

Rural banks' financial contributions to agriculture, health, and education (AHE), and their impact on the Ghanaian economy

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Abstract

The rural banks have become a growing and vibrant part of the whole banking industry and the Ghanaian economy as a whole. This study sought to assess the activities of rural banks and their contribution toward the economic development of Ghana in what the researcher described as a triangular model (AHE): Agriculture, Education, and Health. The sample consisted of 339 employees including senior members from 15 rural banks. The data for the study were collected with a questionnaire. The findings revealed that rural banks had performed well as far as the triangular model (AHE) is concerned in the localities in which they have been established and the country as a whole. The study recommends that rural banks have to be carefully monitored by policymakers to yield maximum benefits to consumers.

Keywords: Triangular model, rural banks, economic development, collapse;

1. Introduction

In general, financial institutions have been defined from different perspectives. Rose & Kolari (1995) defined financial institutions as business firms whose principal assets are financial assets or claims such as stocks, bonds, and loans, instead of real assets such as buildings, equipment, and raw materials. However, Hadjimichalaris & Hadjimichalaris (1995) extend this definition by classifying financial institutions into two categories, namely, depository and non-depository institutions. Rural banks come under depository banks which simply accept deposits and give out loans to customers in rural areas of Ghana. From the perspective of various groups in the economy, financial institutions focusing on the core activities often ignore their contributions to other vital parts of the economy (Allen *et al.*, 2021; Choudhary & Jain, 2022).

Ghana is an agricultural country, so most of the population engage in agriculture while a significant number are also in health and educational sector. Most of the people in these sectors have inadequate funds to expand and also to produce in large quantities for local consumption and export. To help these industries to raise funds to run their operations, financial institutions such as rural banks were established to provide credit facilities and other services to individuals located in the rural areas of Ghana (Asiama, 2016).

In most developed and developing countries, the financial institution has been the backbone of their development (Allen *et al.*, 2022; Seijas-Giménez *et al.*, 2022). Evidence from Sutton & Jenkins (2007) as well as Honohan (2008) suggest that countries that have well-established, efficient, and properly utilized financial systems have less poverty. The establishment of financial institutions in Ghana, the purpose of the establishment of the financial institutions has not yet been achieved (Asiedu-Mante, 2005). Moreover, anecdotal evidence on the banking industry in Ghana however suggests that a significant proportion of customers have the perception that their rural banks do not provide helpful, proactive, and customized financial services to them.

Most farmers, traders, and other industries want to expand their operations but are unable to provide collateral security. They also face high rates of interest and are unable to qualify for loans. Also, some financial institutions do not want to take risks by giving huge loans to individuals operating in certain industries (Auh & Landoni, 2022). This poses a problem to individuals in those industries because they lack the resources needed to operate their businesses on large scales. As a result, the level of non-performing loans in the Banking sector is very high recently (Choudhary & Jain, 2021; Ruan & Zhang, 2021). This research unearths the financial institutions in rural areas of Ghana to put develop mechanisms in place so that provision of funds can be channeled to these key areas to develop the economy of Ghana.

1.1. Purpose of study

The general objective of this research is to find out the contribution of rural financial institutions to the economic growth of AHE: Agriculture, Health, and Education of resident communities. To achieve the objective of this study, the following sub-objectives have been developed: To ascertain the activities of rural banks in the development of the economy in the area of agricultural and health sector in the community; to Evaluate the impact of Rural financial institutions in promoting the educational sector in the community; and to find out the relationship that exists among performance variables of three variables of AHE: Agricultural and Health and Education in improving people lives.

1.2. Research Questions

1. What are the activities of the financial institutions (Rural Banks) that promote the development of the Agricultural and Health sector in the communities of Ghana?
2. To what extent do Rural banks' activities help in promoting the educational sector in the

community?

3. Are there any relationship existing among these three variables of AHE: Agricultural and Health and Education in improving people's lives?

1.3. Significance of the Study

This research has practical, theoretical, and policy implications. Theoretically, the research will fill the existing gap in the academic literature about the contribution of small financial institutions contributions to the triangular segment of the section in Agriculture, Health, and Education. Practically, the findings may be used by investors to plan their investment into this triangular segment to increase their wealth. The policy implication is that Apex which controls rural banks can inculcate the findings into their policy formulations to guide the management of rural institutions.

1.4. Literature Review

1.4.1. Definition of Financial Institution

Financial institutions are organizations that play a vital role in the development of every economy including Ghana. They perform a wide range of functions in the system but their primary role is that they serve as a financial intermediary. That is, they help connect borrowers and lenders of funds. According to Saunders & Cornett (2008), financial institutions such as banks, credit unions, insurance companies, and mutual funds perform the essential function of channeling funds from those with surplus funds (suppliers of funds) to those with shortages of funds (users of funds).

Sander's study did not address the very contributions of these financial institutions to these triangular segments of the economy in terms of (AHE) Agriculture, Health, and Education. Even though funds are channeled to various sectors but what were the exact contributions of rural banks to these segments were not addressed in the literature. This study seeks to address this gap in the literature.

Rose & Kolari (1995) also defined financial institutions as business firms whose principal assets are financial assets or claims such as stocks, bonds, and loans, instead of real assets such as buildings, equipment, and raw materials. The study defined this broadly, but in the case of rural banks, most of them do not have all these assets and therefore, the contribution of this unit to the regular segment can be very limited. According to Ncube & Senbet (1994), an efficient financial system is critical not only for domestic capital mobilization but also as a vehicle for gaining a competitive advantage in the global markets for capital. For efficiency, the system must pay depositors favorable rates of interest and charge borrowers' favorable rates of interest on loans. The study was broad but did not focus on the Rural banks' contributions. The study did not predict the 387 recently collapsed microfinance firms that failed to meet standards.

1.4.2. Rural and community banks

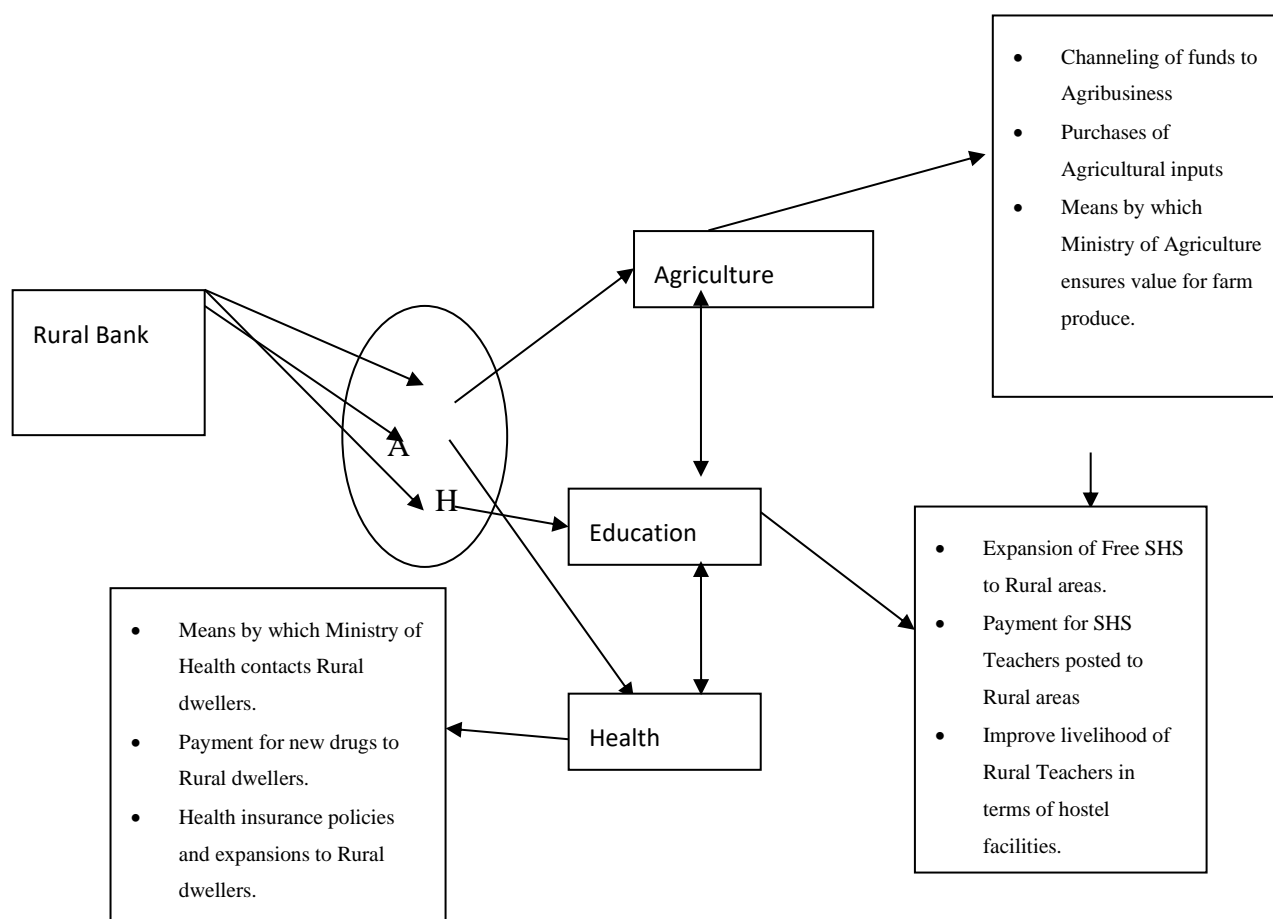
The development of any country depends on the economic growth the country achieves over time. The importance of rural and community banks as providers of financial services to ensure growth in a predominantly agro-based economy cannot, therefore, be over-emphasized. The banks undertake a mix of microfinance and commercial banking activities structured to satisfy the need of Rural areas. They provide banking services by way of funds mobilization and credit to cottage industry operators, farmers, fishermen, and regular salaried employees. They also grant credits to customers for the payment of school fees acquisition or rehabilitation of houses and to meet medical expenses. Some of the banks have subsidiary companies engaged in consumer credit and other developmental activities. Rural and community banks devote part of their profits to meet social developmental activities such as donations to support education, health, and traditional administration, and the needy in their respective communities. Some of the banks have specific gender programs focusing on women-in-development and credit-with-education activities for rural women. Rural and

community banks are, therefore, the main vehicle for financial intermediation, capital formation, and retention of rural dwellers in rural areas.

1.5. Conceptual framework

The conceptual framework for this study is seen in figure 1.

Figure 1. Conceptual framework



The triangular model of channeling funds by Rural financial institutions is very rarely discussed as most research focused on conventional banks. The study used the Abbreviation “AHE” to refer to contributions to agriculture, health, and education, respectively. The diagram detail out the contributions of rural financial institutions to agriculture, and their interaction with health and education in rural areas. Should the contributions to agriculture be left only to the agricultural development bank or the contribution to education should be left to Ghana trust funds that sponsor students to the educational sector alone? The research unveiled whether financial institutions contribute to this triangular model, especially in rural areas where there are no conventional banks but only rural banks are found to serve the people in the communities.

2. Materials and Methods

This chapter brings out the research method or approach adopted in collecting information on the “Financial Contribution of Rural banks in Ghana”. The analyses of the research strategy,

population and sample size, sampling techniques, the procedure for data collection, and ethical considerations are discussed. The study adopts the exploratory research strategy because it seeks insight into the research problem, asks questions about the research problem, and also helps in clarifying understanding and finding solutions to the research problem.

2.1. Participants

As far as the study of the subject matter is concerned, the target population consists of the rural banks in Kumasi and the managers of the branches, and all customers who used their services on daily basis. The sample size chosen for the research is 15 rural banks and 339 customers who patronize their services.

2.1.1. Sampling technique

The research of this study used simple random sampling to select the respondents. Simple random sampling is the method of drawing a portion of a population so that each member has an equal chance of being selected. Simple random sampling was so that every customer has an equal chance of being selected. Every customer that uses the banks' services in the areas was selected and administered a questionnaire to fill out. Each customer was selected without regard to any preference or bias or any special kind of account the customer has with the banks.

2.2. Data Collection instrument

For the reliability and effectiveness of this study, this research first uses a questionnaire to collect the needed data. To gather relevant information to solve the research problem, the researcher extended the study to include both primary and secondary sources of data. These data were explored to obtain an understanding of rural banking and its contributions toward economic development and give factual recommendations thereafter. The sources of data used by the researchers include the following:

2.2.1. Primary Sources of Data

Questionnaires: These constitute the main source of data collection that was designed and issued to the branch managers of the various rural banks. There were some difficulties encountered in the questionnaires; however, the respondents were given better explanations to help them provide accurate responses to the questionnaires. Furthermore, some respondents were not willing to give all the needed information for lack of confidentiality but upon assurance and explanations, they did.

2.2.2. Secondary Sources of Data

Some of the secondary data consulted include extracts from handouts printed by the rural banks, on their operations so far as contributions made by the bank toward the economic development of Ghana are concerned. Other sources were the reports written by some customers on the "achievement made by the banks toward economic development of Ghana" such as Government Healthcare reforms in the sub-region, a scholarship given to some brilliant but needy students, and many more, and published sources such as Association of Rural Banks (ARB) Apex Bank Operating manuals, Banking Act, 2004 (Act 673), textbooks, pamphlets, and handouts. These were data used to seek other relevant information that could help form a concrete conclusion on the study.

2.2.3. Validity and Reliability of the Data Collected

The purpose of the collection of data for this study by the use of sampling methods in the form of questionnaires and other documentary sources is to make the study valid and reliable. The questionnaires were designed in a way that the managers of the bank can give valid information to discover any false information to show the reliability and validity of this study. Bank customers who responded to the questionnaires were given the very help they needed to provide the most accurate information to the answers required. Reliability is very important to ensure that a proper measuring

instrument is used and that the focused of the study is consistently maintained to measure what is intended for the study.

2.3. Ethical considerations

Ethical issues have become very important in recent research. Most of the respondents were reluctant to provide the needed answers as this will disclose their vital financial information to the public. However, respondents were assured that the data were being collected for academic research purposes only and not for sale or profit by the researcher. Respondents were also assured of the non-disclosure of their personal information which encourages most of them to complete the questionnaire on time while others completed them late.

2.4. Analysis

Information derived from the respondents was analyzed using descriptive statistics and presented with tables, bar graphs, and pie charts. Data collections from the field were thoroughly edited and tabulated. Responses were crosschecked to ensure that they were consistent and followed a logical sequence. Quantitative data were arranged in the form of tables with brief headings to explain what each table represented. This was to make the discussions simple and clear. The tables were used to show the findings of the research. Furthermore, the study used simple proportions and percentages as well as charts to describe the field data.

A total of 339 questionnaires were issued to management, staff, and customers of rural banks in their respective branches in the Kumasi metropolis. All the questionnaires issued to the employees, bank managers, and customers were received even though some of the respondents did not provide their answers on time which delayed the analysis of the study. In all, the response rate was a hundred percent (100%).

3. Results

3.1. Staff and Gender Group Analysis

The purpose of this analysis is to find out the number of staff and gender groups of customers and management that used the services of the rural banks in their catchment areas for the development of the economy. This survey was done on 15 Rural Banks in Kumasi, Ashanti Region.

Table 1. Data Collection of Staff and Gender Group of customers

Sex	Frequency	Percentage (%)
Male	100	29
Female	239	71
Total	339	100%

Source: Field survey

Figure 2. Data Collection of Staff and Gender Group of Customers

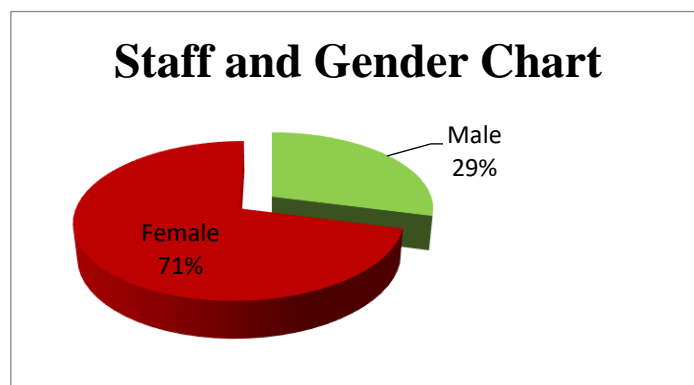


Table 1 and figure 2 above show the Management, staff, and gender group of customers that patronage the services of 15 Rural Banks in Kumasi. A total of 339 of them were sampled. Out of these, 100 are males; representing 29% and 239 are females; representing 71% of the total number of respondents. This reveals that rural banks involved more females than males in their activities.

3.2. Responses on Agricultural activities

This section analyses the contribution made by the rural banks toward the agricultural development of the country. The survey revealed the following responses:

Table 2. Support to Agricultural Activities

Response	Frequency	Percentage (%)
Yes	339	100
No	0	0
Total	339	100%

Source: Field survey

Figure 3. Support for Agricultural Activities

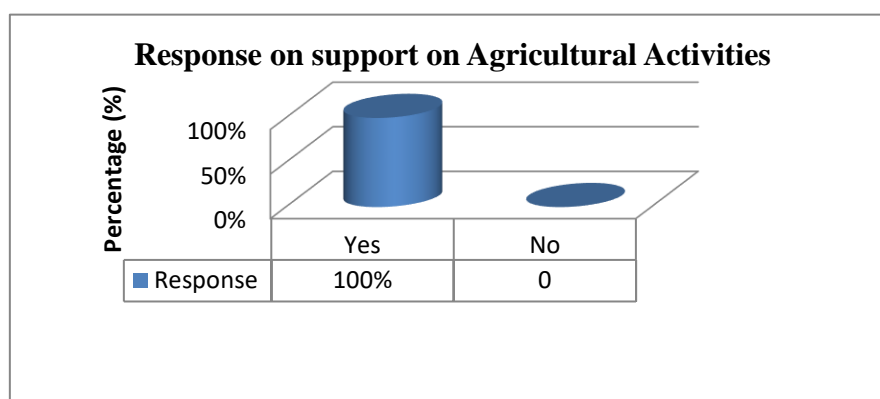


Table 2 and figure 3 show the contribution made by the rural banks in terms of agriculture. Out of 339 respondents used for this research, all the respondents gave their support to agricultural activities for both their catchment areas and the country as a whole; representing a 100% support to agriculture. The analysis above reveals that the majority of rural banks support agricultural activities; hence, the agricultural sector has a better future.

3.3. Responses on the Health sector

Table 3 shows the number of rural banks that give support to the health sector in their respective catchment areas and the nation as a whole.

Table 3. Support in Health Sector

Response	Frequency	Percentage (%)
Yes	338	93
No	1	7
Total	339	100%

Source: Field survey

Figure 4. Support in Health Sector

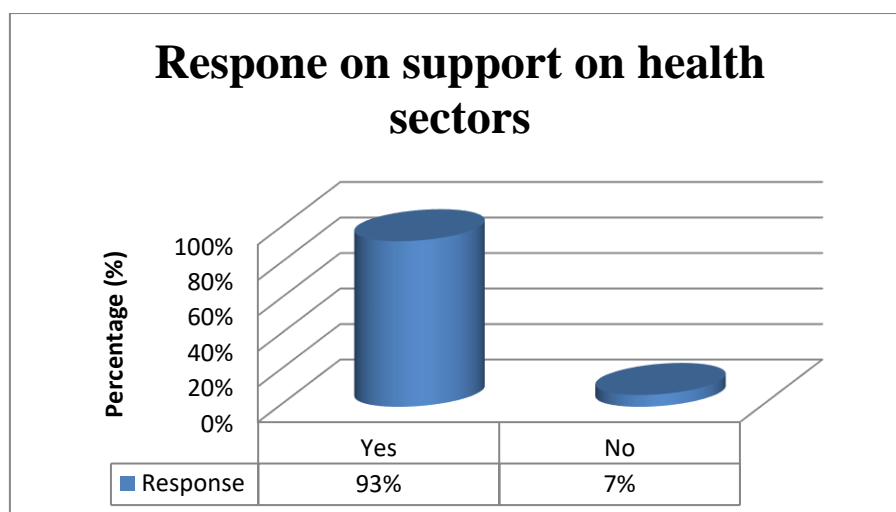


Table 3 and figure 4 show the contribution made by the rural banks in the health sector. Out of 339 respondents used for this research, virtually, all of them gave their support to the health sector for both their catchment areas and the country as a whole; representing 93% with the exception of only one respondent who said rural banks does not give support to health sector; representing 7% as represented in figure 4. This reveals that the majority of rural banks in the economy provide or contribute to the health sector for economic development.

3.4. Response to the educational sector

Table 4 shows the number of rural banks that contribute to the education sector in their respective catchment areas and the nation as a whole. Out of the 339 respondents used for this research, all of them gave their support that rural banks contribute to the educational sector for both their catchment areas and the country as a whole; representing a hundred percent (100%) support to the educational sector. However, for an area such as scholarships as represented in Table 4, Table 5, and figure 5. The support varied from bank to bank according to the need of the students in their areas of operations.

Table 4. Support in the Educational Sector

Response	Frequency	Percentage (%)
Yes	339	100
No	0	0
Total	339	100%

Source: Field survey

Table 5. Support on Education in terms of Scholarships (Individual Bank Contribution)

No.	Respondents	Number Of Students	Percentage (%)
1	AtwimaKwanwoma Rural Bank	9	11%
2	Juaben Rural Bank	4	5%
3	BosomeFreho Rural Bank	6	7%
4	Adansi Rural Bank	10	12%
5	Atwima Rural Bank	3	4%
6	Nwabiagya Rural Bank	9	11%
7	Asokore Rural	2	2%
8	Sekyere Rural Bank	4	5%
9	Odotobri Rural Bank	4	5%

10	Seryedumase Rural Bank	10	12%
11	Kumawuman Rural Bank	3	4%
12	OkomfoAnokye Rural Bank	5	6%
13	Amansie West Rural Bank	4	5%
14	Otuasekan Rural Bank	10	12%
15	AtwimaMponua Rural Bank	2	2%
	Total	85	100%

Source: Field survey

Figure 5. Support for Education in terms of Scholarships

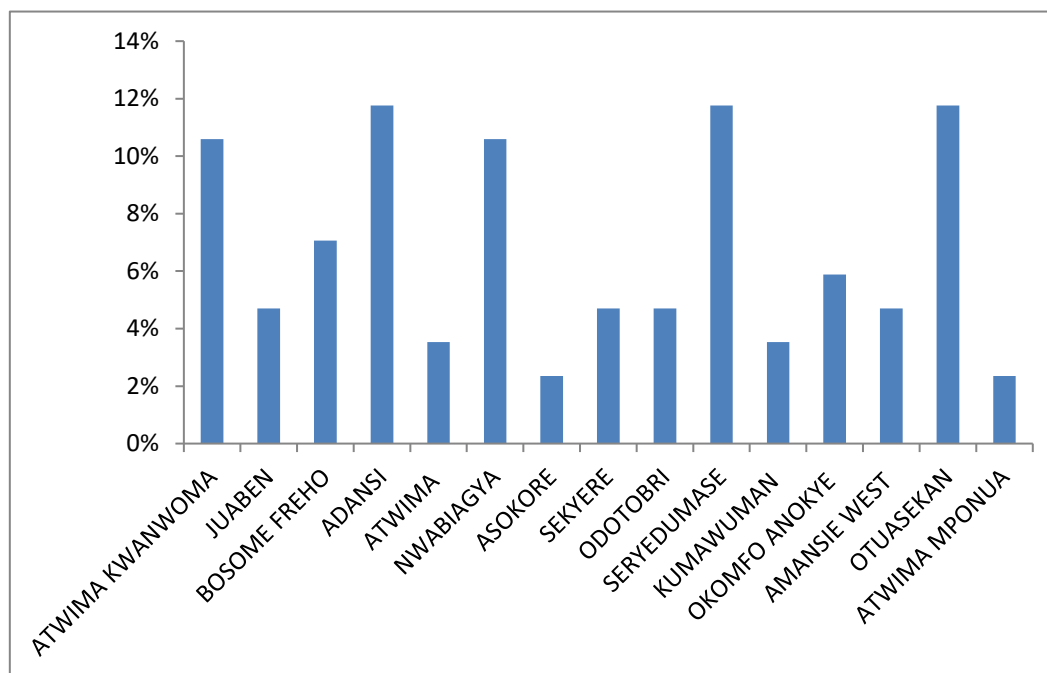


Table 5 and figure 5 show the contribution made by the rural banks in the educational sector in terms of scholarship. All 15 rural banks give scholarships to the communities in which they are located. The percentages of how much each contributes are represented in figure 5.

4. Discussion

The study was set to assess the contributions of rural banks toward the economic development of a triangular model of AHE: Agriculture, Health, and Education. Out of these, 100 are males and 239 are females. The findings show positive relationships between rural banks' contributions to these areas. The variables driving performance among these sectors may be identified from the theoretical framework identified. Rural banks are established for a purpose, they have certain activities to perform in the localities in which they have been established and the country as a whole. Management scholarship packages especially can bring about economic development in the country at large.

Other key variables are that the rural banks have reduced unemployment in their catchment areas and the country as a whole for the development of the economy. The majority of the rural banks serve as a channel through which government ministries can contact the rural people for the development of the economy. In Africa, most people may dwell in rural communities more than in towns; therefore, rural banks play a very important factor in the rural people. Since the respondents

answered positively to these three key areas, the policymakers and other institutions must focus more attention on the improvement of rural banks' operations in these areas so that challenges can be overcome to encourage them to provide better financial services to the local communities.

5. Conclusion

This chapter concludes the study and provides recommendations for further study. The findings were derived from the questionnaires issued to the management, staff, and customers of rural banks. It gives some recommendations that may help to overcome the challenges facing rural banks. Despite the challenges rural banks faced in the Rural areas, they have contributed largely toward the economic development of the country by providing support to the agricultural sector, health, and educational sectors. Rural development is multi-faced multi-level and involves many actors. It is therefore incumbent on all stakeholders such as the government, development-oriented agencies, rural banks, and the communities to come on board to ensure that the country achieves its dream of transforming the communities and the nation as a whole. In conclusion, it can be said that rural banks will still be instrumental and therefore efforts should be made to redeem the rural banking industry and strengthen them as agents of community development.

A study of this nature should have covered a large area of financial institutions or every area of financial institutions, but due to time constraints, the sample size had been reduced to rural banks in Kumasi, Ashanti Region. However, the findings can be generalized to another triangular segment in the other regions of Ghana and even to other African countries where rural banks play major roles in the countries' development. The limitation of the study is the provision of the research responses on time. Some of the respondents were unwilling to disclose some information because of secrecy, which delayed the data collection process needed.

6. Recommendations

Given the findings, it is recommended that the policymakers designated by the government such as Apex banks should support rural banks' efforts in supporting and assisting agricultural, educational, health, and other sectors for the development in Ghana. This will go a long way to boosting gross domestic product (GDP). The future researchers willing to validate this research should focus on the contribution of rural banks extension concerning the construction of roads and bridges, provision of electricity and security, and provision of clean portable drinking water for the communities they are established. The policymakers should shape rural banks' support in terms of the quality of loans given to the people of the community especially farmers since it seems to be the major problem facing the banks.

Practically, further research can be conducted to assess the contribution of the local dwellers to the Rural banks' development. The management of the rural Banks should position themselves as a trusted and reliable agent to the Rural people to avoid competition from both the universal bank and microfinance institution.

Finally, the theoretical model should be made by the future researchers that can encompass the rural banks' cost of operation in rural areas as well as strong internal control measures as it expands its operations to the people in their locality.

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