UNIVERSITY OF CAPE COAST

EFFECTS OF LENDING PRACTICES OF KAKUM RURAL BANK ON THE LIVELIHOODS OF ITS BORROWERS

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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: Martha YaaTwum-Obbin

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: Prof. C. K. Brown

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ABSTRACT

The study aimed at assessing the effects of lending practices of Kakum Rural Bank on its borrowers. Both probability and non-probability sampling techniques were used to select a sample of 256 respondents from four agencies of the bank. The main instruments used to collect data were the interview schedule and the questionnaire. Descriptive statistics and SPSS software were used to analyse the data. The results were presented in charts and frequency tables.

The results disclosed that: it was difficult for credit recipients to raise a group that was jointly liable and credit worthy to serve as social collateral; recruitment of additional labour was difficult; the bank's lending operations were generally perceived as satisfactory; there was an increase in recipients' financial status, production and output levels; recipients were able to contribute towards social activities in their communities and provide household needs promptly.

It is recommended that the bankshoulddisbursemore credit on time, whenthe assessment of clients' project viability and credit repayment records is good. Clients should use the credit judiciously and follow the bank's instructions in order to enhance their livelihoods and promote additional labour recruitment.

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Finally, I acknowledge the debt of gratitude that I shall forever owe the selected bank managers and their credit clients in the communities in which the research was carried out.

DEDICATION

To my family and to the memory of my late Mum, affectionately called MaameAdomah.

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ADB	Asian Development Bank
BRAC	Bangladesh Rural Advancement Committee
BRI	Bank Rakyat Indonesia
CGAP	Consultative Group to Assist the Poor
CR	Credit Recipients
DFID	Department for International Development
DMC	Developing Member Country
FAO	Food and Agriculture Organisation
GCB	Ghana Commercial Bank
GIPC	Ghana Investment Promotion Centre
IFPRI	International Food Policy Research Institute.
IMF	International Monetary Fund
IRDA	Integrated Rural Development Approach
KRB	Kakum Rural Bank
LDC	Less Developed Country
NGOs	Non-Governmental Organisations
NIB	National Investment Bank
PHC	Public Health Care
PNDC	Provisional National Defence Council
RCBs	Rural and Community Banks
ROSCA	Rotating Savings and Credit Association
SSIs	Small-Scale Industries
TMT	Transcontinental Money Transfer

CHAPTER ONE

INTRODUCTION

Background to the study

Many African countries experienced economic crisis in the 1970s and are currently restructuring their economies under the tutelage of the World Bank and the International Monetary Fund (IMF). The restructuring process has had pervasive effects on the livelihood strategies of many people as their established means of income generation have been disrupted. Many people, responding to the changes, have become involved in multiple economic activities that combine salaried and non-salaried jobs (Roenen, 1997). Although such practices have a long history in African countries (Morna, 1989), the neo-liberal reforms have made this strategy imperative for people of diverse socio-economic backgrounds (Chew, 1990). The changes in livelihood strategies, including those earning fixed income, have eluded both academicians and policymakers who have interest in the rural poor to focus on their desperate attempts to survive through the informal sector. These stakeholders attest to the fact that credit plays a major role in the survival processes of various poor households.

In Ghana both pre and post-independence governments have realised that the greater proportion of the population live in the rural areas. The greater proportion of wealth and productive resources of the nation are also generated in these areas. According to the Food and Agriculture Organisation (FAO, 2004), Ghana's rural population constitutes almost 62 per cent of the entire population and they are predominantly subsistent farmers and small-scale entrepreneurs, made up of wood carvers, fish-mongers, kente cloth weavers, food processors, iron mongers and many others.

The traditional subsistence agriculture is notable for its low sophisticated technology and low level of productivity. Paradoxically, greater proportion of the economically active population is concentrated in this sector. This large rural population depends on the small urban market for the disposal of its produce. Besides, migration of highly skilled personnel from rural to urban areas has been the major feature of the domestic economic scene. The urban sector then extracts resources cheaply from this sector for its development. In effect, the inability of the rural people to control their economies and develop is the source of their dependence on the urban population and a symptom of their relative underdevelopment.

In recognition of the above, stakeholders, such as governments, non-governmental organisations (NGOs), donors and others have initiated several special credit programmes to provide support for the rural poor in their production activities. Such programmes are tailored to suit the circumstances of the rural poor. These credit programmes and institutions usually use demand-driven and need-oriented strategies to attract would be beneficiaries. Examples of such programmes and institutions in Ghana are the National Board for Small-Scale Industries (NBSSI), the Revolving Loan Fund Scheme, theProgramme of Action to Mitigate the Social Cost of Adjustment (PAMSCAD), the Ghana Regional Appropriate Technology Industrial Service (GRATIS) and the Credit Line for Small-Scale Industries. Some of these schemes are now defunct due to the absence of structures to ensure repayment and the likelihood of the credit recipients diverting the money for purposes other than what the money was given for.

Credit and savings facilities can help poor rural households manage and often augment their otherwise inadequate resources and acquire adequate food and other basic necessities for their families (IFPRI, 1998). Credit facilities enable them to tap financial resources beyond their own, and take advantage of potentially profitable investment opportunities (UNDP, 2005a). Elaian (1996) and Ryan (1993), cited in Mensah (2002), argue that small-scale industries (SSIs) create more additional employment per unit of investment than large industries because SSIs tend to apply more labour-intensive technology. This implies that a credit facility enhances rural poor people's finances and creates job opportunities for the unemployed.

A study by the International Fund for Agricultural Development (IFAD) in 2002 confirmed that complicated loan procedures and paperwork, combined with lack of accounting experiences, limit poor people's access to the formal sources of credit. Also, other reports of IFAD cite the fact that commercial lenders in rural areas prefer to deal mainly with large-scale farmers (UNDP, 2005b).

SSIs and commerce in Ghana represent an important sector in the economy and form part of what is commonly known as the informal sector(Mayoux, 2002).They have been identified as a possible solution to unemployment, as large-scale industries have been unable to generate enough jobs to meet the increasing labour supply (Aboagye and Yankson, 1992). According to Boon (2000), small and medium-sized entrepreneurs in Ghana, especially women, have very little access to bank credit. This is mainly due to the banks' bureaucratic methods, and their high interest rates which are between 23-30 percent per annum. Also, credit guarantee companies, established purposely for guaranteeing bank loans for rural poor people, are almost non-existent in Ghana (Boon, 2000).

Although SSIs are important in Ghana, promotional institutions have difficulties in dealing with them. This is because of the following reasons: the level of illiteracy; inadequate logistics and skilled staff to reach the people; inadequate loanable funds to meet the financial needs of the firms; poor quality of some SSIs' products; and the failure of some firms to heed to advice and keep records (Mensah, 2002).

Statement of the problem

Getting credit can be the first step out of poverty, but generally, small entrepreneurs in developing countries, especially the rural poor, find it difficult to obtain loans (Dielman, 2000). As a result of this deficiency, special credit programmes such as the provision of financial and technical assistance to innovative programmes, and strategies that promote human rights, political participation, and economic security, have been designed to rectify these anomalies. It has, however, become apparent that some of the programmes providing special credit and assistance to the rural poor have not had much success in strengthening their economic independence (Freedom From Hunger, 1995).

Boon (2000) opines that attempts at poverty reduction and the provision of rural credit for rural development in Ghana have always been a problem. This is due to the failure of the approaches adopted by some governments and NGOs as well as the inability of the rural communities to access and use credit from both the commercial and rural banks. Mayoux (2002) buttresses these points by saying that small and medium-sized enterprises in Ghana have very little access to bank credit. This is because commercial lenders in rural areas prefer to deal mainly with large-scale farmers.

FAO, (2004) espouse that in Ghana, the rural poor are basically subsistence farmers and small scale entrepreneurs operating on a very low technology and scale, leading to low productivity. Hence, their livelihoods outcomes do not commensurate with their investment efforts, resulting to high migration of the economically active population to the urban centers for upgrading their economic status.

A recent study conducted by KRB, among some credit recipients at Elmina, showed that the credit and education services of the Bank have improved the recipients' socio-economic status. Some of the variables used in the study were: loan repayment rate, scale of production, liability, profit margin and children's educational status. Ruralcredit is one of KRB's lending programmestargeting fishmongers, farmers, artisans, small and medium scale entrepreneurs (Kakum Rural Bank, 2005).

The researcher therefore sought to investigate into the effects of the bank's credit on the recipients' livelihoods, living conditions, general welfareand its trickle effects onrecipients'households, using variables such as health, income, nutrition, wealth and assets.

Objectives of the study

The general objective of the study was to assess the effects of lending practices of Kakum Rural Bank on its borrowers.

The specific objectives were to:

1. Identify the problems credit recipients encounter in credit acquisitionwith the bank;
2. Determine the benefits credit recipients and their households have obtained from the credit;
3. Assess the recipients' perception of the bank's lending practices;
4. Recipients to suggest mechanisms that the bank should put in place to improve its lending practices and facilitate the clients' access and use to credit.

Research questions

The study sought to find answers to the following questions:

1. What problems do credit recipients encounter in the credit acquisition process?
2. How has the credit benefited recipients and their households?
3. How do recipients perceive the bank's lending operations?
4. What mechanisms can be suggested to improve lending practices of the bank and facilitate client's access and use to credit.

Scope of the study

The study covered credit recipients and managers of the Kakum Rural Bank (KRB). It was designed to get a true picture of the credit recipients' natural, physical and socio-economic functions as well as their conditions before and after the acquisition of the credit. The study was, furthermore, limited to the effects of the lending operations of the Kakum Rural Bank on its credit recipients.

Significance of the study

The researcher hopes that this study would bring out some clear facts about the effects of Kakum Rural Bank's credit on the natural, physical and socio-economic lives of its recipients. The researcher also anticipates that the findings would help the Bank of Ghana to formulate meaningful financial policies and programmes to enhance microfinance activities in the country.

The study might also be of reasonable use to NGOs, policy makers, donors, and all stakeholders in rural development. Finally, the study would add to the existing knowledge and form a base for a more comprehensive research on the effects of the lending operations of the Kakum Rural Bank on its credit recipients.

Operational definitions

Livelihood: means of supporting one's existence, either financially or vocationally.

Household: A group of individuals who live under the same roof and regularly share meals and expenses together.

Rural Poor: Workers in the informal sector in rural areas whose incomes are below what is needed for subsistence according to the culture of that subsistence community.

Rural Credit: A temporary transfer of money to the rural poor from aninstitution, or an individual at an agreed time with an agreed interestcharge or no interest over a specific period of time and for a purpose.

Economically Active People: The age bracket of 20-49 among the rural poor.

Assets: Possessions, property, resources, wherewithal, wealth, money,material goods, worldly goods, belongings, effects (formal), chattels,and estate.

Wealth: Material gains recipients have obtained from the credit.

Non-Salaried Credit Recipients: Credit recipients who solely depend on their livelihoods.

Salaried Credit Recipients: Credit recipients who collect their salaries from thebank and do other businesses in addition to their salaried-occupation.

"Susu": Refers to the daily, weekly and monthly savings made to the bank by its clients either, personally or through the bank's specially trained mobile officials.

Organisationof the Thesis

The study is organised into five chapters. The first chapter have just been read. Chapter Two reviews the empirical and other literature related to the study. The areas covered are: the concept of livelihood, the concept of development, the concept of rural development, attempts at rural development in Ghana, the concept of microfinance, rural credit in Ghana, rural banking in Ghana, the APEX Bank, the Kakum Rural Bank and the conceptual framework.

Chapter Three looks at the methodology of the study. It covers the research design, the study area, sampling procedures, sources of data, instrumentation, the fieldwork, data processing and analysis.

The fourth chapter focuses on the results and discussion of the findings. Finally, chapter five presents the summary, conclusions and recommendations of the study.

CHAPTER TWO

REVIEW OF LITERATURE

Introduction

This chapter reviews the literature related to the topic. The literature review covers: the concept of livelihood, the concept of development, the concept of rural development, attempts at rural development in Ghana, micro finance institutions, rural credit in Ghana, rural banking in Ghana, the APEX Bank, the Kakum Rural Bank, and the conceptual framework.

The concept of livelihood

Ellis (1999) has defined livelihood as the assets, activities, and access determining the living gained by individuals or households. Naldoza (2003), cites a definition of livelihood by the Blunt Land Commissions' Advisory Panel on Food, Security, Agriculture, Forestry and Environment as "adequate stocks and flows of food and cash to meet basic needs".

The Philippines National Livelihood Programme, as quoted in Naldoza

(2003, P. 23) considers livelihood as “all those schemes which aim to create sustainable employment opportunities through the provision of various services that promote the establishment of income-generating activities for poverty or marginal groups”. This implies that livelihood and poverty are related concepts. Livelihoods are some of the safety nets for alleviating poverty.

Wallman (2000, p. 9) defines livelihood from the social point of view as:

> “not just a matter of finding or making shelter, transacting money, and preparing food to put on the table or exchange in the market place. It is equally a matter of the ownership and circulation of information, the management of relationships, the affirmation of personal significance and group identity; and the interrelation of each of those tasks to the other. All these productive tasks together constitute the work of livelihoods”.

Scoones (1998), cited in Mensah (2000), identifies three broad livelihood strategies. These strategies are: intensification or extensification of existing productive activity; diversification by adopting additional productive activities; and migration to develop productive activity elsewhere. Scoones (1998) has further devised a framework on the five basic types of capital that describes the low and high status in access, use and/or endowment. The five basic types of capital are: natural, physical, financial, human and social assets for livelihood.

Natural capital consists of land, water and biological resources, such as trees, pasture and wildlife. The productivity of these resources may be degraded or improved by human management. Indicators of natural capital assets for livelihood include:

- Access to land, water, grazing;
- Ownership of herds of cattle, trees;
- Productivity (per unit of land, per unit of water, per unit of inputs);
- Soil, water, rangeland; and
- Biodiversity;

Physical capital is that capital created by economic production. It includes: infrastructure such as roads, irrigation works, electricity supply, reticulated water; and producer goods like machinery. Indicators include:

- Access to roads, electricity, and piped water;
- Ownership or access to productive equipment (oxen, tractor, irrigation pump); and
- Housing quality.

Financial capital consists of stocks of money or other savings in liquid form. In this sense, it does not only include financial assets such as pension rights, but also easily-disposed assets like livestock that, in other senses, may be considered as natural capital. The indicators are:

- Income levels and variability of income over time;
- Distribution of income within society;
- Financial savings; and
- Access to credit and debt levels.

The quantity and quality of labour available at the household level constitute human capital. The indicators are:

- Household size
- Education;
- Skills; and
- Health of household members.

Assets, such as rights or claims that are derived from membership of a group, constitute social capital. Social capital includes: the ability to call on relatives and/or friends for help in times of need, support from trade or professional associations (e.g. farmers' associations), and political claims on chiefs or politicians to provide assistance. Indicators include:

- Membership of organisations;
- Support from relatives and/or friends; and
- Accountability.

The framework, devised by Scoones (1998), considers assets as stocks of different types of 'capital' that can be used directly or indirectly to generate livelihood. These assets can give rise to flows of output, possibly becoming depleted as a consequence, or may be accumulated as a surplus to be invested in future productive activities.

Barrett, Reardon and Webb (2001) argue that households and individuals diversify assets, incomes and activities in response to 'push and pull factors'. Responses to push factors include: risk reduction, response to diminishing factor returns in any given use (such as family labour supply in the presence of land constraints driven by population pressure and fragmented land holdings), reaction to crisis or liquidity constraints, and high transaction costs that force peasants to self-provision in several goods and services. Responses to pull factors include: realization of strategic complementarities between activities (such as crop-livestock integration, or milling and hog production), and specialization according to comparative advantage accorded by superior technologies, skills or endowments.

Push and pull factors are synonymous with Davies (1996) survival and choice, denoting necessity and choice. These two categories of explanation postulate risk management and coping strategies as responses. Risk management strategies, or insurance mechanisms, deal with ex ante processes. These ex ante processes are deliberate household strategies used to anticipate failures in individual income streams by maintaining a spread of activities (Ellis, 1999). Coping strategies, on the other hand, are responses to ex post shocks.

The livelihood perspective encourages a broader understanding and examination of factors, institutions and processes that can explain the differing successes with which rural households make a living. This permits a bringing together of more sectored approaches which tend to focus on a single aspect of rural livelihood systems, and so create a more holistic understanding of the options and trade-offs opened to different groups in the face of climate change.

The clarification by Davies (1996) and Ellis (1999), using the concepts of livelihood adaptation and income diversification, is useful in any analysis of rural livelihoods. Livelihood adaptation is deemed as the continuous process of change to livelihoods, often geared towards enhancing existing security and wealth, and reducing vulnerability and poverty (Ellis, 1999). Adaptation can be positive or negative: positive if it is by choice, reversible, and increases security; negative if it is of necessity, irreversible, and fails to increase security. Negative adaptation leads to the adoption of successively more vulnerable livelihood systems over time (Davies, 1996).

Livelihood diversification reflects peasant ingenuity in the face of adversity and opportunities. Diversification is the creation of diversity as an on-going social and economic process, reflecting factors of both pressure and opportunity that cause families to adopt increasingly intricate and diverse livelihood strategies (Davies, 1996).

Examining the livelihood portfolios and the degree of deagrarianisation of the peasantry in three villages in northern Ghana, Yaro (2006) argues that livelihood adaptation is real in the study areas contrary to accounts delineated by deagrarianists. It involves not just a move from farm sector activities to non-farm activities, but it is more of an intensification of efforts on specific crops in the farm sector, and seasonal diversification into other livelihood activities (Orr &Mwale, 2001). In consonance with the literature on livelihood diversification, peasants seek to multiply their income sources by increasing their income-earning activities, mostly during the dry season.

Homogenizing the rural in terms of access to assets and power emphasizes the reality that peasants face different entry barriers to different livelihood activities. Diversification per se may not automatically lead to livelihood security as a few profitable non-farm activities exist for the many peasants affected by economic decadence, population pressure, climatic variability and social marginalization. Secondly, the scale of the investments needed for profitability in most non-farm activities precludes many poor people from engaging in them. Thirdly, the market for service-based non-farm activities is low and dependent on incomes from the farm sector to produce the needed cyclical income distribution activities. These mark the enormous changes going on in the totality of peasant livelihoods, especially in the farm sector from which so many still earn their basic living.

Yaro (2006) was of the view that a totalizing deagrarianisation thesis creates a lop-sided tendency to direct attention to non-agricultural activities, without a thorough consideration of contextual factors accounting for livelihood adaptation. Successful or sustainable diversification that ensures that households benefit financially or asset-wise from adopting new activities is the hope but not the reality of every diversifying rural person from the farm sector to produce the needed cyclical income distribution effects.

The concept of development

The term development is rather amorphous and there are multiplicities of views as to what really constitutes development. Development is often viewed as the process of attaining progress and the material well-being of individuals and nations. As a puzzling concept, it was one of the major areas of interest to classical economists such as Adam Smith, David Ricardo, John Stuart Mills, Karl

Marx and Thomas Malthus. Similarly, there are also varying views with regard to the notions of the development process, how development should be pursued as well as the specific goals and objectives of development.

Rostow (1961) describes stages of economic growth in which the process of development is seen as a series of successive stages through which all countries must pass. Based on these stages of economic growth, a country should grow from simple activities in traditional societies through preconditions for take-off to the take-off stage and then to maturity, and finally to the age of high mass consumption.

Musto (1985) argues that, after three decades of intensive reflection on development policy issues, we know less of what development actually means. As a holistic concept, development embraces almost every aspect of human life in cultural contexts. It evolves from the collective experiences of a society and reflects societal values and preferences. Thus, being a value concept, there have always been difficulties in arriving at a common consensus as to the meaning of development. Pearce (1990) contends that what constitutes development depends on what societal goals are being advocated.

Essentially, the different theories of development are theories of social and economic change with various criteria being used to specify whether a particular change is development or not. The essential central issue, however, running through all the varying notions of development is the perception that development is a process pursued by all societies with the aim of increasing human well-being. In this case, the ultimate purpose of any development policy or process is the enhancement of the quality of life, usually beginning with the satisfaction of the basic human needs.

According to Todaro (1997), development in any country, among other things, aims at three core objectives:

- to increase the availability and widen the distribution of basic life-sustaining goods, such as food, shelter, health and protection;
- to raise levels of living including higher incomes, the provision of jobs, better education and greater attention to cultural and humanistic values, all of which will serve not only to enhance material well-being but alsogenerate greater individual and national self-esteem; and
- to expand the range of economic and social choices available to individuals and nations by freeing them from servitude and dependence not only in relation to other people and nation states but also to the forces of ignorance and human misery, and ensure the welfare of human society by creating wealth, eliminating poverty and promoting world security.

The aims of KRBs lending practices on the livelihoods of its clients buttress the three core national development objectives of Todaro (1997). This is because the rural poor should contribute more and meaningfully to the general well being of their households and society at large after credit acquisition. These achievements come when more credit is given out to clients for effervescent activities that lead toexpansion in the range of economic, vocational, health,social, financial, demographic and human capital choices availablefor national development (Bank of Ghana, 1995).

Goulet (1971) also attempts to distinguish three basic components or core values in this wider meaning of development. He itemizes these components as life-sustenance, self-esteem and freedom. Life-sustenance is concerned with the provision of basic needs, which are very crucial. To him, no country can be regarded as fully developed if it provides its entire people with only such basic needs as housing, clothing, food and minimal education. A major objective of development must be to raise people out of primary poverty and to provide basic needs simultaneously. This basic needs approach to development was largely adopted by the World Bank in the 1970s.

Self-esteem is concerned with the feeling of self-respect and independence. No country can be considered fully developed if it remains in economic and political subjugation to another powerful nation. That is, if the country is subjugated by others during negotiations and does not have the power and influence to conduct relations on equal terms.

Freedom denotes living above the three evils of want, ignorance and squalor so that people are more able to determine their own destiny. According to Goulet (1971), no man is free if he cannot choose, and if he is imprisoned by living on the margin of subsistence with no education and no skills.Goulet (1971) points out that all the three core components are interrelated. Lack of self-esteem and economic imprisonment forms a link in a circular, self-perpetuating chain of poverty that produces a sense of fatalism and acceptance of the established order. This is what Galbraith (2004) calls accommodation to poverty.

The study in question focuses on the provision of a broad range of financial services such as deposit, loans payment, money transfers and insurance to poor and lowincome households and their livelihoods. These services provided by rural banks and especially KRB to their clients, enhance the income earning capacity and improve quality of life of the rural poor in Ghana, particularly those in the central region.

Both classical and neo-classical economic theorists perceive development in terms of growth in the national wealth. They use the gross national product and per capita income as indices of economic growth. These theorists uphold the market as the most efficient means of resource allocation and a veritable vehicle for economic growth and development. They advocate a laissez-faire mechanism and non-intervention by the state in the national economy. Economic growth is, thus, emphasized and almost equated to development. Sustained growth of the economy is seen as the means to meeting the needs of society adequately and satisfactorily.

According to Pearson (1992), economic growth describes a process whereby the volume of production of goods and services continues to increase. Statistically, this is measured by comparing the value of the gross domestic product at constant prices (real GDP) over successive periods of time, usually in relation to the growth in population. Thus, if the real GDP has been rising by five percent a year and the population by three percent a year, then there has been real growth per head of two percent a year.

The severe economic problems now facing many African countries can largely be traced to a general tendency to concentrate on growth to the neglect of genuine development. At least, there is considerable evidence to show that economic growth per se does very little to assuage the vast needs of the poorest groups in most LDCs (Galbraith, 2004 as cited in Goulet, 1971).

According to Pearson (1992), in Ghana, as in most other African countries, this notion of development as economic growth characterized the post-independence development strategy of the country. Significant emphasis was placed on increasing production in agriculture, forestry, mining and, particularly, in industry with a view to accumulating more surpluses which could be re-invested in other sectors. The concept that industrialization, in spite of its heavy reliance on imported technology, expensive capital equipment and raw materials, was the golden road to economic development was too firmly entrenched to be pushed aside by either logic or facts, especially as it chimed in so well with the predictions of African policy makers.

Pearson (1992) further says that the industrialization policies pursued in the immediate post -independence era brought about a major expansion in the size of urban population, especially in the capital cities of most African countries. These cities grew several times faster than the national population. Not only did this greatly increase the volume of investment and recurrent expenditure needed to maintain even a minimum level of social services, but also rendered governments increasingly vulnerable to shifts in urban political opinion. To ensure that political power remained firmly within their grip, most African governments tended to placate the urban population as much as possible. Among other things, the prices of domestic foodstuffs were held down to the detriment of rural and peasant agricultural producers and the cost of imported goods subsidized while maintaining over-valued exchange rates. This constituted a major blow to the rural economy as it seriously reduced the local currency value of the crops they produced for export.

KRB credit programme targets subsistence farmers, fishmongers, small scale entrepreneurs and artisans. If the level of production and services provided by these categories of workers shoot up through industrialization resulting from the bank's credit provision to its clients, itsentrepreneurialskills training, and training of clients in management principles.There could be positive trickle effects on the nation's exports, which would go a long way to promote economic expansion and improve the real GDP of Ghana.

The concept of rural development

A study of rural development has to begin with an understanding of the concept "rural development". Conceptually, Brown (1991) is of the opinion "that rural development has been variously conceived, interpreted and applied and that there are as many approaches to it as there are objectives". Thus, while some writers see rural development as the economic development of the poorest of the rural world (Owusu-Ansah, 1986), others consider improvement in the real income of the rural population as the essence of rural development (Kilmer, 1986). Some also consider the concept to mean the provision of social infrastructure in the rural communities, while to others, like Long (1977), cited by Hardiman and Midgley (1982), rural development refers only to either the improvement or the transformation of agriculture. These conceptions form the basis for the various approaches to rural development.

Rural development, according to the World Bank (1994), is a strategy designed to improve the economic and social life of a specific group of people, the rural poor. It involves extending the benefits of development to the poorest among those who seek a livelihood in rural areas. This definition emphasizes increasing production, raising productivity, increasing employment and mobilizing land, labour and capital that are available. There is also the recognition that poverty and inequality have to be reduced, and that development involves values and issues of quality of life, and that the poor should participate in rural development issues and be involved in decision-making (Lea and Chaudhri, 1985).

The concepts of rural development as defined by the World Bank (1994) strengthens the interest of the study in question, This is because the study assesses the effects of KRBs lending practices on its borrowers by emphasizing on increasing production, raising productivity, increasing employment and mobilizing land, labour and capital that are available for sustainable livelihoods. Lea and Chaudhri (1985),definition for rural development is in line with KRBs aspirations concerning poverty and inequality among the rural poor and the urban rich. Besides, the bank supports the idea of rural poor's participation in rural development issues and their involvement in decision-making.Hence, KRBs lending practices target the rural poor's participation in the gap bridging between the urban rich and the rural poor. The bank has therefore created meeting centers where both bank officials and credit recipients meet to deliberate upon issues of common interest (Kakum Rural Bank, 2005)

Lele (1995) defines rural development as a means of improving the living standards of the mass of low income populations residing in rural areas and making the process of their development self-sustaining. She goes a step further by looking at rural development as a process involving the mobilization and allocation of resources so as to reach a desirable balance over time, between the welfare and productive services available at the subsistence sector. Again, for Lele (1995), the term covers the existence of administrative machinery at all levels to help mobilize financial and human resources for the continued development of the subsistence sector.

Rural development is again defined, in general, to imply a quantitative concept that might be understood as economic growth, and a qualitative concept which has much to do with the idea of well-being which encompasses such various factors as the level of satisfaction of the needs of the population, items of food and nutrition, housing, health, recreation, security and spiritual satisfaction. In this context, Amonoo (1986) and Salah (1995) agree with the broad definition of rural development adopted by the Moshi Conference in 1969 as the outcome of a series of quantitative and qualitative changes occurring among a given rural population and whose converging efforts indicate in time, a rise in standard of living and favourable changes in the way of life of the people concerned. Thus, rural development is here considered as a comprehensive programme of a specific rural setting, and not to be confused with isolated programmes of agricultural extension, mass education, community development and micro finance development or any other term applied to sectoralprogrammes which are carried out in the rural community.

Singh (1986) opines that there are three basic elements of rural development, irrespective of the geographical location, the cultural values and the historical stage of the people. These three elements are: self-sustenance, self-respect and freedom. Self-sustenance refers to the provision of life-sustaining needs for everybody in the society. Independent of the political ideology of the country, the provision of these needs is the function of every economy if that economy is to be effective. This defines the necessary conditions for improvement in economic growth, which improves the quality of life, leading to development. Singh (1986) further argues that self-respect should become a value for a nation that is to bring about development. The reason is that every individual generally wants to be accorded some amount of respect. Freedom refers to political and ideological freedoms as well as freedom from servitude.

Consensus in global concern with rural poverty and wealth creation has led to the redefinition of rural development to mean the improvement in the quality of life of the rural people. This improvement, according to Brown (1986), is attainable through productive and remunerative employment, better access to resources and equitable distribution of income and wealth. These considerations essentially constitute an integral part of all the strategies and approaches to rural development practices.

We notice from the views stipulated above that there is no single definition for rural development. Hence, we have to assign certain indicators to help us understand the meaning of rural development. These are:

- Local participation of the rural poor in rural development strategies;
- Socio-economic improvement and growth for the majority of the rural poor;
- Agricultural transformation among the rural poor; and
- Real income development for the rural poor.

Looking at the indicators assigned to help us understand the meaning of rural development. One cannot objectively deny the contributions and lessons microfinance operations in our part of the world had made towards rural development, especially in Ghana:

Microfinanceclients are more concerned about access to services that are compatible with their requirements than about the cost of the services (ADB, 2000).That is why KRB gives intangible contributions such as enabling market environment, management principles and entrepreneurial skill training to clients to enable them develop their livelihoods as well as the rural communities they find themselves.

Financial system development approach is one of microfinance practices, of which KRB is no exception, emphasizing on enabling policy environment, financial infrastructure, and the development of financialintermediaries that arecommitted to achieving financial viability and sustainability of clients livelihoods within a reasonable period of time.

Building the capacity of institutions with a commitment to reach the pooris vital in rural development (Brown, 1986), KRB satisfies this aspect of rural development objective through its credit provision to the rural poor.

Rural development and microfinance have an ultimate aim of targeting the poor who are disadvantaged,Socio-economic mobilization is necessary tointroduce them to a formal or semi-formal, market-oriented institutionalenvironment. Therefore all the supporting programmesdesigned for the rural poor byKRB sustains the approaches and objectives of rural development in Ghana.

Attempts at rural development in Ghana

It is well documented that rural development, both as a concept and a series of experiments in alternative methods by which production, welfare and exchange in rural activities are organised, has a long history, and it is manifested in many countries (Lele, 1995). It has recently become popular because of the failure of industrialization policies and programmes pursued by most developing countries in the 1950s and 1960s. These modernization programmesfavoured the adoption of capital-intensive, medium and large-scale manufacturing industries which did not always favour employment generation and a more equitable distribution of income. The result has been the wide gap between the rich and the poor and especially between the urban and rural areas (Sets'abi, 1998).

Thomi and Yankson (1999) and Brown (1986) have discussed the strategies for rural development that have been adopted in Ghana. Ghana's efforts toward rural development date as far back as 1943 when the idea to establish the Department of Social Welfare and Community Development was mooted. However, concrete efforts at rural development in Ghana started in 1946 with the formal creation of the Department of Social Welfare and Housing. As a basis for social work, this department concentrated on the construction of community centers, social clubs and youth centers. After this, the main emphasis was on mass education and community development. The following approaches for rural development have also been adopted in Ghana by succeeding governments:

1. The social amenity approach;
2. The increased agricultural production approach;
3. The accelerated project implementation approach;
4. Growth point or centre periphery approach;
5. Integrated rural development strategy;
6. The decentralization approach; and
7. The participatory development approach.
8. Rural credit in Ghana

For the purpose of this study, the researcher would want to submerge into rural credit in Ghana from among the otherapproaches of rural development.

Rural credit in Ghana

Nissankeand Aryeetey, (1995) assert that the rural credit system refers to both savings and lending processes. Savings include both liquidated and non-liquidated resources. Liquidated resources are the fiscal cash, cheques and bonds while non-liquidated resources are speculative assets such as businesses and other properties. Credit for rural development in Ghana is provided from two sources: non-institutional and institutional sources. The non-institutional credit sources are provided by group lenders, money-lenders, warehouse receipt creditors, relatives, friends, traders and commission agents as well as co-operatives, consumers, distributors of agricultural inputs and processed products. The sources of credit for small-scale farmers are mainly non-institutional; that is, by local money lenders. Non institutional credit is costly and is incapable for expansion. The credit institutes the major source of credit to agriculture. Among these sources are the following discussed below:

Group lending is a system of loans that has become increasingly popular among many lenders across the nation with the aim of improving the access of credit to the rural people. Padmanabhan (1989) in his book Rural credit, defines group credit as non individual credit in which credit is given to groups of farmers who are joined together to form an association such as a cooperative, credit union, user's society and so forth where such organisations play a role in securing, management, use, and repayment of such credit. Thus, the associations act as an intermediary between the credit-granting authority and the ultimate user.

Padmanabhan, (1989) noted that whether the groups are formed spontaneously, through the act catalytic work of a trained animator, or a motivated bank worker in the field, or even through interaction with other groups, they must reflect the members own motivation and aspirations. The members must perceive the group as an instrument for furthering their own economic and social interest and enhancing their human dignity. Obtaining credit is only one phase in this process. Some major witness of group lending has come to the surface of late. Group leaders have been found taking undue advantage of the facilities available to members. Groups consisting of extending family members have failed to meet repayment obligations. In Ghana, lenders could not enforce joint liability. When several members of the group failed to repay the loan, the lender has to absorb the loss. The group defaulters are then dismissed from the group and a new loan has to be granted to reconstituted group. Among groups formed within extended families, it becomes difficult to impose on members who are relations as well. In some cases, members who are prompt in their repayment find it burdensome to own the debts of the defaulting fellow members, and consequently opt out of the group. One of the potential advantages of the group lending is the opportunity for reducing the administrative cost.

Money lenders have been known to be significant commercial lenders, often lending from surplus income earned from farming or trading. Money lenders are made up of estates owners, traders, grain millers, small-holder farmers, employers, relations and friends, credits unions and cooperatives (Aryeetey, 1994). Moneylenders will continue to remain a valued source of credits in rural areas for a longer period of time because of their easy approachability, informality, and flexibility. The business of these regular money lenders is often based on the money lender's intimate knowledge of his clientele, which has relatively few links with other financiers whether formal or informal. Credit from this source is expensive and, therefore, often serves as a last resort. Interest rates in this market often tend to be high, especially when estimated on an annual basis. The moneylender does incur cost in the form of information and transaction costs; the risk is associated with lending to individuals who are otherwise not creditworthy, and the maintenance of idle cash balances by the moneylender for immediate supply of credit. These factors may explain a substantial part of the high annualized interest rates that are sometimes observed in these markets. Long-standing clients who have established credit worthiness are charged a lower interest rate than those who are first entering the market.

Warehouse receipt credits are a further category of informal providers of credit to wholesalers, who grant credit in goods to market women. Even though no interest is charged explicitly, the goods have to be repaid at prices per unit that are about 15 percent above the purchase market price, which is a considerable fee. While credit in goods from wholesalers is the most important type of informal after a total loss, this credit relationship reinforces the polarization between market women and wholesalers. According to Coulter and Onumah (2002), warehouse receipts are documents written by warehouse operators as proof that specified commodities of stated amounts and quality have been stored at particular locations by name by depositors. The depositor may be a producer, farmer, group trader, exporter, processor, or indeed any individual or corporation. The commodity remains the property of the depositor until sold at market, while the warehouse operator can extend credit in the form of cash to people who deposit commodities in his or her warehouse. In this respect lenders can mitigate credit risk by using the stored commodity as collateral. This form of collateral is more readily available to rural producers and may be easier to liquidate than the type of asset traditionally accepted by banks as collateral. The main limitation of this system is that it tends to exclude small holders and small-scale traders.

Some NGOs have tried to establish inventory credit systems for small-holder groups, for example the "Techoserve" system pioneered in Ghana. Although it benefited participating farmers, the system has not proved economically sustainable due to the small volumes of grain involved (Kwadjo, 2000). As observed by Coulter and Onumah (2002), there are several challenges to overcome when promoting a regulated warehouse receipt system in Africa. These include a lack of supportive legal framework and opposition from business interests who are keen to preserve existing collateral management systems. Credits from these sources are, however, insufficient to be relied upon solely for rural development.

The formal banking sector does not satisfy the growing demand for credit, and many borrowers turn to informal loan sources such as relatives and privatemoneylenders to meet their production and consumption needs. It has been estimated that only five percent of the farmers in Africa and about 15 percent in Asia and Latin America have access to formal credit; and on an average across developing countries five percent of the borrowers have received 80 percent of the credit (Bali Swain, 2001). The problem of rural credit, which includes supplying credit for rural communities for economic growth, is re-emerging on the development agenda as a pressing issue. Lack of credit in Ghana has been identified as one of the major constraints limiting agricultural growth. Especially small-scale farmers, whose contribution to agriculture production is crucial, are not benefiting from existing credit sources. Credit facilities, upon which the development of their farms often depends, are very limited. In this respect, Ghana is no exception. The credit capacity of most of the small farmers in Ghana is limited. There is growing evidence that financial needs of the rural communities; especially communities with dependency on agriculture remain unmet and developing an efficient, sustainable and accessible rural credit system continues to present a significant challenge.

In Ghana, institutional credit can play an important role in improving agricultural production. Beneficiaries of institutional credit are mainly large scale farmers who can provide collateral in the form of land and houses. Unfortunately, such farers constitute only 20percent of the farming population. Small-scale farmers face the problem in adopting improve inputs and modern technologies because of limited credit facilities the result has undermined their ability to increase output and income.

Evidence has shown, however, the reluctance on the part of banks to lend to the agricultural sector (Essel, 1996). For the most part, the banks prefer to select customers who have a regular nonfarm income than the small-scale farmer whose income or produce depends on the vagaries of the weather. More often than not, the loans that are offered by the banks to the rural sectors do not go to the typical small famers, but to employers to farms as second sources of income. The main reason often given by banks for not lending to agriculture is the high default risk, uncertainty and risk inherent in agricultural production and marketing (ISSER, 1994).

Rural credit started long time ago in Ghana in the informal way. Informal credit in Ghana is define to embrace all financial transactions that take place beyond the functional scope of banking and other financial sector regulations. In this respect of informal credit in Ghana, we first describe briefly in this section some of the informal units operating there, and then proceed to analyse their structural and operational characteristics (Nissanke&Aryeetey, 2006).

Informal credit transactions can be grouped into noncommercial transactions, such as transactions between relatives and friends or small-scale group arrangements, and commercially based ones, conducted by savings collectors, estate owners, landlords, traders, and moneylenders. Informal financial units have been formed to meet the demand of a diverse customer base (Nissanke&Aryeetey, 2006). There has been substantial increase in demand for informal credit and savings in Ghana. This is due to an increase in unsatisfied demand for formal sector credit, which has been continuously restrained as part of stabilization efforts.

Ghana has a mature informal credit system in the rural areas that satisfies the urgent demand of the people for production and consumption. The informal credit system also helps to meet the pressing social commitment, such as paying the cost of the sick and funeral expenses (Ekumah&Essel, 2001). Sources of the informal credit are relatives, friends, traders and/or private money lenders and landlords. Relatives refer to close family relations, and close friends; relatives do not normally charge interest on credit transactions. But depending on their claims to the sources of the money being lent, some may do so. In any case, interest charged by relatives is however, exceptional to the credit rule. With regard to the landlord, Sarris and Shams (1991) argue that a loan can attract interest or have a transaction cost in the form of labor service to the landlord. The interest rates charged by moneylenders are between 50 percent and 100 percent base of the period that was contracted with the borrower (Ekumah&Essel, 2001). One of the characteristics of informal credit in Ghana is that it does not attach different risk to borrowers within their usual clientele. Borrowers are preselected by membership requirement especially in group-based arrangements. Traders on the other hand only lend to people with whom they have a business relationship. According to Nissanke and Aryeetey (2006), moneylenders are the only informal lenders that do not lend to distinct clientele. A study by Udry (1990, 1994) posits that screening in the formal sector depends extensively on the personal knowledge of borrowers. He explains that the development of personal ties and proximity is mechanism for countering the effects of adverse selection and moral hazards.

In Ghana, moneylenders do not require a business relationship with applicants for loan approval. Give the lackof competitive pressure; moneylenders respond to possible risk variations by charging different interest rates to different borrowers. Nissanke and Aryeetey (2006) explained that moneylenders and other informal groups do not monitor loans because of free information circulation in their operating circles. Udry (1994) state that non-payment of loan in the informal sector is relatively low.Nissanke and Aryeetey (2006) observed in their studies that 70 to 80 percent of the sample used reported no delinquency in terms of borrowing. They also observed that the largest proportion of defaulter's borrowers was found in rural credit unions and cooperatives. They pointed that non-payment of informal credit is generally attributed to borrower's cash-flow problems, while many urban lenders think it is a mixture of cash-flow problems and low commitment on the part of borrowers to settle debts. While repayment trends in the semiformal and informal sectors are much better, it is seldom the result of more "aggressive" contract enforcement procedures. Nissanke and Aryeetey stressed that contract-enforcement mechanisms differ greatly based on lender - borrowers' relationship. Among group-based arrangements and in rural areas, mechanisms such as peer pressure or a potential use of social stigmatization are effective. Udry (1990) stated an instance where a lender's plea with community authoritiesconcerning a perceived delinquency led to a prompt repayment by the delinquent. Ironically, when the number of delinquents in a rural cooperative arrangement is large, the sanction of stigmatizing an

Rural credit has been used in Ghana to enable the poor to face weather shocks without selling the productive assets the poor need for protection against future shocks (FAO, 1994). However, there is anecdotal evidence that many beneficiaries of rural bank credits are salaried workers, whose likelihood of loan repayment is believed to be better than that of the small-scale rural producers.

There are rumours that loan recipients use the credit for purposes other than those for which the loans are intended. It is, therefore, necessary for analysis to be made on the effectiveness of the operations of Ghanaian rural banks and their credits. The Bank of Ghana (2005) perceives that rural development in Ghana can proceed at a smooth pace, when institutional credits are given paramount importance.

The institutional sources of rural credit in Ghana are: the Agricultural Development Bank (ADB); National Investment Bank (NIB); the Ghana Commercial Bank (GCB); and the Rural Banks. Though institutional sources of credit demand collaterals, high interest and other forms of securities, the credit given is not substantial as compared to the non-institutional ones. Even that, until recently, it was only a particular rural class, the rich farmers and businessmen, who had access to them. Meanwhile, credit availability to all is the surest way to include the rural poor directly in rural development and to ensure a fairer distribution of the nation's credit resources (Bank of Ghana, 2005).

In brief, it may be said that although institutional credit organisations have continued to support rural development efforts, most rural dwellers have not had access to this credit because most financial institutions have failed to facilitate investments with adequate financing (World Bank, 1995). Hence, the availability of finance for private investment in Ghana continues to suffer from a mismatch between the short-term nature of most deposits and the longer-term requirements for increased investment in productive capacity. The consequence is a "credit gap" facing micro and small-scale enterprises in particular

While institutional sources had not responded as expected to reforms, the more positive responses of the non-institutional sources had not led to significant increases in the flow of credit to growing small borrowers (Nissanke&Aryeetey, 1995). For this reason, their financial products often do not meet the requirements of many small businesses, leaving such finance to support mainly consumption and working capital for rather small owner-operated businesses with no expansion prospects. In Ghana, while both institutional and non-institutional sources have not led to significant financial deepening, there have been developments in sources known as the semi-formal or semi-institutional non-banking sector (including NGOs) due partly to economic recovery and also to the more open environment. These developments embrace institutions that provide financial services to a wide variety of clients. There is a growing view that financial development strategies for developing countries should be demand-driven (Adamsi et al., 1984) and sufficiently flexible to accommodate innovations that encourage “surplus” units to make resources available to “deficit” units (Nissanke&Aryeetey, 1995). To carry out this objective, there is the need for national policy framework, with appropriate levels of incentives and regulations. The Bank of Ghana has responded by streamlining rural bank lending operations to ensure that credit actually benefits small-scale rural producers and rural communities.

An operational manual for all rural banks has been developed. Applications are accepted from individuals, groups, associations and companies. Recommendations to reject or accept an application are not based on vague suspicions. The bank requires that there should be mutual trust and respect among members. In the case of a group loan approval, members are held jointly and mutually liable. The bank hopes that the bulk of rural credit allocation would go to agriculture, the priority sector in rural bank lending. To assist small farmers, the Bank of Ghana has capped interest on agricultural loans at 35 percent, whereas interest for other purposes was as high as 49 percent (Bank of Ghana, 1995). These measures have been put in place by the bank because access to rural credit increases the participation of rural people in development activities.

A sample survey of unit desa borrowers showed that rural credit has had a major impact on borrowers'livelihoods and families. The study also showed that rural credits have had a positive impact on specific socio-economic variables such as children's schooling, women's empowerment and household nutrition (BRI,1990).

After an extensive consultation involving ADBS DMCS, other funding agencies, and external experts in rural credit came a proposalfor a development strategy for institutional credit covering the services provided by both formal and semi-formal sources. The paper addresses the following major concerns:

1. What should be the strategic direction in ADBs assistance to its DMCs to expand the frontier of institutional credit to include the poor who are currently excluded and those who are likely to be excluded in the future?
2. How should ADB support improvement of the quality of rural credit services in the Regions?

3. How can ADB help expand rural credit services to achieve the maximum development impact, including a reduction in the incidence of poverty?

Thus, the strategy defines ADB's role in the development of rural credit in the regions and covers qualitative and quantitative dimensions. A number of observations can be drawn from the review. Technical assistance has been an important element in ADBs credit activities. Policy dialogue and sector work have received increasing attention.Poverty reduction requires continuous accessto a broad range of financial services, not one-time access to credit. Poor infrastructure, sluggish agricultural growth, and limited market imposed serious limitations on the potential for broad-based growth in rural areas and access to credit could contribute little to permanent improvement in income for clients of rural credit projects under such conditions (ADB, 2000).

Acomprehensive assessment of rural credit in Ghana must include an evaluation of its poverty –outreach record and how this record reconciles with its mission and programme objective. An overall conclusion regarding the poverty outreach of a rural credit must explicitly account for area and national-level consideration.

Problems facing rural credit

Several credit programmes face high costs in comparison with their disbursement rate, making it impossible for activities to be carried out on a commercial basis. It should be emphasized however, that many programs with a credit component include a range of activities (Jaramillo-Vallejo, 1994). High costs are due to the small size of most rural people's accounts in relation to the cost service delivery. A low level of economic activity, low rural population density, and poor infrastructure will also increase operating costs. Specialized agricultural lenders for example have a number of operational problems, which include institutional viability and efficiencies in credit delivery. A review of these problems shows the negative consequences of supply-leading finance and also provides some guidance as to the kinds of reforms necessary for improved financial market performance (Bourne & Graham, 1984).

Another defect in the operations of specialised agricultural lenders is the high cost of supervising loans. This includes emphasis on close and continuous monitoring of loan use. Credit officers make frequent visits for the alleged purpose of encouraging farmers to adopt new practices and follow farm plans. The credit institution accepts the responsibility for providing technical assistance and hires staff accordingly. All these activities add to administrative costs. Loan monitoring for purposes of preventing credit diversion and ensuring loan repayment is often ineffective, and credit supervision ends up being wasteful. Different arrangements to lower costs have been tried by formal lenders. For instances, collateral is often demanded (Hoff & Stieglitz, 1990). This procedure can be very costly for the borrower however, who is required to produce the necessary documents. It also excludes a large proportion of the rural poor, as formal lenders then have to specialize in areas where clear land titles make coIlateral possible. When financial institutions impose high transaction costs, small depositors become discouraged. A study in Nigeria by Padmanabhan,

(1989) found that simple transactions at commercial banks in Lagos took 8 or 10 times longer than in the U.S. or UK, due to faulty procedures and inadequate training of bank staff.

While informal lenders are often perceived to have "outrageously" high rates, in contrast with formal lenders, there appears to be considerable variation in the rates of different informal lenders in many countries. Available evidence suggests that interest rates have been substantially higher than those prevailing in the formal market. Aryeetey(1994) observed from an analysis of variance in the monthly rates of Ghanaian informal lenders that the main source of variation was the type oflender. Also, an analysis of the mean monthly interest rates by type oflender indicated that all other mean interest rates differed significantly from those of moneylenders.According to Aryeetey (1994), if informal lenders attached different risks todifferent borrower categories, a possible way of doing this would be to apply different interest rates. He found that not to be the case in many instances. Aryeetey observed that interest rates charged by moneylenders did really vary from one lender to another. He concluded that interest rates in rural areas are not much different from the urban interest rates.

Therehas been a considerable debate on the degree of monopoly in the informal markets, prompted by the observation of high rates of interest. A recent survey of a local market in Pakistan found an excess supply oflenders, indicating that, at least in that market, there is likely to be a fair degree of competition among moneylenders. This suggests that entry into the business of lending may be quite free. Aleem, (1990) found that the main reasons for the high interest rate were:The high costs of loanable funds which themselves were sometimes obtained fromthe informal markets;Therelatively large costs of monitoring and administering the loan;and the costs associated with delinquency. Since the size of the informal markets can be expected to shrink as deregulation takes place and as financial innovation is permitted in the formal sector, one would expect interest rates in the informal markets to show a declining trend over time. This would happen not only because of a trend toward liberalization in the financial market but also because of improved information flows and means of reducing transaction and monitoring costs. As interest rates in the informal markets decline, the spread between the interest rates in the formal sector and the informal sector also declines.

Lack of innovations is one of the main reasons that governments, financial intermediaries, and donors have concentrated on supply-side interventions when undertaking reforms and innovations. They have paid insufficient attention to improving access to rural finance through reducing risks in the financial environment. Innovative financial institutions including banks and cooperatives have shown that it is possible to provide viable financial services to small-scale agriculture in rural areas. They have done this by adopting financial products, making creative use of delivery mechanisms to reduce costs and adopting new technologies. Further innovation is needed to extend the benefits of financial services to wider rural areas.

According to ISSER, (1994) providing credit to farmersin developing countries has not always led to the rapid adoption of new technology and methods. Even under the World Bank system of lending to large farms, the overall production increases have been more thanthe result of expansion at existing levels of skills than the use of new technology. Risks, profitability, and the expediency of technology often have appeared more important than credit per se. But when technology meets with approval, then credit is the major factor in its utilization. Generally speaking, no more than 10 to 15 percent of the farmers in low-income countries find formal agricultural credit available to them. In the case of small farmers, the percentage is even lower.

Marketing in many areas of the world, including several African countries, is one of the most difficult problems facing the small-farm operator. Marketing systems are often incapable of handling any large increase in farm production resulting from a successful credit programme. The power of the marketing system is often seen as eroding the higher profits that farmers should receive. The system generally forces farmers to sell when prices are low because farmers lack access to storage facilities where produce may be held until the prices rise.

In many low-income countries like Ghana, specialized agricultural lenders have been formed in the past several decades to achieve rural development objectives: rapid increases in agricultural production, expansion in rural employment and income, modernization of agricultural technology and practices, domestic self-sufficiency in food production, a favourable agricultural balance of trade, and equity within the rural sector and between rural and urban areas. The results of these programmes are not encouraging (Von Pischke, 2003). Because of the fungibility, divisibility, and substitutability of money, it is difficult to attribute specific increases in production and income to credit activities. Also, in some cases, credit expansion has coincided with output decreases and more agricultural imports. Rural inequality appears to have increased as a consequence of agricultural credit policy. Furthermore, many rural credit institutions and programmes are not financially viable. Some of the portfolios tended to decline or stagnate rather than grow in real or nominal terms,

The history of high delinquency rates in the credit programs suggests that either the system is being exploited by the borrowers or the farmers are, in fact, not creditworthy. The World Bank considers reducing the high rate of delinquency and default as the most important issue facing government credit programmes attempting to operate on a self-sustaining basis. If a high proportion of an institution's loans are not rapid, the lender's capital is soon depleted and the institution must cease to function as a loan agency unless government provides additional funds. Miller, (1997) reported that on a maize group farming scheme in Ghana, $869,767 had been loaned during the three years 1969-1971, but that only $584,297 had been collected by June 30, 1972, for a repayment rate of67 percent. In Nigeria, the repayment performance was similarly poor for rice-maize group loans made in1972.Loans groups involving 390 farmers had been 75 percent repaid by June 30, 1973, but the repayment rate varied widely from 32.9 percent for rice loans in one administrative area to 90.7 percent in another. The high rate of delinquency is associated with enforcement problems which are common in the Ghanaian society. In this sphere, if borrowers even 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. In some cases, rural population lacks adequate collateral that can be used as a hedge against loans or credit. This has blocked rural population access to rural credit and is related to poorly defined property and land-use rights and weak land and property markets (World Bank, 2001).

High, and often covariant, risk in the rural economy is related to the dominance of agriculture, which accounts for a high percentage of Gross Domestic Product (GDP). The long gestation period for many agricultural investments and the seasonality of output usually leads to uneven cash flow and variable demand for savings and credit. Commercial lenders consider agricultural credit too risky due to higher administration costs, the lack of viable collateral, regional limitations, the present nature of small-unit farming, and the land tenure system. The liquidity in the credit system has largely eliminated incentives for banks to motivate credit through rural savings. It is often noted that commercial banks in Ghana do not reach and service many farmers, presumably because producers are not credit-worthy or the information needed by banks to determine their credit-worthiness is too expensive to collect and interpret. This leads some to argue that specialized institutions or programmes (usually with a costly overhead of supervisory credit personnel) are required to reach these potential customers, even if the costs far exceed interest receipts.

Despite the confusion that surrounds rural financial markets, the treatments for its problems are relatively simple. First and foremost much more emphasis must be placed on encouraging rural financial markets to mobilize savings. It will also be necessary to revise interest-rate policy. High rates on loans would reduce the demand among those who use large amounts of cheap credit, allow more lenders to cover their costs, and encourage lenders to reduce the costs of transacting loans for both borrowers and themselves. Policymakers should not try to accomplish too much with credit projects.

Product prices, crop yields, and the costs of production are much more powerful determinants of farmers' decisions than is credit availability or interest rates. The concern of the government in developing countries that we assume to be rational is to provide cheap and adequate credit to small and poor farmers since credit is viewed as a production input, and accessible and affordable inputs are essential to increasing production and incomes. Therefore, if the government perceives the rural credit market to be characterized by lack of funds and the presence of monopolist moneylenders leading to sky-high interest rates, a rational response would be to inject credit into the market, increasing the supply of funds, thereby hoping to drive down interest rates. The key role for government should be to create the externality-like effects by reducing the costs of enforcement and information. This can be done, for example, by enforcing property rights (land titling) and undertaking investment in rural infrastructure to make agriculture less risky, thereby reducing asymmetric information between lenders and borrowers.

The concept of microfinance

Microfinance is a term used for the provision of financial services to clients who are excluded from the traditional financial system because of their lower economic status. These financial services most commonly take the form of loans, though some microfinance institutions offer other services, such as micro-insurance and payment services. According to Asian Development Bank (2000), microfinance is the provision of a broad range of financial services, such as deposits, loans, payment services, money transfer and insurance to poor and low-income households and their micro concepts. Three types of sources provide microfinance services. These are:

- formal institutions, such as rural banks and cooperatives;
- semi-formal institutions like non-governmental organisations; and
- informal sources, such as money lenders and shopkeepers.

Institutional microfinance is defined to include microfinance services provided by both formal and semi-formal institutions. Microfinance institutions are explained as institutions whose major business is the provision of microfinance services (Khander, 1998).

Access to financial services, such as loans, savings, insurance and money transfers, enables people to increase their income and smoothen their consumption flows, thus expanding their asset base and increasing their ability to respond to crisis. The availability of financial services acts as a buffer against sudden emergencies, business risks, and seasonal slumps that can push a family into destitution. Since low income people are often ineligible for traditional financial services, microfinance specially targets low-income groups. As a development tool, it is believed that making these services available to poor households can help them to move from mere subsistence for daily survival to planning and investing in better nutrition, improved living conditions, children's health and education (CGAP, 2003). Impact studies show that, in many cases, microfinance reduces poverty through increasing income levels. Microfinance has resulted in improved health care, children's education and nutrition, and women's empowerment. In particular, the ability to borrow, save and earn income reduces economic vulnerability for women and their households (BRI, 1990).

Microfinance schemes were not developed by international aid agencies or NGOs. Many such schemes have long histories in the developing world. One such microfinance scheme is known variously as “susu”, box money in Ghana, meeting turns or partner hand in Caribbean and “tinton” in Senegal. Another term for this type of scheme is a rotating savings and credit association (ROSCA). The scheme requires the formation of a committed group. The participants in the “susu” group are required to pay a certain amount of money to a coordinator at regularly scheduled intervals for a fixed or unfixed length of time. At each such interval, all the collected money (less any fee to the coordinator) is disbursed to one of the members; a different member receives the entire pot (or “hand”) each time. The time of one’s hand is often scheduled to coincide with a predicted future need. Once each member has received a hand, a new cycle begins, often with the same members, but with an adjustment of the order of receipt. A “susu”, thus, serves as a method for the members to make interest-free loans to one another on a rotating basis. In the “tinton” (Senegalese) version of this scheme, interest is paid back to the group by the borrowing member, so that the amount of money in the “pot” grows at a faster rate. There are, in fact, numerous ways in which this type of scheme can be organised, with variants based on the frequency and length of the cycle period, the contribution amount, and the mode of selecting the person who will receive the pay-out.

The advantages of microfinance include the following:

- It offers an opportunity for members to save;
- It keeps such savings fairly liquid;

- It facilitates the availability of lump sums of money, which allow for higher investments to be made earlier than the accumulation of an individual's own savings;
- In many places, it replaces official financial status; and
- It distributes the risk of default evenly across the members and usually employs peer pressure to ensure compliance (BRI, 1990).

The disadvantages of microfinance include:

- The risk of mismanagement and fraud on the part of the group's organiser who, in theory, could abscond with the group's funds;
- It may create a disconnection between the time of a pay-out and the recipient's need; and
- It becomes difficult for members to put committed funds to other uses, including that of saving outside the group (BRI, 1990).

Microfinance is unique as a development tool because of its potential to be self-sustaining. Successful microfinance institutions have proven that providing financial services to the poor can be an effective means of poverty reduction and be a profitable business. Dozens of institutions have proven that financial services for poor people can cover their full costs, through adequate interest spreads, relentless focus on efficiency and aggressive enforcement of repayment. Institutions that are profitable, even after adjusting for subsidies that they might have received, are providing a large and growing proportion of today's microfinance services. Evidence confirms that access to financial services significantly impacts the lives of the poor. Empirical evidence shows that, among the poor, those who participated in microfinance programmes were able to improve their living standards, both at the individual and household levels, much better than those without access to financial services (Sugianto, 1998). For example, the clients of BRAC, formally known as the Bangladesh Rural Advancement Committee, and the largest NGO in the world, increased household expenditure by 28% and assets by 112% (Sugianto, 1998).

Impact studies show that, in Bangladesh, almost all children in Grameen client households had some schooling, compared to 60% of non-client households. Access to financial services and the resultant transfer of financial resources to poor women can lead women to become, over time, more confident, more assertive, better and able to confront systematic gender inequalities. Microfinance enables poor women to become economic agents of change by increasing their income and productivity, accessing markets and information, and strengthening their decision-making power. In Indonesia, female clients of Bank Rakyat Indonesia (BRI) were more likely than non-clients to make joint decisions with their husbands regarding the allocation of household money, children's education, the use of contraceptives and family size, and participation in community events (Bank Rakyat Indonesia, 1990).

In many cases, disease prevention is more cost-effective than disease treatment. However, funding of the capital costs is often required. The World Bank (1995) estimates that malaria costs Africa millions of lives a year and $12 billion of production go astray. The bank further estimates that malaria can be controlled for $3 billion a year. A simple mosquito net costing $2-$5 is effective in preventing malaria in the household. However, this capital cost is often considered unaffordable by farmers who may earn $250 per year. In cases where preventive measures exist, micro financing can help make these solutions more affordable to all. Access to permanent and relevant financial services creates the local foundations for achieving nearly all of the Millennium Development Goals.

These are interesting times for those involved in the provisioning of financial services for the poor. The boundaries between microfinance and the formal financial sector are finally breaking down. In some areas, microfinance is now an inherent part of the financial system. In other areas, new and innovative financial delivery methods are being developed to overcome the barriers of sparse population and long distances between settlements, as well as poor infrastructure. Technology can play an important role here. However, we may have to accept that for the moment, some areas are truly “unbankable”. At the same time, commercial institutions are also beginning to get involved in providing financial services to poorer clients. CGAP has identified over 200 domestic retail banks or consumer credit companies getting involved in microfinance, often driven by competition and technologies that promise to allow them to make smaller transactions more cost-effective. Microfinance providers are beginning to use electronic-banking, smart cards and telephone technology to reduce transaction costs and so reach poorer clients (CGAP, 2003).

Successful microfinance institutions have proven that providing financial services to the poor can be an effective means of poverty reduction and be a profitable business. However, the challenge facing the microfinance industry today is how to scale up services to reach the estimated three billion people in developing countries who still lack access to formal financial services (Johnson &Rogaly, 1997). A major bottleneck to the development of sustainable microfinance is the limited institutional and managerial capacity at the level of retail microfinance institutions, as reflected in inadequate management information systems, poor strategic planning and high operating costs. There is also a marked shortage of organisations that can provide safe savings facilities for the poor, and that can sustainably mobilize these domestic savings for lending.

Many of the essential elements needed to scale up microfinance are already in place. High-performing microfinance institutions have developed innovative methodologies to extend credit, savings and other services to poor clients. A number of banks and other institutions with nationwide distribution systems are beginning to take active interest in reaching poorer clients. Advances in information technology have the opportunity to lower the cost and risk of providing microfinance to the poor. A great delay of the knowledge is better requirements of sustainable microfinance. The challenge is to mobilize this knowledge and apply it on a much larger scale, creating financial systems that work for the poor and boost their contribution to economic growth. One approach is to tap into developed capital markets through microfinance investment funds that enable individual investors and portfolio managers to allocate a part of their equity and/or fixed income investment to microfinance as an asset class (CGAP, 2003).

The role of microfinance in reducing poverty

The dynamic growth and improvement in the microfinance industry has been promoted not only by market forces but also by conscious actions of national governments, non-governmental organisations and donors who view microfinance as an effective tool for eradicating poverty. According to the World Bank (2000), almost half of the world's (6.5 billion) people live on $2 a day or less. The number living on less than one dollar has increased over the past 15 years. About one-third of the world's population suffers under-nutrition due to insufficient intake of calories, protein or critical micro-nutrients. Microfinance is, therefore, a necessary tool to eradicate the world's poverty.

A major development issue facing many developing countries has been the need to reduce the scale and depth of poverty among the growing population. Data from the 2004 Ghana Human Development Report (UNDP, 2005) indicate that the level of deprivation, as measured by the Human Poverty Index, had declined from 51.7 percent to 41.0 percent between 1997-98 and 2002-2003. Recent data from the Ghana Living Standards Survey also estimated that from1991 to 1992 poverty declined from 52 percent to 28.5 percent in 2005- 2006 (Ghana Statistical Service, 2007). Though this represents a significant reduction, there is less optimism with the increasing growth of population. As argued by Aryeetey and McKay (2000), the extent and depth of poverty are generally to be seen as outcome of the absence of effort to change the structure of the economy over several decades.

The Pakistan Economic Survey of 2009 - 2010 divided poverty into two dimensions in its definition: incomeand human poverty. Income poverty is the lack of necessities for minimum material well- being determined by the national poverty line. Human poverty is the denial of choices and opportunities for a tolerable life in all economic and social aspects.

Hulme and Paul (1997) have categorisedthe poor into two groups, namely: the core poor and the poor. The core poor are those who have not crossed a minimum economic threshold and whose needs are essential for financial services that are protectional. The poor are those above this threshold who may have a demand for promotional credit. They then discuss a minimum economic threshold using characteristics, such as the existence of a reliable income, freedom from pressing debt, sufficient health to avoid incapacitating illness, freedom from imminent contingencies and sufficient resources, such as savings, non-essential convertible assets and social entitlements to cope with problems when they arise.

In another study, Weiss, Montgomery and Kurmanalieva (2003) defined poverty as an income (or more broadly welfare) level below a socially acceptable minimum. For them,microfinance is defined as one of a range of innovative financial arrangements designed to attract the poor as either borrowers or savers. In terms of understanding poverty, "the poor" are those experiencing a long-term or chronic poverty, and the ‘‘transitory poor" are those who temporarily fall into poverty as a result of adverse shocks.

Across the world, almost every country has to face poverty. Poverty is the condition in which low-income people cannot meet the basic needs of life. This situation leads to many difficulties like decreased health facilities, high illiteracy rate, decreased quality of life and so forth. These difficulties motivate human beings to commit heinous crimes and, at times, suicide. Poverty is defined by several authors as it is the situation of having no enough money to meet the basic need of human beings. While measuring in terms of land,Zaman (2000) discussed ultra-poor as people having less than ten decimals of land and the moderate-poor households as having greater than ten decimals of land.

The role of microfinance on poverty alleviation is checked both in social and economic aspects. The social and economic factors considered, in most cases, include the improvement of life style, accommodation standard, income generation and life standard. Access and efficient provision of micro credit enables the poor to smooth their consumption, better manage their risks, gradually build their assets, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life. With little efforts, the performance of microfinance institutions can be improved and these institutions can play their role better in poverty alleviation than usual to promote economic growth and development.

Microfinance has had a positive effect on poverty reduction. Some of the evidence across the world includes the following: Bakhtiari (2006) concluded that micro credit and microfinance have received extensive recognition as a strategy for poverty reduction and for economic empowerment, particularly in rural areas having poor population. Providing poor people the small amounts of credit at reasonable interest rates gives them an opportunity to set up their own small-scale businesses.

Mawa (2008) concluded that microfinance is an innovative step towards alleviating poverty. He indicated that the microfinance facilities provided to the people, helped them to use and develop their skills, and enabled them to earn money through micro enterprises. Moreover, the provision of micro finance helped them to smooth their consumption level and manage unexpected risks. Micro finance also helped the poor to built assets, educate their children and have a better quality of life.

Gurses (2009) buttresses this point by saying that microfinance, especially micro credit, is a powerful tool to reduce poverty. He, however, argues that poverty, both in Turkey and all over the world, is not only a function of micro credit but a political problem, and political intervention of the state holds the ultimate resolution to the struggle against poverty.

Rena, Ravinder, Tesfy and Ghirmai (2006) have concluded that micro finance is the founding stone for poverty reduction. Their study showed that there is a fundamental linkage between microfinance and poverty eradication, in that the latter depends on the poor gaining access to, and control over, economically productive resources, which include financial resources. Previously implemented programs did not produce good results due to the non involvement of the people for whom the programmes were designed. They suggested that the government poverty alleviation program should be restructured, if not re- designed, and should be centered on the basic needs approach. Micro finance is the means for income generation and the way for permanent reduction of poverty through the provision of health services, education, housing, sanitation, water supply and adequate nutrition. In many instances, micro enterprises, rather than formal employment, create an informal economy that comprises as much as 75 percent of the national economy.

According to Kumar, Bohra and Johari (2008), micro finance is the only way to overcome poverty in India.A great potential exists for micro finance in the country. A major cross-section of the population can have benefit, if this sector will grow in its fastest pace. An annual growth rate of about 20 percent should be continuing if India wants to control poverty. At present, the outstanding balance is 1600 crores. This amount should be increased to 42,000 crores in the next five years. Shastri (2009) shares this observation by saying that there is no way better than micro finance in the war against poverty. Creating self- employment opportunities is one way of attacking poverty and solving the problems of unemployment. He reports that there are over 24,000 people below the poverty line in India.

The scheme of micro-finance has been found as an effective instrument for lifting the poor above the level of poverty by providing them self-employment opportunities and making them credit worthy. Seibel (2003) has shown in his survey that micro finance is that chemical through which the germ of poverty can be killed. He shows that micro finance is equally profitable in poor countries as in rich countries. He rejects the concept that microfinance is a poor solution for poor countries. If properly regulated and supervised, it has a great potential in poverty alleviation and development, both in rural and urban areas.

Gopalan(2007) has indicated that micro finance increases the self-confidence of the poor by meeting their emergency requirements, ensuring need-based timely credits and making the poor capable of saving. He then shows the credibility of microfinance in health -related issues in a positive manner,and argues that, by making policy towards income generation and enhancement, ultimately to eradicate poverty, this alone can improve the health status through better, timely and easy access to health care.

Imai, Gaiha, Thapa and Annim (2010) state that there is no doubt micro finance is a powerful tool against poverty. They point out that the number of poor people is less in those countries where the number of micro finance institutions is more as compared to countries where the number of MFIs are less.

Ahmad (2008) has indicated that micro finance is fighting against poverty with full force but, due to some facts, the role of micro finance is decreasing in some areas of Pakistan. If these portions are cut off, micro finance will eliminate poverty in a short period of time. Some of these facts hindering the progress of micro finance include:

- Small loan size;
- Investment of the loan on consumption instead of income generation;
- Low awareness in the society about micro finance; and
- Less support by the government (Ahmad, 2008).

Brownstein, Fleck, Shetty, Sorensen, and Vadgama (2007) have stated that micro finance is a good tool for poverty alleviation but it is not a magic to solve the problem of poverty overnight. In sub-Saharan Africa, micro finance is performing well but cannot solve the problem of poverty because the problem is big and the weapon is very simple and weak. Micro finance should, therefore, be given more support to yield some fruitful results. Currently, there is need for greater awareness, greater coordination, additional aid, and technological improvements for increased efficiency. Significant increases in micro financing is a critical first step in accelerating sub-Saharan Africa‘s progress towards the Millennium Development Goals. However, micro financing is only one pillar in the systemic approach needed to reduce poverty and hunger in the region. Microfinance can serve as a catalyst that enhances other programs and lifts the region out of impoverishment. The concept of micro finance is simple and allows people to determine their own future, and identify exactly how to prosper, in life (Brownstein, et al., 2007).

Ali and Alam (2010) opine that microfinance is the most important resource to provide loans and other basic financial services to increase the employment rate, productivity and earning capacity. It will impact the people's lives through removing poverty, improving living standards in health, education and food.

Knight and Farhad (2008) have stated that micro finance directly improves the quality of life and promotes poverty reduction. By getting loans, the client becomes self -employed and protects himself from external threats. By getting employment,clients raise themselves from the poverty line, and their level of poverty decreases. In its initial stage, most of the people do not know about the reality of micro finance. This is because people throw more light on situations where micro finance has yielded negative results than on situations where it hasproved fruitful.

Matovu (2006) argues that it is obvious that micro finance plays an important role in poverty alleviation but the part of micro finance in poverty alleviation is like a drop of water in a sea. Micro finance helps in improving the standard of living of people. The main hurdle in this is finding the relevant data. It is very difficult to find poor people and help them. A deeper analysis is,therefore, required to help and find the poor and the kind of poor people that need help from micro finance.

Siddiqi (2008) is of the view that micro finance in Pakistan had played a major role in the lives of the poor. However, owing to some hurdles and lack of performance,micro finance has not been as profitable as expected. Some of thehurdles are:

- The interest rate: MFIs charge a high interest rate;
- The interest (Riba) itself: Pakistan is an Islamic society and most of the people have an Islamic mind set. In Islam,Riba is not allowed.Therefore, they hesitate in getting micro loans from the banks;
- The empowerment of women through MFIs.This is because the women clients are abused by their male relatives for getting loans; and
- Islamic micro finance (akhawat), This is because akhawatworks according to the needs of the poor peopleand not merely profit generation, while conventional micro finance works for profit generation instead of helping the poor (Siddiqi,2008).

Tenaw and Islam (2009) opine that micro finance has a vital role in improving and maintaining livelihoods of rural people in Bangladesh and Ethiopia. The financial system that was originated by the local population proved a useful tool in promoting self-help and self -reliance among clients. The main drawback of this locally originated financial system was that the rules and regulation were in the hands of the originator. The main sector of income in Bangladesh and Ethiopia is agriculture. However, problems like poor technology, unreliable climate, and poor infrastructure, small and fragile market, affect the development of this sector. The stabilization of agriculture in these countries would largely depend on microfinance. It is believed that poverty would be eliminated automatically when agriculture is stabililised.

So,for poverty alleviation in these countries, agriculturaldevelopment is the key, and, for the agricultural sector,the development of microfinance is the ultimate.

Abiola and Salami (2011) have observed that there is a lot of literature on the positive role of micro finance in poverty alleviation.However, in reality, microfinance is not so profitable. Many stakeholders believe microfinance is a good tool for poverty alleviation.Yet, there are instances where the results have been the opposite. Microfinance is unable to effect a change in poverty alleviation at times due to the limited time duration for its operation. The duration given to clients does not give enough room for the loan acquired to generate future income. Abiolaand Salami further explain that, at the repayment time, the loan taker is not ina position to repay the loan because the business may collapse as the client uses part of the capital for repayment. This puts an extra pressure on the client. The client may go in for a loan elsewhere to defray the old loan. He is, therefore, caught in a cycle of taking a loan to repay a loan.

According to the UNDP (2007), the informal economy employs 91 percent of the economically active people in Ghana. Despite the enormous contributions made by theinformal sector to the Ghanaian economy, micro- and small-scale businesses, as well as poor households, are often denied access to much needed capital by the formal financial institutions. They, thus, tend to miss good opportunities to invest in potentially viable projects for growth, since they do not have access to financial resources, including loans, savings and insurance products. In Ghana, it is estimated that only about 6 percent of the entire population have access to formal financial services, with the majority being denied access (Aryeetey, 1996; Basu et al., 2004). These individuals and enterprises, therefore, tend to rely largely on informal sources, including relatives, friends, suppliers and money lenders, for their financial needs (Aryeetey, 1994).

According to Zaman (2000), an important form of self-insurance against crises is building up a household's assets, which can reduce vulnerability through the sale of assets to meet immediate consumption needs; improving creditworthiness, thereby improving the household's borrowing chances during crisis; and reducing covariate risk.

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 livelihoods of poor people and build their asset base to guard against vulnerability. For instance, the Economic Recovery Programme (ERP), which began in 1983, was backed by other programmes, including the Programme of Action to Mitigate the Social Costs of Adjustment (PAMSCAD), and later followed by Ghana Vision 2020, aimed at reducing the scale and depth of poverty in the country. The overall policy framework for microfinance is informed by the poverty reduction strategy, which seeks to balance growth and macroeconomic stability with human development and empowerment in such a way as to positively impact the reduction of the country's poverty levels in the medium term (Government of Ghana, 2003a, 2005).

However, according to Asenso-Okyere et al. (1993), some of the policy reforms adversely affected vulnerable groups; especially women, children and rural dwellers, and some were even made worse off than when the programme was launched. For instance, as a result of the introduction of the cost-sharing policies in respect of user fees in the health sector, attendance at health centers and clinics dropped, especially in the rural areas (Vogel, 1988). In a report prepared for the sixth consultative meeting of the consultative group for Ghana in May 1991, the government identified that PAMSCAD, among others, had not been too successful in targeting the poorest of the poor (Asenso-Okyere et al., 1993).

Subsequently, Asenso-Okyere et al. (1993), findings on the limited success achieved by these top-down policies and programmes, as well as the non-sustainability of previous government-backed credit programmes specially designed for poor people – especially those engaged in rural and agricultural ventures, Ghana has embraced microfinance as a major strategic tool to combat the severe poverty that continues to plague the country. This stems mainly from the belief that providing small loans, savings facilities, insurance products, money transfer services and skills training to poor people, and more especially women, could be a way of providing opportunities to be self-reliant and play active roles in their households and communities and the economy as a whole (Yunus, 2001).

The interest in microfinance is a reflection of the successes of small-scale lending programmes in countries like Bangladesh and Bolivia, where lending to poor people, including women's groups, by the Grameen Bank and BancoSol respectively, had made great strides in poverty reduction. Poor people, especially women, have been targeted by most microfinance programmes as a means of assisting them to build up their asset base and, thereby, be in a position to play important roles within their households and communities.

Microfinance programmes are known to support poor individuals or households' smooth consumption during an adverse shock. Access to credit may help them to avoid distress through sales of assets, and to replace productive assets destroyed in natural disasters (World Bank, 2002). Moreover, provision of financial services helps individuals or households to better manage their existing asset base or to reduce their liabilities. Again, access to loans provides a security or fallback position if difficulties are encountered. Furthermore, access to emergency or consumption loans enables households or individuals to meet unexpected demands for cash, without having to sell or pawn key income-generating assets or withdraw children from school. Voluntary savings may also lower the risk of savings; increase the absolute amounts saved, and enable lump sum expenditure that otherwise would not be possible (Barnes, 1996).

Financial services, provided on a timely basis, are a way for poor people to turn many small savings into large lump sums that enable them not only to protect against risks, but also to take advantage of investment opportunities when they present themselves (Rutherford, 1999). According to Ledgerwood (1999), microfinance institutions are beginning to experiment with other products, including insurance. Insurance is a product that is likely to be offered more extensively in the future by microfinance institutions, because there is growing demand among their clients for health or loan insurance in case of death or loss of asset.

Rural Banking in Ghana

Before the introduction of rural banking in Ghana, banking facilities were virtually absent in rural communities. The few commercial banks that existed (usually sited in urban areas) did not help much. Also, the establishment of specialized banking institutions like the Agricultural Development Bank to service the rural sector, tended to concentrate on traditional urban-based banking activities. To improve the access of rural people to credit and to increase their participation in rural development, there was the need for a credit policy that would mobilize rural resources and redistribute them to the rural sectors with the potential for an overall national development. Hence, the Ghana government, through the Bank of Ghana, introduced the idea of rural banking into the country in 1976, with the first one established at AgonaNyakrom in the Central Region. As at September 2009, there were 176 rural banks operating in Ghana. These were distributed in the 10 regions as shown in Table 1.

According to the Association of Rural Banks (2009), the aims of rural banks are:

- to stimulate banking habits among rural dwellers;
- to mobilize resources locked up in the rural areas into the banking systems

Table 1: The Regional distribution of rural banks in Ghana as at September, 2009

Region	Number	Percentage
BrongAhafo	27	15.3
Central	20	11.4
Eastern	19	10.8
Greater	12	6.8
Northern	11	6.3
Upper East	14	8.0
Upper West	8	4.5
Volta	15	8.5
Western	21	11.9
Ashanti	29	16.5
Total	176	100.0

Source: ARB APEX Bank Limited, 2009.

- to facilitate development;
- o make banking facilities accessible to people in the rural areas;
- to encourage savings among rural dwellers;
- to identify viable industries in their respective catchment areas for investments and development; and
- to provide credit facilities to those engaged in agricultural activities and small-scale rural industries, among others (Association of Rural Banks, 2009).

People in rural communities have benefited from rural banks in several ways since the inception of rural banking in the country in 1976. Rural banks have brought banking services to the door steps of the rural dwellers and have instilled in them the habit of saving with the banks. Besides, rural banks have generated employment for several people who were unemployed. Rural banks, over the years, have mobilized local resources, made investments, and granted loans and overdrafts to several productive ventures to promote development activities and improve the socio-economic lives of rural dwellers. For instance, in 1987, the total outstanding loans and advances the rural banks granted amounted to 634 million cedis. By 2006, this amount had increased to 356,598 billion cedis (Bank of Ghana, 2006). Also, rural banks have provided technical advice to its clients and have distributed inputs on credit or hire-purchase over the years.

Furthermore, rural banks try to reduce the cash element in the loans to the minimum possible 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, fertilizers, equipment and machinery.

Again, rural banks determine the loan repayment conditions with reference to the borrower's capacity to repay. A "grace period" is allowed between the loan approval date and the time the borrower is expected to generate sufficient income to repay the loan. During the "operation period" of the loan, the Bank's Project Officer monitors the borrower to ensure proper use of funds and punctual repayment. Routine and emergency visits by the Project Officer are common during the operation period of the loan. Rescheduling may be allowed, if there are circumstances which the loans committee or Board of Directors accepts as "unforeseen development". If there is default on the loan, the case is sent to the Bank's lawyer(s) for action.

In spite of these benefits to their clients and the community at large, rural banks are saddled with problems, such as difficulties in improving savings mobilization and investment facilitation in the rural areas where they operate; difficulties in loan repayment; loan mismanagement; unwillingness of rural folks to invest in the bank; limited banking knowledge on the part of some rural folks; and low remuneration for some rural bank staff (ARB APEX Bank, 2009).

APEX Bank

The APEX Bank was established in 2003 to play the role of a "Central Banker" to rural and community banks. In this regard, the APEX Bank lends monies to rural banks that face temporary liquidity problems, and acts as a depository institution where rural banks deposit their primary cash reserves in compliance with the Bank of Ghana monetary regulations. This requires each rural bank to open a current account with the APEX Bank in which their reserve deposits are kept. The account is also used for cheque clearing settlement. Until the advent of the APEX Bank, the rural and community banks kept their primary cash reserves with their correspondent banks, which were commercial banks of their choice. In addition, the APEX Bank monitors the operations of each rural bank through a regular review of the prudential returns that the rural banks submit to the Bank of Ghana and copied to the APEX Bank. Such prudential returns include liquidity and capital adequacy returns. This ensures that rural banks comply with the banking regulations and harmonize their operations with the overall monetary policies of the central bank.

The vision of the APEX Bank is to accelerate the development of the rural economy by the provision of cost effective ICT-based banking services through the rural community banking services (RCBS) and micro finance institutions by the year 2015. The mission of the bank is to provide banking support services to the rural banks with the aim of improving their operational efficiency and, thereby, transforming them into efficient financial institutions. These services are classified as the banking needs of the communities in which the rural banks operate (ARB APEX Bank, 2009).

Kakum Rural Bank Limited

The Kakum Rural Bank Limited of Ghana was established on 9th February, 1980 and licensed to operate banking business under the Banking Act of 1970 (Act 339). The bank was formerly known as the Edinaman Rural Bank Limited. However,as the bank expanded, it became necessary to change the name of the bank to reflect its new catchment characteristics. So the name of the KakumRiver was adopted by the shareholders for the bank, since the river virtually flows through some parts of the bank’s catchment area.

From its humble beginnings, the bank has grown to its present enviable state as the number one rural bank in the Central Region.The Head Office of the bank is at Elmina. It was formerly on the Dutch Cemetery Road, but after 25 years of active and aggressive banking, coupled with consistent profit levels achieved over the years, the bank has now built a new ultra moderncomputerized Head Office called KakumSika Fie,opposite Elmina

Beach Resort.The bank has agencies in Mpoben, Efutu, Abrem-Agona, Jukwa, Abura, Kotokuraba, Moree, Abakrampa and Mankessim. Kakum Rural Bank had 41,734 customers as at 2010 (Kakum Rural Bank, 2010).

In consonance with the development concept of rural banking, the Kakum Rural Bank has made a positive impact on many development projects in the bank's catchment area. For example, the bank solely financed the construction of a fishing harbour, the Mpoben fish landing ground at Elmina, which has helped to improve the productivity of artisan fisheries in the Central Region. Again, the bank is managing the President's Special Initiative on Salt at Elmina. On tourism, the bank has financed the establishment of hotels, restaurants and drinking bars. The bank also considerably finances the cultivation of cash crops, as well as cocoa purchases through the AkuafoCheque system. Other development projects in its catchment area, provided by the bank, are livestock production, micro insurance, street lights and other social amenities.

Some of the bank's micro-financing products, seen in designed programmes,are;

- The Church Development Account, which aims at facilitating the development of churches in the bank's catchment area;
- The Child Educational Development Account, which aims at developing children's future;
- The Small Scale Producers Account, aimed at developing small scale production in the catchment area;
- "Enyidado" Susu Scheme, which aims at raising savings for customers who could not walk to the bank premises daily or frequently to save.

With this scheme, trained and licensed agents of the bank go round to collect any amount of money customers are ready to deposit into their savings account daily;

- “AsormbaMpuntu” Savings Account, which aims at enhancing development in church members’ livelihoods;and
- “Adom Bi Epuei” Scheme,which aims at helping customers to complete their project at affordable prices and on time.

The bank’s major foreign money transfer products are Uniteller, Transcontinental Money Transfer (TCF) and SAMBA Money Transfer. Its domestic fund transfer is APEX LINK which connects customers to all parts of Ghana (Kakum Rural Bank, 2009).

The bank has been performing creditably well in its core business. The financial indicators have shown consistent improvement in the bank’s financial performance over the past eight years. The evidence for this assertion is presented in Table 2. It covers the eight-year period, 2002-2009. A statement by the Board chairman indicated that the year 2007 marked the end of the bank’s Corporate Plan (2002-2007) and the bank was proud to have achieved most of its targets.

The Kakum Rural Bank was admitted into the prestigious Ghana Club 100 as the 16th best performing company and the second best rural bank in Ghana. Ghana Club 100 is an association of the 100 best performing companies in Ghana. These companies are handled by the Ghana Investment Promotion Centre (GIPC). GIPC’s responsibility is to select the best performing 100 companies in the country. This is done when individual companies apply by submitting some information about their corporate entity, depending upon the requirements of GIPC. GIPC, therefore, goes round to investigate whether the information given is correct and then enroll the

Table 2: Financial indicators of the Kakum Rural Bank (2002-2009)

Year	Deposits ¢m	Advances ¢m	Long Term Invest-ment ¢m	Short term Invest-ment ¢m	Total Assets ¢m	Profit Before Tax¢m	Paid Capital ¢m
2002	9,694.00	4,156.00	14.60	4,250.40	9636.30	220.50	146.60
2003	15,554.60	5,179.60	2.60	9,596.50	19,154.30	863.00	195.30
2004	22,766.90	9,811.80	71.40	10,592.10	27,300.40	1,412.60	278.30
2005	28.622.00	15,137.00	71.40	7,920.00	36,924.00	2,005.00	1,114.00
2006	43,486.00	25,300.00	70.90	8,806.00	57,715.00	2,354.00	1,176.00
2007	74,567.00	48489.70	90.20	9973.40	76,734.00	3341.00	1377.90
2008	85647.00	56549.60	85.20	10843.80	90211.00	3865.10	1499.00
2009	96421.00	62548.70	91.40	12432.00	98887.40	4182.40	1644.70

Source: Kakum Rural Bank Ltd. 2009

company into the association. The association continues to study the performances of these 100 companies over a period of time and grade them.

The desire of the bank now is to avail itself of international scrutiny. In pursuance of this strategic objective, the bank is committed to the following:

- Establishing and maintaining the reputation as the best rural bank in corporate governance;

- Collaborating with the government and becoming a key player in the reduction of poverty in the Central Region;
- Growing micro enterprises into small and medium-scale enterprises and eventually becoming big corporate institutions in the catchment area; and
- Helping other distressedand financially handicapped corporate bodies to become operational, successful and efficient (Kakum Rural Bank Ltd. 2009).

Conceptual framework for assessing the effects of lending institutional practices on the livelihoods of its borrowers

The conceptual framework harmonizes the issues raised from the theoretical and empirical literature. The input-process-output-outcome model was adapted as the conceptual framework to assess the effects of the lending operations of Kakum Rural Bank on the livelihoods of its credit recipients (Figure 1). The philosophical underpinning of the conceptual framework was adapted from the framework propounded by Hanna (1997). This framework was originally used for evaluating public health care programmes.

The input-process-output-outcome model has four components: input, process, output and outcome. These components are inter-related and the effects of a component greatly influence another. The components in this model tend to be used separately in some cases. However, this study uses all the components for an effective evaluation. The components are, however, influenced by the credit recipients' perceptions about favourable effects on their livelihoods.

Input component

Input comprises the bank and community contributions toward the livelihoods of the credit recipients. The bank's contribution to the livelihoods of the credit recipients may be either tangible or intangible. Tangible contributions refer to bank credit, which may be short, medium or long-term. The short-term credit covers 3-6 months. This is usually a fiscal credit. The medium term covers 6-12 months, while the long-term credit covers at least one year. Credit is in the form of capital equipment, such as tractors, generators, motors and milling machines. Inputs of production are sometimes given out by the bank on credit basis as loans.

Intangible contributions may include direct and indirect interventions. Direct interventions are in the form of supporting systems such as training, technical and management advice. Indirect interventions take the form of an enabling policy and a ready market for the products of credit recipients.

Credit recipients' contributions towards livelihoods, on the other hand, refer to both group and individual credit recipients' labour inputs. The most innovative and important part of rural bank credit is that they are given to groups of people as well as individuals. The input of group and individual recipients refer to the decision to put in efforts on the credit received, cooperate fully with the bank and repay the loan on time.

Process component

Process refers to the conditions by which bank credits are given to recipients. A group of 5-10 people who voluntarily come together can access a credit. The credit is given to them collectively and individually, and they must all repay or risk termination of further credits for the entire group.

The overhead cost for a group credit transaction is the same as that of an individual. Group credit provides social collateral and mutual repayment. The bank also provides centres where 5-8 groups meet weekly to discuss any issues that might arise, and see what is happening with other groups. This is meant to form a community among people receiving their credit and also provide a more convenient space for groups to air their grievances and share their ideas with the bank.

Credit recipients attract credit only when the following processes are followed:

- Account with the bank: Normally, recipients are supposed to have both savings and current accounts. However, in a situation where credit recipients have only one account, the savings account is more preferable. The client’s transaction history with the bank is studied for some time to enable the bank form its own opinion about the prospective credit recipient.
- Application: All credit recipients, irrespective of their status, have to apply for credit from the bank before they are given. Application letters are written, spelling out the amount needed, reasons for the credit and how the credit will be paid back.
- Securities and guarantors: In the case of individual applicants, credit recipients are made to provide a physical security or a guarantor who would be contacted in the event of a default. But with group credit

there is what is termed social or moral collateral and nothing physical is collected.

The output component

The output component is what comes out from both the input and the process segments. It monitors changes in recipients' livelihood and their general well-being. Also, it caters for improvement or otherwise in their living conditions that may be attributed to the bank credit obtained. It also monitors the bank's successes and failures. For instance, the bank may increase its clientele, increase transaction cost or increase the risk of credit repayment, and vice versa. The expected output must have social, economic, financial, vocational, health and demographic connotations.

The expected social output may be poverty reduction or aggravation, high or low literacy rate, increased or reduced social vices, poor or good infrastructure, and low or high standard of living. The economic output, on the other hand, is expected to manifest itself in high or low technological innovations, high or low incomes and savings, unemployment or employment, and entrepreneurship or otherwise. The financial output may be seen in high or low per capita income, poor or better remuneration, deflation or inflation. Vocational output may be seen in recipients' ability or fitness in his or her field of work, profession, business or career, increment or reduction in or unsafe disposal of excreta. Concerning the demographic output, one can think of a high or low dependency ratio, population increase, and so forth.

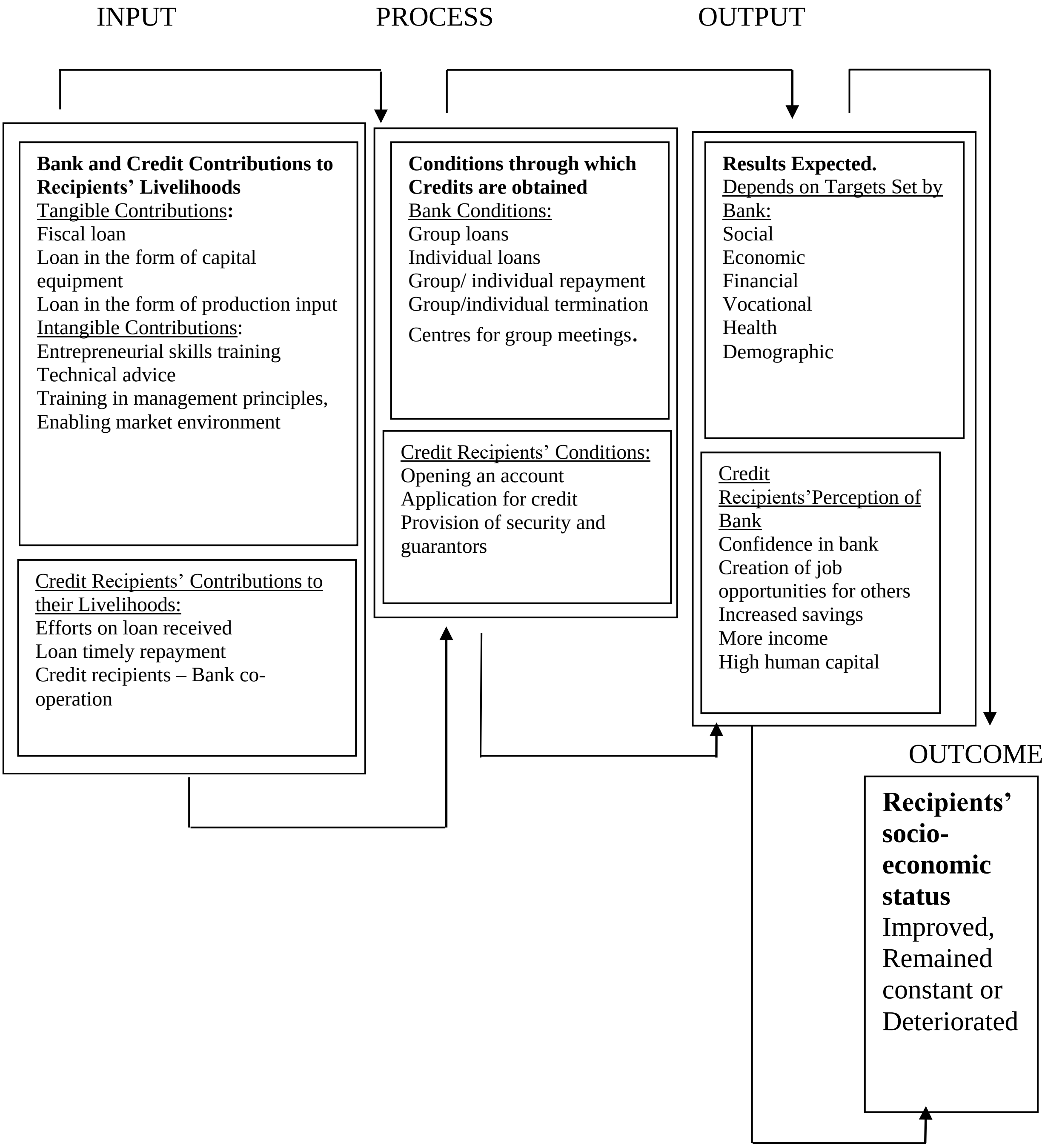


Figure 1: Conceptual framework for assessing the effects of lending institutional practices on the livelihoods of its borrowers

Source: Adapted from Hanna (1997)

Output is also influenced by the credit recipients' perception about the bank loan and its related problems. For example, when credit recipients continue to have unsupervised credits despite the conditions given them, they may misapply the credit and this will have negative effects on their livelihoods. It is only when the perception of the credit recipients is geared towards the practical use of the advice, guidance and counselling they are given at the discussion centres, and they totally cooperate with the bank that one can say the bank's lending operations have been beneficial to the individuals, the bank and the community as a whole. The output can be observed and evaluated, based on the targets set for the various credit recipients. This evaluation can either be positive or negative, depending on whether the set targets were achieved or not.

Outcome component

The outcome component evaluates the effects that come out from the implementation of the input, process and output components. This assessment is achieved by measuring the effectiveness of the bank credit on the livelihoods of the credit recipients, and the contributions the credit has made towards the improvement of the recipients' lives. It can be found out from observation and available records whether their lives have improved or deteriorated. For example, assessment procedures can be used to find out hether the incidence of credit repayment in time has decreased or increased, or whether credit recipients' businesses have improved or deteriorated.

CHAPTER THREE

METHODOLOGY

Introduction

This chapter explains the methodology used in collecting and analysing the data for the study. It deals with the research design, study area, study population, sampling procedures, sources of data, instrumentation,pretest study, fieldwork and data processing and analysis.

Research design

The research employed the descriptive and evaluative designs with Kakum Rural Bank as a case study.

The descriptive research design aims at describing theissues underpinning the social events in the study. Some of these issues among others are background characteristics of clients, problems of credit acquisition and livelihood benefits, as well as arousing explanations for the implications of the findings. Gay (1987) advocates that this type of design is useful for investigating a problem and evaluating the trend of a situation on a relatively large and small scale. It also makes room for meaningful generalization. The goals of descriptive research are to:

- Provide an accurate profile of a group;
- Describe a process, mechanism or relationship;

- Give a verbal or numerical picture of a situation, example percentages and frequencies.
- Find information to stimulate new explanation and
- Present basic background information of a context (Neuman, 2003)

The evaluative research design assesses how well an objective has been met by measuring performances against set standards. The evaluative research design was used in this study to assess the recipients' perception of the KRB's lending operations. St Leger and Walsworth-Bell have defined evaluative design as 'the critical assessment, in as objective a manner as possible, of the degree to which a service or its component parts fulfils stated goals' (Reeve &Peerbhoy, 2007, p. 122). The focus of this definition is on attaining objective knowledge, and scientifically or quantitatively measuring predetermined and external concepts.

Study area

The study was conducted in the Central Region. It covered the catchment area of the Kakum Rural Bank which cuts across seven out of the 16 districts in the region. The bank's operational areas are: Elmina-Head Office, and Mpoben all in the Komenda-Edina-Eguafo-Abrem District; Kotokuraba and Abura in the Cape Coast Metropolis; Jukwa and Efutu in the Twifo-Heman-Lower Denkyira District; Moree and Abakrampa in the Abura-Asebu-Kwamankese District, Abirem in the Agona District and Mankessim in the Mfantsiman Municipality. The bank has ten agencies by then. Four out of the ten agencies, namely: Elmina (Head Office), Moree, Kotokuraba, and Jukwa, were selected for the survey, as shown in Figure 2. Elmina and

Moreeare mostly fishing communities; Kotokuraba is mostly a commercial community; and Jukwais a typical farming community.

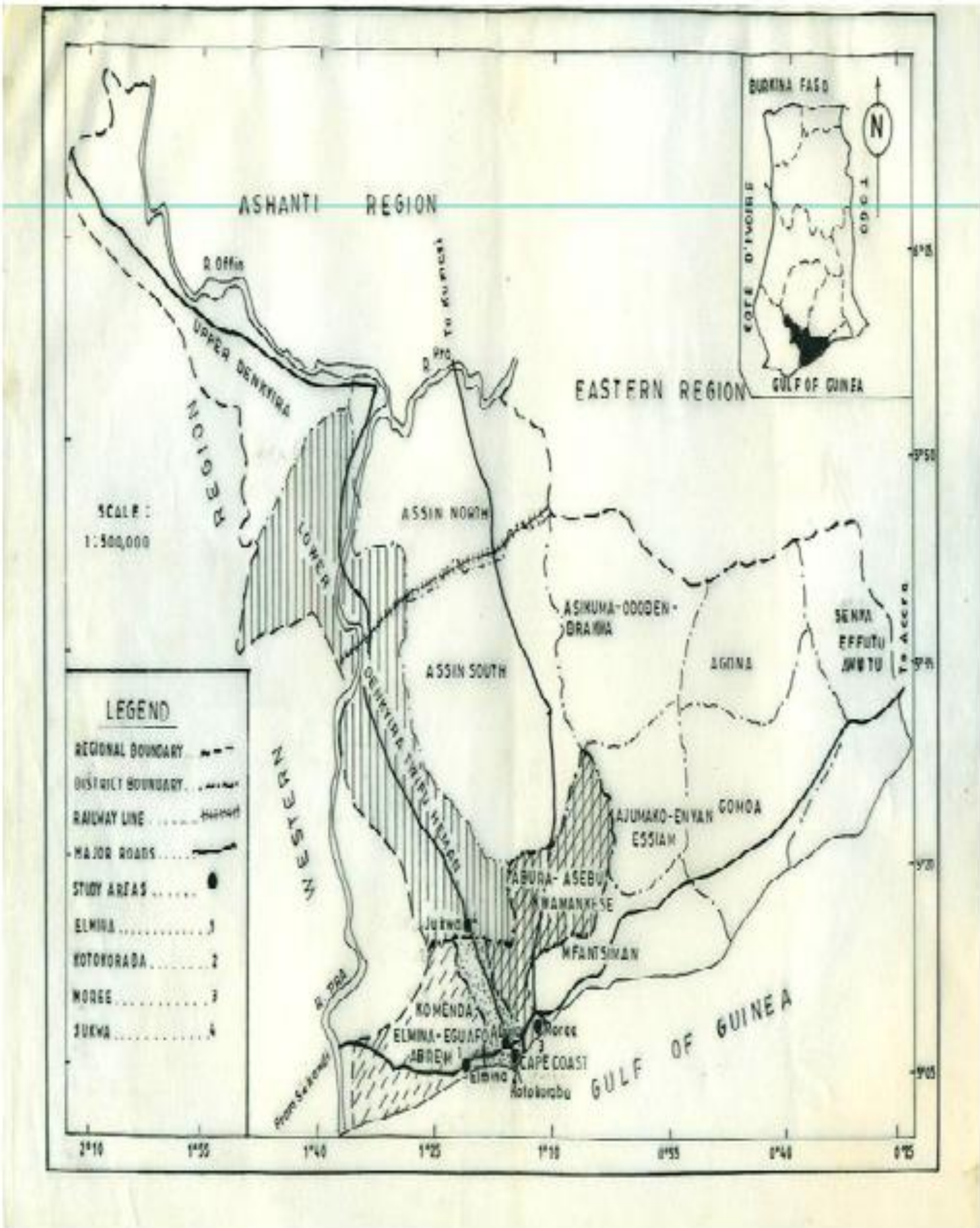


Figure 2: **Map of Central Region showing the study area**

Source: Cartographic Unit-Department of Geography and Tourism, U.C.C. 2009

The Central Region, with Cape Coast as its capital, has a projected population of 2,000,100 and a population growth rate of 2.1% (Ghana Statistical Service, 2009). The region covers a landmass of 9,826 square kilometers. It has many natural attractions, such as beaches, natural reserves and wildlife. The sources of livelihood of the people are fishing, farming and trading. There are also a few professional and white-collar workers scattered within the region. The culture of the region is depicted through manyinteresting and colourful festivals throughout the year. These annual festivals serve a variety of purposes, such as purification of stools, cleansing communities of evils, ancestral veneration and supplication to the deities for prosperity and unity.

Elmina

Elmina, the headquarters of the Kakum Rural Bank, is about twelve kilometres westward of Cape Coast on the Takoradi road. It is the first European settlement in West Africa. Its name, Elmina, was derived from a Portuguese term Da Costa de el Mina de Ouro (The coast of gold mines). The town started roughly 700 years ago as a salt producing and fishing village. Now it is a typical peri-rural town, basically a fishing community along the Ghana Coast.

The human population in the town is estimated to be 21,440 and there are 2,190 houses. The total number of households is 5,362 and the average household size is four (Ghana Statistical Service, 2005). Elmina is home to the Sao Jorge da Mina Castle built by the Portuguese in 1482 and Fort St. Jago built by the Dutch in 1660. It has several "Asafo" shrines and traditional houses, six hotels, eighteen restaurants and a lagoon. In addition, it has a post office and telephone facilities, a hospital and clinics, electricity and pipe borne water. Besides, there are a number of basic schools and a senior high school.

Moree

Moree is a coastal town located at about nine kilometres east of Cape Coast. Its main economic activities are fishing, cottage industries and commerce. The chief commercial activity is petty trading. Even female teachers, community health nurses and artisans working in various governmental departments, who want to make extra income after work, also engage in petty trading.

The town has a peri-rural status but it is more rural than Elmina, and harbours 17,761 people. There are 1,274 houses, 4,510 households, with an average household size of four. The houses are built of mud and thatch as well as cement.

Among its facilities are: a post office with telephone facilities; electricity; pipe-borne water; a guest house and a restaurant; several drinking spots; and a recreational field. There are also a clinic and many traditional birth attendance centres. Moreover, there are a number of basic schools and several "Asafo" companies.

Kotokuraba

Cape Coast, the capital of the Central Region, was the first capital of the Gold Coast (now Ghana). It has a population of over 35,000 people (Ghana Statistical Service, 2000). There are several hotels and restaurants, hospitals and clinics, basic and senior high schools in addition to tertiary institutions in Cape Coast. Transportation, communication, social and economic activities are quite vibrant in the town.

Kotokuraba is the central business area of the Cape Coast Metropolis. It is one of the fastest growing market centres in the Central Region. In the early colonial era, the Kotokuraba market was an important link between the maritime trade routes of the European powers and the terrestrial trade routes from the Sahel. The Kakum Rural Bank is located right in the heart of Kotokuraba.

Jukwa

Jukwa is basically a farming community at the edge of the Kakum Forest and situated on the Cape Coast -Twifo-Praso road. According to the Ghana Statistical Service (2002), the town has a population of 3,686 people and 497 houses. The total number of households is 921and the average household size is four. Jukwa has electricity and pipe-borne water supply, basic schools and a senior high school. It also has a maternity clinic that serves all the communities in the neighbourhood. Apart from farming, there are people in occupations like cottage industry and trading. Jukwa is one of the mobilization centres of the Kakum Rural Bank.

Study population

The population identified for the study comprised all the clients of the four selected agencies who have received credit since January 6, 2006 and their Bank Managers: Elmina (302); Kotokuraba (164); Moree (131) and Jukwa (114).There were 711 credit recipients in these agencies.

According to Ary, Jacobson and Razariah (1985), population is the aggregate of all cases that conform to some designated set of specification.

Sampling procedures

Both non-probability and probability sampling techniques were used in selecting the study sample. Non-probability techniques do not employ the rules of random theory. They are usually used for exploration and qualitative analysis. The non-probability sampling techniques used in this study were purposive and quota sampling. The probability sampling technique employs strict probability rules in the selection process: Every unit of the population has an equal calculation and non-zero chance of being selected for the sample. It allows the computation of accuracy of selectionfor a high degree of representativeness. The probability sampling technique used for the study was simple random sampling (Sarantakos, 1998).

The purposive sampling technique was used to select four of the 10 agencies of the bank and their managers. The selected agencies were Elmina, the headquarters of the Bank and a major fishing community; Moree Agency is exposed to fishing activities in one of the populated areas of the Central Region; Kotokuraba is an active commercial center with diverse economic activities due to the presence of the Kotokuraba market; and Jukwa Agency is sited in a well known farming community (Ghana Statistical Service, 2000). The selection of the agencies was purposively based on their peculiar characteristics. The four bank managers were selected because they were capable of providing vital information about the lending practices of the bank.

In this study, the researcher set a quota of the bank’s credit recipients to be selected from each agency, by defining the basis of choice (fishmongers, farmers, small scale entrepreneurs, manufacturers and artisans) proportionately from the sample size. The proportions obtained were further struck from the upper boundary selected from Kregcie and Morgan (1998), to determine the number of respondents for each agency.According to Kregcie and Morgan (1998), the sample size for a population between 700 and 750 should have an upper boundary of 256 (Appendix 4). Their prescription is based on a confidence level of 95 percent and a margin of error of five percent.The upper boundary was chosen in this study to cater for any error that might arise. That is, even if the banks'records of credit recipients were not updated, the upper boundary would cater for it.

The simple random sampling technique, using the lottery method, was employed in selecting the individual respondents for each agency. A sampling frame of credit recipients was taken from the agencies. The list was in no special order. The names were randomly numbered and the numbers were used for the lottery. The sampling distribution of credit recipients in the four selected agencies is shown in Table 3.

Table 3: Sampling distribution of credit recipients

Agency	Number of Credit Recipients	Selected Sample	Percentage
Jukwa	114	41	16.0
Moree	131	47	18.4
Kotokuraba	164	59	23.0
Elmina	302	109	42.6
Total	711	256	100.0

Source: Field data, 2009

Sources of data

Data were collected from two main sources: primary and secondary. Primary data were made up of information obtained from the respondents. Secondary data were obtained from articles, books, unpublished theses, journals, magazines, reports and publications of institutions, such as the UN, CGAP, FAO, the World Bank, the Bank of Ghana and her branches like APEX Bank, and Kakum Rural Bank.

Instrumentation

The instruments used were an interview schedule and a questionnaire. The interview schedule was used to gather information from the selected credit recipients. These credit recipients were interviewed because they were mostly illiterates who could not fill out questionnaires unaided. As put by Sarantakos (1998), interviews provide opportunities for increased information since some respondents may not be able to answer questionnaires as meaningfully as they can speak during interviews.

The interview was divided into five sections: the first section consisted of information on the background of the respondents; the second section focused on the problems the recipients faced before the credit acquisition; the third section dealt with the problems the recipients faced after the credit; the fourth section examined the benefits obtained from the credit; and the fifth section focused on the perception of the credit recipients concerning the bank.

The questionnaire for the bank managers was made up of both open and close-ended questions. The open-ended questions were used to permit free responses from them and to offer them the opportunity to express themselves freely on the issues for further answers. The close-ended questions were used to generate alternative opinions.

The questionnaire was divided into five sections. Section A was made up of information on the background of the bank managers; Section B dealt with credit acquisition procedures and problems; Section C examined problems after credit acquisition; Section D looked at the benefits obtained from the credit; and Section E dealt with the bank managers' perception of the bank.

Pre-test

The instruments were pretested on 20 credit recipients, the bank manager, his assistant and the accountant at the Abura Agency between 7th and 12th October, 2008. Abura is a suburb of Cape Coast and one of the mobilization centres of the Kakum Rural Bank. It has both rural and urban characteristics which are similar to those of the four selected agencies in the sample. The city of Cape Coast is widely extending from Abura, making the suburb a mixture of rural and urban settlements. Abura had an estimated human population of 5,780 and 499 houses in the year 2000 (Ghana Statistical Service, 2002).

The pretest was conducted to give the researcher ideas about the resources and the communication patterns required to undertake the study on the field. It was also to give her an outline of the data collection activities to be considered at the various stages of the study. Furthermore, the pretest was to give the researcher an idea on the suitability of the instruments and to help her identify the potential problems in the study.

It was observed during the pretest that some of the questions in the instruments were poorly worded and some sentences seemed complex and were not easily understood by respondents. This enabled the researcher to revise the instruments before starting the actual fieldwork. It was also found out that the researcher and the research assistants interpreted some English words in the instruments in the local dialect (Twi/Fante) differently. The researcher and the research assistants agreed on a standardized interpretation of those words and phrases. Additionally, some recipients were inconsistent in their responses to a question seeking to know whether the credit recipients had already acquired the habit of making savings. The question was consequently modified into a close-ended one for the actual field work.

To ensure that the instruments had content validity, both the interview schedule and questionnaire were shown to the Research Division and the microfinance officers of the KRB at Elmina for their comments. This was because they had been part of the microfinance programme at the bank since its inception. Again the instruments were shown to two seasoned researchers and lecturers of the Institute for Development Studies of the University of Cape Coast. Based on their comments, some of the items were modified. For instance, ambiguous instructions and sentences containing more than one issue were modified.

The Abura branch manager of the KRB, his assistant, the accountant and the 20recipients gave consistent responses to the questionnaire and interviewschedule respectivelyduring the pretest. After the necessary amendments had been made in the instruments, they were considered credible and ready for the fieldwork.

The Cronbach's alpha coefficient was used to determine the reliability of the instrument. The alpha estimate of reliability coefficient calculated was 0.87, meaning the instrument used was reliable. Reliability is particularly important in connection with multiple-item scales. It raises the question of whether each scale is measuring a single idea and hence, whether the items that make up the scale are internally consistent (Sarantakos, 1998).

Fieldwork

The fieldwork was conducted during the period November, 2008 - April, 2009. With the help of three trained research assistants, the researcher conducted the interview and administered the questionnaire. The challenges encountered in the conduct of the interview, during the initial stages of the fieldwork, included the unwillingness of some interviewees to fully disclose information in answering some of the questions. For instance, most of the interviewees refused to tell the interviewers the amount of credit granted to them, the number of times they had obtained credit from the bank, how the credit was repaid and how much was paid back. Some of them also refused to give information about their family sizes.

The researcher rightly guessed that the interviewees had misunderstood the purpose of the research exercise, and especially so, when the 2008 Presidential and Parliamentary elections were only a few weeks away. The interviews were halted for a while to enable the researcher meet with the concerned credit recipients at their cluster forum to explain the objectives of the research and to assure them of confidentiality. Thereafter, the situation normalized and the interviews were successfully carried out after the elections.

Copies of the questionnaire were given to the bank managers to complete because they were literate and could complete the questionnaire unaided. Besides, they were too busy to afford time for the interview. Apart from collecting data, the researcher supervised, monitored and edited the work of the three research assistants.

Limitations of the study

Some of the challenges faced on the field were:

- The length of the interview schedule affected borrowers' responses. Some hurriedly or refused to answer some of the questions because of tiredness;
- Some borrowers refused to answer questions concerning their income and finances; and
- Owing to time constraint, the researcher focused on only four agencies of KRB as a case and this, to an extent would make it difficult to generalized the results to other rural banks.

Data processing and analysis

The data obtained from the fieldwork were coded and analysed with the Statistical Product for Service Solutions (Version 16) software. Descriptive statistical tools, such as frequencies, means and percentages, were used to describe and present the results.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter presents the results and the discussion of the study. The presentation is organised as follows: background characteristics of borrowers;why the borrowers joined KRB;reasons for saving with KRB;Credit acquisition;borrowerssatisfaction with credit terms;intended purposes for credit and credit misapplication;credit repayment; other sources of credit; utilization of credit by borrowers; benefits obtained from the acquisition of credit; perception of the bank's lending practices;the effects of KRB credit on the social development of the borrowers; andborrowers'suggestions for making KRB credit more beneficial to its customers.

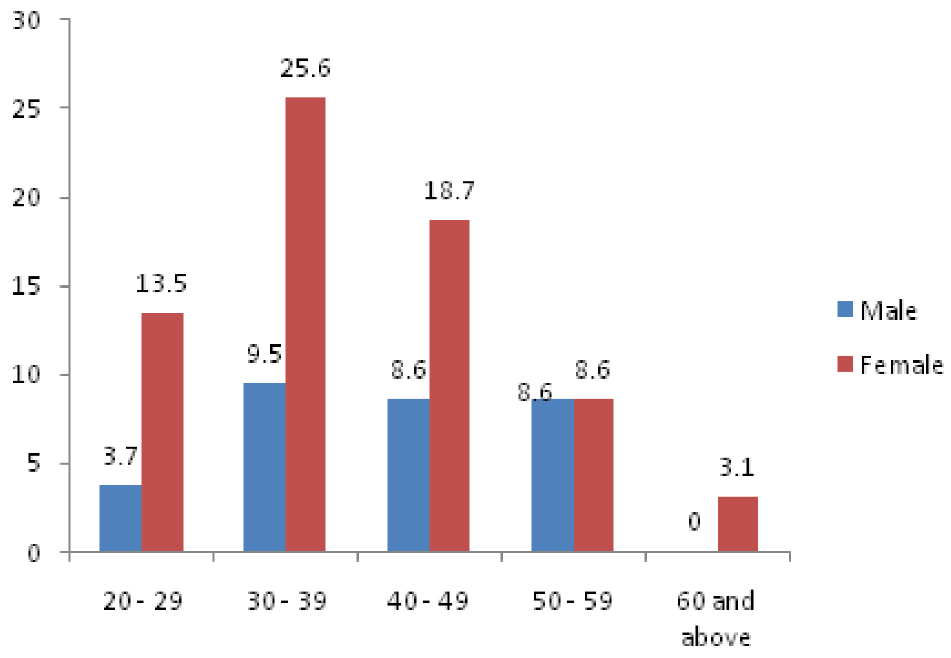
Background characteristics of borrowers

This section of the discussion gives a broad picture of the characteristics of the borrowers who participated in the study. Such characteristics as age, education and occupation of the borrowers and their households represent indicators of theborrowers' resources in the form of human capital.

Age-sex distribution of borrowers

Women formed 69.5 percent of the 256 borrowers. This result contradicts the findings of Essel (1996) who found that only a small percentage (12.5% in Elmina and 9.1% at Jukwa) of women received credit from the KRB agencies. The implication of this result is that the women in the Kakum Rural Bank catchment towns now have either a higher awareness or more accessibility to KRB credit than the men. Mostborrowers' (women) have their activities bordering around the informal sector which hitherto had very little or virtually no access to micro credit. This confirms Berger's (1989) observation that women are usually found in the informal sector and their businesses are usually home-based, in commerce, service or small scale manufacturing.

Age is one of the essential variables in socio-economic development. The age bracket 20-49 constitutes the active labour force of Ghana. Of the 256 borrowers, the youngest was 22 years and the oldest was 70 years. The borrowers had a mean age of 40 years and a standard deviation of 10 years, and nearly 80 percent of them were young person'swithin the age-group of 20 to 49 years (Figure 3). This shows that the main beneficiaries of KRB credit are in the economically active population.



Age (in years)

Figure 3: Age-sex distribution of borrowers

Source: Field data, 2009

Education-sex distribution of borrowers'

Table 4 shows that 84.4 percent of KRB borrowerswere literate persons who had basic, secondary and tertiary education. 60.5 percent of them constitutedwomen. However, those who accessed credit at the bank were mostly basic school (48.1%) and secondary school (32.4%) graduates of which the majority (58.9%) was women. This implies that the less educated did not lackknowledge on how to access the credit facilities at the bank for their general well-being.

Table 4: Education-sex distribution of borrowers

Educational level	Male	Female	Total	Percent
Tertiary	6	4	10	3.9
Secondary	19	64	83	32.4
Basic	36	87	123	48.1
Non-formal	8	2	10	3.9
Non-literate	9	21	30	11.7
Total	78	178	256	100.0

Source: Field data, 2009

Family size of borrowers

The extent to which a household is worse off or better off, compared to other households, depends on demographic indicators, such as family size, occupation, access to health services, food, shelter, security, social status and environment.

The results indicated that the smallest family size was one and the largest was 11. The mean family size was four, with a standard deviation of two. About 66 percent of the borrowers had family sizes between one and four. The rest had more than four members in their families, as depicted in Table 5.

Table 5: Family size of borrowers

Family Size	Number	Percent
1	45	19.0
2	31	13.0
3	54	22.7
4	27	11.3
5 and above	81	34.0
Total	238*	100.0

*Less than the number of respondents because of non-response.

Source: Field data, 2009

Table 6 shows the occupation and sex of the borrowers and the possible areas for investing their credits:60.5 percent of the credit recipients engage in trading activities, ranging from petty selling to shop ownership, 41.8 percent of them were females; about one-fifth (20.7%) of the sample are artisans in areas like barbering, hairdressing, sewing, tie and dye-making, mechanical engineering, and driving, most of them were females (15.2%); 10.2 percent wereinto manufacturing and processing of salt, gari and oil for the traders; and 8.6 percent were engaged in agriculture.

Many researchers have indicated that microfinance enables the poor to set up micro enterprises and increase the income under their control. Rahman (1999) has buttressed this view by saying that most credit recipients mainly depend on their economic activities for their income. Income, in this context, refers to any financial inflow that enhances the economic activities of credit recipients.

Table 6: Occupation-sex distribution of borrowers

Occupation	Male	Female	Total	Percent
Agriculture	13	9	22	8.6
Artisanship	14	39	53	20.7
Trade	48	107	155	60.5
Manufacturing	3	23	26	10.2
Total	78	178	256	100.0

Source: Field data, 2009

Why theborrowersjoined KRB

The data from the fieldwork showed that the majority (92.8%) of the borrowers joined the bank through the advice of their relatives and friends who had been and/or are customers of the bank. This was an indication of the goodwill the bank enjoyed among its borrowers.

Reasons for saving with KRB

The borrowersgave a number of reasons for saving with Kakum Rural Bank. These included: security of savings, chance for credit acquisition, bank's security or collateral purposes; proximity advantage and good bank-customer relationship. The results in Table 7 show that 51.6 percent of borrowers considered the fact that their savings could serve as bank security or collateral anytime they wanted credit; 19.9 percent saved with Kakum Rural Bank because they felt their money was more secure with the bank than at home; 17.6 percent thought they could obtain credit from the bank when the need arose; and 6.2 percentgave good bank-customer relationship as their reason for saving with KakumRural Bank.

Table 7: Reasons for saving with KRB

Reasons	Number	Percent
Security of savings	51	19.9
Credit acquisition	45	17.6
Bank collateral security	132	51.6
Proximity advantage	12	4.7
Bank - customer relationship	16	6.2
Total	256	100.0

Source: Field data, 2009

Credit acquisition

One of the main objectives of the KRB is to promote credit with reasonable interest rates so that its borrowers can be productively engage in income-generating activities. To achieve this goal, KRB offers three types of credit: short term (3 months), medium term (6 months) and long term (1 – 6 years). The long term credit, for example, attracts 18.16 percent interest rate on reducing balance basis (equivalent to 31.75 percent by the simple interest method). A borrower who takes GH¢ 2,000.00 for two years pays GH¢ 113.60 a month. All these credits are given for a variety of purposes such as trading, agriculture, building construction and many others.

The credit requires collateral, various kinds of securities, guarantors and group-joint liability. The approval of credit varies according to some guidelines maintained by the bank. Nevertheless, usually credit grants range between GH¢100.00 to GH¢ 5,000.00. Between 1992 and 2009 the minimum and maximum amounts granted to the recipients were GH¢100.00 and GH¢10,000.00 respectively. The mean amount was GH¢150.00.

Credit acquisition goes with a lot of problems. Nissanke and Aryeetey (1990) affirm that, until recently, it was only a particular rural class, the rich farmers and businessmen, who had access to institutional credit. This was due to the inability of the poor to provide the collateral and other securities the financial institutions demanded.

To make it easier for their clients to obtain loans, the KRB usually used the social collateral system in place of physical collateral. In this arrangement, members of a beneficiary group were expected to provide peer pressure to ensure prompt repayment. This does not fulfill the study framework with the provision of social security, instead of physical collateral and guarantors. Apart from the difficulty of raising a trustworthy group for the social collateral, the bank did not often grant all the sum of money applied for. Only 36.3 percent of the recipients said that the bank granted the whole amount they applied for. The bank managers explained this by saying that the levels of operation of some of the recipients were too low to attract the amounts they applied for. In some cases, applicants for credit faced difficulties because the reasons they gave for the credit did not fall within the bank's qualifying criteria.

Frequency of accessing credit

The results of the study showed that the minimum and maximum number of times the credit recipients had received loans were one and eight respectively.As depicted in Table 8, the mean number of times was two, with a standard deviation of one. First and second timers constituted 47.7 percent of the borrowers,in spite of the problems of loan acquisition, the majority (52.3%) had obtained credit more than twice; 45.3 percent of the borrowers had received the credit three, four or five times, whilst 6.2 percent had received the credit for the sixth time. There were only two borrowers (0.8%) who had received the credit for the seventh and the eighth time during the study.

Table 8:Frequency of accessing Credit

Number of times	Number	Percent
1	64	25.0
2	58	22.7
3	52	20.3
4	41	16.0
5	23	9.0
6	16	6.2
7	1	0.4
8	1	0.4
Total	256	100.0

Source: Field data, 2009

Reasons for credit acquisition

Credit is acquired for various reasons. Some of the reasons are: support for enterprises; income supplements;bridging regional developmental disparities; improvement of household income, health care, purchasing power, education and livelihoods. BRI (1990) opines that the availability of financial services acts as a buffer against sudden emergencies, business risks, and seasonal slumps that can push a family into destitution.

Table 9 outlines the reasons given by the recipients for taking the KRB credit. Most (83.2%) credit recipients invested their credit in business expansion activities, whilst 16.8 percent invested their credit in maintenance, domestic and social purposes. The fact that most of the recipients used their credit for business expansion affirms the fact that micro industries expand their asset base and increase their ability to respond to crises by applying for credit (Noponen, 1990). This supports framework on the issue of KRB credit targeting farmers, fishmongers, small and medium scale entrepreneurs and manufacturers.

Table 9: Reasons for credit acquisition

Reason	Number	Percent
Business expansion	213	83.2
Maintenance	28	10.9
Domestic	11	4.3
Social purposes	4	1.6
Total	256	100.0

Source: Field data, 2009

How the credit was obtained

For one to obtain credit fromKRB the person must have been an account holder who has operated with the bank for at least three months; the customer must have a good balance turnover; and should be able to provide two guarantors, preferably customers of the bank. Apart from the guarantors, securities in the form of land, buildings, and farm projects, such as oil palm plantation, a citrus plantation, and a cocoa farm as well as indentures and valuation reports, are all acceptable to the bank. However, the bank’s special credit programme targeting small-scale entrepreneurs and agriculture demands for only group security instead of collateral.These securities serve as a form of protection against delinquents.

To the question as to whether the credit was obtained through a group or not, 66.4 percent of the respondents answered that they obtained the credit through their various groups. Out of these recipient groups, 5.5 percent had their credit from CRAN, a non-governmental institution which paid the credit through KRB. Recipient groups had to save with the bank for two to three months in the name of the group before the credit was granted. This wires the conceptual framework. The remaining 33.6 percent obtained their credit on individual bases. These were salaried-workers and business people. Among them were a few shareholders of the bank. Of the total number of credit recipients, only 3.1 percent provided collateral in the form of land, vehicles and houses. The rest provided only two guarantors who were trustworthy customers of the bank as security. This supports the bank’s lending practices on the provision of social security instead of physical collateral and guarantors (KRB, 2005).

Borrowers' satisfaction with credit terms

The Bank of Ghana (2006) affirms the fact that, though formal financial institutions charge high interest rates and demand collateral and other forms of securities, the credit they give is not as substantial as those from non-formal financial institutional such as money lenders, NGOs, and credit unions. Also, until recently, it was only the rich farmers and businessmen in the rural communities that had access to credit (Nissanke&Aryeetey, 1990). Meanwhile, credit availability to all is the surest way to include the rural poor directly in rural development and to ensure a fair distribution of the nation's credit resources.

When the borrowers were asked whether they were satisfied with the terms of the credit, 89.1 percent responded in the affirmative. These credit recipients were of the view that since the credit was received, whether on time or not, it satisfied their needs. The remaining 10.9 percent of the recipients were not satisfied with the terms of the credit but collected the credit because they felt that, if they rejected it, they might lose some valuable opportunities from the bank in the future. The reasons given for their dissatisfaction with the terms of credit included the bank's inability to grant some customers' applications for credit on time. To them, such delays affected their plans and purposes for the credit. Again, the credit facilities offered them were inadequate for their intended plans and purposes.

Intended purposes for credit and credit misapplication

Majority (85.7%) of the credit recipients responded in the affirmative when they were asked whether they used the credit for the intended purpose.

This shows that 14.3 percent of the borrowers misapplied the credit. The bank managers confirmed that misapplication of credit was usual. According to BRI, (1990) evidence from Grameen Bank in Bangladesh and the Uganda Women's Finance and Credit Trust also affirms the fact that micro credits are sometimes not used for the intended purposes. Those who misapplied the credit said, some of the credit was used for the payment of utilities and school fees, different investments and socio-cultural obligations. Many of those who misapplied the credit were those whose amount was either delayed or reduced. In other words, the credits were misapplied due to a disconnection between the times of the pay-out and the borrowers'needs (BRI, 1990).

Repayment of credit

A very important issue that banks generally consider before granting credit to any individual, group or organisation is the viability of the project for which the credit is required, and the client's credit records. Repayment conditions are determined with reference to the borrower's capacity to repay the credit. The microfinance credit business is considered viable if the credit can be repaid out of the income generated by the undertaking or the project invested in.

Table 10 shows how the borrowers repay the credit. Of the 256 credit recipients, 96.1 percent had no difficulties in paying back their credit. This included those who had recently recovered all their credit and those who are still making installment payments on time. The remaining 3.9 percent had difficulty in paying back their credit (Supports framework on group and individual repayment).

Table 10: Repayment of credit

State of repayment	Number	Percent
Credit Repaid	45	17.6
Still Paying Credit	201	78.5
Some Installments Overdue	10	3.9
Total	256	100.0

Source: Field data, 2009

Mode of credit repayment

Some of the borrowers repaid their credits themselves or through specially trained bank assistants who went daily to the various destinations of the customers for their savings or deposits. Credit was repaid daily, every other day, on market days or fortnightly to the bank. There were others who repaid their credit weekly or monthly. The majority (62.2%) of the respondents repaid their credit by daily installments through the special bank assistants (Table 11).

Table 11: Mode of credit repayment

Mode	Number	Percent
Daily	153	62.2
Weekly	39	15.9
Monthly	40	16.2
Others	14	5.7
Total	246*	100.0

*Less than the number of respondents because of non-response

Source: Field data, 2009

Reasons for delinquent payment

Any breach of a credit contract is a credit delinquent. As such, there were 10 credit delinquentsamong the borrowers (Table 10).The reasons the credit delinquents gave for their inability to keep utmost faith with the bank basically bordered on inadequate capital, high interest rates and socio-economic problems (Table 12). It is significant to note that 50 percent of the delinquents attributed their delinquency to lack of adequate capital. The bank managers also confirmed these reasons. Thedelinquents' reasons corroborate the findings of Lycette et al. (1989) that inadequate working capital commonly results in inefficiency and discontinuity in production and sales. By implication, inadequate capital reduces savings and increases the chance for delinquency.

Table 12: Reasons fordelinquent payment

Reason	Number	Percent
Inadequate Capital	5	50.0
High Interest Rate	3	30.0
Socio-Economic Problems	2	20.0
Total	10	100.0

Source: Field data, 2009

Other sources of credit

It was sought from the respondents whether they had other sources of credit. When the question was asked, 76.2 percent of the respondents answered in the affirmative: 48.7 percent of the borrowers belonged to various "susu" types (personal or group savings) where they had extra credit; 21.5 percent were members of the local credit unions; 13.4 percent of the credit recipients had additional credit from Twifo Rural Bank and Assinman Rural Bank; 10.3 percent were also customers of ADB and SSB; 4.1 percent and 2 percent benefited from CEDECOM and CRAN schemes respectively (Table 13).

The information in Table 13 supports Stuart's (2000) observation that the poor can save and want to save money. The fact that 76.2 percent of the respondents had credit from other financial institutions is attestation that they saved with these institutions.

Table 13: Other sources of credit

Credit Source	Number	Percent
Twifo/Assinman Rural Bank	26	13.4
ADB/ SSB	20	10.3
Credit Unions	42	21.5
Susu	95	48.7
CEDECOM	8	4.1
CRAN	4	2.0
Total	195*	100.0

*Less than the number of respondents because the rest did not have other sources of credit

Source: Field data, 2009

Utilization of credit by borrowers

Table 14 explains how the borrowers used their credit. It was observed that 90.2 percent of the borrowers used their credits for productive purposes, such as trade (51.0%); artisanship (15.2%); agriculture (11.3%); and food processing (14.7%). Only 7.8 percent of the borrowers used their credit for non-productive investment. They used their credit for consumption and the satisfaction of socio-cultural needs. Contrary to the opinion of Nisssake and Aryeetey (1995) that small-scale industries usetheir credits mainly for consumption rather than production, the information in Table 14 agrees with the views of Udomah (1998),that small-scale industries tend to put their credits into productive investments.

Table 14: Utilization of credit by borrowers

Sector of Utilization	Number	Percent
Trade	118	51.0
Artisanship	35	15.2
Agricultural Production	26	11.3
Food Processing	34	14.7
Socio-cultural Needs	18	7.8
Total	231*	100.0

*Less than the number of respondents because of non-response

Source: Field data, 2009

Benefits obtained from the acquisition of credit

There is evidence that access to financial services significantly impacts the life of the poor. Empirical evidence shows that, among the poor, those who participate in microfinance programmes are able to improve their living standards, both at the individual and household levels, much better than those without access to financial services (Sugianto, 1998). For example, the clients of BRAC increased their household expenditure by 28 percent and their assets by 112 percent (Sugianto, 1998). It is also believed that making microfinance services available to poor households can help them to move from mere subsistence for daily survival to planning and investing in better nutrition, improved living conditions, children's health and education (BRI, 1990).

The study tried to determine the benefits credit recipients and their households had obtained from the acquired credit. The areas investigated were: level of output; financial status; contribution towards household needs; recruitment of additional labour; and savings habits.

Level of output after credit

The credit recipients were asked to use a five-point Likert scale to describe their output levels after they had acquired the credit. The results can be found in Table 15. Generally, the credits afforded the credit recipients the opportunity to increase their output. Nearly half (48.8%) of them described their output levels after acquiring the credit as good or very good; 41 percent described their production levels as fair; and only10.2 percent described their level of production as poor or very poor.

Table 15: Level of output after credit acquisition

Level of output	Number	Percent
Very Poor	9	3.5
Poor	17	6.7
Fair	105	41.0
Good	114	44.5
Very Good	11	4.3
Total	256	100.0

Source: Field data, 2009

Borrowers' financial status

Commenting on their financial status after acquiring the credit, 77.3 percent of the credit recipients described it as better than before they acquired the credit. Also, 18.8 percent of them had their finances remaining the same after the bank credit had been received. However, 3.9 percent of the credit recipients indicated that their financial status had worsened (Table16).

Table 16: Borrowers' financial status

Financial status	Number	Percent
Better	198	77.3
The same	48	18.8
Worse	10	3.9
Total	256	100.0

Source: Field data, 2009

Borrowers'contribution towards household needs

Microfinance had brought great improvement in recipients' livelihoods and in the living conditions of the recipients'households.A study in Bangladesh showed that eight out of 10 microfinance clients of the Grameen Bankincreased their average household income, number of meals per day, health care, and took their children or wards to good schools (BRI, 1990).

The results of the study indicated that the credit acquired brought much improvement in borrowers' ability to contribute towards the needs of their households. As shown in Table 17,the majority (89.1%) said they had the ability to pay their house rent much more promptly after credit acquisition, while 89.0 percent were able to provide more clothing for their households after acquiring credit. Also,88.3 percent of the borrowers paid their children's and wards' school fees more promptly after they had acquired the credit, and 82.8 percent of recipients were able to provide more balanced food (Healthy diet), after credit acquisition. The results thus, indicate that most borrowers

Table 17:Borrowers'contribution towards household needs(In percentages)

Household needs	Percentage
School fees	88.3
Rent	89.1
Balanced food	82.8
Clothing	89.0

n = 256

Source: Field data, 2009

were able to provide the welfare items of their households morepromptly than before the credit acquisition. This suggests that access to credit can positively affect the living standards of borrowers either directly or indirectly. As Mellor (1986, p.10) puts it, "an important means for improving the development needs of rural people is the use of rural credit. This credit, when available, helps one to stabilize consumption and engage in self-employment through private investment''.

Recruitment of additional Labour

The credit did not make much impact on the size of labour the credit recipients acquired. Most (62.5%) of the credit recipients responded in the negative when they were asked whether they recruited more labour after the acquisition of the credit. Only 27.3 percent recruited additional labour.

Borrowers' saving habits

The borrowerswere asked whether it was a habit for them to save money. A majority (69.5%) indicated that they had some previous experience in saving money. A large percentage (77.5%) of those borrowershad saved with institutional financial sources before they joined KRB.

Borrowers' perception of KRB lending practices

A major microfinance institutional objective is to address clients' needsfor credit (Mayoux, 2002). It was, therefore, deemed necessary to find out what the KRB borrowersthought about the lending practices of the bank.Their views were sought on the following operations: access to credit;

satisfaction on interest rate; collateral security; credit amount; credit recovery; profit margin (This is not quantified but only describes borrower-bank recovering performances in the bank's quarterly report);and savings,as depicted in Table 18.

Concerning borrowers'perception of customer accessibility to credit at KRB, none of the recipients rated the level of access to credit below average. Over half (52.4%) of the borrowers thought that the level at which they could access credit was at least good. The rest (47.6%) thought that accessibility to credits at the bank was average. They explained these by

Table 18:Borrowers'perception of KRB lending practices(In percentage)

Perception	Poor	Average	Good
Access to credit	0.0	47.6	52.4
Satisfaction on interest rate	1.2	68.8	30.0
Collateral security	0.0	80.0	20.0
Credit amount	2.0	48.0	50.0
Credit recovery	0.0	76.0	24.0
Profit margin	5.0	75.0	20.0
Saving	0.0	74.2	25.8

Source: Field data, 2009

saying that the bank was ever ready to give them credit after repayment, and that went a long way to sustain their livelihoods.

The results indicated that68.8 percent of the recipients rated the level of satisfaction on interest rate as average. By implication, they meant the interest rate was affordable,while 30 percent felt it was generally good. This supports framework on recipients perception of the bank.

With regards to recipients' perception of KRB's collateral security, 80 percent of the recipients thought it was average. For them, the introduction of group security by the KRB had helped them to obtain credit for a number of times, which, hitherto, they could not have received on individual bases to boost their stocks and production levels.

Concerning the amount of credit given 50 percent of the borrowers perceived the level of credit given by KRB to be generally good, relatively to other banks,while 48 percent rated it as average. They all thought that the credit enabled them, in one way or the other, to satisfy some financial or vocational needs.

Furthermore, the majority (76%) of the borrowers perceived the level at which credit was recovered by the bank as average. Borrowers felt the daily, weekly and monthly installments paid to the bank from their finances did not put much burden on their vocations.

Finally, most of the borrowersindicated that their profit margin wereeither average (75%) or good (20%). With regard to savings,74.2 percent of the borrowers rated the level of savings after KRB's credit as average, while 25.8 percent rated their savings as good. The general perception among the borrowers was that it was possible to make savings, while paying installments to defray credits taken from the bank.

The effects of KRB credit on the social development of itsborrowers

Social development of the borrowers in this study refers to the recipients’ direct or indirect participation in the general development of their communities. The social effects of the KRB credit on the borrowers can, therefore, be seen in the recipients’ direct contribution towards the social activities in their communities after acquiring the credit.

To assess the effects of Kakum Rural Bank credit on the social development of its borrowers, credit recipients were asked whether the bank’s credit had enabled them to make any contribution towards the social development of their communities.About 87 percent of them responded in the affirmative. The activities in which the recipients were directly involved were:funeral ceremonies (40.1%); payment of local tolls (31.2%);and church harvests(28.7%); these results confirm framework on social development of recipients.

Borrowers’ suggestions for making KRB credit more beneficial to its customers

The borrowers suggested a number of banking practices that they thought could make the bank’s credit more beneficial to its customers.As indicated in Table 19.About one- third (31.1%) of the borrowers suggestedthat the bank should enhance its services by learning from other financial institutions; 23.8 percent of the borrowers suggested that the bank should pay its credit promptly to meet recipients’ desired goals; 22.1 percent of the recipients suggested that the bank’s interest rate should be reduced to enhance prompt repayment.

Table 19Borrowers' suggestions for making KRB credit more beneficial to its customers

Suggestion	Number	Percent
Reduce interest rate	52	22.1
Give more credit	40	17.0
Pay credit promptly	56	23.8
Enhance services	73	31.1
Reconsider decision on defaulters	14	6.0
Total	235*	100.0

*Less than the number of respondents because of non-response

Source: Field data, 2009

Furthermore, 17.0 percent suggested that the bank should give more credit to its customers for business expansion,whilst 6 percent suggested that the bank should reconsider its decision on delinquent recipients by avoiding the use of task force and/or taking court action against them.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents the summary of the aim,method, limitations of the study, and the major findings of the study. It also deals with the conclusions derived from the findings of the study. Recommendations for improving the effects of KRB lending practices on the livelihoods of its borrowers are also made.

Summary

The main aim of the study was to assess the effects of the lending practices of the Kakum Rural Bank on the livelihoods of its borrowers. The study was conducted in the catchment areas of the KRB which cuts across seven out of the 16 districts in the Central Region of Ghana. Four of the 10 agencies of the KRB, namely: Elmina (Head Office), Kotokuraba, Moree and Jukwa, were selected for the study. The researcherused the descriptive and evaluative survey designs, with Kakum Rural Bank as a case study. Both non-probability and probability sampling techniques were employed in selecting the study sample of 256 from a population of 711. The non-probability techniques used were purposive and quota sampling. The probability technique used was the simple random sampling (lottery method). The purposive sampling technique was used to select the four agencies of the bank and their managers for the study. Quotasampling was used to determine the number of respondents from each agency. The lottery method was employed to select the individual members fromeach agency.

The interview schedule and the questionnaires were used to gather data from the selected credit recipients. The data obtained from the fieldwork were coded and analysed with the Statistical Product for Service Solutions (SPSS) software. Descriptive statistical tools, such as frequencies and percentages, were used to analyse the field data.

The main findings of the study were:

1. The problems encountered by the borrowers in obtaining credit from the bank were;difficulty in raising a trustworthy group for social collateral, especially the group-joint liability (66.6%);delay in receiving the credit applied for (63.7%);difficulty in recruiting additional labour (62.5%); and recipients' inability to use credit for intended purposes(23.8%).
2. The benefits obtained were;improvement in thepayment of house rent promptly (89.1%); provision for the household with more clothing (89%); ability to pay children's and wards' school fees promptly (88.3%); provision of households with balanced food (82.8%); and improvement in financial status (77.3);Borrowers also benefited by receiving free technical advice from the bank (62%);improved their output (48.8%) andproduction levels (41%);had market for some of their products (30.8%);and became connectedto suppliers forthe supply of raw materials (8.3%).

3. Borrowersperception of the bank’s lending practices and customer accessibility to credit at KRB were rated as follows: collateral security demanded (80.0%); credit recovery (76.0%); profit margin gained (75.0%); savings level (74.2%);interest rate charged (68.8%); and access to bank credit(52.4%).
4. The suggestions made by the borrowers to improve the lending practices of KRBand facilitate the customers’ access to credit were:enhancement of services (31.1%), prompt payment of credit (23.8%), reduction in interest rates (22.1%),provision ofmore credit to customers (17.0%), and better handling of defaulters without court action(6.0%).

Conclusions

The following conclusions were drawn from the main findings of the study.

The problems faced by credit recipients in obtaining credit from the bank were:difficulties in raising group-joint security for joint liabilities;delay in receiving the credit applied for; and difficulty in recruiting additional labour.

The credit recipientsand their households benefited from KRB credit in many ways: much improvement was seen in recipients’ production, output and financial levels; the payment of children or wards’ school fees and house rent became prompt;provision of more clothing and balanced food for recipients’ households was possible.Apart from the credit, recipients had the chance of receiving technical adviceon their various livelihoodsfrom resource personnel;they wereconnected to institutions that could supply them with raw materials; and they received trainingin book keeping.

With regard to the recipients' perception of the bank's lending operations, the majority perceived the level of credit accessibility and provision as good. Collateral security, credit recovery methods, and profit margins were perceived to be average.

The social benefits of the bank's credit were seen in the recipients' direct participation in the social activities in the bank's catchment areas. Almost all the recipients thought they had participated fully in social activities, such as church harvests, funeral ceremonies and payment of local tax.

Recipients' suggestions for the mechanisms KRB should put in place to improve its lending operations and facilitate customer access to credit were:Enhancement of services by the bank; prompt payment of credit; reduction of interest rate on credit; provision of more credit to recipients; and rescheduling of credit payment without court action.

Recommendations

Based on the findings and conclusions of the research, the following recommendations are made to help improve the effectiveness and the impact of the KRB lending operations on the livelihoods and households of its credit recipients:

1. The bank should adopt the Grameen Bank's method of doubling the savings of the recipients' credit for a specific period of time. By so doing,Kakum Rural Bank customers will not have to form a group for a joint liability.

2. The bank needs to provide credit on time. This is because delay in credit provision does not enable recipients to achieve their intended purposes.
3. The Bank managers and credit officers should be committed to the provision of more credit for its credit recipients, especially when their credit records and project viability are good. This will enable the credit recipients to expand their business operations.
4. For sustainable support to recipients'households and livelihoods, KRB should continue with its supervisory activities during group meetings, give education on risk and financial management to credit recipients to promote growth and expansion in recipients' livelihoods and thebank'soperations.
5. The bank should improve upon its advisory techniques and credit repayment measures to enhance its operations.

Areas for further research

To improve the existing rural banking operations in the country, similar studies should be conducted to investigate the problems of rural banks and their credit recipients so that the problems could be tackled in a holistic manner.

There is, also, the need to determine the level of national and international financial and technical collaboration between the rural banks and other financial institutions.

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APPENDIX 1

STRUCTURED INTERVIEW FOR KAKUM RURAL BANK CREDIT RECIPIENTS

Section A: Background information

1. Sex: a. Male [ ] b. Female [ ]

2. Age: [ ]

3. Marital Status: a. Single [ ] b. Married [ ] c. Divorced [ ]

   d. Separated [ ] e. Widowed [ ]

4. Educational Level: a. None [ ] b. Elementary [ ] c. Secondary [ ]

   d. Tertiary [ ] e. Non-Formal [ ] f. Any other (specify):

   ………………….……………………………………………………

   …………………………………………………………………………

   …………………………………………………………………………

5. Occupation: ………………………………………………………………

6. Family Size: …………………………………………………………………

Section B: Problems faced before credit

7. Did you benefit a credit from the Kakum Rural Bank?

   a. Yes [ ] b. No [ ]

8. Complete the table below by showing the number of times you have acquired credit from the Kakum Rural Bank, the year, the amount applied for, the amount granted and your reasons for the credit.

No. of Times	Year	Amount Applied	Amount Granted	Reasons for the credit

9. Was the credit given to you through a group?

a. Yes [ ] b. No [ ]

10. If yes, what security did you provide to the bank before getting the credit?

....

11.What do you normally do at group meetings?...

12. If no, how did you acquire the credit? ....

……………………………………………………………………………………

Section C: Problems faced during and after credit

13. Were you satisfied with the terms of the credit? a. Yes [ ] b. No [ ]

14. If yes, why? ....

15. If no, why did you collect the credit? ....

……………………………………………………………………………

16. Did you spend the total amount for the purpose for which the credit was acquired? a. Yes [ ] b. No [ ]

17. If no, what else did you use the credit for? ....

18. Why did you use part of the credit for this? ....

19. Was the credit repaid? a. Yes [ ] b. No [ ]

20. If yes, how much did you pay back? ....

21. How was it paid? a. Daily [ ] b. Weekly [ ] c. Monthly [ ]

d. Yearly [ ] e. Specify any other………………………………

22. If no, to question 18, why have you not been able to repay the credit?

……………………………………………………………………………………..

Section D: Benefits obtained from the credit

23. Do you have other sources of credit? a. Yes [ ] b. No [ ]

24. If yes, what other sources? ....

25. Which economic venture did you apply Kakum Rural Bank credit for?

....

………………………………………………………………………………

26. How do you find your output compared with your output before credit?

a. Very Poor [ ] b. Poor [ ] c.Fair [ ] d. Good [ ]

e. Very good [ ]

27. How do you find your present financial position compared with your position before credit? a. Better [ ] b. The same [ ] c. Worse [ ]

28. Would you say that with your present financial position you are able to

a. Pay your children/wards school fees promptly than before?

a. Yes [ ] b. No [ ]

b. Pay your rent promptly? a. Yes [ ] b. No [ ]

c. Provide quality and more clothing for your family than before?

a. Yes [ ] b. No [ ]

d. Provide your family with better and more food than before?

a. Yes [ ] b. No [ ]

e. Increase labour/ number of workers? a. Yes [ ] b. No [ ]

29. What do the banks officials do during visits?

30. Was it a habit for you to save money? a. Yes [ ] b. No [ ]

31. If yes, where were you saving money before credit? ....

32. How did you come to save with Kakum Rural Bank? ....

………………………………………………………………………………..

33. What is the frequency of your savings?

a. Daily [ ] b. Weekly [ ] c. Monthly [ ] d. Yearly [ ]

34. For what activities do you use your savings?

....

35. Does Kakum Rural Bank provide interest on your savings?

a. Yes [ ] b .No [ ]

36. If yes, what is the interest rate? ………………………………………..…

37. For what activities do you use your savings? ....

38. How do you compare your present scale of production to your scale of production before Kakum Rural Bank credit?

a. Very high [ ] b. High [ ] c. The same [ ] d. Low [ ]

e. Very low [ ]

Section E: Perception of credit recipients on the bank's lending operations

39. Why did you decide to save with Kakum Rural Bank? a. For security

b. For credit c. to serve as bank security or collateral

d. Specify any other……………

………………………………………………………………………………

40. What are the effects of Kakum Rural Bank credit on your occupation, trade or vacation with regards to the following items using the scale below?

a. Very poor b. Poor c. Average d. Good e. Very good

41. Level of access to credit [ ]

42. Level of satisfaction of interest rate [ ]

43. Level of satisfaction of collateral asked for [ ]

44. Level of credit given [ ]

45. Mode of repayment [ ]

46. Has the bank credit enabled you to make any contribution towards the social development of your community? a. Yes [ ] b. No [ ]

47. Mention some of them……………………………………………………

48. In your view what should the bank do to make its credit more beneficial to its customers? ………………………………………………………………….

……………………………………………………………………………………

50. Any other comments? ....

....……………………………

……………………………………………………………………………………

APPENDIX 2

QUESTIONNAIRE FOR BANK MANAGERS

This questionnaire is purely for academic research and does not intend assessing anybody. Its main purpose is to find how Kakum Rural Bank's lending operations affect the livelihoods of its credit recipients. Please, I assure you that I would treat any information you provide confidentially. I hope you will respond carefully without any bias. Thank you.

Community: Interviewer:

Section A: Background information

1. Sex:

2. Age:

3. Marital status: a. Single [ ] b. Married [ ] c. Divorced [ ]
d. Separated [ ] e. Widowed [ ]

4. Educational level: a. None [ ] b. Elementary [ ] c. Secondary [ ]
d. Tertiary [ ] e. None formal [ ]

5. Occupation: ………………………..……………………………………

6. Family size ……………………..……………………………………

Section B: Lending procedure

7. What do you look out for before giving out credit? …………………………

……………………………………………………………………………

……………………………………………………………………………

……………………………………………………………………………

8. What are some of the reasons credit aspirants usually give before acquiring credit? …………………………………………………………………………

…………………………………………………………………………………

9. Do you usually grant the request (amount) of credit aspirants?

a. Yes [ ]   b. No [ ]

10. Give reasons for your answer to question 9.

…………………………………………………………………………………

…………………………………………………………………………………

11. Which kinds of securities do you usually require from credit aspirants?

…………………………………………………………………………………

…………………………………………………………………………………

12. Why do you demand for the securities before giving out credit?

…………………………………………………………………………………

…………………………………………………………………………………

Section C: Problems after credit

13. Do you encounter difficulties in credit repayment? a. Yes [ ] b. No [ ]

14. Give reasons for your answer.

…………………………………………………………………………………

…………………………………………………………………………………

15. What are some of the defaulters' reasons?

………..…………………………………………………..…………………………

…………………………………………………………………………………

16. Do you experience misapplication of credit? a. Yes b. No

17. How do you detect misapplication of credit?

………………………..……….………………………………………….………

…………………………………………………………………………………

Section D: Benefits obtained from the credit

18. How many visits do credit officials make to recipients' groups and individualrecipients in a month? ……..…………………………………………

….………………………….…………………………………………………

19. What do officials do during such visits? …………………………………

………………………………..…………………………….…………………

20. Apart from the meetings, what other activities do you engage in with the credit recipients? ……….……………………………………………………

…..…………………………………………………………………………

21. Do you give technical advice to credit recipients concerning their trade, career or vocation? a. Yes b. No

22. Do you educate customers on how to make further enquires about their work?

a. Yes [ ] b. No [ ]

23. How do you assist credit recipients to get ready market for their services and products? ……………………………………………………………

…………………………………………..……………………………………

Section F: Mangers perception of the bank

24. What make(s) people do business with the bank?

a. For security [ ] b. For credit [ ] c. Both security and credit [ ] d. Specify any other. ………………………………………………………………………

25. In your opinion, what makes people refuse to do business with the bank?

………………………………………………………………………………

…………………………………………………………………………..

26. In your view, what should the bank do to make its credit more beneficial to its customers? ………………………………………………………………

………………………………………………………………………………

27. How is your interest rate, when compared with other financial institutions?

a. Low b. Average c. High

28. In your opinion, what are the effects of the banking operations on the recipients? ………………………………………..…………………

………………………………………………………………………………

APPENDIX 3

CREDIT RECIPIENTS OF THE KAKUM RURAL BANK

Agency	Total Number of Credit Recipients
AgonaAbirem	85
Jukwa	114
Abura	134
Abakrampa	96
Morre	131
Odoben	73
Kotokuraba	164
Mankessim	113
Elmina	302
Total	1,212

APPENDIX 4

DETERMINING SAMPLING SIZE FROM A GIVEN POPULATION

N	S	N	S	N	S	N	S	N	S
12	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: ‘N’ is population size; ‘S’ is sample size.

Source: Kregcie et al., (2009).