DETERMINANTS OF LOAN DEFAULT AMONG THE BUSINESS CLIENTS OF SAHEL SAHARA BANK GHANA LIMITED

BY

KWASI FOSU

(PG 6415111)

A Thesis submitted to the Institute of Distance Learning, Kwame Nkrumah
University of Science and Technology in partial fulfillment of the requirements for the degree of

COMMON WEALTH EXECUTIVE MASTER BUSINESS OF ADMINISTRATION
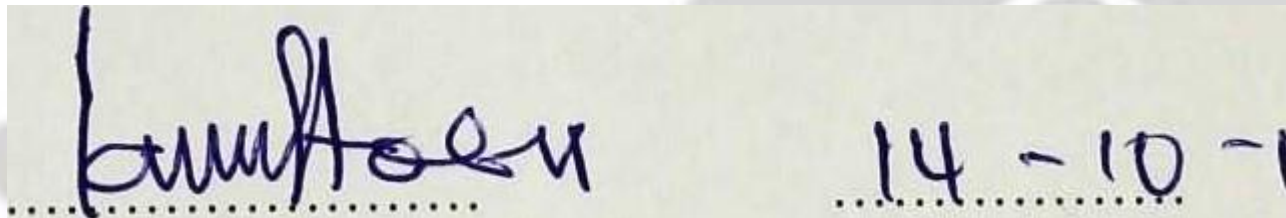
JULY, 2013

DELARATION

I hereby declare that this submission is my own work towards the Executive Master of Business Administration 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 the University, except where due acknowledgment has been made in the text.

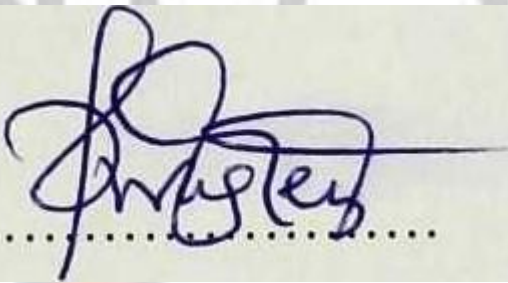KWASI   FOSU   (PG   6415111)

....   14 – 10 – 1
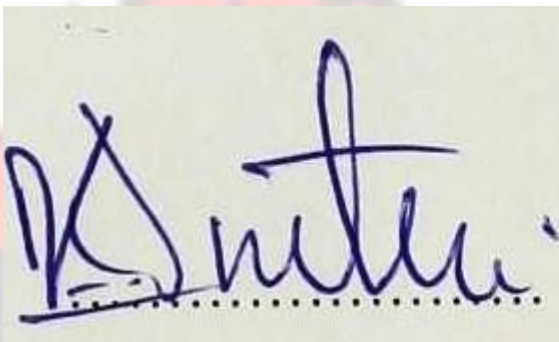
Signature   Date

Certified by:

(11— 1 0 ~13MR. ELLIS ………………………… … AKWAA- …………
SEKYI

Principal Supervisor   Signature   Date
Certified by:

PROF. 1. K. DONTWI

(Hegd-of Department)   Signature   Date

iii

DEDICATION

This work is dedicated to the Most High God whose divine guidance and strength has made it possible for me to successfully complete this programme. To my deceased mother Hannah Kuruwa, and my dear wife Sophia Aboagyewaa Fosu.

ACKNOWLEDGEMENT

First of all, I wish to express my profound gratitude to the Almighty God for his care, protection and guidance in the successful completion of the programme.

Not forgetting my supervisor Mr. Ellis Akwaa-Sekyi, who also played a great role in my work by way of direction and encouragement to enable me completed the thesis on time.

My appreciation goes to the entire faculty of the CEMBA programme for sharing your knowledge and wisdom to us. Not forgetting the course administrators and my study groups.

My further appreciation goes to my family and friends especially my wife Sophia, and my son Nana Kwame

To the management of Sahel Sahara Bank limited who allowed me to use the bank as a focus of study, I say thank you for the wonderful support.

Finally, to Dr. Kwadwo Addaei Darko (my brother), Andrews Osei Akoto and Issac Osei Yeboah, I really appreciate your support, prayers and encouragement
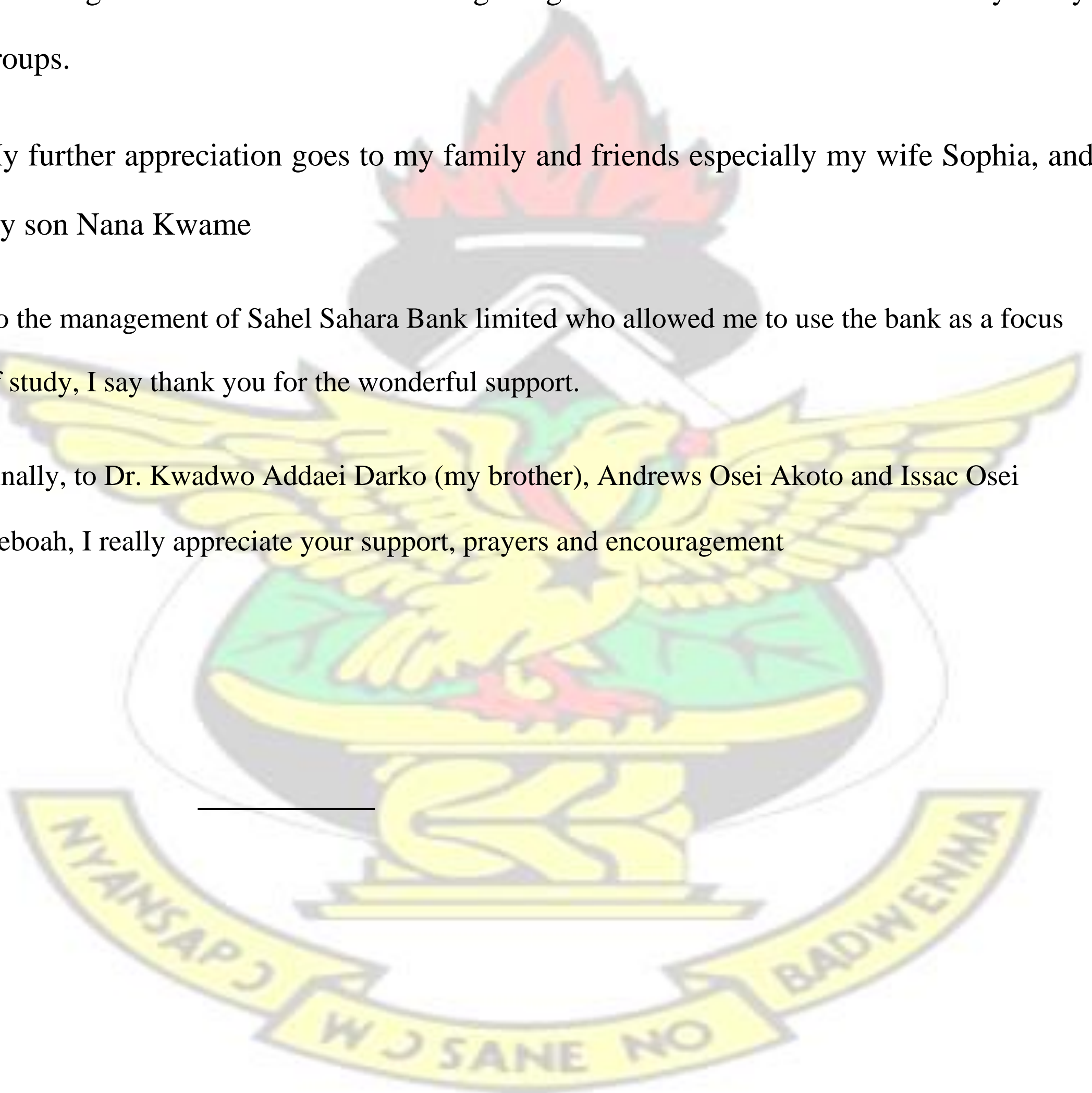
ABSTRACT

The rate at which default among loan applicants is eating up the performance of loan portfolios is so alarming. Apart from the risk-based approaches, there are certain factors which if taken into consideration could minimize possible loan default. The study meant to investigate the procedures and processes in granting business loans, examine the purpose of the demand for business loans and investigate the factors which determine loan default. The study involved 107 business loan applicants and 22 staff of the bank studied. Qualitative and quantitative designs were employed. Questionnaires were used to ascertain data from the respondents. Chi-square was used to determine factors which determine loan default. The study found that loan procedures and processes were cumbersome, business clients demanded loans for expansion purposes, the determinants of loan default are years with bank, sectors clients belong to, diversion of loan for other purposes and loan procedures and processes. The study recommends that banks recruit experienced personnel in the credit department and review their cumbersome procedures and processes for loan applications since it might result in diversion of loan purpose and possible default.

TABLE OF CONENT

ix

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Over the years, banking institutions worldwide have been active in contributing their services towards the growth and development of many countries. Banks perform several functions including maintaining a safe-deposit vault, acting as money-changer, selling bonds and other investments to customers, acting as trustees and business manager, receiving deposits and selling credits to their clients (Oliveira & Hippel, 2011). Indeed, banking institutions are licensed by the state to mobilize deposits, and provide lending services as a whole to clients in their local communities; provide adequate supply of credit for all legitimate business and consumer financial needs; and reasonably price credit in line with competitively determined interest rates. Indeed, disbursing loans is the principal economic function of financial institutions to fund consumption and investment expenditure by individuals, businesses and units of government. It is also the major source of income provider to the banking institutions. Of a greater value, is the function of mobilization of deposits and lending them as loans for both large and small scale businesses customers who are unable to raised money from internal resources to finance new projects or to augment the existing businesses (de la Torre & Pería, 2010).

Bank loans have bsgn-lnstpamental in the sustenance of many businesses, worldwide. The provision of loans over the years by banking institutions has helped many business enterprises to secure relevant funding for their businesses, expand human resource base, and consequently improve productivity (Dixon, Ritchie, & Siwale, 2007). Loan advancements are categorised into various types such as personal, mortgages, auto and

1

business loan depending on the purpose for contracting the facility. Loans can be defined as money that an organization such as a bank, lends to a borrower who in turn, is expected to repay at an agreed term and condition. Granting loans-(short term, medium term and long term) are important functions of banking institutions (Dixon, Ritchie, & Siwale, 2007). Loan default goes a long way to impact on the growth and development of many businesses in Ghana.

According to Stiglitz (2007), a major problem for institutional lenders is ensuring that borrowers exercise prudence in the use of funds so that the likelihood of repayment is enhanced. However, access to loans are contingent on various institutional conditionalities including the capability for repayment, availability of relevant collateral, and the track record of clients, including businesses that intend to access such loans (Khieu, Mullineaus, & Yi, 2012). The management of loans by banking institutions are also associated with risk of recovery, loss in value during repayment period, and the difficulty of converting loans into liquid cash until it is due to be repaid.

Recovery rates on defaulted loans play critical role in credit risks (Khieu et al., 2012). According to Mishkin (2007) default risk is the chance that the issuer of a bond will default, that is, being unable to make interest payments or pay back the face value when the bond matures. This is because many lenders equate time with risk. Risk associated with loan-defaults may increase with time. Banks therefore resort to charge interest on loans (which increases with the loan term) to compensate for some of the risk associated with advancing loans. In some cases, lending institutions are challenged by the high rate of loan default. Reasons for such defaults have mainly been influenced by the size of companies-smaller companies have small cash, are unable or unwilling to take on competent managers to handle finances, marketing and other assignment (Stein, 1998).

2

This is compounded by the fact that about 75% of businesses in Ghana are within the small and medium size bracket (Bank of Ghana, 2010).

Unfortunately, debt collection in Ghana is difficult due to the cumbersome nature of the country's legal processes and procedures in prosecuting loan defaulters. Again, banks feel reluctant in sending clients to court due to the wrong public perception of the banks' image when the case is been published in the media. Furthermore, banks would like to sustain the cordial relationship between them and their clients.

The implication of loan default on the banking sector provides an underlying foundation for this study to investigate the determinants of loan defaults among businesses in Ghana, and also provide some understanding into the processes and procedures of granting business loans of clients of Sahel Sahara bank, Ghana. The Bank was established in 2008 by the community of Sahel-Sahariene States of Africa (CENSAD), and has been active in the banking sector in Ghana. Sahel Sahara Bank, Ghana has been active in providing long-term credit for the agro-processing sector, promote regional trade between Ghana and the rest of Africa, and support export diversification in Ghana. Sahel Sahara Bank has also been challenged by business loan defaults in their credit line facilities including issuing letters of credit, bank guarantee, overdraft facilities, and short, medium, and long-term loans.

It is in view of the challenges associated with loan defaults that this study is being carried out to investigate the reasons for loan defaults among business clients of Sahel Sahara Bank, Ghana. It will also examine the sectors which record high loan default rate in Sahel Sahara Bank, Ghana.

1.2 Statement of the Problem

In the early 1970s through to the 1990s, Ghana embarked on a comprehensive financial sector adjustment programme to mobilize financial resources for investment and growth. The financial sector reform had its primary objective which was the enhancement of the soundness of banking institutions in order to improve deposit mobilization and credit allocation to the private sector for investment and growth.

The banking sector has been active in providing critical funding for many businesses in Ghana but challenges such as loan default is affecting the proper implementation of loan arrangement for the business sector (Ajayi, 1992). Studies by the Bank of Ghana over the years (2006-2011), have proved that non performing loans have hovered at 618 % (247.8-1,369.4 million Ghana cedis) of the total assets of Ghanaian banks. Of this value commerce and finance are the major defaulters (35.4%) and with Electricity and Gas being the lowest of 3.2% (Bank of Ghana, 2012). The large margin of loan default in many financial institutions may have dire implications for capital and money supply of banking institutions in Ghana (Aryeetey & Udry, 1997). Banking institutions affected by loan defaults may have to resort to measures including writing off such loans._seeking egal means to reclaim loans, shrinking of bank's loan portfolio, and sale

of bank's shares to remain in compliance, and acquire additional reserves to meet the reserve ratio requirements (Dixon et al., 2007).

Despite many pragmatic reforms undertaken by banks to mitigate the issue of default risk associated with credit disbursement, the problem still persists. BASEL Il has been instrumental in addressing the increasing spate of loan default (Bank of Ghana, 2011). BASEL Il recommended that, to curb the loan default risk, every bank must create

4

within its establishment a risk management department to thoroughly review any loan deal. This recommendation is to help detect any possible risk associated with a loan and help avert such risk even before the loan is approved for disbursement (Bank of Ghana, 2011).

Further to the above strategy, many commercial banks in Ghana, including Sahel Sahara Bank (Ghana) have reviewed their loan application procedures to make it flexible to support easy access and repayment of loans contracted. In some cases, provisions have been made for borrowers to make repayments on weekly and monthly basis. In specific cases as well, borrowers are allowed to access loan top-up to defray previous loans, and also allow for repayment on newly agreed terms (Sahel Sahara Bank, Ghan, 2012).

Irrespective of all these measures taken by Sahel Sahara Bank (Ghana) the loan defaults are still perpetuating and this actually leaves much to be desired. For example comparative account of the bank's balance sheet as at the year ending 2012 published in 2013 denotes that there was an increase in total loan booked from GHS 38,860,898 in 2011 tóÓHS 65,156,201 in 20 2 indicating a percentage increase of 40.36%. However, the loan impairment charge also increased from GHS 1,078,858 in 2011 to GHS

4,265,123 indicating a percentage increase of 295.3% (Daily Graphic 28th March, 2013 pg 50, 51).

This clearly shows a high rate of non-performing loans in the bank's books and hence a cause for worry. The ascendancy of this default risk has actually necessitated for deeper investigations into the issue in order to find out the reasons why these loan defaults are still persisting despite all the measures being employed by the bank to remedy the

situation. Apart from the risk-based approaches, there are certain factors which if taken into consideration could minimize possible loan default. It is against this background that this study is being conducted to investigate the procedures and processes in granting business loans, examine the purpose of the demand for business loans and the factors which determine loan default.

1.3 Objectives of the Study

The general objective of the study is to investigate the factor that causes loan default among business clients of Sahel Sahara, Ghana.

The specific objectives of the study are:

- To assess the process and procedures for granting business loans at Sahel Sahara Bank, Ghana.

- To investigate the purpose of the demand for business loans at Sahel Sahara Bank, Ghana.

- To identify-th<ütëñíñning factors that contributes to loan defaults of business clients of Sahel Sahara Bank, Ghana.

- To examine the sectors of business clients which record loan defaults in Sahara Bank, Ghana.

1.4 Research Question

The study attempts to answer the following research questions:

- What are the processes and procedures of granting business loans at Sahel Sahara Bank?

- What are the purposes of the demand for business loans at Sahel Sahara Bank, Ghana?

- What are the determining factors contributing to loan defaults among business clients of Sahel Sahara Bank, Ghana?

- Which are the sectors or particular business clients that records loan default at Sahel Sahara Bank, Ghana?

1.5 Significance of the Study

The study will contribute to both theory and practice. The theoretical aspects will help to provide guidelines for an effective management of business loans at Sahel Sahara bank, Ghana. This in effect, will help reduce the loan default challenges facing the Sahel Sahara Bank, and other banking institutions in Ghana.

It is envisaged that the study will provide a module for addressing loan defaults among business clients of banking institutions in Ghana especially, Sahel Sahara bank, Ghana. This would help ensure that business clients of banking institutions are provided with the needed loans to support their business activities.

It is significant to mention that the outcome of the study will provide banking institutions, especially Sahel Sahara bank, Ghana an insight into the reasons for loan

defaults among business clients of banking institutions in Ghana. This will provide the basics for regulation of effective loan management for business clients of banking institutions in Ghana. This will help reduce redundancy in bank loans and improve the servicing of loans provided for business clients of many financial institutions.

1.6 Scope of the Study

The theoretical scope of the study centres on loan application procedures, purposes of demand for loans and factors causing loan default. The research covers the operation of Sahel Sahara Bank within Ghana. It delves into the loan management but with particular reference to loan default among business clients of Sahel Sahara bank in Ghana.

The geographical scope of the covers Sahel Bank branches in Accra, Tema, Kumasi, Sunyani, and Takoradi. The study also cover issues related to business loan default within these geographical areas. Specifically, the study covers theoretical and empirical issues of processes and procedures for granting loans, determinants of business loan defaults, and the to examine the sector that records high loan defaults of Sahel Sahara Bank in Ghana. The research also explores opportunities for providing better management of business loans provided by financial institutions in Ghana.

1.7 Limitation of the Study

BankeryÞr'e huge workload including provision of counter services and online banking, customer service lines, reviewing applications for loans, receiving complaints to the large clientele of Sahel Sahara Bank, Ghana which may affect their availability and preparedness to respond to questions. The researcher may as a result access respondents at their convenience.

8

The busy schedules of bank staff affected their willingness to accept to participate and respond to questionnaires. Again, the willingness to provide and access accurate, current and reliable records on loans in the hands of other competing banks may have dire implications for business in Sahel Sahara Bank. This potential challenge was addressed by assuring respondents of the confidentiality of information source from them.

Some of the questionnaires were not returned and some few ones were returned uncompleted so they were excluded from the analysis. Another major challenge was the low number of business clients who had defaulted. This did not allow the use of a logistic regression in the analysis which is usually the most preferred method of analysis. However the method used is also acceptable.

1.8 Organization of the study

The study has been structured into five chapters. Chapter one covers the background of the study, statement of the problem, , objectives, research questions, overview of the research methodology, , scope of study, justification of the study, limitation and organization of the study. Chapter two covers literature review on theoretical and empirical literatures on research. Chapter three is on the methodology where details of the steps taken to conduct the research, population, sampling techniques and data analysÞyill be deli—d.-Chapter four analyzes and discusses the results ofthe study. The fifth chapter entails the summary of findings, recommendations, and the conclusion.

CHAPTER TWO LITERATURE REVIEW

2.1 Introduction

This section reviews literature on the Contribution of Commercial Banks to business, and the determinants of business loans among Commercial banks. Again, chapter two considered literature on the reasons for loan defaults of business clients of commercial banks in Ghana, and also examines the sectors of the economy that records high business loan defaults among Commercial Banks.

2.2 Contributions of Commercial Banks to Businesses

Commercial banks worldwide have been at the forefront of mobilizing resources to support various types of business. The case has not been different in Ghana, as commercial banks continue to mobilize short, medium and long term loans to support the business activities of both small and large scale businesses. Commercial banks mobilize loans that involve sums of money that is expected to be paid back with interest (Sheffrin, 2003).

According to MacDonald (2003) a loan involves the process of identifying a "Target Market", and appraisal, approval, documentation, disbursement, monitoring and repayment of the loan. In most of the identification process, the management of commercial banks is expected to target specific industries and markets in which lending officers have expertise, request information from existing customers, prospect discovery, outside referrals or walk-in-customers (Koch & MacDonald, 2006). Once the identification is done, the bank requests for formal application and initiates the decision making process.

Loans can be classified into two broad categories, namely secured loans and unsecured loans (Donaldson, 2007). According to Ghaffer (2009), secure loans including mortgage, are provided under the provision of a pledge such as collateral (which is possessed by the creditor of the event of loan default) by the borrower. On the other hand as further argued by Ghaffer (2009), unsecured loans such as credit card debt, bank overdraft, corporate bonds, personal loan, and business loan do not attract collateral (borrower's assets) but rather against the borrower's credit rating, and under many different guises or marketing packages. The supply of credit has a direct link with the demand since credit demanded by the client of banks aid in attracting profit in the form of interest to the credit advancing bank (Barry, Mann, Mihov, & Rodriguez, 2008).

Businesses undertakes projects especially those with greatest risk-adjusted rate of return, with the view to increase value. In most cases, risky project produce greater yield than a riskless investment hence, making it important for a company to desire to borrow more money to invest and undertake such projects. Koch & MacDonald (2006) are of the opinion that, the fluctuation of an economy results in changes in the supply and demand for loans. When an economy is growing rapidly, a typical company will find many more projects that would be profitable than a slow of even shrinking economy. Such developments are ripe for an increase in demand for loans because more capital will be required for investment into those business areas (Sandal, 2004).

In significant cases as stated by (Faulkender & Petersen, 2006), all economic sectors compete with each other to borrow for various purposes. Businesses borrow long term to finance plants and equipments and short term to obtain working capital to meet

11

payrolls or finance inventory. Business borrowing is sensitive to interest rates, other loan terms (such as the life of a loan, any collateral, and any other restrictions), and the economic outlook (Kashyap et al., 2002). An increase in internal rates and a deteriorating economic outlook can impact some sectors, such as new home construction, more that others, such as fast food. Other factors influencing business demand for loans as reported by Tagoe et al., (2005), are the cost of investment goods, the durability of the goods, and tax treatment of investments.

The size of an available loan from a bank may also influence business demand for loans as some loans may not be adequate in financing a specific business proposal (Arene, 1992). Many lenders including commercial banks as argued by Black and Strahan (2002) have different loan thresholds (minimum and maximum size loans) which may not fit the specific loan requirement of a business, thus limiting the demand for a loan from a business enterprise.

The availability of other resource mobilization opportunities, including the sales of bonds also affects the demand of business loans. Businesses can sell bonds to the public that caroe sold in the secondary market especially for companies that have liquid market for bonds but because of the high fixed cost associated with bonds as cited by Adrian and Shin (2008), this approach is economical for large business.

2.3 Process and procedures for granting business loans among Commercial Banks

Generally, commercial banks prescribe various processes and procedures for businesses to go through to access credit facilities from banks. Despite the financial market sophistication, a loan is still dominant form of the bank placement. As a result, loan placements may also be regarded as the most significant source of a bank's profitability.

12

Considering that the profitability is ultimate business performance and bank loans are source of interest income, the loan-granting process management is of imperative importance (Petrovic & Davidovic, 2011). The loan-granting process follows adequate methodological guidelines as a set of mechanisms and procedures to which relevant credit documentation is being subject.

Formalization of the loan-granting process improves efficiency in gathering and processing of credit documentation, but also facilitates the process of evaluation of the gathered data with a view to efficient making of credit decisions (Schaeffer, 2000). In addition, the documentation flow is burdened with specific, check points within which the data relevant for the loan approval are filtered.

With the bank as regards the future credit activity as enumerated by (Adrian & Shin, 2008), the business meeting is arranged so as to learn about the client's business activities. In the view of (Petrovic & Davidovic, 2011), making a visit to the client, loan granting negotiations___——n-the client's business premises, that is, the place in which the security instruments for the loan repayment are located (if it is a loan secured by real estate as a collateral) are all aimed at detecting and eliminating risk factors that are not evident from the available documentation. During the visit the following elements are assessed:

• territorial circumstances and the client's environment, techniques and technological conditions in terms of quality, market position and development prospects, • professional and human quality of management bodies and mangers, strategies, unique business policy, disagreements between management and members of shareholders' group which jeopardize the company operation, • the level of administration (accounting, organizational level, efficiency and reliability of the information system), • circumstances which permanently jeopardize the company operation (change of environment resulting in the revenue contraction, out-dated resources, culturally underdeveloped environment, low-skilled labour, technological negligence and the lack of organization etc.), • the client's assets (capacities at the client's disposal for business operation, the level of capacity utilization, the assets not required for operation, etc.) • circumstances which affect the realization of the loan purpose, • whether the work processes are taking place in the client's business premises, • the state of assets proposed as a security instrument, that is, the factors affecting its market and recognized value are assessed (Petrovic & Davidovic, 2011). Adrian and Shin (2008) states that, before lenders will grant a small business loan, thëS' need to errsúíîíúií{e loan will be repaid. Every loan is a risk but banks and brokers want to take as little risk as possible. They look for businesses that show promise and they award loans to business people who have solid personal and business financials and are committed to the success of their businesses. When deciding whether or not to issue you a loan, Brown, Taylor, and Prince (2005) opines that, lenders may look at gross annual sales or revenues, checking account balances, profitability and the length of time you have been in business. If your business is relatively new, the lender may ask to see a business plan.

In a study by Koch and MacDonald (2006) a lender, including commercial banks will review your personal credit history, especially if the company does not have a track

record of producing revenue. Among the personal credit information that may be considered as further outlined by Koch and MacDonald (2006) are:

- personal credit card debt,
- personal loans,
- liquid assets,
- real estate holdings,
- tax returns, and
- personal financial statements.

Lehmann and Neuberger (2001) have indicated that lenders will consider your personal spending habits, including how you use credit cards and handle installment debt. Lenders look at individuals with substantial personal debt, as they are less likely to withstand a reduction in income during slow times. Lenders pay close attention to balancesheets. Any uncertainty or discrepancy of their contents will raise a red flag.

Cole and Goldbery (2004) state that, business loan applicants will expect a business summary that describes in detail: the nature of your business; how the funds from the loan will be used; and available working capital, with descriptions of how it will be allocated. There is some information that lenders may want to see later on in the

15

process, such as proof of insurance for collateralized items or lease documents (Elyasiani & Goldberg, 2004). While being prepared and organized can save time and possibly help your loan get approved, too much information may be more of a hindrance than a help.

It is quite clear that business loan applicants should ensure that they satisfy the appropriate lending procedures and processes to qualify for business loans at commercial banks.

2.4 Factors influencing the Lending Ability of Commercial Banks

In general, Commercial banks' lending ability is influenced by various factors including credit availability, customer credit worthiness, and availability of appropriate collateral and local banking regulations guiding commercial banking (Anderson, 1964; Aryeetey, 2003; Barry, Mann, Mihov, and Rodriguez, 2008).

The ability of commercial banks to grant credit to its clients is contingent on deposits received from customers (Anderson, 1964). Bank customers usually tend to invest in perhaps risk free securities such as Treasury Bills, Bonds among others, to earn interest on such securities increases. In such scenario of customer investments, the liquidity or capital of banks is reduced hence limiting banks' ability to lend. Price Water House Coppers survey in 2013 indicates treasure interest rate exert pressure on borrowing and lending. According to the survey, since 2012 the has been and upward trend in BOG policy, which rose from 13.5% to 15 last year and stand at 16% (Business and Financial Times, Friday June 14, 2013) Speculation in respect of potential reduction of interest rates on securities, compel customers to increase their deposit levels and consequently support an increase in the lending potential of many commercial banks (Bernanke & Blinder, 1988). Meanwhile, the loan threshold of commercial bank in Ghana is guided by Bank of Ghana regulation that requires commercial banks to reserve a fraction of their total assets (capital adequacy requirement), usually 10%. Also in Ghana, banks are expected to hold a certain percentage of liquid assets expressed as percentage of total deposits (Barry, Mann, Mihov, & Rodriguez, 2008).

Lending from commercial banks is also greatly influenced by the volumes of nonperforming loans, which incidentally also greatly affect the liquidity and profitability of the banks (Stein, 1998). In a bid to minimize these credit risks, commercial banks stall further lending which also do negatively affect bank business and in other cases, shareholders value. Stein (1998) is of the opinion that, non-performing loans in increased

by the absence of relevant credit reference bureau, and inter-bank collaboration to track bank customers including business enterprises, that fail to honour their loan obligations. Bank of Ghana financial statement on asset and liability structure of commercial banks as stated in Bank of Ghana (2012) shows that, total borrowings of commercial banks (27.6% in 2011) had a growth of 7.7% over 2010 figures. Meanwhile, non-performing loans for the period accounted for 6-18% of the total loans portfolio (Bank of Ghana, 2012).

The inability of commercial banks to appraise the credit worthiness of business clients limits the-potential for such banks to continue to mobilize loans for its clients (Black and Strahan, 2002). The report of Aryeetey (2003) indicates that commercial banks in Ghana lack the requisite apparatus, including up-to-date data base to credit score their clients so as to clearly supervise and monitor those who are on loan portfolios. This is because, the absence offelevant data base of business loan clients makes it difficult for

17

loan officers to convince themselves of the credit worthiness of loan applicant, hence delay and sometimes limit loan access for business client (Barry et al., 2008).

Again, the overemphasis on providing immovable assets as collaterals also limits the loan mobilization potential of commercial banks because many bank customers including business enterprises, lack immovable assets such as land, plants, and machinery (Rajan & Zingales, 1995). Ozdemir and Boran (2004) in their write-up, provides further support to the assertion that customer inability to provide relevant collateral, including immovable assets limits the capacity of commercial banks to provide credit for business clients.

Dahl and Sorenson (2007) note that location also impacts on the market potential and growth opportunities of new firms. Geographical proximity to either critical buyers or suppliers produces a form of enhanced environmental scanning that enables new businesses to more easily identify and exploit growth opportunities in the market. Gilbert (2008) points out that the geographical area where the firm is launched has implications for its access to markets and credit resources (T.B, Le, & Nguyen, 2009).

2.5 Determinants of demand for business loans among Commercial Banks.

Kauffman Foundation (2007) on capital structure decisions states that, new Small and Medium Enterprises (SMEs) in the United States of America rely heavily on external debt financing suchKÃÝoÑns and trade credits as sources of funding.

Aryeetey and Udry (1997) are of the opinion that, credit provides the basis for increased production efficiency through specialization of functions thus bringing together in a more productive union, The skilled labour force with small financial resources and those

who have substantial resources but lack entrepreneurial ability. The drive for business enterprises to secure sufficient finance is a key reason to secure loans for undertakes proper organization of production, acquisition of investment assets and/or raw materials and development of marketing outlets (Keyfetz, 2005; Loawale and Odeyemi, 2010). Banks mobilize appropriate funding or capitalization (the process of determining the quantum of funds that a firm needs to run its business) is critical to the survival of many businesses worldwide, as resource availability helps businesses to keep and sustain itself in operation, because the mobilization of financial resources is central to the process to establish and operate productive activity (Amabe, 2012).

According to Huyghebaert et al. (2006) trade credit arises when a firm purchases goods and services for which payment is delayed. It is a spontaneous source if financing, as it arises from ordinary business transactions. In South Africa, Herrington and Wood (2003) point out that lack of education and training reduce management capacity of SMEs in South Africa and one of the reasons for their high failure which also drive many businesses to access additional funding, including loans.

Shane and Cable (2002) agree that networking can be used to reduce information asymmetry in creditor/debtor relationships. Social obligations between connected parties, and information transfer through social relationships, influence venture finance decisions including>essmg-loans. Networking is also a relevant influence on demand for business loans because it is expected to provide to the trade creditors information on legitimacy, which in turn should give the SMEs advantages in accessing trade credits (Ngoc et al., 2009).

According to Pretorius and Shaw (2004), a good business plan is perceived as one of the most essential documents to be prepared by the entrepreneur or small venture owner when setting up a business. Business proposal including financial information and business information is one of the primary measures of the capacity of a business to demand and effect repayment of business credit. For Zimbabwe firms, Fafchamps et al. (1997) found that larger firms were more likely to obtain trade credit including loans from commercial banks.

2.6 Reasons for loan defaults among business clients of Commercial Banks

Loan default occurs when a debtor has not met its legal obligations according to the debt contract, example, it has not made a schedule payment, or has violated a loan condition of the debt contract (Tessmer, 1992). Loan default can apply to loans that attract a security in the form of collateral (secured) of an unsecured loan.

Generally, a loan agreement formalizes the purpose of the loan, the terms, repayment schedule, collateral required, any loan covenant and finally, what conditions bring about default by the borrower (Melitz & Pardue, 1973). When borrowers who are normally provided with a loan schedule indicating repayment time, amount and frequency, fails to fulfil their obligation a loan default occurs. In such a case a foreclosure (a legal process in which mortgage property is sold to pay debt of the defaulting borrower) or repossessiom(a propsrty—strch-as car is taken back by the creditor when the borrower does not make payment due on his property) process is initiated by the commercial bank to reclaim the loan.

2.7 Types of loan default

20

Loan default may occur in various forms including debt services and technical default. Default may involve the failure of the borrower to make the payment on an agreed date without providing the lender with sufficient prior notice, and well as a lack of recognition of the importance of meeting the loan obligation, termed debt services loan default (Wood, 1975; Hansen, 2003). Loan default may be technical when a borrower violates clauses that are supposed to affirm the loan contract agreement such as sales of assets, payment of dividends, common with unsecured loans (Melitz & Pardue, 1973; Kauffman Foundation, 2007).

With most debt (including corporate debt, mortgages and bank loans), a covenant is included in the debt contract which states that the total amount owed becomes payable on the first instance of a default of payment. Generally, if the debtor defaults on any debt to any lender, a cross default covenant in the debt contract states that that particular debt is also in default.

Available literature gives different descriptions of bad loans. Some researchers noted that certain countries use quantitative criteria for example number of days overdue scheduled payments while other countries rely on qualitative norms like information about the customer's financial status and management judgment about future payments (Bloem and Gorter, 2001)

Alton and Hazen (2001) described bad loans or non-performing loans as loans that are ninety days or more past due or no longer accruing interest. Fofack (2005) consider non-performing loans as loans which for a relatively long period of time do not generate

21

income, that is the principal and or interest on these loans have been left unpaid for at least ninety days.

2.7.1 Causes of loan default

The study of Herrington and Wood (2003) shows the main causes of loan default include shortages in loan, delay in the delivery time of loan, poor supervision, nonprofit ability of farm enterprises as well as undue government intervention with the operations and procedures of the programmes being sponsored by the government.

Faulkender and Petersen (2006) shows that the nature, time of disbursement, supervision and profitability of enterprises which benefited from small holder loan scheme in Ondo State, contributed to the repayment ability and consequently high default rates. Other critical factors associated with loan delinquencies are: type of the loan; term of the loan; interest rate on the loan; poor credit history; borrowers' income and transaction cost of the loans. However, the lending perception by banks of SMEs as being involved in high loan defaults could not be confirmed by the study.

Meanwhile, the condition of the economy is equally important; the recent U.S. economic slowdown has resulted in total delinquencies and monthly defaults climbing 31 approximately 65 percent (Young, Glennon, & Nigro, 2006). Besides the United States being affected by the economic crisis Barry et al. (2008) indicates that 70 percent of the defaulters in theiFÃãiñFÍšare facing crisis related to health or experiencing death in the family. Finally, loans that are too big also lead to repayment problems, dissatisfaction and high drop outs (Ganbold, 2008).

22

2.7.1.1 Institutional Factors

Institutional factors also contribute to default rates among business clients of commercial banks. One of the important reasons for poor recovery of loans is attributable to wrong selection of projects (Vigano, 1993). Success of any project is linked to the viability of the project, easy availability of raw material, transportation, railways, skilled labour, communication facilities, markets, etc. If any of the above is not easily available to the entrepreneur it results in an increase in the cost of the project and also in delay of production (Arene, 1992). A failed attempt to conduct a good feasibility studies into these variables can cause default in repayment of loans advanced to business clients of many commercial banks. In usual practice, when an entrepreneur applies for a loan he presents his project in such a way that no one can easily comprehend the non-availability of the primary prerequisites. It is therefore critical that bankers conduct a good loan assessment granting loans since loan applicants from the business circles will ensure that it camouflages its weak condition and rather highlight its key potentials and strengths (Young, et al., 2006).

Institutional factors such as failure to conduct due diligence on potential borrowers including business clients, increases the risk of loan default amongst clients of commercial banks (Brown, Taylor, & Prince, 2005). Failing to conduct an in-depth background check on potential borrowers can lead to credit rationing in which some borrowers are denied loans even when they are willing to pay a higher interest rate at the expense of borrowers who end up failing to pay such loans (Claessend, Krahnen, & Lang, 2005). For example, those who want to take on big risks are likely to be the most eager to take out a loan because they know that they are unlikely to pay it back. Since

23

adverse selection makes it more likely that loans might be made to bad credit risks, lenders may decide not to make any loans even though there are good credit risks in the marketplace. Selection of the right entrepreneur is one of the major factors in the profitability of banks and financial institutions.

Two major criteria namely the intention to repay and the capacity to repay should be properly dealt with in credit evaluation (Crook, Hamilton, & Thomas, 1983). For most corporate organisations, financial institutions rely on credit rating agencies such as Standard and Poor's and Moody's to help them in their credit risk identification (Brown, Taylor, & Prince, 2005). In Ghana, these rating agencies are not fully developed. "However, the Central Bank has now taken steps to establish credit rating agencies in the country. The first being XDSDATA which obtained license from the Bank of Ghana to operate as a credit reference bureau in the country in compliance with the Credit Reporting Act 2007" (Business and Financial times 12/05/08). Clearly minimizing the adverse selection problem requires that lenders must screen out good from bad credit risks (Musto & Souleles, 2006).

Failure of banks and non-banking financial institutions to continuously monitor customers after credit has been granted to them leads to possible default. Effective monitoring of potential borrowers of commercial banks will help banks to keep track of the borrower?s compliance e terms of the credit, identify early warning signs of deterioration in the account, conducting periodic valuation of security and monitoring timely repayments (Claessend, Krahnen, & Lang, 2005).

24

Certain Institutions grant loans without going by the principles or canons of lending which apply to large corporations as well as small personal borrowers. Pond & Lipscombe (2002) used an acronym CAMPARI which represent Character, Ability, Margin, Purpose, and Insurance to describe the principles of lending banks and nonbanking financial institutions must follow to avoid high loan default rate.

According to Ozdemir & Boran (2004), the risk analysis assesses the risk of the borrower being able to service the loan or repay the loan. They went further to argue that, to assess risk, information must be obtained on the borrower and the project being financed and this exercise is known as "due diligence". Banking and Non-Banking Financial Institutions failing to assess risk of the borrower and the project being financed which constitute due diligence causes the borrower to default (Claessend, Krahnen, & Lang, 2005). The scope and format of due diligence varies as there is no standard procedure common to all lenders. The exercise varies from case to case and depends on several factors including the size of the loan, the type of the loan, security and the lender's existing knowledge of the borrower. Brown, Taylor, & Prince (2005) said before a lender makes an offer to lend, the transaction has to be approved by its credit committee. They went further to say that obtaining this approval involves presenting a credit risk analysis of the borrower and the project.

Bank processes includin cre • software for monitoring loan advanced to customers have a greater effect loan default rates in commercial banks (Crook, Hamilton, &Thomas, 1983). While some banks use specialised credit software, others do not use any specialised software for loan monitoring leading to possible default. According to Koch & MacDonald, (2006), the process by which credit decision is made varies from bank

25

to bank. This goes a long way to influence default rate as formal credit decision process depends on many factors such as organisational structure, bank size and others.

In effect, institutional loan defaults are contingent on banks making the right decisions by availing themselves with requisite credit information of their clients, engaging competent hands to take decisions on loans, and providing effective monitoring mechanisms for regulating the management of loans at the institutional levels of banking.

2.7.1.2 Credit Worthiness of Businesses

Industrial credit providers including commercial banks in developing countries have had their finances challenged by the increasing spate of loan defaults. According to Koch & MacDonald (2006) the surveying the character of borrowers should be considered an important factor to be considered by banks especially commercial banks, before allowing borrowers to access loans at the banks. Character of borrowers to be considered should include the individual and corporate entities readiness to pay their debt. Information about a borrower's character including their credit worthiness can be determined from his credit history, personal interview and other means.

Gatev & Strahan (2006) argues that the morally indefensible behaviour of managers of business borrowers of developing countries presents an important reason for loan s among individuafiõfFðÇvers. Some business loan beneficiaries are in the habit of making wilful default in the repayment of loans. Management of such businesses in this case, refuse to make loan repayments intentionally thinking that they could escape the

26

consequences. According to (Kashyap, Rajan, & Stein, 2002), the issue of loan default was among bank borrowers become minimised after the introduction and implementation of key banking regulations that prevented borrowers from wilfully failing to honour their loan obligations. Sometimes loan default is triggered by investing loans in projects that do not initially form the core list for accessing loans at commercial banks (Claessend, Krahnen, & Lang, 2005). There are instances where an Organisation is doing well but the promoter would rather invest the available resources in some other venture. Most chronic defaulters are known to lavishly and luxuriously spend loan money. The basic intention to repay is missing in such cases and these are the defaulters who not only hamper the recovery on the Financial Institutions but also set a bad precedent for others to follow.

Other factors including death, sickness and other natural calamities of key management of business enterprises makes it highly impossible for borrowers to repay their loans because their demise may change the business orientation and direction (Herrington & Wood, 2003). According to Bester (1994), loan default is partly attributed to natural calamities such as floods, earthquakes, storms that make is difficult for borrowers to honour their loan obligations. Natural calamities not only affect the unit directly but also exert additional burden on the Government e.g. relief measures, waivers, etc. A further fraction of borrowers, albeit nominal as enumerated by Black and Straham (2002) tend to take undue advantage of such natural calamities in order to avoid repayment, thereby increasing the magnitude of default (Black & Strahan, 2002).

According to Keyfetz (2005), anti—discriminatory laws forbid Banking and NonBanking Financial Institutions from the use of age, sex, race, religion and other irrelevant characteristics such as age of senior management of businesses to deny customers access to credit facilities. A study conducted in Ghana identified systematic differences in commercial lending default rate and payment delinquency between firms that are operated by women and men. Ascertaining default rate among age, sex, race and religious groups becomes a bit difficult. As a result, banks are unwilling to grant loans to SMEs with very old people who represent management because they think that old people at the helm of business affairs die more often (with the potential to change the business direction especially when it is of a sole proprietorship) than young people.

2.7.1.3 Macro-Economic Factors

Kashyap, Rajan, & Stein (2002) indicates that certain unforeseen, unpredictable and unexpected fluctuations in the statutory regulations such as change in the Excise rates, Commercial Tax, Electricity Tariff and other revenue tools of the government, tend to throw the entire planning of the industrialist out of gear. These fluctuations are of such a magnitude and are so unpredictable as to be beyond the comprehension of the most sceptic and apprehensive of entrepreneur. In order to cope with these unforeseen variations, which force the entrepreneur to put additional burden on his financial resources, the natural and convenient remedy that comes to his mind is to delay the repayment of the loan and therefore causing him to default.

According to Madura (2006), the probability that a borrower will default is influenced by ecorŶoKIW conditions and ome other characteristic specific to the borrower. Unexpected changes in macro-economic indicators cause borrowers to default loan

repayment. An Increase in interest rates have a direct effect on increasing adverse selection problems, and promoting financial instability on both balance sheets of both firms and households. As pointed out in Bernanke & Gertler (1995) excellent survey of the credit view of monetary transmission, a rise in interest rates and therefore in households' and firms' interest payments, decreases firms' cash flow, which causes deterioration in their balance sheets.

2.7.1.4 Legal Factor/Cumbersome Legal Process

Legal complications act as an inducement to default in the payment of dues. The cases filed in the court languish for years, often with courts decree nowhere in sight. And worse, even when the decrees are obtained after a long-drawn legal battle, its execution proves elusive for even 5/6 years due to procedural tangles (Claessend, Krahnen, & Lang, 2005). Thus, even when recovery certificates are obtained, satisfaction of demand in actual practice, proves, a far cry. This is why; some borrowing units themselves motivate the lending institutions to file civil suits against themselves hoping relief from burden of regular payment of instalment during the long tendency of the suit.

Once a loan account becomes non-performing, the only two courses left open for lending institutions are to either put the unit under intensive recovery drive, just as a serious patient is taken to an intensive care unit or to write off the overdue in the account (Fofack, 2005). Meanwhile, Adrian and Shin (2008) are of the opinion that, the processes for recovering redundant loans are fairly determined by the legal frameworks that support loan recovery but incidentally legal frameworks of the sort are rare if not absent in mostSub-SÞ_countries.

29

2.8 Distribution of loan defaults for various business clients

Business loan defaults rates differ for the different business sectors. In Kenya for example, studies by Irungu (2013) the construction, building and real estate sector topped the list of sectors with biggest loan defaults in the first quarter of the year, a Central Bank of Kenya survey shows, Irungu (2013) add that, according to the new Credit Officers' Survey for the quarter ended March 2013, 15 per cent of commercial banks said non-performing loans (NPLs) in building, construction (e.g. roads, buildings, ports and rail), and real estate (such as houses and lands) had increased. Also, slightly lower proportion of commercial banks said the transport and communications sector also had experienced high NPLs.

In assessing the distribution of business loan default for Ireland, MacCann and McIndoe-Calder (2012) indicates that for 2010 Construction led in business loan defaults rates, and closely followed by, Real Estate, Hotel and Restaurants, and Manufacturing sectors. In the same area of assessment, business in finance, Government, and Information and Communications recorded the lowest default rates for 2010 (McCann and McIndoe-Calder, 2012).

Reuters, 2013 states that the South Korea's central bank reports indicate that construction, shipping and shipbuilding companies were faced with sharply higher debt default risks than othe»giors-due to an extended slump in those industries. expected default frequency of these sectors as hinted by Reuters (2013), which it said is a measure of chances for defaulting on debt, stood at 9.1 percent for construction companies, 8.5 percent for the shippers and 5.9 percent for shipbuilders because a considerable number

30

of shipbuilding and construction companies saw their operating profits fall sharply during 2012 or turn into losses, and (some of the) shipping firms posted losses for a second consecutive year. The expected default frequency the sector posted far higher compared with the expected debt default frequency rates of between

1.2 percent and 3.2 percent for the other sectors included in the analysis.

In Ghana, reports by Bank of Ghana (2012) Studies by the Bank of Ghana over the years (2006-2011), corroborates the results of Irungu (2013), because the business loan default distribution in Ghana proved that non performing loans have hovered at 6-18 % (247.8-1,369.4 million Ghana cedis) of the total assets of Ghanaian banks. Of this value commerce and finance are the major defaulters (35.4%) and with Electricity and Gas being the lowest of 3.2%.

It is significant to mention that business sectors such as commerce, construction, and shipping are among the high loan defaulting groups of most commercial banks however; sectors such as electricity and gas in Ghana, and finance, government and information communication in Ireland are known to have very low business loan default rates. A study to assess the distribution of loan default among business loan beneficiaries will be helpful in drawing out the patterns of loan defaults among business loan clients of commercial banks.

2.9 Effect of business loan defaults on credit supply and productivity at Commercial Banks

Many episodes of banking distress are driven by the deterioration of bank assets. Clearly, major dislocations can occur even if no bank runs on any significant scale take

31

place. Recent examples include the Japanese and Nordic banking crises, as well as the current global financial crisis (Peter, 2009). At the heart of these episodes is the unstable interaction of falling asset prices, bank losses, credit contraction and widespread bankruptcies. This interaction, widely noted in policy circles, is not captured by leading approaches to financial instability, such as the theory of bank runs and the financial accelerator (Adrian & Shin, 2008). Those theories also treat financial and macroeconomic stability as largely the same. Yet in reality they need not coincide nor be addressed by the same authorities or instruments. The ongoing financial crisis, for instance, witnessed financial instability unrelated to and in advance of any deterioration in output or inflation.

Loan default presents varied challenges to different stakeholders including the management of commercial banks, protective and defaulting borrowers. Persistent loan default can also affect the productivity of lenders including, commercial banks and nonbanking institutions. According to Pond & Lipscombe (2002), lending is a banking skill and banks can fail if their loans are bad. The loans portfolio comprise a very large portion of a Bank's total assets, the backbone of the Bank's structure, and the basis for judging the performance of a bank including commercial banks (Barry et al., 2008). In most cases of borrower default, the lending bank is compelled to write off its investments resulting in capital loss to the bank in question and the unwillingness to make neyloans (Von-Pischke, 1980). Consequently, financial institutions including, commercial banks are unwilling to grant loans when they become confronted by many cases of loan default.

32

The link between credit and economic development has captured the attention of economists since long (Ajayi, 1992). With improved financial intermediation, the proportion of financial savings that is diverted by the financial system into nonproductive uses fails, and the rate of capital accumulation increases for a given saving rate (Arene, 1992). He further elaborates the importance of financial intermediation as it enhances saving mobilization by providing a variety of safe financial instruments to savers and ensuring tangible returns on savings. The financial sector contributes to the efficiency of the entire economy by spreading information about expectations and allocation of resources to investors.

Persistent loan defaults negatively impact the credit score of commercial banks and also prevent such category of borrowers from accessing future loans from such commercial banks (Shane and Cable, 2002). In some cases, Musto and Souleles (2006) shows that, the lending banks may lease the loan collection to a collection agency whose mode of operation may also have negative implications on the borrower's credit rating. More so, borrowers who acquire secured loans end up losing their collateral when they default. This results into repossession or foreclosure (if your debt has collateral) or having that debt turned over to a collection agency (if your debt does not have collateral) (Vigano, 1993).

A long period of sustained default by borrowers can be a catalyst for emerging issues of credit crunch that is, a sustained period of careless and inappropriate lending which results in-lǒsses for lendin ins tions and investors in debt when the loans turn sour and the full extent of bad debts becomes known (Tagoe, Nyarko, & Anuwa-Amarh, 2005).

33

These institutions may then reduce availability of credit and increase the cost of assessing credits by raising interest rate Turner (2008).

Berg (1998) argues that, real estate prices and bank lending were closely intertwined in both the boom and the bust phase. As losses materialized across the whole banking system, signs of a capital crunch surfaced. In Sweden, Englund (1999) indicates that credit contracted by 28% from peak to trough, while loan-to-value ratios fell from 90% to 60%, far below the pre-boom level of 75%. In the view of Vihriala (1997), the credit contraction even reached 36%, where the depletion of bank capital, and the concurrent tightening of capital regulation, also contributed to a capital crunch in Finland. In each of the countries, the banking crisis reached systemic proportions. The largest banks experienced serious solvency problems (Sandal, 2004). In view of the size of losses, policymakers recognized that an unstable banking system could entail the collapse of credit and payments that would hurt the economy. To avert such a collapse, comprehensive recapitalizations were undertaken, accompanied by other support measures (Vihriala, 1997; Sandal, 2004).

The Nordic banking crises as highlight by Pesola (2001) emphasise the important role played by the interaction of credit, asset prices, bankruptcies, bank losses and capital, variables that are rarely considered jointly in existing models. Econometric crosscountry studies conducted in Black and Strahan (2002) detects patterns between these variables that are broadly in line with the mechanism described in this paper. Bankruptcies and loan losses in the Nordic countries are well explained by financial

————

34

fragility (debt/GDP) Interacted with adverse surprises (Pesola, 2001). Bankruptcies are also Granger-caused by bank credit and house prices in what resembles a 'financial cycle' as opposed to a business cycle (Hansen, 2003).

Invariably, the contributions of commercial banks towards resource mobilization of many businesses cannot be underestimated as banks continue to provide critical loans to support the growth and development of many businesses. In the process of the management of business loans, banks have been challenged by the high rate of defaults. The need to manage such business loans and identify long lasting solutions to the high business loan defaults rates is important as it affects the overall credit availability of such banks.
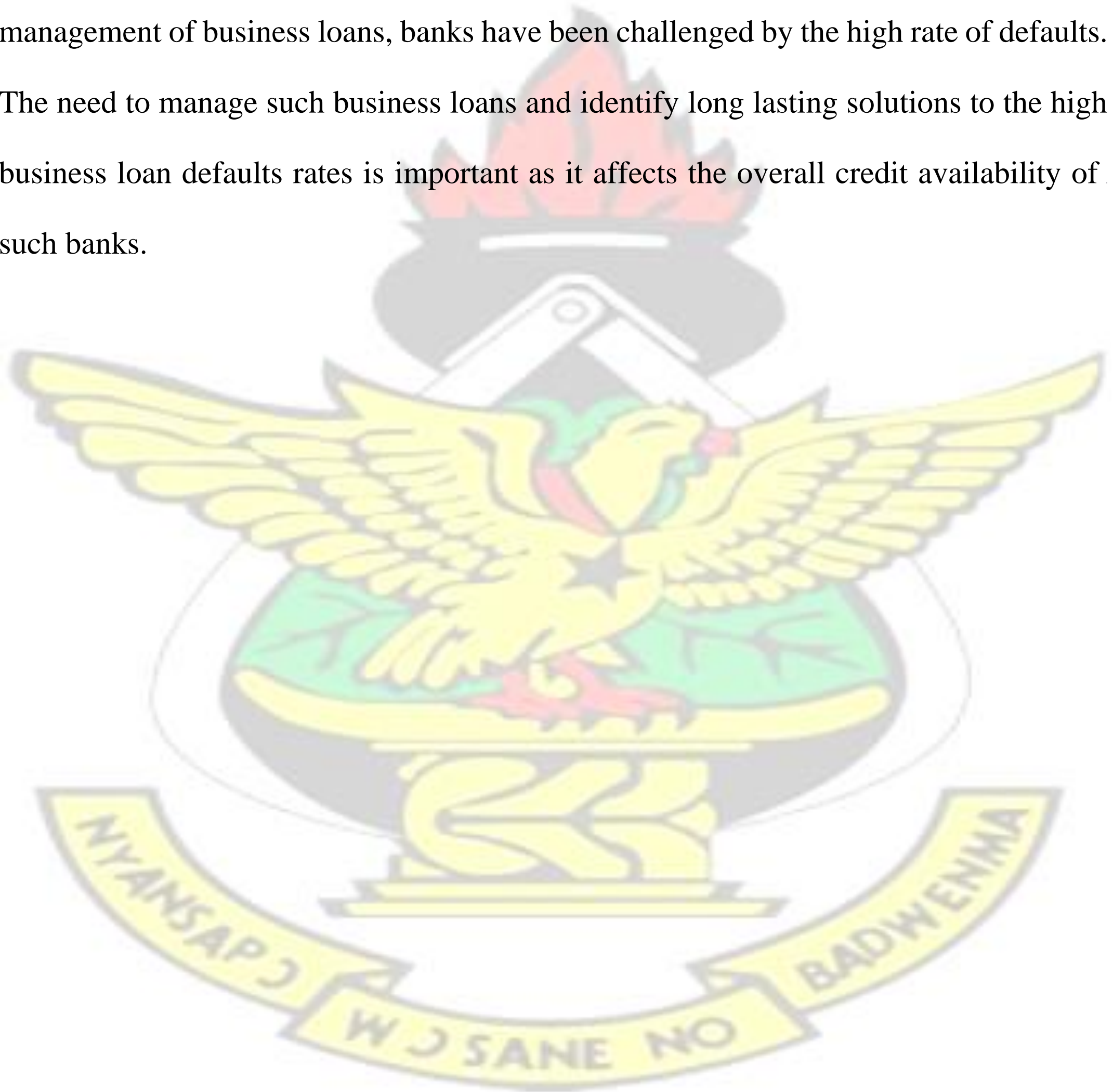
CHAPTER THREE METHODOLOGY

35

3.1 Introduction

This chapter discusses the methodology for the study. The methodology provides information about the research design, population and sample for the study, sampling procedure, research instruments, administration of research instruments, and processes for analysing the research data.

3.2 Research Design

The study is combination of both quantitative and qualitative study. The choice of a single institution makes the study looks like a case study but the involvement of branches in about five regions of Ghana makes it cross-sectional. This is because variations in the various branches carry along unique characteristics. The researcher also employed the descriptive research design used for the study. Gay (1987) sees descriptive surveys as the process of collecting data in order to test hypothesis or answer questions concerning the status of the study. The researcher therefore opted for the descriptive survey design because taking the purpose of the study into consideration; it was the appropriate design that could lead to the drawing of meaningful descriptions from the study.

3.3 Sources of Data

Primary and secondary data were used in conducting the research

3.3.1 Primary Source

In order to get consistent, valid and unbiased information, the researcher interviewed stakeholders who included borrowing clients and the Bank staff.

3.3.1.1 Questionnaire

The aim of issuing the questionnaire was to help ascertain the determining factors that caused loan default among Business Clients of Sahel Sahara Bank.

3.3.2 Secondary Source

The researcher also used information from Newspaper publications, articles, internet and the Bank's records.

3.4 Population

The population for the study were the staff and business clients of Sahel Sahara Bank, Ghana. The focus of the study was the staff and clients of the entire 14 branches of Sahel Sahara Bank, Ghana.

However, three branches including Alabar in Kumasi, Tamale and Achimota were exempted from this study since they started operations this particular accounting year and has therefore not yet recorded any loan provision in their loan books. An average populati01fÓf90 business clients d 2 staff per branch from the Northern and Southern sectors of Sahel Sahara Bank, Ghana were drawn for the study.

3.5 Sample Size

A sample size of one hundred and forty (140) business client and twenty-two (22) bank's staff were considered for the study. Of this number, a minimum of twelve respondents each (made up of two bank staff and ten business clients) from the eleven (11) branches of the Bank were selected for the study (Table 3.1).

In each of the cluster inclusive, at least 10% of the total population was selected thereby giving the proportional representation to the areas selected for the study.

Table 3.1: Distribution of population and sample selected from staff and clients of Sahel Sahara Bank, Ghana.

Branches	Staff	Client	Total
Adabraka	2	15	17
Accra central	2	13	15
Spintex	2	15	17
Nima	2	10	12
Darkoman	2	10	12
Tema	2	15	17
North Industrial Area	2	12	14
Madina	2	10	12
Adum	2	13	15
Sunyani	2	12	14
Takoradi	2	15	17
Total	22	140	162

Source: Field Survey, 2013

3.6 Sampling Technique

To ensure a representative result, staff and business clients of Sahel Sahara Bank, Ghana were stratified into clusters of management and loan officers and business clients of the bank. Each sample represents the views of both the bank staff and business clients of the Bank.

The sampling technique employed was the quota sampling technique. The reason is that, the branches have different business portfolio and client sizes and therefore the choice of subjects must commensurate with the number of borrowers in order to control possible biases in sample selection. The systematic sampling method (probability sampling technique) was used to select business clients (made up of at least 10 clients) from the population. Every fifth (5th) business client of each branch was selected from the list of the population until a total of at least ten (10) business clients were obtained for each branch, Again, the purposive sampling method was used to select the branch manager and loan officer of each of the selected branches of the bank for study.

3.7 Data Collection Procedure

The main sources of data were primary and secondary. The primary source of data were obtained using questionnaire. These were designed for both staff and clients. The questionnaire were made up of more closed ended and few open-ended questions. They were designe&and scrutinized-bÿ the supervisor before their administration. Copies of the questionnaire were given to the selected (sample) staff to complete, The edited copies of the questionnaires were administered to the one hundred and forty (140) respondents who were business clients and 22 staff of Sahel Sahara Bank, Ghana.

The survey is useful for the study because it provides for systematic survey of respondents, wider coverage of the population and ample time to respond, and allows for quantitative analysis of data (Babbie, 1989; Creswell, 2003; Robson, 2011). Closed ended questions (with five-point Likert scale) were used for the questionnaires (Vaske, 2008). The household survey was used to generate information on the process and procedure of granting business loans, determinants of business loans, determinants of default of business loans, and the sectors of the economy that records high loan defaults at Sahel Sahara Bank, Ghana. The choice of these instruments was necessitated by the fact that almost all the respondents under consideration could read and write. The questionnaire contained at least 20 close-ended questions organized in accordance with the objectives after gathering the demographic characteristics of respondents.

To obtain the appropriate responses the instruction and items were written in clear and simple language to ease comprehension. These processes were adapted to suit the type of scale for the measurement of attitudes and perceptions. This is because it aided respondents to indicate the degree of their belief in a statement (Best & Khan, 1989).

The researcher also employed the use of other sources of information such journals and the Banks end of year 2012 financial results published in 2013.

3.8 Administration of Instrument

The administration and collection of questionnaire took about a week to complete. The courier dispatch service of the bank facilitated the collection of the questionnaire for analysis.

3.9 Data Analysis

The completed questionnaires were first edited for consistency. For the open-ended items, a short list was prepared from a master list of responses in order to get the key responses given by respondents. All the responses were recorded on a broad sheet before being fed into the computer for computer analysis, using the Statistical Package for Social Sciences (SPSS). To enhance scoring and analysis of the data, the various categories on the data, and the various categories on the questionnaire were re-coded to facilitate the analysis. The descriptive nature of the study demanded both inferential and descriptive statistical tools were used in the analysis of the data. The data was put into tables of frequencies and critically interpreted to answer the research questions. The Pearson Chi-square module was used in the analysis. This is because the result on the number of clients who defaulted was not too appropriate for the originally planned logistic regression. The probability values were used to indicate the significance of the factors to determine loan default.

3.10 Profile of Sahel Sahara Bank, Ghana

3.10.1 Corporate Profile

Sahel Sahara Bank is a subsidiary of Banque Sahelo- Saharienne pour l'investissement et le Commerce (BSIC). BSIC was established by the community of Sahel-Sahariene States of Africa (CENSAD) of which Ghana is a member.

The objective for establishing BSIC in Ghana is to provide a platform to enable Ghana realize its long-term objective of developing into a major agro-processing economy, taking advantage of the medium to long term funding that will be made available by Sahel-Sahara Bank. Furthermore the presence of Sahel Sahara Bank is to facilitate or promote regional trade between Ghana and the rest of Africa, contributing to the nations export diversification efforts. Through innovative ways of funding agro-processing, commodity trading, regional trade and the promotion of investment and related activities are to engender investor confidence and promote intra Africa trade.

The bank's main focus include, providing windows of opportunity for private sector growth and development, and financing Agro-processing to realize the governments vision of making Ghana a major agro processing economy by 2012. Trade amongst member countries of CEN-SAD group can be facilitated using the BSIC group as a conduit for settlement of transactions, to avoid the risks associated with the movement of cash across borders.

•he bank currently operates in fourteen (14) African countries which are networked, and are members of the CENSAD community. Sahel-Sahara Bank, Ghana Ltd) operates under a universal banking license that allows it to undertake all banking related activities.

Sahel-Sahara Bank started operations in Ghana on March 25, 2008 and it is currently in operations with a total number of (14) Branches.

3.10.2 Vision Statement

To become the bank of first choice in Africa in Banking Service, Trade Finance and Investment.

3.10.3 Mission Statement

- To deliver excellent and innovative banking services that is quick, efficient and high quality service to our clients.
- To use well trained, highly motivated, innovative and goal oriented staff to achieve excellent service delivery and technology driven products envisaged under the medium term strategic plan.
- To add value and wealth to the business of our customers through competitive pricing and prompt service delivery.
- To create tangible benefits to society as a corporate citizen.

- To improve on our Risk Management environment and capability to better manage our credit, operational and financial risks reduce credit provisions and achieve full regÚ7Gpliance.

3.10.4 Financial Strength of BSIC Group

The BSIC Group has a Stated Capital of 500 Million Euro.

As a bank, we aim to mobilize financial resources from all over the world and channel them to productive sectors of the economies of member states.

3.10.5 Credit Facilities at Sahel Sahara bank Ghana

- Establishment of Letters of Credit

- Short, Medium and long-term loans

- Overdraft facilities

- Establishment of Credit Line

- Issuance of Bank Guarantee

4.1   Introduction

This chapter presents the descriptive analysis of data sourced from customers and staff of Sahel Sahara Bank and other major findings of the study. The results are also discussed to satisfy the research objectives.
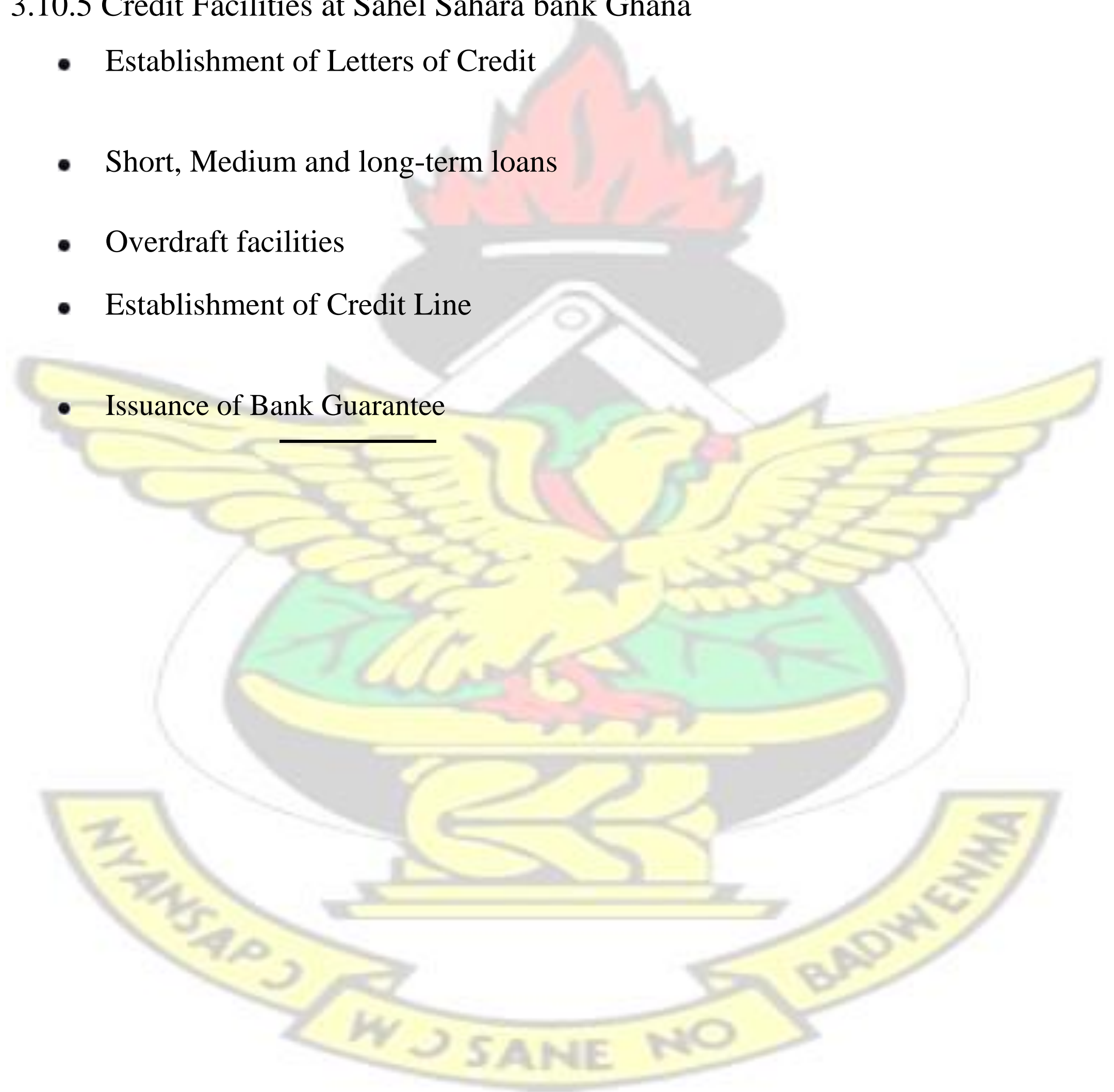
4.2   Presentation of Results

The primary data for this study was collected from a total of One hundred and twenty nine (129) respondents. This consists of One hundred and seven (107) business client and Twenty-two (22) staff respondents of the Bank.

4.3 Demographic Characteristics of respondents of business clients

Majority of respondents were male; the males were 66 in number and accounted for 61.7 percent of the sample. There were also 41 females (38.3%). Most of the respondents have Secondary education background. Respondents of Secondary education background numbered 50 (46.7 0/0). There were 32 respondents (29.9%) who had tertiary education backgrounds and 23 (21.5%) whose education level was basic. Most respondents located near a Sahel Sahara Bank branch. Respondents who were close to the bank were 46 (43%) whilst 37 (35%) lived far from the bank. There were however24 (22%) who-aæ-not-located in the same area as the bank. Sole proprietorship is the commonest among the types of businesses operated by respondents. Sole proprietors were 77 (71%). There were also 12 (11.2%) businesses that were partnerships and 7 (6.5%) were joint ventures.

In addition, the respondents considered for this study have operated businesses for a varied number of years. There were 36 (36.6%) respondents whose businesses are 1-5 years old and represented a majority of respondents. Also, 31 (29%) of the businesses were 6-11 years and 3 (2.8%) were over 20 years. With regard to the nature of business, majority of them were in to commerce; such businesses numbered 65 (60.7 0/0). The manufacturing sector also polled 17 (15.9 0/0) businesses and construction and agriculture sectors had 8 (7.5 0/0) and 3 (2.8%) business clients respectively. Most — 57 (53.3%) of the businesses were small in size and 37 (34.6%) were medium whereas 12 were large scale. The demographic characteristics of respondents are presented in Table

4.1

Table 4.1 Demographic Characteristics of Respondent of business clients

Measure	Categories	Frequency	Percentage
Education	Basic	23	21.5
	Secondary	50	46.7
	Tertiary	32	29.9
	Others	2	1.9
	Total	107	100
Gender	Male	66	61.7
	Female	41	38.3
	Total	107	100
Proximity	Near	46	43
	Far	37	35
	Not Located in the same area as Bank	24	22
	Total	107	100
Type of Business	Sole Proprietorship	77	72
	Partnership	12	11.2
	Join Venture	7	6.5
	Others	11	10.3
	Total	107	100
Duration in Business	1-5yrs	36	33.6
	6-10yrs	31	29
	11-15yrs	26	24.3
	16-20yrs	11	10.3
	Over 20yrs	3	2.8
	Total	107	100
Nature of Business	Manufacturing	17	15.9

97

	Commerce	65	60.7
Commerce			60,
	Construction 8 7.5		
	Agriculture	3	2.8
Agriculture	3 .8 Services 6 5.6		
	Others	8	7.5
	Total		
		8	7.5
		107	100
Size of Business	Small Scale	57	53.3
	Medium Scale	37	34.6
	Large Scale	13	12.1
	Total	107	100

Field survey, 2013

With regard to the staff sampled for the study, male staff outnumbered female counterparts. There were 16 (72.7%) males and 6 (27.3%) females. However, all staff (100 0/0) have had tertiary education; 15 (68.2 0/0) were junior staff, 4 (18.2 0/0) were middle level and 3 (13.6%) were senior management. Majority- 17 (77.3%) of the staff have worked with the bank for 1-3 years whilst 5 (22.7 0/0) have worked with the bank for 4-6 years. Most-9 (40.9%) of the staff that participated in the study has worked as loan officers for 2-4 years. Another 9 (40.9%) of staff have also worked with the bank as loan managers for 1 year. There were also 4 (18.2%) officers that have held the position of loan officers for five to 7 years. The demographic characteristic of staff respondents is presented in Appendix 2.

4.4 Process of granting loans at Sahel Sahara Bank, Ghana

Prior to the granting of loans at Sahel Sahara Bank, Ghana, an elaborate process is observed. Certain conditions must be satisfied before loans are granted. Nearly all loan managers (21) strongly agreed that the approval of the credit committee is necessary prior to the granting of loans. Other important processes and procedures strongly agreed by respondents were the request of good business records (18 respondents), good

account turn over (15 respondents) and request for acceptable collateral (15

respondents). The loan procedures and staffs' agreement on these processes presented

in

Table 4.2

Table 4.2   Processes and procedures for granting business loans

Variable		A	N	D	SD
Re uest for business Ian from customer	9	8	3	o	2
Re uest for an acce table collateral	15	7	o	0	0
Re uest for ood account turn over	15	4	3	o	o
Re uest fora ood business records	18	3	1	o	0
Pre aration of credit re ort for risk assessment	16	6	o	o	o
A roval or recommendation from branch mana er	17	5	o	0	
A roval from credit committee	21	0	1	o	o
Customers back ound check	18	3	1	o	0

Field survey, 2013

The procedures identified by the staff were confirmed by customers as majority (80) clients strongly agreed that having a good account turnover is necessary in order to qualify for loan at Sahel Sahara Bank, Ghana. There were also 69 respondents who strongly agreed that acceptable collateral is a prerequisite for granting loans. Meanwhile, 42 respondents also strongly agreed that a good business plan is also necessary to qualify for loans but 8 respondents disagreed to this and 28 respondents were neutral. The conditions to be met prior to the granting of loans are presented in Table 4.3.

Table: 4.3   Conditions for granting loan at Sahel Sahara Bank, Ghana

Field survey, 2013

Variable	Strongly A ree	A ree	Neutral	Disa ree	Strongly Disa ree	Total
Good business Plan	42	29	28	8	0	107
Provision of acceptable collateral	69	24	10	3	1	107
Keeping of good busi ess records	48	36	17	5	1	107
Good account turn over	81	21	4	0	1	107
Interview b the bank official	46	44	15	0	2	107

In assessing the process and procedures for granting business loans at the bank, most clients responded that the process is cumbersome. Clients who reported that the loan process was cumbersome were 41 in number and constituted 38.3 percent of the sample size. In the opinion of 36 clients (33.6 0/0) however, the process is best described as normal whilst 23 (21.5%) respondents refer to it as frustrating. Clients' assessment of the loan process is illustrated in Figure 1.

Figure 1: Client's assessment of the process of granting loans
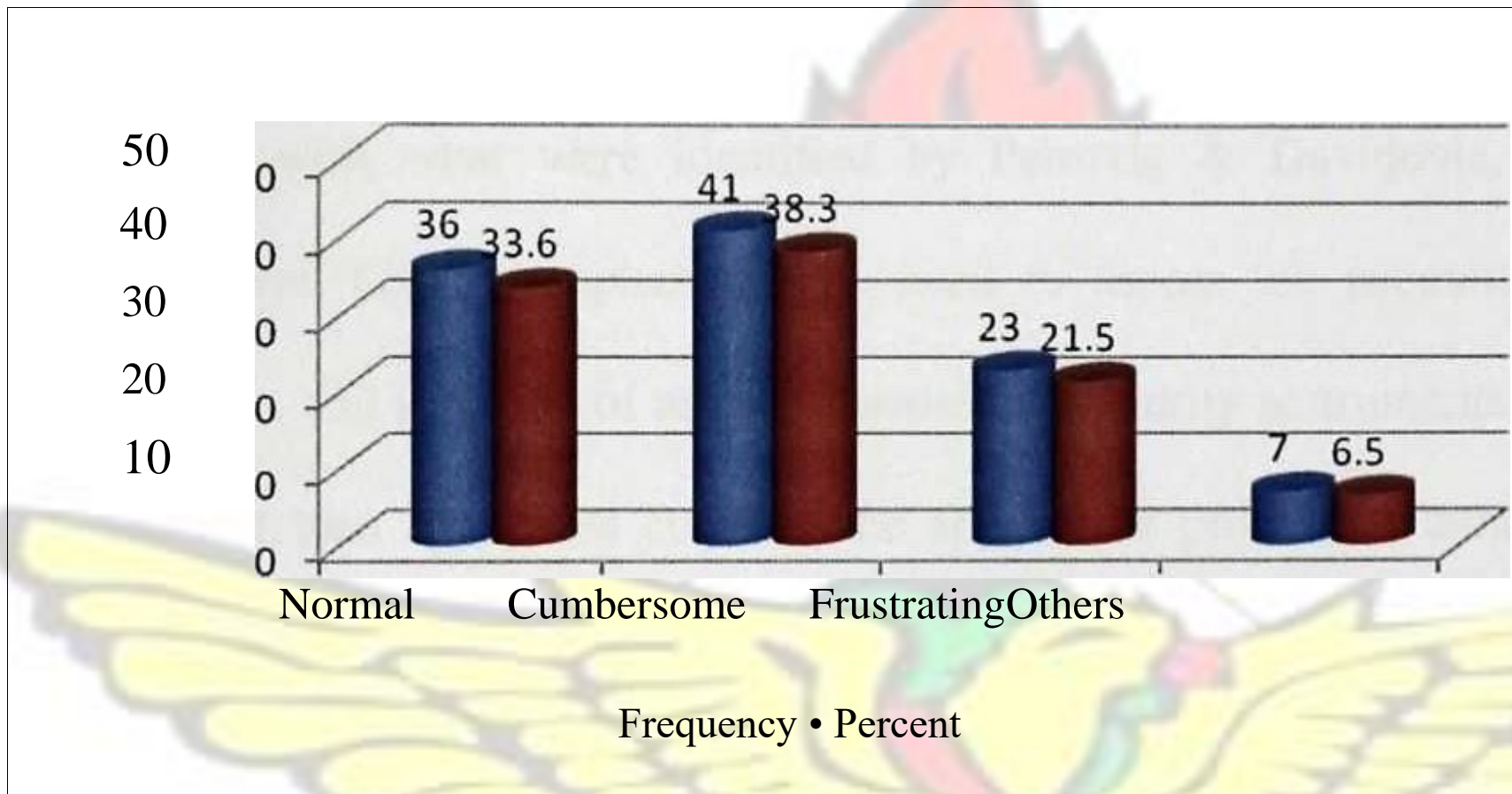
Field survey, 2013

Loan placements are considered as very significant source of a bank's profitability. Therefore, the loan management process is very important. This revealed that, the process ÐnJprocedure for granting loans at Sahel Sahara Bank Ghana entails satisfying a set of conditions. Majority of respondents strongly agreed that, a good account

—turnover is a perquisite to granting loans at the bank. This condition is in place to ensure that beyond the intention to repay loans, clients also prove their ability to repay in order to minimize the incidence of default. Also, most respondents strongly agreed that it is necessary to provide acceptable collateral security in other to qualify for loans from Sahel Sahara Bank, Ghana. This provision compensates for default. In that, the

52

collateral security depending on its form it can be used to pay for the loan in the unfortunate event of default. However, majority of clients are uncomfortable with the scrutiny associated with loan application and described it as cumbersome.

Schaeffer, (2000) reported that existence of loan-granting process and procedures is beneficial as it improves efficiency in gathering and processing of credit documentation, and enhances the process of evaluation of the information gathered. More so, the conditions to be satisfied prior to the granting of loans at Sahel Sahara bank, Ghana are in line with what were identified by Petrovic & Davidovic, (2011). Petrovic & Davidovic, (2011) emphasized the need to assess the account quality of the loan applicant and the state of assets presented as security instruments. Notwithstanding the fact that loan applicants consider the application process as cumbersome, Adrian and Shin (2008) also found that, anytime banks want to give out loans, they must ensure that the amount can be repaid and the procedures and processes to be observed are the measures in place to take care of this.

4.5   Determinants of demand for business loans

Business clients of Sahel Sahara Bank, Ghana contract loans for different purposes. Majority of clients take loans for the purpose of business expansion. Clients who collect lús for the p ose of business expansion were 81 (75.5 0/0) whilst 19 (17.8 0/0) of respondents also cited the acquisition of business assets as the purpose of their collection of loans. There were also 6 (5.6%) of respondents whose purpose for collecting loan is the acquisition of personal assets. The purposes for or determinants of demand for business loans at Sahel Sahara Bank, Ghana are demonstrated in Figure 2.

53

Businesses rely on external debt financing such as loans. Clients apply and are granted loans for out of the need for it and their ability to repay the amounts requested at the time and rate set by the bank. The determinants of business loan demand at Sahel Sahara Bank, Ghana vary among clients. It was revealed that most respondents take loans for business expansion. This is because depending on the nature of business, expansion can be profitable but is very costly too. In addition, it may be difficult for some business to be expanded with the operating capital because the expansion is capital intensive and in most cases does not necessarily imply immediate returns. For this reason, external sources of funding like bank loans become the option.

This finding corroborates Keyfetz, (2005); Loawale and Odeyemi, (2010) as the researchers also indicated that business enterprises secure loans for proper organization of production, acquisition of investment assets and/or raw materials and development of marketing. The availability of credit brings together in a more productive union, skilled labour force with small financial resources and those who have substantial resources but lack entrepreneurial ability (Aryeetey & Udry, 1997). Thus, credit is very important to
business success and the need for it is primarily to complement other factors of production in order to improve business.

Figure 2:   Purposes of business loans accessed by clients

81 75.7

19 17.8

6 5.6

1 .9

90

80

70

60

50

40

30

20

Business Expansion Acquisition Of Acquisition of Others business assets personal
assets

Frequency   Percent
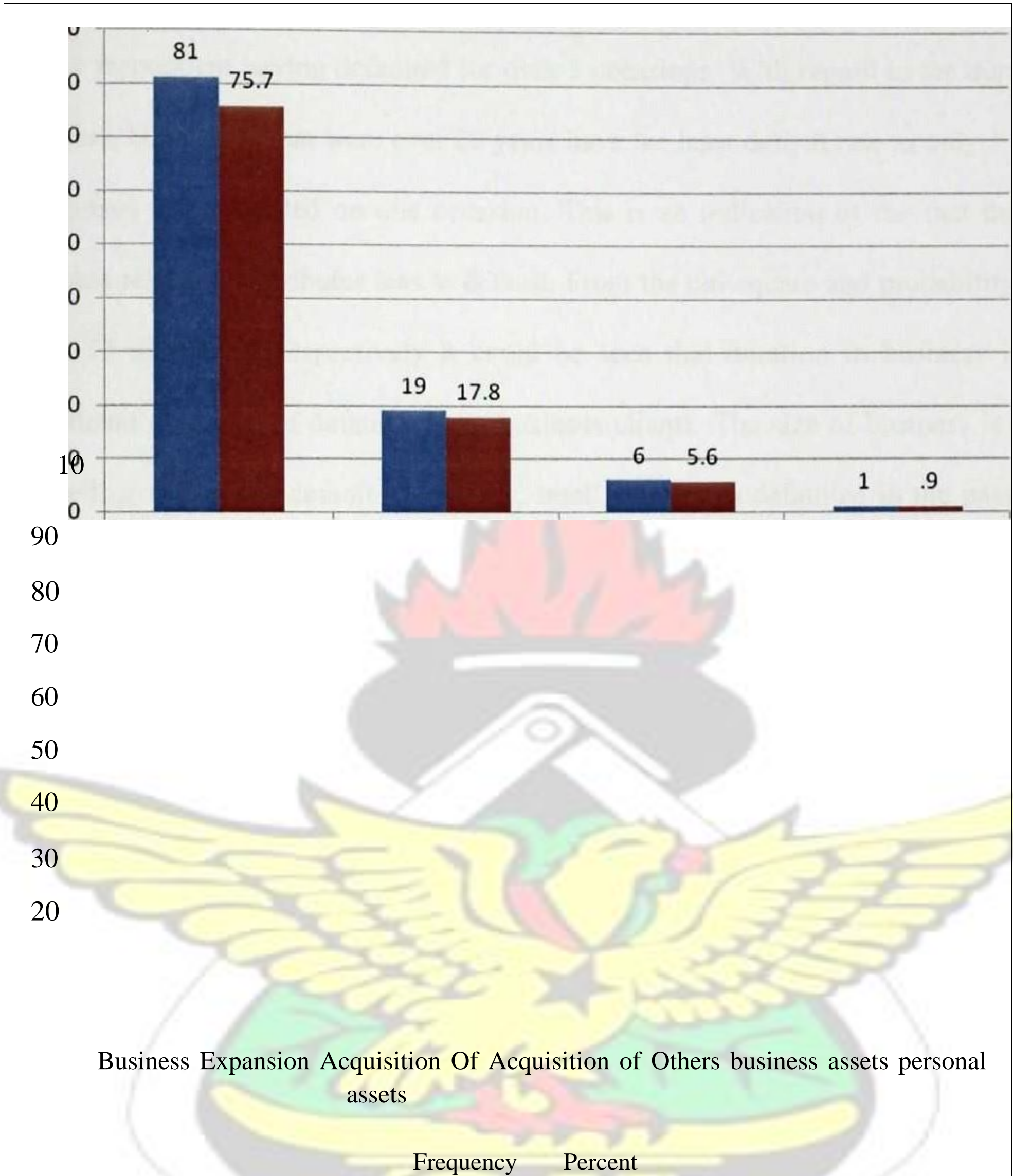
Field survey, 2013

4.6   Determining factors that contribute to loan defaults among business clients

Business clients default loans for a number of reasons. Out of the 107 respondents, only 41 had defaulted in a loan payment or the other. The default of business loans can be investigated through the examination of demographic factors that could influence defaults. The type of business could determine whether or not a client is a probable defaulter. With 2 respondents claiming a loan default rate of more than 5 occasions and a total frequency of 30 defaults, sole proprietorships constitute the single largest

business type that default in paying loans. However, joint ventures have the least default rate with only 2 respondents defaulting once and I respondent twice. From the chi-

square and probability values of 14.487 and 0.697, it means that, type of business ownership is not a significant predictor of loan default.

Meanwhile, 18 business clients who are 1-5 years have defaulted in loan repayment with 1 respondent having defaulted for over 5 occasions. With regard to the duration in business, businesses that were over 20 years have the least default rate as only 1 of such businesses has defaulted on one occasion. This is an indication of the fact that, long business relation contributes less to default. From the chi-square and probability values of 20.75 and 0.653 respectively it could be seen that duration in business is not a significant predictor of default among business clients. The size of business is another factor that influences default. However, small businesses defaulted in the payment of loans more frequently than large ones. In all, 25 small businesses claimed to have defaulted loans with 1 of such businesses defaulting on more than 5 occasions. Large scale businesses have a better default rate as only 5 of them defaulted and the highest frequency of default for this category was 1.

Another important demographic determinant of default is the number of employees of the organisation has hired. Businesses with 1-10 employees recorded default on 25 occasions for 1 of such firms, the default has been very frequent; more than 5 occasions. Large businesses of up to 40 employees did not indicate any defaults at all. Again, clients who have done business with the bank for 1-3 had the highest frequency of

defaults-totalling 24 ~~with 1 of such~~ clients defaulting on more than 5 occasions. However, clients who have worked with the bank for more than 10 years had the least default rate of 1. The demographic factors that bring about default of business loans are presented in Table 4.4.

It is interesting to find that, apart from years with bank which proved to be significant determinant of loan default, all the demographic factors were poor predictors of loan default among business clients of the study area. The study is inconsistent with the findings of Keyfetz (2005), MacCann and McIndoe-Calder (2012) and Irungu (2013). Out of the 41 respondents who had defaulted, 39 had spent up to 6 years with the bank. Thus less number of years with the financial institution could contribute to default. Long standing relation reduces the probability of default and this finding is consistent with literature.

Table 4.4 Demographic factors which determine loan default

Variable	Cate ories	Fre uenc of loan defaults b	Clients		

		None	1	2	3	4	5	>5	Chi suare	Value
Ownership	Sole Pro rietorshi	47	16	9	2	I	o	2	14.487	0.697
	Partnershi	8	2	o	1	o	1	o		
	Join Venture				0	o	0	0		
	Others	7	3	o	I	o	o	o		
	Total	66	23	10	4	1	1	2		
Duration in business	1-5 s	18	10	6	1	0	o	1	20.75	0.653
	6-10 s	22	6	1	o	1	o	1		
	11-15 rs	18	2	3	2	o	I	o		
	16-20 rs	6	4	o	1	0	o	o		
	Over 20 rs	2	1	0	o	o	o	o		
	Total	66	23	10	4	1	1	2		
Size of business	Small Scale	32			3	I	o		7.05	0.854
	Medium Scale	26	6	2						
	Lar e Scale	8			o	o	o	o		
	Total	66	23	10	4		1	2		
Number of em 10 ees	1-10 Em 10 ees	31	15	6	2	0	o	1	29.709	0.481
	11-20 Em 10 ees	16	2	1		o	o	1		
	21-30 Em 10 ees	7	2	0		I	o			
	31-40 Em 10 ees	3	3	1	0	o	o	o		
	Over 40 ears	3			o	o	o	o		
		6	1	2	0	o	o	o		
	Total	66	23	10	4	1	1	2		
Years with bank	1-3 ears	31	13	8	o		1	1	45.613	0.034
	4-6 ears	34	8	1	4	o	o	0		
	7-9 ears	1	1	0	o	0	o	o		
	1 years and above	1	o	1	o	o	0	0		
	Total	66	23	10	4	1	1	2		

Source: Field survey, 2013

Apart from demographic factors, there are also other factors that contribute to default

among business clients. One of such factors is loan diversion and it was discovered

that 20 respondents who diverted loans agreed to have defaulted in payment with 2 of such clients defaulting on more than 5 occasions. The chi-square value was 42.836 whilst the probability value was 0.000 indicating much significance. The result indicates that diversion of loan purpose is a strong determinant of loan default among business clients. This result is consistent with the works of Ganbold (2008) and Faulkender and Petersen (2006). Claessend, Krahnen & Lang (2005) reported that, some borrowers wilfully default loan repayment by diverting loans to other unyielding ventures and this satisfies the third objective of the study. When borrowers divert the usage of the loan for other purposes, repayment becomes difficult because the tendency is that, they invest the money in non-income generating ventures which makes the servicing very difficult.

Clients perception of the loan process also is another cause of defaults as those who described the process as cumbersome had the highest number of defaults. The chisquare and probability values were 43.388 and 0.001 respectively which means that loan process is a significant determinant of loan default. Usually, cumbersome and complex application procedures lead to many delays in accessing the loan. What usually happens is that by the time approval is given for the loan, the purpose might have obsolete-with Thne which—trsuatÝleads to the factor already discussed (diversion). It was reported by Herrington and Wood (2003) that the main causes of loan default include shortages in loan, delay in the delivery time of loan and poor supervision.

Another important factor is the interest on loans. Clients who perceived the interest on loans as moderate recorded high number of defaults; a total of 24 where as those who considered the interests as low recorded only 1 case of default. The transaction

cost to profit when considered as high also brings about defaults in most instances. Clients who considered the transaction cost to profit as high recorded a total default frequency of 19 where as only 1 client defaulted among those who considered the transaction cost to profit as low. Furthermore, clients with a lower percentage of loans paid from personal pocket record high incidence of defaults. Clients with 1-20% of loan out of pocket recorded a total of 12 incidences of default where as those with 50 % recorded 2 default incidences. Most loan managers of the bank, 14 (63.3 0/0) suggested that proper monitoring be ensured to minimize the frequency of loan defaults, there were also 8 (36.4 0/0) of respondents whose opinion in depth analysis of clients prior to the approval of loans is the most effective measure that could minimize the incidence of defaults. Apart from the first two factors, all other factors were not significant determinants of business loan default. The result is contradictory to a lot of literature on determinants of loan default. Table 4.5 is a representation of other factors that contribute to loan default among business clients of Sahel Sahara Bank, Ghana.

Table 4.5 Other factors that could contribute to loan default rate among business clients

Variable	Cate ories	Frequency of loan defaults by Clients							s uare	Value
		None	1	2	3	4	5	>5		
Loan Diversion	Yes	9	4	8	4	1	1	2	42.836	0.00
		57	19	2	o	o	o	o		
	Total	66	23	10	4	1	1	2		
Loan rocess	Normal	25	10	o	o	o	1	o		
	Cumbersome	26	8	4	2	1	o	o	43.388	0.001
	Frustratin	15	4	3	2	o	o	1		
	Others	o	1	3	2	o	o	1		

60

	Total	66								
Interest on Loans	Low	4	o	1	o	o	o	o		
	Moderate	39	16	2	3				11.289	0.881
	Hi h	22	7	7	1	o	o	1		
	Others	1	o	o	o	o	o	o		
	Total	66	23	10	4	1			14.454	0.273
Transaction cost to rofits	Low	13	6	o	o	1	o	o		
	Moderate	26	9	3		o	1			
	Hi h	27	8	7	2	o	o	2		
	Total	66	23	10	4	1				
Percentage of loan from ersonal ocket									19.141	0.744
	1-20%	17	8	2	1	1	o	0		
	21-40%	12	4	4	2	o	1	1		
	41-50%	8	1	1	1	o	o	o		
		1	1	1	o	o	o	o		
		28	9	2	o	o	o	1		
	Total	66	23	10	4	1	1	2		

Field survey, 2013 _____

4.7 Sectors of business clients with higher loan default in Sahara Bank, Ghana

Majority of clients that have defaulted loans are involved in commerce. Clients who engaged in commerce have a total default frequency of 21 with 1 such client defaulting on more than 5 occasions. However, all clients in the agric sector indicated that they have defaulted in loan repayment on different occasions whilst 3 clients in the services sector have also defaulted in payment. It could be seen from the chi-square (59.303) and probability values (0.001) that the sector a business client belonged to is a significant determinant of loan default. The absolute values on the most defaulting sectors might be misleading. In relative terms, the order of most defaulters were the Agriculture, construction, manufacturing, services and commerce sectors looking at the number of respondents involved in the study. The unclassified

others had no default. The sectors of business clients which record loan defaults in Sahel Sahara Bank, Ghana and the frequency of defaults is presented in Table 4.6.

This finding is in agreement with the Bank of Ghana Annual Report (2012) which also reported that default among the commerce sector is high in the industry but did not find the same of the agriculture sector. This difference could be because of only few business clients of the bank are engaged in the agriculture sector and all 3 unfortunately were defaulters. In line with Irungu (2013) ; MacCann and McIndoe-Calder (2012), the construction industry was also found to have a high default rate

Table 4.6Sectors of business clients with higher loan default

Variable	How man times have ou ever missed a loan re a ment							Total	Chi-squa	P-Va1ue
	None					5				
Manufacturing	9	7	0	0	0	o	1	17		
Commerce	44	12	6	2	o	o	1	65		
Cons truction										
Agriculture										
Se rvices										
Others	8	o	o	0	o	0	o	8	59.303	0.001
Total	66	23	10	4	ᛁ	1	2	107		

Field survey, 2013

The loan defaulters identified a number of different repayment plans; majority-68.2 percent of them were however not applicable. This meant that they had never defaulted that constitute 66 out of the 107 clients. There was however 18.7 percent of respondents who suggested a rescheduling of the repayment date whilst 8.4 percent of them also requested a reduction in the interest on loans. The repayment plan suggested by clients is presented in figure 3.

Figure 3: Loan repayment plan

Percent of loan repayment Plan

1.9

18.7

18.7

Rescheduling

Reduction of interest

Rebate

Not applicable

8.4

.2

2.8

Others 68.2
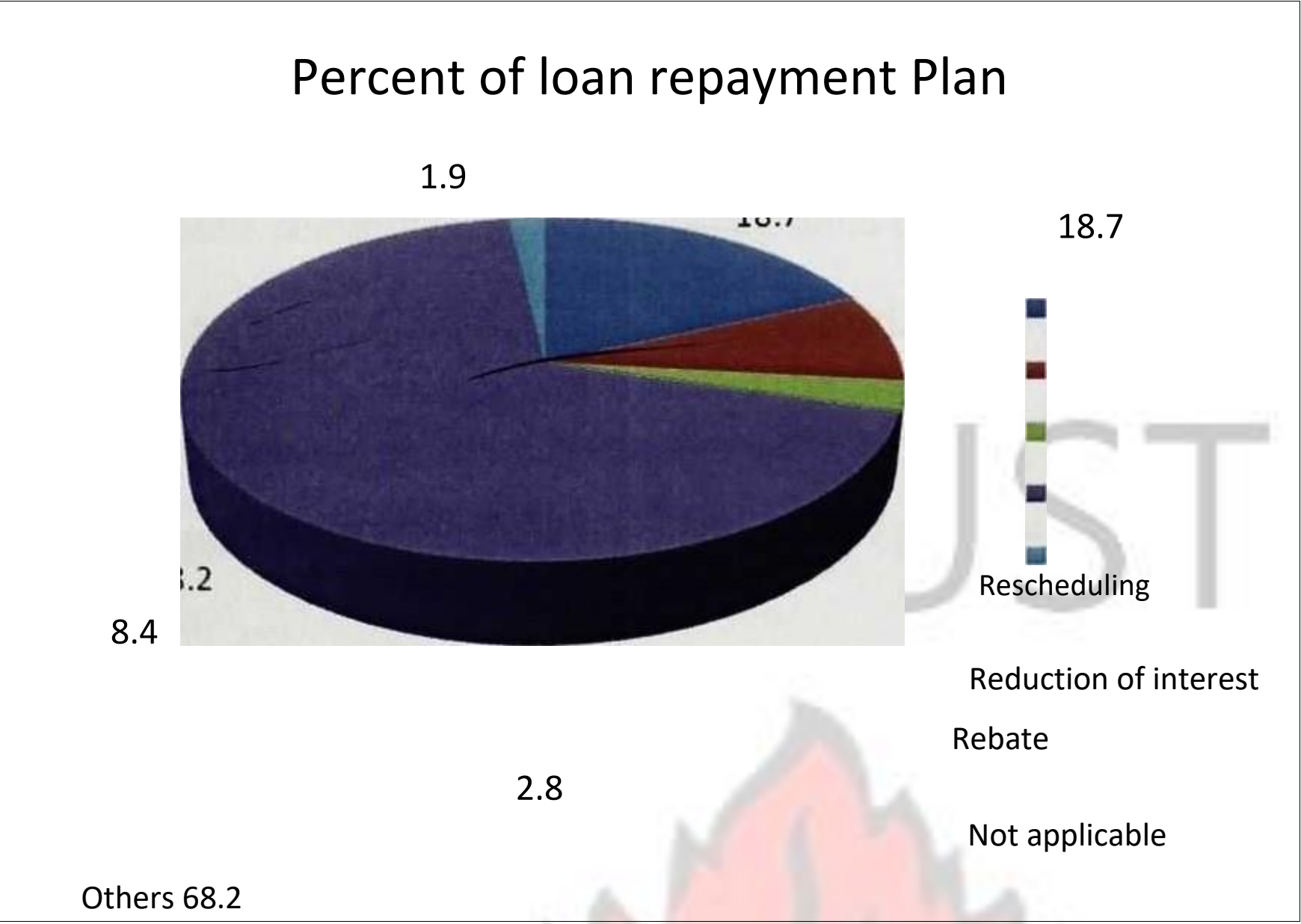
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1   Introduction

The chapter covers the summary of major findings, conclusion and recommendations based on the findings. The summary begins with the socio-demographic characteristics of the respondents and the rest has been presented in accordance with the objectives of the study.

5.2   Summary of major findings

The educational background of business clients were such that at least 79.5% had completed secondary education whilst all the staff had tertiary level of education. There were 61.7% male business client respondents whilst the male staff respondents were

72.7%. It was found that 57% of clients were far from bank premises which could make monitoring quite difficult. It was again found that 72% of clients were sole proprietors and 53.3% of businesses were small scale. On the issue of duration, 58%

63

of clients had operated for at least 10 years whilst 40.9% of staff had spent at most a year with the bank.

On the procedures and processes for the granting of loans, it was found that approval from credit committee, customer background checks, request for acceptable collateral, request foógood business records d preparation of credit report were necessary. It was confirmed by the clients that the bank looked for good account turnover and provision of acceptable collateral were most important prerequisite for the granting of business loans. It was indicated by 38.3% of the respondents that the loan application procedure was cumbersome.

The most popular determinant of demand for business loan was found to be the desire to expand. Expansion motives drove most business client's demand for a loan facility at the bank.

The significant demographic factors that determined business client default were number of years with the bank and the sector which the client belonged to. The other factors which were found to be significant were loan diversion and loan processes and procedures.

In relative terms, the most defaulting sectors were the Agriculture, construction, manufacturing, services and commerce sectors.

5.3   Conclusions

It could be concluded from the study that the educational level of the business clients is quite enviable and the bank can rely on this roll out literacy based products for them to patronize. Business clients are far away from the bank premises and this could make monitoring difficult and more expensive since credit officers will have to travel

64

some distances before getting to the business premises of clients. Credit officers are inexperienced since most of them have spent less than a year in that position. There is the tendency for mistakes.

The requirements for the granting of loans are approval from credit committee, good account turnover and provision of acceptable collateral. The procedures and processes for the granting of loans are cumbersome. This could lead to delays which might affect the purposes for the collection of loans and this could lead to default.

The determinant of demand for loan is the desire to expand. Expansion motives drive the demand for external finance usually in the form of loans.

The factors that determine loan default are number of years of banking relation, the sector which the client belonged to, loan diversion and loan processes and procedures. Having indicated a cumbersome loan application process, unnecessary delays could lead to diversion and subsequent default.

The sectors with the highest loan default were the Agriculture, construction, manufacturing, services and commerce sectors. Seasonal variations make the agriculture sector a very risky area of investment.

5.4   Recommendations

The study has come out with some recommendations. It is recommended that, the bank should prospect for business clients within the catchments areas of the bank. This is to enable them reduce cost of originating, processing and monitoring loans. Again, it is easier and convenient monitoring clients who are closer to bank premises. For effectiveness and cost control purposes, clients should hardly be far away from branches.

It is again recommended that, the bank recruits experienced credit officers. If new employees will be engaged in the credit department, they should be constantly guided to minimize mistakes and losses the bank may incur. The import of this recommendation stems from the inexperience of staff respondents discovered during the analysis.

It is recommended that the bank becomes very careful of lending to business clients who belonged to certain sectors like the agriculture, commerce and construction sectors since they constitute the highest defaulting sectors. Again, the following factors should guide the bank in making loans to business clients: diversion of loan for other purposes, delayed and cumbersome loan processes and procedures and the number of years a client has been with the bank. A closer look at these factors could minimize possible loan default.

It is recommended that further research could look at the effect of loan on the bank portfolio. A larger sample size could be considered for a more generalized result.

REFERENCES

Adrian, T. & Shin, H. (2008). Liquidity, monetaty policy, and financial cycles. Current
Issues in Economic and Fiinance, 14 (1).

Ajayi, C. (1992). An Analysis of Default Factors in Residential Mortgages of the
Federa

Mortgage Bank of Nigeria. African Review of Money, Finance and
Banking, 2, 203-215.

Amabe, E. B. (2012). Prospects and Challenges of Re-capitalising Commercial Banks
in Ghana. Munich: GRIN Publishing GmbH.

Anderson, W. (1964). Corporate finance and fixed investment: An econometric study.
Boston, MA: Harvard University Press.

Arene, C. (1992). Loan Repayment and Technical Assistance Among Small Holder
Maize Farmers in Nigeria. African Review of Money, FInance and
Banking, 1, 63-73.

Arene, C. (1992). Loan Repayment and Technical Assistance Among Small Holder
Maize Farmers in Nigeria. African Review of Money, Finance and
Banking, 1, 63-73.

Aryeetey, E., & Udry, C. (1997). THe characteristics of informal financial markets in
Sub- -SahtTäÑÃfrica. Journal ofAfrican Economics, 6 (1), 161-203.

Babbie, E. (1989). THe Practice ofSocial Research. Wadsworth.

Bank of Ghana. (2011). Was Basel Ill necessary and will it bring about predent risk

management in Banking, Bank of Ghana Working Paper.Accra: Bank of Ghana.

Barry, C. B., Mann, S., Mihov, V. & Rodriguez, M. (2008). Corporate debt issuance and the histotirical level of interest rates. Financial Management, 37, 413-430.

Berg, S. (1998). Bank failures in Scandivanian. In C. e. al., Preventing Bank CrisisLessons from recent Global Bank Failures. Washington: The World Bank.

Bernanke, B. S. & Gertler, M. (1995). Inside the Black Box: THe CHannel of Monetary Policy Transmission. Journal ofEconomic Perspectives, 9 (4), 27-48.

Bernanke, B. & Blinder, A. (1988). Is it money or credit, or both, or neither? American Economic Review, 78, 435-451.

Best, J. & Khan, J. (1989). Research in Education, Dehli: Prentice-Hall of India Private Limited.

Bester, H. (1994). THe ROIe of Collateral in a Noral Hazard Model of Debt Renegotoation. Journal ofMoney, Credit, and Banking, 26, 72-86.

Black, Strahan, PJ2.D¥nterpreneurship and Bank Credit Availability. Journal ofFinance, 57 (6), 2807-2833.

Bloem, M. & GOrter, N. (2001). Treatment of Non-Performing Loans in Macroeconomic Statistics. Washington: IMF Working Paper, WP/01/209.

Brown, S., Taylor, K. & Prince, S. (2005). Debt and distress:evaluating the

psychological cost of credit. Journal of Economic Psychology, 26,

642663.

Claessend, S., Krahnen, J. & Lang, W. (2005). The Basel Il Reform and Retail Credit

Markets. Journal ofFinancial Services Research, 28, 5-13.

Cole, R. A. & Goldberg, L. (2004). Cookie Cutter vs. Character: The Micro Structure
of

Small Business Lending by Large and Small Banks. Journal of Financial

and Quantitative Analysis, 39 (2).

Creswell,   (2003). Research Design: Qualitative, and Mixed Methods Approach.

London: SagePublications.

Crook, J., Hamilton, R. & Thomas, L. (1983). A Comparism of a Credit Scoring

Model with a Credit Performance Model. THe Service Industries

Journal, 12

(4), 558-579.

Dahl, M. & Sorenson, O. (2007). Home sweet Home? Social capital and location

decisions. Retrieved July   4, 2013,   from

http://www.druid.dk/fileadmin/images/dokumenter/sorenson.pdf.

Dorminic Andoh (2013), Banks want policy on SME's financing. Business and

Financial Times; pg 1-2

Elyasiani, E. & Goldberg, L. (2004). Relationship lending: A survey of the literature.

Journal ofEconomics and Business, 56, 3 15-330.

Englund, P. (1999). The Swedish Banking Crisis: roots and consequences. Oxford Review ofEconomic Policy, 15 (3), 80-97.

Fafchamps, M. (1997). Trade credit in Zimbabwean Manafacturing. World Development, 25 (5), 795-815.

Faulkender, M. & Petersen, M. (2006). Does the source of capital affect capital structure? Review ofFInancial Studies, 19, 45-79.

Fofack, H. (2005). Non--Performing Loans in Sub-Saharan Africa: Causal Analysis and

Macroeconomic Implications. Washington: World Bank Policy Research Working Paper No. WP 3769.

Ganbold, B. (2008). Improving Access to Finance for SME: International Good Experiences and Lessons for Mongolia. IDE-JETRO Working paper no

438.

Gatev, E. & Strahan, P. (2006). Bank's advantage in hedging liquidity risk:theory and evidence from the commercial paper market. Journal of Finance, 61, 867-892.

Ghana, B. O. (2012). Monetary Policy Report; Financial Stability.Accra: Bank of Ghana.

Gilbert, B. (2008). *New venture performanca:does* location matters? Retrieved July 7, 2013,from http://74.1.125.77.132/search/q=cache.DIZnExwD91 tmw.j .ftp/ftp.zew.d e/pub.

Hansen, J. (2003). Financial Cycles and Bankruptcies in the Nordic Countries. Sveriges Riksbank Working Paper 149.

Herrington, M., & Wood, E. (2003). GLobal Entrepreneurship Monitor, South African Report. Retrieved July 4, 2013, from http://www.gbs.nct.ac.za/gbswebb/userfiles/gemsouthafrica.2000pdf.

Huyghebaert, N. (2006). On the determinant and dynamics of trade credit use: empirical evidence from business start-ups. Journal of Business Finance Accounting, 33 (1), 305- 328.

Irungu, G. (2013, July 14). Rear estate developers top loan defaulters list. Retrieved July 14, 2013, from Business Daily: http://www.businessdailyafrica.com/-539552/539552/-/4mvsag//index.html.

Kashyap, A., Rajan, R., & Stein, J. (2002). Banks as liquidity providers: an explanation for the co-existence of lending and deposits-taking. Journal of Finance, 57, 33-73.

Kauffman Foundation . (2007). The capital structure decisions of new enterprise. African Journal ofBusiness Management .

Keyfetz, THe Home Ownership and Equity Protection Act of 1994:Extending Liability for Predatory Subprime Loans to Secondary Mortgage Market Participants. Loyola Consumer Law Review, 18 (2), 151-196.

Koch, T. W., & MacDonald, S. (2006). Bank Management (6th Edition). Ohio: Thomas
Higher Education.

Korajczyk, R., & Levy, A. (2003). Capital structure choice: Macroeconomic conditions
and financial constraints. Journal ofFinancial Economics, 68, 75-109.

Lehmann, E., & Neuberger, D. (2001). Do lending relationships matter? Evidence from
bank survey data in Germany. Journal of Economic Behavior and
Organization, 45, 339-359.

Loawale, F., & Odeyemi, A. (2010). THe determinants of access to trade credit by
SMEs in South Africa. African Journal ofBusiness Management , 2763
2770.

M, P. & Shaw, G. (2004). Business plan in bank-decision making when financing new
ventures in South Africa. South African Journal of Economics and
Management Science, 7 (2), 221-242.

Madura, J. (2006). Introduction to Business (4th Ed). South-Western: Cengage.

McCann, F., & McIndoe-Calder, T. (2012). Determinants of SME Loan Default: The
Importance of Borrower-Level Heterogeneity,Paipear Taighde Teicniul
Research Technical Paper. Central Bank of Ireland.

Melitz,   Pardue, M. (1973). THe demand and supply of commercial bank loans.
Journal ofMoney, Credit and Banking, 5, 669-692.

Musto, D. & Souleles, N. (2006). A Portfolio View of Consumer Credit. Journal of
Monetary Economics, 53 (1), 59-84.

Ozdemir, O. & Boran, L. (2004). An Empirical Investigation on COnsumer Credit Default Risk. Turkish Economic Association Working Paper 20.

Pesola, J. (2001). The Role of Macroeconomic Shocks in Banking Crisis. Bank of Finland Discussion Paper 6/2001.

Peter, G. V. (2009). Asset prices and banking distress: A macroeconomic approach. Journal ofFinancial Stability, 5, 298-319.

Petrovic, R. & Davidovic, M. (2011). Granting Loans to Legal Entities as the Bank's Business Process. International Journal of Industrial Engineering and Management, 2 (2), 69-76.

Pond, K. & Lipscombe, G. (2002). THe Business of Banking (4th Edition). Financial World Publishing.

Rajan, R. G. & Zingales, L. (1995). Insiders and outsiders: The choice between informal and arm's length evidence from international data. Journal of Finance, 50, 1421-1460.

Reuters. (2013, April 29). S. Korea BOK warns of high default risks in three sectors. Retrieved July 14, 2013, from Reuters: ://www.reuters.com/article/2013/04/30/korea-economy- debt idUSL3NODHOEF20130430.

Robson, C. (2011). Real World Research. West Sussex: John Wiley & Sons Ltd.

Sandal, K. (2004). THe Nordic banking crises in the early 1990s. In M. e. al., Resolution _Methods and Fiscal Costs.

Sahel Sahara Bank Limited (2012). Financial Statement for Sahel Sahara Bank for year
ended 2012, Daily Graphic (28th March, 2013) pg 50, 51

Schaeffer, H. (2000). Credit Risk Management.New York: Jon Wiley & Sons, Inc.

Shane, S, & Cable, D. (2002). Network ties, reputation and the financing of new ventures.
Management Science, 48 (3), 364-381.

Stein, J. C. (1998). An adverse-selection model of bank asset and liability management
with implications for the transmission of menetary policy. RAND Journal
ofEconomics, 29, 466-486.

T.B, N., Le, T. & Nguyen, T. (2009). THe impact of networking on bank financing:
The case of small and medium enterprises in Vietnam. Entrepreneur
THeory and Practice, 33 (4), 867-887.

Tagoe, N., Nyarko, E. & Anuwa-Amarh, E. (2005). Financial challenges facing urban
SMEs under financial sector liberalization in Ghana. Journal of Small
Business Management, 43 (3), 331-343.

Tessmer, A. (1992). Managerial applications of neural networks:the case of bank failure
predictions. Journal ofManagement Science, 38, 926-947.

Vaske, J. (2008). Survey Research and Analysis: Applications in Parks, Recreation, and
—— Human DimãïõñÇPennysvania: Venture Publishing, Inc.

——Vigano, L. (1993). A Credit Scoring Model for Develoment Banks: An African Case
Study. Savings and Development, 17 (4), 441-482.
Vigano, L. (1993). A Credit Scoring Model for Development Banks: An African Case
Study. Savings and Development, 17 (4), 441-482.

Vihriala, V. (1997). Banks and the Flnnish Credit Cycle 1986-1995.Helsinki: Bank of

    Finland Studies E: 7.

Von-Pischke, J. (1980). Rural Credit Project Design, Implementation and Loan

    Collection Performance. Savings and Development, 4 (2), 81-91.

Wood, J. (1975). Commercial bank loan and investment behaviour.London: Wiley.

Young, R., Glennon, D. & Nigro, P. (2006). "Borrower-Lender Distance, Credit

    Scoring and Loan Performance: Evidence from Informational-Opaque

    Small Business Borrowers". Journal of Financial Intermediation, 17,

    113-143.
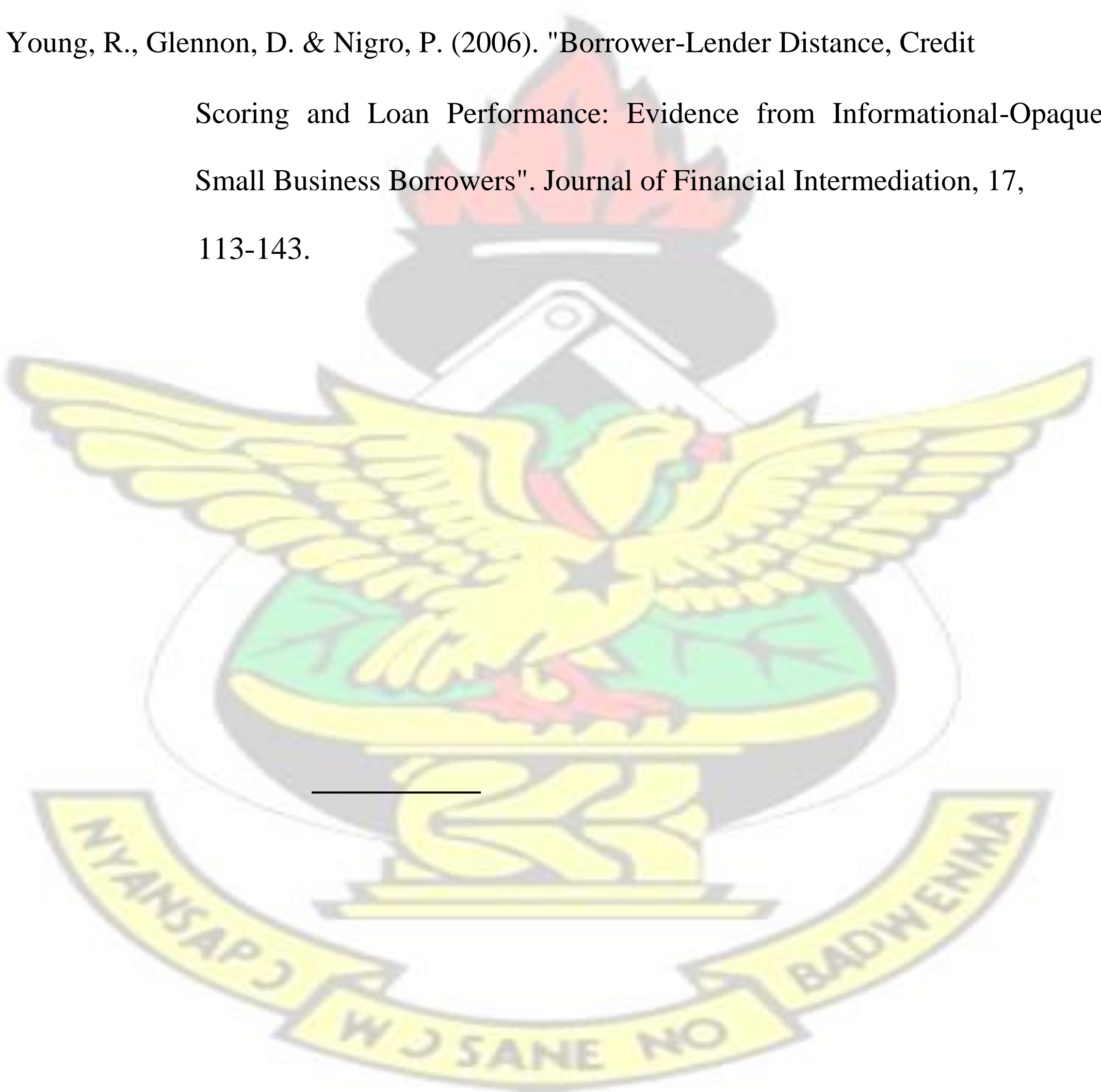
APPENDIX A

QUESTIONNAIRE FOR STAFF OF SAHEL SAHARA BANK, GHANA

KNUST

INSTITUTE OF DISTANCE LEARNING

This questionnaire on the topic 'Determinants of Loan Default among Business Clients in Sahel Sahara Bank (Ghana)' has been designed to solicit information for purely academic purposes and your anonymity is guaranteed. I shall be grateful if you would answer them to the best of your ability. Indicate your answer(s) by a tick like this [V], a short answer and a simple explanation   where necessary.

Part A: DEMOGRAPHIC DATA

1. Sex: Male [ ]   Female [ ]

2. Level of education: Basic [ ] Secondary [ ] Tertiary [ ] others (please specify). ....

3. Level of employment: Senior/Management Level [ ] Middle Level [ ] Junior Level [ ]

4. Duration in employment: 1-3yrs [ ] 4-6yrs [ ] 7-9yrs [ ] 10yrs and above

5. How many years of experience do you have as a manager/loan officer?

(a) 1 year   ( ) (b) 2-4 ( )   (c) 5-7 ( )   (d) 8-10 yrs ( ) e. Over 10 yrs

Part B: Process and Procedure_for-grãïtiñg business loans at Sahel Sahara Bank, Ghana

Please, indicate your response by ticl&fig ( ) only one (1) of the respective box against each question; strongly agree (SA), Agree (A), neutral (N), disagree (D) and strongly disagree (SD).

Question	Tick here

76
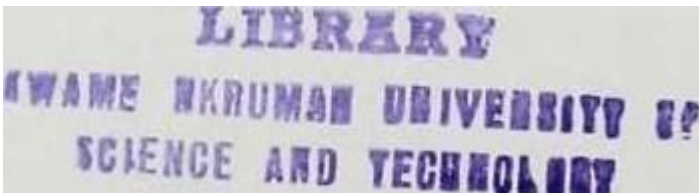
In processing loan for business client at Sahel Sahara Bank, Ghana I alwa s ensure the followin strictl	SA	A	N	D	SD
6. Re uest for Business Ian from the customer					
7. Re uest for an acce table collateral					
8. Re uest for a Good account turnover					
9.Re uest fora ood business records					
10. Pre aration of credit re ort for Risk assessment					
11. A roval or Recommendation from branch mana er					
12. A roval from Credit committee					
13. Customer's back ground check.					

Part C

14. How can loan processing be improved?

_____

_____

_____

_____

15. What can be done to minimize the rate of loan default among business clients?

_____

_____

_____

16. Any suggestion or recommendation to management?

....

....

_____

APPENDIX B

QUESTIONNAIRE FOR BUSINESS CLIENTS

_____

KNUST

Institute Of Distance Learning

This questionnaire on the 'Determinants of Loan Default among Business clients in Sahel Sahara Bank (Ghana)' has been designed to solicit information for purely academic purposes and your anonymity is guaranteed. I shall be grateful if youwould answer them to the best of your ability. Indicate your answer(s) by a tick like this [J, a short answer and a simple explanation   where necessary. Part A: DEMOGRAPHIC DATA

1. Level of education of respondent: _____

    Basic [ ] Secondary [ ] Tertiary [ ]   others (please specify).....................

2. Type of Business Ownership: a) Sole proprietor [ ] b) Partnership [ ] c) Joint Venture [ ]

d) Other (Specify) ....

3. sex: Male [ ] —Female[ ]
              _____

4. Duration in Business 1-5yrs [J 6-10yrs [ ] 11-15yrs [ ] 16-20yrs [J Over 20yrs [ ]

5. Size of business: Small scale [ ] Medium scale [ ]   Large scale [ ]
6. Sector of business: Manufacturing [ ] Commerce [ ] Construction [J

Agriculture [ ]   Services [ ]   Others_____

7. How many employees do you have? 1-10[ ] 11-20 [ ] 21-30 [ ] 31-40 [ ] over 41 [ ]

8. What is the distance of your business location from the bank?

Near [ ]   Far [ ]   Not located within the same town as the bank [ ]

9. Years of relationship with the bank: 1-3yrs [ ] 4-6yrs [ ] 7-9yrs [J 10yrs and above

10. Have you ever used the loan requested for a different purpose other than the intended purpose to deal with an emergency? Yes [ ] No t]

PART B Conditions/Requirements for granting loans at Sahel Sahara Bank, Ghana

Question	Please, indicate your response by tick g ( ) only one (1) of the respective box against each question; strongly agree (SA), Agree (A), neutral (N), disagree (D) and strongly disagree (SD).				
The bank ensures the following strictly before granting loans	SA		N	D	SD
11. A Good business plan					
12. Provision of acceptable a collateral					
13. Keeping of good_business records					
14. Good account turn over					
15. Interview by the bank official					

16. How will you describe the loan application process at Sahel?

Normal ( ) Cumbersome ( )   Frustrating   [ ] others specify..
....

PART C Determinants of demand for loans

17. How do you describe the interest charged on your loan at Sahel Bank as compared to others?

Low [ ] Moderate [ ] High [ ]   others specify............

18. How do you describe the transaction cost of your business as compared to your profits?

Low [ ]   Moderate [ ]   High [ ]

19. What is the size of your business capital in Ghana cedis?

(a) 1- 2000   [ ]   (b) 2001- 5000 [ ]   (c) 5001-10000 (d) 10001-50000[ ]

(e) 50001-100000   (f) over 100000[ ]

20. What percentage of loan is paid from your personal income?

1-20% ( )   21-40%   ( )   41-50%   ( ) Over 50% ( )

21. What percentage of your revenue is used to service your loan?

1-20% ( )   21-40%   ( )   41-50%   ( ) Over 50% ( ) others specify

22. What is the duration for loan payment (in years?) a) Less than 1 yr [ ] b) 1 yr [ ]

c) 2 yrs [ ] d) 3 yrs   [ ] e) 4 yrs   [ ]   f) 5 yrs and over [ ]

23. Loan repayment plan a) Daily [ ] Weekly [ ] bi-weekly   [ ]

Monthlyt—A Quarterly   [ ] others, please specify...........······

24. How many Business loan applications do you make in a year?
                                                          ]   (e) 5 and more [ ]

25. How many business loans have you made since joining this bank?

a) 1-5 b) 6-10   c) 11-15   d) 16-20   e) Over 20

26. How many of your Business loan applications become successful (without default)?

a) 1-5 b) 6-10   c) 11-15   d) 16-20   e) Over 20

27. How many times have you ever missed a loan repayment?

(a)None   [ ] b) Once   ( )   (c) twice   ( ) (d) thrice   (e) four times

f) five times [ ]   g) More than five times [ ]

28. What plan do you arrange with your bank for missing your repayment?

(a) Rescheduling ( ) (b) Reduction of interest [ ] (c) rebate [ ] (d) Not applicable [ ]

e) Others please specify···

29. Do you have another loan commitment with any other bank? Yes ( ) No( )

30. What is the purpose of your loan?

a) Business expansion   b) Acquisition of Business Assets   c) Acquisition of Personal

Assets [d) Settlement of urgent personal bill [ ]

e) Others (Specify) .··

For each of the following statements, indicate the extent of agreement or otherwise

Statement					SD
31. Bank officials do little in-de th anal sis of clients					
32. I am unable to o er records of my business					
33. Amount of loan a roved is inade uate for u ose					
34. Amount of installment is too high as compared to my business-revenues					
34. I have extra sources of income a art from m business					
35. There are dela s on the loan rocessin					
36. Business rofits are low					

37. Provide any suggestion for reducing loan default

_____

_____

ANALYSIS OF STAFF RESPONSES

Demographic characteristics of loan managers

Variable	Cate ories	Fre uenc	Percenta e
Sex	Male	16	72.7
	Female	6	27.3
	Total	22	100
Education	Basic	0	
	Secondar		
	Tertiar	22	100
	Others		
	Total	22	100
Level of em 10 ment	Senior mana ement	3	13.6
	Middle level	4	18.2
	Junior	15	68.2
	Total	22	100
Duration In em 10 ent	1-3 ears	17	77.3
	4-6 ears	5	22.7
	Total	22	100
Ex erience as a loamMana er	1 year	9	40.9
	2-4 ears	9	40.9
	5-7 ears	4	18.2
	Total	22	100

Field data, 2013

process and procedures for granting business loans at Sahel Sahara Bank, Ghana

Variable			N	D	SD
	SA				
Re uest for business Ian from customer	9	8	3	o	2
Re uest for an acce table collateral	15	7	o	o	o
Re uest for ood account turn over	15	4	3	o	
Re uest fora ood business records	18	3	1	o	o
Pre aration of credit re ort for risk assessment	16	6	o	o	o
Approval or recommendation from branch mana er	17	5	o	o	o

^A roval from credit committee	21	o	1	o	1
Customers back ound check	18	3	1	o	o

Field data, 2013

How to improve loan processing

Variable	Fre uenc	Percent
Too much beaurocrac	7	31.8
_{Earl} rovision of loan documents b clients	8	36.4
There should be credit limits a roved b branch mana ers	6	27.3
Decentralize loan rocess	1	4.5
Total	22	100.0

Field data, 2013

How to minimize loan default among clients in the view of loan managers

Variable	Fre uenc	Percent
Pro er monitorin	14	63.6
In-de th anal sis of-clients before approving loans	8	36.4
Total	22	100.0

Field data 2013

suggestions from loan managers to management towards loan

Variable	Fre uenc	Percent
Clari loan eli ibili rocess to make it accessible	5	22.7
More Loans should bea roved to et more customers	3	13.6
Mana ement should abide b turnaround time	6	27.3
Electronic a roval of loans should be ex lored	1	4.5
Credit de artment should be 10 isticall e ui ed	3	13.6
	2	9.1
Effective monitorin	2	9.1

	Total	22	100.0

Field data, 2013

Suggestions from clients towards improving loan processes

Variable	Fre uenc	Percent
Well defined Loan usage and terms	14	13.1
Reduce interest rate on loans	3	2.8
Bank should reschedule loan plans	13	12.1
Bank should ensure customers insure their assets against fires	4	3.7
Bank should enforce monitoring to customers	25	23.4
Rescheduling of repayment plan	2	1.9
	29	27.1
Approved loan should be adequate	5	4.7
Harsh punishment of defaulters	1	.9
Reduction of interest rate	11	10.3
Total	107	100.0

Field data, 2013