UNIVERSITY OF CAPE COAST

CREDIT MANAGEMENT PRACTICES OF SUMA RURAL BANK LIMITED

ABDUL-WAHAB SEIDU

2015

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BY

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Dissertation submitted to the Department of Accounting and Finance, School of Business, University of Cape Coast, in partial fulfillment of the requirements for the award of Master of Business Administration-General Management.

APRIL 2015

DECLARATION

Candidate's Declaration

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

Candidate's Name: Seidu Abdul-Wahab

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

Supervisors' Declaration

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

Supervisor's Name: Mrs. Comfort Ama Akorfa Anipa

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

ABSTRACT

Credit is the largest asset and the main source of income to Rural Banks in Ghana, notwithstanding the associated risk. Like any other business, it is risky and expensive to manage. So it is with managing credit portfolios. The study sought to evaluate how credit is managed in Suma Rural Bank Ltd. It also examined whether the performance of credit or loans was in line with the benchmark set by the Bank of Ghana. Additionally, it examined the measures used in ensuring effective and sound credit practices, the extent to which the banks educate and supervise the customers and problems encountered in recovering the loans granted by the bank to its customers as well as the customers' satisfaction with services provided by the bank. Using the survey design, structured questionnaire and purposive sampling strategy, primary data was collected from a sample of 150 respondents. The study showed that the bank had higher default rate, hence, operating far below the Bank of Ghana benchmark recovery rate. It was recommended that the bank should adopt innovations to improve on the quality customer service delivery such providing in-service training for staff, speed up the duration in disbursing loans, and increase customer education and advisory services, strengthening the monitoring of the ongoing work of debtors among many others.

ACKNOWLEDGEMENTS

I wish to sincerely thank my supervisor Mrs. Comfort Ama Akorfa Anipa for her motherly coaching and useful comments and suggestions throughout this work. I really appreciate all the contributions made without which this work would not have been possible. I also thank Mr Samuel Ansah-Mensah who kept urging me on and offering me the support. To Mr. Godwin Yawotse who took time off his busy schedule to read through, I am most grateful. I am also indebted to Imam Mohammed Ishak who has been a motivator and a mentor throughout my course. I will forever appreciate your effort and time shared with me.

To my course mates Wubertritia, Hajia, Hubeidatu, Faiz and all the others, also to the internal auditors and operations, management and the entire staff of Suma Rural Bank, I say thank you for your desire and willingness to support me and offer the needed information. How can I forget you Francisca for your love and care I say thank you? All errors of omission and commission in this work, however, remain entirely mine.

DEDICATION

To Mardiyya, Hakeema and Mufeed.

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ABBREVIATIONS

ARB	Association of Rural Banks
RCB	Rural and Community Banks
EMU	Efficiency Monitoring Unit
SRB	Suma Rural Bank
REP	Rural Enterprise Project
SCIMP	Small Holder Credit Input, Supply and Marketing Project
LACOSERP	Land Conservation and Rehabilitation Project
CIF	Community Investment Fund
FABS	Food and Agricultural Support
NBIF	Non-Banking Financial Institution
BOD	Board of Directors
S&Ls	Savings and Loans
BOG	Bank of Ghana
NGO	Non-Governmental Organization
RMFI	Rural Microfinance Institutions
CBOs	Community Based Organisation
CAR	Capital Adequacy Ratio
CU	Credit Unions
BSD	Banking Supervision Department
AGM	Annual General Meeting
SMEs	Small and Medium Enterprises
IGA	Income Generating Activities

CEO	Chief Executive Officer
PCAOB	Public Company Accountancy Oversight Board
OCC	Office of The Controller Of Currency
OLEM	Other Loans Especially Mentioned
LBC	Licence Buying Companies

CHAPTER ONE

INTRODUCTION

Background of the study

In developing countries like Ghana, the availability of credit facilities to small and medium scale businesses particularly in rural communities is a major challenge to the administration of the development agenda of the nation. Since Ghana's independence in 1957, the Ghanaian government has made several attempts to promote rural development in an effort to increase the living standard of the people who reside in rural areas (Kudiabor, 1974).

These projects have failed for several reasons, including the power of lobbying groups, the high cost of living for farmers, and the lack of co-ordination between government agencies (Amonoo, 1977; Brown, 1986; & Opoku-Afriyie, 1974). Lack of access to credit for the rural dweller is also another major challenge as mentioned earlier to the development of the rural areas of the country.

Traditionally, rural development credit has been provided by two types of sources: institutional and non-institutional. In rural communities, non-institutional credit is provided by moneylenders, relatives, friends, traders, commission agents, co-operatives, consumers, distributors of farm inputs, and processors of agricultural products. Research has shown that the most common providers of loans in rural areas are friends and relatives who usually charge no interest or do not demand collateral (FAO 1994). This credit market is small, however, and the total credit from these non-institutional sources is insufficient to implement rural development programmes.

For rural development to proceed at a smooth pace, larger institutional sources of credit need to be created. In Ghana, institutional sources of credit are the Commercial Banks, the Agricultural Development Bank, the National Investment Banks, the Bank of Ghana and the Rural Banks. Until recently very few rural people, other than wealthy farmers and businessmen, had access to credit from these sources. The lack of interest in small rural credits by the National Investment Bank and the Commercial Banks is explained by the high cost of administering a large number of small credits spread over a wide area, coupled with the comparatively high level of default that has often accompanied small credits.

The inability of rural borrowers to offer adequate security for loans, and the enormous risks associated with agricultural production, are the typical reasons given for the urban-based bias of commercial lending. Writing about lending by commercial banks, Hug (1989) noted that banks have been in operation in this country for over a century and their main function is to channel funds from lenders to ultimate borrowers. However, most of these banks are situated in the urban centers and as such are of benefit only to the urban dwellers much to the detriment of the rural communities.

Governments after government have made efforts towards finding a lasting solution to this problem to ensure equal opportunity to the private sector of not only the urban centers but those of the rural communities as well. Some of these efforts included the establishment of the Co-operative Bank in 1946. Its optimum aim was the provision of the banking needs of rural dwellers. It however collapsed not long after Ghana attained its independence in 1957 (Hug, 1989).

Again the Agricultural Development Bank was established in 1965 to offer assistance to rural dwellers particularly farmers (Amonoo, 1977). It could not expand to remote rural areas to pursue its intended purpose as a result of the risk associated with rural banking that has been mentioned earlier.

To overcome these and other problems confronting rural communities in their banking needs, the Government of Ghana through the Bank of Ghana established the rural banking concept in 1976 with Nyakrom Rural Bank being the first to be opened at Agona Nyakrom in the Central Region of Ghana.

The main rationale behind the concept was to;

a) Inculcate the habit of savings and banking among people living in the rural communities of Ghana

b) To mobilize funds from these rural communities for development and

c) To lend to the people of these communities of Ghana the financial support or credit facilities for their farming activities and other small and medium term businesses (Ajai & Azeb, 2010).

Suma Rural Bank Limited was also established under the rural banking concept in 1982 by the people of Suma Ahenkro in the Jaman North District of the Brong Ahafo region of Ghana. It currently operates six (6) branches namely; Japekrom branch in the Jaman South district, Berekum branch in the Berekum municipal, and Brodi branch in the Tain district all in the Bong Ahafo region of Ghana. The rest are Goka, Sampa and Suma branches all in the Jaman North district of the Brong Ahafo Region of Ghana (RCBs, 2011).

According to the ARB Apex Bank end of year report on the performance of rural and community banks (RCBs) for 2011, rural and community banks (RCBs) have been able to mobilize total deposits of GHS 910,419,503.02 as at the end of December 2011 from rural dwellers. Out of this, Suma rural bank contributed GHS 4,097,757.97 (0.45%) of the amount. Total loans and advances made amounted to GHS 471,705,202.24 with loans and advances granted by Suma Rural Bank to its clients amounting to GHS 2,060,428.15 (0.43%).

However, in Ghana, the rural and community banks are the only financial institutions that have a wider geographical coverage and therefore make banking services available to everyone, more especially the rural dwellers. As at 31st December 2011, the total number of rural banks was 134. Zabzugu rural bank limited was the last to be added at the second quarter of 2011. Asuo Pra and Ejuraman rural banks were distressed in the third and fourth quarter respectively during the 2011 accounting year. This brings the number of RCB seperating as at the end of the year 2011 to 132 (ARB Apex Bank end of year report on the performance of rural and community banks (RCBs, 2011).

Again to make rural and community banks effective in guarding against this high risk associated with their operations, the central bank (The Bank of Ghana) developed an operational manual for the rural and community banks. The central bank's main intention for the development of this operational manual was to streamline rural and community banks lending operation to ensure that their credit actually benefit the small scale rural producer and the rural dweller. Included in this manual was a mandatory sectorial allocation of loans for rural and community banks which makes agriculture the priority sector for rural and community bank lending.

This sector is to receive a minimum of 50% of the total loans. This is followed by cottage industry which is to receive 30% and trade and transport is to receive a minimum of 20% of the total loans: (The Bank of Ghana's Operational Manual for Rural Banks, 1985).

Among other directives also included the fact that rural and community banks are to reduce the cash element of the loans to the best minimum possible to prevent the diversion of funds for purposes other than the purpose for which the loan was granted. Take for instance if one applies for a loan towards the building of a poultry farm, the amount would not be given in cash to the farmer but it would be released in stages depending on the project. Cost of the cement bought would be paid to the supplies, workmanship and other expenses would all be paid in stage until the farm is built.

Statement of the problem

Loan or credit is the bedrock on which every bank rest. It is however the as aspect of banking that faces the highest risks (RCBs, 2011). It presents a lot of opportunities for steady growth and expansion of the bank. It can however lead to the collapse of the bank if not managed well. Many microfinance companies and banks have collapsed as a result of poor credit management.

A research commissioned by the Bank of Ghana and conducted by Investek Consultancy Services Limited in 2002 revealed a steady growth of the number of rural and community banks from one (1) in 1976 to 133 in 1998 but fell to 111 in 1999 with the closure of 23 distress banks and the commissioning of one new bank.

This trend has continued and currently the total number of rural and community banks operating as at the end of the year 2011 is 132 (Apex Bank end of year report on the performance of rural and community banks, 2011).

Banks and other financial institutions are therefore taking all the necessary steps to mitigate these risk posed, using credit management in order to make maximum use of the opportunities it presents. Additionally, the end of year report on the performance of rural banks by the Efficiency Monitoring Unit (EMU) of the ARB Apex Bank Limited revealed that as at the end of 2011, out of the 132 rural and community banks that were in operations, 7 of these banks were rated as strong in performance which indicated very good or strong performance in all respect.

Eighty-five (85) were rated as satisfactory which is a good performance indicator but with few weaknesses identified. Thirty (30) were rated as fair which indicated that the performance needed to be closely watched as weaknesses may become severe. Nine (9) were rated as marginal which meant that these banks needed constant supervision as the weaknesses may become difficult to correct in the future. One (1) was rated as unsatisfactory which meant that there was a high risk of failure in the near future and therefore needs constant supervision. The Suma Rural Bank was rated satisfactory.

As can be seen from the rating discussed above 10 out of the 132 rural and community banks in operation which are the 1 unsatisfactory and the 9 marginal are all on their way to collapse if the weaknesses are not checked immediately.

The weaknesses may include the following; lack of strong internal control systems and of sensitivity to risk and hence the embezzlement and the misappropriation of the funds of the bank by some management staff and sometimes even board of directors; poor quality of loans and advances to their clients; lack of efficient management of treasury operation; lack of the exploration of more business opportunities in micro financing; lack of a public relation and marketing unit to enhance the product and therefore the image of these banks; lack of a good customer service; high capital expenditure; poor and ineffective management among others.

The Suma Rural have been facing a number of credit management problem which include lack of good customer service, weak management of treasury and inability to grant customers huge or higher loan facility. The services of SRB and of the credit management need to be effectively co-ordinate to ensure efficient retrieval of the credit facilities that are enjoyed by the customers.

The challenges of the SRB limited include the inability to mobilise all credit facilities that were contracted by customers and the inability to increase the number of customers who come to the premises to demand credit facilities. It is against this background that this study seeks to evaluate the credit management practices by the Suma Rural Bank in Ghana and thereby to ascertain whether or not the bank’s credit operations conforms to the operational guidelines of the operational manual for rural and community banks issued by the central bank.

Objectives of the study

The general objective of the study is to evaluate the credit management practices of Suma Rural Bank Limited to ascertain whether or not the bank's credit operations conforms to the operational guidelines of the operational manual for rural and community banks issued by the central bank.

The specific objectives of the study are to;

1. Assess the role of the management and the board of directors on the credit management of Suma Rural Bank Limited.
2. Determine whether collateral security are demanded by Suma Rural Bank before granting loans
3. Assess the operational procedures used by Suma Rural Bank in managing credit portfolios.
4. Ascertain what collateral security are required by the bank for assessing credit facility.
5. Ascertain the recovery rate of credit for the past five years.
6. Assess the customer satisfaction of credit operation of Suma Rural Bank Limited.

Research question

In order to obtain the research questions, the objectives of the study were converted to the following questions.

1. What are the role of the management and the board of directors on the credit management of Suma Rural Bank Limited?
2. What is the nature of collateral security are demanded by Suma Rural Bank before granting loans?

3. What are the operational procedures used by Suma Rural Bank in managing credit portfolios?
4. What collateral security is required by the bank for assessing credit facility?
5. What is the recovery rate of credit for the past five years?
6. What the nature of customer satisfaction of credit operation of Suma Rural Bank Limited?

Significance of the study

The study would contribute to literature on credit management of rural banking operations in Ghana. Thus, the study would serve as a source of literature for review by others who would also want to conduct a study into credit management in the near future. The study would also serve as a guide for Suma Rural Bank Limited in its credit management activities.

The study would also provide information on the problems that confront Suma Rural Bank in its credit management in an attempt to conform to the mandatory sectorial allocation of credit as stipulated in the operational manual for rural and community banks by the Bank of Ghana. The findings of the study will be very useful finance and accounting students, policy makers in the financial sector and the academia as a whole. They will rely on the findings from the research for further studies. The ARP Bank and the Bank of Ghana can rely on the findings to come out with credit management policies that will help the operations of the rural banks in Ghana.

Scope and limitation of study

The study is limited to Suma Rural Bank Limited which can be located in three different districts of the Brong Ahafo Region of Ghana namely; the Jaman North, the Tain District and the Berekum Municipal Districts. The reason for the limitation of the study to Suma Rural Bank was due to its strategic location and the caliber of people living in its catchment area who are predominantly farmers and other small scale business entrepreneurs. Academia and students will find the recommendation very useful. The study will be become a source of references for both academia and students. The study will open the floodgates for further studies to be conducted into management of credit systems of financial institutions in Ghana.

Organisation of the study

This study consists of five chapters as follows: Chapter One contains the background to the study, statement of the problem, objectives of the study, significance of the study, scope of the study and the organisation of the study. Chapter Two is the review of related literature of the study. This talks about the overview of the rural banking in Ghana. The concept of rural banking, functions and management hierarchy of rural banks, framework for the review of the performance of rural banks and the indicators of rural banks are also stated. The lending policies and procedures of Suma Rural Bank and rural banks in general and the concept of Association of Rural Bank Apex Bank were also looked at.

Chapter Three looks at the research methodology used for the study. It describes the type of data used and the method of collecting the data as well as the sample size used. The procedures adopted in the selection of the sample as well as the method of analyzing the data. Chapter Four looks at the survey results of the credit management of Suma Rural Bank limited and the analysis of the financial reports of the bank for the past five years. Chapter Five was the summary, conclusions and the recommendations of the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Introduction

This chapter reviews the related literature on the subject under investigation. It provides a summary of the literature on review of related theories on credit management, the concept of rural banking, the regulations governing the operations of rural banks as stipulated in the operational manual for rural banks by the Bank of Ghana which would include the credit operations of rural banks and the concept of ARB Apex Bank, customer satisfaction of credit among many others.

Theoretical Framework

Liquidity Theory of Credit

This theory, first suggested by Emery (1984), proposes that credit rationed firms use more trade credit than those with normal access to financial institutions. The central point of this idea is that when a firm is financially constrained the offer of trade credit can make up for the reduction of the credit offer from financial institutions. In accordance with this view, those firms presenting good liquidity or better access to capital markets can finance those that are credit rationed. Several approaches have tried to obtain empirical evidence in order to support this assumption. For example, Nielsen (2002), using small firms as a proxy for credit rationed firms, finds that when there is a monetary contraction, small firms react by increasing the amount of trade credit accepted.

As financially unconstrained firms are less likely to demand trade credit and more prone to offer it, a negative relation between a buyer's access to other sources of financing and trade credit use is expected. Petersen and Rajan (1997) obtained evidence supporting this negative relation.

Portfolio Theory

Portfolio theory of investment which tries to maximize portfolio expected return for a given amount of portfolio risk or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets. Although portfolio theory is widely used in practice in the finance industry and several of its creators won a Nobel prize for the theory , in recent years the basic portfolio theory have been widely challenged by fields such as behavioral economics(Markowitz 1952). Portfolio theory was developed in 1950'sthrough the early 1970's and was considered an important advance in the mathematical modeling of finance. Since then, many theoretical and practical criticisms have been developed against it. This include the fact that financial returns do not follow a Gaussian distribution or indeed any symmetric distribution, and those correlations between asset classes (Micheal, Sproul 1998).

Tax Theory of Credit

The decision whether or not to accept a trade credit depends on the ability to access other sources of funds. A buyer should compare different financing alternatives to find out which choice is the best. In trade between a seller and a buyer a post payment may be offered, but it is not free, there is an implicit interest rate which is included in the final price.

Therefore, to find the best source of financing, the buyer should check out the real borrowing cost in other sources of funds. Brick and Fung (1984) suggest that the tax effect should be considered in order to compare the cost of trade credit with the cost of other financing alternatives. The main reason for this is that if buyers and sellers are in different tax brackets, they have different borrowing costs, since interests are tax deductible.

The authors' hypothesis is that firms in a high tax bracket tend to offer more trade credit than those in low tax brackets. Consequently, only buyers in a lower tax bracket than the seller will accept credit, since those in a higher tax bracket could borrow more cheaply directly from a financial institution. Another conclusion is that firms allocated to a given industry and placed in a tax bracket below the industry average cannot profit from offering trade credit. Therefore, Brick and Fung (1984) suggest that firms cannot both use and offer trade credit.

Credit Risk Theory

Although people have been facing credit risk ever since early ages, credit risk has not been widely studied until recent 30 years. Early literature (before 1974) on credit uses traditional actuarial methods of credit risk ,whose major difficulty lies in their complete dependence on historical data. Up to now, there are three quantitative approaches of analyzing credit risk: structural approach, reduced form appraisal and incomplete information approach (Crosbie et al, 2003). Melton 1974 introduced the credit risk theory otherwise called the structural theory which is said the default event derives from a firm's asset evolution modeled by a diffusion process with constant parameters. Such models are commonly defined "structural model "and based on variables related a specific issuer.

An evolution of this category is represented by asset of models where the loss conditional on default is exogenously specific. In these models, the default can happen throughout all the life of a corporate bond and not only in maturity (Longstaff & Schwartz.1995).

Sectorial allocation of credit by SUMA Rural Banks within the period of 2009-2013

This section highlights the sectorial allocation of credit by the Suma Rural Bank and to ascertain whether they conform to that of the guidelines provided by the Bank of Ghana.

Table 1: Sectorial allocation (2009-2013)

Sectorial allocation	**2009**	**2010**	**2011**	**2012**	**2013**
Salaried customers	30%	32%	40%	49%	53%
Trading	26%	33%	35%	29%	25%
Service & Hospitality	12%	14%	5%	2%	3%
Transport	11%	8%	7%	11%	9%
Agriculture	14%	10%	9%	8%	5%
Others	7%	3%	4%	1%	5%

Source: Field survey, 2015

The category of clients that benefited the most from loans included salaried workers and traders. From Table 1, salaried workers took more than half of the total loan disbursement of the bank in 2013, and almost half of the total loans disbursed in the years 2009 and 2010. Salaried workers again benefited from loans to the tune of 30% and 32% for 2009 to 2010. Traders occupied the second position in terms of credit allocation from 2009 to 2013. Traders took about 26% and 33% for the years 2009 and 2010 respectively before peaking at 35% in 2011. Thereafter, the percentage of the bank's credit allocation to the trading sector decreased to 29% in 2012 and finally to an all-time low of 25% in 2013 within the period under consideration. The agricultural sector has lost its position as the third largest beneficiary of credit allocation in the 2009 to 2011 financial years to the fourth position in the years 2012 and 2013 to the transport sector.

It is clearly shown that, SRB does not conform to the sectorial credit allocation guidelines indicated in the operational manual of the BoG (2004). In this operational manual, the agricultural sector is to be given the utmost priority in rural banks' credit allocation with as high as 50% of total loan disbursement. One of the reasons accounting for the deviation from the Bank of Ghana operational manual was explained by the fact that the priority areas, particularly the agricultural sector is highly risky and prone to high default rate. This is because agriculture in Ghana largely depends on the mercy of the weather.

Hence, the chances of the bank recovering loans extended to farmers during periods of bad weather are impaired, which was indeed experienced in the early years of the banks' inception. The bank, therefore, changed its priority sector to salaried workers in order to ensure a much reasonable recovery rate to enhance the wealth of shareholders.

It is easier to recover loans extended to salaried workers whose salaries pass through the bank. The decision to deviate from the BoG's credit allocation guidelines is indeed in line with good credit management practice which emphasises on being able to recover loans on time and in full with minimal associated cost.

Financial Institutions within the Financial System of Ghana's Economy

The financial institutions within the financial sector of Ghana's economy are classified into two main types. This classification is done based on the nature of their operations. These are bank and non-bank financial institutions. These institutions are further categorized into formal, semi-formal and informal in accordance with the law under which they were incorporated or established.

The Formal Financial Institutions

The formal financial institutions are those incorporated under the Companies Code 1963 and licensed by the Bank of Ghana (BoG) under either Banking Law 1989 or the Non-Banking Financial Institutions Law 1993 (NBF1 Law) to provide financial services under the Bank of Ghana's regulation. Rural and Community Banks (RCBs) operate as commercial banks under the Banking Law, with the following limitations:

a) They cannot undertake foreign exchange operations

b) Their clientele is drawn from their local catchment areas about 125 km radius, and

c) Their minimum capital requirement is significantly lower.

Among the nine specified categories of non-bank financial institutions (NBFIs), the Savings and Loans Companies (S&Ls), which are restricted to a limited range of services, are most active in micro and small-scale financial intermediation using microfinance methodologies.

Semi-Formal Financial Institutions

Semi-formal financial institutions are considered to be legally registered but not licensed by the Bank of Ghana. Examples of such semi formal financial institutions include Non-Governmental Organisations (NGOs) and Credit Unions (CUs). NGOs are incorporated as companies limited by guarantee and are not for profit under the Companies Code. The objectives of their set up leads most of them to provide multiple services to poor clients, including micro credit, though mostly on a limited scale. They are not licensed to take deposits from the public and hence they rely on external (usually donor) funds for micro credit. Credit Unions are registered by the Department of Cooperatives as cooperative thrift societies that can accept deposits from and give loans to their members (Aryeetey 1994).

Although credit unions are nominally included in the NBFl Law, BOG has allowed the apex body that is the Ghana Cooperative Credit Union Association to continue to regulate the societies pending the introduction of a new Credit Union Law. NGOs have facilitated the development of good microfinance practices in Ghana by introducing internationally tested methodologies, often in partnership with Rural Micro Finance Institutions (RMFIs).

These methodologies often are based on group solidarity methods, and have benefited from linkages with Community Based Organizations (CBOs) that have already "come together on the basis of some kind of location, occupation, friendships, family ties, gender, or other grounds to serve a purpose at the community level" (Chord, 2000).

The Informal Financial Institutions

The informal financial institutions cover a range of activities known as Susu, including individual savings collectors, routine savings and credit associations, savings and credit associations, and savings and credit "clubs" run by an operator. Others include money lenders, trade creditors, self-help groups, personal loans from friends and relatives. By the mid-1960s, money lending had become more of a part–time activity by traders and others with liquid funds than a full-time profession (Offei 1965, cited in Aryeetey 1994). Money lenders are supposed to be licensed by the policy under the Money Lenders Ordinance 1957.

The commercial banking system is dominated by a few major banks totaling about 17 and reaches only about 5% of households (Aryeetey 1994). Most of these households are excluded as a result of the high minimum deposit requirements. With 60% of the money supply outside the commercial banking system, the Rural and Community Banks, Savings and Loans, and the semi-formal and informal financial systems play a particularly important role in Ghana's private sector development and poverty reduction strategies (Amoah & Agyemang, 1987).

The assets of RCBs are nearly 4% of those of the commercial banking system, with Savings & Loans and Credit Unions adding another 2%. While “RMFIs are used to refer collectively to the full range of these institutions, they use different methodologies to reach different clientele. These include farmers, rural households, and the poor and micro enterprise and hence different regulatory and supervisory instruments may be appropriate. Nair and Fissha, (2010) noted that client outreach by different financial institutions such as rural banks, savings and loans companies, credit union, “NGOs” and “Susu” collectors alone rose from GHS I,330,000.00 in 2004 to GHS 760,000.00 in 2007. One can therefore establish from the foregoing that the mentioned financial institutions play an immense role in the financial sector of Ghana’s economy.

Steel and Andah (2003) argue that in reality, Savings and Loan companies’ assets average only an eighth of those of Discount Houses and only double those of Rural Banks. The Bank of Ghana has developed a mandatory sectorial allocation for Rural Bank loans. The lending allocation guidelines are shown in Table 1. The allocation ensures that the bulk of the resources go to agriculture, the priority sector in Rural Bank lending.

Table 2: Sectors of focus in advancing microcredit

Sector	Credit allocation
Agriculture	A minimum of 50% of Total Loans Outstanding
Cottage Industries	Approximately 30% of Total Loans Outstandin
Trade and Transport	A Maximum of 20% of total Loans Outstanding

Source: The Bank of Ghana's Operational Manual for Rural Banks, 1985

The Role of RCBs in the Rural Financial Sector of Ghana's Economy

The concept of Rural Banking in Ghana

The concept of rural banking came as a result of inadequacy of bank credit to the rural sector where the bulk of the small-scale farmers who produce about 90% of Ghana's Agricultural output live (Akuamoah & Agyemang, 1987). In spite of the important role played by the rural agricultural sector, financial services available to the rural enterprises and peasant farmers were woefully inadequate. The sector has had to rely on the informal financial sector like money lenders, Susu collectors, friends, traders and so on.

Addeah (1989) observes that "the only formal banking service to the rural folks was deposit mobilization by the commercial banks". The deposits mobilized by the commercial banks in the rural areas were used by these banks to cater for the needs of urban-based large scale entrepreneurs. This was because of the view that small loans were regarded too risky and too costly to administer to farmers and small-scale entrepreneurs in the rural areas.

The above problems and attempts by the government of Ghana to bridge the gap in the standard of living between the urban and rural dwellers led to the Central Bank of Ghana to undertake an extensive and a comprehensive nation-wide study of the financial services offered by the existing commercial banks to the rural community. Studies showed that there was a gap between urban and rural financial services offered by the commercial banks. This led to the introduction of the rural banking concept in 1976 with the specific objective of meeting the banking needs of rural people. Rural banks were licensed under the Banking Act of 1970 (Act 339) with special rules by the Bank of Ghana permitting small unit banks to be established with a minimum capital of only US$ 43,000 (compared to US$ 65,000 required by commercial banks at the time) provided the capital was raised from the local community that the bank was to serve.

Banking Act 2004, (Act 673) Article 2(1) states that the Bank of Ghana shall have an overall supervisory and regulatory authority in all matters relating to banking business and shall be responsible for:

a. Promoting effective banking system
b. Dealing with any unlawful or improper practices of banks and
c. Considering and proposing reforms of the laws relating to banking business.

Therefore, the Bank of Ghana is in charge of legal, regulatory and supervisory issues related to all rural banks.

By law, all rural and community banks are to be incorporated and they are required to meet the following before they could be allowed to commence business by the Bank of Ghana.

The requirements are divided into three (3) and these are:

i. Licensing requirements:

Under this requirement, the Rural and Community Banks are to meet a minimum capital requirement of GHS 150, 000.00 which has been reviewed lately though yet to be enforced to GHS 300,000.00. The ownership of shares must be resident in the geographical area and its operational area should be within 25 miles radius.

ii. Prudential requirements:

These are Capital Adequacy Ratio (CAR) of 10 percent, liquidity reserve ratio of 43 percent and exposure limits of 25 percent for secured loans, 10 percent for unsecured loans and 2 percent for loans to members of board of directors.

iii. Tax requirement:

Corporate income tax of eight percent, value added tax of 2.5 percent. In 2007, the Bank of Ghana exercising her supervisory role raised the minimum capital requirement of RCBs to GHS 150,000 and in 2013 further raised it to GHS 300,000.00 as stated above. Although no time limit was attached to the requirement, the rural and community banks that do not raise the minimum capital to the new required amount would neither be allowed to pay any dividend to its shareholders nor open a new branch by the Bank of Ghana. Likewise, any Rural or Community Bank that violates any of the stated requirements shall be made to face penalties as spelt out in the banking Act 2004 (Act 673).

In matters relating to the supervision of Rural and Community Banks as stipulated in the Banking Act 2004 Article 2(2), the Bank of Ghana shall establish within its organization a Banking Supervision Department (BSD). Article 54(1) of the same Act, provides that, the Bank of Ghana shall, without prior notice, carry out an examination of the operations and affairs of a bank, with reference to its books and records including documents, at intervals of not less than once a year. Article 54 (2) of the Act, adds that the examination shall be carried out in a month of the year as the Bank of Ghana may consider appropriate.

As per the above article of the Banking Act, 2004 (Act 673), the Banking Supervision Department (BSD) of the Bank of Ghana carries out its supervisory duties of rural and community banks through on-site and off- site inspection. The "BSD" also issues administrative directives and attend the Annual General Meetings (AGM) of rural and community banks. Rural and Community Banks are also required as part of the supervisory measures to submit monthly, quarterly and annual returns on variety of both financial and non-financial indicators to the Banking Supervision Department (BSD) of the Bank of Ghana. The Bank of Ghana (BoG) can penalize any Rural or Community Bank for non submission, incomplete submission, delayed submission or inaccurate submission of any of these returns.

Another supervisory body to the rural and community banks in recent times is Association of Rural Banks Apex Bank Ltd. To help address the challenges of rural and community banks, a law enacted in 2006 allowed the BoG to delegate some of its supervisory functions to the ARB Apex Bank Limited.

Under the said Legal Instrument of ARB Apex Bank Limited Regulations, 2006 L.I 185 as quoted by Ajai and Azeb (2010), the BoG was to relinquish some of its supervisory functions to the ARB Apex Bank Ltd. Key among these are:

a) Maintaining of primary cash reserve of the rural and community banks in accordance with relevant rules, regulations and polices (thus, withholding 5% of a rural bank's total deposits)
b) Monitor, inspect, examine and supervise Rural and Community Banks in accordance with relevant rules, regulations and policies.
c) Lend to rural and community banks facing temporary liquidity problems and
d) Provide specie management and specie movement as well as cheque clearing services to the Rural and Community Banks.

Even though the ARB Apex Bank currently performs all the supervisory functions envisaged for it under the 2006 regulations (L.l 185), the BOG continues to carry out both on-site and off-site supervision. The full delegation of powers to ARB Apex Bank has been constrained by structural, capacity and other resources. Structurally, since the ARB Apex Bank is owned by the RCBs, its autonomy to supervise its members has been called into question. ARB Apex Bank also has limited capacity to undertake off-site and on-site supervision, partly because of resource constraints.

ARB Apex Bank neither has access to any funds from the Bank of Ghana nor Government of Ghana to perform this task effectively. It cannot recover the cost from Rural and Community Banks too since the regulation does not require RCBs or any other bank to pay for supervision costs.

Association of Rural Banks (ARB) is the mother association for all rural and community banks (RCBs). ARB also has a role in the running of rural and community banks in the country. Although the role that ARB plays is not technical as that of BoG and ARB Apex Bank but matters such as the welfare of the member banks and staff conditions of service are facilitated by the ARB.

The Association of Rural Banks (ARB) also intervenes in any disputes that may arise in any of the member banks. Issues relating to directors, managers, and staff and even outside the banking setup like between the bank and the community that the bank operates could be handled amicably by the association. The member banks (RCBs) pay annual subscription to the ARB for its day to day running. ARB has a chapter in all the ten administrative regions in Ghana.

Rural and Community Banks are unit of banks owned by members of the rural community through the purchase of shares and are licensed to provide financial intermediation. They were first initiated in 1976 to expand savings mobilization and credit services in rural areas not served by commercial and development banks. The number expanded rapidly in the early 1980s, mainly to service the government's introduction of special cheque instead of cash payment to cocoa farmer- though with adverse consequences for their financial performance (Nissanke & Aryeetey, 1998). The rural banks serve as main source of finance to the rural sector of Ghana despite the existence of other financial intermediaries in the rural communities.

The RCBs mobilize rural savings through the various tailor made produces that they package for their rural clientele.

The rural banks have in recent time come to realize that they could use micro finance as a form of credit to reach out more potential customers and this has yielded a very good result as much more people especially, those with low income, small and medium enterprises are coming on board. These people have been able to grow their small enterprise under micro finance activities.

Apart from the financial services that the banks render to the rural communities, they also act as business advisers to their clients especially, when appraising loan. The credit officers of RCBs are trained in matters such as the timing of the loan and the project that the client wants to undertake. These officers therefore take advantage to offer business advice to these clients as to the viability of the project that the customer wanted to carry out and the material time that the project would take off.

According to MiDA-GRBCIP (2009), the rural banks were established to facilitate the purchase of cocoa and coffee in the current system, yet they have extended the reach of financial services to many people in various rural communities, playing a major role in inculcating banking habit, encouraging savings and access to credit and establishing needs to the rural communities. The banks also play a key role in social – development activities as part of their corporate social responsibility services. In this regard, RCBs have contributed immensely to social activities such as education, rural electrification projects, water projects, scholarship schemes for the students in the communities and many others.

Rural Deposits Mobilization

One of the primary functions of rural banks is to mobilize deposits to be able to lend to those who desire such facilities. Since loans and overdrafts have a bearing on rural banks' income, it becomes imperative for every bank to pursue deposit mobilization exercise vigorously. A bank must mobilize deposits or be pushed out of business (Asiedu–Mante, 2011). Rural and Communities Bans like the commercial Banks perform the traditional banking functions (accepting of deposits and granting of loans.)

The RCBs have packaged different kinds of products through which they mobilize funds from the rural communities. According to the Efficiency Monitoring Unit (EMU) of ARB Apex Bank Limited (2011), by December, 2011 rural and community banks' total mobilization amounted to GHS910.42 million.

Among these mobilization products that the RCBs employ to enhance rural savings are the following:

(i) Saving Deposits Accounts

The purposes of savings are diverse. It has been observed that different people save for different purposes. Bass et al (2000) identified the following factors that influence the decision to save, namely, Product Design, Product Flexibility, Rate of Interest and Transaction Cost.

In the view of Bas et al (2000) Savings products must be designed to respond to the characteristics of different segments. Products Design must therefore consider earnings, consumption habits, socio-cultural obligations, personal ambitions, and the surrounding geographic and economic conditions. Bass et al (2003) further finds that individual voluntary savings products attract a larger number of depositors and a higher savings volume than compulsory savings since the voluntary savings market is not limited to those who save only as a precondition for gaining credit. Product design must therefore be flexible to accommodate all potential savers irrespective of their motivations.

In rural and community banks, the most common account that the rural folks operate is savings account as it is seen by the people as investment since savings account attract interest, coupled with its flexibility in operating that account. Through the savings accounts that RCBs operate, deposits mobilization in the rural financial sector has been enhanced. Rural and Community banks open this type of account to individuals (personal savings account), joint relationship (such as marriage couples, friends, siblings etc), associations / societies, corporate entities etc in their catchment areas. In fact, it has been established that in Ghana, almost every RCB has high savings deposits than any other deposit products that they operate.

(ii) Current Deposit Accounts:

According to the report of Bank of Ghana(2007, many traders who withdraw money quite frequently from their account - open current account to deposit their money for a short while till the time that they need the money to do business. Institutions aforementioned in the case of savings also open current accounts. This account attracts some charges by the bank as money does not stay on the account for long time. No interest is paid on current account. This type of account is also opened to government employees who channel their salaries through the rural banks.

(iii) Time Deposits

This is a means of mobilizing deposits from the public by the rural banks where a certificate is issued to the depositor till the maturity date of the certificate. The banks pay instant interest on the fixed deposit purchased by the depositor on the expired date. A holder of fixed deposit certificate can use the certificate as a security on loan within the bank that issued out the certificate or in other banks. In the rural communities, where RCBs mainly operate, this product serves as the main financial investment product. This is because the people do not have access to other investment products offered by the state and other investment companies as a result of distance (Aryeetey, 1994).

The rural folks therefore invest in this product to earn much more interest than other types of products that RCBs have. Mayo (1980) defines investment as the purchase of security or securities that upon an appropriate analysis, offers safety of principal and a satisfactory yield commensurate with the risk assumed. Fixed deposit as financial security in the rural communities therefore 0ffers the people opportunities to speculate their investment fortunes

(iv) Mobile Banking (Susu)

In the view of Basel Committee (2000), mobile banking is another popular means of mobilization deposits by the rural banks. Many depositors prefer this form of savings as it affords them opportunity to do their business and at the same time save their money in the bank. The RCBs have recruited people who go round to take deposits from customers of the RCBs and the product has assisted in no small way in mobilizing rural savings.

(v) Micro finance deposits:

Another means of mobilizing funds from people is micro finance that in recent times has become a star product to many RCBs. The credit officers of RCBs mobilize people with low income who might not have gone to the banks to make savings with their little resources together in the form of group savings so that they could secure loans to expand their businesses. Through this scheme, the RCBs are able to mobilize funds from the small and medium enterprises (SME) owners till they qualify for loan. Micro financing in rural banks is gradually becoming a very popular product (ARB, Apex Bank, 2008).

(vi) Deposits from Special Akuafo Cheque System.

Rural banks also play active role in the above named banking business. As a result of RCBs geographical locations, they enjoy proximity advantage as they are very close to cocoa farming communities. Through Akuafo cheques that RCBs purchase, they are able to mobilize funds as some of the farmers deposit proceeds from their cocoa with the banks (ARB, Apex Bank, 2008).

Micro Finance as a novelty of Rural Banking.

Micro Finance generally refers to the provision of financial services or support to low income client, usually self employed who are engaged in Income Generating Activities (IGA) or micro enterprises. These loans are provided to groups of individuals to finance small and medium income generating activities. For some banks, the group is the borrower, whereas for others, each member of the group is a borrower. In both cases, the members of the group are jointly liable for the loan. (Ajai & Azeb, 2010).

In recent times, almost every rural bank has established a micro finance unit to ensure that its micro finance activities are pursued vigorously. Micro finance enables small income level individual and enterprises to be reach out by the RCBs (Ayeh, 2010). One significant phenomenon of the micro finance is that, it allows many people in rural communities whose income level is so small to the extent that they would not want to go to the bank to deposit those incomes to come on board to do savings.

Micro finance operations by the RCBs have enabled small and medium enterprises to grow their capitals to become big time businesses and customers to the banks. Ayeh (2011) has observed that micro finance is now considered as one of the most promising tools in the fight against poverty across the world. Every RCB has its methodology depending on the environment in which it operates. The most common methodology adopted by the RCBs is the formation of groups. People with common interest or with the same business background are grouped together. Normally, the groups are formed by the members themselves and more often than not women dominate the groups. This has empowered the local women economically.

Another significant feature in the micro finance programme is that the members are jointly and severally liable to the loan granted to every member in a group. This means that the difficulty in providing a valuable property as security for ordinary loan is removed under micro finance.

Furthermore, as the beneficiary makes weekly or monthly savings towards the payment of the loans granted to them, the repayment normally does not become a problem for the beneficiaries (Peter & Sylvia, 2008).

Also, interest element on micro finance loans granted by RCBs is comparatively moderate and more so, as the repayment is done at a short regular interval, the interest rate on the loans becomes very marginal at every repayment period and the client or beneficiary does not recognize the interest element so much. This makes the repayment by the beneficiary very easy (Nissanke & Aryeetey, 1998).

The Role of the Management and Board of Directors on the Credit Management of Rural Banks

To manage risk effectively, a bank must have a well-informed board of directors that guides its strategic direction. A key component of strategic direction is establishing the bank's risk tolerance. The board establishes the bank's risk tolerance by approving policies that set standards for the nature and level of risk the bank is willing to assume. These policies should generally be written and periodically reviewed and updated. After adopting policies, the board must ensure that its guidance is effectively communicated and adhered to throughout the bank. A well-designed monitoring system is the best way for the board to hold management accountable for operating within established risk tolerance levels.

Board of Directors (BoDs) forms the highest level of authority in the governance of Suma Rural Bank Limited and includes elected individuals who represent the interest of the shareholders of the bank. They ensure that the strategic decisions of the Management and the Chief Executive Officer (CEO) best protect and benefit anyone who has equity ownership with the bank.

Under the guidance and scrutiny of BoDs, the CEO strategically aligns resources to achieve the banks objectives in the most efficient way. In general terms, the BoDs become fiscally accountable. The Board of Directors set the amount of dividends to be paid to the shareholders and how much fund should be reinvested into the bank. Additionally, BoDs need to ensure that the financial disclosures are accurate and truly represent the state of the bank.

The Board is trusted with fiduciary responsibilities which encompass three legal duties: care, loyalty and obedience. It must act in good faith and for the interest of the shareholders and the organisation. It must also keep the good name of the organization in mind and not base the decision on personal interests, and finally, the Board must obey the policies stated in the governing documents of the corporation (bye-laws) and the regulation of the industry.

Lending is a very essential role performed by most financial institutions in Ghana which all Rural Banks are of no exception. Granting of credits either in the form of loans or overdrafts represent the largest commitment of funds to various customers of financial institutions. Credit granting brings the largest income to financial institutions in their various operations (Aryeetey, 1997).

The BoD have got have got a very important role to play when it comes to credit management. These roles include the hiring of the required personality with the requisite knowledge and the technical knowhow for the management of credit in the bank. Aside from this the final approval of loans lies in the hands of the BoDs or an appointed loans committee, it is there the responsibility of the BoDs to critically scrutinize each application to ensure that the loan is recoverable before approval is given.

As the highest decision making body of the bank, their role in the credit management includes the provision of the required equipments for the operations of the credit team. These may include vehicles and motor bicycles for recovery purposes, computers and other equipments for the preparation of report on the performance of portfolio in the bank.

It is also the responsibility of the BoDs to call for monthly reports on the performance of credit and to issues instructions as to the appropriate measures to be taken in recovering the loans. In some cases the BoDs may invite defaulting clients to appear before the Board to discuss how they can pay back the loans (Aryeetey, 1997).

Regardless of the risk management system's design, it should include mechanisms for identifying, measuring, monitoring, and controlling risks.

Although a board of directors of Suma Rural Bank Limited do not guarantee the bank's success, the board oversee the bank to ensure that the bank operates in a safe and sound manner and complies with applicable laws and regulations of the Bank of Ghana. The board establishes an appropriate corporate culture and "tone at the top," hire and retain competent management, stay informed about the bank's operating environment, and ensure that the bank has a risk management system suitable for the bank's size and activities. The board also oversees the bank's business performance and serve community credit needs. Problems arising from failures in any of these areas represent the board's failure to properly exercise its oversight responsibilities and can result in individual liability.

Credit Management in Rural Banking

Credit management involves establishing formal legitimate policies and procedures that will ensure that the proper authorities grant credit, i.e. the credit goes to the right channel, and is granted for the productive activities or for businesses which are economically and technically viable, the appropriate size of credit is granted, the credit is recoverable and there is adequate flow of management information within the organization to monitor the credit activity Asiedu-Mante (2011).

Similarly, Office of the Controller of the Currency (OCC) (2010) defined Loan Portfolio Management as the process by which risks that are inherent in the credit process are managed and controlled. Savings mobilization and lending are the major operating activities and life-blood of all banking institutions. The mission of the rural bank is as an instrument to help turn around the community it serves to foster national development.

Credit Operations of Rural Banks

Although rural credit has become more and more institutionalized in many countries, informal rural lenders continue to play a vital role in rural financial intermediation. Some of the reasons for this situation are clearly given by Padmanbhan (1984), through a survey conducted by him in India. He observed the following;

a. The informal lenders have intimate knowledge of their debtors and keep them in good stead at the time of the transactions.

b. The informal lender has different kinds and degrees of holds on those to whom he chooses to lend.

c. Being unaffected by institutional code can be as rigid or as elastic as realism dictates when payments become due.

d. Without having to obtain authorization from anybody he is able to promptly hand over the money in order that some expenditure which needs no delay can be met at once.

The above factors clearly place the informal lenders ahead of their formal counterparts. For rural banks to participate fully in the rural credit, the bank of Ghana in early 1980s developed an operation manual known as “The Green Book”. The manual streamline the RCBs lending operations in order to ensure that bank credit actually benefits the small scale rural producer and the communities as a whole.

Most people associate banks with lending. This is more so in the rural areas of Ghana where rural banks are gradually pushing money lenders out of business (Asiedu-Mante, 2011). The RCBs lend to improve both economic and social activities in the rural communities. They again help to improve their standard of living. Notable sectors that RCBs support in terms of finance are Agriculture, Education, Commence, Government employees, Cottage industries, Social activities such as funeral etc. Asiedu Mante (2011) discusses the types of loan facilities that are advanced by RCBs to the above economic and social sectors as below:

Table 3: Financial Performances of RCBs in Ghana for 2010 and 2011 financial years

Performance indicators	December, 2010 GHS (million)	December, 2011 Gh¢ (million)	Variance (%) increases
Total Assets	875.82	1,156.66	32.1
Total Advances	333.69	471.71	41.4
Total investments	283.90	336.58	18.6
Total Deposits	682.16	910.42	33.5
Profit Before Tax	26.74	36.39	36.1
Paid – up capital	28.48	36.90	29.6
Net worth	104.48	136.14	29.9

Source: ARB Apex Bank, Efficiency Monitoring Unit, 2011

a. Overdraft

This refers to a situation where a customer is allowed to withdraw more than his/her total deposits on the customer's account. In other words the facility allows the customer to withdraw cash over and above the available credit balance on his/her account. Businesses normally prefer to arrange for this credit facility as it enables them to obtain fast and short term funding for their daily activities. The customers who are given these facilities are charged some interest depending on the amount over drawn. Where this facility is extended to government employees who receive their salaries through the RCBs, it is known as salary advance. Thus, the employee overdraws his/her account balance whilst waiting for his/her monthly salary (Aseidu-Mante, 2011).

b. Scheduled Loans

According to Aryeetey (1997), this type of advance is where the loan beneficiary is required to make repayment of the principal loan and interest at a regular interval. For example, weekly, monthly, quarterly etc. Commercial and salaries loans are common examples of this type of loan facility offered by RCBs.

c. Term or Unscheduled Loans

For Basel Committee on Banking Supervision (2005) this is another loan package offered by RCBs to their clients. The facility is paid back only at the maturity. In some instance, the beneficiary pays the interest on loan at a regular internal and repay the principal at the maturity date. There is other instance where the loan beneficiary pays back both the principal and interest at the maturity date only. Such facility could have a short ormedium term period. Thus, the period ranges between 1 and 5 years. Common examples of loan facilities under this type are farmer, cottage industries, government intervention, group scheme loans etc.

d. Social Intervention Loans:

These types of loan are those facilities that RCBs grant to parent to pay their wards school feeds and other educational needs. Also, loans that RCBs grant to families, Association, and identifiable group to perform funeral rites are also regarded as social interventions by the rural and community banks. Under this package, the Associations group, parents or families arrange with the bank as to the reasonable time frame that the loan could be paid back. The period could be one month, two months and even six months (Aryeetey, 1994). The Banks calculate the period involved and charge interest on the facility granted.

Customer satisfaction of credit operation of rural banks

Determination of satisfaction elements

Customer satisfaction is a complex construct and still a critical area for research and debate. Kotler (2009), defined satisfaction as a person feeling of pleasure or disappointment resulting from comparing a product perceived performance or outcome in relation to his or her expectation. Tse (1988), describe satisfaction as " the consumers response to and evaluation of the perceived discrepancy between prior expectation (and some other norm of performance) and the actual performance of the product as perceived after its consumption". This implies that if services provided is better than what is expected, the customers is satisfied, if services provided worse than the customer expectation, the customers is unsatisfied.

The dominant model in the literature is the disconfirmation of expectations or comparison standards paradigm (Oliver, 1980; Tse & Wilton, 1988).

Basically, the model suggests that if customers perceive their expectation to be met, they are satisfied. If their expectation is underperformed, this is negative disconfirmation and they will be dissatisfied. Positive disconfirmation occurs when perception exceeds expectation. The customers may pleasantly surprise or even delighted. This model of customer satisfaction assumes that customers have expectations, and that they are able to judge performance. A customer satisfaction paradox has been identified by expectation disconfirmation researchers. At times, customer's expectation but the customer is still not satisfied. This happens when the customer's expectations are low (Buttle, 2004).

Measures for customer satisfaction elements

Five dimensions of SERVQUAL have been developed for the service sectors: tangibility, reliability, assurance, responsiveness, and empathy (Van Iwaarden et al., 2003). Tangibility represents physical facilities, equipment and appearance of personnel. Examples of the tangible factor related to banks include comfortable store designs, up-to-date equipment for customer use and sufficient staff to provide service. These aspects are important for retail banks, because there are extensive face-to-face contacts between a customer and an employee. Therefore, maintaining a professional and comfortable store environment can increase customer satisfaction. The next dimension is responsiveness, which represents the willingness to help customers and provide prompt service. In order to be helpful and responsive to customers, HSBC, for example, has incorporated the statement due date on SMS alerts sent to cardholders. This personal service aims to enhance customer satisfaction.

Reliability means the ability to perform the promised service dependably and accurately. The major reason for customers to choose banks for investment funds is because of the dependability and reputation of banks. Banks always promise customers a high level of security during transactions. Banking service can increase customers' confidence and trust if employees are able to provide appropriate service to each customer. For instance, understanding the needs of each individual customer, such as knowing the customers' expected retirement age, annual income, and hobbies are required to help provide a good match of insurance and fund products for customers.

Assurance is the knowledge and courtesy of employees and their ability to inspire trust and confidence. Bank commitments are important, as customers may save a large sum of money in banks. For complicated products such as insurance, funds, and margins, employees must provide a clear explanation of each product to customers, so that customers can feel confident about the services provided by banks.

The final dimension is empathy, which represents the individualized attention that firm provides to its customers. Employees who show understanding of customer needs and are knowledgeable to solve customer problems are success factors for the service industry. Friendly customer service pleases customers when they walk into a bank. The purpose of this dimension is to retain customers to keep using the bank service (Van Iwaarden et al., 2003). The applicability of the service quality measure was tested in the retail banking industry in India (Angur,, Nataraajan, & Jahera, 1999).

This research was conducted to measure the overall service quality perceived by customers of two major banks in India using the SERVQUAL model. The data indicated that dimensions were not equally important in explaining variances in the overall service quality. Responsiveness and reliability were the most important dimensions, followed by the empathy and tangible dimensions; assurance appeared to be the least important. It was concluded that SERVQUAL is the best model to measure service quality in the banking industry (Angur,, Nataraajan, & Jahera, 1999). In summary, SERVQUAL is a proper assessment tool to measure service quality in the retail banking industry.

Customer satisfaction provides an essential link between cumulative purchase and post-purchase phenomena in terms of attitude change, repeat purchase and brand loyalty (Churchill & Surprenant, 1982). Service quality has a positive influence on customer satisfaction (Yee, Yeung, & Cheng, 2010). Customer satisfaction is defined as the attitude resulting from what customers believe should happen (expectations) compared to what they believe did happen (performance perception) (Neal, 1998). Satisfaction reinforces quality perception and drives repeat purchases. Zaim, Bayyurt, and Zaim (2010) found that tangibility, reliability and empathy are important for customer satisfaction, but Mengi (2009) found that responsiveness and assurance are more important. Siddiqi (2010) examined the applicability of service quality of retail banking industry in Bangladesh and found that service quality is positively correlated with customer satisfaction; empathy had the highest positive correlation with customer satisfaction, followed by assurance and tangibility.

On the other hand, Lo, Osman, Ramayah and Rahim (2010) found that empathy and assurance had the highest influence on customer satisfaction in the Malaysian retail banking industry. Arasli, Smadi and Katircioglu (2005) found that reliability had the highest impact on customer satisfaction. A number of studies have identified the dimensions of service quality as the antecedents of customer satisfaction.

Customer Loyalty

Customer loyalty is an asset. Consumers are willing to pay more for a brand (Wernerfelt, 1991). Customer satisfaction is positively related to customer loyalty and organisational profits (Rust & Zahorik, 1993). However, the cost of attracting a new customer can be five times higher than the cost of keeping a current customer satisfied (Kotler & Armstrong, 1999), because loyalty has to be developed over a period of time from a consistent record of meeting (and sometimes exceeding) customer expectations (Teich, 1997). Loyalty is a multi-dimensional construct that includes both positive and negative responses (Zeithaml, Berry, & Parasuraman, 1996). A loyal customer may not necessarily be a satisfied customer. A customer who continues to repurchase from a firm because he or she believes that there is no convenient alternative is not a loyal customer.

Such customers may switch to another service provider when convenient alternatives become available, especially if he or she is not satisfied with the current provider. In contrast, customers exhibit repeat purchase behavior from a service provider when they possess a positive attitudinal disposition toward the provider and consider using only one provider when a need for this service exists (Gremler & Brown, 1996). This satisfied customer may have the opportunity to choose another brand for trial or to purchase less frequently due to reduced need.

Alternatively, he or she may continue to purchase because of high switching cost or convenience. Hence, maintaining a sustainable relationship with customers is the key to building a loyal customer base. We expect that if a customer is satisfied with a firm, service or product, then a greater level of customer loyalty can be achieved.

From the existing literature discussed above, a theoretical framework was developed.

This framework identifies the relationship among service quality, customer satisfaction and customer loyalty in the banking industry.

The constrain faced by Rural Banks in complying with the sectorial allocation of credit issued by the Bank of Ghana

Although RCBs are lauded for their rapid expansion among the rural communities, this also brought a number of challenges due to limitations within the regulatory framework. The BoG supervises RCBs through its Banking Supervision Department (BSD), where RCBs are responsible for submitting monthly, quarterly, and annual returns; and the BSD is responsible for annual on-site supervisions (take an average of 5 days for each bank) (Nair & Fissha, 2010). However, the BSD has been unable to sufficiently perform its duties as supervisors due to manpower constraints and the expansion of RCBs into more remote locations. Therefore, responsibilities of the RCBs have not been enforced and the BSD is unable to visit all of the rural banks annually.

In addition to the problems with supervision over RCBs, there are a number of services that these banks need access to in order to function properly - which in this case they do not have due to financial constraints. Services that are not offered at reasonable cost in the market are:

i. Shareholder registry management and shareholder education;
ii. Internal audit services –most of the rural banks are too small to attract good internal audit staff;
iii. Product development services;
iv. Strategic advisory services including risk management;

v. Technological upgrades besides computerization;

vi. Loan syndication services. (Nair & Fissha, 2010)

Not only does regulation inhibit RCBs from functioning properly but this is also stymied by limitation of market services that banks need in order to perform optimally. Without these basic banking framework problems addressed, RCBs will continue to perform poorly—limiting their ability to provide adequate services to smallholder farmers.

Similarly, the lack of interest in small rural credits by the National Investment Bank and the commercial banks is explained by the high cost of administering a large number of small credits spread over a wide area, coupled with the comparatively high level of default that has often accompanied small credits.

Finally, the inability of rural borrowers to offer adequate security for loans, and the enormous risks associated with agricultural production, are the typical reasons given for the urban-based bias of commercial lending. The Agricultural Development Bank was created to service the rural sector in particular. It however, eventually began to concentrate on traditional urban-based banking activities as a result of the above mentioned challenges (ARB, Apex Bank, 2009).

Contribution of Rural Banking to the national development

According to ARB-Apex Bank (2009), the rural banking concept as a novelty in banking has emphasis on rural finance, and the primary purpose of the promotion of the rural finance is to improve the living conditions of the rural poor.

The cost and standard of living are made good through the services that are provided by some rural banks. The rural population is very proud of the existence of rural banks that operate in the rural communities and this attest to the good works that the banks offer to those communities. The rural banks support small and medium farming businesses, commence (trading) activities, transport businesses, businesses in service, manufacturing, construction and other industries. One could now see a lot of improvement in areas such as agriculture (farming), transport, cottage industry, commerce (trading), governmental and non-governmental organisations in the sector of Ghana's economy.

Another clear evident of the RCBs is the number of government employees that have channeled their salaries through the rural banks. The rural banks have been able to carve the niche of the market of these employees from the early orthodox banks. It is therefore no longer strange that one could see a lot of government employees queuing at the premises' of the RCBs during month endings to access their salaries.

Smith (2012), has noted that on many occasions that the rural banks have received television coverage during their annual general meetings some of their customers showcased the massive transformation that had occurred as a result of the good works of the rural banks. Many transport owners, in their quest to show gratitude to their financiers, have had the names of rural banks written on their vehicle telling the world what rural banking had done for them.

Empirically, another fact is that, because of the activities of rural banks, every cocoa farmer in the cocoa growing areas of Ghana has a bank note (pass book).

This is due to the concept of special Akuafo cheque introduced by the Ghana Government in 1980s and the presence of RCBs in all over the cocoa growing areas of Ghana. Through the aforementioned, every farmer has at least stepped into a banking hall before and many of them have been able to access loan facilities to either buy insecticides to maintain their farms or pay their wards school fees. Until recently when some Licensed Buying Companies (LBCs) ignores the government's policy of buying cocoa through the Akuafo cheque system, all the farmers received proceeds from their cocoa through the banks and most of these banks were the rural banks.

According to Anin (2000), a rural bank may be defined as unit bank with the sole aim of providing simple banking facilities to the rural communities in which they are located. PNDC law 225 (Banking Law) stipulates that, rural banks should be licensed in order to engage in the business of banking, that is, to collect saving and grants loans and advance under approved terms. It is therefore authorized.

- To mobilize saving resident in rural communities.
- Accept cash/cheques for the credits on current and savings accounts.
- To grants loans to small-scale entrepreneurs, farmers and fishermen.
- Accepts securities for safekeeping.
- Ensure proper and accurate handling of all money transactions entrusted to the banks.
- Assist customers in respect of their activities with the view to consolidate extend and develop their undertakings.
- Engage in any economic activities that will promote socio economic development in the community.

The roles of Rural and Community Banks have helped the people living in the rural communities to access vital financial services. The services that the RCBs render to the people of Ghana travel beyond the borders of Ghana to the international scene as remittance are channeled through the RCBs from other countries in Africa, Europe, America and other continents into the country. These remittances through the RCBs into the country especially, the rural communities would have been a big problem, had it not been the presence of RCBs operating in those communities as financial services were not closer to them and they would have had to travel far away for banking services.

Added to the above practical fact, was the issue of culture of savings among the rural folks. Since the few orthodox banks were far distant from rural communities, rural savings were very poor. With the RCBs at the door steps of these people, they now save with the banks without fear of losing their monies as they are part of the ownership of these rural banks. Ajai and Azeb (2010) observed that rural banks mainly provide savings and credit services and products. With the increase in the number of rural banks, the number of individuals with bank accounts has also increased. Salary and pension deposits for civil services were transferred using rural bank networks.

Ajai and Azeb (2010) further noted that rural and communities banks volume of deposits increased from 148,000 (old cedis) in 1976 to 2.3 million (old cedis) in 1988 whilst credit lines were consolidated to have a loan portfolio of US $ 4. Million with nearly half of the portfolio, being agriculture and 30% in cottage industries and the rest salaried loans.

The above evidence put together, points out that the RCBs really play a key role in both national and international front as far as financial issues are concerned.

Empirical studies

Hong and Sung (1995) have tried to analyze Korean banks' performance which was reflected on their financial statements and to provide some comments to improve their banking business. The study was carried out by comparing the eight Korean banks' past five years performance results with other banks in the State of California, other banks include Asian banks other than Korean banks owned by such Asians (e.g., Chinese and Japanese) and American banks owned by other ethnic groups of Americans (e.g., "white" American). The comparative financial analysis indicated that Korean banks were relatively conservative in managing operations and lending and were more actively involved in their services for international business and sales activities. The analyses also indicated that the Korean banks' loan quality was relatively low and their loan market appears to have been saturated.

They recommend on the basis of the analysis that the Korean banks should adopt a more active marketing strategy to expand and create their own market, consider tighter control for their operations with understanding banking regulations (e.g., Financial Institutions Reform, Recovery, and Enforcement Act) and adopt the loan policy in a way that they can make a loan decision with more reliable cash flow analysis. Abdus (2004) has examined empirically the performance of Bahrain's commercial banks with respect to credit (loan), liquidity and profitability during the period 1994-2001.

Nine financial ratios (Return on Asset, Return on Equity, Cost to Revenue, Net Loans to Total Asset, Net Loans to Deposit, Liquid Asset to Deposit, Equity to Asset, Equity to Loan and Non-performing loans to Gross Loan) were selected for measuring credit, liquidity and profitability performances. By applying these financial measures, this paper found that commercial banks' liquidity performance was not at par with the Bahrain banking industry. Commercial banks are relatively less profitable and less liquid and, are exposed to risk as compared to banking industry. With regard to asset quality or credit performance, this paper found no conclusive result. Non-performing loans to gross loans (NPLGL) indicates that there was no difference in performance between the commercial banks and the banking industry in Bahrain.

Chowdhury and Ahmed (2007) have tried to analyze the development and growth of selected private Commercial Banks of Bangladesh. It was observed that all the selected private commercial banks were able to achieve a stable growth of branches, employees, deposits, loans and advances, net income and earnings per share during the period of 2002-2006. Seven trend equations have been tested for different activities (growth in branch, employees, deposits, loans and advances, net income and earnings per share) of the private commercial banks. Among them the trend value of branches, employees, deposits and net income was positive in case of all the selected banks.

Dhakal (2011) on risk management in SACCOs found out that risk management is not imbedded into the SACCOs institutional cultures and its value is not shared by all employees.

The study also noted that given the capacity, introduction of sophisticated systems and technical tools risk management does not work in SACCOs and therefore they lack the capacity required for risk management.

Gaitho (2010) surveyed on credit risk management practices by SACCOS in Nairobi, findings revealed that majority of SACCOS used credit risk management practices to mitigate risks as a basis for objective credit risk appraisal. The study also found out that majority of SACCOS relied heavily on the discretion and ability of portfolio managers for effective credit risk management practices as opposed to a system that standardizes credit and credit risk decisions.

Owusu (2008) on credit practices in rural banks in Ghana found out that the appraisal of credit applications did not adequately assess the inherent credit risk to guide the taking of appropriate credit decision the study also found out that 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. In his recommendations he stated that 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.

Githingi (2010) surveyed on operating efficiency and loan portfolio indicators usage by microfinance institutions found out that most microfinance institutions to a great extend used operating efficiency indicator as a credit risk management practice.

Efficiency and productivity ratios are used to determine how well microfinance institutions streamline their credit operations. The study also noted that microfinance institutions need to employ a combination of performance indicators such as profitability, operating efficiency and portfolio quality indicators to measure their overall performance.

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.

Gisemba (2010) researched on the relationship between risk management practices and financial performance of SACCOs found out that the SACCOs adopted various approaches in screening and analyzing risk before awarding credit to client to minimize loan loss. This includes establishing capacity, conditions, use of collateral, borrower screening and use of risk analysis in attempt to reduce and manage credit risks. The study concluded that for SACCOS to manage credit risks effectively they must minimize loan defaulters, cash loss and ensure the organization performs better increasing the return on assets.

Wambugu (2009) on credit management practices in SACCOS offering front office services found out that risk identification is an important stage in credit risk management and should be applied effectively to identify the current credit risks confronting the organisation, provide the likelihood of these risks occurring and reveal the type and amount of loss these risks are meant to cause if they occur.

The study concluded that the establishment of a review system that provided accurate timely and relevant risk information in a clear, easily understood manner is key to risk monitoring.

Griffin et al (2009) investigated the risk management techniques of twenty eight Islamic banks by examining the perception of senior Islamic banker toward risk. The result reveled that, Islamic banks are typically exposed to the same types of risk in conventional banks with different levels of the risks. Olomola (2002) found that repayment performance is significantly affected by borrower's characteristics, lenders characteristics and loan characteristics. Repayment problems can be in form of loan delinquency and default. Whatever the form however, the borrowers alone cannot be held responsible wherever problems arise, it is important to examine the extent to which both borrowers and lenders comply with the loan contract as well as the nature and duties, responsibilities and obligations of both parties as reflected in the design of the credit programme rather than heaping blames only on the borrowers

Summary of the literature review

The above empirical review of literature emphasizes that all the studies so far conducted are mainly discussing the loan recovery problems, determinant factors for default of borrowers in financial institutions in general at Macro-level. The researcher also observed in the review of literature that there are no studies conducted mainly to identify the problems related to lack of effective credit management with reference to

The researcher felt it appropriate to take up the present study entitled "credit management-practices of Suma Rural Bank limited" to assess the credit management problems and thereby to recommend courses of action that are assumed to promote quality loan growth and curtail non-performing products of the bank with respect to credit facilities of the bank.

CHAPTER THREE

METHODOLOGY

Introduction

This chapter presents the methodology used in arriving at the empirical findings of the study. The chapter explains the research design, the study population, sample size, sample techniques, research instruments, data collection, processing and analysis as well as the study area or limitation.

Kothari (2005) noted that methodology does not only enable the researcher to identify the various steps that have been adopted in conducting the investigation, but also the logic behind them. He further noted that the researcher in this way is able to select methods/techniques that are relevant to the study.

Profile of Suma Rural Bank Ltd

Suma Rural Bank Ltd (SRB) was established in the year 1982 with the purpose of channeling financial resources to the productive ventures in the rural area. It has a share capital of GH¢387,765.73 Ordinary shares with no par value. Out of this capital there is GH¢12.50 preference shares contributed by the government of Ghana and this amount are still in the books of the Bank. The Head Office of the bank is located at Suma Ahenkro in the Brong Ahafo Region.

The current Board members stand at seven with a General Manager who is responsible for the day to day running of the Bank. The Bank has branches at Suma Ahenkro, Brodi, Sampa, Goka, Japekrom and Berekum all in the Brong Ahafo Region. Currently, the Bank places 22nd among Rural

Banks ranking in the country and third among Rural Banks in the Brong Ahafo Region (ARB Apex Bank, 2014 Second quarter performance rating). The Bank was also awarded with the prestigious club 100 award in 2013 due to its outstanding performance for the 2012 accounting year. The Bank operates Demand Deposit Account, Savings Account, Fixed Deposit Account, Micro-Finance and "Susu" Account.

Research design

The research design of this study was a survey to ascertain how Suma rural bank effectively or otherwise manages its credit. In other words how Suma rural bank manage its loan portfolio. The people (the staff, directors, customers and traditional/ opinion leaders) here is referred to as population for the study. The study is based on qualitative and quantitative research approach under which, both survey (structure and like scale questionnaires) and interview (face to face/telephone interview) methods were employed. This technique was chosen in order to be able to generate significant amount of data from a meaningful population size in an efficient manner (Ihenancho, 2005).

The study was based on historical data, current information, practical realities and concerns raised by the population sampled for the research. At the practical level, empirical data pertaining to Suma Rural Bank's credit/loan management was generated.

Study Population

The population is the complete set of individual, objects or events having common observable features in which the researcher is interested (Saunders, et al, 2007).

The target population for the study included all the management (staff and directors), loan customers and opinion leaders of the six branches of Suma Rural Bank (Sampa, Suma, Goka, Japekrom, Berekum and Brodi branches). In all, there are 9 opinion leaders, 55 staff members and 4900 loan customers at the bank. The structure of this population enabled the researcher to collect objective and detailed information from different groups of people who are responsible for ensuring the effectiveness of the Suma Rural Bank's credit/loan management. The total number of the targeted population was estimated at five thousand (5000) which constituted 100 management and 4900 customers.

Sampling and sample procedures

Three categories, comprising 55 management (staff and directors), nine opinion leaders and 86 customers of the banks, were chosen for the study given the total number of 150 respondents constituted the sample size. The researcher selected 150 respondents from the total population because of time and financial resource constraints. The customers of the Suma Rural Banks as at June, 2013 served as sample frame from which the sample was chosen.

In designing the research study, the researcher took into consideration the need to make inferences from the sample of the population in order to answer the research questions and also meet research objectives.

By this, probability sampling was adopted in choosing the sample size. This is because; probability sampling allows the researcher to select items from a large population for the study. Thus, the researcher randomly sampled respondents from the categories of population for the study.

According the Saunders, Lewis and Thornhill, (2007) randomly sampling gives all units of a population equal chance of being selected and included in the study. There will be representative views that will be collected from the respondents and can be generalised over the entire population. The sampled respondents in presented on Table 4.

Table 4: Sample for the field component of the study

Branch	Population	*Management*	*Opinion Leaders*	*Customers*	Size
Suma	810	9	1	15	25
Sampa	945	11	1	10	22
Goka	940	8	1	15	24
Japekrom	635	9	3	9	21
Berekum	725	9	2	8	19
Brodi	945	12	1	24	37
Total	5000	55	9	86	150

Source: Field survey, 2015

The researcher adopted also a triangulation technique in the analysis of data. The use of the triangulation in this study also enables the intensive examination of the small sample of the items as it is easier to commemorate findings from the different instruments like interviews, questionnaires and in-depth probing. This greatly assisted in reducing bias and errors and thereby ensuring that the research findings are reliable (Welman & Kruger, 2004).

Research instruments and procedures

The research instruments included interviews, questionnaires and the secondary sources coming from the review of related literature.

Interviews

The interview was designed for the opinion leaders of the various branches of Suma Rural Bank and it was structured in-line with the questionnaire items. The aim of this interview was to cross check the responses of management (Staff) and customers and to also collect in-depth data that was not possible with a questionnaire. When well conducted, it can produce in-depth data. Another advantage is that it is more flexible; hence the researcher was able to adapt it to suit each respondent.

The interview may also result in more accurate and honest responses, more especially when the interviewer establishes good rapport and a trust relationship with the interviewee. Furthermore, the interviewer can follow up on incomplete or unclear responses by asking probing questions. On the other hand, the interview guide is time consuming and expensive. Also, it requires a great deal of communication and research skills to be able to solicit relevant information (Kothari, 2005).

Questionnaires

Questionnaires were administered to all stakeholders involved in the operations or activities of Suma rural bank within the various catchment areas of the six branches. These were mainly the Management (Staff and directors) and Customers within the study area. The type of questions selected by the researcher were mainly multiple choice, because as noted by Thanulington (2003) multiple-choice questions are more convenient and less bothersome to both researcher and respondents.

The reason why this method of data collection was adopted was that a large number of respondents who could not be interviewed face to face were involved in the inquiry. By this method, questionnaires were given to respondents that were selected for the study. They answered the questions and returned the questionnaires to the researcher. This method adopted is also considered as cost effective, especially where the study area is large and widely spread geographically, it is free from the bias of the interviewer as responses ascertained were from the respondent's own words. The respondents also had ample time to ponder over the answers given. By this method, the respondents who were not easily approachable were reached.

The method was therefore seen as more reliable and dependable. Summated scales/Likert-Type scales were selected and used because they were relatively easy to construct and they seemed to be more reliable as respondents answer each statement. It thus provides much more information for the study. Each statement was given an empirical test for discriminating ability. By this method, items are easy to score as each response was given a numerical score, indicating its favorableness or un-favorableness for them to be tabled to measure the respondent's attitude.

Secondary sources

Secondary data is the data that already exists and does not have to be collected by the researcher (Sekaran, 2003). The source of secondary data could be statistical bulletins, government publications, published and unpublished academic papers, textbooks, online data, websites and the internet.

However, for the purpose of this study the researcher also used this opportunity to collect secondary data such as annual credit programmes, annual credit reports and credit policies respectively. The advantage to the researcher for seeking secondary data sources in this study was that, it was time saving and cost effective as well. Infusing a data, the researcher has to scrutinize it first to avoid unsuitable and inadequate data in the context of the research problem and objective. Thus, this conforms to the work of Kothari (2005) that the researcher before using secondary data should see that they are characterized by reliability, suitability and adequacy.

Data processing and analysis

Technically, data processing implies editing, coding, classification and tabulation of collected data so that they are amenable to analysis (Kothari, 2005).

Data editing requires that the researcher edits the data by examining the collected raw data to detect errors and omissions. Therefore, the researcher has carefully scrutinized the completed questionnaires and/or schedules. Editing also has been carefully done to ensure that the data are accurate, consistent with other facts gathered, uniformly entered and are well arranged to facilitate coding and tabulation. Both field and central editing has been done.

Field editing here refers to the instance where the researcher reviews the reporting forms for completion (translation or rewriting) what the researcher wrote in abbreviation and/ or illegible form at the time of recording the respondent' responds.

Sekaran (2003) discusses that this type of editing is necessary in view of the fact that individual writing styles often can be difficult for others to decipher. The researcher did this form of editing from the recorded data, soon after the interview in order to avoid the problem of guessing what the informant said at the later time (recorded data). Likewise, central editing was exercised as soon as the questionnaires or interview schedules were completed and returned to the central collection point. Here, errors such as entry in wrong place like entry recorded in months when it should have been recorded in weeks were all rectified.

Coding refers to the process of assigning numerals or other symbols to answers so that responses could be put into a limited number of categories or classes. The researcher ensured that exclusiveness (a specific answer is placed in only one cell in a given category set). The coding was necessary for efficient analysis, as several replies were able to be reduced to small number of classes, which contained critical information required for analysis.

Classification take place after the data has been edited and coded. Classification involves arranging data into sequences and groups according to their common characteristics or separating data into different but related parts (Santoh, 2001). For this study, data were classified according to the same selection like staff, director, customers, shareholders, and opinion leaders in the communities sampled. The classification was to enable the study to present the facts in a simple form, to clearly bring out points of similarity and dissimilarity, facilitate comparison and highlight relationships.

Tabulation is the process of summarizing raw data and displaying the same in compact form (in a form of statistical tables) for further analysis.

This was done in an orderly arrangement of data in columns and rolls. This was carried out in both manual and electronic devices by using excel. Electronic devices were used in analyzing coded from questionnaires and / or schedules.

Analysis of data took place after editing, coding and tabulation. Analysis was inferential (i.e.: statistical analysis). Inferential analysis was used for analyzing results from questionnaires and schedules. Inferential analysis was used for analyzing results from questionnaires and schedules, Task of drawing inferences and conclusion was performed on inferential analysis. The quantitative data was analyzed by using the statistical package for social scientists (SPSS). The researcher adopted triangulation measurements with quantitative analysis to yield simultaneous interpretation of results to augment relevant quotation from respondents, wherever possible and necessary.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

Introduction

This chapter presents empirical findings in reference to evaluation on credit practices of Suma Rural Bank Limited to ascertain whether or not the bank's credit operations conforms to the operational guidelines of the operational manual for rural and community banks issued by the central bank. The findings are from the analysis of questionnaires and are presented in figures, tables, frequencies and percentages in accordance with the objectives to be achieved. These findings were obtained from primary data that were collected.

Profile of respondents

This section provides information on the demographic background of employees. Frequencies and percentages are used to present the findings.

Table 5: socio-demographic characteristics of respondents (N=35*)*

Variable	Frequency	Percentage
Gender		
Male	7	20
Female	28	80
Age		
20-25	12	34.3
26-30	1	2.9
31-35	22	62.9

Table 5 Continued

36-40	0	0
41 and above	0	0
Rank in department		
Lower	10	28.5
Middle	20	57.1
Top	5	14.3
Educational level		
Certificate	1	2.9
HND	25	71.4
Degree	7	20
Master	1	2.9
PhD	1	2.9
Length of working experience		
0-5	8	22.8
6-10	24	68.6
10 and above	3	8.6

Source: Field survey, 2015

From Table 5 about 80 percent of the respondents were female while 20 percent were male. The table indicates most of the staff are females (28) representing 80 percent of the respondents and the males were seven representing 20 percent.

From the table again, about 63 percent of the respondents were between the age brackets of 31-35, nearly 34 percent were in the age bracket of 20-25, while only 3 percent were in the age group of 26-30.

From the above illustration, most workers of the Suma Rural Bank fall between 20-35 years. From table 5 again, findings indicate that 57 percent were middle management, 29 percent were operational/lower staff and 14 percent were top management. This implies that the bank has all the three levels of management and this is likely to improve the performance of the bank because level of management will perform it functions as expected.

Moreover, from the table, results obtained indicated that diploma holders were a little over 70 percent, degree holders were 20 percent and certificate, masters and PhD holders constituted three percent respectively. A conclusion can be made that most employees at the Suma Rural Bank have attained formal education and therefore are able to give positive response to the questions on the questionnaire for the work. From Table 5, a little over half 66 percent of the workers had worked between 6 to10 years, 23 percent had worked between 0 to 5 years, whiles only nine percent had worked for over 11 years for their respective departments. At least one year is appreciable working experience which was enough to get conclusive results.

Table 6: Socio-demographic characteristics of Bank customers (n=45)

Variable	Frequency	Percentage
Gender		
Male	27	60
Female	18	40
Age		
20-25	4	8.89
26-30	15	33.3
31-35	20	42.23
36-40	5	11.12

Table 6 Continued

41 and above	2	4.46
Marital status		
Single	13	28.88
Married	25	55.56
Divorced	3	6.67
Separated	1	2.22
Widowed	3	6.67
Occupation		
Salary worker	28	62.22
Trading	12	26.67
Others	5	11.11
Educational level		
Secondary	27	60
Tertiary	14	31
Others	4	9
length of been a customer with the Bank		
0 – 5	18	40
6 – 10	23	51
Above 10 years	4	9

Source: Field survey, 2015

From Table 6, about 60 percent of the respondents were male while 40 percent were female. This indicates that most of the banks customers are males as compared with their female counterpart.

This findings consistent with (Rust & Zahorik, 1993) that customer satisfaction is positively related to customer loyalty and organizational profits. It can be concluded that whether male or female all of them are both loyal to the bank for being customers to bank for at least ten years and their continuous banking with the bank will enable the bank make profits.

Regarding the age group of the customers, a little above 42s percent of the respondents were between the ages of 31-35, 33.30 percent were also between the ages of 26-30, 11.12 percent were between the ages of 36-40 while 4.46 percent were in the age group of 41 and above. From the above illustration, most customers of the Suma Rural Bank fall between 20-35 years. This means that majority of the customers of Suma Rural Bank are within the working class and this serves as viable target market for the banking sector in the region.

Concerning the marital status of customers, 55 percent were married, about 29 percent were single, only seven percent were either divorced or widows/widowers and just two percent were separated. This results implies that 55 percent of the may need credit facility from the bank in order to engage in businesses to sustain their families. As a quest to be self-employed, some of the customers who are single may apply for credit facility from the Suma Rural Bank Limited

As regards the occupation of the respondents, the outcome showed that about 62 percent of the customers were salary workers, 27 percent of the respondents were traders with eleven percent who constituted the customers from other sector of the economy.

Moreover, from the table, results obtained indicated that 60 percent of the respondents had secondary education; about 31 percent tertiary education with just 9 percent had other equivalent education or certificate. Because most of the customers are educated, they will be able to read and interpret any contractual business with the bank.

From Table 5, over half 51 percent of the customers have been outstanding customers for the bank for 6-10 years, 40 percent had been customers with the bank for 0 - 5 years, whiles only 9 percent represented those who had been keen customers of the bank for over 11years. It is obvious from the results that half of the respondents have fair knowledge on how the Suma Rural Bank operates as a financial entity.

Collateral security demands before granting loans

Concerning the issue on collateral demand by the Bank before granting loans revealed that all respondents 100 percent affirmed that the Bank requires their customers to provide a security in case they default the loan.

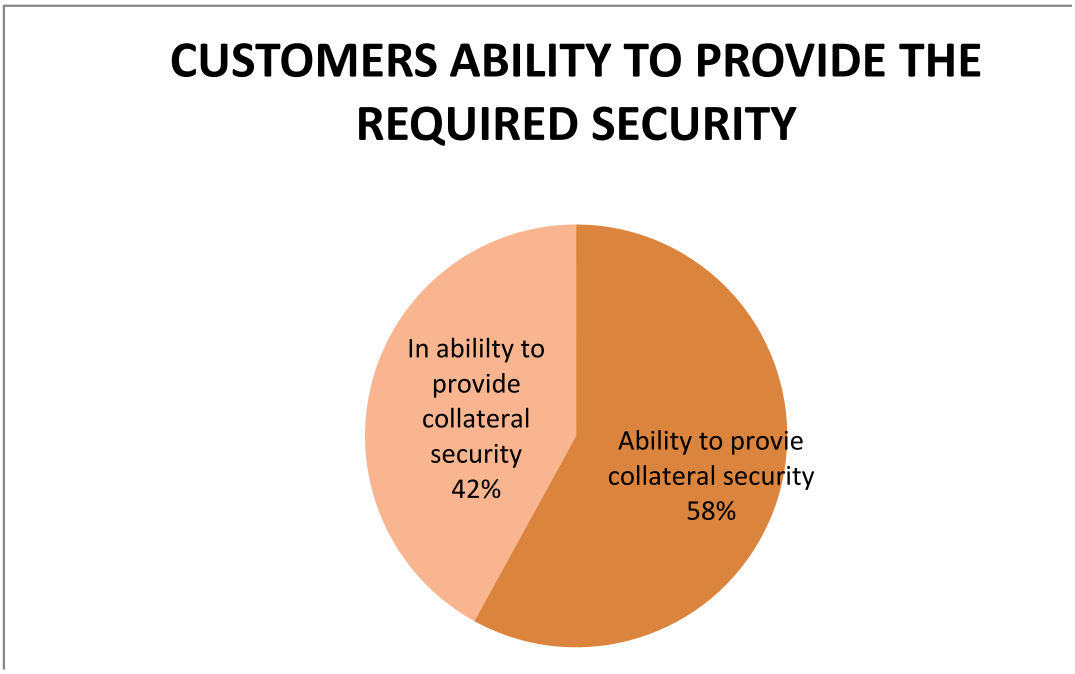
Kind of security demanded by the Bank in credit practices

Table 7: Type of guarantors the customers presented

Type of guarantors	Frequency	Percent
Two or more salaried workers	20	57
Landed properties	9	26
Personal asset	6	17

Source: Field survey, 2015

As regards the type of guarantors respondents require, 57 percent of respondents made mentions of two or more salary workers, 26 percent said landed properties whilst only 10 percent mentioned personal asset. This is illustrated in Table 7. This results corroborate the findings of Asiedu-Mante (2002), that very low deposits and high default rates have plunged some rural banks because of the demand for guarantors, culminating in the erosion of public confidence in these banks because of combination of poor lending of credit facilities extended to customers has contributed to high loan delinquency in some banks.



Source: Field survey, 2015

Figure 1: Ability of customers to provide the required security

Again respondents were asked to affirm the extent to which they are able or unable to provide the necessary collateral security, the findings indicated that 58 percent affirmed that they are able to provide the required loan security. On the contrary 42 percent who said that they were unable to provide the prerequisite loan security. This results corroborate the findings of Ajai and Azeb (2010) that rural banks mainly provide savings and credit services and products it is obvious from the above analysis that the number of customers who are able to meet the security requirement of the bank is not encouraging or appreciable despite the fact that more than half of the respondents are able to meet the aforementioned collateral demands by the Bank. This is detailed in Figure 1.

The average time it takes to process a loan

As regards the issue on the average time it takes for the Bank to process a loan, the outcome showed that majority of the respondents 66 percent mentioned 72 hours, 20 percent mentioned 48 hours, 14 percent said 24 hours while no response were given to less than 24 hours. It is clear that the Bank is been fairly proactive in processing loans to its clients while it is impossible to process a loan less than 24 hours. This illustrated in Table 8.

Table 8: The average time it takes to process a loan

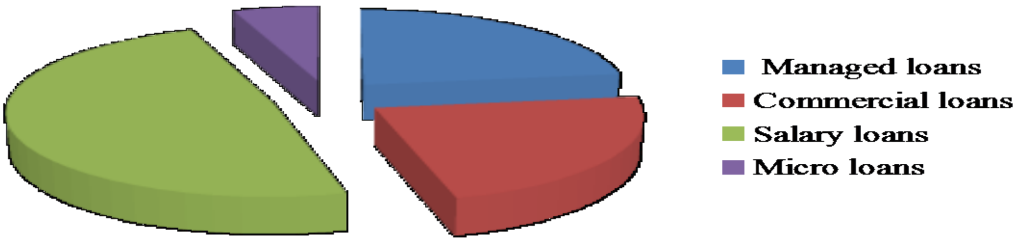
Average loan processing	Frequency	Percentage
Less than 24 hours	0	0
24 hours	5	14.3
48 hours	7	20
72 hours	23	65.7

Source: Field survey, 2015

Type of loans offered to the customers

As indicated by Rose and Kolari (2005) that the appropriate balance of each type of loan in the loan portfolio needs to be specified and any specification must be made with due regards to the demand of the local economy as well as the size of the bank and the expertise of its management.

As regards the types of loans the bank offer for its customers, Figure 2 showed all the bank officials respondents agreed that they included Commercial loans, salary loans, micro loans and managed loans. The finding revealed that almost half of the respondents 49 percent made mentioned of salary loans, 23 percent mentioned commercial and managed loans respectively while just 5 percent said micro loans.



Source: Field survey, 2015

Figure 2: Type of loans offered to the customers

Loan recovery rate

Good credit management does not end with the granting of advances or loans. The ability to recover loans in a timely manner is an important component of credit management. Table 10 depicts the loan recovery rate of SRB from 2009 to 2013.

Table 9: Loan recovery rate

Years	Loans granted	Loans recovered	(%) recovery rate
2009	1,606,283	1,252,900	78%
2010	2,642,690	2,167,005	82%
2011	4,014,756	3,452,690	86%
2012	5,229,806	4,445,335	85%
2013	5,578,336	4,964,719	89%

Source: Field survey, 2015

From Table 9, the amount of loan granted in 2009 was GHS 1,606,283.00 out of which GHS 1,252,900.00 was recovered. The recovered amount represents about 78 percent of the total amount of loan granted. In 2010, the total loan granted increased to GHS 2,642,690.00. Out of this, GH¢ 2,167,005.00 were recovered, representing 82 percent of total loans granted.

In 2011, the total loan granted increased to GHS 4,014,756.00. Out of this, GHS 3,452,690.00 was recovered, representing 86 percent of total loans granted. In 2012, the total loan granted increased to GHS 5,229,806.00. Out of this, GHS 4,445,335.00 was recovered, representing 85 percent of total loans granted. From the analysis it can be concluded that Suma Rural Bank gives a lot of credit to its customers and so takes the appropriate steps to recover more than fifty percent of the loan granted to its customers over the years. This implies that the Rural Banks in Ghana are performing well, considering that amount of credit that they are able to give to their customers.

However, in 2013, the loan recovery rate was 89 percent out of the total advances granted. The bank achieved this rate, averaging about 84 percent over the five year period under consideration due to its decision to re-channel most of its loan portfolio to salaried workers. The bank over the five-year period achieved a 100 percent recovery rate with regards to loans granted to salaried workers. This achievement was chalked as a result of the workers' salaries passing through the bank and as such loan repayments were deducted before any balance left credited to the workers' account.

Provision of advisory support by the Bank to customers

Regarding the question of whether the bank provides advisory services or support to customers, all respondents affirmed that the Bank provide advisory support on how the loan must be used effectively and efficiently. Contrary to this affirmation as seen in the amount granted and the recovery rate in above analysis still there is somewhat nearly 15 percent default loans against 85 percent recovery rate over the past five years.

The extent by which management of credit operations conform to the sectorial allocation of the Bank of Ghana

This section provides a qualitative discussion of the study. It highlights issues such as sectorial allocation, administrative operations and other related loan processing procedures by the bank credit practices in the aforementioned discussions and links it to the general guide lines issued by the Bank of Ghana.

With reference to Table 1, it is clear that, SRB does not conform to the sectorial credit allocation guidelines indicated in the operational manual of the BoG (2004). In this operational manual, the agricultural sector is to be given the utmost primacy in rural banks' credit allocation with as high as 50% of total loan disbursement. One of the reasons accounting for the deviation from the Bank of Ghana operational manual was explained by the fact that the priority areas, particularly the agricultural sector is highly risky and prone to high default rate. This is because agriculture in Ghana largely dependent on the clemency of the weather.

Hence, the chances of the bank recovering loans extended to farmers during periods of bad weather are impaired, which was indeed experienced in the early years of the banks' inception. The bank, therefore, changed its priority sector to salaried workers in order to ensure a much reasonable recovery rate to enhance the wealth of shareholders. It is easier to recover loans extended to salaried workers whose salaries pass through the bank. The resolution to deviate from the BoG's credit allocation guiding principle is indeed in line with good credit management practice which emphasises on being able to recuperate loans on time and in full with minimal associated cost.

Frequency of monitoring by the SRB

In soliciting how frequent the Bank undertakes monitoring, the outcome in Table 10 below. indicated that a little above half 54.2 percent of the respondents made mention of quarterly inspection or monitoring, nearly 30 percent 29 percent said monthly inspection, about 14.2 percent mentioned no monitoring while only nine percent mentioned daily/weekly monitoring. From the above analysis the SRB monitors the operations of their clients after granting credit. Credit officers and branch managers monitor loans granted to clients. The frequency of monitoring depends on clients condition and risk profile. However, quarterly monitoring seems popular. The fact is that monitoring can be expensive in terms of the opportunity cost of time required for it. Where the bank is sure of dealing with a safe client, they are more likely to relax the frequency of monitoring.

This practice is not too different from the Bank of Ghana (2006) policy on credit administration. According to the report, all banks are to ensure proper monitoring of loans granted. This is to ensure that loan portfolios are performing to avert or reduce non-performing loans.

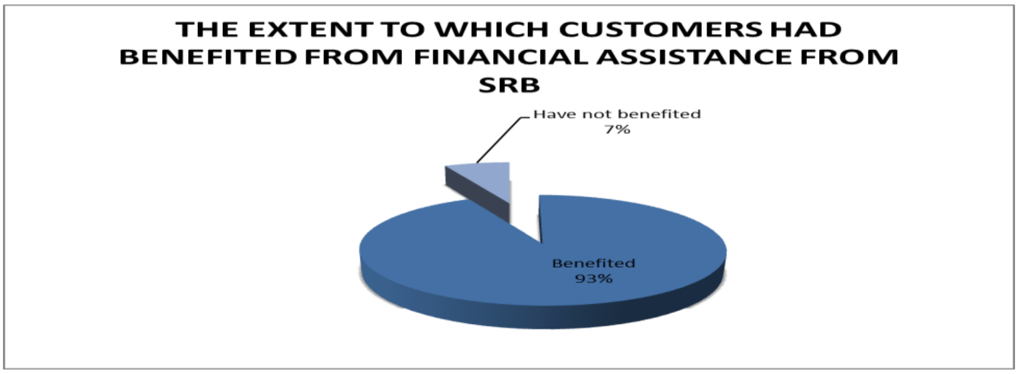
Table 10: Frequency of Monitoring by the SRB

Monitoring	Frequency	Percentage
Daily/Weekly	1	9
Monthly	10	29
Quarterly	19	54.2
No Monitoring	5	14.2

Source: Field survey, 2015

Customers' opinion on Suma Rural Bank credit operation

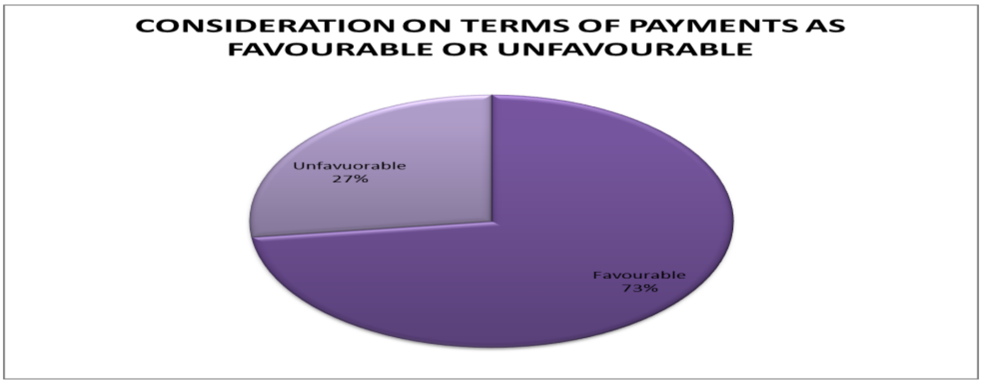
This section focused on how customers of SRB perceive the overall credit management operations. It particularly examines the extent to which customers have benefited from SRB credit management, the favourability of loans given to customers.



Source: Field survey, 2015

Figure 3: The extent to which customers had benefited from financial assistance from the SRB

From Figure 3, majority of the respondents 93 percent affirmed that they had benefited from the Bank credit operation while only seven percent denied. Looking at this result, it is evident that customers had somewhat benefited from the credit operations of SRB.



Source: Field survey, 2015

Figure 4: Considerations on the terms and conditions for repayment as favorable

Again respondents were asked to indicate whether the terms and conditions associated with the credit repayment practices of the bank as favourable or not. From Figure 4, majority of the respondents 73 percent claimed that the terms and conditions of the banks as regarding its credit practices are favourable. On the contrary about 23 percent of the respondents said that the terms and conditions attached to credit repayment from the bank is unfavourable. This result shows that SRB has flexible procedure when it comes to repayment of loans by their customers despite the fact that few were of the opposite view.

Customers` satisfaction level per management operations and procedures of credit management

Respondents were asked to rate their extent by which they are satisfied with the credit practices of the bank. From Table 11, about 17% rated the Bank`s credit services has been low. A little above half of the respondents 54 percent rated it as medium, and 11 percent rated the organisation’s credit services as very low. Looking at this analysis, it is evident the credit services by SRB is fairly satisfactory which means that there is more room for improvement.

Table 11: Customers` satisfaction level per management operations and procedures of credit management

Satisfaction rating	Frequency	Percentage
Very high	6	6
High	4	11
Medium	25	54
Low	15	17
Very low	5	11

Source: Field survey, 2015

Challenges that customers encounter in their bid to secure loan from the Bank

Customers of the bank expressed different views concerning the credit operational activities of the bank, particularly on the various challenges they encounter in accessing loans from the bank. The majority of customers surveyed expressed some level of dissatisfaction with the bank's credit operations. Among such challenges are detailed below.

Table 12: Problems faced by SRB customers in securing loans

Problems	Frequency	Percentage
Staff attitude	3	6.6
Delay in processing loan	13	28.8
Difficulty in getting guarantors	19	42.2
Delays in disbursing loans	10	22.2

Source: Field survey, 2015

From Table 12, 28.8 percent of respondents raised issues with the various processes that a loan application would have to pass through. They of were with the opinion that the processes to go through was quite bureaucratic – that difficulty to assess credit from the bank. About 22.2 percent of the sampled respondent also raised issues with delays in disbursing loans. There were a number of delays which respondents argued, sometimes defeat the purpose for which the loan facility was applied for.

The findings were that staff indifferent attitude towards customers recorded 6.6 percent of the total responses. About 42.2 percent of the sampled customers also expressed difficulties in getting guarantors in support of a loan application. This group of sampled customers stated that they were sometimes denied loan facilities because of their inability to get the two or more personal guarantors, though they possessed sufficient collateral to secure the loan. Notwithstanding the above problems, respondents were very grateful to the bank for the numerous financial assistances raging from payment of their wards' school fees, building projects and expansion of their business.

They stated that the loans extended to them had gone a long way in meeting most of their economic and social needs. Almost all the respondents were, therefore, of the opinion that the loans taken from the bank had had a positive impact on their ability to meet their economic and social needs.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents an overview of the study and its findings, from which conclusions are made and recommendations proposed for the improvements in the credit management of Suma Rural Bank Ltd.

Summary of the study

The general purpose of the study was to evaluate the credit risk management practices and operations of SRB. Specifically, the study was conducted to;

(i) determine the process for granting credit,

(ii) ascertain the constraints, if any, faced by customers of Suma Rural Bank in raising credit facility

(iii) determine the percentage allocation of credit to the various customer categories of SRB.

The survey, qualitative and quantitative strategies were employed. This research strategy allowed the gathering of a large amount of data on time from customers across the 6 branches of the bank with minimal cost which encompassed both staff and customers of the bank. The data was descriptively analysed.

Summary of key findings

Suma Rural Bank provides financial assistance to different categories of clients, classified as salaried workers, traders, transporters and farmers.

Salaried customers make up the highest customer category of the bank's customers. Transporters are the least customer category of the bank, constituting about 4.6 percent.

There are four (4) main types of accounts operated and manned by SRB, namely, salary, commercial, managed loans and micro loans.

The category of clients that benefitted most from loans included salaried workers and traders. Salaried workers took more than half of the loans disbursed by the bank in 2013. Traders occupied the second position in terms of credit allocation from 2009 to 2013. The agricultural sector occupied the third position in terms of credit allocation from 2009 to 2011, whiles the transport sector occupied the fourth position. However, in 2012 and 2013, the agricultural sector lost its third position to the transport sector.

The loan recovery rate achieved by SRB averaged about 85 percent over the five-year period (2009-2013). In 2005, the loan recovery rate was about 78 percent. This increased to 86 percent in 2011 before settling to 89 percent in 2013. According to the management of the bank, the default rate was due to loans granted to the agricultural sector. Respondents identified harsh economic conditions, high dependency ratio and high interest rate as some of the reasons for the default.

Majority of the customers surveyed, about 79 percent of them, expressed satisfaction with SRB's credit operation. Some customers, however, indicated that they have difficulties getting the salary guarantors in support of their loan application. On the whole, customers were grateful to the bank for the various forms of financial assistance available to them.

Conclusions

Suma Rural Bank has in place a credit department equipped with the requisite skills and expertise to effectively handle and operate the credit function of the bank. One striking feature of the agricultural sector is that it depends heavily on the mercies of the weather. As a result, SRB does not conform to the credit allocation guidelines stipulated by the Bank of Ghana. Credit to the agricultural sector thus receives little attention in the bank's credit allocation. SRB allocates much of its credit to salaried workers whose loan or credit repayment over the years has been phenomenally exceptional, achieving a 100 percent recovery rate.

Suma Rural Bank Ltd experienced quite a remarkable loan recovery rate over the period. The loan recovery rate was about 78 percent in 2009, but this increased to 89 percent in 2013. This is a clear indication that the bank is very much concerned and interested in recovery rather than just granting loans.

SRB demands collateral against loans extended to its clients. The form of collateral usually demanded by the bank includes institutional guarantees and landed properties like leased buildings or lands. Salaried workers require institutional guarantee in support of their loan applications, whiles other applicants require landed property as security in support of their loan application in addition to two or more salary guarantors. Most of the applicants for commercial loans, however, find it difficult providing landed properties as collateral.

Suma Rural Bank Ltd, over the period under review, has demonstrated its solvency.

The bank has the capacity to meet its short-term commitments without difficulties. However, it is faced with some challenges in conforming with the guidelines for sectorial allocation of credit, particularly to the agricultural sector which has been singled out as a priority area by the Bank of Ghana for rural banks' credit policy. From the findings from most of the respondents were look at late latively high default rate of the sector which is characterized by high exposure to the mercy of the weather. Additionally, internal factors such as lackadaisical attitude of staff, bureaucratic procedures in granting loans among other challenges.

Recommendations

Drawing from the findings of the study, the following recommendations are made with the view of improving the management of credit risk by SRB.

Suma Rural Bank, led by its BoD, should strive to conduct a SWOT (Strengths, Weakness, Opportunities and Threats) analysis of its credit operations. It is important for the bank to continuously assess the markets in which it is comfortable or uncomfortable. This will enable the bank to advance credit facilities to sectors where it is certain of repayment to enhance stakeholders' wealth.

- The BoD of SRB must, as a matter of necessity, review its credit policy to take cognizance of policies on miscellaneous loans (such as loans to members of the BoD and management and policies on various loan/credit committees). Though the bank has the finance committee that plays a pivotal role in credit management, its existence, role and responsibility should be clearly defined.

- Credit officers play instrumental roles in credit management at SRB.

The bank should, therefore, pay particular attention to the recruitment and training of credit personnel. SRB needs to appreciate the fact that the different markets that they operate in require different professional talents, skills and material resources. Based on this, SRB should carefully recruit and groom talented personnel with broad and diversified skills in banks' credit management.

- Suma Rural Bank Ltd needs to develop a sound credit culture. In the process, special consideration should be given to timeliness and the spirit of changing the status quo where necessary. The BOD must develop business values and allow those values to flow down to everyone in the bank. A common credit language must be spoken, which must be understood by all those who work in the bank.
- Suma Rural Bank Ltd must not relent on its rigorous loan recovery efforts. This will enable the bank to further reduce the loan default rate that stood at 11 percent of advances as at 2013. The bank should institute rewards systems to motivate credit officers who fully recover credits. It must also put in place punitive measures against officers who recommend credits that turn bad or turn out to be irrecoverable.
- Suma Rural Bank should also consider taking up an insurance cover against credits extended to the agricultural sector in particular. This arrangement would help cushion the bank against any default by the agricultural sector.

- Suma Rural Bank needs to review and strengthen its advisory service to help clients of the bank undertake and conform to basic management and record-keeping practices. This will go a long way to enhance the operations of their clients' businesses and make it easier assessing such clients for credit purposes. It will also make it easier for the bank to monitor and ensure that credits granted are used for their intended purposes.
- Last but not least, the bank needs to organize outreach educational programmes in its catchment area to educate its clients on the essence of repaying loans on time. The consequences of loan default should form an integral part of any educational programme.

Suggestions for further studies

Since the business environment is dynamic and presents new challenges and opportunities, it will be important to replicate this study after duration of five years and establish the position as at that time. This study should be compared with findings from rural, community and commercial banks in order to establish the similarities and differences that may be evident the credit management practices of the banks.

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