

**“THE CONTRIBUTIONS OF RURAL BANKS TO THE RURALECONOMY” A CASE
STUDY OF NSUTAMAN RURAL BANK**

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STATEMENT OF AUTHENTICITY

We declare that, except for references to other people's work, which has been duly acknowledged, this work is the result of the group's own research and that it has neither in part nor whole been presented elsewhere for another degree. We Also Declare That We Have Been Under Supervision For This Report Herein Submitted.

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ABSTRACT

Rural banks have been established to mobilize rural funds and assist the rural folks with credit facilities mainly in their productive activities.

Therefore the study “The Contributions of the rural banks to the rural economy” set out to analyse the activities of the rural banks using Nsutaman rural bank as the case study.

The objectives of the study was to evaluate the activities of rural banks in line with their stated objectives, to determine their contributions of rural banks in respect of the various sectors of the rural economy and to assess the challenges facing the banks in their operations and suggest ways to mitigate the problems.

The study adopted both primary and secondary techniques to gather data from various sources and used tables, charts and other computer software’s like excel and the SPSS to analyse data that were gathered.

From the banks point of view, problems that they face ranges from non-repayment of loans, changes of addresses and location by customers and inadequate deposit base.

On the other hand, customers of the bank also face problems notably among which are delay in the acquisition of credit, high interest rate and inconvenient loan repayment period.

The study therefore suggests that, customers provide addresses whenever they change addresses. The bank should also educate customers on the essence and benefits in banking to help increase deposits.

The bank’s committee could meet frequently to consider loan applications. The bank could also reduce interest on loans.

DEDICATION

This piece of academic work is dedicated to the almighty God for his guidance and protection throughout the undertaken of this project work.

It is also dedicated to our loved ones especially to our parents for their moral, prayers and financial support.

The work is also dedicated to lecturers and all those who contributed to a successful completion of this project.

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CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND OF THE STUDY

Financial institutions are established to meet the financial needs of the society in which they operate. In most developing countries, capital requirement of business enterprise greatly exceed financial resources owned by the individual entrepreneurs. The government through the central bank in such countries are therefore expected to encourage and assist in the establishment of banks in order to meet the credit needs of the community.

The rationale behind the formation and spread of such institution in different parts of the developing countries seems to mean that such a strategy would contribute substantially to the rate of economic development. This view seems to be well entrenched in the mind of public spirited Ghanaians who are citizens. These request appeared to have been met at various stages during the past four decades since 1957 when Ghana attained political independence. The country today boast of a number of financial institution including a central bank, commercial banks, commercial banks, development banks (example Agricultural development bank), investment banks or specialized banks and other financial intermediaries.

In spite of the banks and other financial institution, the central bank (bank of Ghana) has experimented with a "Rural Banking System" which in their view could provide small credit at a very short notice with minimum of formality and adequate built in safeguard against default. As at

now, there are about one hundred and eighty- six(186) rural banks all over the country (Apex bank, 2012)

The rural banking system seeks to solve one of the most urgent questions confronting the international development community today; “How could productivity be raised among the rural poor developing countries?” The scale of the problem is immense and is illustrated by the following among others:

1. Of the 200 million of people from the member countries of the World Bank, who live in the developing countries, roughly 150 million works on the land and half of those are trapped in what can only be described as absolute poverty.
2. The number of absolute poor increases and their enforced degradation deepens with every passing yea, despite more than two decades of extraordinary world wild economic growth.

The problem is not merely that the benefits of economic growth have been inequitably distributed but also that the poor nations themselves have been unable to contribute to the worldwide growth. The solution then lies in raising the productivity of the poor so that their own incomes can rise as those in the urban societies.

In Ghana, lack of capital has been a major setback so far as the establishments of large-scale industrial, manufacturing and commercial operations are concerned. This has resulted in many Ghanaians engaging in small -scale economic activities. Agriculture is no exception. The small-scale farmers constitute over 90% of all agricultural outputs in the country (World Bank 1991 report). The contribution of the small-scale economic activities to the development of the

economy is therefore laudable. Based on this premise, it can safely be assumed that solving the credit problem of the rural area should be paramount to policy makers. The hallmark of any low-income country is its predominantly rural structure that cannot escape even the casual observer. The rural farmer are the life wire of this country e.g. cocoa, coffee farmers, so because of their importance, they need to be developed.

Unfortunately, some of the financial institution commercial banks for example are biased against rural credit. They prefer to lend to the urban-based sectors such as trade and industry. The usual reason given for this basis of inability of the rural people is to offer adequate security for loans. This results in the rural small-scale entrepreneurs falling on non-institutional credit agencies for loans at exorbitant interest rates between 50% -100%. Consequently, the rural people's plight is worsened.

In order to counter this bias, the central bank (Bank of Ghana) with the support of the government, intervened and instituted the establishment of rural banks to boost the rural economy.

1.1 STATEMENT OF PROBLEM

The importance of rural banks as providers of financial services to ensure growth in the predominantly agro-based economy cannot, therefore be over emphasized. Although some rural banks doing well in terms of micro finance and commercial banking activities structured to satisfy the needs of rural areas, there are lot more rural banks who are still struggling to be on their feet and are not doing much to complement the government's effort to alleviate poverty and improve

the living conditions of the rural people. The large part of their credit facilities which should be directed to the farmers and small-scale rural entrepreneurs for onward investment in productive ventures, rather goes to the government salaried workers who also invest in unproductive ventures. Thus, 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 Banking system with the hope that small-scale rural producer and small towns would benefit from the new credit.

It is uncertain whether or not the rural banks are fulfilling the basic function for they were created, hence the research on the topic “The contribution of Rural Banks to the rural economy” A case of Nsutaman Rural Bank.

1.2 OBJECTIVES OF THE STUDY

The main objectives of the study are to identify the impact of Rural Banking system on the Ghanaian economy. The specific objectives of the study are;

1. To identify the services rendered by the rural banking system.
2. To evaluate the activities of these banks in line with their stated objectives.
3. To determine the contributions of rural banking to the economy in respect of agricultural, industrial, service, commerce and the transportation sector..
4. To assess the challenges facing the banks in its operations and suggest way to mitigate the problems.

1.3 RESEARCH QUESTIONS

1. Why are Rural Banks established?
2. What is the performance of Rural Banks according to their stated objective?
3. What are the contributions of Rural Banks to the socio-economic life of the people?
4. What are the operational challenges hindering the banks from improving the living conditions of the rural folks?

1.4 METHODOLOGY

The study adopted the following methodology; data were gathered from both primary and secondary sources. The main secondary source include books of Nsutaman Rural Bank company Limited and Apex which is a supervisory body to all Rural banks in Ghana. Non probability sampling technique was used to select the respondents from the banks customer base and a purposeful sampling technique was used to select one respondent from management. Structured questionnaires were administered to obtain primary data from customers of Nsutaman Rural Bank Company Limited and a structured interview was used to obtain data from management. In analysing the data, statistical tools such as SPSS and computer software like Microsoft Excel were used.

1.5 SIGNIFICANCE OF THE STUDY

1. The research work would help the Rural Banking system overcome the challenges they face in the industry.

2. The research work would also help the government to plan its economic policies in poverty alleviation and as well come out with better legal and operational framework to supplement Rural Banks.
3. The research work would give rural folks better understanding on the importance of Rural Banks to the rural areas.
4. The research work would also serve as a literature for further research works.

1.6 SCOPE OF THE STUDY

The study was conducted on Nsutaman rural bank a bank that offers service to the people of Nsuta and its environs. Nsuta is a town in sekyere central district in the Ashanti Region. It is in the town that Nsutaman Rural Bank Ltd is located. The research work focuses on the contributions of the Bank to the people of Nsuta.

1.7 LIMITATIONS OF THE STUDY

It has not been easy conducting this study, although 40% of the respondents claim they had at least middle school education, their response to the questions were very discouraging. Most of the answers given did not correspond to the questions asked. In some cases questions had to be repeated more than twice.

Some of the respondents refused to answer some questions because they did not deem it safe for discussing their financial issues with outsiders. In some situations, the respondents thwarted information they feared they would be singled out if they should discuss issues as they stand.

Another problem was the small-scale operators do not keep accounts, it was therefore difficult finding their performance before and after they had received credit facilities. Most of them gave approximate values. It was almost impossible to have completed this work since most people were not ready to co-operate.

1.8 ORGANIZATION OF STUDY

The study under discussion is organized in such a way to give a systematic dissection of the research problem.

Chapter one provides the background of the study and looks at the statement of the problem, the objective of the study, methodology, scope of the study.

Chapter two focuses on existing literature on the contributions of rural bank such as credit.

Chapter three mainly looks at the methodology used in gathering data for the study and profile of Nsutaman Rural Bank Company Limited.

Chapter four gives the analysis of data to the study

.

Chapter five provides the summary of the major findings, conclusion and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter is divided into eight main sections. It reviews literature on the beginning of rural banks in Ghana. It also reviews literature on rural banks in Ghana, rational for introducing rural banking system, again it also review literature on Legal Framework and Supervision, Characteristics of Rural Banks, Developments in the Rural Banking System. It further reviews literature on Problems of the Rural Banking System and Strengthening Measures and Micro Finance for the Poor.

2.1 THE INFLUX OF THE RURAL BANKS.

In spite of the important role played by the rural/agriculture sector of the Ghanaian economy, the performance of the rural financial markets remained poor in terms of financial services available to rural enterprise and peasant farmers. In the circumstances, the sector had to rely mainly on the informal financial operators such as money lenders, susu collectors etc, for the supply of their credit needs at high interest rate.

Over the years, the traditional banks continued to be players in the rural financial market and encouraged to expand their network while specialized banking institutions including the Agricultural Development Bank were created. These banks were unable to satisfy the financial needs of farmers, as they could not modify their operations to suit the rural communities. Furthermore, they found their operations to be profitable without getting involved in rural lending. Very little credit got to the peasant farmers in the rural areas although the banks were

involved in financing commercial farming enterprises. This situation created a gap in the provision of institutional finance to the peasant rural/agricultural sector.

The Bank of Ghana introduced the Rural Banking system in July 1976 to provide financial services and to promote the efficient operation of the rural financial markets by way of mobilizing deposits for investment into productive areas of the rural sector of the economy. The objective of this intervention was to create a formal financial system to help promote accelerated growth of the Ghanaian economy and to improve the living standard for the majority of the people.

Rural development is essential if the overall economy of the nations is to be developed. Various studies have been conducted concerning rural development. Some of them have confirmed claims to poverty and underdevelopment of the rural areas.

Underdevelopment has hitherto been defined as a problem of backward production methods. It was assumed that it was a question of supplying technically effective and economically beneficial innovations which the producers would automatically accept, with at most a low level of supervision being required. The support of pre-packed solutions that were not developed from the realistic assessment of the situation has proved ineffective or has only served to exacerbate the problem

Saouma (1981) noted that because past development efforts have failed, they have contributed to the urban-rural imbalances in development, neglected the dynamisms and authentic cultural

values of the rural population and have contributed to imbalances within the rural sector. Poverty and hunger are therefore dominant in the rural areas, Saouma, having assessed developmental efforts noted among things that developmental programs should be conducted along the following lines. That the primary aim of development should consider

1. The individual and social betterment of the rural poor.
2. Agrarian reforms and to incorporate the rural folks in production and distribution system.
3. The integration and participation of the rural folks.
4. The internal mobilization of resources.
5. Efforts to increase investments and production in the rural areas.

As development occurs, workers are transferred from agricultural sector to lucrative sectors like commerce and industry.

A World Bank (1987) policy paper on rural development noted that the transfer of people from agriculture to high yielding pursuit has been slow and poverty prevails in the rural areas. An attempt to develop the rural areas through the development of the economic activities of these areas would require financial assistance.

Nowak (1989) noted that development banks and agricultural banks have not responded to the needs of the rural sector, she noted that assistance offered by these institutions do not encourage individual initiatives. The economic operator therefore falls on informal system of credit. There

has being excess demand of credit over supply and this resulted in high cost of credit in the formal system. Based on this premises, it will be beneficial if efforts are made to ensure that peasant farmers and other small-scale entrepreneurs receive the necessary financial assistance from banking institutions. These small-scale producers do not receive such assistance because of their inability to repay loans.

Nikoi (1993) noted that one of the reasons why farmers default in loans repayment is because of the low prices they receive for their products as a result of the unbridled trade liberalization. Banking institutions in Ghana also failed to assist the private sector (including the rural economic operators) with the necessary financial assistance.

A World Bank report (1991) noted that only 10% of the overall credit in Ghana was allocated to the private sector in 1991. Huq (1989) noted that in Ghana “The money lender was of much help to the village community and that he was held in high esteem”. Nana Sinkim (1989) also confirmed the failure of the African banks to assist the rural folks. Writing on the role and structure of African banks he noted, among other things that the intervention of the African banks in the developing process has been very timid in the mobilization of savings, credit distribution and financing priority sectors of the economy. He noted that the assistance offered by these banks has not benefited the rural folks. The principle underlying the operations of these banks where deposits are payable on demand, so credits granted in the short term has not encouraged increases in production. This is because short-term credit matures earlier than length of projects and because they ought to be repaid, economic operators are forced to borrow from the informal

system at high interest rates or to reduce the amount they plough into other productive activities, thereby affecting their completion.

The formation of the rural banks marked the realization that it is an illusion to continue to presume that one can channel credit through the economic ideology or the organization form of the global elite, the government and major corporations of the world (1989 – 1993).

Hug (1989) noted that the need for something like a rural bank was clear by the end of the 1960s when it became clear that not even the Agricultural Development Bank was meeting much of the credit needs of the rural small-scale farmers and industrialist. Rather the commercial banks were draining the rural areas of savings to urban areas for investments in commercial and housing sectors.

Also, the rural banks represent an attempt to allow the rural poor to avoid taking what was considered to be loans with exorbitant interest rates and harsh conditions from money lenders.

Despite the numerous challenges facing the rural banks which need indigenous efforts to overcome and to intensify their resource mobilization efforts, rural banks have made giant strides in the Ghanaian economy. He also noted the rural bank increased their deposit from 5.5 billion cedis in 1991 to 135.1 billion cedis at the end of December 1999. He noted that total investment in government security among rural banks also increased from 1.5 billion cedis to 2.9 billion cedis within the stated period, whilst total credit extended to customers of the bank increased from 4.8 billion cedis to 57.74 billion cedis at the end of December 1999.

However, he noted that the contributions of the rural banks in the banking industry are still low in spite of the improvement in their deposit mobilization.

2.2 LEGAL FRAMEWORK AND SUPERVISION.

Rural/community banks are public companies and are therefore required to obtain certificates of incorporation and commencement of the business from the Registrar of Companies under the Company's Code of 1963, (Act 179), before they operate as a business entity. They also require a license from the Bank of Ghana to enable them operate the business of banking under the Banking Law, 1989 PNDC L225.

The Bank of Ghana has the power, under PNDC L255, to issue or revoke the license of rural/community banks, as is the case with banks and non-banks financial institutions.

The Banks also have the power to regulate the operations of the banks in line with its monetary policy. The Bank of Ghana therefore issues directives on reserve requirements and other areas of operations which it considers necessary. The Banks of Ghana also undertake routine inspection of rural/community banks at least once a year to ensure compliance with all statutory requirements and other directives.

At the initial stage of the inception of rural banking system in Ghana, the Bank of Ghana purchased preference shares in rural banks as means as giving financial support and also to encourage people to purchase shares in the banks. The banks also had representation on the Board of Directors of the Banks not only because it was the majority shareholder but also guide the banks in its operations. The central banks also established a special department to monitor the progress of the rural banking system.

2.3 GENERAL CHARACTERISTICS OF RURAL BANKS.

Rural/community banks mobilize financial resources from their customers in the form of saving deposits, time deposits and current account deposits. Savings made by the customers are voluntary. However, sometimes some of the banks introduced forced savings, as a means of mobilizing financial resources which are also used as security for credit delivery. The target clientele of the banks are individuals, groups and institutions within its catchment areas. In some cases however, the banks deal with customers who are non-resident citizens of the catchment areas.

Rural/community banks extend short-term credit facilities to eligible customers on demand.

In most cases, such facilities are not secured with immovable properties as the case in the traditional banks. Instead, they use social collateral or group liabilities and as stated earlier, sometimes together with compulsory savings.

Rural/community banks are free to extend any amount of credit to their customers subject to the relevant provision in the banking laws as well as the good standing of the customers. However, a credit amount approved by above some stipulated limit should be referred to the Bank of Ghana for ratification.

2.4 DEVELOPMENT IN THE RURAL BANKING SYSTEM.

2.4.1 Number of Banks

With only one rural bank established in 1976, the number increases to 20 by 1980 and went up further in the subsequent years to 122 and by 1999, the number increased to 134, of that number

18, rural banks were declared distressed by 1992 as they were insolvent and could not meet withdrawal claims by depositors. The licenses of one of such banks were withdrawn in 1996.

Eight (8) more banks became distressed bringing total number of banks in distressed situations to 23 while two(2) of the banks showed signs of recovery from their distressed situations.

In the early 1999, Bank of Ghana withdrew the licenses of the distressed banks which brought the total rural/community banks currently in operation to 133. The rapid growth in the number of rural/community banks, particularly between 1980 and 1985 could be attributed mainly to interest shown by rural communities to establish their own banks in the view of the evidence of successes achieved by the existing rural banks.

2.5 PROBLEMS OF THE RURAL BANKING SYSTEM.

The rapid growth in the number of rural/community banks was accompanied by a number of problems some of which were as the result of the external environment in which the banks operated while others could be traced to managerial and operational lapses.

2.5.1 External Environmental Problems.

The external environmental problems included the neglected nature of the rural areas, which constrained the ability of the banks to recruit and retain competent personnel and also contributed to an increased transactional cost.

The general uncertainty and stagnation in small scale agriculture as well as the few but inaccessible markets adversely affected production, distribution, and marketing and income

generation. These in turn affected the ability of borrowers to meet their repayment obligations, thus contributing to poor asset quality.

2.5.2 Liquidity

Misapplication or misallocation of mobilized funds, very low deposits and high default rates have plunged many rural banks into serious liquidity problems culminating into the erosion of the public confidence in some banks.

2.5.3 Loan Recovery

A combination of poor lending practices and ineffective monitoring of credit facilities extended to customers has contributed to high loan delinquency in some banks. In certain cases directors of rural banks are themselves defaulters and therefore lack the moral justification to pursue defaulters.

2.5.4 Profitability

The profit of some of the rural banks has not been very encouraging due to high operational cost, inadequate capital and mismanagement of bank resources by some staff management. Statistics computed have revealed that 19 rural banks are financially distressed institutions. The poor profit performance has led to inability of the banks to pay shareholders a satisfactory rate of return on their investment as well as grant salaries and benefits that correspond to a rapidly rising cost of living to the bank employees. It is also noted that out 132 rural banks in the country only 60 could be classified as satisfactory (Dr. Duffour, 1998).

2.5.5 Staffing and Management

The issue of high staff turnover and malpractices has also had negative repercussions on rural banks operations. Financial problems have restrained the banks from employing highly qualified staff. It is further disheartening to note that only 92 banks submit to the Central Banks, thus making it difficult to supervise and monitor their operations (Dr. Duffour, 1998). This has led to the mismanagement of the resources of some banks by some Board of Directors and staff.

2.6 RESTRUCTURING AND INSTITUTIONAL STRENGTHENING MEASURES

With the view to help solve the problems identified with the rural banking system, Bank of Ghana instituted a restructuring programme under the Rural Finance Project in 1989 with financial support from the World Bank.

A diagnostic study of the rural banks was undertaken by local consultants with the aim of identifying the financial, technical and managerial weaknesses of the banks. Rural Finance Project of the Bank of Ghana identified the following operational problems in the banking system.

1. Losses from operations
2. Deterioration capital base
3. Tight cash flows
4. Low rate of loan recovery.

These problems were traced to the following lapse associated with the operations of the banks.

1. Lack of capabilities in finance.
2. Lack of skills in cash management and financial decision making.
3. Weak management information systems.

4. Need for improvement in certain areas of accounting systems.
5. Organizational deficiencies.
6. Fraud and dishonesty on the part of some personnel of the banks.

The following measures were taken to restructure the banks.

1. The banks were assisted to update their books of accounts. The accounting records were also simplified and standardized.
2. Internal control systems were introduced with improved and detailed organizational structure.
3. Prudential methods for classifying loans and advances as well as plans for mobilizing additional financial resources were introduced.

As part of the restructuring exercise, the banks were classified as follows, taking into consideration their financial and management position.

1. Satisfactory – Banks which had met capital adequacy and liquidity requirements with efficient management.
2. Mediocre- these banks recorded various levels of capital inadequacy, liquidity and negative profitability. They had generally poor assets quality and poor management.
3. Distress – Insolvent banks. Unable to meet withdrawal claims by depositors.

The measures taken regarding the various categories of banks were as follows.

1. The satisfactory rural banks were granted flexibility in the management of mobilized resources by being required to observe stringent reserves requirements.

2. The mediocre banks had their lending facilities suspended and their investment in fixed assets curtailed. Staff retrenchment was also effected to ensure that staff and other costs were contained in the budget of the banks.
3. For the distressed banks, their net deposits were paid off with a loan from the Bank of Ghana.

The measures taken to restore the banks were not in isolation but were part of a broader structural reform in the financial sector of the economy.

CHAPTER THREE

RESEARCH METHODOLOGY AND COMPANY PROFILE

3.0 INTRODUCTION

This chapter discusses the methods used to investigate and gather all the necessary data to draw findings. The discussion consists of research design, data collection, population, sample and sampling techniques, data collection and instrument and analysis of data. The chapter also looks at history and structure of the company.

3.1 RESEARCH DESIGN

The study used a survey design to analyse the operations of rural banks in the quest of developing the rural economy in Ghana. It is a case study of Nsutaman rural bank company limited and is basically qualitative in nature and thus data obtained were analysed qualitatively.

3.2 DATA SOURCE

The data collected is basically primary and a few secondary sources from of Nsutaman rural bank and its customers.

3.3 POPULATION

The entire customers of Nsutaman Rural Bank as at the end of the first quarter of 2012 were a little over 2000 out of which 60 aided to answer the questionnaire. The staff of the Bank was also 22 in numbers out of which one management member was interviewed which brings our total population to a little over 2022 and a sample size of 61 respondents.

3.4 SAMPLE AND SAMPLING TECHNIQUE

Sampling forms the process of selecting units from the population of interest so that by studying the sample, we may fairly generalise our results back to the population from which they were chosen. This is to help save time, cost and avoid repetition of the same data.

Based on this, the study covered a sample size of 61 respondents. Out of which 1 of the respondents is a management who was chosen purposefully because he possess data which was healthy to work and the remaining 60 were customers chosen using the non-probability method of sampling were by the customers were selected randomly. Questionnaires were administered to customers who came to the Bank.

3.5 DATA COLLECTION TECHNIQUE

A questionnaire was used to collect the data. The instrument had structured questions. Warwick & Linger (1975) stated that researchers should settle on instruments, which provide utmost accuracy, generalizability and explanatory power with low cost, rapid speed, and a minimum of management demands, with high administrative convenience.

The questionnaires were self-administered and respondents assisted to answer questionnaires as they were taking through by coordinators. Structured questionnaire were used to gather the data by using face-to-face method for customers and again structured interview for the manager of Nsutaman Rural Bank.

3.6 DATA ANALYSIS

Data obtained were analysed using tables, charts and other computer software like SPSS and Excel.

3.7 HISTORY AND STRUCTURE

3.7.1 Historical Background of the Bank.

Nsutaman Rural Bank Limited was established on the 5th of February 1992 under the Banking Law of 1970 after Ghana Commercial Bank (GCB) had vacated their premises due to low profitability and enormous default of loans. The founders of the bank include Mr. Y. M. Sarpong, Dr. J. Nti, Mrs Elizabeth Aboagye, Dr. E. R. Dwomo, Mr. G. A. Sarkodie, Mr. Thomas Addai, Mr. Kwadwo Adu Gyamfi and Mrs. Augustina Opoku Amoako.

The bank is a limited liability company incorporated under the company's code of 1963 and is licensed by the Bank of Ghana to carry out specific banking activities which includes;

1. Mobilization of rural deposits
2. Repayment of such monies on demand by cheque or otherwise
3. Lending of money to finance trade, rural industries, small-scale entrepreneurs, agriculture and transport.
4. Initiation of projects that can promote rural socio-economic development.

3.7.2 Profile of Nsutaman Rural Bank Limited

Board of Directors

At the apex of the organizational structure of the company is the Board of Directors (BOD). The Board is the decision making body responsible for the formulation of policies and provides the overall strategic direction to the company to ensure that it maintains focus on its objectives and vision. The Board is also responsible for the appointment of key management staff of the company. It exercises supervision of the management through various sub-committees. The current 5-Member Board is composed of the following:

1. Mr. M. Y. Sarpong - CEO
2. Dr. J. Nti - Chairman
3. Dr. E. R Dwomoh -Member
4. Mrs. Augustina Opoku -Member
5. Mrs. Elizabeth Aboagye -Member

The Board members have the requisite knowledge, qualifications and experience in a wide range of areas including banking, finance business management and social work. They are long-term residents of the catchment area of the company who know the type of clients and the environment in which the company operates. The competence and vision of the Board in the financial sector matters have impacted positively on the performance of the company.

Nsutaman was established to uphold its mission and vision statements which are

Mission Statement

“Nsutaman Rural Bank is dedicated to meeting the financial services need of individuals, groups and businesses in selected communities delivering quality products and services”.

Vision Statement

“To become a catalyst for development and achieve the greatest possible impact in support of the community we serve and building exceptional value for customers and shareholders”.

Objectives

1. To mobilize rural savings
2. To provide credit and other services to its people
3. To make profit for the shareholders
4. To initiate projects that can promote rural socio – economic development

CHAPTER FOUR

DATA DISCUSSIONAND ANALYSIS

4.0 INTRODUCTION

The chapter analyses and discusses the data gathered for the study.

Raw data collected from field was sorted and summarized in tables and figures. The process used for analysis involved several stages. Completed questionnaires were edited for completeness and consistency. The data was then coded and checked for any errors and omissions using statistical package for social sciences (SPSS).

4.1 DISCUSSIONS OF FINDINGS AND ANALYSIS

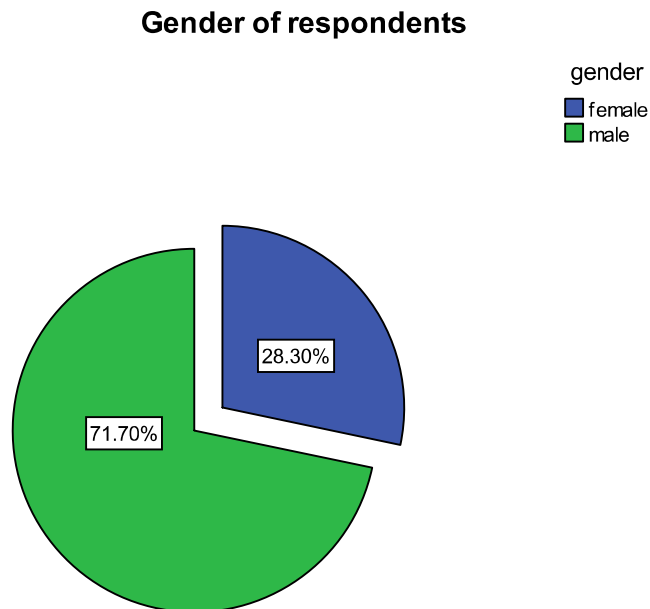
4.1.1 Demographic Characteristics of Respondents

This section discusses demographic characteristics of respondents: age, gender, education, and others.

Gender

In all 54 customers that answered the questionnaires, 38 were males and 15 were females representing 71.7% and 28.3% respectively.

Figure 4.2 shows the demographics characteristics by pie chart



Source: Authors research field work 2012

This depicts that more males than females because most males indulge in agriculture activities which is a common occupation in the rural sectors and most of the women stays at home without working relying on their husbands whilst those willing to work are asked to stay home and cater for the children. Hence contributions in the form of loan assistance are mostly channelled to males.

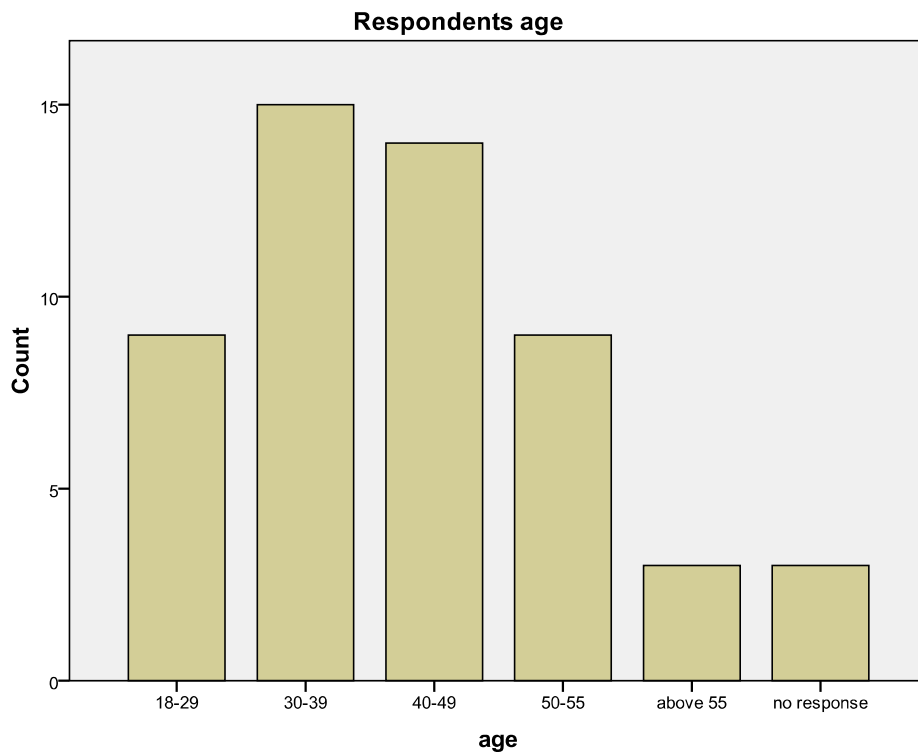
Age of Respondents

Out of the 54 respondents, 3 were above the age 55 and 15 of the respondents were between the ages of 30 to 39 representing 5.6% and 27.8% respectively. The table below shows the age classifications.

Table 4.2 Age of respondents

Age Limit	Frequency	Percentage (%)
18 – 29	9	16.7
30 – 39	15	27.8
40 – 49	14	25.9
50 – 55	9	16.7
Above 55	3	5.6
No response	4	7.3
Total	54	100

Source: Authors research fieldwork 2012



The group 30 – 39 has the highest frequency followed up closely by the group 40 – 49 because they constitute the active population of the groups and has the ability to work. The group above 55 has the minority since they are aging and do not have the required ability to work as the youth.

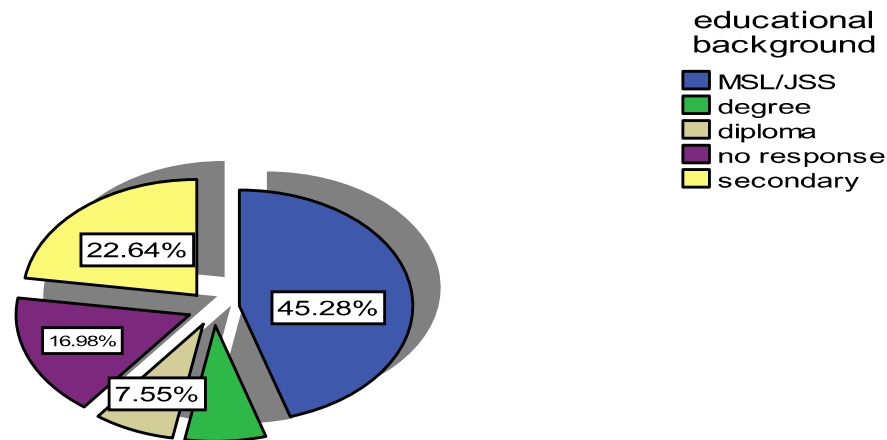
In 2010, an amount of Ghc82,350 was set aside to issued as loans and 71% of the ammout was disbursed to the ages within 30 – 39 and 40 – 49. This is an indication that, much contritions from the bank are extended to the said age groups.

Education

The educational background of the respondents' reveals primary having the highest and tetiary with the lowest.

Figure 4.2 Educational background of Repondents

Educational Background of Respondents



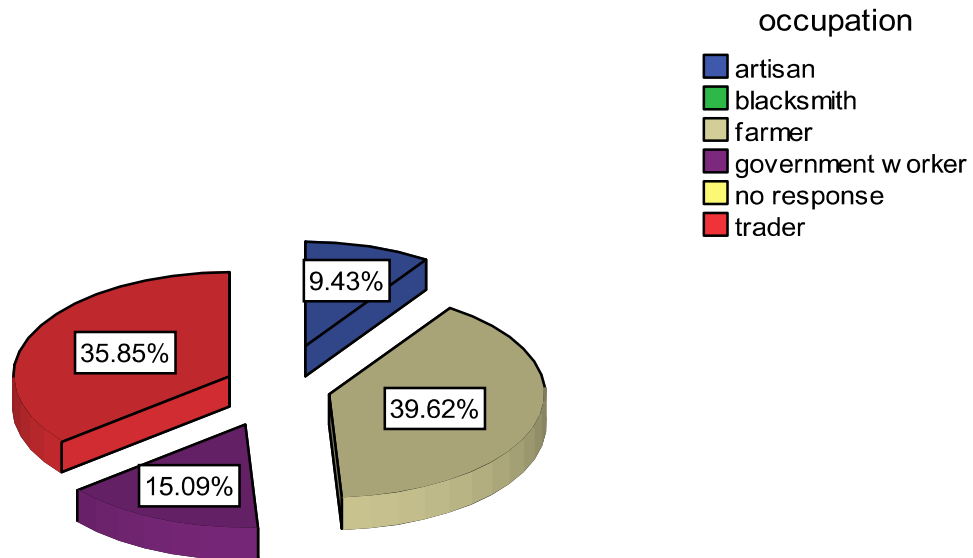
Source: Authors research field work

Occupation of Respondents

The occupations of the 54 respondents revealed that 21 are into farming which constitute 39.62%, 5 Artisans constituting 9.3%, 8 government workers constituting 14.8%, 19 are into trading which constitute 35.2% with a no response which also constitute 1.9%.

The policy and aim of Nsutaman rural bank company limited regarding the lending of assistance shows farmers are the people who mostly fall into the aim of the bank to offer assistance. Their nature of business is one that dominates in the rural communities and therefore if rural banks exist to help develop the socio-economic lives of the rural people then it shows why more assistance are extended to farmers. Traders and government workers follow up with artisans getting the least because most of the youth are either following their parents or guidance to the farm or learn a trade after their basic school education and to some extent secondary school and therefore do not see the need of learning how to fix vehicles.

Respondents occupation

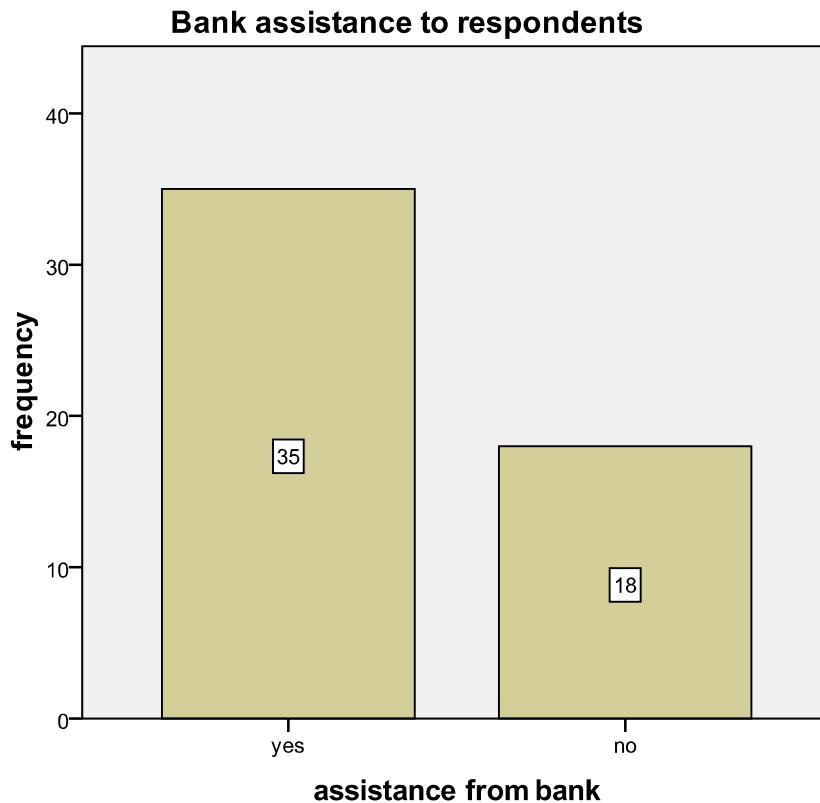


Source: Authors research fieldwork 2012

4.1.2 Facilities Offered by the Bank

Bank assistance to customers

Out of the 54 respondents, 34 of them source for assistance from the bank while the remaining 18 do not.



Source: Authors research field work 2012

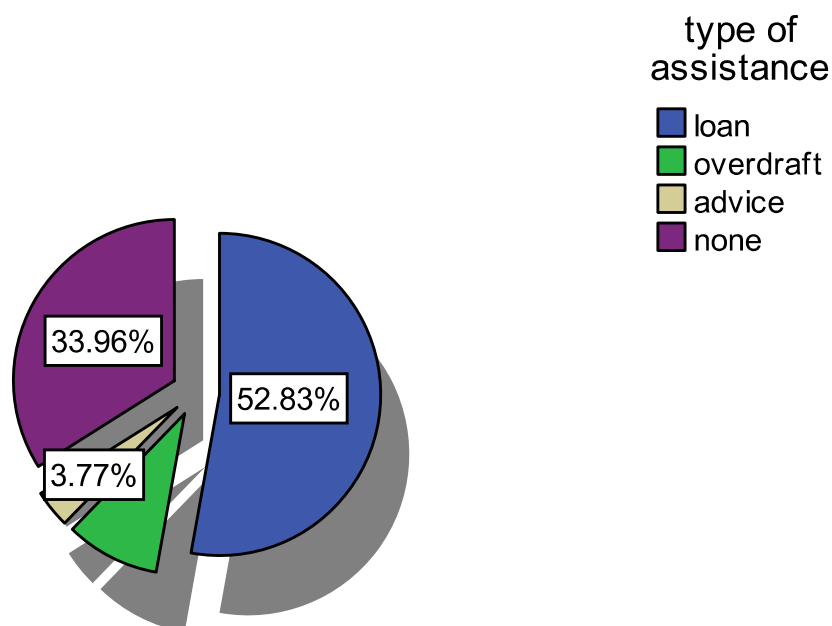
According to information gathered during the survey, 35 out of the total respondents seeks assistance from the bank while the remaining 18 of the received questionnaires are without the intervention of the bank. 66% of the respondents testified that, there have been boosts in their businesses through the assistance from the bank.

Judging from the data, one of the objectives of the bank which is providing credit to their customers and helping to eradicate poverty in Nsuta is in focus and as such renders the bank's existence very necessary.

Type of Bank Assistance

The 54 respondents revealed that, 28 of the respondents representing 51.9% seek loan assistance, 5 respondents representing 9.3% goes in for overdraft, 2 respondents representing 3.7 seeks business advice from the bank while 18 respondents source for no assistance the bank.

Type of Bank Assistance



Source: Authors research field work

Nsutaman Rural Bank has been discovered to be providing loans often as compared to other services according to the geographical representation develop from gathered data. The bank has provided credit to individuals who are mostly in Agric sector which occurs risky to the international banks. The advice and overdraft provision are very minuet as fewer people from our

survey subscribe to it. This depicts that, most of the bank's assistance to its customers come in the form of loans as compared to other services.

4.1.3 Socio -Economic Contributions of the Bank

The Bank avails a scholarship package to 5 brilliant but needy students in the second cycle institution and 2 others at the tertiary level every year since 2008.

The bank has provided a classroom block for Nsutaman senior high school and has donated a set of computers to the school.

In addition, 10 boxes of exercise and library books have been donated to the Nsutaman senior high school.

For the past 5 years, the Bank has been maintaining the Nsuta – Kwaman road whenever the need be for easy transportation.

In health, the Bank has been contributing as hepatitis B and breast cancer screening was subsidized by the Bank in 2010.

Under agriculture, the Bank subsidized the cost of spraying cocoa farms of active and loyal customers. Also the same customers are given donations of fertilizers annually.

With respect to employment, the Bank has employed 22 workers currently and 18 of them are natives of Nsuta including the managing director. The Bank has also employed 25 people as drivers and are driving the commercial vehicles of the Bank and they are on the pay roll of the Bank.

4.1.4 Problems Facing the Community

Interest Rate

57% of the respondents were of the view that, the interest charged on loans was too high and adding up to the principal amount scared them. Nevertheless, some customers still take loans from the Bank as others especially the peasant farmer fall on friends and relatives for help. Farmers who seek help from friends mostly pay their loans by giving a certain quantity of the products cultivated to them and most at times ends up paying above more than they borrowed.

Education

Among the problems indicated by the respondents, 21 respondents representing 39.6% indicated that, the level of education in the community was very low and therefore the bank should step in by building more schools in the community. Again it was indicated that, the Bank should expand their range in term of giving scholarships.

Water

Furthermore, it was made evident that good water to drink was a problem as natives of Nsuta travel far before getting access to dug bore holes and even end up forming long queues which turns out to be very frustrating.

Inadequate Branches

Customers also complained of the only existing branch of the Bank situated in Nsuta which makes it difficult for customers to have access to their monies when they travel outside the catchment area of Nsuta.

Loan Acquisition and Repayment Period

Customers also made it known that, the time it takes them to secure a loan was too long and sometime would have no need for the loan since its intended purpose had pass. Also, the repayment period was too short and they end up defaulting.

Products Produced

Farmer has a problem with the products they produce since they are perishable and they have no storage facilities to preserve their products, the products ends up perishing. Access roads to farms are poor and therefore, cars to carry the products from the farm to the market are a challenge confronting farmers. Again, changes in the weather pose a threat as anticipated rain fall might delay or might not fall at all.

4.2 ANALYSIS OF INTERVIEW WITH MANAGEMENT

Age and Gender

It was realized that the respondent was a male within the ages of 40 – 49 year. This depicts that the company employs workers at a young ages and groom them for a number of years for quality and long service.

Education

The respondent had a tertiary level education which depicts that the company seeks to employ certain category of persons to man the affairs of the bank. The respondent has seven years of his life managing the bank.

Bank's Assistance

The bank is offers assistance in terms of loans, advice, overdrafts among others. Out of the numerous assistance offered by the bank, it was made known that provisions of loans occurs as the most assistance offered due to establishment and expansion of businesses. This makes it evident that customers scarcely see the need to solicit for business investment advice from the bank that to some extent are knowledgeable than they are.

Interest Rate, Repayment Period, Loan Collateralization

From the interview the respondent revealed that, the rate of interest on loans extended to customers ranged from 10 – 34 percent depending on type of loan being assessed. Between traders and salary workers, different interest is charged as that of the traders are higher than that of the salary workers. The reason being that loans extended to salary workers are less risky compared to that of traders. In respect of farming which is a major occupation there is in the rural sectors, the interest rate on their loans are higher than all loan types. This is due to the facts that, their mode of work are mostly seasonal in nature. Again customers' minimum time taken them to secure a loan is four months and the maximum is six months.

It was also discovered that, the repayment period is not fixed but rather negotiable. The bank has made flexible enough for both the customer and the credit officers to negotiate on the time period which will be beneficial to both parties depending on the size of the loan. However, it mostly favors the bank and the customers can do very little to that effect.

It was noted that customers secure a loan by simply providing three guarantors to guarantee the loan which do not exceed 5000 cedis while others exceeding 5000 cedis attract a security of a tangible asset in the form of a vehicle, house, lands and others. Also the applicant must have up to one – fifth of the amount he or she is applying for.

Loan Application Process

The loan application process cuts across all types of loans.

1. The customer shall submit personal application letter to apply for the loan
2. The customer then shall fill a standardized form and he or she indicates the amount and loan term requested.
3. The credit department fills a credit appraisal form.
4. Prior to processing the loan for approval, the credit officer must ensure that all securities or guarantors are properly documented.
5. The loan application is then forward to management and from the management forward to the board of directors.

Employment and Qualifications

It was found out that, the bank offers a preferential consideration to applicants who occur to be natives of their catchment area of with the reason being to reduce the unemployment rate in Nsuta and its environs and promoting a better standard of living for them and their families. The bank also runs a transport service which has employed 25 of the natives of Nsuta and hence improving their standard of living.

For qualifications, the bank employs people with a tertiary level education at management level, employs GES Advance level and ordinary level and senior secondary certificate holders for clerical works and employs people with middle school certificate for other posts

Service Offered by the Bank

The bank offers services such as deposit taking and paying on demand and also advice on business investments but this service are asked by customer before help is extended.

Deposit Mobilization and Interest on Deposits

The bank mobilizes its deposits through its various accounts it offers its customers such as savings account, current account and fixed deposit and the interest it attracts range from 5 – 12% annually. Looking at the interest charged on loans it is evident that the interest deposits attract is relatively small.

Challenges Facing the Bank

Loan Default

Default rate is a big challenge facing the bank and farmer dominate in loan default. This is due to the fact that, most of the products produced by the farmers are perishable and also farmers end up cultivating lesser products than expected. The causes of such problems are due to the fact that, most of the farmers are into the seasonal products and weather changes could affect their produce and also farmers lack storage facilities to preserve their produce. Due to the problems stated above most farmers end up defaulting on the loans they acquire.

Account Imbalance

Another challenge which makes the bank's work challenging is the constant imbalances of accounts between customer and the bank. Due to this any argument that arises results in the withdrawal of one's money from the account and keeps it in the house. Most instances defaulters and imbalance cases end up in the court house which makes those who do not have their monies with the bank more reluctant as to bank their monies or not. The main cause of this problem is infrequent issuance of statement of accounts.

Low Deposits

Low deposit base is another challenge the Bank is facing. Most of the native till now do not see the essence in banking and prefer to keep their monies with them.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter which ends the study attempts a summary of the contributions of Nsutaman Rural Bank. It gives some recommendations that may help to overcome the challenges facing the Bank.

5.1 SUMMARY OF FINDINGS

The study found out that;

1. The study was set to analyse the contributions of rural banks towards the development of the rural economy. Data was source from both primary and secondary and the objective was to determine the relevant services offered by the rural banks, evaluate the activities of rural banks with their stated objectives and to assess their challenges and give recommendations.
2. The Bank offer services such as taking deposits and paying it on demand, giving loans, giving advice to entrepreneurs, and granting of overdrafts.
3. The bank has done well in achieving its stated objectives to some extent especially its fourth objective thus undertaking projects to promote rural socio – economic development.
4. Maintenance of roads for easy transportation, scholarship packages, donations, health checks and spraying of farms among others were some of the major contributions from Nsutaman Rural Bank.
5. The Bank faces the challenge of loan default, imbalances of accounts and low deposits base.

6. Men form the larger population of the customers of the bank because of the dominance of agriculture which is mostly work for the men and also majority of the women do not work.
7. The larger section of the customers fall between the ages of 30 – 49. This is due to the fact that, the said age group constitute the vibrant people with the ability to work hard and therefore the incomes they make out of their respective occupations they save some with the Bank.
8. Educationally, most clients have the primary level education which forms the section of the total customers since they lack funds to further their education.
9. Natives of the catchment area are mostly farmers as compared to other sectors discovered. This depicts the fact that, agriculture dominates every rural area in developing countries as identified by the World Bank (1991).
10. Majority of the customers look for assistance from the bank therefore rendering the presents of the Bank very important.
11. Most customers are scared away by the interest rate and the inconvenience of repayment period.
12. Most of the farmers products end up perishing since they lack prompt transportation to transport their products to the market and also they lack storage facilities to store their product to prevent them from perishing.
13. Most farmers also rely on natural rain which sometime in the year fail to fall around the anticipated time and affects the productivity of farmers.

14. The application process is too tall and therefore delays customers in the acquisition of loan which discourages most applicants along the line. Meanwhile the repayment period is also inconvenient to most customers.
15. The bank employs natives and has the ambition of helping elevate the standard of living of habitants as out of the 22 workers f the Bank 18 are natives of Nsuta.
16. The bank mobilizes funds through their various deposit accounts such as savings accounts, current accounts, fixed deposits among others on which they offer interest between 5 – 12%.

5.2 CONCLUSION

Based on the findings we conclude that;

The institution largely offers services which are granted by other rural banks but has not been effective in rendering all those activities at par. Banking habit among the rural folks has not been increasing over the years.

Credit provision to customers especially to farmers is on a high pace which is very good but credit extended to traders, artisans and other workers in the community should be raised. Customers lack investment experience and mostly result in defaulting loans.

The bank has done well in achieving its fourth objective. Thus the bank has done well to promote socio - economic development.

It was discovered that the Nsutaman Rural Bank's contribution in respect of agriculture, traders, artisans and salary workers were treated differently and therefore are biased towards some sectors.

It was also well noted that, the bank is not free of challenges and that they are faced with various challenges of which the majority arises from the customers corner.

5.3 RECOMMENDATIONS

In the view of the findings, the following recommendations are made;

The Bank should introduce customers to irrigation farming to avoid the solely relying on natural rain fall. The Bank should also provide storage facilities to store the products that do not get to the market in time. Again the Bank should help provide vehicles to transport the products of the farmers to the market in time. This will help solve the problem confronting the farmers.

Statement of accounts should be printed out regularly to customers to ensure transparency and avoid arguments which lead to withdrawal of accounts and court cases.

Women in the rural areas should engage themselves in productive activities and not stay home idle acting as house wives since such primitive way of living only enhance poverty.

The should also consider aiding the youth within the ages of 18 – 29years who are idle by organizing them into groups and encourage them to learn trades and get indulged into productive activities. These groups should be given group loans after an assessment have been done and proved by experts to establish their businesses.

Other occupations aside farming and trading should be made attractive by the channeling of more resources there to boost their productivity.

In solving the problem of the water system, the bank should build good water facility and be making money out of it by charging small amounts.

Considering delays in loan acquisition, it will be appropriate and helpful if the loan committee could meet frequently to consider loan applications. Also the board of directors should ensure that customers are relief of pressure by making repayment period flexible to avoid defaults.

The bank should open small agencies if not branches to mobilize funds from the neighboring communities.

The bank should introduce a susu scheme for parents to contribute daily to cater for their children education at least at the basic level. This will also help traders who are not willing to keep bulk of their monies with the bank to mobilize funds in small quantities.

The bank should conduct frequent education for the natives and outline to them the benefits in Banking to boost their deposit base.

The bank should increase interest on deposits and reduce interest on credit. This will help the banks to mobilize more funds to increase its lending, thus increasing its customer base.

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APPENDIX A

CHRISTIAN SERVICE UNIVERSITY COLLEGE

Topic: The contributions of rural banks to the rural economy.

Dear respondent,

We are privileged to be associated with you in the conduct of this research. We entreat you to answer the questions as objectively as possible as this research will contribute to the effective operation of Nsutaman Rural Bank Ltd to the development of Nsutaman catchment economy.

Any information given will be located confidentially.

QUESTIONNAIRE FOR CUSTOMERS

1. Age

- | | | |
|------|----------------|----------|
| i. | 18 – 29 | [] |
| ii. | 30 – 39 | [] |
| iii. | 40 – 49 | [] |
| iv. | 50 – 55 | [] |
| v. | Others specify | _____ |

2. Occupation

- | | | |
|------|-------------------------------|----------|
| i. | Artisan | [] |
| ii. | Trader | [] |
| iii. | Farmer | [] |
| iv. | Blacksmith | [] |
| v. | Government salary/wage worker | [] |
| vi. | Others specify | [] |

3. Educational background (if any)

i. MSL/JSS []

ii. Secondary/commercial/technical []

iii. Diploma []

iv. Degree []

v. Others specify []

4. Gender

i. Male []

ii. Female []

CREDIT FACILITIES

5. Do you source for assistance from the bank?

i. Yes []

ii. No []

6. If yes which type of assistance?

i. Loan

ii. Overdraft

iii. Advise

iv. Others specify

7. If no why?

8. What is the interest on loan?

i. Low []

ii. High []

iii. Moderate []

9. How long does it take to repay the loan?

i. 3 months []

ii. 6 months []

iii. 1 year []

iv. Above a year []

10. Does the bank demand for collateral securities?

i. Yes []

ii. No []

11. If yes, what type

i. House []

ii. Land []

iii. Vehicle []

iv. Others specify

ECONOMY

12. Has the bank's presence changed the social life of the people in the community?

.....
.....

13. Indicate some of the developmental projects of the bank has undertaken in the community.

.....
.....

.....
.....

14. What problems do you face in your community that in your view the bank could be of help?

.....
.....
.....
.....

15. What project would you want the bank to assist the community with?.....

.....

APPENDIX B

CHRISTIAN SERVICE UNIVERSITY COLLEGE

Topic: The contributions of rural banks to the rural economy.

Dear respondent,

We are privileged to be associated with you in the conduct of this research. We entreat you to answer the questions as objectively as possible as this research will contribute to the effective operation of Nsutaman Rural Bank Ltd to the development of Nsutaman catchment economy.

Any information given will be located confidentially.

Interview schedule for management

1. Age

- | | | |
|------|----------------|----------|
| i. | 18-29 | [] |
| ii. | 30-39 | [] |
| iii. | 40-49 | [] |
| iv. | 50-60 | [] |
| v. | Others specify | _____ |

2. Gender

- | | | |
|-----|--------|----------|
| i. | Male | [] |
| ii. | Female | [] |

3. Educational background

- | | | |
|------|---------|----------|
| i. | MSL | [] |
| ii. | SSS | [] |
| iii. | Diploma | [] |
| iv. | Degree | [] |

v. Other specify

4. How many years have been at post?

CREDIT FACILITIES

5. Do customers source for assistance? Yes [☐] No [☐]

6. If yes, what type?

7. If no, why?

8. What types of credit facilities are available to your customers?

9. What is the interest on loan?

10. How long does it take customers to receive credit?

11. What is the stipulated time for repayment?

12. What is the loan making procedure?

13. What are some of the businesses the bank has helped establish?

14. Has there been an improvement in their business life

15. Do customers default in loan repayment

16. What reasons do customers give when they default?

17. How do you deal with such cases when they occur?

EMPLOYMENT

18. Do you employ personnel outside your catchment area?

19. If no why?

20. If yes why?

21. What qualification do you look out for?

22. Has there been an improvement in the lives of employees?

ECONOMY

23. Have you undertaken any project that promotes rural society economic development?

24. If yes, give details in respect of

- i. Agriculture
- ii. Commerce
- iii. Industry
- iv. Transport

SERVICE

25. Do you offer education for the rural folks?

26. If yes, how do you educate them on their bug?

27. How do you educate them on the bank's services

28. Do you keep customers valuables with you?

OTHERS

29. How do you mobilize rural deposit?

30. What is the interest on deposit?

31. What other challenges are facing the bank

32. How do you deal with such challenges?

