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RURAL BANKING IN GHANA: IT'S IMPACT ON RURAL FARMERS
(A CASE STUDY OF ABOKOBI RURAL AREA)

BY

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ABSTRACT

This study examined the impact of rural banking on rural farmers in Ghana. The convenient sampling procedure was used to select thirty (30) farmers and four workers at the rural bank studied for the research. Regression analysis was the major statistical tool used to analyze the data collected from the rural bank. SPSS and Microsoft Excel software were used for the analysis.

From the research, it was found out that the higher the interest rate, the lower the demand for loans. Though this did not depict in the secondary data collected from the Abokobi Area Rural Bank. In addition, high interest rates cripple infant farmers. That is, higher interest rates tends to have an adverse effect on the development or growth of the farmers or businesses in Ghana since they depend very much on availability and accessibility to funds at reasonable or favourable rates.

TABLE OF CONTENTS

CHAPTER 1
INTRODUCTION

1.0 BACKGROUND TO THE STUDY

If current agricultural trends continue, by the year 2020 sub-Saharan Africa's food shortage will increase twenty times, to 250 million tonnes (Pinstrup-Anderson1993).The lower calorie intake could lead to poverty, malnutrition and hunger. In an attempt to alleviate some of these potential problems, several institutional and non-institutional sources of rural credit have been made available to Africans. It is hoped that, in the long term, credit will enable the poor to invest in agricultural and non-agricultural productive assets, to adopt new technologies and farming methods, and to minimize environmental degradation.

Ghana, like other sub-Saharan countries, has traditionally experienced low productivity, low income levels, low domestic savings, unemployment, and malnutrition. In 1976, the Ghanaian government, through the Bank of Ghana, established Rural Banks to channel credit to productive rural ventures and promote rural development. Rural development is a strategy intended to improve the economic and social life of the rural poor (World Bank 1975). Rural credit has been used in Ghana to enable the poor to weather shocks without selling the productive assets the poor need for protection against future shocks (FAO 1994).

According to the Moshi Conference (1969), the purpose of rural development is
"a rise in the standard of living and favorable changes in the way of life of the people concerned." However, there is some anecdotal evidence that many beneficiaries of Rural Bank credit are salaried workers, whose likelihood of loan repayment is believed to be better than that of the small-scale rural producer. There is also some evidence that loan

recipients use the credit for purposes other than those for which the loans are intended. Much analysis has not been done on the effectiveness or the impact of the Ghanaian Rural Banks on rural farmers.

1.1 STATEMENT OF THE PROBLEM

Since 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 high cost of living for farmers, and the lack of coordination between government agencies (Amonoo 1977; Brown 1986; and Opoku-Afriyie 1974).

More farmers in the rural areas do have problems in dealing with the rural banks or the credit unions. Some of these problems include preparing viable business proposals and collateral securities that the banks do demand. Meanwhile, majority of the farmers are not well educated in order to plan or write their own business proposals. In addition, it becomes very difficult for the farmers to secure loans because of the collateral securities demanded by the banks. Some of the banks even look at the scale of the farm before granting loans.

The most alarming problem that the farmers do face is the high interest rates or bank charges. It is very difficult these days for the farmers to borrow money from the rural banks because of the high interest rates. More of the farmers do even end up by selling their lands or assets in order to pay the loans they have borrowed. As at now, the prime interest rate in the country revolves around 16 percent. This has therefore increased the bank charges. The minimum bank charges now ranges between 21-25 percent.

According to the Chronicle paper (February 2008), The Deputy Minister of Finance and Economic Planning, Professor George Gyan-Baffour, has indicated that high interest rates charged by universal banks as well as savings and loans companies are killing businesses in the country, especially Small and Medium Enterprises (SMEs).

He said the trend between lending and borrowing was still high since it is affecting the growth of businesses in the country. According to him, the problem of high interest rates is an impediment on the economy since it forces more businesses to close down.

This research therefore looked at the impact of these credit unions or rural banks on farmers in the rural areas.

1.2 OBJECTIVES OF THE STUDY

The general objective of the study is to identify the impacts of rural banking on rural farmers.

Other specific Objectives include;

- To find out the importance that rural banks have on farmers at Abokobi.
- To find out the impact of rural banks on the rural farmers.
- To find out whether rural banks do help all category of farmers in the rural areas.
- To attempt to offer suggestions and recommendations based on the findings of the research.

1.3 Research Hypothesis

The aim of this study is to seek empirical evidence to examine the hypothesis below:

Null hypothesis (H_0): 'Rural banking promotes rural development'

Alternative hypothesis (H_1): 'Rural banking does not promote rural development'

1.4 THE SIGNIFICANCE OF THE STUDY

This study would be a useful tool in the hands of the Ministry of Finance and the Ghanaian Economic Planners. Also, it is envisaged that the result of this study would help to create an awareness of the function of the credit unions or rural banks in the rural areas to the people of Ghana and the policy makers. This would enable the nation to adopt strategies which will help to achieve the objectives of the rural farmers. Finally, the findings of the study would provide data base for further research work.

1.5 LIMITATION

This study was limited to the impact of rural banking on rural farmers. There are a number of factors that boost rural development but very limited mention was made of them and their impacts. The study was limited to selected farmers in Abokobi. The study also has the following limitations:

- Financial constraints- this poses difficulty in interviewing so many farmers.
- Time- because the study will be undertaken within timeframe of 5 months.
- Data collection – the distribution and collection of questionnaires will be time consuming because of the location and dispersed nature of the respondents.

1.6 ORGANIZATION OF STUDY

The study is divided into five chapters.

Chapter 1 consists of the introduction, objective of the study, statement of the problem, research question, objective of study, hypothesis, and limitation of the study.

Chapter 2 reviews existing literature as regard rural baking as a factor generating rural development.

Chapter 3 consists of the methodology. The methodology consists of the research design, population, sample and sampling technique, data collection procedure, data analysis and the software used in the analysis.

Chapter 4 consists of data presentation, analysis, and discussion of the main findings.

Chapter 5 concludes the study with summary, conclusion and recommendations.

CHAPTER 2

LITERATURE REVIEW

This section of the study seeks to find out what others have written about the subject matter. The section primarily deals with what other authors have done in regard to this subject matter.

Ghana is particularly interesting because its tiered system of different laws and regulations for different types of institutions has evolved largely in response to local conditions and because so many of its institutions are savings-based. The resulting system resembles the tiered approach recommended by the World Bank's 1999 study of microfinance regulation (Van Greuning et al.) and more recently adopted by Uganda.2 While Ghana's approach has fostered a wide range of both formal and informal RMFIs (Rural and Micro-Finance Industry), it has not as yet been so successful in achieving strong financial performance, significant scale, and true commercialization of microfinance.

2.1 STRUCTURE AND PERFORMANCE OF RURAL AND MICRO FINANCE INDUSTRY

The financial system in Ghana falls into three main categories: formal, semi-formal, and informal:

• **Formal financial institutions:** are those incorporated 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 (NBFI Law) to provide financial services under Bank of Ghana regulation. Rural and Community Banks (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 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.

• Non Governmental Organizations (NGOs) and Credit Unions (CUs) are considered to be **semi formal** – legally registered but not licensed by the Bank of Ghana. NGOs are incorporated as companies limited by guarantee (not for profit) under the Companies Code. Their poverty focus 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 have to use 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. Although credit unions are nominally included in the NBFI Law, BOG has allowed the apex body Ghana Cooperative Credit Union Association to continue to regulate the societies pending the introduction of a new Credit Union Law.

• The **informal financial system** covers a range of activities known as *susu*, including individual savings collectors, rotating savings and credit associations, and savings and credit "clubs" run by an operator. It also includes moneylenders, trade creditors, self-help groups, and personal loans from friends and relatives. Moneylenders are supposed to be licensed by the police under the Moneylenders Ordinance 1957. The commercial banking system is dominated by a few major banks (among the 17 total) and reaches only about 5% of households, most of which are excluded 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 (albeit overlapping) clientele among farmers, rural households, the poor, and micro enterprises, and hence different regulatory and supervisory instruments may be appropriate.

2.2.0 RURAL AND COMMUNITY BANKS

RCBS are unit banks owned by members of the rural community through 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 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. The obvious need for re-capitalization and capacity-building was addressed during 1990-94 under the World Bank's Rural Finance Project, with half of them achieving "satisfactory" status by 1996. The combination of very high (62%) primary and secondary reserve requirements imposed by BOG in 1996 and high Treasury bill rates helped to reduce the risk assets and increase net worth, further improving their financial performance. The number of RCBs reached a peak of 133 in 1998, but fell to 111 in 1999 with the closure of 23 distressed banks and the commissioning of one new bank. These closures sent a strong signal to the remaining rural banks to maintain or improve their operations in order to achieve satisfactory status. Between 1999 and 2001 there was 64% increase in the number of satisfactory banks.

2.2.1 SAVINGS & LOANS COMPANIES

Initial licensing of the new S&L category was difficult, as the BOG grappled with how to implement the new law. The required minimum capital (¢100 million or US$150,000) initially posed a hurdle, but its real value was eroded by rapid inflation, and the number of S&Ls grew from 3 in 1995 to 7 by 1998. By 2002 the 8 S&Ls had over 160,000 depositors and 10,000 borrowers. Increases in the minimum capital requirement in 1998 and 2000 restored the dollar value through a ten-fold increase in the nominal value, and a further raise in 2001 to about US$2 million stalled the rate of new entry.

Nevertheless, the S&L category has proven to be a flexible means of regularizing three types of MFIs:

- transformation of NGOs into licensed financial intermediaries;
- formalization of actual or potential informal money-lending operations;
- Establishment of small private banking operations serving a market niche.

The S&L category has also made possible the entry of private investment to serve a particular market niche on a smaller scale than would be required for a commercial bank, although providing a challenge to the supervisory authorities. A recent investment is Sikaman S&L Company Ltd., which is applying international best practices in microfinance to reach profitability within two years. The S&Ls generally use the loan products described in Box 1. For example, First Allied S&L uses a group and individual savings with credit scheme with existing, registered occupation-based groups such as butchers, kente weavers, carpenters, and other associations (Chord 2000). S&Ls have also been leaders in innovating. Citi S&L has pioneered linkages with *susu* collectors and clubs, and offers a micro-leasing product to clients with at least two successful loan terms (Anin 2000).

2.2.2 CREDIT UNIONS

Credit Unions are thrift societies offering savings and loan facilities exclusively to members. The first credit union in Africa was established in Northern Ghana in 1955 by Canadian Catholic missionaries. By 1968, when they were brought under legislation and the Credit Union Association (CUA) was formed as an apex body, there were 254 CUs (64 of them rural) with some 60,000 members (Quainoo 1997). The number of CUs continued to grow to nearly 500 by the mid-1970s, but their financial performance was not particularly strong. High inflation in the late 1970s eroded their capital, and by the early 1990s, the number of CUs had fallen by half (Table 4). The weak financial performance of CUs has been due in large part to their organization as cooperative societies with a welfare focus, and in particular to their policy of low interest rates.

CUA has 250 affiliates (2003) with 132,000 members (about a quarter of them Study Groups in the process of becoming full credit unions). Credit unions average about 400-

500 members, and their average loan size of US$153 is well above that for African MFIs, as well as for RCBs CUA has attempted to establish a financial reporting system for its members, but the quality data remains poor. Furthermore, many managers, as well as Board and members, have little understanding of the business of financial intermediation. "Over 70% of all Ghanaian credit unions were in an 'unsatisfactory' situation as of April 1996, and 42% of them were placed in the worst category" (Camara 1996). By the end of 2001, these ratings had improved to 60% and 15%, respectively, and the share given the top rating for financial soundness had improved significantly to 29% (CUA 2002). Most CUs require borrowers to provide security, in addition to being in good standing with their deposits. Ideally, this can be in the form of a guarantee from another member of the credit union who has adequate uncommitted savings balance. Some CUs use the *Susu* method in the collection of deposits and loan repayments. CUA is an innovator in providing both credit insurance (which pays off the outstanding loan balance in case of the death of a borrower) and a contractual savings program (which matches savings, up to a limit, if held at death or to maturity) (Gallardo et al. 2002).

2.3 NON-GOVERNMENTAL AND COMMUNITY-BASED ORGANIZATIONS

NGOs have facilitated the development of good microfinance practices in Ghana by introducing internationally tested methodologies, often in partnership with RMFIs. These methodologies often are based on group solidarity methods, and have benefited from linkages with CBOs that have already "come together on the basis of some kind of location, occupations, friendship, family ties, gender, or other grounds to serve a purpose at the community level" (Chord 2000). NGOs and CBOs are particularly important in making financial services available in the northern part of the country, where both commercial and rural banks are scarce – although they tend to be localized and donor-dependent. Ghana has relatively few NGOs whose primary mission is microfinance and that have reached significant scale. Although some 50 NGOs have active micro credit programs, they are generally multipurpose or welfare-oriented agencies (only four exceed 3,000 clients and total outreach is only about 60,000 clients; GHAMFIN 2003). The principal exception is Sinapi Aba Trust (SAT; established 1994), which has 16 branches country-wide, offering both group-based and individual loans. SAT has reached financial and operational sustainability and sufficient scale to transform into a licensed S&L. The ability to take and intermediate savings would free it from its current reliance on RCBs and other intermediaries to handle clients' funds and on donor funds to finance its lending.

"Village banking" is a group and individual savings with credit methodology promoted most notably by Catholic Relief Services and the SNV/Netherlands Development Programme; some are registering with CUA as Study Groups. FFH/CWE uses individual savings with group credit to target women and provide accompanying education on health, nutrition, family planning, financial planning and budgeting, and micro enterprise development. FFH trains the loan officers for partner RMFIs and the groups handle the bookkeeping, so the program can be quite profitable – although until recently, the high reserve requirement for RCBs prevented them from using their own mobilized savings.

2.4.0 INFORMAL FINANCE

2.4.1 MONEYLENDERS

Moneylenders were the first form of microfinance to be officially licensed in Ghana, and have long been an important source of emergency and short-term finance (after relatives and friends) for the vast majority of the population lacking access to commercial financing.. 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).10 The importance, and certainly the registration, of individual moneylenders may have been reduced by the emergence of RCBs, CUs, *susu* associations and clubs, and especially S&Ls, which has enabled money lending-type operations to become licensed. These days most individual moneylenders do not hold licenses or operate full time, and the Ordinance has ceased to be of any importance, although it remains in the statute books.

2.4.2 SUSU COLLECTORS, ASSOCIATIONS, CLUBS, COMPANIES AND PRODUCTS

The *susu* system (see Box 2) primarily helps clients accumulate their own savings over periods ranging from one month (*susu* collectors) to two years (*susu* clubs), although credit is also a common feature. In an effort to capitalize on *susu* collectors' intimate knowledge of their clients, several RCBs and S&Ls participated in a pilot program to provide funds to *susu* collectors for them to onlend to their clients (GHAMFIN 2001), and some have continued with their own funds. The *susu* collectors are the most visible and extensive form. Even though they mobilize savings, the central bank has refrained from attempting to regulate them, leaving them to try to improve the reputation and quality of the industry through self-regulation.12 Susu collectors who are registered with associations account for nearly a quarter of the estimated over 4,000 collectors nationwide, collecting an average of US$15 a month from approximately 200,000 clients (GCSCA 2003).

Some commercial banks have introduced savings products modeled after and advertised as *susu*. Likewise, some RCBs, S&Ls and NGOs have *susu* schemes, daily collection carried out by salaried or commissioned agents. These methodologies have helped them to reach lower-income brackets and women, who constitute 65% to 80% of the clients of these *susu* schemes. Thus, the combination of specialized categories of licensed financial institutions and traditional methodologies has succeeded both in mobilizing savings from lower-income households and giving them access to financial services that are part of the formal, supervised system.

2.4.3 TRADERS

A major component of rural finance in Ghana has always been the traders who operate between producers in rural areas and urban markets, and often provide credit in the form of inputs on supplier's credit or an advance against future purchase of the crop. Traders do not usually require collateral, but rather the agreement of the farmer to sell them the crop. The implicit interest rate can be as much as 50% of the principal for the farming season (Offei 1965, cited in Aryeetey 1994). Fish traders similarly use advances to lock in their suppliers at relatively low prices. While these middlemen are often regarded as exploitative in view of their monophony power, for a large number of farmers and fishermen, access to financing depends heavily on the liquidity available from these traders – and hence, in turn, on the ability of traders to access funds.

2.5.0 GOVERNMENT CREDIT PROGRAMS

The Government has launched a number of special credit schemes since 1989, usually at subsidized rates, reaching very few people and with extremely poor recovery rates. A partial exception has been Enhancing Opportunities for Women in Development (ENOWID), which in the early 1990s made over 3,500 relatively small loans (over 6 years) with a cumulative recovery rate of 96% using funds from the Programme of Action to Mitigate the Social Costs of Adjustment (PAMSCAD) (Quainoo 1997). PAMSCAD, launched in 1989, directly reached only some 1,200 clients and struggled to achieve an average 83% cumulative recovery by 1996. None of the other four programs being administered by the National Board for Small-Scale Industries (NBSSI) (which charges 20% interest) has reached a 70% recovery rate or as many as 200 clients. As a result, these "revolving funds" are steadily depleting, involve substantial costs to operate, and have negligible outreach. The Government has also entered into micro credit through poverty alleviation programs and the District Assembly Common Funds. While in some instances this made wholesale funds available to local RMFIs for on-lending to clients that they choose, more commonly it has been perceived and used as politically motivated, with negative consequences for repayment. The main threat to sustainable RMF from these government programs comes from the negative effects on efforts of RMFIs to mobilize savings and collect from borrowers, whose willingness to repay typically is low when loans are known to come from government or donor funds at subsidized rates.

2.5.1 INTEREST RATES

Restrictive policies during the 1970s and early 1980s, such as government-controlled interest rates and sectoral allocation of credit, no doubt retarded development of Ghana's formal financial system. Nevertheless, various forms of informal finance predated financially repressive policies in Ghana, and actually expanded after financial markets were liberalized in 1987 (Aryeetey 1994). Although interest rates have not been officially controlled since 1987, the Government has nevertheless introduced a number of credit programs targeted for small business development or poverty alleviation whose interest rates were pegged in 2001 at 20% (well below market-determined rates), and District Assemblies have been mandated since 1979 to provide 20% of their “Common Funds” for micro and small enterprises at an interest rate of 75% of the commercial bank rate.

2.5.2 SECURITY

Licensed banks normally require that loans be secured by title to land or physical assets, deposit balances, or T-bills, following BOG guidelines. These options are clearly beyond the reach of poor households. Close coordination between the Ministry of Finance, BOG and the Ghana Microfinance Institutions Network (GHAMFIN) has led to a better understanding of the characteristics of microfinance loans and the methodologies underlying high repayment rates (Gallardo 2002, p.14), and personal and group guaranteed loans are now recognized as secured microfinance loans.

2.5.3 THE NEED FOR THE RURAL CREDIT

The 1992 Constitution of the Republic of Ghana makes a commitment to rural development as part of a national strategy to improve the living conditions in rural areas. In an effort to mitigate the government agency coordination problems, the constitution incorporates a decentralization approach under which the national government establishes political and administrative Regions and Districts.3 The decentralization follows a fused hierarchy model, with close ties between the center and periphery. Each of Ghana’s 110 Districts is governed by a District Assembly, which is partly elected (75%) and partly appointed (25%). 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. The primary areas of development have included the rehabilitation and building of new schools, feeder roads, places of convenience (public toilets), 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 has shown that the most common providers of loans in rural areas are friends and relatives who usually charge no interest or collateral (FAO 1994). 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. 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:

i. to stimulate banking habits among rural dwellers;

ii. to mobilize resources locked up in the rural areas into the banking systems to facilitate development; and

iii. to identify viable industries in their respective catchments [areas] for investment and development."

2.5.4 RURAL BANK OPERATIONS

The Bank of Ghana has streamlined Rural Bank lending operations to ensure that Bank credit actually benefits the small scale rural producer and the rural community. The Bank of Ghana has developed an Operational Manual for all Rural Banks.6 Applications are accepted from individuals, groups, associations, and companies. Recommendations to reject an application must be justified by specific and clearly stated reasons and cannot be based on vague suspicions.

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. The Bank of Ghana has developed a mandatory sectorial allocation for Rural Bank loans. The lending allocation guidelines are shown in Table 3. The allocation ensures that the bulk of the resources go to agriculture, the priority sector in Rural Bank lending. 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.

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. 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." If there is default on the loan, the case is sent to the Bank's lawyer(s) for action. By 1990, the Rural Banks were experiencing negative profitability resulting in capital inadequacy and, in some cases, the inability to meet depositors' withdrawal demands. The Bank of Ghana ordered a restructuring of the Rural Banks. By December of 1991 all of the Rural Banks had undergone diagnostic study conducted by outside consultants. The restructuring was designed to determine financial strength, organizational capability, and management status in line with existing statutory requirements. The Banks updated and standardized accounts and procedures. The Banks introduced internal control systems and management information systems. After the restructuring process, the number of Rural Banks meeting the capital adequacy requirement increased from 2 to 55. The Bank of Ghana has instituted measures to maintain public confidence in the remaining mediocre and distressed Rural Banks (Bank of Ghana 1995). Today, the Rural Banks are still given the opportunity to determine who should benefit from their credit resources. There is substantial anecdotal evidence of misdirection and misapplication of rural credit by the Rural Banks and the rural people. Many rural banks appear to give credit to people who do not fall into the Bank of Ghana target groups. It is not uncommon to see many credit recipients spending borrowed credit on land litigation and funeral ceremonies instead of productive ventures. The Bank of Ghana initiated the Rural Bank system with the hope that small-scale rural producers and small towns would benefit from the new credit resources. It is uncertain whether or not the Rural Banks are fulfilling the basic functions for which they were created.

CHAPTER 3

METHODOLOGY

This chapter discusses the research design, the population and sample. It also discusses the instruments used in the data collection, the procedure for data collection and the method for data analysis.

3.1 THE RESEARCH DESIGN

The research design used is survey design. Research design is the specific data analysis techniques or methods that the researcher intends to use. The survey design involves the collection and analysis of data, and finding out the answers concerning the current status of the subject. Also, it is a study of variables in their natural setting or under usual circumstances. This comprises observation of facts, formulation of hypothesis, collection and classification of data, interpretation of data, formulation of theories, application of facts and predictions. Since human behaviour is difficult and can not be predicted, it makes the results of the research at times not to be applicable to the population.

3.2 POPULATION

The target population is farmers in the Abokobi area, specifically, experienced farmers from the area.

3.3 SAMPLE AND SAMPLING TECHNIQUE

The convenient sampling procedure was used to select thirty (30) farmers for examination. The convenient sampling method was used because of the sparsely distribution of farmers at the study area.

3.4 INSTRUMENT

A questionnaire is the major instrument that was used to collect the data. The questionnaire was used in order to get a standard form of answers or response.

3.5 DATA COLLECTION PROCEDURE

Thirty questionnaires was used, one for each person or respondent. The questions were read for them to answer. Male and female farmers were interviewed in the ratio of 1:1. That is, equal chances were given to them in order to get a fair or a balance response from the male and female farmers.

3.6 DATA ANALYSIS

Frequencies, percentages, bar graphs, regression analysis and correlation coefficient were used to analyze the data. SPSS software and Microsoft Excel were used for all the analysis.

3.7 RESEARCH QUESTION

The leading questions we proposed to pursue are:

- What benefit do you get from rural banks?
- What role do rural banks play in your community?
- Do all kinds of farmers get loan from the rural banks?
- Generally, what impact do rural banks have on you in your farming?
- What other strategies do you think should be implemented by rural banks to help rural farmers?

3.8 RESEARCH HYPOTHESIS

Our hypothesis is that rural banking is the single most important driving force behind rural farmers' development. The aim of this study is to seek empirical evidence to examine the hypothesis below:

Null hypothesis (H_0): 'Rural banking promotes rural development'

3.9 DEFINITION OF TERMS

For the purpose of the study, certain words and terms were used which may not be familiar to readers. Such words and terms have been explained as follows:

Primary data: - This is the name given to data that were collected under the control and supervision of the person or the organization making particular study.

Secondary data: - This is the name given to data that are being used for some purpose other than that for which they were originally collected.

CHAPTER 4

DATA ANALYSIS AND INTERPRETATION OF THE FINDINGS

4.0 Introduction

This Chapter consists of the data analysis and the interpretation of all the findings of the research.

4.1 Findings from the Enterprises

Table 1 Age Distribution of the respondents

	Age	Frequency	Percent	Cumulative Percent
Valid	26-35	10	33.3	33.3
	36-45	5	16.7	50.0
	Above 45	15	50.0	100.0
	Total	30	100.0	

From Table 1, 50% of the farmers are within the ages of 26-45. Whiles the other half are above the age of 45. Also none of them are below the age of 26. This is represented graphically in Appendix A Figure1.

Table 2 Gender Distribution of the respondents

	Gender	Frequency	Percent	Cumulative Percent
Valid	Male	15	50.0	50.0
	Female	15	50.0	100.0
	Total	30	100.0	

From Table 2, we could see that half (50%) of the respondents are males. 50% of them are females. They were drawn in the ratio of 1:1 since the researcher wants to have equal information from both sexes. The graphical representation of this information is shown in Appendix A Figure 2.

Table 3 Level of education

	Education	Frequency	Percent	Cumulative Percent
Valid	Primary	6	20.0	20.0
	J.S.S.	8	26.7	46.7
	S.S.S	0	0.0	46.7
	Tertiary	16	53.3	100.0
	Total	30	100.0	

From Table 3, it is obvious that more (53.3%) of the respondents are University or polytechnic graduates. Few of them are primary or J.S.S. graduates. Majority of farmers are now educated. More light is thrown on this in Appendix A Figure 3.

Table 4 Marital status

		Frequency	Percent	Cumulative Percent
Valid	Single	5	16.7	16.7
	Married	25	83.3	100.0
	Total	30	100.0	

From Table 4, majority (83.3%) of the respondents are married, just to signify the saying "behind every successful man there is a woman, vise versa". Only 16.7% of them are not married. Appendix A Figure 4 throws more light on this.

Table 5 Frequency distribution representing the question 'Is farming your only occupation?'

		Frequency	Percent	Cumulative Percent
Valid	Yes	5	16.7	16.7
	No	25	83.3	100.0
	Total	30	100.0	

From Table 5, majority (83.3%) of the respondents are into other businesses or works. Only 16.7% of them relay on farming as their main occupation. Appendix A Figure 5 throws more light on this.

Table 6 Frequency distribution representing the question 'Do you save money at the financial institutions (Banks)?'

		Frequency	Percent	Cumulative Percent
Valid	Yes	30	100.0	100.0
	No	0	0.0	100.0
	Total	30	100.0	

From Table 6, all (100%) the farmers do save their gains from farming at the financial institutions. This means that, the farmers believe that the finacial institutions are the safest or secured places for keeping their monies. Despite the fact that they save at the financial institutions, only a handful of them saves at their local rural bank (Abokobi Area Rural Bank). They said that this rural bank is not assisting them. Moreover, their interest rates are very high. Figure 6 of Appendix A gives the pictorial view of this information.

Table 7 Frequency distribution representing the accounts that farmers normally open

		Frequency	Percent	Cumulative Percent
Valid	Savings A/C	20	66.7	66.7
	Current A/C	10	33.3	100.0
	Total	30	100.0	

From Table 7, 66.7 % of the farmers do open savings account while 33.3 % opens current accounts. Those who opened the current accounts said they made that chioce in order to have a faster business transactions. The graphical representation of this information is shown in Appendix A Figure 7.

Table 8 Frequency distribution representing the question 'Have you ever applied for a loan?'

		Frequency	Percent	Cumulative Percent
Valid	Yes	20	66.7	66.7
	No	10	33.3	100.0
	Total	30	100.0	

From Table 8, 66.7 % of the farmers have applied for a loan before. 33.3 % did not even attempt to apply for a loan because of the fear they have for the high interest rates being charge by the banks. Those who had the courage to borrow the money were required to bring a viable business proposal or a business plan, four guarantors who are salary workers and collateral securities. They complained that, the banks do not even follow up to see whether loans are being used for the said purpose. They also said that, on the average, it takes one month for a farmer to process or access a loan from the rural banks. Figure 8 of Appendix A throws more light on this.

Table 9 Frequency distribution representing the views of customers about the interest rates being charge by banks

		Frequency	Percent	Cumulative Percent
Valid	Very high	30	100.0	100.0
	Very low	0	0.0	100.0
	Total	30	100.0	

From Table 9, it is clear that the interest rates are too high for the small scale or peasant farmers to cope with. Figure 9 of Appendix A gives the graphical representation of this information.

Table 10 Frequency distribution representing the question 'Do interest rates scare you from borrowing from the bank?'

		Frequency	Percent	Cumulative Percent
Valid	Yes	30	100.0	100.0
	No	0	0.0	100.0
	Total	30	100.0	

Most (100%) of the farmers are scared from borrowing from the banks as shown in Table 10 above. As we can see from Table 8 above, almost 33.3 % of the farmers did not borrow from the banks just because of the demands by the banks and also the high interest rates. The graphical representation of this information is shown in Appendix A Figure 10.

Table 11 Frequency distribution representing the question 'Do you find it tough paying the loans back'

		Frequency	Percent	Cumulative Percent
Valid	Yes	20	100.0	100.0
	No	0	0.0	100.0
	Total	20	100.0	

Out of the 20 respondents or farmers who said they borrowed from the bank, none of them found it easy paying the loans back as shown in Table 11 above. Some of them said they were able to pay back the loans by selling all or some of their farming assets. The bar graph of Appendix A Figure 11 depicts this information.

Table 12 Frequency distribution representing the question 'Does the high interest rate affect your farming?'

		Frequency	Percent	Cumulative Percent
Valid	Yes	30	100.0	100.0
	No	0	0.0	100.0
	Total	30	100.0	

From Table 12, all (100%) the farmers were affected by the high interest rates being charged by the banks. Some were not able to borrow, others had to sell some of their farming assets in order to pay back the loans they have borrowed from the banks. This has really collapsed a lot of the infant farms in the country. The pictorial view of this information is shown in Appendix A Figure 12.

4.2 Findings from the Rural Banks

Table 13 Frequency distribution representing the accounts that customers normally open

		Frequency	Percent	Cumulative Percent
Valid	Savings A/C	4	100.0	100.0
	Current A/C	0	0.0	100.0
	Total	4	100.0	

From Table 13, 100% of the people interviewed at the only rural bank at the area of study said the highest accounts being opened by the enterprises is Savings Account. Only few of them do open Current Accounts. This therefore confirms the information by the farmers. The graphical representation of this information is shown in Appendix A Figure 13.

Table 14 Frequency distribution representing the question 'Do you grant them loans if they apply?'

		Frequency	Percent	Cumulative Percent
Valid	Yes	4	100.0	100.0
	No	0	0.0	100.0
	Total	4	100.0	

From Table 14, 100 percent of the workers said they grant loans to any farmer that applies for a loan. They also clarify that, farmers have to bring their collateral securities and a viable farming proposal or farming plan. They do this in order to protect the interest of the bank and propel customers' commitment to payment of the loan. Figure 14 of Appendix A throws more light on this.

Table 15 Frequency distribution representing the minimum interest rate charged by banks per loan

		Frequency	Percent	Cumulative Percent
Valid	21-25%	4	100.0	100.0
	26-30%	0	0.0	100.0
	Total	4	100.0	

From Table 15, it is obvious that the minimum interest rate charged by rural banks or financial institutions ranges between 21-25% which is very high for the infant farmers to cope with. This is because, 100% of the workers interviewed selected 21-25% as their minimum interest rate. Therefore, if this is even their minimum, then what will be the maximum? The graphical representation of this information is shown in Appendix A Figure 15.

Table 16 Frequency distribution representing the question 'Do your customers complain about the interest rates?'

		Frequency	Percent	Cumulative Percent
Valid	Yes	4	100.0	100.0
	No	0	0.0	100.0
	Total	4	100.0	

From Table 16, 100% of the workers confirmed that, all their customers always complain about their interest rates or bank charges. This information is presented graphically in Appendix A Figure 16.

The rural financial institutions or banks also play some other vital roles in the country. They serve as advisory, safe custody, motgage financing, intermediary for lending and borrowing, intermediary in international trade, network for business, investment advisory, brokerage, etc for individuals or companies. They also said they do businesses with all sectors of the economy who have viable business proposals.

They complained that, lack of data and information (Records of operations of business), management succession plan and individual's or customers' data base are their major problems. They suggested that, the nation or government should help in creating a natural data base on citizens or inhabitants. Also, additional credit unions should be set up and there should be more co-operation between or among all the financial institutions in the country. In addition, the prime rate charged by the central bank should be minimised and companies should also be trained how to do business with the financial institutions.

Table 17 Interest Rates and Demand for Loan

Year	Interest Rate	Demand for Loan
1994	30%	120
1995	30%	101
1996	30%	90
1997	30%	120
1998	30%	70
1999	30%	50
2000	30%	80
2001	30%	81
2002	30%	70
2003	30%	60
2004	30%	60
2005	30%	71
2006	30%	87
2007	25%	51

From table 17, it is seen that the highest interest rate is 30% from 1994 to 2006 while the lowest is 25% in 2007. In addition, it is obvious that the interest rate remained stagnant from 1994 to 2006 and decreased in 2007. Also, despite the interest rate remained constant, the demand for loan decreases. The most astonishing thing is that, in spite of the reduction in the interest rate in the year, 2007, the demand for loan rather decreased significantly. The Excel software was used to find the trend equation for the demand for loan based on the interest rate charged by the rural banks.

The trend equation is: $Y = -101.69 + 610.77X$; Where Y is the number of people who borrowed the money and X is the bank charges.

From the equation, we could see that, when the interest rate (bank charges) is zero percent (that is X=0), the demand for loan (number of people who borrow money) will decrease with 102 farmers. In addition, when there is an increase in the interest rate, the demand for loan will increase by 610.77. This happened because of the shock in 2007. Moreover, the correlation coefficient between bank charges and demand for loan from the rural bank is weakly positive. Also, from table 18 or figure 18, we can say that, there is no specific relationship between the two variables.

4.3 Determinants of interest rates

From the research, the financial institutions and the farmers gave the same factors that determine the interest rates. In a nutshell, they said that, the forces of supply and demand for credit determine Interest rates. If the supply of credit from lenders or banks rises relative to the demand from borrowers or businesses, the price (interest rate) will tend to fall as lenders compete to find use for their funds. If the demand rises relative to the supply, the interest rate will tend to rise as borrowers compete for increasingly scarce funds. The principal source of the demand for credit comes from our desire for current spending and investment opportunities while the principal source of the supply of credit comes from savings, or the willingness of people, firms, and governments to delay spending. Though this did not depict in the secondary data studied.

Another factor that determines interest rate is Inflation (cost of living). When people spend more money in return for fewer goods or services, they turn up saving less of their income leading to a fall in the supply of money this results in a high rate of interest since the demand for money becomes high and vice versa. To explain further, when there is inflation as a result of too many money in circulation, the central bank will increase the bank rate. This will compel the commercial banks to increase their interest rates on loans and overdrafts to the general public resulting in the collapse of the infant enterprises or businesses. For instance, if the current interest rate is 5% and there is inflation, the central bank will increase its bank rate to say 20% and this will force or compel the commercial banks who take the loans now at 20% interest to charge 20% interest or higher on loans granted to the public as the case in Ghana this year (2008). This increased bank rate will deter people or small enterprises from borrowing hence having effect of reducing commercial banks' money creation hence solving the problem of inflation but collapsing infant businesses.

Chapter 5

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION OF THE STUDY

5.1 Summary of findings of the study

This study examined the impact of rural banking on rural farmers in Ghana. It was found out that all the farmers do save their monies at the financial institutions. In addition, the major type of account they do open is a Savings Account. 66.7 percent of the farmers have applied for a loan before. 33.3 percent did not even attempt to apply for a loan because of the fear they have for the high interest rates. Some of the requirements needed to borrow money are a viable business proposal or a business plan, four guarantors who are salary workers and collateral securities. The reason why the banks do ask for this items is to protect the interest of the bank and propel customers' commitment to payment of the loan.

In addition, the interest rates are too high for the small or peasant farmers to cope with. This is because, those who borrowed money from the bank, found it difficult to pay the loans back. This resulted in the sale of assets and the collapse of most of these farms. Further more, from the regression analysis, there was no specific relationship between the interest rate and the demand for loan.

The banks also provide services including:

- advisory,

- safe custody,
- mortgage financing,
- intermediary for lending and borrowing,
- intermediary in international trade,
- network for businesses,
- investment advisory,
- brokerage, etc for individuals or companies.

Major difficulties facing the banks are:

- lack of data and information (Records of operations of business),
- management succession plan and
- individual's or customers' data base are their major problems.

Concisely, factors determining interest rate are:

- the forces of the supply and demand for credit and
- Inflation (cost of living).
- The bank of Ghana Prime Rate

5.2 Conclusion of the study

The findings of this study show that, the higher the interest rate, the lower the demand for loans. In addition, high interest rates cripple farming businesses. That is, higher interest rates tends to have an adverse effect on the development or growth of farming or businesses in Ghana since they depend very much on availability and accessibility to funds at reasonable or favourable rates.

5.3 Recommendations of the study

Based on the findings of the research, the following suggestions or recommendations are made:

- Government should help in creating a natural database on citizens or inhabitants.
- Additional credit unions should be set up in the localities.
- There should be more co-operation between the financial institutions and farmers.
- In addition, The Prime Rate charged by the central bank should be minimised to allow the other financial institutions to also reduce their interest rates.
- Farmers should be educated on how to establish, manage, sustain and expand their farms.

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APPENDIX A

Figures of the research

Figure 1

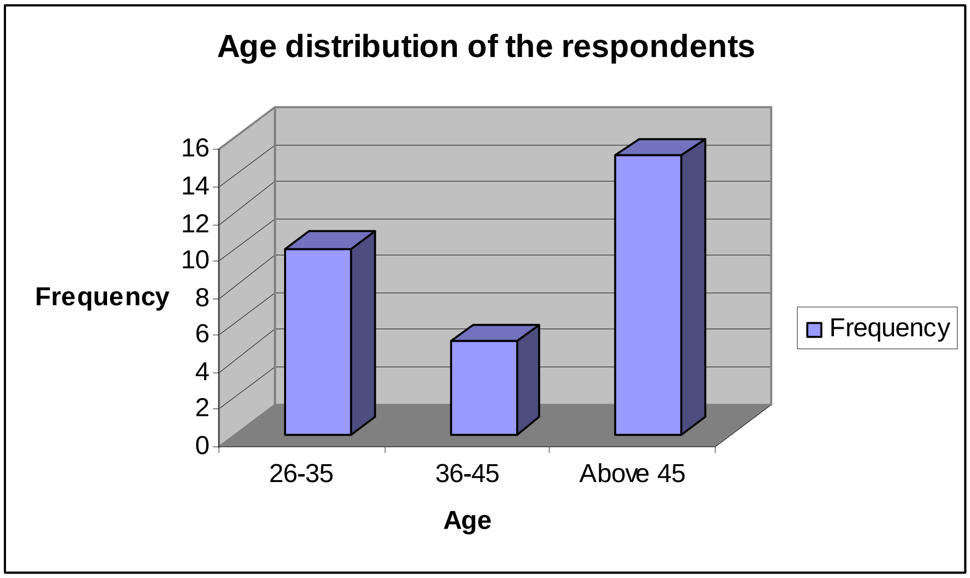


Figure 2

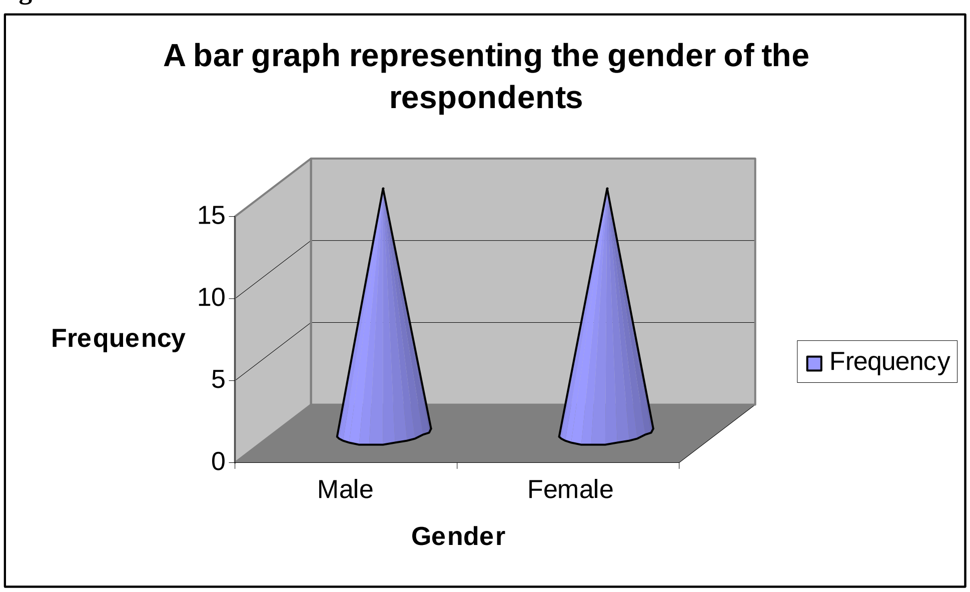


Figure 3

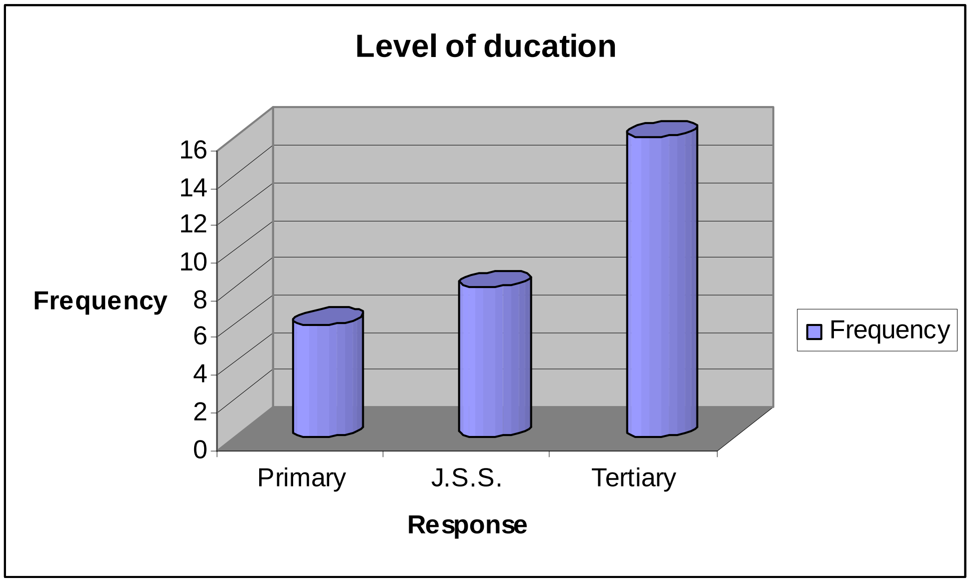


Figure 4

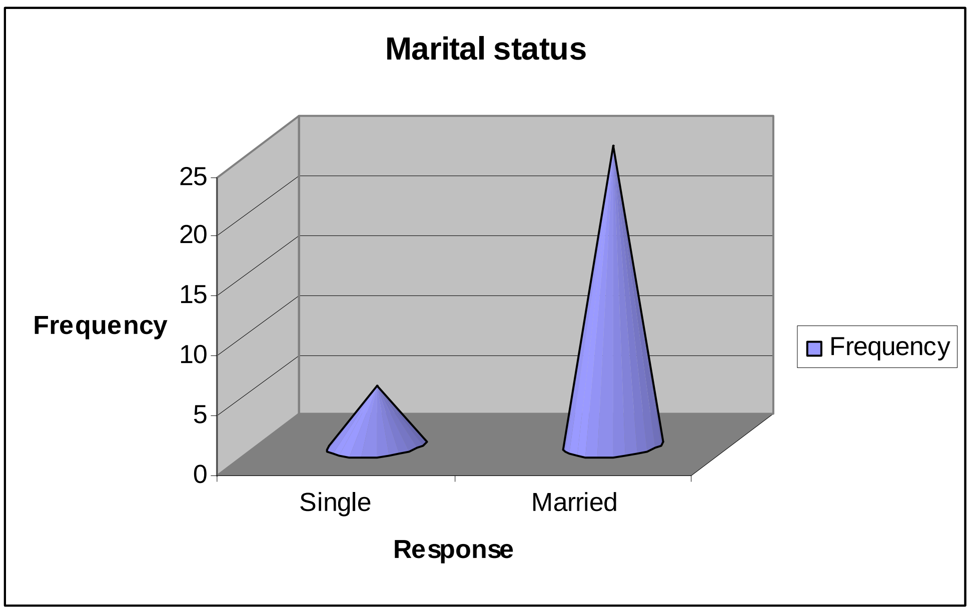


Figure 5

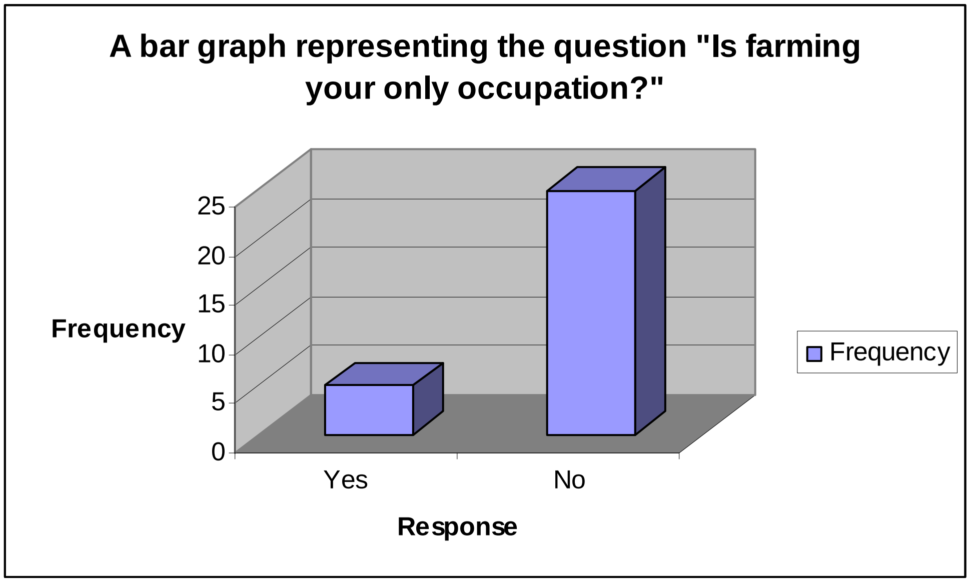


Figure 5

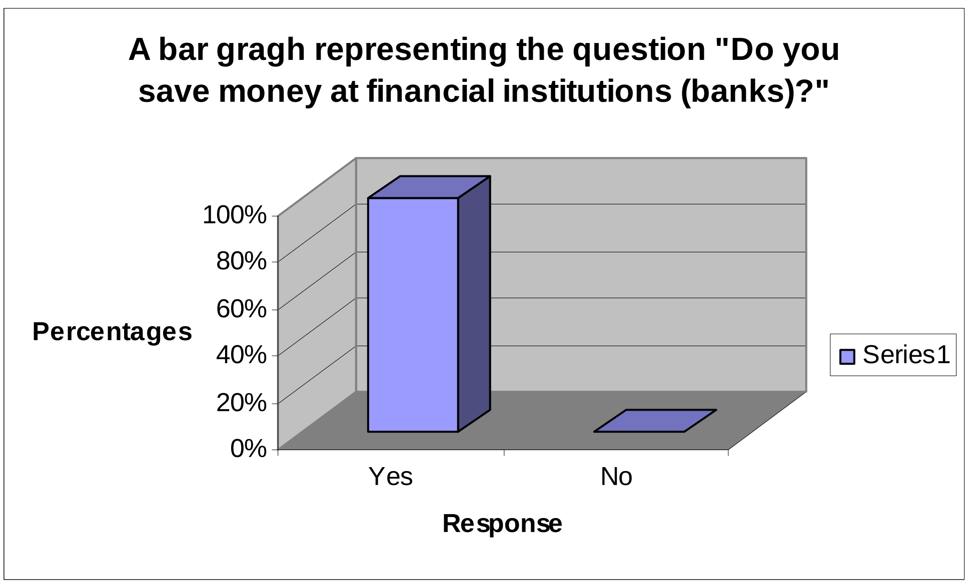


Figure 6

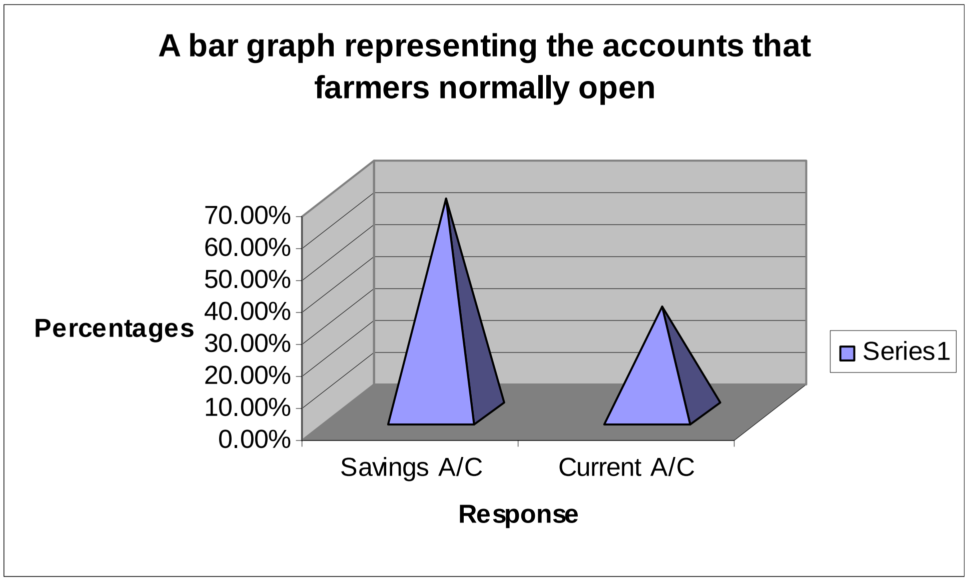


Figure 7

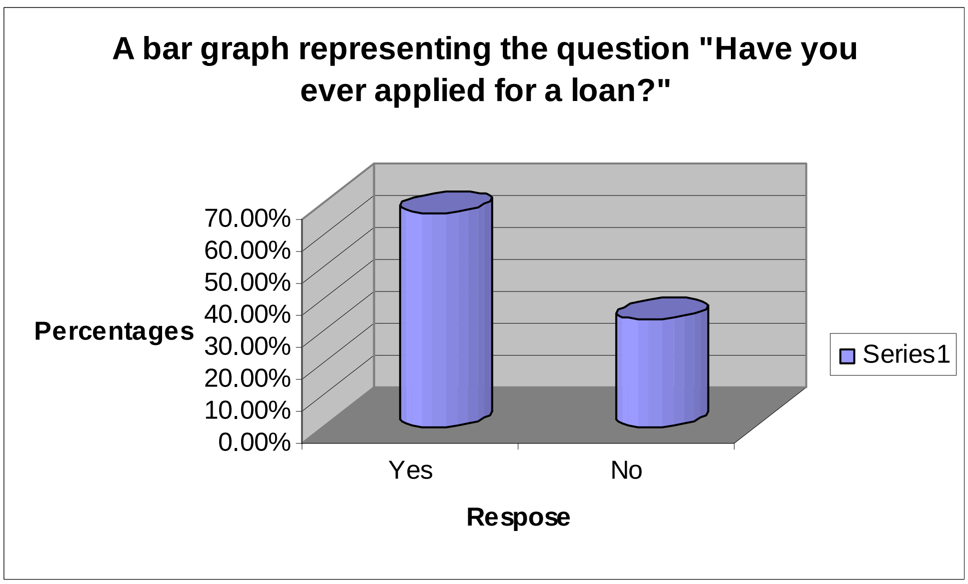


Figure 8

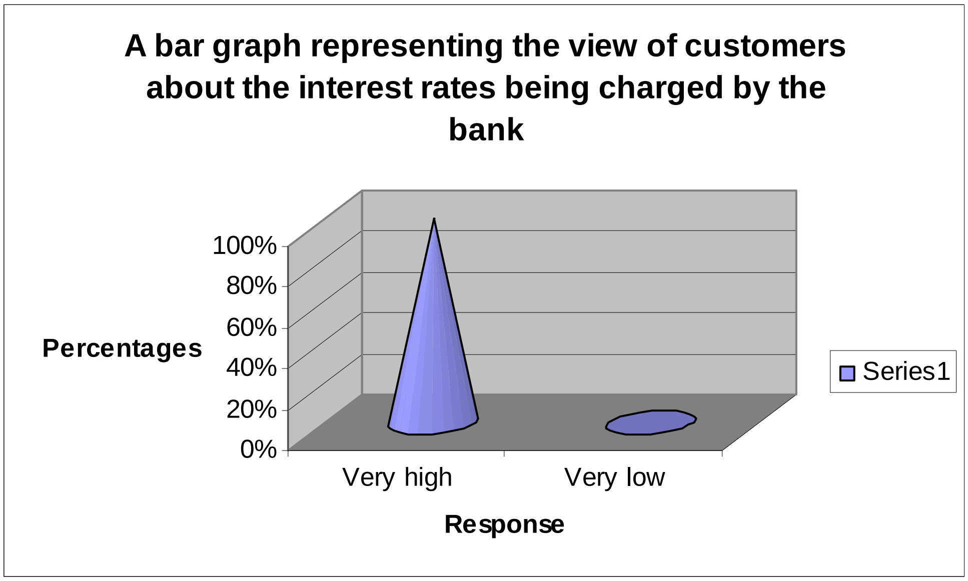


Figure 9

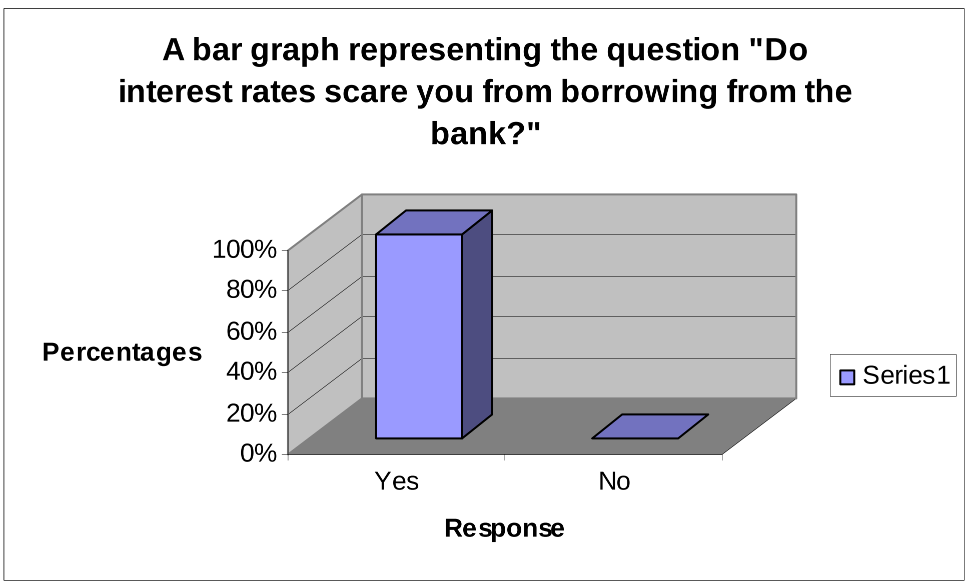


Figure 10

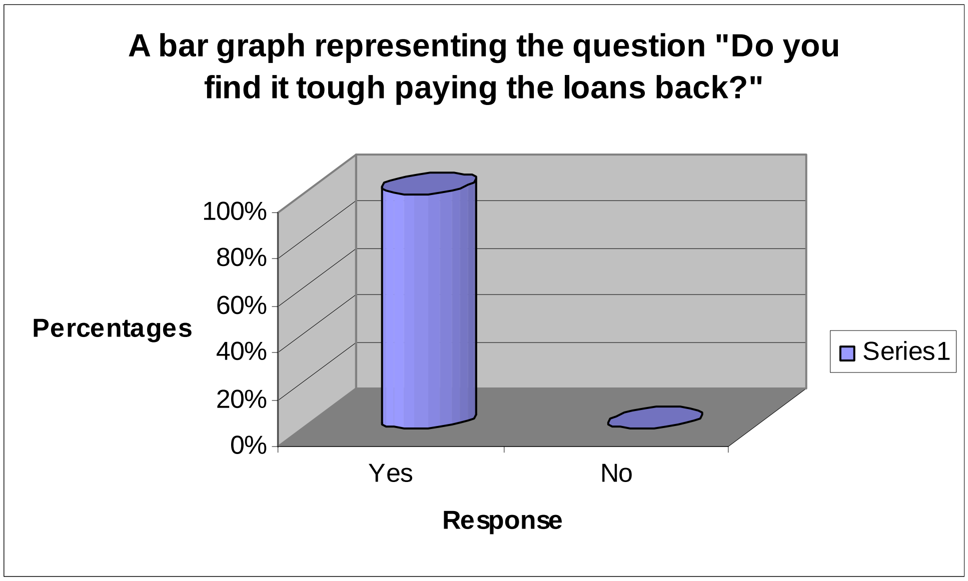


Figure 11

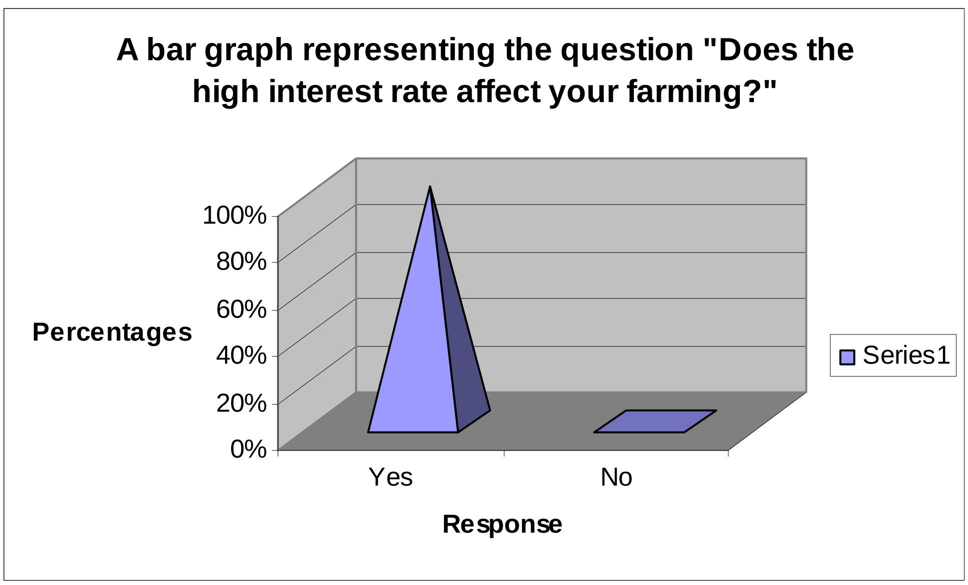


Figure 12

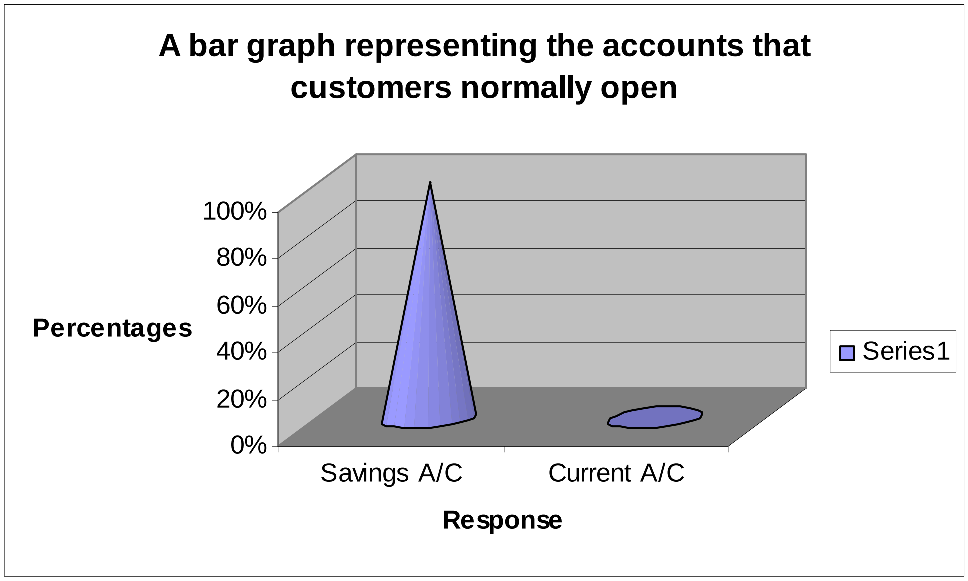


Figure 13

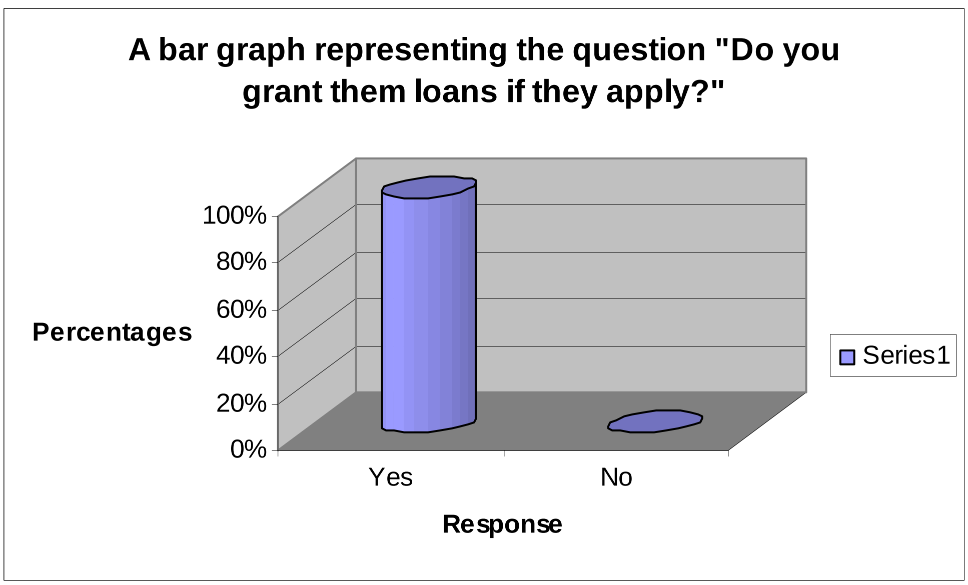


Figure 14

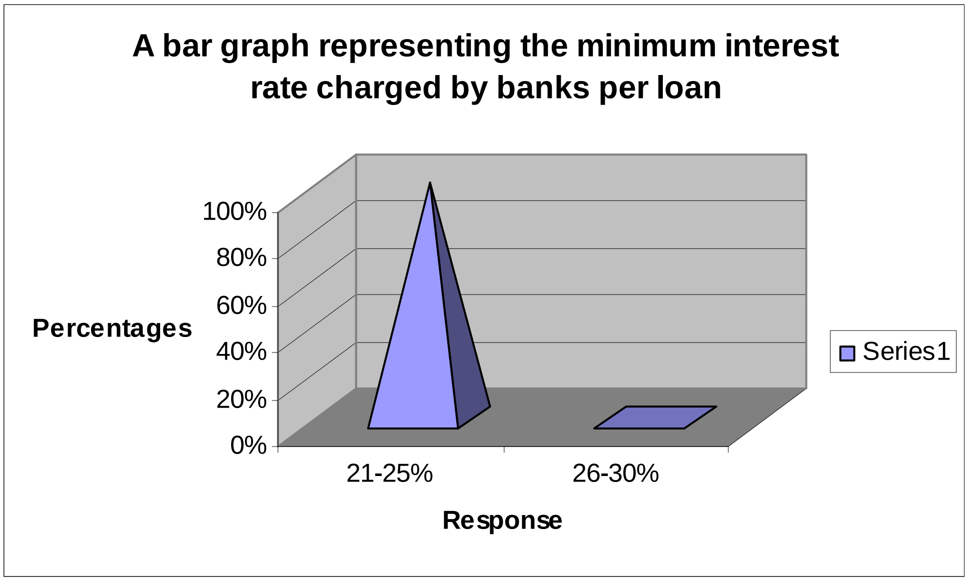


Figure 15

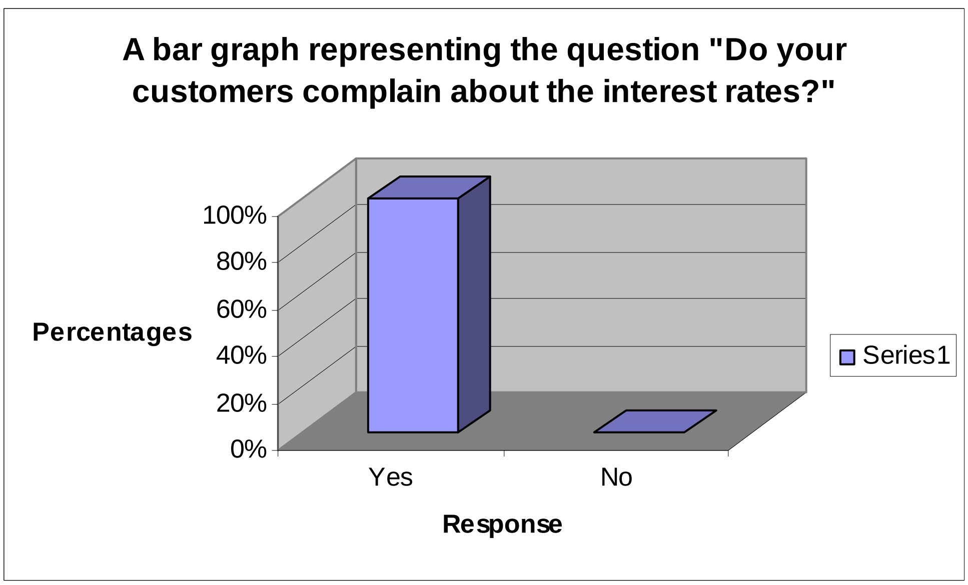
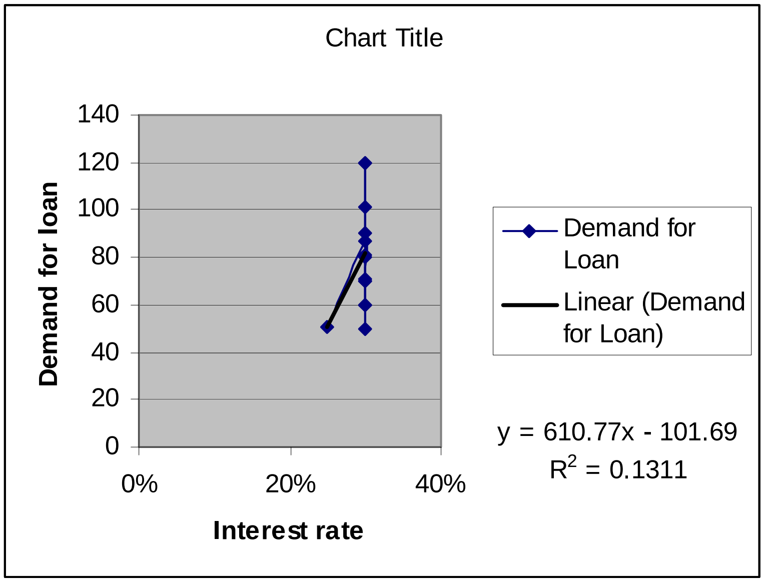


Figure 16



APPENDIX B

The questionnaires of the research

<u>DEPARTMENT OF ACCOUNTANCY, ACCRA POLYTECHNIC, GHANA</u>

<u>Research instrument (Questionnaire) for the rural farmers</u>

This research instrument is designed to study **the impact of rural banking on rural farmers**. This is just a study for academic purposes. It has no bearing on anyone or company. Confidentiality of respondents is assured.

Please tick and fill in the blank spaces appropriately.

1. Where do you live? ……………………………………………………………….
2. Age? 18-25( ) 26-33( ) 34-41( ) 42-49( ) 50-57( ) 58-65( ) 66 and above( )

3. Sex? Male( ) female( )
4. Level of education? Primary( ) J.S.S( ) S.S.S( ) Tertiary( ) other specify………..
5. Marital status? Single( ) Married( ) Divorced( ) Widowed( )
6. Are you a farmer? Yes( ) No( )
7. Is farming your only occupation? Yes( ) No( )
8. Do you save money at the rural banks? Yes☐ No☐
9. What account do you normally open? …………………………………………
10. Have you ever applied for a loan? Yes☐ No☐
11. If yes, what do you require in order to access a loan from a bank? ………………..
12. What do you think about the interest rates being charged by the bank?

………………………………………………………………………………………

13. Do the interest rates scare you from borrowing from the bank? Yes☐ No☐
14. Do you find it tough paying the loans? Yes☐ No☐
15. Does the high interest rate affect your farming? Yes☐ No☐
16. What are some of the effects of the high interest rates on your farming?

………………………………………………………………………………………

17. Have you been assisted by any of the rural banks before? Yes( ) No( )
18. If yes, what type of benefit or assistance did you get?

……………………………………………………………………………………

19. Did the bank follow up to have a look at the activity you took the facility for? Yes( ) No( )
20. Was the loan facility used for its intended purpose? Yes( ) No( )
21. What role do you think rural banks play in your community?

……………………………………………………………………………………….

……………………………………………………………………………………….

22. Do all kinds of people get loan from the rural banks? Yes( ) No( )
23. Does it take several days or weeks for farmers to process or access a loan from the rural banks? Yes( ) No( )

24. On the average how many days does it take to secure a loan? …………………….
25. Generally, what impact does rural banking have on you? …………………………
26. Generally, what impact does rural banking have on your community?

……………………………………………………………………………………………….

27. What other strategies do you think should be implemented by rural banks to help Ghanaian farmers?

………………………………………………………………………………………………..

28. Any other remarks? ……………………………………………………………….

Thank you.

<u>DEPARTMENT OF ACCOUNTANCY, ACCRA POLYTECHNIC, GHANA</u>

<u>Research instrument (Questionnaire) for the rural banks</u>

This research instrument is designed to study **the impact of rural banking on rural farmers**. This is just a study for academic purposes. It has no bearing on anyone or company. Confidentiality of respondents is assured.

Please tick and fill in the blank spaces appropriately.

29. Name of the financial institution? …………………………………………………
30. Year of establishment? ……………………………………………………………….
31. District? ………………………………………………………………………………
32. What account do your customers normally open? …………………………

33. Do you grant them loans if they apply? Yes☐ No☐

34. What do you require in order to access a loan from a bank? ………………..

35. Give reasons for your answer in 6 above ……………………………………….

36. What is the minimum interest rate you charge per loan? …………

37. Do your customers complain about the interest rates? Yes☐ No☐

38. What factors do you think regulates the interest rates?

……………………………………………………………………………………….

………………………………………………………………………………………..

………………………………………………………………………………………..

39. Please list in the table below the interest rates and the number of farmers who borrowed money from your financial institution every year.

Year	Number	Interest Rate
1994		
1995		
1996		
1997		
1998		
1999		
2000		
2001		

2002		
2003		
2004		
2005		
2006		
2007		

40. What type of farmers do you normally deal with? ………………………………
41. What other functions do you play apart from savings and granting of loans to farmers?

…………………………………………………………………………………….

…………………………………………………………………………………….

42. What do you think should be done to help farmers do business with the financial institutions?

……………………………………………………………………………………

……………………………………………………………………………………

43. Any other remarks? ……………………………………………………………….

Thank you.