

# Performance of rural and community banks economics essay

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## **2. 0 INTRODUCTION**

This chapter gives the review of definitions of terms in the field of Rural and Community Banks in Ghana as well an expatiation on various theories in Rural and Community Banks and structures involved in the delivery of Rural and Community Banks. It focuses more on rural banks and their role in empowering rural women. Given the commitment to the goal of halving world poverty by the international community by the year 2015, it is important to comprehend the ways in which finance contributes to economic growth of poverty reduction and women livelihood change and to design effective policies that can make that objective a reality. It is therefore imperative to develop mechanisms for enhancing economic viability of the rural entrepreneurs through the acquisition of institutional credit and other enabling conditions necessary to achieve socio-economic growth in Ghana and to attain a middle income country status by 2015. This work cannot be complete if literatures on empirical evidence of the impact of Rural and community Banks (RCBs) are not reviewed. The scope of the empirical review of existing literature will be based on evidence from outside Africa, evidence from some African countries and finally that of Ghana. Discussions in the chapter also covered the challenges and constraints of women development in Ghana.

### **2. 1 Definitions and Concepts of Rural /Community Banks**

According to Nissanke & Aryeetey (1998) Rural and Community Banks (RCBs) have been defined as unit banks owned by members of the rural community through acquisition of shares who are licensed to provide

financial support. History has it that they were first initiated in 1976 to expand savings mobilization and credit services in rural areas not served by commercial and development banks. The records show that the number expanded rapidly in the early 1980s, mainly to service the government's introduction of special checks instead of cash payment to cocoa farmers – though with adverse consequences for their financial performance (Nissanke and Aryeetey 1998). Through a combination of rapid inflation, currency depreciation, economic decline, mismanagement of funds and natural disasters, combined with weak supervision, only 23 of the 123 RCBs qualified as "satisfactory" in 1992 (Steel & Andah, 2003). Under the World Bank's Rural Finance Project during 1990-94, the need for re-capitalization and capacity-building was addressed with half of them achieving "satisfactory" status by 1996. The combination of very high (62%) primary and secondary reserve requirements imposed by Bank of Ghana in 1996 and high Treasury bill rates helped to reduce the risk assets and increase net worth, further improving their financial performance (Steel & Andah, 2003). The number of RCBs reached a peak of 133 in 1998, and dropped to 111 in 1999 with the shutting of 23 concerned banks and the commissioning of one new bank. These closures sent a strong signal to the rest of the rural banks to uphold or progress their operations in order to achieve acceptable status. According to Steel & Andah, (2003), there was 64% increase in the number of satisfactory banks between 1999 and 2001

## **2. 1. 1 Structure and Performance of Rural and Community Banks**

According to Obeng (2008), the financial system in Ghana falls into three main categories: formal, semi-formal, and informal: Formal financial institutions: these are those integrated under the Companies Code 1963 and licensed by the Bank of Ghana (BOG) under either the Banking Law 1989 or the Financial Institutions (Non-Banking) Law 1993 (NBFIL) to provide financial services under Bank of Ghana regulation. Obeng (2008) further asserted that RCBs operate as commercial banks under the Banking Law, except that they cannot undertake foreign exchange operations, their clientele is drawn from their local catchments area, and their smallest amount of capital requirement is considerably lower. He further stated that among the nine precise classes of non-bank financial institutions (NBFIs), the Savings and Loans Companies (S&Ls), which are limited to a range of services, are most active in micro and small-scale financial intervention using microfinance techniques. Non Governmental Organizations (NGOs) and Credit Unions (CUs) are considered to be partially formal – lawfully recorded but not approved by the Bank of Ghana. NGOs are included as companies inadequate by assurance under the Companies policy. The NGOs and CUs focus on reducing poverty through offering multiple services to poor clients, including micro credit, insurance, money transfer and other financial services. They are not approved to take deposits from the community and therefore have to use outside funds for micro credit. Credit Unions are recorded by the Department of supportive as supportive economy societies that can accept deposits from and give loans to their members. According to

Obeng (2008), although credit unions are nominally included in the NBFIL Law, BOG has allowed the apex body - Ghana Cooperative Credit Union Association to go on to control the societies awaiting the introduction of a fresh Credit Union Law. The informal financial system encompasses a range of actions known as Susu, as well as individual savings collectors, rotating savings and credit associations, and savings and credit "clubs" run by operators. It also involves moneylenders, trade creditors, self-help groups, and personal loans from friends and relatives. Moneylenders are believed to be licensed by the police under the Moneylenders Ordinance 1957. The commercial banking system is subjugated by a few major banks and reaches only about 5% of households, most of which are disqualified by high minimum deposit requirements. With 60% of the money supply outside the commercial banking system, the RCBs, S&Ls, and the semi-formal and informal financial systems play a particularly important role in Ghana's private sector development and poverty reduction strategies. The assets of RCBs are nearly 4% of those of the commercial banking system, with S&Ls and CUs adding another 2%. While "RMFIs" is used to refer collectively to the full range of these institutions, they use different methodologies to reach different customers among farmers, rural households, the poor and micro enterprises, and therefore different regulatory and supervisory instruments may be appropriate (Steel & Andah, 2003)

## **2. 2 History and Functions of RCBs**

Until 1963, there were five main banks providing credit for economic activities in Ghana. These banks based their operations in the urban centers,

hence cutting off most rural dwellers (Asiedu-Mante, 2011). These discriminations were premised on the perception that dwellers were poor and could not provide the collaterals that were required by these banks in their credit business. It was also noted that the rural communities were not developed and economically not viable to the extent of attracting the banks which were profit oriented. This created a situation where a few number of rural people were able to receive credit facilities from the banks. Therefore, rural dwellers were not only denied access to credit from organized institutions, but they could not avail themselves of the opportunity of safeguarding their money and other valuable property which a bank provides (Asiedu-Mante, 2011). Asiedu-Mante (2011) further argued that urban dwellers, who received money from their various economic activities, were being handled inappropriately. Rural banks were therefore set up in order to mobilize rural funds circulating in the system. With this and many other objectives in mind, the first rural bank was established in 1976 in Agona Nyakrom in the Central Region. During the 1980s, however, the number of rural banks increased rapidly due to the Ghana Government offering special checks, instead of cash payments, to the nation's cocoa farmers (Steel & Andah, 2003). This information the statement of Mr. Sam Awotwi, the Chairman of the Board of Directors of Akatakyiman Rural Bank (Central Region) in September 2004, when he emphasized that rural bank should not be measured only in terms of the profit it generated, but its sensitivity towards the needs of the people and its readiness to address them (Ghana News Agency, 2004). According to Addeah (1989), the functions of RCBs are five-fold. These are To mobilize rural savings To provide credit and other

services to its customers To make profit for its shareholders To initiate projects that can support socio-economic development, and To be generally seen as instrument of national economic development. It is imperative that the operations and management of rural banks actively involve these inhabitants who established them. This will help bring to light the developmental needs of the locality, and shareholders can thus devote a part of their dividends to finance projects in their area.

## **2. 3 Poverty Reduction Activities of RCBs**

According to Balogun, (1999), the issue of poverty has been a major concern to many nations, mainly developing countries. Poverty has been defined as a situation where a population or a section of the population is able to meet only its bare subsistence, the essentials of food, clothing and shelter, in order to maintain a minimum standard of living (Balogun, 1999). The World Development Report (WDR) from the World Bank (1990) notes that conditions could be described as poor if per capita income or consumption of the individual is below US \$370 or very poor if it is below US \$275 at any time period. Englama and Bamidele (1997) aptly summed up the definition of poverty, in both complete and comparative terms as a situation where a person is not able to provide sufficiently for his/her fundamental needs of food, clothing and shelter, meet social and economic responsibility; lacks gainful employment, skills, assets and self-esteem; and has limited access to social and economic infrastructures. In other words, the poor lacks basic infrastructure such as education, health, potable water, and sanitation, and as a result has limited chance of advancing his/her welfare to the limit of

his/her limited access to social and economic infrastructures" (Awaworyi and Danso, 2010). According to proponents of RCBs, rural and community banks have a very significant position to take part in development. UNCDF (2004) affirms that studies have shown that RCBs plays three key position in growth; it assist poor families to meet fundamental needs and protects against risksit is connected with enhancement in family financial welfareit also assists in empowering women by sustaining women's financial contribution and so promotes gender equity. Otero (1999) illustrates the various ways in which RCBs battle poverty. She point out that microfinance generates a way in, to prolific capital for the poor, which together with human capital, addressed through education and training, and social capital, attains comprehensive local organization building, eventually allowing people to move out of poverty (Otero, 1999). By providing material capital to a poor person, their sense of self-respect is reinforced and this can help to strengthen the person to participate in the economy and society (Otero, 1999). according to Otero (1999), the aim of RCBs is not presently about providing capital to the poor to fight poverty on an individual level, but it also has a responsibility at an institutional level. RCBs seeks to create institutions that deliver financial services to the poor, who are constantly overlooked by the formal banking sector. Littlefield and Rosenberg (2004) stated that " the poor are exempted from the financial services sector of the economy and as a result MFIs have emerged to address this market failure" (p 12). By addressing this gap in the market in a financially stable manner, an MFI can become part of the formal financial system of a country and so can access opportunities in the capital markets to fund their lending portfolios, allowing



them to considerably increase the number of poor people they can reach (Otero, 1999). RCBs may have great impacts on the client's business, the client's wellbeing, the client's family, and the community (Sulaiman & Matin, 2002). This is usually revealed after a thorough impact evaluation. In entrepreneurial households money can flow quite easily between the business and different members of the household. In the light of this Ejigu (2009) argues that it is usually wrong to assume that money lent to a particular household member for a specific purpose will be used only by that person, for that purpose. The author emphasized the well-known fact that loans dispersed for self-employment can often be diverted to more immediate household needs such as food, medicine, and school fees, and that, even though an MFI targets a woman, the loans may often end up transferred to husbands. These observations were also confirmed by Steel and Andah (2003). According to Sulaiman and Matin 2002, it would be a mistake to measure only changes in the client's enterprise when evaluating a credit program. A survey done by Khandker (2001) in 91/92 and 1998/99 concluded that community members who have access to RCBs facilities do better than those without RCBs. Specifically, the author found that the incidence of poverty among participating households was lowered in 98/99 than in 91/92 and further lower than among non-participating households in both periods. The drop-out rate in poverty increased from 5% to 10% from 91/92 to 98/99. Interestingly, Khandker (2001) also found that the poverty reduction programmes had a further spillover effects on the local economy, but the impacts are very small. According to Robinson (2001), among the economically active poor of the developing world, there is strong demand for

small scale commercial financial services for both credit and savings. Where available, these and other financial services help low income people improve household and enterprise management, increase productivity, smooth income flows and consumption cost, enlarge and diversify their micro business and increase their incomes. McCulloch and Baulch (2000), in a research conducted in chronic poverty in rural Pakistan, suggested that policies that help households to smooth income can dramatically reduce transitory poverty, but in the long term only large and sustained growth in household incomes will reduce chronic poverty and enhance the ability to smooth out income fluctuations could lead to large reduction in overall poverty in the short-term. Remenyi and Quinons (2000) agreed to the importance of RCB by stating that household income of families with access to credit is significantly higher than for comparable households without access to credit. The author cited findings from various developing countries to support their assertion. They observed that in Indonesia a 12. 9% annual average rise in income from borrowers was observed while only 3% rise was reported from non-borrowers (control group). Remenyi noted that, in Bangladesh, a 29. 3% annual average rise in income was recorded and 22% annual average rise in income from no-borrowers. Sri-Lanka indicated a 15. 6% rise in income from borrowers and 9% rise from non-borrowers. In the case of India, Remenyi and Quinons (2000) indicated that 46% annual average rise in income was reported among borrowers with 24% increase reported from non-borrowers. The effects were higher for those just below the poverty line while income improvement was lowest among the very poor. Closely observing the impact of RCBs on poverty alleviation or reduction,

Simanowitz (2002) mentioned their activities have really pushed their agenda. This is evidenced by the prominent position given the concept by donors, practitioners, and academics. Simanowitz (2002) stated that the ability to reach and to demonstrate a positive impact on the poorest is becoming a core principal in poverty-focused financial institutions. The 1999 Microfinance Summit Meeting, for example, set out a hard-hitting agenda, with key note papers calling on MFIs to meet the challenge of targeting and reaching the poorest (Simanowitz, et al., 1999) and to develop systems for measuring their impact on their clients (Reed & Cheston, 1999). Since most RCBs operate microcredit schemes, MFIs are usually with RCBs interchangeably. One sparkling evidence of poverty intervention is that of Grameen Bank in Bangladesh. Though not a rural bank perse, they operate similar methodologies in their lending approach. According to Hossain (2008) " Grameen Bank members had incomes about 43% higher than the target group in the control villages, and about 28% higher than the target group nonparticipants in the project villages" (p 5). The Bangladesh Institute of Development Studies in collaboration with the World Bank, showed that the Grameen Bank not only " reduced poverty and improved welfare of participating households but also enhanced the household's capacity to sustain their gains over time" (p 21). Similarly, Zaman (2000) examined the extent to which micro-credit reduces poverty and vulnerability through a case study of BRAC, one of the largest providers of micro-credit to the poor in Bangladesh. The paper concluded that micro-credit contributes to mitigating a number of factors that contribute to vulnerability whereas the impact on income-poverty is a function of borrowing beyond a certain loan

threshold and to a certain extent contingent on how poor the household is to start with (p 31). According to Zaman members in micro-credit schemes reduce vulnerability by smoothing consumption, building assets, providing emergency assistance during natural disasters, and contributing to female empowerment. These are work that suggests that access to credit has the potential to significantly reduce poverty (Khandker 1998). On the other hand Morduch (1998) argued that micro-credit has minimal impact on poverty reduction. According to Hashemi et al (1996) and Montgomery et al (1996), the provision of micro-credit has been found to strengthen crisis coping mechanisms, diversify income-earning sources, build assets and improve the status of women. A study conducted by Ardon and Colindres, (2007) in Honduras, stated that participation in the credit and savings programme had enabled beneficiaries to send several children to school at a time, and had reduced drop-out in the higher primary school grades. moreover, household income of families with access to credit is significantly higher than for comparable households without access to credit.

## **2. 3. Selection of Beneficiaries**

The Bank of Ghana (BoG) has streamlined Rural Bank lending operations to ensure that Bank credit actually benefits the small scale rural producer and the rural community (Steel & Andah, 2003). The BoG has developed an Operational Manual for all Rural Banks. Applications are accepted from individuals, groups, associations, and companies. According to Asiedu-Mante, (2011), recommendations to reject an application must be justified by specific and clearly stated reasons and cannot be based on vague

suspensions. Before granting a loan to a group, the Bank requires that there be mutual trust and respect among members. In the case of a group loan approval, members are held jointly and severally liable. The group cannot exceed 20 members, and the group leader must have a clean loan record (Asiedu-Mante, 2011). The Bank of Ghana has developed a mandatory sectorial allocation for Rural Bank loans. The allocation ensures that the bulk of the resources go to agriculture, the priority sector in Rural Bank lending (Asiedu-Mante, 2011).. To ensure that resources assist small farmers, the Bank of Ghana requires that the maximum acreage a loan-eligible farmer can cultivate is 10 acres for vegetables and 100 acres for staple crops (Asiedu-Mante, 2011).. The Rural Banks try to reduce the cash element in the loans to the minimum possible to prevent the diversion of funds for purposes other than those for which they are granted. The Banks arrange for inputs to be made available in kind (raw materials, seeds, fertilizers, equipment and machinery, etc). Loan repayment conditions are determined with reference to the borrower's capacity to repay. A " grace period" is allowed between the loan approval date and the time the borrower is expected to generate sufficient income to repay the loan (Asiedu-Mante, 2011). During the " operation period" of the loan, the Bank's Project Officer monitors the borrower to ensure proper use of funds and punctual repayment. Routine and emergency visits by the Project Officer are common during the operation period of the loan. Rescheduling may be allowed if there are circumstances which the loans committee or board of Directors accepts as " unforeseen developments" (Asiedu-Mante, 2011).

## **2. 4 The Need for Credit by Rural Farmers and Market Women**

According to Obeng (2008), a commitment by the 1992 Constitution of the Republic of Ghana to rural development has been made as part of a national strategy to improve the living conditions in rural areas. Therefore in an effort to mitigate the government agency coordination problems, Obeng (2008) stated that the constitution has incorporated a decentralization approach under which the national government establishes political and administrative Regions and Districts. The decentralization follows a fused hierarchy model, with close ties between the center and periphery. Each of Ghana's 216 Districts is governed by a District Assembly, which is partly elected (75%) and partly appointed (25%). Obeng (2008) further stated that Ghana's District Assembly system requires government appointees and elected representatives to plan district activities together. Local participation for rural development is fostered. There is anecdotal evidence that the efforts of the District Assemblies are making improvements in the lives of the rural people. Obeng (2008) reiterated that the primary areas of development have included the rehabilitation and building of new schools, feeder roads, and places of convenience, market places, health centers, and water treatment facilities. Despite the District Assembly governments' successes, the national government has recognized a need for rural credit. Access to rural credit increases the participation of rural people in development activities. A rural credit policy that mobilizes rural resources and redistributes them to the rural sectors creates the potential for more development. 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, cooperatives, consumers, distributors of farm inputs, and processors of agricultural products. Research conducted by FAO (1994) has shown that the most common providers of loans in rural areas are friends and relatives who usually charge no interest or collateral. This credit market is small, however, and the total credit from these non-institutional sources is insufficient to implement rural development programs. 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, and the Bank of Ghana 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. The Agricultural Development Bank was created to service the rural sector in particular. It too, however, eventually began to concentrate on traditional urban-based banking activities. Obeng (2008) concluded by saying that in order to overcome many of these difficulties, the Ghanaian government, through the Bank of Ghana, introduced the idea of rural banking into the

country in 1976. According to the Association of Rural Banks (1992), the aims of Rural Banks are: To stimulate banking habits among rural dwellers; To mobilize resources locked up in the rural areas into the banking systems to facilitate development; and To identify viable industries in their respective catchments [areas] for investment and development." In Amanfu (2010), he stated that,. A team of staff at Bank of Ghana went to Philippines to study their rural and community banking system. This idea was implemented through the Banking Law, 1970 (Act 330) and the Bank of Ghana Act 1963 (Act 182). The objective was to control rural and community monetary system and to assist the rural and community people to obtain loans for their farming and small scale industries. This loan would help to develop agriculture and cottage industries so as to boost the income of the rural community. The loans would help increase the production of raw materials to feed local industries and for exports to earn foreign exchange for the country. According to Amanfu (2010), the first rural bank was established in Ghana on 9th July 1976, thus Agona Nyarkrom in the Central Region by Dr. Amon Nikoi, the then Bank of Ghana Governor. Like other banks in the country, the rural banks were given regulations on loan administration. The regulations for granting loans covered the following areas: The criteria used in granting loans Types of loans granted by the rural banks The processes to be followed before loans are released to the customer Who qualifies to benefit from the rural bank loans? The impact of the loans to the borrower Difficulties and problems associated with the loan recovery Mechanism put in place for loan recovery Educating the rural and



community people for obtaining loans Educating the rural and community dwellers on how the loans are processed.

## **2. 5 Operational Challenges of RCBS**

According to Inkumsah (2012), Rural and Community Banks in Ghana are daunted by many bottlenecks that stifle their performance and impede their growth. He exclaimed that since the establishment of Rural and Community Banks in Ghana, some of these challenges have affected service delivery, performance and investment returns to shareholders. It has also demanded the termination of several banks by the Bank of Ghana after these banks were continuously underperforming and classified as distressed. Inkumsah (2012) therefore identified some of the major challenges facing Rural and Community Banks as: Internal operational problems, Human Resource and Management Challenges, and Capital Inadequacy.

### **Internal operational problems**

Inkumsah (2012) stated that the internal operational challenges in most Rural and Community banks are those relating to liquidity, non- recovery of loans, poor deposit mobilization and weak control structures. Aside the cocoa growing areas, most families in the rural areas adopt subsistence agriculture and barely make enough income to save. Some of the rural banks take part in uncontrolled lending without the necessary appraisal of credit worthiness. Some directors and managers use their position to authorize loan and credit facilities to the family members and friends which negatively affect collection and loan recovery. Inkumsah (2012) further stated that there is also the problem of weak internal control structures in most rural banks. It is not

common to find no stock-taking of cash inventory, equipment, cheque clearing, in rural banks except when an external auditor comes in.

Supervision by senior management is usually weak and the room for errors is magnified. These weak internal structures have also resulted in the perpetration of fraudulent activities and theft, increasing the corruption level in these institutions.

## **Human Resource and Management Challenges**

One major challenge according to Inkumsah (2012) that the Rural and Community Banks in Ghana face is the problem of appropriate set of skills, governance and management deficiencies. The supposed authority in appointment as Board members are usually prominent cocoa farmers, local chiefs and former employees of banks who are on retirement and have been appointed to undertake the responsibility. Most of the members on the board of most Rural and Community banks are elected based on their prominence, status and wealth, in the community and not on the merit of their skills. In addition, Inkumsah (2012) further stated that the positions of management and directors of the banks have certain social sentiments usually associated with such a position by the members of the community, which has led to several situations where managers and directors have employed their unqualified family members and granted credit facilities to family and friends without proper documentation. Rural and Community banks are autonomous unit banks and therefore their regulators, like the Association of Rural Banks, cannot impose qualified directors to ensure performance. Inkumsah (2012) emphasized that the problem of social, infrastructural and economic life in

most rural areas in Ghana are constraints that are not conducive for attracting and retaining talents that will drive the sector. Staff maintenance has been a major challenge to most rural banks. This has made about 10,000 employees to leave the rural banking sector in the past 10 years. Most of the people either resigned voluntarily or were involved in certain practices and had to be let go. In addition to this problem of an unattractive sector for strengthening human resources, the salary structure across the sector is highly uneven which leads to an unbalanced labor skill in the sector and job dissatisfaction. There will continue to be issues of quality labor and staff retention which if not tackled will negatively affect the performance of the sector.

### **Capital Inadequacy**

According to Inkumsah (2012) the objective of Rural and Community Banks was to create community based banking infrastructure for people living in the areas within which these banks have been established. Typically, people from a particular community will raise funds from among themselves and establish the bank going through the right procedure of obtaining a banking license from the Bank of Ghana as a Rural Bank. He stated that the capital raised by the shareholders of Rural and Community banks is highly insufficient to keep the bank functional and expand its operations. Inkumsah (2012) stated moreover that economic conditions for rural banks in Ghana do not allow them to raise the necessary capital and finance needed to establish and operate these Rural and Community Banks. He proceeded by saying that the stated capital requirement for rural banks was raised from GH¢ 50,000

to GH¢ 150, 000 in 2010 by the Bank of Ghana as a result of the low capital levels in the banks and to urge them to work towards expansion and building their capital base. This change was meant to encourage Rural and Community Banks to work towards increasing their capital base and obtain enough funds to run their operations. Consistent below average or average performance by most Rural and Community banks, however, has made it unattractive for new investors to invest in the sector or raise additional equity contributions from its shareholders. Inkumsah (2012) reiterated that in the past the Bank of Ghana assisted with capital formation by raising at least fifty percent equity shares of Rural and Community banks in the form of redeemable preference shares. Such support is non - existent today. Currently, the difficulties and essential investment in technology have compounded the problem of inadequate financing among the rural banks. The progression of figuring out technology as well as its application in the Ghanaian Banking industry has brought much improvement in serving customers, easier and more efficient, and banking regulations. For example, the Bank of Ghana has adopted the mandatory Electronic Cheque Clearing System that now offers a faster way of clearing cheques for the Banks. The governing prerequisite by the Bank of Ghana for all banks in Ghana to adopt this system calls for investment in Information Technology equipment, maintenance of these equipment and training of the personnel to handle such advanced equipment. These investments can be described as huge compared to the capital or asset base of the Rural Banks which causes some form of pressure on capital for operations and expansions.

## **2. 6 Measures to Overcome the Challenges Faced by RCBs**

It is clear that improving the information base of rural women, upgrading community physical and social infrastructure and clarifying the roles of different stakeholders in a policy document is the way forward to overcome the challenges faced by RCBs. The following strategies were suggested in a study done by Egyir, (2010). According to Egyir, (2010), there is a need for human capital development of rural women so as to improve market access and financial information flows. There should be intensification of the functional literacy program for adults being run by the non-formal Education Division (NFED) of the Ministry of Education; together with the Association of Rural and Community Banks, the Department of Community Development and agricultural extension services. More illiterate and rural women need to be sensitized and psyched up through financial literacy campaigns so as to change their negative perceptions of borrowing from the MFIs. These agencies should strengthen their collaboration with one another. Financial literacy will empower women as it will make them understand financial service requirements better and improve their ability to obtain full amount of loan applied for and take advantage of savings and other microfinance services. Similarly, to make the financial literacy more effective, there should be an improvement of the FCUBE policy which seeks to keep girls in school. In addition, there should be implementation of a secondary school policy that encourages more girls not to drop out so as to make more women become and stay literate. To make rural women more credit worthy, the business practices of rural women, particularly record-keeping and planning should be improved. Adequate planning is the key to financial success; women's

business practice should change from thinking about subsistence to thinking about expansion. The project department of the various Rural and Community Banks also needs to be equipped in terms of training and equipment to be able to do proper education, appraisal and monitoring of loans contracted. This is due to the fact that the root of loan default stems from misapplication of loans. This will go a long way to prevent the prevalence of loans default as the people would be equipped in a way that can prevent misapplication and appropriation of loans and eventually reduce the rate of default. Majority of the women had access to first credit but however could not progress to the next stage because of loan default at the first loan. Again, although most of the microfinance institutions are giving out credit, it seems the credit is not large enough to improve the livelihoods of women. It therefore recommended that microfinance institutions increase their loan threshold. An increase in loan threshold will have a greater multiplier effect on women's income through profits from income generating activities. Even though the current threshold improves profit, the margin is not enough to have the expected impact on the lives of rural women. Egyir, (2010) further stated that RCB in Ghana seems to only concentrate on Microcredit. The other aspects like micro-savings and micro-insurance are lacking. The schemes are only interested in giving out credits. Saving play an important role in poverty reduction, in that savings in the absence of proper insurance serves as insurance for household. Saving help improve future consumption for household. It is recommended that RCB should rather concentrate much resource into savings mobilization. From basic knowledge in economics, capital accumulation has a greater strength to reduce poverty.

Savings provides the asset for the economy's investment in future production. Without them, the economy cannot grow unless there are alternative source of investment. Moreover, there should be an increase in government funding to District Assemblies for road maintenance and supply of social infrastructure (safe water and sanitation facilities as well as provision of health and education facilities). Local and international NGOs should intensify the support of these activities. Accessibility and assurance of good environmental conditions in rural areas is the surest way to attract more RCBs to interact with clients at their door steps. A good policy framework contributes to stakeholder collaboration. Hence, the finalization, acceptance and the prompt and thorough implementation of the Microfinance Policy document for Ghana should be given priority attention by the key ministry, Ministry of Finance, and other stakeholders. Finally, Egyir, (2010) concluded that there is one thing that lacks in the microfinance programs in Ghana. There is no time frame set for client to be sustainable, when on RCB programs after which time no credit will be giving again. RCB enjoy having more clients. This only means that, their programs are not having the require impact. If MFIs are able to set this time frame for their clients, the program will have significant impact on the lives of its client.