

UNIVERSITY FOR DEVELOPMENT STUDIES, TAMALE

**RURAL BANKING AND RURAL DEVELOPMENT, THE CASE OF SELECTED
RURAL BANKS IN THE NORTHERN REGION**

BY

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DECLARATION

I hereby declare that this thesis is the result of my own original work and that no part of it has been presented for another degree in this University or elsewhere:

Candidate's Signature:Date:

SAIBU BABA ALHASSAN

Supervisors' Declaration

I hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines on supervision of dissertation laid down by the University for Development Studies.

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ABSTRACT

The study assesses effects of rural banking activities on the development of the communities they operate in. The study adopted the case study approach; which involves procedures and techniques of investigating and understanding the dynamics of a particular system. Primary and secondary sources of data were used to seek information for the research. Both close and open ended Questionnaires were use in the collection of the primary and secondary data. Quantitative approach was also adopted to analyze the data. The study revealed that, clients use the loans granted to them by the rural banks for farming, to acquire land, and to invest in businesses. The study also revealed that the banks involved the communities in their activities. Majority (77.8%) of the respondents strongly agreed that the rural banks are agents for development in the rural areas. It was found out that the banks educate customers, provide Educational scholarships, enhance their income through farming and trading, Provision of SMEs education to raise income, Construction of School buildings, sponsoring non formal education programs, sponsoring programs in the community, such as malaria control, Support businesses, Support to farmers in their farming activities, and traders in their trading activities, Use of project officers to assist customers improve upon their businesses. The findings however indicated that loan processing to customers took rather long to be completed. It was recommended that the credit officers of the bank should meet frequently to consider loan applications. It was also recommended that the board of directors should ensure that customers are relieved of pressure by making repayment period flexible to avoid defaults. Finally the bank should open small agencies if not branches in its catchment areas to mobilize funds from the neighboring communities.



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DEDICATION

I dedicate this work to my ever supportive wife and friend as well as our kids, Faheem and Nadia.



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LIST OF ACRONYMS

ADB	-	Agricultural Development Bank
ARB	-	Association of Rural Banks
BoG	-	Bank of Ghana
CBRDP	-	Community Based Rural Development Project
DBS	-	Daily Balancing Summary
GL	-	General Ledger
GoG	-	Government of Ghana
ICAGH	-	Institute of Chartered Accountants of Ghana
MASLOC	-	Microfinance and Small Loan Center
MDA	-	Millennium Development Authority
RCBs	-	Rural and Community Rural Banks
SIF	-	Social Investment Fund
SPSS	-	Statistical Service for the Social Sciences



CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Globally, extreme poverty continues to be more of a rural phenomenon. Of the world's 1.2 billion extremely poor people, 75 percent live in rural areas and for the most part they depend on agriculture, forestry, fisheries and related activities for survival (FAO, 1994).

Rural Development is oriented more towards benefiting primarily the poor to ensure a rise in the standard of living and favorable changes in the way of life of the people concerned. The fundamental feature of Rural Development is the emphasis on socio-economic and human capital development within the rural areas. In addition, development of rural areas may contribute to the preservation of the rural landscape, the protection of indigenous cultures and traditions while rural societies could serve as a social buffer for the urban poor in periods of economic crisis or social urban unrest.

Basically rural banks are established to provide banking services to rural communities in which they operate. Rural banks channel their investments mainly in the agricultural sector of the economy and in small and medium scale enterprises. Currently the Ghanaian population is estimated to be 24.5 million with 49% in the rural areas and 51% in the urban centers (Ghana Statistical Service, 2010). 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.





According to the Ghana Statistical Service (2005), about 56.2 percent of the total population of Ghana resides in the rural areas of the country. The implication is that, if Ghana can move ahead in its development agenda then the rural areas should be made a priority. In Ghana, the need to enhance Rural Development led to the introduction of the Rural Banking concept in 1976. The objective was to provide institutional credit to farmers and other rural enterprises to improve the standard of living and to facilitate Rural Development. Rural credit has therefore been used in Ghana to enable the poor to weather shocks without selling their productive assets they need for protection against future shocks (FAO, 1994).

In 1976, the Ghanaian government through the Bank of Ghana (BoG) established Rural Banks to channel credit to productive rural ventures and promote Rural Development. The underlying aim was to make institutional credit available to help promote growth and development in our rural areas. According to the bank of Ghana, (2017), there are about 140 Rural and Community Banks (RCBs) with over 600 branches/agencies in the country. This means that RCBs put together constitute the largest banking network in Ghana to help in improving the standard of living of the rural poor in a bid to facilitate Rural Development 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.”

1.2 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 communities 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 to promote rural growth and development (Banerjee, 2001). It was also intended to introduce organized banking to the doorsteps of the rural population and to 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 question is are the rural banks providing services that are helping the rural dwellers to improve upon their standard of living?

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? The study sets out to look at the activities of rural banks on the development of the communities in the Northern Region.

1.3 Research Questions

- 1 What is the effect of the activities of the selected Rural Banks on the Development of the communities in the Northern Region?
- 2 What are the benefits the people gets from the selected Rural Banks operation in the communities of Northern Region?
- 3 What role do the Rural Banks play in the community Development in the Northern Region?
- 4 What are the weaknesses inherent in the operations of the Rural Banks in serving the communities in the Northern Region?

1.4 Research Objectives

- 1 To assess the effects of the activities of selected Rural Banks on the Development of the communities in the Northern Region.
- 2 To find out the benefits the rural people gets from the selected Rural Banks operations in the communities of Northern Region.
- 3 To ascertain the role the selected Rural Banks plays in the community development in Northern Region.



4 To find out the weaknesses inherent in the operations of the selected Rural Banks in serving the communities in the Northern Region.

1.5 Significance of the Study

Since independence in 1957, Ghanaian governments have made several attempts to promote Rural Development in an effort to improve the living standards of the people who reside in rural areas. Subsequently, a lot of policies and interventions have been embarked on to ensure this objective is achieved.

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 rural areas. The Rural Banks were established to be agents of Rural Development in 1976 and have been operational in Ghana for almost forty years. It is therefore justifiable to assess the whole concept of rural banking to know the extent to which they have contributed to the development of the rural areas.

A lot has been done by various governments to improve the rural economy. Agriculture the main stay in the rural areas is still baffled with a lot of problems while other nonfarm activities remains less active. With more than half the population of Ghana in the rural areas, Ghana can only achieve significant development if the rural economy enjoys some level of development. Since the Rural Banks were established to be agent of Rural Development, the study will enable stakeholders such as government, rural banks and the rural dwellers to know the extent to which Rural Banks are servicing the rural communities. This knowledge can be bases for the Governments of Ghana to introduce reforms in the rural banking industry to ensure that the rural areas also get a fair share of development.

The findings of this study may encourage continuing governmental efforts aimed at developing the Ghanaian rural banking sector. The Policy implications may include the need to enhance



confidence in the rural banking system, to encourage savings in Rural Banks, and to ensure efficient transfer of resources from savers to investors.

Then also, a lot of Nongovernmental organizations and other agents of Rural Development channel their resource through the Rural Banks to facilitate Rural Development. The study will help them know whether these efforts are really having an impact in the rural communities.

Furthermore, the study will also help the rural banking industry as a whole to redefine its scope and operational policies to reflect the objective for their creation and also adopt pragmatic approach to service delivery in the rural areas of Ghana.

Finally, the study will empower the rural communities to impress on the Rural Banks to make the communities a priority in their operations. This is because the study will enlighten the people in the rural areas to know that, the purpose for the existence of the whole rural banking industry is to service them. This knowledge will inspire them to subsequently demand for the right thing to be done.

1.6 Scope of the Study

The researcher selected Bonzali rural bank, Borimanga rural bank and Bangmarigu community bank for the study. All these banks are located in the northern region of Ghana. These banks were chosen because they are by far the ones that have been in operation for more years.

Geographically, the scope of the study will cover the Northern Region, and also covers clients of the bank both male and female age 18 years and above.

The context of this study will assess the effects of rural banking activities on Rural Development regarding the operations of the Rural Banks and the extent to which they have contributed to the development of the rural people.



1.7 Organization of the Study

The study is organized into five Chapters. Chapter one (1) will look at the introductory chapter which will cover the background of the study, the specific problem to be studied, the research objectives and questions, the significance of the study and the limitations of the study. Chapter two (2) will consist of review of relevant literature. Chapter three (3) will discuss the approach and methodology of the research. The empirical results that are obtained from the study is be presented and discussed in Chapter four (4). Chapter five (5) covers the summary, conclusion and recommendations.



CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

A review of literature is an integral part of any investigation, and does not only gives an idea on the work in the past and assists in delineation of problem areas but also provides basis of interpretation and discussion of findings. The review covers theoretical and empirical literature concerning Rural Banking and Rural Development. It also highlights the research gaps and the critique of the theoretical and empirical literature.

2.2 Definitions and Concepts

2.2.1 Overview of the Concept of Banking

Banking started several centuries ago. Hadjimichalaris & Hadjimichalaris (1995) stated that banking started in Venice dating as far as the 13th century. Greek money changers are on record to have accepted deposits and lend them at an interest. This idea was further progressed by the Romans who accepted written orders on deposits as a form of payment. The Italian bankers and the Jews pursued their banking trade in the United Kingdom until the “Lombard’s” gradually drove them out of business. The Lombard’s became entrenched and built the foundation of the present system. The World Bank is believed to have been driven from the Lombard’s benches on which they conducted their business.

Benson (1996) said in the 19th century that the economies of the British countries had been sufficiently monitored through trade. The British introduced banking into the Gold Coast, now Ghana. In 1896, the British Bank of West Africa opened a branch in Accra. In 1917 another branch of colonial bank was established by a royal chartered in England in 1836 also in Accra. The colonial



bank was changed to Barclays bank when it was taken over by Barclays Bank. These two banks dominated the banking scene in the Gold Coast for over thirty-six (36) years.

The country's politicians' agitation for a national central bank in 1947 culminated in the passing of the bank of the Gold Coast ordinance in 1952 and the subsequent emergence of the Bank of Ghana on 5th April 1957.

The banking system in Ghana consists of different types of banks which provide various services to the government and the public at large. Benson (1996) defined banking as a system of trading in money which involves safeguarding deposits and making funds available for borrowers. Preko & Armah-Tetteh (2005) defined banking as the practice of accepting deposits and giving loans including monetary advisory services to customers. Kolari (1995) said banks fulfill two major services. These he said include accounts which may be used to make payments for goods and services and are widely accepted by the public and finally direct loans to businesses, individuals and other institutions.

2.2.2 The Types of Banks

Preko & Armah-Tetteh (2005), stated that there are three main types of banks. These they said include central bank, commercial bank and development banks. The central bank is a bank whose entire capital stock is owned by the state. Central bank is the head of all the banking and financial institutions in a country. It is for the government and it is regulated by a board appointed by the government. The head of the central bank is designated the "governor". Examples of central banks in West Africa are Bank of Ghana, Central Bank of Nigeria and Central Bank of Sierra Leon

The commercial banks are joint stock financial institutions whose aim is to make profit for their shareholders. They are charged with the responsibility of accepting deposits as well as keeping valuable items of their customers and make them available on demand.



The development banks as one of the main banks is a financial institution established to provide long-term finance for developing a certain sector of the economy. An example is the Agriculture Development Bank (ADB).

2.2.3 Rural Banking

Rural banking could be seen as the process of providing banking services in the rural areas of a country to mainly the rural dwellers. Rural banks were introduced in Ghana in 1976 to perform specific functions towards the development of Ghana's economy. Rural banks are affiliated to the central bank; their operation is really that of commercial banks. Therefore, the functions of the rural banks are the same as that of the commercial banks. This is to say that, apart from being situated in the rural areas, rural banks and commercial banks share the same functions. The establishment of rural banks is an answer to a long awaited search for a suitable institutional arrangement for providing credit facilities to the rural dwellers. They are the main vehicles for financial intermediation, capital formation and retention in the rural areas.

The first rural bank was established in 1976 at "Agona Nyakrom" in the Central Region. The rural banking concept is a hybrid between commercial and development banking and has been set up as a "Unit Bank" so that they will be mobilizing savings and lending money to the people in areas where they are located. In order to ensure that the rural banks serve the interest of the local people, the ownership, management, control and the general operations of the banks are vested in the people of that particular area.

Rural banks are limited companies registered under the companies' code and licensed by the Bank of Ghana which takes up 50% of the capital as preference shareholders. Then bank of Ghana fixes their authorized share capital. The main function of the rural bank is to mobilize savings in the rural areas for lending to borrowers in these areas to enable them finance agriculture cottage



industries as well as small scale industries in order to raise their standard of living. Since they are unit banks, they do not have many branch networks, some have agencies within the same catchment area.

2.2.4 Types of Relationships that Exist in the Rural Banking Sector in Ghana

The manner in which the bank handles its clients goes a long way to foster understanding and trust with which the banks consider utmost.

2.2.4.1 *The Banker – Customer Relationship*

Tandor et al (1995), suggests that banker-customer relationships are contractual in nature. The contract is concluded in the ordinary way – that is, by offer (usually to open an account) and by acceptance. This contractual agreement continues until it is terminated by consent or other legal means.

2.2.4.2 *Debtor – Creditor Relationship*

Where a bank is in possession of funds belonging to its customer, the relationship between the bank and its customer is that of debtor (Bank) and creditor (Customer). Of course, where the customer owes the bank (as is the case e.g. when an overdraft facility is granted the customer) the customer becomes the debtor and the bank is the creditor.

2.2.4.3 *Agent – Principal Relationship*

As long as the banker-customer relationship exists, the banker is bound at one point or the other to act as the agent of the customer, who whenever this happens will become the principal. Example of when the banker acts as an agent are:

- ✚ When the bank, in its capacity as “collecting banker”, receives cheques for the credit of his customer account, and forwards such cheques on behalf of its customer to the paying bank



(Drawee Bank) with a view to obtaining the proceeds of the cheque when it is paid for its customers.

- ✚ When the bank establishes documentary credits on behalf of its customers.
- ✚ When the bank is empowered by its customers to “clear” goods from a port on behalf of its customer.

2.2.4.4 *Bailer – Bailee Relationship*

Sometimes, customers deposit their valuable items such as jewelry for safe custody. Other items which are often deposited with a bank for safe-keeping are “will” and confidential documents. The customers may also keep their goods in the bank’s warehouse. In all the above situations, the bank acts as a bailee to the customer who is the bailer.

2.2.5 **Good Customer Relations**

According to public relations for Rural and Community Banks Reading Material issued in 2004 by ABB Apex Bank Ltd., customer relations do not consist only of spontaneous actions intended to please customers; but they are well-planned activities which are implemented as part of the management functions and are participated in by the entire organisation. These are a continuing process by which management endeavors to gain the goodwill and understanding of its customers.

These considerations include:

- ✚ Attending promptly and courteously to customers.
- ✚ Listening and acting on customers’ complaints.
- ✚ Finding ways of serving customers in a more satisfactory manner.
- ✚ Keeping customers informed of bank policies which affect them.
- ✚ Providing a “Suggestion box” into which customers can drop their suggestions or complaints.



- ✚ Keeping the bank premises clean with a lot of decorations.
- ✚ Providing necessary facilities like comfortable chairs, fans, air-conditions, toilet/ urinal base etc. to make customers feel comfortable when transacting business.
- ✚ Speaking politely to customers and treating them as equally important.

2.2.6 The Functions of Rural Banks

A lot of functions could be discussed in terms of rural banking. However, rural banks operate to promote saving habits amongst people in the rural areas (Preko & Armah-Tetteh, 2005).

In the absence of rural banks, farmers, fishermen and herdsmen hardly save their profits.

The rural banks grant loans and overdraft facilities to the dwellers of the area that are in need of funds to increase production in their various fields of work. According to Preko & Armah-Tetteh (2005), most of the time, farmers, fishermen and herdsmen who are in need of money have to go to money lenders for loans which are subjected to very high interest rates. This tends to affect their working capital drastically.

They also serve as the means through which the government supplies farm implements to farmers.

Through this medium, even farmers, herdsmen and fishermen who do not have cash immediately can have access to farm tools and pay later (Ofosu-Djamerah, 1999).

The rural banks also grant credit to customers for the payment of school fees, acquisition or repairs of houses and to meet medical expenses. This is to ensure the welfare of the rural dwellers and to support their livelihood; Ofosu-Djamerah (1999).

According to Preko & Armah-Tetteh (2005), rural banks help carry out government financial and monetary policies in the rural areas. Thus, if the government decides to change the currency, they simply go to the rural banks and get all the assistance they require. It is evident that the “Akuafu”



cheque system designed to pay cocoa farmers is operated through rural banks; here currency change will be done smoothly for the farmers.

2.2.7 Operations of Rural Banks

Hyde (1993); suggests four main characteristics of banking businesses. This includes the following:

- ✚ Accepting money from, and collecting cheques for customers.
- ✚ Honoring cheques or other withdrawal authorities given by customers.
- ✚ Maintaining current accounts or accounts of a similar nature.
- ✚ The bank should have a reputation of being a bank within the financial community.

Kwegyir (1999); identifies two main characteristics of banking business which includes the following:

- ✚ Accepting deposits from customers and honoring cheques and other withdrawals from customers.
- ✚ Maintaining all sorts of accounts and being recognised as a bank as a whole in the financial community.

2.2.7.1 *The Waste*

The waste is the stage in the workflow of the bank where all transactions are recorded. Before writing the Waste, the Waste keeper must write his name at the top left corner and put down the day's date. All the days voucher, both cash and non – cash items for the day should be recorded in the Waste in detail under the various accounts columns by the waste keeper. The procedure is as follows:

- ✚ Add previous General ledger cash balances to total cash received, draw a line and add up.



- ✚ Add total cash paid out the days cash balance, draw a line and add up. (Note that the day's cash balance is a balancing item).
- ✚ Add all other debit totals beginning from current accounts column to the last credit column and subtotal.
- ✚ Add the day's cash balance to the sub-total to get a grand total.
- ✚ Add all other credit totals beginning from current accounts column to the last credit column and sub-total.
- ✚ Add the previous cash balance to the subtotal to get a grand total.
- ✚ Ensure the debit and credit grand totals agree. It must however be noted that, before vouchers are entered, all cash vouchers must bear the cashier's stamp, date and signature of responsible official. Every voucher, which has passed through the Waste, must be stamped with the WASTE stamp bearing the date of the transaction.

2.2.7.2 *Daily Balancing Summary (DBS)*

A Daily Balancing Summary is a sheet into which all summarized totals for the various account in the General Ledger are recorded. Procedure for posting or preparing a daily balancing summary (DBS) is as follows:

- ✚ Pick up current account debit and credit summarized totals in the journals and post.
- ✚ Machine all inter – Agency or Head Office vouchers both debits and credits and post.
- ✚ Machine all clearing accounts vouchers both debits and credits and post.
- ✚ Pick summarized debits and credits loans of journal totals and post.
- ✚ Pick summarized debits and credits of savings journal totals and post.
- ✚ Machine all share credit vouchers and post.
- ✚ Add the day's cash receipts/payments and post.

- ✚ Machine the various debits and credits of profit and loss account vouchers and post.
- ✚ Add up and draw two straight lines under the totals for both debit and credit balance, which should agree.

2.2.7.3 *The General Ledger*

From the daily balancing summary, the various debit and credit totals are recorded in the respective accounts in the General Ledger. In the case of cash account in the General Ledger, the debit sub – total of the Daily Balancing Summary for the day must be recorded at the credit side and the credit sub – total to the debit side.

The General Ledger is the principal control book, which controls all the books kept by the bank. It is from this book that the Balance sheet of the bank is prepared. The totals of the debits must agree with the totals of the credits. The General Ledger (G/L) must be posted daily.

2.2.8 **Definition and Approaches to Rural Development**

The meaning of “development” has changed several times over the years. In the 1960’s, development became synonymous with technological improvements and rapid economic growth (Rostow, 1961). More recently, definitions of development have included improvement in material conditions, holistic and multi-dimensional development, good health, education, increased consumption, gender equality, human freedom and sound environment (Okonjo, 1986)

The concept of Rural Development has emerged through socio- political struggle and debates. A lot of studies have been done in this respect and it is evident that, while some see Rural Development as the final expropriation of farmers, others regard it as a force that will revitalize agriculture. Any critical discussion on this issue must begin with the acknowledgement that, as yet, we have no comprehensive definition of Rural Development (Clark, 1997).





Rural Development is currently seen as a multi-level, multi-actor and multi-facet process. It is said to be a multi-level process which is rooted in historical traditions. At all levels, it has emerged as a series of responses to the earlier theory of modernization which had education and technology as the bases. It is the complex institutional setting on the processes involved in Rural Development that makes it multi-actor. The drive towards a decentralized rural policy approach which is locality and the newly emerging relations between the local and the globe are a major principle designed to strengthen the process. Rural Development is also multi-facet in nature. It unfolds into a wide array of different and sometimes interconnected practices (Guzman, 2000).

For the purposes of this study, Rural Development is used to denote the actions and initiatives taken to improve the standard of living in non-urban neighborhoods, countryside, and remote villages. All over the world, a lot of approaches have been adopted to propel growth in the rural areas. Some of these approaches are enumerated below.

2.2.8.1 Improved Agriculture Approach

The approach places emphasis on improvement in agriculture through the provision of credit and the use of technology in the rural areas. This is because agriculture is the major source of income in the rural areas and has the potential of transforming the rural economies. The approach therefore seeks to strengthen the backward and forward linkages along the food chains, ensuring food security for the poor and vulnerable through partnerships with development partners in providing programmatic support to agriculture. The approach also ensures the provision of well-functioning agricultural markets which connect most rural households as either sellers of produce, buyers of food or both. Access to remunerative and reliable produce markets has the tendency of enabling farming households to commercialize their production systems and increase their farm incomes.

However, it is generally a challenge for poor rural people to seize rewarding opportunities in produce markets and to cope well with the attached risks. Then again, there is the problem of stagnating food productivity and production, lack of access to rural finance, infrastructure, technology, lack of markets, limited nonfarm income opportunities and threat of climate change and volatility of food prices (Asian Development Bank, 2010).

2.2.8.2 *The Social Amenity Approach*

The social amenity approach is embarked on, with emphasis on the provision of basic social amenities (educational, health, recreational, water etc.) for the rural communities. The provision of social amenities and the development of the cultural and historic sites of the communities are undertaken to open them up for tourism and investment.

This approach is limited because it is expensive to run due to the rural areas demand for a wide range of substantial social services, whereas the financial, manpower and organizational resource for effective delivery of social services are often extremely limited. It is also apparent that, Rural Development is much more than the provision of social amenities. (Nwosu and Agaben, 2008).

2.2.8.3 *Integrated Approach*

Integrated Rural Development is an ongoing process involving outside intervention and local aspirations which aim at attaining the betterment of groups of people living in rural areas and to sustain and improve rural values through the redistribution of central resources, reducing comparative disadvantages for competition and finding new ways to reinforce and utilize rural resources. It is integrative in the sense that, as opposed to central development, the integrated approach is controlled and managed locally. Besides local resources, it also leans on the professional and financial support of the centre. Although this approach ensures the participation of all stake holders in Rural Development, the challenge is that it delays the development process



and quite expensive to implement. In all the approaches listed above, the need for finance stands out and all the approaches requires one way of funding or another.

2.2.9 Financial Intermediation and Rural Development (The Philippines case study)

During the last thirty years, the extent to which a better financial system fosters development has been the subject of extensive research. The emergence of the endogenous growth theory shed a new light on the link between finance and development. Some researchers assert that, it is financial development that follows growth (King & Levine, 1993), while others argue that it is growth that fuels financial development (Christopoulos & Tsionas, 2004) since improvements in productivity and economic output would require increased investment and funding. Other studies claim that this causality is actually bi-directional (Demetriades & Hussein, 1996) while a few do not find any link between financial development and economic growth at all (Lucas, 1988).

The formal banking system in the Philippines is composed of three categories of Rural Banks which are universal and commercial Rural Banks, thrift and private development Rural Banks, and Regional Rural and Cooperatives Rural Banks. Although the formal banking system is dominated by commercial Rural Banks, Rural Banks in the Philippines were primarily established to promote and expand the rural economy through the provision of loans and the mobilization of deposit. From the 1960s to the 1980s, Rural Banks in Philippines served as conduits of subsidized loan funds from the government and international donors. They generally catered for small borrowers including farmers, entrepreneurs, market vendors, business owners, wage earners, teachers and cooperatives (Llanto, 2005).

Using regional banking and economic annual data for the period 1993 to 2005, it was tested to ascertain whether the presence of Rural Banks positively affect regional economic activity. An estimation model was designed to address the heterogeneity of development and banking coverage





of the regions in the Philippines and to enable the efficient utilization of the limited regional data available. The regions were classified as less economically developed, intermediate developed, and developed based on per capita real gross regional domestic product. To measure the impact of Rural Banks on the economic development emphasis was laid on loans, deposits and density of Rural Banks. Models were built; data was analyzed and the running of correlations to interpret data. The findings were that:

- ✚ The presence of Rural Banks is higher on average in the less developed regions than in the intermediate and developed regions.
- ✚ Secondly, it was realized that 18% of the total average amount of loans were granted by Rural Banks in the less developed regions against 13% in the intermediate regions and 9 % in the developed regions
- ✚ Then also, there was a positive and significant correlation between economic development and financial depth at the regional level. This result was consistent with the existing empirical literature on the finance growth nexus
- ✚ It also came to light that a minimum level of economic activity is required for the Rural Banks influence on growth in the less developed regions to be more significant.

The conclusion was that the presence of the rural bank affects positively the development of the intermediate and less developed regions, with a stronger impact for intermediate regions due to the presence of a higher and diverse economic activity and that financial intermediation is necessary to promote the development of the rural economies (Philippines National Statistics Office, 2005).

2.2.10 Rural Developmental Efforts in Ghana

Efforts made to develop the rural areas in Ghana date back to 1943 when the idea to establish the Department of Social Welfare and Community Development was first considered. With the



creation of the Department of Social Welfare and Housing in 1946, most of its effort was concentrated on the construction of community centers, social clubs and youth centers as the basis of welfare work. The main strategy for Rural Development at that time was the community development approach. Various governments in Ghana have made various interventions in the area of the provision of amenities however the rural areas are always discriminated against.

Many other approaches have been employed to help attain Rural Development in the country. An example is the increased agricultural approach, since 1945 policies have laid emphasis on the need to develop the agricultural sector, there has been the setting up of corporations and boards to develop the sector and to look for solution to problems like lack of technology, post-harvest loses, lack of storage facilities, transportation, marketing and the availability of affordable credit for the sector. It should be noted that, these problems still exist in the sector and this approach as a means of facilitating Rural Development has not been successful.

The accelerated project approach, Regional Development and growth pole Strategies have all been implement in Ghana. These approaches have not fully yielded the expected results. One of the recent attempts was the establishment of a rural banking scheme in 1976 to ensure that adequate institutional credit was made available to the rural farmers to expand their output, increase their incomes and afford decent living as a means of helping in the development of the rural areas.

2.2.11 Rural Banking in Ghana

Before 1976, the availability of formal credit in rural communities in Ghana predominantly made up of small farmers and fishermen was extremely limited. The main sources of credit were moneylenders and traders who charged exorbitant interest rates. The Government of Ghana took some policy measures to improve access to finance in rural areas. The measures included a requirement that commercial Rural Banks should lend at least 20 percent of their portfolio for



agricultural uses and the establishment of the Agricultural Development Bank (ADB) in 1965 with an exclusive mandate of lending for agriculture and allied industries in rural Ghana (Essel & Newsome, 1995).

Subsequently, Commercial Rural Banks and the Agricultural Development Bank (ADB) opened branches in rural areas with emphasis on the cocoa growing areas of rural Ghana. Nevertheless, lending to the rural sector remained low as the commercial Rural Banks used their rural branches primarily to make payments to cocoa farmers and collect deposits for lending in urban areas. The commercial Rural Banks demanded higher deposits accounts and stronger collateral requirements to provide loans to rural areas. Many small farmers and fishermen did not have deposit accounts in commercial Rural Banks, and the collateral they had was not satisfactory for commercial lending (Andah & Steel, 2003).

In view of this situation, the Government of Ghana (GoG) considered supporting the establishment of community Rural Banks in rural areas that would be dedicated to providing financial services in those areas. The government of Ghana through the Bank of Ghana introduced the idea of rural banking into the country in 1976 after a delegation had been sent to the Philippines to study their system. The first rural bank was established in 1976 at Nyakrom in the Central Region. Capital contributions were mainly drawn from farmers in the community. A second bank was opened in the following year at Biriwa, a fishing village also in the Central Region.

According to the Association of Rural Banks (1992), the aims of Rural Banks in Ghana are:

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



2.2.12 Growth of Rural Banks in Ghana

By 1980, the number of Rural Banks had reached 20. Managers and directors of these Rural Banks founded the Association of Rural Banks (ARB) to promote the exchange of information and to improve the performance of Rural Banks as a whole. Over the period of 1980 to 84 the number of Rural Banks rose rapidly and reached 117. This growth was driven by rising interest among rural communities in establishing their own Rural Banks and by the introduction of Akafo Cheque system (Agwe & Todd, 2008).

2.2.13 Operational Policies of Rural Banks in Ghana

As the network of Rural Banks grew, it was essential to provide a code for establishing new Rural Banks. The BoG developed and issued guidelines for the establishment of Rural Banks in 1985. In addition, a manual to guide the lending operations of the rural banking industry was also developed.

The minimum paid-up capital required by BoG was old GH¢ 1.5 million. Of this, shareholders were to hold 67 percent and 33 percent was to be contributed by the BoG. The maximum share that could be purchased by an individual shareholder was limited to ¢10,000 (old Ghana). This limit was intended to allow equal participation of all shareholders from the community and to mitigate the risk of shareholders dominating the governance of the Rural Banks (BoG, 1985).

The Bank of Ghana also streamlined Rural Bank lending operations to ensure that the Bank's credit actually benefits the small scale rural producer and the rural community by issuing an operational manual. The manual provided that, applications were to be accepted from individuals, groups, associations, and companies. A recommendation to reject an application was to be justified by specific and clearly stated reasons and cannot be based on vague suspicions. There was also a



mandatory sectorial allocation to be followed by the Rural Banks in their lending activities. All these were provisions to ensure that the rural areas were serviced properly by the Rural Banks.

Examples of business that qualified under Cottage Industries included furniture-making, construction, wood carving, Kente and cloth weaving, iron mongery, dressmaking, and tailoring.

The Rural Banks provided mainly savings and credit services and products.

With the increase in the number of Rural Banks, the number of individuals with bank accounts also increased. Salary and pension deposits for civil servants were transferred using rural bank networks. Volume of deposits increased from old GH¢ 148,000 in 1976 to old GH¢ 2.3 billion in 1988. With the addition of credit lines, the consolidated loan portfolio grew to around US\$4 million, with nearly half of the portfolio in agriculture and 30 percent in cottage industries (BoG, 1988).

The 1983 economic crises and the drought affected farmers and as a result, the repayment performance of loans worsened with nonperforming loans (NPLs) rising from 5 percent in 1982 to 70 percent in 1986. The capital available in most Rural Banks was not sufficient to cover the cost of the poor loans (IFAD, 2008).

In an attempt to respond to the worsening financial performance of RCBs, the BoG introduced some financial reforms. The restructuring activities were also accompanied by additional regulatory reforms. The absolute ceiling on shareholding limits by individuals and companies was eliminated and replaced with limits on the percentage of shareholding. Individuals were limited to holding 5 percent of total capital and companies were limited to holding 10 percent. Sector specific allocation of credit was removed for sectors other than agriculture, and the allocation for agriculture was reduced from 50 percent to 20 percent. Concessional interest rates for high-priority



sectors were also removed. There was the closure of distressed Rural Banks, and a stronger role for the BoG in examination and control of the Rural Banks (Andah & Steel 2003).

The World Bank supported Rural Finance Project, approved in 1989 further advanced this course. The project aimed to strengthen the rural finance sector, particularly the RCBs, by providing technical assistance for restructuring about 80 RCBs, strengthening the ARB and credit unions, rationalizing the roles of the Rural Banking Department of the BoG and the Association of Rural Banks and improving the rural credit appraisal capacity of RCBs (World Bank, 2000).

This intervention yielded some results as some Rural Banks adopted a more commercial business model and introduced innovative products such as microfinance saving and lending technique. Many RCBs started to use new techniques namely, group savings with credit, group and individual savings with credit, individual savings with group credit, and individual savings with credit (Andah & Steel, 2003).

It is recorded that between 2000 and 2008 the total amount of deposits, adjusted for inflation, grew from GH¢ 17.3 million (US\$5.8 million) to GH¢ 100.6 million (US\$77.5 million), and total advances grew from GH¢ 7.1 million (US\$2.4 million) to GH¢ 72.8 million (US\$56.1 million) (World Bank, 2009). Currently the BoG requires that a rural bank should have a paid up capital of GH¢150,000. The ownership of shares should be by residents of the community and the Rural Banks should operate within a radius of about 25miles. Today, the Rural Banks are given the opportunity to determine who should benefit from their credit resources.

2.2.14 Governance, legal and regulatory frameworks

The Rural Banks operate under the Banking Act with the BoG having an overall regulatory and supervisory authority in all matters related to banking institutions in Ghana. Rural and community Banks are also incorporated as limited liability companies. To ensure efficient supervision and



monitoring of the Rural Banks in Ghana, the Bank of Ghana is assisted by two other institutions which are;

I. The Association of Rural Banks (ARB)

In 1981 the 30 existing Rural Banks formed the ARB, with the support of the BoG, to serve as a platform for Rural Banks. The association had nine regional chapters. Initially, the ARB's function was to act as a uniting front and to provide training for staff of the Rural Banks. Even with the establishment of the Apex bank, the ARB continues to be responsible for providing Code of Conduct training for rural bank directors. Currently, the ARB focuses primarily on advocacy with the government and conflict resolution among its members.

II. The ARB Apex Bank

The Apex Bank emerged when the Rural Banks saw the need for an institution that could provide financial, managerial, and technical support. It was first recommended by a study commissioned jointly by the World Bank, the BoG, and the ARB in 1996. The study recommended the setting up of an institution similar to the Rabobank in the Netherlands. A subsequent feasibility study conducted in 1998 concluded that an Apex bank could be helpful and the ARB Apex Bank was incorporated in 2000 as a public limited liability company with Rural Banks as shareholders. It was licensed in 2001 and started operations in July 2002.

The Apex Bank currently operates from its head office in Accra and through its nine (9) branch offices and one (1) clearing centre spread across Ghana. (ARB Apex bank, 2015). To help address the challenges of supervising RCBs, a law enacted in 2006 allowed the BoG to delegate some of its supervisory roles to the Apex Bank. These functions are as follows:

- ✚ Maintain primary cash reserves of the rural and community banks in accordance with relevant rules, regulations, and policies

- ✚ Monitor, inspect, examine, and supervise rural and community Rural Banks in accordance with relevant rules, regulations, and policies
- ✚ Lend to rural and community Rural Banks facing temporary liquidity problems and
- ✚ Provide specie management and specie movement services to the Rural Banks.

2.2.15 Products and Services

As financial intermediaries, Rural Banks provide services consisting of savings, loans, and payments which can be grouped under deposit mobilization and credit creation. Several products are offered within each of these categories as discussed below.

a) Deposit mobilization

The rural banking industry mobilizes deposit through products like savings accounts, current accounts, time deposits and Rural Banks' frontline deposit mobilization (Susu collection).

Typically, the largest share of the deposit portfolio is held in the savings account. As of 2009, the total deposit of Rural Banks in Ghana stood at GH¢455.58 million out of which GH¢262.58 million had been given out as Loans and overdrafts (Bank of Ghana, 2009).

b) Credit Creation

The major credit products offered by the Rural Banks include microfinance loans, personal loans, commercial loans, salary loans, Susu loans, overdrafts, and others (funeral loans, wedding loans, church loans etc). The major Rural Banks loan comes in the form of:

i. Microfinance loans

These loans are provided to groups of individuals to finance small and micro income generating activities. For some Rural Banks, the group is the borrower, whereas for others, each member of the group is a borrower. In both cases, the group is jointly liable for the loan. The size of a microfinance loan ranges between GH¢ 50 and GH¢ 1,000, most loans are between GH¢ 100 and



GH¢ 500. The term of a microfinance loan is normally four to six months, and the interest rate ranges between 30 and 36 percent. However, there are situations where the loans can be given for 12 to 24 months.

ii. Susu loans

These loans are provided to individuals following three months of consistent smaller deposits. The size and term of Susu loans are similar to those of microfinance loans, but Susu loans are provided to individuals with the Susu deposit as the security for the loan granted.

iii. Salary loans

These loans are provided to salaried individuals with secured salaries which are paid through the bank. The bank automatically deducts the loan repayment installment from the salary payments. The size of the loan is determined by the salary of the borrower. The maximum term of a salary loan is 48 months, and the interest rate range is determined by the rates in the open market.

iv. Commercial loans

These loans are provided to companies and individual entrepreneurs for working capital or fixed capital. The maximum loan size is normally GH¢ 100,000, the maximum term is 36 months, and the interest rate ranges between 28 and 35 percent.

c) Money Transfers

The Rural Banks also provide payment through the Western Union and the Apex link money transfer system to the hinterlands. Between 2003 when Apex Link was introduced and 2008, the number of domestic transfer transactions consistently increased, rising from 10,158 to a peak of 128, 875 in 2008, (A B L, Annual Reports, 2006–2008).

d) Other Category of Services





As financial institutions actively supported by the government, RCBs offer special products and services for specific target groups on behalf of government and donor financed programs, such as Microfinance and Small Loan Center (MASLOC), the Social Investment Fund (SIF), the Community Based Rural Development Project (CBRDP), and the Millennium Development Authority (MDA). It should be noted that, the performances of the Rural Banks have not been without challenges.

2.2.16 The Challenges of the Rural Banking Industry

Despite decades of efforts and experimentation in banking, the organized financial sector is still not able to bridge the credit gap in the rural sector. The lower levels of per capita income, lack of infrastructure in the rural areas, focus in the urban sector and lack of proper connectivity are the main hindrances for Rural Banks to venture into the rural areas (Vallabh & Chatrath, 2006).

Secondly, directed lending, cumbersome procedures, delay in sanctioning loans and lack of statutory backing for recoveries poses a major impediment to the growth of banking in the rural sector.

Then also, the focus in the past has always been to make available cheaper credit. When Rural Banks are forced to lend cheap, there has been a tendency for a scramble for credit by the non-target group of beneficiaries. There are instances where finance is provided by the Rural Banks for big ticketed contractors and importers which often end up as non-performing assets.

Furthermore, it should be noted that the bulk of the work of any good bank is determined by its capital. It is interesting to know that, the stronger a bank's capital adequacy, the stronger the base and the better its performance. The rural banking industry is baffled with capital adequacy problems as most of the Rural Banks remain under-capitalized and weak. This hampers their



capacity for effective financial intermediation and as a result they are unable to create the needed credit in the rural areas to enhance Rural Development (BoG, 2009).

Then again, the Rural Banks are faced with operational and reputation risks. This is as a result of the quality of personnel that works in the rural banking institution and the general lack of appropriate systems and processes to support the operations of the Rural Banks. The result is that the industry is more prone to fraud and misappropriation of customer funds and most people do not have the confidence to do business with them.

The Rural banking industry is also grappling with huge challenges in managing their loan loss reserves due to poor loans and poor management systems applied by the Rural Banks. As a result, majority of these Rural and Community Rural Banks (RCBs) have been rendered insolvent and could soon fold up if austerity measures are not taken to reverse the trend. The situation, revealed, has affected the drive towards providing quality banking facilities to the rural folks in Ghana (Ampah, 2010).

Finally, poor performance of RCBs stems from both unfavorable operating environment and capacity constraints. These leads to the absence of clear prudential regulations in both financial and non-financial sectors, leading to excessive direct lending requirements, which limit flexibility in managing risk exposures. Their operations are plagued by high default rates, insolvent lending programs, and high operating costs to name a few in their bid to facilitate Rural Development. (Agabin & Daly, 1996).

Bediako (2004) some of the numerous problems of the whole concept stretching it from the legal and regulatory framework, which is the main regulatory foundation upon which the concept is built to capacity and governance. He enumerated some of the specific problems such as inadequate skilled and qualified staff, financial mal administration, operational difficulties, local politics,



weak internal controls, irregular submission of prudential control return and absence of an effective Apex body to provide technical services to rural banks.

These problems resorted in the closure of some rural banks, thus by March 1991 data from Bank of Ghana showed that out of 122 rural banks in Ghana, 98 had become distressed and are not able to refund depositors money. The rural and community banks are unit banks owned by members of the rural community through purchase of shares and are licensed to provide financial intermediation in the rural areas. Rural banks were first initiated in 1976 to extend savings mobilization and credit services in the rural areas not served by commercial and development banks.

The number expanded rapidly in the early 1980s in response to the demand for rural banking services created by the government's introduction of special Akafo cheques instead of cash payment to cocoa farmers. The small number of rural, outlets of commercial banks were woefully inadequate to meet the demand of Akafo cheques

payment system that the government has introduced. This was creating undue hardships to the farmers who often had to travel long distances or spend days at a nearest banking facility to cash their cheques. To solve this problem, more rural banks were therefore hurriedly opened to help service areas without banking facilities, (Steel & Andah) (2003).

The strong promotion of rural banks to service the government's policy of paying cocoa farmers with Akafo cheques had adverse consequences for their financial performance through a combination of rapid inflation, currency depreciation, economic decline, mismanagement of funds and natural disasters (especially in 1983) combined with weak supervision, only 23 of the 123 rural and community banks qualified as a satisfactory. In 1992, when the grading and classification started, (Steel & Andah) (2003). Bronya (1997) states that as at January 1994, the government



through the Bank of Ghana had to use tax payer's money to the tune of 611 million cedis to pay depositors of distressed rural banks in order to preserve the confidence of the public in the rural banking concept.

ADB (1985) states that rural banks in particular and other financial institutions in general in Ghana, which provides credits in the rural areas are relatively new to the rural environment. Their staff on the average are more or less inexperienced in credit administration, most of the directors lack the knowledge of financial management information and this leads to the formulation of bad lending policies and practices.

According to (Kowubaa 2000) while, the agricultural development bank has played an important role in making finance available for agriculture, it suffered from poor economic conditions in the 1970s and early 1980s, poor repayment and other problems resulting in negative net worth by the end of the 1980s and restructuring in 1990. After restructuring of ADB to permit universal banking, its financial profitability has improved but it has remained subsidy-dependent. Mittenorf (1986) admits that customers have little knowledge about facilities available at the rural banks and links this problem to lack of close linkage between the bank and their customers.

Addeah (1989) went further to analyse the whole legal and regulatory framework for the implementation of the whole concept. He examined the banking law of 1989 PNDC Law 225, the Banking Act of 1970 ACT 339, with special rules by Bank of Ghana permitting small unit banks to be established. A critical analysis of his views exposes the inadequacies of that law as far as the modern day rural financial intermediaries are concerned. That provision in that law restricts the rural and community banks to operate within a radius of about thirty-eight kilometres of their area of location, and can only open agencies situated within this demarcated areas of operations. They are unit banks and cannot open branches, one therefore begins to wonder the legal basis for the

approval of rural and community banks branches in the city centres. Has the law restricting the opening of branch outlets outside their locality been amended? A careful look into the new banking act of 2004 ACT 673 did not give any special consideration to address this very legal and regulatory back-bone inadequacies.

2.2.17 The Effects of Financial Sector Reform Programme in 1988 on Rural Banking

By the late 1980s, the World Bank and the government of Ghana had agreed that a reform and restructuring of the financial system was indispensable to a successful economic recovery programme with technical and financial assistance from international development association a wing of World Bank. The government embarked upon a financial sector reform programme in 1988. The objectives of the programme were:

1. To undertake the restructuring of financially distress banks.
2. To enhance the soundness of the banking system through an improved regulatory and supervisory framework.
3. To improve the mobilization and allocation of financial resources including the development of money and capital markets. These objectives were supported by the international development association through a financial sector adjustment credit of US\$ 100million. S. Mensah (1997), Financial sector reform programme (FINSAC/ (1988-90)

(a) Restructuring of financially distress banks. The international development association IDA supported study, identified seven banks as „‘distressed‘‘. The restructuring of these banks involved the following measures:

- Reconstitution and strengthening of Board of Directors of affected Banks.
- Closure of unprofitable branches
- Reduction of operating cost through retrenchment of staff





- Cleaning of balance sheets by off-loading the following categories of loans. Non-performing loans to state-owned enterprises, loans guaranteed by the government of Ghana and non-performing loans granted to the private sector.
- Upgrading of managerial capacity and deficiency of banks
- Intensified staff training of affected banks
- Providing enough capital and adequate liquidity to enable the distressed banks to operate in a self-sustaining manner after restructuring, S. Mensah (1997).

Recovery of non-performing assets as part of the process of restructuring banks involved removing from the banks portfolios all non-performing loans and obligation to state owned enterprises which totaled ₵31.4 billion at the end of 1989 and non-performing loans to the private sector amount to ₵21.9 billion at the end of 1989. Through the issuance of Bonds (Mensah 1997).

This and other interventional programmes embarked on by the government of Ghana injected fresh capital into the operation of traditional banks, but because the rural banks were much disintegrated, such package did not include them. The need therefore arose clearly to get an apex body which will support the rural and community banks in solving their numerous problems. This research sees to assessing the effectiveness of ARB-Apex banks programmes on rural banking sector, with a special emphasis on ARB-Apex Bank Limited, Ashanti Regional office that has within its fold 25 rural and community banks.

2.2.18 Recommended Solutions to Some of the Problems the Rural Banking Concept is Facing

The various problems hindering the operations of the rural and community banks discussed above is basically centered on four main thematic areas namely; inadequate capitalization, capacity building, governance, liquidity management and general operational difficulties due to the absence



of Apex body to provide the needed support to streamline the operations of these banks. Using Nigerian community banking concept as a test case before the introduction of community banking concept to deepen rural finance sector in 1990, a new decree was passed which led to the establishment of National Board for community banks. The decree of 1992 led to the formation of the Apex body to coordinate the activities of these unit banks who are not members of the bank clearing house of Nigeria. The national board for community banks (NBCB) set up by decree 46 of 1992 was charged with the responsibility of promoting, developing, monitoring and generally supervising the community banks.

The management and board of each community bank bears the responsibility for proper and sound operation, according to laid down provisions and to ensure its profitability and viability in the prevailing economic climate. The introduction of the rural banking concept in Ghana in 1976 did not put in place such an apex body to coordinate the activities of these banks initially. Hence the numerous bottle necks that characterized the running of the concept till July, 2002, when the ARB-Apex bank Limited was established to help address these numerous difficulties. According to the views of Salomey (1996) to overcome the problems of rural banks and their operations streamline effectively, the bank of Ghana in collaboration with the World Bank commissioned team of consultants who recommended the establishment of APEX body to help streamline the operation of rural and community banks.

Entu-Mensah (1992) also retreated that to solve the problems of rural banks, there is the need for banks to educate their customers, as well as other stakeholders within their catchment areas of operations to enable them appreciate the importance of the bank. Aidoo (1992) emphasized on the capacity building of the board and management of the rural banks to enhance the formation of good policies and programmes that would benefit a lot of the banks. The recapitalization of the

rural and community banks should be seriously addressed in spite of the tremendous improvement in the share capital over the years, more need to be done.

Agama (1996) stated that the ordinary share capital of rural and community banks rose from ₵327.69 million in 1991 to ₵1.6 billion in 1996. Capital adequacy ratio for rural banks as at the end of June 1996 showed a general satisfactory performance as a result of these achievements viable rural banks are being upgraded to status of community banks so that they can efficiently support agricultural development among others.

Presently the rural financial services project (RFSP) which has an estimated outlay of US\$22.96 million and spans from 2001 to 2006 is being implemented by the Bank of Ghana. The project aims at providing a coherent framework for rural economic transformation and growth. Its aim is to broaden and deepen financial intermediation in the rural areas through effective linkages between the formal and semi-formal micro finance. Institutions and informal entities operating in the rural areas, the project has the following objectives:

- Capacity building of the informal financial sector. This component aim is to strengthen operational linkages between informal and semi-formal micro-finance to expand services to a large number of rural clients.
- Capacity building of rural and community banks and strengthening their internal control system including provision of new information technologies. Logistics and training of staff and developing an overall development plan for all categories of staff including Board of Directors.
- Establishment of the ARB-Apex Bank for the rural banks to become competitive.
- Strengthening the institutional and policy framework for improved oversight of the rural finance sector. To achieve this, key logistics including training will be provided by the programme to Bank of Ghana to better equip it for effective supervision of Apex Bank and rural banks. (Amut





Negi & Warriar) (2003) bank” for the rural banks subject to the overall supervisory authority of the Bank of Ghana (L.I. 1825) also provides detailed guidance on the relationship between the Bank of Ghana and ARB Apex Bank and the rural and community banks, Association of Rural Banks, government, micro finance institutions etc. The Bank of Ghana also introduced a number of rural banking reforms in February 2008 covering the ownership structure and governance. Minimum reserve requirements, secondary reserve requirements, the loan ratification (Bawumiah, 2010).

2.2.19 Structure and Performance of the Micro Finance Industry

The financial system in Ghana falls into three main categories: formal, semi-formal, and informal:

- 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) to provide financial services under Bank of Ghana regulation. Rural and Community Banks (RCBs) operate as commercial banks under the Banking Law, except that they cannot undertake foreign exchange operations, their clientele is drawn from their local catchments area, 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 smallscale financial intermediation using microfinance methodologies.

- Non-Governmental Organizations (NGOs) and Credit Unions (CUs) are considered to be semiformal – legally registered 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 NBFIL 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.

2.2.20 Rural and Community Banks (RCBs)

RCBs 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.

2.2.20.1 *Savings and 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. A recent investment is Sikaman S&L Company Ltd., which is applying international best practices in microfinance to reach profitability within two years. The S&Ls generally use the loan products described in Box 1. 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).

2.2.20.2 *Credit Unions*

Credit Unions are thrift societies offering savings and loan facilities exclusively to 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 CUs (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 (Table 4). 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. CUA 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 MFIs, as well as for RCBs CUA has attempted to establish a financial reporting system for its members, but the quality 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).

2.2.21 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 RMFIs. These methodologies often are based on group solidarity methods, and have benefited from linkages with CBOs 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 1994), which has 16 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 Programme; 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, 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.

2.2.22 Informal Finance

2.2.22.1 *Moneylenders*

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).¹⁰ 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.

2.2.22.2 *Susu Collectors, Associations, Clubs, Companies and Products*

The susu system (see Box 2) 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 onlend 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.¹² 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.



2.2.22.3 *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 monopony 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.

2.2.23 **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 Programme 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.

2.2.23.1 *Interest Rates*

Restrictive policies during the 1970s and early 1980s, such as government-controlled interest rates and sectoral 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.

2.2.23.2 *Security*

Licensed banks normally require that loans be secured by title to land or physical assets, deposit balances, or T-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.

2.2.23.3 *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 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.³ 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, 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 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: i. to stimulate banking habits among rural dwellers; ii. to mobilize resources locked up in the rural areas into the banking systems to facilitate development; and iii. to identify viable industries in their respective catchments [areas] for investment and development.”

2.2.23.4 ***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.⁶ 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 sectorial allocation for Rural Bank loans. The lending allocation guidelines are shown in Table 3. 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.

2.2.23.5 *Access to Credit Facilities in the Rural Communities*

The need for rural credit for rural development is something that cannot be ignored. According to Agama (1995), the need for credit facilities is highly felt in the rural areas since they form the main foundation upon which any meaningful economic development can be based. Murray (1975) asserts that credit makes it possible for farmers to take advantage of new machinery, improve seeds fertilizers and other facilities which enable them to operate their farm on a more daily basis. It can



also be seen that credit is an important factor when it comes to the development of the productive capacity of small scale farmers in order to increase production and such raise incomes of farmers. According to Oyataye (1980), because of low yields, farmers are faced with very low levels of income and thus there are several limitations on their savings capacity, rural credit appeals to be the only means of improving farm capital investment and without it there can be no progress in the country's agricultural development.

Afriyie (1984) observed that the scarcity of credit is considered as one of the distinctive obstacles to efficient and rapid Agricultural development. Acheampong (1986) had the same view that agricultural credit could play a very important role in rural development. What he means is that for rural development to be accelerated, there must be a comprehensive credit scheme accessible to the agricultural sector which provides employment to most people in the rural areas.

According to La Ayane (1985), there is enough evidence that the use of credit could bring about increase incomes in the agricultural sector. Gardiner (1976) looked at the rural and agricultural population as a submerged majority who can earn their living on lands. Looking at the rural sector as a whole, it is realized that it is not only rural farmers who need assistance but other groups in the rural areas. Bonsu (1983) was of the view that rural banking concept is a conscious effort at improving the wellbeing of the rural people in their environment, to him the scheme is a means of raising income through increased productivity. In addition, the rural banking scheme is an attempt to narrow social inequalities through income distribution.

According to ISSER report (1994) it was to improve the credit source for farmers and rural entrepreneurs that the rural banking system was introduced in Ghana in 1976. Also the establishment of rural banks has led to the decline in the population of commercial bank loans and advances since 1985. This means that the rural banking system in Ghana is gradually becoming a

sustainable source of rural financing. As Ellis (1992) puts it, the question of funds from sources is considered as a key feature of self-sustaining financial institutions, it is therefore the duty of rural banks to help anchor people in the rural environment through granting of credit as observed by Brown (1986).

According to Ukwe (1978), he asserts that there is a great deal of savings in the rural areas which could be mobilized for financing output expansion and raising of income. However, a great deal of these savings is being moved-off to the urban centres.

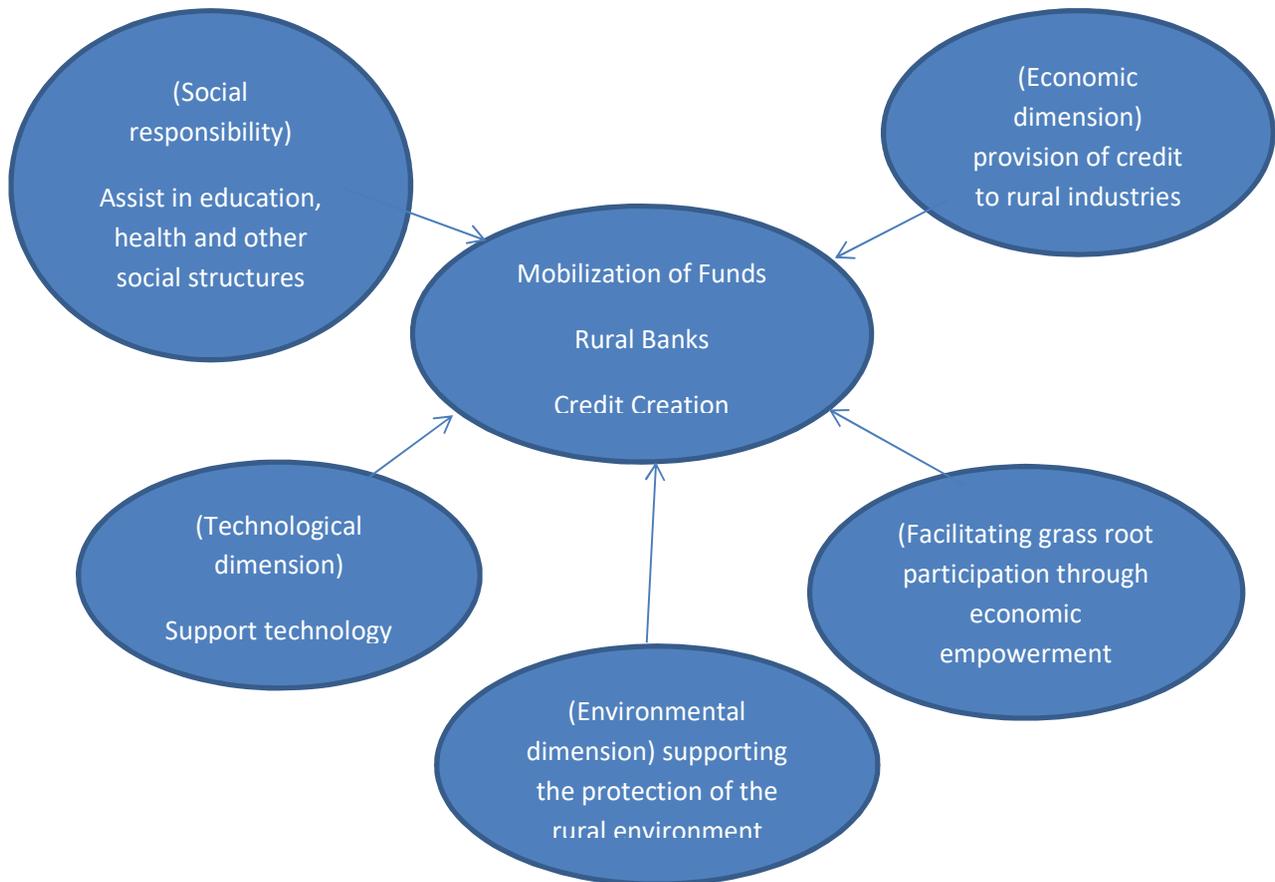
2.3 Conceptual frame work

2.3.1 Conceptual Framework on Rural Banks and Rural Development.

According to European Rural Development Agency, Rural Development has five main dimensions and any agency aiming at propelling sustainable Rural Development should be able to implement programs in these areas. These are social, economic, environmental, political and technological dimensions. Rural Banks are facilitators of Rural Development through the provision of rural credits which helps in transforming the rural economies. Figure 3 shows the extent to which the Rural Banks can facilitate Rural Development using the concept as proposed by the European Rural Development Agency.



Figure 2. 1: Conceptual Frame work on Rural Bank and Rural Development



Source: European Rural Development Agency, 2007

2.3.2 *Explanation of the Conceptual Frame work*

The operation of the Rural Banks in the rural communities can facilitate the expansion and subsequent development of the areas. The process starts with the mobilization of funds that are locked up in the rural areas. This obligation is executed through the products like the saving, current, and time deposit accounts etc. Subsequently, the amount mobilized as funds if given in the form of loans, advances and overdraft to the targeted population will solve the credit problems in the rural communities.

As the beneficiaries invest the credit in agriculture and other rural ventures, there is bound to be increase in output and productivity, increase income and enhanced standard of living. The increase



in output may make room for the intensification of agriculture which can also create employment in the rural areas. As the process continues the rural areas eventually will open up and give room for other stakeholders and institution to invest in the area. This process can be linked to the Improved Agricultural Approach to Rural Development and falls under the Economic dimension of the European Rural Development concept.

Secondly it is a requirement by the BoG that the Rural Banks should locate in a rural community and operate within a 25-mile radius. The implication is that the Rural Banks exist because of the rural communities. As a corporate entity operating in the area, if the Rural Banks execute their social responsibilities by assisting in the provision of basic social amenities like sanitary facilities, bore holes, health posts, educational blocks e.g., it will improve the social conditions of the people and can be linked to the Social Amenity Approach which is directly under the Social dimension of the Europeans Rural Development concept.

Then again to ensure sustainability of the development there is the need to support the communities in the areas of technology and the environment as increased agriculture and social infrastructure is likely to affect the rural environment.

Finally, the Rural Banks can perform only when there is political stability, grass root participation and sound macroeconomic policies to support their operation in the rural areas. This brings in the Political Dimension of Rural Development.



2.4 Profiles of the locations of the selected rural banks

2.4.1 Profile of the Savelugu Nanton District

2.4.1.1 *Population Size, Structure and Composition*

The population of Savelugu-Nanton District is 139,283 representing 5.1 percent of the northern region's total population. Males constitute 48.5 percent and females represent 51.5 percent, according to the Ghana Statistical Service (GSS, 2010).

Sixty percent of the population is rural. The district has a sex ratio of 94.1. About 4 in 10 (43.5%) of the population of the district is youthful (0-14 years) depicting a broad base population pyramid which tapers off with a small number of elderly persons (6.5%). The total age dependency ratio for the District is 95.7, with the age dependency ratio for males (106.1) higher than that of females (87.0). (GSS, 2010).

2.4.1.2 *Fertility, mortality and migration*

The Total Fertility Rate for the district is 4.3. The General Fertility Rate is 126.7 births per 1000 women aged 15-49 years which is the second highest for the region. The Crude Birth Rate (CBR) is 30.9 per 1000 population. The crude death rate for the district is 10.1 per 1000. Majority of migrants (82.6 %) living in the district were born elsewhere in the region while 17.4 percent were born elsewhere in another region. For migrants born elsewhere in another region, those born in the Upper East region is the highest and constitute 31.1 percent. (GSS, 2010)

2.4.1.3 *Household Size, composition and structure*

The district has a household population of 138,221 with a total number of 14,669 households. The average household size in the district is 9.4 persons per household. Children constitute the largest proportion of the household structure. Extended households (head, spouse(s), children and head's relative) constitute 69.5 percent of the total number of households in the district. (GSS, 2010)



2.4.1.4 *Marital status*

About six in ten (60.1%) of the population aged 12 years and older are married, 33.4 percent have never married, 0.5 percent are in consensual unions, 4.2 percent are widowed, 1.0 percent are divorced and 0.9 percent are separated. More than half of both males and females 12 years and older are married. At age 65 and above, widowed females account for as high as 46.0 percent while widowed males account for only 3.0 percent. . Among the married, 85.2 percent have no education while about 39.6 percent of the unmarried have never been to school. About 8 in ten (84.5%) of the married population are employed, 1.4 percent are unemployed and 14.1 percent are economically not active. (GSS, 2010)

2.4.1.5 *Nationality*

The proportion of Ghanaians by birth in the district is 94.3 percent. Those who have naturalized constitute 0.9 percent and the non-Ghanaian population in the district is 2.5 percent. (GSS, 2010)

2.4.1.6 *Literacy and education*

Of the population 11 years and above, 30.6 percent are literate and 69.4 percent are illiterate. The proportion of literate males (40.9 %) is higher than that of females (21.5%). Seven out of ten people (65.7%) can speak and write both English and Ghanaian languages. Of the population aged 3 years and above (125,467) in the district, 59.2 percent has never attended school, 32.5 percent are currently attending and 8.4 percent have attended in the past. (GSS, 2010)

2.4.1.7 *Economic Activity Status*

About 77.6 percent of the population 15 years and older are economically active while 22.4 percent are economically not active. Of the economically active population, 98.0 percent are employed while 2.0 percent are unemployed. For those who are economically not active, 39.1 percent are

students, 28.0 percent perform household duties and 4.4 percent are disabled or too sick to work. (GSS, 2010)

2.4.1.8 *Occupation*

Of the employed population, about 74.1 percent are engaged as skilled agricultural, forestry and fishery workers, 5.7 percent in service and sales, 6.4 percent in craft and related trade, and 2.4 percent are engaged as managers, professionals, and technicians. (GSS, 2010)

2.4.1.9 *Employment status and sector*

Of the population 15 years and older 54.6 percent are self-employed without employees, 27.7 percent are contributing family workers, 6.6 percent are casual workers and 1.3 percent are domestic employees (house helps). Overall, men constitute the highest proportion in each employment category except the contributing family workers, apprentices and domestic employee. The private informal sector is the largest employer in the district, employing 96.4 percent of the population followed by the public sector with 1.9 percent. (GSS, 2010)

2.4.1.10 *Information and Communication Technology*

Of the population 12 years and above, 25.3 percent have mobile phones. Men who own mobile phones constitute 35.8 percent as compared to 16.0 percent of females. A little over one percent of the population 12 years and older uses internet facilities in the district. Only 239 households representing 1.6 percent of the total households in the district have desktop/laptop computers. (GSS, 2010)

2.4.1.11 *Disability*

About 4.6 percent of the district's total population has one form of disability or the other. The proportion of the female population with disability is slightly higher (4.8%) than males (4.2%). The types of disability in the district include sight, hearing, speech, physical, intellect, and



emotion. Persons with emotional disability recorded the highest of 32.6 percent followed by sight disability (18.8%). There are more females with sight and emotional disabilities than males in both the urban and rural localities. Of the population disabled, 67.6 percent have never been to school. (GSS, 2010)

2.4.1.12 *Agriculture*

As high as 89.3 percent of households in the district are engage in agriculture. In the rural localities, eight out of ten households (93.3%) are agricultural households while in the urban localities, 83.3 percent of households are into agriculture. Most households in the district (97.0%) are involved in crop farming. Poultry (chicken) is the dominant animal reared in the district. (GSS, 2010).

2.4.1.13 *Housing*

The housing stock of Savelugu-Nanton District is 12,483 representing 4.9 percent of the total number of houses in the Northern Region. The average household size in the district is 9.4. (GSS, 2010)

2.4.1.14 *Type, tenancy arrangement and ownership of dwelling units*

Nearly three-quarters (74.4%) of all dwelling units in the district are compound houses; 7.1 percent are separate houses and 1.4 percent are semi-detached houses. More than half (89.3%) of the dwelling units in the district are owned by members of the household; 2.9 percent are owned by private individuals; 4.6 percent are owned by a relative who is not a member of the household and only 1.5 percent are owned by public or government. Less than one percent (0.7%) of the dwelling units is owned through mortgage schemes. (GSS, 2010)



2.4.1.15 *Material for construction of outer wall, floor and roof*

The main construction material for outer walls of dwelling units in the district is mud/mud bricks or earth accounting for 77.8 percent with cement/concrete constituting 12.1 percent of outer walls of dwelling units in the district. Cement (69.0%) and mud/earth (28.9%) are the two main materials used in the construction of floors of dwelling units in the district. Thatch/Palm leaf or Raffia (50.9%) are the main roofing materials for dwelling units in the district with Metal sheets constituting 42.3 percent.

2.4.1.16 *Room occupancy*

One room constitutes the highest percentage (79.2%) of sleeping rooms occupied by households in housing units in the district. About 18.7 percent of households with 10 or more members occupy nine rooms or more in the district. (GSS, 2010)

2.4.1.17 *Utilities and household facilities*

The three main sources of lighting in dwelling units in the district are electricity (42.9%) and kerosene lamp (37.8%) and flashlight/torch (17.3%), The main source of fuel for cooking for most households in the district is wood (89.2%). The proportion for rural (93.2%) is higher than that of urban (83.3%). Nearly 8 in 10 households (78.2%) cook in open space in compound. The four main sources of water in the district are borehole, river/stream, public tap and pipe borne water, with about two out of every five households (39.6%) drinking water from boreholes.

Seven out of ten households (67.2%) in the district have no toilet facility and therefore resort to the bush/beach/field; followed by public toilet (WC, KVIP, Pit, Pan) representing 19.5 percent. A little over two-fifth (42.3%) of households in the district, share separate bathrooms in the same house, while 24.9 percent own bathrooms for their exclusive use. (GSS, 2010)



2.4.1.18 *Waste disposal*

The most widely used method of solid waste disposal is by public dump in the open space accounting for 49.8 percent. About two in ten households (21.9%) dump their solid waste indiscriminately. House to house waste collection accounts for 4.2 percent. For liquid waste disposal, throwing waste onto the street (71.3%) and onto the compound (12.8%) are the two most common methods used by households in the district.

2.4.2 **The West Mamprusi district**

2.4.2.1 *Population size, structure and composition*

The population of West Mamprusi District is 121, 117 and accounts for 4.9 percent of the region's total population. Males constitute 49.2 percent and females represent 50.8 percent. More than six in every ten (63.2%) of the population of the district lives in rural areas, while the remaining 36.8 percent lives in the urban areas. The district has a sex ratio of 96.8. The population of the district is youthful with about two-fifth (46.2%) of the population below 15 years depicting a broad base population pyramid which tapers off with a small number (6.5%) of elderly persons aged at least 60 years. The total age dependency ratio for the District is 102.6, the age dependency ratio for males is higher (109.8) than that of females (96.1). (GSS, 20110).

2.4.2.2 *Fertility, Mortality and Migration*

The Total Fertility Rate for the district 3.8 children per woman. The General Fertility Rate is 111.9 births per 1000 women aged 15-49 years which is among the least in the region. The Crude Birth Rate (CBR) is 25.4 per 1000 population. The crude death rate for the district is 7.9 per 1000 which is higher than the regional figure of 5.9 per 1000. Majority (51.8%) of the migrant population within the region is born elsewhere in the Northern Region while 48.2 percent of migrants living



in the district were born in another region. For migrants born in another region, those born in Upper East constitute 36.6 percent followed by those born outside Ghana with 22.6 percent. (GSS, 2010).

2.4.2.3 Household Size, Composition and Structure

The district has a household population of 119,595 with a total number of 14,432 households. The average household size in the district is 8.4 persons per household. Children constitute the largest proportion of the household structure accounting for 49.5 percent. Heads of households form 12.1 percent. The extended family made up of head, spouse(s), children and head's relatives constitute 61.7 percent of the total number of households in the district. (GSS, 2010)

2.4.2.4 Marital Status

Nearly six in every ten (57.4%) of the population aged 12 years are married and 35.9 percent have never been married. By age 20-24 years, more than 65 percent of females are married compared to about 29 percent of males. At age 65 and above, widowed females account for as high as 50.8 percent while widowed males account for only 6.6 percent. Among the married, 78.6 percent have no education while 29.4 percent of the never married population has never been to school. About three-quarters (76.7%) of the married population are employed, 1.8 percent are unemployed and 21.5 percent are economically not active. On the contrary, a greater proportion of those who have never married (58.3%) are economically not active with 39.9 percent employed and 1.7 percent unemployed. (GSS, 2010).

2.4.2.5 Nationality

The proportion of Ghanaians by birth in the district is 93.2 percent. Those who have dual nationality and those naturalized constitute 2.8 percent and 1.1 percent respectively while 3.0 percent of the population in the district are non-Ghanaians. (GSS, 2010).



2.4.2.6 *Religious Affiliation*

Majority (79.4%) of the population in the district is Islam followed by Christians with a proportion of 15.6 percent. People of the Traditional religion are 3.7 percent and those with no religion constitutes 1.0 percent. (GSS, 2010).

2.4.2.7 *Literacy and Education*

Of the population 11 years and older, 39.9 percent are literate while 60.1 percent are not literate. The proportion of literate males (46.4%) is higher than that of females (33.8%). The majority of the literate can read and write in English and a Ghanaian language (56.5%). Two-fifths (40.0%) of the literate population can read and write in English.

Of the population aged 3 years and older in the district, 48.7 percent has never attended school, 41.4 percent are currently attending and 9.9 percent have attended in the past. The proportion of females who have never attended school (53.6%) is higher than their male counterparts (43.6%). Of those who are currently attending school, 50.6 percent are in primary and 17.2 percent are in JHS. (GSS, 2010).

2.4.2.8 *Economic Activity Status*

About 67.7 percent of the population aged 15 years and older is economically active while 32.3 percent are economically not active. Of the economically active population, 97.0 percent are employed while 3.0 percent are unemployed. Nearly half (48.3%) of the unemployed population are seeking work for the first time. The proportion of employed males (97.6%) is slightly higher than their female counterparts (96.4%). For those who are economically not active, a larger percentage of them are students (40.5%) while 34.7 percent performed household duties. (GSS, 2010).





2.4.2.9 *Occupation*

Of the employed population, about 80.7 percent are engaged as skilled agricultural, forestry and fishery workers, 6.8 percent in service and sales work and 5.8 percent as craft and related trades workers. Relatively high proportions of males (86.1%) than females (75.1%) are engaged as skilled agricultural. On the contrary, more females (10.8%) than males (3.0%) are engaged as service and sales workers.

In terms of sector of employment, 77.8 percent are engaged by the Agricultural sector, 16.8 percent by the Service sector and 5.4 percent by the Industry sector. Whereas more males than females are employed by the Agricultural sector (82.9 percent and 72.5 percent respectively), more females than males are employed by both the Service (19.7 percent and 13.9 percent respectively) and Industry (7.8 percent and 3.2 percent respectively). (GSS, 2010).

2.4.2.10 *Employment Status and Sector*

Of the employed population 15 years and older three-fifths (60.0) percent are self-employed without employees, 31.1 percent are contributing family workers and 4.9 percent are employees.

Overall, males are more likely than females to be self-employed with employees and employees.

On the other hand, females are more likely than males to be contributing family workers.

The private informal sector is the largest employer in the district, employing 95.8 of the working population followed by the public sector with 3.1 percent. Whereas males (4.3%) are more likely than females (1.8%) to be employed by the public sector, females (97.1%) are likelier than males (94.5%) to be employed by the private informal sector. (GSS, 2010).

2.4.2.11 *Information Communication Technology*

Of the population 12 years and older, 20.5 percent own mobile phones. Higher proportion of males (27.5%) than females (14.0%) own mobile phones. Less than one percent (0.9%) of the population

12 years and older use internet facility in the district. Higher proportion of males (1.3%) than females (0.5%) use internet facility. Less than two percent (1.4%) of the total households in the district own desktop/laptop computers. (GSS, 2010).

2.4.2.12 ***Disability***

About 1.7 percent of the district's total population has one form of disability or the other. Sight (40.6%) and Hearing (21.4%) disabilities are the commonest in the district. Less than half (47.0%) of persons with disability are employed and 51.4 percent are economically not active. Nearly two-thirds (65.0%) of the population with disability have never been to school and 30.9 percent have up to basic school level of education. (GSS, 2010).

2.4.2.13 ***Agriculture***

As high as 85.5 percent of households in the district are engaged in agriculture (96.1 percent in rural localities and 69.2 percent in urban localities). Most households in the district are involved in crop farming (96.9%) and livestock rearing (69.7%). Chicken (1.2%), Sheep (21.6%) and Goat (19.1%) are the dominant animals reared in the district. (GSS, 2010).

2.4.2.14 ***Housing***

The housing stock of the Mamprusi West District is 10,295. There are more dwelling units in rural (60.3%) than in urban (30.1%) areas. The average number of persons per house is 11.8. (GSS, 2010).

2.4.2.15 ***Type, tenancy Arrangement and Ownership of Dwelling Units***

The main type of dwelling unit in the district is compound house (79.5%). About eight percent (8.2%) occupy huts/buildings on same compound. Nearly nine in every ten (87.9%) dwelling units in the district are owned by members of the household; 5.8 percent are owned by relatives who are not members of the household and 4.2 percent are owned by private individuals. (GSS, 2010).





2.4.2.16 *Material for Construction of Outer Wall, Floor and Roof*

The main construction material for outer walls of dwelling units in the district is mud/mud bricks or earth accounting for 88.5 percent and cement/concrete constituting 4.1 percent of outer walls of dwelling units in the district. Cement/concrete (83.5%) is the main material used for the floor of the dwelling followed by earth/mud (15.2%). Metal sheets (50.4%) and Thatch/palm leaf or raffia (44.6%) are the main roofing materials for dwelling units in the district. (GSS, 2010).

2.4.2.17 *Room Occupancy*

About one-third (32.6%) of the sleeping rooms are occupied by households with 10 or more members. Less than one percent (0.9%) of households with 10 or more members occupy single rooms. (GSS, 2010).

2.4.2.18 *Utilities and Household Facilities*

Kerosene lamp (41.1%) and electricity from national grid (36.1%) are the two main sources of lighting in dwelling units in the district. The main source of fuel for cooking for most households in the district is wood (83.9%) and charcoal (12.7%). The three main sources of water in the district are Protected well (28.6%), Unprotected well (27.2%) and Borehole/Pump/Tube well (25.07%).

About three-quarters (74.5%) of the households in the district has no toilet facility. Pit latrine (9.1%) and Public toilet (8.6%) are the dominant toilet facilities used by households in the district. (GSS, 2010).

2.4.2.19 *Waste Disposal*

The most widely method of solid waste disposal is by public dump in the open space accounting for 45.5 percent. More than one-quarter (27.9%) of households dump their solid waste indiscriminately. About 11 percent of households also burn their solid waste. For liquid waste

disposal, throwing waste onto the street/outside (71.6%) and onto the compound (14.2%) are the two most common methods used by households in the district. (GSS, 2010).

2.4.3 Kumbungu District

2.4.3.1 *Population Size, Structure and Composition*

The population of Kumbungu is 39,341. Males constitute 50.0 percent and females represent 50.0 percent. All the people in the District live in rural areas. The District has a sex ratio of 97.2. The population of the District is youthful (44.8%) depicting a broad base population pyramid which tapers off with a small number of elderly persons (5.4%). The total age dependency ratio for the District is 101.1, the age dependency ratio for males is higher (108.6) than that of females (94.1). (GSS, 2010).

2.4.3.2 *Fertility, Mortality and Migration*

The Total Fertility Rate (TFR) for the District 3.6 which is slightly lower than the Regional average of (3.54). The General Fertility Rate (GFR) is 103.9 births per 1000 women aged 15-49 years. The Crude Birth Rate (CBR) is 23.4 per 1000 population. The crude death rate for the District is 8.7 per 1000. Accident/violence/homicide/suicide accounted for 4.1 percent of all deaths while other causes constitute 95.9 percent of deaths in the District. About 90.0 percent of migrants living in the District were born in another region while the remaining 10.0 percent were born in other localities in the Northern Region. For migrants born in another region, those born in Upper East and Brong Ahafo regions form the majority. (GSS, 2010).

2.4.3.3 *Household Size, Composition and Structure*

The District has a household population of 39,033 with a total number of 4,133 households. The average household size in the District is 9.5 persons per household. Children constitute the largest proportion of the household structure accounting for 48.4 percent. Spouses form about 9.1 percent.



Nuclear households (head, spouse(s) and children) constitute 14.6 percent of the total number of households in the District. (GSS, 2010).

2.4.3.4 Marital Status of the People

About six in ten (61.8%) of the population aged 12 years and older are married, 32.5 percent have never married, 0.3 percent are in consensual unions, 4.1 percent are widowed, 0.8 percent are divorced and 0.5 percent are separated. By age 25-29 years, more than half of females (89.4%) are married compared to a little above half of males (57.7%). At age 65 years and above, widowed females account for as high as 47.4 percent while widowed males account for only 3.4 percent. Among the married, 86.0 percent have no education while about 50.2 percent of the never married have never been to school. More than half of the married population (85.4%) are employed, 1.3 percent are unemployed and 13.3 percent are economically not active. A greater proportion of those who have never married (31.4%) are economically not active with 1.6 percent being unemployed. (GSS, 2010).

2.4.3.5 Nationality

The proportion of Ghanaians by birth in is 95.8 percent. Those who have naturalised constitute 0.6 percent and the non-Ghanaian population in the District is 1.8 percent. (GSS, 2010).

2.4.3.5 Literacy and Education

Of the population 11 years and above, 26.0 percent are literate and 74.0 percent are illiterate. The proportion of literate males is higher (32.9%) than that of females (19.3%). Seven out of ten people (75.8%) indicated they could speak and write both English and Ghanaian languages. Of the population aged 3 years and above (10,491) in the District, 63.8 percent have never attended school, 9.6 percent are currently attending and 6.6 percent have attended in the past. (GSS, 2010).





2.4.3.6 *Economic Activity Status*

About 81.3 percent of the population aged 15 years and older are economically active while 18.7 per cent are economically not active. Of the economically active population, 98.1 percent are employed while 1.9 percent are unemployed. For those who are economically not active, a larger percentage (37.8%) of them performed home duties, 30.2 percent are students and 23.2 percent are too young/old to work. Five out of every ten unemployed persons are seeking work for the first time. (GSS, 2010).

2.4.3.7 *Occupation*

Of the employed population, about 88.3 percent are engaged as skilled agricultural, forestry and fishery workers, 6.0 percent in Craft and related trades, and 3.1 percent are engaged in services and sales work. (GSS, 2010).

2.4.3.8 *Employment Status and Sector*

Of the population 15 years and older 59.6 percent are self-employed without employees, 35.9 percent are contributing family workers, 1.7 percent are employees and 0.8 percent are domestic employees (house helps). Overall, men constitute the highest proportion in each employment category except in contributing family workers and apprentices. The private informal sector is the largest employer in the District, employing 98.1 percent of the population followed by the public sector with 0.8 percent. (GSS, 2010).

2.4.3.9 *Information Communication Technology*

Of the population 12 years and above, 16.9 percent have mobile phones. Men who own mobile phones constitute 26.9 percent as compared to 7.1 percent of females. Less than one percent of the population 12 years and older use internet facilities in the District. Only 19 households

representing 0.5 percent of the total households in the District have desktop/laptop computers. (GSS, 2010).

2.4.3.10 *Disability*

About 1.5 percent of the District's total population have one form of disability or the other. The proportion of the male population with disability is slightly higher (1.6%) than females (1.5%). The types of disability in the District include sight, hearing, speech, physical, intellect, and emotion. Persons with sight disability recorded the highest of 36.7 percent followed by physical disability (25.0%). There are more females with sight, physical and emotional disabilities than males. Of the population disabled, 78.5 percent have never been to school. (GSS, 2010).

2.4.3.11 *Agriculture*

As high as 95.4 percent of households in the District are engage in agriculture. Most households in the District (97.9%) are involved in crop farming. Poultry (chicken) is the dominant animal reared in the District. (GS, 2010).

2.4.3.12 *Housing*

The housing stock of Kumbungu District is 3,538 representing 1.4 percent of the total number of houses in the Northern Region. The average number of persons per house is 11.1. Type, tenancy arrangement and ownership of dwelling units Over half (56.6%) of all dwelling units in the District are compound houses; 33.3 percent are Huts/Buildings (same compound) and 3.7 percent are semi-detached and separate houses respectively. More than half (98.6.2%) of the dwelling units in the District are owned by members of the household. Less than one percent (0.1%) of the dwelling units is owned through mortgage schemes. (GSS, 2010).





2.4.3.13 ***Material for Construction of Outer Wall, Floor and Roof***

The main construction material for outer walls of dwelling units in the District is mud/mud bricks or earth accounting for 91.9 percent with cement/concrete constituting 27.1 percent of outer walls of dwelling units in the District. Cement (4.1%) and mud/earth (91.9%) are the two main materials used in the construction of floors of dwelling units in the District. Thatch/Palm leaf or Raffia are the main roofing material (79. %) for dwelling units in the District. (GSS, 2010).

2.4.3.14 ***Room Occupancy***

Three rooms constitute the highest percentage (20.6%) of sleeping rooms occupied by households in housing units in the District. Less than one percent of households with 10 or more members occupy single rooms. (GSS, 2010).

2.4.3.15 ***Utilities and Household Facilities***

The three main sources of lighting in dwelling units in the District are kerosene lamp (47.1%), electricity (38.5%) and flashlight/torch (12.0%). The main source of fuel for cooking for most households in the District is wood (96.6%). The four main sources of water for drinking in the District are Dugout/Pond/Lake/Dam/Canal, borehole/pump/tube well, river stream and public tap. Majority (82.0%) of the people have no toilet facility. More than half (51.0%) of households in the District share separate bathrooms in the same house while 23.0 percent own bathrooms for their exclusive use. (GSS, 2010).

2.4.3.16 ***Waste Disposal***

The most widely used method of solid waste disposal is by public dump in the open space accounting for 56.0 percent. About one in ten households (15.0%) dump their solid waste indiscriminately. House to house waste collection accounts for 7.0 percent. For liquid waste

disposal, throwing waste onto the street (64.0%) and onto the compound (24.0%) are the two most common methods used by households in the District. (GSS, 2010).



CHAPTER THREE

METHODOLOGY

3.1 Introduction

The study was carried out in selected rural and community banks in the northern region namely; Bonzali rural bank, Borimanga rural bank and Bangmarigu community bank.

This section gives a detailed profile of the selected banks and a description of the methodology for the study. It looks at the research design, sampling size and its determination, source of data and then also interpretation and the analysis of the data.

3.2 Profile of Selected RCBs.

3.2.1 Profile of Bonzali Rural Bank Limited

Bonzali Rural Bank Limited Ghana was originally called Kumbungu Rural Bank in Northern Region. It commenced Operations in May 1990, to provide comprehensive range of financial services to the rural poor as well as personal customers and the small scale enterprises.

The bank began with its only office at Kumbungu a town in the Tolon-Kumbungu district of the Northern Region of Ghana and later added the Tamale Agency. It followed up its expansion with additional agencies in Yendi, Lamashegu, Nyankpala and Karaga. The bank also engages in money transfer activities via the ARB Apex Domestic Money Transfer and the Western Union Money Transfer. Bonzali means keep small, small.

The banking services and products the bank offers to its clients include domestic banking, microfinance, money transfer (local and international), and mobile banking. In terms of its microfinance programmes, the “community bank methodology” is used while the women access the microfinance scheme in credit cycles. Irrespective of the fact that Bonzali provides general banking services like any other mainstream bank, microfinance is one of its largest departments.



According to the management, the Company has its vision and mission statement as stated below:

3.2.1 *Vision*

To remain the first choice Rural Bank in the Northern Sector of Ghana and also aims at changing rural passive recipients into active partners through prudent lending practices.

3.2.2 *Mission*

To provide First class banking and Microfinance services to large volume of low income earning persons to enhance their standards of living particularly in Northern Region and Ghana in general. The Various Departments are Operations Department, Finance Department, Internal Audit, Credit Department, Administrative and Human Resource Department, and Information Technology Department.

Bonzali Rural Bank, within its operational areas, performs the following activities:

1. Major Banking Services (Current Account, Savings, Fixed Deposit Account, Mobile Banking Services, and All Transactions Banking Service)
2. Credit Facilities (Microfinance, Personal Loans, Salary Advance, Works Capital Loan, Overdrafts)

3.2.3 **Profile of Borimanga Rural Bank Ltd**

Borimanga rural bank Ghana Limited was established in the year 2007. It is located in Savelugu, in the Savelugu Nanton district of the northern region. Borimanga in the Dagbani dialect means “hard work in the care of one’s self”. It commenced operations the same year to provide banking and other financial services to the dwellers of the district and other rural communities within its catchment area. The bank presently operates only at its main office located at the main building of the Savelugu market.



The banking services and products provided by the bank to its customers include; domestic banking, salary accounts, susu accounts, SME loans for small business operators, salary loans for government employees and others. The bank also provides loans to farmers in the form Agricultural loans.

3.2.3.1 Vision of the bank

To be the preferred destination for banking business within the Savelugu Nanton district and also raise financial literacy rate of the populace.

3.2.3.2 Mission of the bank

The mission of the bank is to make banking services and products available to the a large segment of the low income earners, made up of farmers, petty traders and public service workers within the Savelugu Nanton district. This is with the aim of imbining in them the culture of banking so as to enjoy life enhancing benefits that comes with financial information and literacy.

3.2.4 Profile of Bangmarigu Community Bank Ltd

Bangmarigu Community Bank Ltd, formally known as the West Mamprusi Community Bank is located in Walewale, the district capital of the west mamprusi district of the northern region. Bangmarigu in the mampruli dialect means “knowing how to take care of one’s own”. The bank was established in the year 2000 and commenced banking business the same year with the aim of bringing banking services and products to the door steps of the people.

The bank began operations with its only office in Walewale along the hospital road. By the year 2016 however, the bank had moved its main office to the Nayirifong, area along the Walewale Bolgatanga road. The ultra –modern facility serves as the head office of the bank. However, it still operates banking business at the old office as an agency.



Among the services and products offered by the bank are; salary accounts, susu accounts, corporate accounts, salary loans, Agricultural loans and SME loans.

3.2.4.1 Vision of the bank

The Bangmarigu Community Bank seeks to provide an enabling financial environment for the rural poor to achieve accelerated poverty reduction and sustainable growth through its banking services.

3.2.4.2 Mission of the bank

The mission is to extend quality banking services to all parts of the west mamprusi district and beyond so as to deliver micro credit for agriculture, agro processing, cottage industry and marketing within the frame work of rural banking in Ghana with the view to improving the quality of life of the rural community through customer centred services while enhancing shareholder values.

The bank cherished Values include:

Accountability

Transparency

Confidentiality of transactions

Meritocracy allied to integrity, and

Customer satisfaction.

In furtherance to these, the bank will at all times keep a workforce which is focused, hardworking, punctual, organized and discipline.



3.3 Research Design

Research design is the specific data analysis and techniques or methods that the researcher used to collect the data. The design ensures that the researcher gathers the appropriate information to solve the research problem (Saunders et al, 2007). Greener (2008) sees a research design as a grand plan of approach to a research topic.

A Case Study Approach was adopted as the research design. This approach involves procedures and techniques of investigating and understanding the dynamics of a particular system. It was adopted because it is the best approach for the study of contemporary issues and in situation where the boundaries between the phenomena and context are not clearly evident as is the case of the Rural Banks and the extent to which they facilitate Rural Development.

Rural Development is the concept under explanation whiles Rural Banks is seen as the concept to induce change in the rural economy. In this regard the dependent variable is the concept of Rural Development whiles the independent variable is the Rural Banks.

The study employed both quantitative and qualitative approaches to the research. Burns and Groove (1993) define quantitative research as a formal, objective, systematic process to describe and test relationship and also examine cause and effect interactions among variables. Quantitatively, the study captures variables like agriculture, cottage industry employment, income and social infrastructure under the concept of Rural Development whiles credit creation, deposit mobilization and social responsibility are the main variables captured under rural banking.

Qualitative research which is also descriptive in nature was used because it provides detailed analysis of research attributes such as opinions, perceptions and knowledge of a particular individual or group on the phenomenon. In this regard, the perception of the stakeholders in the communities on the performances of the Rural Banks is also being brought to light.



3.4 The Population

According to Jacobs & Rezavieh (2002), population is used to refer to the entire group of individuals to whom the findings of a study apply. It is whatever group the investigator wishes to make inferences about. A staff strength of the selected Rural Banks comprising of 183 for Bonzali Rural Bank, Bangmarigu Community Bank Ltd 32, and Borimanga Rural Bank Ltd 35 which makes the total staff of 250 staff and the entire customers of the three Rural Banks. Therefore, the staff of the selected rural banks and their customers constitute the population of the study.

3.5 Sample Size and Sampling Techniques

The study used purposive sampling to select only the project officers and branch managers. For probability sampling, each member has an equal chance of being selected to respond to the research questions. It is often associated with surveys (Saunders et al, 1999).

The expected sample size was 40 percent or more of the study population. The justification for this is that there are certain non-definitive practices among social researchers that could be adopted. One such practice suggests that if the population is a few hundreds, a 40 per cent or more sample is desirable. If many hundreds, a 20 per cent would be alright. However, if a few thousands a 10 per cent will do, and if several thousands, a 5 per cent or less could be used (Fraenkel & Wallen, 2000, Rubin & Rabbie, 2001).

A sample was drawn from the population of all the staff of the selected Rural Banks. Following the characteristics of the population, a stratified random sampling method was used to select the sample. Indeed, stratified sample random sampling is a modification of a simple random sampling in which the population is divided into two or more strata based on one or more attributes of the population (Fraenkel & Wallen, 2000).



The stratified random sampling was adopted in selecting the sample for the study at all the branches of the banks. The lottery method was used to select 99 respondents from a total population of 250 staff of the selected Rural Banks.

In this method, pieces of paper were cut using the same measurement and Yes or No were written on them. Each piece of paper was folded, rolled and put in a container. The pieces of paper were then thoroughly mixed. The rolled papers were then picked one by one without the selector looking into the container. This was, however done with replacement in order to maintain the same probability for each staff member to be selected. This process went on until the sample was selected.

Also purposive sampling technic method was used to select a total of 67 community members and clients each for the selected Rural Banks since they have in-depth knowledge about the operations and services rendered by the selected rural banks. Every effort was made to include women to make the responses represent the views of all the people operating with the bank.

In all the sample size for the study is $201+99 = 300$ respondents who represent the views of the population of the study since the study adopted the case study approach.

Table 3.1(a) Sample size determination of bank staff

Rural Bank	Population	Sample Size 40%
Bonzali Rural Bank Ltd	183	73
Borimanga Rural Bank Ltd	35	14
Bangmarigu Community Bank Ltd	32	12
Total	250	99

Source, Field Survey, 2017



3.6 Sources of Data

The sources of the data for this research work were put into two folds. These were primary data as well as secondary data.

3.6.1 *Primary data*

This is defined as raw data collected on source which has not been subjected to processing or any other manipulation. Primary data collected was in the form of questionnaires and personal interviews (Fraenkel & Wallen, 2000).

3.6.2 *Secondary data*

Secondary data is the type of data collected by someone other than the user. Common sources include textbooks, journals, articles, magazines, newspapers and essentially, the internet. More importantly, data was gathered from the Rural Banks reports, newsletters and magazines.

3.7 Data Collection Procedure and Tools

This talks about instruments and processes which were exploited by the researcher to collect data from targeted respondents. As stated earlier, questionnaires and personal interviews were used.

A questionnaire is a form containing a set of questions; submitted to people to gain statistical information. The type of questions in the questionnaire were both open-ended and close-ended.

The researcher used close-ended questions because it's used to seek for answers with no explanation and open-ended questions were used in situations where the researcher needed to probe further in areas where close-ended questions fell short. The use of questionnaires was a convenient method of data collection because they can be completed at the respondents own time (www.social research.com). Questionnaires were also used because the respondents could read and write.



Questionnaires for the research was in two different forms. These included questionnaires for staff of selected Rural Banks, and community members who are clients of the Banks.

Interviews were also conducted with the project officers and branch managers of the banks. This was done in order to seek responses from them to some of the answers the community members gave in the assessment of the rural banks' role in rural development.

3.8 Ethical Issues

A number of ethical concerns were addressed in the course of the research. These included assurance of privacy, anonymity and confidentiality of personal information from respondents. The nature, purpose and procedure of the study were explained to all respondents. They were made aware that they had the right to choose to participate in the study or not and also free to refuse to answer any question they did not want to answer or drop out of the study at any time and that would not affect them. Also, permission to conduct the research in all the branches of the study was sought in writing before the actual work commenced. This ensured access and acceptance in those branches involved.

3.9 Pre-test

The researcher conducted a pre-test at the Tisungtaaba rural bank in the East Mamprusi district of the Northern Region following the development of the questionnaire. This bank was selected for the pre-test based on the similarities it shares with the selected rural banks for this study and could therefore serve as a mirror of the larger group. The initial questionnaire models were administered by four field assistants who were recruited from the Tamale Polytechnic, who understood and could translate the instruments into the local Mampruli dialect. The four field assistants were given a day's training on the instruments.





The questionnaire schedules were administered to a representative sample of five staff members of the Tisuntaaba rural bank with the view to detecting problems associated with question wording, format and relationship. The pre-test study revealed inconsistency and inaccuracy in the responses for certain questions indicating that perhaps some of the questions were not properly framed or translated to elicit the right responses. Appropriate corrective measures were carried out to standardize the questionnaire before they were finally administered to the sampled population.

3.10 Validity and Reliability

The term validity implies how well the measuring instruments in the study will fill the demand to measure what it is meant to. Researcher's poor memory can affect the validity of the study. To avoid this problem as much as possible, the research assistants were asked to take notes during the interviews.

Directly after the interviews the data was compiled and transform it into precise information. The researcher presented the results for the respondents to see if the interpretation to their answers were correctly done. Strict monitoring of the research assistance by the researcher to ensure that the right procedure spelt out to selected respondents were applied. Also only respondents who were willing to be administered with the questionnaire were allowed to be interviewed by the research assistance. Furthermore, the validity of the result had been discussed with my research assistance with valuable feedback.

Reliability is a measure of how well the study actually measures what it is supposed to measure, i.e. the absence of random errors (Duranic, 2005). This could be measured by conducting the study again in order to see if the same results were to be obtained. Because of the lack of time, there was no possibility of conducting the study more than once. However, the positive feedback from the discussions with the research assistants gave the researcher a positive reliability.

3.11 Data Analysis

The data analysis involved reducing the raw data into a manageable size, developing summaries and applying statistical inferences. Consequently, the following steps were taken to analyze the data for the study. The data was edited to detect and correct possible errors and omissions that were likely to occur, to ensure consistency across respondents. The data were then coded to enable the respondents to be grouped into limited number of categories. Microsoft Excel and SPSS version 20 software were used for this analysis. Data were presented in tabular form, graphical and narrative forms. In analyzing the data, descriptive statistical tools such as bar graphs, and pie charts were used.



CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the study in four sections. Section one present respondents characteristics such as sex, age, and educational status, Section two, assesses the effects of the selected rural banks activities on Rural Development in the Northern Region, Section three examines the challenges faced by the selected rural banks in complying with the purpose for their establishment, Section four, presents findings on the relationship between the selected rural banks and their main stakeholders as well as the rural dwellers, Section five, ascertains 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, and Section six present the weaknesses inherent in the operations of the selected rural banks in serving the rural areas in they are located.

4.1.1 Age Distribution of Respondents

From the study, data on age distribution revealed that 7.5 percent of clients and community members were between 18-25 years, 16.4 percent of the clients and community members were between the ages of 26-33 years, 47.8 percent of the clients and community members were between the ages of 34 and 41 years, 17.9 percent of the clients and community members were between the ages 42 to 49 years, 4.5 percent of the clients and community members were between 50 to 57 years, 3.0 percent of the clients and community members were between 58-65 years and 66+ years of age. For age distribution of staff of the selected rural banks, 17.17 percent of the staff and management were between the ages 18-25 years, 30.3 percent of the staff and management of the selected rural banks were between the ages of 26-33 years, 15.15 percent of the staff and management of the selected rural banks were between 34-41 years, and 17.17 percent of the staff



and management of the selected rural banks were between 42-49 years of age and 20.21 percent of the staff and management the rural banks were between age 50 to 60+ as shown in table 4.1. This data shows that the staff and management of the selected rural banks who were between the ages 26 to 41 years are more than half of any age group in the company, which is an indication that there is a young generation of professionals who can still work for the next 20 years if properly motivated by the banks. Also more will be needed in terms of training and upgrading of their knowledge to enhance their level of performance.

Table 4. 1: Age Distribution of Respondents

Age	Clients and Community members	Valid percent %	Staff and Management	Valid percent %
18-25 years	15	7.5	17	17.17
26 – 33 years	33	16.4	30	30.30
34 – 41 years	96	47.8	15	15.15
42-49 years	36	17.9	17	17.17
50-57 years	9	4.5	8	8.08
58-65 years	6	3.0	4	4.05
66+ years	6	3.0	8	8.08
Total	201	100.0	99	100.0

Field Survey, 2017

4.1.2 Respondents Level of Education

The level of education of both clients, community members, staff and management of the selected rural banks plays a vital role in terms of effective delivery, understanding of core banking principles and business transactions. As a result the study looked at the level of education of clients, community members, staff and management of the selected rural banks as part of the question that respondents were asked to respond to. For the clients and community members the study reveals that, clients and community members with no formal education constitute 41.8 percent, JHS Certificate constitute 4.5 percent of the clients and community members, SHS certificate constitute 7.5 percent of the clients and community members, HND/Diploma constitute 8.9 percent of the



clients and community members, First Degree constitute 28.4 percent of the clients and community members, while Master's Degree constituted 8.9 percent of the clients and community members. With the staff and management of the selected rural banks, 12.12 percent of the staff and management of the selected rural banks have HND/Diploma, 54.55 percent of the staff and management of the selected rural banks have First Degree, while 33.33 percent of the staff and management of the selected rural banks have Master's Degree. Majority of the staff and management of the selected rural banks have first degree, and also at least a minimum qualification in the banks is HND/Diploma which means that the banks give opportunity to its workers to upgrade themselves to meet the current demand in order to provide quality services and improvement on their performance as staff and management.

Table 4. 2: Level of Education of Respondents

Education	Clients and Community members	Valid percent %	Staff and Management	Valid percent %
No formal education	84	41.8	0	0.0
JHS	9	4.5	0	0.0
SHS	15	7.5	0	0.0
HND/Diploma	18	8.9	12	12.12
First Degree	57	28.4	54	54.55
Masters	18	8.9	33	33.33
Total	201	100.0	99	100.0

Field Survey, 2017

On the issue of years of been in the community by clients and community members and period of work by the staff and management of the selected rural banks, the study revealed that of the sampled community members, 11.9 percent of them were in the community between 1-5 years of their life 62.7 percent of the clients and community members were in the community between 6-10 years, 13.5 percent of the clients and community members stayed in the community between 11-15 years, and 11.9 percent of the clients and community members stayed in the community for



16+ years. For staff and management of the selected rural banks, the study reveals that 13.13 percent of the staff and management of the selected rural banks have worked between 1-5 years in the bank, 54.55 percent of the staff and management of the selected rural banks have worked between 6-10 years in the bank and 32.32 percent of the staff and management of the selected rural banks have worked in the bank between 11-15 years. Thus indicating that almost all the staff and management have some sort of work experience which is an indication that they have experience in terms of handling their clients and complying with rules of the rural banking operation, which also means that clients and community members have been in the community for not less than 1 year.

Table 4. 3: Years Spend in the Community/Period of Work

Period of Work	Clients and community members	Valid percent %	Staff and Management	Valid percent %
1 – 5 years	24	11.9	13	13.13
6 – 10 years	126	62.7	54	54.55
11-15 years	27	13.5	32	32.32
16+ years	24	11.9	0	0.0
Total	201	100.0	99	100.0

Field Survey, 2017

4.2 Effects of Rural banking activities on Development

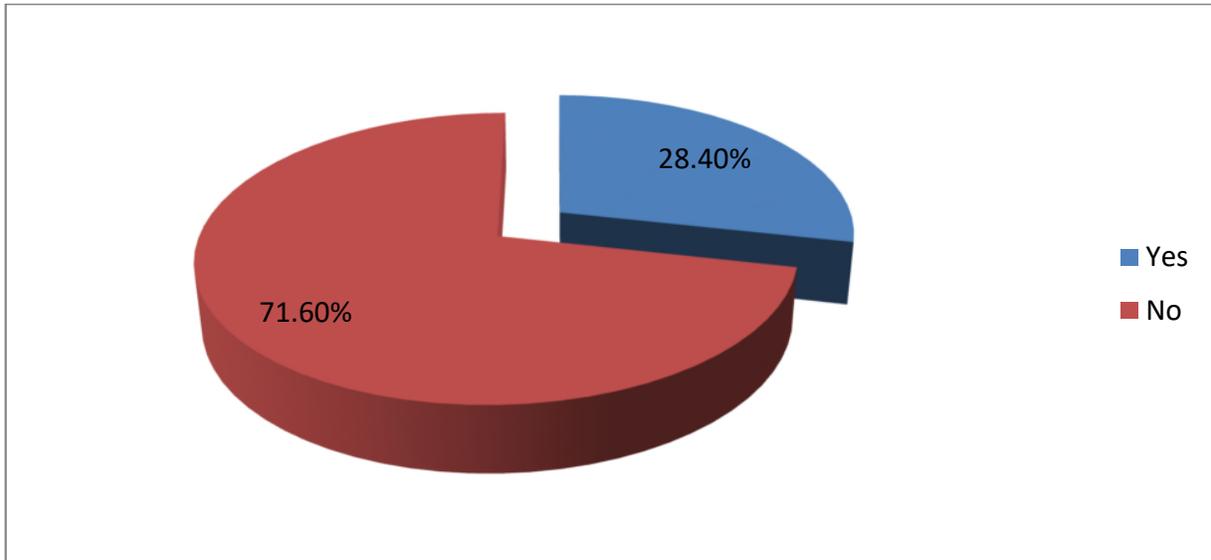
On the economic activities engaged in by the people residing in the areas where these selected rural banks are, 71.6 percent of the respondents do not engage in any form of business or trade, while 28.4 percent of the respondents are engage in trade or business in the community as shown in figure 4.1.

This means that more than half or the people who are around the catchment area of the rural banks do not engage in any business venture or engaged in trading activities. This implies that the selected rural banks will face challenges in doing business with the people because they are not in one way



or the other engaged in any form of trade or business. Probable the bank is not given them loan to start business on their own.

Figure 4. 1: Business or Trade of Respondents



Field Survey, 2017

4.3 Type of Business of Respondents

Banking operations are surrounded with business activities where there is interaction between the bank and the people who are into business transactions. Data from the results revealed that 80.6 percent of the respondents were traders, 9.0 percent of the respondents are farmers, another 9.0 percent of the respondents were artisans, and 1.5 percent of the respondents were engaged in agro business (See table 4.4).



Table 4. 4: Type of Business Respondents Engage in

Trade	Frequency	Valid Percent
Artisan	18	9.0
Agro Business	3	1.5
Farming	18	9.0
Trading	162	80.6
Total	201	100.0

Field Survey, 2017

4.4 Number of Years Respondents has been in Business

On the issue of the number of years' respondents have been in business, the results revealed that 32.8 percent of the respondents had been in business between 6-10 years, 26.9 percent of the respondents had been in business between 11-15 years, 23.9 percent of the respondents had been in business for 16+ years, and 16.4 percent of the respondents had been in business between 1-5 years as shown in table 4.5. At least all the respondents had been in business for more than one year before the inception of the study. This implies that they have some experience and history in running their businesses, which is some of the requirement for banks to grant loans to its clients.

Table 4. 5: Number of Years Respondents has been in Business

Years	Frequency	Percent
1-5 years	33	16.4
6-10 years	66	32.8
11-15 years	54	26.9
16+ years	48	23.9
Total	201	100.0

Field Survey, 2017

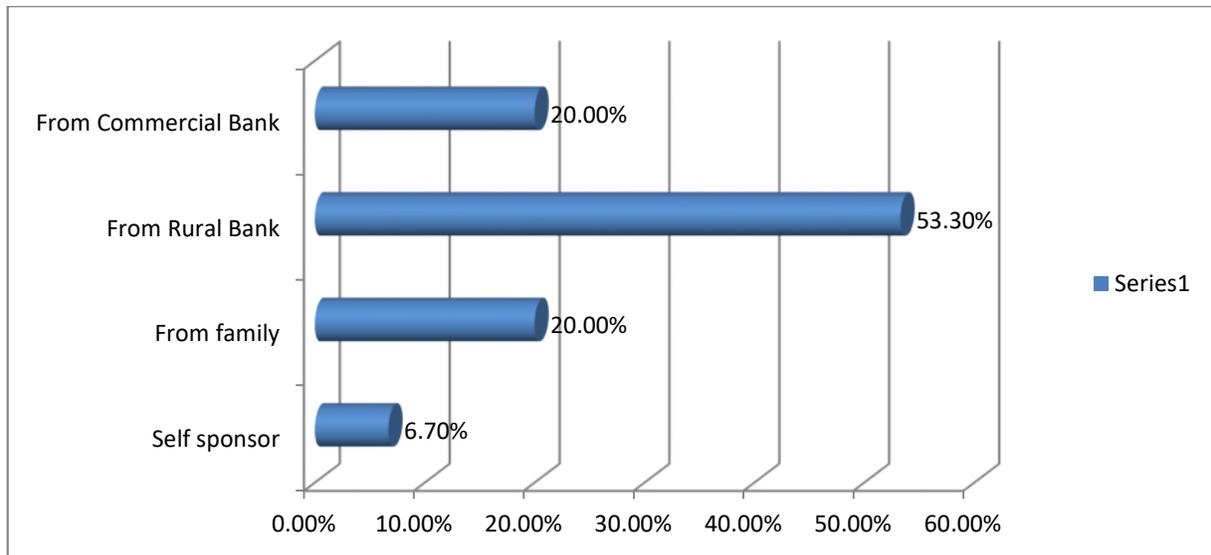
4.5 Capital to Start Business

Capital is the blood that fuels the flow of every business and the ability to raise capital will increase the chances of expanding the business. On capital raised to start business by the respondents, the study reveals that 53.3 percent of the respondents raise their capital from rural banks within their community, 20.0 percent of the respondents raise their capital from commercial banks, another



20.0 percent of the respondents raise their capital from their family members, and 6.7 percent of the respondents self-sponsors their business by raising the capital (See figure 2 below). It means that more than half of the people rely on the rural banks to raise the capital required for businesses activities. This implies that all things being equal, the people will have confidence in the selected rural banks operation and support they give to them as business partners. This notwithstanding, commercial banks play some role in the support of the people in terms of raising their capital.

Figure 4. 2: Capital Raised to Start Business



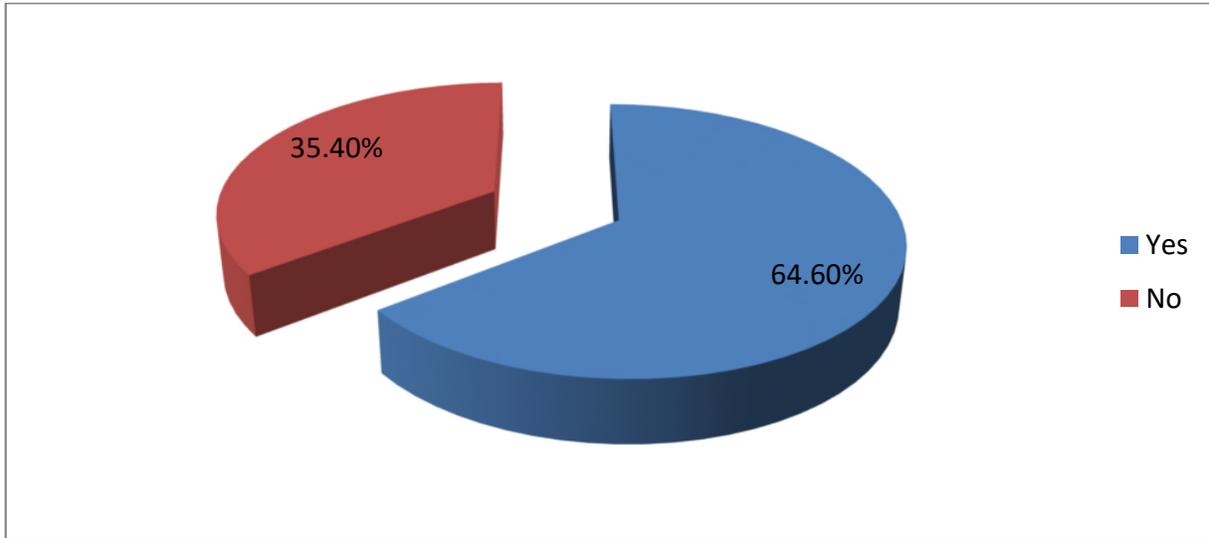
Field Survey, 2017

4.6 Respondents Business Association

As to whether the respondent belongs to any business association, data from the results revealed that 64.6 percent of the respondents belong to business association, while 35.4 percent of the respondents do not belong to any business association as shown in figure 4.3. This means that more than half of the people in the community belong to business association which will facilitate the easy way of doing business with the rural bank. It will also inform the selected rural banks on

the readiness of the people to do business and also to support each other in their business operations.

Figure 4. 3: Respondents Business Association



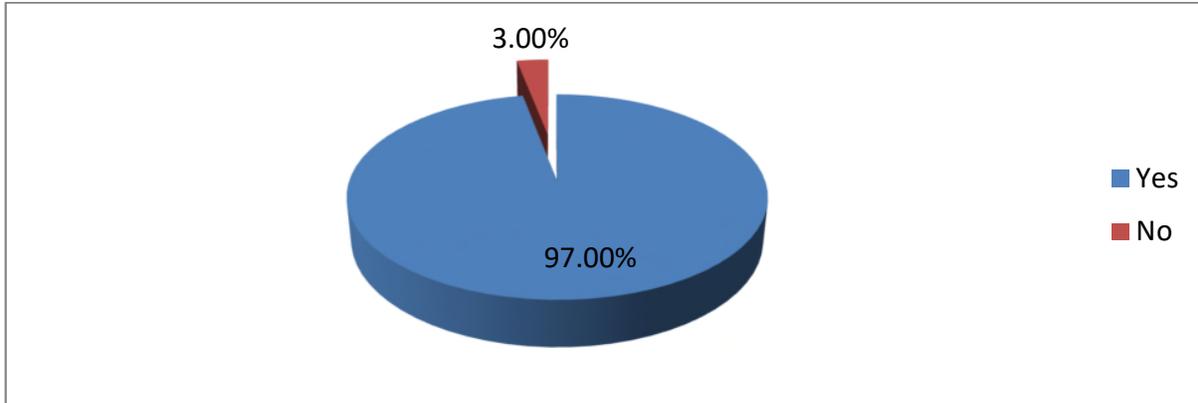
Field Survey, 2017

4.7 Awareness of the Existence of the Selected Rural Banks

Additionally, information from the study reveals that as high as 97.0 percent of the people are aware of the operations of the selected rural banks in their community, while 3.0 percent of the respondents were not aware of the operations of the selected rural banks in their community (See figure 4.4). This means that the operation and existence of the selected rural banks is known to almost all the people in the community, which is an advantage to the operation of the banks.



Figure 4. 4: Aware of the Existence of the Selected Rural Banks



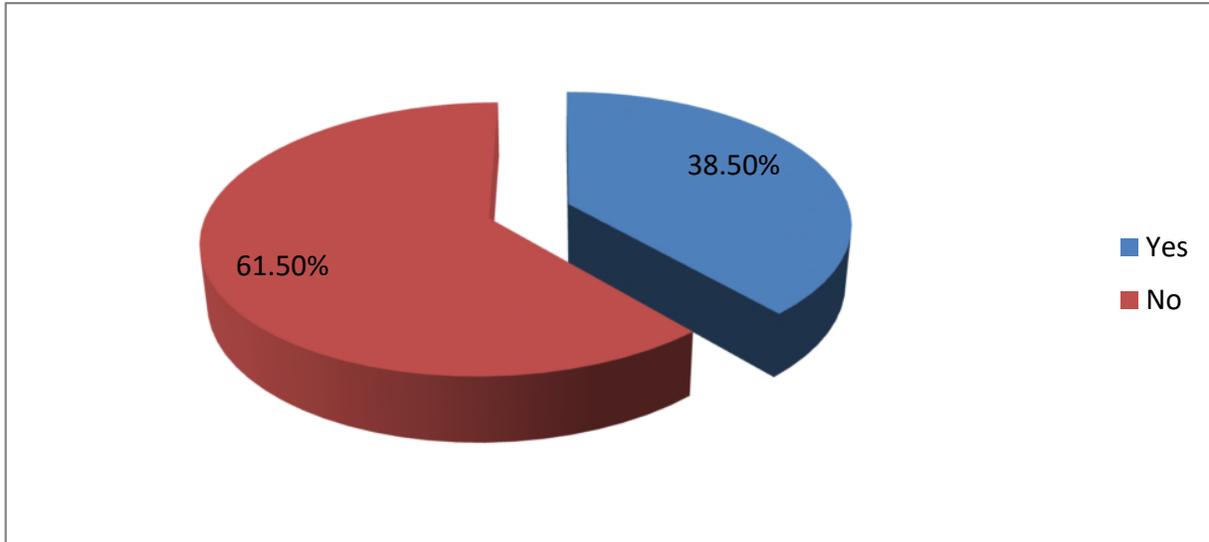
Field Survey, 2017

4.8 Clients or Community Members with bank Accounts

Also respondent were asked as to whether they have accounts with the selected rural banks. Results from the study revealed that 38.5 percent of the respondents have accounts with the selected rural banks, while 61.5 percent of the respondents do not have accounts with the selected rural banks as shown in figure 4.5. This means more than half of the people still do not have accounts with the selected rural banks. It thus implies that the people either do not patronize the products of the selected rural banks or they simple do not like the products of the banks.



Figure 4. 5: Clients or Community Members having an Account with the Selected Rural Banks



Field Survey, 2017

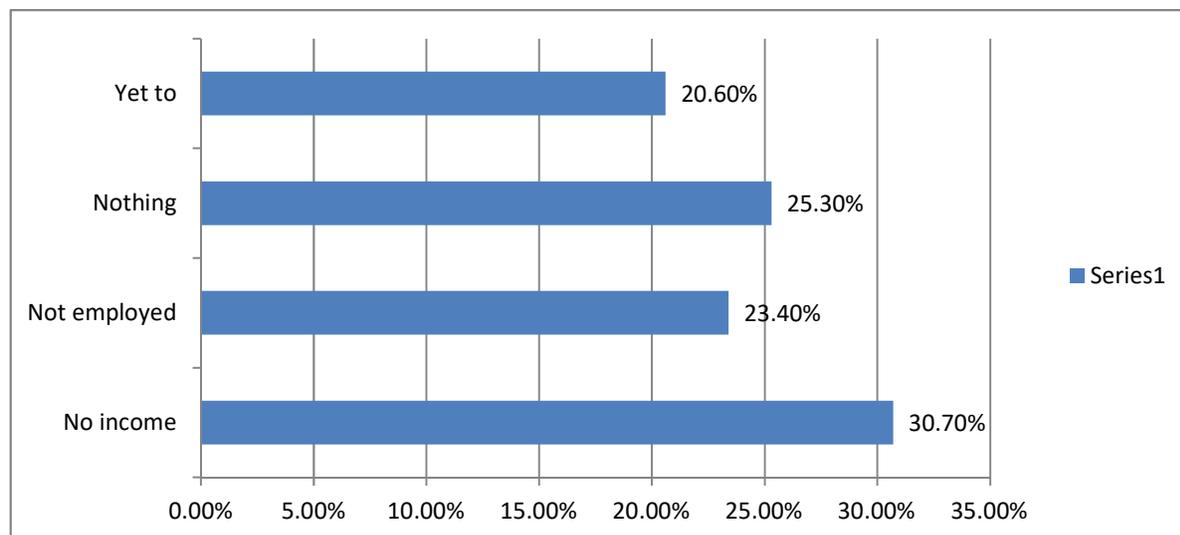
4.9 Reasons why Respondents do not have Accounts with the Selected Rural Banks

During the interviews respondents who do not have accounts with the selected rural banks gave the following reasons:

30.7 percent of the respondents who do not have accounts with the selected rural banks said they do not have income, 25.3 percent of the respondents gave no reasons for not having accounts with the selected rural banks, 23.4 percent of the respondents who do not have accounts with the selected rural banks said they are not employed, while 20.6 percent of the respondents who do not have accounts with the selected rural banks said they are yet to open accounts with the selected rural banks as shown in figure 4.6. This means that all the respondents are potential account holders of the selected rural banks if they are able to meet their reasons and informed or educated on the products of the selected rural banks.



Figure 4. 6: Reasons why Respondents do not have Accounts with the Selected Rural Banks Bank



Field Survey, 2017

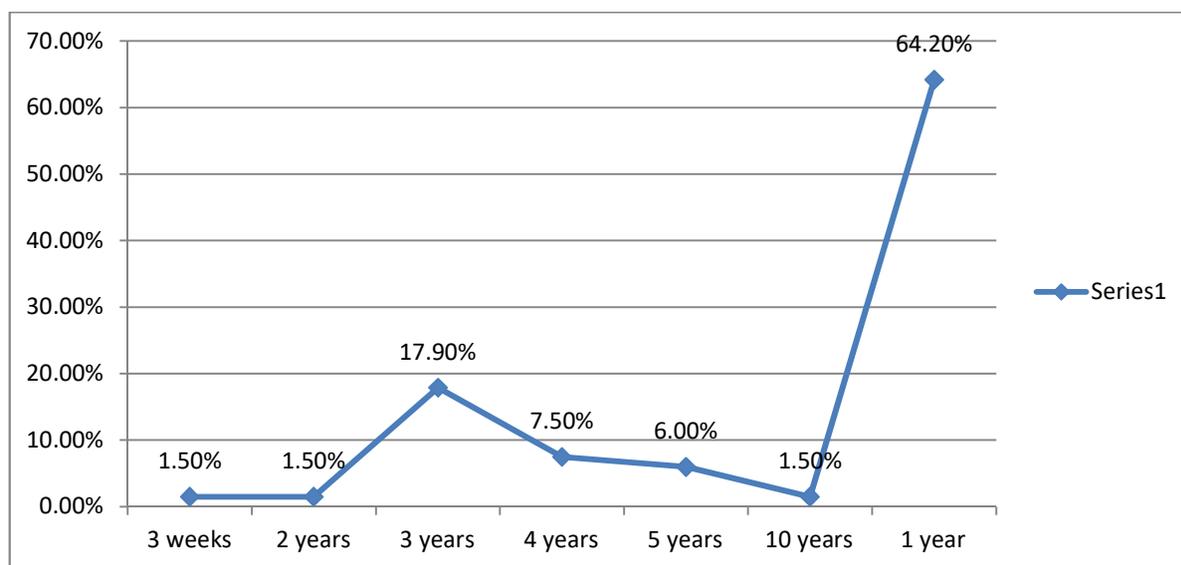
4.10 Period of having Accounts with the Selected Rural Banks

The study further looked at the respondents who have accounts with the selected rural banks and for how long they have been operating their accounts. Of those who have accounts with the selected rural banks, 64.2 percent of them have been operating the account for 1 year, 17.9 percent of the respondent who have accounts with the selected rural banks have been operating the accounts for 3 years, 7.5 percent of the respondent who have accounts with the selected rural banks have been operating the accounts for 4 years, 6.0 percent of the respondent who have accounts with the selected rural banks have been operating the accounts for 5 years, 1.5 percent of the respondent who have accounts with the selected rural banks have been operating the accounts for 10 years, another 1.5 percent of the respondent who have accounts with the selected rural banks have been operating the accounts for 2 years, while 1.5 percent of the respondent who have accounts with the selected rural banks have been operating the accounts for 3 weeks as shown in figure 4.7. This means that the people have been operating with the selected rural banks for the past 10 years,



which implies that the selected rural banks activities have been going on in the communities for the past 10 years.

Figure 4. 7: Period of having Accounts with the Selected Rural Banks

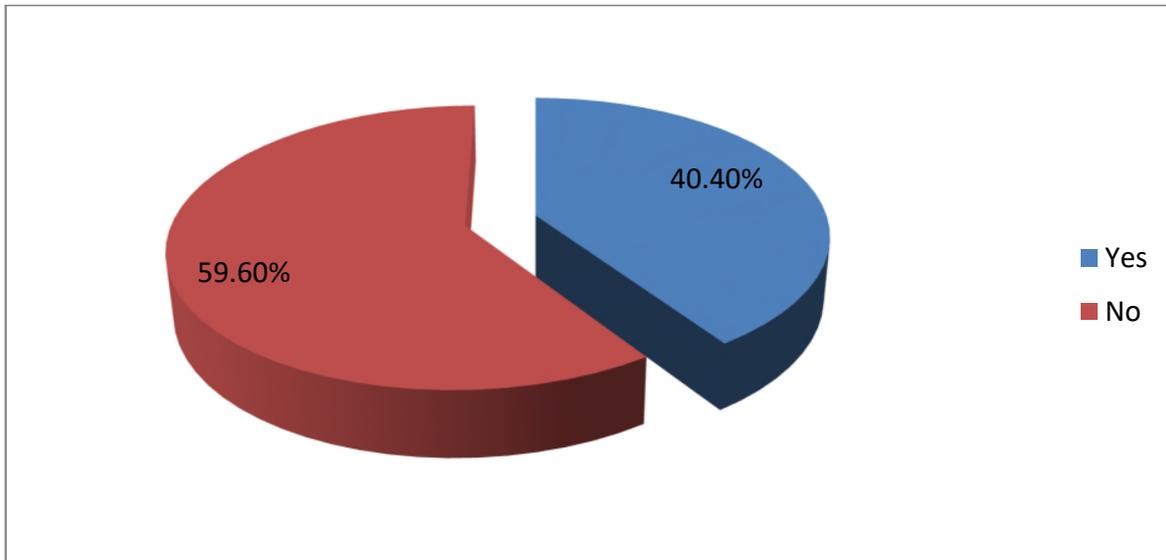


Field Survey, 2017

4.11 Access to Loans from the Selected Rural Banks

Respondents were asked whether they have accessed loans from the selected rural banks, and data from the results revealed that 59.6 percent of the respondents have not accessed loans from the selected rural banks, while 40.4 percent of the respondents have accessed loans from the selected rural banks as shown in figure 4.8. This means that more than half of the respondents have not accessed loans from the selected rural banks, but have accounts with the bank and operate their accounts for the past ten years as seen in figure 4.7. This implies that the selected rural banks still have more clients who they can give loans to improve on their revenue base and also to improve on the businesses of their clients and the community members. Or perhaps procedures in acquiring loans from the banks are cumbersome or it could well be that the banks may require collateral which many may not have.

Figure 4. 8: Accessed a Loan from the Selected Rural Banks

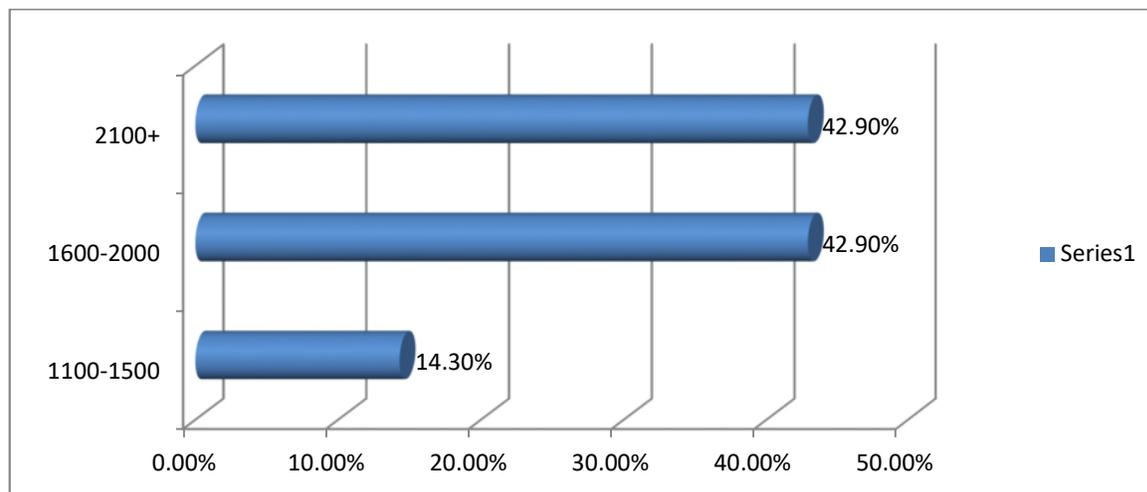


Field Survey, 2017

4.12 Loan amounts Accessed by Respondents of the Selected Rural Banks

On the total amount of loans clients borrowed from the selected rural banks, the study revealed that 42.9 percent of the client's borrowed between GHC 1600-2000 from the selected rural banks, another 42.9 percent of the clients borrowed GHC 2100+ from the selected rural banks, and 14.3 percent of client's brow between GHC 1100-1500 as shown in figure 4.9. This means that the selected rural banks have support for the people with some money to improve on their lives and businesses in the Northern region.

Figure 4. 9: Total Amount of Money Access by Clients (GHC)



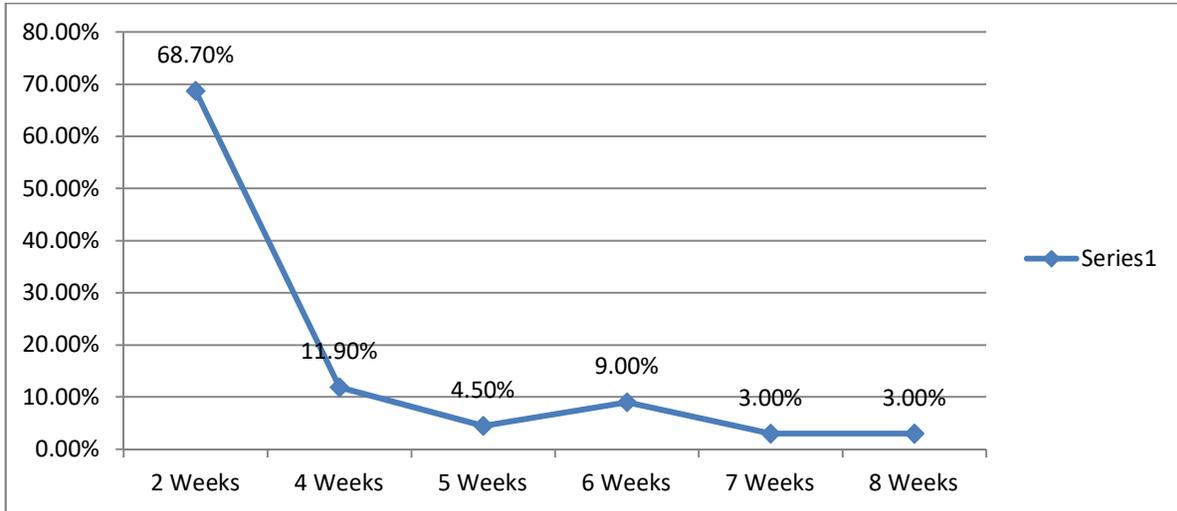
Field Survey, 2017

4.13 Period it took to get the Loan Approved after Submitting Application

Additionally, respondents were asked how long it took them to get the loan after submitting their application forms to the selected rural banks. The results revealed that 68.7 percent of the respondents who accessed loans from the selected rural banks indicated that it took them 2 weeks to have their loans approved, 11.9 percent of the respondents said it took 4 weeks before their loans was approved by the selected rural banks, 9.0 percent of the respondents said it took 6 weeks before their loans were approved by the selected rural banks, 4.5 percent of the respondents indicated that it took 5 weeks before their loans were approved by the selected rural banks, 3.0 percent of the respondents indicated that it took 7 weeks before their loans was approved by the selected rural banks rural bank, and another 3.0 percent of the respondents said it took 4 weeks before their loans was approved by the selected rural banks as shown in figure 4.10.



Figure 4. 10: Period it took to get the Loan Approved after Submitting Application



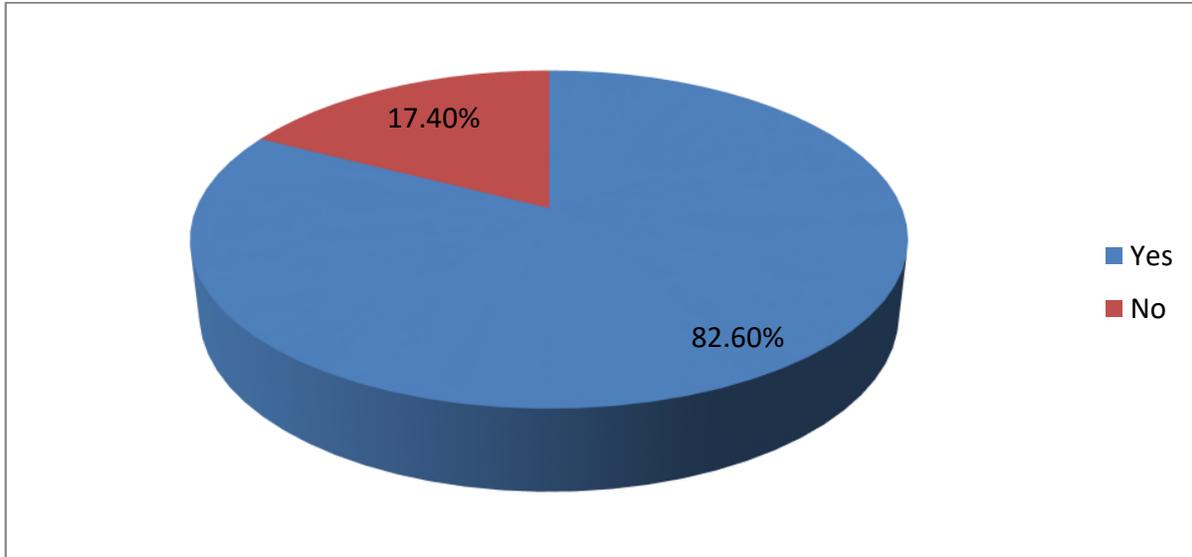
Field Survey, 2017

4.14 Security for Loan Approval

On security before loans are approved, the results revealed that 82.6 percent of the respondents offer security in the form of farm lands and buildings before their loans were granted, while 17.4 percent of the respondent did not offer security before their loan were granted by the selected rural banks as shown in figure 11. This means that majority of the clients who were offered loans by the selected rural banks have had to offer some sort of security before their loans were granted to them.



Figure 4. 11: Clients offer Security for Loan Approval



Field Survey, 2017

4.15 Type of Security offered by Clients to the Selected Rural Banks for Loan Approval

As part of the data collection respondents were asked the type of security offered to the selected rural banks for loan approval. The results indicated that 71.6 percent of the respondents indicated that they used their salary as security before their loans were approved by the selected rural banks, 16.4 percent of the respondents indicated that they use their houses as security before their loans were approved by the selected rural banks, 9.0 percent of the respondents indicated that they used their land as a security before their loans were approved by the selected rural banks, 1.5 percent of the respondents also indicated that they used their farm land as a security before their loans were approved by the selected rural banks, and another 1.5 percent of the respondents indicated that they used their motor cycle/vehicles as security before their loans were approved by the selected rural banks as shown in table 4.6.



Table 4. 6: Type of Security offered by Clients to the Selected Rural Banks for Loan Approval

Security for Loan	Frequency	Valid Percent
Houses	33	16.4
Farm land	3	1.5
Land	18	9.0
Monthly salary	144	71.6
Motor cycle	3	1.5
Total	201	100.0

Field Survey, 2017

4.16 Purpose for Loan Applications by Clients

The study also looked at the purpose for which loan were granted to clients by the selected rural banks. Data from the result revealed that 37.3 percent of the respondents used the loan granted to them by the selected rural banks for farming, 28.4 percent of the respondents used the loan granted to them by the selected rural banks to acquired land, 16.4 percent of the respondents used the loan granted to them by the selected rural banks to invest in business, 14.9 percent of the respondents used the loan granted to them by the selected rural banks to meet their family needs, while 3.0 percent of the respondents used the loan granted to them by the selected rural banks to rent apartment for their families as shown in table 4.7. This implies that all these activities are been carried out by the selected rural banks to meet the various needs of its clients. These thus adds up to the effort of the bank to improve on the living standard of the people in its catchment area.



Table 4. 7: Purpose for Loan Application by Clients to the Selected Rural Banks

	Frequency	Percent
Invest in business	33	16.4
Meet family needs	30	14.9
Rent apartment	6	3.0
For land	57	28.4
For farming	75	37.3
Total	201	100.0

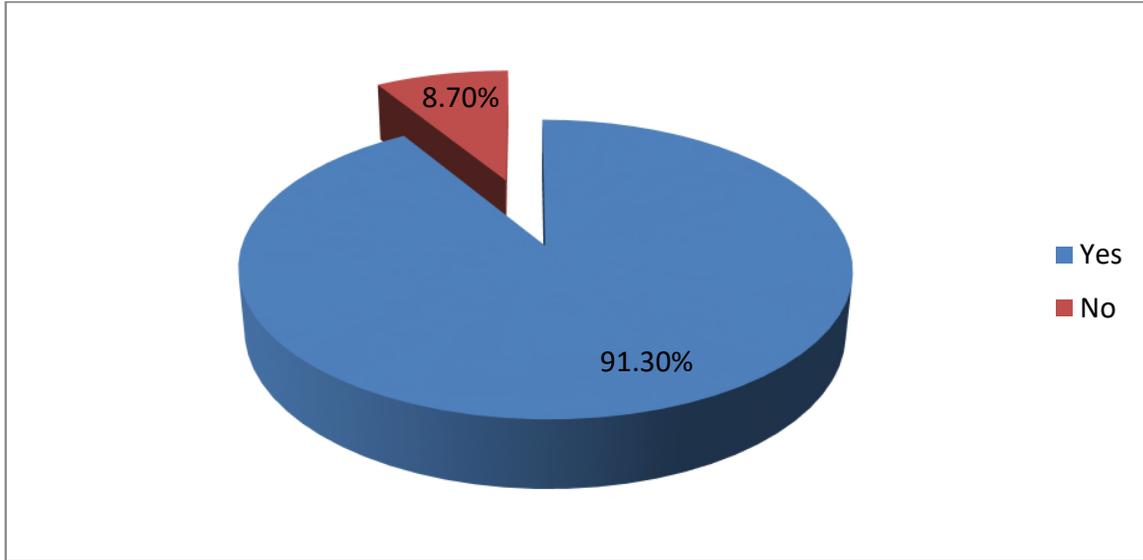
Field Survey, 2017

4.17 Support Services to Clients to manage their Business after granting of Loans

The study looked at support the selected rural banks gives to clients after granting them loans. The results also revealed that 91.3 percent of the clients were been educated as to how to manage their businesses after they were granted with loans, while 8.7 percent of the clients said they were not being educated after they were granted with loans by the selected rural banks as shown in figure 4.12. These findings means that majority of clients were been educated as to how to use their funds after they have been granted with loan facilities to improve on their businesses. This will in a way help the clients invest well in other to be able to repay the loans to the bank for further assistance.

Figure 4. 12: Education of Clients as to how to Manage Businesses after Granting of Loans



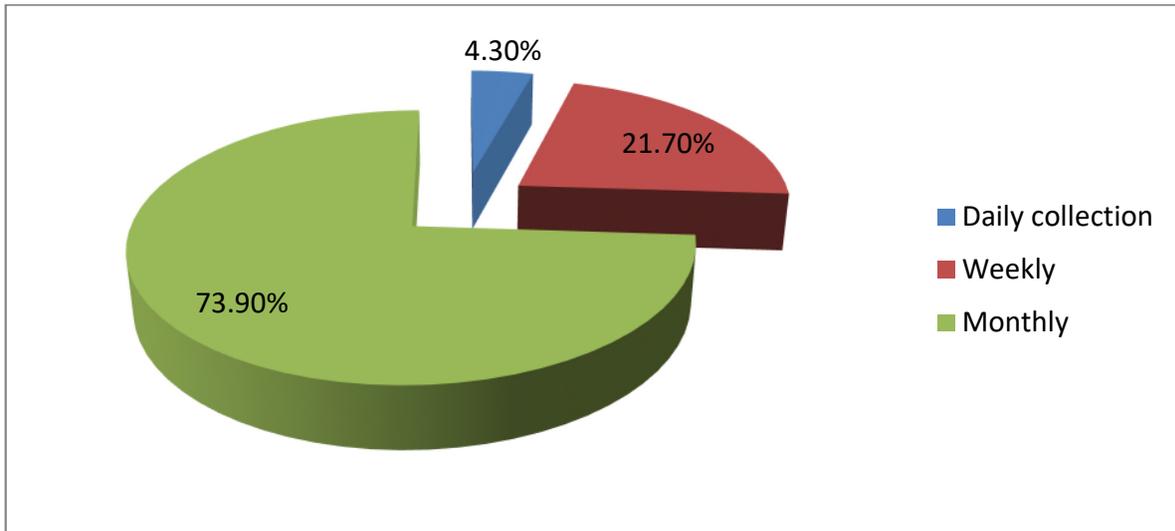


Field Survey, 2017

4.18 Methods of Repayment of Loans by Clients

On the issues of repayment of the loans to the bank, the results revealed that 73.9 percent of the respondents indicated that every month they pay an installment, which is fixed over the loan period to the bank, 21.7 percent pay back the loan to the bank by weekly installments, and 4.3 percent of the clients pay back the loan to the bank by daily installment through daily collection as shown in figure 4.13. This means that different methods of repayment were been applied to all the clients depending on the situation of each and every applicant. It's not one jacket rule that is applied to all applicant of the bank with different condition and also with different financial situations.

Figure 4. 13: Methods of Repayment of the loan to the Rural Banks



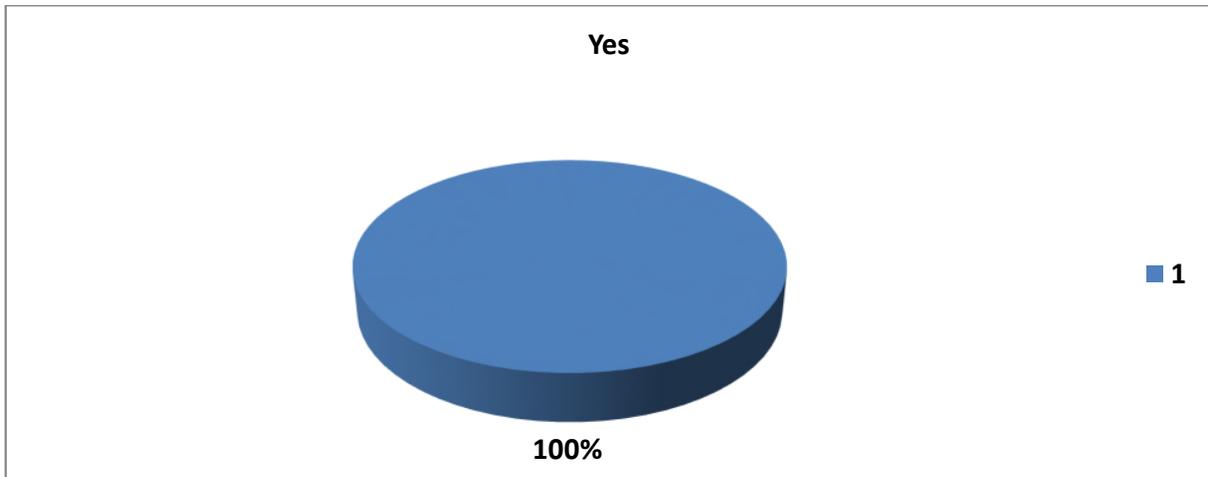
Field Survey, 2017

4.19 Contributions of Loans to Clients Businesses

The main aim of collecting loans by every business owner is for the loan to contribute to the growth and improvement of the business. As a result, the study investigated as to whether businesses have grown after accessing loans from the selected rural banks. Data from the study reveals that all the business owners who had access to loan facilities have seen some growth and improvement in their businesses as shows from figure 4.14. It shows that all clients who were granted with some loan facility properly applied the loan amount.



Figure 4. 14: Respondents Views on how Loans Contribute to Growth of Business



Field Survey, 2017

4.20 Problems Respondents Encounter in Loan Acquisition

Problems encountered in loan acquisition was also an issue for clients of the selected rural banks. Data from the study revealed that 71.6 percent of the respondents indicated that security requirement for loan acquisition is the major problem for them, 17.9 percent of the respondents indicates that high interest rate was hindering their loan acquisition, 3.0 percent of the respondents said there was too much documentation and bureaucratic requirements for loan acquisition in the selected rural banks, 6.0 percent of the respondent said there are cumbersome procedures involved in loan acquisition, while 1.5 percent of the respondents indicates that there were delays in loan approval and disbursements in the selected rural banks as indicated in table 4.8.

Table 4. 8: Problems Encountered by Respondents in Loan Acquisition

	Frequency	Percent
Security requirement for loan acquisition	144	71.6
High interest rate	36	17.9
Delay in loan disbursement	3	1.5
Too much documentation required	6	3.0
Cumbersome procedures in loan acquisition	12	6.0
Total	201	100.0

Field Survey, 2017



4.21 Other Benefits Enjoyed by Respondents from the Selected Rural Banks

Other Benefits Enjoyed by respondents from the selected rural banks were as follows:

Training of SMEs owners on investment, Business advice to clients, cooperate social responsibility, that is Provision of health facilities, Free health screening, Free mosquito nets to the people, Information on SME management, Money transfer services, Monthly pension payment and Salary advances to clients (See table 4.9). This means that the selected rural banks are helping in the development of the people through several means as indicated in table 4.9. This implies that both community member and clients are benefiting from the operations of the selected rural banks.

Table 4. 9: Other Benefits Enjoyed by Respondents from the selected rural banks

	Frequency	Valid Percent
Training of SMEs owners on investment	21	10.4
Business advice to clients	9	4.5
Cooperate social responsibility	9	4.5
Provision of health facility	17	8.5
Free health screening	27	13.4
Free mosquito nets to the people	24	11.9
Information on SME management	6	3.0
Money transfer	61	30.3
Monthly pension payment	6	3.0
Purchasing farm implements	12	6.0
Salary advance	9	4.5
Total	201	100.0

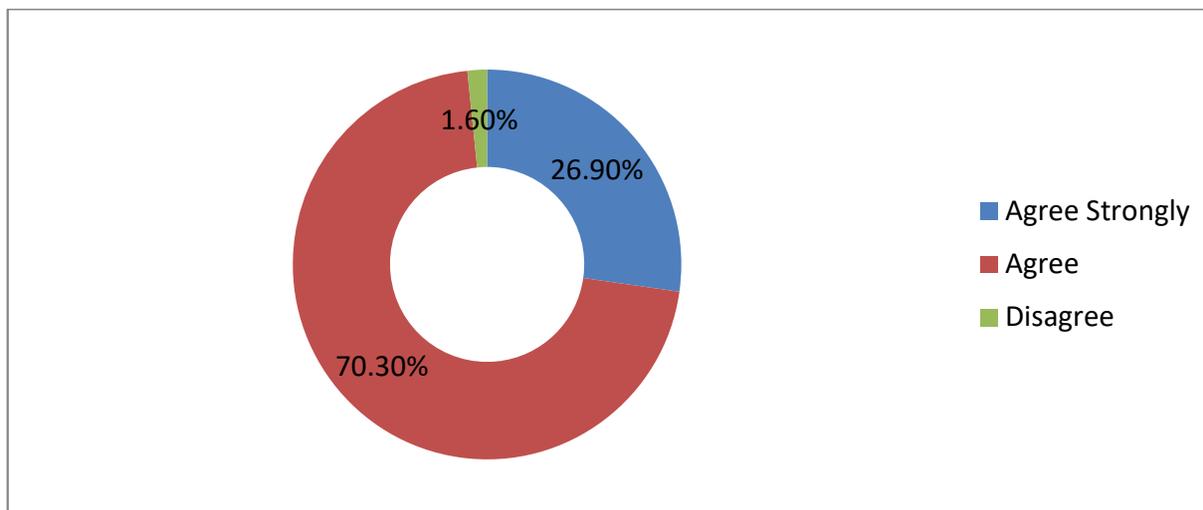
Field Survey, 2017

4.22 Rural banks as agents for Rural Development

On the opinion of rural banks as agents of rural development, the results revealed that 70.3 percent of the respondents agreed that rural banks are agents of rural development, 26.9 percent of the respondents agreed strongly that rural banks are agents of rural development, while 1.6 percent of the respondents disagreed that rural banks are agents of rural development as shown in figure 4.14.

This means that rural banks contribute to rural development and also lead in the education of the rural people to develop their business through loans and business training.

Figure 4. 15: Rural banks as agents for Rural Development



Field Survey, 2017

4.23 Contributions of the Selected Rural Banks to Developments of their Catchment

Areas

Respondents were asked to rate the selected rural banks in terms of their contribution to agriculture, employment, income and social security in their catchment areas. The results revealed that 57.21 percent of the respondent agreed strongly that the selected rural banks contribute to agriculture in their catchment area, 32.84 percent of the respondents agreed that the selected rural banks contribute to agriculture in their catchment areas, where as an insignificant percent of 4.48 and 5.47 indicated strong disagreement and disagreement respectively. Additionally, the results revealed that 47.26 percent of the respondents strongly agreed that the selected rural banks contribute to employment in their catchment areas whiles 44.78 percent agreed that the banks contribute to employment in the catchment areas. 43.78 percent strongly agreed on the contributions of the selected banks to income generation in the catchment areas, and 39.30 percent



agreed to same issue of contributing to income generation. Again the results revealed that 59.70 percent of the respondents strongly agreed that the rural banks provides social security in the catchment area whiles 35.32 agreed in their response to the same question of social security as shown in figure 4.10. This means that majority of respondents are in agreement that the selected rural banks are contributing to the development of their areas of operations through sectors like agriculture, income, social security and employment. This if continues will enhance the living standards of the people and also improve on their health status, because if you are able to earn income your health status will also improve.

Table 4. 10: Contribution of the Selected Rural Banks to the Sectors in its Catchment Areas

	No.	Strongly Agree%	No. Agree	%	No. Strongly D. Agree	%	No. D. Agree	%	Total %
Agriculture	115	57.21	66	32.84	9	4.48	11	5.47	100
Employment	95	47.26	90	44.78	8	3.98	8	3.98	100
Income	88	43.78	79	39.30	13	6.48	21	10.48	100
Social Security	120	59.70	71	35.32	3	1.49	7	3.49	100

Field Survey, 2017

4.24 Contribution of the Selected Rural Banks to the Development of the Catchment

Area

Results from the study also shows some benefits the selected rural banks are contributing to the communities in their catchment areas as follows:

Granting loans to small and medium enterprise in the communities, Construction of boreholes in the community, brought banking to the door step as shown in table 4.11.

Employment for the youth, Health centers, Malaria awareness creation in the communities, Provision of free health screening, Scholarships to needy students, School buildings for communities, Provision of social amenities, Support to rural farmers with loans (table 4.11). This



means that the communities are benefiting from the operations of the selected rural banks. This implies that the development of the communities is been supported by the selected rural banks.

Table 4. 11: Contribution of the Selected Rural Banks to the Development of the Catchment Area

Contributions	Frequency	Valid Percent
Granting loans to small and medium enterprise in the communities	27	13.4
Construction of boreholes in the community	9	4.5
Brought banking to the door step	9	4.5
Employment for the youth	21	10.5
Health centers	6	3.0
Malaria awareness creation in the communities	12	6.0
Providing Banking services to the rural community	24	12.0
Provision of free health screening	21	10.5
Scholarships to needy students	12	6.0
School buildings for communities	33	16.3
Provision social amenities	21	10.5
Support to rural farmers with loans	6	3.0
Total	201	100.0

Field Survey, 2017

4.25 Products of the Selected Rural Banks

The study further looked at the various products available in the selected rural banks for the clients to patronize. Results from the study revealed the following products that the selected rural banks have for their clients in their operational areas:

Savings accounts, current accounts, fixed deposit, and group savings as shown in table 4.12. This means that the selected rural banks provide several options of products for their clients to take advantage of in order to grow their businesses.



Table 4. 12: Product offered by the selected rural banks to their Customers

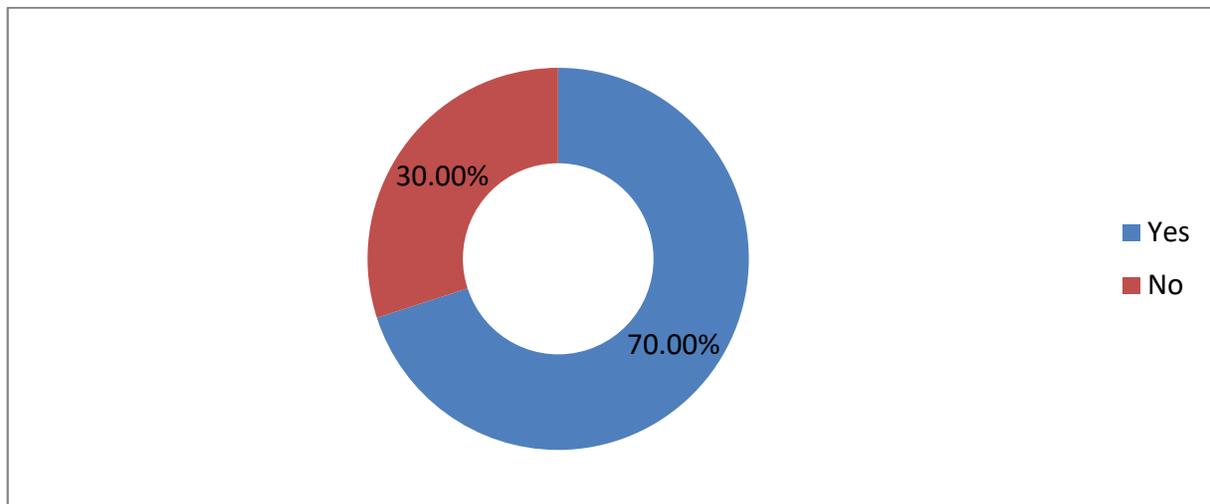
	Frequency	Percent
Savings Account	39	39.39
Current Account	33	33.33
Fixed deposit	10	10.10
Group Savings	17	17.18
Total	99	100

Field Survey, 2017

4.26 Deposits from the Selected Rural Banks Catchment Areas

On the question of whether all deposits are from the communities they operate alone, the results revealed that 70.0 percent of the respondents of the banks indicated that most of their deposits are from the communities within the operational areas, while 30.0 percent of the deposits are not from only the communities in which these banks situated.

Figure 4. 16: Deposits from the communities alone



Field Survey, 2017

4.27 Type of Loan Product Offered by the Selected Rural Banks

The result also revealed different types of loan products offered in the selected rural banks as indicated below:



Salary loans, agricultural loans. The result revealed that 66.0 percent of the respondents indicated that Salary loans were available for them and Agricultural loans constitute 34.0 percent available to the clients of these banks.. This means that there are several loan products available for clients of the selected rural banks. These products serve the rural people to improve on their business and farming activities.

Table 4. 13: Type of Loan Product Offered by the Selected Rural Banks

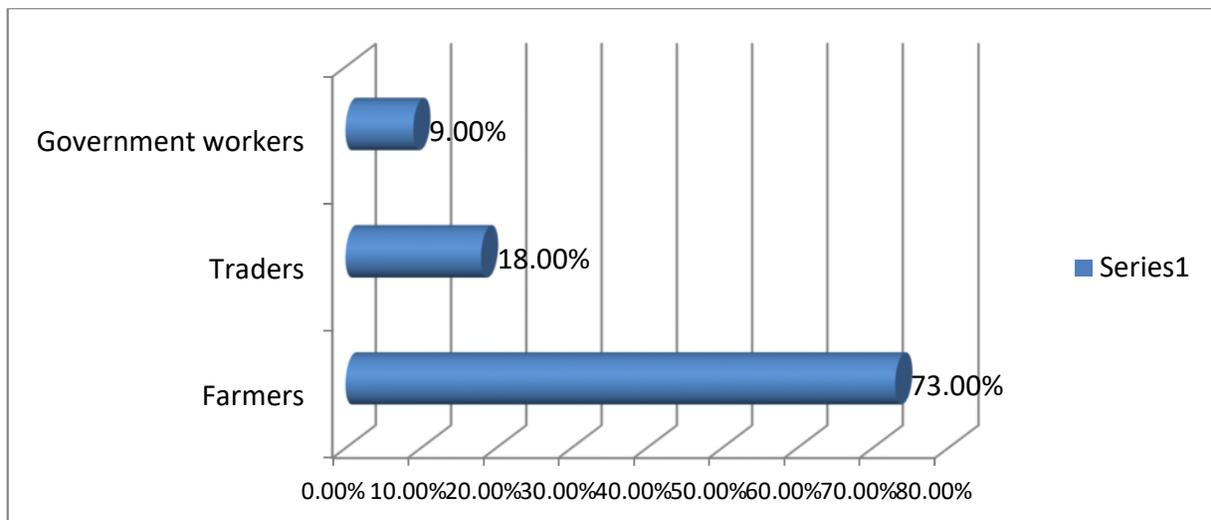
	Frequency	Valid Percent
Salary workers loans	66	66.67
Agricultural loans	33	33.33
Total	99	100.0

Field Survey, 2017

4.28 Category of People who Access Loans from the Selected Rural Banks

From the results 73.00 percent of respondents indicated that farmers qualifies more for their loans than people in any other occupation, 18.0 percent of the respondents indicated that traders are next batch of professional who qualifies for their loans, while 9.0 percent of the respondents indicated that government workers are next to qualify for their loans as shown in figure 4.16.

Figure 4. 17: Qualified Group of People to Access these Loans





Field Survey, 2017

4.29 Individual or Groups which Receives Highest Amount of Loans

The study further looked at the category of people who receive the highest amount of loans in the selected rural banks. The results revealed that 38.0 percent of the respondents indicated that farmers are the group of people who receive the highest amount of loan from the selected rural banks, 32.0 percent of the respondents indicated that traders are the next group of people who receive the highest amount of loan from the selected rural banks, 25.0 percent of the respondents indicated that government workers are the next group of people who receive the highest amount of loan from the selected rural banks, and 5.0 percent of the respondents indicated that artisans are the last group of people who receive the highest amount of loan from the selected rural banks as shown in table 4.14.

Table 4. 14: Category of people who received the highest amount of Loans

Category of people	Frequency	Valid Percent
Farmers	38	38.38
Traders	32	32.32
Government workers	25	25.25
Artisans	4	4.05
Total	99	100.0

Field Survey, 2017

4.30 Sectors that Records the Highest Default rate in the Financial Year 2016

Further investigations by the researcher shows that 60.0 percent of the respondents indicated that agricultural sector records the highest default, the next sector with highest default rate is government workers with 24.24 percent. Cottage industry is the next with highest default rate of 11.10 percent while trade and transport is the least default rate with 5.06 percent in the financial year 2016 as shown in table 4.16. This means that there is some sort of default among all the

sectors of professionals who accessed funding from the selected rural banks. This has the tendency of presenting serious managerial difficulties for the management of the bank.

Table 4. 15: Sectors that Recorded the Highest Default rate in the Financial Year 2016

	Frequency	Valid Percent
Agriculture	60	60.60
Cottage industry	10	10.10
Government workers	24	24.24
Trade and transport	5	5.06
Total	99	100.0

Field Survey, 2017

4.31 Tracking Default Customers on Loans Granted

On the question of how does the bank tackle the problem of default by customers, 42.0 percent of the respondents indicated that the selected rural banks support farmers with agricultural extension officers in order to promote good yields from their farming activities there by empowering the farmers financially to be able to repay back their loans. 28.0 percent of the respondents indicated that the selected rural banks use collateral to serve as a form collateral by customers to make the loans secured. 14.0 percent of the respondents indicated that the selected rural banks use collection of repayment by installment from their customers, and 3.0 percent of the respondents indicated that the selected rural banks use weekly repayment from their customers, and 2.0 percent of the respondents indicated that the selected rural banks encouraging employment of the defaulters as shown in table 4.17.



Table 4. 16: Tackling the Problem of Default

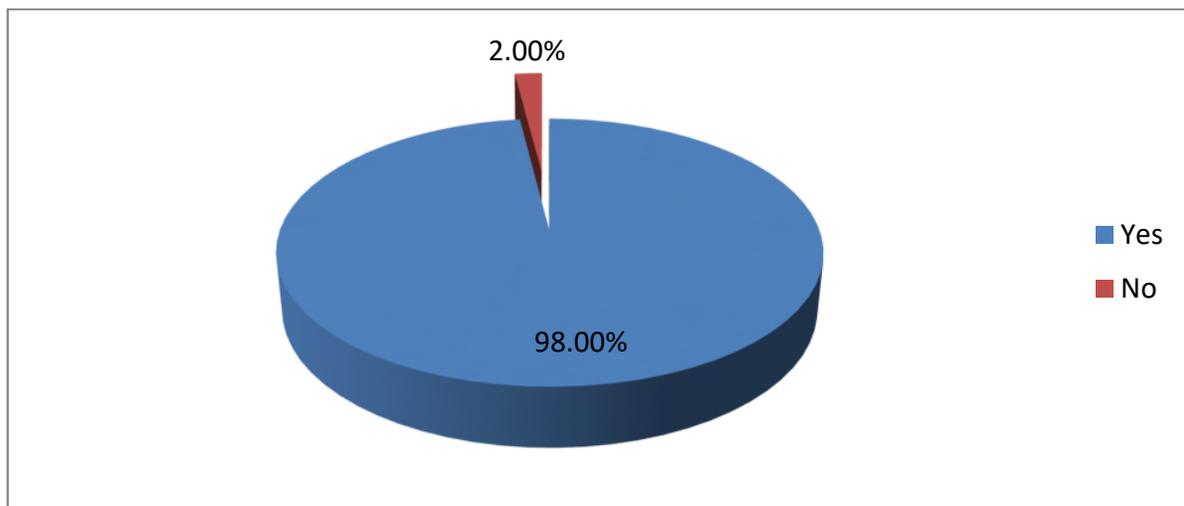
	Frequency	Valid Percent
Support on SME management	17	17.17
Collection of repayment by installment	20	20.20
Follow ups to clients	15	15.15
Supporting farmers with Agricultural extension office	35	35.35
Use of collateral	7	7.07
Weekly repayment	5	5.06
Total	99	100.0

Field Survey, 2017

4.32 Selected Rural Banks Involvement of Communities in their Activities

The success of every organization deepens on its relationship with the people in the communities where it operates or located. On the question of whether the banks involved the communities in their activities? The results indicated that 98.0 percent of the communities were involved in the activities of the Bank, while 2.0 percent said that they do not involved the communities in their activities as shown in figure 17. This means that the communities are part of the plan schedule of the bank in terms of its operations and development projects.

Figure 4. 18 Selected Rural Banks Involvement of Communities in their Activities



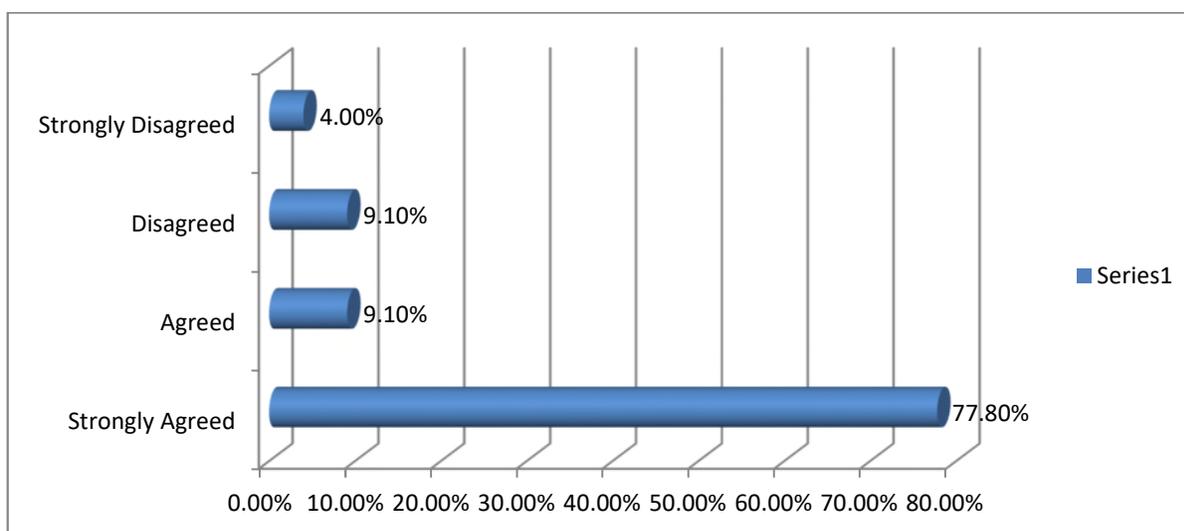
Field Survey, 2017



4.33 Opinions of Respondents on Selected Rural Banks as Agents of Rural Development

Another issue of concern was rural banks as agents of development in the rural areas, the researcher during interviews asked the opinion of staff and management of the bank on the statement that rural banks are agents for rural development. The results revealed that 77.8 percent of the respondents strongly agreed that rural banks and for that matter the selected rural banks are agents of development in the rural areas, 9.1 percent of respondents agreed that rural banks are agents for development in the rural areas, another 9.1 percent of the respondents disagreed that rural banks are agents for development in the rural areas, and 4.00 percent of the respondents strongly disagreed that rural banks serve as agents of development in the rural areas as shown in figure 4.18.

Figure 4. 19: Opinions of Respondents on the Selected Rural Banks as Agents for Rural Development



Field Survey, 2017

4.34 Challenges the Selected Rural Banks Encounter in their Operations

On the challenges the selected rural banks encounter by operating in this catchment areas, the results revealed the following problems; mistrust between the bank and the people, high default

rate, high illiteracy rate, low rate of savings and absence of well established businesses as shown in table 4.18. This means that there is still some form of fear among the people in terms of holding in trust their money in the bank as there is mistrust between the people and the banks.

Table 4. 17: Challenges the Selected Rural Banks Encounter in their Operations

Problems	Frequency	Valid Percent
Mistrust between the bank and the people	5	5.05
Default rate is very high	8	8.08
High illiteracy rate	60	60.60
Low rate of savings	18	18.18
Absence of well establish business	8	8.08
Total	99	100.0

Field Survey, 2017

4.35 Addressing Problems Encountered by the Banks in their Operation

Respondents gave the following suggestion during interview as to how to address the problems the rural banks are encountering in their operations in the communities. Some of the responses were; provision of educational scholarships to needy but brilliant school children, enhancing of income by providing loans for farming and trading, provision of SME management tips to small business operators to raise incomes, construction of school buildings, sponsoring non formal education programs, Sponsoring programs such as sanitation programmes in the communities, Support businesses with loans, use of officers to assist customers by training them on basic book keeping as shown in table 4.19.



Table 4. 18: Addressing Problems Encountered by the Banks in their Operation

	Frequency	Valid Percent
Bank officials educate customers	20	9.95
Educational scholarships	65	32.34
Enhance income through farming and trading	15	7.46
Provision of SME education to raise income	7	3.48
Construction of School buildings	32	15.91
Sponsoring non formal education programs	17	8.46
Sponsoring programs in the community	10	4.98
Support businesses	17	8.46
Support to farmers and traders	5	2.49
Use of officers to assist customers or people	13	6.46
Total	201	100.0

Field Survey, 2017

4.36 Facilitating Rural Development in the Communities by the Banks

On the question of “How can the selected rural banks facilitate rural development in their communities”, respondents gave the following suggestion as to how the banks can facilitate development in the communities during interviews; Building of hospitals, Building of roads in collaboration with the district assemblies, Continues to sponsorship of the communities in their sanitation clean up exercises, Corporate social responsibilities such as providing scholarship to needy students in the communities, Establishing industries, provision of health facilities, More support to famers, Opening of more rural bank branches, Construction of School buildings as shown in table 4.20.



Table 4. 19: Facilitating Rural Development in the Communities by the Banks

	Frequency	Valid Percent
Building of hospitals	5	2.49
Building of roads in the assembly	33	16.42
Construction of roads in the districts	2	1.00
Continue to sponsor the community	5	2.49
Corporate social responsibility	53	26.42
Establishing industries	8	3.90
Health center building	5	2.49
Health facility provision	42	20.90
More scholarships	5	2.49
More support to famers	5	2.49
Opening more branches	5	2.49
Construction of School buildings	33	16.42
Total	201	100.0

Field Survey, 2017



CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of major findings of the study, as well as conclusions and recommendations of the study. The study assessed effects of the activities or operations of selected rural banks on the Development of the communities in the areas where these banks are located. The study also identified benefits the rural people get from the selected rural banks' operations in their communities. It further ascertained the role rural banks play in community development, and finally examined the weaknesses inherent in the operations of the selected rural banks in serving the communities in the Northern region.

5.2 Summary of Findings

5.2.1 Effects of the Selected Rural Banks Activities on the Development of Communities in the Northern Region

On the issue of the effects of the selected rural banks activities on the development of communities in the northern region, findings of the study revealed that an appreciable number of the respondents used the loans granted them by the selected rural banks for farming, an equally encouraging number of the respondents used the loans to acquire land, others indicated that they used the loans to invest in business, just as some indicated they used the loans to meet their family needs and some used the loans to rent apartment for their family. Close to a hundred percent of the clients said they were been educated as to how to manage their businesses after they were granted with loans. Data from the study also revealed that all the business owners who have been given loan facilities have seen some growth or improvement in their businesses, a little over seventy percent of the respondents agreed that rural banks are agents of rural development, and more than fifty



percent of the respondent agreed strongly that the selected rural banks contribute to agriculture in their catchment areas, over sixty percent of the respondents agreed that the selected rural banks contribute to employment in their catchment areas, 68.3 percent of the respondents agreed that the selected rural banks contribute to income generation in their catchment areas. The study further revealed that 64.1 percent of the respondents agreed that the selected rural banks contribute to social security in their catchment areas.

5.2.2 Benefits the Rural People get from the rural banks Operations in the Communities in the Northern Regions

Other Benefits Enjoyed by Clients from the selected rural banks were; Training of SME owners on investment, Business advice to clients, cooperate social responsibility, Provision of health facilities, Free health screening, Free mosquito nets to the people, Information on SME management, Money transfer services, Monthly pension payment, Purchasing farm implements, and Salary advances. Findings from the study also shows some benefits of the selected rural banks provide to the communities in their catchment areas are as follows:

Granting loans to small and medium enterprise in the communities, Construction of boreholes in the communities, Bringing banking to the door steps of the communities, Employment opportunities for the youth in the rural areas, provision of health centers, Malaria awareness creation in the communities, Providing Banking services to the rural communities, Provision of free health screening, and so on.

5.2.3 The Role Rural Banks Play in Community Development in the Northern Region

The study revealed that majority of the staff and management have been recruited from the communities where the banks are located., a good percentage of the respondents strongly agreed that rural banks are agent of development in the rural areas.; Bank officials educate customers on



how to manage and keep records of their sales and earnings, Educational scholarships for needy students in the communities, Enhance income through farming and trading, Provision of SMEs education to raise income, Construction of School buildings, Sponsoring non formal education programs, Sponsoring programs in the community, Support businesses, Support to farmers and traders, Use of officers to assist customers or people, Building of hospitals, Building of roads in the assembly, provision of corporate social responsibility, Establishing industries, Health center building, Health facility provision, scholarships for student, support for famers, Opening more branches, Construction of School buildings.

5.2.4 Weaknesses Inherent in the Operations of the selected rural banks in serving the Communities in the Northern Region

On the weaknesses inherent in the operations of the selected rural banks through their operations in this catchment areas, it was established that problems such as; mistrust between the bank and the people, very high default rate, high illiteracy rate, low rate of savings, absence of well establish businesses are the most challenging weaknesses or challenges to operations of rural banks in the northern region.. It was found out that security requirements for loan acquisition is a problem for the customers of the banks. High interest rates was also indicated as one hindering loan acquisition too much documentation required for loan acquisition in the selected rural banks, cumbersome procedures involved in loan acquisition, and an insignificant percent of the respondents indicates that there is delay in loan acquisition in the selected rural banks.



5.3 Recommendations

In view of the findings made, the following recommendations could provide further grounds for the enhancement of performance of rural banks in the northern region, and by extension energize the rural development drive in the region.

1. The banks should introduce customers to irrigation farming to avoid the sole reliance on only rain fell agriculture, a situation that renders the farmers idle in the dry season, . .
2. Statement of accounts should be printed out regularly to customers to ensure transparency and avoid arguments which lead to mistrust between the banks and their clients.
3. The banks should also increase their drive on conscientising the rural folks on the importance and benefits of banking, and also demystify banking to them in order to minimize the mistrust between the people and the banks.
4. Credit to women groups in the rural areas should also be encouraged so as to engage them in productive activities and not stay home idle acting as house wives since such primitive ways of living only enhances poverty.
5. They should also consider assisting the youth within the ages of 18 – 29 years who are idle by organizing them into groups and encourage them to learn trades and get involved in productive activities. These groups can then be given group loans after assessments have been done on their basic entrepreneurial skills.
6. The banks should also engage increase their drive on corporate social responsibility projects since they contribute to opening up development of the rural communities.
7. Lending to the agricultural sector should also be increased even though the study reveals that the sector receives the highest amount of lending. This is significant because agriculture is the largest income generating activity that most rural folks engage in.





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

9. Considering delays in loan acquisition, it will be appropriate and helpful if the loan committee could meet frequently to consider loan applications.

10. Also the board of directors should ensure that customers are spared of pressure by making repayment period flexible to avoid defaults.

11. The banks should open small agencies if not branches to mobilize funds from the neighboring communities and also provide more employment avenues for the rural dwellers.

12. The banks should introduce susu schemes 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 the bulk of their monies with the bank to mobilize funds in small quantities.

13. The banks should conduct frequent financial literacy programs for the natives and outline to them the benefits in banking to boost their deposit base.

14. The banks should increase interest on deposits and reduce interest on credit. This will help the banks to mobilize more funds to increase lending customer, increase their customer base and ultimately increase their bottom lines.

5.4 Conclusions

Undertaking this study has been particularly an eye opening exercise for researcher, especially pertaining to the workings of the rural banks and how they interrelate with the communities they are operate in.

In conclusion, the following quote from the work of Messrs Ajai Nair and Azeb Fissha, (2010), since it aptly provides a summary of the key roles rural banks play in the socio economic development of rural areas.

“Rural banks as a network have shown incredible level of performance in both service delivery and performance over the past decade. Their portfolio of both depositors and deposits have been growing, though at a slower pace in recent years. The growth in the numbers of borrowers and in lending has been remarkable and demonstrates that rural banks are steadily transforming themselves into financial intermediaries that are able to successfully transform deposits into loans. This development marks a significant turnaround from being institutions that primarily collected rural deposits and invested in treasury bills. The rapid growth in domestic money transfer services and significant uptake of the international money transfer services introduced in 2008 suggest that rural and community banks are emerging as full-service financial intermediaries.

In addition, as a network, are striving to be operationally and financially self-sufficient”.

The quote above could not have captured a clearer picture of the prevailing situation in the rural banking industry in the northern region, using the the rural banks this study was conducted on as a mirror of the larger picture. That means that rural banks can be a catalyst or tool for opening up the rural financial sector to the main finance industry and therefore contribute significantly to increasing the pace of rural development in the northern region and Ghana at large.



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UNIVERSITY FOR DEVELOPMENT STUDIES, TAMALE

Appendix A: Questionnaires for Staff and Management

This questionnaire is designed to solicit information on the topic “*Rural Banking and Rural Development in Ghana A Case Study of Bonzal Rural Bank*”. I am hoping that you could spare me some of your precious time to complete this survey form. Through your participation, the study will be able to make possible recommendations that will highlight on rural banking and its benefits on economic development. Be assured that all information appearing herein will be kept strictly confidential and be used for academic purpose only.

Section A: Personal Information

1. What is your Age? 18-25() 26-33() 34-41() 42-49() 50-57() 58-60 ()
2. Sex? Male () female ()
3. What is your Marital Status? Single () Married () Divorce () Widow ()
4. What is your educational level? SHS () HND/Diploma () First Degree () Masters () PhD ()
5. How many years have you been in this Bank? 1-5 years () 6-10 years () 11 -15 years ()
16+ years ()
6. Please tick the type of savings products offered in Bonzali rural bank
 - a) Savings account () b) Current account () c) Fixed deposit () d) Group savings ()
 - e) Susu ()
7. Kindly specify other specialized savings products not listed above
.....
.....
8. Are all the Deposits mobilized from the communities only? Yes () No ()



8a If No Why.....

.....

9. Please tick the type of loan product offered in the bank

a) Salary workers loans () b) Agricultural loans () c) Transport loans () d)

Micro finance loans () e) Funeral loans ()

10. Kindly specify other specialized loans not stated above

.....

.....

11. Which groups of people are qualified to access these loans? Farmers () Traders () Government workers () Artisans ()

12. Which category normally receives the highest amount of funds? Farmers () Traders () Government workers () Artisans ()

13. Are all the beneficiaries of the bank's loans from the communities? Yes () No ()

13a. If No Why

.....

.....

14. Please indicates the allocated for loans for the sectors below (Amount in Ghana Cedis granted)

Agriculture

Salary workers

Cottage industry

Trade & transport

15. Which sector averagely records the highest default rate?

.....



15a. Why

.....
.....

16. How does the bank tackle the problem of default?

.....
.....

17. Please list other services rendered by this bank

.....
.....

18. Does the bank involve the communities in you activities Yes () No ()

19. Does the Bank link up with the District Assembly in the provision of social amenities?

Yes () No ()

20. Which of these have been provided for the communities by the bank? (Multiple answers is allow)

a) Bole holes () b) School () c) Health post () d) Scholarships () e) Community centers ()

f) None of the above ()

21. What is your opinion on the statement that “Rural Banks are agents of rural development?”

a) I agree strongly () b) I agree () c) I disagree () d) I disagree strongly ()

22. How would you rank this bank in terms of contribution to the following in this catchment area

(please tick)

Area Ranking

Agriculture; a) I agree strongly () b) I agree () c) I disagree () d) I disagree strongly ()

Employment; a) I agree strongly () b) I agree () c) I disagree () d) I disagree strongly ()



Income, a) I agree strongly () b) I agree () c) I disagree () d) I disagree strongly ()

Social infrastructure, a) I agree strongly () b) I agree () c) I disagree () d) I disagree strongly ()

23. Would you say this bank has contributed to the development of this area?

23a. If yes how?

.....
.....

23b. If no why?

.....
.....

24. What problems does the bank encounter by operating in this catchment area?

.....
.....

25. How are these problems addressed?

.....
.....

26. How can Bonzali Rural Banks facilitate rural development in this community?

.....
.....

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UNIVERSITY FOR DEVELOPMENT STUDIES, TAMALE

Appendix B: Questionnaires for Clients and Community members

This questionnaire is designed to solicit information on the topic “*Rural Banking and Rural Development in Ghana A Case Study of Bonzal Rural Bank*”. I am hoping that you could spare me some of your precious time to complete this survey form. Through your participation, the study will be able to make possible recommendations that will highlight on rural banking and its benefits on economic development. Be assured that all information appearing herein will be kept strictly confidential and be used for academic purpose only.

Section A: Personal Information

1. What is your Age? 18-25() 26-33() 34-41() 42-49() 50-57() 58-65 () 66+ ()
2. Sex? Male () female ()
3. What is your Marital Status? Single () Married () Divorce () Widow ()
4. What is your educational level? No formal education () JHS () SHS () HND/Diploma () First Degree () Masters () PhD ()
5. How many years have you been in this community? 1-5 years () 6-10 years () 11 -15 years () 16+ years ()
6. Are you in any business or trade Yes No
7. Which type of business are involved in?
8. How many years have you been in this business/trade? 1-5 years () 6-10 years () 11 -15 years () 16+ years ()
9. How was the capital raised to start the business? Myself () From family () From the Rural Bank () From Commercial Bank () From Friends () From NGOs ()
10. Do you belong to any association Yes () No ()





11. Are you aware of the existence of Bonzali rural bank in this area? Yes () No ()
12. Do you have an account with the bank Yes () No ()
- 12a. If no why.....
- 12b. If yes for how long.....
13. Have you assessed a loan from Bonzali Rural bank before? Yes () No ()
- 13a. If yes
14. What was the total amount? Ghc 500-1000 () Ghc 1100—1500 () Ghc 1600-2000 () Ghc 2100+ ()
15. How long did it take to get the loan after the submission of the application form.....
16. Did you offer any security Yes () No ()
- 16a. If yes which type of security?
.....
17. What was the loan used for?
a) Invest in business () b) meet family needs () c) Rent apartment () d) others specify.....
18. Were you educated on how to manage your business to enable you pay back? Yes () No ()
19. What was the mode of re payment? a) Daily collections () b) weekly () c) monthly ()
20. Did the loan contribute to growth in your business? Yes () No ()
21. Did the loan contribute to growth in your income? Yes () No ()
22. Please list the problems encountered in your loan acquisition
.....
.....
23. What other things have you enjoyed form Bonzali rural bank
.....

.....
24. Has any member of your family benefitted from Bonzali Rural Bank loans? Yes () No ()

25. What is your opinion on the statement that “Rural Banks are agents of rural development?”

a) I agree strongly () b) I agree () c) I disagree () d) I disagree strongly ()

26. How would you rank Bonzali rural bank in terms of contribution to the following in this catchment area (please tick)

Agriculture; a) I agree strongly () b) I agree () c) I disagree () d) I disagree strongly ()

Employment; a) I agree strongly () b) I agree () c) I disagree () d) I disagree strongly ()

Income; a) I agree strongly () b) I agree () c) I disagree () d) I disagree strongly ()

Social infrastructure; a) I agree strongly () b) I agree () c) I disagree () d) I disagree strongly ()

27. Would you say Bonzali rural bank has contributed to the development of this area?

27a. If yes how

.....
.....

27b. If no why?

.....
.....

28. What should Bonzali rural bank do to ensure the development of this area?

.....
.....

29. Please tick the facility provided for your community by the Bonzali rural bank

a) Bole holes () b) School () c) Health post () d) Scholarships () e) Community centers ()

f) None of the above ()

