FINANCIAL SECTOR RESTRUCTURING POLICY AND SAVINGS MOBILIZATION: A STUDY OF THE BANKING SECTOR IN GHANA.

A Thesis Submitted to the Board of Postgraduate Studies, Kwame Nkrumah University of Science and Technology, Kumasi in partial fulfillment of the requirements for the degree of Master of Science in Development Policy and Planning.

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ABSTRACT

The study provided an analysis of savings mobilized by banks in Ghana during the repressed and liberalized financial periods. Specifically, the study considered overall private and public deposits mobilized by banks, dealing with demand, savings and time deposits .The percentage change during and after liberalization was calculated aimed at showing the trend in savings mobilization by banks .The percentage of public and private savings to overall savings and the percentages of demand, savings and time deposits to overall deposits were calculated. The periods of analysis were divided into three; before, during and after the implementation of the financial reforms, starting from 1981 and ending in 1999.

Low savings characterized the banking sector for years before the Structural Adjustment Program, which began in 1983. Whilst foreign inflows and savings were on the increase, domestic savings mobilization continued to fall. FINSAP which began in 1987 as a component of the ERP/SAP was aimed at restructuring the financial system and eventually leading to an increase in savings in the economy in general and the banking sector in particular. Observations of real deposit rates indicate that they were negative or extremely low for most years before the implementation of the reforms. The low and fluctuating trend in savings mobilized by banks could partly be attributed to the negative deposit rates. The unorthodox monetary measures used during the repressed period affected negatively savings mobilization by banks. It was also observed that the general characteristic of savings after financial liberalization did not differ significantly from the repressed period, thus indicating the inability of the reforms in itself to increase savings mobilization without regard to other macro-economic indicators.

Literature on the negative effects of financial repression particularly the works of Mckinnon (1973) and Shaw (1973) were analyzed. Literature on interest rates and savings behaviour led to various explanation in which there appeared no clear relationship between the two as advocated by Mckonnon and Shaw in their early work on financial repression. Empirical studies were also cited to examine the impact of

financial repression on savings. Other factors that affect savings, income, taxation, demographic conditions were also examined.

The growth and development of the formal banking sector in Ghana was examined. Banking diffusion and the current distribution of bank branches throughout the country showed that in terms of number and institutional structure, the banking sector is relatively diverse and apparently adequate. The contribution of the informal sector in savings mobilization came under examination.

An overview of the economy in general and the financial system in particular before the ERP and FINSAP was carried out. The study examined the various objectives and structure put in place for FINASP and matched these against the overall broad objectives of reforms of financial system set out by the World Bank and the International Monetary Fund.

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LIST OF ABBREVIATIONS

1. GCB	–	Ghana Commercial Bank
2. SCB	–	Standard Chartered Bank
3. BBG	–	Barclays Bank Ghana
4. SSB	–	Social Security Bank
5. MBG	–	Merchant Bank Ghana
6. NIB	–	National Investment Bank
7. TTB	–	The Trust Bank
8. FAMB	–	First Atlantic Merchant Bank
9. EBG	–	Ecobank Ghana
10. CAL	–	CAL Merchant Bank
11. ADB	–	Agriculture Development Bank
12. PBL	–	Prudential Bank Limited
13. SBG	–	Stanbic Bank Ghana
14. MAB	–	Metropolitan and Allied Bank
15. ABL	–	Amalgamated Bank Limited
16. UBG	–	Unibank Ghana
17. ICB	–	International Commercial Bank
18. Volta	–	Volta Region
19. Asht	–	Ashanti Region
20. West	–	Western Region
21. Cent	–	Central Region
22. Est.	–	Eastern Region
23. Gt. Acc.	–	Greater Accra Region
24. Bro. Ahafo	–	Brong Ahafo Region
25. North	–	Northern Region
26. Upp. East	–	Upper East Region
27. Upp. West	–	Upper West Region

28. BHC - Bank for Housing and Construction

29. NSCB - National Savings & Credit Bank

30. RDR - Real Deposit Rate

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CHAPTER ONE

INTRODUCTION

1.1 Background

The financial sector plays a crucial role in a country's growth and development, it's importance can only be useful if there exists an efficient structure of intermediaries which will channel idle balances into productive investments. The relationship between financial structures and economic activities rests on the importance of savings and investments in the determination of a nation's output and on the role of intermediaries in the savings and investment process.

The level of savings within the economy has fluctuated since 1960. In 1960, gross domestic savings rate as a ratio of gross domestic product was 14.5%. The ratio declined to 6.1% in 1966 before increasing to 11.2% in 1970. The ratio remained unstable until reaching a low of 2.1% by 1983. (Aryeetey et al 2000)

In addition to the low level of savings, the period 1973–1982 can be described as nothing short of an unmitigated economic disaster. (Sowa 1994) Real GDP per capita, real export, earnings, cocoa exports, import volumes, domestic savings and investment all declined dramatically, whilst inflation averaged over 50% per annum. The period also witnessed direct government controls throughout the economy. State controls involved the use of import controls, price controls, wage controls, exchange and interest rate controls among others.

The World Bank/International Monetary Fund (IMF) sponsored Economic Recovery Program (ERP)/Structural Adjustment Program (SAP) were initiated in 1983 aimed at halting the decline in the economy. The emphasis of the ERP/SAP was to make the economy an outward export oriented one. The Financial Sector Restructuring Program (FINSAP) which began in 1987 was a component of the ERP/SAP.

The focus of FINSAP was liberalization, the removal of all interest rate and credit controls and a restructuring of the banking system for it to play its role efficiently. It is argued that a liberalized financial regime makes the system more competitive, efficient and responsive to interest rates, hence leading to an increase in domestic savings by banks. Market forces were to be relied upon for the allocation of resources and savings in the economy.

For sustained economic growth and overall development, there must be adequate domestic savings. It was hoped that with liberalization and the restructuring of the financial sector, the banks would be able to mobilize adequate domestic savings for sustained overall development in the country.

1.2 Problem Statement

Low savings characterized the economy and the banking sector before the financial reform, which began in 1987.(Gockal 1996) Aside from failing to mobilize savings for investment and development, it was also failing in its supportive role to the development of the monetary sector. Between 1977 and 1984, most indicators of the development of the financial sector declined in size. Demand deposit, savings and time deposits fluctuated and remained unstable. (Aryeetey et al 2000)

Although the institutional framework of banks in Ghana appears adequate, at least in terms of the sheer physical presence and outward diversification of banks, an examination of macro-financial data suggest that the impact of the banking system on savings is less than might have been expected. With regard to public and private savings, the picture that emerged was one of opposite trends. Whilst annual average public savings ratio was consistently negative between 1974 and 1983, (around – 5.72%), private savings was constantly positive although declining from 14.4% in 1974 to 7.33% in 1985. (Nyanteng 1997) The picture that emerged is one of low domestic savings. Narrow money (M1) represented by demand deposit with the banking sector, currency in circulation and cash held by financial institutions fluctuated and remained low between 1970 and 1989. The behavior of broad money (M2), that is narrow money and quasi money also remained low and unstable during the same period.

Table 1 below shows financial savings indicators, all indicators manifesting a declining trend between 1970 and 1989. Similarly, quasi money (time, certificate and savings deposits) (Qm)/GDP ratio was also low and exhibited a declining trend. It is worth noting that the declining trend in the Qm/GDP ratio coincided with the repressive period of the 1970's and 1980's. Thus in spite of the number of banks, demand deposits, savings and time deposits fell.

Table 1 Selected Indicators Of Financial Depth 1970 – 1989

Year	M2/GDP	M1/GDP	Qm/GDP
1970 - 73	21.1	14.7	6.4
1974 - 77	26.1	19.4	6.8
1978 - 81	20.1	16.0	4.2
1982 - 85	13.5	10.8	2.7
1986 - 89	17.0	13.0	4.0

Source: Aryeetey et al 2000

Annual average foreign savings ratio increased over the period from 3.09% between 1974 – 79 to 5.49% between 1980 – 85, mainly because of foreign inflows. This trend suggests that most investments were financed by foreign capital.(Aryeetey et al 2000) The rising trends in foreign inflows to Ghana vis-à-vis the declining trend in private and public savings raise the issue of sustainability in the country's development. Rising foreign inflows in Ghana have been associated with reduced domestic savings.

The inverse relationship between foreign savings and domestic resource mobilization in Ghana is disturbing, since this mode of raising resources is not sustainable. New external resource inflows cannot continue indefinitely and even if external finance were to be available for an extended period, this would have serious implication for the growth process mainly because of debt servicing, hence the need for an increase in domestic savings for sustainable growth and development. Consequently it cannot be overemphasized that not only has Ghana to create a credible investment environment, but it must also assume responsibility for financing.

The effect of the financial reform program on the rate and level of savings within the banking sector is the basis of this study. With rates being determined by a liberalized market, it was expected that savings would increase considerably. Financial liberalization was expected to have led to positive real deposit rates which in turn would have resulted in an increase in the rate of savings mobilized in the national economy, particularly the banking sector. Financial liberalization is noted to have a significant role in savings mobilization.

In Ghana's case, it is of importance to determine whether the long period of liberalization has had a positive impact on savings mobilization by banks. Additionally, were positive real deposit rates achieved during the implementation of the liberalization program, hence stimulating savings mobilization by banks? It is of policy importance to study the behavior of savings within the banking sector before and after liberalization.

1.3 Objectives and Relevance of the Study

The study has the following objectives:

1. Consider components of the IMF/World Bank Financial Reform Program and policy initiated under the Financial Sector Reform in Ghana.
2. Assess domestic savings trend within the banking sector under the repressed and liberalized financial regimes.
3. Consider factors affecting the success of the reform program with regard to savings mobilization by banks.
4. Draw policy implications and make recommendations to enhance the reform program.

The IMF/World Bank supported financial reform has come under some criticisms mainly because of the mixed results achieved by developing countries implementing the reform. It is hoped that the findings and recommendations in this study will inform policy makers and contribute to the ongoing debate on the efficiency and effectiveness of financial reforms.

1.4 Methodology

Data from mainly secondary sources were used for the study, primary data were analyzed. Primary data came from interviews conducted with bank employees on the effects of the reform and questionnaires for banks.

There are some obstacles in the way at arriving at firm results on the effects of World Bank/IMF Programs. Even though there are econometric techniques for this purpose, it is difficult in practice to disentangle program effects from the many other influences which bear upon the performance of an economy. Killick (1995) provides a good discussion of various tests of SAP, namely: before-after tests, target –actual tests, comparison with a controlled group, generalized evaluation, the extent of program completion and country specific studies.

Judging by the nature of the financial sector reform with no specific targets available, before after tests were applied extensively in the analysis. They yield information on whether programs were associated with an improvement on the initial situation. They are also useful for information on whether program effects are sustained beyond the implementation period. Results can be misleading sometimes because of exogenous shocks and are easily misused.

Other methods of analysis included tables and graphs which were used to show the trend and percentages of savings before, during and after the implementation of the reform. The extent of program completion was assessed. This provided information on the extent of program implementation.

The period of analysis was divided into three, 1981–1986, 1988–1997 and 1998–1999, corresponding respectively to pre-reform period, the period during the implementation of the reforms and finally the period after the implementation of the reforms. These periods differ in length and this might have some bearing on the analysis, but for the purpose of this study, this was adopted. To a greater extent 1987 was omitted from the analysis, because the reforms started in the last quarter of that year. During the three periods of analysis, 1981-1986, 1988-1997, and 1998-1999, the number of banks might change, and this will be acknowledged where applicable.

1.5 Scope

The analysis will cover a period of eighteen years, from 1981 to 1999. The study was restricted to the clearing banks at all periods. Other deposit mobilizing institutions were not directly included in the analysis. The study covered both public and private savings and dealt with demand deposits, savings and time deposits.

CHAPTER TWO

LITERATURE REVIEW AND ANALYTICAL FRAMEWORK

2.1 Financial Repression

During the 1960s and 1970s, economic policy makers advocated financial repression as a means of providing cheap funds for investments. By maintaining borrowing rates low, funds were easily available.

Financial repression occurs where deposit and lending rates are controlled, credit allocation is regulated and sectoral ceilings are used to channel funds to selected areas of the economy. The Central Bank uses laws to control the system. Ceilings on deposits and loan rates tend to raise the demand for funds and depress the supply. Unsatisfied demand for investible funds than forces financial intermediaries to ration credit by means other than interest rates, while an informal market develops at uncontrolled rates. (Ayiku 1986)

A fragmented credit market emerges in which favored borrowers obtain funds at subsidized, often highly negative real interest rates, whilst others must seek credit from inefficient and expensive informal market. Low interest rates inhibit entry of new financial institutions, stifling competition in the banking sector. The effects of repression are strongest where there is low nominal interest rate ceiling combined with high inflation, resulting in highly negative real interest rates.

During the 1960's and 1970's, financial repression reached its peak in Ghana. Deposit rates remained at 7.5% per annum on average between 1975 and 1977. It was adjusted upwards to 11.5% in 1978 and remained the same until 1983. During this same period, the rate of inflation increased rapidly from 4% in 1970 to 123% in 1983. (Ayiku 1986) With such high inflation, real deposit rates were in the negative and this condition affected savings mobilization by banks. During financial repression large amount of funds available in the system are channeled to the public sector, restricting private sector borrowers ability to access available funds.

2.2 Financial Liberalization

Financial liberalization argues for improved economic growth through financial sector reforms. Liberalization involves the freeing of interest rates from legal constraints, hence banks are allowed to determine the level of deposit and lending rates. Financial liberalization also involves removing controls on the allocation of credits. (Antwi-Asare et al 2000)

Removing restrictive policies should enable the formal sector to expand and eliminate the need for informal finance. It is argued that financial liberalization would lead to efficiency, resulting in lower spread between borrowing and lending rates and increasing the access to formal finance of previously marginalized savers and borrowers.(Ayiku, 1986)

Positive real deposit rates eventually raise the rate of savings, leading to financial and economic growth. Liberalization aims at efficient financial intermediaries. In an efficient financial system, savings is mobilized and credits are allocated to the most efficient private sector in the economy. The resultant growth in output as a result of increase in credit to the private sector would lead to further growth in real incomes and employment. Savings will subsequently increase thus providing higher levels of investment funds. (Ayiku 1986)

The success of the financial liberalization depends on the overall macro-economic condition of the country. There should be sound macro-economic and financial stability. Monetary and fiscal policies should be properly outlined and implemented to achieve economic stability. Since liberalization leads to competition and an increase in financial intermediaries, the legal and institutional regulatory framework for supervising banks should be strengthened before liberalization starts. Liberalization should be properly timed and sequenced to ensure efficient monitoring and evaluation.

2.3 Theoretical Review

Patrick (1966) dealt extensively on the relationship between financial and economic development, he singled out two important areas of causality; demand following and supply leading. With demand following, economic growth induces the financial sector to expand and supply the needed financial instruments. In supply leading, the financial sector leads in growth and development, channeling limited resources mobilized from savers to investors.

Cameron et al (1967) stressed that the introduction of new financial instruments and institutions can be compared to technical innovations in industries. That is banks have the capabilities to allocate resources efficiently and effectively from savers.

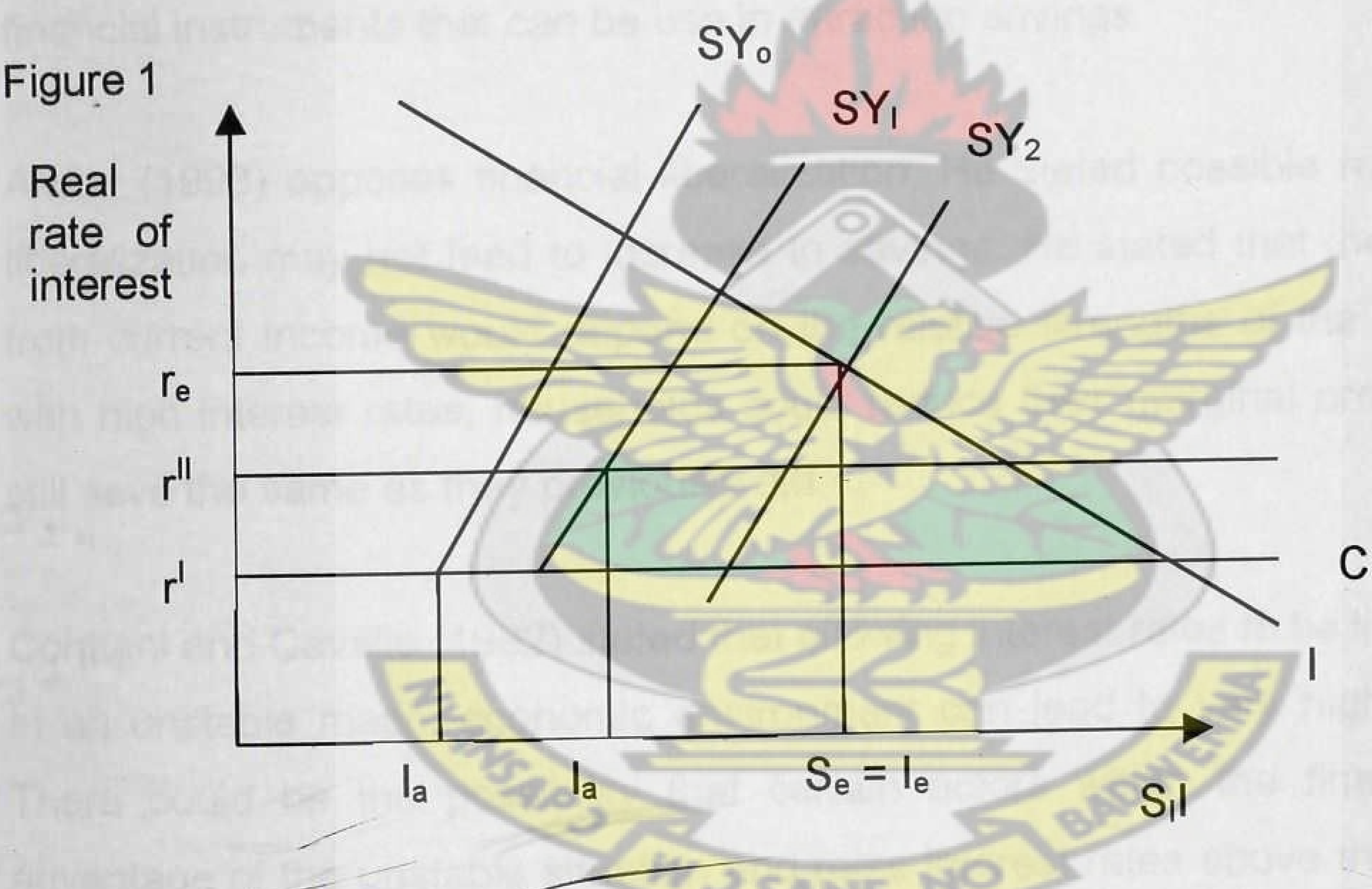
Financial sector reforms mainly derived their theoretical basis from the works of McKinnon (1973) and Shaw (1973) which stressed that financial sector policy In developing countries had led to financial repression. They argue for the liberalization of the financial sector as a way of mobilizing and raising the level of savings, investment and eventually economic development in the economy.

The concept of financial repression as popularized by McKinnon and Shaw was used to describe a financial system with policies that distort domestic markets, including inflexible interest rates, higher reserve requirement and credit controls. They argued that a repressed financial system interferes with economic development as the intermediaries are not well developed for the mobilization of savings.

Shaw (1973) saw financial intermediaries and financial market operations as having the role of mobilizing domestic resources and ensuring efficient allocation of such resources to the productive sector. He emphasized that financial institutions are able to diversify investments and have access to information making it easier for the mobilization of savings. Thus for efficiency and competitiveness of the financial system, the sector should be liberalized through financial reform.

The basic feature of the McKinnon – Shaw (1973) model can be illustrated with the help of figure 1. Let the real rate of interest be measured on the vertical axis and investment and savings on the horizontal axis. Let savings (S) at different income levels (Y_0, Y_1, Y_2……………) be a function of the real rate of interest. Let investment (I) be an inverse function of the real interest rate. In a free market with no financial constraint (C), r_e will be the equilibrium real interest rate where $S_e = I_e$. Because of financial repression, the institutional interest rate is given by r^I which is less than the free market equilibrium real interest rate r_e. The amount of actual investment is constrained to I_a because of the limited savings that is available at r^I

Figure 1



Source: Subrata Ghatak 1981

If the monetary authorities decide to ease the financial repression and raise the real rate from r^I to r^{II}, both savings and investment will rise, this will lead to a rise in income and savings and the savings curve will shift to the right to SY_1. If repression is abolished totally and liberalization effected, savings and hence investment will increase further. Both McKinnon and Shaw (1973) argued that financial repression lead to capital flight, which in turn reduce the amount of savings available for domestic investment. By liberalizing the financial sector savings will increase.

Burket (1987) contended that financial repression prevents economic growth by negatively affecting the mobilization and allocation of savings through a regulated interest rate regime. Interest rate ceilings are said to cause a repressive redistribution of income through their disproportionate impact on small savers and through repressive rationing of subsidized credits by financial intermediaries. Liberalization on the other hand increases competition among banks. Increased competition leads to efficient allocation of resources. Financial intermediaries are more positive about mobilizing savings in a liberalized environment since they are left to determine deposit rates and the type of financial instruments that can be use in attracting savings.

Akyuz (1993) opposes financial liberalization. He stated possible reasons why financial liberalization may not lead to increase in savings. He stated that the propensity to save from current income would depend on the relative strengths of the income. Additionally with high interest rates, households could reduce their marginal propensity to save and still save the same as they previously did.

Conttani and Cavallo (1992) stated that allowing interest rates to be liberalized particularly in an unstable macro-economic environment can lead to very high real interest rates. There could be the possibility that certain actors within the financial system taking advantage of the unstable situation and raise interest rates above the economic levels in an attempt to make abnormal profits at the expense of the economy. Possibly because of this situation, McKinnon (1986) modified his position by suggesting some regulations on interest rates.

Financial liberalization has been strongly criticized by some. Their theory concentrates on the role of rigidities of supply and demand and product markets which results in economic instability. They attributed problems of inflation, devaluation, low savings and balance of payments difficulties to structural difficulties in the economy.

Ostry and Reinhart (1995) in their disagreement with financial liberalization have argued that raising interest rates as a means of increasing private savings and hence providing resources for growth and development in developing countries may not be the best approach in poor developing countries, in which most people live below the poverty line. They stated;

> "...Given that, to be able to save, households must achieve a substantial consumption level, the interest rate sensitivity of private saving will thus be close to zero for countries where a large share of the population lives at or near subsistence consumption levels".

2.4 Empirical Studies

The debate on the effect of financial liberalization on savings mobilization continues. Lots of research work has been carried out based on the McKinnon – Shaw hypothesis.

Korea liberalized her financial sector in the 1960's and the result was an increase in aggregate savings as well as high economic growth. Kohsaka (1984) in analyzing the Korean success, stressed that private sector savings was the main determinant of their successful liberalization. The private sector responded positively to real deposit rates.

In 1965 there was a major banking reform in Korea that raised the official ceilings on nominal interest rates, time and savings deposit from 15% to 30%. The average return on all classes of time and savings deposits were high, about 24% (nominal) in 1966, with some slight reduction as inflation lessened. Their financial reform was aimed at both increasing private savings and drawing private capital from the informal market into the "organized financial system". The resultant increase in the size of the Korean banking system was spectacular. The M2/GNP ratio rose from a low of about 9% in 1964 to about 33% by 1969. As in the case of Japan and Germany, time, savings, and demand deposit increased.

The German experiences after liberalization is parallel to the Japanese. Time and saving deposits rose from about two-thirds of M1 in 1953 to about two and one-half times in

1970. Throughout the period, M1 remained stable as a proportion of GNP at about 16 or 17 percent, but M2 increased from 29.7% of GNP in 1953 to 52% in 1970.

Fry (1980) studied seven Asian countries using the McKinnon – Shaw repression theory and found support for their model. He concluded that real interest rate has a positive effect on gross domestic savings. The countries studied have highly sophisticated indigenous and modern financial institutions and markets.

In determining the effects of real interest rates on savings, the result depends on the income and substitution effects. With regard to substitution, savings increases as consumption is postponed to the future, regarding the income effect, savers increase current consumption at the expense of savings. Depending on their strength, the resultant effect may be negative, positive or negligible.

M'Bet (1990) in his study of savings trend in the Ivory Coast emphasized household savings. The intercept period was found to be negative, implying that there was a minimum level of income above which savings is possible. The interest rate used was the efficient discount rate which had a negative but significant effect on savings.

Studies carried out have shown that gross domestic savings trend varies with the source of income. Houthaker (1961) found that savings out of employment income appears to be zero in most low income countries. He concluded that there was a positive relationship between corporate savings and national income. Overall evidence tended to support earlier hypothesis that there is a strong positive relationship between income and savings.

Other factors affect the behaviour of savings, notably inflation. Of crucial importance is the extent of the inflation. In the 1970's, increase in the rate of inflation in the West was accompanied by an increase in savings. Conclusions drawn from this trend were that inflation affects savings positively. There were some exceptions though.[1]

With regard to developing countries, the effect of inflation on savings is more diverse. Paraguay and Zambia both had a positive link between savings and the rate of inflation. Honduras and Jamaica had a negative relationship between savings and inflation. However India and Panama showed no correlation between savings and inflation. The conclusion is that the relationship between inflation and savings is still unclear. (Ayiku 1986)

Economists have viewed the level and structure of taxation as a strong variable in the determination of domestic savings. To this end, they consider government fiscal policy as directed at mobilizing savings for development. Most often, studies have shown that government savings increases with an increase in government revenue. Some question the relationship stating that the marginal propensity to consume by government is high when savings and revenue are high. Some argue that high taxation rather reduce national savings.

Chenery and Eickstein (1970) ran a regression for sixteen Latin American countries on the effect of export on savings. They found out that in eleven out of the sixteen countries the export/GNP ratio was positive and significant on savings, whilst in two the effect was negative. They concluded that investment depended on imports of capital goods, which also depends on export earning. Export, as a determinant of savings in developing countries appears to be positive. However, considering the unstable terms of trade of mainly primary products, there is a serious limitation on the role export can play in mobilizing long term savings for development.

1. Savings for Development – Report of the international symposium of the mobilization of personal savings in Developing country. United Nations February 1980

Social factors tend to have some effect on savings. The life cycle model based on the age of an individual views savings primarily as resulting from the desire to provide for oneself during old age. Hence the age structure of the population is a major factor in savings mobilization. Other social factors are life expectancy, family size and the share of the population capable of working.

The availability of social security schemes some argue affects savings mobilization. The assurance of a certain minimum level of income after retirement tend to affect savings. Koskela and Viren (1983) disagree with any assertion that social security variables had no effect on savings. Cultural factors too appear to have some effect on savings behavior.

Whilst some have succeeded with financial liberalization, others have not. A study by Carbo and De Melo (1985) on Argentina, Chile and Uruguay shows this. These countries liberalized their financial sector in the 1970's and 1980's, during that period efforts were made to control inflation, deregulate the financial system and privatize state owned banks. Savings did not increase, rather foreign indebtedness did. The failed attempt at liberalization forced these government to support ailing domestic banks and financial institutions. Interest rates were raised as inflation increased, resulting in a high nominal interest rate with real deposit rates still being in the negatives. The liberalization process failed possibly because of attempting to achieve macro-economic stability before liberalization as well as poor supervision of banks and other financial institutions.

Barfour (1993) has concluded ~~that both~~ public and private savings in Ghana failed to respond positively to measures under the ERP and in particular to the financial liberalization program. He supported his view by stating that Ghana's financial depth (M2/GDP) is very low as compared to other African countries for example Kenya, Senegal and Zambia where rates are over 30%.

Aryeetey et al (1990) concluded that real interest rates have not had a significant impact on savings mobilization in Ghana in a study covering the period 1968 – 1985. The period of liberalization was not covered in the study. It appears from the literature on Ghana that savings have not been affected considerably by changes in real deposit rates and the ERP.

It can be concluded from the survey of the literature that savings is affected by many variables, income, export, interest rate, and that liberalization alone cannot be responsible for an increase in savings over time.

2.5 Theories of Savings

In his theory, Keynes took savings to be a direct function of income and an indirect function of interest rate. Savings and interest rates were said to have an indirect relationship since interest rate affects investment before savings. Therefore, low interest rates would make funds available for sustained investment, leading to an increase in output and income. Savings will eventually increase. This theory led some policy makers particularly in developing countries to keep interest rates below the equilibrium level to reduce the cost of capital, stimulating investment and an increase in savings.

Keynes theory failed to explain savings behavior in the long run. Modigliani (1963) in his life cycle hypothesis contended that an individual's savings behavior is determined by the stage of the life cycle the person has attained. He stated that savings behavior is higher during the middle working years than the early or retirement years, hence a country with a high middle working population will have high savings. Savings is therefore taken to be a positive function of some long-term income or wealth rather than measured income. Friedman (1957) developed the permanent income hypothesis. He propose that savings is a positive function of permanent income rather than measured income in the absolute income hypothesis. Therefore savings tends to vary with deviations from permanent income.

2.6 Savings Behavior in Ghana Before 1985

The period before 1985 was mainly the repressed period. Capital market was poorly developed with little attractive financial instruments to attract savings. Private savings did not increase significantly during the 1970's due to a combination of factors, low and negative real deposit rates, high inflation, political instability, freezing of accounts, demonetization exercise (removing ¢50.00 notes from circulation in 1982). (Nyanteng 1997)

During the repressed period, the Bank of Ghana controlled all interest rates. With an underdeveloped financial market, government securities i.e. stocks, deposit accounts and treasury bills dominated the market. Returns on these government securities depended on the rate of inflation. Between 1965 and 1970, savings deposit rate fluctuated between 3% and 3.2% per annum, during the same period, inflation rate ranged between 7% and 26% per annum, thus leading to negative real deposit rates, which discourage savings. (Nyanteng 1997) The period also witnessed high budget deficit financed by government borrowing from the banking sector, hence restricting investment funds available to the private sector.

Savings deposit rate was 5.1% in 1971 and it moved to 15.5% in 1985, for the same period, the rate of inflation fluctuated between 3% and 123%. Hence real deposit rate was negative from 1970 to 1985. (Nyanteng 1997) Table 2 below gives details of the negative real deposit rates, which discourage savings significantly.

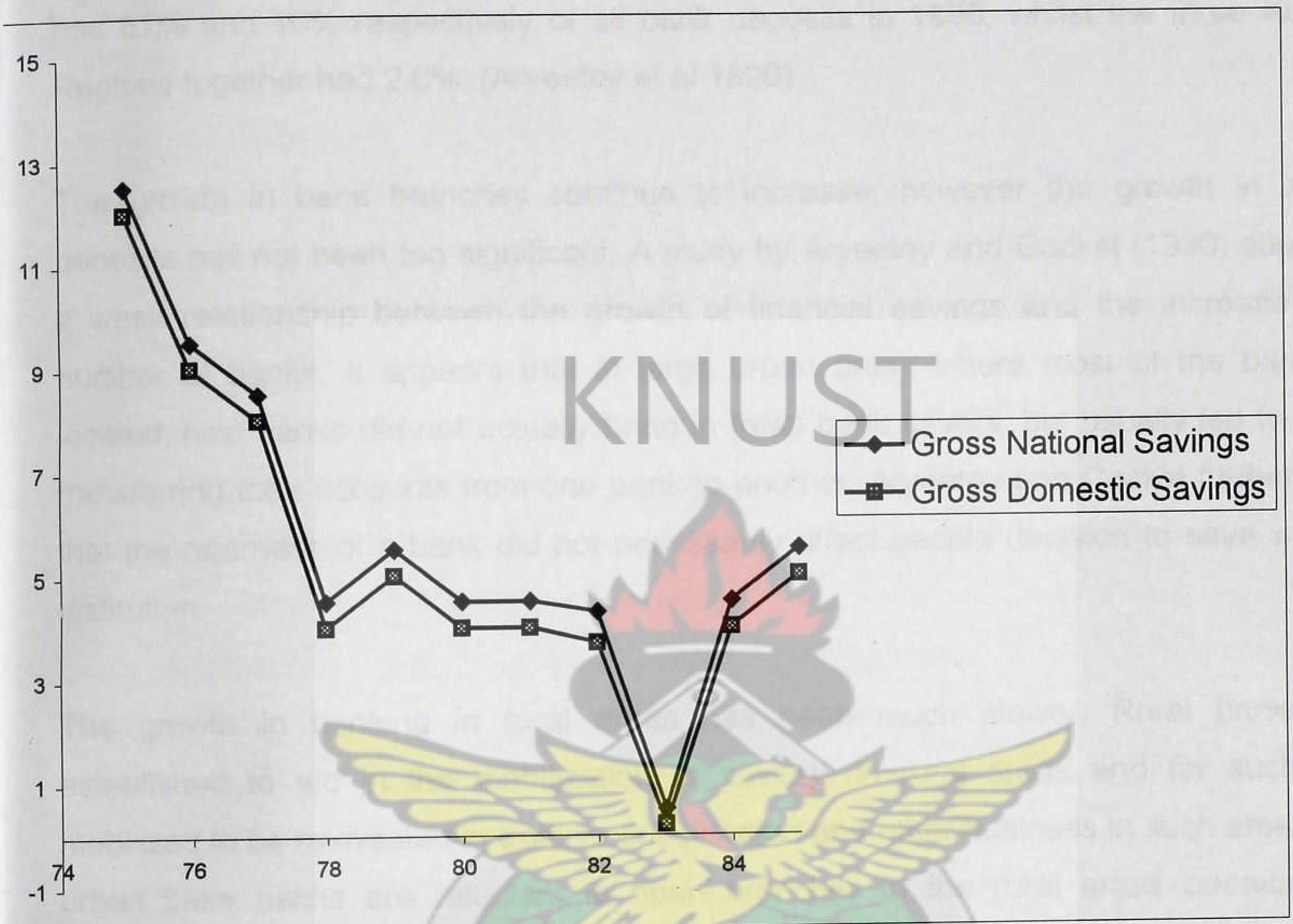
Table 2 Inflation and Real Deposit Rates (%)

Year	1970	1975	1980	1981	1982	1983	1984	1985
Inflation	3	30	50	116	22	123	40	10
RDR	-0.48	-17.31	-25.67	-48.62	-8.61	-50.00	-17.86	-5.27

Source: Bank of Ghana Annual Reports

In their repression hypothesis, McKinnon-Shaw (1973) contended that negative real deposit rates discourage savings. Ghana's gross national savings rates have fluctuated and remained relatively low during most of the repressed period. From 12% in 1975, the rates fell consistently until reaching a low of –1% in 1983. Table 3 below shows the trend.

Figure 2 Gross Domestic and Gross National Savings Rate



Source: Aryeetey et al 1990

National savings fell considerably from 1975 to 1978, though the rate continued to decrease afterwards, the fall was relatively low before reaching the negative in 1983. Subsequent years from figure 2 shows a gradual increase in national and domestic savings.

2.7 Banking Diffusion and Savings

The distribution of bank branches among the regions appears to have followed the population distribution and other economic activities. Banks are concentrated in the southern part of the country where over 80% of value added is generated. By the end of 1988 Greater Accra and Ashanti had 32% of all bank branches whilst the three Northern

Regions had 6.8%, this trend has not change, with even currently almost all new banks established since 1988 have only one branch located in Accra. Greater Accra and Ashanti had 67% and 10% respectively of all bank deposits in 1988, whilst the three Northern Regions together had 2.6%. (Aryeetey et al 1990)

The growth in bank branches continue to increase, however the growth in savings deposits has not been too significant. A study by Aryeetey and Gockel (1990) suggested a weak relationship between the growth of financial savings and the increase in the number of banks. It appears that in large urban areas where most of the banks are located, new banks did not actually bring in fresh bank savers, but usually led to people transferring their accounts from one bank to another. Aryeetey and Gockel further stated that the nearness of a bank did not necessarily affect people decision to save with that institution.

The growth in banking in rural areas has been much slower. Rural banks were established to aid in the mobilization of savings in rural areas and for such funds mobilized to be reinvested in trading, construction and other business in such areas. Most urban base banks are reluctant to open branches in the rural areas because such branches are considered as loss making, hence the closure of even existing branches in rural areas.

2.8 Savings in the Informal Sector

Bentil et al (1988) estimated ~~that~~ savings with the informal sector constituted 11.8% of total savings (both financial and non-financial) in rural areas. This represented about 60% of ~~all~~ financial savings in those areas. In the urban areas, reliance on informal savings channels would be much larger because of the large volume of informal production and commercial activities and the expected large demand for financial services. As many as 75% of women trading in the markets of Accra, Kumasi and Sekondi-Takoradi save with informal bodies. (Ayeetey et al 1990) This is in spite of the fact that there are banks in the immediate areas of the markets. About 1.8% of urban market women saved mainly with banks in 1988. It is difficult to measure the percentage of informal savings mobilized that are deposited with the banks.

Aryeetey and Gockel (1990) estimate that savings mobilized informally in urban areas would constitute about 45% of all financial savings in those areas. This estimate was based on the consideration of average daily and monthly deposit sizes and the number of people involved in various "susu" schemes and these were compared with the liabilities of the formal system. In rural areas, savings mobilization by "susu" operators is important. Bentil et al (1988) noted one collector at Yendi (population 33,000) who collected ¢1.6 million a month whilst another of Savelegu (population 19,000) collected ¢1.8 million. They estimated that an association of "susu" collectors at Tamale mobilized about ¢30 million in a month. This contrast with the total average savings deposit mobilized by commercial banks in that area which totaled ¢11 million by mid-year. It is obvious that the "susu" system is very significant as far as savings mobilization is concerned in both urban and rural areas.

2.9 Savings Mobilization by Other Institutions

The major source of funds for rural banks are deposit liabilities mainly from the agriculture sector which make up about 69.3% of total resource in 1988. (Aryeetey et al 1990) Rural Banks have been successful in attracting savings into the formal institution. They control about 10% of total savings with the banking system and have to some extent rekindled the banking habit in rural areas. The rural banks serve small depositors and borrowers.

Available data on insurance companies indicate that total nominal premium income rose from ¢21.3 million in 1970 to ¢190.2 million in 1980 and ¢6.346.5 in 1988. (Aryeetey et al 1990) The State Insurance Corporation is the largest, having been created to provide insurance for the government and its organisations. Statutorily, all insurance companies were until the financial reform in 1987 required to invest 50% of their mobilized savings in specially created government securities with rates of interest at 6 – 7%. Since the reform, they have been allowed to hold assets of their choice. Insurance companies have the potential of mobilizing enormous savings.

The Social Security and National Insurance Trust (SSNIT) operates as a central provident fund with the authority to implement a social insurance scheme for workers retirement and other benefits. Though SSNIT is basically an insurance scheme, it is regarded as a major financial institution capable of mobilizing regular and sustained savings. The total contribution rate amounts to 17.5% of basic salary and allowances, made up of 12.5% from the employer and 5% from the employee. Since all enterprises with at least five employees are statutorily required to become members of SSNIT, its potential savings are large and can be exploited.

Until the reform, statutory obligations enjoined SSNIT like the insurance companies to invest its resources in government securities especially created for it yielding about 5 – 6% interest and in mixed government private projects, particularly real estate as a hedge against inflation.

Many non-banks financial institutions have been established since the reform all aimed at savings mobilization for investment and development. Prior to the reform, there was the First Ghana Building Society established in 1956 as a private society but with government patronage. It operates as a savings and loan association through which savers can accumulate funds and borrowers can obtain house – mortgage credits.

CHAPTER THREE

OVERVIEW OF THE FINACIAL SECTOR AND FINANCIAL SECTOR REFORMS

3.1 The Development Of Banking Institutions

The Bank of Ghana is the country's apex bank .It acts as an umbrella organization with may functions including banker to the government and commercial banks, regulator of financial institutions, the issue of cedi notes and coins and the management of the country's foreign reserves. Prior to independence, central banking in Ghana was carried out by the West African Currency Board, established in 1953. On the attainment of independence in 1957, the Bank of Ghana was established as a Central Bank for the country.

The first indigenous commercial bank is the Ghana Commercial Bank established in 1953. Its establishment followed the inadequate lending policies of earlier established foreign banks who favored well-established foreign firms in the granting of loans. Local farmers and small entrepreneurs were neglected. The foreign controlled banks incorporated in Ghana since 1973 have alongside the Ghana Commercial Bank controlled commercial banking in the country for long. The Standard Chartered Bank was established in 1896 as part of the Bank of British West Africa. Whilst Barclays Bank joined in 1917 as a subsidiary of the multinational Barclays Bank. (Gockel 1998)

The Social Security Bank (SSB Bank) was established in 1977 by the Social Security and National Insurance Trust. The bank operates as any commercial bank with some emphasis on consumer credit facilities for workers. Its popularity increased among workers soon after opening. The bank operates a development finance scheme for small-scale industrial and agricultural projects.

There is a group of specialized banks, which provide banking services to specified areas of the economy. The Agricultural Development Bank caters for the credit needs of the agricultural sector, the bank was empowered statutorily to undertake large-scale agricultural projects singly or jointly with other financial institutions, public corporations or companies. The National Investment Bank was established in 1963 as an autonomous joint state-private bank to promote, finance and assist the productive sector of the economy, the bank was to assist in the establishment, expansion and modernization of enterprises, identify emerging investment opportunities and bring in capital.

The Bank for Housing and Construction was established in 1972 to provide credit for private housing schemes, expansion and modernization of immovable property, estate and industrial construction. The bank has since been liquidated. The National Savings and Credit Bank was until 1975 known as the Post Office Savings Bank whose operations date back to 1888. Using facilities provided by the Department of Post and Telecommunications, it had the largest number of branches and agencies. The Post Office Savings Bank was purely a savings association and did not provide private credit of any sort. After its reorganization in 1975, it started full banking operations with emphasis on lending to small borrowers. By 1986, it had 14 branches. The bank has since been absorbed by the Social Security Bank (SSB Bank).

The Ghana Co-operative Bank now liquidated had a difficult history. Its antecedent was a Cooperative Bank at Kpeve in the Volta Region established in 1938. It could not survive the World War II financial controls and closed down in 1943. In 1946, it was restarted as the Gold Coast Cooperative Bank but became embroiled in the political disturbances for independence, it went into liquidation in 1961 and its assets were taken over by the Ghana Commercial Bank. It was re-established in 1973 as the Ghana Cooperative Bank with purely commercial banking functions before it went into liquidation again.

Merchant Bank Ghana was established in 1972 as a joint venture of the Government and Grindlays Bank of the United Kingdom. It provides management and corporate financial services along with some hire purchase facilities for trucks, machinery and equipment. Together with the Bank for Credit and Commerce International (which was incorporated in Ghana in 1978) they form what was generally described as merchant banks in the 1980's.

The Bank for Credit and Commerce International undertook management consultancy, and other banking activities. The bank has since been liquidated.

There were two approvals for the setting up of banks (both private and foreign-owned), between 1988 and 1990. Ecobank and Continental Acceptance Limited have only since the beginning of 1990 started business. Other banks licensed since 1990 include First Atlantic Merchant Bank, Metropolitan and Allied Bank, Stanbic Bank, Prudential Bank, Amalgamated Bank, International Commercial Bank and lately Unibank which will not be included in the analysis. The table below shows the current regional distribution of bank's branches. Greater Accra, Ashanti and Western Regions dominate having 32.3%, 13.6% and 13.0% respectively of bank's branches. The three Upper Regions have less than 3.5% each of total branches.

Table 3: Regional Distribution of Bank's Branches.

	Region/Number of Branches										
nks	Volta	Asht	West	Cen.	Est	Gt. Acc.	Bro. Ahafo	North	Upp. East	Upp. West	Total
B	16	18	13	10	20	28	17	5	3	3	133
B	0	4	3	1	0	13	1	1	1	0	24
G	2	5	3	1	3	15	1	1	0	0	31
B	3	3	12	1	2	13	2	1	1	1	39
3G	0	1	2	0	0	3	0	0	0	0	6
3	1	1	1	1	1	3	1	1	1	0	11
B	0	1	0	1	0	3	0	0	0	0	5
MB	0	1	0	0	0	1	0	0	0	0	2
;	0	1	1	0	0	3	0	0	0	0	5
L	0	1	1	0	0	1	0	0	0	0	3
)B	5	7	5	3	5	11	8	1	2	2	49
3L	0	0	0	0	0	2	0	0	0	0	2
3G	0	0	0	0	0	1	0	0	0	0	1
AB	0	0	0	0	0	1	0	0	0	0	1
3L	0	0	0	0	0	1	0	0	0	0	1
3	0	0	0	0	0	1	0	0	0	0	1
B	0	0	0	0	0	2	0	0	0	0	2
tal	27	43	41	18	31	102	30	10	8	6	316
ercent	8.5	13.6	13.0	5.6	9.8	32.3	9.5	3.2	2.5	1.9	

Source: Authors Survey and Calculation.

The Rural Banking sector is currently made of 114 banks most established since 1976, spread unevenly throughout the country for the purpose of providing simple banking facilities for rural communities. The intention for establishing rural banks was to end the perceived inadequacies of existing financial institutions in the provision of rural credit, the apparent bias in the provision of banking services had continued, despite the creation of specialized banks to cater for the various credit needs. It became necessary for the Bank of Ghana to become involved in the rural banking system. Rural Banks were started in July 1976 as unit banks affiliated to the Bank of Ghana with the latter providing financial support to the banks through a 50% contribution to equity capital. The Bank of Ghana has closed seventeen rural banks mainly because of their inability to meet their capital ratio requirement. The table below shows the current regional distribution of rural banks .

Table 4 Regional Distribution of Rural Banks

Region	Number of Banks
Ashanti	22
Greater Accra	6
Western	12
Eastern	19
Central	20
Volta	9
Brong Ahafo	18
Northern	3
Upper East	3
Upper West	2
Total	114

Source: Bank of Ghana

Certain general characteristics of the banking system can be isolated. First the government used to be the major shareholder in all banks except Barclays and Standard Chartered where it had 40% shares in each either directly or indirectly through the Bank of Ghana, the Social Security and National Insurance Trust or the State Insurance

Company. Though Barclays and Standard Chartered are mainly foreign owned, their policies and operations are influenced by the Bank of Ghana. With their incorporation in 1970, they came under the direct influence of the government.

Secondly, the institutional structure shows that the banking system is relatively diverse and apparently adequate in terms of the sheer physical presence of banks. The nature of banks and their diverse character could be a potential strength in the development of financial services and savings mobilization. Ghana density of bank branches per 100,000 persons was 2.05 in 1999,a fall from 2.40 in 1980. A comparison in 1981 showed that Ghana's density of bank branches ranked third in West Africa after Cote d'Ivoire and Togo and above the average of all countries in the West African Monetary Union. Table five below shows the number of bank branches per 100,000 persons between 1960 – 1981 for some West African Countries.

TABLE 5: COMPARATIVE BANK DENSITIES (1981)

Country	Branches Per 100,000 Persons
Benin	1.28
Cote d'Ivoire	3.37
Burkina Faso	0.64
Senegal	0.91
Togo	3.10
Ghana	2.40

Source: World Bank Ghana Financial Sector Review 1986

3.2 Overview of the Economy before Structural Adjustment

Before the beginning of the Structural Adjustment Program in 1983, inappropriate domestic policies and external shocks (droughts in 1975 – 1977 and 1981 – 1983) and a marked decline in the terms of trade led to a worsening in economic and financial performance. Large fiscal deficits financed primarily by borrowing from the domestic sector, gave rise to high rates of inflation and an increasingly overvalued exchange rate.

Heavy government intervention in the economy through various price distortions mechanisms, import controls and a massive expansion of the public sector through the setting up of many large state enterprises, exacerbated the existing distortions in the economy and this severely eroded the capacity of individuals and firms to produce, invest and save. Export earnings fell, while external financing particularly from bilateral sources virtually dried up and creditors confidence in the economy weakened. (Kapur et al 1991)

The shortage of foreign exchange and imported goods and distortions in relative prices led to a proliferation of "black markets" (parallel markets) and intensification of unrecorded cross-border trade and a marked deterioration in government services and in the basic economic and social infrastructure. Therefore, the growth of output halted and turned negative whilst real per capita income declined by more than 30% causing a large part of the well educated labor force to emigrate, the period also witnessed political instability.

Ghana started the Economic Recovery Program in 1983 aimed at halting the decline in the economy. The key elements of the program have been a realignment of relative prices to encourage productive activities and exports and a strengthening of economic incentives, a progressive shift from direct control and intervention toward greater reliance on market forces, the early restoration of fiscal and monetary discipline, the rehabilitation of the economic and social infrastructure and the undertaking of structural and institutional reforms to enhance the efficiency of the economy and encourage the expansion of private savings and investments. Structural and institutional reform led to the financial sector reform which started in 1987

3.3 Background to Financial Reforms

The pre-reform financial sector policies of government control over the financial system, together with a prolonged and severe economic crisis and unorthodox measures had seriously destroyed the financial system leading to bank distress. Until the reform in 1987 there was an active involvement of government in monetary and credit policies supported by a belief that externalities and other market imperfections inherited from colonial banking arrangements worked against investment and economic growth. Government control included direct influence over the banking sector by actions of the Central Bank.

The institutional structure of the banking system showed that it was diverse and relatively adequate in term of physical presence of banks. There were several commercial, merchant and rural banks. The number of banks and their diverse nature could be a potential for savings mobilization and the development of the financial system. Table six shows key financial indicators for Ghana between 1970 – 1987 before the start of the financial reform programme.

Table 6 Selected Indicators Of Financial Development

Pre-FINSAP period 1970- 1987

Year	M1/GNP%	M2/GNP%	Qm/GN%	Currency/M1%	Currency/M%
1970	13.7	19.0	5.3	48.4	34.9
1971	12.8	19.0	6.0	50.0	34.0
1972	16.3	23.8	7.5	52.2	35.8
1973	16.0	22.6	6.6	44.6	31.6
1974	15.0	21.7	6.7	48.6	33.7
1975	19.1	26.3	7.3	48.5	35.2
1976	21.9	29.1	7.2	49.6	37.4
1977	21.5	27.3	5.8	48.5	38.2
1978	19.7	24.4	4.8	51.3	41.3
1979	16.6	21.0	4.5	57.8	41.4
1980	14.7	18.6	4.3	64.3	44.3
1981	13.0	16.2	3.6	62.1	50.3
1982	13.0	17.2	4.2	62.1	46.9
1983	9.1	11.3	2.2	65.7	50.0
1984	9.9	11.8	1.9	58.9	55.2
1985	11.2	13.6	2.5	58.6	48.8
1986	10.8	13.5	3.4	58.2	46.8
1987	11.3	14.2	2.9	58.3	46.2

Source: Bank of Ghana Reports .

The ratio of broad money to national income (M2/GNP) from table six as a measure of financial deepening and financial progress indicates that financial development in Ghana had been repressed. The M2/GNP ratio was generally low and had been declining most years since 1977, reaching a record low of about 11% in 1983. Similarly, Qm/GNP ratio had also been low and exhibited a falling trend, declining to about 1.9% in 1984. (Nyanteng 1997) The declining trend in the Qm/GNP ratio reflected the repressive policies of the late 1970's and early 1980's that discourage savings with banks. Hence in spite of the relative proliferation of banks, savings and time deposit have been low since the 1970's.

While the M2/GNP ratio was declining, the currency/money ratios have not only remained high, but increased over the years, averaging about 62% for currency/M1 and 42% for currency/M2 between 1980 –85; these were the years in which the M2/GNP declined most. The high currency/money ratio appears to signify the influence of several factors including disintermediation, informal financial sector activities and an increase in self-financing of investment projects.

Whilst it appears that disintermediation in the developed countries would not be expected to change the total financial assets but only cause a reorganization of assets portfolios, the disintermediation process in Ghana has led to a serious reduction in loanable funds at the banks. Developed countries experience has shown that such disintermediation tends to affect only different classes of assets but not the total amount of loanable funds. (Nyanteng 1997). In Ghana, however, the opposite occurred. The pre-reform financial system was underdeveloped and not diverse enough to allow for such a trade off, reduction in the flow of banks savings had implied a total reduction in overall financial resources, the banking sector was not successful in promoting the monetisation process of the economy consistent with economic growth and development.

The above conclusion on Ghana is further reinforced by the banking sector currency holding, which were annually as high as the non-bank public's currency holdings. Adding both the liquidity of the public and that of the banks, base money (currency outside banks and the banks cash reserve holding) as percentage of M2 averaged about 57% and ranged between 45% and 68% between 1977 and 1988. Table seven below shows the percentages.

Table 7: High-Powered Money Percentages

1977 – 1987

Year	Base Money/M1 %	Base Money/M2 %
1977	72.8	58.2
1978	84.8	65.1
1979	91.1	67.6
1980	96.0	68.5
1981	91.2	55.6
1982	83.4	59.9
1983	75.6	58.3
1984	66.7	52.5
1985	56.2	45.3
1986	68.8	52.6
1987	72.4	52.3

Source: Bank of Ghana Records.

The above figures are very high percentages. If compared with for instance Cote d'Ivoire and Senegal where high-powered money (mint cash / new money injected into the economy by the Central Bank) accounted for 33% and 37% respectively of M2, implying more developed financial intermediation than Ghana. Implicitly the banks in Ghana played a relatively minor role in monetary processes, leaving the Bank of Ghana to deal with the huge amount of money outside the banking system.

3.4 Financial Development Before the Reforms

Financial development before the reform was poor. An examination of the effects of monetary policies including the use of interest rates, credits and reserve requirement as tools of monetary controls showed that they rather became instruments of financial repression. Unorthodox monetary policy measures adopted in the 1970's and early 1980's and general political instability affected savings and financial intermediation negatively. (Nyanteng 1997)

The government considered undesirable the pattern of credit allocation inherited from the colonial era, hence government decision to intervene in the financial system. Policy framework focused on the Keynesian model discussed under the theories of savings that the interactive mechanism between finance and economic development proceed from low interest rates to increase investment to high rate of output/income growth and eventually to higher savings by banks. Four general considerations tended to influence financial polices in Ghana before the reform.

- The desire to increase the level of investment.
- The desire to improve the allocation of investment among the various sectors of the economy.
- The desire to keep financial cost down in order to avoid what was believed to be the inflationary effects of liberalized markets rates of interest.
- The desire to maintain low and stable rates to countervail the perceived beneficial effects of high rates in the informal financial sector.

To achieve the above stated objectives, the Central Bank used low interest rates, credit ceilings, sectoral credit controls, high reserves requirement and unorthodox monetary measures. These are discussed in more details below.

Low Interest Rate Policies

With low interest rate, the Bank of Ghana set minimum rates for deposits and placed ceilings on lending rates to serve as a an incentive to attain higher investments. The structure of lending rates did not discriminate between credits of different degree or risk and maturity. Therefore, since Government Bonds could be returned to the Bank of Ghana at any time and that they carried no special risks and that their intermediation cost were negligible while lending to agriculture and manufacturing carried high risk, banks opted mainly for government bonds.

Though the Bank of Ghana offered to reimburse the banks for the negative interest rate differentials where deposit rates exceeded lending rates, the offer did not take into account the operational cost of banking transactions. The adverse effects of such policies encourage banks not to adopt competitive savings mobilization strategies. The policy of low interest rates appears to have caused more distortions than the market imperfection it was designed to correct. As the low rates where fixed for long period without recognition of the high rate of inflation, real interest rates became negatives. Interest rates were determined by legislation rather than market forces and it rose less rapidly than the rate of inflation, which increased, from 10% in 1972 to 122% in 1983. (Nyantent 1997).

The banks became reluctant to mobilise savings just as savers became reluctant to save for fear of loss of value in their financial resources. This led to a reduction in financial savings, which is reflected in the M2/GNP ratio during the repressed period. Ghana's low interest rate policy tended to confirm the views of Mckinnon (1988) that monetary policy that adds the risk of money holding is bound to stimulate demand for physical wealth and consumption and causing capital flight. A situation typically witnessed in Ghana during the repressed period.

Credit Ceilings and Sectoral Credit Controls

Credit ceilings and sectoral credit controls appear to have been major tools of the Central Bank during the repressed period. Credit ceilings were on the banking system net domestic assets set according to monetary and inflationary projections. The credit was measured in gross terms without allowance for debt provision. The allocation among banks of credit expansion was based on market shares rather than on the basis of each bank's efficiency and capacity to generate new deposits and lending opportunities. Sectoral credit ceilings for individual sectors of the economy was also prescribed. The measures were aimed at controlling inflation and promoting specific pattern of investment.

Credit ceilings and sectoral credit controls added further distortions in financial intermediation, particularly savings mobilization. With low interest rates, they produced a disincentive on the banking system; discouraging banks from savings mobilisation once these banks had attained their ceilings. Once the banks refused to accept further interest bearing deposits, this tended to encourage intermediation outside the banking system.

The absence of suitable liquid investment opportunities in which banks could invest excess funds not channeled into credit except for the limited bills on offer by the Bank of Ghana as secondary reserve, banks did not have any other suitable outlets for their funds; in most cases the bills issued to meet secondary reserve were inadequate. As excess cash reserve was not eligible to fulfill secondary reserve requirement, as they earn no returns, banks were further discourage from active and sustained competition for further savings. Banks not surprisingly tended not to accept new deposits, except demand deposits, which attracted no interest.

A further consequence of the policy was to depress deposit rates on time and savings accounts, and with high rates of inflation, real interest rates became negative. As savings and time deposits became unattractive to hold, funds were channeled into physical and foreign assets. (Antwi-Asare et al 2000).

<u>Reserve Requirement</u>

In its monetary management, the Central Bank imposed reserve ratios for cash and secondary liquid assets. The ~~cash~~ reserve requirement was two-tier first for demand deposit and another for savings and time deposits. These were to be held either as cash in ~~bills~~ or balances with Bank of Ghana. Deposits at the Bank of Ghana earned no returns.

Unlike the reserve requirement in the developed countries which are mostly low, often less than 10%, reserve requirement in Ghana average over 50% by 1983 and around 32% by 1987. (Antwi-Asare et al 2000) The effects on the banking system of such high reserve requirements are two folds. First a substantial amount of the available funds is directed away from potential borrowers. Secondly, when banks are forced by high reserve requirement to hold large amounts of low or zero yielding assets, major distortions to interest rates occur and where possible, there will be an increase in the margin between deposits and lending rates.

Unorthodox Monetary Policies

During the repressed period, the Bank of Ghana carried out two major unorthodox monetary measures in an attempt to mop up excess liquidity from the economy and halt inflation. These measures included:

a) Demonetisation of the existing currency on March 27, 1979
b) Demonetisation of fifty cedi notes in circulation in 1982.

In the 1979 demonetisation exercise all currency holdings outside the banking sector were subjected to one or two tax rates, cash holdings not exceeding five thousand cedis attracted a tax rate of 30% whilst amounts exceeding five thousand cedis attracted 50% tax. It was envisage that the total money supply would be reduced, unfortunately what was achieved was a reduction in monetary growth rate only in 1979.

These measures though unorthodox created a temporary awareness in the public that banks were a safer place for money deposits since those who had their monies with banks lost nothing. Subsequent policies had a negative effect. By 1981 it was noticed that the money supply had increased with inflation rate at 116.5%. To control this, the monetary authorities demonetized the fifty cedi notes totally. After this, M1 growth rate dropped to 21% in 1982 as compared to about 64% in 1981. (Nyanteng 1997).

The effect of these measures on the banking system were far reaching. Public confidence in the banking system fell considerably as people felt that holding financial assets especially money was unattractive and to some extent life threatening. Besides the loss of value in the form of tax, some lost their lives in the demonetisation exercise during the rush to exchange old notes for new ones before the deadline. Hence financial savings as represented by M2/GNP rate fell after 1982.

The loss of confidence in the banking system especially for savings was further aggravated by a series of laws and directives issued between 1979 and 1982. Amongst them were:

- The freezing of all bank deposit accounts exceeding fifty thousand cedis and the investigation of holders for tax liability and for corruption or fraud.
- The recall of bank loans for the financing of trading inventories.
- Introduction of compulsory payment by cheque of all business transaction in excess of one thousand cedis.

Further still was the Armed Forces Revolutionary Council (AFRC) Decree Seventeen passed on August 27, 1979 but with retrospective effect from June 4, 1979. The decree empowered the Revolutionary Government to call for anyone's bank statement without the knowledge and approval of that person, contrary to established internationally accepted norms. The banks did not have any authority to deny the revolutionary official access to such information. The terms of the decree are stated in appendix three.

The effect of this decree was not only on the financial system. Many people considered holding normal financial assets a risky venture as market women and business people were investigated and imprisoned. Firms and individuals responded to such measures by reducing considerably their savings and channeling such deposits to the informal sector. The loss of confidence in the banking system was further eroded by the long time spent to deposit and withdraw.

The distrust for savings and banks in general was made worse by the government directive in 1982 that all workers must receive their salaries through the banks, further increasing the transaction time at the bank because of the sudden increase in customers.

Thus, for workers in the rural areas where bank diffusion is less, travel time to and from the bank added to the waiting time.

In general, whilst the above policies, including the interest rate controls and credit ceilings appeared largely to be ineffective in their intended objectives, they were quite successful in creating and exacerbating bank's passivity in intermediation. Because of the above, the banking sector became characterized with among other problems, low capital base, weak management and accounting information system, inadequate legal and regulatory framework including ineffective supervision by Bank of Ghana, restricted banking products and undeveloped operational skills, over exposure to few customers and high risk concentration, huge non-performing assets, ineffectual recovery efforts and low savings rate.

3.5 The World Bank Approach To Financial Sector Reform

The past years saw the emergence of new financial instruments and new types of institutions. To facilitate the development of financial institutions, restrictions on lenders were eliminated, and innovative ways of doing business created. Financial deregulation and liberalisation were attempted in parallel. The World Bank has had to adapt its financial operations to adjust to the changes, it developed a comprehensive approach on financial sector issues in developing countries.

Financial sector reform is defined as a set of actions aimed at reducing or eliminating distortions in financial markets, deepening the financial sector and strengthening financial institutions. Bank supported operations comprise two elements; financial sector liberalisation (improving market structure and competition by removing price and quantity distortions) and institutional and infrastructure development (strengthening individual institutions and prudential regulation and supervision). Another objective of the Bank's financial sector operations is to prevent major financial crises and to mitigate their impact when they occur.

The framework of the Bank's operations relating to the financial sector has been dictated by ideas in academic literature and modified by experiences in countries that have undertaken financial reform. The basic premise of financial reform is that government's intervention should not prevent market signals from allocating resources efficiently and effectively. Until the 1980's, in most developing countries, the efficiency of financial system was severely undermined by government efforts to promote economic development through interest rate controls, directed credit programs, and borrowing from the banking sector. The result was more distorted financial sectors, sub-optimal savings rate and misallocation of resources.

The principle governing the Bank's policy is that financial reform must be viewed in the context of a country's overall economic reform. In the 1960s when the Bank first became involved in financial sector operations, the focal point for financial sector lending was often stable interest rates in the credit and financial markets. Over time the Bank broadened its focus, recognising that a more volatile world financial environment created pressure to liberalize the financial system, but that financial liberalisation had to be country specific. Stable macro-economic conditions and strong regulations were pre-requisite for launching financial liberalisation.

Drawing from experiences, the Bank supported market base lending undertaken by competing financial institutions, the phasing out of subsidised and targeted credit programs, and the strengthening of regulatory and institutional infrastructure. This was predicated on providing an incentive framework through which the financial sector could gradually respond to market signals. The Bank's policy until the late 1980s was to support:

- Specific policy reforms to make the financial system more efficient.
- The creation or strengthening of financial institutions
- The promotion of finance to micro-enterprise.

The table below shows the performance indicators for financial sector reform by the World Bank.A detail of program objectives, policy instrument, implementation record, performance indicators of outcome and impact on real sector is given.

Table 8. Performance Indicators for Financial Reform

Objectives Of Programs	Policy Instruments	Policy Implementation Record	Performance Indicators of Outcome	Performance Indicators of impact on Real Sector
Remove interest rate and credit distortions	-Interest rate liberalization -Move to indirect instruments of monetary control -Dismantling of directed credit -Opening capital account	-Number and categories of interest rates liberalized -Treasury bill rate, interest rate on reserve -Remove sectorial credit controls. -Remove foreign exchange controls.	Real positive interest rates, term structure of interest rates.	
Remove Impediments to competition	-Privatisation of banks -Entry/exit laws -Removal of differential taxation of banks and other financial intermediaries -Foreign owner ship laws	-Privatisation of state banks. -Ensure even distribution of new banks. -Restructure laws on banking sector.	-Banking system financial ratios, lending deposits spreads	-GDP growth rate

Strengthen financial sector infrastructure	-Legal framework for central bank. - Legal framework for banks. -Regulatory framework for non-banking sector	-Central Bank law -Prudential regulations banking law. -Liquidation and bankruptcy rules, uniform payment system accounting and auditing standard	Banking system and central bank financial ratios.	
Strengthen Institutions	-Strengthening of banking supervision -Bank restructuring -Bank institutional reform	-Capacity and authority to supervise, licensing criteria. -Capital replenishment, asset liquidation, independence of board, human resource development	-Individual bank financial ratios	-Level of direct foreign investment
Stable macro-economic environment	-Low inflation -Reduced current account deficit -Reduced fiscal deficit -Equilibrium of exchange rate			

Source: World Bank Evaluation Report, 1998.

As experience with financial operations accumulated, the Bank recognised the constraints of purely market base approach. Developing countries often lacked the staff, skills and legal framework needed for available banking system. To deal with these constraints, the Bank revised its policy in the early 1990s to combine policy reform with support to institutions. The Bank started to define financial sector operations as structural and sectoral adjustment loans and technical assistance loans in support of financial sector reforms.

Increasing experience with financial reform by itself and as part of general economic reform has brought profound changes in operational modes and approaches to financial liberalisation. The new perspective is affected by differences in economic and institutional environment in which financial liberalisation has been initiated and implemented, the instrumentality and interpretation of financial deregulation, and the relationship between fiscal deficit and financial reform.

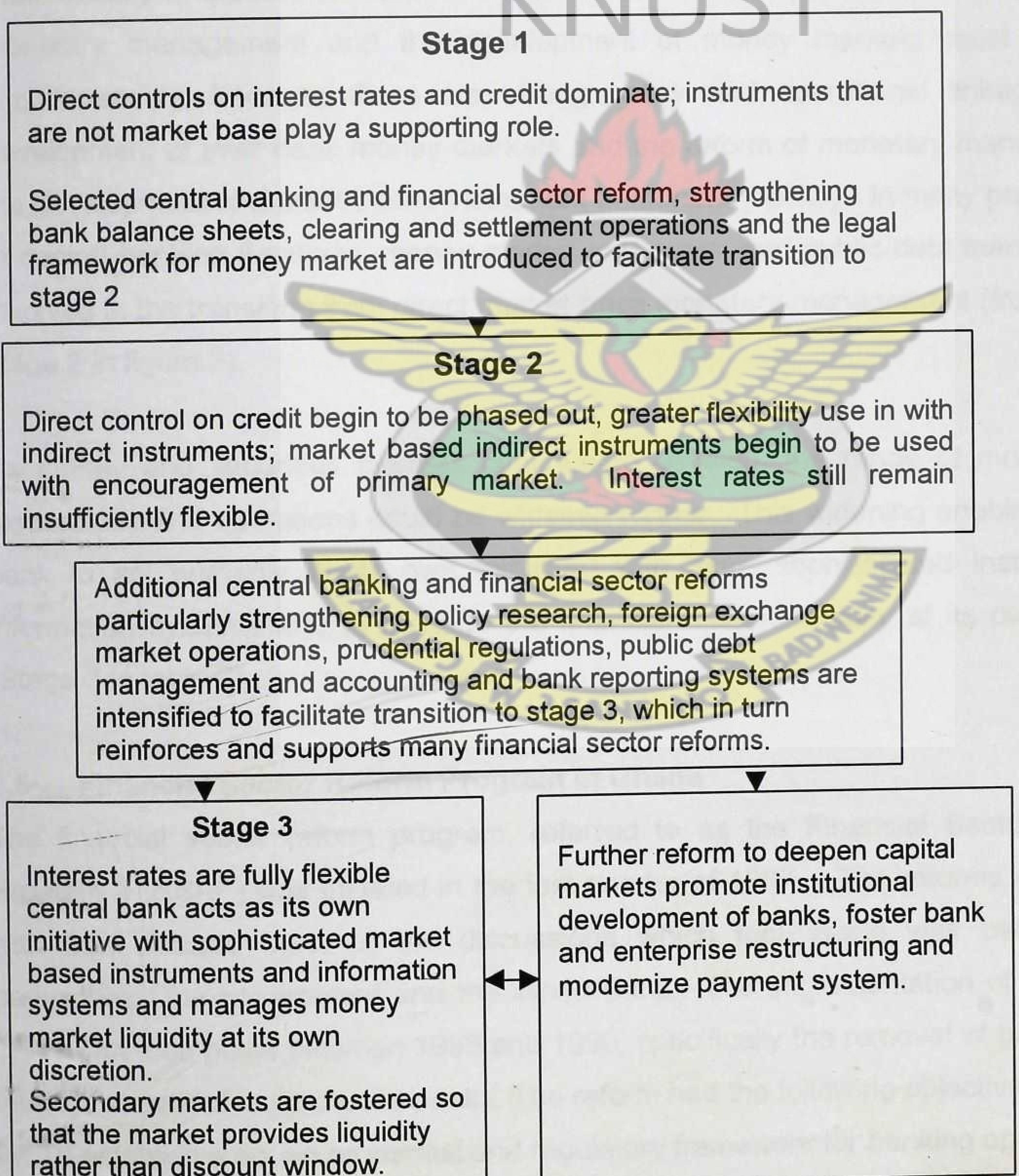
In the past interest ceilings were dismantled in several developing countries without regard to the state of the economy, the state of the banking system, the liability structure of the borrowing firms and several other conditions. Macro-economic stability and reasonably sound banks are now viewed as prerequisites for financial reform. Similarly, it is now realised by some Bank experts that financial liberalisation may not improve financial institutions allocation of resources if price distortions arising from protection and price controls persists. Policymakers now recognised that fiscal deficits must be reined in before financial liberalization can be fully implemented.

The Bank's new view is that a well functioning financial system is an ongoing process, not an event. Such a system requires a long-term view. Additionally the design of financial sector operations must be based on thorough economic and sector work, which clearly articulates an economic environment in which a financial system can grow efficiently. The Bank now fully acknowledges the importance of reducing financial fragility. The Bank new strategy emphasised the need to establish appropriate incentives in the client countries for prudent banking and to sequence adjustment policies towards the ultimate success of the reform.

The Bank uses six types of lending instruments for financial sector development. Five are aimed directly at the sector level: structural adjustment loans, sector adjustment loans, technical assistance loans and occasionally specific investment and maintenance loans and specific investment loans. A sixth type financial intermediary loan supports reform through operations handled by individual institutions.

The transition from direct controls on interest rates and the general financial system toward indirect management increasingly through market based instruments is seen as an interactive and evolutionary process, whereby certain financial sector reform facilitate the transformation of the policy framework and vice versa. As illustrated in table 6 below this process can be divided conceptually not necessarily chronologically into several stages. The transition from one stage to the other typically involves parallel reform in many central banking functions and in the broader financial sector.

Figure 3 Model of Reforms of Financial Sector



The IMF and World Bank now recognizes the need for parallel reforms of the financial sector when moving toward greater flexibility of interest rates and their eventual liberalization. Successful interest rate liberalization is associated with several conditions; a relatively stable macro-economic environment, an interest rate structure that is not of serious disequilibrium before liberalization, adequate competition in the banking sector, reasonable financial strength in the banking sector and sufficiently strong bank supervision policies and instruments.

Theoretically it appears an optimal sequence of reform is plausible, however, reform of monetary management and the development of money markets must be pursued simultaneously, because there are strong policy and operational linkages between development of inter bank money markets and the reform of monetary management and the development of market based instrument of monetary policy. In many parallel reforms in central banking functions, money market structures, and public debt management are involved in the transition from direct market base monetary management (from stage 1 to stage 2 in figure 3).

As money and securities markets continue to develop, the range of monetary policy instruments and operations could be widened further. This widening enables the central bank to act primarily at its own initiative, with more sophisticated instruments and information systems and to manage the financial market liquidity at its own discretion. (Stage 3 in table 6)

3.5 Financial Sector Reform Program in Ghana

The financial sector reform program, referred to as the Financial Sector Adjustment Program (FINSAP) was initiated in the last quarter of 1987. The reforms were pursued with little debate, most of the discussions which took place was between sector participants, the government and the World Bank. The implementation of major part of the reform took place between 1988 and 1990, specifically the removal of bad debts from balance sheets of state owned banks. The reform had the following objectives:

- To establish a sound prudential and regulatory framework for banking operations.

- To ensure uniform accounting and auditing standards for all banks.
- To put in place a more effective banking supervision endowed with the requisite personnel and skills to enforce prudential rules and regulations.
- To create a framework for restructuring distressed banks with the aim of transferring their non-performing assets to a new government agency, the Non-Performing Assets Recovery Trust (NPART).
- To engage efficient top management for distressed banks.
- To develop fully liberalized money and capital markets in Ghana.

The above measures became known as FINSAP 1. FINSAP 2 which began in 1990/1991 had the following objectives.

- To continue and complete any unfinished business under FINSAP 1.
- To divest state owned banks in accordance with financial liberalization and deregulation.
- Reform the institutional structure of the Bank of Ghana.
- Promote and strengthen the non-bank financial institutions.

The reforms were expected to bring results, such as the effective mobilization of domestic savings for development and a more efficient allocation of loanable funds. Of importance in the reform is the new Banking Law of 1989. The law explicitly defines the minimum capital requirements for various types of banks. A commercial bank with 60% Ghanaian ownership, the minimum paid up capital is 200 million cedis. For foreign banks with Ghanaian ownership of less than 60%, the required capital is 500 million cedis. With development banks a minimum paid up capital of one billion cedis. However, the Bank of Ghana has the authority to review the paid up capital where necessary depending on the economy .At present the minimum paid up capital for establishing a local bank is 25 billion cedis, a foreign bank is 50 billion cedis and a development bank is 70 billion cedis.

Furthermore, the Banking Law of 1989 is explicit on capital adequacy. Although the law prescribes a minimum capital adequacy ratio of 6%, the Bank of Ghana has the discretion to increase the ratio of a particular bank or the banking sector in general. Presently the banks are required to hold 9% as primary reserve and 35% as secondary reserve on deposits, additionally, banks are required to deposit with the Bank of Ghana the cedi equivalent of all foreign deposits, and this attracts no interest. The Banking Law recognizes only two classes of risks, assets that require no capital backing and those, which must be backed. The assets in the riskless category are cash, Bank of Ghana and Government Securities and overnight balances at discount houses. All loans and advances as well as off-balance sheet items are by definition risky and must be fully backed by the required amount of capital. The 1989 Banking Law also dictates explicit safeguards as well as penalties against excessive risk taking. These include:

- Maintenance of a reserve fund from annual profits.
- Banks cannot lend more than 25% as secured loans and not more than 10% as unsecured loans.
- Banks may not undertake non-bank activities directly. They can do so only through subsidiaries.
- Penalties in respect of non-compliance with provision of the 1989 Banking Law.

The financially distressed banks were restructured. Each bank was recapitalized by off setting non-performing loans with interest bearing FINSAP bonds offering between 7 – 9% per annum. (Antwi-Asare et al 2000) The bad loans were transferred to the Non-Performing Assets Recovery Trust in 1990, which was charged with retrieving the loans. Table nine shows the details of Non-Performing Assets (NPA's) transferred to NPART in United States dollars as at 1990. (¢330.00 to $1.00).

Table 9 NPA's Transferred to NPART in 1990

Bank	NPA's Transferred (Thousand dollars)[2]	Total NPA's Transferred (%)
Ghana Commercial Bank	43,396	28.4
Social Security Bank	38,136	25.0
National Savings Credit Bank	2,196	1.4
Agricultural Development Bank	3,918	2.6
National Investment Bank	20,069	13.1
Bank for Housing Construction	38,948	25.5
Barclays Bank Ghana Limited	2,087	1.4
Standard Chartered Bank	1,400	0.9
Merchant Bank Ghana	2,669	1.7
Total	152,819	100

Source: NPART Annual Report 1991 and Authors calculations

The reforms also involved the liberalization of interest rates with the aim of improving intermediation in the financial sector and ultimately stimulating national savings. It was assumed that under the system of controlled interest rates, the financial intermediaries were prevented from optimizing their portfolio management since they were all forced to apply the rate determined by the Central Bank.

2. An additional $15,454,000 of NPAs was transferred from Ghana Co-operative Bank in 1994.

The reform provided for the need for prudential guidelines to prevent deterioration in bank solvency. The Bank of Ghana was to improve considerably on its supervision of the banking system. In terms of prudential returns to be submitted to the Bank of Ghana, these were increased to twelve and were of varying intervals. Table ten below detailed the returns.

Table 10 Prudential Returns Submitted to the Bank of Ghana.

Frequency	Requirement
Daily	Liquidity reserve ratio
Monthly	-Statement of assets and liabilities --Large exposure on advances and deposits -Analysis of overdraft, loans and advances
Quarterly	-Capital adequacy returns -Maturity profile of assets and liabilities. -Current year operating results -Classification of non-performing loans -Consolidated balance sheet
Half-yearly	-Capital expenditure -Statutory audit return
As necessary	Branch closing/and or relocation

Sources: Bank of Ghana.

Another important reform measure introduced was the enactment of the Non-Bank Financial Institution Law (NBFI) of 1993 with the following main objectives:

- Coverage of NBFI law is in respect of discount houses, finance companies, acceptance houses, building societies, leasing and hire purchase companies, venture capital funding companies, mortgage financing companies, savings and loans association.
- The minimum capital requirement for the establishment of an NBFI is set at 100 million cedis, the Bank of Ghana can review the amount.

- The minimum capital adequacy ratio is set at 10% of risk assets and Bank of Ghana has the authority to prescribe the minimum level of liquid assets.
- The Bank of Ghana is the designated authority to license and regulate NBFI's
- NBFIs can accept deposit from the public but only for a fixed period of not less than three months unless with prior exemption from the Bank of Ghana.

The liberalization of the banking sector and the subsequent enactment of the new banking and NBFI laws have appeared to streamline the emergence of financial institutions to add some depth and diversity to the financial system. The establishment of these non-bank financial institution means that financial services can be extended beyond the range typically provided by the traditional banks, thus increasing competition and financial intermediation. With regard to development, the period following the reforms has witnessed the establishment of several banks.

CHAPTER FOUR

ANALYSIS AND FINDINGS

4.1 FINSAP Implementation Strategy

The World Bank broad objectives for reforming the financial sector include removing interest rates and credit distortions, removing impediments to financial competition, strengthening financial sector infrastructure, strengthening regulatory institutions and ensuring a stable macroeconomic environment. These instruments are followed by policy guidelines for implementation and performance indicators to examine the outcome of policy instruments (refer to table 8 on page 38) The financial reform in Ghana followed the pattern set by the World Bank, having basically the same broad objectives. However, Ghana macroeconomic environment remained unstable during and after the implementation of the reform, inflation remained high, current account and fiscal deficits have not been reduced to economic level for sustained economic growth.

An examination of FINSAP1 and 2 implementation shows that the process was timed and sequenced following it appears in the model of reform of financial sector in figure 3 on page 41. Controls on interest rates were gradually removed as the Bank of Ghana supervision department was restructured for efficient monitoring of the financial system. A new banking law came into force, the privatization of state owned banks have started, distressed banks have been restructured and recapitalized and the financial market has been liberalized resulting in the establishment of many privately owned banks since 1990.

4.2 Interest Rate Policy

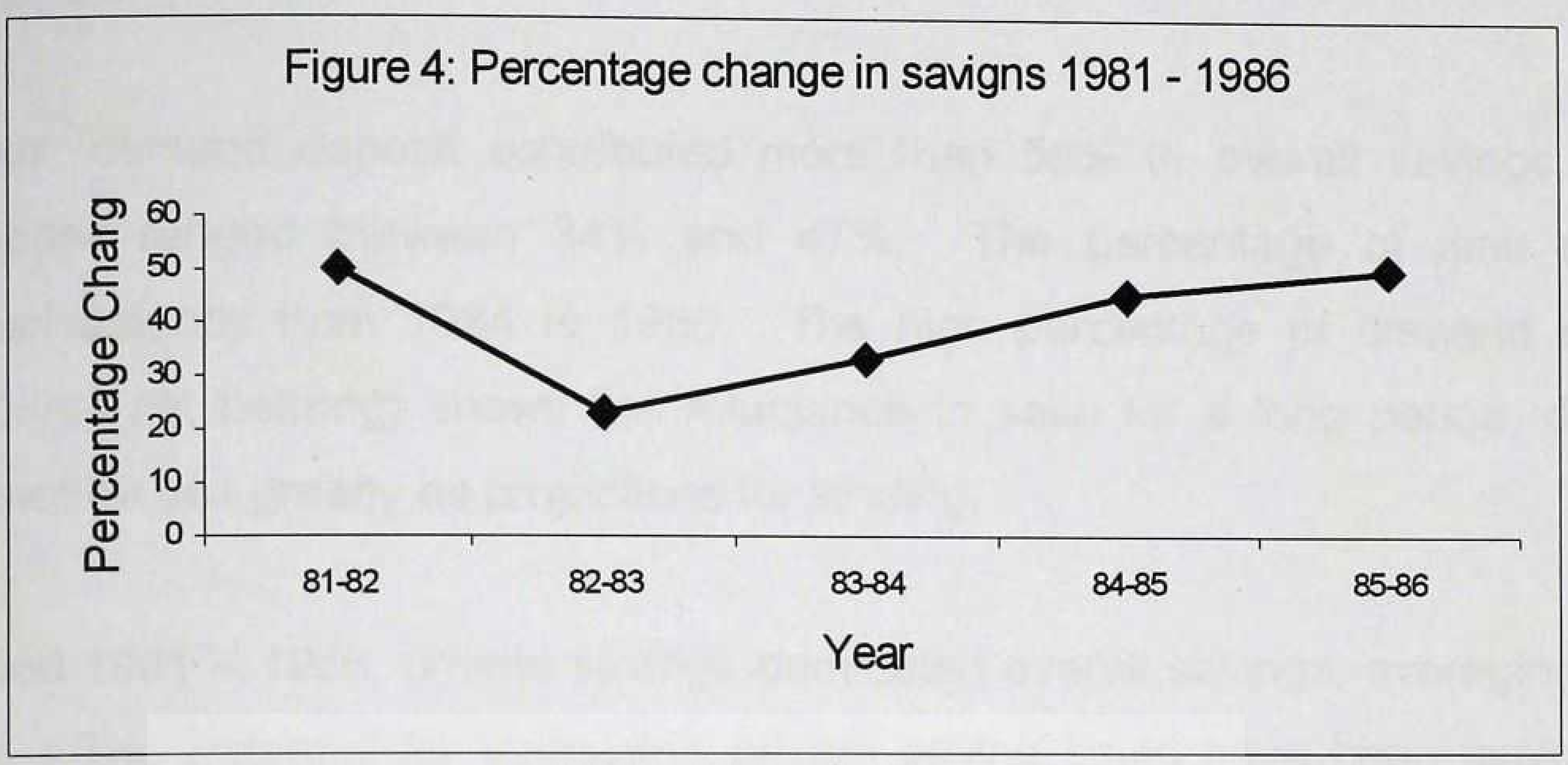
Interest rate policies in the past have focused on the role of interest rates as the cost of loanable funds, to some extent neglecting the role of interest rates on savings mobilization. Interest rates during the repressed period were adjusted periodically to promote increases in the level of investment among different sectors. The desire to efficiently allocate credit and increase investment in the productive sectors through interest rate manipulations has tended to depress average rates of interest below the market equilibrium. The negative real interest rates are believed to have become dysfunctional to the banking system in savings mobilization and in promoting economic growth.

Reforms to interest rate policy began in 1987 when limits on maximum lending rates and minimum time deposit rates of commercial banks were abolished. The deregulation process was completed in 1988, with complete liberalization of rates on savings deposits. Since 1988, commercial banks have been free to quote their own rates on deposits and loans, making it possible for rates to be manipulated and negotiated by banks and their customers.

Nevertheless the liberalization of rates, the Central Bank continues to set the lead rate, the Bank Rate, this rate is applied to banks for overdraft and for the rediscounting of financial instruments. Hence the higher the Bank Rate, the higher lending rates to the public and the lower deposit rates, thus having an inverse relationship with savings mobilization. The Bank Rate is thus the benchmark rate for interest rates in the economy. Changes in the Bank Rate are usually effected to reflect the monetary policy of the Central Bank.

4.2 Analysis of Savings Trend Before the Reform

An examination of the behavior in savings mobilized by banks before the reform shows an unstable and fluctuating trend. The change in savings between 1981 to 1982 and 1985 to 1986 was around 49% with 1982 to 1983 registering the lowest percentage change for the period under consideration. The change shows a positive and consistent increase from 1982 to 1986. The graph below shows the details of the change in both private and public.



Source: Calculated from Bank of Ghana Annual Reports and Data from Banks.

The above graph shows the percentage change in overall savings; demand, savings and time deposits mobilised by banks. It is worth nothing that the percentage change in total savings witnessed a consistent increase from 1983, the beginning of the Economic Recovery Program. Perhaps the Recovery Program started to have some effects on the financial system bringing in confidence because of the IMF/World Bank intervention. There were nine clearing banks during the period 1981-1986.

The table below gives the details of total savings mobilized by banks between 1981 – 1986 and the percentages of demand, savings and time deposits to total savings.

Table 11 Percentage of Demand ,Savings and Time Deposits to overall Savings 1981-1986

Year	Total (Million cedis)	% of Demand Deposit	% of Savings Deposit	% of Time Deposit
1981	9004	50.9	47.4	1.7
1982	13,460	51.9	47.2	0.9
1983	16,662	53.8	45.4	0.8
1984	22,261	59.6	38.9	1.5
1985	32,868	60.3	34.9	4.8
1986	49,024	56.8	36.3	6.9

Source: Calculated from Bank of Ghana Annual Report and Bank's Data.

In each year, demand deposit contributed more than 50% to overall savings, whilst savings deposit ranged between 34% and 47%. The percentage of time deposit increased consistently from 1984 to 1986. The high percentage of demand deposit (mostly non-interest bearing) shows the reluctance to save for a long period, demand deposit cannot be use greatly as projections for lending.

For the period 1981 – 1986, private savings dominated overall savings, averaging about 85% yearly. The potential for increasing private saving could have been exploited to increase overall total savings by banks. The Table 12 below gives the details.

Table 12 : Percentage of Private and Public Savings to Total Savings 1981 – 1986.

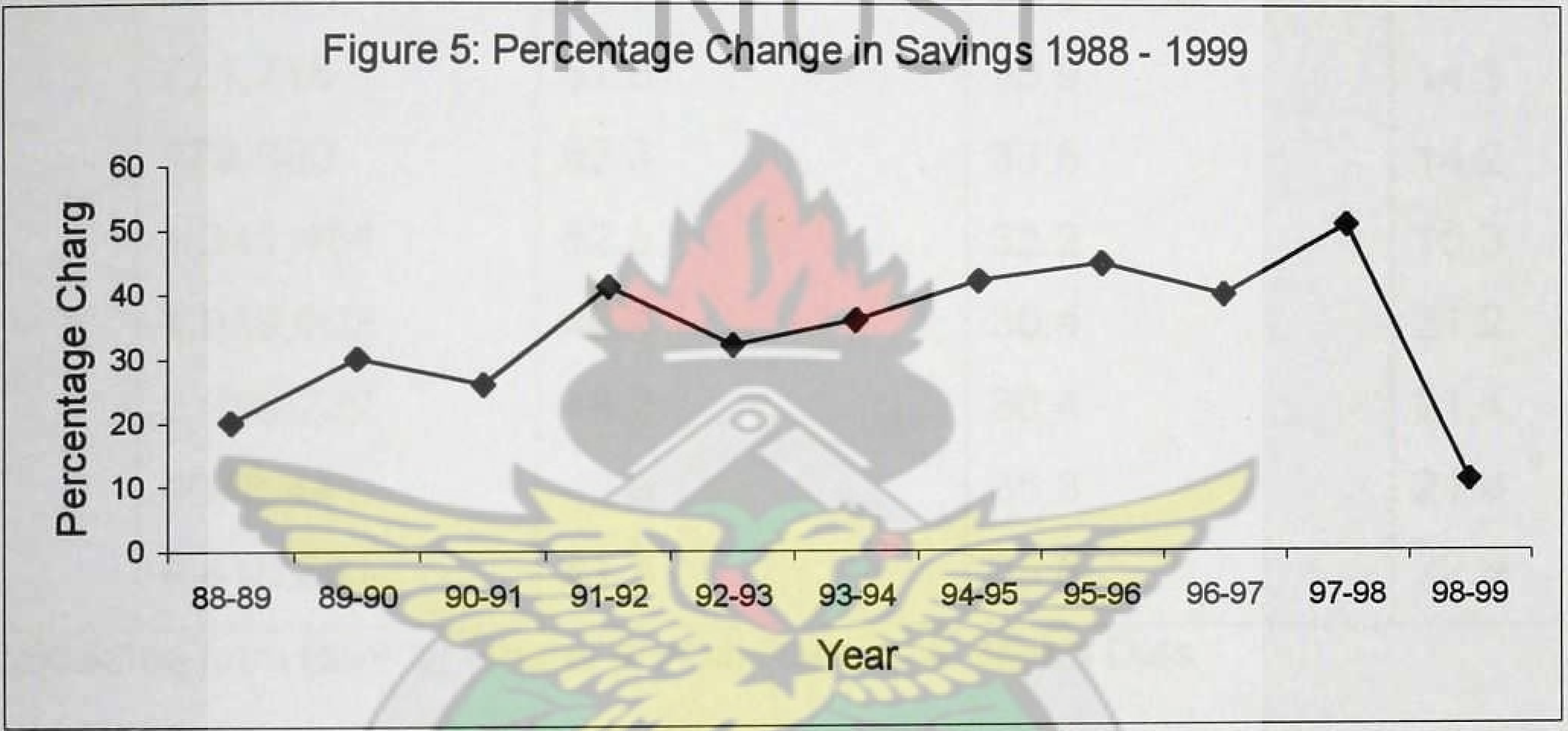
Year	(million cedis) Total	% of Private Savings	% of Public Savings
1981	9004	90.2	9.8
1982	13,460	84.8	15.2
1983	16,662	85.3	14.7
1984	22,261	84.6	15.4
1985	32,868	85.1	14.9
1986	49,024	85.9	14.1

Source: calculated from Bank of Ghana Annual Reports and Bank's Data.

While the percentage of ~~private Savings~~ averaged around 85% of total savings annually from table 12, the percentage actually fell from 90.2% in 1981 .A higher percentage of personal private savings to overall savings is essential for banks granting of loans. Hence it is useful for the percentage of private savings to overall savings to remain extremely high yearly.

4.4 Analysis of Savings Mobilisation During and After the Reform

The number of clearing banks increased from nine in 1986 to eleven in 1990, by 1999 the number of clearing banks have increased to sixteen. Savings behavior during the implementation of the reform did not differ significantly from the pre-reform period. Savings mobilized by banks fluctuated during 1988 and 1997,remaining unstable between 1988/89 – 1992/93, before rising constantly from 1992/93 to 1995/96, than dropping again in 1996/97. The trend is shown on the graph in figure 5 below.



Source: Calculated from Bank of Ghana Annual Reports and Bank's Data

The change dropped significantly from 54% for the 1997/98 period to 8% for the 1998/99 period that is immediately after the major phases of FINSAP implementation.

Demand deposit dominated savings mobilized by banks for the period 1988 to 1995 as occurred in the pre-reform period. The percentage started to drop after 1995 reaching a low of 41.3% in 1999, whilst the percentage of savings and time deposits started to increase gradually over the same period. The percentages are shown on the table below.

Table 13: Percentage of Demand Savings and Time Deposits to Overall Savings 1988-1999

	Total (million cedis)	% of Demand Deposit	% of Savings Deposit	%of Time Deposit
1988	198,669	53.7	31.5	14.8
1989	243,325	59.9	31.2	8.9
1990	317,071	63.4	30.7	5.9
1991	395,745	58.3	34.8	6.9
1992	561,351	50.6	34.9	14.5
1993	721,718	51.8	33.9	14.3
1994	973,380	52.3	33.5	14.2
1995	1,341,484	52.5	32.2	15.3
1996	1,949,602	48.4	30.4	21.2
1997	2,639,222	48.2	30.4	21.4
1998	4078,441	42.9	35.3	21.8
1999	4,415,361	41.3	35.8	22.9

Source: Calculated from Bank of Ghana Annual Reports & Bank's Data

Private savings dominated overall savings for the period 1988 to 1997, but the average of about 75% per annum was lower than that achieved during the pre-reform period. The average increase slightly to 87% after 1997. Public savings contribution to overall savings was slightly higher than the pre-reform period considered. Details are shown on the table 14 below.

Table 14: Percentage of Private and Public Savings to Total Savings 1988 – 1999

Year	Total (Million cedis)	% of Private Savings	% of Public Savings
1988	198,669	82.1	17.9
1989	243,325	72.4	27.6
1990	317,071	73.5	26.5
1991	395,745	76.4	23.6
1992	361,351	73.9	26.1
1993	721,718	72.1	27.9
1994	973,380	71.6	28.4
1995	1,341,484	72.1	27.9
1996	1,949,602	73.2	26.8
1997	2,638,822	79.4	20.6
1998	4,078,441	86.6	13.4
1999	4,415,361	89.1	10.9

Source: Calculated from Bank of Ghana Annual Reports & Data from Banks.

The percentage of private savings to overall savings started to fall after 1988,the beginning of FINSAP implementation. From an average of 85% per annum between 1981 and 1986, private savings averaged around 74%of total savings from 1988 to 1997 pushing the contribution of public savings from 15% per annum for the pre-reform period, to 26% for the post FINSAP period. This trend is not encouraging, since public savings (Central Government funds) can not safely be used by banks for the granting of long term loans for investment .The average percentage of private savings increased to 87% for the years 1998 and 1999.

4.5 Effects of FINSAP on Savings

Generally, the characteristics of savings did not change during both periods of analysis, the pre and post reform era. The percentage changes in savings before and after the reforms are relatively the same, fluctuating and being unstable during the periods of analysis, leading to the conclusion that the reforms have had little effect on savings mobilization by banks, despite the fact that to a greater extent, there have been changes and improvements in products used to attract savings. With increased competition amongst banks for the limited funds, savings products now come in different forms – seven, thirty and forty-five days certificate of deposits with varying interest rates, continuous savings for a period that leads to the granting of a loan to the customer and interest bearing current accounts. This trend differs greatly from the pre-reform period where banks neither developed attractive savings products nor encouraged depositors to invest in the savings, demand and time deposits as a means of attracting savings. Savings behaviors in both periods have remained unchanged. Private savings dominating with demand deposits accounting for about 50%of total savings mobilized by banks yearly.

With private savings contributing more than 70% of total deposits at banks, this potential can be exploited. However, respondents to questionnaires for banks stated that corporate savings dominate overall total private savings, with demand deposit playing the major role. More work needs to be done to encourage personal private savings. Table 15 below summarizes respondents' responses to the effect of FINSAP on savings mobilization by banks.

Table15: Summary of Responses of FINSAP on Savings Mobilization (%)

FINSAP leads to increase in savings.	FINSAP has not affected savings	Savings mobilization remains unchanged
27.3	58.3	14.4

Source: Author's Calculation.

Granted FINSAP has had some positive effects on the development of the financial system in areas other than savings mobilization according to respondents. FINSAP brought about the recapitalization of distressed banks because of non-performing loans, strengthened the regulatory role of the Bank of Ghana, liberalized the banking system thus increasing competition among banks and leading to innovative savings mobilization products and customers awareness of banking generally, and particularly among personal savers.

Because of technology in banking, loan applications are processed easily and loans properly monitored for regular repayment. Accessing loans have become relatively easy with even regular advertisement by banks for loans to be accessed.

Though the Structural Adjustment and Economic Recovery Programmes have had some positive effects on the economy, most macro-economic indicators used to measure the strength of an economy still remain bad, showing the poor health of the economy. This trend has rendered most effects of FINSAP negative in real terms, A positive effect of the ERP/SAP is the consistent positive real GDP growth rate being achieved since 1984. Most years before the ERP/SAP witnessed real GDP growth rate of -3.50%,-6.92% and -4.56% for the years 1981,1982 and 1983 respectively .Average GDP growth rate since 1984 has ranged between 4% and 5% per annum attributed by most to the ERP/SAP.

Nevertheless the gains in GDP growth rate attributed greatly to the ERP/SAP, other macro-economic indicators that affects savings directly continued to remain unhealthy. Inflation has remained extremely high over the years averaging around 40% by the end of 2000. Real deposit rates for most years have remained either extremely unattractive or in the negatives. On the contrary, treasury bills rates have remained relatively high in most years, tending to divert personal savings from the banks to the Bank of Ghana. With relatively low wages, savings mobilized by banks has either fallen during and after the implementation of FINSAP or remained low. Table 16 below shows the real deposit rate and the rate of inflation for the years 1981-1986.

Table 16:Real Interest and Inflation Rates -1981-1986(%)

Year	Real Deposit Rate	Inflation Rate
1981	-48.50	116.5
1982	-8.83	22.3
1983	-49.16	122.8
1984	-17.68	39.7
1985	4.94	10.3
1986	-6.10	24.6

Source: Bank of Ghana Reports.

Real interest rates are computed as

(I t r) / (I + P) - 1

Where r is the nominal rate and P is the rate of inflation.

With the above rates, savings will remain extremely unattractive and this is reflected in the nature and trend in savings by banks before the start of the reform. Interest rates situation did not change during and after FINSAP implementation, hence the same fluctuating and low savings mobilization by banks during and after FINSAP implementation. Table 17 below gives the details.

Table 17: Interest Rates Structure (%) 1988-1999

Year	Nominal Savings Rate	Nominal Treasury Bills Rate	Real Savings Rates	Real Treasury Bills Rate
1988	18.1	19.7	-11.7	-7.8
1989	15.3	20.5	-9.5	-5.2
1990	18.0	21.5	-14.0	-11.2
1991	20.0	29.2	1.3	9.5
1992	16.0	19.4	5.5	8.5
1993	23.0	31.0	-2.0	4.8
1994	23.0	27.3	-1.5	2.0
1995	25.1	35.8	-26.8	-20.5
1996	31.5	41.7	-0.9	6.8
1997	26.5	42.4	-3.0	7.4
1998	25.6	34.3	1.2	8.6
1999	28.8	24.3	5.8	9.7

Source: Bank of Ghana Annual Reports.

For most years during the implementation of FINSAP, real interest rates were in the negative, totally discouraging savings mobilisation by banks .In 1995 for instance ,real interest rate reached –26.8% .Whilst real treasury bills rate was negative between 1988 and 1990,it was positive for most years during the implementation of FINSAP ,thus attracting investment into treasury bills .However ,real savings and treasury bill rates were positive but low after the implementation of the major phases of FINSAP in 1998 and 1999.

CHAPTER FIVE

SUMMARY AND CONCLUSION

5.1 SUMMARY

The study provided an analysis of savings mobilized by clearing banks in Ghana during the controlled and liberalised financial regimes. Low savings characterized the economy before the financial reforms, which began in 1987. Aside from failing to mobilize savings for investment, the banking sector was also failing in its supportive role to the development of the financial sector. An examination of macro–financial data before FINSAP suggests that the impact of the banking sector on savings mobilization was poor. Selected indicators of financial depth M2/GDP and M1/GDP ratios were all low for most years before the start of the reforms .The reforms were among other things directed at changing the trend and increasing savings mobilized by banks.

Methodology

The study dealt with overall private and public savings mobilized by banks, covering demand, savings and time deposits. The percentage change during and after liberalization was calculated aimed at showing the trend in savings mobilized by banks. The percentage of public and private savings to overall savings and the percentages of demand, savings and time deposits to overall deposits were calculated .The periods of analysis were divided into three, before during and after the implementation of FINSAP; beginning from 1981 and ending in 1999.

A brief discussion of financial repression and financial liberalization were made. Financial repression occurs where deposits and lending rates are controlled by laws, credit allocation are regulated and a fragmented market emerges where favored borrowers obtained funds at subsidized rates. Ghana's peak period of financial repression was in the 1970s .On the contrary, liberalization involves the freeing of interest rates from legal constraints, aiming at efficient financial intermediaries and competition, hence leading to an increase in savings.

The theoretical base of the study was the Mckinnon –Shaw (1973) hypothesis that stressed that financial sector policies in developing countries have led to financial repression. They argued for the liberalization of the financial sector as a way of mobilizing and raising the level of savings by banks. Criticisms of both financial repression and liberalization were carried out. The study analyzed empirical examples on the effects of liberalization on some developing economies. Factors that affect the behaviour of savings, inflation, interest rates and age among others were examined.

The nature and extent of banking diffusion were examined, they follow it appears the population distribution and other economic activities in the country, with the concentration of banks in the southern half of the country .The study considered savings behaviour in the informal sector, with Aryeetey and Gockel (1990) estimating that savings mobilized informally in urban areas constituted about 45% of financial savings. Savings mobilization by insurance companies, SSNIT, and non- –bank financial institutions were examined.

Banking diffusion and the current distribution of bank branches throughout the country showed that in terms of number and institutional structure the banking sector is relatively diverse and adequate. There are at present 17 clearing banks and 114 rural banks throughout the country .The nature of banks and their diverse structure could be a potential strength in the development of financial services and savings mobilization .

Government Policy, Interventions and Savings

An overview of the economy in general and the financial system before the reforms were carried out. Inappropriate domestic policies and a marked decline in the terms of trade characterized the economy before the ERP and FINSAP. Heavy government intervention in the economy through various price controls exacerbated the existing distortions in the economy and this eroded the capacity of individuals and firms to save .The World Bank/ IMF sponsored ERP/SAP of which FINSAP was a component was initiated in 1983 aimed at halting the decline in the economy and increasing financial depth.

The pre-reform policy of government together with a prolonged economic crisis and unorthodox monetary measures destroyed the financial sector leading to low savings.

Controlled monetary policies included low interest rates, credit ceilings, sectoral credit controls, high reserve requirements and demonentisation. Though the unorthodox monetary policies had generally negative effects on savings mobilization, these measures created a temporary awareness on the public that banks were a safer place for money deposits.

The negative effects of these unorthodox measures were far reaching. Public confidence in the banking system fell considerably and this led to low savings .The loss of confidence in the banking system was aggravated by laws issued in 1979 by the AFRC which empowered the government to call for an individual's bank statement without the person's knowledge and approval.

The World Bank's Approach to Financial Reforms

The World Bank's approaches to financial sector reforms were considered .The frame work of the bank's operations relating to financial reforms is now dictated by general ideas in academic literature and modified by experiences from countries that have undertaken financial reforms .The current policy of the World Bank is that financial reforms must be viewed in the context of a country's overall reform. Over time the bank has broadened its focus, recognizing that more volatile financial environment create internal pressure during liberalization and that financial liberalization has to be country specific. Stable macro-economic conditions are now a pre-requisite for launching financial liberalization.

Financial Reforms in Ghana

The Financial Sector Adjustment Program began in 1987, as a component of the Economic Recovery Program that was initiated in 1983.The implementation of major part of the reform took place between 1988 and 1990.The reforms were expected to result in effective mobilization of domestic savings by banks, and a more efficient way of allocating loanable funds .Of importance in the reform is the Banking Law of 1989 which is currently being reviewed by the Central Bank .The law explicitly defines the minimum capital requirements for various types of banks with the Bank of Ghana having the authority to review them. FINSAP led to the restructuring and recapitalization of distressed banks, leading to the transfer of bad loans to the Non-performing Assets Recovery Trust.

The reforms also led to the liberalization of interest rates with the aim of improving intermediation in the financial sector and ultimately stimulating savings in the banking sector. Under FINSAP the Non-Bank Financial Institutions Law was enacted.

FINSAP implementation plan shows that it was well timed following in the model of reforms of financial sector set out by the World Bank. Deregulation of interest rates began in 1987 and by the end of 1988, rates were completely liberalized.

Savings Behaviour before and after the Reforms

An analysis of percentage change in savings before the reform shows a fall for the years 1981/1982 and a gradual and consistent increase in the percentage change to 1986. The years before the reforms witnessed demand deposit contributing more than 50% to total savings and private savings contributing around 85% of total savings.

The years following the implementation of FINSAP did not witness any major change in the characteristics of savings. The percentage change in savings mobilized by banks fluctuated and remained low, dropping to a record low of 8% for the years 1998/1999. Demand deposit continued to contribute over 50% to total savings, the percentage started to fall from 1996 reaching a low of 41% in 1999, thus causing the contributions of savings and time deposits to increase respectively. However, the contributions of private savings though high, started to fall, leading to a corresponding increase in public savings. The trend reversed in 1997 with private savings averaging about 87% of total savings.

The general behavior and characteristics of savings mobilized by banks did not change during the period of analysis, leading to the conclusion that the financial reforms have not had significant effects on savings mobilization by banks. Though the ERP/SAP have had some positive effects on the economy, most macro-economic indicators used to measure the strength of the economy and that impact directly on savings are still poor. Real savings rates were either low or in the negative during the period of analysis. Inflation remained high during and after the implementation of FINSAP. Though many new banks have been opened, it appears that new savers are not being attracted, particularly from the informal sector.

5.2 RECOMMENDATIONS

A clear lesson that can be learnt from recent experiences with financial sector reforms is that, reforms carried out within an unstable macro-economic environment will either be unsuccessful or worsen the existing unfavorable situation. Perhaps this consideration is what has informed the World Bank and the International Monetary Fund current policy on financial liberalization, that is stabilizing the economy before financial liberalization.

The rate of inflation remained high and volatile during much of the period of analysis. The rate of depreciation of the cedi increased during the period and the high budget deficit situation has persisted. These negative situations impacted negatively on the mobilization of savings by banks and the overall financial depth of the economy. The financial sector reforms did not yield their intended results with regard to savings mobilization, primarily because of the lack of sustained improvement in the overall macro-economic environment. The following are recommended:

Government policy measures on controlling and reducing inflation must be strengthened. The analysis carried out indicated that the high rate of inflation affected interest rates negatively, resulting in real deposits rates being negative for most years considered, thus making saving extremely unattractive. High inflation is thus a drawback in achieving positive real deposit rates. Government must as a matter of urgency reduce it's budget deficit and cut down on it's expenditures, whilst boosting it's revenue base by adequately resourcing the revenue agencies, education on the need to pay taxes, improving it's revenue from the large informal sector and effectively punishing tax defaulters.

Considering the large informal sector in the economy, there is the need to incorporate the informal sector into the formal banking system to increase savings. Practical measures by banks such as reducing the minimum deposits for savings account, special savings products particularly aimed at the informal sector, advertisement and educational campaigns by banks in the local languages on the benefits of savings and where applicable opening bank agencies within markets and areas of large informal activities.

Efforts should be made by banks to increase the percentage of savings and time deposits to overall savings mobilized by banks .The analysis indicated that the percentage of demand deposit to overall savings was for most years more than 50%, indicating that savings and time deposits together contributed less than 50% of overall savings during the periods of analysis. Savings and time deposits are relatively long-term accounts and can be used for loans. This can be done by banks creating innovative long-term savings products and emphasizing the daily interest components on such accounts.

There is the need for complementary monetary and fiscal policies that can successfully stabilize the domestic currency against the major foreign ones, since a rapidly depreciating currency makes savings unattractive, inducing personal investment to physical assets as a hedge against inflation and depreciation. Banks should put in place measures to encourage more personal private savings, since corporate savings dominate overall private savings.

In terms of income growth, government must put in place policies and provide the leadership for consistent real increase in growth of the private sector, which will translate into and increase in employment .In this way, overall per capita income will increase, leading to an increase in savings within the economy and the banking sector.

5.3 CONCLUSION

The study covered a period of eighteen years, analyzing the characteristics and behavior of public and private savings before, during and after the implementation of FINSAP. The banking sector role in savings mobilization was considered and recommendations made to improve bank's performance in savings mobilization. It is hoped that this study has provided an insight into the effects of the financial sector reform on savings mobilization by banks in Ghana.

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APPENDIX 1

Chronology of Financial Sector Reforms and other Monetary Measures

1987	September	Decontrolled maximum lending and minimum deposit rates.
	October	Introduced weekly auction of Treasury Bills.
	November	Established Consolidated Discount House.
1988	February	Decontrolled minimum bank savings rate.
	April	Established foreign-exchange Bureaux.
	September	Introduced 90-day Bank of Ghana (BOG) bills for banks.
1989	July	Adopted comprehensive restructuring plan for banks.
	August	Enacted Insurance Law.
	December	Introduced non-rediscountable, medium-term BOG instruments for banks with 180-day, 1-year, and 2-year maturities. Promulgated revised Banking Law.
1990	January	Appointed new bank managers for public banks; licensed two new merchant banks, CAL Merchant Bank and Ecobank.

March	Unified bank cash-reserve requirements On demand, savings and time deposits.
April	Unified foreign-exchange market by abolishing foreign exchange auctions.
May	Began restructuring three state-owned banks; SOE non-performing loans swapped with Bank of Ghana FINSAP bonds.
September	Enacted non-performing Assets (Loans, Investments) Recovery Law to expedite recovery of non-performing loans of banks; created Non-Performing Asset Recovery Trust and Non-Performing Asset Recovery Tribunal.
November	Opened Stock Exchange; introduced 30-day BOG bills, and 180-day, 1year 2-year T-Bills; introduced 5-year government stock; made BOG instruments available to non-bank sector; abolished lending targets for agricultural sector; rescheduled bank ratio to 20%; extended bank restructuring to three additional banks, reduce cash reserve ratio to 22%, increase secondary reserve ratio to 20%
December	Remunerated cash reserves at 3% swapped private sector non-performing loans of state owned banks with Bank

		of Ghana FINSAP bonds, enforce capital adequacy standards.
1991	March	Swapped private sector non-performing loans in sound banks for BOG-issued FINSAP bonds.
	June	Licensed second Discount House; Licensed Meridian BIAO, a private Commercial Bank.
	July	Reduced cash reserve ratio to 18%; Increased secondary reserves to 24% and increased remuneration on cash reserves to 5%.
1992	January	Licensed a leasing company.
	October	Enacted new BOG Law providing for Stronger supervisory and regulatory Powers.
1993	March	Reduced cash reserve ratio to 10% increased secondary reserve ratio to 32%.
	May	Enacted Financial Institutions (Non-Banking). Law to provide supervisory and regulatory framework for NBFIs and to encourage competition among commercial banks; enacted Home Mortgage Finance Law to support development of housing finance.

	June	Enacted Finance Lease Law to further development of leasing industry.
	September	Reduced cash reserve ratio to 5%; imposed temporary additional 15% secondary reserve ratio bringing it up to 52%.
1994		Liquidation of Meridian Bank BIAO and formation Of Trust (TTB) which took over all its assets.
1995	February	Announced appointment of Divestiture Advisers for divestiture of Social Security Bank.
	March	Announced appointment of advisers for Proposed partial privatisation of Ghana Commercial Bank.
	April	Announced appointment of advisers to Proposed partial privatisation of National Investment bank.
1996	1st Quarter	GCB sale through stock exchange of 36% of capital to domestic investors.
	October	Primary reserve requirement changed to 10% and secondary reserve requirements to 17%.
1997	April	Primary reserve requirement changed to 8% and secondary reserve requirement to 35%.
	December	Bank of Ghana widens monetary data coverage from 11 to 17 banks.

APPENDIX TWO

QUESTIONNAIRE FOR BANK

1. Name of Bank ……………………………………………………………………………………
2. Year of Establishment:……………………………………………………………………………
3. Type of Bank
   (a) Commercial
   (b) Development
   (c) Merchant
4. Number of branch/agencies (1981-1999)……………………………………………………………
5. Has the bank opened any new branch since 1987? Yes{ } No { }
6. Yes, how many ……………………………………………………………………………………
7. What caused you to open them……………………………………………………………………
8. Has the bank closed any branches/agencies Yes { } No { }
9. Yes, how many and year……………………………………………………………………………
10. What caused you to close them?……………………………………………………………………
11. Which types of deposit mobilization products do you have?
    (a) Savings deposit account
    (b) Time or fixed deposit account
    (c) Certificates of deposit
    (d) Overnight deposit account
    (e) Treasury bills
    (f) Others ……………………………………………………………………………………
12. Please state the maturity period of the products listed below
    (a) Savings deposit account……………………………………………………………………
    (b) Time or fixed deposit account…………………………………………………………………
    (c) Certificates of deposit………………………………………………………………………
    (d) Overnight deposit account……………………………………………………………………
    (e) Treasury bills………………………………………………………………………………
    (f) Others ……………………………………………………………………………………
13. Which deposit products were introduced from 1987 onwards?
    (a) Savings deposit account

(b) Time or fixed deposit account

(c) Certificates of deposit

(d) Overnight deposit account

(e) Treasury bills

(f) Others ……………………………………………………………………………………………

14a. Has the Financial Sector Restructuring Policy (FINSAP) been useful to your bank in mobilizing savings. Yes { } No { }

b. Yes, explain……………………………………………………………………………………

……

c. No explain………………………………………………………………………………………

……

15. Which policies measures under FINSAP have helped your bank performance in mobilizing savings most……………………………………………………………………

16. Which policies have hurt your bank most?………………………………………………

……

17. How would you compare your current savings mobilization efforts to the pre-FINSAP period?

(a) Much more effective

(b) More effective

(c) About the same

(d) Less effective

(e) Much less effective

18. In your opinion, have customers savings habit been affected by FINSAP?

……

19. Has competition in the provision of savings deposit instruments increased since FINSAP Yes { } No { }

20. Which of the following organization would you consider a competitor for your savings instruments?

(a) Other banks

(b) Non-Bank Financial Institutions

(c) Others

....

21. In your opinion what has been the impact of interest rate deregulation on savings mobilization

    (a) Increased

    (b) Same

    (c) Decreased

22. In setting your interest rates do you consult

    (a) Other banks

    (b) Bank of Ghana

    (c) No other institution

    (d) Others

    ....

23. What were the major constraints on your bank's performance prior to FINSAP?

    ....

    ....

24. What were the major constraints on your bank savings mobilization efforts prior to FINSAP?

    ....

    ....

25. Have your customers savings habit been affected by changes in savings rates?

    Yes {] No { }

    (a) Yes, explain ....

    (b) No, explain...

26. Which category of your customer save most?

    (a) Personal

    (b) Corporate

    (c) Others...

27a. Which category of your customers as in 26 savings habit increased since FINSAP...

27b. Explain 27a briefly...

28a. Which category of your customers as in 26 savings habit have decrease since FINSAP ………………………………………………………………………………………

28b. Explain 28a briefly………………………………………………………………………………

29a. Ghana has experienced persistent inflation since 1992, is this situation affecting negatively savings mobilization Yes { } No { }

29b. Explain briefly 29a……………………………………………………………………………

………………………………………………………………………………………………………

30. What has been the effect of FINSAP on your operating cost?…………………………

………………………………………………………………………………………………………

31a. In your opinion, is the increase in savings by customers mainly because of FINSAP Yes { } No { }

31b. No, please state other factors……………………………………………………………

………………………………………………………………………………………………………

32a. In your opinion, are your customers savings habit responsive to a change in interest rates of your savings instruments? Yes { } No { }

32b No, please state other factors……………………………………………………………

………………………………………………………………………………………………………

33. Are your savings rates uniform for all your savings products Yes { } No { }

34a. Do you regularly educate your customers on your savings products Yes { } No { }

34b. If Yes, what is the effect of education on savings mobilization

(a) Positive

(b) No effect

(c) Other

35. What types of advances has the bank given

(a) Overdrafts

(b) Project loans

(c) Personal loans

(d) Corporate financing

(e) Others

36. Which lending instruments were introduced after 1987.

(a) Overdraft

(b) Project loans
(c) Personal loans
(d) Corporate loans
(e) Others

37. How would you compare your current loan recovery efforts to the pre-FINSAP period.
(a) Much more effective
(b) More effective
(c) Same
(d) Less effective
(e) Much less effective

38. On the average, is the level of loan request higher now than in the pre-FINSAP period
(a) Yes
(b) No
(c) Same

39a. In your opinion, what were the major factors causing firms to default on loans before FINSAP……………………………………………………………………………………

39b. Are those factors in 39a still relevant since the beginning of FINSAP Yes { } No { }

39c. What other factors are now relevant……………………………………………………
……………………………………………………………………………………………………

40a. Have FINSAP been beneficial to banks? Yes { } No { }

40b. Explain as in 40a (a) ……………………………………………………………………
……………………………………………………………………………………………………

41. Do you have any other comments?……………………………………………………
……………………………………………………………………………………………………

APPENDIX THREE

DETAILS OF AFRC DECREE SEVENTEEN OF AUGUST 27,1979.

Section One

"Notwithstanding anything to the contrary; it shall be the duty of every bank or financial institution at the request of the AFRC or any person authorized by the council to give any information in its possession concerning the accounts, deposits, or any securities held in that bank or financial institution by any person specified in such request."

Section Two

"No action shall be brought against any banker or financial institution or any employee thereof in respect of any information furnished in compliance with any request made under section one of this degree.

Section Three

"It is an offence for any person…

a) To fail without reasonable excuse, proof of which shall be on him to furnish any information requested under section one of this degree or to furnish in response to such requests any information he knows to be false or which he has no reason to believe to be true.

b) To destroy, falsify or mutilate any record or document or to suppress any information with the intent to avoid compliance with any request made under section one of this degree."

APPENDIX FIVE

CURRENT REGIONAL DISTRIBUTION OF RURAL BANKS

BANK	LOCATION	REGION	YEAR ESTD
1. Adansi	Fomena	Ashanti	1980
2. Ahafo ano	Wioso	Ashanti	1982
3. Akrofuom	Akrofoum	Ashanti	1982
4. Amanano	Nyinahin	Ashanti	1983
5. Amansie west	Antoakrom	Ashanti	1983
6. Asante akyem	Juansa	Ashanti	1982
7. Asokore	Asokore	Ashanti	1980
8. Atobiase	Atobiase	Ashanti	1983
9. Atwima	Atwima Foase	Ashanti	1980
10. Atwima Kwanwoman	Pakyi no. 2	Ashanti	1983
11. Atwima Mponua	Toase	Ashanti	1987
12. Bosomtwe	Kuntanase	Ashanti	1982
13. Juaben	Juaben	Ashanti	1984
14. Kumawuman	Kumawu	Ashanti	1982
15. Kwamaman	Kwaman	Ashanti	1982
16. Nsutaman	Nsuta	Ashanti	2000
17. Nwabiagya	Barekese	Ashanti	1987
18. Odotobri	Jacobu	Ashanti	1983
19. Okomfo Anokye	Wiamoase	Ashanti	1983
20. Otuasekan	Kofiase	Ashanti	1988
21. Sekyedumasi	Sekyedumase	Ashanti	1980
22. Sekyere	Jamasi	Ashanti	1982
23. Ahafo	Kukuom	Brong Ahafo	1996
24. Amantin kasei	Amantin	Brong Ahafo	1997
25. Asutifi	Acherensua	Brong Ahafo	1982
26. Baduman	Badu	Brong Ahafo	1982
27. Bomaa area	Domaa	Brong Ahafo	1983
28. Derma area	Derma	Brong Ahafo	1984
29. Drobo	New Drobo	Brong Ahafo	1997
30. Fiagya	Busunya	Brong Ahafo	1983
31. Kintampo	Kintampo	Brong Ahafo	1879
32. Nafana	Sampa	Brong Ahafo	2000
33. Nkoranman	Seikwa	Brong Ahafo	1987
34. Nkoranza kwabre	Akuma	Brong Ahafo	1983
35. Nsoatreman	Nsoatre	Brong Ahafo	1984
36. Suma	Suma Ahenkro	Brong Ahafo	1982
37. Tano	Ntoroso Gyadu	Brong Ahafo	1984
38. Tano Agya	Dadiesoaba	Brong Ahafo	1986

39. Wamfie	Wamfie	Brong Ahafo	1981
40. Yapra	Yapra	Brong Ahafo	1984
41. Agona	Kwanyaku	Central	1983
42. Akatakyiman	Komenda	Central	1983
43. Akoti	Assin Akropo	Central	1984
44. Akyempim	Gomoa	Central	1983
45. Assinman	Assin Manso	Central	1982
46. Awutu Bawjiesa	Bawjiesa	Central	1985
47. Brakwa Breman	Awutu Bereku	Central	1985
48. Denkyiraman	Ayanfuri	Central	1982
49. Eastern Gomoa	Gomoa Dominasa	Central	1983
50. Ekumfiman	Essuehyia	Central	1983
51. Enyan Denkyira	Enyan Denkyira	Central	1983
52. Gomoa Ajumako	Apam	Central	1980
53. Kakum	Afrinsi	Central	1980
54. Mfantisman	Elimina	Central	1983
55. Nyakrom	Biriwa	Central	1980
56. Nyankumasi	Fanti Nyankumasi	Central	1997
57. Twifo	Twifo Agona	Central	1976
58. Union	Senya	Central	1981
59. Adontin	New Tafo	Eastern	1997
60. Afram	Tease	Eastern	1982
61. Akim Bosome	Akim Swedru	Eastern	1983
62. Akwipim	Mamfe	Eastern	1980
63. Akim Mansa	Ayirebi	Eastern	1984
64. Anum	Anum	Eastern	1981
65. Asuopra	Afosu	Eastern	1977
66. Atiwa	Kwabeng	Eastern	1982
67. Dumpong	Kwahu Tafo	Eastern	1988
68. Kwabibibrem	Asuom	Eastern	1984
69. Kwahu	Pepease	Eastern	1980
70. Kwahu Praso	Kwahu Praso	Eastern	1982
71. Manya Krobo	Odumase Krobo	Eastern	1978
72. Mponua	Amuana Praso	Eastern	1983
73. Mumuadu	Osin	Eastern	1982
74. Odwen Anoma	Abetifi	Eastern	1987
75. South Akim	Nankese	Eastern	1984
76. South Birim	Achiesa	Eastern	1981
77. Upper Manya Kro	Asesewa	Eastern	1982
78. Abokobi	Abokobi	Greater Accra	1985
79. Abokobi South	Abokobi	Greater Accra	1982
80.Ada	Kasseh	Greater Accra	1982
81.Dange	Prampram	Greater Accra	1984

82.Ga	Amasaman	Greater Accra	1983
83.La	La	Greater Accra	1980
84.Shai	Dodowa	Greater Accra	1990
85.Bonzali	kumbungu	Northern	1997
86.East Mamprusi	Gambaga	Northern	1994
87.West Mamprusi	Walewale	Northern	1983
88.Bessfa	Garu	Upper East	1997
89.Builsa	Sandema	Upper East	1981
90.Naaru	Paga	Upper East	1981
91.Nandom	Nandom	Upper West	1981
92.Sonzele	Jirapa	Upper West	1983
93.Agave	Dabala	Volta	1987
94.Asubonten	Worawora	Volta	1998
95.Avenor	Akatsi	Volta	1981
96.Guaman	Guaman	Volta	1983
97.Mepe	Mepe	Volta	1981
98.North Tongu	Adidome	Volta	1980
99.Unity	Ziope	Volta	1983
100.Weto	Kpeve	Volta	1984
101.Anlo	Anloga	Volta	2001
102.Ahantaman	Agona Nkwanta	Western	1984
103.Amanfiman	Wasa Akronpong	Western	1980
104.Asawinso	Asawinso	Western	1983
105.Bia Torya	Bonsu Nkwanta	Western	1983
106.Bogoso	Bogosu	Western	1983
107.Esiama	Esiama	Western	1977
108.Jomoro	Tikobo No. 1	Western	1981
109.Kaaseman	kaase	Western	1987
110. Lower Pra	Shama	Western	1983
111. Mansoman	Manso Amenfie	Western	1984
112. Nzema Mamle	Awiebo	Western	1981
113. Upper Amefi	Ankwaano	Western	1987
114. Lower Aminfie	Shama	Western	1987