

**UNIVERSITY OF CAPE COAST**

**CONTRIBUTION OF THE KAKUM RURAL BANK TO POVERTY  
REDUCTION IN THE KOMENDA-EDINA-EGUAFO-ABREM  
MUNICIPALITY**

**RICHARD BAAH-MINTAH**

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REDUCTION IN THE KOMENDA-EDINA-EGUAFO-ABREM  
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BY

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## **DECLARATION**

### **Candidate's Declaration**

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

Candidate's Name: Richard Baah-Mintah

Signature:..... Date:.....

### **Supervisors' Declaration**

We hereby declare that the preparation and presentation of the thesis were supervised in accordance with the guidelines on supervision of thesis laid down by the University of Cape Coast.

Principal Supervisor's Name: Professor C. K. Brown

Signature:..... Date:.....

Co-Supervisor's Name: Mr. Fredrick Koomson

Signature:..... Date:.....

## **ABSTRACT**

The study was designed to examine the contribution of Kakum Rural Bank (KRB) to poverty reduction in the Komenda-Edina-Eguafo-Abrem Municipality. All the four agencies of the KRB in the KEEA municipality were included in the study. The purposive, quota and systematic sampling techniques were used to draw 384 respondents, made up of staff and customers of Kakum Rural Bank, for the study. Structured questionnaires were used to collect data from respondents. Percentages, frequencies, graphs, charts as well as descriptive statistics were used to present the data.

The results of the study revealed that KRB, with its financial and non-financial services, had helped in poverty reduction in the KEEA Municipality. The study further showed a significant improvement in customers' income level; output level; savings level, ability to afford medical care; ability to cater for the educational needs of family; ability to afford good shelter; provision of nutritious food for family; and acquisition of assets/properties. Despite its contribution towards poverty reduction, KRB was faced with some challenges which included high loan default rate. On the other hand, some of the challenges faced by customers included low interest on savings and high interest rates on loans.

Judging from the potential KRB has in reducing poverty, it is recommended that the bank should strengthen its loan recovery effort and expand its coverage in the municipality. Depositors should also receive realistic interest on their deposits. Interest rate on credit should also be lowered.

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## **DEDICATION**

To my family

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## LIST OF ACRONYMS

ARB	Association of Rural Banks
BoG	Bank of Ghana
BRI	Bank Rakyat Indonesia
DFID	Department for International Development
EMU	Efficiency Monitoring Unit
ERP	Economic Recovery Programme
FAO	Food and Agriculture Organisation
GCE	General Certificate of Education
GDP	Gross Domestic Product
GIMPA	Ghana Institute of Management and Public Administration
GLSS	Ghana Living Standards Survey
GPRS I	Ghana Poverty Reduction Strategy
GPRS II	Growth and Poverty Reduction Strategy
GSS	Ghana Statistical Service
HDI	Human Development Index
HIPC	Highly Indebted Poor Country
IFAD	International Fund for Agricultural Development
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
ISSER	Institute of Statistical, Social and Economic Research
KRB	Kakum Rural Bank Limited
KEEA	Komenda-Edina-Eguafo-Abrem Municipality
LBCs	Licensed Buying Companies

MDGs	Millennium Development Goals
MoF	Ministry of Finance
NDPC	National Development Planning Commission
NGOs	Non- governmental organisations
NIB	National Investment Bank
PAMSCAD	Programme of Action to Mitigate the Social Cost of Adjustment
RCBs	Rural and Community Banks
SAP	Structural Adjustment Programme
SIF	Social Investment Fund
SPSS	Statistical Product and Service Solutions
UN	United Nations
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific, and Cultural Organisation
WID	Women In Development

## **CHAPTER ONE**

### **INTRODUCTION**

#### **Background to the study**

Poverty is regarded as a multidimensional and a global phenomenon. Poverty is a problem for all countries irrespective of their level of development. However, a high rate of poverty can be observed in the developing countries of Africa, Asia and South America. The most valid generalisations about the poor are that they are disproportionately located in rural areas; they are engaged in agricultural and associated activities; and are mostly women and children (Todaro & Smith, 2009). Chandy and Gertz (2011) estimate that generally there are about 878.2 million people living below the poverty line in the year 2010. Out of this number, over 700 million live in the rural areas. Asia has the highest proportion of the poor with 464.5 million, followed by sub-Saharan Africa with 369.9 million, Latin America and the Caribbean with 35 million, with the remainder in the Near East and North Africa.

The elimination and reduction of poverty is currently a key concern of development thinkers and practitioners (Ali, Nwabu & Gesami, 2002; Brohman, 1996). The beginning of the 1970s saw attention geared towards improving the wellbeing of rural poor who formed the majority of the population in developing countries, where the rate of poverty is considered to be pervasive. Many governments and international and local agencies shifted



their attention and channeled their resources towards rural development. This idea was motivated by the intention to reduce the levels of unemployment, increase access to public goods and services by the rural folks and, more particularly, lower poverty and overcome income inequalities in most developing and least developed countries (Brohman, 1996). The UN Millennium Development Goals (MDGs) also aimed at halving poverty by 2015 (Laderchi, Saith & Stewart, 2003).

As a developing country, Ghana is no exception to the global phenomenon of poverty. The Ghana Living Standard Surveys (GLSS) by the Ghana Statistical Service (GSS) show the trend of poverty in Ghana. According to the studies, the percentage of the population defined as poor, relative to the poverty line, was 37 percent in 1987/88 (GLSS1), 42 percent in 1988/89 (GLSS2), 31 percent in 1991/92 (GLSS3) and 39.5 percent in 1998/99 (GLSS4). The corresponding values for the lower poverty line were 22, 25, 15 and 26.5 percent respectively. It is observed from the above poverty indicators that, even though the incidence of poverty was lowest in 1991/92, about one- third of Ghana's population was classified as poor, relative to the high poverty line, with about one-sixth relative to the lower line (GSS, 1995; 1996; 2002).

Out of the number considered to be poor, relative to the high poverty line, the majority are found in the rural and relatively deprived areas. Food crop farmers in the country have the highest incidence of poverty. They constitute 59% of the poor in Ghana. This has been due to several factors, including lack of access to markets, high cost of inputs and low levels of economic infrastructure (GSS, 2000; World Bank, 2005). Despite efforts by

the government and other development partners, such as International Fund for Agricultural Development (IFAD), to reduce poverty in the country, small-scale farmers, herders and other rural people in Ghana remain poor. However, it is worth mentioning that the 2005/06 survey (GLSS5) shows a decline in poverty with percentage figures of 28.5 percent and 18.2 percent for the upper poverty line and lower poverty line respectively. This implies that the problem of poverty still persists (GSS, 2007).

A number of strategies have been embarked upon since independence to tackle the causes and mitigate the consequences of poverty. Poverty alleviation strategies, policies or efforts in Ghana date back since the colonial era. There have been several plans since independence in 1957. Some of these plans were implemented while others were not due to interruptions in the political landscape of the country. Among such programmes that aimed at poverty reduction were the Mass Education Drive, Integrated Rural Development Programme, the Operation Feed-Yourself Programme and the Programme of Action to Mitigate the Social Cost of Adjustment (PAMSCAD). The most recent among these efforts are the Ghana Poverty Reduction Strategy I (2003-2005) and the Growth and Poverty Reduction Strategy II (2006-2009).

In the quest to reduce poverty, especially in the rural areas, research has revealed that the importance of rural financial institutions and, for that matter, the banking institution cannot be overemphasised. Although high and sustainable economic growth is central to poverty reduction, studies by Asenso-Okyere, Asante and Gyekye (1993) and Hossain and Knight (2005) revealed that promotion of efficient, sufficient and widely accessible rural

financial services is key to achieving pro-poor and poverty reduction goals. Access to financial services plays a critical role in helping the poor widen their economic opportunities, increase their asset base and diminish their vulnerability to external shocks.

With the recognition of this, the concept of 'rural bank', a kind of banking entity which is co-operative in character but provides a service of a much wider range, was introduced. Apart from mobilising local savings and meeting credit needs of all medium and small-scale entrepreneurs and cultivators, a rural bank was envisaged to take up the task of implementing programmes of supervised credit, providing ancillary banking services, supplying inputs and agricultural credit, providing assistance in marketing, and generally helping the overall development of its areas of operation. The idea of rural banking has, therefore, sprung across the length and breadth of the globe (Shekhar & Shekhar, 2007). Among prominent rural banks and rural financial institutions, which are normally cited as examples, are Banco Solidario (BancoSol) in Bolivia, Bank Rakyat Indonesia (BRI) of Indonesia and the Grameen Bank in Bangladesh (IFPRI, 2002).

In Ghana, several banks were established to provide banking services to the populace. Among them are the Bank of the Gold Coast, which is now Ghana Commercial Bank, the National Investment Bank (NIB), established in 1963, the Agricultural Development Bank, established in 1965, and the Ghana Co-operative Bank, which has now been absorbed into the Ghana Commercial Bank. Since 1988, more banking institutions have come into the country. It became clear with time that these banks were not able to shoulder the financial needs of rural people since the principles they operated on were not favourable

to a section of the populace, especially those found in the rural areas. For instance, access to credit by rural people was constrained by their inability to provide collateral and their being perceived as credit risk (Anin, 2000; UNDP, 2007).

Again, these banks were far away from the rural areas, making accessibility to their services difficult for rural dwellers. As a result, rural dwellers were compelled to fall on informal financial sectors, mainly moneylenders, relatives and friends, for financial services, particularly credit, at high interest rates, making repayment very difficult. In the light of these problems that rural dwellers face in accessing financial services, the government of Ghana, through the Bank of Ghana (BoG), on 5<sup>th</sup> July, 1976, introduced the rural banking concept into the country. The Bank of Ghana sponsored the establishment of the first rural bank at Agona Nyakrom in the Central Region. By December 1987, as many as 117 rural banks had been established. The number has since increased to 127 in March, 2009 and 135 in 2011 (Anin, 2000; ARB, 2009; BoG, 2011; World Bank, 2009).

In Ghana, rural bank is defined by Addea (1989), cited in Anin (2000, p. 84), as: a body incorporated under Ghana's companies code whose name includes the word 'bank' and which is licensed by the BoG to carry out specified business which principally includes:

- the acceptance of money from the public on either deposit account or current account,
- repayment of such monies on demand by cheque or otherwise,
- collection of customers' cheque,
- lending money,

- financing commerce, industries and agriculture through short, medium and long-term loans and advances,
- provision of safe custody for customers' valuables,
- invests part of customers deposits in economic activities that promote local socio-economic development,
- and any other service authorised by the bank's regulations.

Since their establishment, rural banks have contributed immensely towards the socio-economic development of Ghana. Rural banks have contributed to the course of capital formation, which is very vital for investment. Rural banks have helped in this direction through their service of savings. Rural banks have, thus, instilled in people the habit of savings, which is important for development. Rural banks, over the years, have also extended credit facilities to people. Sometimes they also engage in input distribution or credit in kind as another way of offering credit to people and also helping in the development of small-scale industries. Examples of items they distribute are cutlasses, fertilisers, roofing sheets, outboard motors, radio, and television sets, among others. These supplies have helped in reducing the problem that people hitherto faced with regard to credit acquisition. They also grant credits to customers for the payment of school fees, acquisition/rehabilitation of houses and to meet medical expenses (World Bank, 2009).

Furthermore, rural banks have created employment avenues which have reduced the unemployment situation in Ghana. People are employed as managers, accountants, clerks, project officers, messengers and security men. Rural banks also play a vital role as far as the development of small-scale industries is concerned. This stems from their nearness to small-scale

industries that normally operate in the rural areas. Rural banks provide small-scale industries with financial, technical and managerial advice with regard to their businesses (ARB, 2009). They do this by mostly organising seminars and training programmes for such entrepreneurs. Rural banks also devote part of their profits to meet social developmental activities, such as donations to support education, health, traditional administration and the needy, in their respective communities. Some of the banks have specific gender programmes focusing on women-in-development and credit-with-education activities for rural women.

Rural banks account for about five percent of the banking sector's total assets (BoG, 2011). They are, therefore, the main vehicle for financial intermediation, capital formation and retention of rural dwellers in the rural areas. However, rural banks are faced with some challenges in their operations. They are faced with the problem of credit default. Borrowers are not able to pay back the loans contracted from the banks. This hinders the operations of rural banks (Shekhar & Shekhar, 2007). In some instances, people who are willing to access credit facilities from rural banks are not in the position to provide the collateral securities that will serve as guarantee for them to contract loans. Furthermore, there is the fear by people that they may default and might not be able to pay back loans they may contract with its accompanied interest rate. Consequently, they do not make any effort at contracting credit from rural banks (IFPRI, 2002). In other instances, people do not have any information on the existence of rural banks in their locality, let alone knowing the services that they provide (Ekumah & Essel, 2003).

In a meeting held to chart the development path of the then Komenda Edina Eguafo Abrem (KEEA) District in 2003, it was revealed that the district was one of the deprived districts in the country. Incomes were generally low and the informal sector offered the highest employment. There were no major industries and the health facilities in the district were inadequate. Furthermore, the report indicated that the financial situation of the Assembly was so critical that it became very difficult to implement many of the Assembly's intended projects. Consequently, the district was selected to benefit from the Social Investment Fund (SIF) under the government's poverty reduction programme (KEEA Municipal Assembly, 2009).

### **Statement of the problem**

In Ghana, there have been several attempts to reduce the incidence of poverty through various means. Successive governments of the country have embarked on several poverty reduction programmes during their tenure of office. All these programmes, in one way or the other, have played a significant role in trying to eradicate poverty in the country. The Ghana Statistical Service, through its Ghana Living Standards Surveys, has also estimated a positive trend in the poverty reduction efforts (GSS, 2007).

This notwithstanding, research has shown that financial institutions have a significant role to play in the effort to reduce poverty (Asenso-Okyere, Asante & Gyekye, 1993). In the fight against poverty, it is believed that the introduction of banks in rural areas enhances the livelihood of rural dwellers. In a study by Burgess and Pande (2005) in India, it was realised that the establishment of banks in rural areas of India has spurred entrepreneurship,

structural change and poverty reduction. Again, Burgess and Pande (2005) assert that access to banking, particularly finance, may be critical in enabling the poor, rural residents to begin new socio-economic activities, thereby exiting poverty.

With the services provided by rural banks, especially credit and savings facilities, the poor rural households will be able to manage and often augment their otherwise meager resources and acquire food and other basic necessities for their families. Also, well-managed savings facilities provide incentives for households to build up funds for investment and consumption. It is in the light of these benefits associated with the establishment of financial institutions in rural areas that the Bank of Ghana in 1976 introduced the rural banking concept in Ghana to mobilise rural savings for development and also enhance the living standards of rural dwellers.

Although rural banks have been established in the KEEA Municipality, there is no specific empirical evidence on how they have affected life of the people in the municipality. Issues such as poverty as reflected in poor housing conditions, poor health, unemployment, low productivity and the existence of major differentials in income and wealth still persist. These show the severity of poverty in the municipality. While few individuals command considerable capital assets and also act as a source of capital to poorer individuals, others are extremely poor (Korankye, 2008).

It is against this backdrop of the operations of rural banks and, in particular, the establishment of the Kakum Rural Bank in the KEEA municipality that a careful and systematic enquiry is needed to find out how the bank has helped in reducing poverty in the municipality.



### **Objectives of the study**

The main objective of the study was to examine the contribution of the Kakum Rural Bank to poverty reduction in the Komenda-Edina-Eguafo-Abrem municipality.

The specific objectives were to:

1. assess the extent to which the Kakum Rural Bank has helped in reducing poverty among its customers in the KEEA Municipality;
2. examine the challenges that Kakum Rural Bank faces in its operations toward poverty reduction in the KEEA municipality;
3. examine the challenges that customers of Kakum Rural Bank face in accessing the services of Kakum Rural Bank; and
4. make recommendations that will be useful to Kakum Rural Bank in formulating policies and programmes to help in poverty reduction.

### **Research questions**

1. To what extent has the Kakum Rural Bank helped in poverty reduction among its customers in the KEEA Municipality?
2. What challenges does Kakum Rural Bank face in its operations towards poverty reduction in the KEEA Municipality?
3. What challenges do customers of Kakum Rural Bank face in accessing the services of the bank in the KEEA Municipality?

### **Scope of the study**

The study was limited to the Kakum Rural Bank and its agencies, including the head office in the KEEA Municipality. It focused on the

contribution of Kakum Rural Bank to poverty reduction in its catchment areas within the KEEA Municipality. Customers who have been with the bank for a period of three years and over were included in the study. Customers who had been with the bank for at least three years were selected because it was believed they would be in the position to tell the benefits they had derived from their operations with the bank (Asian Development Bank, 2007). This brought out clearly how the operations of the bank had helped reduce the poverty levels of its customers.

### **Significance of the study**

One of the aims for the establishment of rural banks is to mobilise savings and provide loans to people within their radius of operations. Rural banks are also to engage in economic activity that will promote the social and economic development of the community in which they find themselves. All these activities are geared towards ensuring the development of the communities in which they operate, thereby reducing poverty and enhancing the livelihood of the people in the community. Therefore, it is in the right direction to find out whether rural banks are adhering to the aim of developing the rural areas and, for that matter, reducing the rate of poverty in their areas of operations.

The study further provides policy makers, non-governmental organisations (NGOs) and other stakeholders operating in the municipality with information on the activities of Kakum Rural Bank and how its operations and activities help in reducing poverty. Lastly, the study produces a

document that could be useful to other scholars intending to undertake research on rural banks and how they help in poverty reduction.

### **Limitations of the study**

One major limitation of the study was the absence of baseline data. Owing to the absence of a baseline survey before the introduction of the rural bank and memory lapses, respondents were not able to recall the levels of their poverty indicators before joining the bank.

Furthermore, the low level of literacy among the customers demanded the use of one-on-one interview. Even though respondents were forthcoming with responses, the method was time-consuming. Also, in some cases, there was outright refusal of respondents to answer questions since they thought their responses could be used for purposes other than those explained to them. The scattered nature of the location of customers and the poor nature of roads made some localities and customers inaccessible. Again, there were instances where customers had changed their residence and address which made it difficult reaching them.

### **Operational definition of concepts**

Poverty: Poverty is defined to include lack or low level of income; low savings; low output levels; inadequacy or absence of basic necessities and services, such as food, potable water, clothing and shelter; inability to educate children; inability to pay for medical care for the family in times of ill-health; and lack of property and asset.

## **Organisation of the thesis**

This thesis has been organised into five chapters. In the first chapter, an introduction to the study is presented on the following headings: the background to the study; statement of the problem; research objectives; research questions; scope of the study; limitations of the study; operational definition of concepts; and organisation of the thesis.

The second chapter reviews the literature on issues related to the study. The literature is reviewed under the following headings: the conceptions and definitions of poverty; theories of poverty; causes of poverty in Ghana; efforts at poverty reduction in Ghana; rural banking in Ghana; rural banking operations in Ghana; rural banks and poverty reduction; challenges confronting rural banks in Ghana; challenges confronting customers of rural banks in Ghana; and conceptual framework for rural banking and poverty reduction.

The third chapter deals with the methodology used in the study. It includes: the research design; the study area; the study population; sampling procedures; sources of data; data collection instruments; pretest; the fieldwork; and data processing and analysis. Chapter Four presents the results and discussion. Finally, Chapter Five presents the summary, conclusions, recommendations, and areas for further research.

## **CHAPTER TWO**

### **REVIEW OF LITERATURE**

#### **Introduction**

This chapter reviews the literature related to the research problem. The literature is reviewed under the following headings: the conceptions and definitions of poverty; theories of poverty; efforts at poverty reduction in Ghana; rural banking in Ghana; rural banking operations in Ghana; rural banks and poverty reduction; challenges confronting rural banks in Ghana; challenges confronting customers of rural banks in Ghana; and conceptual framework for rural banking and poverty reduction.

#### **The conceptions and definitions of poverty**

The literature is replete with divergent views on poverty and the difficulties in defining the term. There has been academic and political debate about poverty, not merely being descriptive but prescriptive. It is not just a state of affairs; it is an unacceptable state of affairs. Therefore, the first thing to understand about poverty is that it is not a simple phenomenon that can be learned to define by adopting the correct approach. It is a series of contested definitions and complex arguments that overlap and, at times, contradict each other (Alcock, 1997). While the debate goes on, the following conceptual definitions are derived from the literature.

According to the Ghana Poverty Reduction Strategy (Government of Ghana, 2003), poverty is multi-dimensional with complex interactive and causal relationships between the dimensions. In addition, poverty is defined to include low level of income; the absence of medical care; poor sanitation; the absence of good drinking water; illiteracy; the inability to participate effectively in decisions that affect an individual's life directly; and the lack of security and protection from crime. It identifies the causes of poverty to include macro-economic instability; inability to optimise benefits from the global economic system; low levels of consumption; limited use of technology; belief in superstition and myths; as well as powerlessness of the poor and women.

In his study of poverty in Britain, Townsend (1979, p. 31) defined poverty, which has since been widely used by others, as follows:

Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary, or are at least widely encouraged or approved in the societies to which they belong. Their resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary living patterns and activities.

Attimir (1982) defines the concept of poverty as a situation of poor health facilities, low level of education, malnutrition and lack of participation in the decision-making process. He elaborated further that poverty is a situational syndrome in which the following are combined: under

consumption, malnutrition, precarious housing conditions, low educational level, bad sanitary conditions, either unstable participation in the production system or restriction to its more primitive strata, attitudes of discouragement and anomie, little participation in the mechanisms of social integration and possibly adherence to a particular scale of values different, to some extent, from that held by the rest of the society.

According to the World Bank (2000), poverty is pronounced deprivation in 'wellbeing', where wellbeing can be measured by an individual's possession of income, health, nutrition, education, assets, housing, and certain rights in a society, such as freedom of speech. It is also a lack of opportunities, powerlessness, and vulnerability (World Bank, 2000).

Sen (1999) defines poverty as the deprivation of basic capabilities rather than merely as lowness of income, which is the standard criterion of identification of poverty. He identifies five dimensions of poverty, namely: political space, economic space, social space, transparency, and protective security. He views poverty as deficits along these five dimensions which limit the ability of people to develop their capabilities and function effectively. In other words, poverty is not only lack of income, education or health but also, on a broader scale, lack of voice, lack of empowerment and lack of good governance.

More focus on the definition of poverty has been on the fundamental distinction between absolute and relative poverty. Absolute poverty is claimed to be an objective, even scientific definition, and it is based on the notion of subsistence. Subsistence is the minimum needed to sustain life, and so being below subsistence is to be experiencing absolute poverty because one does not

have enough to live on. There is, therefore, the need to work out what people need to have in order to survive (Booth, 1889; Rowntree, 1901, 1941, cited in Alcock, 1997). However, it has been argued that these are mistaken or oversimplified judgments and that, in practice, both Booth and Rowntree employed more complex, relative definitions in their studies (Spicker, 1990; Veit-Wilson, 1986).

Absolute poverty is contrasted with relative poverty. The latter is a more subjective or social standard in the sense that it explicitly acknowledges that some element of judgment is involved in defining and determining poverty levels. The judgment stems from the fact that relative poverty is based on comparison between the standard of living of the poor and the standard of living of the other members of society who are not considered poor. In Townsend's (1979) definition quoted above, relative poverty prevents people from participating in activities that are customary in the society in which they live.

It has however, been argued that, if poverty levels change as society becomes more affluent, then it is not clear how the position of the poor can be distinguished from the others who are merely less well-off in an unequal social order. This, therefore, raises the question of where and how to draw a line between the poor and the rich. In essence, the argument is that any cut-off line is arbitrary and merely involves the imposition of subjective judgment of what is an acceptable minimum standard at any particular time (Piachaud, 1981).

The above definitions show that at the heart of poverty is the whole gamut of basic needs. Typically, a person is considered as poor if he/she does not have the capabilities to meet the basic needs. Poverty is not a paucity of



income only, but goes beyond that to consider the social context in which the person lives that determines the extent of poverty a person or family experience.

### **Theories of poverty**

The literature on poverty uniformly acknowledges different theories of poverty. These theories have been classified in multiple ways. Among such classifications are poverty caused by individual deficiencies (pathological cause); structural cause of poverty; poverty caused by cultural belief systems that support sub-cultures of poverty; poverty caused by geographical disparities; and poverty caused by cumulative and cyclical interdependencies.

#### Poverty caused by individual deficiencies

This pathological cause of poverty is a large and multifaceted set of explanations that focus on the individual as responsible for their poverty situation. Holman (1978) and Herrnstein and Murray (1994) view poverty as the product of the weakness and fecklessness of the individual. Typically, politically conservative theoreticians blame individuals in poverty for creating their own problems, and argue that with hard work and better choices the poor could have avoided (and now can remedy) their problems (Bradshaw, 2006). Other variations of the individual theory of poverty ascribe poverty to lack of genetic qualities. The genetic explanation of poverty seeks to relate social status with supposedly inherited characteristics, such as intelligence and psychological approaches which explain individual (non)achievement by reference to acquired or developed personality traits. They do include a

dynamic, albeit a largely immutable one, deriving from nature rather than nurture (Alcock, 1997).

Proponents of this proposition dismissed the views of those who had sympathy for the 'poor fellow' who is living in poverty. The poor is described as 'bad fellow', 'good-for-nothing', 'vagrants', and 'sots'. Again, they believe that it is unnatural to help those engaged in 'dissolute living' to avoid the consequences of their actions (Spencer, 1969). In the view of the individualist theorists, neither society nor the social groups to which individuals belong are accountable, and society should not, therefore, be responsible for providing for the needs of the poor (Murray, 1984). Individuals, families and ultimately communities are poor because of idleness, drunkenness, gambling, unwise expenditure, incompetence, ignorance and even lack of intelligence.

The neo-classical economists reinforce the individualist source of poverty. The core premise of this dominant paradigm for the study of the conditions leading to poverty is that, individuals seek to maximise their own wellbeing by making choices and investments, and that (assuming that they have perfect information) they seek to maximise their wellbeing. When some people choose short-term and low-payoff returns, economic theory holds the individual largely responsible for their individual choices. An example is to forego college education or other training that will lead to better paying jobs in the future (Bradshaw, 2006).

Another aspect of this cause of poverty is the blame on the family and the community as the cause of poverty. Keith (1972) cited in Alcock (1997) refers to this as "cycle of deprivation" in which inadequate parenting, lowered aspirations and disadvantaged environment of families and communities

become internalised as part of the values of their children as they grow up. Thus, when those children reach adulthood, their expectations and abilities are lowered and they more readily expect and accept the poverty and deprivation of their parents and acquaintances (Alcock, 1997).

However, Spicker (1993) criticises the individualistic theory on the grounds that it provides little evidence to show that there are continuities particularly preserved in certain families, partly because most poor children are not poor as adults, and partly because people marry spouses who are not from similar family background. Again, the individualistic cause of poverty fails or does not explain in broader circumstances in which families and communities are situated, nor how they came to be poor in the first place. Nor does it explain how some individuals and families manage to escape the culture of poverty. Again, studies have shown that children of poor homes do not repeat the poverty of their families and communities and those who are poor do not in themselves come from such deprived backgrounds (Brown & Madge, 1982, cited in Alcock, 1997).

#### Structural cause of poverty

The structural cause of poverty links the cause of poverty from the external side of a person (Easterlin, 1987). The external causes come from social forces which continually create and recreate a condition in which people become poor. The forces, according to Alcock (1997), include class, agencies and institutions.

The structural perspective acknowledges that poor people demonstrate certain patterns of attitudes, values and morals, but asserts that these patterns

do not obtain internally, but rather externally, as a consequence of unfavourable structural conditions in the community in which the poor live (Halman & Oorschot, 1999). In other words, a deficient social structure is the main cause of poverty (Alcock, 1997; Zekeri, 2003). In this connection, Alcock (1997, p.39) posits that “poverty is a product of dynamic social forces”. This position is supported by an opinion which does not blame the failure of the poor for their bad traits, but the failure of the social security policy to eliminate poverty and the failure of the agencies and the institutions designing the policy.

Alcock (1997) contends that housing policies in both the public and private sectors have obviously failed those poor people who are homeless. Health policies, or the lack of them, may have resulted in sickness and disability, leading to poverty. Social services may have failed to assist with, or may even have added to, the problems that have brought individuals and families into poverty. Alcock identified a number of reasons for the failure of the policies. These included: low morale of the individual officers in the organisation; structural and operational practices of the organisation that do not support the policy implementation; and misunderstanding of the purpose of the policy.

Bradshaw (2006) identifies distortions in the economic, political and social systems as among the causes of poverty. The economic, political and social environment causes people to have limited opportunities and resources with which to achieve income and wellbeing. Bradshaw looks at the unequal access to wealth and power as the main cause of poverty. Proponents argue

that poverty is understood primarily in terms of economic forces, social relations, property rights and power.

The 19<sup>th</sup> Century social intellectuals developed a full attack on individual theory of poverty by exploring how social and economic systems overrode and created individual theory situations. For instance, Marx showed how the economic system of capitalism created the 'reserve army of the unemployed' as a conscientious strategy to keep wages low. Later, Durkheim (1984) showed that the most personal of action (suicide) was in fact mediated by social systems (Bradshaw, 2006).

Kurien (1978) conceptualises poverty as socio-economic phenomenon whereby, the resources available to the society are used to satisfy the greed of few while many do not have enough to meet even their basic needs. The acute shortage of resources available to the poor incapacitates them to cope with their difficult circumstances.

Poverty caused by cultural belief systems that support sub-cultures of poverty

The third theory of poverty traces the cause of poverty to what Lewis (1961) termed the "culture of poverty". The theory suggests that poverty is created by the transmission over generations of a set of beliefs, values and skills that are socially generated but individually held. Individuals are not blamed for being poor. This is because they are victims of the dysfunctional ideologies of culture (Bradshaw, 2006). Valentine (1968, p. 69) quoted Lewis's description of the culture of poverty, which typically stresses the centrality of cultural values:

By the time slum children are age six or seven, they have usually absorbed the basic values and attitudes of their subculture and are not psychologically geared to take full advantage of changing conditions or increase opportunities which may occur in their life time.

According to Bradshaw (2006), the culture of poverty theory explains how government antipoverty programmes in developed countries reward people who manipulate the policy and stay on welfare. The argument of conservatives, such as Murray (1984), is that government welfare policies perpetuate poverty by permitting a cycle of 'welfare dependency', where the poor families develop and pass on to others the skills needed to work the system rather than to gain paying employment. According to the theory, welfare systems create incentives to invest more time in leisure and less time in work. This, in turn, spurs cultural attitudes that predispose poor people not to work sufficiently to remain out of poverty (Murray, 1984). Rising rates of divorce, female headed single parent families, teenage pregnancy, drug and alcohol misuse, and criminal activity are said to reflect these dysfunctional attitudes and values, relative to mainstream society, about family, education and work. These attitudes are passed onto subsequent generations leading to a vicious cycle of poverty from which few escape (Rodgers, 2000).

The cultural explanation of poverty has been criticised by other scholars, notably Valentine (1968). Valentine (1968) criticises Lewis by claiming that distinctive lower-class behaviour can be better explained by structural circumstances and that many values Lewis cited as typical of the poverty subculture (e.g. male dominance) characterise the larger society as

well. Gang (1972) also argues that the culture of poverty theory assumes an overlying uniform view of culture and values in industrial societies like the United States. The poor may differ in some respects, but so do many groups in the society. That is, contrary to the culture of poverty theory, the poor do not constitute a homogenous group because most of the poor do not remain poor for life or come from generations of poor families.

#### Geographical disparity theory

Geographical factors are important to the understanding of the cause of poverty. The geographical theory of poverty builds on the other theories and calls attention to the fact that people, institutions and cultures in certain areas lack the objective resources needed to generate wellbeing and income, and that they lack the power to claim redistribution (Bradshaw, 2000).

Isolated locations or unfavourable environments can create difficulties in producing sufficient food and other necessities that keep people above the poverty line. Geographic isolation blocks people from markets, knowledge of demand and technologies. As Shaw (1996, p. 29) points out, 'space is not a backdrop of capitalism, but rather is restructured by it and contributes to the system's survival. The geography of poverty is a spatial expression of the capitalist system'.

Sparsity of settlement and distance from the centre of economic development and power produce a rural condition called 'the social cost of space' (Kraenzel, 1980). The cost of rural space has three dimensions: first, the friction of distance inflates rural costs of goods and services and depresses access to needed resources; second, the political economy of space makes the

poor vulnerable to exploitation in the system of capitalism; and finally, the isolation of space impedes mobilisation for self-help especially in rural areas (Bradshaw, 2000).

#### Poverty caused by cumulative and cyclical interdependencies

The theories discussed above demonstrated the complexity of the causes and sources of poverty. The cumulative and cyclical interdependencies theory of poverty is by far the most complex, and, to some degree, builds on components of each of the other theories. This is because it looks at the individual and his/her community as caught in a spiral of opportunity and problems. It postulates that once problems dominate, they close other opportunities and create cumulative set of problems that make any effective response nearly impossible (Bradshaw, 2006). The cyclical explanation of poverty explicitly looks at individual situations and community resources as mutually dependent.

The theory has its origins in economics from the work of Myrdal (1957), who developed a theory of 'interlocking, circular, interdependence within a process of cumulative causation' that helps to explain economic underdevelopment and development. Myrdal notes that personal and community wellbeing are closely linked in a cascade of negative consequences, and that the closure of a factory or other crisis can lead to a cascade of personal and community problems including migration of people from a community. Thus, the interdependence of factors creating poverty actually accelerates once a cycle of decline is started (Bradshaw, 2006).



Perhaps, Sher's (1977) definition of the cycle of poverty is the most explicit. He demonstrates that education and employment at the community and individual levels interact to create a spiral of disinvestment and decline. For instance, at the community level, lack of employment opportunities leads to migration and the close of retail stores. These, in turn, lead to poorly trained workers, which also leads to the inability of firms to utilise cutting edge technology and draw new firms to the area. The consequence of the latter is retrogression to a greater lack of employment (Bradshaw, 2006).

The cycle also repeats itself at the individual level. The lack of employment leads to lack of consumption and spending (due to inadequate incomes) and to inadequate savings. This means that individuals cannot invest in training and also in businesses, which leads to lack of expansion, erosion of markets, and disinvestment, all of which lead back to more inadequate community opportunities. Health problems and the inability to afford preventive medicine, a good diet, and healthy living environments become reasons the poor falling further behind. The cycle of poverty also means that people who lack ample income are unable to invest in their children's education. This implies that the children learn in poor quality schools and fall further behind when they go to get jobs. They are also vulnerable to illness and poor medical care (Bradshaw, 2006).

The theory explicitly links economic factors at the individual level with structural factors that operate at a geographical level. As a theory of poverty, the cyclical theory shows how multiple problems cumulate, and it allows speculation that, if one of the linkages in the spiral was broken, the cycle would not continue. The problem is that the linkages are hard to break

because each is reinforced by other parts or the spiral system (Bradshaw, 2006).

### **Efforts at poverty reduction in Ghana**

Though regarded as a “shining star” of the African continent on the eve of independence in 1957, Ghana’s economic fortunes were marked by decline and volatility between 1965 and 1984. Weak economic performance over this period can be attributed to poor-quality economic policies and several policy reversals which were exacerbated by frequent change in power between predominantly military regimes. Decline was particularly severe in the late 1970s and early 1980s when the country experienced widespread shortage (Aryeetey & Mckay, 2004).

As a result of the depth and scale of poverty levels, Ghana has focused on poverty reduction as the core of its development strategy. Since the early 1980s, the country has implemented a number of development programmes that were expected to impact positively on the livelihood of poor people and build their asset base to guard against vulnerability. For instance, the government of Ghana initiated the Economic Recovery Programme (ERP) in 1983 as a direct response to an economic decline and poverty that plagued the country during the past decades. With the support of the International Monetary Fund (IMF) and other bilateral donor agencies, the ERP aimed mainly at macro-economic reforms, fiscal and monetary stability, export growth strategy, trade liberalisation, rehabilitation of physical infrastructure, improvement in investment environment through new private investment legislation, privatisation of state-owned enterprises, provision of social

infrastructure, investment in human capital and institutional capacity building (World Bank, 1995).

The policy reform succeeded in reversing the decline of the economy and improving the overall economic performance. Gross Domestic Product (GDP) increased by an average of 5 percent per annum between 1984 and 1992. Specifically, there was a significant reduction in the fiscal deficit and inflation; infrastructure services were improved and relative prices and incentives were shifted towards tradables, especially exports of cocoa, timber and minerals. Government services increased from 6 percent of GDP in 1983 to 13 percent in 1986 and to 16 percent in 1991. Average per capita income increased from negative 5 percent prior to ERP to positive 2 percent between 1984 and 1992. Sustained reduction in money supply reduced inflation from 123 percent in 1983 to 10 percent in 1992. Gross investment increased from 4.7 percent of GDP in 1982-84 to 8 percent in 1989-1991 (World Bank, 1995).

As a result of this economic growth, Ghana made a substantial progress or gains in poverty reduction between 1983-1991/92. The GDP growth of 5 percent per annum between 1987/88 and 1991/92 in per capita term means 2 percent growth per annum. According to the World Bank, this growth pattern is broad-based, touching the vast majority of the population in Ghana and, therefore, reflected positively in poverty reduction in Ghana. From 36.9 percent in 1987/88, the incidence of poverty declined to 31.6 percent in 1991/92. This suggests that by 1991/92, about 32 percent of five million Ghanaians were poor with expenditure less than US\$25 per month. This economic performance and poverty reduction was not sustained. In 1992, the macro-economic stability was undermined by the fiscal shock triggered by

increased public expenditure and fall in tax revenue. Money supply increased more than 50 percent. The current account deficit widened to almost 9 percent. The downturn in macro-economic performance deteriorated compared to the pre-1993 gains in poverty reduction (World Bank, 1995).

Concerned with the adverse development, the government of Ghana and its partners in development initiated several actions to address the issue of poverty reduction in a comprehensive way. At the 1995 Consultation Group Meeting in Paris, the government of Ghana gave a firm commitment to initiate concrete and comprehensive action both within the macro-economic policy framework and operational mechanisms to reduce poverty in Ghana. The specific actions to reduce poverty included: institutionalising mechanism and national focus for poverty reduction; establishing a continuous poverty monitoring system; designing better policies for gender and environment to help poverty reduction; and related poverty reduction initiatives (World Bank, 1995).

By 1986, substantial progress had been made in stabilising the economy. But the economy also faced major structural problems. These included: deteriorating exports, a weak financial system which hindered mobilisation of savings and private investment, stagnant agriculture and weak public administration. In order to lay a firm base for sustained growth, the government broadened the reform effort through programmes of structural adjustment (SAP) (Nyanteng, 1997).

Among the objectives of the Structural Adjustment Programme were to:

- attain a 5 percent average annual rate of GDP growth;

- improve real per capita income by about 2.5 percent per annum after adjustment have been made for population growth;
- bring down inflation to about 8 percent by 1990; and
- restore incentives for production of food, industrial raw materials and export commodities and thereby increase their output (Asamoah, 1996).

However, some observers have criticised Ghana's SAP for increasing the nation's dependence on foreign aid, and for imposing significant economic hardships on vulnerable groups, such as women, children, and the poor, through higher taxation, public sector retrenchment, and the removal of subsidies. Critics contend that Ghana's SAP was geared toward growth, as measured by quantitative yardsticks, such as income per capita and GDP, rather than development which entail the qualitative improvement in human welfare (UNICEF, 1986).

In response to these criticisms, the government embarked on its Program of Action to Mitigate the Social Costs of Adjustment (PAMSCAD) in 1987, to reduce mass poverty by providing training, work, and income through community development projects for targeted groups, such as retrenched workers, women, and poor households. Several community development projects, such as construction of roads, schools, and health centres, were undertaken under PAMSCAD (Sowa, 1993).

However, critics contend that PAMSCAD did little to alleviate the economic hardships faced by the truly disadvantaged, notably women and the poor. The section of the PAMSCAD designed to enhance the opportunity for women in development (PAMSCAD WID) was the last to get off the ground. Furthermore, most of the income-generating activities funded for women only

reinforced women's traditional roles of cooking, childcare, and petty trading, rather than empowering them in new and more lucrative sectors of the economy (Brydon & Legge, 1996).

In the quest to reduce poverty in Ghana in the future, a new development planning process was introduced. A key element in this process is the preparation of a long-term strategic national development policy document, Ghana Vision 2020, following a highly participatory process in April, 1994 (Government of Ghana, 1995). The document provides a comprehensive policy framework for development policy making and planning for the period 1996 to the year 2020. The main strategic goal of Ghana-Vision 2020 is to transform Ghana into a buoyant and dynamic middle-income country, achieving an average per capita income from the level of US\$430 to about US\$4000 within the first decade of the 21st Century (Nyanteng, 1997; World Bank, 1995).

However, the plans for Vision-2020 had unrealistic macroeconomic goals and insufficient link to the budget. They did not identify clear priorities and a specific action plan, and their poverty diagnosis was not based on high quality data. Furthermore, the coordination between the agencies responsible for formulation, National Development Planning Commission (NDPC), and the Ministry of Finance (MoF) was limited during implementation. Consequently, the Vision-2020 was rejected as a long-term development framework and was replaced by the Ghana Poverty Reduction Strategy (GPRSI) which builds partially on Ghana Vision 2020, focusing on many of the same sectors (Sachs, Botchway & Sievers, 1999).

In course of the year 2000, external economic shocks, coupled with a deterioration of the terms of trade and the fiscal situation, caused severe macroeconomic imbalances; inflation hit 40 percent, the local currency, the cedi, depreciated by more than 50 percent vis-à-vis the US dollar, and the budget deficit rose to almost 9 percent of GDP. In 2001, the government decided to apply for debt relief under the Heavily Indebted Poor Country (HIPC) initiative, adding some urgency to the preparation of the Ghana Poverty Reduction Strategy I (GPRS I) (Amoako-Tuffour & Owusu, 2003). The GPRS I was submitted to the Board of the IMF and the World Bank in February, 2003, a year after the government and the IMF had reached the decision point to release US\$ 3.7 billion in HIPC funds, and less than two years after the government announced that Ghana would apply for additional debt relief under a follow-up facility, the Enhanced HIPC initiative (Ashong, 2001). According to Sachs, Botchway and Sievers (1999), the goal of the GPRS I as a requirement of Ghana's HIPC status, was to achieve sustainable equitable growth, accelerated poverty reduction and the protection of the vulnerable and excluded within a decentralised democratic environment.

The GPRS I was organised along five thematic areas that have a direct impact on poverty. These are;

- The macro economy;
- Production and employment;
- Human resource development;
- Vulnerability and exclusion; and
- Governance.

As a long-term holistic vision, GPRS I had a focus on economic growth and private sector development. This focus, combined with good governance, human development, agricultural modernisation and special programme for the vulnerable and the excluded was expected to reduce poverty in the long-term (Government of Ghana, 2003). The five priorities which were linked to the thematic areas and provided a framework for the formulation of short-term policies were infrastructure; agricultural modernisation based on rural development; enhanced social services; good governance; and private sector development. In addition, GPRS I identified health, education, agriculture and infrastructure as priority areas for pro-poor growth (Government of Ghana, 2003).

However, the IMF and the World Bank (2003) have critiqued the GPRS I that it did not always link the diagnostic with concrete and achievable medium-term policies. It focused more on projects than on infrastructural and policy reforms and capacity building, with the risk that the benefits might neither be attainable nor sustainable due to an adverse institutional environment.

While much of the government's macroeconomic agenda was achieved during the GPRS I period (2003-2005), reviews noted very little room in the GPRS I for addressing high-growth issues as well as weak attention to gender equality, inclusion and social protection. Consequently, the Growth and Poverty Reduction Strategy (GPRS II), which is a second generation of GPRS covering the period 2006-2009, was prepared to replace the Ghana Poverty Reduction Strategy I (GPRS I). GPRS II built on lessons learnt from GPRS I and with the ambition of overarching goal of raising average per capita income



levels to middle income levels by 2015, i.e. from US\$400 to about US\$1,000 (Government of Ghana, 2006).

The GPRS II framework (2006-2009) was established as a broad development agenda. The reason for this was perhaps to avoid the imposition of a uniform solution to highly diverse issues in all the 138 districts. Districts are, therefore, expected to analyse their specific context and circumstances in line with GPRS II. This brings to the fore institutional and governance mechanisms (decentralised structures) to address the needs of the citizenry, particularly at the local level. The basic goal of GPRS II was to achieve accelerated and sustainable shared growth, poverty reduction, promotion of gender equity, protection and empowerment of the vulnerable and excluded within a decentralised democratic environment. The broad strategic direction for GPRS II focused on:

- Priorities for Private Sector Competitiveness;
- Human Resource Development; and
- Good Governance and Civic Responsibility (Government of Ghana, 2006).

## **Rural banking in Ghana**

### Origin of rural banking in Ghana

The first work on rural banking in Ghana was conducted by the Bank of Ghana (BoG) in 1970. This was after the Bank of Ghana had recognised the need for the mobilisation of surplus savings in the rural communities for effective utilisation by farmers and local industrialists. The study revealed a noticeable gap in the existing banking and credit systems. Among them was

the insufficient flow of funds through banks to the large number of small borrowers who needed credit most. Upon this and other findings, the Bank of Ghana, in 1973, commissioned a detailed study into how to resolve the situation. The outcome of the study was the establishment of rural banks in Ghana based on the Philippines' model. A Bank of Ghana team spent several months in the Philippines, studying in depth the operations of the rural banks in the Philippines. The Philippines was chosen because it was one of the few countries which had successfully operated such banks on a fairly large scale. Another reason was that the stage of economic development of the Philippines was relevant to that of Ghana (Essel, 1996).

As a result of the study, Bank of Ghana sponsored the establishment of the first rural bank at Agona Nyarkrom in the Central Region of Ghana on 5<sup>th</sup> July, 1976. Owing to numerous problems that arose after the establishment of the rural banking system, many were those who were apprehensive of the feasibility studies conducted by the Bank of Ghana (BoG) prior to the establishment of these banks (Anin, 2000).

In Ghana, rural banks have been established as unit banks, registered under the Companies Code as public limited liability companies, completely independent of other banks. However, according to Besley (1994), in countries like India and Philippine, the ownership of rural banks lies with the government. Ukpong (1998) also notes that, in Nigeria, rural banks are established by existing commercial banks as part of the branch banking system.

## Aims and objectives of rural banks

According to the Association of Rural Banks (1992), cited in Essel (1996), the aims of rural banks are to:

- stimulate banking habits among rural dwellers;
- mobilise resources locked up in the rural areas into the banking systems to
- facilitate development; and
- identify viable industries in their respective catchments (areas) for investment and development.

Primarily, the objectives of the rural banks are to:

- bring banking services to the doorstep of the rural population to be able to monetise the rural economy and thereby, reduce the size of money outside the banking system;
- extend and deepen rural financial intermediation to facilitate the payments system and to promote savings and investment process;
- provide necessary institutional credit to the rural dwellers to enable expansion of farming activities and other income generating commercial ventures that would help to improve their livelihood; and
- act as instruments of economic development through provision of commercial loans to the Local Councils (District Assemblies) and Town Development Committees that must support development of community projects like building of markets, schools and health centres (Association of Rural Banks, 1998).

## Rural bank operations in Ghana

The Rural Banking Department of the Bank of Ghana (BoG) came out with an Operational Manual to regulate the activities and operations of rural banks in Ghana in 1985. This dealt with how a rural bank could be established within the context of the Companies' Code and the Banking Act. It further discussed the appointment of directors and chairmen of the board of directors, and designed an operational chart for a standard rural bank. The manual, as an extensive study, touched on virtually all areas of rural banking.

The Bank of Ghana has streamlined rural bank lending operations to ensure that bank credit actually benefit the small-scale rural producers and the rural communities. The Bank of Ghana has developed a mandatory sector allocation for rural bank loans. The allocation ensures that the bulk of the resources go to agriculture, the priority sector in rural bank lending, cottage industries and trade and transport. The lending allocation of rural banks mandated by the Bank of Ghana is shown in Table 1.

**Table 1: Mandatory sectoral allocation of Rural Bank loans**

Sector	Loan allocation
Agriculture	A minimum of 50% of Total Loans Outstanding
Cottage Industries	A minimum of 30% of Total Loans Outstanding
Trade and Transport	A minimum of 20% of Total Loans Outstanding

Source: Bank of Ghana, 1985

The rural banks try to reduce the cash element in the loans to the minimum possibly to prevent the diversion of funds for purposes other than those for which they are granted. The banks arrange for inputs to be made

available in kind, such as raw materials, seeds, fertilisers, equipment and machinery.

By 1990, the rural banks were experiencing negative profitability, resulting in capital inadequacy and, in some cases, the inability to meet depositors' withdrawal demands. The Bank of Ghana ordered a restructuring of rural banks. By December, 1991, all of the rural banks had undergone diagnostic study conducted by consultants from outside the country. The restructuring was designed to determine financial strength, organisational capability, and management status in line with existing statutory requirements. After the restructuring process, the number of rural banks, meeting the capital adequacy requirement, increased from 2 to 55. The Bank of Ghana has instituted measures to maintain public confidence in the remaining mediocre and distressed rural banks (Bank of Ghana, 1995).

Presently, rural banks are still given the opportunity to determine who should benefit from their credit, and other resources. There is substantial anecdotal evidence of misdirection and misapplication of rural credit and financial services by the rural people. Many rural banks appear to give credit to people who do not fall into the Bank of Ghana target groups, most especially salaried workers (Essel, 1995).

### **Rural banks and poverty reduction**

Studies conducted by Burgess and Pande (2005) and Bakhtiari (2006) have revealed that access to and efficient provision of financial services in rural areas, where the incidence of poverty is considered to be high, will enable the poor in smoothening their consumption, manage their risks better,

gradually build their assets, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life. Furthermore, the provision of financial services also contributes to the improvement of resource allocation, promotion of markets, and adoption of better technology. Thus, banking institutions in rural areas help to promote economic growth and development (Imboden, 2005).

Studies by Tsehay and Mengitton (2002) and Asmelash (2003) on the impact of rural financial programmes on poverty reduction in Ethiopia have revealed that, at the individual level, personal income and savings have shown significant improvements. Additionally, household income and welfare of the beneficiaries increased. The studies further revealed that most of the school-aged children were in school and there was improvement in household diet as a result of the microfinance services provided by rural financial institutions. Again, the rural financial intervention had made an impact at the enterprise level through enterprise expansion, additions of new products, improvement in quality products, improvement in management skills and cost reduction.

In Ghana, the contribution of rural banks to rural development in particular and development in general cannot be overemphasised. Rural banks are the largest providers of formal financial services in rural areas and also represent about half of the total banking outlets in Ghana (IFAD, 2008). As development agents, rural banks have brought banking services to the doorsteps of people, most importantly the rural dwellers. Currently, activities and the operations of rural banks are felt almost throughout the entire country. With this, rural banks have succeeded in instilling in the rural dwellers the habit of banking in the form of saving and borrowing. Since its introduction in

1976, the numbers of rural banks as well as their account holders continue to increase year after year. Table 2 shows the total number of rural banks and their account holders in some selected years (World Bank, 2009).

**Table 2: Growth in rural banks and their account holders in Ghana across some selected years**

Year	Number of Banks	Number of Account Holders
1976	1	1,124
1987	34	553,000
1995	117	703,111
2001	115	1,268,641
2005	121	2,462,839
2007	125	3,260,779
2009	127	4,172,936

Source: World Bank, 2009

From Table 2, it can be observed that there has been a significant and steady increase in the total number of rural banks and account holders in the country. With only one bank in the country in 1976, there were as many as 127 rural banks as at 2009 operating in the country. The total number of account holders or customers has also increased from 1,124 holders in 1976 to 4,172,936 holders in the first quarter of 2009. This shows the extent to which the rural banking concept has been embraced in Ghana (World Bank, 2009). It has been argued that the increase in the number of rural banks and their account holders is as a result of a number of factors, including the introduction of the Economic Recovery Programme in 1983; the pressure that was put on

the BoG in the 1980s by the Cocoa Board to have more rural banks to participate in the purchase of Akuafo Cheques, and the interest that was shown by rural communities to have rural banks in their communities (BoG, 1995).

Furthermore, rural banks, over the years, have contributed immensely to the mobilisation of savings, and granted loans and overdrafts to several productive ventures to promote development activities and enhance the socio-economic lives of rural dwellers (Nissanke, 1991). Savings are a potential source of loan capital. Consequently, Robinson (2001) argues that savings are more valuable than credit especially for the poor. The stimulation of the habit of saving can also make an important contribution to development in general, especially in rural areas where the capacity of savings seldom rises to anything like its potential, and where the increase in both real and financial capital is an acute developmental need. A net increase in savings opens the possibility for a net increase in capital formation (Gordon, 1976; Rutherford, 2000).

Providing credit increases the productivity of the individual and also increases social equity resulting from improvement in the individual's income. Such income gains may be regarded as the avenue for greater equality in national consumption levels and a more just distribution of economic opportunities (Barnes, 1996; Gordon, 1976). Diagne and Zeller (2001) have shown how access to credit, a service by rural banks and micro financial institutions, affects household welfare outcomes. The availability of credit and saving facilities allows the poor to build up funds in a safe place overtime to facilitate the financing of large future expenditure or investment. In addition, this accumulation of funds allows for the growth of assets and reserves that can be used to maintain levels of consumption during episodes of unexpected



fluctuations in income (Robinson, 2001; Zaman, 2000). Expanded access to credit not only reinforces productive assets of the poor through investment in new technologies that enhances productivity but also lead to expansion of small businesses. Furthermore, access to emergency and consumption loans enable households or individuals to meet unexpected demands for cash without having to sell or pawn key income-generating assets or withdraw their children from school (Barnes, 1996).

The total amount of deposits and loans that are given out by rural banks increases significantly year after year. In 1976 when the first rural bank was established, the total amount of deposit that was realised was GH¢1,480. However, Table 3 shows a tremendous change with regard to the total number of deposits and the loans and overdraft given out between 2001 and 2008.

**Table 3: Key performance indicators of Rural Banks in Ghana (2001-10)**

Year	No. of Rural Banks	Total Depositors	Total Borrowers	Total Deposits (GH ¢'M)	Total Loans (GH ¢'M)
2001	115	1,129,316	139,325	38.13	14.49
2002	115	1,187,366	148,271	66.7	22.56
2003	117	1,456,987	194,804	94.92	34.84
2004	119	1,720,731	234,159	136.33	56.77
2005	121	2,182,559	280,280	168.8	77.52
2006	122	2,493,004	358,092	226.46	115.1
2007	125	2,670,618	590,161	293.23	172.12
2008	127	2,987,247	742,813	346.48	225.34
2009 (First Quarter)	127	3,263,539	931,791	375.13	226.85

Source: World Bank, 2009; ARB, 2009

From Table 3, it can be observed that, in the year 2001, rural banks had in their vault as deposit an amount of GH ₵38.13 million out of which GH ₵ 14.49 million was given out as loans and overdrafts. These figures of deposit and loans increased to GH₵ 375.13 million and GH₵ 226.85 million respectively during the first quarter of the year 2009. This shows the extent to which rural banks are helping the socio-economic development of the rural dwellers in the country. As can also be seen from the table, the number of rural banks in the country has increased steadily (ARB, 2009; World Bank, 2009).

However, Khandker (2005) argues that, while access to financial services is undeniably powerful, credit and savings address only one factor constraining the poor, namely: lack of liquidity. Increasing income and asset alone is slow and insufficient strategy for combating poverty. However, Khandker (2005) points out that the poor need access to a co-ordinated combination of financial and other development services to increase income, build assets, improve health, nutrition and education.

Over the years of their operations in the country, rural banks have generated employment avenues in the rural areas, helping to tackle the teeming unemployment problem in the country. Several individuals have been employed in the rural banking system. For instance, people are employed by rural banks as managers, accountants, project officers, clerks, “susu” collectors, auditors and security men, among other staff. Also, rural banks have provided people with capital to start or to expand their businesses. Small businesses with rural banks’ support have grown to medium enterprises, creating employment opportunities for others.

Again, rural banks have played an important role in the agricultural sector of the country (Okyere, 1990). RCBs purchase crops of farmers, which enables them to produce without fear of their produce not being bought. Through the use of the Akafofo Cheque system, the banks play an intermediary role in the cocoa buying activities of the RCBs. Currently, 11 Licensed Buying Companies (LBCs) channel funds through the ARB Apex Bank to the rural and community banks for the purchase of cocoa. This has greatly improved the delivery time and provided adequate supply of cash to the cocoa buying RCBs, which has contributed to the smooth operations of the Akafofo Cheque System. In 2008, the bank purchased Akafofo Cheque totaling GH¢ 460,323.96 as against GH¢ 354,937.93 in 2007 (ARB, 2009).

Rural banks have also been instrumental in input distribution. Apart from giving credit in cash, RCBs also engage in the distribution of inputs or credit on hire-purchase basis. For instance, they distribute items such as roofing sheets, television sets, radio set, cutlasses, fishing nets, outboard motors, hoe blades, soap, and cement, among other items, to their customers. Also, through the Apex Link, which is a domestic money transfer product, rural banks have helped in the transfer of money. Through this innovation, rural folks are able to transfer funds from one community to another, using the network of rural and community banks. In 2007 rural banks in Ghana delivered 128,875 domestic money transfers worth about GH¢ 63.3 million. The product has proved to be safe, reliable and convenient to traders, businessmen and students (ARB, 2009; World Bank, 2009).

As part of their operations, rural banks engage in the provision of social services which are geared towards improving the wellbeing of

community members in centres where they operate. Rural banks devote part of their profits to meet social developmental activities, such as donations to support education, health, traditional administration and the needy in their respective communities. In many instances, rural banks build schools, provide furniture for schools, street lights, KVIP toilets, community centres, pipe borne water and help in rural electrification. Rural banks also acknowledge the importance of education to development. As a result, most rural banks have instituted scholarship schemes to cater for the educational needs of brilliant but needy students. For example, in 2004, Akatakyiman Rural Bank granted bursaries to brilliant but needy students at the Komenda Secondary Technical School, and assisted a medical student to undergo training in the United Kingdom (Akatakyiman Rural Bank, 2009). Some of the banks have specific gender programmes focusing on women-in-development and credit-with-education activities for rural women (BoG, 1999).

Access to financial services has been identified to be a potential tool in raising the productivity and incomes of small and micro entrepreneurs (Holt & Ribe, 1991). With the provision of credit, saving facilities and other ancillary financial businesses, rural banks have helped in the development of small and medium-scale enterprises which are usually located in rural areas. Rural banks, over the years, have realised the importance of human capital and, for that matter, organised educational, skills training and counseling programmes for their clients in areas, such as credit management, investment management, product development, market access and marketing, basic bookkeeping, legal matters, health issues relating to business, customer care, pricing, environmental policy issues as well as on social and community issues (BoG,

2007; Cheston & Kuhn, 2002; Otero, 1999). Some productive ventures that have received assistance from rural banks include agriculture, cottage industries, soap making, batik tie and dye, oil extraction, 'gari' processing and fish smoking, among others (Carney, 1998; Ellis, 2000). This has resulted in behavioural change in entrepreneurs, which has consequently had a positive effect in their operations and the communities within which they operate.

Furthermore, rural banks engage in the payment of workers' salaries in rural areas. This has made a good contribution to the welfare of the rural people. Workers are saved from the risk of traveling long distances to collect their salaries. Again, monies which would have been saved with other commercial banks in other towns are saved in the rural areas for redistribution to prospective credit recipients to enhance rural development (Essel, 1996). Also, they grant credits to their clients and salary workers for the payment of school fees, acquisition and rehabilitation of houses, medical expenses and funeral ceremonies.

More importantly, the fact that rural banks operate in rural areas implies that they have an important role to play in ensuring that the policy of decentralisation is successful through the promotion of supporting organs and institutions, notably the District Assemblies. Rural banks in the country provide financial management capacity support for District Assemblies. Rural banks also engage in investment profiling and counseling for District Assemblies and manage District Poverty Alleviation Funds. Such roles played by rural banks ensure effective integration of rural financial intermediation within an efficient decentralised system to ensure effective rural development and poverty reduction programmes in the rural areas (Salami, 2003).

Even though some scholars see rural banking institutions as agents of poverty reduction, other scholars like Hulme and Mosley (1996) and Schreiner (1999) remain sceptical about the role that rural and microfinance institutions play in poverty reduction. They point out that rural and micro-credit are not a panacea for poverty alleviation since, in some cases, the poorest people have been made worse-off.

### **Challenges confronting rural banking in Ghana**

In their operations, rural and community banks are faced with several challenges which tend to militate against their smooth operation. These challenges impede their development and their efforts at reducing poverty and ensuring the development of their areas of operation. Studies have identified inability to diversify portfolio; high loan default rate; mismanagement and corrupt practices; lack of human resource capacity; insufficient infrastructure in rural areas; and inadequate information about customers as some of the challenges rural banks face in their operations in Ghana.

Rural banks were basically founded by the BoG to cater for the banking needs of rural people who were marginalised from banking services. They offer both formal and non-formal services to the communities they serve. Being rural banks, they serve rural people who are farmers and fishermen. Since most of the customers engage in agriculture, they tend to want to borrow at the same time (pre-harvest season) and save immediately after the harvest. This makes it extremely difficult for the rural banks to diversify their investment portfolio to engage in other sensitive areas of investment to enhance the welfare of their communities in which they operate (DFID, 2004).

Again, rural banks are faced with the challenge of loan default. In this connection, three reasons have been identified as the cause of loan delinquencies. The first stems from the borrowers failure to use borrowed funds for productive purposes. Second, as has already been noted, majority of the clients of rural banks are farmers, fishermen and small-scale industry operators. Consequently, defaulting in loans may result from their investment having gone bad rather than from failure to apply the loan proceeds as expected. Causes of such situations may include bad harvests, natural disasters of various kinds, and change in economic conditions followed by a drop in farm prices. The third reason for delinquency or default is related not to inability, but to a refusal, to repay. In some cases, borrowers have the impression that credit is a gift made to them due to the orientation that they might have that the bank is for the community. They therefore, see nothing wrong with owing their community bank (IFPRI, 2002). However, according to Amonoo, Acquah and Asmah (2003), the causes of poor loan recovery are high interest rates, poor appraisal and weak monitoring, late disbursement of loans and negative attitude towards loans.

Also, mismanagement and corrupt practices have been identified as a challenge confronting rural banks in their operations. Management of most rural banks operate at marginal profits or losses due to high cost/income ratio as a result of high operational cost, low income-generating activities, huge provisions for 'bad and doubtful debts', huge overdue loans written off and huge board meeting expenses which retard the performance of the banks (ARB, 2009). Again, most officials of rural banks misapply and

misappropriate funds which otherwise would have been used for poverty-related activities.

Lack of capacity to fulfill the roles crucial for achieving poverty reduction is also a problem that rural banks face (Asiedu-Mante, 2001). Because rural banks are located in rural areas and had limited resources, rural banks are not able to attract well-qualified experiences personnel. Employees of the banks were selected from their own communities, regardless of qualification and experience (Ajai & Azeb, 2010). A training need assessment undertaken in 1999 from a sample of 42 rural banks showed that 60 percent of managers had only a diploma or certificate; 12 percent had General Certificate of Education (GCE) or equivalent; and only 28 percent of the rural bank managers had degrees. Also 50 percent of all accountants had diplomas; 50 percent had GCE level; and none had degrees in accountancy. All project officers had only diploma or certificate, with many having very little practical knowledge of rural investment appraisal (World Bank, 2009). In most cases staff hold degrees in other fields not related to banking. Another dimension of this problem is the ratio of staff to customers. Rural banks are faced with the problem of poor staff-customer ratio. This means that most staff over work in order to meet up with the demands of the profession.

Furthermore, the name 'rural bank' suggests that rural banks operate in rural areas where generally commercial banks would not want to operate. Some areas are difficult, unfriendly and neglected and, as a result, fund mobilisation is very difficult. This consequently undermines the banks' capitalisation effort and their ability to provide basic financial services like giving out of credit to people. Also, owing to the deprived nature of rural



areas, banks are not prepared to open branches and agencies in these areas. Even if they did, personnel do not want to work in such areas. This consequently affects management (Asiedu-Mante, 2001; Association of Rural Banks, 1992).

Inadequate information on potential borrowers has been identified as one of the challenges that are confronting rural banks in their operations. Nikoi (1993) acknowledges that information about potential borrowers is difficult to obtain, especially when they are scattered, making loan application costly to evaluate. Ekumah and Essel (2003) assert that imperfect information leads to high transaction costs in the lending process. As a result of the scattered nature and inadequate information of their customers, rural banks find it difficult to monitor the activities and businesses of their customers. In an instance where there is information on their customers, the scattered nature of them increases the cost of supervision.

### **Challenges confronting customers of rural banks in Ghana**

In their operation with rural banks, customers are faced with several challenges that prevent them from enjoying to the fullest the services that rural banks offer. Studies have identified information gap; lack of collaterals by customers; duration for disbursement of loans; short time for loan repayment; and high interest rate charged on credit and relatively smaller interest on deposits as some of the challenges customers face.

Ekumah and Essel (2003) have identified the wide information gap that exists between rural banks and their customers. These gaps are created by a number of factors which include the banks' failure to be transparent as well as

their failure to give adequate and comprehensible information to the customers (Besley, 1995). Customers may be aware of the most popular services, such as opening account, accessing credit and the availability of special savings schemes. But, only a few of the customers are aware of the different kinds of other economic and social services that the rural banks provide. For instance, according to Ekumah and Essel (2003), information about the special poverty alleviation programmes that are currently operated by the Akatakyiman Rural Bank is made available to only fishmongers and a few other individuals. In another instance, most customers do not know the level of interest on loans they contract and their savings (Kumah & Agbogah, 2000).

The inability of rural dwellers to provide collateral and other tangible assets as security as part of the credit contracting agreement makes it extremely difficult for people to access the services of rural banks. This emanates from the fact that the poor own few assets, which makes it difficult for them to provide such collateral (Banerjee & Duflo, 2007; ISSER, 2004; Nikoi, 1993). Even when borrowers have assets that can be used as collateral, they are often not acceptable to banks because of the high cost and long delays in using judicial enforcement mechanisms (Fafchamps, 1996). In addition, the process of acquiring a loan entails many unfriendly and bureaucratic procedures which lead to extra transaction cost for the poor (Bakhtiari, 2006).

The duration taken to offer financial services, most importantly the disbursement of loans to customers is among the challenges that confront customers of rural banks. The attitude of lending institutions (rural banks) makes it almost impossible for customers to access loans from them (Essel, 1996). The bureaucratic processes and procedures involved in loan acquisition

are time-consuming to the extent that customers are not given access to the loan facility on time. In most cases, recipients have to wait for more than three months before their applications are approved. However, most of the customers, such as farmers and fishermen who depend on loans from rural banks, engage in activities which are seasonal in nature. Their outputs are, therefore, affected, making the repayment of such loans difficult (Padmanabhan, 1988).

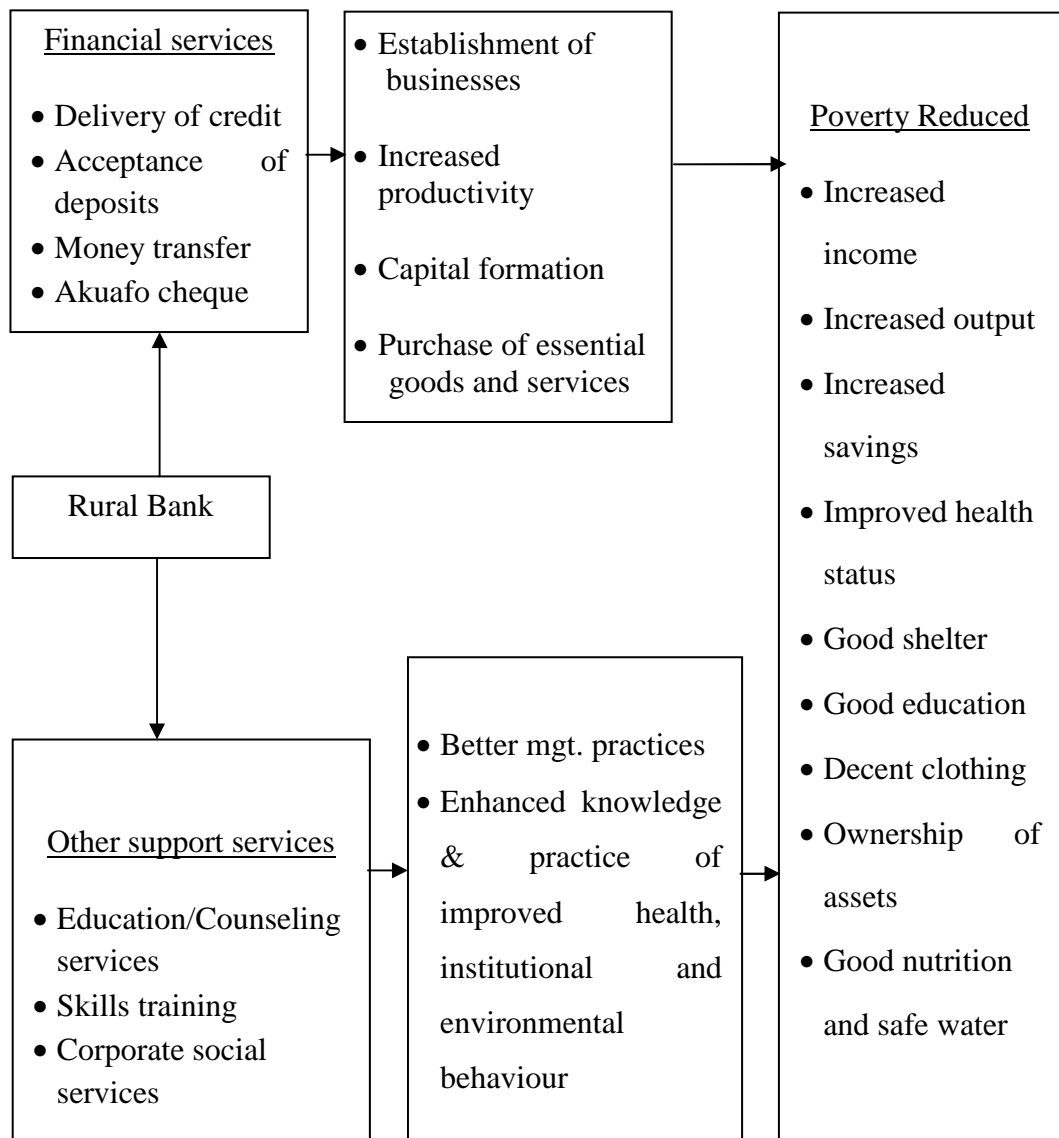
Moreover, Rahman (1999) points out that the time for loan repayment is a problem that customers face in their operations with rural banks. Many customers of rural banks regard the time frame within which to pay back loans contracted from rural banks as short. Rahman (1999) and Hulme (2000) have pointed out that most customers of rural banks and other microfinance institutions were not able to repay their loans within the required periods. As a result, customers who were not able to repay their loans within the stipulated periods had their properties seized and arrested. Some borrowers even committed suicide due to excessive pressure exerted by bank workers. In other instances, in order to cope with the problem, borrowers maintained their regular repayment schedules through a process of loan recycling, which considerably increased borrower debt-liability (Hulme, 2000; Rahman, 1999). The small nature of the loans given to borrowers has also been identified to be a cause of the high loan default rate. The small nature of loans given by rural banks does not help borrowers to increase their capital or achieve the intended purpose for which the loan was contracted (Essel, 1996; Schreiner, 2001).

Also, the interest rate that is charged on loans is considered very high by customers. The interest rate of rural banks and other microfinance

institutions in developing countries seems to be very high in comparison with other commercial banks. The interest rate charged by rural and community banks and microfinance institutions in Ghana is high mainly because giving out small loans is both risky and labour intensive, in addition to the many risks that lenders face. Each of these risks contributes to the costs of disbursing and recovering these loans. In order to remain profitable, rural banks and MFIs pass on some of these costs to their clients in the form of higher interest rate. This drives away potential customers and makes rural bank products and services too expensive (Shaw, 1973; World Bank, 2009). A study by GIMPA Consultancy Services (2006) found that, whereas rural banks charge high interest rates on loans, they pay relatively lower rate on savings.

### **Conceptual framework for rural banking and poverty reduction**

A conceptual framework for the study is diagrammatically represented in Figure 1. Rural banks, like other rural financial institutions, were primarily established as vehicle for providing critically-needed financial services to rural people, including the poor and vulnerable groups. Rural banks generally provide a wide range of services which are geared towards poverty reduction. In the framework, the services and operations (Input) of rural banks result in two benefits, namely the intermediate benefit and the ultimate benefit. In Figure 1, services that are provided by rural banks have been put under two headings: financial services and other support services (Input).



Input —————> Intermediate benefit —————> Ultimate benefit

**Figure 1: Conceptual framework for rural banking and poverty reduction**

Source: Author's construct, 2009

The financial services comprise accepting deposits; giving out loans and credits; engaging in money transfer services; and operating the Akuafu Cheque system. On the other hand, the non-financial or the other services consist of education and counseling services, skills training for their customers and corporate social services in the communities in which they operate.

The financial services provided by rural banks, especially granting of loans and credits, money transfer and the Akuafu cheque system, make funds available to customers. Providing credit to the poor helps increase their productivity and also expand their businesses. This is because they are able to afford and also purchase essential goods and services which help them in increasing their productivity and expand businesses (Gordon, 1976). Giving out credit also ensures the establishment and expansion of small businesses hence reducing the levels of unemployment problem in the rural areas (Barnes, 1996).

Also, through the Akuafu cheque system, farmers especially cocoa farmers are able to farm and increase the size of their farms without the fear that their produce will not be bought. This is because rural banks play an intermediary role in buying cocoa from farmers (ARB, 2009). Furthermore, the money transfer service provided by rural banks ensures the smooth and reliable transfer of funds to traders and businessmen, which consequently facilitates transactions and enhances their businesses.

Furthermore, the acceptance of deposits and savings by rural banks has a positive effect on the lives of depositors. This service enables customers to build up funds in a relatively safer place. Over time, this built-up fund helps the poor to finance large future expenditure or investment and also make funds

available to the bank to give out as loans to interested individuals (Gordon, 1976).

Apart from the above mentioned financial services that rural banks offer to their customers, there are other important non-financial services that they provide to their customers and people living in their areas of operation. Upon acknowledging the importance of capacity-building and human capital development, rural banks usually organise educational, counseling and skills training programmes (input) for their clients in the following areas: credit management; investment management; product development; market access and marketing; basic book keeping; legal matters; health issues relating to business; customer care; pricing; and environmental policy issues. These help beneficiaries to adhere to better management practices, add to their stock of knowledge and also help them adhere to good health, institutional and environmental practices (intermediate benefits). Rural banks further provide financial management capacity support for District Assemblies. They do this by providing investment profiling and counseling services to districts, municipal and metropolitan Assemblies.

From the framework, it is observed that the input, which are the services provided by rural banks (both financial and non-financial services), results in intermediate benefits, comprising the establishment of businesses, increased productivity, capital formation, purchase of essential goods and services, better management practices, enhanced knowledge and practice of improved health, and institutional and environmental behaviour. Such intermediate benefits result in ultimate benefits, where the output, income and the savings levels of customers increase. Customers are also able to afford

good shelter, good education, decent clothing, good nutrition and safe water, improved health status, and also own assets.



## **CHAPTER THREE**

### **METHODOLOGY**

#### **Introduction**

This chapter deals with the research methodology used in the collection and analysis of data for the study. It covers the research design, the study area, the study population, sampling procedures, sources of data, data collection methods, pretesting, the fieldwork and the framework for data processing and analysis.

#### **Research design**

The study employed descriptive, evaluative and case study designs. The descriptive design sought to establish opinions that were held, processes that had gone on and effects that were evident with regard to the contribution of Kakum Rural Bank in alleviating poverty in the KEEA Municipality. Also, the descriptive design helped to answer research questions concerning the current status of customers of the Kakum Rural Bank (Best & Kahn, 1998). The evaluative design sought to analyse and assess the extent to which Kakum Rural Bank, located in the KEEA Municipality, has helped in reducing poverty among its customers, and also how poverty levels of the customers of KRB have been reduced (Clarke & Dawson, 1999).

The case study was an appropriate design since a holistic, in-depth investigation of the contribution of Kakum Rural Bank to poverty reduction

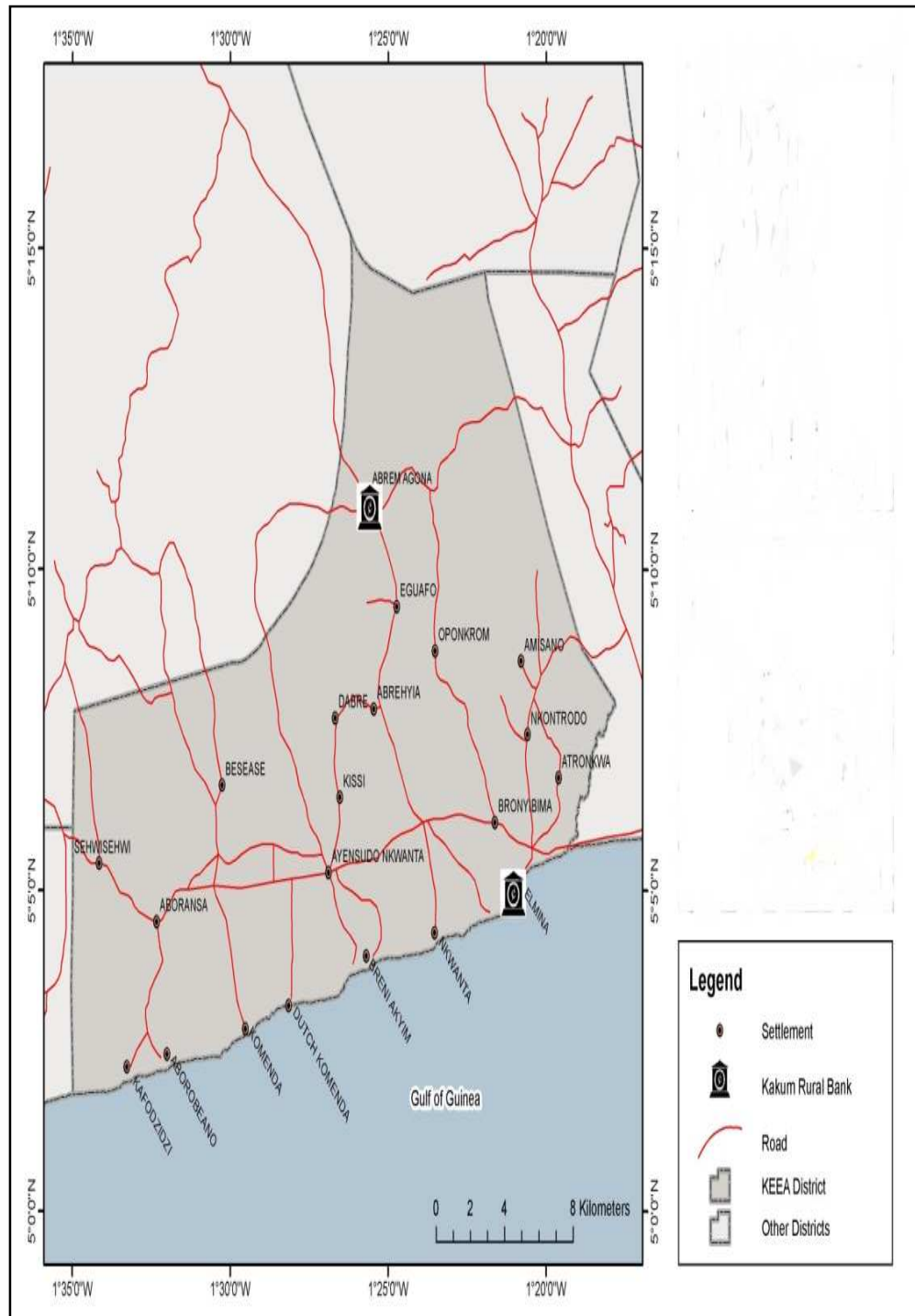
was the aim of the study (Feagin, Orum & Sjoberg, 1991; Yin, 1993). This design helped to provide great depth of understanding on how KRB helped in poverty reduction among the customers in the KEEA municipality (Whitley, 1996).

The case study design, however, has the problem of generalisation from one case. Consequently, the findings of the study could not be generalised for all rural banks in Ghana except the Kakum Rural Bank in the KEEA Municipality (Dufour, Fortin & Hamel, 1993).

### **The study area**

The KEEA municipality is bounded on the south by the Atlantic Ocean (Gulf of Guinea), the east by the Cape Coast Metropolis, the north by the Twifo-Hemang Lower Denkyira District and the west by the Mponoh - Wassa East District. During the 2000 Population and Housing Census, the population of the municipality was 112,435 (Ghana Statistical Service, 2002). By extrapolating with a population growth rate of 2.3 percent, the population of the municipality was estimated to be 141,142 in 2010.

The municipality lies partly in the dry equatorial zone and partly in the west semi-equatorial zone. Both zones experience relatively similar temperature conditions throughout the year. Mean annual temperature of about 29° C in warmest months (March – July) and 24° C in the coolest months (August-February). The differences between the two climatic zones result from rainfall.



**Figure 2: Map of Komenda-Edina-Eguafo-Abrem Municipality showing the areas of operation of Kakum Rural Bank**

Source: Cartography Unit, Department of Geography and Regional Planning, University of Cape Coast, 2010

Annual rainfall ranges from 100cm along the coast to about 150cm or more in the interior. Both areas have double maxima rainfall with the major season between May and July and the minor season between September and October. Relative humidity is between 60-90 percent during the Harmattan period of November-January (Ghana Statistical Service, 2002). The landscape of the district is generally undulating, dominated by batholiths. Along the coastal zone is a series of lagoons and wetlands which include the Benya, Brenu, Susu, Abrobi and Ankwanda. The slopes and hills are steep in inland areas. The slopes and hills are steep in inland areas. In between the hills are valleys with various streams which drain into the coastal lagoons and the Atlantic Ocean. These streams include the Iture and Ante in the west and the Udu and Suruwi in the east. Mainly the Birimian rock type consisting of schist and granites as well as pegmatite underlies a large proportion of the municipality. On the slopes of the hills, the overburden soils are sandy clayey soils while the valleys have gravely sandy colluvium.

In 2000, the KEEA municipality had 158 settlements, with Elmina as its capital. Elmina was the first point of contact with the early Europeans to the then Gold Coast and has, therefore, witnessed western civilisation and other economic activities over the centuries. The KEEA municipality has seen remarkable improvement in development since it was carved out of the Cape Coast Municipal Assembly in 1988. Development in this municipality has, however, been inadequate. Elmina, the capital of the municipality, stands out as the only settlement with any meaningful level of services. Other settlements with some modicum of reasonable service delivery are Komenda and Abrem Agona.

As the first point of contact of the country with the outside world, the municipality, particularly Elmina, took the centre stage in trade and commerce during the pre-colonial era, including the period of the Slave Trade. Though Elmina is no longer a centre of import and export trade, as far as national and international trade is concerned, it plays a significant role in commerce in the areas of fish and salt. Traders from within and outside the KEEA municipality come to Elmina to purchase fish and salt for sale in other markets in the country or to export them to other countries in West Africa. The municipality contributes about 15 percent of the total fish output in the country. Fishes caught include herrings, mackerel, tuna, lobsters, shrimps and barracuda. The municipality has two historical attractions: the Elmina Castle and Fort St. Jago that have been designated as World Heritage Monuments by the World Heritage Foundation under UNESCO.

Although the public sector is the main employer within Elmina, construction, retailing, small-scale manufacturing, agro-processing (food and fish) and service activities are the major sources of informal employment in the Municipality. Over 50 percent of the work force in the urban area get their employment outside the formal economy, while a large proportion manage to find employment in both sectors at the same time. Small shop keepers, street vendors, commercial drivers and food sellers are a common sight in the streets. Even though salt mining and winning is one of the main commercial ventures in KEEA municipality, this activity cannot be said to be on a very large scale. Currently, there is some amount of salt winning activity in the township of Elmina. Benya Lagoon is one of the known and significant sites for salt winning in the town. Other minor salt winning sites of little or no

commercial value can be located within the town (Ghana Statistical Service, 2002).

#### Kakum Rural Bank

Kakum Rural Bank was given the license to operate as a rural bank on 8<sup>th</sup> February 1980 by the Bank of Ghana under the Banking Act of 1970 (Act 339). The mission for the establishment of Kakum Rural Bank is to facilitate the socio-economic development of its catchment area through the provision of innovative, customer-centered financial and non-financial products and services to economically active individuals and corporate entities using a team of dedicated and reliable staff and also collaborate with the government and be a key player in the reduction of poverty in the Central Region.

Currently, Kakum Rural Bank has 10 agencies. Out of this number, three are in Elmina, one in Agona Abrem (KEEA municipality) and one each at Abura, Kotokuraba (Cape Coast Metropolis), Jukwa (Twifo-Hemang Lower Denkyira District), Moree (Abura Asebu Kwamankese District), Abakrampa (Abura-Asebu-Kwamankese District), and Mankessim (Mfantseman Municipality). Kakum Rural Bank has a staff strength of 124 regular staff and about 30 casual workers.

Kakum Rural Bank is rated as one of the rural banks which are doing well in the country, and it was admitted into the prestigious Ghana Club 100 in 2005. The customer category of the bank include farmers, fishermen, cottage industrialists, small and medium-scale entrepreneurs, traders, transport owners, salaried workers, among others. The bank offers services, including accepting savings, time deposits and demand deposits. Again, it gives out loans to its customers. Kakum Rural Bank engages in foreign and domestic

money transfers. In the bid of KRB to instill banking habit in people, it also engages in 'susu' business. In all, the bank has a total of 38,708 customers. Out of this number, 29,224 are savers (i.e. savings, time deposits and demand deposits, 'susu' customers) while 9,554 are creditors (loans and overdraft). By the close of the year 2008, the bank was able to mobilise up to GH ¢1,180,591.00 in savings deposits, grants and in concessional loans (Kakum Rural Bank, 2009).

### **The study population**

The population for the study was made up of all the staff of KRB and all customers who have operated with the bank for a minimum period of three years in all the agencies in the KEEA Municipality including the head office. The agencies were Elmina (Head office), Elmina (Town), Elmina (Mpoben) and Abrem Agona. The study population, hence, was made up of 10,061 customers and 46 staff in these agencies. The distribution of KRB customers and staff in each of the agencies in the study area is shown in Table 4.

**Table 4: Distribution of Kakum Rural Bank staff and customers in KEEA**

Agency	Number of staff	Number of customers
Elmina (Head office)	28	3,517
Elmina (Town)	7	3,359
Elmina (Mpoben)	6	1,321
Abrem Agona	5	1,864
<b>Total</b>	<b>46</b>	<b>10,061</b>

Source: KRB, 2009

Customers who had been with the bank for at least three years were selected because it was believed they would be in the position to tell the benefits they had derived from their operations with the bank (Asian Development Bank, 2007).

### **Sampling procedures**

Both probability and non-probability sampling methods were used in the selection of respondents for the study. First, the purposive sampling technique was used to select 14 staff of the bank for the study. Purposively, the General Manager, the Manager for Finance and Operations, the Managers for the four centres, the four Project Officers and four junior staff (clerks) were selected. This sampling technique was the most appropriate because these categories of the staff were knowledgeable about the activities, operations and the constraints of the bank.

Second, the quota and systematic sampling techniques were used in selecting customers in the study. In all, 370 customers of Kakum Rural Bank were selected for the study. According to Krejcie and Morgan (1970), cited in Sarantakos (1998), a sample size required for a population of 10,000 is 370. The quota sampling method was used to proportionately distribute the 370 sample size among the four agencies in order to ensure fairness in the distribution of the sample among the agencies, using the formula:  $k = \frac{t}{p} \times s$ , where  $k$  is the sample size,  $t$  represents the population for the respective agencies,  $p$  represents the total population for all the four agencies, and  $s$  represents the required sample size. The proportionate distribution of the sample among the agencies is shown in Table 5.



**Table 5: Sampling distribution of the customers**

Agency	Number	Percentage
Elmina (Head office)	130	35.0
Elmina (Town)	124	34.0
Elmina (Mpoben)	48	13.0
Abrem Agona	68	18.0
Total	370	100.0

Source: Computed from KRB Records, 2009

The systematic sampling method was then used to select respondents from each of the four agencies of the Kakum Rural Bank. The following steps, as outlined by Sarantakos (2005), were followed to select the sample for each of the four agencies:

Step 1: Identify or construct a sampling frame.

Step 2: Determine the sample size.

Step 3: Compute the sampling fraction  $k$  (as above,  $k = N/n$ ). Where  $k$  is the sampling fraction;  $N$  is the number of units in the target population; and  $n$  is the number of units of the sample.

Step 4: Randomly select a number between 1 and  $k$ ; let's say  $p$ .

Step 5: Record the random number (i.e.  $p$ ) and every  $k^{\text{th}}$  number after  $p$ , until the intended sample size is reached.

Step 6: Locate the names in the sampling frame that correspond to the selected numbers.

For instance, in the case of Abrem Agona, the value for  $k$  (sampling fraction) was 27 ( $k=1864/68$ ). A number between 0 and 27 ( $k$ ) was randomly selected. In this case, the number that was selected was 12. The next

respondent was determined by the sampling fraction. Names on the sampling frame that corresponded to the numbers drawn were located. These individuals constituted the sample for Abrem Agona agency of the Kakum Rural Bank. These processes were repeated for the other three agencies to derive their respective samples. A back-up (second list) list was prepared from which absentee and difficult customers were replaced accordingly.

### **Sources of data**

The study used both the primary and secondary sources of data. Primary data were collected from respondents through field survey. The sources for secondary data included official information from the Komenda-Edina-Eguafo-Abrem Municipality Assembly (KEEA), Kakum Rural Bank, internet, relevant theses, books, reports, publications and journals.

### **Data collection instruments**

Three sets of questionnaire were used to collect data from specific groups and individuals. The use of the questionnaires was appropriate since questionnaires offer considered and objective view on the issue at stake since respondents can consult their files, and because many subjects prefer to write rather than to talk about certain issues (Sarantakos, 1998).

The questionnaire for the customers (Appendix I) had four sections: Section A sought information on the background characteristics of respondents; Section B focused on customers' knowledge on some of the activities of Kakum Rural Bank in the KEEA municipality in terms of their savings, credit and other educational, counseling and support services; Section

C was on how the poverty levels of customers had reduced with the operations of Kakum Rural Bank; the last section, Section D, looked at the challenges customers faced in their operations with Kakum Rural Bank.

The second set questionnaire (Appendix II) was used to elicit information from Managers and Project Officers of Kakum Rural Bank. The questionnaire had four sections: Section A elicited information on the background characteristics of respondents; Section B sought information on how Kakum Rural Bank was helping in poverty reduction in the KEEA municipality; Section C sought information of challenges customers of KRB face in their operations with KRB; and Section D sought information on the challenges that KRB faces in its operation in the KEEA municipality.

The third set of questionnaire (Appendix III) was designed to elicit information from clerks of Kakum Rural Bank. The questionnaire had three sections: Section A elicited information on the background characteristics of respondents; Section B sought information on how Kakum Rural Bank was helping in poverty reduction in the KEEA municipality; and Section C sought information on the challenges that KRB faced in its operation in the KEEA municipality.

### **Pre-test**

In order to test the validity and reliability of the data collection instruments, as well as data processing and analysis procedures, a pre-test was conducted using the Akatakyiman Rural Bank. The Akatakyiman Rural Bank was selected because it is also a rural bank which may have similar characteristics with the Kakum Rural Bank. During the pre-test, 10 bank

officials and 20 customers of the Akatakyiman Rural Bank (Kissi Agency) were given the questionnaire and interviewed respectively to test the validity and reliability of the instruments. This was to lead to the early detection of possible errors or distortions and to guarantee the extent to which methods met their goals.

The lessons that were gathered during the pre-test were very useful in the actual fieldwork. The researcher got to know, approximately, the time that could be spent in an interview and, for that matter, the number of research assistants to employ. In addition, ambiguous questions were detected during the pre-test and necessary corrections were made accordingly.

### **The fieldwork**

The main fieldwork covered a period of seven weeks, starting from 6<sup>th</sup> September to the second week of October, 2010. During this period, relevant data and information were collected from the field. During the first week, questionnaires were distributed to the selected staff of Kakum Rural Bank in all the agencies, including the Head office, in the Komenda-Edina-Eguafo-Abrem Municipality. This was done by the researcher himself.

Distribution of questionnaires to customers of Kakum Rural Bank started in the second week. Eight field assistants were trained to help in the administration of the questionnaires to the customers. During the training, the objectives of the study were explained to them. The training covered how to identify respondents, recording and management of data, and how to translate items in the questionnaires into the local language (Fante).

Customers who could read and write were given the questionnaires to complete. Some of the questionnaires were, however, administered as interview schedules to respondents who could not read and write. In such instances, the items in the questionnaires were explained in the local language of the respondents and their responses were transcribed and translated into the English language for easy use by the researcher during the analysis and interpretation. The researcher worked closely with the field assistants to constantly check entries to ensure consistency across and within instruments.

The main problem encountered during the fieldwork was the unwillingness on the part of some bank staff to provide relevant information for the study. Also, there were undue delays in retrieving the questionnaires from the bank staff. Furthermore, there were instances where customers refused to respond to the questionnaires since they thought their responses would be used for other purposes. Another problem faced was that the researcher had to visit respondents, on the average, about two times before they could respond to the questions. In some instances, customers had changed their places of residence and address, which made it difficult reaching them. On the whole, even though the exercise was difficult and challenging, the experience was worthwhile.

### **Data processing and analysis**

The data collected were first of all edited, coded and organised in a form that allowed easy entry and analysis by the computer. Some of the data from the field were reorganised in a form that made them amenable to quantitative research. The Statistical Product and Service Solutions (SPSS,

Version 16) and Microsoft Excel (2007) tools were used for data processing and analysis. The data were then grouped and described using tables, graphs, charts as well as descriptive statistics, such as the mean, frequencies and percentages.

## **CHAPTER FOUR**

### **RESULTS AND DISCUSSION**

#### **Introduction**

This chapter presents the results of the data obtained from the study. It clearly states the characteristics of customers and staff of Kakum Rural Bank; the extent to which Kakum Rural Bank has helped in reducing poverty among its customers in the KEEA Municipality; challenges Kakum Rural Bank faces in its quest to help in poverty reduction; and challenges customers of Kakum Rural Bank face in accessing the services of the bank.

#### **Background characteristics of respondents**

This section describes the background characteristics of respondents. The characteristics of the respondents were analysed in terms of sex, age, educational level of respondents, occupation, years of customers' operation with Kakum Rural Bank and the type of account of customers.

#### **Sex distribution of respondents**

The sex distribution of the respondents can be observed from Table 6. It can be observed that out of the total of 384 respondents selected for the study, the majority (56.3%) were males which meant males out-numbered females. In the case of the customers, the male customers out-numbered the female customers as males constituted 55.7 percent, whereas 44.3 percent

were females. The male dominance confirms World Bank's (2009) findings that women accounted for between 40-45 percent of the customers of rural and community banks. The situation was not different in the case of the staff as males recorded 71.4 percent against 28.6 percent females.

**Table 6: Sex distribution of respondents**

Sex	Customers		Staff		Total	
	Freq.	Percent	Freq.	Percent	Freq.	Percent
Male	206	55.7	10	71.4	216	56.3
Female	164	44.3	4	28.6	168	43.7
Total	370	100.0	14	100.0	384	100.0

Source: Fieldwork, 2010

#### Age distribution of respondents

The age distribution of respondents is presented in Table 7. It is indicative from the table that the majority (62.8%) of the respondents were between the ages of 31-50 years. Out of the total customers included in the study, 62.4 percent were within the age group of 31-50 years, with the majority of the staff (71.4%) within that same age group. None of the staff was above 60 years because 60 years was the retiring age. The mean age for the respondents was 42.4 years, that for the customers was 42.5 years, whilst that for the staff was 39.6 years. This means that the KRB has productive and resourceful customers who could bring about change in their poverty levels, given any financial support.



**Table 7: Age distribution of respondents**

Age group (years)	Customers		Staff		Total	
	Freq.	Percent	Freq.	Percent	Freq.	Percent
<20	2	0.5	0	0.0	2	0.5
21 – 30	48	13.0	2	14.3	50	13.0
31 – 40	124	33.5	6	42.8	130	33.9
41 – 50	107	28.9	4	28.6	111	28.9
51 – 60	65	17.6	2	14.3	67	17.4
Above 60	24	6.5	0	0.0	24	6.3
Total	370	100.0	14	100.0	384	100.0
Mean Ages	42.5 years		39.6 years		42.4 years	

Source: Fieldwork, 2010

#### Educational level of respondents

Education is a vital tool for developing any nation, a community as well as the individual. Educated people tend to earn more money, save some and have better health than their uneducated counterparts (FAO, 2005).

Table 8 presents the findings on the educational levels of respondents. It is discernible from the table that 94 percent of the respondents had had some form of formal education. It is evident from the table that 37.7 percent of the respondents had basic education (Middle School and JHS), 23.2 percent had training college and polytechnic education, 20.6 percent had university education, whereas six percent had no formal education. Majority (54.6%) of the customers had SSS/Voc/Tech, training college/polytechnic and university education, while 71.4 percent and 28.6 percent of the staff had training college

and polytechnic education and university education respectively. This corroborates the findings of the World Bank (2009) that majority of rural bank officials in Ghana have diplomas and certificates.

**Table 8: Educational level of respondents**

Level of Education	Customers		Staff		Total	
	Freq.	Percent	Freq.	Percent	Freq.	Percent
No Formal Education	23	6.2	0	0.0	23	6.0
Basic Education	145	39.2	0	0.0	145	37.7
SSS/Voc./Tech.	48	13.0	0	0.0	48	12.5
Training						
College/Polytechnic	79	21.3	10	71.4	89	23.2
University	75	20.3	4	28.6	79	20.6
Total	370	100.0	14	100.0	384	100.0

Source: Fieldwork, 2010

#### Occupation of customers

The occupation of the customers was another area considered by the study. It is discernible from Table 9 that 45.4 percent of the customers were civil servants (government employees), 19.7 percent were traders, 7.9 percent were fishermen, whereas 9.7 percent of the customers indicated that they were unemployed. Artisans, farmers and pensioners constituted 7.3 percent, 5.7 percent and 2.7 percent respectively.

**Table 9: Occupation of customers**

Occupation	Frequency	Percent
Unemployed	36	9.7
Farmers	21	5.7
Fishermen	29	7.9
Traders	73	19.7
Civil servants (Gov't employees)	168	45.4
Pensioners	10	2.7
Artisans	27	7.3
Drivers	6	1.6
Total	370	100.0

Source: Fieldwork, 2010

#### Years of customers' operation with Kakum Rural Bank

The study took cognisance of the years customers had been operating with Kakum Rural Bank. It can be observed from Table 10 that the majority (81.9%) of the customers had been operating with Kakum Rural Bank for a period of 3-10 years, 10.8 percent had been operating with the bank for a period of 11-15 years, whereas 4.9 percent and 2.4 percent had been operating with the bank for a period of 16-20 years and 21 years and above respectively. The mean period customers had been operating with Kakum Rural Bank was 7.9 years.

**Table 10: Years of customers' operation with Kakum Rural Bank**

Period (Years)	Frequency	Percent
3-5	127	34.3
6-10	176	47.6
11-15	40	10.8
16-20	18	4.9
21-above	9	2.4
Total	370	100.0

$\bar{x}$  = 7.9 years

Source: Fieldwork, 2010

#### Types of accounts customers operate with Kakum Rural Bank

With regard to the type of accounts customer held with Kakum Rural Bank, responses given have been shown in Table 11.

**Table 11: Types of accounts customers operate with Kakum Rural Bank**

Account	Frequency	Percent
Current	112	30.3
Savings	151	40.8
Fixed deposit	6	1.6
Current and Savings	101	27.3
Total	370	100.0

Source: Fieldwork, 2010

It can be observed from the table that a sizeable percentage (40.8%) of the customers held only savings account with the bank, 30.2 percent of the

customers were holding only current account, and 1.6 percent of the customers also held only fixed deposit. The study further revealed that 27.3 percent of the customers held savings and current accounts at the same time.

### **Kakum Rural Bank's efforts at poverty reduction**

Kakum Rural Bank stands as one of the key players in the reduction of poverty in the Central Region as a whole. In this section, the study examines the extent to which the Kakum Rural Bank has helped in reducing poverty among its customers in the KEEA Municipality. In this regard, the staff of KRB were asked to identify the ways in which the bank had contributed to poverty reduction in the KEEA Municipality. All the staff indicated that the bank had rendered the following services in the municipality: financial services; non-financial services; and corporate social services. This conforms to the services that are presented in the conceptual framework of the study.

#### Financial services of Kakum Rural Bank

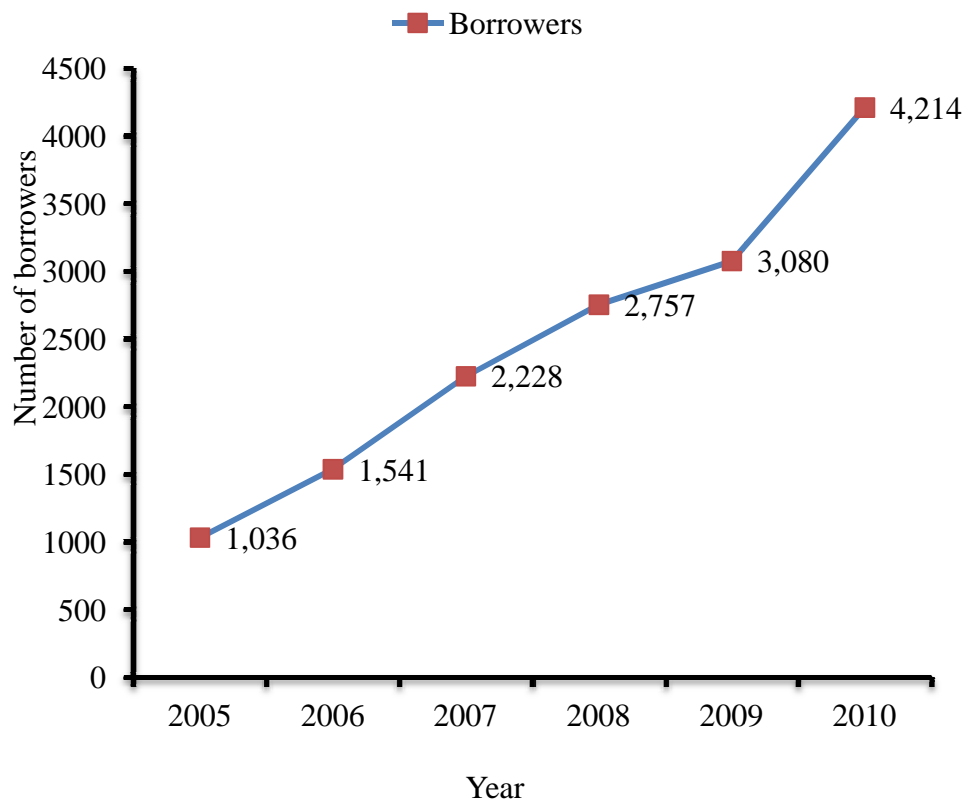
The financial services that Kakum Rural Bank offered were assessed. These financial services, according to the staff, included: credit delivery; accepting deposits; and the apex link money transfer services. These financial services conform to the services presented in the conceptual framework with the exception of the Akafo Cheque system which the bank did not operate.

#### Kakum Rural Bank's credit operations

The staff were asked to indicate the kinds of credit facilities the bank offered its customers in the municipality. The majority (92.9%) of the staff

indicated that the bank gave out credit both in cash and in kind. The credit products offered by Kakum Rural Bank included: microfinance loans; personal loans; salary loans; ‘susu’ loans; and over-draft facilities.

In terms of number of customers who were granted loans by Kakum Rural Bank, all the staff indicated that the number kept on increasing year after year. Figure 3 shows the trend in the number of customers who were given loans by the bank during the period 2005-2010. As can be observed from the figure, 1,036 customers received loans from Kakum Rural Bank in 2005. This figure increased over the years to 1541 in 2006; 2228 in 2007; 2757 in 2008; 3080 in 2009; and 4214 in 2010.



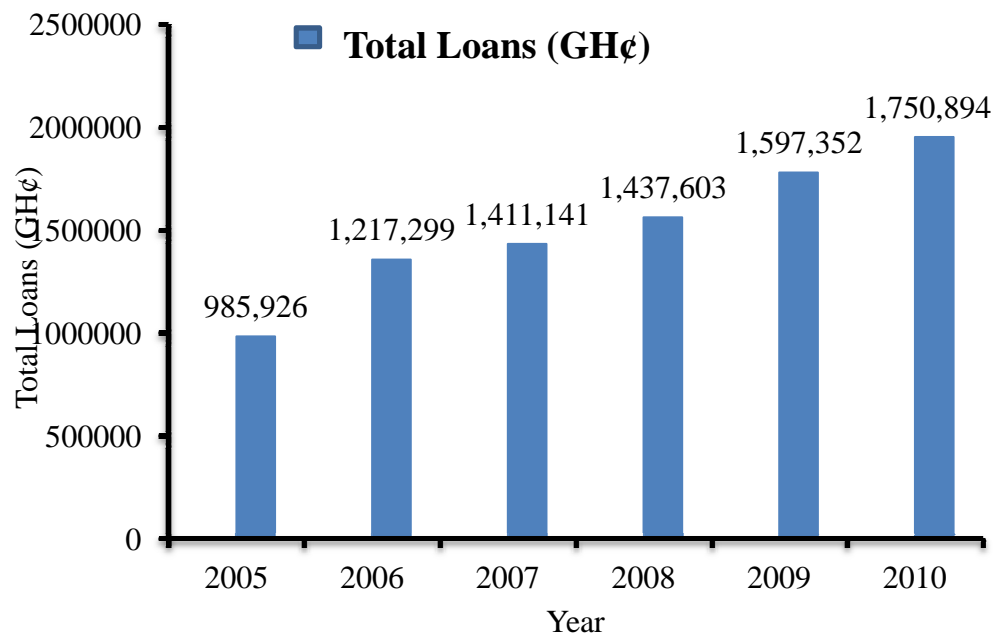
**Figure 3: Number of customers granted loans by Kakum Rural Bank, (2005-2010)**

Source: Kakum Rural Bank, 2010

The KRB records showed that from 2005 to 2010, the bank had served over 4000 customers by granting them credit for economic, domestic and social purposes. The staff were asked to indicate if all those who applied for loans were given the facility. The staff responded that not all the loan applications were granted because some of the customers were not able to meet the requirements.

**Trend in loans and advances of Kakum Rural Bank during 2005-2010**

The bank played a very important role in the areas of loan advances. Like all rural banks in Ghana, it was established specifically to advance loans to small enterprises, farmers and individuals within their catchment areas. Loan advances by the bank during the period 2005-2010 in the KEEA municipality showed a steady increase.



**Figure 4: Loans advanced by Kakum Rural Bank between 2005-2010 (Values in 2005 figures)**

Source: Kakum Rural Bank, 2010

It can be seen from Figure 4 that loans and advances, extended to small businesses, individuals and groups by Kakum Rural Bank in the KEEA Municipality, amounted to GH¢ 1,217,299 in 2006 as against GH¢ 985,926 in 2005, indicating a 23.5 per cent growth. The amount of loans extended by Kakum Rural Bank further increased from GH¢ 1,411,141 in 2007 to GH¢ 1,437,603 in 2008, suggesting a 1.8 per cent growth. In 2009, the bank advanced an amount of GH¢ 1,597,352 in the form of loans to customers. In 2010, total loans disbursed by Kakum Rural Bank to its customers stood at GH¢ 1,750,894 as against GH¢ 1,597,352 in 2009. The average annual growth rate from 2005 to 2010 was 15.2 percent.

Customers were asked to indicate whether they had accessed credit from Kakum Rural Bank. Sixty-eight percent of the customers answered in the affirmative that they had accessed credit from KRB. Forty percent of this number who had accessed credit from KRB indicated that they had accessed credit from the bank only once, while the remainder indicated that they had accessed credit from the bank on several occasions. The amount received ranged from GH¢ 200.00 to GH¢ 9,000.00. The purposes for contracting loans from KRB, as indicated by customers, are presented in Table 12.

As can be seen from the table, 32.3 percent of the customers contracted loans from KRB for their business activities, 25.1 percent contracted loans to purchase fixed assets and 22.5 percent contracted the loans for educational purposes. The rest contracted the loans for purposes such as food consumption (6.3%), medical services (5.7%), funeral (4.6%) and other purposes (3.5%). This supports the findings of Barnes (1996) and Diagne and Zeller (2001) that access to credit by the beneficiaries affects their household welfare outcomes.



It allows the beneficiaries to cater for consumption expenditure, buy assets, increase productivity and enable the household or individual to meet unexpected demands for cash without having to sell or pawn key income-generating assets or withdraw their children from school.

**Table 12: Purpose for contracting loan from KRB**

Purpose	Frequency	Percent
Business activity	112	32.3
Food consumption	22	6.3
Purchase fixed assets	87	25.1
Medical services	20	5.7
Education	78	22.5
Funeral	16	4.6
Others	12	3.5
Total	347*	100.0

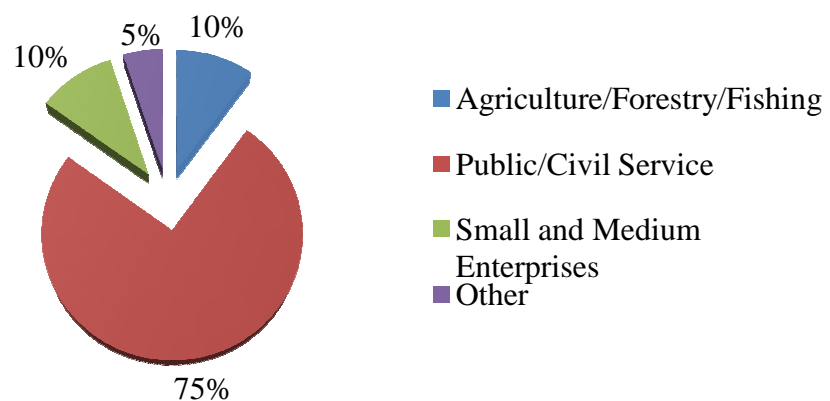
\* Multiple responses

Source: Fieldwork, 2010

The study further revealed that, apart from giving loans in cash to customers, Kakum Rural Bank also engaged in giving out loans in kind. The bank engaged in the distribution of inputs or credit on hire purchase. The staff mentioned some of the items the bank gave out as credit as television, radio, roofing sheets, cement, refrigerators, mattresses, outboard motors, fishing nets and farming equipment. This result is in line with the findings of ARB (2009) that rural banks engage in giving credit in kind.

## Sectoral allocation of Kakum Rural Bank loans

One of the objectives for the establishment of rural banks was to extend credit facilities to people living in rural areas in order to enhance productivity as well as provide income for the promotion of the socio-economic development of rural areas. In line with this, the Bank of Ghana came out with mandatory sectoral allocations. Effort was, therefore, made to find out the extent to which Kakum Rural Bank was adhering to the directive. As can be observed from Figure 5, 10 percent of the total loans given out were allocated to agriculture, forestry and fishery, 10 percent to small and medium-scale enterprises, 75 percent to public/ civil servants (salaried workers), and five percent to other services. It can be observed that Kakum Rural Bank had diverted a great proportion of its credit to salaried workers (Essel, 1996). This allocation deviates from the mandatory sectoral allocations of rural banks loans given by the Bank of Ghana, where rural banks are mandated to allocate 50 percent, 30 percent and 20 percent to agriculture, cottage industries and trade and transport respectively (Bank of Ghana, 1985).



**Figure 5: Sectoral allocation of Kakum Rural Bank loans**

Source: Kakum Rural Bank, 2010

One of the reasons accounting for the deviation from the mandatory allocation by the Bank of Ghana according to the general manager is explained by the fact that the priority area, agricultural sector was perceived to be highly risky and prone to high loan default rate. This is because agriculture in Ghana largely depends on the mercy of the weather. The bank therefore, changed its priority sector to salaried workers in order to ensure reasonable loan recovery. This was because it was easier to recover loans extended to salaried workers whose salaries pass through the bank. The general manager of the bank further reiterated that the decision to deviate from the Bank of Ghana's credit allocation guideline was indeed in line with good credit management practice which emphasises on being able to recover loans on time and in full with minimal associated cost.

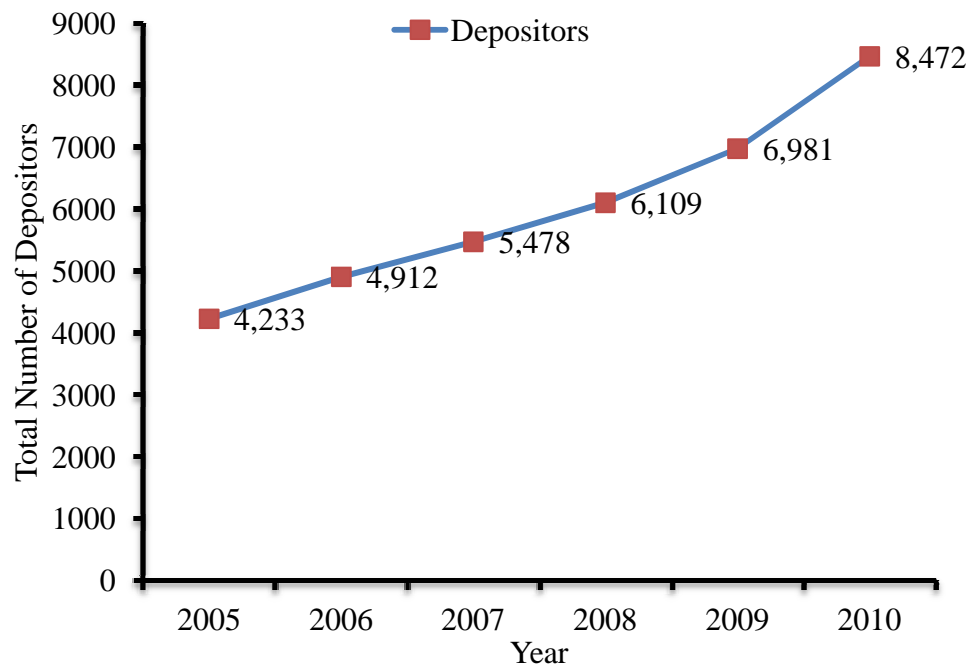
#### Kakum Rural Bank's savings mobilisation effort

Apart from giving out loans, the bank was also doing well in mobilising funds in the municipality in particular and the region at large. The study revealed that the bank had in stock several saving packages for its customers. These packages, according to the staff were to help customers build up funds for future use. Among such packages were Mbofra Daama Savings Account (Children's Future Savings); Asoremba Mpuntu Savings Account (Church Development Account); 'Susu'; Kakum Classic Account; and Savings Account.

### Number of Kakum Rural Bank's depositors (2005-2010)

Deposit services, according to Robinson (2001), are more valuable than credit for the poor. The argument is that, with savings, not only can households build up assets to use as collateral, but they can also build up capital to cater for their seasonal consumption needs, finance major expenditures, such as school fees, self-insure against major shocks, and self-finance investments. By this, the basic capabilities as identified by Sen (1999) will be enhanced and beneficiaries will be in the position to function effectively in their communities.

Data gathered from the bank indicated that the total number of depositors with the bank increased year after year. As can be observed from Figure 6, the total number of depositors in 2005 increased from 4,233 to 4,912 in 2006. In 2007, the total number of depositors of the bank was 5,478.



**Figure 6: Number of Kakum Rural Bank's depositors (2005-2010)**

Source: Kakum Rural Bank, 2010

This increased to 6,109 depositors in 2008. As at December 2010, the total number of depositors with Kakum Rural Bank stood at 8,472, which was 21.4 percent over the 2009 figure of 6,981 depositors. Increase in savings means funds will be available for credit since savings are a potential source of loan capital (Gordon, 1976).

It was revealed from the study that the majority (79.8%) of the respondents were saving in their homes before they joined KRB, while 20.2 percent were saving with associations or clubs and other financial institutions within the municipality, as can be observed from Table 13. This supports the findings of the World Bank (2009) that rural banks, over the years, have contributed immensely to the mobilisation of savings in rural areas in Ghana.

**Table 13: Where customers were saving before they joined Kakum Rural Bank**

Place	Frequency	Percent
Home	201	79.8
Association/Clubs	24	9.5
Other financial institution	27	10.7
Total	252*	100.0

\* n is less than the number of customers because not all customers saved with KRB.

Source: Fieldwork, 2010

### Reasons why customers saved with KRB

The study further investigated the reasons why customers saved with KRB. Table 14 gives details of the reasons. It can be seen from the table that 40.9 percent of the customers stated that they saved with KRB in order to access loans from the bank, 30.9 percent saved with KRB to attract interest on their savings, while 28.2 percent indicated that they saved with KRB for security reasons. This observation confirms the findings by Diagne and Zeller (2001) that financial institutions in rural areas help the poor build up funds in a safe place overtime to facilitate the financing of large future expenditure or investment.

**Table 14: Reasons why customers saved with KRB**

Reasons	Frequency	Percent
Security	71	28.2
Access to loans	103	40.9
Attract interest on savings	78	30.9
Total	252*	100.0

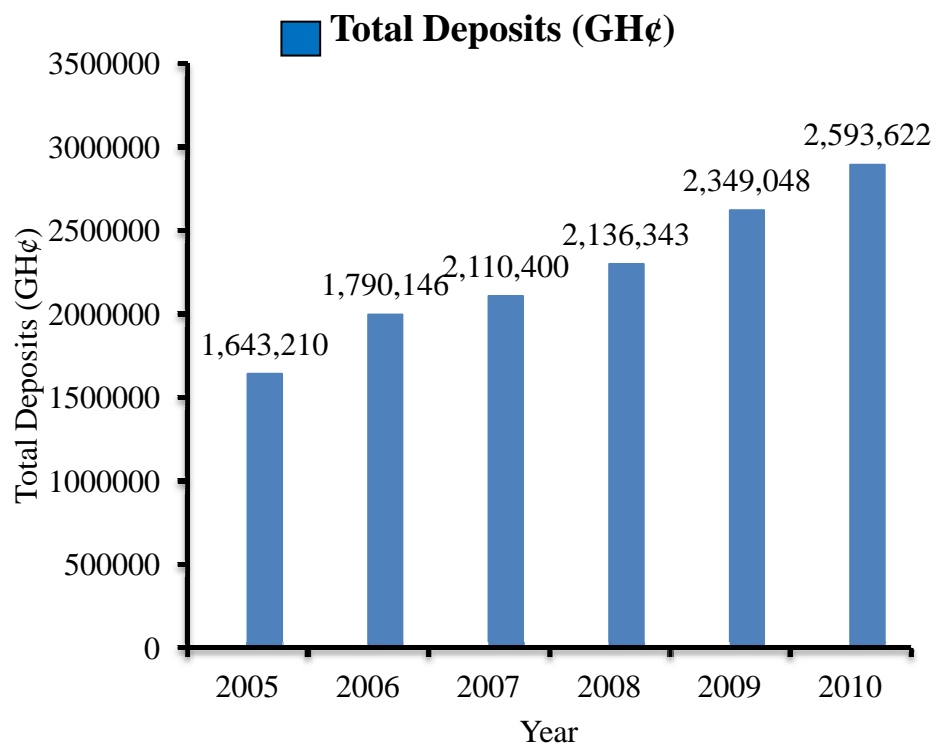
\* n is less than number of customers because not all customers saved with KRB.

Source: Fieldwork, 2010

### Trend in Kakum Rural Bank deposit mobilisation (2005-2010)

One of the aims for the establishment of rural banks in Ghana, according to the Association of Rural Banks (1992), is to mobilise resources locked up in the rural areas into the banking system to facilitate development.

Figure 7 shows the extent to which Kakum Rural Bank was adhering to this aim. The total amount of deposits mobilised by Kakum Rural Bank increased significantly between 2005 and 2010. Official data obtained from Kakum Rural Bank showed that the total deposit the bank received annually had steadily increased between 2005 and 2010. As can be observed from Figure 7, in 2005 the total amount of deposit mobilised by the bank was GH¢ 1,643,210.



**Figure 7: Trend in Kakum Rural Bank’s deposit mobilisation between 2005-2010 (Values in 2005 figures)**

Source: Kakum Rural Bank, 2010

The year 2006 saw an increase in this figure to GH¢ 1,790,146, representing an 8.9 percent increase. In 2007, the total amount mobilised further increased to GH¢ 2,110,400. This represents a 5.6 percent change in the total deposit over that of 2006. In 2008 and 2009, the bank was able to mobilise savings to the tune of GH¢ 2,136,343 and GH¢ 2,349,048

respectively. As at December 2010, the bank had been able to mobilise savings up to the tune of GH¢ 2,593,622. It can be seen that, from 2005 to December 2010, in a period of six years, the savings mobilised by Kakum Rural Bank had increased to 60.6 percent. The figures translate into an average annual growth rate of 12.1 percent over the six-year period. This meant that Kakum Rural Bank was helping in mobilising savings for poverty reduction in the KEEA Municipality.

#### Money transfer service of Kakum Rural Bank

Kakum Rural Bank, according to data gathered from the staff, had played a significant role in money transfer. With this service, rural dwellers were able to transfer funds from one community to another, using the network of rural and community banks (ARB, 2009; World Bank, 2009). According to the staff, people in the municipality had come to accept this service greatly. As can be seen from Table 15, the total number of customers who patronised this service had increased significantly between 2005 and 2010. This is not different from the amount involved. The total amount involved also increased steadily over the six-year period. In 2005, the total number of transfers made by the bank was 2010, whereas, as of December 2010, the total number of transfers made by the bank was 3200.

It can also be observed from Table 15 that the total amount transferred in 2006 was GH¢ 30,644 as against GH¢ 30,000 in 2005, indicating a 2.4 percent increase. In 2007, the amount transferred was GH¢ 30,737, but this amount increased to GH¢ 36,758 in 2008. In 2010, the total amount transferred by the bank was GH¢ 43,889 as against GH¢ 40,306 in 2009. The



study showed that the increase in the amount involved was as a result of the confidence people had in the service.

**Table 15: Trends in Kakum Rural Bank’s Apex Money Transfer Service**

Year	Number of Transfers	Amount involved GH¢
2005	2010	30,000
2006	2450	30,644
2007	2700	30,737
2008	2800	36,758
2009	3000	40,306
2010	3200	43,889

Values are stated in real terms using 2005 as the base year

Source: Kakum Rural Bank, 2010

Customers were asked whether they had accessed the Apex Link money transfer of Kakum Rural Bank and their rating with regard to the Apex Link money transfer service. About 34 percent of the customers affirmed that they had received or transferred money using the Apex Link. Table 16 shows that out of the 124 customers who had received or transferred money through the Apex Link, 69.4 percent indicated that the service was very good, with 26.6 percent indicating that the services was good.

**Table 16: Customers' rating of the Apex Link Money Transfer Service**

Rating	Frequency	Percent
Very good	86	69.4
Good	33	26.6
Fair	2	1.6
Poor	2	1.6
Very Poor	1	0.8
Total	124*	100.0

\* n is less than the number of customers because some customers had not accessed the service

Source: Fieldwork, 2010

This finding confirms the assertion by ARB (2009) that the Apex Link money transfer has helped rural dwellers to transfer funds from one community to another. The service also has proved to be safe, reliable and convenient to traders, businessmen and students. However, 0.8 percent of the customers indicated that the service was very poor, with 1.6 percent indicating that the service was poor.

#### Non-financial support services of Kakum Rural Bank

Apart from the above mentioned financial services that Kakum Rural Bank provided for its customers, there were non-financial services that the bank offered to its customers and the communities within which it operated. These services, according to the staff, included training on credit management; investment management; entrepreneurship, bookkeeping; customer care; and

business management, which were all geared towards poverty reduction and community development.

The services, according to the staff, were basically aimed at equipping customers with the skills and knowledge they might need in going about their businesses and other activities. The training programmes were expected to result in changes in the attitudes of entrepreneurs, which would consequently have a positive effect on their operations and the communities in which they operated.

The study further wanted to find out if customers had enjoyed these non-financial services of Kakum Rural Bank. It was revealed that out of the total of 370 customers, 45.7 percent stated that they had received these forms of assistance from Kakum Rural Bank. They indicated that they received training on loan utilisation and savings from the bank and were satisfied with the service. This finding, to some extent, affirms an assertion by Salami (2003) that rural banks occasionally organise training and counselling for their customers in areas, such as credit management, marketing, basic bookkeeping, legal matters, pricing and entrepreneurship.

Customers who had received these forms of assistance from the bank were further asked to indicate whether they were satisfied with the kind of training that they were giving. Out of the 169 (45.7%) of the customers who received the training organised by the Kakum Rural Bank, 93.5 percent indicated that they were satisfied with the training organised for them while the remainder indicated that they were not satisfied with the kind of training they were giving by the bank.

## Corporate social services

The members of staff were asked whether Kakum Rural Bank had made any direct contribution towards community development in the Komenda-Edina-Eguafo-Abrem Municipality. All the 14 members of staff indicated that the bank had made several contributions towards community development and poverty reduction in the KEEA Municipality. The staff indicated that the bank had instituted scholarship packages for needy but brilliant students from the KEEA Municipality. For instance, every year, the bank sponsored five brilliant but needy students for Senior High School education. The bank had renovated the Community Library in Elmina and had stocked it with books at the cost of about two thousand Ghana cedis (GH¢ 2000.00). The bank had again provided education materials, especially in the form of school tables and chairs, for some basic and secondary schools in the Municipality.

Furthermore, the bank according to the staff, had helped in improving the sanitation problem in the municipality by procuring sanitary equipment worth three thousand Ghana cedis (GH¢ 3000.00) and distributed to the various communities, district assembly and identifiable groups in the municipality. The bank further supported the construction of modern water closet toilet facilities in Elmina. Also, the staff indicated that the bank had helped in improving the electrification of the municipality by providing street lights for communities, such as Agona and Elmina. Again, recognising the fact that about 40 percent of Ghana's marine fish come from the Central Region, the bank solely funded the construction of a fishing harbour (Mpoben Fishing

Landing Grounds) at Elmina, which has helped to improve the productivity of artisanal fisheries in the Central Region.

In the area of health, the Bank had adopted the Children's Ward of the Central Regional Hospital and had donated equipment such as machines, sphygmomanometer (B/P) apparatus for children, stethoscope, weighing scale (toddler) annually. Also, owing to the tourism potential in its catchment area, the staff indicated, the bank had financed the establishment of hotels, drinking bars and restaurants in the municipality. All these contributions, according to the staff, had greatly improved the living standards of the people in the catchment areas and the municipality as a whole. This finding corroborates the observation made by Association of Rural Banks (2009) and BoG (1999) that rural banks engage in the provision of social services in their catchment areas. This is further revealed in the conceptual framework for the study.

The study found out whether customers were aware of some of the community and social services that Kakum Rural Bank had provided in its areas of operation. About 52 percent of the customers said that Kakum Rural Bank had helped in poverty reduction with social services. They indicated that the bank had provided educational materials to improve upon the level of education in the KEEA Municipality. In doing so, scholarships had been given to deserving students in the municipality. Again, the bank had helped in providing street lights in Abrem Agona and also helped in sanitation by providing sanitation equipment for clean-up exercises in the municipality. These activities had helped Kakum Rural Bank gain acceptance in the communities as a locally-owned financial institution.

## **The effect of Kakum Rural Bank's operations on poverty reduction among customers**

With respect to the effect of Kakum Rural Bank's operations on poverty reduction among customers, items were used to assess the extent to which the poverty indicators of customers had been reduced after operating with Kakum Rural Bank. The poverty indicators were changes in income level; changes in output level; changes in savings level; provision of medical care; provision of good shelter; provision of good education for family; provision of clothing for family; provision of nutritious food for family; acquisition of property/assets; and provision of potable water for family.

A five-point Likert scale item format was used in the assessment. The Wilcoxon Signed-Rank test, a non-parametric test, was used to evaluate whether there were any statistically significant differences in the poverty indicators of customers before and after joining Kakum Rural Bank at five percent significance level. Table 17 shows the results of the test.

From Table 17, it is discernible that most of the poverty indicators of customers showed statistically significant difference after customers had joined Kakum Rural Bank. Changes in customers' income level, output level and savings levels were statistically significant after they had joined Kakum Rural Bank as they recorded p-values of 0.007, 0.0019 and 0.013 respectively. Other indicators that showed significant difference after customers had joined the Kakum Rural Bank were provision of medical care (0.003); provision of good shelter (0.007); provision of good education for family (0.004); provision of nutritious food for family (0.015); and acquisition of property/assets (0.016).

**Table 17: The effect of Kakum Rural Bank’s operations on poverty reduction among customers**

Poverty indicators	Mean <sup>B</sup>	Mean <sup>A</sup>	Z-value	P-value(sig)
Changes in income level	2.637	2.951	2.716	0.007*
Changes in output level	2.413	2.881	2.362	0.018*
Changes in savings level	2.612	2.881	2.473	0.013*
Provision of medical care	2.643	2.960	2.950	0.003*
Provision of good shelter	3.014	3.322	2.707	0.007*
Provision of good education for family	2.494	2.846	2.878	0.004*
Provision of clothing for family	3.001	3.057	0.337	0.736
Provision of nutritious food for family	3.192	3.441	2.432	0.015*
Acquisition of property or assets	2.284	2.562	2.403	0.016*
Provision of potable water for family	3.957	4.076	1.704	0.088

\* Poverty indicator statistically significant at 5% significance level

Mean<sup>B</sup>= Mean before joining KRB    Mean<sup>A</sup>= Mean after joining KRB

Wilcoxon Signed Ranks Test (5% significance level)

Source: Fieldwork, 2010

It can further be seen from Table 17 that customers’ ability to provide clothing for their families and also their ability to provide potable water for their families, however, were not statistically significant as they recorded p-values of 0.736 and 0.088 respectively at five percent significance level.

It can, therefore, be concluded from the analysis that there had been significant changes in most of the poverty indicators of customers after joining the Kakum Rural Bank. The indicators that showed significant change after customers had joined Kakum Rural Bank included changes in income levels; changes in output level; changes in savings level; provision of medical care; provision of good education for family; provision of good shelter; provision of nutritious food for family; and acquisition of assets/properties. This finding generally supports the outcome of a study by Diagne and Zeller (2001) that access to financial service affects the household outcomes of beneficiaries. It also conforms to the outcomes (ultimate benefits) in the conceptual framework of the study.

However, customers' ability to provide clothing for their families and also their ability to provide potable water for their families, however, were not statistically significant, as they recorded p-values of 0.736 and 0.088 respectively at 5 percent significance level. The provision of potable water was not significant due to the general absence of infrastructure for potable water in the municipality.

### **Challenges Kakum Rural Bank faced in its operations in the KEEA Municipality**

Kakum Rural Bank was basically established to help in reducing poverty in its catchment area. In spite of the bank's phenomenal contribution towards poverty reduction in the KEEA municipality, it was found to be faced with some challenges. The challenges identified were lack of confidence of customers in the bank; high loan default rate; insufficient Infrastructure; lack



of adequate information on customers; and mismanagement and corrupt practices. These challenges are presented in Table 18.

**Table 18: Challenges Kakum Rural Bank faced in its operations in the KEEA Municipality**

Challenges	Frequency	Percent
High loan default rate	13	27.1
Mismanagement and corrupt practices	11	23.0
Insufficient infrastructure in rural areas	9	18.7
Insufficient information on customers	9	18.7
Lack of confidence of customers in the bank	6	12.5
Total	51*	100.0

\*n is bigger than the number of staff due to multiple responses

Source: Fieldwork, 2010

As can be seen from Table 18, 27.1 percent of the staff identified high loan default rate as the major challenge that the Kakum Rural Bank faced, while 23 percent mentioned mismanagement and corrupt practices as one of the challenges Kakum Rural Bank faced in its operation in the KEEA municipality. Insufficient infrastructure in rural areas and insufficient information on customers were the next challenges of the bank as 18.7 percent of the staff in each case identified them as the challenges of the bank

Lack of confidence of customers in the bank was the least identified challenge faced by the bank (12.5%). It can, therefore, be seen that high default rate was identified as the major challenge of the Kakum Rural Bank, followed by mismanagement and corrupt practices. The rising default rate,

according to the staff, could be attributed to factors such as: untimely delivery of loan to customers; poor appraisal; difficulty in monitoring of loans; and high interest rate charged on loans.

### **Challenges customers faced in accessing the services of Kakum Rural Bank**

Most rural bank customers encounter some challenges and difficulties which hinder their effective utilisation of the services that rural banks provide. The identified problems in the case of Kakum Rural Bank were small loan size; inability of customers to provide collateral securities; absence of training on credit management; untimely issue of loans; high interest rate on credits; and low interest on savings.

It is discernible from Table 19 that 21.9 percent of the customers found low interest rate on savings as the major challenge that customers of faced with the bank, while 21.3 percent identified the absence of training on credit management as the next challenge. It was further revealed from the study that 19.2 percent of the customers found high interest rate charges on credit to be a challenge that they faced with their operation with the Kakum Rural Bank, while 18.9 percent identified untimely issue of loans as another challenge they faced with Kakum Rural Bank. The other challenges identified by customers were small loan size (13.2%) and the inability to provide collateral securities (5.5%).

It can be seen from the study that low interest on savings and high interest rate on loans were found among the challenges that customers of Kakum Rural Bank identified with their operation with the bank. This finding

confirms studies by the World Bank (2009) and GIMPA Consultancy Services (2006) that, whereas rural banks charge high interest rates on loans, they pay relatively low interest on savings. This interest on savings is even paid only once a balance reaches a certain amount which is usually higher than the balances held by most savers.

**Table 19: Challenges customers faced in accessing the services of Kakum Rural Bank**

Challenges	Frequency	Percent
Low interest rate on savings	221	21.9
Absence of training on credit management	214	21.3
High interest rate on loans	193	18.9
Untimely issue of loans	190	18.9
Small loan size	133	13.2
Inability to provide collateral security	55	5.5
Total	1006*	100.0

\*n is bigger than the number of customers due to multiple responses

Source: Fieldwork, 2010

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **Introduction**

This chapter presents an account of the summary of the study, conclusions that have been arrived at and recommendations.

#### **Summary**

The study set out to examine the contribution of Kakum Rural Bank to poverty reduction in the Komenda-Edina-Eguafo-Abrem Municipality. The research employed the descriptive, evaluative and case study research designs. The purposive sampling, quota sampling and systematic sampling techniques were employed to select the sample. The sample was made up of 370 customers and 14 staff of Kakum Rural Bank. Questionnaires were used to collect the field data. Data collected were carefully edited and coded to ensure accuracy, after which the Statistical Product and Service Solutions (SPSS, Version 16) and Microsoft Excel (2007) softwares were used to analyse the data. Percentages, frequencies, graphs, charts as well as descriptive statistics were used to present the data.

The main findings of the study were as follows:

1. The data gathered from the study revealed that, during the period 2005-2010, the bank had extended loan facilities to over 4000 customers in the KEEA Municipality. The trend in the total loans and advances

showed a positive trend as the bank granted GH¢ 1,750,894 in 2010 as against GH¢ 985,926 in 2005.

2. Kakum Rural Bank has helped in instilling in the people the habit of banking, especially in the area of savings mobilisation. The total number of depositors increased from 4,233 in 2005 to 8,472 in 2010. The total amount mobilised in 2005 increased from GH¢ 1,643,210 to GH¢ 2,593,622 in 2010.
3. The number of money transfers increased from 2,010 in 2005 to 3,200 in 2010. The amount involved also increased from GH¢ 30,000 in 2005 to GH¢ 43,889 in 2010. With the non-financial services, the bank had helped in areas such as education, health and business development. The bank had also helped in the provision of corporate social services, such as electrification, sanitation, and education.
4. The assessment of the effect of Kakum Rural Bank's operation on the poverty indicators of customers revealed that there was significant improvement in most of the poverty indicators at the 5% significance level. The indicators, with their p-values, were changes in income levels (0.007); changes in output level (0.018); changes in savings level (0.013); provision of medical care (0.003); provision of good education for family (0.004); provision of good shelter (0.007); provision of nutritious food for family (0.015); and acquisition of assets or properties (0.016). However, customers' ability to provide clothing for family and ability to provide potable water for family before joining Kakum Rural Bank were not significantly different from

the means after joining Kakum Rural Bank as they recorded p-values of 0.736 and 0.088 respectively.

5. The challenges that militated against Kakum Rural Bank in its operations in the KEEA Municipality were high loan default rate (27.1%); mismanagement and corrupt practices (23.0%); insufficient infrastructure in rural areas (18.7); insufficient information on customers (18.7%); and lack of confidence of customers in the bank (12.5%).
6. The challenges that customers faced in accessing the services rendered by Kakum Rural Bank were low interest rate on savings (21.9%); absence of training on credit management (21.3%); high interest rates on loans (19.2%); untimely issue of loans (18.9%); small loan size (13.2%); and inability to provide collateral securities (5.5%).

## **Conclusions**

The outcome of the study clearly depicts that Kakum Rural Bank has, to a large extent, contributed positively towards poverty reduction in the Komenda-Edina-Eguafo-Abrem Municipality. The trend in the number of customers who accessed the credit service of the bank as well as the loan advances showed a steady increase within the period. The same can be said with regard to the trend in the number of depositors and the deposits realised within the period. The Apex Link Money transfer also showed a steady increase over the period. The other non-financial and corporate social services provided by the bank over the study period also attest to this fact.

The services of the bank were manifested in the poverty indicators of the customers as most of the poverty indicators showed a significant change after customers had joined Kakum Rural Bank. Those indicators that showed significant change were changes in income levels; changes in output level; changes in savings level; provision of medical care; provision of good education for family; provision of good shelter; provision of nutritious food for family; and acquisition of assets or properties. However, customers' ability to provide potable water and clothing for their families did not show any significant change after they had joined Kakum Rural Bank.

The main challenges that Kakum Rural Bank faced in its quest to help reduce poverty in the KEEA Municipality were high rates of loan defaults; mismanagement and corrupt practices; insufficient infrastructure in rural areas, insufficient information on customer; and lack of confidence of customers in the bank.

Customers, on the other hand, were faced with challenges, such as low interest rate on savings; absence of training on credit management; high interest rates on loans; untimely issue of loans; small loan size; and inability to provide collateral securities in their quest to access the services of Kakum Rural Bank.

### **Recommendations**

With reference to the research findings and conclusions, the following policy recommendations are made:

1. The location of rural banks in the rural centres acts as a catalyst in creating banking consciousness among rural inhabitants, who are

encouraged to patronise such banks. It is, therefore, recommended that Kakum Rural Bank should establish more agencies and mobilisation centres in the municipality so as to expand its coverage there. This will enable more people to patronise and benefit from services that the bank renders. This will further create employment opportunities for people in the municipality.

2. The bank should ensure that depositors receive realistic interest rates on their deposits.
3. Interest rate on credit should be lowered to the level that would cover Kakum Rural Bank's operating expenses and at the same time facilitate improvement in the welfare of customers. It is therefore recommended that the Bank of Ghana reduces the Prime rate so as to allow the rural banks to reduce their interest rates.
4. The bank should make enough funds and other logistics available to the customers at all times to ensure prompt delivery of loans at the right time.
5. The bank should also make it a point to adhere to the mandatory sectoral allocation of rural bank loans instituted by the Bank of Ghana. This will ensure that the target group of rural banking services will benefit from the innovation.
6. The bank must have an effective supervisory machinery to monitor the activities of customers and how they put the credit they take from the bank into use. This would reduce the rate of default and ensure prompt repayment of loans. In this connection, the bank must employ qualified staff to check the background of each customer. The bank should also



try to reduce the cash element in their loans to the minimum possible and strengthen its credit in kind. This will prevent the diversion of funds for purposes other than those for which they are granted.

7. Although Kakum Rural Bank has done much in credit delivery, the credit is not large enough to lift those living below the poverty line. It is, therefore, recommended that the bank increase its loan size to meet the credit needs of its customers. This will have a greater multiplier effect on household incomes through profits from income-generating activities.
8. The bank should organise educational, counselling and skills training programmes regularly for its customers. These programmes must be extended to reach all customers in the catchment areas. The bank should also increase its provision of social services in the KEEA municipality.
9. Even though the bank has done much in the provision of social services in the municipality, it should not relent in its effort but rather devote more of its profits towards the creation of these corporate social services in the municipality. This will go a long way to improve upon the living standards of the people and thereby exit poverty in the KEEA municipality.

### **Areas for further research**

Rural banks were primarily established to cater for the financial needs of rural dwellers and to inculcate in them the habit of banking. In recent times, rural banks prefer to operate in urban centres. Judging from the potentials that

rural banks present in reducing poverty in the rural areas, it is important for an empirical study to be carried out to find out the reasons for the influx of rural banks in urban centres and also factors that discourage rural banks from operating in rural areas. The study can also be replicated by using a different rural bank in a different locality in Ghana.

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## APPENDIX I

### QUESTIONNAIRE FOR CUSTOMERS OF KAKUM RURAL BANK

#### Introduction

This is an academic research being undertaken by a Master of Philosophy (Development Studies) student of the Institute for Development Studies (IDS) of the University of Cape Coast. You are therefore assured of confidentiality. You are, however, kindly requested to answer all questions that follow as frankly and openly as you can.

#### Identification

Interview schedule number: \_\_ \_\_ \_\_

Agency:.....

Date of interview (DD/MM/YY): \_\_\_\_/\_\_\_\_/\_\_\_\_

#### Section A: Background characteristics of respondents

1. Sex of respondent:

I. Male ( )                      II. Female ( )

2. Age of respondent: .....

3. Marital status:

I. Married ( )    II. Single ( )    III. Divorced ( )

IV. Separated ( )    V. Widowed ( )

4. Level of education:

I. None ( )    II. Adult literacy ( )    III. Primary ( )    IV.

JSS/MSLC ( )    V.SSS/Voc./Tech. ( )

VI. Tertiary ( )    VII. Others (specify):.....



5. Occupation:.....
6. How long have you been operating with KRB?.....
7. What account do you hold with the bank? (Multiple responses)
- I. Current ( )      II. Savings ( )      III. Fixed deposit ( )
- IV. Others (specify).....

**Section B: How Kakum Rural Bank helps in poverty reduction in the KEEA municipality**

**A. Financial services**

**I. Credit**

8. Have you received credit from KRB before?
- I. Yes ( )
- II. No ( ) (skip to Q12)
9. If yes, how many times?.....
10. If yes, indicate the amount and date within the past five years.

Year	2005	2006	2007	2008	2009	2010
Amount (GH¢)						

11. For what purpose did you contract the loan? (Multiple responses).
- i. Business activity ( )
- ii. Food consumption ( )
- iii. Clothing ( )
- iv. Buy fixed assets ( )

- v. Medical service ( )
- vi. Education ( )
- vii. Others specify.....

**II. Savings**

12. Where were you saving before joining KRB?
- I. Home ( ) II. With an Association/Club ( )
  - III. Others (specify).....
13. Why are you saving with KRB? (Multiple response)
- I. Security ( ) II. Access to credit ( ) III. Both ( )
  - IV. Attract interest ( ) V. Others (specify):.....

**III. Remittances**

14. Have you received remittance(s) through the ARB Apex Link before?
- I. Yes ( )
  - II. No ( ) (skip to 16)
15. If yes, how would you describe the ARB Apex Link?
- I. Very Poor ( ) II. Poor ( ) III. Fair ( ) IV. Good ( )
  - V. Very Good ( )

**B. Other support services**

16. Have you received any training or support from KRB?
- I. Yes ( )
  - II. No ( ) (skip to Q19)

17. If yes, specify the training or support you received and the number of times you received the training or support. (Multiple responses).

<b>Support Service</b>	<b>Yes</b>	<b>No</b>	<b>Number of times</b>
Loan utilisation			
Marketing			
Bookkeeping and recording			
About savings			
Entrepreneurship			
Management			
Others			

18. Overall, are you satisfied with the support services provided you?

I. Yes ( )                      II. No ( )                      III. Does not know ( )

19. Has the KRB made any direct contribution to poverty reduction in this community?

I. Yes ( )

II. No ( ) (skip to Q21)

20. If yes, indicate what project or service and where?

<b>Project</b>	<b>Place</b>

**Section C: Effect of Kakum Rural Banks operations on poverty indicators**

Using the rating scale below, indicate whether you are able to meet the following responsibilities before and after operating with KRB by circling the number to your left and right respectively.

1. Very low    2. Low        3. Averagely    4. High        5. Very High

<b>Before KRB</b>	<b>Poverty indicators</b>	<b>After KRB</b>
21. 1. 2. 3. 4. 5.	Income level	1. 2. 3. 4. 5.
22. 1. 2. 3. 4. 5.	Output level	1. 2. 3. 4. 5.
23. 1. 2. 3. 4. 5.	Afford medical care	1. 2. 3. 4. 5.
24. 1. 2. 3. 4. 5.	Afford good shelter	1. 2. 3. 4. 5.
25. 1. 2. 3. 4. 5.	Pay children’s school fees	1. 2. 3. 4. 5.
26. 1. 2. 3. 4. 5.	Provide clothing for family	1. 2. 3. 4. 5.
27. 1. 2. 3. 4. 5.	Provide nutritious food for family	1. 2. 3. 4. 5.
28. 1. 2. 3. 4. 5.	Acquire property/assets	1. 2. 3. 4. 5.
29. 1. 2. 3. 4. 5.	Provide potable water for family	1. 2. 3. 4. 5.
30. 1. 2. 3. 4. 5.	Savings level	1. 2. 3. 4. 5.

31. Your situation would have been worse without joining KRB?

I. Strongly Agree ( )    II. Agree ( )    III. Indecisive ( )

IV. Disagree ( )    IV. Strongly Disagree ( )

**Section D: Challenges customers of Kakum Rural Bank face**

32. Are you aware of the different kinds of services available at KRB?

I. Yes ( )

II. No ( ) (skip to Q36)

33. If yes, what are the different kinds of services you are aware of?.....

.....  
.....

34. How would you consider the size of the loan granted you by the KRB?

I. Adequate ( )      II. Inadequate ( )      III. Does not know ( )

35. Were you asked to provide collateral security (ies) before given loan?

I. Yes ( )

II. No ( ) (skip to Q39).

36. If yes, specify the type of collateral you provided.

I. Land ( )    II. Vehicle ( )    III. Building ( )

IV. Others specify.....

37. Did you get any training on credit management before you received the

loan?    I. Yes ( )      II. No ( )

38. Was the loan issued timely?

I. Yes ( )      II. No ( )      III. Does not know ( )

39. Do you consider the time for loan repayment favourable?

I. Yes ( )      II. No ( )      III. Does not know ( )

40a. Do you know KRB's interest rate on loans?

I. Yes ( )      II. No ( )

40b. Do you know KRB's interest rate on savings?

I. Yes ( )

II. No ( )

41. If yes, what is the current rate on....?

a. Savings/deposits.....

b. Credits/loans.....

42. How do you find the interest rate on deposits/savings?

I. Very High ( ) II. High ( ) III. Moderate ( )

IV. Low ( ) V. Very Low ( )

43. How do you find the interest rate charged on credits/loans?

I. Very High ( ) II. High ( ) III. Moderate ( )

IV. Low ( ) V. Very Low ( )

44. How do you find the attitude of bank officials towards you?

I. Very friendly ( ) II. Friendly ( ) III. Indecisive ( )

IV. Unfriendly ( ) V. Very unfriendly ( )

45. Make any recommendations that can improve the services of KRB towards poverty reduction.

I:.....

II:.....

III:.....

IV:.....

V:.....

Thank you for your time!

**APPENDIX II**

**QUESTIONNAIRE FOR MANAGERS AND PROJECT OFFICERS OF  
KAKUM RURAL BANK**

**Introduction**

This is an academic research being undertaken by a Master of Philosophy (Development Studies) student of the Institute for Development Studies (IDS) of the University of Cape Coast. You are therefore assured of confidentiality. You are, however, kindly requested to answer all questions that follow as frankly and openly as you can.

Bank (agency):.....

Position / Status:.....

**Section A: Background characteristics of respondents**

1. Sex:

- I. Male ( )      II. Female ( )

2. Age:.....

3. Level of education: I. Primary ( ) II. JSS/MSLC ( )

III. SSS/Voc./Tech. ( ) IV. Tertiary ( ) VI. Others (specify):\_\_\_\_\_

**Section B: How Kakum Rural Bank has helped in poverty reduction in the KEEA Municipality**

4. What is/are the objective(s) of the bank?.....

I.....

II.....

III.....

5. Does the bank provide poverty-reduction related services?

I. Yes ( )

II. No ( ) (skip to Q7)

6. If yes, mention some of such services

i.....

ii.....

iii.....

iv. ....

7. How many applicants were on the average given loans in the following

years? i. 2005..... ii.2006..... iii.2007..... iv. 2008..... vi.2009.....

vii. 2010.....

8. Are you able to meet the credit needs of all applicants?

I. Yes ( ) (skip to Q10)

II. No ( )

9. If no, why is the bank not able to meet all the credit needs of all?  
applicants?

.....  
.....

10. Kindly provide the total annual savings realised and credit given out for  
the last five years (2005-2009).

Year	2005	2006	2007	2008	2009	2010
Savings (0000)						



Credit (0000)						
No. of Recipients						

11. Do you give credit in kind?

- I. Yes ( )                      II. No ( )

12. If yes, what are some of the items given as credit in kind?.....

.....  
.....

13. What do you expect from customers before giving out loans?

.....  
.....

14. Do you operate the Apex Link money transfer?

- I. Yes ( )                      II. No ( )

15. If yes, how many remittances were effected and how much were involved in the following years (2005-2009)?

Year	2005	2006	2007	2008	2009	2010
No. of remittances						
Amount involved(¢0000)						

16. Does the bank organise training and support services for its customers?

- I. Yes ( )  
II. No ( ) (skip to Q19)

17. If yes, specify the training or support given to customers and the number of times involved (Multiple responses).

<b>Support Service</b>	<b>Number of times</b>
Credit management	
Marketing	
Bookkeeping and recording	
About savings	
Entrepreneurship	
Business Management	
Vocational training	
Others	

18. Have these support services been beneficial to customers?

I. Yes ( )            II. No ( )            III. Does not know ( )

19. Has the bank made any direct contribution towards poverty reduction in its centre of operation?

I. Yes ( )

II. No ( ) (skip to Q21)

20. If yes, indicate the project and location.

	Project	Place
1		
2		
3		
4		
5		
6		

**Section D: Challenges Kakum Rural Bank face in its operations in the KEEA Municipality**

21. Do you think people have confidence in your bank?

- I. Yes ( )                      II. No ( )

22. If yes, give reason(s).

i.....

ii.....

iii.....

iv.....

v.....

23. If no, give reason(s).

i.....

ii.....

iii.....

24. What are the loan recovery rates for the following years?

2005.....

2006.....

2007.....

2008.....

2009.....

2010.....

25. How would you in general describe the loan recovery rate?

- I. Very poor ( )    II. Poor ( )    III. Satisfactory ( )

IV. Good ( ) V. Very good ( )

26. What are some of the reasons given for loan defaulting?

- i.....
- ii.....
- iii.....
- iv.....

27. Are customers able to provide the required collateral securities?

I. Yes ( ) II. No ( )

28. Are customers able to provide the needed information about themselves?

I. Yes ( ) II. No ( )

29. Do you monitor the use of the loans by customers?

I. Yes ( ) II. No ( )

30. If no, how do you detect misapplication of loans?

- i.....
- ii.....
- iii.....

31. Do you have adequate facilities for providing good banking services to

customers? I. Yes ( ) II. No ( )

32. Do you have qualified staff to deliver quality services to customers?

I. Yes ( ) II. No ( )

33. What would you say are the major constraints to increasing your ability to reach the poor ?.....

.....

.....  
.....

34. Make any recommendations that can improve the services of KRB  
towards poverty reduction.....

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

35. Any comments?.....

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

Thank you for your time!

**APPENDIX III**

**QUESTIONNAIRE FOR JUNIOR STAFF OF KAKUM RURAL BANK**

**Introduction**

This is an academic research being undertaken by a Master of Philosophy (Development Studies) student of the Institute for Development Studies (IDS) of the University of Cape Coast. You are therefore assured of confidentiality. You are, however, kindly requested to answer all questions that follow as frankly and openly as you can.

Bank (agency):.....

Position/Status:.....

**Section A: Background characteristics of respondents**

1. Sex:

I. Male ( ) II. Female ( )

2. Age:.....

3. Level of education:

I. Primary ( ) II. JSS/MSLC ( ) III. SSS/Voc./Tech. ( )

IV. Tertiary ( ) V. Others (specify):\_\_\_\_\_

**Section B: How Kakum Rural Bank helps in poverty reduction in the KEEA Municipality**

4. What is/are the objective(s) of the bank?.....  
.....  
.....

5. Does the bank provide any poverty-reduction related services?

I. Yes ( )

II. No ( ) (skip to Q7)

6. If yes, mention some of such services.

i.....

ii.....

iii.....

iv. ....

v.....

7. Does the bank organise training and support services for its customer?

I. Yes ( )

II. No ( ) (skip to Q10)

8. If yes, specify the training or support given to customers and the number of times involved.

<b>Support Service</b>	<b>Number of times</b>
Credit management	
Marketing	
Bookkeeping and recording	
About savings	
Entrepreneurship	
Management	
Others	

9. Have these support services been beneficial to customers?

I. Yes ( )      II. No ( )      III. Does not know ( )

10. Has the bank made any direct contribution towards poverty reduction in its centre of operation?

I. Yes ( )

II. No ( ) (skip to Q12)

11. If yes, indicate the project and location.

	<b>Project</b>	<b>Place</b>
1		
2		
3		
4		
5		
6		
7		

12. Does the bank engage in any investment venture?

I. Yes ( )

II. No ( ) (skip to Q14)

13. If yes, mention some of the investment ventures the bank has undertaken.

I:.....

II:.....

III:.....

IV:.....



**Section C: Challenges Kakum Rural Bank faces in its operations in the KEEA Municipality**

14. Do you think people have confidence in your bank?

- I. Yes ( )      II. No ( )

15. If yes, give reason(s).

- i.....
- ii.....
- iii.....
- iv.....

16. If no, give reason(s).

- i.....
- ii.....
- iii.....

17. Do you have adequate facilities for providing good banking services to customers?

- I. Yes ( )      II. No ( )      III. Does not know ( )

18. Do you have qualified staff to deliver quality services to customers?

- I. Yes ( )      II. No ( )      III. Does not know ( )

19. Does the bank organise training programmes for its staff to enhance the delivery of the poverty-related services?

- I. Yes ( )  
II. No ( ) (skip to Q12)

20. What other problems does KRB faces?

- i.....
- ii.....
- iii.....
- iv.....
- v.....

21. Make any recommendations that can improve the services of KRB towards poverty reduction.

- I: .....
- II:.....
- III:.....
- IV:.....

22. Any comments?.....  
.....  
.....  
.....  
.....  
.....

Thank you for your time

**APPENDIX IV**

**RESULTS OF THE WILCOXON SIGNED-RANK TEST: BACKGROUND CHARACTERISTICS OF CUSTOMERS AND THE  
POVERTY INDICATORS**

**Sex distribution of customers and the poverty indicators**

Sex	Increased income levels	Increased output levels	Increased savings level	Provision of good medical care	Provision of good shelter	Provision of education	Provision of clothing	Provision of nutritious food	Acquisition of assets	Provision of potable water
Male	.244	.030*	.205	.235	.053	.055	.555	.187	.244	.445
Female	.019*	.305	.016*	.002*	.047*	.027*	.248	.026*	.019*	.065

\*Statistically significant at 5%

**Type of accounts customers hold with KRB and the poverty indicators**

Account	Increased income levels	Increased output levels	Increased savings level	Provision of good medical care	Provision of good shelter	Provision of education	Provision of clothing	Provision of nutritious food	Acquisition of assets	Provision of potable water
Current	.139	.056	.263	.202	.862	.013*	.060	.055	.717	.306
Savings	.016*	.730	.002*	.014*	.015*	.594	.525	.016*	.193	.672
Current/ savings	.240	.031*	.068	.151	.021*	.034	.054	.480	.005*	.060

\*Statistically significant at 5%

**Age distribution of customers and the poverty indicators**

Age	Increased income levels	Increased output levels	Increased savings level	Provision of good medical care	Provision of good shelter	Provision of education	Provision of clothing	Provision of nutritious food	Acquisition of assets	Provision of potable water
<20	.598	.121	.564	.246	.161	.290	.102	.276	1.00	1.00
21-30	.091	.135	.564	.797	.825	.146	.391	.796	.357	.480
31-40	.011*	.127	.040*	.002*	.024*	.550	.622	.225	.653	.059
41-50	.344	.211	.418	.041*	.082	.004*	.812	.035*	.001*	.006*
51- 60	1.00	.473	.680	.099	.324	.008*	.245	.959	.315	.341
60- above	.319	.473	.059	. 519	.417	.374	.289	.466	.137	.239

\*Statistically significant at 5%

**Educational levels of customers and the poverty indicators**

Education	Increased income levels	Increased output levels	Increased savings level	Provision of good medical care	Provision of good shelter	Provision of education	Provision of clothing	Provision of nutritious food	Acquisition of assets	Provision of potable water
No formal Education	.688	.221	.265	.098	.214	.525	.595	.080	.128	.570
Basic Education	.394	.017*	.009*	.002*	.603	.074	.785	.167	.303	.142
SSS/Voc/Tech Training college/	.030*	.023*	.899	.029*	.010*	.786	.297	.204	.131	.529
Polytechnic	.132	.285	.896	.974	.179	.013*	.896	.648	.069	.054
University	.732	.624	.492	.483	.296	.270	.222	.174	.386	.896

\*Statistically significant at 5%

### Occupation of customers and the poverty indicators

Occupation	Increased income levels	Increased output levels	Increased savings level	Provision of good medical care	Provision of good shelter	Provision of education	Provision of clothing	Provision of nutritious food	Acquisition of assets	Provision of potable water
Unemployed	.204	.655	.546	.521	.121	.172	.785	.751	.509	.140
Fishing	.426	.024*	.327	.365	.806	.016*	.189	.917	.001*	.294
Farming	.169	.251	.034*	.026*	.064	.581	.789	.129	.477	.542
Trading	.013*	.013*	.003*	.003*	.073	.319	.593	.001*	.013*	.777
Civil servants	.214	.769	.834	.227	.027*	.002*	.693	.564	.725	.093
Pensioners	.043*	.157	.040*	.058	.088	.322	.522	.832	.086	.257
Artisans	.461	.020*	.811	.673	.260	.835	.319	.610	.610	.692
Others	.157	.314	.593	.102	.317	.180	.317	.317	.317	.732

\*Statistically significant at 5%

**Years of customers' operation with Kakum Rural Bank and the poverty indicators**

Years of operation with KRB	Increased income levels	Increased output levels	Increased savings level	Provision of good medical care	Provision of good shelter	Provision of education	Provision of clothing	Provision of nutritious food	Acquisition of assets	Provision of potable water
3-5	.039*	.201	.233	.022*	.375	.462	.153	.376	.869	.983
6-10	.034*	.241	.110	.315	.006*	.203	.773	.013*	.385	.006*
11-15	.092	.304	.047*	.075	.657	.032*	.328	.653	.001*	.947
16-20	.724	.141	.444	.374	.454	.015*	.224	.858	.387	.685
21- above	.705	.655	.380	.096	.943	.103	.395	.596	.111	.589

\*Statistically significant at 5%



**APPENDIX V**

**CONSUMER PRICE INDEX AND PERCENTAGE CHANGE OVER 12  
MONTHS (2005=100)**

<b>Year</b>	<b>Consumer Price Index</b>	<b>Percentage Change over 12 months (Year-on-Year Inflation)</b>
2003	129.8	29.8
2004	153.2	18.2
2005	176.9	15.5
2006	197.5	11.7
2007	218.7	10.7
2008	254.9	16.5
2009	303.9	19.3
2010	336.5	10.8

Source: Ghana Statistical Service, 2011