

RURAL BANKING AND RURAL DEVELOPMENT IN GHANA
A CASE STUDY OF SELECTED RURAL BANKS IN THE ASHANTI REGION

By

Mary Anti
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DECLARATION

I hereby declare that, this submission is my own work toward MSc. Development Policy and Planning and that, 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 a University except where due acknowledgement has been made in the text.

Mary Anti (PG 3282609)
(Name of Student and ID) Signature Date

Certified by:
Prof. Sam Afrane
(Name of Supervisor) Signature Date

Certified by:
Dr. D.B.K Inkoom
(Head of Department) Signature Date

ABSTRACT

The Government of Ghana through the Bank of Ghana introduced and established Rural Banks in 1976 as one of the strategies to facilitate the development of rural communities. Aside inculcating the habit of banking in the rural dwellers, the Rural Banks were to mobilize funds and channel them to productive ventures in the rural areas.

The rural banking sub sector has become a growing and a vibrant part of the whole banking industry and the Ghanaian economy as a whole. Aside the disbursement of credit facilities which has helped in improving the living conditions of the beneficiaries, the Rural Banks have also, created employment and has helped in inculcating the habit of banking in the dwellers of the rural communities to some extent.

This study sought to examine the extent to which the Rural Banks have been able to help in facilitating the expansion and development of the rural communities through the mobilization of funds and the provision of credit facilities to these communities. The study also examined the perception of the rural dwellers on the role of Rural Banks as facilitators of Rural Development.

Using the Ashanti Region as a case study, there was the sampling of seven Rural Banks and ninety - five rural dwellers from seven rural communities where agencies of the selected banks are located. The ninety - five rural dwellers were chosen and interviewed purposively from rural ventures like farming, cottage industry and petty traders. The views of Opinion leaders were also collated through the use of focus group discussions. The data acquired from the interviews were analyzed the quantitative and qualitative techniques. Other sources of data were basically secondary specifically from books, journals as well as other relevant publications and reports.

The study revealed that, the orientation of the Rural Banks as development agents is gradually fading out as they have all adopted a more commercial outlook. Aside the fact that they are helping in inculcating the habit of banking in the rural dwellers, their products and services are more skewed towards the urban and peri - urban areas as two thirds of their branches are located at such areas. The study revealed that, the extent to which the banks are able to assist the communities in the provision of infrastructure depended on their financial strength.

The study also brought to the fore the fact that, although the Rural Banks are helping in the provision of some social infrastructure, credit is still a problem for most rural dwellers due to the nature of security required by the Rural Banks; a significant proportion of the stakeholders in the cottage industry and community members were therefore of the opinion that the role of the Rural Banks as agents of Rural Development is yet to be fully realized.

In conclusion, the inability of the Rural Banks to live up to the purpose of their creation is due to the challenges they are facing. The challenges emanate from factors that are both internal and external. It is recommended that externally, macroeconomic and monetary policies that create the enabling environment for the rural banking industry to perform should be pursued by the state while internally efforts should be made by the Rural Banks to put in place the right policies that will facilitate high performance. This is because the Rural Banks still have the potential to help in improving the rural communities as facilitators of Rural Development.



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LIST OF ACRONYMS

ABL	Apex Bank Limited
ADB	Agricultural Development Bank
ARCC	Ashanti Regional Coordinating Council
ARB	Association of Rural Banks
BoG	Bank of Ghana
CBRP	Community Based Rural Development Project
ERDA	European Rural Development Agency
FAO	Food and Agricultural Organization
GPRS	Ghana Poverty Reduction Strategy
GLSS	Ghana living Standard Surveys
KMA	Kumasi Metropolitan Assembly
IFAD	International Fund for Agricultural Development
MDA	Millennium Development Authority
MASLOC	Microfinance and Small Loan Center
NPL	Non Performing Loans
RCBs	Rural and Community Banks
RRBs	Regional Rural Banks
SPSS	Statistical Package for Social Science
SHG	Self Help Group
SIF	Social Investment Fund

CHAPTER ONE

BACKGROUND OF THE STUDY

1.0 Introduction

Ghana, like other Sub-Saharan African countries has traditionally experienced low productivity, low income levels, low domestic savings, unemployment and malnutrition. Globally, extreme poverty continues to be more 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. The promotion of rural economy in a sustainable way has the potential of increasing employment opportunities in rural areas, reducing regional income disparities, stemming pre-mature rural-urban migration, and ultimately reducing poverty at its very source. 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.

According to the Ghana Statistical Service (2005), about 56.2 percent of the total population of Ghana resides in the rural areas of Ghana. 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. To date, there are about 136 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.

1.1 Problem Statement

If the migration of people with and without school certificate to the cities of Africa is proceeding at historically unprecedented rates, a large part of the explanation can be found in the economic stagnation of outlying rural areas. Despite real progress, 2 billion people in the developing world grind out a meager and often inadequate existence in agricultural pursuits. Over 3.3 billion people lived in the rural areas in 2007, a quarter of them in extreme poverty (Todaro and Smith, 2009).

Generally, the rural areas in Ghana are characterized by lack of credit facilities, non existence of viable economic ventures, poor infrastructure, unemployment, lack of social service and a lot more which result in rural urban migration. For example, the urban population in 1960 was 23 percent of the total population. The proportion increased by almost 10 percent to 32 percent in 1984. The rates increased to over 40 percent during the 2000 population census. Rural-urban migration continues to be a phenomenon in Ghana due to the underdeveloped nature of our rural areas and the general lack of financial resources to embark on viable economic activities (Statistical Service of Ghana, 1988).

Agriculture is one of Ghana's most important sectors contributing a lot to Gross Domestic Product. It made a contribution of 34.2 percent to the gross domestic product in 2010(Budget Statement, 2011). Agriculture however remains at the subsistence level as the farmers wobble in absolute poverty in Ghana due to lack of finance. It is evident that, majority of Ghanaians who live below the poverty line are from the rural farming

communities. The 2005/06 GLSS IV reported that poverty was highest by far among food crop farmers and their contribution to the national incidence of poverty was much in excess of their population share. Indeed, at the national level about 46.0% of those identified as poor are from households for whom food crop cultivation is the main activity (GLSS IV, 2006).

Before the establishment of Rural Banks, the main source of credit for the rural folks was private money lenders who charged high fees for monies granted. As at 2005, the 120 RcBs in the country had mopped up a total of 1.5 trillion old cedis as deposits from the rural population and had given out 677 billion cedis as loans and credit to individuals, small and medium enterprises (Bank of Ghana, 2005). With the increase in the number of Rural Banks, the number of individuals with bank accounts has also increased; however accessibility to credit is still a problem in the rural communities.

The Rural Banks have operated in Ghana for almost forty years now, however institutional credit for rural enterprises remains a challenge. The continual migration of the youth to the urban areas due to unemployment is an observable fact; agriculture is still at the subsistence level while the rural economies of Ghana appear not to have changed much.

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. The Bank of Ghana initiated the Rural Banking 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.

Although the Rural Banks are supposed to be located within the rural communities to provide them with financial services, a significant proportion of the Rural Banks outlets are located within the urban areas while the rural areas, the focus of their operations remains subserviced. It is therefore imperative to assess the rural banking concept in

line with its objectives as well as the effect of the activities of the Rural Banks on Rural Development.

1.2 Research Questions

This study seeks to address the following questions:

1. What was the main purpose for the creation of Rural Banks in Ghana?
2. To what extent do the Rural Banks operate to achieve this purpose?
3. What is the effect of the activities of Rural Banks on Rural Development?
4. What are the challenges in their quest to facilitate Rural Development?
5. What other alternative ways will enhance rural banking on Rural Development in Ghana?

1.3 Objectives

The broad objective of this study is to investigate the extent to which the activities of the Rural Banks are informed by the purpose for their creation, the effects of their operations on Rural Development and to explore alternative ways of enhancing rural banking operations to facilitate Rural Development in Ghana. The specific objectives of the study are to:

1. To ascertain the principal objectives for the creation of Rural Banks in Ghana
2. To examine the extent to which the Rural Banks operate to achieve these objectives.
3. To assess the effect of their activities on Rural Development
4. To examine the challenges faced by Rural Banks in complying with the purpose for their creation.
5. To recommend interventions to enhance rural banking operations in relation to Rural Development.

1.4 Justification of 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 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 research 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 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.

1.5 Scope

Geographically, the scope of the study will cover the Ashanti Region of Ghana due to the fact that, of the 132 registered Rural Banks in Ghana currently, the Ashanti region has 25 of them, which is the highest number in the country.

Preliminary investigations conducted at the Ashanti Regional Association of Rural Banks revealed that, the 25 Rural Banks are made up of Rural Banks that are performing well, those performing satisfactorily and those that are mediocre in performance. This will set the stage for balanced analyses.

The context of this study will focus on issues regarding the operations of the Rural Banks and the extent to which they have contributed to agriculture, employment, income and social infrastructure within their catchment areas as a way of helping in the development of the communities within which they operate.

The period of the proposed study will be from 2007 till date as this period marks five years of the ARB Apex Bank Ltd acting as up the “Mini Central Bank” for all the (RCBs) in Ghana and would also facilitate accessibility to information.

1.6 Methodology of the Study

The research design for this research was the case study approach. The case study 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.

Rural Development is the concept under explanation while 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 while the independent variable is the Rural Banks.

The study also involved both quantitative and qualitative approaches to research.

The sample size was selected through a criteria designed to specifically make use of the net worth of the Rural Banks and the number of years of operation in the region. The net worth of a bank is simply the value of the bank after all liabilities have been set off its assets. On getting the size, the RCBs selected using the lottery method of sampling. Primarily, Questionnaires and interviews were used to gather information from the Rural Banks and the cottage industries.

The questionnaires combined both open and close ended approaches to allow the collection of reliable and accurate data. Interviews were both structured and unstructured. Secondary sources of data such as periodicals, journals, reports, publications on Rural Banks and other unpublished thesis were consulted to supplement the primary data. The non probability sampling design was used with emphasis on convenience and purposive sampling which was used in the collection of data from the rural communities and Rural Banks while focus group discussion was used in the collection of data from community leaders in the selected rural communities.

Before the data was analyzed, the collected information was processed by editing and coding to eliminate all errors. Both quantitative and qualitative techniques of data analysis were adopted. Quantitatively, the data was collated, interpreted and analyzed using the Statistical Package for Social Science (SPSS) because it is most appropriate for studies of this nature. Graphical presentation was done through frequency tables,

graphs and charts. The qualitative technique with emphasis on the narrative and descriptive approaches were the technique used to assess people's perceptions regarding the rural banking concept in general. Base on the data analyzed, findings were deduced, interventions were provided to make the Rural Banks more effect in line with the objective for their creation.

1.7 Limitation of Study

The limitation related to the acquisition of information from the Rural Banks. The oath of secrecy sworn annually makes staff adamant to release operational information to non staff members. This was addressed by assuring the staff of the fact that this study was strictly for academic purposes and that the information will be used in line with the purpose only.

There was also the problem of resources. The inadequacy of resource especially funds made it impossible to sample all the Rural Banks and the communities within which they operated in the region. To overcome this challenge, a special criterion was specifically designed to ensure data collected was representative enough.

1.8 Organization of the Study

The report is made up of five main chapters with each chapter divided into sub sections to enable all major issues to be dealt with comprehensively.

Chapter one is comprised of the general introduction of the study, problem statement, research questions, objectives, scope, justification of study, limitations as well as the organization of the study.

Chapter two reviews literature on rural poverty, the need for credit in the rural areas, rural banking as a response, issues in the industry as well as the need for financial intermediation in Rural Development; approaches and interventions to Rural Development the conceptual framework and a summary of the lessons learnt.

The third chapter presents the profile of the study area and a detailed presentation on methodology that is to be adopted for the study.

Chapter four focuses on the analysis of the data collected from the field whiles the final and fifth chapter presents the findings, recommendations and the conclusion of the study.

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CHAPTER TWO

AN OVERVIEW OF THE RURAL BANKING SUB – SECTOR AND RURAL DEVELOPMENT IN DEVELOPING COUNTRIES

2.0 Introduction

This chapter reviews literature on rural poverty, accessibility to credit in the rural areas, the philosophy of rural banking, financial intermediation in Rural Development, Rural Development and various approaches, a conceptual framework on the need for Rural Banks in Rural Development and the Summary of Lessons Learnt.

2.1 Rural Poverty

There have been many definitions for the term “rural” but seldom are these definitions in agreement. For some “rural” is a subjective state of mind while for others, “rural” is an objective quantitative measure. The Wikipedia defines rural areas as “large and isolated areas of an open country with low population density”. The Ghanaian government defines “rural” to be a village of 5,000 inhabitants or less (Ghana Statistical Service, 2000). The rural areas are generally characterized by high levels of illiteracy, traditionalism, isolationism, over dependence on agriculture, lack of social amenities and infrastructure which results in poverty.

Mikkelsen (2005), saw poverty as the “absence of the basic necessities of life” whiles the Dutch Policy Brief on Poverty Reduction in 2001 interpreted Poverty as “a pain which feels like a disease, it attacks a person not only materially but also morally; It eats away one’s dignity and drives one into total despair” (Dutch Policy Brief, 2001).

At the United Nations World Summit on Social Development, the Copenhagen Declaration described absolute poverty as “a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information”(United Nations, 1995).

The World Bank identifies "extreme poverty" as being people who live on less than \$1 a day, and "poverty" as less than \$2 a day. On that standard, 21% of the world’s

population was in extreme poverty, and more than half the world's population was poor in 2001(World Bank,2005).

Poverty in Africa is predominantly rural. More than 70 per cent of the continent's poor people live in rural areas and depend on agriculture for food and livelihood, yet development assistance to agriculture is decreasing. In Sub-Saharan Africa, more than 218 million people live in extreme poverty; among them are rural poor people in Eastern and Southern Africa, an area that has one of the world's highest concentrations of poor people. The incidence of poverty in Sub-Saharan Africa is increasing faster than the population (IFAD, 2006).

2.1.2 Rural Poverty in Ghana

The Ghanaian economy has grown at an average annual rate of 4.8 per cent over the past two decades. By 2008, GDP growth had reached 7.3 per cent. The agriculture sector, which contributed 33.5 per cent of GDP in 2008, remains the country's major engine of economic growth. The rapid economic progress has all but halved national poverty rates, which have fallen from approximately 50 per cent in 1991 to 28.5 per cent in 2006. In the last decade, poverty rates dropped by 8.6 per cent in urban areas and by 10.4 per cent in rural areas (IFAD, 2010).

Although there has been a substantial overall decline in the incidence of poverty in Ghana, poverty still has a firm grip on rural areas, especially in the North. There is a wide disparity in income between people living in the drought-prone Northern plains, and those living in the South, where there are two growing seasons and greater economic opportunities.

More than half the country's population lives in rural areas. The poorest parts of Ghana are the Savannah regions of the North (the Northern, Upper East and Upper West Regions), where chronic food insecurity is widespread and livelihoods are more vulnerable. Poor rural people have limited access to basic social services, safe water,

roads that are accessible year round and electricity and telephone services. Poverty is most severe among food crop farmers, who are mainly traditional small-scale producers. About six in ten small-scale farmers are poor, and many are women (IFAD, 2009).

According to the Government's Poverty Reduction Strategy Paper (GPRS) 2001, low productivity, lack of credit facilities and poorly functioning markets for agricultural outputs are among the main causes of rural poverty. Small-scale farmers lack the technologies and inputs, such as fertilizer and improved seed that would increase yields. Many farmers lack rural infrastructure and equipment for storing, processing and marketing their products. In order to overcome their vulnerability and food insecurity, poor rural populations need help to sustainably increase their incomes. Table 1 shows the incidence of poverty in Ghana by locality.

Table 2.1: Poverty Incidence by Locality in Ghana

Locality	Poverty		Extreme Poverty	
	1998/99	2005/06	1998/99	2005/06
Accra	4.4	10.6	1.9	5.4
Urban Coastal	31.0	5.5	19.0	2.0
Urban Forest	18.2	6.9	10.9	2.9
Urban Savannah	43.0	27.6	27.1	18.3
Rural Coastal	45.6	24.0	28.5	11.5
Rural Forest	38.0	27.7	21.1	14.6
Rural Savannah	70.0	60.1	59.3	45.4
All Ghana	39.5	28.5	26.8	18.2

Source: (GSS, Pattern and Trend of Poverty in Ghana, 1998-2006)

The table indicates that, poverty is really a rural phenomenon in Ghana and more prone in the rural coastal and rural savannah areas of Ghana where the rates are relatively

high. There is therefore the need to facilitate the expansion and the development of the rural areas through the provision of infrastructure, improvements in marketing systems as well as a credit system to allow the rural people to embark on economic ventures which will improve their condition of living. This calls for an institutionalized credit scheme to propel economic activities as practiced in other developing countries like India.

2.2 Need and Accessibility to Credit in the Rural Areas

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 enhanced development. Traditionally, rural credit has been provided through the institutional and non-institutional means.

In rural communities, non-institutional credit is provided by moneylenders, relatives, friends, traders, commission agents, cooperatives and consumers, distributors of farm inputs and processors of agricultural product. Research has shown that, the most common providers of loans in rural areas are friends and relatives who usually charge no interest or collateral. This credit market is small however and the total credit from these non-institutional sources is insufficient to implement Rural Development programs (FAO, 1994).

The rural population suffers from a great deal of indebtedness and is subject to exploitation in the credit market due to high interest rates and the lack of convenient access to credit. Rural households need credit for investing in agriculture and smoothening out seasonal fluctuations in earnings. Since cash flows and savings in rural areas for the majority of the households are small, rural households typically tend to rely on credit for other consumption needs like education, food, housing, household functions etc.

The households need access to financial institutions that can provide them with credit at lower rates and at reasonable terms than the traditional money lenders to enable them

avoid debt traps that are common in rural areas. It is evident therefore that, for Rural Development to proceed at a smooth pace, larger institutional sources of credit need to be created (Ramachandran and Swaminathan, 2001).

Adams and Vogel (1986) suggested that, there is the need for institutional credit in the rural areas due to the fact that the distribution of formal sector credit has been unequal particularly with respect to region and class, tribe and gender. Although governments realize that, resource poor rural households need affordable credit to enhance household incomes, the formal financial institutions fail to reach the poor because they adhere to stringent collateral requirements and the credit disbursement and recovery procedures are not suitable for their economic environment.

According to Anderson and Locke (2002), extending credit has environmental resource consequences through both the type of capital investment undertaken and the potential changes in the borrower's income. Credit allows micro entrepreneurs to invest in small scale capital such as sewing machines, looms, bicycles, rickshaws, livestock, tools and other supplies. Micro enterprise activities, if successful can smoothly increase and diversify the borrower's income and increase ownership.

They envisaged that as income increases, the quantity, composition and the timing of economic activity of the poor will change. The changes in activities afforded by increase income have effect on the overall development of the area. To bridge this gap, countries have responded through the establishment of the specialized financial institutions in the forms of the development oriented Rural Banks as is the case in India.

2.2.1 The Philosophy of Rural Banking

Rural Banking is a form of service designed to bring banking to the most remote and rural communities. Andah and Steel (2003), described them as “a unit bank owned by members of the rural community through purchase of shares and are licensed to provide financial intermediation in the rural areas”. The values of rural banking is on the mobilization of deposit and the provision of credit to farm and nonfarm activities to ensure the expansion of the rural communities in order to enhance Rural Development. This helps to promote savings culture and financial empowerment which gives the rural populace the ability to better their economic circumstances with their money in building a sustainable livelihood.

According to Onugu (2000), the philosophy of rural banking is development oriented and seeks to;

- Inculcate disciplined banking habits in the rural population.
- Inspire the spirit of community ownership, organization and self-reliance.
- Generate credit from within the communities for enhancing the development of productive activities and improving the economic status of the communities and their individual members.
- Provide off-season bridging loans as a means of breaking the widespread dependence on local money-lenders.
- Formalize the use of communities as effective vehicles for rural change and national development.
- Promote rural activities such as agriculture, commerce, arts and crafts, agro- and mineral-based cottage and small-scale industries, vocational and trade skills, rural transportation e.t.c. particularly in support of small farmers, micro entrepreneurs, women, young people, and cooperatives.
- Promote the emergence of an effective and integrated financial system that responds to the needs of the whole economy from the grassroots to the national level to promote development. The philosophy of rural banking therefore makes the Rural Banks a

stakeholder in rural development programmes and an answer to the credit problems in the rural areas as is the case of India.

2.2.2 Rural Banking; a response to Credit Inaccessibility in Rural Areas

(Case study of India)

In developing countries, economic development is hampered by insufficient and inadequate access to financial services in rural areas. Government policies have led to strengthening of the place of Rural Banks by enhancing their role as financing micro-entrepreneurs and poor households because of their potential deeper market penetration. This is evident in the fact that state-led rural branch expansion has been associated with poverty reduction in India (Burgess and Pande, 2005).

To bridge the gap that existed in meeting the credit needs of the rural poor in India, the Government appointed a working group on rural credit, the Narasimhan Committee and based on its recommendations, Regional Rural Banks (RRB) emerged in 1975. These Rural Banks were meant to take banking to the rural masses, particularly areas without banking facilities, make available cheaper institutional credit to the weaker sections of society, mobilize rural savings and channel them for other productive activities in rural areas and bring down the cost of providing credit in rural areas.

The number of RRBs increased dramatically over a short period of time. At the end of the fiscal year of 2002-03, there were 196 RRBs spread with a network of 14,350 branches, accounting for 44.5 per cent of the total rural network of all scheduled commercial Banks (including RRBs). The bulk of the loans from RRBs had been given to priority sectors like Agriculture and other Cottage industries in rural India.

Agriculture alone took up 46 per cent of the priority sector advances. RRBs had also taken a lead role in the financing of Self Help Groups (SHG's) mostly comprising women and under small scale rural industries leading to their economic and social empowerment. The above resulted in a significant change in education, infrastructure, incomes and the overall improvement of rural India (Vallabh and Chatrath, 2006).

2.3 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 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 world, a lot of approaches have been adopted to propel growth in the rural areas. Some of these approaches are enumerated below.

2.3.1 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).

2.3.2 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).

2.3.3 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.

2.4 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 and Levine 1993), while others argue that it is growth that fuels financial development (Christopoulos and 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 and 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).

2.5 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.

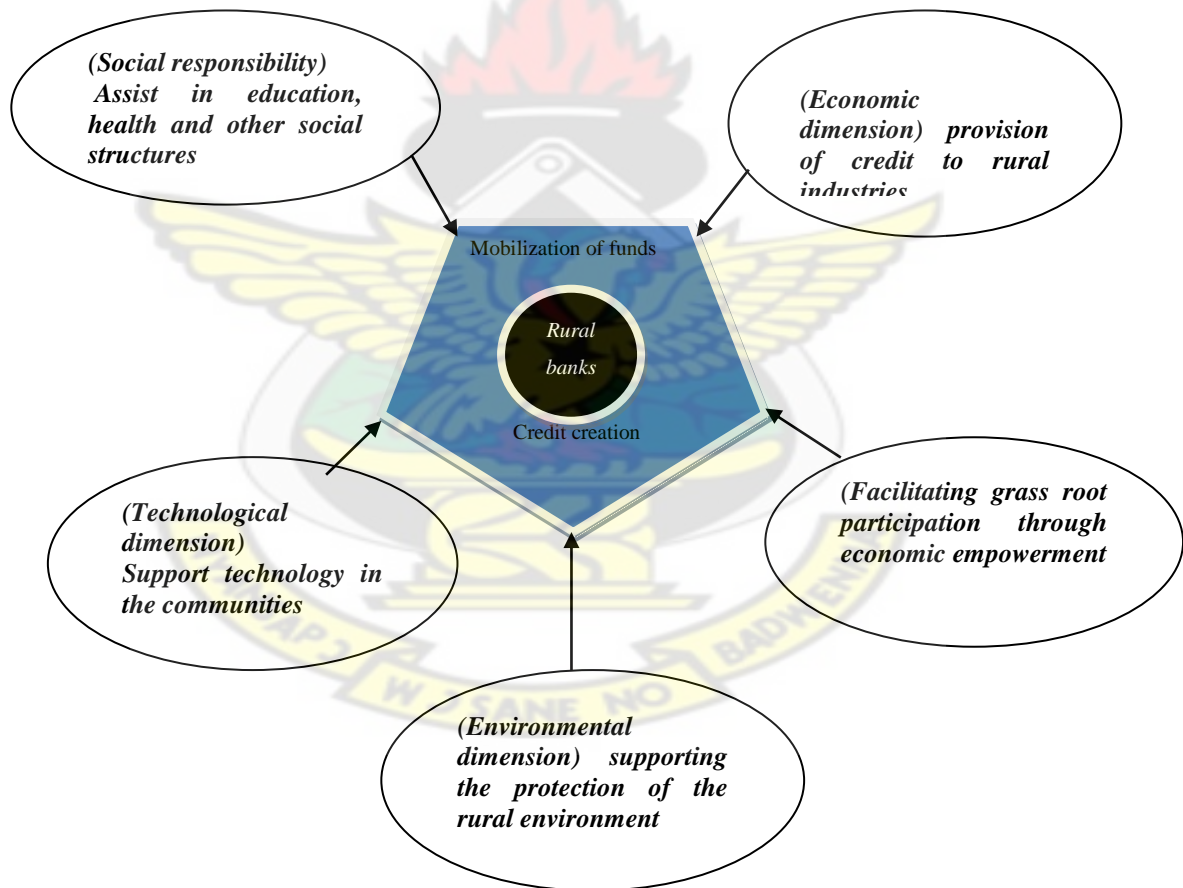
Many other approaches have been employed to help attain Rural Development in the country. An example is the increased agricultural approach, since 1945 policies have laid emphasis on the need to develop the agricultural sector, there has been the setting up of corporations and boards to develop the sector 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 livings as a means of helping in the development of the rural areas.

2.6 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.

Fig. 2.1: Conceptual Frame work on Rural Bank and Rural Development



Source: European Rural Development Agency, 2007

2.6.1 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 e.t.c. 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.

2.7 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 and 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 and 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.

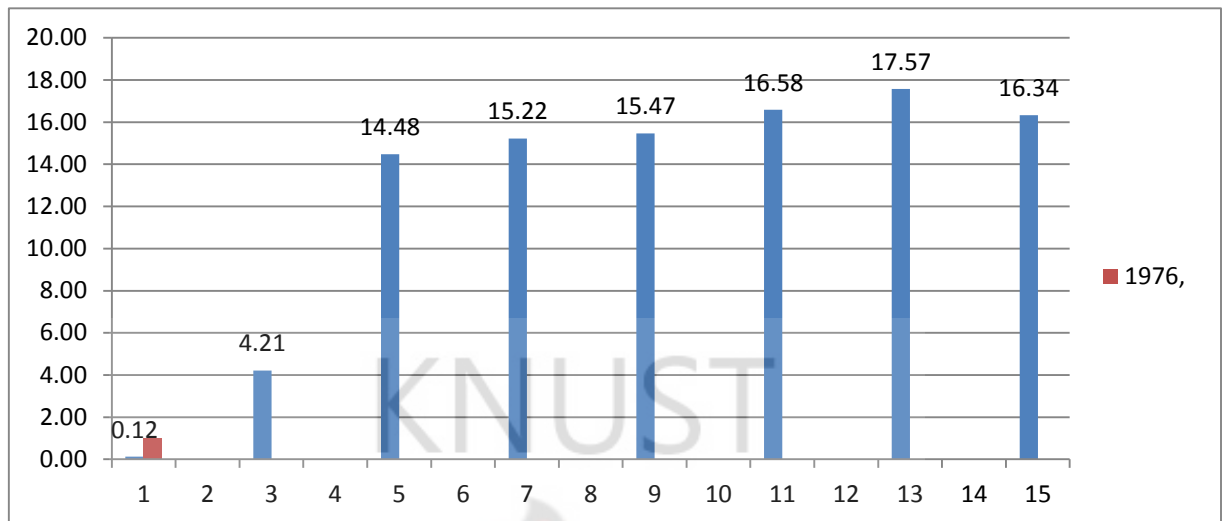
According to the Association of Rural Banks (1992), the aims of Rural Banks in Ghana are:

- 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.

2.7.1 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 Check system (Agwe and-Todd, 2008). Figure 2.2 shows the growth of Rural Banks in Ghana since 1976 to 2010

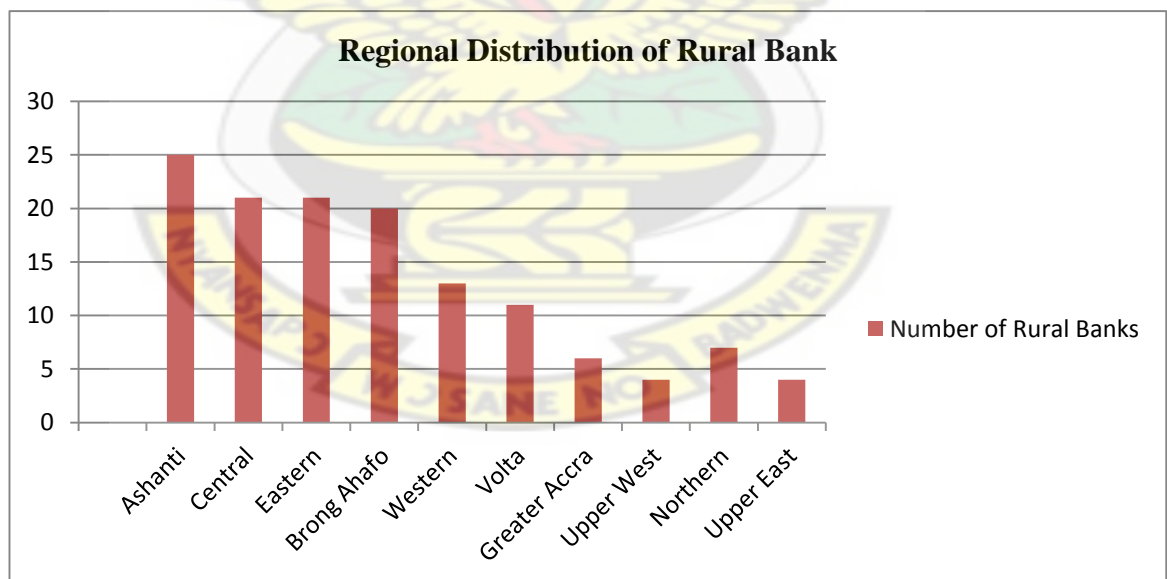
Fig. 2.2: Growth of Rural Banks in Ghana 1976-2010



Source: (Authors own construct from Data compiled from the Bank of Ghana,2010)

As of May 2009, the total number of Rural Banks in Ghana summed up to 135. The Ashanti Region had the highest which was 25. The detailed regional distribution is depicted figure 2.3:

Fig. 2.3: Regional Distribution of Rural Banks in Ghana



Source: (Authors own construct from Data compiled from the Bank of Ghana, 2010)

It is evident that the concentration of rural banks is particularly higher in the Ashanti, Eastern, Central, Brong Ahafo and the Western Regions of Ghana. This is attributed to the fact that these areas are fishing, cocoa producing and major farming areas in the country.

2.7.2 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. The sectorial allocations are depicted in table 2.2:

Table 2.2: Mandatory Sectorial Allocation of Rural Bank Loans

Sector	Credit Allocation
Agriculture	A minimum of 50% of Total Loans Outstanding
Cottage industries	Approximately 30% of Total Loans Outstanding
Trade and Transport	A Maximum of 20% of total Loans Outstanding

Source: (The Bank of Ghana's Operational Manual for Rural Banks, 1985).

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 and 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 and 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.

2.7.3 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 Rural 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 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 six branch offices spread across Ghana. 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.

2.7.4 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 ranges are 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 GHc 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.

2.7.5 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 and Chatrath, 2006).

Secondly, directed lending, cumbersome procedures, delay in sanctioning loans and lack of statutory backing for recoveries poses a major impediments 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 and Daly, 1996)

2.8 Summary of Lessons Learnt

It has come to light that, Ghana has come far in her quest to alleviate poverty. However poverty is more a rural phenomenon in Ghana and the rural savanna and rural coastal region top in the incidence of poverty. The high incidence of poverty in the rural areas is due of lack of viable economic activity, unavailability of credit facilities, outmoded agricultural practices resulting in low productivity and low incomes, lack of social infrastructure. There is the need to propel the development of our rural areas.

Rural Development is a multi-level, multi- actor and multi faced process. It is said to be multi- level process which is rooted in historical traditions. It is multi actor due to the fact that it involves a lot of institutions and has different phases or dimensions. To better achieve growth in the rural areas all stakeholders must come on board as programmes must be run concurrently in all dimensions.

Rural banking concept has been used in some developing countries like India and the Philippines as a means of facilitating poverty alleviation and Rural Development programmes and their impact has been remarkable.

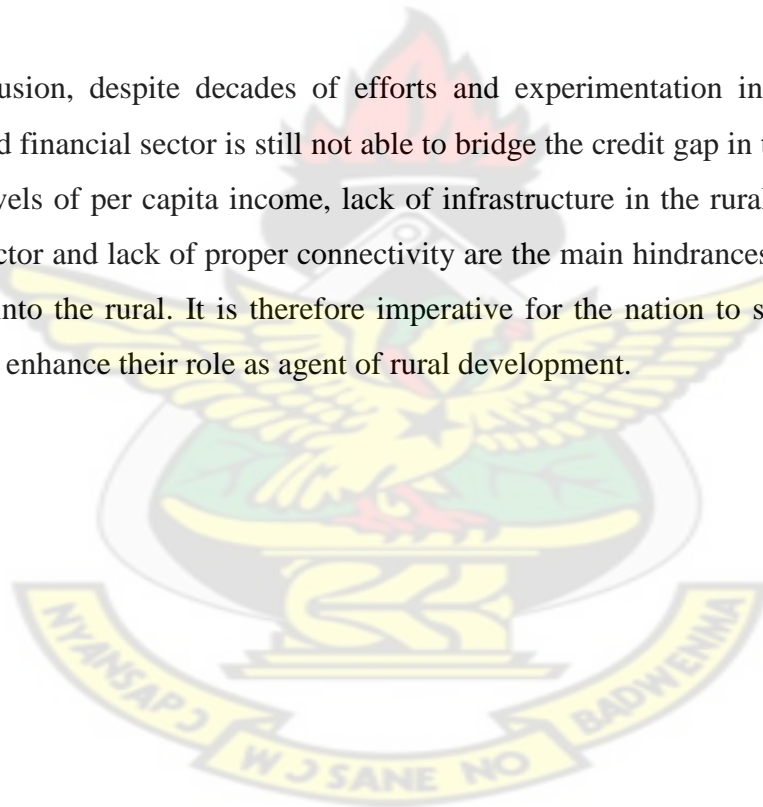
Ghana has implemented a lot of strategies to facilitate the development of the rural areas. However there is still more to be done as the rural areas still lack infrastructure, poverty remains a phenomena and the resulting rural- urban migration is still prevalent. The introduction of the rural banking concept in Ghana in 1976 was part of governmental effort to facilitate institutional credit in the rural areas for developmental activities.

The basic philosophy of the rural banking industries is development oriented and this is executed through the mobilization of resource locked up in the rural communities and subsequently to channel it in the form of the loans and advances to agriculture and other rural industries.

Then also, the rural banking industry is baffled with capital adequacy problems as most of the Rural Banks remain under capitalized and weak. Aside the above the Rural Banks are also faced with operational and reputational risks, lack of skilled personnel and the general lack of appropriate systems and processes to support the operations of the Rural Banks.

In spite of the above, the Rural Banks can be facilitators if the right conditions are put in place to ensure their smooth operation. These conditions include the right macroeconomic policies, effective monetary policies, sound and stable political environment as well as the full support of the rural economy.

In conclusion, despite decades of efforts and experimentation in rural 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. It is therefore imperative for the nation to strengthen the Rural Banks to enhance their role as agent of rural development.



CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This section gives a detailed description of the methodology for this study. Emphasis will be laid on the research design, sampling size and its determination, source of data and then also interpretation and the analysis of the data.

3.1 Research Design

The design for this research is the Case Study Approach. This approach involves procedures and techniques of investigating and understanding the dynamics of a particular system. It has been 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 employs both quantitative and qualitative approaches to 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 is 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.

3.2 Data Requirements and Sources

In line with the study, data was required from the Rural Banks, Rural communities and other stakeholders. The details included the purpose for the introduction of Rural Banks, deposits and loans, defaults rate for various categories of loans etc. In the communities' data required included general perception and effects of the Rural Banks in the development of their communities. This is shown in Table 3.1

Table 3.1: Data Required and Source

Objectives	Data Requirement	Sources	Mode of Data collection
To ascertain the principal objective for the creation of Rural Banks in Ghana	Reasons and purpose for the introduction of the rural banking concept in Ghana.	Bank of Ghana reports Association of Rural Banks.	Interviews Review of literature Questionnaire.
To examine the extent to which the Rural Banks operate to achieve this objective.	Study the mission statement of selected Rural Banks Various products of the Rural Banks, the purpose for such products Target groups. Location of their agencies The nature of social responsibility granted to the catchment areas	Operation manuals Management Staff of the Rural Banks Cottage industries in the Catchment areas	Questionnaire Observation interviews

Are there challenges in their quest to facilitate Rural Development?	Government Policies Internal constraints Constraints within catchment areas	Apex bank Association RCBS Management and staff of the selected Rural Banks	Interview Guide Questionnaire
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Source: (Author's Own Construct, 2011)

Table 3 provides the kind of data required as well as the institutions that were to be contacted for the information and the mode of acquiring the information.

3.3 Population and Sampling

According to Nachmias and Nachmias(1992) “a population is the aggregate of all cases that conform to some designated set of specification” while a sample is any subset of the sampling units from a population. By this definition, a list consisting of all rural and community Rural Banks is the population. Any subsequent list drawn from the list above to represent the population is a sample.

3.3.1 Sampling Frame

Once a population is defined, a sample is drawn that adequately represents the entire population. The actual procedure involves a selection of a sample from the complete list of sampling units to represent the sampling frame. For the purpose of this study, the sampling frame included all the units in the population. According to the Bank of Ghana's Annual Report on Rural Banks, there were 25 registered Rural Banks within the study area as at the end of year 2010. This 25 rural and community Rural Banks will represent the Sampling frame. The sampling units are the individual rural and communities Rural Banks in the Ashanti Region.

3.3.2 Determination of Sample Size

For the purpose of this study, a criterion was developed for the selection of the sampling size and the sample units. The selection was in two phases. The first selection was based on the years of operation of the Rural Banks in the region. The criterion was that a bank could only pass for the second stage of selection on the condition that it has operated for 16 years and above. This is because the 16 years represented the median years of operation of the Rural Banks in the region and to better assess a bank it should have existed and operated for an appreciable period of time. The basis is that companies are more profitable in the long run than in the short run due to operational limitations.

Based on this criterion five of the Rural Banks could not make it to the second stage. This is because they have existed for a short period of time and were the bottom five in terms of their performance as ranked by the Ashanti Regional Association of Rural Banks.

The second phase involved the categorization of the remaining twenty Rural Banks into three main groups according to the ranking by the Ashanti Regional Association of Rural Banks (AARB). The three groups were highly performing, averagely performing and low performing Rural Banks. These classifications are done by the ARB annually based on the net worth of the individual Rural Banks. The net worth is seen as the value of the Rural Banks after their liabilities have been set off their assets. Through the lottery method, 2009 ranking was randomly selected and was used as the base year, five Rural Banks passed for performing, nine Rural Banks qualified for the averagely performing group whilst six of the Rural Banks were classified under the low performing Rural Banks.

To make the data representative, one third from each category was randomly selected. One third of five was 1.666 which was approximated to 2 Rural Banks for the category of the performing Rural Banks, 3 Rural Banks were also selected from the second category and 2 from the last category. This gave a total sampling size of 7 Rural Banks as listed in table 3.2

Table 3.2: Categories and Rural Banks randomly selected for the study

Categories	Names of the Bank
Performing banks	Atwima kwanwoma Rural Bank
	Nwabiagya Rural Bank
Averagely performing banks	Juaben Rural Bank
	Atwima Mponua Rural Bank
	Amansie West Rural Bank
Low performing Banks	Asokore Rural Bank
	Atwima Rural Bank

Source : (Authors Own Construct, 2011).

3.3.3 Sampling Unit Selection

The sampling of seven Rural Banks facilitated the sampling of seven communities within the catchment of the selected Rural Banks. The criteria for the selection of the communities involved an examination of factors like the location of the community, population size, the level of social infrastructure and general occupation of the natives. The conditions were that:

- The community should have a population size of less than 5000 people (implying a rural community)
- The community should not be within the Kumasi metropolis.
- Major occupation should be agriculture.

To facilitate the selection of the rural communities, there was a compilation of the names of the selected Rural Banks and all the areas where their agencies are located. After a critical examination, the areas with agencies of the selected Rural Banks which did not meet the above criteria were disqualified. Seven rural communities were random selected from the list of communities that met the conditions. A total of 10 to 15 people representing farmers and stake holders of the various cottage industry (furniture-

making, construction, wood carving, Kente and cloth weaving, iron monger, dressmaking, and tailoring) as well as opinion leaders were interviewed using the convenient sampling technique.

3.4 Data Sources and Data Collection Instruments

Relevant information for the study was obtained from both primary and secondary sources. Primarily, Questionnaires, interviews and focus group discussions were undertaken to gather information from the Rural Banks and the cottage industries within the catchment areas of the selected Rural Banks.

Questionnaires and interviews were both structured and unstructured. This is due to the fact that the structured questionnaires are more coordinated and facilitate easy analysis whilst unstructured ones allow the respondents to give all relevant information without restrictions. Questions combined both open and close ended approaches to allow the collection of reliable and accurate data. Secondary sources of data such as periodicals, journals, reports, publications on Rural Banks and other unpublished thesis were consulted to supplement the primary data.

Questionnaires were designed based on the study objectives and the information gathered in the literature review. The targets were the selected Rural Banks and the businesses in the rural communities. On the field, the non probability sampling method was adopted with emphasis on convenience and purposive sampling. The convenient sampling was used to enable the collection of data on any business conveniently available within the catchment areas of the Rural Banks while the purposive sampling was used in obtaining institutional data from the key officers of the Rural Banks. These techniques were adopted because the needed information could only be provided by these institutions.

Before the administration of the questionnaires in the field, two graduates who had just completed and defended their projects were recruited and trained to assist in the data collection from the rural communities. These people were recruited because they had

just gone through the same exercise and were better equipped to understand the questions and to record the responses. Secondly, they were fresh from the University and could be afforded by the researcher. Data from the Rural Banks were collected by the researcher with the help of the administrator of the Ashanti Region branch of ARB.

To ensure that the target group was reached, the questionnaires were administered mostly during the late afternoons when most of the stakeholders were available. To get the right responses, questions were read and translated into the local language and the feedback recorded on the questionnaires. This strategy was adopted because most of the units in the target group could not read and write. Interviews and focus group were carried out discussions in the communities to gather information from the opinion leaders.

The high illiteracy levels in the rural areas delayed the process as the administration of a single questionnaire took between 30-45 minutes. There was also the problem of hostility. Most of the respondents were hostile as they revealed that most people come to then for information concerning their communities and yet nothing has happened to change their lives.

The major challenge was getting information from the Rural Banks. Although there was a letter of introduction, the Rural Banks were adamant to give out information. This was because the data was collected just some months after the revelation on Customs Exercise and Preventive Services through investigative journalism. This challenge was addressed through the intervention of the administrator of the Association of Rural Banks.

3.5 Measurement

According to Nachmias and Nachmias (1992) “things do not run around with their measures stamped on them like the capacity of a car: it requires a certain amount of investigation to discover what their measures are”. Measurement is the procedure in which one assigns numerals or symbols to empirical properties according to rules. For this study the ordinal ranking scale was adopted for some variables like income, agriculture and Rural Development. This is enumerated in Table 3.2

Table 3.3: Scale for measuring variables.

Rank	Value	Interpretation
0	Neutral	Neutral
1	Strongly disagree	Poor
2	Disagree	Fair
3	Agree	Good
4	Agree strongly	Excellent

Source: (Authors Own Construct, 2011)

Table 3.2 is an indication of the scale for the variables under consideration. The higher the number the stronger the weight as 0 means neutral, 1 represents strong disagreement while 4 represents strong agreement

Rules are the most significant component of measures as poor rules make measures meaningless. To this extent, isomorphism which is seen as the situation where the numerals system adopted is similar in structure to the structure of the concept being measured was upheld.

Reliability which is the degree of consistency with which an instrument measures the attribute it is designed to measure. The questionnaires that were administered to the Rural Banks and the stakeholders in the cottage industries were to be answered in a consistent manner such that responses did not contradict or conflict each other. This was achieved by making sure that the respondents understood the bases for the study and the question they were answering. Biases in data collection was also reduced to the barest

minimum by ensuring that most of the questionnaires were self administered by the researcher and other trained personnel under the strict supervision of the researcher.

The validity of an instrument is the degree to which the instrument measures exactly what it is intended to measure. Validity is concerned with the question “is one measuring what one intends to measure?” content validity is the extent to which an instrument represents the variables under study. To ensure content validity, the questionnaires were pre-tested to ensure that the questionnaire actually measured the set variables. External validity is the extent to which the study findings can be generalized beyond the sample used. The selection of the sampling size and the sampling unit went through various phases as described above to ensure that the data collected was representative enough to make generalization of the research findings possible. To a large extent, the study achieved both content and external validity.

An ethical consideration in research requires not only expertise and diligence but also honesty and integrity. This was done to protect the rights of respondents. To this extent, the rights to anonymity, confidentiality and informed consent were observed.

Permission was sought or obtained from the right source. Respondents were well informed about the purpose of the study, the required data and they were assured that there would be no potential risks or costs associated with the exercise.

3.6 Data Analysis

Before the data was analyzed, the collected data was processed by editing and coding to eliminate all errors. Caution was taken to ensure that the codes assigned were exhaustive, detailed and made an intuitive sense. Both quantitative and qualitative techniques of data analysis were adopted. Quantitatively, the data was collated and structured according to the selected and the various study areas. Codes were then assigned to each variable and the responses for each variable were then grouped under the variables. Using Excel, the data was then set out according to the responses. This led to the generation of frequencies for each variable.

For the analyses and interpretation of the frequencies the Statistical Package for Social Science (SPSS) was then used as the data was imported from Excel to the SPSS. Data disaggregation was done for variables to bring out the trends as pertained in the rural banking sectors whiles cross tabulation was used to establish the relationships that existed between various variables. Graphical presentations were done from the frequency tables through the use of the SPSS. Qualitative techniques were used to assess people's perceptions regarding the rural banking concept and its contribution to Rural Development. This involved a description of the responses gathered and the drawing of the implication and conclusion.



CHAPTER FOUR

PERFORMANCE OF THE RURAL BANKING SUB –SECTOR IN RELATION TO RURAL DEVELOPMENT IN GHANA

4.0 Introduction

This chapter focuses on the profile of the Ashanti region in terms of the geophysical, politico-social and economic features as well as the analysis of the data collected from the Rural Banks and the stakeholders in the rural communities regarding the concepts under study which is the Rural Banks and Rural Development in Ghana.

4.1 Profile of the Study Area

Ashanti is one of the ten regions of Ghana. The region is unique with abundant natural and human resources. Indeed, the region's central location makes it a nerve centre for brisk commercial and business activities with its rural areas involved basically in agriculture and food production. The capital is Kumasi, the second largest city in Ghana.

4.1.2 Geophysical Features

The Ashanti region covers a total area of 24,389sq km representing approximately 10.2% of the land area of Ghana. The region is drained by rivers like the Pra, Offin and its other tributaries, Anum and the Afram Rivers. The region is blessed with one major lake which is Bosomtwe which lies 28km south – east of Kumasi and occupies an area of 47.68sq km.

Vegetation is of two distinct types. These are the semi – deciduous forest and the Guinea Savanna Woodland. The Semi deciduous forest is to the south of the mountain range while the Guinea savanna woodland is in the north – eastern part of the region. The Region's high forest is rich in trees of high commercial value. Average annual rainfall is about 166.7cm with two rainy seasons which have May - June and October as the peak periods. Temperatures average over 27⁰c in the forest zone and 29⁰c on the

northern fringes of the forest zone. Humidity is relatively high averaging about 85% in the forest area and 65% in the savanna belt.

These features are of significant importance to agriculture in the region as they determine the kind and capacity of crop production as well as the economic activity of various parts of the regions. It should be noted that the sum total of the rural banking credit is affected by agriculture and the kind of economic activity that pertains in a particular area.

4.1.3 Demographic Features

The 1984 Population Census estimated the population of the Ashanti region to be 2,090,100 which represented about 17.1% of National total of 12,296,081. The density was 85.70 per sq km with the ratio of males to females being 49.23% and 50.77% respectively. 82.4% of the population was in the rural areas as against only 17.6% in urban centers. The population increased to 3,612,950 which represented 19.1% of National Total of 18,912,079 according to the year 2000 census. The density also went up to 148.1 per sq km with the Males to female's ratio being 50.32% and 49.68% respectively. The rural populace was 1,759,885 thus 48.7% while the urban population stood at 1,853,065 which represented 51.3%. This shows the growing trend of rural urban migration due to the under developed nature of outlying rural areas.

4.1.4 Economic Structure

The region like the Ghanaian economy has three main economic sectors. These include the primary, industry and the service sectors.

The primary sector is made up of agriculture, hunting, forestry and fishing employing about 43.8% of the active population group according to the 2000 population census

Cash crops such as Cocoa, Oil palm, tobacco leaf, baste fiber, cotton, citrus (orange, lime, and lemon), cashew and coffee are cultivated in the region. The main food crops cultivated by the farming communities include grains like maize, rice, cowpeas, soya beans, groundnuts. The industrial sector is made up of the mining and quarrying, manufacturing, electricity, gas and water and construction. There is the presence of Micro and Small scale manufacturing like blacksmithing, food processing, cloth

weaving and wood processing and also large scale brewery including both soft drink and liquor.

The tertiary sector also comprises of the wholesale and Retail Trade, hotels ,restaurant transport, storage and communication, financial intermediation, real estate & business activity, public administration, education, health & social work, other community service private households and extra territorial organization.

4.1.5 Social Infrastructure

To enhance the welfare of the people, the region enjoys various facilities in the form of educational, health, transportation etc. The Region has the highest number of educational districts, teachers, schools and pupils in the country. It has 21 District Education Directorates, 11 Educational Units and 133 circuits. In the area of health, there are 425 Health facilities in the region. Specifically, there are 83 Hospitals, 87 Health Centers, 36 Clinics, 80 Maternity Homes and 139 Outreach Points.

The Region has 5,300km stretch of feeder roads, 2,884.5km (54%) is engineered while 2435.7km (46%) is not engineered. Of the engineered 93.8km (3%) is bituminous surfaced whiles 2790.7km (97%) is earth or gravel surfaced. 1567.0km stretch (54.3%) is in good condition however, 1076km stretch (34.3%) is in fairly good condition whiles 241.5km stretch (8.4%) is in poor condition (ARCC, 2009).

4.1.6 Governance

The region now has 27 administrative districts made up of 1 Metropolis (KMA) 6 Municipalities, 20 District Assemblies. Spearheading the coordination of all the affairs of the structures mentioned above is the Ashanti Regional Coordinating Council.

The Region has 33 Traditional Council Areas, a Paramount Chief heads each council and all the paramount chiefs owe allegiance to Otumfuo, the Asantehene who is also the head of the Kumasi Traditional Council.

4.1.7 Tourism

The Region has several tourist attractions. These include historic Places like Okomfo Anokye Sword, Royal Mausoleums at Bremang, Ejisu (birth place of Yaa Asantewaa), Lake Bosomtwe, St Mary's Sanctuary at Buoho, Kwamang, Mframabuom caves.

Culturally, Ehwiaa is noted for carving, Ntonso for Adinkra textile and Bonwire for Kente Weaving. Event Attractions includes Festivals like the Aday, Adaekese, Papa (Kumawu) Funerals, Naming ceremonies and Puberty rites (Bragro). Figure 3 is a map showing the Ashanti Region and its districts



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ASSESSMENT ON RURAL BANKING AND RURAL DEVELOPMENT

4.2 ANALYSIS OF DATA FROM THE RURAL BANKS

This section focuses on the analyses and the interpretation of the data collected through surveys from the field. It is divided into two parts. The first part involves an analysis of the data collected from the Rural Banks while the second section deals with the analysis of the data from the rural communities. The analysis is guided by the objectives of the study as detailed below:

4.2.1 Profile of the Rural Banks

The study focused on Rural Banks that had operated for a minimum of the 23 years; a maximum of 32 years with a mean age of approximately 26 years.

On the average, the surveyed Rural Banks employ about 132 people. The minimum number employed by the Rural Banks was 82 while the maximum was 199 people. However, employment of the indigenous people was insignificant and the reason was the lack of requisite skilled natives to fill positions in the Rural Banks. The Rural Banks had approximately seven branches with majority located in the urban and peri urban areas although all the head offices were located in rural areas. All the sampled banks were involved in the mobilization of deposits, credit creation as well as other specialized forms of product like investment account, cash collection, and payment of utility bills amongst others.

4.2.2 Purpose of Rural Banks

An examination of the vision of the Rural Banks to ascertain the very purpose for their operations revealed vision statements like:

- “To be the leading local micro finance banking institution in Ghana”
- “To provide effective financial services”
- “To be among the best Rural Banks in Ghana”
- “To become the most efficiently managed rural bank in Ghana”
- “To be a friend to the needy” e.t.c.

From the statements provided above, “Rural Development” is not specifically indicated as a priority of the Rural Banks. A Mission statement like “To provide efficient and effective financial services by adopting appropriate technology, increase market share, enhance optimal realization of share holder’s interest, human resources development and product innovation” may not facilitate the growth and development of the catchment areas.

An examination of the various locations of the Rural Banks and their branches revealed that, the Rural Banks have about seven branches each with approximately two thirds of the branches located in the semi urban or urban areas. Atwima kwanwoma has 31.5% in urban, 58.5% in semi urban and only 10% in the rural areas. The branches were more oriented towards the cities and not the hinterland unlike in the Philippines where majority of the Rural Banks are located in the hinterland (Philippines Statistics Office, 2005). The reason gathered from management of the Rural Banks attributed this trend to the lack of viable economic ventures in the hinterland which results in low saving by the rural communities. This problem results in the Rural Banks inability to cover their operational cost.

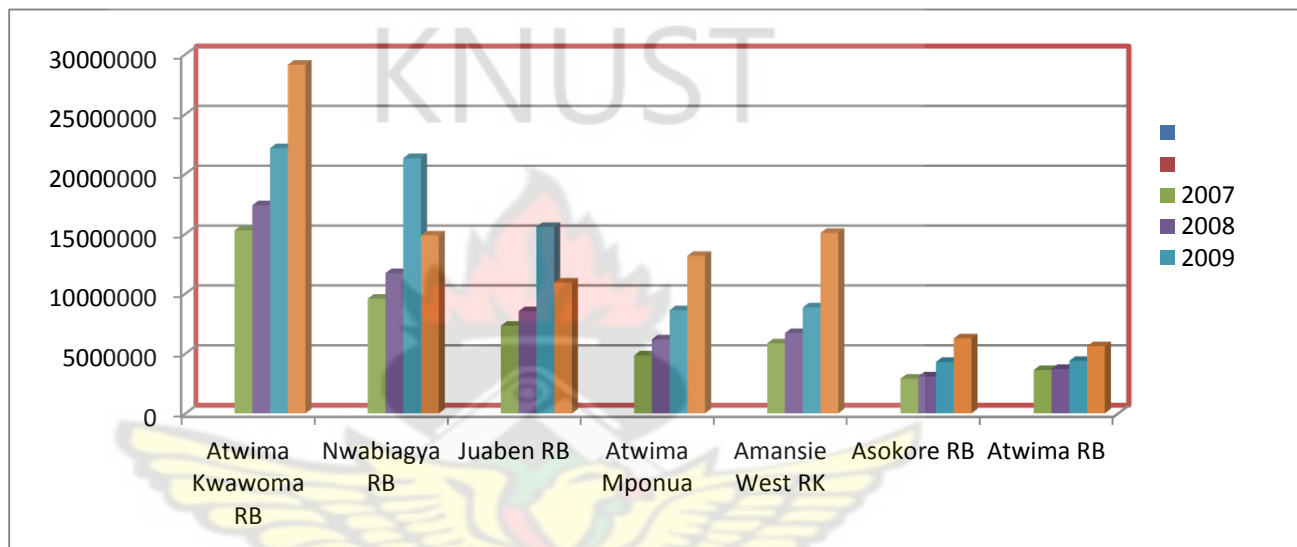
The Ghanaian Government through the Bank of Ghana established Rural Banks to channel credit to productive rural ventures and promote Rural Development. The aim was to make institutional credit available to help promote growth and development in our rural areas. The information gathered above shows a shift in their priorities from servicing the rural poor to other areas.

4.2.3 Operations of the Rural Banks

All the Rural Banks provided mobilization services like Savings, Current, Fixed deposit, Group savings and Susu accounts with only three providing other specialized savings schemes like the “adwumayefo daakye” and “wo Daakye Nti” investment accounts. However, there were indications that deposits were not mobilized from only the catchment areas as all Rural Banks responded “No” to that question. The Rural Banks attributed the above to the low level of income in the catchment areas which are

predominantly rural. It is the main reason for locating a fair number of their branches in the cities as against the rural communities. They indicated they would mobilize resources from the cities to promote development in the rural areas. The trends in deposit mobilization by the sampled Rural Banks for the period understudy are indicated in Fig.4.2

Fig.4.2: Trends in deposit mobilization by the Rural Banks between years 2007-2010



Source : (Field Data, 2011)

Analysis of the trends in deposit mobilisation shows that, but for 2010 where 28.6 % of the Rural Banks had a decrease in deposit mobilisation, the Rural Banks have performed well as 71.4 % enjoyed increases in deposit for the period understudy. Aside deposit mobilization, the Rural Banks were also into services like, cash collections, Apex link and Western Union, receipt of utility bills, bankers draft for school fees, e-banking and treasury bills.

On credit creation, products like the salary workers loan, transport loans, micro finance loans, and Susu loans were offered by all the seven Rural Banks; however, only three of the Rural Banks representing 48.9 % were specifically into agricultural loans and even with these Rural Banks, there were strong conditions attached. Some of the conditions included the production of only cash crops, rearing of specific animals like the grass

cutter e.t.c. To qualify for a facility from the Rural Banks, one needed one form of security or another as presented in the Table 4.1.

Table 4.1: Types of security for the major credit products of the Rural Banks

Type of facility	Type of security	No of Rural Banks
Agricultural loans	Deposits, cocoa cheque book	3
Transport loans	1/3 deposit and guarantors	7
Micro finance	1/3 deposit, group guarantors	7
Salary workers loan	Salary and guarantors	7

Source: (Field Data, 2011)

The table shows that the Rural Banks request for some form of security in order to benefit from any of their credit products. This ranges from cash deposits, cocoa cheques books, guarantors etc

Between 2007 and 2010, the total loan port folio of the sample Rural Banks increased from an average of Gh¢ 4,579,123.9to Gh¢ 7,190,205.4 representing a 36.3% increase although there was a decrease in the portfolio for the high performing Rural Banks in 2010. The Rural Banks attributed this decrease to a strategy they adopted to help them manage their soaring loans portfolio. The trends in loans granted over the period is illustrated in Table 4.2

Table 4.2: Total Loan granted between 2007 and 2010 in Ghana cedi.

Name	2007	2008	2009	2010
Atwima kwan.	11,370,876	13,217,424	10,683,047	9,181,091
Nwabiagya	5,714,498	9,011,689	11,542,597	9,602,596
Juaben	4,394,629	5,951,859	7,388,095	13,354,462
Atwima Mponua	2,288,350	3,723,311	4,496,135	6,300,132
Amansie West	4,969,320	6,134,090	6,689,876	7,571,598
Asokore	860,578	836,942	1,112,914	1,727,540
Atwima	2,455,616	2,677,562	2,364,458	2,594,019
Average	4,579,123.9	5,936,125.3	6,324,874.6	7,190,205.4

Source: (Field Data, 2011)

The table shows that the Rural Banks are still making strides in the areas of credit creation. As indicated, there has been a steady increase in loan granted generally in the rural banking industry.

To examine whether these loans are going into ventures that will promote Rural Development, there was an analyses of the percentages of loans allocated for various sectors from 2007 to 2010 for all the Rural Banks surveyed. This is presented in Table 4.3

Table 4.3: Average Loan Allocations for various sectors of the Rural Banks in %

Year	Percentage allocation(%)				Total
	Agriculture	Salary workers	Microfin.	Others	
2007	7	40	40	13	100
2008	5	45	40	10	100
2009	5	45	35	15	100
2010	2	40	35	13	100

Source: (Field Data, 2011).

The table indicates that, the salary sector is now the priority credit area for all the Rural Banks followed by micro finance. The others refer to loans granted in trade and transport, social loans and other specialized forms of loans. Unlike India, where about 46% of the loans granted went to the agriculture sector as reported in a study by Vallabh and Chatrath in 2006, the agric sector received the least allocation and this, the Rural Banks attributed to the high risk associated with agriculture in the country. The Rural Banks reiterated that the allocation is influenced by the funds available and the rate of defaults associated with the sectors. The rate of default which is seen as the percentage of loans that remained outstanding at the end of a fiscal year is represented in the Table 4.4.

Table 4.4: Default Rate for the various Sectors

Year	Agric	Salary	Micro Finance	Other
2007	0-50	3 – 15	15-30	5-20
2008	0-60	3-10	15-35	0-15
2009	0	0-10	20-35	0-15
2010	0	3-15	20-35	0-10

Source: (Field Data, 2011)

For the period under study, the default rates for the agriculture sector ranged from 0-50% in 2007 and 0-60% in 2008. For 2009 and 2010, the sampled Rural Banks recorded no default as less than 10% was allocated for this sector for farming in specific areas like grass cutter rearing. Looking at the table, the salary loan seems to have a relatively low default rates and the demand is also high. This explains why it has become a priority spending area for the Rural Banks.

The Micro finance sector also had relatively high rates hovering around 15% -35%. The Rural Banks were however willing to allocate more to this sector due to the 1/3 deposit they request as security and the fact that interest rates on micro finance loans are generally high thereby reducing the losses.

In an attempt to establish the causes of these rates of default, 85.7% of the Rural Banks rated improper credit assessment techniques, misappropriation, unforeseen situations and wrong attitudes as the major causes of nonpayment of the loans. All the sampled Rural Banks reiterated that, the repayment terms for each category is flexible and cannot be the cause of the high default rates in the industry. Table 4.5 shows the repayment terms of loans for the various categories

Table 4.5: Types of Loans and their repayment terms from the Rural Banks perspective

Type of facility	Repayment terms	Number of Rural Banks
Agricultural loans	End of season	3
Micro finance	Monthly	7
Salary workers loans	Monthly	7
Susu loan	Daily	3
Susu loans	Monthly	4
Trade and transport(others)	Monthly	7

Source: (Field Data, 2011)

In dealing with defaults, the Rural Banks use the following strategies

- Improved credit assessment
- Provision of financial training for loans beneficiaries
- Constant visits and monitoring by loans officers particularly for micro finance loans
- The use of debt collection agencies and the law courts as and when necessary.

4.2.4 Social Responsibility

All the seven Rural Banks were socially responsible and this was shown in terms of the contribution they had made towards the total development of the catchment areas. A list indicating some facilities provided by the Rural Banks for the sampled rural communities is shown in Table 4.6.

Table 4.6: Facilities provided by the Rural Banks for the Rural Communities between 2007 and 2010

Name of bank	Facility provided	Beneficiary communities
Atwima Kwanwoma	<ul style="list-style-type: none"> • 1 Bole holes • Scholarships for 30 needy students • 1 community library • GH¢150,000 Ultra modern school under Construction • 180 mono desks for the high school • Payment of teachers salary for the first year • Electrical and office equipment for the school 	<ul style="list-style-type: none"> • Pakyi No.1 • Pakyi No.1 • Pakyi No.1
Nwabiagya	<ul style="list-style-type: none"> • 1 Bole holes 	<ul style="list-style-type: none"> • Barekese

	<ul style="list-style-type: none"> • Scholarships for 22 students, • GH ₵10,000 for the renovation of Barekese senior high school • Renovation of old basic school in Barekese • Provision of administration block for the primary school 	<ul style="list-style-type: none"> • Barekese
Juaben Rural Bank	<ul style="list-style-type: none"> • Scholarships to needy students • Support for the primary school in juaben • Financial support to juaben hospital • (almost Gh₵50,000 spent on social responsibility) 	Juaben
Amansie West	<ul style="list-style-type: none"> • Donation of cement • Support the establishment of nurses training school • Gh₵6,000 in scholarship to 24 needy students 	Amansie West District Assembly Manso Nkwanta

Atwima Mponua	<ul style="list-style-type: none"> • Re roofing of and painting of Osei Tutu senior high school 	Akropong
Asokore	<ul style="list-style-type: none"> • Construction of a police station • scholarships for needy students 	Asokore
Atwima	-	Mpasatia

Source: (Field Data, 2011)

The table shows some facilities the Rural Banks have provided for some of the communities within which they operate. It can be seen that, the contribution of the Rural Banks that were classified as performing have been commendable. There seems to be a positive relationship between the net worth of a Rural Banks and its contribution in terms of development; the stronger the net worth of the Rural Banks, the higher their effect. Atwima kwanwoma, Nwabiagya and Juaben Rural Banks have performed well relatively in terms of its social responsibility to their communities while for all the years of operation of Atwima Rural Bank in Mpasatia, the community cannot boast of a single facility provide by the bank for the people. It therefore stands to reason that, aside bridging the credit gap in the rural areas, the Rural Banks can be very instrumental in the development of the rural areas. This confirms Onugu's (2000) philosophy of rural banking which he sees as "development oriented".

4.2.5 Collaboration with District Assemblies, Government and Non Governmental Organizations

The Rural Banks collaborate with the District Assemblies and the Government in the implementation of poverty reduction interventions as well as the provision of social infrastructure. It came to light that grants and loans by the government that aims at reducing poverty at the grass roots are channeled through the Rural Banks eg. MASLOC.

With the exception of one bank that indicated the only relationship between the District Assembly and the bank is the account the District maintains with the bank, all the other Rural Banks collaborated with the District Assemblies. For example, the Atwima Nwabiagya District Assembly pledged Gh ₵20,000 towards the renovation undertaken by the Nwabiagya Rural Bank for the Berekesse Senior High School and as at December 2010, the Assembly had redeemed GH₵10,000.

Aside the above, the Rural Banks also supports the District Assemblies financially in the organization of national programmers' like the national farmers' day, celebration of national service personnel week and also makes contribution to other specialized funds within the district as when they are called on. However, it came to light that the two development oriented institutions operated on different programmes and not as partners. This is because although they collaborate, coordination in the implementation of programmes for the communities is minimal in their quest to promote the development of the rural areas.

4.2.6 Effects of the activities of Rural Banks on Rural Development

In order to establish the effect of the activities of Rural Banks within the catchment areas, the Rural Banks were requested to assess themselves in terms of their contribution to agriculture, small and medium scale enterprises, employment, incomes and infrastructure in the form of schools bore holes, health post and education within

their catchments. Table 4.7 presents an Assessment of the Rural Banks in the various catchment areas

Table 4.7: Assessment by the Rural Banks on their contribution to Rural Development

Products	No. Rural Banks	Excellent	Good	Average	Poor
Agriculture	7			1	6
SMEs	7		5	2	
Employment	7			2	5
Income	7		1	6	
Infrastructure	7	1	1	4	1
Rural Development.	7		1	5	1

Source: (Field Data, 2011)

The rating was done by assigning weight to the various categories. Excellent was weighted 100%, Good attracted 75%, while the Average and Poor were weighted 50% and 25% respectively. The table shows that, per the assessment of the Rural Banks, they have not performed so well in terms of their contribution to agriculture within their catchment areas as all the banks with the exception of Atwima Mponua rated themselves as poor. For SMEs, Atwima Kwanwoma, Nwabiagya, Atwima Mponua, and Juaben rated themselves as good while only Atwima Kwanwoma rated itself as excellent in terms of contribution to social infrastructure within the catchment areas.

4.2.7 Challenges of Rural Banks in promoting Rural Development

The Rural Banks identified two forms of problems as they try to operate according to the original purpose for their operation. These are the problems encountered within the community and the challenges facing the Rural Banks as an industry.

- The first of the problems stated was hostility of the community to the Rural Banks. This is because over the years, the demands that have been made on the Rural Banks by the communities have been over bearing. Coupled with the environment with which they operate, the Rural Banks inability to meet such demands often make the communities hostile towards the bank. For example some community leaders sometimes demand that, a proportion of the youth should be employed in the bank although they may not have the requisite qualification. The Rural Banks inability to meet such a demand sometimes infuriates the community and they tend to be hostile to the bank and staff members.
- Secondly, the communities lack viable economic ventures. The businesses in the communities are monotonous and not diversified which results in low savings in the rural communities. This makes deposit mobilization minimal and the Rural Banks are therefore unable to create the needed credit to service the communities.
- Then also the perception of the people on “community ownership” as well as the high default rate is also a disincentive. Most of the loans granted to community members have had to be written off as they normally default. The community members have a feeling that the bank is for the communities and as a result, beneficiaries of the credit schemes mostly do not pay up. Since the Rural Banks exist and operate within the communities it becomes difficult for the money to be recovered and most of the time it goes bad.
- Another problem is interference by the opinion and community leaders. Community leaders sometimes interfere in the operational system and the structures especially when

they need a facility from the bank. This affects the smooth operation of the institution in the catchment areas.

- Finally, one would have expected that since Rural Banks are supposed to partner the rural community for development, land acquisition would have been easy for projects that would benefit the entire community. However, among the problems enumerated by the Rural Banks is the fact that, acquiring land for projects that are supposed to benefit the community is a problem as the price that is quoted by the community leaders mostly discourages them from providing the facilities for the rural communities.

The second set of problems had to do with the industry as a whole. The sampled Rural Banks brought to the fore problems like poor operational system, high default rate and weak recovery systems, capital inadequacy issues, wrong perception about the rural banking industry due to the challenges the industry faced in the 1980's, poor record keeping and lack of motivation for staff members amongst others. This confirms a revelation by Agabin and Daly in 1996 which indicated that the operations of the Rural Banks were plagued by high default rates, insolvent lending products, and high operating costs to name a few in their bid to facilitate Rural Development.

They also commented on unfavorable macroeconomic policies like the high interest rate and inflation which tend to increase their operational cost. The results are that profit margins are minimized making available fewer funds for developmental projects in all the rural communities they operate in.

Then also the stringent monetary policy from the Bank of Ghana is a big challenge. Majority of the Rural Banks cited the increases in the paid up capital to GH¢150,000 and the liberalization of the banking industry which has brought about stiff competition in the banking industry in Ghana as some of the external factors that are challenging the industry. It therefore stands to reason that the Rural Banks will have to fold up if they

should operate strictly according to the original purpose of servicing the rural communities.

4.3 ANALYSES OF THE DATA FROM THE STAKEHOLDERS IN THE COMMUNITIES

This section deals with the analysis of the views from the people interviewed from the cottage industries in the rural communities.

4.3.1 Profile of Rural Communities

All seven communities are located in the Ashanti Region of Ghana. The population ranged from 3,889 to 9,035 with majority of the population in the labor force according to the year 2000 population census. Agriculture is the main stay in these communities followed by cottage industry with some of the community members in the services sector. A larger proportion of the roads in the communities are categorized as feeder with 42% of the communities having access to major roads. Within the communities, infrastructure in the form of schools is limited; the supply of water is inadequate as some of the communities depend on streams for drinking water. Accessibility to health facilities as well as sanitary facilities is also limited. The implication of all the above for development is that, there is a large potential labor force from the rural areas if the necessary training is provided in spite of the fact that there is the urgent need for the provision of socio economic facilities to service the rural communities.

Ninety-five people were sampled from the seven communities in which the Rural Banks operate. The respondents had lived and operated within the community for a minimum of 6 months and a maximum 50 years. The respondents were interviewed to ascertain the extent to which the community and its members have benefitted from the operations of the Rural Banks in their communities. The details of the respondents from the communities are presented in Table 4.8

Table 4.8: Communities and Percentage of Respondents

Communities	Frequency	Percentages
Akropong	15	15.8
Antoakrom	11	11.6
Barekese	14	14.7
Bonwire	12	12.6
Mpasatia	15	15.8
Pakyi No.1	14	14.7
Asokore	13	13.7
Total	95	100

Source: (Field Data, 2011)

In terms of occupation, 16.8% of the respondents were into agriculture, 43.2% were engaged in the cottage industry, 26.3% were into trade and transport while 10.5% were opinion leaders in the various communities. This is shown in Table 4.9

Table 4.9: Main occupation of the Interviewees

Type of Occupation	Frequency	Percentage
Agriculture	19	20
Cottage industry	41	43.2
Trade and transport	25	26.3
Others	10	10.5
Total	95	100

Source (Field Data, 2011)

For the above occupations capital was mainly raised through their own sources. This is because out of the 95 people sampled, 76.6% said they raised capital themselves, 18.1% raised capital with the help of family and relatives' while only 5.3% raised the capital for their business venture through the Rural Banks. It was revealed that, only 29.5%

belonged to associations; the rest had no associations to facilitate the raising of capital from the Rural Banks.

This shows that, the availability of credit in the rural areas is still lacking and indicated there is still the need for institutional credit in the rural areas. This confirms Adams and Vogel suggestion in 1986 on the need for credit in the rural areas due to the inequalities that exist in the distribution of credit between the formal and informal as well as the rural and urban areas.

On the awareness of the operation of the Rural Banks in the area, almost all the community members were highly aware as 77.7% of the respondents held various accounts with the Rural Banks and had operated the accounts for an average of 4years. This implies the Rural Banks have really done well in helping to stimulate the habit of banking amongst the rural dwellers and have achieved their first aim as set out in 1992 by the Association of Rural Banks.

The remaining 22.3% who did not have any account with the Rural Banks gave reasons like bureaucracy of the Rural Banks' operation, low income level, mistrust and the fear that the Rural Banks might bolt away with their monies. Other reasons given included the fear that they might be killed if family members realize that they have money with the Rural Banks.

4.3.2 Accessibility to credit in the Rural Community

On the issue of loans and credit creation, of the 95 respondents, only 39.8% had benefitted from the credit facilities of the Rural Banks. The remaining 60.2% who had not benefitted gave various reasons including the fact that, they were afraid they would be chased by the Rural Banks should they default. Specifically, 5% of the respondents specifically stated "fear of harassment by the Rural Banks "as the reason for their inability to access loans from the Rural Banks.

Another reason was the conditionalities involved in applying for loans. This mostly discouraged them from going for loans. For this particular reason, 20% indicated their inability to go for loans due to the conditions. Statements like: “I don’t like it because of the conditions”, “the association demanded for loan but the conditions were not favorable” and “I am unable to meet their conditionalities” are some of the responses of respondents.

Then again 25 % also could not assess loans from the Rural Banks due to the demand for security specifically guarantors. Statements like “I did not get somebody to guarantee for me were rampant.

Furthermore, 10.2% of the respondents had no interest in securing loans from the Rural Banks. This pattern was revealed by statements like: I don’t have interest in collecting loans; I have no interest in applying for loan and need it for nothing; I have no interest in assessing loans for now.

For the 39.8% that had assessed loan from the Rural Banks, the amount ranged from GH ₵200 to GH₵5000 and it took between six days and four weeks for their applications to be processed. The purposes for the loan requisition ranged from renting of apartments, investing in businesses like farming, carpentry and other cottage industry as well as meeting of family needs.

For the beneficiaries of the loans, 62.2% presented security while 37.8 indicated no security was presented. The types of security presented are shown in Table 4.10

Table 4.10: Types of Security presented by Loan Beneficiaries

Types of security	Number of respondents	Percentage of respondents
Passbook	2	4.2
Groups	2	4.2
Guarantors	30	83.2
Income	2	4.2
Salary	2	4.2
Total	38	100

(Source Field Data, 2011)

The table indicates that the major security for the Rural Banks facility is the use of guarantors. Among the reasons why respondents were not accessing loans was the problem of getting a guarantor. Those who had accessed loans also expressed difficulty in getting a guarantor. For most of the respondents, getting some body to guarantee for the loan was a difficulty. The implication is that majority of the people in the rural areas are automatically cut off from benefitting from the Rural Banks facility because of the type of security needed to acquire the loan.

4.3.3 Effects of Loans on Business

To know whether the loan contracted from the Rural Banks contributed to the growth of the businesses 32 respondents representing 86.1%% of the beneficiaries confirmed the loan helped them in expanding their various businesses. Only 13.9% did not see any improvement in their business and they attributed it to the terms of repayment.

In terms of contribution of loans to income, 71.4% affirmed positively and this was the results of the expansion of their business due to the loan acquired whiles 28.5% responded negatively. This is reaffirming the fact that credit in the rural communities has a positive effect on improving incomes and improving the condition of living of the people. This is in line with the study conducted by the Philippines National Statistic

Office in 2005 which indicated that Rural Banks propel Rural Development through financial intermediation.

Two main reasons were given by the 28.5% who did not see any growth in their businesses. These are unfavorable repayment terms and their inability to manage the loans properly.

4.3.4 Effect of Social Responsibility on the Rural Communities

Although the majority of the Rural Banks rated themselves as average in terms of contribution to social infrastructure, 62 respondents rated the Rural Banks as poor in terms of provision of social infrastructure. To probe further, the respondents were allowed to indicate the kind of facility they had seen or benefitted from the Rural Banks for the period under study by selecting yes if they had seen or benefitted from any of the facilities listed and vice versa. The results are tabulated in Table 4.1

Table 4.11: Beneficiaries of Facilities provided by the Rural Banks

Facilities	Yes	%	No	%	Total Resp.
Bole holes	28	29.5	67	70.5	95
Schools	27	28.4	68	71.6	95
Health post	3	3.2	92	96.8	95
Scholarships	37	38.9	58	61.1	95
Community libraries	15	15.8	80	84.2	95

Source: (Field Data, 2011)

The table represents the respondents who have actually seen or benefitted from the facilities provided by the Rural Banks for the rural communities as against those who have not seen or benefitted. For bole holes, 28 of the respondents said they have benefitted while 67 people responded negatively. However, for an area like

scholarships 37 people had benefitted from that facility by the Rural Banks while 27 respondents had also benefitted from educational structures supported by the Rural Banks as against 68.

4.3.5 Perception of Respondents on Rural Banks and Rural Development

Respondents expressed different opinions on the statement that “Rural Banks are agents of Rural Development”. For the people sampled 20.7% agreed strongly, 34.8% agreed, while 44.5% disagreed strongly.

A larger proportion of those who agreed believed the Rural Banks were helping in Rural Development in their area while for the section that disagreed, the Rural Banks were nothing but institutions that seek after their own interest; who lure the poor to save with them in return for loans only to disappoint them through the use of conditionalities when the time is due for the poor to benefit from the Rural Banks. The implication of these varied views is that, the Rural Banks have not really lived up to the expectation of the communities and as a result, the communities have not really felt their presence in the area.

The respondents were given the opportunity to assess the extent to which the Rural Banks have helped in the growth of agriculture, employment, income and infrastructure as identified in the literature review of the study. The assessment was done by respondents by assigning weight to the variables listed. The highest weight was 100 and the least was 25. The results are tabulated in Table 4.12

Table 4.12: Respondent’s Assessment of Rural Banks on Rural Development

Variable	Ex.	%	Gd.	%	Av.	%	Poor	%	Neut.	%	Tot.	%
Agric.	4	4.2	17	17.8	14	14.7	53	55.8	7	7.4	95	100
Empl.	5	5.3	30	31.6	32	33.7	23	24.2	5	5.3	95	100
Inc	10	10.5	39	41.1	19	20	17	17.9	10	10.5	95	100
Soc. Infr.	8	8.4	7	7.4	8	8.4	62	65.3	10	10.5	95	100
Av.	7	7.4	23	24.2	18	18.9	39	41.1	8	8.4	95	100

Source :(Field Data, 2011)

For the variables listed, an average of 7 and 23 respondents felt the Rural Banks had performed excellently and good in terms of their overall contribution to rural development respectively whiles an average of 18 and 8 of the respondents rated them as average and neutral respectively. Significantly, 39 of the respondents rated the Rural Banks as poor in terms of their contribution to agriculture, employment, income and infrastructure. The implication of the above is that, majority of the people in the rural communities are not really feeling the impact of the operations of the Rural Banks.

4.3.6 Comparative Analysis of the Assessment by the Rural Banks and the Rural Communities

From the analysis of the Rural Banks in part one, it was established that the Rural Banks are helping in the development of the rural areas through their operations and also their corporate social responsibility. However the story is not the same from the perceptions and views of the people in the rural communities as a significant number thinks otherwise. To facilitate the drawing of a good conclusion, it was imperative to have a comparative analysis of the responses from the Rural Banks and the respondent. Using a scale of 100 - Excellent, 75-Good, 50 - Average and 25 – Poor, the responses of the seven Rural Banks sampled and the ninety five respondents on the selected variables are compared in table 4.13

Table 4.13: Comparative Analyses of the Assessment by the Rural Banks and Respondents on Rural Development

Var.	No. banks	Resp.	Excellent		Good		Average		Poor		Neutral	
			banks	Resp.	banks	Resp.	banks	Resp.	banks	Resp.	banks	Resp.
Agric.	7	95	-	4	-	17	1	14	6	53	-	7
Emp.	7	95	-	5	-	30	2	32	5	23	-	5
Inc.	7	95	-	10	1	39	6	19		17	-	10
Inf.	7	95	1	8	1	7	4	8	1	62	-	10
R.dev.	7	95	-	20	1	33	5	-	1	42	-	0

(Source: Field Data, 2011)

From Table 4.13, six of the Rural Banks sampled rated themselves as poor in terms of contribution to agriculture. This was confirmed by the respondents as 53 of them also rated the Rural Banks as poor. It is a well known fact that majority of Ghanaians in the rural areas depend on agriculture for their livelihood and as a result, for there to be development in the rural areas, improvement in agriculture is important. If the contribution of the Rural Banks towards agriculture has been poor, it stands to reason that, their role as agents of Rural Development has been defeated.

For social infrastructure, two Rural Banks rated themselves as good; four rated themselves as average while one indicated poor. However, 15 respondents rated the Rural Banks as good, 8 rated them average while 62 respondents rated the Rural Banks as poor. A total of 42 people also rated the Rural Banks as poor in terms of their overall contribution to rural development. The implication is that, although the Rural Banks are helping in the rural areas, the effects of their operations have not been really felt by the people in the communities. In line with the above, majority of the respondent concluded that, the role of the Rural Banks as agents of Rural Development is yet to be fully realized.

CHAPTER FIVE

FINDINGS AND RECOMMENDATIONS

This chapter deals with the findings and recommendations emanating from the analyses and interpretation of data for the study.

5.1 Summary of Key Findings

The study conducted revealed the following facts:

5.1 The purpose for the creation of Rural Banks

- The purpose for the creation of the Rural Banks was to mobilize financial resource in the rural areas and channel them to productive rural venture to facilitate the expansion and subsequent development of the rural areas.
- The examination of the vision and the mission statements of the Rural Banks vis a vis their field of operation is not reflection of the purpose for their creation. This is because most of the Rural Banks are drifting from the development to commercial orientation. This is because they adopted a more traditional outlook like the commercial banks.
- The location of branches is not a reflection of what the concept stands for as approximately two thirds of their branches are located in the urban and peri-urban area. Their services have shifted from the rural areas to the cities as a results of low rate of savings in the rural areas and the need for the banks to mobilize capital for their operations.

5.2 Operations to Achieve the Purpose of their Creation

- The rural banking industry is now a financial “supermarket” than a development bank offering various forms of deposits, credit as well as other specialized schemes.

- Credit creation is undertaken by all Rural Banks and currently, salary workers loan is the priority spending area while agricultural loans is a less attractive area.
- Accessibility to credit in the rural areas is still a problem due to the kind of security requested by the Rural Banks.
- Credit gap still exists in the countryside as people in the urban areas are the major beneficiaries of Rural Banks loan as against the majority of Ghanaian who resides in the rural areas due to the fact that, agriculture is no longer a priority spending area for most of the Rural Banks while credit products are skewed toward the urban areas.
- Default rate appears to be high in the whole rural banking industry for almost all the categories of loans granted.

5.3 Promotion of Rural Development.

- Rural Banks have performed inadequately in the development of agriculture in the rural areas even though there cannot be any meaningful development in the rural areas without expansion and improvement in agriculture.
- Contributions to the cottage industries as well as income generation activities within the rural areas have been average while contribution to employment in the communities has been insignificant.
- Their contribution to rural infrastructure has been minimal
- Almost all the Rural Banks are socially responsible; there seems to be a positive relationship between net worth and social responsibility as the banks in the performing and averagely performing categories are contributing to the development of their catchment areas by way of social responsibility.

- Coordination between the Rural Banks and District Assemblies as agents of Rural Development is minimal

5.4 Challenges of Rural Banking

- Within the rural communities, the issues challenging the Rural Banks includes hostility of the community to the Rural Banks, the lack viable economic ventures and the monotonous nature of ventures in the communities, the wrong perception of the people on the community ownership of the Rural Banks and the negative attitude of community leaders.
- The internal problems include poor operational system, high default rate and weak recovery systems, capital inadequacy issues, wrong perception people still hold about rural banking, poor record keeping and lack of motivation for staff members amongst others.
- With the communities, the Rural Banks are also challenged with issues like pressure to meet specific demands, high cost of land and hostility towards the staff members in some situations.
- The external factors includes unfavorable macroeconomic policies like the high interest rate and inflation resulting in very high operational cost as well as strict monetary policies from the Bank of Ghana and the current level of competition in the banking industry in Ghana.

5.5 RECOMMENDATIONS

The rural banking concept has been operational in Ghana for almost 40 years. The Rural Banks have been instrumental in the provision of banking services and the improvement of livelihoods in the rural economies. However, there are still some challenges in the quest to help in the development of the rural areas. These challenges emanated from both internal and external factors as well as the rural communities. The following are some recommendations that can further strengthen the Rural Banks to achieve the target for which the concept was introduced in the country.

5.5.1 The Purpose of the Creation of the Rural Banks

- Currently, the Rural Banks are playing a dual role of being development and commercial oriented. There should be a review of the purpose for the creation of the Rural Banks to reflect their status. This is because, looking at the challenges within the industry and the macro environment at large; it is not sustainable for the Rural Banks to operate only as development Rural Banks.
- The state should formulate Policies that will revamp the rural sector to ensure diversified economic activities and increase savings levels as against the monotony and the low savings rate that exists in the rural communities currently. This will ensure a reversal of the trends in the allocation of branches and the types of products that exist currently in the rural banking industry.

5.5.2 Operations to Achieve the Purpose of their Creation

- Although the innovation in the rural banking industry is encouraging; the products are more skewed toward the average class and the urban areas. It is recommended that “community” specific products should be designed to bring the poor and the rural communities on board.
- Although agriculture seems risky for the Rural Banks to finance, there are other areas which are less risky. With innovations like animal rearing and aqua farming, Rural Banks should be encouraged to support these areas since it was crop farming that failed them in the past.

- Community specific security and repayment arrangements that are convenient for the communities as well as the Rural Banks should be designed to ensure accessibility and redemption of credit in the rural areas.
- The Rural Banks should invest in research that will facilitate the development of an effective and efficient credit assessment technique for the rural banking industry as well as a good monitoring and evaluation team to help in curbing the default rate that the industry currently faces.

5.5.3 Promotion of Rural Development

- The other sectors like the cottage industries that can also propel growth if specific products are designed to meet the need of client in such sectors.
- There should be continual support for education within the communities to enhance capacity for the rural folks. This can further increase income and employment in the rural areas
- The Rural Banks should not wait to make gains before they think of supporting the communities. Efforts should be made by the Rural Banks to set aside a portion of funds to support the community in terms of infrastructure. No matter how small it may be, it can make an impact in the lives of the rural poor
- External macroeconomic and monetary policies that create the enabling environment pursued by the state while internally efforts should be made by the Rural Banks to put in place the right policies that will facilitate high performance. This is because the Rural Banks can reach out to the community only when they are sound financially.
- To make the Rural Development integrative, the Rural Banks should link up with nongovernmental organizations, District Assemblies, government and other stake holders in their Rural Development activities.

- Awards and recognition should be given by the Nation and other rural development oriented agencies to Rural Banks whose contribution to the development of their catchment area is significant. This will inspire and propel other Rural Banks to improve their performance in this regard.

5.5.4 Challenges of Rural Banking

- Opinion leaders and the community should be educated to appreciate the fact that the Rural Banks are partners of development in their community and that, the extent to which they can help to achieve growth depends on the extent to which the communities relate, support, appreciate and value the efforts of the Rural Banks.
- There should be a fair evaluation of the Rural Banks themselves to know the reasons and causes of problems like poor operational system, high default rate, weak recovery systems and capital inadequacy issues so as to ensure the right mechanism is put in place to remedy the situation. This is because the Rural Banks operate under different environment and the causes of the above problems may vary from one bank to another.

5.6 Conclusion

The Rural Banks were set up by the Government through the Bank of Ghana as a strategy to facilitate Rural Development. As development Rural Banks, programmes and products have been designed by the Rural Banks to ensure that, the objectives for their creation are achieved. To this extent, they have contributed in inculcating the habit of banking into the rural people and their contribution to the socio economic growth of the Ghanaian economy is evident.

In spite of the above, it cannot be said that they have really serviced the subject for their creation. This is because their products and programmes are more skewed towards the urban areas and the middle class. The contribution of the Rural Banks to the development of the rural areas has been minimal considering that, credit for economic activities is still a problem in the rural areas. The cause has been attributed to both internal and external factors in the rural banking industry and the economy as a whole.

Rural Development is multi faced multi level and involve many actors. It is therefore incumbent on all stake holders like the government, development oriented agencies, the Rural Banks and the rural communities to come on board to ensure that the country achieves her dream of transforming the rural economies.

In conclusion, it can be said that, the Rural Banks will still be instrumental if the country still hold the dream of transforming the rural economy. Efforts should therefore be made to redeem the rural banking industry and strengthen them as agents of Rural Development.

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Appendix 1

DEPARTMENT OF PLANNING
FACULTY OF PLANNING AND LAND ECONOMY
COLLEGE OF ARCHITECTURE AND PLANNING
KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

QUESTIONNAIRE FOR RURAL BANKS

This is a questionnaire scheduled to know the extent to which Rural Banks operates to ensure rural development.

I should be grateful if you could provide answers to these questions. All information given is strictly for academic purposes and will be treated s confidential.

(Please tick or answer)

1. What is the name of the bank?.....

2. How many years have the bank been in operation?

3. How many branches does the bank have?.....

4. Where are these branches located?
.....
.....

5. What is the vision of the bank?
.....
.....

6. Please state the mission of the bank
.....
.....

7. What are the functions of this bank?
.....
.....

8. What is the total number of employees?

9. How many are from the Rural Banks catchment area

10. What is the major occupation in this catchment.....

11. Please tick the type of savings products offered in the bank

a) Savings account

b) Current account

c) Fixed deposit

d) Group savings

e) Susu

12. Kindly specify other specialized savings products not listed above

.....
.....

13. Are all the Deposits mobilized from the communities only? Yes ☐ No ☐

If No Why.....
.....

14. 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

15. Kindly specify other specialized loans not stated above

.....
.....

16. Which category normally receives the highest amount of funds.....

17. Are all the beneficiaries of the bank's loans from the communities? Yes ☐ No ☐

If No Why

18. Kindly provide the information below

year	No of customers	Total deposit	Total loans
2007			
2008			
2009			
2010			

19 Please fill in the funds allocated for loans for the sectors below

Year	Amount in Ghana Cedis granted to various sectors			
	Agriculture	Salary workers	Cottage industry	Trade & transport
2007				
2008				
2009				
2010				

20. Which sector averagely records the highest default rate.....

Why.....

21. How does the bank tackle the problem of default

22. Please list other services rendered by this bank

23. Does the bank involve the communities in you activities Yes ☐ No ☐

24. Does the Bank link up with the District Assembly in the provision of social amenities? Yes ☐ No ☐

25. Which of these have been provided for the communities by the bank?

- a) Bole holes
- b) School
- c) Health post
- d) Scholarships
- e) Community centers
- f) None of the above

26. 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

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

Area	Ranking			
Agriculture	1	2	3	4
Employment	1	2	3	4
Income	1	2	3	4
Social infrastructure	1	2	3	4

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

If yes how

.....
.....

If no

Why.....
.....

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

.....
.....

30. How are these problems addressed?

.....
.....

31. How can Rural Banks facilitate rural development in Ghana?

.....
.....



Appendix 2

DEPARTMENT OF PLANNING
FACULTY OF PLANNING AND LAND ECONOMY
COLLEGE OF ARCHITECTURE AND PLANNING
KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

QUESTIONNAIRE FOR STAKE HOLDERS IN THE COTTAGE INDUSTRIES

This is a questionnaire scheduled to know the extent to which Rural Banks operates to ensure rural development.

I should be grateful if you could provide answers to these questions. All information given is strictly for academic purposes and will be treated s confidential.

Please tick or answer

1. Name of interviewee.....

Sex.....

2. Occupation.....

town.....

3. How long have you lived in this area.....

4. How many years have you been in business.....

5. How was capital raised to start the business?

a) Self b) Family and relative c) Private money lenders d)

Rural bank

6. Do you belong to any association Yes ☐ No ☐

7. Are you aware of the existence of a rural bank in this area?

8. Do you have an account with the bank Yes ☐ No ☐

If no why.....

If yes for how long.....

9. Have you assessed a loan from the bank before?

If yes

10. What was the total amount?.....

11. How long did it take to get the loan after the submission of the application form.....

12. Did you offer any security Yes ☐ No ☐

If yes which type of security.....

13. What was the loan used for?

- a) Invest in business b) meet family needs
c) Rent apartment d) others specify

14. Were you educated on how to manage you business to enable you pay back ?

Yes ☐ No ☐

15. What was the mode of re payment?

- a)Daily collections b)weekly c)monthly

16. Did the loan contribute to growth in your business? Yes ☐ No ☐

17. Did the loan contribute to growth in your income? Yes ☐ No ☐

18. Please list the problems encountered in your loan acquisition

.....
.....

19. What other things have you enjoyed form the bank

.....
.....

20.Has any member of your family benefitted from the Rural Banks loans

Yes ☐ No ☐

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	1	2	3	4
Employment	1	2	3	4
Income	1	2	3	4
Social infrastructure	1	2	3	4

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

If yes how

.....

.....

If no

Why.....

.....

24. What should the bank do to ensure the development of this area?

.....

.....

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

- a) Bole holes
- b) School
- c) Health post
- d) Scholarships
- e) Community centers
- f) None of the above

Appendix 3
DEPARTMENT OF PLANNING
FACULTY OF PLANNING AND LAND ECONOMY
COLLEGE OF ARCHITECTURE AND PLANNING
KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

QUESTIONNAIRES FOR FOCUS GROUP DISCUSSIONS

1. For how long has this Rural Bank existed and operated in this rural community.
2. Have the banks made any contribution toward the development of this community.
3. Do the banks involve the community in their activities
4. What mark would you give them in terms of their contribution toward the following:
 - Employment
 - Agriculture
 - Trade and transport
 - Other cottage industries (artisans in the community).....
 - Social infrastructure (hole holes sanitary facilities scholarships)

Please choose one of the following marks (100%, 75%, 50%, and 25%)

5. Has the bank provided any facility for the community? Please list them
6. From what you have said about this rural bank, what is your opinion on this statement “Rural Banks are agents of rural development”

Appendix 4
Results of Focus Group Discussion

Questions	Responses
1. Knowledge of the existence and operation of the Rural Banks	All the respondent had known of the existence of the Rural Banks for over 15 years
2. Contribution to the development of the community	38.6 % of the respondent said yes whiles 61.4 % were of opinion that they have nothing
3. Community participation in the activities of the bank	All the respondent said that the only time they get involves in the activities of the bank is when there is Annual General Meetings
<p>4. Contribution of the banks to the following in the area</p> <ul style="list-style-type: none"> • Employment • Agriculture • Other cottage industries • Social infrastructure 	<p>On employment not of the respondent had seen any community member being employed by the banks although they always demand the banks should employ some of the natives.</p> <p>On agricultures majority weighted them 25% as they said the banks don't grant loans to farmers in the community because they do not grow cash crops</p> <p>For cottage industries, about 70% of the respondent said only a lucky few are able to get loans from the banks</p> <p>On social infrastructure, 49% rated the banks as average (50%) whiles the 51%</p>

	rated them as poor (25%)
5. List of facility provided by the banks for the communities	School Bole holes Scholarships
6. Rural Banks as agent of rural development	<p>There was a hot argument as there were majority who believed that is what the banks are suppose to be doing but they are not. Averagely 50.1% were of the view that looking at the number of years the banks have operated and the things they have done in their communities they can't be seen as agents of rural development.</p> <p>23.5% believed that the banks are doing what they can.</p> <p>16.4% believed the banks have done well whiles 10% said they don't really know.</p>

Source: (Field Data, 2011)

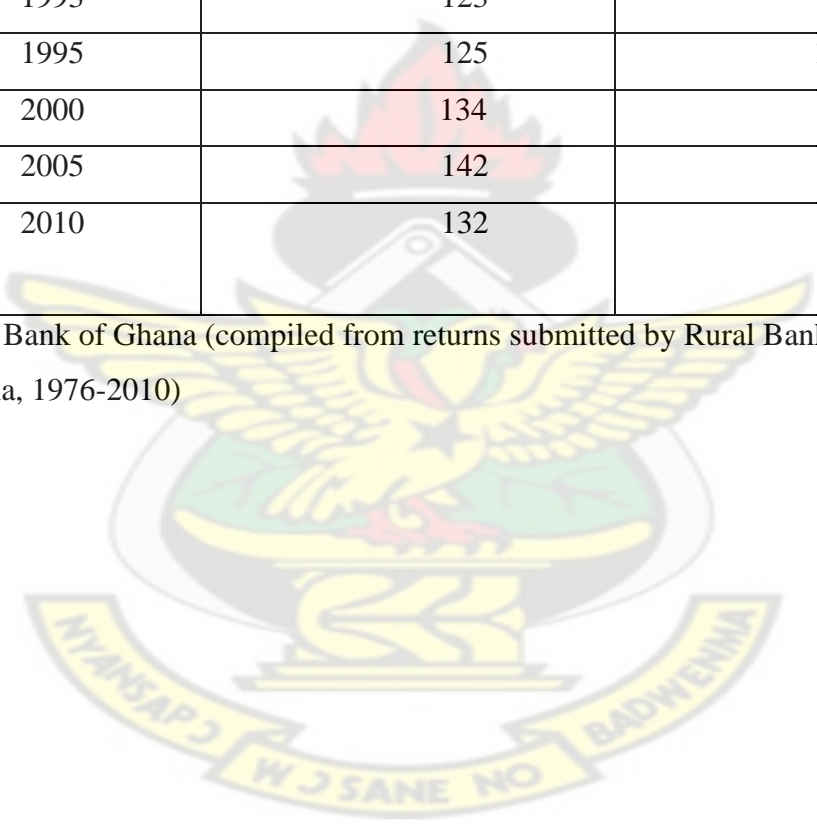
Appendix 5

Growth in the Number of Rural Banks and the number of account holders

From 1976 to 2010

YEAR	NO OF RURAL BANKS	NO. OF ACCOUNT HOLDERS
1976	1	1,124
1981	34	276,444
1984	117	553,000
1993	123	703,111
1995	125	1,003,056
2000	134	-
2005	142	-
2010	132	-

Source: Bank of Ghana (compiled from returns submitted by Rural Banks to the Bank of Ghana, 1976-2010)



Appendix 6

Regional Distribution of Rural Banks in Ghana as at 2010

Region	Number of Rural Banks
Ashanti	25
Central	21
Eastern	21
Brong Ahafo	20
Western	13
Volta	11
Greater Accra	6
Upper West	4
Northern	7
Upper East	4
Total	132

Source: Bank of Ghana: (compiled from the list of licensed Rural Banks in Ghana as at the end of 2010 financial year)

Appendix 7

Total Deposit of the selected Rural Banks from 2007 to 2010

Rural Banks	Year			
	2007	2008	2009	2010
Atwima kwan.	15,275,636	17,373,235	22,140,160	29,113,943
Nwabiagya	9,562,644	11,697,764	21,310,232	14,851,615
Juaben	7,306,640	8,520,117	15,556,395	10,908,729
mponua	4,835,726	6,170,249	8,599,313	13,140,654
Amansie west	5,840,919	6,690,786	8,837,388	15,059,876
Asokore	2,885,791	3,076,364	4,292,014	6,249,094
Atwima	3,615,010	3,699,022	4,377,963	5,599,259
Total	49,322,365	57,227,538	85,113,764	94,923,171

Source: (Field Data, 2011).