

UNIVERSITY OF CAPE COAST

CREDIT MANAGEMENT PRACTICES OF TWO RURAL BANKS IN THE
GREATER ACCRA REGION

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BY

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DECLARATION

Candidate's Declaration

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

Candidate's Signature:..... Date:.....

Name:.....

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation was supervised in accordance with the guidelines on supervision of dissertation laid down by the University of Cape Coast.

Supervisor's Signature: Date:.....

Name:.....

ABSTRACT

Rural banks have been vulnerable to high loan default, which led to 23 of them becoming distressed in 1999. It is for this reason that the research was conducted into the credit management practices of rural banks. The study explored the credit management practices of two rural banks in the Greater Accra Region to identify the inherent weaknesses in the credit delivery processes that contribute to repayment difficulties and recommend measures for improvement. A sample size of two hundred credit files was randomly selected to cover 10 per cent of the population. The data collection consisted mainly of the review of credit files and records and on-site examination reports. The credit data collected were analysed by using percentage changes, averages and aggregation on trend bases.

The findings of the research among others were: (a) credit approvals were largely based on adequacy of collateral; (b) monitoring/ supervision was generally weak in the banks; (c) loan loss provisions were under provided and laxity in adopting the credit delivery process contributed to some extent in high non performing loans. In addition training in credit management was on adhoc basis and did not necessarily meet the needs of credit officers to ensure their effectiveness and efficiency.

It was recommended that the due credit delivery processes should be followed strictly to minimise the incidence of high loan default. Furthermore, appropriate training programmes should be offered to directors and management personnel to facilitate the taking of good credit decisions.

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DEDICATION

This project work is dedicated to Margaret Asante and Nana Boa Akwam II the dear ones and my beloved children: Akua Owusua Ohene, Juliet Awusi Ohene, Kate Boabemah Ohene and Dominic Asante Ohene whom I am proud of for being the sources of inspiration and joy in my entire life.

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CHAPTER ONE

INTRODUCTION

Background to the Study

Attempts in the past to encourage commercial banks to spread their network and provide credit to the agricultural sector failed to achieve the desired impact (Kwapong, 2004). This was due to the relatively high cost and risk associated with financing the agricultural sector. Kwapong further stated that the banks were rather interested in the financing of international trade, urban commerce and industry where the risks were relatively lower. This created a gap in the provision of institutional finance to rural agricultural sector.

The underlying reasons which made commercial banks shy away from financing agriculture, the mainstay of the Ghanaian economy, in the view of the researcher include the following:

- Reliance on rain-fed agricultural practice depending on the vagaries of the weather which makes yields uncertain. This affects the expected revenue of the farmer to adequately liquidate any credit facilities provided by a bank in a period of poor rainfall;
- the subsistence nature of agriculture in the rural areas makes repayment of credit facilities highly risky;
- lack of acceptable assets to pledge as collateral for credit facilities
- amounts requested by farmers are relatively small and these make their management very expensive and thus eventually unprofitable for banks;

- the absence of guaranteed pricing system and storage facilities for food crops compel farmers to sell below economic price during periods of bumper harvest;
- inaccessibility to farm gates due to absence of motorable road network, causes produce to get rotten on farms thus causing loss of revenue to repay any debt.

The above-enumerated factors among others have contributed to farmers' inability to raise sufficient revenue from their produce to repay any credit facilities utilised. Consequently, the banks have been shying away from extending credit to the development of agriculture, the bedrock of the Ghanaian economy especially in the rural areas, in view of the underlying high credit risk.

To ameliorate this problem, the Bank of Ghana introduced the concept of rural banking in Ghana and the first bank was opened at Nyakrom in the Central Region in 1976 (The Rural Banker, January – June 2002). At the opening ceremony, the then Governor of the Bank of Ghana, Dr Amon Nikoi, charged the bank to mobilise savings in the rural communities and channel them through credit to rural dwellers engaged in farming, trading, transport and cottage industries. This assertion was reinforced by Asiedu-Mante (2002), when he stated that the primary objectives of all rural banks are the mobilisation and channelling of rural savings for economic development within the communities in which they are located. Asiedu-Mante further summarised the objectives of rural banking as follows:

- i) mobilise all available savings within the catchment area;
- ii) extend institutional credit to the rural dwellers in their respective areas of operation and thereby assist in increased productivity to create wealth for improved standard of living;
- iii) act as catalyst institutions for rural development by identifying and promoting the development of rural projects.

The basic characteristics of rural banks are that they are communally owned and designed to operate within limited catchment areas and maintain concessionary prescribed minimum paid-up capital. The directors are elected from among the shareholders with some co-option based on relevant specialities. However, the desire of the banks to ensure profitable operations through financing trade and commerce, have seen the upsurge of their proliferation in the urban centres, which rather exposes them to undue credit risk from customers with high appetite for substantial credit facilities such as contractors in the construction sector and businessmen.

Expansion of Rural Banking in Ghana

The number of rural/community banks (RCBs) in Ghana as at the end of December 2007 stood at 129 (Appendix I), and they commanded market shares of the banking industry's total assets, deposits, and advances of 7.52 per cent, 6.60 per cent and 3.84 per cent respectively (Bank of Ghana, 2007).

Appendix I indicated that RCBs were located in every political region of Ghana. Each RCB is an entity on its own and was incorporated under the Companies Code, 1963 (Act 179) and operates under the Banking Act, 2004 (Act 673) as amended and other directives issued by the Bank of Ghana periodically. Each RCB has the shareholders who hailed from the communities it operates and elects from among themselves, a board of directors that exercises the ordinary corporate powers of the bank. The tenure of office of the directors is in accordance with section 289 of the Companies Code, 1963 (Act 179) which requires the longest served one-third of the membership to retire by rotation but becomes eligible to seek for re-election. The Bank of Ghana has to clear every director of fitness and propriety before taking office in accordance with section .. of the Banking Act, 2004.

Governance and Staffing of Rural Banks

The staff of RCBs banks is appointed by the board of directors. A Supervising Manager or a Manager is the Chief Executive Officer (CEO), responsible for the day to day running of the bank. The CEO is an ex-officio member of the board and usually serves as secretary to the board. There is an Accountant who is in charge of keeping the books of the bank in accordance with the financial transactions that the bank engages in. A Project Officer is employed to identify viable economic activities in the area for financing. There are also other categories of staff including clerks, cashiers, system administrator, office assistance' security and drivers to lend support to efficient operations of the bank.

Asiedu-Mante (2003) stated that the rural banks had generally succeeded in inculcating savings habit among the people in their areas of operation, provided finances to support economic and other social needs of customers, financed out of profits basic infrastructural projects like school blocks, health centres, rural electrification and scholarships to brilliant but needy students. The rural banks had also provided job opportunities to a sizeable number of people.

A paper on 'A Case Study on the Failure of some Rural Banks (Bank of Ghana, 2007)' indicated that the performance of some rural banks became distressed due to the adoption of inappropriate policy measures as well as the existence of unfavourable internal and external environmental conditions. The critical factors that militated against the desirable realisation of the potential of the rural banking concept were summarised to include low capital to provide cushion to withstand operational and contingent losses, poor credit management practice culminating in substantial loan loss provision and illiquidity, weak management, low economic base to support vibrant and sustainable operations and fraud emanating from staff as well as insider abuse that led poor public image for the banks. The rural banks numbering twenty-three that could not overcome the enumerated challenges had their licences revoked by the Bank of Ghana.

Supervision of Rural Banks

The supervision of banks in Ghana is the prerogative of the Bank of Ghana (Banking Act, 2004) but part of this authority has been ceded to the ARB Apex Bank (as per ARB Apex Bank Ltd Regulations, 2006, L.I.1825) to supervise some aspects of rural banks' operations. The ARB Apex Bank which is owned by the

RCBs, started operations in July 2002 to provide the following services to the RCBs: specie movement, cheque clearing, funds management, training of staff and directors, inspection/internal audit, arranging for on-lending funds, and developing new products and services.

The ARB Apex Bank since its inception has instilled new lease of life into the operations of rural banks. Apart from the provision of inspection/internal audit services, constrained by funds, personnel and logistics, ARB Apex Bank is on course in the other areas of its mandate.

Rural Banks in the Greater Accra Region

The number of RCBs in the Greater Accra Region was six as at end December 2007 and maintained total assets of GH¢28,044,223, deposits of GH¢21,814,696, gross loans of GH¢8,924,292 and shareholders' funds of GH¢2,942,091, that portrayed market shares of 7.2 per cent, 7.6 per cent, 5.1 per cent and 9.2 per cent respectively (Bank of Ghana, 2007).

A brief information on each of the six rural banks in the Greater Accra Region as at end December 2007 is provided in the sub-sections that follow.

Shai Rural Bank

Shai Rural Bank at Dodowa was commissioned to start operations on 2nd October, 1980. The bank operated a single operational office since its inception until 2005 when an agency was opened at Adenta and then at Ashiaman in 2007. The main economic activities at its area of operation were farming, trading and transport. Total assets amounted to GH¢1,625,990 and was underpinned

substantially by deposits of GH¢1,335,763 and shareholders' funds of GH¢81,182. The main assets held were loans GH¢330,450 and investments of GH¢721,831. The bank's performance rating was satisfactory.

Ada Rural Bank

Ada Rural Bank has Kasseh as its head office and commenced operations on 13th August, 1982. The main economic activities in its area are salt winning, farming, trading and cottage industry in pottery. The bank has two agencies located at Sege and Ashiaman. Its total assets was GH¢1,849,570 financed significantly by deposits of GH¢1,475,801 and shareholders' funds of GH¢117,730. Loans amounted to GH¢830,380 and investment stood at GH¢359,764. The bank's performance rating was satisfactory.

Dangme Rural Bank

Dangme Rural Bank commenced operations on 3rd September, 1982 at Prampram. The predominant economic activities in the bank's operational area were fishing, farming, trading and transport. The bank operated five agencies at Ashiaman, Tema Manhean, Kpone, Old Ningo and Asutsuare. The total assets of the bank stood at GH¢5,966,234 and the main sources of funding were deposits GH¢4,606,516 and shareholders' funds of GH¢291,236. The funds were deployed substantially on loans that amounted to GH¢2,737,900 and investment of GH¢2,350,376. The bank's performance rating was satisfactory.

Ga Rural Bank

Ga Rural Bank, located at Amasaman was opened on 21st December, 1984 to provide banking services mainly to traders, farmers, cottage industrialists, transport operators and other economic/social endeavours. Total assets was GH¢6,282,464 and the significant assets were loans GH¢1,249,283 and investment of GH¢82,970. The main funding sources were from deposits GH¢5,391,748 and shareholders' funds of GH¢511,910. The bank remained compliant with the stipulated prudential norms and was also rated satisfactory.

Abokobi Area Rural Bank

Abokobi Area Rural Bank was established with the support of the Agricultural Project of Switzerland and started operations on 15th February, 1985 at Abokobi. The bank has two agencies situated at Madina and Dome serving the communities engaged in poultry, vegetable and crop farming, carpentry, trading, housing and transport. The bank's asset base stood at GH¢2,240,211 and the main sources of funding were deposits, GH¢1,792,269 and shareholders' funds, GH¢265,373. The main assets were loans of GH¢876,304 and investment GH¢885,000. The bank complied with the regulatory requirements for capital adequacy and liquidity ratios and was rated satisfactory.

La Community Bank

La Community Bank was opened on 3rd November, 1987 at La, Accra as the first community bank to spearhead the activities of the La Development. The bank's directors comprised seasoned professionals in banking, law, civil service and

business and their experiences contributed to lay a solid foundation for the bank. The bank was permitted to open agencies at Medina and Teshie/Nungua. The main financing activities were trading, transport and personal needs. The asset base stood at GH¢10,079,754 with predominant assets being loans GH¢2,899,975 and investment GH¢1,641,853. The main sources of financing the assets were deposits, GH¢7,212,599 and shareholders' funds GH¢1,938,097. The bank remained compliant with the prescribed capital adequacy, liquidity and exposure norms and was rated satisfactory.

Performance of the Rural Banks

Asiedu-Mante (2002), has asserted that very low deposits and high default rates have plunged some rural banks into serious liquidity problems, culminating in the erosion of public confidence in these banks. He indicated further that a combination of poor lending practices and ineffective monitoring of credit facilities extended to customers has contributed to high loan delinquency in some banks. The situation has most often plunged some banks into distress as withdrawals could not be honoured. For instance, according to the Rural Banker, January – June 2002, in 1999 the Bank of Ghana withdrew the banking licences of 23 Rural Banks which were distressed. The underlying factor for the 23 distressed Rural Banks was high incidence of loan delinquency, fraud and mismanagement which led to cash squeeze to meet withdrawals by depositors.

Rose (1999), stated that for most banks, loan accounts form half or more of their total assets and about half to two-thirds of their revenues. Moreover, risk in banking tends to be concentrated in loan portfolio. It is observed that when a bank

gets into serious financial trouble, its problems usually spring from loans that have become uncollectible due to mismanagement, illicit manipulation of loans, misguided lending policies, or an unexpected economic downturn.

Rose's (1999) assertion is buttressed by a compilation from the returns submitted by Rural Banks to the Bank of Ghana which indicates that the proportion of rural banks' loans/advances outstanding to total assets was 31.69 per cent as at end December 2004 and this increased marginally to 32.13 per cent as at end of March 2005 (Bank of Ghana, 2005).

The non-performing loans ratio of the banking industry according to the Bank of Ghana compilation was 17.94 per cent as at the end of December 2003 and this reduced marginally to 16.13 per cent as at end of December 2004. The segments of non-performing loans in total loans for rural/community banks in the Greater Accra Region as at the end of December 2003 and 2004 were 23.0 per cent and 31.0 per cent in that order. The levels of the non-performing loans were in excess of the Bank of Ghana's prudential tolerable ratio of 15.0 per cent and this becomes a matter of concern for the banking industry, which requires institution of measures to minimise this unfavourable development. The relatively general high level of non performing loans of rural banks in the Greater Accra Region may give the reflection of the inappropriate credit management practices in vogue that need to be researched into and controlled.

Statement of the Problem

Credit delivery is a significant activity in rural banks that contributes substantially to income. However, the high levels of non-performing loans of rural/community banks in the Greater Accra Region of 23.0 per cent that escalated to 31.0 per cent as at end December 2003 and 2004 respectively exceeded the prudential tolerable ratio of 15.0 per cent. The persistence of the unfavourable situation could land the banks into the sequence of operating losses, illiquidity, insolvency and eventual distress conditions and failure. The underlying factors for such high non-performing loan ratio need to be identified for resolution through research. The research should touch on the fundamental issue of credit management practice of the banks to identify the inherent challenges that gave impetus to the high non-performing loans ratio, the bane of bank failure, for appropriate recommendations to be made for resolution.

Purpose of the study

The main purpose of the study was to explore and describe the credit management practices of sampled rural banks in the Greater Accra Region with the view to identifying any inherent lapses and suggesting measures for improvement. The study employed a cross-sectional survey on a sample of two rural banks in the Greater Accra Region. The main data sources for the study were the credit records of a total sample of 200 clients of the sampled banks.

Research questions

The research is intended to respond to the following questions:

- (1) To what extent do rural banks follow the basic credit delivery process?
- (2) To what extent are loans granted utilised for the original intended purpose?
- (3) To what extent are loans granted promptly to meet the timing schedule of applicants?
- (4) To what extent are actual loan amounts requested granted to loan applicants?
- (5) To what extent are loans disbursed to actual beneficiaries?
- (6) What practices do rural banks use to ensure prudent credit delivery?

A brief explanation is provided to clarify the dimensions and scope of each key research question, beginning with the first research question which is on the credit delivery process.

Exploration of the Credit Delivery Process

Appraisal of credit deals with identifying the credit applicant, his/her account operating performance, assessment of credit history, purpose of credit request and profitability of the project or source of repayment. The appraisal is done to ensure that the likelihood of repaying the facility when granted is high.

Collateral is demanded to provide a fall-back to secure repayment should the primary project for which finance was sought or the beneficiary could generate sufficient cash flows to fully repay the facility as scheduled. The conventional collateral accepted include charge over perfected immovable properties that may be either fixed or floating, lien on deposit accounts, pledge of securities like

Government Treasury Bills/Bonds/Stocks and equity shares, and Government/corporate/personal guarantees. The collateral should be easily foreclosed or realisable.

The approval process specifies the various sanctioning authorities and limits in order to forestall the granting of unauthorised credit facilities. The usual approval strata of rural banks are Manager, Local/Credit Committee and Board of Directors. The Board of Directors has the responsibility of approving every credit facility and therefore credit facilities granted by the other designated authorities should be submitted to it for ratification.

The monitoring/supervision aspect ensures that the approval conditions are complied with, the approved amounts are disbursed, the funds are applied for the intended purpose, the repayment schedules are on course and field visits are undertaken to ascertain any challenges confronting the project being financed and to assess whether any assistance could be offered. The enumerated actions are taken to ensure that the approved credit amount is utilised to achieve the desirable outcome.

Exploration of the extent of loan utilisation for intended purpose

The application of loans for the intended purpose is crucial in making repayments. To this end, it is pertinent to ensure that loans granted are not diverted to any other purpose, where the applicant had not been assessed to have the potential of managing to fruition. In exploring the issue of loan for intended purpose, the study probed into disbursement of loans to the sampled clients to ensure that the funds were received by the actual beneficiaries.

Exploration of the timing of granting of loans to applicants

Loans are expected to be granted at the right time to ensure that delays are forestalled to frustrate the execution of the intended project. Such frustration has the tendency of either diverting the funds or applying the funds lately that could impair the end results of projects for the realisation of desirable cash flows to liquidate the credit facility. The disbursement of credit facilities is therefore critical in promoting repayment and the research focussed on the time lag between the date of receipt of credit applications and the date of disbursement of funds to the beneficiaries. This showed an indication of whether loans were disbursed in the early time band or otherwise.

Exploration of actual amount granted to loan applicants

The loans approved are to meet the expectation of applicants in order for required funds to be adequately deplored on the intended purpose for the desirable outcome to be achieved. Lower amounts approved could either result in diversion of funds for other purposes that might not be productive to ensure prompt repayment or could frustrate the fruitful realisation of the projects. The study probed into the adequacy of the credit facilities granted in ensuring the effective execution of the projects financed.

Exploration of loans disbursed to actual beneficiaries

Loans approved for actual beneficiaries were in some instances diverted to 'ghost' beneficiaries and such practice often adversely affected repayment. It was in this light that the study ascertained whether the approved loans were disbursed to

the actual sampled beneficiaries. The situation was to provide some assurance of comfort that the loan stood the chance of being repaid.

Exploration of other prudent credit delivery practice

In investigating answers to the sixth research question the study explored the following:

- (a) The existence of credit policy document to generally guide actions relating to types of credit facilities to offer, the responsibilities of personnel, approval limits of sanctioning authorities, types of collateral required, portfolio mix, rescheduling conditions, treatment of delinquent loans and write-off conditions among others.
- (b) The organisation of well-tailored training programmes to improved the knowledge and sharpen the skills of all those engaged in the credit delivery process. This should cover both directors and staff and should be regular in order to keep them abreast with any emerging developments. The adoption of this practice would assist in taking appropriate credit decisions that could lead to good loan repayment.
- (c) Classification of loans and loan loss provisioning provide the means of assessing the quality of loan portfolio of a bank. The practice which is a supervisory requirement of the Bank of Ghana allows banks to determine the direction of the loan asset quality and the burden of loan loss on profitability. The direction determined by this practice would enable banks review their credit management system to improved performance.

The adoption of appropriate measures to contain underlying risk is crucial to the success of any business entity. It would therefore be appropriate to investigate how credit management is done in rural banks.

Assumptions

The fundamental assumption underlying the study was that if generally acceptable framework for good credit management process was not followed loan repayment problems would eventually occur. Information to assist in unravelling this problem was solicited from the Bank of Ghana on-site examination reports on the rural banks and review of credit files and records of the rural banks.

Significance of the study

The overall objective of the study is to assess inherent bottlenecks, which characterise credit management, culminating in relatively high incidence of loan delinquency.

The adoption of due process in administering credit facilities provides some comfort in ensuring prompt repayments, which improves banks' loan asset quality and consequently operational performance. It is therefore important to examine the credit delivery process of rural banks to identify inherent lapses that impede desirable repayments. The study therefore intends to identify factors bedevilling good credit management practices upon which far reaching suggestive measures are outlined to ensure improvements.

The researcher envisages that the outcomes of the study would influence measures to re-shape credit management policy and practice for the improvement of loan asset quality in rural/community banks. The rural/community banks, ARB Apex Bank Ltd and the Bank of Ghana would find the outcomes of the study relevant to a large extent for adoption, issuing appropriate policy directives and supervisory guidelines respectively, for ultimate improvement in the credit management practices of banks.

Delimitations

The scope of the study was limited to the Greater Accra Region and the results were not intended to be generalised over the whole of Ghana. The second limitation of the scope of the study was that the loan repayment performance of the banks was not assessed to determine the effect on profitability. A third limitation on the scope of the study was that the quality of collaterals offered, apart from personal guarantee of salaried workers, was not assessed to determine whether they could easily be foreclosed. Also, the effectiveness of the monitoring and supervision system was not assessed to determine its appropriateness. Finally, the competence level of the various approval authorities was not assessed to determine their effectiveness.

Limitations of the Study

The findings of this study are subject to certain limitations caused by the circumstances under which the study was conducted. First, the number of credit records sampled was small; as only two rural banks were sampled; a larger number

of credit files would have produced more reliable results. Second, the researcher did not have free hand to apply the sampling method in the selection of the credit files since only the staff of the banks were allowed to have access to the rooms where the files were kept. Third, the position of the researcher as a senior officer of the Bank of Ghana might have created fears and suspicion in the minds of bank officials as to the true purpose of the study. Fourth, the researcher had difficulty in obtaining information on actual operations of loan beneficiaries – how the loans were actually utilised. Fifth, the absence of the Project Officer at one of the rural banks selected and relatively the short period of assumption of office by the Project Officer at the other bank, posed some difficulties in getting thorough clarifications for certain issues. Finally, the researcher could not collect evidence to explain why the Board of Directors ratified loans approved by the Credit Committee and the Manager of each of the banks. However, these limitations notwithstanding, the findings of the study could constitute a launching pad upon which further study may be undertaken to provide more insight into the study.

Definition of Terms

The terminologies, which featured in the chapter, are defined as follows:

- Financial intermediation: the process of transferring funds from an ultimate source to the ultimate user. A financial institution such as a bank, intermediates credit when it obtains money from a depositor and re-lends it to a borrowing customer (Fitch, 1997).
- Institutional Finance: a loan facility obtained from a financial institution e.g. a bank, credit union, finance house etc.

- Rain-fed agriculture: relates specifically to farming activities which depend solely on rains for successful harvest
- Liquidate: paying off debt obligation
- Subsistence agriculture: agricultural activities undertaken to barely support livelihood. Such activities hardly generate excess income for other initiatives
- Economic price: the price at which a producer must sell an output in order to earn the level of profit that would justify the remaining in business in the long run
- Collateral: asset pledged as security to ensure payment or performance of an obligation. In bank lending, it is generally something of value owned by the borrower. If the borrower defaults, the asset pledged may be taken and sold by the lender to fulfil completion of the original contract (Fitch, 1997)
- Loan delinquency: a credit facility with repayment overdue. Amount of past due balances, determined on either a contractual or a recency –of-payment basis (Friedman, 1994).
- Credit Risk: the possibility that funds granted as loans/overdraft would not be repaid either fully or nothing at all and allow the lender incur loss
- Time lag: the period after the receipt of credit application to the date of disbursement of funds to the applicant

Summary

Agriculture is the mainstay of the Ghanaian economy but its dependence on the vagaries of the weather for sustenance renders it very risky. The situation has made financial institutions shy away from extending substantial credit to agriculture. The rural and community banks were therefore introduced to fill the financing gap to agricultural sector by mobilising rural savings and granting credit facilities to support agriculture to an appreciable extent and thereby raise the standards of living in the rural areas.

The chapter identified that the loan repayment of the rural and community banks was unfavourable. In order to ascertain the underlying challenges the study focussed on the credit management practices of rural banks with the view of coming out with suggested remedial measures. The study centred on two rural banks in the Greater Accra Region and this posed a geographical limitation.

The succeeding chapters would look at the existence of literature on credit management with the intent of establishing empirical evidence to buttress the authenticity of the underlying theories on the subject. The methodology in respect of the research design, the population and sampling scope, the instrument applied on data collection as well as their basis of analysis are considered in Chapter 3. The findings are discussed in the penultimate chapter while the final chapter provides suggested remedial measures.

CHAPTER TWO

LITERATURE REVIEW

Introduction

The purpose of the study is to explore and describe the credit management practices of sampled rural banks in the Greater Accra Region with the view of identifying the inherent challenges and suggest measures for improving the high incidence of non-performing loans.

The literature review examines the basic elements of credit management in respect of: lending paradigm, credit risk, cost of borrowing (interest rate), borrower creditworthiness, collateral, monitoring and supervision, regulatory controls, and a credit manual for rural banks. The identified parameters constitute the basis for effective credit management practice and the underlining theoretical frameworks propounded by various authorities are detailed below.

Lending

Lending is one of the core pillars of financial intermediation and for that matter a significant activity in the operations of banks. It is at the same time highly risky. This is asserted by McNaughton (1992), who emphasised that risk taking is central to banking and banks are successful when the risk they take are reasonably controlled and within their financial reserves and credit competence. McNaughton was also of the view that to survive the numerous lending risks and to prosper, bankers must re-examine their bureaucratic tendencies in order to become

responsible to the financial needs of the economy. The bureaucratic tendencies could thus cause lots of frustrations for loan applicants to obtain credit at the right time, which may hamper the success of projects.

In the area of credit delivery, Rouse (1989) has asserted that a lender 'lends' money and does not give it away. The lender needs to look into the future and ask, will the customer repay by the agreed date? Rouse contends that, there will always be some risk that the customer will be unable to repay, and it is in assessing this risk that the lender needs to demonstrate both skill and judgment. The success of banks (in the view of this researcher), hinges on their ability to identify the financial services the public demands, produce those services efficiently, and sell them at a competitive price.

Lending is perceived as an art because it involves imagination and creativity (Rouse, 1989). It could be contended that credit management prescribes the guidelines to be followed and their religious adherence is very crucial for good credit management practices. The appropriate judgement depends on the skills, knowledge and foresight of the manager. This should embrace skills and knowledge in financial analysis, the performance of the sector receiving credit, the overall macroeconomic condition, the psychology in determining the perceived and indirect intentions of the borrower, the type of soil and climatic pattern in terms of agricultural loans and the perceived impact of the credit on the performance of the lending institution. In this vein, lending operations encompass various disciplines of economics, finance, law, accounting, geography, science, psychology, and culture among others. The situation makes lending activity very challenging since

substantial significant slip causes undesirable financial losses and for that matter threatens the very existence of the lending institution. In this respect, persons with the right attitude, knowledge and skills devoid of all egoistic sentiments, are needed to superintend lending activities.

Olashore (1988) has identified four interested parties in bank lending and these are the depositor, the borrower, the lending bank and government. Whilst the depositor wants the highest possible interest on his deposits, the borrower cherishes lowest interest rate on lending; the bank wants the highest spread between lending and borrowing rates of interest, and the government places emphasis on the responsiveness of lending to the sectoral needs of the economy. In spite of these interest groups, the lending bank ensures that its interest supersedes that of the others.

In a liberalised and deregulated economy, banks dictate both borrowing and lending interest rates and determine the direction of credit to sectors which are considered less risky and more profitable. For example, with persistent decline in Bank Rate from 42.5 per cent in 2000 to 15.5 per cent as at September 2005, the borrowing and lending rates of banks remained on the ranges from 1.0 per cent--25.0 per cent to 1.0 per cent--10.0 per cent; and 35.0 per cent--56.0 per cent to 25.0 per cent--32.0 per cent respectively. Furthermore, in spite of agriculture being the mainstay of the Ghanaian economy, institutional credit to this sector has been low recording shares in total credit by banks of 9.2 per cent, 9.2 per cent and 7.6 per cent respectively as at end December 2002, 2003 and 2004 (Bank of Ghana, 2004).

Credit risk

The granting of credit facilities is underpinned by the risk of being repaid when due. Williams and Heins (1985), indicated that risk identification is the process by which a business systematically and continuously identifies property, liability, and personnel exposures as soon as or before they emerge. The first step in business risk management in their view is to identify the various types of potential losses confronting the firm, and secondly, to measure these potential losses with respect to such matters as their likelihood of occurrence and their probable severity. It is therefore pertinent to assess the inherent risk of a credit facility, the existing operational management to mitigating the risk and determining the underlying actual risk. This assessment gives the idea of intended quality of the credit facility.

The unlikelihood that there will be a loss arising from default at repayment of a credit facility granted is referred to as credit or default risk. The primary danger in granting credit is the chance that the borrower will not repay the loan. Rouse (1989) buttressed this by stating that a lender 'lends' money and does not give it away and there will always be some risk that the customer will be unable to repay. This therefore calls for critical assessment of any credit request with reasonable assurance that repayment would not be of much problem. A bank further covers the uncertainty of the repayment by demanding collateral.

Credit risk has the repercussion of liquidity risk, which in the extreme instance can lead a bank to severe financial crisis, resulting in erosion of capital, insolvency and could ruin the bank.

To identify and address risk associated with credit management, the Basel Committee on Banking Supervision in its Publication No. 54 issued in September 2000 outlined the following measures:

- a) establishing an appropriate credit risk environment;
- b) operating under a sound credit granting process;
- c) maintaining an appropriate credit administration, measurement and monitoring process;
- d) ensuring adequate controls over credit risk; and
- e) the role of supervisors.

The highlights of the above issues raised by the Basel Committee on Banking Supervision (2000) are as follows:

Establishing an appropriate credit risk environment

The Board of Directors should have responsibility for approving and periodically (at least annually) review the credit risk strategy and significant credit risk policies of the bank. The strategy should reflect the bank's tolerance for risk and level of profitability the bank expects for incurring various credit risks.

Senior Management should have responsibility for implementing the credit risk strategy approved by the Board of Directors and for developing policies and procedures for identifying, measuring, monitoring and controlling credit risk. Such policies and procedures should address credit risk in all of the bank's activities and at both the individual credit and portfolio levels.

Banks should identify and manage credit risk inherent in all products and activities. Banks should ensure that risks of products and activities new to them are

subject to adequate risk management procedures and controls before being introduced or undertaken, and approval in advance by the Board of Directors or its appropriate committee.

Operating under a sound credit granting process

Banks must operate within sound, well-defined credit granting criteria. These criteria should include a clear indication of the bank's largest market and a thorough undertaking of the borrower or counter-party, as well as purpose and structure of the credit, and its source of payment;

Banks should establish overall credit limits at the level of individual borrowers and counter-parties, and groups of connected counter-parties that aggregate in comparable and meaningful manner different types of exposures, both in banking and trading book and on and off balance sheet;

Banks should have a clearly established process in place for approving new credit as well as the amendment, renewal and re-financing of existing credits; and

All extension of credit must be made on an arm-length basis. In particular, credit to related companies and individuals must be authorised on an exceptional basis, monitored with particular care and other appropriate steps taken to control or mitigate the risk of non-arm's length lending.

Maintaining an appropriate credit administration, measurement and monitoring process

The process entails the following:

Banks should have in place a system for the ongoing administration of their various credit risk bearing portfolios and a system for monitoring conditions of inadequate credits, including determining the adequacy of provisions and reserves.

Banks are encouraged to develop and utilise an internal risk rating system in managing credit risk. The rating system should be consistent with the nature, size and complexity of a bank's activities.

Banks must have information system and analytical techniques that enable management to measure the credit risk inherent in all on-and-off balance sheet activities. The management information should provide adequate information on the composition of the credit portfolio, including identification of any concentration of risk;

Banks must have in place a system for monitoring the overall composition and quality of the credit portfolios and take into consideration potential future changes in economic conditions when assessing individual credits and their stressful conditions.

Ensuring adequate controls over credit risk

The expected attributes included the following:

Banks must establish a system of independent, on-going assessment of the bank's credit risk management process and the results of such reviews should be communicated directly to the Board of Directors and senior management.

Banks must ensure that the credit granting function being properly managed and the credit exposures are within levels consistent with prudential standards and internal limits; and must further have a system in place for early remedial action on deteriorating credit, managing problem and similar workout situations.

The role of supervisors

On the role of supervisors, the Basel Committee (2000) advised that supervisors should require that banks have an effective system in place to identify, measure, monitor and control credit risk as part of an overall approach to risk management.

The Basel Committee (2000) further stressed that supervisors should conduct an independent evaluation of a bank's strategies, policies, procedures and practices related to the granting of the credit and the ongoing management of the portfolio.

In addition, supervisors should consider setting prudential limits to restrict bank exposures to single borrowers or groups of connected counter-parties.

The issues raised in the Basel Committee Publications No. 54 (2000) are very relevant and pertinent credit risk management. The Board of Directors should approve and periodically review credit risk strategy whilst senior management should ensure its effective implementation. This issue may not be vividly pronounced in the rural banks but the other major commercial banks are alive to it.

A sound credit management process provides the basis for assessing the credit worthiness of beneficiaries and creates facilities to be followed through. This ensures the utilisation of the credit for the intended purpose and also unveils any bottlenecks, which may arise for appropriate remedial action to be enforced. This mitigates the risk of the facility not achieving the intended purpose and generating sufficient cash flows to service as well as liquidate the principal amount. Projects with high-risk profile should be given close and continuous monitoring to ensure being managed efficiently.

The role of supervisors in ensuring good credit management practices has been in force. The single borrower exposure limits, insider lending (as stipulated in Part VI of the Banking Act, 2004 (Act 673)) and stringent provisioning rules are strictly enforced by the Central Bank. Recently the Central Bank has requested all banks to nominate risk officers to coordinate the various measures instituted to control the risks confronting them. In the case of rural banks, further credit limits have been set by the Bank of Ghana, beyond which such facilities should be submitted for ratification before disbursements are made.

This researcher considers the issues raised by the Basel Committee as very relevant and pertinent to manage credit risk and comments as follows:

- i) The Board of Directors should approve and periodically review credit risk strategy whilst senior management should ensure its effective implementation. This would ensure that the Board of

Directors exercises effective oversight over the credit management within the context of good corporate governance.

- ii) The institution of sound credit management ensures the utilisation of the credit facilities for the intended purposes and also unveils any bottlenecks which may arise for appropriate remedial action to be enforced. Sound credit management processes mitigate the risk of the facility not achieving the intended purpose and generating sufficient cash flows to service as well as liquidate the principal amount. Projects with high-risk profile should be given close and continuous monitoring to ensure being managed efficiently.
- iii) The Bank of Ghana through regulations and the implementation of the Banking Act, 2004 (Act 673) ensures that banks adopt good credit management practices. The single borrower exposure limits and insider lending (as stipulated in Part VI of the Banking Act, 2004) and stringent provisioning rules (specified in the Guide for Reporting Institutions, Bank of Ghana, 2005) are strictly enforced by the Bank of Ghana. The Bank of Ghana recently requested all banks to nominate risk officers to coordinate the various measures instituted to control the risks confronting them. In the case of rural banks, further credit limits have been set by the Bank of Ghana, beyond which such facilities should be submitted for ratification before disbursements are made.

Cost of borrowing (Interest Rate)

Stiglitz (1987) asserted that interest rates on lending would be higher if the probability of default is higher. In this regard ventures with high risk of success attract higher interest rates. For example lending to agriculture considered highly risky attracts higher interest rate than lending to commerce, which stood at 30.0 per cent and 28.5 per cent respectively as at the end of December 2005 (Bank of Ghana, 2005). However, this situation rather tends to aggravate the risk of default, since the higher interest rates increase the cost of production, which may affect the expected patronage of the products concerned. This may be the reason why subsidies are provided to sustain production of basic essentials like agricultural products in some developed countries.

The level of lending interest rates is also influenced by the availability of loanable funds and the competing ends. In situations where Government needs to borrow substantially to support its business, high interest rates are offered to crowd out the private sector. This was the situation in 2000 where the Treasury bill rate reached a peak of 45.0 per cent per annum (Bank of Ghana, 2000). The level of inflation also affects interest rate since a higher regime bears direct relationship with interest rates. This view was advocated by Cox (1988), when he indicated that, interest rates were influenced by supply and demand for funds, risk premium, inflationary factors and amount of loan.

Before the liberalisation of the economy in 1990, the Bank of Ghana regulated interest rates. During the pre-liberalisation period, interest rates were fixed by the Bank of Ghana for the various sectors for which the banks were to

comply. However, this system was abolished and banks were to determine their own interest rates according to the market forces and the dictates of the macroeconomic conditions. The Bank Rate of the Bank of Ghana seemingly becomes the benchmark but it takes time for the banks to adjust appropriately to it especially when there is downward revision of the rate.

Borrower creditworthiness

The assessment of the credit worthiness involves the gathering, processing and analysing of information on the loan applicant. An important aspect of information is by way of credit references and credit rating. Ghana is yet to have credit rating agencies, which will provide opinion on the credit standing of businesses in the system. The existence of such an agency would facilitate the credit decision process of banks.

According to Rose (1999) the question that must be dealt with before any other is whether or not the customer can service the loan – that is, pay out the credit when due, with a comfortable margin for error.

The factors underlying the assessment of pre-lending safeguards, in the opinion of Rose (1999) are – character, capacity, cash, collateral, conditions and control. In another context, Rouse (1989) referred to mnemonics used as common checklist to review loan application as: CCCPPARTS (Character, Capital, Capability, Purpose, Person, Amount, Repayment, Terms and Security); PARSER (Person, Amount, Repayment, Security, Expediency, Remuneration); CAMPARI (Character, Ability, Margin, Purpose, Amount, Repayment, Insurance/Security).

The variation in the mnemonics relates to the basic principle of assessing the potential of having loans repaid. The dimension of each of the factors outlined by Rose (ibid) is as follows:

Character: Customer's past payment records; experience of other lenders with the customer; purpose of loan; customer's track record in forecasting business or personal income and credit rating.

Capacity: identity of customer and guarantors, description of history, legal structure owners, nature of operations, products and principal customers, suppliers for a business borrower and management quality.

Cash: take-home pay for an individual, the past earnings, dividends, and sales record for a business firm, adequacy of past and projected cash flow; availability of liquid reserves, turnover of payables, accounts receivable, and inventory; capital structure and leverage and expense controls.

Collateral: ownership of assets; vulnerability of assets to obsolescence and liquidation value of assets.

Conditions: Customer's current position in industry and expected market share; competitive climate for customer's products; sensitivity of customer and industry to business cycles and changes in technology.

Control: applicable banking laws and regulations regarding the character and quality of acceptable loans; adequate documentation for examiners who may review the loan.

Security: Securities for loans and overdrafts are to ensure recovery of the funds lent to the borrower in the event that the borrower becomes unwilling or incapable of meeting his commitments. Dunkman (1996) outlined reasons for security as: safeguarding against some doubts about borrowers' repayment ability, basis for increasing amount of loans over and above existing facilities, and as a last resort to recover loan in the face of default. Agyeman (1987) expressed the view that even though security is necessary, its requirement by bankers must be adopted cautiously otherwise it is capable of being counter productive. According to him, this can come about when bankable projects are funded solely because of availability of security. Stiglitz (1996) buttressed Agyeman's (1987) view that security has the unintended tendency for causing skewness of loans in favour of property owners. The researcher shares the view that if security becomes dominant factor in credit decision, bankable projects, which lack securities as support, may be starved of credit while those with adequate security support but not financially viable may rather have access to credit. This then serves as draw back in using financial intermediation as focus for meaningful economic development and growth. Banks are often confronted by instituting legal action against loan defaulters to take possession of assets pledged as collateral for foreclosure.

The absence of highly marketable properties as security in the rural communities of Ghana was a reasonable factor for the commercial banks not extending credit to the peasant farmers and small-scale businesses in such areas. This gave cause for the establishment of rural banks, which do not rely on the rigidity of existence of security in extending credit. The intimate knowledge about

the integrity of the customer usually becomes the yardstick for vouching on the credit worthiness status. Akakpo (1994) also complemented the view that security is always the last consideration in any loan proposition and one should not lend purely because security is offered. Any loan proposition should stand on its own with the security only providing a cushion should things go wrong.

Rouse (1989) however, held the view that no advances should be made until security procedures have been completed or at least at a stage where completion can take place without the need to involve the borrower any further. This suggests that the provision of adequate perfected security should be paramount in taking a credit decision. The rigidity in total secured collateral before disbursement of credit facilities needs to be relaxed in order not to delay the financing, which invariably impedes the success of projects.

It should be also noted that the provision of security just provides secondary source of repayment and therefore to ensure sustained relations with customers in their business endeavours, it is pertinent to consider the viability of the project being financed to generate sufficient cash flows to liquidate the credit facility. Furthermore the foreclosure of immovable property pledged as security goes through a long legal tussle, which could not easily bring prompt liquidity relief to a bank. It is therefore very essential for banks to lay much premium on the viability of a project as a paramount consideration for lending financial support.

Monitoring

Monitoring of credit facilities granted to customers is a significant function in ensuring the success of the project for which repayment is made. Huppi and

Feder (1990) revealed that effective monitoring leads to higher recovery of loans by exposing possible dangers (like loan diversions) and reminding borrowers of their obligations to the lending bank (i.e. calling for redoubling of efforts towards loan repayments).

Monitoring of credit facilities has been concentrated typically on ensuring repayment when there are signs of defaults for either payment of interest or principal repayment by instalment. Such practice, in the view of the researcher, fails to achieve desirable loan repayments since the facility might have already gone bad. The researcher believes that monitoring of loans should be total by following events right from the disbursement of the facility, ascertaining the deployment of funds on the intended project, following up and reviewing progress of the project, identifying shortcomings for possible advice through field visits and discussions, ensuring prompt repayment of proceeds from the project and advising on further expansion or re-direction of the project among others. 'Armed-chair' monitoring invariably becomes a factor for non-repayment of credit facilities. Effective monitoring should be instituted by a lending institution and apprise management of the state of affairs of each project.

Regulatory controls

One of the basic objectives of banking supervision is to protect depositors' interest, the source of the bulk of working funds for banks. The existence of good quality loan asset portfolio of a bank provides guarantee for safety of deposits.

Section 2(1) of the Banking Act, 2004 (Act 673) empowers the Bank of Ghana to have an overall supervisory and regulatory authority in all matters relating

to banking business and be also responsible for promoting an effective banking system among others. To this end, Act 673 provides restrictions to regulate lending and investment activities and some of the specific provisions include:

- a) prohibition for a bank to grant credit facilities against the security of its own shares and those of its related parties;
- b) limit unsecured exposure and secured exposure to one person or group of persons to not more than 10.0 per cent and 25.0 per cent of a bank's net own funds respectively;
- c) a bank shall not take unsecured financial exposure in respect of any of its directors or significant shareholders and related parties;
- d) the board of the bank shall be the only authority to approve or sanction any financial exposures of the bank to any of its directors or significant shareholders or related parties;
- e) the financial exposure of a bank shall not be written-off or waived fully or partially, without the sanction of the bank's board and the prior approval in writing of the Bank of Ghana; and
- f) a bank shall not grant to any of its officers and employees any unsecured advances or credit facilities, the aggregate amount of which exceeds two years' salary of the officer or employee.

The above-entrenched provisions of the law are to ensure that risk posed by financial exposures to customers and related parties are regulated and minimised. The Bank of Ghana enforces these provisions through its off-site surveillance and on-site examination systems.

The researcher considers the legal provisions appropriate in controlling credit risk and also instilling sanity into writing-off non performing facilities.

Another controlling tool of the Bank of Ghana in regulating the quantum of credit to the public is the maintenance of liquid assets. Section 29 of the Banking Act, 2004 (Act 673) empowers the Bank of Ghana to prescribe the maintenance of liquid assets by a bank at a certain percentage of its deposit liabilities. In this respect the higher the prescribed ratio the lower the funds at the disposal of a bank to grant as credit facilities and vice versa.

Before July 2005 the Bank of Ghana required major banks to maintain Primary Reserve Ratio of 9.0 per cent and Secondary Reserve of 35.0 per cent both on deposit liabilities thus making available 55.0 per cent of deposits available for credit facilities. However, from July 2005 the Secondary Reserve Ratio was reduced to 15.0 per cent while the Primary Reserve Ratio remained intact at 9.0 per cent. The situation therefore allows major banks to utilise 76.0 per cent of deposits available for credit. In the case of rural banks the required Primary and Secondary Reserves Ratios are 13.0 per cent and 30.0 per cent of deposit liabilities in that order. This permits rural banks to advance 57.0 per cent of their deposits as credit facilities. The mandatory maintenance of secondary reserve for major banks was abolished in July 2006 whilst that for rural banks was conditionally abolished in July 2008.

Another constraint on lending by banks is imposed by Section 23(1) of the Banking Act, 2004 (Act 673) which requires banks, while in operation, to maintain a minimum capital adequacy ratio of 10.0 per cent. What this implies is that a bank

should provide a capital cushion of 10.0 per cent for risk assets (invariably loan portfolio) maintained. Capital adequacy ratio of below 10.0 per cent would debar a bank for making further credit.

A bank may have loanable funds but its inability to maintain the prescribed minimum capital adequacy ratio of 10.0 per cent persistently, would prevent such a bank from extending credit facilities. In the view of the researcher, the compliance with capital adequacy ratio is dependent to a greater extent on efficient credit management, which mitigates high loan loss provision arising from the existence of good loan portfolio quality.

Credit risk continues to be a major problem in banks. In this connection, banks and supervisory authorities should have the awareness of the vital importance to identify, measure, monitor and control credit risk as well as to determine that they maintain adequate capital as cushion against risks.

Credit management and policy

The general policy document on credit management for the rural banks is the Part II of the Bank of Ghana Operational Manual for Rural Banks, which was issued in 1985 and commonly referred to as the 'Green Book', in view of its green cover (Bank of Ghana, 1985). The document outlines procedures for credit appraisals, approval process, borrowing limits, monitoring and rescheduling and defaults.

A review of the Operational Manual for Rural Banks by the researcher revealed that it basically emphasised good credit management principles to ensure

an ultimate repayment of credit facilities. The study made the following observations on the manual:

- a. the aspect, which militated against good loan portfolio quality, is mandatory sectoral allocation under the character of financing proposal, which demands a minimum of 50.0 per cent of lending to agricultural sector. The dependence of agriculture on the vagaries of the weather makes it risky. The rigorous implementation of this directive, leads to the demise of some rural banks;
- b. furthermore, applicants for agricultural facilities, in view of the rural poverty, could hardly honour the demand of personal stake of 50.0 per cent of the eligible costs. This could scare off genuine applicants, who had the potential to repay credit facilities obtained. This aspect should therefore be exercised with circumspect and varied depending on the intimate desirable knowledge of the applicants; and
- c. the principle of field visits, as a monitoring devise is laudable for the bank to follow through the actual performance of credit facilities. The general effectiveness of field visits is suspect, since underlying reports are invariably non-existent. This therefore requires attention.

Classification of loans and provisioning

The outstanding credit facilities granted by banks are classified to assess the quality and determine the required loan loss provision level. The classification of

loans and advances by the rural banks is based on guidelines issued by the Bank of Ghana. The classifications are based on five categories, determined by the extent of duration of default and other incidental circumstances (i.e. a facility not due for repayment but beneficiary is deceased and with no collateral provided). The existing classification conditions and required loan loss provisions are as shown in Table 1.

Table 1

Classification of Loans and Provisioning Rate for Banks

Category/Characteristics	Percentage Provision Required
Current: Repayments on course or overdue up to 30 days.	1.0%
Other Loans Especially Mentioned (OLEM): Repayment overdue from 30 – 90 days.	10.0%
Substandard: Repayment overdue from 90 – 180 days with insufficient cash flow and working capital.	25.0%
Doubtful: Repayment overdue from 180 – 360 days and in addition to facility not well secured and existing conditions make repayment questionable.	50.0%
Loss: Repayment overdue over 360 days and conditions pose no hope for repayment.	100.0%

Source: Bank of Ghana’s Guide for Reporting Institutions, 2005

The provision rate is applied on the total balance on the “Current” category whilst in the case of the other four categories, it relates to the balances net of prescribed realisable collateral pledged (i.e. cash, treasury bills, lien on deposits).

Provisions for Bad and Doubtful Debts are made in anticipation of non-repayment of credit facilities granted when they fall due. The provisions are made in relations to the guidelines issued by the Bank of Ghana as shown in Table 1

above. The provisioning mechanism provides yardstick as to the strength of the credit management practice of a bank. The higher the provisioning figure and its sustainable increasing trend, the weaker the credit management and the reverse holds true.

Thus, the provisioning mechanism is highly subjective especially if the period of overdue does not constitute the main yardstick and this should therefore be approached with due circumspect and compromise between the Bank of Ghana and the banks. The misapplication of the principle could bring distortions in the profitability profile and loan asset quality of a bank. The general provision of 1.0 per cent on 'Current' classified balances without recourse to netting off allowable collateral as in the case of the other classifications brings inconsistency into the application of the principle.

Lessons from literature review

The literature review outlined the need to adopt sound credit management practices in order to achieve the ultimate goal of good recovery and to maintain good loan asset quality. This places a bank on a pedestal to achieve a sustainable growth and development by deepening financial intermediation as well as maximising shareholders' wealth.

Sound credit management entails critical assessment of credit risk and control, structured credit delivery process, effective monitoring/supervision regime, institution of oversight mechanism by the Board of Directors in terms of policy measures and supervisory control by the regulator in respect of credit limits, insider dealings, classification and provisioning of credits. The theoretical expositions and

practices highlighted in this chapter by various experts and authorities on the basic credit management principles provided pertinent guide for the research.

CHAPTER THREE

METHODOLOGY

Scope of the study

The purpose of this study was to describe the credit management practices of a sample of rural banks in the Greater Accra Region and suggest measures that could be adopted to minimise high incidence of loan delinquency in rural banks in the Region. The study covered the period January 2006 to June 2008 and the variables focussed were credit appraisal process and approval, monitoring/supervision and loan classification and provisioning of outstanding loans. This chapter describes the research methods employed for the study - research design, sampling, instruments used, data collection and data analysis.

Research design

The study on credit management practices involved the identification of lapses in the basic credit delivery process and suggesting measures that could be adopted to minimise high incidence of loan delinquency in rural banks.

The study is descriptive in scope and according to Robson (as cited in Saunders, Lewis, & Thornhill, 2007, p.134) descriptive study portrays an accurate profile of persons, events or situation. In this case the study portrayed the extent of the adherence by rural banks to basic credit delivery process and other necessary factors including the existence of credit policy manual, training of credit personnel and classification and provisioning for outstanding loans.

The study was also a cross-sectional survey as data were collected at a particular point in time (i.e. January 2006 to June 2008). The main types and sources of data employed included documents like credit files, credit manuals, credit policy document and credit returns. Thus, the study was also an archival type of research. Saunders, Lewis, and Thornhill (2007) indicated that archival research strategy allows research questions which focus on the past and changes over time to be answered, be they exploratory descriptive, or explanatory. The research questions in this respect required answers to ascertain whether the laid down credit delivery process was being adhered to in order to establish the consequential effect on loan delinquency.

The study depended largely on secondary data which were considered as data that have been already collected for some other purpose and could be documentary, survey, and those from multiple sources (Saunders, Lewis, and Thornhill, 2007, p. 272). Saunders, Lewis and Thornhill contended that the researcher must establish whether the sort of data required would be available and if the data can be located or accessed. The secondary data used for the study were maintained by the banks to assess the credit worthiness of loan beneficiaries and provided guidelines for efficient credit delivery. The accessibility of the data was without much difficulty.

Where appropriate, the research relied on checklist for the generation of new data from secondary sources to address the research questions. The checklist conformed to the overall suitability criterion specified by Saunders, Lewis, and Thornhill (2007) and is exhibited as Appendix II.

In order to respect the rights, privacy and confidentiality of customers whose credit files were selected, numbers were assigned to each file instead of the actual names provided on them. To avoid information leakage on any of the customers, the information was analysed collectively. The credit files were reviewed for data collection at designated location at the banks visited and no record was removed from them.

The data collected were in respect of the following:

- i) the existence of any credit policy document to generally guide credit management;
- ii) credit appraisal process to assess the suitability and viability of the project for which funding is requested. Type of documentation and relevance of information in reaching decision;
- iii) approving authorities and scope of influence;
- iv) approval conditions for disbursements;
- v) monitoring, supervision and control in respect of utilization of funds for the intended purpose; and
- vi) classification and provisioning of outstanding loans.

The study in the nutshell covered the following:

- i) reviewing and analysing off-site and on-site records at the Bank of Ghana
- ii) reviewing credit policy documents of the two rural banks

- iii) reviewing credit files and documents of the two rural banks
- iv) analysing data collected to form opinion
- v) coming out with findings and recommendations

Population and sampling

The target of analysis was the loan beneficiaries of the banks. The population for the study was the six Rural and Community Banks (RCBs) in the Greater Accra Region and their loan beneficiaries for the period, January 2006 to June 2008.

Multi-stage approach was adopted in selecting two banks for the study. The first stage was the use of a non-probability group sampling or purposive sampling to select the required number of banks. The selection of the two banks was based on the non-performing loans profile of the six banks from which the top and least rankings depicting 'high-performing' and low-performing' respectively were purposively selected from the stratified groups.

The second stage of sampling was selection of loan beneficiaries. A sample size of 200 credit files (100 from each selected rural bank) was randomly selected for review from the selected two banks out of a total of 1,993. The distribution of files selected from the two banks was shown in Table 2 below.

Table 2
Sampling Loan Beneficiaries of the two rural banks

Files	*Bank A	*Bank B	Total
Total Files	1,065	928	1993
No. Sampled	100	100	200
% Sampled	9.39	10.78	10.04

*The names of the banks are with-held for confidential reasons

Source: Field Survey, 2008

The population of 1,993 required the selection of sample size of 322 that would have resulted in a 5.0 per cent margin of error as postulated by Saunders, Lewis, and Thornhill (2007). The sampling size of 200 therefore fell short of the sample size required for a tolerable margin of error of 5.0 per cent.

Instruments

The study as indicated earlier in this chapter relied mainly on secondary data that did not involve the use of either questionnaire or interview guide. The format for the collection of the secondary data was structured to ensure reliability by using a checklist suggested by Saunders, Lewis, and Thornhill (2007).

The techniques used in collecting data entail the reviewing of secondary data in respect of:

- i) on-site examination and off-site reports as well as other reports on the two rural banks by the Bank of Ghana focusing on credit management

exceptions, guidelines on ratification of loans exceeding the prescribed limits;

- ii) credit policy manual of the banks
- iii) credit files and loan accounts of the banks
- iv) loan classification and provisioning returns

The review of credit files is based on date of opening an account with the bank, date of application, date facility approved, amount requested, amount approved, purpose of facility, approving authority, collateral provided and value, viability of project (if applicable), basis of approval, any previous facility/track record and status of facility.

Data collection

The data were collected by visiting the two rural banks, with an introductory letter from the Bank of Ghana, which authorised access to the records and information for the study. The credit files were reviewed solely by the researcher at assigned location of each of the banks. A credit officer was assigned to provide the required credit files and other related credit documents. The structured formats were used to collect the required data.

Authorisation was obtained from the Head, Banking Supervision Department, Bank of Ghana to have access to on-site, off-site examinations and other reports on the six banks for review at the Bank's offices.

The explanation and scoring guide for each of the structured appendice were as below.

Appendix III: Checklist for Compliance with Credit Delivery Process

The appraisal parameter entailed the existence in the credit file of an application letter for a credit facility stating amount required, purpose and repayment period; an assessment report from a credit officer indicating account operating record, track record of applicant, managerial expertise, adequacy of anticipated cash flows from project to be financed, state of monthly budget of applicant, viability of project, availability of collateral and recommendations of credit officer.

If the above stipulations were available a compliance score of '1' was given while inability to conform materially to the basic issues gave a non compliance score of '0'.

Adequacy of collateral related to the applicants providing the collateral required by the bank as a secondary source of repayment. Bank A for example required the provision of at least a minimum of two salaried workers as collateral for a facility while Bank B demanded four to six salaried workers as collateral depending on the magnitude of the amount. The provision of the minimum required salaried workers as collateral gained a compliance score of '1' while any shortfall in the required number of salaried workers providing collateral was assigned a non compliance score of '0'.

The approval parameter looked for endorsement on the appraisal report by any of the persons in the approving authority (i.e. Manager, Credit Committee members and Board Chairman and directors). Credit facilities approved by either the Manager or Credit Committee members should be ratified by the Board with

endorsement by two directors. The existence of the required endorsement on an appraisal report received a compliance score of '1' while the absence of an endorsement recorded a non compliance score of '0'.

Monitoring and supervision ensure that the approval conditions, application of funds for the intended purpose, and repayment schedule were being complied with. Monitoring and supervision also ascertained whether the project financed was on course to yield desirable outcome. The existence of field call reports and correspondence on state of projects and repayment demands gave signals of monitoring and supervision and a compliance score of '1' was assigned while the absence of such signals was given a non compliance score of '0'.

In a situation where all the four parameters were complied with by an application, a criterion score of 4/4 was recorded to ascertain the overall level of full compliance of the basic credit delivery process.

Appendix IV: Checklist to ascertain application of funds to original purpose

The checklist tried to establish whether the funds granted to loan beneficiaries were actually utilised for the original intended purpose. In this regard, consistency of purpose of credit facility was determined between those stated in both the application letter and credit appraisal report. The sector to which the purpose of the credit facility related was featured in the scoring as follows: A—Agriculture; Trd—Trading; Tpt—Transport; C.I.—Cottage Industry; O—Others.

The sector code was recorded for each loan applicant in respect of purpose as stated in the application letter and the credit appraisal report. If the same purpose was recorded for the two parameters, then a consistency of purpose score of '1' was

recorded. However, if score for either parameter showed different sector, then a inconsistency of purpose score of '0' was recorded, which suggested that the facility was not utilised for the original purpose. The criterion score of '1' was desirable.

Appendix V: Time Lag between Application and Disbursement of Credit

The Appendix tried to establish the number of days taken by the banks to disburse funds to applicants after the receipt of credit applications. The time lag was calculated a day after the receipt of the application to the day of disbursing the funds. For example if an application was received by the bank on 3rd April and disbursement of funds was made on 18th March then time lag was 45 days.

The time lag was categorised in time clusters of '0 – 15 days', '16 – 30 days', '31 – 45 days', '46 – 60 days' and 'Over 60 days' and aligned to the classified economic sectors. The preferable time lag was the period of up to 30 days.

Appendix VI: Checklist of Amount Requested against Amount Granted

The checklist was used to determine whether the amount granted to each applicant was the actual amount requested to finance the intended purpose. This was to ensure that the right amount was granted to meet the financing needs of the applicant for the intended project. The amount requested was assigned "a" mark and if the same amount was granted the same mark of "a" was assigned. In a situation where a different amount was granted, a mark of "b" was recorded. A mark of "1" was given for consistency score while "0" was assigned for different amounts score.

The analysis of the scores indicated the number of same amount requested and granted from amounts granted being lower than the amounts requested.

Appendix VII: Checklist for matching Loan Applicants with actual Beneficiaries

This appendix was used to ascertain whether the actual loan applicants were those who received the disbursed funds. The essence was to ensure that funds were not disbursed to ‘ghost’ beneficiaries. The categorisation of score was based on assigning “1” if all the three parameters bore the same name for an applicant and “0” if either a different name existed for any of the parameters in respect of an applicant or none of the parameters existed at all. The perfect score was for applicants to attain 3. The analysis was based on achieving expected scores of “3”, “2” and “1” as well as the existence of the number of each parameter.

Appendix VIII: Checklist for Other Factors considered by the Banks

The other factors considered in credit management related to the existence of Credit Policy document to guide action, periodic training of Credit Officers to update knowledge and skills and quarterly Loan Classification and Loan Loss Provisioning to determine the loan portfolio quality taking decision thereon.

The availability of any of the factors that was applied effectively to improve the overall credit management attained a score of “2” while availability without effectiveness attracted a score of “1”. The non-existence of any of the factors was assigned a score of “0”. A maximum score of “8” was expected.

Data analysis

The data collected were analysed by using trend analysis based on percentage changes (year-on-year and also over the reporting period), averages, aggregation and comparative analysis to establish the outcome of the study. The researcher's informed knowledge about the operations of the rural banks was brought to bear on the data analysis.

Analysis pertaining to basic credit delivery process

The credit file of each applicant was reviewed to determine whether the basic credit delivery process relating to appraisal, collateral, approval and monitoring/supervision were followed. The adoption of each of the parameters by the two banks was collated and comparison made to establish the extent of compliance with the process of credit delivery.

Analysis of the extent of loans granted utilised for original purpose

The analysis was based on establishing the consistency of the purpose of facilities as stated in the loan application letters and the in the loan appraisal report. The data were collated to ascertain the percentage attained for consistency and inconsistency of purpose for each of the two banks.

Analysis of the extent of promptness of granting loans to meet timing schedule

The data were categorised into economic sectors and the dates of the application and disbursement compared to establish the time lag in completing the credit delivery process. The number of applications disbursed for each sector was classified under a range of time-bands to determine the extent of time lag for

disbursing credit facilities. The percentage of facilities disbursed in the relatively short term band of '0 – 15 days' for each of the two banks was assessed.

Analysis of the extent of amount requested against amount granted

The analysis compared the actual amount requested against the actual amount disbursed to determine whether amounts granted were sufficient to meet the intended purpose. The amounts granted were assigned with '1' while for the amount granted '1' was assigned for same amount requested and '0' for different amount from amount requested. The criterion score was '2/2' tagged for the same amount requested and granted whilst '1/2' was assigned to different amount requested from amount granted. Appendix VI provided the format for the data collection.

Analysis of the extent of matching loan applicants with actual beneficiaries

The consistency of the names of credit beneficiaries were assessed by comparing the names in the credit files, deposit accounts and loan accounts. The existence of same had a score of '1' for each parameter whilst a different name from that in the credit file was assigned a mark of '0'. The criterion score for the consistency of name was '3/3' that indicated applicants being the actual beneficiaries and other scores of '2/3' and '1/3' portrayed doubts of facilities granted to the actual applicants.

Analysis of practices adopted to ensure prudent credit delivery

The assessment was based on the qualitative content of the indicative factors. The content related to the depth of coverage and relevance (i.e. credit policy),

academic acumen and experience of membership of committee and frequency of meeting (i.e. credit committee), appropriateness of training programmes, frequency and coverage rate (i.e. training of credit officers) and preparation, accuracy and application of data in taking decision (i.e. classification of loans and provisioning).

Summary

The study was descriptive and based on cross-sectional survey. The research questions were required answers to ascertain whether laid down credit delivery processes were adhered to in order to establish the effect on loan asset quality and loan delinquency.

The data used were largely depended on secondary sources obtained from credit files and records maintained by the banks and on-site examination reports and other reports of the Bank of Ghana. The population for the study was six rural/community banks in the Greater Accra Region out of which two were selected based on group sampling. The target for analysis was the loan beneficiaries of the banks.

Data collection was based on structured checklists designed to respond to the research questions and analysed by using percentage changes, averages, aggregation and comparative analysis.

The next chapter provided presentation on the findings adduced from the data assembled and analysed.

CHAPTE R FOUR

FINDINGS AND DISCUSSION OF RESULTS

Introduction

The purpose of this study is to examine the credit management practices of rural banks in the Greater Accra Region with the view to identifying any weaknesses that could affect prompt repayment of credit facilities and to suggest measures to contain them. This chapter presents the results of data collection and analysis pertaining to the key research questions that guided the study.

Research Question 1: To what extent do the rural banks in question follow basic credit delivery processes?

To answer this question, the compliance status of the two banks in respect of the generic credit delivery processes of appraisal, adequacy of collateral, approval and monitoring/supervision based on their content and application were assessed through review and the use of checklist format as per Appendix III.

The review of the 100 credit files from each of the two banks revealed the compliance status of the credit delivery process as summarised in Table 3.

Table 3
Status of Compliance With Credit Delivery Processes

Parameters	Percentage Scores on Parameter	
	Bank A	Bank B
Appraisal of Credit Applications	100	100
Adequacy of Collateral	73	75
Approval of Credits	100	100
Monitoring/Supervision of Credits	62	42

Source: Field Survey, 2008

Table 3 depicted the number of credit applicants out the 100 credit files reviewed for each of the selected two banks that complied with the demands of the basic credit delivery processes. Each of the two banks nominally subjected all the 100 credit applications to appraisal and approval of credit processes whilst in the cases of provision of adequate collateral and monitoring/supervision of credits granted, the compliance positions were respectively 73 and 62 for Bank A and 75 and 42 for Bank B.

The banks conducted appraisals on the credit requests to assess their viability and these were then subjected to approval consideration by designated authorities. The credit facilities granted were to be monitored and/or supervised to ensure that the funds were applied for the intended purpose and further assessed the state of the projects financed and the repayment status.

The observations made on each of the credit delivery parameters are detailed in the sub-sections that follow.

Appraisal

The prospect of a project to generate desirable cash flows to service and repay a credit facility was a cardinal measure of the appraisal concept. In this regard the assessment of the appraisal function in the review of the credit files took into consideration issues related to competitive urge, ready market, innovation and adoption of appropriate technology, repayment capacity, insistence on minimum account operating period, availability of collateral, managerial acumen, project viability and track records as well as the overall perceived risk of credit default.

A review of the credit files of the loan applicants revealed that though the banks practically appraised all the credit applications received (i.e. 100 per cent score obtained by each), however, adherence to the loan appraisal indicators was more reflective in Bank A than Bank B. In qualitative terms, therefore, the appraisal practices of Bank A were relatively more in tune than those of Bank B since the former touched on the salient appraisal issues better.

Collateral

Adequacy of collateral was a key feature in the credit delivery process of the two banks that recorded compliance positions of 73 and 75 per cent in the survey. The study portrayed that the inadequacy of collateral emanated from the provision of insufficient balances in deposit accounts pledged as lien, less number of the required salaried workers as guarantors, motor vehicles not registered in the joint

names of the beneficiaries and the bank and building plans not properly assigned to the bank.

The usual collateral demanded by the two banks included lien on deposits, third party guarantee, pledge of Treasury Bill and issuance of cheques in the joint names of the bank and applicants.

The dominant form of collateral demanded by the two banks was third party guarantee from workers who received their salary at these banks. Whilst Bank A demanded third party guarantee from two to four salaried workers, Bank B required from two to six depending on the extent of the amount being requested. It was observed that the demand for higher number of salaried workers as collateral prolonged the time lag for disbursing credit facilities approved. This stems from the difficulties of loan applicants in getting the required number of salaried workers to provide the guarantee in view of the underlying financial obligation should there be a default. This problem related mostly loans to the construction of houses especially in Bank B, where eleven loans classified as 'Others' were disbursed in the time band 'Over 60 Days' as stipulated in Table 7.

Approval

The ultimate credit decision authority of the two banks lied with the Board of Directors. However, approved credit facilities with levels exceeding GHc 2,000 were referred to the Bank of Ghana for ratification before disbursement. For convenience and in order to forestall undue delays in the credit delivery process, the Boards of Directors of the two banks delegated part of such authority to respective

Loans/Credit Committees and management. The approval authority strata of the two banks were as presented in Table 4.

Table 4

Loan Approval Structure of Banks

Authority	Bank A Limit of amount (GH¢)	Bank B Limit of amount (GH¢)
Board of Directors	Over 2,000	Over 2,000
Loan/Credit Committee	1,000 – 2,000	1,000 – 2,000
Management:		
Supervising Manager	1 – 1,000	1 – 1,000
Agency Head	--	1 -- 800

Source: Field Survey, 2008

The two banks maintained almost the same approval authority structure with management having approval limit of up to GH¢1,000. Bank A had no approval authority for agency heads in view of abuse of such authority prevalent among rural/community banks.

The credit decisions were based on appraisal reports prepared by the Credit/Project Office. However, in the case of salaried workers who had maintained consistent repayment of previous credit facilities, approvals were based on such track record. The approval of credit facilities was evidenced by the Supervising Manager's opinion on the credit appraisal reports from the Project Office with the endorsement of the amount approved signified by the signatures of two directors including that of the Chairman of the Board of Directors. It would have been more appropriate for each member of the approval strata to indicate reasons for his/her decision on each of the appraisal report considered. Subsequently, an approval

report should have been submitted to management for implementation but no evidence to this effect was available. However, credit facilities approved by lower approval authorities were submitted to the Board of Directors for ratification. It was further observed that credit facilities of GH¢ 2,000 and beyond approved by the Board of each of the banks were forwarded to the Bank of Ghana for ratification before disbursement as required by supervisory directive.

The membership of the Credit/Local Committee of each bank was three and while that of Bank A comprised an Accountant and ex-banker with considerable experience in credit management that of Bank B was composed of an agricultural project co-ordinator and two other civil servants. It was noted that the calibre of Bank A's Credit/Local Committee was higher than that of Bank B and this was expected to reflect in their actions.

The survey indicated that the two banks gave approval to all the credit applications sampled in accordance with laid down practice.

Monitoring/Supervision

The monitoring process should involve the following-up on adherence to approval conditions, utilisation of funds for the intended purpose, tracking of repayment schedules, sending of reminders for repayments, keeping surveillance on collateral provided, reviewing performance or repayment trends and making call/field visits to ascertain progress of the customers' businesses to which funding had been provided.

The review of the selected credit files and the corresponding loan accounts and standing order cards of the sampled credit beneficiaries revealed that the

existing form of monitoring was tracking monthly repayments by salaried workers in the two banks. The credit files did not contain any call/field reports to serve as evidence of supervision of project and commercial loans by the two banks. This was buttressed by the scores of 62 and 42 out of 100 credit facilities each reviewed respectively for Bank A and Bank B to assess the extent of monitoring and supervision carried out (refer to Table 3). In this regard the two banks failed to a large extent to address a critical factor in the credit delivery processes in ensuring sound credit management.

Compliance with credit delivery parameters

The credit delivery process was assessed by examining the four parameters of appraisal measures, adequacy of collateral, approval mechanism and the extent of monitoring/supervision. To achieve a desirable loan asset quality, it was expected that the four parameters were largely brought to bear on any credit application considered.

The scores for the four identified parameters were collated and analysed customer-wise for the selected 100 credit for each of the two banks. The analysis revealed the level of compliance as depicted in Table 5. A score of '4' indicated full compliance of the four parameters; '3' portrayed a compliance of three of the parameters; '2' depicted compliance of two of the parameters; '1' represented adherence to only one of the parameters while '0' related to none compliance with any of the parameters.

Table 5
Compliance status of credit delivery parameters by the two banks

Level of Compliance	4	3	2	1	0	Total
	Number of Credit Beneficiaries					
Bank A	49	38	13	0	-	100
Bank B	30	55	15	0	-	100

Source: Field Survey, 2008

The compliance rate of the credit delivery parameters of Bank A was better than that of Bank B. This was caused by Bank B's significantly lower score of 42 as against 62 for Bank A in the monitoring/supervision parameter (refer to Table 3), thus reflecting a lower score of 30 in ranking 4, pitched against 49 for Bank A. Generally, the least met parameter by the two banks was monitoring/supervision. Bank B would have to seriously strengthen its monitoring/supervision mechanism to improve upon its full compliance position of the credit delivery process.

Research Question 2: To what extent are loans granted utilised for the original intended purpose?

The checklist format (Appendix IV) was used to collate data to assess the consistency of purpose of facility as stated per loan application letter and loan appraisal report. The collation of data for the sampled 100 loan applications each for the two banks revealed that the credit facilities granted were utilised for the original intended purposes in each of the two banks.

The observation was re-assuring since no funds were diverted to pursue other agenda that would have made credit facilities stand the prospects of becoming delinquent. It should be noted that the existence of high level of delinquent loans in a bank creates substantial loan loss provision that invariably poses adversity on profitability thereby reducing shareholders' funds and capital adequacy ratio.

Research Question 3: To what extent are loans granted promptly to meet the timing schedule of applicants?

The data analysis was based on assessing the time lag between the receipt of credit applications and disbursement of the credit facilities.

The granting of loans to coincide with the time most appropriately required to disburse on the intended purpose is mutually beneficial and rewarding to both the bank and customers. This situation provides some safety net for the utilisation of the underlying funds for the intended purpose. For instance, if loans meant for crop cultivation are granted well after the appropriate climatic season, the frustrated timing provides fertile grounds for the diversion of funds most likely to unproductive application. The most likely consequence under such circumstance would be the difficulty in repaying the credit facility. It therefore behoves on banks to grant credit facilities to meet the timing of the intended undertaking of loan applicants.

The Appendix V format was used to gather data on the time lag between receipt of credit applications and disbursement of funds on the 100 credits granted by each of the two banks on sectoral basis. The study portrayed the results on the issue as summarised in Table 6.

Table 6
Time lag for disbursement of credits

Sector	Bank: <u>A</u> <u>B</u>		<u>A</u> <u>B</u>		<u>A</u> <u>B</u>		<u>A</u> <u>B</u>		<u>A</u> <u>B</u>	
	Days: 0 – 15	16 – 30	31 – 45	46 – 60	Over 60					
Agriculture	2	6	-	2	1	1	-	-	2	-
Cottage Industry	3	-	3	1	2	1	1	-	3	-
Transport	3	1	1	2	1	2	1	-	1	2
Trading	34	20	6	2	3	4	1	2	1	3
Others	15	19	9	11	2	4	1	6	4	11
Total	57	46	19	18	9	12	4	8	11	16

Source: Field Survey, 2008

The time lag for disbursement of credit to ‘trading’ and ‘others’ (that mostly embraced loans from salaried workers and construction) transcended all the time bands for the credit facilities sampled for Banks A and B. In terms of the disbursement of loans that were made within 15 days of application, the two banks considered applications from ‘trading’ and ‘others’ sectors while in the other vein, ‘others’ sector had credit requests disbursed well over 60 days of receipt of the applications, with some being beyond 180 days, especially relating to loan applications for construction (included in ‘Others’ as prescribed by the reporting format for the rural/community banks). The reasons underlying the relatively longer time lag for the disbursement of some applications classified as ‘Others’ related to

construction of houses were due to the provision of building permits, proof of ownership of land and valuation report on residual work on the projects as approval conditions, that took long period to procure.

Another factor that militated against prompt disbursements of approved credit facilities was the difficulty in meeting the approval condition of providing about four to six salaried workers who received their salaries through the banks as guarantors and the provision of prescribed amount in deposit accounts as lien. Furthermore, documentation and assessments of approved credit facilities that required the bank of Ghana's ratification had caused some delays for disbursing such credit facilities.

A comparative analysis of how promptly the two banks disbursed credit requests within 15 days as collated from Appendix V (b) was shown in Table 7 below.

Table 7
Proportion of credit applications disbursed with 15 days

Sector	Bank:	<u>Total Applications</u>		<u>No. Disbursed Within 15 Days</u>		<u>% Disbursed</u>	
		A	B	A	B	A	B
Agriculture		5	9	2	5	40.0	55.5
Cottage Industry		12	2	3	-	25.0	0.0
Transport		7	7	3	2	42.9	28.6
Trading		45	31	34	20	75.5	64.5
Other		31	51	15	19	48.4	37.3
Total		100	100	57	46	57.0	46.0

Source: Field Survey, 2008

The analysis revealed that Bank A overall disbursed 57.0 per cent of the 100 credit applications within 15 days of the receipt of the applications while Bank B disbursed 46.0 per cent of the 100 applications for the same period. Trading sector enjoyed the highest proportion of prompt disbursement of funds in the two banks of 75.5 per cent and 64.5 per cent whilst the lowest disbursement rate of 25.0 per cent and 0.0 per cent related to cottage industry sector for Bank A and Bank B respectively. The trading sector received prompt disbursement of funds in view of its high turnover and regular paying-in made by the beneficiaries.

The situation suggested that Bank A comparatively disbursed credits timely enough than Bank B and thus stood the chance of achieving better loan recoveries under the normal circumstance.

Research Question 4: To what extent was actual amount actual requested granted to loan applicants?

The credit needs of loan applicants should be assessed properly to determine the actual amount to adequately finance the identified undertakings. This typically related to projects where inadequate financing could jeopardise the chances of succeeding in generating sufficient cash flows to liquidate the credit outlay. In the case of individual loans, that normally finance consumables, critical assessment to determine the adequacy of amounts requested was not crucial.

The checklist in Appendix VI was used to determine whether the various amounts applied for by the credit applicants were actually granted to finance the intended purposes. The data analysis indicated that of the 100 credit beneficiaries assessed for each of the two banks, 86 and 68 were granted the actual amounts requested by Bank A and Bank B in that order. The situation indicated that not all credit applicants were granted the actual amount requested. The lower amounts granted in some instances were due to the high monthly repayment amounts that exceeded the permissible 40.0 per cent policy deductions for salaried applicants and the inability of some applicants to provide the required collateral to cushion the actual amounts requested. These conditions invariably led to the lower revision of the original amount requested by the applicants to fall in line with policy stipulations.

Research Question 5: To what extent were loans disbursed to actual beneficiaries?

The diversion of disbursement of loans from the actual beneficiaries to ‘ghost’ applicants posed high tendency of defaults in repayment. Such undesirable practice may be perpetrated with the tacit connivance of key bank officials, who invariably benefited and in some instances caused the disappearance of underlying vital documentation. It is therefore pertinent to ensure that loans are usually disbursed to the actual beneficiaries.

The checklist as per Appendix VII was used to verify whether the sampled loans were disbursed to the actual beneficiaries. This was ascertained by establishing the consistency in the names in the regular records for loan transactions (i.e. credit file, deposit account and loan account). The application of the checklist produced the outcome below.

The survey established that the sampled loans of the two banks were disbursed to the actual applicants as the names of the credit beneficiaries were consistent in records examined. This gave the assurance that the identity of the loan beneficiaries could be pursued, should there arise any repayment problems. The observation was acceptable to the researcher since it gave an indication of no diversion of the disbursed funds to inappropriate hands.

Research Question 6: What other measures are employed by rural banks to ensure prudent credit management?

The study considered the existence of issues on credit policy manual, periodic training for Credit/Project officers, classification of outstanding credits and loan loss provisioning as complement to an efficient credit management. The issues were assessed by adopting Appendix VIII that gave the position below.

Table 8
Compliance status of other credit management factors

Parameter	Bank A	Bank B
Existence of credit policy manual	1	1
Training of credit officers	1	1
Loan classification and provisioning	2	2
Total Score	4	4

Source: Field Survey, 2008 (Score: Yes – 2; Partial – 1; No – 0)

The two banks were on the same pedestal in terms of their compliance with the other enumerated factors. The assessment of the parameters was assigned scores of ‘2’ that signified the availability and effectiveness’, ‘1’ designated ‘Partial’ indicated availability but ineffective and of no impact while ‘0’ denoted the absence of any of the identified parameters. The state of affairs of each of the factors observed on the two banks was as below.

Existence of credit policy manual

Credit policy manual provides guidelines, direction and guarantees for ensuring an efficient management of credit facilities by an institution. The two banks have a draft credit policy manual that was yet to be finalised for approval by their respective Board of Directors.

A credit policy document is required to have basic features which include: role and responsibilities of credit personnel, detailed and formalised credit evaluation/appraisal process, credit approval authority at various hierarchy levels, limits on aggregate loans and commitments, risk identification, measurement, monitoring and control, risk acceptance criteria, credit organisation, loan documentation procedures, target market, portfolio mix, reporting requirements, pricing terms management of problem loans, off-balance sheet exposures and duration of document.

A review of the two draft credit policy documents revealed common deficiencies relating to the roles and responsibilities of personnel involved in the credit delivery process; credit portfolio mix; basis of pricing; management of problem loans; reporting requirements; off-balance sheet exposures, risk acceptance criteria and timeframe for the existence of the manual.

Training of credit officers

The two rural banks did not have training programmes tailored to constantly upgrade the knowledge and skills of the credit officers involved in credit management. The banks relied on ad hoc training programmes organised by ARB Apex Rural Bank Ltd and other training institutions. Such training programmes did

not necessarily address the specific needs of the banks which were identified to include credit appraisal, monitoring/supervision techniques, pricing of credit and interpretation of financial statements and not just yours for the taking courses.

Classification of loans and loan loss provisioning

The classification of loans and loan loss provisioning were based on the guidelines provided by the Bank of Ghana in the ‘Guide for Reporting Institutions for Rural and Community Banks, 2005’ manual. The classification of outstanding credit facilities and the extent of loan loss provision for the two rural banks as at their respective Bank of Ghana’s on-site examination reports reference dates in 2006 and 2007 were depicted in the Table below.

Table 9

Classification of Loans and Loan Loss Provisions for Banks A and B

	Bank A		Bank B		Bank A		Bank B	
	28/2/07		30/6/07		31/1/06		30/9/06	
	GH¢'000	%	GH¢'000	%	GH¢'000	%	GH¢'000	%
Current	659.63	88.4	562.09	75.3	275.71	90.5	385.60	58.8
OLEM	23.70	3.2	40.70	5.4	0.49	0.2	36.83	5.6
Substandard	20.98	2.8	36.58	4.9	0.79	0.3	81.77	12.5
Doubtful	25.00	3.3	29.68	4.0	0.38	0.1	62.58	9.5
Loss	16.95	2.3	77.77	10.4	27.26	8.9	89.23	13.6
Total	746.26	100.0	746.82	100.0	304.63	100.0	656.01	100.0

Table 9 (Continued)

Required Provision	43.66	111.45	30.45	148.50
Provision booked	33.21	62.26	26.50	55.76
Under Provision	(10.45)	(49.19)	(3.95)	(92.74)
Loans at Risk %	5.9	14.9	10.0	22.6
Overdue Ratio	11.6	24.7	9.5	41.2
High Risk Ratio	8.4	19.3	9.3	35.6

Source: Compiled from the Bank of Ghana's On-site Examination Reports, 2007

The two banks adhered to the Bank of Ghana's prescribed quarterly classification of loans and loan loss provisioning and in accordance with the 'Guide for Reporting Institutions for Rural and Community Banks, 2005'. The data in Table 9 were derived from the Bank of Ghana's on-site examination reports on the two banks in 2006 and 2007 as these presented authentic positions.

The two banks under- provided for loan losses with Bank B recording the worse position. The inappropriate situation was due to the banks adopting solely the period of overdue to classify loans instead of also taking into account the state of the project being financed, the cash flows for the repayments and the perceived risk.

The loan portfolio quality showed high risk ratios (i.e. the aggregate of substandard, doubtful and loss classification as a percentage of gross outstanding loans) of 9.3 and 8.4 per cent and 35.6 and 19.3 per cent respectively for Banks A and Bank B in 2006 and 2007. Though Bank B recorded significant improvement from 35.6 per cent to 19.3 per cent over the period, the latter ratio continued to stay above the prudential tolerable limit of 15 per cent. Consequently, the portfolio at risk (i.e. loan loss provision required as a percentage of gross outstanding loans)

showed improved ratios of 5.9 and 14.9 per cent for Bank A and Bank B respectively in 2007 but there were above the acceptable standard of 5.0 per cent.

The comparative analysis of the loan portfolios of the two banks revealed that Bank B's loan asset quality was adverse since all the assessment indicators deviated materially negative from the standards. Bank B's unfavourable loan asset quality was contributed in part by the relative delay in disbursing credit facilities and weak monitoring and supervision system.

Other related observations

In the course of the survey, other related observations in respect of adherence to statutory norms and documentation came into focus. The details on each of the observations were as follows.

Regulatory controls

Regulatory measures are instituted to instil sanity into all facets of a bank's operations. The survey revealed that the two rural banks' credit operations were largely within the confines of the existing statutory/regulatory measures in respect of exposure concentration; maintenance of prescribed liquidity and capital adequacy ratio requirements; connected/insider lending and Bank of Ghana's ratification of approved credit facilities of GH¢2,000 and beyond before disbursement.

The observation made concerning the Bank of Ghana's ratification requirement at the two banks was that the threshold of GH¢2,000 was inadequate in view of increasing request for high amounts by businesses and individuals based on hiking inflation. The threshold was fixed in December 2003. It was further noted

that some applications to the Bank of Ghana for ratification were returned to the banks due to inadequate documentation, thus causing re-submission and eventual delay in disbursing such credit facilities.

Documentation of credit facilities

The documentation of credit facilities by the two banks in respect of application letters, appraisal reports, offer and acceptance letters, documents relating to collateral and other correspondence were maintained by the Credit/Project office in credit files for each applicant.

It was noted that the Credit/Project office handled the loan accounts of the beneficiaries and ensured that entries in respect of draw down, interest charges and repayments were posted correctly. However, the periodic balancing of the loan ledgers was done within the normal balancing of record under the control of the Operations Officer. The desirable practice was for the Operations office to post entries to the loan accounts whilst the Credit/Project office concentrated on monitoring and supervision of the credit facilities in order to instil some measure of internal control.

Summary

The loan appraisals were conducted on each application but the content as to assessing the inherent credit risk critically was under-estimated as pertinent issues with respect to cash flows, competitive urge, ready marketability of products and adequacy of collateral among others were not seriously addressed. Approvals were also granted to all the 200 credit facilities reviewed with track record and

availability of collateral as the dominant influencing factors. The least parameter of compliant of the identified credit delivery processes related to 'Monitoring/Supervision' and this was the bane for loan defaults.

Loans were found to be utilised for the intended purposes while the construction sector experienced undue delays in enjoying credit facilities caused by the request for formal documents. The trading sector however, enjoyed relatively prompt disbursements of loans and this could be attributed to the associated high turnovers and regular repayments.

The two banks had draft credit policy manuals that were yet to be endorsed by the respective Board of Directors and the training of credit officers was ad hoc. The regulatory norms were adhered to and these included classification of loans and loan loss provisioning as well as documentation.

The research on the credit management practices of the two rural banks revealed a largely compliant situation in terms of generic credit management processes as well as the existing statutory/regulations, credit policy guidelines, training programmes, classification and provisioning of loans and documentation.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary

Rural banks in Ghana were established as community-based banks to mobilise deposits and lend to the rural dwellers engaged in farming, trading and cottage industries among others. The concept was to fill the gap created by commercial banks that denied the rural dwellers access to credit facilities due to the risky nature of agriculture, the dominant economic activity, under-pinned by lack of credible collateral to mitigate the adversity.

The purpose of this study was to describe the credit management practices of a sample of rural banks in the Greater Accra Region, with the view of identifying inherent lapses that inhibit prompt repayment and suggest measures that could be adopted to minimise high incidence of loan delinquency in rural banks in the Region.

The study was guided by the following research questions designed to explore answers to the research problem:

- i) To what extent do rural banks follow the basic credit delivery process?
- ii) To what extent are loans granted utilised for the original intended purpose?
- iii) To what extent are loans granted promptly to meet the timing schedule of applicants?

- iv) To what extent are actual amount requested granted to loan applicants?
- v) To what extent are loans disbursed to actual beneficiaries?
- vi) What other practices do rural banks employ to ensure prudent credit management?

Two banks were randomly selected out of six rural/community banks in the Greater Accra Region based on the non-performing loan profile from which the top and least rankings were purposively adopted. A sample size of 200 credit files, comprising 100 from each bank, was randomly selected from the population of 1,993 loan beneficiaries for review. The data were collected by the researcher at the premises of the two banks during banking hours. However, the researcher could not have free hand to apply the sampling method in the selection of the credit files due the restrictive access to the respective rooms where files were stored. The data collection was based on the review of credit files and records (i.e. to address the research questions) and the Bank of Ghana's on-site examination reports on the two banks. However, the researcher could not have free hand to apply the sampling method in the selection of the credit files due to restrictive access to the respective rooms where files were stored.

Findings

The findings, classified under the identified research questions, that emanated from the study are summarised below:

Research Question 1: To what extent do rural banks follow the basic credit delivery process?

- The banks largely adopted the basic credit delivery process in their credit management practices
- Appraisal of credit applications did not adequately assess the inherent credit risk to guide the taking of appropriate credit decision
- Loan approval reports were not provided by the various credit approval authority levels to guide implementation by management
- Loan amounts that exceeded the supervisory limit of GHc2,000 were referred to the Bank of Ghana for ratification before disbursement
- Field visits as credit monitoring/supervision process was not rigorously pursued to assess actual state of performance and conditions of projects financed

Research Question 2: To what extent are loans granted utilised for the intended purpose?

- Loans granted were utilised for the original intended purpose
- Credit allocation to salaried workers dominated as against the least to the agricultural sector

Research Question 3: To what extent are loans granted promptly to meet the timing schedule of applicant?

- Loans to the trading sector and salaried workers were disbursed mostly in the short time band (i.e. 0 – 15 days) while those to the construction usually went beyond 60 days
- The requirements for the submission of appropriate documentation and production of four to six salaried workers as guarantors in respect of applications for housing finance caused undue delay in the disbursement of funds to applicants
- The inability of loan applicants to provide the required collateral fully led to the delays in disbursing approved credit facilities

Research Question 4: To what extent was actual amount requested granted to loan applicants?

- Lower amounts were approved below the actual amount requested and this were due mostly to the required monthly repayments that exceeded the policy stance of 4.0 per cent limit of gross salary for salaried workers

Research Question 5: To what extent were loans disbursed to actual beneficiaries?

- Loans were disbursed to the actual applicants

Research Question 6: What practices do rural banks adopt to ensure prudent credit management?

- The drafted credit policy documents of the two banks lacked basic credit management essentials like credit delivery process, credit portfolio mix, basis of pricing, management of problem loans among others to adequately make them robust
- Training programmes for credit officers were on adhoc basis instead of a well designed programmes tailored to suit the required knowledge and skills needed to promote efficiency
- The levels of loan loss provisions made were below the prescribed prudential limit and posed the tendency of distorting the capital position of the banks.
- Classification of credits has been based solely on the period of overdue instead of relating it to other pertinent factors like the non-performing state of the facility, attitude of the customer and persistent default of instalment repayment
- The Project/Credit Office handles entries to the loan ledgers instead of operations office to ensure effective internal control
- Rescheduled credit facilities are re-classified as “current” even if the underlying conditions are not fulfilled

The problem of ‘credit management practices of rural banks’ was analysed based on the thoughts of authorities stipulated in the literature review in providing

authentic basis as well as the existing operational manual, the banks' internal arrangements, statutory requirements and supervisory guidelines.

The maintenance of good loan portfolio quality with minimised default rate depends on the collective efforts of the bank in ensuring that the due processes in credit management are followed, most especially the facility amount being adequate for the intended purpose, disbursing funds to beneficiaries at the right time and instituting effective monitoring/supervision mechanism.

Conclusion

An efficient and effective credit management practice should be underpinned by a sound credit policy, due credit delivery process involving appraisal, approval, monitoring and supervision procedures. The rural banks studied had formalised mechanism in place to ensure prompt repayments of credit facilities granted. In spite of the established procedures in credit management, there existed lapses in the implementation, which should be resolved to improve credit management practices in the banks. The study revealed that a bank that showed laxity in the adoption of the basic credit delivery process and adherence to supervisory matters was bound to maintain relatively adverse loan asset quality.

Measures to improve upon credit management practices and to minimise the incidence of any high loan delinquency have been outlined as recommendations below.

Recommendations

The analysis of the factors culminating in loan delinquency has led to the fashioning out of the following measures aimed at strengthening credit management practices and to minimise high incidence of its occurrence. The responsibilities have been categorised under the rural banks and the Bank of Ghana as follows:

Recommendations to the Rural Banks

- Credit amount should be carefully assessed for identified projects in order to ensure adequate funding. This situation provides the required financial resources to nurture projects to fruition, thus forestalling diversion of funds to other purposes, which may not be economically viable for prompt repayment. The practice of meeting loan applicants' request partially should be avoided, since this could hamper the success of the underlying projects if no other additional funds could be obtained from somewhere else. The credit provided could be applied on other projects for which customer had no experience to control.
- The credit appraisal system should be strengthened by adequately assessing the viability of project proposals through application of project and financial analyses techniques as well as on-site inspection of project facilities. This requires tailored training programmes for Managers and Project/Credit Officers to enhance their knowledge and skills in basic financial statement analysis and interpretation, project appraisal techniques and project report writing.

- Monitoring and supervision of credit facilities should be effective by way of constant review of repayment performance, sending of demand letters for repayment defaults, documented field visits to assess state of affairs and provision of needed logistics like motorbike/bicycle to ease mobility and increase frequency of working visits.
- All the required documentation supporting credit applications for the Bank of Ghana's 'no objection' consideration should be complete to avoid being returned for subsequent re-submission, which invariably causes delay for disbursements.
- A credit policy document should take cognisance of: the role and responsibilities of credit personnel; credit portfolio mix; pricing guidelines; management of problem loans; credit reporting requirements; off-balance sheet exposures; risk acceptable criteria; timeframe for review as well as approving authority among others
- Classification of loans should not be confined solely to the period of overdue but should take into consideration other extraneous circumstances like compliance with repayment schedule, the state of project, the availability of the beneficiary among others
- The required loan loss provision is to be made in order to reflect the true profit/loss and shareholders' funds positions. This would portray the required single borrower exposure limit, actual capital adequacy ratio and declaration of realistic dividends.

- The Board of Directors and key management personnel should be exposed to training in credit and treasury/liquidity management as well as financial statements analysis and interpretation to make them well disposed in taking appropriate credit decisions
- The Project/Credit Office should segregate the appraisal function from the monitoring/supervision and recovery functions in terms of the use of personnel. Further posting of entries should be controlled by the Operations office instead of the Credit/Project office. This would ensure controls and avoid collusion of fiddling with the loan accounts
- The two banks need to review their respective draft credit manual to take cognisance of the identified shortcomings that included credit portfolio mix, basis of pricing, management of problem loans among others. The credit guidelines document being used by the two banks is the 'Bank of Ghana Operational for Rural Banks, 1985' that requires an updating to reflect current practices. Even then, the uniform standards of practice that the manual prescribed for all rural banks was inappropriate since each bank has its peculiar characteristics that required special measures to address.

Recommendations to the Bank of Ghana

The threshold of amounts set for the Bank of Ghana's 'no objection' consideration for rural banks credit applications should be raised for well-managed rural banks. This would speed up action in the credit delivery processes to minimise inherent delays for relatively small amount being requested. Furthermore, the well-

managed rural banks with non-performing loan ratios within the prudential permissible limits could be exempted from sending approved loans beyond the threshold amount to the Bank of Ghana for ratification.

The credit delivery process is characterised by application of credit policies, legal controls, and the attitude of bank officers, perception of customers with environmental influences like climate, culture and economic factors among others. These situations create inherent problems, which affect prompt and full repayment of credit facilities granted. The identified problems require appropriate solutions to improve on credit management practices to mitigate high incidence of non-performing loans.

The maintenance of good loan portfolio quality is very paramount to achieve sound operating performance to strengthen capital base of banks with the effects of providing cushion to increase the volume of business, declaring rewarding dividend and instilling public confidence in the banking.

The existence of high non-performing loans in the asset profile of banks, creates incidence of high loan loss provision, which erodes prospects of significant profits and adversely affects the growth of shareholders' funds. This also affects the extent of volume of business risk, which the bank could assume.

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Appendix I

Regional Distribution of Rural/Community Banks as at 31/12/2007

	REGION	NUMBER
1.	ASHANTI	22
2.	CENTRAL	21
3.	EASTERN	21
4.	BRONG AHAFO	20
5.	WESTERN	14
6.	VOLTA	11
7.	GREATER ACCRA	6
8.	UPPER EAST	4
9.	UPPER WEST	4
10.	NORTHERN	6
	TOTAL	129

Source: Bank of Ghana, 2007

Appendix II

Checklist for Overall Suitability of Secondary Data

- Does the data set contain the information you require to answer your research questions to meet your objectives?
- Do the measures used match those you require
- Is the data set a proxy for the data you really need?
- Does the data set cover the population that is the subject of your research?
- Does the data set cover the geographical area that is the subject of your research?
- Can the data about the population that is the subject of your research be separated from unwanted data?
- Are the data for the right time period or sufficiently up to date?
- Are data available for all the variables you require to answer your research questions and meet your objectives?

Source: Saunders, M., Lewis, P., & Thornhill, A. (2007)

Appendix III

Checklist for Compliance with Basic Credit Delivery Process

Parameters	Loan Beneficiaries								
	A1	A2	A3	A4	A5	A6	A7	A8	A9...
Appraisal	1	1	1	1	1	1	1	1	1
Adequacy of Collateral	1	1	0	0	1	1	1	0	1
Approval	1	1	1	1	1	1	1	1	1
Monitoring and Supervision	0	0	0	0	1	1	1	0	0
Total Score	3	3	2	2	4	4	4	2	3

a) Categorisation of Score:

- Compliance: 1
- Non Compliance: 0

b) Criterion Score: 4/4 (The most acceptable score indicating full compliance while lower score indicated less degree of compliance)

Scoring Guide

Appraisal:

Award a score of “1” if all the basic factors were covered in the report.

Award a score of “0” if the basic factors were not significantly covered.

Adequacy of Collateral:

Award a score of “1” if the required collateral was provided

Award a score of ‘0’ if the required collateral was not fully provided.

Approval:

Award a score of “1” if approval was given by the designated authority in relation to the amount granted.

Award a score of “0” if approval was not granted by the designated authority.

Monitoring and

Supervision:

Award a score of “1” if evidence of repayment demands and field call reports were available

Award a score of “0” if no evidence of repayment notices and field call reports exist in credit files.

Appendix IV

Checklist to ascertain whether funds were used for intended purpose

Parameters	Loan Beneficiaries								
	A1	A2	A3	A4	A5	A6	A7	A8	A9...
Purpose of loan stated in application	Tr	A	Tr	Tr	C.I	O	O	Tpt	A
Purpose of loan stated in appraisal report	Tr	A	Tr	Tr	C.I	O	O	Tpt	A
Consistency of purpose	1	1	1	1	1	1	1	1	1

Scoring for purpose: A – Agriculture

Trd – Trading

Tpt – Transport

C.I. – Cottage Industry

O – Others

Consistency of Purpose: Yes – 1

No -- 0

Criterion Score: 1

Appendix V

a) Time Lag between Application and Disbursement of Credit

Borrower	Sector	Date of Application	Date of Disbursement	Time Lag in Days
A 1	Trading			
A 2	Agric			
A 3	Trading			
A 4	Trading			
A 5	C.I			
A 6	Others			
A 7	Others			
A8	Transport			
A9	Agric			
.	.			
.	.			

b) Categorisation of Score

Sector	0-15 days	16-30 days	31-45days	45-60 days	Over 60 days
Agriculture					
Cottage					
Industry					
Transport					
Trading					
Others					

Appendix VI

Checklist for Amount Requested against Amount Granted

	Loan Beneficiaries								
	A1	A2	A3	A4	A5	A6	A7	A8	A9...
Amount Requested	1	1	1	1	1	1	1	1	1
Amount Granted	1	1	0	1	0	0	1	1	0
Score	2/2	2/2	½	2	1/2	1/2	2	2	1/2

a) Categorisation of Score:

Amount Requested 1

Amount Granted:

- Same as requested 1

- Different from Requested 0

b) Criterion score: 2/2(amount requested same as amount granted)

1/2(amount granted lower than amount requested)

Appendix VII

Checklist for Matching Loan applicants with actual Beneficiaries

Parameters	Loan Beneficiaries								
	A1	A2	A3	A4	A5	A6	A7	A8	A9...
Existence of Credit File									
Existence of Deposit Account									
Existence of Loan Account									
Score									

a) Categorisation of score for each parameter:

Available with same name: 1

Available with different name: 0

b) Criterion score: 3/3

c) Analysis of scores obtained:

No. of cases with perfect scores 3/3 200

No. of cases with 2/3 score 0

No. of cases with 1/3 score 0

Appendix VI

Checklist for Other Factors considered by the Banks

Factors	Bank A	Bank B
Existence of Credit Policy		
Periodic Training For Credit Officers		
Quarterly Loan Classification and Loan Loss Provisioning		
Total Score		

a) Categorisation of Score:

Available: 2

Partial: 1

Not Available: 0

b) Criterion Score: 8/8