

# Rural banking concept, an intervention for the development of rural Ghana

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## Abstract:

*The concept of Rural Development has emerged through socio-political struggle and debates. A lot of studies have been done in this respect and it is evident that, while some see rural development as the final expropriation, others regard it as a force that will revitalize agriculture. Any critical study on the issue of rural development begins with the acknowledgement that, as yet, there is no definite meaning for rural development. The reason is that rural development is a multi-level, multi-actor and multi-facet process. Rural Ghana is a nucleus and a livelihood support system for almost 50% of Ghanaians. Since independence in 1957; successive governments have made commitments to ensuring the development of rural Ghana. one of such interventions was*

*the introduction of rural banking. After over thirty years of the operation of the rural banks, the rural economy is still baffled with a lot of socio-economic challenges like poverty and the general lack of social services. The urban areas are daily visited by throng who hitherto were resident in the rural areas due to the general lack of opportunities in rural Ghana. The case for seven rural banks were studied by assessing the reasons for existence as informed by the vision and mission statements, the nature of operations as well as the contribution made towards the development of cottage industries as well as social infrastructure in their areas of operation. The study concludes with solutions to problems encountered in the quest of the banks to perform as agents of rural development.*

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## Introduction

Rural Development is oriented more towards benefiting primarily the poor to ensure a rise in the standard of living and favorable changes in the way of life of the people concerned. The fundamental feature of Rural Development is the emphasis on socio-economic and human capital development within the rural areas. The promotion of rural economy in a sustainable way has the potential of increasing employment opportunities in rural areas, reducing rural –urban income disparities, stemming pre-mature rural-urban migration, and ultimately reducing poverty at its very source.

The Ghana Statistical Service (2010) indicates approximately 50% percent of the total population of Ghana resides in the rural areas of Ghana implying the need to develop the rural areas if Ghana can move ahead in its development agenda. As an intervention to bridge the developmental gap between the rural and urban areas through financial intermediation, rural banking as a concept was introduced in 1976. The objective was to provide institutional credit to farmers and other rural enterprises to improve the standard of living and to facilitate rural development.

To date, there are over approximately 143 Rural and Community Banks (RCBs) in Ghana with about 651 branches and agencies in the country (ABL, 2013). This makes the rural and community banks, the best tool for financial intermediation due to its wide coverage. The crust of this paper is to assess the extent to which the rural banks have fulfilled their mandate as an intervention for rural development the

challenges that inhibits the achievement of the core mandate.

## Methodology

The design for this research was the Case Study Approach. It has been adopted because it is the best approach for the study of contemporary issues especially in situations where the boundaries between the phenomena and context are not clearly evident as is the case of the Rural Banks and Rural Development. The dependent variable is the concept of Rural Development while the independent variable is the Rural Banks.

The variables used to represent rural development as a concept included cottage industry (agriculture, artisans and any micro economic venture in the community) employment, social infrastructure considering the fact that rural development is multi faceted, multi level and multi actor. The activities of the rural banks studied included deposit mobilization, credit creation, and social responsibility. The criterion was that a bank could only pass for the second stage of selection on the condition that it has operated for a minimum of 16. The justification lies in the fact that 16 years represented the median years of operation of the Rural Banks in the region. The use of the median age is premised on the fact that companies are more profitable in the long run than in the short run due to operational limitations in Ghana and 16 years was enough to facilitate a better assessment.. The criterion resulted in the disqualification of five Rural Banks.

The second phase involved the categorization of the banks into highly performing, averagely performing and low performing banks according to the rankings

by the Ashanti Regional Association of Rural Banks (AARB). The ranking is done by the (AARB) based on the net worth of the individual Rural Banks.

Table 1. List of Banks selected for the Study

Categories	Names of the Bank	Community Sampled
Performing banks	Atwima kwanwoma Rural Bank	Pakyi
	Nwabiagya Rural Bank	Berekese
Averagely performing banks	Juaben Rural Bank	Bonwire
	Atwima Mponua Rural Bank	Akropong
	Amansie West Rural Bank	Antoakrom
Low performing Banks	Asokore Rural Bank	Asokore
	Atwima Rural Bank	Mpasatia

After the categorization, five (5) Rural Banks passed for performing, nine (9) Rural Banks qualified for the averagely performing group whilst six (6) of the Rural Banks were classified under the low performing Rural Banks. To ensure equity in terms of representative, one third from each category was randomly selected resulting in the selection of 7 rural banks. The sampling of seven Rural Banks facilitated the sampling of seven communities within the catchment of the selected Rural Banks. The criteria for the selection of the communities involved an examination of factors like the location of the community, population size, level of social infrastructure and general occupation of the natives. Table 1 is a presentation of

the banks and the communities selected for the study.

Relevant information for the study was obtained from both primary and secondary sources. Primarily, Questionnaires, interviews and focus group discussions were undertaken to gather information from the Rural Banks and the cottage industries within the catchment areas of the selected Rural Banks. Questionnaires and interviews were both structured and unstructured. This is due to the fact that the structured questionnaires are more coordinated and facilitate easy analysis whilst unstructured ones allow the respondents an opportunity to give all relevant information without restrictions. Secondary sources of data such as periodicals, journals, reports, publications on Rural Banks and other unpublished thesis were consulted to supplement the primary data.

Quantitative and Qualitative techniques of data analysis were adopted. Quantitatively, the data was collated and structured according to the selected and the various study areas. Codes were then assigned to each variable and the responses for each variable were then grouped under the variables. Using Excel, the data was then set out according to the responses. This led to the generation of frequencies for each variable. Statistical Package for Social Science (SPSS) was then used as the data was imported from Excel to the SPSS.

## Results and Discussion

### Purpose for the operation of selected Rural Banks

An examination of the vision statements of the Rural Banks to ascertain the very purpose for their operations revealed vision statements like:

- “To be the leading local micro finance banking institution in Ghana”
- “To provide effective financial services”
- “To be among the best Rural Banks in Ghana”
- “To become the most efficiently managed rural bank in Ghana”
- “To be a friend to the needy”.

Such statements do not effectively capture the rural areas which are supposed to be the reason and the core mandate for the establishment of the rural bank. Such vision statements may suggest a departure from the original development orientation. An assessment of the location of the branches of the selected banks is done in table 2. This is reflected in the location of the branches of the banks sampled. The is represented in Table 2.

Table 2: Branch Location of selected banks

Name of Bank <i>(in order of Ranking)</i>	Branch location			
	Urban	Peri-Urban	Rural	Total
Atwima Kwanwoma Rural Bank	6		1	7
Nwabiagya Rural Bank	4		2	6
Juaben Rural Bank	2	2	2	6
Atwima Mponua Rural Bank	3	2	1	6
Amansie	3	1	4	8

West Rural Bank				
Asokore Rural Bank	3	1	1	5
Atwima Rural Bank	4	-	2	6

Source: (Field Survey 2014)

The table is an indication of the extent to which the rural banks are gradually drifting from their core service points. It can be inferred that on the average the rural banks have 6 branches with 56 % located in the urban areas, 14% % in peri urban areas with 30% located in the rural communities of Ghana. The location of the branches is more oriented towards the cities and not the hinterland the reason gathered from management of the Rural Banks attributed this trend to the lack of viable economic activities in the hinterland which results in low savings and the bank’s inability to cover their operation cost. The paradigm now is that, the banks locate in the urban areas where opportunities are and assist rural communities through social responsibility. The issue that needs further probing is, has the right environment been created for the rural banks to operate in the rural communities?

### Operation of the Rural Banks

All the Rural Banks sampled have taken on a more commercial orientation than developmental providing mobilization services like Savings, Current, Fixed deposit, Group savings and Susu accounts with 42.9% providing other specialized savings schemes like the “adwumayefo daakye” and “wo Daakye Nti” investment accounts. Trends in deposit mobilization is indicated in figure 1.

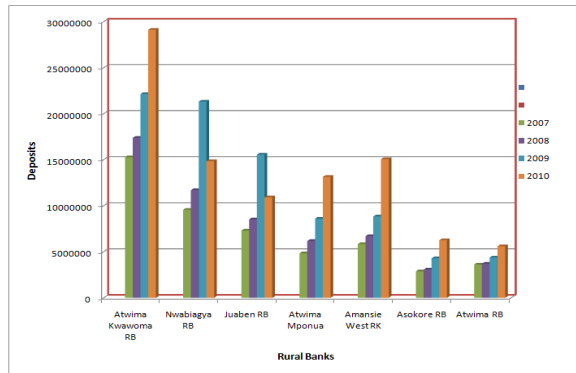


Fig 1. Nature of investment activity

Figure 1 indicates the trends in deposit mobilization by the sampled banks. Interesting the banks with majority of their branches in the urban and peri urban areas are those in the first and second quadrants. This implies that the basis for the operation of the rural banks is the ability to mobilize from the local environment and banks would logically not locate in areas where they can't mobilize enough; suggesting the need to revamp the rural Ghana.

The rural banks were into all kinds of loans ranging from salary, micro finance, and car loans amongst a host of others. Conspicuously missing from the banks list of loan facilities available was agricultural loan. Only one rural bank indicated they were into agricultural loan and even with that, the loan was given to cash crop farmers unlike India, where about 46% of the loans granted by rural and community banks goes to the agriculture sector (Vallabh and Chatrath, 2006). On the Average the rural banks allocate 40% of loan to Salary worker, 40% to petty traders in the form of micro finance , approximately 4% for Agricultural purpose while the remains 16% goes in to funeral, church investments loans and. The reasons given for this trend of loan allocation included the following:

- Salary loans have a very low rate of default
- Although the rate of default in microfinance loans is also relatively high, the high interest rates charged and the terms of repayment reduces the risk to an appreciable rate
- The risk associated with agricultural loans is very high due to the fact that agriculture is still rain fed; the system for marketing the produce is not well developed and does not ensure profit maximization. Most of the banks cited agriculture as the main reason for the crises the sector experienced in the 1980 and that financing agriculture has brought a lot of losses to the banks than profit.

To assess the availability of credit for cottage industries in the rural communities, a total of 95 people who represented petty traders, farmers, salary workers, as well as other players in the cottage including opinion leaders in the selected communities were sampled. Out of the 95 people only 39.8% had benefitted from the credit facilities from the Rural Banks located in their community.

As a confirmation of the fact that about 40% of loans are allocated for salary workers, 80% of the 39.8% who had benefitted from the loans were Salary worker (teachers and other formal sector workers in the communities.), 17% represented petty trader with only 3% being farmers. Of the remaining 60.2%, only 8% indicated that had never approached the banks for loan due to the perception that they will be harassed in the community should they default? The majority had

approached the banks for loans but could not access for reasons like:

- Lack of guarantors
- Unavailability of collateral
- Inability to meet other conditionalities

Generally there were indications that the few who were able to assess the loans experienced some level of improvement in their economic situation for a given period confirming that, financial intermediation propels economic development (Christopoulos & Tsionas 2004). Worth noting is that in spite of the improvement in the economic situation of the respondents, there were issues with sustainability as 70% indicated they could not sustain their standard of living after the loan.

Adams and Vogel (1986) suggested the need for credit in the rural areas due to the inequalities that exist in the distribution of credit between the formal and informal as well as the rural and urban areas. However the creation of the rural banks has not provided an antidote to the credit gap in rural areas as institutional credit is still absent in rural Ghana.

### Social Responsibility towards rural communities

The banks are marginally responsive to need of the communities as their quota towards the development of the area. Most of the banks presented evidence of the facilities provided for the community as their contribution toward the development of the community. A list indicating some facilities provided by the sampled Rural Banks for their communities of operation is shown in Table 3

Table 3. Facilities provided by the Rural Banks for the Rural Communities between 2008 and 2013

Name of Bank	Facility provided	Beneficiary communities
Atwima Kwanwoma Rural Bank	<ul style="list-style-type: none"> <li>- 1 Bole holes</li> <li>- Scholarships for 30 needy students</li> <li>- 1 community library</li> <li>- GH¢150,000 Ultra modern school under Construction</li> <li>- 180 mono desks for the high school</li> <li>- Payment of teachers salary for the first year</li> <li>- Electrical and office equipment for the school</li> </ul>	Pakyi No.1
Nwabiagya Rural Bank	<ul style="list-style-type: none"> <li>- 1 Bole hole</li> <li>- Scholarships for 22 students,</li> <li>- GH ¢10,000 for the renovation of Barekese senior high school</li> <li>- Renovation of old basic school in Barekese</li> <li>- Provision of administration block for the primary school</li> </ul>	Barekese
Juaben Rural Bank	<ul style="list-style-type: none"> <li>- Scholarships to needy students</li> <li>- Support for the primary school in juaben</li> <li>- Financial support to juaben hospital</li> </ul>	Juaben

	-Almost Ghc50,000 spent on social responsibility)	
Amansie West Rural Bank	-Donation of cement -Support the establishment of nurses training school -Ghc6,000 in scholarship to 24 needy students	Amansie West District Assembly Manso Nkwanta
Atwima Mponua Rural Bank	-Re roofing of and painting of Osei Tutu senior high school	Akropong
Asokore Rural Bank	-Construction of a police station -scholarships for needy students	Asokore
Atwima	-	Mpasatia

Source: (Field Data, 2013)

The Rural Banks have provided for some of the communities within which they operate. It can be seen that, the contribution of the Rural Banks that were classified as performing and with a greater proportion of branches in the urban and peri urban areas have been commendable as against those in the other categories. This implies that a bank’s ability to be socially responsible is dependent on the extent of performance. It therefore stands to reason that, aside bridging the credit gap in the rural areas, the Rural Banks can be very instrumental in partnering the Government for national development thus confirming Onugu’s (2000) philosophy of rural banks as “development oriented”. The

respondent sampled from the communities had the following perception about the banks.

Table 4. Communities Assessment of Rural Banks contribution to the cottage industries and social infrastructure

Variable	Excellent	Good	Average	Poor	Neutral	Total
Cottage Industry	4	17	14	53	7	55
Social Infrastructure	8	7	8	62	10	55

Source: (Field Data, 2013)

Generally a greater proportion of the respondents are of the opinion that contribution to cottage industry and social infrastructure has been poor. This indicates that after over 35 years of operation of the rural banks in Ghana, their mandate as an intervention to develop rural Ghana is yet to be felt.

**Summary of key findings**

The study conducted revealed the following facts:

The purpose for the creation of Rural Banks

The purpose for the creation of the Rural Banks was to mobilize financial resource in the rural areas and channel them to productive rural venture to facilitate the expansion and subsequent development of the rural areas.

- Vision and the mission statements of the Rural Banks do not reflect their ultimate purpose for creation.

- The location of branches is also not a reflection of what the concept stands for as approximately two thirds of their branches are located in the urban and peri-urban area.
- The focus has shifted from the rural areas to the urban and peri urban area.
- There are still issues with creating the enabling environment for rural banking to thrive in rural Ghana.

#### Operation of Rural Banks

- The rural banking industry is now a financial “supermarket” than a development bank offering various forms of deposits, credit as well as other specialized schemes of service.
- Credit creation is undertaken by all Rural Banks with salary workers loan being the priority, followed by micro finance loans.
- Agricultural loans are virtually nonexistent and the few banks who grants its, conditions it for cash crop farmers.
- Accessibility to credit for cottage industries in the rural areas is still a problem due to the kind of security requested by the Rural Banks.
- The non availability and the monotony of economic activities in the rural communities is also hampering the bank’s ability and capacity to locate and create credit in rural Ghana.
- The rural banks have not been successful in closing the credit gap between the urban and rural areas as majority of beneficiaries of the loans are still urban dwellers as credit products are more skewed toward the urban areas.
- There are still issues with loan default rate in the rural banking sectors with

agriculture loans being categorized as a high risk loan due to the nature of agriculture in the country.

#### Social Responsibility towards rural communities

- The Rural Banks are socially responsible
- The extent of social responsibility is dependent on their performance of the banks.
- Their contribution to rural infrastructure has been minimal considering the years of operation of the rural banks in the sampled communities.

#### **Challenges of rural banking**

The challenges emanates from the internal environs of the banks, the communities as well as from other external sources.

#### Issues emanating from the communities

- Lack viable economic ventures
- The monotonous nature of economic activities in the communities.
- The wrong perception of the people on the community ownership aspect of the Rural Banking.
- The negative attitude of community leaders when the banks call on them to assist in providing infrastructure. Some community leaders demand for money before allowing the banks to perform their social responsibility.
- Within the communities, the Rural Banks are also challenged with issues like pressure to meet specific demands eg. Some times the communities demand that, the banks employ a specific number of people from within the community although they may not have the requisite qualification.



- Wrong perception people still hold about rural banking due to turmoil experience in the 80s.
- Unfavorable macroeconomic policies like the high interest rate and inflation resulting in very high operational
- Stringent and unfriendly monetary policies from the Bank of Ghana
- The current level of competition in the banking industry especially with the operation of micro finance companies and a host of saving and loan institutions

#### Internal issues

- Poor operational system
- High default rate and weak recovery systems,
- Capital inadequacy issues
- Poor record keeping and lack of motivation for staff members.

### **Recommendations.**

The rural banking concept has been operational for a little under 40 years. The Rural Banks have been instrumental in the provision of banking services and the improvement of livelihoods in general. However, there are still some challenges in the quest to help in the development of the rural areas. These challenges emanated from the communities the banks internal environs and external factors The following are some recommendations that can further strengthen the Rural Banks to achieve the target for which the concept was introduced in the country.

#### **Purpose for the creation of rural banks**

- Currently, the Rural Banks are playing a dual role of being development and commercial oriented. There should a reorientation of the purpose for the

creation of the Rural Banks to reflect their status as development agents.

- Although the innovation in the rural banking industry is encouraging; the products are more skewed toward the average class and the urban areas. It is recommended that “community” specific products should be designed to bring the poor and the rural communities on board.
- While agriculture seems risky for the Rural Banks to finance, there are other areas which are less risky. With innovations like animal rearing and aqua farming, Rural Banks should be encouraged to support these areas since it was crop farming that failed the rural banks in the past.
- Community specific security and repayment arrangements that are convenient for the communities as well as the Rural Banks should be designed to ensure accessibility and redemption of credit in the rural areas.
- The Rural Banks should invest in research that will facilitate the development of an effective and efficient credit assessment technique for the as well as a good monitoring and evaluation guidelines to help in curbing the default rate that the industry currently faces.
- The state should formulate Policies and implement projects that will revamp the rural areas to ensure diversified economic activities and increase savings levels as against the monotony and the low savings rate that exists in the rural communities currently. This will ensure a reversal of the trends in the allocation of branches and the types of products that exist currently in the rural banking industry.

### Promotion of rural development

- The other sectors like the cottage industries can also propel growth if specific products are designed to meet the need of client in such sectors.
- There should be continual support for education within the communities to enhance capacity for the rural folks. This can further increase the bank's ability to absorb them whilst improving employment and income in the rural areas.
- Efforts should be made by the Rural Banks to set aside a portion of funds to support the community in terms of infrastructure. No matter how small it may be, it can make an impact in the lives of the rural poor.
- To make the Rural Development integrative, the Rural Banks should link up with non-governmental organizations, District Assemblies, government and other stake holders in their Rural Development activities.
- Awards and recognition should be given by the Nation and other rural development oriented agencies to Rural Banks whose contribution to the development of their catchment area is significant. This will inspire and propel other Rural Banks to improve their performance in this regard.

### Challenges of rural banking

- Opinion leaders and the community should be educated to appreciate the fact that the Rural Banks are partners of development in their community and that, the extent to which they can help to achieve growth depends on the extent to which the communities relate, support, appreciate and value the efforts of the Rural Banks.

- External macroeconomic and monetary policies that create the enabling environment should be pursued by the state while internally efforts should be made by the Rural Banks to put in place the right policies that will facilitate high performance. This is because the Rural Banks can reach out to the community only when they are sound financially.

### Internal factors

- Development partners who have an interest in supporting the growth of the rural areas may include capacity building programmes for the rural banks to help them put in place good systems to improve their systems of operation in terms of keeping of system.
- There should be a fair evaluation of the Rural Banks themselves to know the reasons and causes of problems like poor operational system, high default rate, weak recovery systems and capital inadequacy issues so as to ensure the right mechanism is put in place to remedy the situation. This is because the Rural Banks operate under different environment and the causes of the above problems may vary from one bank to another.

### Conclusion

The Rural Banks were set up by the Government through the Bank of Ghana as a strategy to facilitate financial intermediation and Rural Development. As development agents, programmes and products have been designed by the Rural Banks to ensure that, the objectives for their creation are achieved. To some extent, they have contributed in inculcating the habit of banking in the public generally. However, it cannot be said that they have

really serviced the subject for their creation (rural areas). This is because their products and programmes are more skewed towards the urban areas and the middle class as against the poor rural people. The contribution of the Rural Banks to the development of the rural areas have been minimal considering that, provision of socially infrastructure has been marginally and credit for economic activities is still a problem in the rural areas. The cause has been attributed to both internal and external factors in the rural banking industry and the economy as a whole. Rural Development is multi faceted, multi level

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and involves many actors (Guzman, 2000). It is therefore incumbent on all stake holders like the government, development oriented agencies, the Rural Banks and the rural communities to come on board to ensure that the dream of bridging the credit gap through a transformed rural economy is achieved.

In conclusion, it can be said that, the Rural Banks are instrumental if the country still hold the dream of transforming the rural economy. Efforts should therefore be made to create the enabling environment in rural Ghana for rural banks to operate.

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