

FROM RURAL BANKS TO URBAN BANKS: WHY DO RURAL BANKS MOVE TO URBAN AREAS IN EMERGING ECONOMIES?

Patrick Kwashie Akorsu 

Department of Accounting and Finance, School of Business
University of Cape Coast, Cape Coast, Ghana
kakorsu@ucc.edu.gh, akorsu@yahoo.com

Anthony Adu-Asareldun

Department of Management Studies, School of Business
University of Cape Coast, Cape Coast, Ghana

Joshua Addo

Department of Accounting and Finance, School of Business
University of Cape Coast, Cape Coast, Ghana

Abstract

Rural banks in Ghana were originally establish to bring banking services to the door step of the rural communities and also provide financing support to rural industries. However most appear to have relocated to the urban areas and thus defeating their original mandate. This paper was set out to ascertain the reason for this apparent development in the banking sector of Ghana. We employed varied methods of data collection to concretely bring out the fact from all stakeholders. The responses from about 130 stakeholders showed that rural banks in Ghana are drifting to the urban agencies to mobilise funds to increase their capital base; to provide credit to the urban poor and also to mobilise enough profit to support their activities (social responsibility projects) in their rural catchment. Undoubtedly, the rural banks are trying to be innovative but, their inability to compete favourably with the universal banks in the urban areas can destabilize them.

Keywords: Rural banking, Banking location, Rural development, Savings mobilization

INTRODUCTION

Since independence in 1957, Ghana government has made several attempts to promote rural development in an effort to increase the living standards of the people who reside in those areas (Kudiabor, 1974). These attempts have, however, failed for several reasons, some of which are the power of lobbying groups, the high cost of living of farmers, and the lack of coordination between and among government agencies (Opoku-Afriyie, 1974; Amonoo, 1977; & Brown, 1986). In the last three decades, Ghana government has instituted new changes in government organization, and has developed new sources of rural credit to encourage private investment in rural areas.

Faced with numerous challenges in her effort to develop rural communities, the government of Ghana has recognised the need for rural credit. Access to rural credit increased the participation of rural people in development activities. In addition to this, a rural credit policy that mobilises rural resources and redistributes them to the rural sectors created the potential for more development (FAO, 1994). Traditionally, rural development credit has come from informal sources such as moneylenders, traders, commission agents, cooperatives, consumers, distributors of farm inputs, and processors of agricultural products who provide non-institutional credit. Furthermore, research has shown that the most common providers of loans in rural areas are friends and relatives who usually charge no interest or cash for collateral (FAO, 1994). This non-institutional credit market however is small, and the total credit from these non-institutional sources is insufficient to implement rural development programmes. Institutional credit on the other hand has come from commercial banks such as the Ghana Commercial Bank, the Agricultural Development Bank, the National Investment Bank, and the Bank of Ghana Rural Banks. Until recently, it was only a few rural people, (apart from the wealthy farmers and businessmen) who had access to credit from the commercial banks (Essel & Ekumah, 2003).

The lack of interest in small rural credits by the National Investment Bank and the Commercial Banks, it appears, was due to the high cost of administering a large number of small credits spread over a wide area, coupled with the comparatively high level of default that often accompanied small credits. The inability of rural borrowers to offer adequate security for loans, and the enormous risks associated with agricultural production, were probably the main reasons for the urban-based bias of commercial lending. Consequently, the Agricultural Development Bank which was specifically created to service the rural sector soon channelled its attention to the traditionally urban-based banking activities. To overcome some of these difficulties, the Government of Ghana, through the Bank of Ghana, introduced the idea of rural banking system into the country in 1976.

According to the Association of Rural Banks (1992), the aims of rural banks were to:

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

However, according to Bank of Ghana (2011), the total number of rural banks operating in Ghana has increased remarkably over the years. In 1976, there was only one rural bank with 1124 customers. In 1984 the number increased to 34 with about 300,000 customers. By the end of 1993, the total number of rural banks had risen to 117. At the end of February 2011, there were 135 registered rural banks with about one million customers operating across the country. These banks are well distributed across all the 10 regions of Ghana with the Ashanti Region having the highest number. These banks which were initially introduced to provide channels for financial intermediation to the rural folks have now relocated or are in the process of relocating to urban centres. Rural banks in Ghana were designed to be small; they were to be owned by members of the rural community through the purchase of shares. They were licensed to provide financial intermediation in their respective rural areas by expanding savings mobilization and credit services in these areas that were not served by commercial banks (Asiedu–Mante, 2002). The rural banks were also charged to mobilise resources from their catchment areas and lend them to deserving applicants in their localities. Decisions were to be taken locally and matters relating to disbursement and credit were to be attended to without delay. These measures were taken to enhance business in the rural communities by helping them improve upon their various operations. Furthermore, the banks were to inculcate banking culture among the rural folks.

Unfortunately, several rural banks now have located agencies in urban centres, thus shifting focus off their original rural finance objectives. They also pay more attention to the urban customers who are likely to bring to the banks more profitable and attractive businesses to the neglect of the small rural customers. The danger is that if the trend is allowed to continue, it may create finance gap between the small-scale rural entrepreneur and formal banking as was the case before 1974. Furthermore, it is feared that the rural banks are trying to get into an area (urban area) where there is intense competition, even among the large established banks. Some of the questions that come to mind are:

- Why are the rural banks locating their agencies into urban areas?
- What effects does the location of rural banks in urban areas have on rural developments?

- To what extent do the rural banks with urban agencies observe the prudential requirements set by the Bank of Ghana?
- What measures can be put in place to ensure that rural banks do not depart from the primary objectives of stimulating banking habits among rural dwellers on whose behalf the banks are established?

This paper intended to find answers to these and other mind-boggling questions. Two rural banks namely, the Bosomtwi and Amanano Rural Banks, were cases for this paper. These banks are situated in the Ashanti Region in Ghana – one of the commercial and industrious region in Ghana. Principally, the paper sought to examine the causes and implications of the location of rural bank agencies in urban centres. To achieve this end, we examine the factors that have accounted for the location of rural bank agencies in urban centres; explore the effects of urban branching by those rural banks on rural development; assess the prudential requirements being observed by the rural banks with urban agencies, and advance recommendations to ensure that rural banks do not depart from the primary orientation that brought them into existence namely, to serve the banking needs of the rural folks.

This paper identifies the factors that have influenced the location of rural bank agencies in urban centres and determine whether or not those rural banks with agencies in the urban centres observe prudential requirements as they perform their activities. It will also identifies the possible effects (both positive and negative) of urban banking on the rural banks with urban agencies and on their rural customers. The findings in this study will inform authorities of rural banks in Ghana (such as the Bank of Ghana and the Apex Bank) in their decisions to ensure that rural banks do not depart from their primary responsibilities of providing monetary services to rural communities. Finally, the study adds to the existing literature on banking institutions in Ghana and also serve as a basis for further research into rural banking in Ghana and in the Ashanti Region in particular.

The reminder of the paper is organized as follows: the next section focuses on the literature review. Section three discusses the methodology employed to meet the objectives of the paper; it considers methodological issues such as the study design, study area, sources of data, target population, sample size, sampling procedure, research instruments, pre-test of research instruments, fieldwork, data analysis, ethical issues arising from the fieldwork, and the challenges from the fieldwork. Section four deals with the data analysis, the presentation and discussion of results. Finally, we provide conclusion and recommendations in section five.

LITERATURE REVIEW

History of rural banking in Ghana

An account of the origins of formal banking in Ghana by Steel and Andah (2004) states that formal banking began in Ghana (Gold Coast) in 1896 with the establishment of a branch of the Bank of British West Africa (Stanchart Bank Ltd). This was followed by Barclays Bank in 1917. Both banks were operated and supervised as branches of their head offices in London. The first indigenous bank was the Gold Coast Cooperative Bank, which was established in 1945 with a share capital of £30,020 as a registered cooperative under the Department of Cooperatives. The main business was to support the marketing societies to buy cocoa from farmers. Its registration however was cancelled in 1961, and its operations absorbed into that of the Ghana Commercial Bank (Bank of Ghana 2005). In 1953, the bank of the Gold Coast was established by Statute as the first indigenous commercial bank with some Central Bank functions. It was only at independence in 1957 that the central and commercial banking functions were separated between the Bank of Ghana and the Ghana Commercial Bank respectively. The banking system was subsequently regulated under the Bank of Ghana Act of 1963 (updated in 1992) and the Banking Act 1970 (update in 1989).

Different tiers of Ghana's legally recognised Rural Microfinance Institutions (RMFI) come under different legislation adopted at different points in time in response to different circumstances and objectives. These were:

- Moneylenders: Moneylenders Ordinance, 1940 and 1957.
- Credit Unions: Co-operative Decree, 1968 (NLCD 252); also the NBFILaw;
- Rural Banks: Banking Law, 1989 (PNDCL 225)
- Savings & Loans Companies: Financial Institutions (Non-Banking) Law, 1993 (PNDCL 328 (NBFILAW)).

All these banks were in the urban areas; rural people could not save with them, neither could they borrow because of collateral. It is therefore clear from the above that there was the need for a banking system that would take the interest of the rural community into consideration, hence the establishment of the rural banks.

A Closer look at Rural Banks in Ghana

Rural Banks (RBs) are relatively small financial institutions with average share capital of US\$105,263, average deposits of US\$1.77 million, and average assets of US\$2.4 million (Nair & Fissaha, 2010). The RBs are fully owned by individual shareholders who are residents of the communities in which they operate. Each rural or community bank has a board of directors (BoDs) that is responsible for its strategic governance. The BoDs are elected by owners or

shareholders during Annual General Meetings (AGM). Election criteria for directors are normally based on reputation in the community and on professional expertise. Most board members have relevant professional experience, but experience in banking is nevertheless extremely limited. Board members can be re-elected more than once (Nair & Fissaha, 2010).

The core management staff of a typical RB is typically composed of a chief executive officer who is in charge of the daily management of the bank, an internal auditor who is responsible for internal control measures and who reports to the BoDs, a finance officer, and credit and project officers (in charge of microfinance operations). Many of the personnel are recruited from the local communities. Almost all RBs have one or more branches, each of which is staffed with a branch manager, an accountant, credit officers, clerks, and cashiers. The savings products of RBs include regular savings accounts, current accounts, “susu” deposits, and fixed or time deposits. The credit products offered by RBs include microfinance loans, personal loans, salary loans, susu loans, and overdraft facilities.

Nair and Fissaha (2010) have reported that RBs offer money transfer and payment services to their clients in collaboration with other banks. The RBs participate in local and international money transfers through, among others, Western Union, Money Gram, Vigo, and other payment services are key services provided by rural banks. Because of their location and network of branches, rural banks are used by the central and local governments and private companies to make salary and pension payments to employees in rural areas. The salary payment system in particular enabled rural banks to consolidate their salary loan products that are closely tied to the salary transfers. Licensed buying companies (LBCs) also use rural banks to pay their clients such as cocoa-producing farmers, oil palm producing farmers and others in their catchment areas.

Addeah (2001), defined a rural bank in Ghana as a corporate body incorporated under Ghana’s companies code whose name include the words “bank” and which is licensed by the bank of Ghana to carry on specified banking service intended to achieve the following major goals:

- Mobilization of rural savings;
- Provision of credit and other finance service to its customers aimed at promoting productive economic activity and creation of jobs; making profit its shareholders;
- Initiation of projects that can promote rural socio-economic development; and
- To be generally seen as instrument of national economic development

Nair & Fissaha (2010) has stated that rural banks in Ghana were established to provide institutional credit and banking service to small-scale farmers and rural entrepreneurs to arrest the growing rural debt and the consequent pervasive stagnation in agricultural production, to

ensure that resource mobilized in the rural areas were used in rural areas, and to promote growth in the rural sector. He also mentioned that rural banks were unit banks operating as limited liability companies in accordance with the companies code of 1963 and the banking act 1986 PNDCL 225. These banks were spread all over the rural areas of Ghana.

Asiedu-Mante (2003) explained that rural banks are unit banks established to provide financial service for the rural communities in which they are located. They were owned, managed and patronized by local residents. Some of these banks however operate agencies to cater for communities located far from their headquarters. Essel & Ekumah (2003) has observed that rural banks are effective financial intermediaries for rural small scale enterprise due to a number of factors. They are decentralized and accessibly located in rural area among the people they serve, and operate in a catchment area with a 40km radius. As a result rural banks take banking services to the doorsteps of the rural clients, and their decisions are made locally and quickly. The banks are owned, managed and controlled by local communities; they are fully participatory, operating under community sanctions and more.

According to Essel & Ekumah (2003), operational guidelines for rural banks are flexible, using simplified procedures and clearly established eligibility criteria, with a built-in equity system to ensure that credit goes to rural small-scale enterprises, especially, those in priority areas of the economy. In addition, rural banks emphasise savings as essential to credit and inculcate banking culture among rural populations. Moreover, their procedures are realistic. For instance, borrowers are required to find two people of good standing in the community or account holders in the bank to be guarantors. Finally, the rural banks rely on locally mobilised resources for their operations. The survival of these banks therefore depends on local initiative, local communities and local innovation.

Legal and policy guidelines for rural banks in Ghana

Long before Ghana's independence on 6th March 1957, the expatriate banks (Stanchart and Barclays) have been operating in the country. The operations of these foreign banks were modelled on banking practices employed in their home country, United Kingdom. They demanded securities and collaterals such as life insurance policies, stock certificate, certificates of marketable financial instruments, all of which were not easily available to the indigenous people (Newlyn & Rowan, 1954:82).

The dissatisfaction of the populace in Ghana with the expatriate banks led to a commission of enquiry by the then Governor into the banking conditions in the Gold Coast, and to the question of setting up a national bank. Following the recommendations of the enquiry by Sir Cecil Trevor in 1952, the Ghana Commercial Bank (GBC) was established in 1953 to

improve access to credit for indigenous businesses and farmers. GCB was encouraged to extend its branches into the rural areas so that rural communities could have access to institutional banking facilities. Unfortunately, GCB was unable to adequately cater for the financial needs of the rural sector.

In 1965, the Agricultural Development Bank (ADB) was established purposely to service the agriculture sector (Essel & Ekumah, 1998.) The ADB unfortunately, found it difficult serving the rural and the agricultural sector because of the erratic nature of agricultural production and its overdependence on climate and the weather that were unreliable. In addition, the ADB's performance was constrained by high cost due to processing of numerous small loans and poor repayment. The bank also demanded security or collateral, which customers could not afford.

According to Aning (2000), the Post Office Service was upgraded to the Post Office Savings Bank under the Savings Bank Act 1962 (129), to operate independently within the Post Office System. However, when it attained full bank status as National Savings and Credit Bank in 1972 under the National Redemption Council Decree (NRCD), the new management abandoned the use of the post office network system, leading to the collapse of micro savings product.

The only formal banking service that became readily available to the rural communities during that time was the deposit mobilization by the commercial banks (Addo, 2001). Unfortunately, deposits mobilized by the commercial banks in the rural areas were used by the centralised urban based commercial banks to cater for the needs of urban-based large scale entrepreneurs.

The Bank of Ghana undertook an extensive and comprehensive nation-wide study of the financial services offered by the commercial banks to the rural communities (Bank of Ghana, 2005). The study showed that there was a wide gap between urban and rural financial services offered by the commercial banks. This led to the introduction of the rural banking concept in Ghana in 1976, with the specific objective of meeting the banking needs of rural communities in the country by making institutional credit and banking services accessible to small scale farmers and rural entrepreneurs for the improvement of their productivity, incomes and the promotion of growth in the rural sector. Ghana is basically an agriculture country, with the sector contributing over 40% of the gross domestic product (GDP).

In spite of the important role played by the rural people in the agricultural sector, financial services available to enterprises and peasant farmers were, and have been woefully inadequate; this was and has been partly due to low production and the high risk associated with rural economy. Consequently, this discouraged formal financial institutions from servicing the rural economy. This factor then has contributed to the high level of poverty among rural

communities. As a result, the sector relied mainly on traditional financial operators such as money lenders, families, friends, “susu” collectors, and self help groups.

Consequently, rural banks were established to organize local initiative and local commitment to mobilise local resources and “on-lend” them to deserving customers in their catchment areas using simplified procedures and eligibility criteria. There was to be an in-built equity system to ensure that credit and bank services went to the farmer, fisherman and the small-scale entrepreneurs who, but for the rural bank, would not have had access to institutional credit. Rural banks were to operate on sound financial lines while observing certain measures of flexibility that characterised the informal financial sector (Addeah, 2001). Again, the rural banks were to be registered as public companies and were required to obtain certificates of incorporation and commencement of business from the Registrar of Companies under the Companies’ Code of 1963 before they could start to operate as business entities. They were also requested to obtain license from the Bank of Ghana to enable them engage in banking activities under the Banking Law (PNDC L225) governing the activities of the banks in the rural areas.

The Bank of Ghana has the power to regulate the operations of the rural banks, and to direct rural banks to operate as unit banks (Addeah, 2001). Rural Banks were not to open agencies anywhere outside the rural areas; they were however allowed to establish agencies and mobilization centres also in rural areas where the main objectives were mobilisation of savings, provision of credit facilities, and the promotion of agricultural and commercial activities. They were to be responsible for the provision of socio-economic infrastructure, to act as catalysts for the development of rural communities and finally, be accountable for the provision of banking needs of the rural communities while making profits for the shareholders of the rural banks.

To help address the challenges of supervising RCBs, a law enacted in 2006, allowed the BoG to delegate some of its supervisory functions to the Apex Bank, as follows: maintain primary cash reserves of the rural and community banks in accordance with relevant rules, regulations, and policies; monitor, inspect, examine, and supervise rural and community banks in accordance with relevant rules, regulations, and policies; Lend to rural and community banks facing temporary liquidity problems; Provide specie management and specie movement services.

Although the ARB Apex Bank currently performs all the supervisory functions envisaged for it under the 2006 regulations, the BoG continues to carry out both on-site and off-site supervision. The full delegation of powers has been constrained by structural, capacity, and resource constraints. Structurally, since the ARB Apex Bank is owned by the RCBs, its

autonomy to supervise its members has been called into question. It also has limited capacity to undertake off-site and on-site supervision, partly because of resource constraints. The Apex Bank neither has access to any funds from the BoG or GoG to perform this task effectively nor can it recover the costs from RCBs because regulations do not require RCBs (or any other banks) to pay for supervision costs

Rural banks' location of agencies in Ghana

Although numerous theoretical considerations point to a positive relationship between geographic expansion opportunities and the accessibilities of banking services, previous research produced only limited evidence of such a relationship for rural areas. Contrary to the latter view, Nair & Fissaha (2010) have argued that branch banking did not boost service accessibilities in rural areas. They also argued that only partial liberalisations could effectively promote the establishment of additional banking agencies in rural areas. However, it was found that both limited and state-wide branching boosted the level of service accessibility in metropolitan areas.

The growth of the rural banks therefore, has had to depend on the growth of the area they served. However, in recent times, it has become a common sight to find rural banks operating in urban centres. As at December 2005, the Bank of Ghana had listed 33 out of a total of 117 rural banks with urban agencies (Essel & Ekumah, 2003). There was therefore the fear that those rural banks may shift their attention from the original objectives of supporting rural economy to the urban customers.

Addeah (2001) observed that the development of the rural sector is crucial to the reduction of poverty, the creation of empowerment in rural sectors, and the overall development of Ghana. She noted that for property development, rural banks could bridge the gap between the formal banks and the informal financial system, bringing much needed financial service and development to the rural sector. She also observed that rural banks mobilise savings from their catchment areas and lent these resources to deserving rural small scale enterprises. According to her, in 1992 the rural banks mobilised GH¢ 968,000 and lent GH¢ 481,000 to several small scale enterprises. During the same period, rural banks bought GH¢ 36,000 worth of treasury bills.

According to the Bank of Ghana (2011), rural banks participated effectively in the Akafo cheque scheme whereby cocoa farmers were paid for their cocoa with cheques issued through the banking system. He noted that in the 1991/92 cocoa purchasing season, rural banks collectively purchased GH¢ 2 million out of a national total purchase of GH¢ 6.1 million; the highest purchase of cocoa by any of the banks in the formal sector.

Since rural banks are community owned, they have made significant contribution to the development of their catchment areas through the construction of schools, health centres, provision of electricity, and pipe borne water. They also offer scholarships to needy but brilliant students. A typical example is the Jomoro Rural Bank, which offered scholarship to two female students to pursue courses in medicine. Rural banks have also offered (and are still offering) employment to qualified people in the communities in which they operate.

A precondition for successful rural financial systems building is a stable and favourable macroeconomic environment and suitable regulatory frameworks, which most importantly, allow for deregulation and competition (Gonzalez, A. & Meyer, R., 2009). In this regard, Aning (2000) observed that there are at least two dichotomies that are worthy to consider when identifying differences between urban and rural operating environments for financial systems development. The first refers to the general differences between urban and rural environments, and the second, between the farm and non-farm enterprises. Rural banks traditionally have faced relatively limited opportunities for asset diversification, liability management, and geographic expansion.

Steel & Andah (2004) have highlighted the potential financial pitfalls associated with the tendency for the rural banks to hold high concentrations of agricultural loans. Yet the availability of bank credit in rural communities represents an important concern from the standpoint of agriculture and rural economy.

Bencivenga and Smith (1991), Jappelli and Pangano (1994), have shown that financial markets could influence growth by affecting savings. An additional growth effect involves the potential role of the financial system in enhancing productivity of investment (Greenwood and Javaovic, 1990, King and Levine, 1993). Significantly, it was found that state economies grew faster when restrictions on branch banking were lifted paving the way for geographic liberations leading to improved loan quality. This allowed capital to perform its critical role as an input to economic growth in rural areas.

But what is interesting is the effect of reduction in legal restrictions affecting the ability of banks to expand geographically to urban centres to enhance the accessibility of banking service in urban centres (Jayaratne & Strahan, 1996). The available literatures indicate that there is growth with regard to geographical liberation of banking because it accelerates industrial growth and increase economic efficiency both in rural and urban centres (Berger, Kashyap & Scalise, 1995; Jayaratne & Strahan, 1996). The Ghanaian rural economy is yet to experience positive feedback effect of urban branch by rural banks.

Challenges of rural banks in Ghana

The rapid growth in the number of rural banks in Ghana over the years was accompanied by a number of problems. Some of these problems came as a result of the external environment in which the banks operated while others could be traced to managerial and operational lapses. The external environmental problems include the underdeveloped and neglected nature of the rural areas, which constrained the ability of the banks to employ and retain competent personnel.

Changes in economic conditions also constituted challenging factor in operations despite notable achievements of the rural banking system. In addition to the fact that mobilisation has been a problem for most rural banks as a result of the changing economic conditions, bushfires and unfavourable climate have adversely affected agriculture, and also eroded the economic support of a number of rural banks thereby hampering their resource efforts. According to Sinkey (1992), a weak economic environment is a contributory factor to banks' failure.

To recap, with the objective to create formal financial institutions in the rural areas to mobilise savings and to satisfy the investment needs of the rural economy, rural banks gained currency in Ghana as a result of the failure of the commercial banks to carry out financial intermediation in the rural economy. The mission of a rural bank is to assist the community that it serves to enable the community to narrow the developmental gap between the rural and urban areas. The rural banks are owned and managed by the communities' where they are located. The communities identities associated with the banks encouraged patronage and support from the communities they serve. Rural banks were established to provide banking services to the rural communities and to help with the alleviation of poverty.

METHODOLOGY

Study areas

The study areas are the BosomtweAtwimaKwanwoma District, the AtwimaMponua District, and the Kumasi Metropolitan Assembly (KMA) where the rural banks' have urban agencies. Kumasi, the regional capital of the Ashanti Region is located in the forest zone of Ghana. It is 270 kilometres north-west of the national capital, Accra. Due to its geographical position, and its road connections, Kumasi constitutes probably one of the most important business centres in Ghana; and its markets constitute points of arrival and departure of goods produced locally and from the neighbouring countries (Brook & Davila, 2000).

Though the formal and informal economies of the Metropolis are vibrant, the informal economic activities dominate the formal with commerce accounting for about 60 percent of the total employment of the informal economy in Kumasi (King et al, 2001). Economic activities

include trading, vehicle repair centres at the Suame Magazine and Asafo; a woodwork centre at Anloga; food vending along the radial routes, especially the portion within the ring road and the city centre at Adum and wood carving at Ahwia, along the Mampong road. At Adum, petty commercial activities line the streets. These are a spill-over from the Kumasi Central Market, the largest market in Ghana and perhaps West Africa (King 1999, Clark, 1994).

These activities and many others in the formal sector have attracted financial institutions to the Metropolis. Some of these institutions are banks of all categories. Even the rural banks that are supposed to operate in rural communities have agencies and branches in the Kumasi Metropolis. It is on record that twenty (20) rural banks have their agencies located in the Kumasi Metropolis (Bank of Ghana, 2005).

The BosomtwiAtwimaKwanwoma District, according to the 2000 Population and Housing Census, has a population of 146,028 comprising 71,904 males and 74,124 females. The district is made up of 130 settlements with varied population sizes. Most of the settlements have less than 500 inhabitants who are mainly farmers. Kuntanase where the rural bank is located has about 4,871 people.

The major occupation in the district is agriculture which employs about 63% of the labour force. Of this, crop farming employs 57.4% and fishing 5.2%. About 41% of those engaged in other occupations still take up agriculture as a minor occupation. The next important occupation is service. It employs about 19.1% of the working population comprising government employees, private employees and other workers. The educated labour force dominates this sector. Industrial activities are undertaken on both small and medium scales, employing about 16.7% of the working population. Only 12% is agro based. Trading in the occupational structure employs about 11.31% of the working force. Women dominate this sector. About 56% of the goods are industrial hardware brought from the Kumasi Metropolitan Assembly.

Seasonal or disguised unemployment is about 4% of the working age group. Even though the BosomtwiAtwimaKwanwoma District is described as rural in terms of population and social amenities, its economic characteristics show some urban features. A substantial amount of household income of about 54.5% is spent on food, which does not reflect a typical rural district in Ghana. Income is relatively higher in the industrial sector with a monthly income of GH¢5.70 while farming and trading are behind with income of GH¢5.00 and GH¢4.90 respectively. With an average household income of GH¢7.41 a month, the per capita income of individuals comes up to GH¢1.50 a month. This gives an indication of a low standard of living in the District.

The AtwimaMponua District on the other hand is located in the south-western part of the Ashanti Region. It covers an area of approximately 894.15 Km². The National Population

Census of 2000 put the AtwimaMponua District population at 108,235, made up of 55,719 males and 52,516 females. With an average growth rate of 3.6% the District is estimated to have had a total population of 127,717 in 2005. The District has a high youthful population which has implications on education, health, environment, sanitation security, and safety. Nyinahin where the head office of the rural bank is located is one of the two (2) dominant communities in the District. Nyinahin has a population of 7,544.

As a typical rural economy, agriculture dominates the local economy of the two Districts with about 79% of the labour force engaged in this occupation. The commerce sector ranks second, employing 13% of the labour force, while industry employs 6% with the service sector accounting for 2.0% of the total work force. Generally, standard of living is low and poverty is rife in the two districts.

Research design

The study adopted the cross-sectional approach in which a subset of the population was selected and from the individuals, data were collected to help answer the research questions. The data were collected from the research participants at defined points in time or relatively brief time period. The data were typically collected from multiple groups (Olsen & George, 2004). The cross-sectional design helped to enrich the study because it is study of a large number of people within a short period and the approach helps to determine the causes and prevalence of a phenomenon which other study designs could not do (Mann, 2003). The cross-sectional design was used in the study because data were collected once from the study population within a specific period. It also helped to assess the prospects and challenges that are associated with the location of rural banks agencies in the urban areas.

Since the cross-sectional design supports the use of different methods to collect data from selected respondents in a single study (Mann, 2003), the mixed method technique was used in the study. This method involved triangulating both quantitative and qualitative methods to collect data at the same time. Creswell (2003) support the use of the mixed method approach in social sciences, because the technique has become increasingly popular as a legitimate research technique. Mixed methods contributes to a better understanding of the research problem by combining numeric trends from quantitative data and specific details from qualitative data. Neuman (2003) recommended the use of the mixed method when he said that combining different approaches in a study is the best method to be adopted, since it is better to look at a situation from several angles than to look at it from one direction.

Mikkelsen (1995) has identified two forms of mixed method which are “within method” triangulation and “between method” triangulation. The within triangulation method involves the

use of the same method on different occasions whilst the between triangulation method is where different methods are used in the same study. The present study used the between triangulation method. In this study, questionnaires and observation (qualitative methods) were used to collect data from the field.

Some criticisms have been levelled against the use of the mixed method approach. For example, Creswell (2003) described the use of mixed method as time consuming, while Sarantakos (1998) observed that the mixed method is difficult to replicate and therefore advised that it is not more valuable than the single-method procedure, which is more suitable, useful, and meaningful to answer certain questions.

Despite the criticisms, several authors support the use of the mixed method because it offers many advantages which far outweigh the disadvantages. Decrop (1999) for example, has observed that the mixed method opens the way for richer and potentially more valid interpretations. It also helps the researcher to gain better understanding of the phenomenon being studied. Further, it helps to complement the strength of qualitative and quantitative methods (Depoy & Gitlin, 2005). Moreover, mixed method helps to reduce bias because it helps to “guard against the accusation that a study’s findings are simply the artefact of a single method, and a single data source” (Decrop, 1999).

Sources of data

Both primary and secondary data were used in the study. Primary data were collected using questionnaires and observation (see Appendices I, II and III). The primary data were collected from respondents in the study area. The data collected from the field included socio-demographic characteristics of respondents, factors responsible for the location of rural bank agencies in urban areas, effects of rural banking on rural development, and challenges affecting rural bank agencies in urban areas. Secondary materials were obtained from books, journals, newspapers, articles, reports, the internet, as well as conference and working papers that concern themselves with the topic under investigation.

Study population

The study population consisted of the following:

- Customers of the selected banks
- Managers of the selected banks
- Non-customers of the selected banks in rural areas where the banks operate.

Involving the customers of the selected banks in the study was important because they were the actual people who were directly involved in the activities of the banks. They had much insight about the services of the banks and the various challenges hindering the operations of the banks. The managers of the banks were approached to collect data relating to the overall administration of their respective rural banks. They oversee the overall management of their banks so this made it important for them to participate in the study to provide information on performance, and factors that had influenced their banks to concentrate more in urban area.

The non-customers of the shortlisted banks in rural areas were involved in the study. Rural banks in Ghana were established with the ultimate aim of enhancing the livelihood of the rural communities where they operate. This warranted the involvement of the non-customers to give information on the effects of the activities of rural banks in their communities on their livelihood.

Sample size and Sampling Techniques

In order to get a representative sample size for the study, the Cooper and Schindler (1995:223) concept of determining sample size was used. Cooper and Schindler (1995:223) stated that, “how large sample should be is a function of the variation in the population parameters under study and the estimating needed by the researcher.” According to them, a sample of 100 drawn from a population of 5,000 has roughly the same estimation precision as 100 respondents drawn from a population of 200 million. In the same vein, Sarantakos (1998:158) affirmed that “if the population is homogeneous with respect to the study object, a small sample may suffice”. In view of this, a total sample size of 130 respondents was chosen. Table 1 shows the sample size distribution for the study.

Table 1: Total sample population for the study

Unit	Bosomtwe Rural Bank	Amanano Rural Bank
Customers	33	33
Non-customers	30	30
Managers	2	2
Total	65	65 = 130

The non-probability sampling techniques were used to select the 130 respondents. Specifically, the quota and the purposive sampling techniques were employed. The quota sampling technique is a non-probability sampling method for selecting survey participants. In quota sampling, a population is first segmented into mutually exclusive sub-groups. The

researcher decides how many of each category is selected. Then judgment is used to select the subjects or units from each segment based on a specified proportion. This means that individuals can put a demand on who they want to sample (targeting). In quota sampling, the selection of the sample is non-random. Quota sampling is useful when time and the research budget is limited.

Purposive sampling targets a particular group of people with some characteristic (Patton, 1990). When the desired population for the study is rare or very difficult to locate and recruit for a study, purposive sampling may be the only option. In the current study it was not easy to visit respondents in homes that were far apart.

(a) Customers and non-customers

The quota sampling technique was used to select customers and non-customers of the rural banks. Using quota sampling, a population was first segmented into mutually exclusive sub-groups and a specific number of respondents were taken from each sub-group. A specific quota of 65 respondents each was assigned to each of the two rural (Bosomtwe and Amanano Rural Banks) banks. In each rural bank, the 65 respondents comprised 33 customers and 30 non-customers. The customers were conveniently selected at the premises of the banks in the rural areas. The non-customers were also conveniently selected from the rural communities where the banks operate.

(b) Bank managers

The purposive sampling technique was used to select the managers of the two banks. The purposive sampling is a form of non-probability sampling technique through which a specific group of people who serve the needs of a particular study are selected. Each of the two shortlisted banks for the study operates in both rural and urban areas. As a result for each bank, two bank managers comprising one bank manager in the rural area, and one bank manager in the urban area were selected to participate in the study.

Research instruments

In consonance with the mixed method design, questionnaires and observation checklist were developed to collect the primary data from the field (see Appendices A, B, and C). These instruments were chosen because they were the most appropriate.

The questionnaires was used because of its known advantages of building good rapport, creating a relaxed and healthy atmosphere in which respondents easily cooperate, answer questions, and clear misapprehension about any aspect of a study (Kumekpor, 2002). Furthermore, not all the respondents could read and write in the English language. The

questionnaires enabled the researcher and the field assistants to translate questions into the Twi language which is widely spoken in the study area. The questionnaire was semi-structured and comprised of many close ended questions (see Appendix A). This facilitated easy administration of the questionnaires. It also helped to avoid irrelevant answers from respondents, and it made inputting into the computer fairly easy. It was used to collect data from both customers and non-customers of the two banks.

Observation checklist was another instrument that was used in the study. The non-participant observation technique was employed. In this kind of observation, the observers study respondents, institutions or organisations, and community of interest without participating in the direct activities of the respondents in question (Sarantakos, 1998). In this study, the researcher in the course of administering the questionnaires was conscious of the working atmosphere of the agencies and as such made relevant observations.

Sekyere Rural Bank at Jamasi in Ashanti was used to pre-test the research instruments for the present study. The Sekyere Rural Bank was used because it has similar characteristics of the two banks (Bosomtwe, and Amanano Rural Banks) that were chosen for the study. It is located in the Ashanti Region and it has branches in both rural areas and in Kumasi. Five customers and five non-customers of the bank at Jamasi were selected for the pre-test. One manager from Jamasi and another from Kumasi were also selected to pre-test the interview guide. The pre-testing results helped to restructure some of the questions in the questionnaire. It also enabled the researcher to appreciate some of the problems that were most likely to be encountered during the actual data collection.

Data processing and analysis

The data collected from the field were first cross-checked and edited to ensure that there were no mistakes in the responses, and that the information given was relevant. The data were then coded and fed into the computer. The Statistical Product for Service Solutions (SPSS version 16) was employed to process and analyze the data. Frequencies, averages, percentages, proportions, tables and diagrams were used to present the results.

Proper permission was obtained from the authorities of the selected banks before the field work was embarked on. During the administration of the questionnaires, the researcher had to identify herself to the respondents to avoid impersonation. The purpose of the study (which is purely academic) and the nature of the questionnaires were made known to the respondents. Anonymity of respondents was respected.

The main problem the researcher encountered during the fieldwork was the uncooperative attitude of some of the bank customers and non-customers. The worst culprits

were the non-customers. Most of the non-customers were reluctant and unwilling to complete the questionnaires. Some of them were of the view that the outcome of the study would not benefit them in any way and hence did not see the need to waste their precious time to participate in it. The objectives and significance of the study were explained to them before they became convinced to fully participate in the study.

EMPIRICAL RESULTS AND DISCUSSION

Demographic Characteristics of respondents

Age and sex of respondents

The respondents were made up of 51 rural customers, 49 urban customers of rural banks, 30 non-customers in the rural areas. The age distribution of respondents (Table 2) was fairly even though in all the customer groups, most of the respondents were aged between 21- 30 (that is 31%, 38%, and 53% for rural customers, urban customers, and non-customers respectively). The total number of respondents was 130 made up of 64.6% males and 35.4% females. In all customer groups, males were more than females. This observation reflects the assertion that in the rural setting, males have better access to financial resources than females.

Educational status of respondents

Some 39% of the Rural Customers (RC), about 37% of Urban Customers (UC) and 63% of Non-banking Customers (NC) had received basic education (Table 2). The figures for secondary/technical/vocational are 29%, 16%, and 20% for RC, UC, and NC respectively. Fewer customers, however, had tertiary education. The percentage for the RC, UC, and NC are 6%, 16%, and 7% respectively (Table 2). The above observation negates the assertion that rural banks attract only customers with low educational background.

Employment status and annual income of respondents

About 53% of the Rural Customers (RC) were self-employed while 47% were employed in some institutions (Table 2). With regards to the Urban Customers (UC), 62% were self-employed with 37 being employees. From Table 2, majority of the rural customers (53%) and urban customers (62%) were self-employed. However, 70% of the non customer respondents were employees while 30% were self-employed. The employment statuses of respondents clearly indicate that rural banks are largely patronized by the self-employed (e.g. farmers, petty traders, and small scale industries).

The annual incomes of respondents show that the majority earn very low incomes. About 51% Rural Customers (RC), 33% of Urban Customers (UC), and 46% of Non-banking

Customers (NC) earned less than GH ₵1200. Only UC (16%) and NC (13%) earned incomes above GH₵ 1801. For those respondents who could not tell the annual incomes, the RC led the pack with 17% followed by NC (4%) and UC (2%) in that order. This income situation gives credence to the assertion that many rural areas are inadequately captured in public and/or private investment especially during financial institution building.

Table 2: Background information on respondents by customer groups

Variable	Customer groups		
	Rural (%)	Urban (%)	Non-customers (%)
Age			
< 20	2.0	00.0	13.3
21-30	31.4	38.7	53.3
31-40	17.6	20.4	26.7
41-50	23.5	20.4	3.3
>51	25.5	20.4	3.3
Total	100	100	100
Sex			
Male	64.7	69.4	56.7
Female	35.3	30.6	43.3
Total	100	100	100
Education			
Basic	39.2	36.7	63.3
Sec/Tech/Voc	29.4	16.3	20.0
Training college	10.1	26.5	03.3
Tertiary	05.9	16.3	06.7
None	15.4	04.1	06.7
Total	100	100	100
Employment status			
Employee	46.9	37.7	70.4
Self-employed	53.1	62.3	29.6
Total	100	100	100
Annual income in GH₵			
<1200	51	32.86	45.86
1201-1400	15.69	38.57	20.9
1401-1600	15.29	-	-
1601-1800	-	10.16	16.0
>1801	-	16.37	13.45
Can't tell	17.84	2.04	3.79
Total	100	100	100

RC= Rural Customers, UC=Urban Customers, NC= Non-customers

Factors underlying the location of rural bank agencies in urban centres

To facilitate the discussion of the factors underlying the location of Rural Bank agencies in urban centres, two managers from the Bosomtwi Rural Bank and the Amanano Rural Bank (one each from the rural branch which is the headquarters and the one from the urban agency) were interviewed. According to the manager of the rural agency of the Bosomtwi Rural Bank, the main objective for establishing the bank was to provide the rural community with banking services and through its corporate social responsibility contribute to the development of rural communities. This is in line with Nair & Fissha (2010) observation that properly developed rural banks could bridge the gap between the formal banks and the informal financial systems, bringing much needed financial services and development to the rural sector. However, managers of the two urban agencies said the agencies were established to mobilise funds so as to increase the banks' capital share. This motive for the location of agencies in urban areas contradicts Essel & Ekumah (2003) assertion that rural banks rely on locally mobilised resources for their operations. The two managers of the urban agencies opined that the rural banks existence in Kumasi provides banking services to the urban poor, and support low income groups in urban centres with credit facilities which conforms to the regulations guiding rural banks. According to the manager of the urban agency of the Amanano Rural Bank, inertia on the part of the bank due to the absence of competition in its rural operating area and the fact that their rural customers are not in vibrant businesses limit the capital share of the Amanano Rural Bank.

All four management respondents indicated that having urban agencies presented their various banks the opportunity to expand and grow. The manager of the Bosomtwe Rural Bank (Headquarters) stated that with the opening of more urban agencies increased its customer base. The manager of the Bosomtwe Rural Bank in Kumasi claimed the urban branch realised an increase in its total deposit portfolio which he attribute to its location. He also opined that the increase had created pathway for the growth of the Bank. Due to the opportunities in the urban centres for Rural Banks, all four managers said they would recommend that their banks open more urban agencies.

The role of urban agencies in rural development

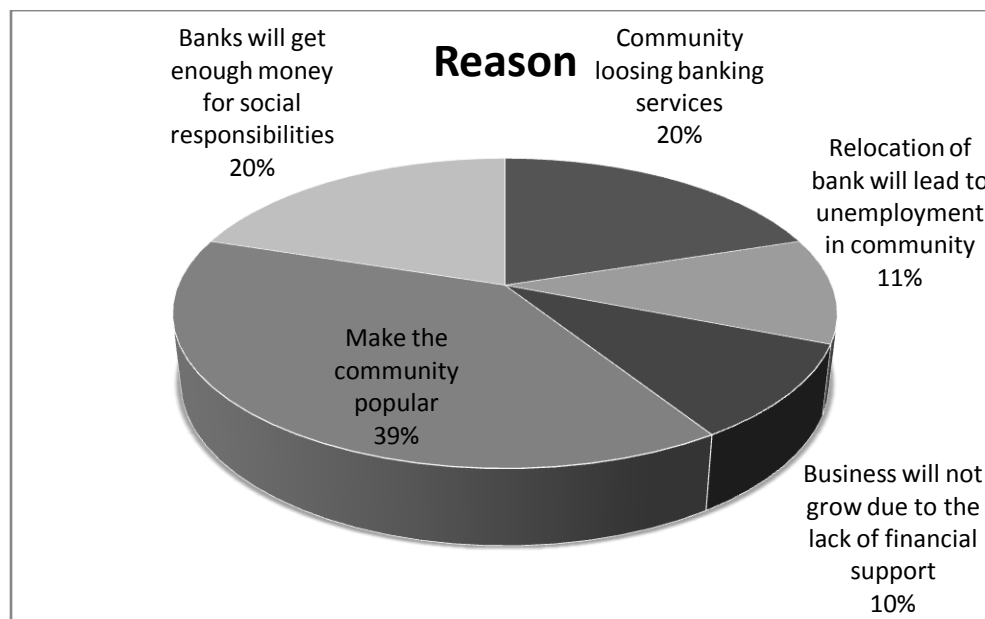
The rural banks are fully owned by individual shareholders who are residents of communities in which they operate. As part of their social responsibility, rural banks support activities in the communities where they operate. Activities generally supported include the provision of infrastructures such as school buildings, community libraries, streets, and award of scholarships

to girls and medical students. These activities help rural banks gain acceptance in their communities as a locally owned financial institution rooted in the community.

From Figure 1, 20% of the respondents said urban branching or agency by rural banks leads to the loss of banking services in rural areas. Contrary to the view of Nair & Fissaha (2010) support this finding. They concluded after studying the operation of rural banks in 100 countries that branch banking does not boost service accessibilities in rural areas. 11% of their respondents opined that urban branching could lead to unemployment in rural communities. 39% of the respondents said urban branching could make their community popular thereby opening up the area to investors. 20% of the respondents believed that having urban agencies could help the banks to make higher profits. This, they claimed would enable the banks carry out its social responsibilities. The implication of their finding is that removing legal restrictions to allow geographical liberation of banking would have mixed implications for rural development.

Comparing the urban agencies to the rural agencies (headquarters) of rural banks in terms of profit generation, all the four managers said the urban agencies made more profit than the rural branches. The urban managers said part of the profits made from the urban centres is used to finance rural projects. They stressed that apart from those projects, the urban agencies in Kumasi also provide banking services for the petty traders in Kumasi who sell farm produce and other merchandise, and the urban poor. On the issue of challenges, all of the four managers of Bosomtwe and Amanano Rural Banks mentioned low recovery of loans granted and the banks' capacity to cope with competition from the other urban financial institutions.

Figure 1: Role of Rural Banks' urban agencies in rural development



Prudential requirements observed by rural banks with urban agencies

Under the Ghana Banking Act, the Bank of Ghana (BoG) has the overall regulatory and supervisory authority in all matters related to banking institutions in Ghana. In 2008 there were 127 rural banks licensed and supervised by the BoG. These banks were expected to observe the following prudential requirements or regulations set by the BoG:

- Minimum paid-up capital of GH¢ 150,000
- Capital adequacy ratio of 10 percent
- Liquidity reserve ratio of 43 percent
- Exposure limits of 25 percent for secured loans, 10 percent for unsecured loans, and 2 percent for loans to members of board of directors

Rural banks are to cater primarily for the low-income and middle income segments of the population. The rural banks are to serve primarily smaller clients because of several factors that include local ownership, regulation, and capacity. Most clients of the banks are teachers, government employees, pensioners, and small and micro entrepreneurs. Some banks, however, do have relatively large clients that obtain part of their financial service needs from rural banks.

Since the main traditional work of rural banks as financial institutions is not only the provision of credit to these clients, but also the mobilization of savings (deposit), it was appropriate to assess the deposit mobilization drive of the banks as presented in Table 3.

The main form of collateral required to access credit from the rural banks is savings account balance, regular salary which is channelled through the bank and the provision of two guarantors who are account holders. Though Essel (2003) mentions two people with good standing, he did not limit it to those holding account with the bank but also to those with good standing in the community. These guarantors become liable in the event of a default in repayment of the loan contracted.

The total deposit of the urban agency of the sampled banks shows a rising trend (Table 3). As at 31st December 2005, total agencies savings of the Bosomtwe and Amanano Rural Banks were Gh¢ 602,000 and Gh¢2,340,000 respectively. These went up to Gh¢ 660,000 and Gh¢2,582,000 at the end of June 2006. Comparing the agencies total deposits to total credit granted, the total deposit was more than the total credit. However, the total deposit of the banks rose minimally throughout the period from Gh¢1,620,000 to Gh¢1,680,000. However, total bank credit (Amanano only) saw a continuous increase from GH¢290,000 at the end of December 2005 to Gh¢ 470,000 at the end of June 2006.

With Regards to transactions at the rural agencies (Headquarters) much information was not provided. Only Bosomtwi Rural Bank at Kuntanasi's transaction information was captured. It

shows a fluctuation in its total credit granted from GH¢48,000 at the end of December 2005 to GH¢96,000 at the end of March 2006 and a decrease to GH¢11,000 at the end of June 2006. However, its total credit showed a continuous decrease from Gh¢ 96,000 in December 2005 to Gh¢14,000 at the end of June 2006 (Table 3).

Table 3: Quarterly deposits and credits for banks and agencies

Transactions	Urban Agency Bosomtwi only			Rural Agency (Bosomtwi only)		
	31 Dec. '05	30 Mar. '06	30 Jun. '06	31 Dec. '05	30 Mar. '06	30 Jun. '06
Total deposit of agency	602,000- 2,034,400	630,000- 2,273,000	660,000 - 2,582,000			
Total credit of agency	95,000 – 685,000	89,000 – 739,000	84,000 – 821,000	48,000	96,000	11,000
Total deposit of bank	200,000 - 1620000	64,000 – 1650000	141,000 - 1680000			
Total credit of bank	290,000	380,000	470,000	96,000	19,000	14,000

Source: Bank of Ghana (2008) * All values are in Ghana Cedis.

Classification of loan portfolio in percentages

Table 4 gives an overview of the classification of loan portfolios of the Bosomtwe Rural Bank. For Amanano Rural Bank, data was not available. As at June 2006, the rural headquarters of Bosomtwi Rural Bank and its urban agency classified 86% and 80% of total loans as current respectively. According to the Bank of Ghana's guide for reporting institutions, current loans are loans whose repayments are on schedule, with such loans attracting only 1% provision for bad debt. On the other hand, the high risk loans (i.e. doubtful and loss) which attract 50% and 100% provisioning were only 4.5% and 4.2% respectively for the rural headquarters branch, and 4% and 6% respectively for the urban agency. This shows that Bosomtwi Rural Bank's loan delivery and recovery systems were efficient (Table 4).

Table 4: Classification of loan portfolio in percentages

Loan classification	Bosomtwe	
	Headquarters (%)	Urban branch (%)
Current	86.3	80
OLEM	3.0	5
Substandard	2.0	5
Doubtful	4.2	4
Loss	4.5	6
Total	100	100

Sectoral distribution of credit

Every economy (rural or urban) is made up of sectors with different economic activities. It was therefore useful to assess the sectoral distribution of credit by the Rural Banks. However information was only available for the Bosomtwe Rural Bank. This was done for the period 31st December 2005 to 30th June 2006 and is presented in Table 5. The choice of period was informed by the availability of data. The information came from the Bosomtwe Rural Bank (Headquarters). Analysis of sectoral allocation of credit revealed that the highest portion of credit as at December 2005 went to salaried workers.

Table 5: Sectoral distribution of credit by Bosomtwe Rural Bank

Sectors	Urban Agency			Rural Agency		
	31 Dec. '05	30 Mar. '06	30 Jun. '06	31 Dec. '05	30 Mar. '06	30 Jun. '06
Agriculture	84,000			1330000	1540000	1050000
Commerce	33,000	-	-	3970000	3760000	3730000
Manufacturing	-	-	-	-	-	-
Cottage Indus.	-	-	-	-	-	-
Construction	1,020,000			1020000	720,000	109 ,000
Mining	-	-	-	-	-	-
Service	-	-	-	380 ,000	480,000	301,000
Transportation	12,000	-	-	240,000	100,000	200,000
Salary workers	270,000	-	-	3060000	3400000	4600000

Source: Bosomtwe Rural Bank (2006), *All values are in GH¢ (Ghana Cedis)

With regards to the urban agencies, salaried workers had the largest amount of credit (270,000 GH¢) as indicated in the credit allocation of the rural agency for the period ending in 31st December, 2005 (Table 5). The same trend is seen with the credit allocation at the rural agency. For the period 31st December, 2005 to 30th June, 2006, the rural agency credit to salary workers increased steadily from 3,060,000 GH¢ in December 2005 to 3,460,000 GH¢ at the end of March, 2006 and to 4,600,000 GH¢ at the end of June, 2006. The agricultural sector that is seen as the strong backbone of the rural economy received credit for the period not more that 1,550,000 GH¢. Apart from the salary workers, the sector that benefits from a substantial amount of the rural agency credit facility is commerce (Table 5).

Summary of Key Findings

The main objective of the study was to investigate the causes of the location of Rural Bank agencies in urban centres and the implications for rural development. The specific objectives

were: to examine the factors that are responsible for the location of rural bank agencies in urban areas; to assess the role or effect of urban branching on rural development; and to find out if prudential requirements are being observed by the rural banks.

The cross-sectional research design was employed. Consequently data was collected from multiple groups of respondents (non-customers, rural customers, urban customers, and management of the rural banks and their urban agencies. Interview schedule (quantitative method) and in-depth interview and observation (qualitative methods) were used to collect data from the field. The non-probability sampling techniques were used to select a total of 130 respondents. This sample size was informed by Cooper and Schindler (1995:223) argument on the selection of an appropriate sample size. Content analysis technique was used to analyse the qualitative data whilst the SPSS version 16 was used to analyse the data collected. Based on the data analysis, the findings of the study include:

- Most of the respondents (rural customers, urban customer and non-customers) were aged between 21-30 years and the males outnumbered the females. The level of education of both urban and rural respondents' category was generally low. The self-employed and those in regular employment showed little variation. As many as about 70% of the total respondents earned an annual income of less than GH¢ 1800.
- 59% respondents said urban branching by rural banks has made their communities popular and this had opened the area for investment. They also claim it enabled the rural banks raise funds to undertake social responsibility projects. However, the remaining 41% opined that locating rural bank agencies in urban centres would have adverse effects on their communities. They cited effects like loss of banking services, unemployment in the rural communities, and slow growth of business.
- According to the managers of both rural banks and their agencies in Kumasi, the banks established urban agencies to mobilise funds to increase their capital base and to provide credit to the urban poor and also to support their activities (social responsibility projects) in the rural catchment.
- 60% of customers of the rural banks are individuals (petty traders, small scale farmers, teachers, etc.) who require a minimum deposit of GH¢ 5.00 to open an account. On the other hand, institutions and organization (such as CBOs, Medium Scale Enterprises, Government agencies, etc.) require GH¢ 10.00 to open an account.
- The rural banks transactions show a fluctuation in total deposit while their bank total credit shows a progressive increase at the urban agencies but declines at the rural agencies.

- The classification of loan portfolio shows that loans classified under current portfolio was 86.3% at the rural agency and 80% at the urban agency with loss being 4% in the rural agency and 6% at the urban agency.

CONCLUSIONS AND RECOMMENDATION

An underlying factor for the location of rural bank agencies in urban centres could be attributed to inertia on the part of rural banks due to the absence of competition in the rural areas. Moreover due to the fact that rural customers are not engaged in lucrative businesses, urban branching helps to improve the banks' capital base. Having urban agencies gives rural banks opportunity to increase customer base which could in turn, lead to the increase in total deposit portfolio creating the pathway for bank growth and expansion. With higher profits through urban branching, the rural banks could complete and/or undertake more rural development projects. The above benefits present a strong case for rural banks to strengthen their urban agencies, and if possible, strive to expand further into other urban centres.

It is important however, to keep in mind that the location of rural banks' agencies in urban centres is bound to have certain negative feedback effects on the development of the rural communities in which they originated. These effects, according to rural respondents include, loss of banking services, unemployment in rural communities, and slow or no growth of rural businesses due to inadequate financial support.

The Bosomtwe and Amanano Rural Banks are operating or branching beyond the required distance recommended by the BoG. The BoG recommends that branching of rural banks should be done within a 40 km radius of the rural community. The headquarters of the two banks are 56 km and 51 km respectively from Kumasi where they both have urban agencies. The following recommendations flows directly from the findings of this paper:

- Customers of Rural Banks who are creditors to the banks should manage their loads proper and ensure that they repay their loans on schedule to sustain the banks financial activities. Sensitisation and more stringent policies will improve the loan repayment situation of rural banks.
- To achieve the objectives for which they were established, rural banks should assist rural communities to develop relevant skills that will benefit both community members and the rural banks. For example, the existing customers could be given skill training relevant to the businesses they are engaged in. This could improve their productivity level so as to raise their incomes. This, if done could lead to increase in savings and improved repayment of loans.

- Rural banks should improve and increase training for their staff to improve upon their service delivery, adopt strategies to attract the numerous potential customers that are not yet part of the banking system and also aim at consolidating their activities in the rural areas to compete with any new entrant in the rural banking system. The rural banks should adopt prudent measures to arrest the worsening situation of loan repayments to sustain their operations of granting loans.
- Bank of Ghana (BoG) should review the policies governing the urban branching by rural banks. There is also the need for more monitoring of these rural banks by the BoG to ensure that banks are observing the laid down prudential requirements. Further research by the epistemic community on the opportunities and challenges in accessing and managing credit in the rural areas is required.

REFERENCES

Addeah, K. (2001). *The Legal and Regulatory Framework of Micro and Rural Finance Institutions in Ghana*. A paper presented at the Rural Financial Services Project Launch Workshop, Agona-Swedru, Ghana

Addeah, K. (1989): *An Introduction to the Law of Rural Banking in Ghana*. Accra, Amantah Publication.

Addo, J. S. (2001). *A Feasibility Study and Business Plan for the Establishment of an ARB Apex Bank*, Revised report for the Association of Rural Banks, Accra.

Amonoo, E. (1977): *A Strategy for an Integrated Rural Development in Ghana*, Rural Development in Ghana. Ghana Universities Press, Accra. Ghana.

Aning, T. E. (2000). *Rural Banks: Banking in Ghana*. Woeli Publishing Services, pp. 176-190, ISBN 978-9964-978-67-9.

ARB Apex Bank (2003-2005). *Quarterly Reports on the Performance of Rural and Community Banks (RCB)*, Accra.

Aseidu-Mante, E. (2002). Financial Markets in Ghana. In *Issues in Central Banking and Bank Distress*, WAIFEM, Lagos.

Association of Rural Banks (1992): *Annual Reports, Unpublished reports on file at the Association of Rural Banks*, Accra.

Bank of Ghana (2011). *Economic and Financial Review*. Monetary Policy Committee Papers, Accra.

Bank of Ghana (2005): *Status of Rural banks with agencies in Regional capital as at December 2005*.

Bank of Ghana (1995): *Restructuring of Rural Banks*, Accra.

Bank of Ghana(1985): *Bank of Ghana Operational Manual of Rural Banks*. Accra: J'piter Printing Press Ltd.

Bencivenga, V. R. & Smith, B. D.(1991). *The Review of Economic Studies*, 58(2), pp. 195-209.

Berger, A. N., Kashyap, A. K., & Scalise, J. M. (1995). The Transformation of the U.S. Banking Industry: What a Long, Strange Trip It's Been. *Brookings Papers on Economic Activity*, No.2, pp. 55-218.

Brook, R.M & J. D. Davila (eds.) (2000): *The Peri-urban Interface: a tale of two cities*. School of Agricultural and Forest Sciences, University of Wales and Development Planning Unit, University College London.

- Clark, C. (1994). *Onions Are My Husband: Survival and Accumulation by West African Market Women*, Chicago. University of Chicago Press.
- Cooper, D. & Schindler, P. (1995). *Business Research Methods*. London, McGraw-Hill.
- Creswell, J. W. (2003). *Qualitative, quantitative, and mixed methods approaches*. 2nd edition. Thousand Oaks, CA, Sage.
- Decrop, A. (1999). Triangulation in qualitative tourism research. *Tourism Management*, 20, pp. 157-161
- DePoy, E. & Gitlin, L. (2005). *Introduction to research: Multiple strategies for health and human services*, 3rd edition. St. Louis, Mosby.
- Drabenstoff, M. & Meeker L. (1997). *Financing rural America: A conference summary*. Federal Reserve Bank of Kansas City, April 1–10.
- Essel, T.T. & Ekumah, E.K. (2003). Information is power: The problem with credit accessibility in rural banks in Ghana. IFLIP Research paper.
- FAO (1994). Rural Poverty in the 1990s. *Rural Development Special*, No.15. Accra, Ghana Universities Press.
- Ghana Statistical Service (GSS) (2000),
- Goldthwaite, R. A. (1995). *Banks, Places and Entrepreneurs in Renaissance Florence*, Aldershot, Hampshire.
- Gonzalez, A. & Meyer, R. (2009). *Microfinance and Small Deposit Mobilization: Fact or Fiction?* Data Brief No. 2. Washington, DC: Microfinance Information Exchange.
- Greenwood, J. & Jovanovic, B. (1990). Financial Development, Growth, and the Distribution of Income. *Journal of Political Economy*, 98 (5): pp. 1076-1107.
- Jappelli, T. & pangano, M. (1994). *The welfare effects of liquidity constraints*. Mimeo.
- Jayarathne, J. & Strahan, P. E. (1996). The Finance-Growth Nexus: Evidence from Bank Branch Deregulation. *Quarterly Journal of Economics*, 111(3), pp. 639-670.
- King, R, Inkoom, D., & Mensah-Abrampah, K. E. (2001), Urban Governance, Partnerships and Poverty: Case Study of Kumasi. (Working Paper No. 23), Birmingham, International Development Department, School of Public Policy, University of Birmingham
- King, R. & Levine, R. (1993). Finance and Growth: Schumpeter might be Right. *Quarterly Journal of Economics*, CVIII, no. 3, pp. 717-738.
- King, S.R. (1999), "The Role of Urban Market Women in Local Development Processes and its Implication for Policy: A Case Study of Kumasi Central Market, Ghana". Ph.D. Dissertation submitted to University of Sussex, Brighton, U.K.
- Kudiabor, C.D.K. (1974): *Policy Objectives and Strategies for Integrated Rural Development in Ghana*, in Rural Development in Ghana. Ghana Universities Press, Accra, Ghana, 26-32.
- Kumekpor, T. K. B. (2002). *Research methods and techniques of social research*. Accra, SonLife Press & Service, pp. 137-138
- Mann, M. (2003). The Autonomous Power of the State: Its Origins, Mechanisms and Results. In N. Brenner, B. Jessop, M. Jones & G. Macleod (eds). *State/Space: A Reader*. Oxford, Blackwell Publishing. Pp. 53 – 64.
- Mikkelsen, B. (1995). *Methods for Development Work and Research: A Guide for Practitioners*, New Delhi, Sage.
- Nair, A. & Fissaha, A. (2010). *Rural Banking: The Case of Rural and Community Banks in Ghana*. World Bank Agriculture and Rural Development Discussion Paper No. 48. Available at <http://dx.doi.org/10.2139/ssrn.2349927>, [Accessed 2nd August 2013].
- Neuman, W.L. (2003). *Social Research Methods: Qualitative Approaches*. 5th edition, Massachusetts, Allyn and Bacon.

Newlyn, W. T. & Rowan, D. C. (1954). *Money and Banking in British Colonial Africa: A Study of the Monetary and Banking Systems of Eight British African Territories*. Oxford, Oxford University Press.

Opoku-Afriyie, Y. (1974): *Regional Development Authority and Rural Development*. *Greenhill Journal of Administration* 1 (1), 27-36.

Olsen, C. & St. George, D. M. M. (2004). *Cross-sectional study design and data analysis*. http://www.collegeboard.com/prod_downloads/yes/4297_module_05.pdf accessed July 2010]

Patton, M. Q. (1990). *Qualitative evaluation and research methods* (2nd ed.). Newbury Park, CA: Sage Publications.

Sarantakos, S. (1998). *Social Research*, 2nd edition, Macmillan Publishers, China.

Sinkey, J. C. (1992). *Commercial bank Financial Management*, New York, Macmillan Publishing Company.

Steel, W. F. & Andah, D. O. (2004). Rural and Micro Finance Regulation in Ghana: Implications for Development and Performance of the Industry. *Africa Region Working Paper Series*, No. 49, pp. 1-55.