

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

COLLEGE OF ARTS AND SOCIAL SCIENCES

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**RURAL BANKING IN GHANA: IT'S IMPACT ON RURAL FARMERS**

**(A CASE STUDY OF ADANSI RURAL BANK)**

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By

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## DECLARATION

I hereby declare that this submission is my own work toward an award of MBA and to the best of my knowledge it contains no material previously published by another person, nor material which has been accepted for the award of any other degree of the university except where due acknowledgement has been made in the text.

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## **DEDICATION**

To my mother

Mrs. Joana Agyapong

And my brother

Kwame Asumadu Sakyi

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## **ABSTRACT**

In 1976, the Ghanaian government, through the Bank of Ghana, established Rural Banks to channel credit to productive rural ventures and promote rural development. This strategy was intended to improve the economic and social life of the rural poor. The initial expectation was that, in the long term, credit will enable the poor to invest in agricultural and non-agricultural productive assets, as well as adopt new technologies and farming methods among others. However, three decades down the line the impact of rural banking on rural development, especially agricultural development has been described as very insignificant. Against this backdrop, the study sought to examine the impact of rural banking on rural farmers, using Adansi Rural bank in the Ashanti Region as a case study. Using convenient sampling technique, a total of 76 farmers who engage with the bank were selected to represent the farmers, while 19 credit officers drawn from seven branches of the bank to understand the bank's perspective. The analysis of the result revealed that the bank's financial support to farmers has significantly decreased over the past 6 years, raising concerns about lack of interest by rural banks in supporting farming activities. The result further revealed that rural banking has not impacted positively on the operations of rural farmers in the Adansi District of the Ashanti Region. The result further revealed that delays in loan processing, high interest rates and charges, demand of collateral security and short term repayment period are some of the challenges hindering the ability of rural farmers to access financial support from rural banks. The study recommends, the government of Ghana should support rural banks to enable them provide financial assistance to farmers to improve their farming activities.



## CHAPTER ONE

### INTRODUCTION

#### **1.1 Background to the Study**

In this current era of competition and the struggle of image maintenance of financial institutions, it has become necessary for rural banks in Ghana to rebrand themselves to meet new ways of doing banking. The migration from the old manual way of banking to the new computerized banking with refurbished banking halls and the usage of highly educated and competent staffs is an indication of rebranding of rural banks.

Deficient access to fund agriculture advancement and agribusiness is without a doubt one of the main difficulties influencing farming development frameworks in Africa. In Ghana like various sub-Saharan countries, inadequate access to credit has remained a focal problem to agriculturists. What's more, a key essential to the modernization and extension of their activities. In the event that current rural patterns continues, by the year 2020 sub-Saharan Africa's food deficiency will expand twenty times, to 250 million tons (Pinstруп-Anderson, 1993). The lower calorie admission could cause poverty, lack of healthy sustenance and famine. While attempting to help solve some of these possible problems, a couple of institutional and non-institutional wellsprings of rural credit have been made available to Africans.

It is imagined that, in the long stretch, loans will empower the underprivileged to put resources into farming and non-farming beneficial resources, to grasp new innovations, cultivating methods, and to decrease environmental deterioration. . Ghana, as other sub-Saharan nations, has in addition experienced low profitability, low pay levels, unemployment, and absence of healthy sustenance. In Ghana, since the inauguration of the first rural bank in 1976 (The Rural Banker, January – June 2002), rural banking has ended up essential financial intermediation system for rural and the urban people. Today

rural banks are discovered all over Ghana. Since the formation of the first rural bank in Ghana in 1972, the number has expanded substantially. As indicated by Apex Bank Report (2012), the number of rural banks as at the end of 2012 remained at 138. As indicated by IFAD (2008), RCBs constitute around half of the total banking outlets in Ghana and are the highest suppliers of formal financial related services to rural occupants. Asiedu-Mante (2002) has stressed the aim of the idea of the establishment of rural banks. As indicated by him, the essential objectives of every single rural bank are the mobilization and channeling of rural investments for economic improvement within their communities in which they reside. Asiedu-Mante further compressed the aims of rural banks as follows;

- Mobilize all available savings within the catchment area;
- extend institutional credit to the rural dwellers in their respective areas of operation and thereby assist in increased productivity to create wealth for improved standard of living;
- Act as catalyst institutions for rural development by identifying and promoting the development of rural projects.

Despite the fact that rural banks are performing well to advance rural improvement in Ghana, the degree to which their exercises are impacting on agribusiness, particularly farming stays hard to appreciate. In perspective of this, the research seeks to explore how the activities of Ghanaian rural banks are impacting on rural farmers. Improvement of rural undertakings, particularly in the range of agriculture.

## **1.2Statement of the Problem**

The Ghanaian government has made a few endeavors to advance rural advancement with an end goal to build the expectation for better living conditions of the individuals who

live in rural parts of the country. These ventures did not materialize for a few reasons, including inflation and the absence of coordination between government organizations (Amonoo 1977; Brown 1986; and Opoku-Afryie 1974). Most agriculturists in the rural zones have problems with working with the rural banks or the credit unions. Some of these issues incorporate getting access to applicable business proposals and guarantee securities that the banks demand for. Notwithstanding, most of the farmers are not knowledgeable enough so as to arrange or prepare their own business recommendations. What's more, it turns out to be exceptionally troublesome for the farmers to get access to credits in light of the collateral guarantee requested by the financial institutions. A greater percentage of these financial institutions consider the size of the farm as a requirement for credits. The most disturbing issue experienced by the farmers is the high rates they pay as interest or bank charges. In view of this, it is extremely hard nowadays for the farmers to acquire loans from the rural banks as a result of the high interest charges. A greater number of their customers especially farmers do surprisingly wind up and offer their properties or resources with a specific end goal of paying the credits acquired by them. The prime interest rate in the country now spins around 25 percent.

Generally bank charges have therefore increased because of these. The minimum bank charges now ranges between 25 to 30 percent (Bank of Ghana). According to the Chronicle paper (February 2008), the then Deputy Minister of Finance and Economic Planning, Professor George Gyan Baffour, had indicated that high interest rates charged by universal banks as well as savings and loans companies are killing businesses in the country, especially Small and Medium Enterprises (SMEs). Professor Gyan Baffour said the difference between lending and borrowing was still high since it is negatively influencing the development of businesses in the country. As indicated by him, the issue

of high interest rates is an obstacle on the economy since it constrains more organizations to shut down.

Another real issue confronted by these farmers is that the attention of the Rural and Community banks has moved from the rural folks to traders and other small scale organizations in the city. This research in this manner identified the effect of these or rural banks on farmers in the rural sectors.

### **1.3 Objectives of the Study**

The general objective of the research is to assess the impact of rural banking on rural farmers in Ghana. The specific Objectives are to;

1. Assess the impact of rural banks on the rural farmers.
2. Identify the difficulties faced by rural farmers in assessing loan facilities from rural banks
3. examine the problems faced by rural banks in granting credit support to rural farmers

### **1.4 Research Questions**

1. What is the impact of rural banking on rural farmers?
2. What are the challenges encountered by rural farmers when assessing credit facilities from rural banks?
3. What are the factors militating against the ability of rural banks to support rural farmers?



### **1.5 Scope of the Study**

Despite the fact that rural banks give backing to kinds of individuals and organizations, the study focuses on its commitment to rural farmers. Geographically, the study limits itself to Adansi rural bank in the Ashanti region of Ghana. Adansi rural bank was picked as a case study because of the evidence of the increasing number of farmers borrowing from the bank, and also because it was adjudged the best rural bank in loan financing by the Association of rural banks at its awards in

2013. Consequently, the outcomes from the bank can be applied to other areas in Ghana. The study was carried out using data and financial information from 2009 to 2014.

### **1.6 The Significance of the Study**

The outcome of this study would be a helpful instrument to the Ministry of Finance and those in charge of the planning and execution of economic issues in Ghana. Additionally, it is imagined that the consequence of this research would aid in creating consciousness of activities of the credit unions or rural banks in the rural parts of the country, to the populace of Ghana including policymakers. Hopefully, it would empower the country to embrace methodologies which will help to accomplish the targets of rural farmers.

Lastly, the discoveries of the study would offer database to more research work.

### **1.7 Limitation**

This study was narrowed to the effect of the operations of rural banks on rural farmers. Available are various variables that help rural development however, extremely constrained notice was made of them and their effects. The research was constrained to selected farmers in Adansi North. The study likewise has the following limitations:

- Financial constraints- this created a lot of difficulty in interviewing so many farmers.
- Time- because the study will be undertaken within timeframe of 5 months.
- Data collection – the distribution and collection of questionnaires will be timeconsuming because of the location and dispersed nature of the respondents.

## **1.6 Organization of Study**

The study is divided into five chapters.

Chapter One consists of the introduction, objective of the study, statement of the problem, research question, objective of study, and limitation of the study.

Chapter Two reviews existing literature as regard rural baking as a factor generating rural development.

Chapter Three consists of the methodology. The methodology consists of the research design, population, sample and sampling technique, data collection procedure, data analysis and the software used in the analysis.

Chapter Four consists of data presentation, analysis, and discussion of the main findings.

Chapter Five concludes the study with summary, conclusion and recommendations.

## **CHAPTER TWO**

## **LITERATURE REVIEW**

### **2.1 Introduction**

The previous chapter analyzed the general presentation of the study. This part is intended to survey both experimental and hypothetical writing on the subject. The review of literature will particularly focus on issues, for example, rural banking in Ghana, structure and performance of Rural Banking, and its effect on rural farmers.

### **2.2 Background of Rural Banking in Ghana.**

The rural banking concept became part of the banking system of Ghana in the 1960s. The idea was embraced from the Philippines in 1960, and was incorporated into the banking system of Ghana in 1976. Prior to the presentation of the idea, the principle administrators in the country budgetary business sector contained branches of commercial banks, credit unions and in addition different elements in the informal segment, for example, cash moneylenders, traders and "susu" authorities. Friends and relations were additionally vital source of rural finance. Monetary intermediation in rural Ghana was at a low level contrasted with the circumstance in urban regions. Thus; rural monetary units were famished on budgetary assets. Banks which operated branches in rural areas mostly served the interest of large and medium-size enterprise and resourcebased companies. The banks were hesitant to alter their operations to suit the needs of the rural inhabitants. Whatever they were doing was sufficiently beneficial without including the as far as anyone knows high hazard worker agriculturists and little scale administrators.

To enhance the circumstance, the then existing routine commercial banks were urged to extend their branches systems into the rural areas, whiles specialized banking institution such as the Agricultural Development Bank (ADB) were created. Be that as it may, these banks were not able to fulfill the exceptional money related needs of rural occupants on the grounds that they would not alter their operations to suit the rural group. Furthermore,

the banks deemed that their operations were already profitable without getting involved in rural lending, which was perceived to be very costly to the banks.

The irony of these scenarios is that rural Ghana abounds in wealth. Cocoa, timber, gold manganese, diamonds, fruits like oranges. Bananas, pineapple, pawpaw, pears and food crops generally are all products of rural Ghana. It was very obvious that if monetary exercises in the rural parts of the nation were to be improved and managed, then some sort of institutional course of action must be set up to address the issue of deficient credit. To do this, the Bank of Ghana did a study into country credit issues in Ghana in 1971 to discover why rural inhabitants/administrators couldn't profit themselves of institutional credit from the current banks that had rural branches and offices. A few recommendations were made, one of which was the foundation of rural banks. Unit banks were known not perfect for the particular geography of the Philippines which has more than 7000 island. A choice was in this manner taken by the administration of the Bank of Ghana to figure out a considerable measure more about rural banks and how they worked in the Philippines in 1975. The group came back with a gleaming report about the Pilipino encounter and suggested that the model could be changed and custom-made to suit the needs of Ghana. Rural banks were along these lines considered as a superior channel for giving money related intermediation at country level. They were situated up to attempt customary saving money capacities, in particular, store activation, credit and venture expansion and association in the installments framework. Rural Banks were thus expected to play financial intermediary role of mobilizing financial resources from within their areas of operations.

Such resources were to be utilized to bolster suitable endeavors with the point of enhancing the financial and social prosperity of the individuals in the communities they served. The rural banking idea was in this manner introduced with the aim of encouraging rural savings and to meet the monetary needs of rural dwellers.

Today, the quantity of country banks in Ghana has soured. As indicated by ARB Apex, as at July 2012, the ARB Apex bank had a system of around 133 rural banks with around 564 branches and 548 administration conveyance areas spread over the length and breadth of Ghana. The locales with more than 20 rural banks are Ashanti, Brong, Ahafo, Central and Eastern. Table 2.1 demonstrates the local dissemination of country banks in Ghana.

**Table 2.1 Regional Distribution of RCBs and Branches**

<b>Region</b>	<b>Number of RCB</b>	<b>Number of Branches</b>
Ashanti	24	111
Brong Ahafo	20	69
Central	21	68
Eastern	22	85
Greater Accra	6	13
Northern	6	3
Upper East	5	10
Upper West	4	3
Volta	12	22
Western	13	55
<b>Total</b>	<b>133</b>	<b>439</b>

*Source: ARB Apex Bank, 2012*

Today, Rural and Community Banks (RCBs) in Ghana are possessed and administrated by the local indigenous of the community and district assemblies. Despite the fact that RCBs work as commercial banks, they are not permitted to open completely fledged branches in different regions or areas (Aboagye and Otieku, 2010). Rural and Community banks are tasked by the laws of Ghana to give formalized budgetary intermediation to rural groups and along these lines encourage country industrialization (BOG, 2006)

The commitment of RCBs to the financial improvement of country economies specifically and the general economy as a whole cannot be belittled. As indicated by IFAD (2008) Rural Commercial Banks (RCBs) constitutes around half of the aggregate banking outlets in Ghana and are the biggest suppliers of formal financial administrations to the rural folks. As indicated by Nair and Fissaha (2010), as at 2008, rural banks in Ghana assembled CH¢343.9 million deposits, progressed GH¢224.7million credits, conveyed GH¢63.3million international money transfer, GH¢9.3million worldwide cash exchange and encouraged cheques clearance worth GH¢993.7million (Nair&Fissaha, 2010). Their consolidated profit and total assets for 2008 remained at GH¢15.6million and 622.3 million separately. The above insights obviously demonstrate that Rural and Community Banks are advancing monetary intermediation as well as the development and advancement of the Ghanaian economy.

### **2.3Structure and Operations of Rural Finance Industry**

The budgetary framework in Ghana is classified into three principle classes: formal, semi-formal, and casual:

- Financial institutions that are integrated under the Companies Code 1963 and authorized by the Bank of Ghana (BOG) under the Banking Law 1989 or the Financial Institutions (Non-Banking) Law 1993 (NBFIL) to give monetary administrations under Bank of Ghana regulation. Rural and Community Banks (RCBs) privateer as commercial banks under the Banking Law, with the exception that they are not allowed to do universal banking operations, their customers consist of people from nearby rural zones, and their base required capital is fundamentally lesser. Included in the predefined classifications of non-bank budgetary organizations (NBFIs), the Savings and Loans Companies (S&Ls), which are confined to a restricted scope of administrations, are most

dynamic in smaller scale and little scale monetary intermediation utilizing microfinance strategies.

- Non-Governmental Organizations (NGOs) and Credit Unions (CUs) are thought to be semi-formal— although they are legitimately enrolled, their activities are not authorized by the Bank of Ghana. NGOs are organizations constrained by gains (not for profit) as indicated by the Companies Code 1963. NGOs neediness center compels the vast majority of them to give different administrations to underprivileged customers, in addition to miniaturized scale advances, however for the most part on a restricted basis; NGOs are not authorized to take cash in the form of deposits from general society and subsequently are networked to foreign financiers (donor) reserves for microcredit. However, Credit Unions are enrolled by the Department of Cooperatives as helpful prudent social orders that are allowed to take deposits from their customers and offer advances to their registered clients. Despite the fact that credit unions are ostensibly registered in the NBFIL Law, BOG has permitted the summit body Ghana Cooperative Credit Union Association to keep on directing the societies pending the presentation of another Credit Union regulation.

Individual Moneylenders are authorized by the police under the Moneylenders Law 1957. The commercial banking framework is ruled by a couple of significant banks (among the 28 aggregate) which gets to just about 5% of families, of which a large portion are avoided by high minimum deposit required by the banks. 60% of the cash supply are outside the framework of commercial banks, the Rural Banks, Savings and Loans, and the semiformal and in-formal money related frameworks assume an especially imperative part in Ghana's private sector improvement and poverty alleviation techniques. 4% of the total assets of commercial banking framework are that of the Rural

Banks, with Savings and Loans and Credit Unions consisting another 2%. Whereas "RMFIs" is utilized to allude by and large to the full scope of these organizations, they utilize diverse techniques to reach distinctive (but covering) customers among agriculturists, rural family units, poor people, and smaller scale ventures, and henceforth diverse administrative and supervisory instruments may be appropriate.

## **2.4 Rural and Community Banks**

RCBS are unit banks possessed by individuals from the rural communities who acquire their shares and are authorized to give budgetary intermediation. They were initially started in 1976 to extend savings mobilization activation and credit administrations in rural territories not served by commercial and development banks. The number extended quickly in the mid-1980s, mostly to benefit the government introduction of the akuafo cheques rather than paying cash to cocoa farmers.

Through a mix of fast expansion, rapid inflation, financial decrease, retrogression of the economy and regular catastrophes, joined with powerless supervision, just 23 of the 123 Rural and community banks were classified as "satisfactory" in 1992. The call for conspicuous requirement for re-capitalization and capacity building was tended to amid 1990-94 under the World Bank's Rural Finance Project, with a large portion of them accomplishing "satisfactory" status by 1996. The blend of high (62%) essential primary and secondary prerequisites forced by BOG in 1996 and high Treasury bill rates served to decrease the danger resources and build total assets, also enhancing their financial performance. In 1998 the number of RCBS was 133 but yet tumbled to 111 in 1999 with the folding up of 23 non performing banks and the introduction of one new rural bank. These terminations were a warning to the staying rural and commercial banks to keep up



or enhance their operations with a specific end goal to accomplish tasteful status. Somewhere around 1999 and 2001 there was 64% expansion in the quantity of satisfactory banks. The present number of rural banks in Ghana is one hundred and thirtyseven (137) with the presentation of three extra one.

#### **2.4.1 Savings & Loans Companies**

At first, licensing of the new Savings and loans companies classification was troublesome, as the BOG thought about the means to execute the new enactment. The least required capital (¢100 million or US\$150,000) at first represented an obstacle, however its genuine quality was disintegrated by fast their fast expansion, and the quantity of S&Ls developed from 3 in 1995 to 7 by 1998. By 2002 the 8 S&Ls had more than 160,000 contributors and 10,000 borrowers. Increments in the base capital necessity in 1998 and 2000 restored the dollar esteem through a ten-fold increment in the ostensible quality and a further bring up in 2001 to about US\$2 million slowed down the rate of new entry. In any case, the S&L class has turned out to be an adaptable method for regularizing three sorts of MFIs:

- Conversion of Non-Governmental Organizations into authorized money related mediators;
- Formalization of genuine or potential casual cash loaning performance;
- Formulation of little personal managing banking products serving a particular market sector.

The Savings and loans classification has additionally made conceivable the passage of private speculation to take care of a specific business sector on a littler scale than would be needed for a commercial bank, thus posing as a problem to the supervisors. A latest example is Advans Ghana Savings and Loans Ltd., which is implementing global best practices in microfinance to achieve higher returns inside of two years. S&Ls have

additionally been pioneers in improving; Citi S&L has spearheaded networking with Susu authorities and clubs, and offers a miniaturized scale renting item to customers with no less than two effective advance terms (Anin2000)

#### **2.4.2 Credit Unions**

Credit Unions are prudent associations rendering savings and advance services only to individual members. In Africa the first credit union was set up in Northern region of Ghana in 1955 by Canadian Catholic ministers. By 1968, they were brought under enactment and the Credit Union Association (CUA) was formed as a summit body, there were 254 CUs (64 of them rural) within the range of 60,000 groups (Quainoo1997). The number of Credit Unions grew considerably in the mid-1970s numbering about 500, yet financially their performance was not exceptionally solid. Their capital was disintegrated in the late 1970s by high inflation, as a result, as at the mid-1990s, the quantity of CUs fell considerably. The feeble financial operations of CUs has been caused in extensive part to their association as agreeable social orders with a welfare center, and specifically to their arrangement of low premium rates. CUA has 250 partners (2003) with 132,000 individuals (around a quarter of them Study Groups in the course of turning out to be full credit unions). Credit unions normal around 400-500 individuals, and their normal advance size of US\$153 is well over that for African MFIs, and in addition for Rural and commercial Banks CUA has endeavored to set up a better financial reporting framework for its individuals, yet the quality of their information stays poor. Besides, numerous administrators, and in addition Board and individuals, have small comprehension of the matter of budgetary intermediation. "More than 70% of all Ghanaian credit unions were in an "unsatisfactory" circumstance, and 42% of them were put in the most exceedingly awful classification as at April 1998" (Camara 1996). Before the close of 2001 financial year, the available appraisals was enhanced to 60% and 15%, individually, and the offer

given the top appraisal for financial stability had enhanced fundamentally to 29% (CUA 2002). Most CUs demand that clients who apply for loans give security, notwithstanding having a good turnover in terms of deposits. In a perfect world, this can be as a surety from another individual from the credit union who owns sufficient available investment funds balance. A little number CUs make use of the dailySusu strategy in mobilizing savings and advance reimbursements. CUA is an inventor in giving both credit insurance (to defray the outstanding advance balance if there should be an occurrence of the demise of a borrower) and a contractual funds program (which coordinates investment funds, up as far as possible, if held at death or to development) (Gallardo et al. 2002).

## **2.5 Non-Governmental and Community-Based Organizations**

NGOs have encouraged the advancement of best practices of microfinance products in Ghana by presenting universally tried strategies, regularly in association with RMFIs. These strategies regularly are taking into account group alliance techniques, and have profited from networking with CBOs that have earlier merged on the premise of, occupations, companionship, family ties, sexual orientation, or distinct backgrounds to fill a need at the community level (Chord 2000). NGOs and CBOs are especially vital in making financial administrations accessible in the northern region of Ghana, where rural banks and other financial institutions are rare – despite the fact that they have a tendency to be localized and donor reliant. Ghana has generally few NGOs whose essential aim is microfinance and that have come to noteworthy scale. Notwithstanding, the range of 75 NGOs have dynamic miniaturized scale credit programs, they are for the most part multipurpose or welfare-focused organizations (just four surpass 3000 customers and aggregate effort is just around 60,000 customers; GHAMFIN 2003). The primary exemption is Sinapi Aba Trust (SAT; built up in 1994), which operates 46 branches nationwide, providing both corporate and personal advances. Sinapi Aba Trust has come

to financial and operational viability and reached adequate position to change into an authorized S&L. Their capacity receive and moderate savings would relieve it from its present dependence on RCBs and different middle people to handle customers' funds and on donor funds to back its loaning. "Village banking money" is a group and individual investment funds with loans approach advanced most quite by Catholic Relief Services and the SNV/Netherlands Development Program; some are enlisting with CUA as Study Groups. FFH/CWE utilizes individual savings with group credit to target ladies and give going with training on wellbeing, sustenance, and family planning, money related arranging and planning, and micro scale enterprises improvement. FFH trains the credit officers for accomplice RMFIs and the groups manage the customer's savings, so the system can be truly productive – in spite of the fact that as of not long ago, the high reserve necessity for RCBs kept them from utilizing their own mobilized funds.

## **2.6 Informal Finance**

The informal financial framework consist of a scope of another product referred to as daily Susu, it includes individual Susu collectors, pivoting savings, credit associations, and savings and credit "clubs" which are run by an administrator. It additionally incorporates individual moneylenders, trade creditors, and individual credits given out by companions and family members.

### **2.6.1 Moneylenders**

Moneylenders are the oldest source of microfinance in Ghana. They were the first to be officially licensed in Ghana, and have long been an imperative wellspring of urgent and interim fund (aside families and companions) for the larger part of the populace deprived of means to business financing.... By the mid-1960s, cash loaning had turned out to be even more of an additional work by traders and others who have available liquid funds

than full-time profession (Offei 1965, referred to in Aryeetey 1994) the introduction of RCBs and CUs, Susu affiliations and clubs, and particularly S&Ls might have reduced significance, and surely the enrollment, of individual money lenders, their activities has empowered money lending sort products to end up been authorized and licensed. Nowadays majority of moneylenders don't have the required licenses or permit to work full time, and the law has stopped to be of any significance, in spite of the fact that it stays in the legal documents.

### **2.6.2 Susu Collectors, Associations, Clubs, Companies and Products**

The Susu framework basically helps customers aggregate their own daily savings over a period of time from one month to two years, in spite of the fact that credit is additionally a typical element. With an end goal to profit by susu authorities' personal information of their customers, many RCBs and S&Ls took an interest in a test case system to give support to susu collectors in a form of funds to enable them to loan to their customers (GHAMFIN 2001), and a percentage of them have proceeded with their own finances. The Susu collectors are the most obvious and biggest structure. Despite the fact that they mobilize savings, the bank of Ghana has shunned endeavoring to direct them, abandoning their activities to attempt them to enhance the notoriety and nature of the business through self-regulation. Susu authorities who are enrolled with affiliations represent almost a quarter of the evaluated more than 6000 gatherers across the nation, gathering a normal of US\$20 a month from pretty nearly 400,000 customers (GCSCA 2003). Some commercial banks have presented funds items demonstrated like and also publicized as Susu. Similarly, most Rural and community Banks, Savings and Loans and NGOs have introduced Susu as a whole product, daily contributions are collected by authorized salaried field cashiers or by commissioned based collectors. These procedures have aided them to extend out to lower-levels of income and small

scale operators, who comprises of 65% to 80% of the customers of these Susu product. In this way, the mix of specific classifications of authorized financial establishments and conventional procedures has succeeded both in activating investment funds from lower salary family units and giving them the opportunity to get access to financial services that constitutes a piece of the formal, administered framework.

### **2.6.3 Traders**

A dominant part of rural finance in Ghana has dependably been the traders who are mediators between producers of raw materials in rural areas and the manufacturers in urban markets, they frequently give credit as inputs on supplier's a loan against future purchase of the yield. They don't for the most part oblige security, but to a certain degree, the understanding of the producers (farmer) to offer them the yield. The verifiable interest paid can be as higher as half of the principal for the farming season (Offei 1965, referred to in Aryeetey 1994).Comparatively Fish dealers utilize these loans to secure their suppliers at generally lesser costs. In the meantime, these mediators are frequently viewed as exploitative in perspective of their invariable connections, for an expansive number of farmers and fishermen, access to financing depends intensely on the liquidity accessible from these traders – and, thus, on the capacity of farmers to get to supports.

### **2.7Government Credit Programs**

The Government has propelled various unique credit plans since 1989, ordinarily at financed rates, benefiting not very many individuals and with to a great degree poor recuperation rates. A typical example is the Rural Enterprise Programme (REP) which is part of the efforts of the Government of Ghana to alleviate poverty and improve living conditions in the rural areas. REP is an upscale of the Rural Enterprises Project - Phases I & II (REP-II & I) which were implemented in 66 districts across the country from 1995

to 2011.). Another special case has been Enhancing Opportunities for Women in Development (ENOWID), which in the mid-1990s made more than 3,500 moderately little advances with a combined recovery rate of 96% utilizing funds from the Program of Action to Mitigate the Social Costs of Adjustment (PAMSCAD) (Quainoo 1997). PAMSCAD, propelled in 1989, specifically came to just by most accounts 1,200 customers and attempted to accomplish a normal 83% combined recovery by 1996. None of the other four projects being controlled by the National Board for Small-Scale Industries (NBSSI) (which charges 20% interest) has come to a 70% recuperation rate or upwards of 200 customers. Subsequently, these "spinning trusts" are relentlessly exhausting, include considerable expenses to work, and have insignificant effort. The Government has likewise gone into smaller scale credit through poverty alleviation projects and the District Assembly Common Funds. While in a few examples this made wholesale finances accessible to neighborhood RMFIs for on-lending to customers that they pick, all the more normally it has been seen and utilized as politically motivated, with negative outcomes for reimbursement. The fundamental danger to reasonable RMFIs from these government projects originates from the negative consequences for endeavors of RMFIs to mobilize funds and gather the money back from borrowers, whose intention to repay regularly is low when they are of the view that the funds came from government or a Donor funds at financed rates.

### **2.7.1 Interest Rates**

Stringent fiscal measures the era of the 1970s and mid-1980s, for example, government regulated interest rates and sectorial designation of loans, undoubtedly impeded improvement of Ghana's formal monetary framework. Nevertheless, different types of informal fund originated before fiscally severe arrangements in the country, and really extended after budgetary markets were changed in 1987 (Aryeetey 1994). Despite the fact

that interest rates have not been formally regulated subsequent to 1987, the Government has in any case presented various credit projects focused on small scale business improvement or alleviating poverty whose interest rates were fixed in 2001 at 20% (underneath the business sector decided rates), and it is a mandate as long as 1979 for all District and Municipal Assemblies to give 20% of their "Common Funds" for medium scale and small ventures at a premium rate of 75% of the commercial bank rate.

### **2.7.2 Security**

Authorized banks typically demand that advances be guaranteed by title to land or physical assets, a percentage deposit of amount of loan required, or Treasury bills, taking after BOG rules. These alternatives are unmistakably above the means of poor family units. Close coordination between the Ministry of Finance, BOG and the Ghana Microfinance Institutions Network (GHAMFIN) has prompted a superior comprehension of the qualities of microfinance advances and the procedures underlying high repayment rates (Gallardo 2002, p.14), and individual and group ensured advances are currently perceived as secured microfinance advances.

### **2.7.3 The Need for the Rural Credit**

Rural advancement as a component of a national strategy is enshrined in the 1992 constitution of the Republic of Ghana to enhance the living conditions in rural territories. With an end goal to reduce the government agency coordination issues. A decentralized approach is consolidated in the constitution beneath which the national government builds administrative Regions, municipalities and Districts. The decentralization takes after a melded progression standard, with close ties between the inside and outskirts. Each of Ghana's 216 Districts is represented by a District Assembly, of which (75%) are mostly chosen and the remaining 25% are appointed. Ghana's District Assembly framework



obliges government nominees and elected delegates to coordinate district activities together. Local interest for rural improvement is assured. There is unscientific proof that the activities of the District Assemblies are having a positive impact in the lives of the rural individuals. The essential ranges of advancement have incorporated the construction of feeder streets, and spots of comfort (open toilets), refurbishment and building of schools, market centers, hospital facilities, etc. Regardless of the District Assembly governments' triumphs, the national government has seen a requirement for rural credit. Access to rural credit builds the cooperation of rural individuals in development exercises.

A rural loan approach that gathers rural assets and reorganizes it back to the rural folks assures the probability for more advancement. As always, rural advancement credit has been given by two sorts of sources: formal and informal. In the rural settlement, informal credit is given by moneylenders, relatives, companions, dealers, commission operators, cooperatives, buyers, merchants of farm raw materials, and manufacturers of agriculture proceeds. A study has demonstrated that the most widely recognized credit providers in rural zones are friends and family members who generally charge no interest or guarantee (FAO 1994). This type of loan business is little, on the other hand, and the aggregate credit from these informal sources is deficient to execute rural improvement programs. For rural development to continue at a smooth pace, bigger institutional sources of credit should be established.

Institutional sources of credit in Ghana are the commercial banks, the Agricultural Development Bank, the National Investment Banks, and the Bank of Ghana Rural Banks. Up to this point not very many rural individuals, other than well off agriculturists and businesspeople, had access to credit from these sources. The absence of wiliness for rural

credits by the National Investment Bank and the commercial banks is clarified by the high cost of directing an expansive number of little credits spread over a wide region, combined with the nearly abnormal state of default that frequently accompanies small credits. The failure of rural borrowers to offer sufficient security for advances, and the high dangers connected with farming activities, are the common reasons given for the urban-based predisposition of commercial loans. The Agricultural Development Bank was established to benefit the rural communities specifically. It as well, on the other hand, inevitably started to focus on conventional urban-based banking exercises. To solve many of these considerable challenges, the Ghanaian government, through the Bank of Ghana, presented the idea of rural banking into the country in 1976. As indicated by the Association of Rural Banks (1992),”

The reasons for Rural Banks are:

i. To inculcate the banking habits in the rural settlers; ii. To accumulate assets secured up in the rural regions into the banking frameworks to encourage advancement; and iii. To recognize feasible commercial enterprises in their individual catchments [areas] for investment and advancement.

#### **2.7.4 Rural Bank Operations**

The Bank of Ghana has streamlined Rural Bank giving operations to guarantee that Bank credit really benefits the small scale rural producer and the rural folks. There is an operational manual for banks which was developed by the Bank of Ghana. Loan Applications are acknowledged from people, groups, affiliations, and organizations. Rejected loan application must be advocated by particular and obviously expressed reasons and can't be in view of vague suspicions. Before a loan is granted to a group, the Bank requires that there should be a shared trust and admiration among individuals. On account of a group credit disbursement, individuals are held mutually and severally at

risk. The group can't surpass 20 individuals, and the group leaders must have a credible credit record. The Bank of Ghana has added to a required sectorial designation for Rural Bank credits. . The allotment guarantees that the greater part of the resources go to farming, the important segment in Rural Bank advances. To guarantee that assets help small scale agriculturists, the Bank of Ghana obliges that the most extreme acreage an advance qualified farmer can develop is 10 acres of land for vegetables and 100 acres of land for staple products. The Rural Banks attempt to decrease the cash component in the loans to the least possible to ensure the trusts for purposes other than those for which they are disbursed for. The Banks orchestrate inputs to be made accessible in kind (raw materials, seeds, composts, hardware and apparatus, and so forth).

Credit reimbursement conditions are resolved with reference to the borrower's ability to reimburse. A "grace period" is permitted between the credit disbursement date and the time the borrower is required to create adequate sales to reimburse the advance. Amid the "operation period" of the advance, the Bank's Project Officer frequently visits the borrower to monitor and guarantee fitting utilization of loan and timely reimbursement. Routine and crisis visits by the Project Officer are common during the operation time of the credit. Rescheduling may be permitted if there are circumstances which the credits advisory group or governing body acknowledges as "unforeseen circumstances." If there is default on the advance, and all other means of recovering the loan fails, the Bank's lawyer(s) will be informed for court actions. By 1990, the Rural Banks were encountering negative profits bringing about capital deficiency and, and in some instance the failure to meet customers' withdrawal requests. The Bank of Ghana requested a restructuring of the Rural Banks. By December of 1991 the greater part of the Rural Banks had experienced analytic study led by outside experts. The restructuring was intended to focus on financial strength, organizational capacity, and administration status in accordance with existing statutory prerequisites. The Banks overhauled and institutionalized records and methods.

The Banks presented internal control frameworks and administrative information system. After the rebuilding process, the number of Rural Banks meeting the capital sufficiency prerequisite expanded from 2 to 55. The Bank of Ghana has founded measures to keep up open trust in the staying average and upset Rural Banks (Bank of Ghana 1995). Today, the Rural Banks are still given the chance to figure out who ought to profit by their credit assets. There is significant episodic confirmation of confusion and misapplication of country credit by the Rural Banks and the provincial individuals. Numerous rural banks seem to offer credit to individuals who don't fall into the Bank of Ghana target groups. It is not exceptional to see numerous credit beneficiaries spending obtained credit in diverted activities like funeral functions rather than productive endeavors. The Bank of Ghana started the Rural Bank framework with the trust that small scale rural producers and small towns would profit by the new credit assets. It is unclear regardless of whether the Rural Banks are satisfying the essential reasons for which they were established

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

In chapter two, the study reviewed relevant literature on the subject being examined. This chapter is designed to render a comprehensive illustration of the methodology employed and the nature of the data used. Specifically, the chapter examines the research design, study population, sampling size and technique, sources of data, data analysis techniques and the credibility and reliability of the research.

#### **3.2 Research Design**

A research design, according to Saunders et al. (2009) may be divided into three main categories. These are research purpose, research approach and research strategy. Research purpose is further classified into descriptive, explanatory and exploratory. A descriptive research design provides a detailed description of event or phenomenon, usually with the use of descriptive statistics. On the other hand, explanatory research design seeks to find cause-and-effect relationship between variables using regression and other statistical tools. Exploratory research is designed to explore phenomena that have not been explored in detail. Based on the purpose of the study, descriptive design was

deemed appropriate by the researcher. The descriptive design allows the researcher to provide a detailed description of how rural banking is helping farmers in the rural areas of Ghana.

A research approach can either be quantitative or qualitative. While a quantitative approach uses positivist claims for developing knowledge (i.e. cause and effect thinking, trimming to specific variables and hypotheses and questions, use of instrument and observation and the test of theories), qualitative research is multi method in focus, including an interpretive, naturalistic way to deal with its topic (Saunders et al. 2009).

Based on the research questions posed by the thesis, quantitative research was found to be more appropriate. The use of questionnaires will afford the researcher the opportunity to quantitatively break down the information and reach inferences taking into account the quantitative outcome. Out of the various research strategies available, the survey strategy was used.

### **3.3 Target Population**

A study population encompasses person or objects having at least one common characteristic. The population of the study consists of officials of the bank and farmers who patronize the services of Adansi Rural Bank. Specifically, the researcher targeted officials of the bank who work in the credit department. Also, farmers who operate with the bank and have received some form of support from the bank were targeted. The population consists of Nineteen (19) officials and Seventy-six (76), totaling Ninety-six (96) populations for the study.

### **3.4 Sampling Technique and Size**

Sampling techniques provide a wide variety of methods that enables a researcher to reduce the amount of data needed for a study. This is achieved by taking into account only data from a sub-group instead of all available elements or persons (Saunders et al, 2009). The sampling techniques are grouped under probability and non-probability techniques. According to Saunders et al (2009), with the probability sampling technique, all elements or object in the population has equal chance of being selected to represent the population, while with non-probability sampling all object do not have equal chance of being selected for the study. The study adopts a non-probability sampling technique called convenient sampling. Here the researcher's judgment was used to appoint the officials and farmers of the bank. Convenient sampling is more appropriate and low cost (Hair et al, 2003). Though using the entire population will provide a more reliable result, due to time and logistics constraints, a sample of the population was chosen. A total of 76 farmers who are customers of Adansi Rural Bank were selected to represent the population of farmers. Also, 19 credit officers of the bank were selected with the view of gathering information from the bank with regards to their support to rural farmers.

### **3.5 Sources of Data**

Both primary and secondary sources of data were sourced so as to meet the objectives of the study. These sources are further discussed as follows;

#### **3.5.1 Primary Data**

Primary data is defined "as a data originated by the researcher for the specific purpose of addressing the research problem" (Malhotra and Birks, 2007 p94). It is what the researcher initially gathers from the sample or target populace. In this study, the essential

information utilized were those that were taken from the questionnaires administered to the respondents.

### **3.5.2 Secondary Data**

According to Saunders et al. (2007), secondary data are collected for some purposes other than the problem at hand. In this study secondary data such as records of loan portfolio, online articles, journals and books were used to supplement information derived from the use of questionnaire.

### **3.6 Data Collection Instrument**

In perspective of the nature of the topic, the researcher realized that questionnaire and will be the proper instruments to utilize. Questionnaires were utilized to gather information from a possibly vast number of respondents. In outlining the questionnaire, the researcher affirmed that every question included was applicable for the researcher to meet the set objectives. Both closed ended and open ended questions were utilized as a part of designing the questionnaire. The closed ended questions made available many choices to respondents to select from. The open ended questions, then again permitted respondents to give their own responses to the questions asked by the researcher.

### **3.7.1 Questionnaire administration**

With a specific end goal to get the full backing from respondents, the questionnaires conveyed had brief preamble clarifying the reasons of the study, those in charge of the study, and a statement ensuring secrecy of respondents. The questionnaires were selfadministered to respondents by the researcher. This was to guarantee that inquiries that required clarification were disclosed to respondents.



### **3.8 Pre-Testing of Research Instrument**

To ensure that the research instruments were designed to measure what they intended to measure, the questionnaires especially were pre-tested on a small sample of 12 farmers and 5 officials of the bank. In doing so, the researcher tried all parts of the questionnaire including question substance, wording, arrangement, structure and design, question difficulty, and instruction. The problems and issues raised were analyzed and resolved before the questionnaire administration was carried out. The analysis of the responses and the interviewees' comments were used to improve on the instruments.

### **3.9 Data Analysis Technique**

According to Saunders et al. (2009), data analysis involves breaking down data and to clarify the nature of the components parts with a specific end goal to set up relationship between them, data can be dissected qualitatively or quantitatively in view of the nature and objective of the study. A qualitative data analysis enables a researcher to develop a theory from data, while a quantitative data analysis enables the researcher to explore, present, describe and examine relationships and trends with a quantitative data (Saunders et al., 2009). For the purposes of this study, the data was analyzed quantitatively using the responses obtained from the questionnaire. The Statistical Package for the Social Sciences (SPSS) software help was used to analyze the data the raw data that was gathered from the field into less complex quantitative and tabular form for simple comprehension and digestion. Descriptive statistics in the form of Frequency tables, means and standard deviations were utilized to translate the consequence of the findings.

### **3.10 Validity and Reliability of the study**

According to Saunders et al (2009), the credibility of a study, to a large extent, hinges on the validity and reliability of the study process. Validity refers to the extent to which a measure reflects the concept it intends to measure. According to Trochim (2005) if a

study actually measure what they claim to, and if there are no logical errors when drawing conclusions from the data, the study is said to be valid. On the other hand, reliability refers to the extent to which studies can be replicated. In order to attain a high level of validity, much attention was given by the researcher to the design of the questionnaire and the interview guide. The researcher ensured that the instruments measured what they proposed to measure. To ensure the validity of the instruments, the questionnaire was validated by a research supervisor of KNUST Business School before they were administered. Secondly, a pre-test was undertaken to ensure that inconsistencies in the research instruments were corrected.

### **3.11 Ethical Considerations**

In business research, ethics involves ‘codes of behavior’ that governs the researcher’s activities (Zikmund, 2000). Measured what they proposed to measure. He further clarified that it is essential for the researcher to consider any ethical issues that may influence the study.

In conducting the research, the researcher paid consideration on all parts of research ethics with respect to the rights and obligations of both the researcher and the respondents. To start with, the researcher attempted however much as could be expected to keep away from plagiarism by suitably referring to and referencing all materials utilized as a part of the study. Second, the researcher followed all the code of conduct as indicated in the research manual of KNUST. Third, the researcher avoided any form of deception by fully informing the respondents and interviewees of the details of the research procedure and by informing their rights to privacy throughout the study process

## **CHAPTER FOUR**

## DATA ANALYSIS AND DISCUSSION OF RESULT

### 4.1 Introduction

In chapter three, the methodology and data sources for the study was examined in detailed. This chapter seeks to apply the methodology to analyze the data collected. The chapter begins by examining the general background of the respondents to understand their background. It then assesses the sectorial credit coverage of the bank with the view of identifying the support given to the agriculture sector. The objectives of the study are analyzed using descriptive statistics such as frequency, means and standard deviation. The result is then subjected to discussion to examine the extent to which it supports or contradicts existing literature on the subject.

### 4.2 General Background of Respondents

So as to meet the specific objectives of the study, two sets of respondents were sampled. These are farmers who patronize the services of the rural bank and the credit staff of the bank. Out of the total 76 Farmers and 19 credit officers of the bank were sampled for the study. Table 4.1a and 4.1b provide the general background of farmers and staff respectively.

#### 4.2.1 General Background of Farmers

The background information solicited from farmers includes gender, age, level of training and the number of years they have been with the bank. The result is summarized in Table 4.1

**Table 4.1a: Background Characteristics of Respondent (N=76)**

Variable	Classification	Frequency	Percent (%)
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<b>Gender</b>	Male	57	75.0
	Female	19	25.0
<b>Age Group (Years)</b>	18-25	11	14.5
	26-35	9	11.8
	36-45	33	43.4
	46-55	17	22.4
	56 and above	6	7.90
<b>Educational Qualification</b>	basic	4	5.3
	Secondary	41	53.9
	Tertiary	14	18.4
	None	17	22.4
<b>Monthly Income (GH¢)</b>	100-300	20	5.2
	301-600	15	40.3
	601-1000	14	39.8
	Above 1000	27	14.7
<b>Number of years with the company</b>	<1 year	16	21.1
	1-3 years	14	18.4
	4-6 years	35	46.1
	Above 6 years	11	14.5
<b>Reason for banking with Adansi Rural Bank</b>	Savings	29	38.2
	Credit	47	61.8

*Source: Own Survey 2015*

The result presented in Table 4.1a result also indicate that majority of the respondents (69%) are below the age of 45 years, implying that the youth are still interested in farming. This is contrary to the general notion that farming in the rural areas is mainly undertaken by the elderly. In as much as the gender of the respondents is concerned, the result shows that majority of the respondents (75%) are males whiles the remaining 25% are females. The result of the educational level shows that majority of the respondents have had some level of education at least to the secondary level (53.9%) whiles 22.4% did not receive any form of formal education. For those farmers who had no formal

education, the researcher explained each question to them and gave them the choices to choose from. One important observation is that most of the farmers are males, indicating that males enjoy farming than their female counterparts. This presents opportunity for the government to institute policies and incentives that will encourage females in Ghana to go into farming. For instance, financial support scheme should be instituted to encourage more female participation in farming. The result further shows that sizeable percentage of the respondents (22.4%) is illiterates. The banks, especially rural banks in Ghana must train farmers who request credit from them in order for them to understand basic record keeping.

#### **4.2.2 General Background of Staff (Credit Officers)**

As indicated in the chapter three of this study, 21 credit officers selected from all the 7 branches of the bank were served with questionnaires to complete. Out of this number, 19, representing a response rate of 90.5 percent successfully completed and submitted their questionnaires. Out of the 19 respondents, 3 (15.8%) were credit managers, 4(21.1%) were credit risk managers, while 12 (63.2) of the respondents were credit officers. The result also indicates that the respondents have varying degree of experience in the banking sector in general and credit management in particular. For instance, it can be observed from the result in Table 4.1 that 11 of the respondents, representing 57.9 percent of the total sample have served the bank for between one to five years, while the remaining 42.1percent have been working with the bank for over five years. The result from the background characteristics of the respondents gives credence to the fact that the respondents possess valuable information that helped to enhance the validity of the study.

**Table 4.1b General Background of respondents (N=19)**

<b>Variable</b>	<b>Classification</b>		
		<b><u>Frequency</u></b>	<b><u>Percentage</u></b>

<b>Position</b>	Credit managers	3	15.8
	Credit risk managers	4	21.1
	Credit officers	12	63.1
<b>Banking experience</b>	1-5 years	11	57.9
	6-10years	6	31.6
	Above10 years	2	10.5
<b>Risk management Experience</b>	Under 1 years	1	5.3
	1-5 years	10	52.6
	6-10 years	5	26.3
	Above10 years	3	15.8

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Source: Field Data, 2015

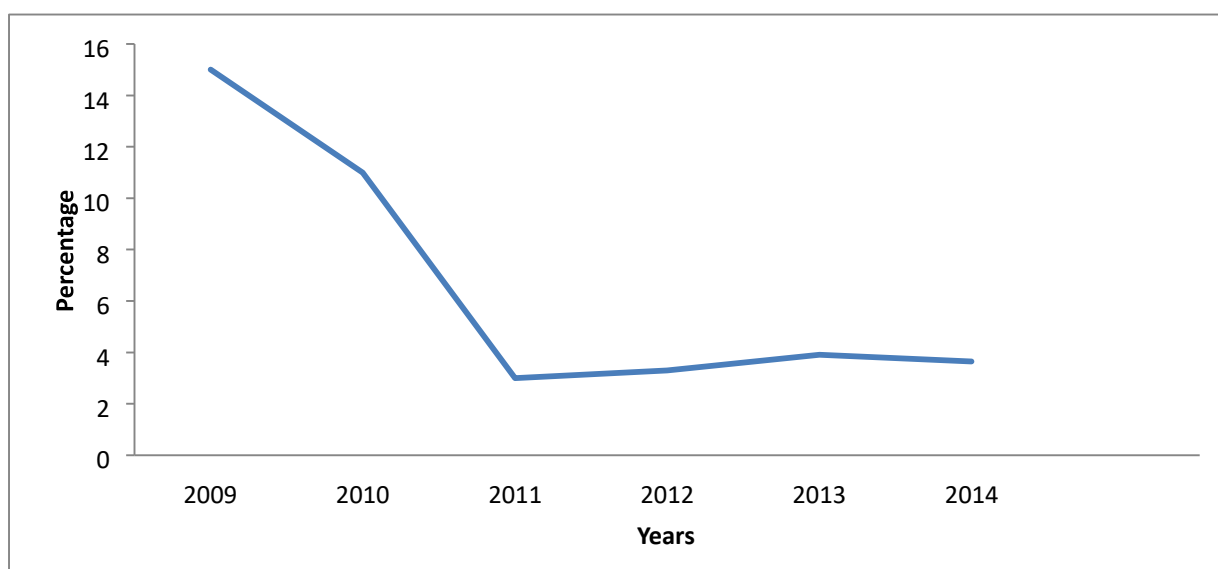
#### 4.3 Sectoral Credit Coverage

Every bank has sectors it covers when offering credit. Adansi Rural bank provides credit to individuals and businesses in various sectors of the economy. The sectors however, do not receive the same level of credit coverage by the bank. The study sought to examine the percentage of credit allocation to the various types of customers of the bank, especially farmers. The aim of this analysis was to determine whether farmers are well taken care of regarding the percentage of total loans offered to them. The study gathered the information from 2009 to 2014. The results are presented in Table 4.2 and Figure 4.1.

**Table 4.2 Sectorial Credit Coverage of Adansi Rural bank from 2009 to 2014**

Category of customers	2009 (%)	2010 (%)	2011 (%)	2012 (%)	2013(%)	2014(%)
Agriculture	15	11	3.0	3.3	3.91	3.64
Cottage Industry	10.01	8.0	10.01	9.10	10.85	10.01
Transport	9	7.0	11.0	10.8	12.94	11.91
Trading	24	31	40.0	40.4	28.64	44.69
Others	40	44	36.0	36.50	43.66	29.75

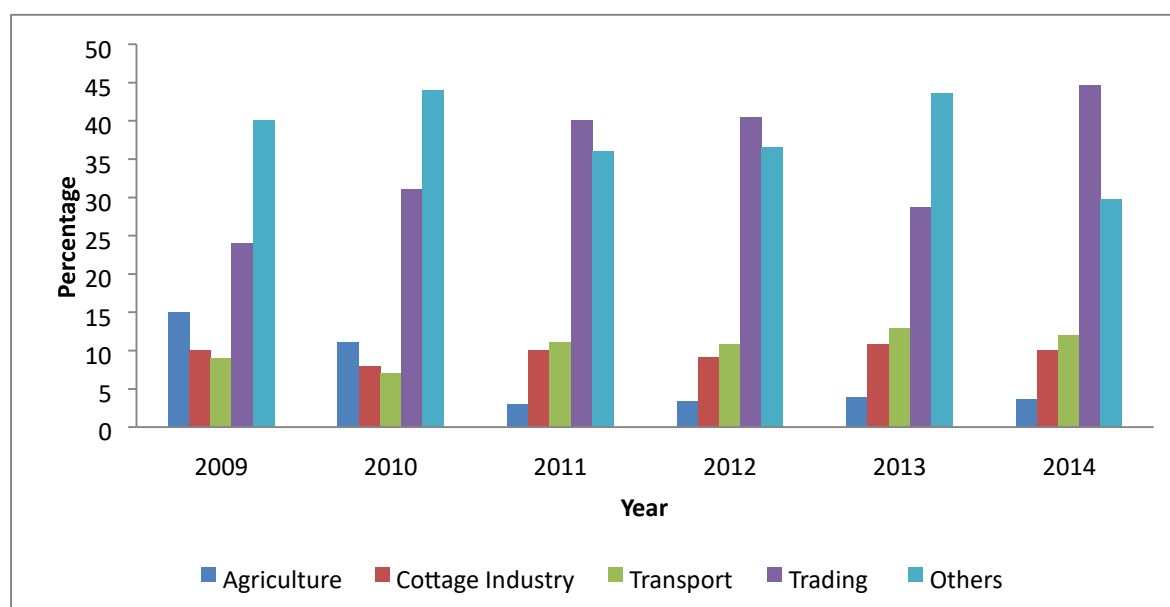
*Source, Field Data, 2015*

*Figure 4.1 Percentage of total amount of credit received by the Agric Sector*

The result, as presented in Table 4.3 and Figure 4.1 shows that the percentage of total credit amount offered to the Agriculture sector by Adansi Rural Bank has seen continuous decline. For instance, in 2009 the sector obtained 15% of the total loan disbursed by the bank. However, in 2010, the percentage of the total credit offered to the Agric sector fell to 11%. Since 2012, the percentage has been hovering just over 3%. This result clearly shows that the Agric has become less attractive to the bank. The reasons for this phenomenon may be multiple. First, the agric sector may not be doing

well to warrant high percentages of total loans disbursed. Second, it is possible that the default rate in the agric sector is high compared to other sectors. Finally, it is possible players in the agric sector are not demanding credit from the banks due to some fundamental reasons.

*Figure 4.2 Sectoral credit coverage (2009-2014)*



*Source, Field Data, 2015*

Figure 4.2 compares the percentage of the total loans received by the various sectors. It is clear from the result that trading, transport, cottage industry and agric are the main sectors targeted by Adansi Rural bank when it comes to credit disbursement. Trading has been enjoying high percentage of the total credit offered by the bank. This may be due to the attractiveness of the sector or low default rate from the sector. The agric sector, compared with other sectors has not been doing well when it comes to credit coverage by the bank.



#### 4.4 The Impact of Rural Banking on the Operations of Farmers

The main reason for the establishment of rural banking is to support the growth and development of the rural economy in Ghana (Asiedu-Mante, 2011). Since the rural economy thrives on farming and agricultural activities, the first goal of the study was to ascertain the extent to which rural banking has impacted on the operations of farmers in the Ashanti region. The opinions of 76 farmers who are customers of Adansi-Rural bank were solicited. The areas examined include the ease of assessing credit for farming purposes, the extent to which the bank provide non-financial services to farmers to improve their financial literacy, activities embarked upon by the bank to improve farming, as well as the incentives given to farmers to improve their activities. The responses were ranked on a scale of 1 to 5, with 1 representing strong disagreement and 5 representing strong agreement. The result is summarized in Table 4.3

**Table 4.3 Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
Difficulty in accessing credit	76	1.00	5.00	4.0789	0.84480
Derive maximum benefit from the bank	76	1.00	5.00	2.9605	0.95834
I receive non-financial support from the bank.	76	1.00	5.00	2.6316	1.04361
I will recommend the bank to others	76	1.00	4.00	2.6842	0.88258
The bank's operations have impacted my farming activities positively.	76	1.00	5.00	2.7895	0.95660

Key: SD—strongly disagrees; D—Disagree; NAD—Neither Agree nor disagree; A—

Agree; SA—strongly agree: scale (mean) 0 – 2.5 = low; 2.51 – 3.5 = Average and 3.51 and above =

With the mean value of 4.07 and a standard deviation of 0.084, is clear that the customers find it difficult accessing credit from the bank. On the question of whether the farmers derive maximum benefit from the bank, the result shows that the bank is far from improving the operations of the farmers (mean=2.96; S.D=0.95). Again, the respondents were requested to show the extent to which the bank provides other non-financial support to them. The mean score of 2.64 shows that the bank does not perform well when it comes to the provision of non-financial services such as training to farmers within their catchment areas. Respondents were asked to indicate whether the bank's operations have impacted positively on their operations. The mean score of 2.78 obtained clearly shows that the bank's activities are not significantly impacting positively on the operations of farmers within its catchment area. In other words, the operations Adansi Rural Bank is yet to have significant positive impact on farming activities in Adansi and its environs.

#### **4.5 Challenges Faced by Farmers in Accessing Credit Facilities**

One of the major reasons cited for the low interest in agriculture has to do with the difficulty encountered by rural farmers when accessing funds for their farming activities. One objective of the study was to analyse the challenges associated with the access of credit in Adansi Rural bank. Respondents were asked to rank the challenges based on their severity. The challenges identified include high interest rate; delays in loan processing, inability to provide collateral security, insufficient loan amount and short repayment period. The result of the findings is presented in table 4.11 below.

**Table 4.4 Challenges Facing Rural Farmers in Accessing credit from rural banks**

(N=76)

Challenges	Classification	Frequency	Percent (%)
High interest rate	Major	42	55.3
	Moderate	24	31.6
	Minor	10	13.1
Delays in Loan processing	Major	48	63.2
	Moderate	16	21.1
	Minor	12	15.7
Demand for collateral security	Major	52	68.5
	Moderate	15	19.7
	Minor	9	11.8
Insufficient Loan	Major	39	51.4
	Moderate	22	28.9
	Minor	15	19.7
Short Repayment period	Major	47	61.8
	Moderate	16	21.1
	Minor	13	17.1

Source: Field Data, 2015

Collateral security was identified as one of the major challenges facing farmers in accessing credit from Adansi Rural bank. This is evidence by the fact that 68% of the respondents described it as a major challenge confronting them. Also, one of the key challenges facing rural farmers in accessing credit has to do with delays in loan repayment. From table 4.4, it can be observed that over 63% of the farmers stated that delays in loan processing hinder their quest to access credit form Adansi Rural Bank. A Lion's share of the respondents (55.3%) are of the perspective that high interest rate charged by the bank makes it less attractive to secure loans for their farming purposes. Again the result reveals that over 61% of the respondents identified short-term loan repayment schedule is a major challenge facing them as far as access to credit is

concerned. The identification of short term loan repayment as a major challenge is not surprising.

The repayment period, if short, put farmers under great pressure to find money to settle the loan. When such loans are invested in medium and long term ventures, it becomes difficult for such ventures to generate short term income to repay the credit facility. High Interest rate as indicated by Dehejia et al (2005), leads to the erosion of the profit of rural farmers and in this manner makes it almost impossible for them to repay the interest rate and the corresponding principal. It is therefore not surprising that majority of the farmers identified high interest rate as a major challenge.

When loan seekers are given less credit other than what they require, it makes it difficult for such farmers to invest the amount in their proposed activities. These funds are often diverted into different ventures, thereby defeating the purpose for which they were granted.

The delays in loan processing, though unfavorable for the advance seeker (Farmers) is planned to guarantee that the bank minimizes the risk of giving out loan. Failure on the part of the bank to do due diligence on the loan portfolio granted to farmers will increase default risk and thereby reduce the profitability of the bank. However, in as much as the bank will want to scrutinize applicants, they must be mindful not to unduly delay the process since that can discourage prospective clients from accessing credit facilities.

The findings obtained in this section are steady with (Umoh, 2006) who discovered that income constraints, inadequate collateral security, difficult loan processing procedures, high-interest rate, value of initial capital, collateral security are the fundamental difficulties confronting farmers in their quest to accessing credit facilities from rural banks.

#### 4.6 Challenges Faced by Rural Banks in Supporting Rural Farmers

The main reason for the establishment of rural banking in Ghana is for rural banks to support the rural farming. Since agriculture is the main stay of the rural economy, it is expected that rural banks will pay special attention to farmers by offering them the needed financial assistance to boost their farming activities. However, the result of the total amount of credit offered to farmers is relatively low compare to other sectors. Against this backdrop, the study sought to examine the reasons or challenges hindering the ability of rural banks, especially Adansi rural bank in supporting rural farmers. In achieving this research objective, a number of credit officers and branch managers of 7 branches of Adansi rural bank were interviewed. On a scale of 1 to 5 (1 representing strong disagreement and 5 representing strong agreement) their responses are summarized in Table 4.5 below.

**Table 4.5 High Default among farmers**

<b>Response</b>	<b>N</b>	<b>Percentage (%)</b>
Strongly agree	3	15.8
Agree	11	57.9
Neutral	1	5.3
Disagree	4	21.1
<b>Total</b>	19	100

*Source, Field Data, 2015*

The result in table 4.5 shows that over 73% of the respondents agree that the high default rate among farmers makes it difficult for them to continue advancing credit to them. The agric sector has been identified by the rural bank as a risky sector in terms of loan default. Most of the respondents stated that as a result of the unstable nature of their cash flow

(See Table 4.6), it makes difficult for rural farmers who benefit from credit facilities to repay the loan and its associated interest. Thus, the rural bank is forced to support sectors that are less risky such as the transport sector, trading and salary workers.

**Table 4.6 Uncertain Nature of Cash Flow**

	Frequency	Percent	Valid Percent	Cumulative Percent
Disagree	1	5.3	5.3	5.3
Agree	12	63.2	63.2	68.4
Strongly agree	6	31.6	31.6	100.0
<b>Total</b>	<b>19</b>	<b>100.0</b>	<b>100.0</b>	

*Source, Field Data, 2015*

**Table 4.7 Inability to provide collateral security**

	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly disagree	2	10.5	10.5	10.5
Disagree	1	5.3	5.3	15.8
Agree	9	47.4	47.4	63.2
Strongly agree	7	36.8	36.8	100.0
<b>Total</b>	<b>19</b>	<b>100.0</b>	<b>100.0</b>	

provide these assets as collateral makes it difficult for these farmers to be given financial support.

**Table 4.8 Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
High illiteracy level	19	2.00	5.00	3.6842	1.00292
Misapplication of credit	19	2.00	5.00	4.0526	0.77986
Uncertain nature of cash flow	19	2.00	5.00	4.2105	0.71328

Inability to provide collateral security	19	1.00	5.00	3.9474	1.26814
High Default rate among farmers	19	2.00	5.00	4.0526	0.77986

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*Source, Field Data, 2015*

## CHAPTER FIVE

### SUMMARY OF FINDINGS CONCLUSION AND RECOMMENDATION

#### 5.1 Introduction

The chapter four of this study provided analysis of the primary and secondary data obtained for the purposes of answering the research questions. This chapter deals with the summary of the key findings from the analysis. The chapter also provides a conclusion to the study well as recommendation for key stakeholders.

#### 5.2 Summary of Findings

The study investigated the impact of rural banking on farmers in rural communities. The study had three specific objectives; the first was to examine how rural banking has impacted on the activities of rural farmers. The second objective examined the challenges faced by rural farmers when accessing credit from Adansi rural bank. The third objective looked at the challenges confronting the bank in advancing credit to rural farmers.

##### 5.2.1 The impact of rural banking on the rural farmers.

The result indicates that the percentage of total credit amount offered to the Agriculture sector by Adansi Rural Bank has been declining continuously since 2009. For instance, in 2009 the sector obtained 15% of the total loan disbursed by the bank. However, in 2010, the percentage of the total credit offered to the Agric sector fell to 11%. Since 2012, the percentage has been hovering around just over 3%. This result clearly shows

that Agric has become less attractive to the bank. The reasons for this phenomenon may be multiple.

The analysis of the responses obtained from rural farmers indicates that the operations of Adansi rural bank have not impacted positively on their farming activities. They cited the banks inability to support them financially when they need support, the bank's strict requirement for collateral security and the lack of non-financial support for their operations as some of the reasons why they believe the bank's operations has not impacted their positively on their farming activities.

#### **5.2.2 Difficulties faced by rural farmers in assessing loan facilities from rural banks**

The main difficulties confronting the farmers in accessing financial assistance from Adansi rural bank include collateral security, delays in loan processing, high interest rate on the loans secured and the bank's inability to provide the full amount requested by the farmers. These findings are consistent with the findings of Umoh (2006) who found that income constraints, inadequate collateral security, difficult loan processing procedures, high-interest rate, value of initial capital, collateral security are the main challenges facing farmers in their quest to accessing credit facilities from rural banks.

#### **4.2.3 Challenges faced by rural banks in granting credit support to rural farmers**

The study further discovered that the Adansi rural bank faces some challenges when granting credit to rural farmers. Some of the challenges identified include the inability of the farmers to provide collateral security, which is a requirement for the granting of credit, misappropriation of funds received, inconsistent cash flow from the activities of farmers and the illiteracy level of some farmers with respect to their understanding of the terms and conditions associated with the credit granted them.



### **5.3 Conclusion**

In 1976, the Ghanaian government, through the Bank of Ghana, set up Rural Banks to channel credit to profitable rural ventures and promote rural development. This technique was expected to enhance the monetary and social existence of the rural poor. The initial desire was that, in the long term, credit will empower the poor to put resources in agricultural and non-agricultural gainful resources and in addition to adopting new technologies and farming techniques among others. However, three decades down the line the impact of rural banking on rural development, especially agricultural development has been described as very insignificant. Against this background, the research was conducted to understand the impact of rural banking on the farming activities in rural areas. Adansi Rural Bank in the Ashanti region was chosen as a case study organization due to its support to rural farmers since its establishment. Three specific objectives were examined. The findings of the study revealed that even though the bank has made strides in its quest to support rural farmers, its impact has not been significantly felt by rural farmers within the bank's catchment area. The study further revealed that the bank's financial support to rural farmers in terms of credit allocation has seen downward trend for the past six years. Compared to other sectors, the agric sector receives the lowest percentage of the total amount granted by the bank. The study further established that demand for collateral security by the bank, delays in loan processing and high interest rate are some of the major challenges hindering the ability of rural farmers to access financial support from Adansi rural bank.

### **5.4 Recommendations**

This section provides recommendations for the bank and other key stakeholders based on the findings

#### **5.4.1 Recommendations for Adansi Rural Bank and other Rural Banks**

Inadequate access to finance in agricultural development and agribusiness is undoubtedly one of the major challenges affecting agricultural innovation systems in Africa. In Ghana like many sub-Saharan countries, inadequate access to credit has remained a central concern to farmers and a key constraint to the modernization and diversification of their activities. Though rural banks are established to bridge the finance gap, their impact has not been seriously felt. It is therefore recommended that the government should institute credit scheme to support rural farmers to improve farming activities in the rural areas.

Second, rural banks must reconsider their strict demand for collateral security before granting credit to rural farmers. Even though this may affect the quality of loan granted, other criteria for advancing credit should be explored. This will enable rural farmers who have no form of collateral security to acquire the needed financial support to improve their farming activities.

#### **5.4.2 Recommendations for the Bank of Ghana**

Though the reason for the establishment of rural banking was to provide support to the rural economy, most rural banks have been operating in urban areas and supporting salary workers and urban commercial activities. The bank of Ghana must review the rural banking act to limit their activities to the rural areas of Ghana.

#### **5.4.3 Recommendation for Future Researchers.**

The study used only one rural bank as the case study institution. Future researchers must include rural banks from all parts of Ghana. This will make it possible to generalize the findings of the study.

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## **Appendix A: Questionnaire for Bank Officials**

**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**COLLEGE OF ART AND SOCIAL SCIENCE - KNUST**

**SCHOOL OF BUSINESS**

**Dear Respondent,**

An academic research is being conducted to examine the impact of rural banking on rural farmers. You can contribute to make this study a success by providing responses to the questions in this instrument. All information you provide will be treated confidentially and shall be used for academic purposes only.

Thank you.

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### **QUESTIONNAIRE (Bank Officials)**

#### **Section A: Background Information**

**Please tick your appropriate response:**

**1. Sex:** Male [ ☐ ] (b) Female [ ☐ ]

**2. Age:** 20-30 years [ ☐ ]; 31-40 years [ ☐ ]; 41-50 years [ ☐ ]; 51-60 years [ ☐ ]

**3. Highest level of Education**

Senior High School [ ☐ ]; Technical/Vocational [ ☐ ]; Diploma/Certificate [ ☐ ];

Bachelor's degree [ ☐ ]; Masters [ ☐ ]; others (Please Specify).....

**4. Number of years worked with the Bank**

Less than a year [ ]; 1-5 years [ ]; 6-10 years [ ]; 11-15 years [ ]; 16 years and above  
[ ]

5. Position in the bank .....

**Section B: Support for rural Farmers**

**6. Do you provide support for rural farmers?**

Yes [ ]      No [ ]

**7. If your answer to question 6 is yes, what kind of support do you offer?**

.....

**8. Do you provide credit facilities for farmers to improve their farming activities?**

Yes [ ]      No [ ]

**9. Do you encounter problems in providing support for rural farmers? Yes [ ] No**

[ ]

**10. What are some of these problems? .....**

.....

**11. Is the problem causing difficulty in terms of operational growth and improvements**

**in the banks activities? Yes [ ] No [ ]**

.....

.....

**12. Please indicate the degree to which you agree or disagree to the following statements and answer by circling the appropriate numbers.**

**Please take note of the below interpretation**

5 = Strongly Agree (SA) 4 = Agree (A) 3 = Neutral (N) 2 = Disagree(D)

1 = Strongly Disagree (SD)

No.	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	High illiteracy levels among farmers Affects their ability to receive financial support from the bank	5	4	3	2	1
2	Most of the farmers misapply the funds received from the bank	5	4	3	2	1
3	The bank is usually unwilling to offer credit to farmers due to the uncertain nature of farming activities	5	4	3	2	1
4	Most farmers are unable to provide collateral security	5	4	3	2	1
5	Overall, I think the bank's activities have impacted positively on rural farmers	5	4	3	2	1



**APPENDIX B: QUESTIONNAIRE FOR RURAL FARMERS**  
**KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**COLLEGE OF ART AND SOCIAL SCIENCE**  
**KNUST SCHOOL OF BUSINESS**

**QUESTIONNAIRES (For Farmers)**

**Dear Respondent,**

An academic research is being conducted to examine the impact of rural banking on rural farmers. You can contribute to make this study a success by providing responses to the questions in this instrument. All information you provide will be treated confidentially and shall be used for academic purposes only. Please tick [✓] the boxes or write in the spaces provided.

Thank you.

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Section A: General Information

1. Sex: Male [ ]                      Female [ ]
2. Age: 18-25 [ ]    26-35 [ ]    36-45 [ ]    46-55 [ ]    56 and above [ ]
3. Level of Education: JSS [ ]                      SSS [ ]                      Tertiary [ ]    Other
- (Specify).....
4. Marital Status:    Single [ ]    Married [ ]    Divorced [ ]
5. How long have you been banking with Adansi Rural Bank:    Less than 1 year [ ]
- 1-3 years [ ]    4-6 years [ ]    More than 6 years [ ]
6. Major Occupation; Farming [ ]                      Other
- .....

Section B. Your banking with Adansi Rural Bank

7. Why did you decide to bank with Adansi Rural bank? Please tick all that apply

To save with them [ ] to obtain credit when required [ ] other.....

8. Have you ever applied for a loan at the Bank? Yes [ ] No [ ]

9. What was the purpose of the loan?

Help in my farming activities [ ] Other (Specify).....

10. If your answer above is yes, what are the things required by the bank

.....

11. What were the challenges you encountered in the process

12. Were you able to secure the loan: Yes [ ] No [ ]

13. **Please indicate the degree to which you agree or disagree to the following statements and answer with corresponding number against each question.**

**Please take note of the below interpretation**

5 = Strongly Agree (SA) 4 = Agree (A) 3 = Neutral (N) 2 = Disagree(D)

1 = Strongly Disagree (SD)

No.	Experience with Adansi rural Bank	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Acquiring credit for farming is difficult	5	4	3	2	1
2	The bank demands collateral before granting loans for farmers	5	4	3	2	1
3	Interest rate on the credit is very high	5	4	3	2	1
4	I derive maximum benefit from the my engagement with the bank	5	4	3	2	1
5	I receive additional support from the bank	5	4	3	2	1
6	I will recommend the products of the bank to other farmers.	5	4	3	2	1
7	The bank provides additional support for farmers who bank with them	5	4	3	2	1
8	Overall, I think the bank's activities have impacted positively on my farming activities	5	4	3	2	1

#### Appendix C: Allocation of Loans Based on Sectors

SECTORS	2014 (GH¢)	PERCENTAGE OF TOTAL LOANS (%)	2013 (GH¢)	PERCENTAGE OF TOTAL LOANS (%)

Agriculture	572,970.85	3.64	449,981.35	3.91
Cottage Industry	1,578,117.91	10.01	1,248,654.34	10.85
Transport	1,876,292.14	11.91	1,488,350.42	12.94
Trading	7,042,822.06	44.69	3,294,603.23	28.64
Others	4,688,300.18	29.75	5,023,557.30	43.66
<b>Total</b>	<b>15,758,503.14</b>	<b>100</b>	<b>11,505,146.69</b>	<b>100</b>
<b>MICRO CREDIT</b>				
Group Credit	521,294.70	28.26	792,899.17	34.65
Susu Credit	1,323,103.79	71.74	1,495,502.64	65.35
<b>Total</b>	<b>15,758,503.14</b>	<b>100</b>	<b>11,505,146.69</b>	<b>100</b>

Table 4.3a Sectorial

SECTORS	2013 (GH¢)	PERCENTAGE OF TOTAL LOANS (%)	2012 (GH¢)	PERCENTAGE OF TOTAL LOANS (%)
Agriculture	444,981.35	3.91	335,133.67	3.30

Cottage Industry	1,248,654.34	10.85	923,289.05	9.10
Transport	1,488,350.42	12.94	1,097,835.34	10.80
Trading	3,294,603.28	28.64	4,120,724.22	40.40
Others	5,023,557.30	43.66	3,716,616.77	36.50
<b>Total</b>	<b>11,505,146.69</b>	<b>100</b>	<b>10,193,599.05</b>	<b>100</b>
<b>MICRO CREDIT</b>				
Group Credit	792,899.17	34.65	728,526.29	38.50
Susu Credit	1,495,502.64	65.35	1,165,097.17	61.60
<b>Total</b>	<b>2,288,401.81</b>	<b>100</b>	<b>1,893,623.46</b>	<b>100</b>

Table 4.3b

SECTORS	2012 (GH¢)	PERCENTAGE OF TOTAL LOANS (%)	2011 (GH¢)	PERCENTAGE OF TOTAL LOANS (%)
Agriculture	335,133.67	3.30	213,176.26	3.00
Cottage Industry	923,289.05	9.10	583,997.24	10.01
Transport	1,097,835.34	10.80	693,060.26	11.00
Trading	4,120,724.22	40.40	2,602,696.70	40.00
Others	3,716,616.77	36.50	3,351,855.13	36.00
<b>Total</b>	<b>10,193,599.05</b>	<b>100.00</b>	<b>6,444,785.59</b>	<b>100.00</b>
<b>MICRO CREDIT</b>				
Group Credit	728,526.26	38.50	293,211.79	37.00

Susu Credit	1,165,097.17	61.60	612,919.95	63.00
<b>Total</b>		<b>100</b>	<b>906,131.74</b>	<b>100.00</b>

SECTORS	2011 (GH¢)	PERCENTAGE OF TOTAL LOANS (%)	2010 (GH¢)	PERCENTAGE OF TOTAL LOANS (%)
Agriculture	213,176.26	3.00	454,923.30	11.00
Cottage Industry	583,997.24	10.00	331,711.42	8.00
Transport	693,060.26	11.00	293,787.17	7.00
Trading	2,602,696.70	40.00	1,269,875.43	30.00
Others	2,351,855.13	36.00	1,819,693.23	44.00
<b>Total</b>	<b>6,444,785.59</b>	<b>100.00</b>	<b>4,169,990.55</b>	<b>100.00</b>
<b>MICRO CREDIT</b>				
Group Credit	422,645.31	37.00	293,211.79	32.00
Susu Credit	713,295.02	63.00	612,919.95	68.00
<b>Total</b>	<b>1,135,940.33</b>	<b>100.00</b>	<b>906,131.74</b>	<b>100.00</b>

SECTORS	2010 (GH¢)	PERCENTAGE OF TOTAL LOANS (%)	2009 (GH¢)	PERCENTAGE OF TOTAL LOANS (%)
Agriculture	387,502.11	11.00	502,824.93	15.00
Cottage Industry	282,677.82	8.00	335,216.26	10.00

Transport	250,882.77	7.00	306,318.35	9.00
Trading	1,085,999.45	31.00	802,973.47	24.00
Others	1,550,008.45	44.00	1,400,649.44	42.00
<b>Total</b>	<b>3,557,070.60</b>	<b>100.00</b>	<b>3,347,982.81</b>	<b>100.00</b>
<b>MICRO CREDIT</b>				
Group Credit	293,211.79	32.00	356,025.51	39.00
Susu Credit	612,919.95	68.00	561,141.54	61.00
<b>Total</b>	<b>906,131.74</b>	<b>100.00</b>	<b>917,167.05</b>	<b>100.00</b>