. Between 1999 and 2001 there was 64% increase in the number of satisfactory banks.

## **2.3 SAVINGS & LOANS COMPANIES**

Initial licensing of the new S&L category was difficult, as the BOG grappled with how to implement the new law. The required minimum capital (¢100 million or US\$150,000) initially posed a hurdle, but its real value was eroded by rapid inflation, and the number of S&Ls grew from 3 in 1995 to 7 by 1998. By 2002 the 8 S&Ls had over 160,000 depositors and 10,000 borrowers. Increases in the minimum capital requirement in 1998 and 2000 restored the dollar value through a ten-fold increase in the nominal value, and a further raise in 2001 to about US\$2 million stalled the rate of new entry.

Nevertheless, the S&L category has proven to be a flexible means of regularizing three types of MFIs:

- Transformation of NGOs into licensed financial intermediaries;
- Formalization of actual or potential informal money-lending operations;
- Establishment of small private banking operations serving a market niche.

The S&L category has also made possible the entry of private investment to serve a particular market niche on a smaller scale than would be required for a commercial bank, although providing a challenge to the supervisory authorities. S&Ls generally use loan products. For

example, First Allied S&L uses a group and individual savings with credit scheme with existing, registered occupation-based groups such as butchers, kente weavers, carpenters, and other associations (Chord 2000). S&Ls have also been leaders in innovating. Citi S&L has pioneered linkages with *Susu* collectors and clubs, and offers a micro-leasing product to clients with at least two successful loan terms (Anin 2000).

## **2.4 CREDIT UNIONS**

Credit Unions are thrift societies offering savings and loan facilities exclusively to its members. The first credit union in Africa was established in Northern Ghana in 1955 by Canadian Catholic missionaries. By 1968, when they were brought under legislation and the Credit Union Association (CUA) was formed as an apex body, there were 254 Credit Unions (CU's) (64 of them rural) with some 60,000 members (Quainoo 1997). The number of CUs continued to grow to nearly 500 by the mid-1970s, but their financial performance was not particularly strong. High inflation in the late 1970s eroded their capital, and by the early 1990s, the number of CUs had fallen by half. The weak financial performance of CUs has been due in large part to their organization as cooperative societies with a welfare focus, and in particular to their policy of low interest rates.

The Credit Union Association has 250 affiliates (2003) with 132,000 members (about a quarter of them Study Groups in the process of becoming full credit unions). Credit unions average about 400-500 members, and their average loan size of US\$153 is well above that for African Micro Finance Institutions, as well as for RCBs. CUA has attempted to establish a financial reporting system for its members, but the quality of data remains poor. Furthermore, many



managers, as well as Board and members, have little understanding of the business of financial intermediation. “Over 70% of all Ghanaian credit unions were in an ‘unsatisfactory’ situation as of April 1996, and 42% of them were placed in the worst category” (Camara 1996). By the end of 2001, these ratings had improved to 60% and 15%, respectively, and the share given the top rating for financial soundness had improved significantly to 29% (CUA 2002). Most CUs require borrowers to provide security, in addition to being in good standing with their deposits. Ideally, this can be in the form of a guarantee from another member of the credit union who has adequate uncommitted savings balance. Some CUs use the *Susu* method in the collection of deposits and loan repayments. CUA is an innovator in providing both credit insurance (which pays off the outstanding loan balance in case of the death of a borrower) and a contractual savings program (which matches savings, up to a limit, if held at death or to maturity) (Gallardo et al. 2002).

## **2.5 NON-GOVERNMENTAL AND COMMUNITY-BASED ORGANIZATIONS**

NGOs have facilitated the development of good microfinance practices in Ghana by introducing internationally tested methodologies, often in partnership with Rural MFIs. These methodologies often are based on group solidarity methods, and have benefited from linkages with Community Based Organizations that have already “come together on the basis of some kind of location, occupations, friendship, family ties, gender, or other grounds to serve a purpose at the community level” (Chord 2000). NGOs and CBOs are particularly important in making financial services available in the northern part of the country, where both commercial and rural banks are scarce – although they tend to be localized and donor-dependent. Ghana has relatively few NGOs whose primary mission is microfinance and that have reached significant scale. Although some 50 NGOs have active micro credit programs, they are generally multipurpose or welfare-

oriented agencies (only four exceed 3,000 clients and total outreach is only about 60,000 clients; GHAMFIN 2003). The principal exception is Sinapi Aba Trust (SAT; established in 1994), which has 45 branches country-wide, offering both group-based and individual loans. SAT has reached financial and operational sustainability and sufficient scale to transform into a licensed S&L. The ability to take and intermediate savings would free it from its current reliance on RCBs and other intermediaries to handle clients' funds and on donor funds to finance its lending. "Village banking" is a group and individual savings with credit methodology promoted most notably by Catholic Relief Services and the SNV/Netherlands Development Program; some are registering with CUA as Study Groups. FFH/CWE uses individual savings with group credit to target women and provide accompanying education on health, nutrition, and family planning, financial planning and budgeting, and micro enterprise development. FFH trains the loan officers for partner RMFIs and the groups handle the bookkeeping, so the program can be quite profitable – although until recently, the high reserve requirement for RCBs prevented them from using their own mobilized savings.

## **2.6 INFORMAL SECTOR FINANCE**

### **2.6.1 MONEY LENDERS**

Moneylenders were the first form of microfinance to be officially licensed in Ghana, and have long been an important source of emergency and short-term finance (after relatives and friends) for the vast majority of the population lacking access to commercial financing. By the mid-1960s, money lending had become more of a part-time activity by traders and others with liquid funds than a full-time profession (Offei 1965, cited in Aryeetey 1994).<sup>10</sup> The importance, and certainly the registration, of individual moneylenders may have been reduced by the emergence

of RCBs, CUs, *Susu* associations and clubs, and especially S&Ls, which has enabled money lending-type operations to become licensed. These days most individual moneylenders do not hold licenses or operate full time, and the Ordinance has ceased to be of any importance, although it remains in the statute books.

### **2.6.2 SUSU COLLECTORS, ASSOCIATIONS, CLUBS, COMPANIES AND PRODUCTS**

The *Susu* system primarily helps clients accumulate their own savings over periods ranging from one month (*Susu* collectors) to two years (*Susu* clubs), although credit is also a common feature. In an effort to capitalize on *Susu* collectors' intimate knowledge of their clients, several RCBs and S&Ls participated in a pilot program to provide funds to *Susu* collectors for them to on-lend to their clients (GHAMFIN 2001), and some have continued with their own funds. The *Susu* collectors are the most visible and extensive form. Even though they mobilize savings, the central bank has refrained from attempting to regulate them, leaving them to try to improve the reputation and quality of the industry through self-regulation.<sup>12</sup> *Susu* collectors who are registered with associations account for nearly a quarter of the estimated over 4,000 collectors nationwide, collecting an average of US\$15 a month from approximately 200,000 clients (GCSCA 2003).

Some commercial banks have introduced savings products modeled after and advertised as *Susu*. Likewise, some RCBs, S&Ls and NGOs have *Susu* schemes, daily collection carried out by salaried or commissioned agents. These methodologies have helped them to reach lower-income brackets and women, who constitute 65% to 80% of the clients of these *Susu* schemes. Thus, the combination of specialized categories of licensed financial institutions and traditional

methodologies has succeeded both in mobilizing savings from lower-income households and giving them access to financial services that are part of the formal, supervised system.

### **2.6.3 TRADERS**

A major component of rural finance in Ghana has always been the traders who operate between producers in rural areas and urban markets, and often provide credit in the form of inputs on supplier's credit or an advance against future purchase of the crop. Traders do not usually require collateral, but rather the agreement of the farmer to sell them the crop. The implicit interest rate can be as much as 50% of the principal for the farming season (Offei 1965, cited in Aryeetey 1994). Fish traders similarly use advances to lock in their suppliers at relatively low prices. While these middlemen are often regarded as exploitative in view of their monopoly power, for a large number of farmers and fishermen, access to financing depends heavily on the liquidity available from these traders – and hence, in turn, on the ability of traders to access funds.

## **2.7 GOVERNMENT CREDIT PROGRAMS**

The Government has launched a number of special credit schemes since 1989, usually at subsidized rates, reaching very few people and with extremely poor recovery rates. A partial exception has been Enhancing Opportunities for Women in Development (ENOWID), which in the early 1990s made over 3,500 relatively small loans (over 6 years) with a cumulative recovery rate of 96% using funds from the Program of Action to Mitigate the Social Costs of Adjustment (PAMSCAD) (Quainoo 1997). PAMSCAD, launched in 1989, directly reached only some 1,200 clients and struggled to achieve an average 83% cumulative recovery by 1996. None of the other four programs being administered by the National Board for Small-Scale Industries (NBSSI)

(which charges 20% interest) has reached a 70% recovery rate or as many as 200 clients. As a result, these “revolving funds” are steadily depleting, involve substantial costs to operate, and have negligible outreach. The Government has also entered into micro credit through poverty alleviation programs and the District Assembly Common Funds. While in some instances this made wholesale funds available to local RMFIs for on-lending to clients that they choose, more commonly it has been perceived and used as politically motivated, with negative consequences for repayment. The main threat to sustainable RMF from these government programs comes from the negative effects on efforts of RMFIs to mobilize savings and collect from borrowers, whose willingness to repay typically is low when loans are known to come from government or donor funds at subsidized rates.

### **2.7.1 INTEREST RATES**

Restrictive policies during the 1970s and early 1980s, such as government-controlled interest rates and sectarian allocation of credit, no doubt retarded development of Ghana’s formal financial system. Nevertheless, various forms of informal finance predated financially repressive policies in Ghana, and actually expanded after financial markets were liberalized in 1987 (Aryeetey 1994). Although interest rates have not been officially controlled since 1987, the Government has nevertheless introduced a number of credit programs targeted for small business development or poverty alleviation whose interest rates were pegged in 2001 at 20% (well below market-determined rates), and District Assemblies have been mandated since 1979 to provide 20% of their “Common Funds” for micro and small enterprises at an interest rate of 75% of the commercial bank rate.

### **2.7.2 SECURITY**

Licensed banks normally require that loans be secured by title to land or physical assets, deposit balances, or Treasury bills, following BOG guidelines. These options are clearly beyond the reach of poor households. Close coordination between the Ministry of Finance, BOG and the Ghana Microfinance Institutions Network (GHAMFIN) has led to a better understanding of the characteristics of microfinance loans and the methodologies underlying high repayment rates (Gallardo 2002, p.14), and personal and group guaranteed loans are now recognized as secured microfinance loans.

### **2.7.3 THE NEED FOR RURAL CREDIT**

The 1992 Constitution of the Republic of Ghana makes a commitment to rural development as part of a national strategy to improve the living conditions in people in the rural areas. In an effort to mitigate the government agency coordination problems, the constitution incorporates a decentralization approach under which the national government establishes political and administrative Regions and Districts. The decentralization follows a fused hierarchy model, with close ties between the center and periphery. Each of Ghana's 110 Districts is governed by a District Assembly, which is partly elected (75%) and partly appointed (25%). Ghana's District Assembly system requires government appointees and elected representatives to plan district activities together. Local participation for rural development is fostered. There is anecdotal evidence that the efforts of the District Assemblies are making improvements in the lives of the rural people. The primary areas of development have included the rehabilitation and building of new schools, feeder roads, and places of convenience (public toilets), market places, health centers, and water treatment facilities. Despite the District Assembly governments' successes,

the national government has recognized a need for rural credit. Access to rural credit increases the participation of rural people in development activities. A rural credit policy that mobilizes rural resources and redistributes them to the rural sectors creates the potential for more development. Traditionally, rural development credit has been provided by two types of sources: institutional and non-institutional. In rural communities, non-institutional credit is provided by moneylenders, relatives, friends, traders, commission agents, cooperatives, consumers, distributors of farm inputs, and processors of agricultural products. Research has shown that the most common providers of loans in rural areas are friends and relatives who usually charge no interest or collateral (FAO 1994). This credit market is small, however, and the total credit from these non-institutional sources is insufficient to implement rural development programs. For rural development to proceed at a smooth pace, larger institutional sources of credit need to be created. In Ghana, institutional sources of credit are the commercial banks, the Agricultural Development Bank, the National Investment Banks, and the Bank of Ghana and Rural Banks. Until recently very few rural people, other than wealthy farmers and businessmen, had access to credit from these sources. The lack of interest in small rural credits by the National Investment Bank and the commercial banks is explained by the high cost of administering a large number of small credits spread over a wide area, coupled with the comparatively high level of default that has often accompanied small credits. The inability of rural borrowers to offer adequate security for loans, and the enormous risks associated with agricultural production, are the typical reasons given for the urban-based bias of commercial lending. The Agricultural Development Bank was created to service the rural sector in particular. It too, however, eventually began to concentrate on traditional urban-based banking activities. To overcome many of these difficulties, the Ghanaian government, through the Bank of Ghana, introduced the idea of rural banking into the

country in 1976. According to the Association of Rural Banks (1992), “The aims of Rural Banks are:

- To stimulate banking habits among rural dwellers;
- To mobilize resources locked up in the rural areas into the banking systems to facilitate development; and
- To identify viable industries in their respective areas for investment and development.”

#### **2.7.4 RURAL BANK OPERATIONS**

The Bank of Ghana has streamlined Rural Bank lending operations to ensure that Bank credit actually benefits the small scale rural producer and the rural community. The Bank of Ghana has developed an Operational Manual for all Rural Banks. Applications are accepted from individuals, groups, associations, and companies. Recommendations to reject an application must be justified by specific and clearly stated reasons and cannot be based on vague suspicions.

Before granting a loan to a group, the Bank requires that there be mutual trust and respect among members. In the case of a group loan approval, members are held jointly and severally liable. The group cannot exceed 20 members, and the group leader must have a clean loan record. The Bank of Ghana has developed a mandatory sector allocation for Rural Bank loans. The allocation ensures that the bulk of the resources go to agriculture, the priority sector in Rural Bank lending. To ensure that resources assist small farmers, the Bank of Ghana requires that the maximum acreage a loan-eligible farmer can cultivate is 10 acres for vegetables and 100 acres for staple crops.



The Rural Banks try to reduce the cash element in the loans to the minimum possible to prevent the diversion of funds for purposes other than those for which they are granted. The Banks arrange for inputs to be made available in kind (raw materials, seeds, fertilizers, equipment and machinery, etc). Loan repayment conditions are determined with reference to the borrower's capacity to repay. A "grace period" is allowed between the loan approval date and the time the borrower is expected to generate sufficient income to repay the loan. During the "operation period" of the loan, the Bank's Project Officer monitors the borrower to ensure proper use of funds and punctual repayment. Routine and emergency visits by the Project Officer are common during the operation period of the loan. Rescheduling may be allowed if there are circumstances which the loans committee or board of Directors accepts as "unforeseen developments." If there is default on the loan, the case is sent to the Bank's lawyer(s) for action. By 1990, the Rural Banks were experiencing negative profitability resulting in capital inadequacy and, in some cases, the inability to meet depositors' withdrawal demands. The Bank of Ghana ordered a restructuring of the Rural Banks. By December of 1991 all of the Rural Banks had undergone diagnostic study conducted by outside consultants. The restructuring was designed to determine financial strength, organizational capability, and management status in line with existing statutory requirements. The Banks updated and standardized accounts and procedures. The Banks introduced internal control systems and management information systems. After the restructuring process, the number of Rural Banks meeting the capital adequacy requirement increased from 2 to 55. The Bank of Ghana has instituted measures to maintain public confidence in the remaining mediocre and distressed Rural Banks (Bank of Ghana 1995). Today, the Rural Banks are still given the opportunity to determine who should benefit from their credit resources. There is substantial anecdotal evidence of misdirection and misapplication of rural

credit by the Rural Banks and the rural people. Many rural banks appear to give credit to people who do not fall into the Bank of Ghana target groups. It is not uncommon to see many credit recipients spending borrowed credit on land litigation and funeral ceremonies instead of productive ventures. The Bank of Ghana initiated the Rural Bank system with the hope that small-scale rural producers and small towns would benefit from the new credit resources. It is uncertain whether or not the Rural Banks are fulfilling the basic functions for which they were created.

### **2.7.5 MICROFINANCE AND AGRICULTURE FINANCE**

In the 1980s and 1990s the deleterious impact of limited financial access caught the attention of many academics, policymakers, donor agencies, and development practitioners, who generated an outpouring of new thinking and new ideas. Innovative concepts such as group liability, village banking, micro insurance, and index-based insurance were tested in new and emerging microfinance institutions. But progress on expanding agricultural finance—as opposed to nonagricultural microenterprise finance—lagged. Donors and governments that had invested heavily in agricultural development banks and agricultural credit in the 1980s and early 1990s found that these efforts did not produce the expected results and withdrew their support. It was hoped that private commercial banks would step in, but for the most part they did not.

Financial institutions have demonstrated a lack of interest in agriculture finance for four reasons. First, many agricultural households were located in remote parts of the country and were often so widely dispersed that financial institutions found it challenging to provide cost-effective and affordable services. Second, big swaths of the agricultural population were subject to the same weather and climate risks, making it hard for providers of financial services to hedge risks or

operate profitable insurance pools. Third, service providers, mainly urban-based, simply did not know enough about the business of agriculture to devise profitable financial products. Fourth, most small agricultural producers in developing countries had little education and little knowledge of how modern banking institutions work.

## **2.8 RECENT PROGRESS IN RURAL FINANCE**

Since the early 2000s a number of organizations have developed innovative approaches to financing agriculture. They have sometimes adapted microfinance concepts to the provision of agricultural finance, used good banking practices, and above all drawn on knowledge of agriculture to enter and succeed in this market. Many of these new approaches show great promise, but no single approach works for all situations. Rather, organizations have the most success when they are non dogmatic, apply comprehensive risk-management strategies and tools, retain the ability to pick and choose their clients rather than having the government do so, and are innovative and pragmatic.

This set of briefs explores how rural and agricultural finance can be profitable, without high levels of government subsidies, by examining a selection of successful interventions—out of the many being implemented in the developing world—and highlighting the lessons learned.

The briefs fall into four thematic areas: addressing the business reality of small farmers in developing countries, using modern communication technology to overcome the tyranny of distance and information bottlenecks, managing risks at the farm and household level, and bundling financial services with nonfinancial services to address the multiple constraints faced by most small farmers.

## **2.9 RURAL BANKING IN AFRICA**

Many people in the vast rural areas of Africa lack access to financial services, and most commercial banks are not interested in moving into these areas due to their low income levels, lack of scale economies, and poor infrastructure. Also, few banks actually understand the most common economic activity in rural areas: agriculture. Consequently, the absence of financial institutions in rural Africa has often enticed governments to step in, particularly with state-dominated banks focused on agriculture. Many of these initiatives have failed, however, because they were too bureaucratic, too policy oriented, too concentrated on risk to only one segment of the population, or too weak in customer focus. In addition, clients considered these government-sponsored institutions to be instruments that provided grants; hence, the banks suffered from poor loan-recovery rates.

While microfinance institutions have made some inroads into rural Africa with the financial backing of international nongovernmental organizations and other sponsors, their sustainability is questionable. They tend to lack banking licenses and therefore have a very limited product range, and they cannot afford modern technology-based distribution systems.

### **2.9.1 KEY GAPS IN RURAL BANKING IN AFRICA**

One of the most prominent gaps in developing banking services for rural Africa is poor infrastructure—for example, bad roads, erratic electricity provision, and lack of communications systems—which impedes effective outreach to customers.

The legal environment in these rural areas is also suspect. Insecure property rights—especially land titles in rural areas—limit any bank's collateral options; combined with poor contract-enforcement opportunities, this takes away a bank's incentive to provide credit,

especially for long-term loans. Proper land registration and enforceable mortgage systems are important issues for rural development.

The inefficiency of markets is also a barrier to developing rural financial services. Agricultural value chains are often poorly organized, lacking in transparent pricing, and fragmented in primary production—all of which results in high transaction costs. In many cases, the banking environment is distorted by stakeholders—including donors, governments, and development banks—who do not always regard agriculture as an economic activity, but rather as a social problem. These stakeholders provide subsidized funding to farmers or a cooperative, which means private banks often lack a level playing field. Poor financial literacy rates, especially among small farmers, and a limited understanding of banking requirements also pose a problem.

## **2.9.2 RURAL BANKING: THE CASE OF RURAL AND COMMUNITY BANKS 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 rural communities, secure, safe, and 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). This brief discusses the history of RCBs, their business model, their services, and their financial performance. It then draws some lessons relevant for others involved in or planning similar initiatives. As a network, RCBs are the largest providers of formal financial services in Ghana's rural areas. By the end of 2008, Ghana had 127 RCBs with a total 584 service outlets, representing about half of the total banking outlets in the country. The RCB network reaches about 2.8 million depositors and 680,000 borrowers.

Although the service delivery performance of the RCB network has been strong, its financial performance has been mixed. The profitability and net worth of the network have grown, but the financial performance of some members has been poor, and a small number are insolvent.

### **2.9.3 THE CREATION AND EVOLUTION OF THE RURAL COMMUNITY BANKS**

The first RCB was established in a farming community in the Central region of Ghana in 1976. Several others were established in rapid succession, and by 1984 the number of RCBs reached 106. By the early 1980s, however, the financial performance of many RCBs started to decline for several reasons, including a 1983 drought, weak governing ability, conflicts within boards of directors, and ineffective management in many RCBs.

The Bank of Ghana, the Ghanaian central bank, undertook several reforms to curb the deteriorating situation. Exposure to risky sectors (mainly agriculture) was limited, distressed banks were closed, supervision was strengthened, and RCB managers and boards of directors were offered training. Between 1989 and 1994 the Government of Ghana, with the support of the World Bank, also implemented the Rural Finance Project, aimed at providing targeted support to the RCBs. The project contributed to an improvement in RCB performance.

Nevertheless, several RCBs remained weak, and in 1998, the Bank of Ghana liquidated 23 RCBs. The Government of Ghana, with the support of the World Bank and other donors, implemented a follow-up project—the Rural Financial Services Project—between 2001 and 2007 to help further strengthen the RCBs. This project provided extensive training to RCBs and supported the establishment and strengthening of the Association of Rural Banks (ARB) Apex Bank, as a bank to the RCBs. (The Association of Rural Banks had been established in the early 1980s as a networking forum for RCBs and later started providing training to member RCBs.)

## **2.9.4 RURAL BANKING BUSINESS MODEL**

- Small asset base. Rural Community Banks (RCBs) are relatively small financial institutions with average share capital of GH¢ 136,526 (US\$105,263), average deposits of GH¢ 2.3 million (US\$1.77 million), and average assets of GH¢ 3.8 million (US\$2.4 million), although values of the three indicators vary significantly among RCBs.
- Community ownership and governance. RCBs are fully owned by shareholders who are residents of communities in which they operate. Each rural or community bank has a board of directors that is responsible for its strategic governance. Boards are elected by owners/shareholders during annual general meetings. Election criteria are normally based on reputation in the community and professional expertise, but experience in banking is extremely limited.
- Professional management and staff. The core management staff of a typical RCB is composed of a chief executive officer who is in charge of the daily management of the bank; an internal auditor, responsible for internal control measures; a finance officer; and credit and project officers. Many of the personnel are recruited from local communities.
- Strategic alliance. Since 2002 the ARB Apex Bank has provided specialized services essential to improving the quality and scope of products offered by RCBs, and it performs important supervisory functions delegated by the Bank of Ghana. Among the main services offered by the Apex Bank are check clearing, specie supply, treasury management, loan fund mobilization, and domestic and international money transfers. The Apex Bank provides most of these services on a fee basis.

- Legal and regulatory framework. RCBs are incorporated as limited liability companies and licensed by the Bank of Ghana within the framework of the Banking Act. The minimum level of capital required by RCBs is GH¢150,000 (US\$116,135). RCBs whose capital falls below this minimum are not allowed to pay dividends or open new branches or agencies until they attain the minimum level of capitalization.

### **2.9.5 PRODUCTS AND SERVICES**

- Savings. RCB savings products include savings accounts, current accounts, susu deposits, i.e. (small savings collected daily from clients by individual collectors going door to door), and fixed or time deposits. In a sample of 12 RCBs, regular savings deposits account for about 58 percent of the total number of clients and 57 percent of the total deposit balance. These accounts are small in size and short term. Susu is the second-largest account type, representing 21 percent of total clients, but its share of total deposits is only 11 percent because of the small size of each account. Fixed and special deposits that offer higher interest rates with long-term deposit contracts represent only about 1 percent of total clients.
- Credit. The credit products offered by RCBs include microfinance loans, personal loans, salary loans, Susu loans, and overdraft facilities. In a sample of 12 RCBs, salary loans amount to 33 percent of total advances, followed by personal loans (24 percent) and microfinance (20 percent). In terms of number of borrowers, microfinance accounts for 31 percent of total borrowers followed by personal loans (26 percent) and salary loans (22 percent). RCB loans are used for agriculture, cottage industries, and trading.



- Money transfers and payments. RCBs participate in local and international money transfers, and government agencies use the RCB service outlets for salary and pension deposits. Clearing of checks for cocoa purchases is also an important service provided under the payment category.

#### **2.9.6 PERFORMANCE OF RURAL BANKS**

- Steadily increasing outreach and service delivery. Between 2000 and 2008 the number of depositors in RCBs grew at an average annual rate of 14 percent, and the number of borrowers grew at an average annual rate of 27 percent. The RCB network reaches about 2.8 million depositors and 680,000 borrowers, making RCBs the largest group of licensed financial service providers in rural areas. Clients of RCBs consist mostly of farmers, government employees, and small and micro-entrepreneurs.
- Mixed financial performance. The profitability and net worth of the RCB network steadily increased from 2000 to 2008. Network-wide capital is well above the minimum 10 percent required by the Bank of Ghana. In 2008, however, seven RCBs were insolvent, and the continued operation of poorly performing RCBs is a key issue facing the network. The relatively high ratio of nonperforming loans is another major factor affecting financial performance. In the sample RCBs, for example, the proportion of the loan portfolio that was in default for more than 30 days was 16 percent, compared with 3 percent for banks in their global peer group.

## 2.9.7 LESSONS ON RURAL BANKING

The case of rural banking in Ghana points to the following lessons:

- Although community-based financial institutions such as the RCBs can play a key role in increasing access to financial services in rural areas, their small size can also make it challenging for them to become financially sustainable and compete with other financial institutions that enter the rural financial market. To be successful, they should be able to respond dynamically to changes in the business environment. These responses may include building linkages, being open to mergers, and bringing in external investors, if necessary.
- Small local financial institutions often cannot easily procure needed technical support (such as training and specialized technical assistance for product development and setting up of operational systems) from the market. Hence, initiatives to build local financial institutions must support the creation of strategic alliances that can either provide such services or facilitate their cost-effective provision. Apex institutions can play a crucial role in providing technical and financial services to small financial institutions.
- Apex institutions may find it difficult to achieve financial sustainability by providing services to members alone. Such institutions may have to also provide services to the public, including general commercial banking services. Care must be taken, however, to ensure that the business model adopted does not compromise the original mission—in this case, to increase sustainable provision of financial services in rural areas.

- The regulator needs to have the necessary skills, political autonomy, and financial resources to effectively regulate and supervise a large number of small financial institutions that are geographically dispersed. Often the central bank does not have the skills to undertake this task directly, and alternative models of supervision may have to be adopted. Even in the best circumstances, however, a certain number of institutions will fail, and the regulatory system needs to have the capacity to respond quickly to protect depositors and to prevent failure from lowering confidence in other institutions. Donor funding cannot sustain a supervisory regime in the long run, and recovery of all supervision costs through fees from the supervised institutions may not be a feasible option. Under these circumstances, adequate government funding for supervision would be critical for ensuring sustainable service delivery.

➤ **2.9.8 RURAL LEASING: AN ALTERNATIVE TO LOANS IN FINANCING INCOME-PRODUCING ASSETS**

Credit for investments that pay back in the medium to long term (three to five years or longer) is in short supply in rural areas. Credit unions and microfinance institutions (MFIs), which generally have better outreach than commercial banks in rural areas, typically provide only short-term credit. Credit available from informal sources (such as moneylenders, family, and friends) is usually both short term and too costly for investment financing. For rural enterprises seeking to acquire equipment—a typical investment need—to modernize production and thereby increase productivity, one solution may be financial leasing. Leasing offers several advantages. For traditional credit, farmers and rural enterprises are particularly constrained by a lack of assets that can be used as collateral. Leasing overcomes this constraint because it requires no collateral

or less collateral than typically required by loans. Because leases also often require lower down payments than the equity required for loans, they are more affordable for rural enterprises that have limited funds and little access to borrowed funds.

From the leaser's perspective, not having to obtain collateral is particularly advantageous in a rural context. Although the difficulties involved in creating, perfecting, and enforcing security are applicable in both urban and rural contexts in most developing countries, they are more severe in rural areas where enterprises are less likely to hold titles to their assets, asset registries are less likely to be functional, and judicial processes are likely to be slower. Leasers are also likely to benefit from not being restricted by interest rate ceilings and sector-specific credit allocations—factors that have traditionally constrained rural lenders.

Drawing on the experiences of the providers studied, the World Bank study identified the following lessons on managing financial leasing in rural areas.

- Rural leasing is a means to acquire productive assets. All rural leases provided by the three leasing companies are financial leases and were used to finance the acquisition of assets (in contrast to renting of assets).
- Rural enterprises of different sizes benefit from leasing, but a provider may not be able to equally serve all enterprises. Providers are limited because of differences in the skills and capacities required to effectively serve enterprises of varying sizes.
- Nonfarm enterprises account for a significant proportion of rural leases.
- Rural leasing can be profitable, but jump-starting rural leasing will require government and donor support. All three firms studied benefited from access to government or donor funds, particularly in expanding their rural operations.

- A rural-only leasing company may not be viable. Because leasing is a specialized financial activity, economies of scale, cost, and risk factors may require that, in most economies, leasing companies have larger urban operations.

### **2.9.9. MICRO INSURANCE INNOVATIONS IN RURAL FINANCE**

Poor people in developing countries are vulnerable to a broad range of shocks that affect their livelihoods, including illness, accidents, and death as well as loss of assets such as animals, crops, and machinery. The poor are still predominantly rural, and their vulnerability is even higher than that of their urban peers. Health facilities are less available and less well equipped in rural areas; water, sanitation, roads, and telecommunication are less developed; and people are less educated and not as aware of risk-mitigation mechanisms. Given the rural character of poverty in many countries, poverty reduction remains strongly connected to agricultural development, and sustainable agricultural development depends on well-organized risk mitigation. One important tool for mitigating risk is micro insurance. The International Association of Insurance Supervisors (IAIS) defines micro insurance as “insurance that is accessed by the low-income population, provided by a variety of different providers but run in accordance with generally accepted insurance practices (including the IAIS Insurance Core Principles).” It differs from traditional insurance in that it is adapted to the circumstances of the poor: premiums are low, products have simple designs, it is offered through well-trusted and innovative channels, premium payments are flexible, and claims are settled promptly.

Micro insurance has the potential to enable the rural poor to mitigate the effects of shocks that threaten their lives, productivity, and assets. It can help prevent emergencies from depleting

poor people's savings and other assets. Furthermore, it allows households to invest in high-risk, high-return activities by securing the lending risk for agricultural and other investments.

Financial sector reforms in many countries have begun to include insurance as an important pro-poor financial service along with other microfinance services such as savings, lending, and cashless payments. According to a study by the International Labor Organization, micro insurance in Africa almost doubled from 2006 to 2009. The survey shows that half of the schemes were growing faster than 30 percent a year between 2007 and 2008. Data on growth in rural areas, however, are not available.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Description of the study area**

Kumawuman rural bank is located in Kumawu, a district in the Ashanti regional capital of Kumasi in Ghana. It is one of the oldest rural banks in Ghana founded in 1982 and has 6 branches in areas such as Bodomase, Effiduase, Ahinsan, Bomso, Amakom and Banko across the Ashanti region. Kumawu has a population of between 5000 and 10000 according ([www.collinsmaps.com/maps/Ghana/Ashanti/Kumawu/P467682.00.aspx](http://www.collinsmaps.com/maps/Ghana/Ashanti/Kumawu/P467682.00.aspx)) with the locals engaging in occupations such as farming, trading, tailoring and dressmaking among others and with Kumawuman rural bank as the only bank in the area, most of the locals engage in their services.

#### **3.1 RESEARCH DESIGN**

Research design is the specific data analysis techniques or methods that the researcher intends to use to collect data. The design ensures that the researcher gathers the appropriate information to solve the research problem (Saunders et al, 2007). The qualitative and quantitative design involves the collection and analysis of data, with questionnaires and interviews being our main form of data collection. The research designs used are quantitative research and qualitative research approaches.

#### **3.2 POPULATION**

Population according to Saunders, (2007) is the full set of cases from which a sample is taken. The target population is the locals in the Kumawu area, specifically, workers in the area. The

population of Kumawu currently stands at 8757 according to the 2010 Population and Housing Census held in Ghana. A total sample size of seventy (70) was used.

### **3.3 INSTRUMENT USED**

A questionnaire was the major instrument used to collect the data with a total number of seventy questionnaires used (70). The questionnaire was used in order to get a standard form of answers or response from our target.

### **3.4 DATA COLLECTION PROCEDURE**

Seventy questionnaires were used, one for each person or respondent, with the total sample size being seventy (70). If the respondent were illiterates, the questions were read for them to answer otherwise; they were ably answered by the other respondents. Overall, equal chances were given to every respondent in order to get a fair or a balance response from the male and female locals.

### **3.5 DATA ANALYSIS**

Frequencies, percentages, bar graphs, regression analysis and correlation coefficient were used to analyze the data. SPSS software and Microsoft Excel were used for all the analysis.



## **CHAPTER FOUR**

### **DATA ANALYSIS AND PRESENTATION**

#### **4.0 INTRODUCTION**

This chapter analyses and presents the research findings of the survey conducted among some customers of Kumawuman Rural Bank Ltd (hereinafter called “KRB”) on the topic “The Impact of Rural Banks in Rural Development in Ghana; A Case Study of Kumawuman Rural Bank Ltd.” Data collection was done by the use of a questionnaire. Seventy questionnaires were administered to a section of the customers of KRB from twenty six (26) of their branches in Ashanti Region of Ghana, as well as, information rural folks who deal with these banks. The data were analyzed and presented by descriptive statistics, including frequency tables, bar charts, and pie charts using the Statistical Package for Services Solutions (SPSS) and Microsoft Excel.

#### **4.1 RESPONDENT’S BACKGROUND**

The respondent’s background covered the following attributes: age, gender, and occupation.

Out of a total of seventy (70) respondents, exactly 30 per cent were captured in the 34-41 age bracket, 24.3 per cent of the respondents were captured in the 26-33 age bracket. 7.14 per cent of the respondents were captured in the 66 and above age bracket. This explains that majority of the old folks in the catchment area of the bank remain unbanked. Table 4.0 below gives the detailed outcome of the survey.

Table 1 Age of Respondents

Age Bracket	Frequency	Percent
18-25years	12	17.1
26-33years	17	24.3
34-41years	21	30.0
42-65years	15	21.43
66 and above	5	7.14
<b>Total</b>	<b>70</b>	<b>100.00</b>

Source: Field Survey, 2011

PIE CHART SHOWING THE AGE GROUPS OF RESPONDENTS

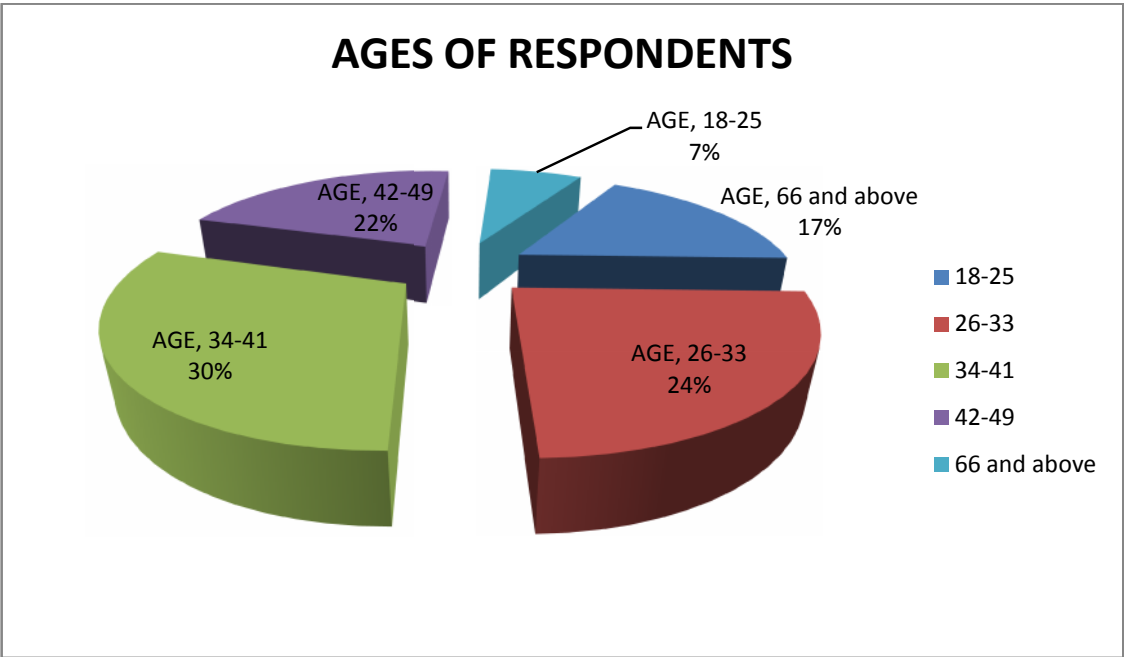


Fig 4.1

Table 2 Gender of Respondents

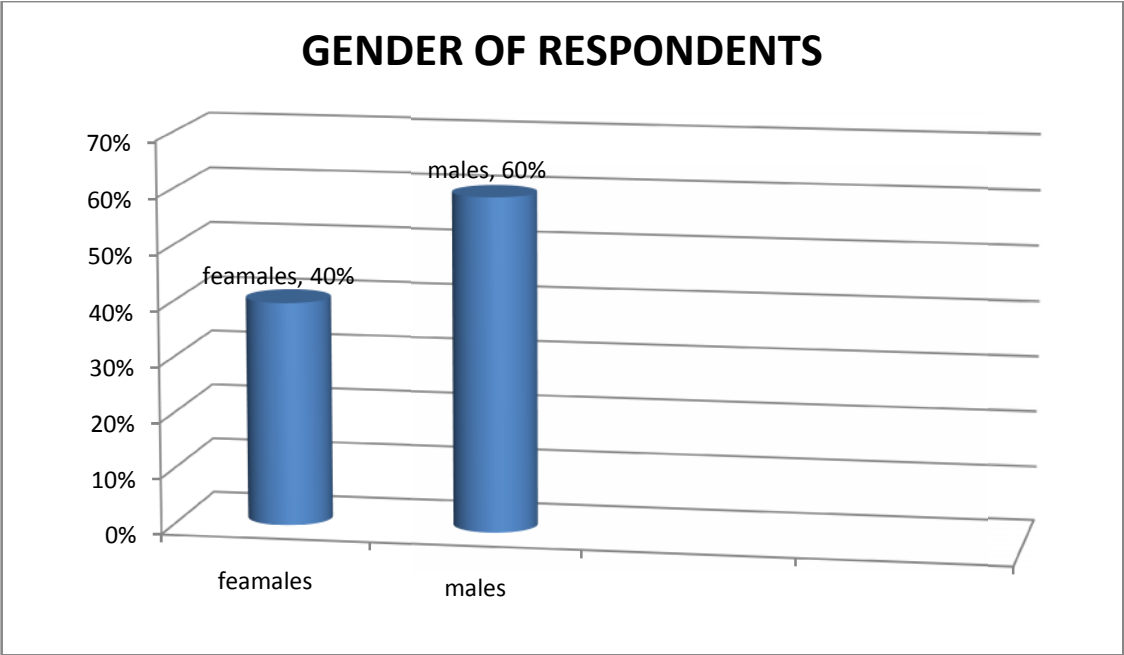
Sex	Frequency	Percent
Male	42	60.00
Female	38	40.00
Total	70	100.00

Source: Field Survey, 2011

The survey further revealed that 60 per cent of the respondents captured were males, as against 40 per cent female respondents. Again, this explains that the males in the catchment area of the bank control a larger chunk of the financial resources; the impact of the bank is felt most by the male folks. This might be a contributory factor to the feminization of poverty in the rural areas of Ghana. The chart below gives the detailed outcome of the survey.

Fig 4.2

BAR CHART SHOWING THE GENDER OF RESPONDENTS



The study also revealed that 50 per cent of the respondents in the catchment area are occupied by middle-level service – related jobs such as trading and civil servant hood.

Approximately 32.9 per cent of the respondents engaged in primary occupation such as farming and 8.6 per cent in secondary occupation such as masonry, carpentry, tailoring and other artisanship’s. A far-reaching impact will be made on the rural folks if the bank takes the decisive and deliberate step towards helping the secondary and tertiary occupied workers. That is not to say that other workers should be neglected but the priority should be focused on the former. Figure 4.3 below gives the detailed outcome of the survey.

**PIE CHART REPRESENTING OCCUPATION OF RESPONDENTS**

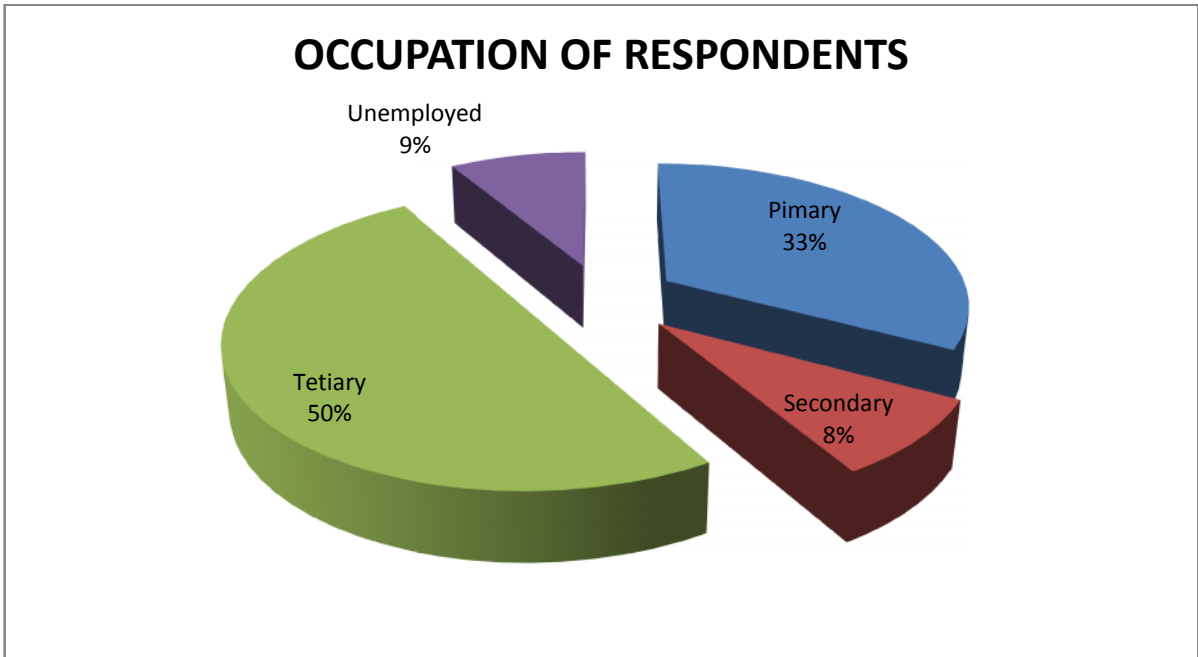


Fig 4.3 Source: Field Survey, 2011

The study revealed that 23 people representing 32.9% are engaged in primary occupation (farming and fishing), Secondary occupation (masonry, carpentry and tailoring) represents 9%,

Tertiary occupation (teaching, lawyers and doctors) represents 50% and the unemployed represented 8%

#### **4.2 RESPONDENTS AND THE RURAL BANK**

This section analyses the relationship between the rural bank and the customer and the impact of the rural banks have on the customer. The survey revealed the following responses:

First, the outcome of the survey revealed that 71.4 per cent of the respondents save money at the bank under study. Only 28.6 per cent of the respondents do not engage in their banking services. Basically, this minority does not save there because they are not residents of the community where the bank operates. Some are just itinerant workers who work in the catchment area of the bank. Table 4.1 below exhibits this outcome.

Table 3 whether respondents save money at the rural bank

<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Yes	50	71.4
No	20	28.6
<b>Total</b>	<b>70</b>	<b>100.00</b>

Source: Field Survey, 2011

Again, the study revealed that 70.0 per cent of the respondents operate a savings account and 30.0 per cent of the respondents operate a current account. Current account holders are mostly workers captured in the tertiary occupation. Table 4.2 exhibits this outcome.

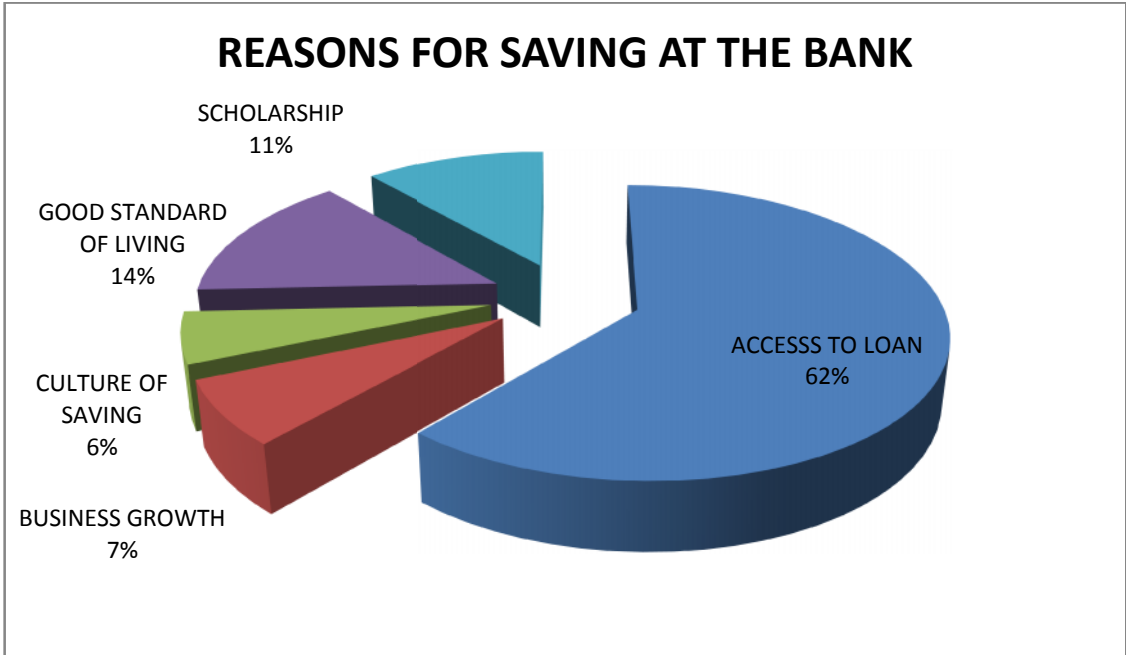
Table 4 Type of account operated by respondents

Response	Frequency	Percent
Savings Account	49	70.0
Current Account	21	30.0
<b>Total</b>	<b>70</b>	<b>100.00</b>

Source: Field Survey, 2011

Furthermore, the outcome of the survey revealed that the most compelling reason for saving at the bank under study was the hope of loan acquisition. Approximately 62 per cent of the respondents cited loan acquisition as the reason for saving at the bank. The next compelling reason was to ensure a good standard of living; others also cited the culture of saving as a reason for saving at the bank with the last group citing business growth as their reason. These three factors sum up to 38%. Figure 4.4 illustrates the outcome.

Fig 4.4 CHART SHOWING REASONS FOR SAVING AT THE BANK



Source: Field Survey, 2011

Moreover, the survey revealed that 64.3 per cent of the respondents have been assisted by the rural banks. Benefits received included the following: loan (75.7 per cent of the respondents), financial advice (24.3 per cent). This explains the level of impact of the rural bank in the catchment areas. It is also reveals the fact that the level of impact is mainly monetary. Table 4.2 portrays a detailed outcome of the response

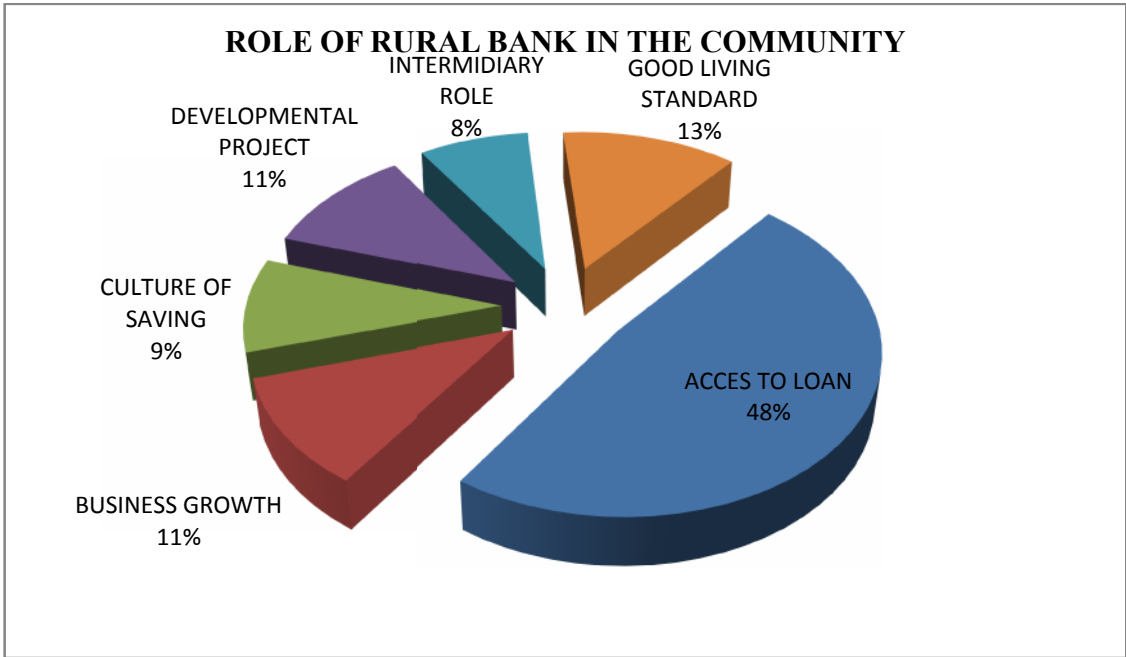
Table 5 whether respondents have been assisted by rural bank

Response	Frequency	Percent
Yes	45	64.3
No	25	35.7
Total	70	100.00

Source: Field Survey, 2011

Probing further, the survey revealed again that access to loan is the major role of rural banks in the community. Forty eight per cent of the respondents attested to this fact. Other important roles played by the rural banks in the community included the following: business growth 11%, developmental project 11%, good living standards 13%. Other roles included intermediary work between the commercial banks in the cities and the rural folks 8%. Figure 4.2 illustrates the outcome further.

Figure4.5 **ROLE OF RURAL BANK IN THE COMMUNITY**



Source: Field Survey, 2011

**4.3 RESPONDENTS AND LOAN ACQUISITION**

Exactly 70 per cent of the respondents claimed that they had applied for a loan currently or somewhere in the past, with 30% claiming that they had not applied for loans. According to 48.6% of the respondents, it takes more than fifty days to acquire a loan, 30% say it takes 21-30 days to acquire a loan and 21.4% also say that it takes 31-40 days to acquire a loan. Approximately 64.3% of the respondents said one receives the exact amount requested for, with 35.7% saying that they do not receive the exact amount of loan they request. Approximately 42.9% of the respondents stated that one needs a guarantor in the form of collateral to apply for a loan, 12.9% say that one needs half of the required loan, 25.7% also say that you have to save with the bank to be able to access a loan, 4.3% again say one requires material possessions to be



able to acquire a loan and 14.2% say that one requires no collateral at all. Tables 4.3, 4.4, 4.5 and 4.6 give a detailed outcome of the responses

Table 6 Respondents' loan acquisition status

<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Yes	49	70.0
No	21	30.0
<b>Total</b>	<b>70</b>	<b>100.0</b>

Source: Field Survey, 2011

The study further went on to reveal that it takes more than 50 days to process a loan at the bank. This in turn slows the economic activities of the people in this area since most people who apply for these loans cannot wait that long for their loans. Table 4.4 shows the details of this data.

Table 7 Number of days required for loan acquisition

<b>Number of days</b>	<b>Frequency</b>	<b>Percent</b>
21-30days	21	30.0
31-40days	15	21.4
More than50days	34	48.6
<b>Total</b>	<b>70</b>	<b>100.00</b>

Source: Field Survey, 2011

Again, 64.3% of the respondents say that they receive the exact amount of loan they request for. On the other hand, 35% of these people also say they do not receive the exact amount they request for. This implies that the bank is impacting on the lives of these people through these loans. Table 4.5 shows the details.

Table 4.5 Whether respondents receive exact amount

	<b>Frequency</b>	<b>Percent</b>
Yes	45	64.3
No	25	35.7
<b>Total</b>	<b>70</b>	<b>100.00</b>

Source: Survey field 2011

We went further ahead to get knowledge of the requirements of loan acquisition. The results show that 42.9% of respondents say that one has to get a guarantor before accessing a loan at the bank, 25.7% say that the only requirement is for one to save at the bank in order to access a loan. Other responses are no collateral 14.2%, half of the money required 12.9% and material possessions 4.3%. This is represented in table 4.6.

Table 4.6 Requirement for accessing loan

	<b>Frequency</b>	<b>Percent</b>
Half of money required	9	12.9
Guarantors	30	42.9
Save with the bank	18	25.7
Material Possessions	3	4.3
No collateral	10	14.2
<b>Total</b>	<b>70</b>	<b>100.00</b>

## **CHAPTER 5**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION OF THE STUDY**

#### **5.1 SUMMARY OF THE FINDINGS IN THE STUDY**

This study examines the impact of Ghanaian rural banks, a case study of Kumawuman rural bank, in rural development. From our objectives, it was found out that 71.4 per cent of the respondents save money at the bank under study. Only 22.9 per cent of the respondents do not bank there. Basically, this minority does not save there because they are not residents of the Kumawu where the bank operates and received their monthly salaries through the bank. Some are also itinerant workers who work in the catchment area of the bank.

Again, the study revealed that 70.0 per cent of the respondents operate a savings account and 14.3 per cent of the respondents operate a current account.

Secondly, in wanting to ascertain whether the purpose for which rural banks were set up, that is, to take banking to the rural and neglected areas is being achieved, it was found out that aside the main branches of the rural banks which have been established in the rural areas, majority of their branches are located in urban areas. Taking Kumawuman, our case study bank as example, has six (6) branches in the Ashanti region and out of these six, four (4) representing 66.67% are in the urban areas with the remaining two (2) in a rural areas and this lessens the purpose for which they were set up.

Then also, many of these banks complain about a lack of interest in banking, because of low levels of economic activities among rural dwellers thereby finding attractive opportunities in the

urban areas. Some of the problems they talked about included the inability of the rural dwellers repaying their loans as compared to the urban dwellers

## **5.2 CONCLUSION OF THE STUDY**

In conclusion, our case study on Kumawuman rural bank reviewed that the bank contributed towards the development of Kumawuman through loan packages offered to their clients in the community to assist them in their businesses, the operation of several types of accounts that suits the different type of clients they have.

## **5.3 RECOMMENDATIONS OF THE STUDY**

- Aside the loans provided by the bank, many of the locals were also unaware of any developmental or social responsibility projects undertaken by the bank. We therefore suggest that, rural banks in trying to make an impact in these rural areas should try in their own little way to improve the lives of their rural members by undertaking social and developmental projects like granting scholarships, building schools and providing social amenities.
- Majority of the respondents complained about the length of time it takes to access the loans saying it takes too long for the bank to grant their requests. We advice therefore that rural banks try as much as possible to speed up their loan granting procedures.

- From our study, we also found out that accessing information about rural banks is very difficult and tedious as well as scanty so we recommend that, aside the government providing a database on its citizens and banks, the rural banks should themselves try to make information about them available to people in the rural areas and outside the rural areas through the creation of websites, e-mail addresses etc
  
- Finally, we recommend that as difficult as it is to the rural banks, they should try and operate majority of their branches in the rural areas thereby fulfilling the purpose for which they decided to come into existence, which is to serve the needs of the neglected rural communities. It may appear that, much banking thereby more money is concentrated in the hands of people in the urban areas but taking a closer look at the rural community reveals that the inhabitants need monies regularly to expand their businesses and the rural banks should try and address this issue as it not only improves the living conditions of the rural dwellers but it helps the banks grow as well.

## APPENDIX I

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**APPENDIX II**  
**RESEARCH QUESTIONNAIRES**

THIS RESEARCH IS BASED ON THE TOPIC “THE IMPACT OF RURAL BANKS IN RURAL DEVELOPMENT IN GHANA WITH A CASE STUDY ON KUMAWUMAN RURAL BANK, KUMAWU

CUSTOMER QUESTIONNAIRE

Please tick and fill in the blank spaces appropriately.

1. Where do you live? .....

2. Age? 18-25( ) 26-33( ) 34-41( ) 42-49( ) 50-57( ) 58-65( ) 66 and above( )

3. Sex? Male( ) female( )

4. What is your occupation.....

5. Do you save money at the rural banks? Yes( ) No( )

Why? .....

6. What account do you normally open? .....

7. Have you been assisted by any of the rural banks before? Yes( ) No( )

If yes, what type of benefit or assistance did you get?

.....



8. What role do you think rural banks play in your community?

.....

9. Have you ever applied for a loan? Yes( ) No( )

10. On the average how many days does it take to secure a loan? .....

11. Any other remarks? .....

12. Does it take several days or weeks for customers to process or access a loan from the rural banks? Yes( ) No( )

13. Are you given the specified amount you asked for? Yes( ) No( )

14. What do you require in order to access a loan from a bank? ..... ( with respect to collaterals)

15. What do you think about the interest rates being charged by the bank?

.....

16. Do the interest rates scare you from borrowing from the bank? Yes( ) No( )

17. Do you think your bank's loan repayment plan is flexible enough? Yes( ) No( )

What is the period required to repay the loan.....?

18. Do you find the establishment of Kumawuman Rural bank in this community important?

Yes ( ) No ( ) Not sure ( )

19. Generally, what impact does rural banking have on your community?

