MOBILIZING DEPOSITS; THE ROLE OF COMMERCIAL BANKS IN GHANA

BY

SYLVESTER OPOKU
B.Ed (SOCIAL SCIENCES)

A thesis submitted to the Institute of Distance Learning, Kwame Nkrumah University of Science and Technology, in partial fulfillment of the requirements for the degree of

COMMONWEALTH EXECUTIVE MASTERS IN BUSINESS ADMINISTRATION

OCTOBER, 2011

DECLARATION

I hereby declare that this submission is my own work towards the CEMBA and that, to the best of my knowledge, it contains no materials previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

SYLVESTER OPOKU (2059308)

--	----------------------	----------------
Candidate's Name & ID	Signature	Date

Certified by:

MR. GABRIEL SAM AHINFUL

-------------------------------------	-----------------------	----------------
Supervisor's Name	Signature	Date

Certified by:

-------------------------------	-----------------------	-------------
Head of Dept. Name	Signature	Date

DEDICATION

TO THE GLORY OF GOD THIS DISSERTATION IS DEDICATED TO MY WIFE

MRS. ABIGAIL TAKYIWAA

ACKNOWLEDGEMENT

I do express my appreciation to Mr. Gabriel Sam Ahinful my supervisor for his Wonderful supervision throughout this dissertation. I also acknowledge with deep and profound gratitude, the invaluable assistance received from Mrs. Dora Effah, Mr. Oppong Owusu Matthew, Mr. Ernest Osei-Boateng (GCB), Nana Kofi Aduse-poku, Miss Esther Frimpong (NYAKOMA) and Mr. Anthony Donkor. May God Richly Bless You All.

ABSTRACT

Commercial banks are the main controller of the financial system in Ghana performing financial intermediation. They control greater portion of the investment funds from domestic deposits and are the main creditors of the corporate bodies, SMEs and individual investors. However, the amount of domestic funds that commercial banks receive is far below the level sustainable for self sufficiency. Huge volumes of loanable funds are left out of the banking system and it needs the efforts of the commercial banks to tap them into productive uses. The purpose of this study therefore is to identify the most effective and efficient ways commercial banks in Ghana should employ to maximize the volume of domestic deposits in the environment of high rural population, dominant informal sector employment and macroeconomic instability. Thus, the study aims to evaluate the design of bank products and services, assess their effectiveness of harnessing domestic deposits and challenges they face in mobilizing deposits. This research is based on relevant books, journals, articles and other publications. In addition, data from commercial banks in Ghana on deposits they received from 2000 to 2004 were studied to make recommendations. Results from the analysis indicated that deposits mobilization of Commercial Banks in Ghana though, has an upward trend, it increases at a decreasing rate hence, the present level of deposits as a ratio of the total amount of money in circulation is woefully inadequate. The study also reveals certain basic facts about commercial banks in Ghana. Their concentration in the cities and a few urban areas as well as their product design and services are targeted to the literate formal sector employees. In addition, unfavourable macroeconomic conditions have resulted in negative real interest rate on deposits while unnecessary government intervention has reduced the confidence in the banking sector. The effects of these factors are the low deposits that commercial banks receive. The study concluded with recommendations for commercial banks such as; the need to redefine their product target, increase their scope to include the large majority etc. in order to ensure improvements in their operations.

TABLE OF CONTENT

CHAPTER THREE: METHODOLOGY

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSIONS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

ATM ------------ Automated Teller Machine

BOG -------------Bank of Ghana

ERP --------------Economic Recovery Programme

EST --------------Estimate

FDI -------------- Foreign Direct Investment

GCB -------------Ghana Commercial Bank Ltd

GDI --------------Gross Domestic Investment

GDP ------------- Gross Domestic Product

GDS ------------- Gross Domestic Savings

GH/Gh-----------Ghana

GLSS ------------Ghana Living standard Survey

GNA -------------Ghana News Agency

ICB -------------- International Commercial Bank

OMO ------------ Open market Operations

ROSCA --------- Rotational Savers and Credit Association

SAP ------------- Structural Adjustment Programme

SCB ------------ Standard Chartered Bank

SHG ------------ Self Help Group

SME ------------ Small and Medium Scale Enterprises

S&P ------------- Standard and Poor

TUC ------------ Trade Union Congress

UNFPA -------- United Nations Fund for Population Activities

CHAPTER ONE

GENERAL INTRODUCTION

1.0 Background of the study

There has been a major interest in eradicating poverty in Ghana. The leaders of the developed countries in the various G8 summits pledged their support about debt cancellation and aid increments as their quota towards realizing this objective. Much still depends on the ability to mobilise domestic resources to achieve self sufficiency. The financial sector is one major sector of Ghanaian economy that needs to be revitalized constantly in mobilising domestic deposits to increase investment funds.

The financial system in every economy is composed of the Bank-based system where provision and monitoring of investments funds are made through the banks on one hand and the stock market where investors (surplus units) enter directly through ownership of securities. Banks play an intermediary role of mobilising funds from savers and subsequently lend them to investors- individual/corporations as mostly the case in Germany and Japan. On the other hand, investment funds can also be mobilized by floating shares (equity) in the stock exchange market (Market-Based system) where investors with surplus funds directly own part of the company (shareholder). The major players in the market-Based system are the institutional investors such as pension, mutual funds and insurance companies. In the United States and the United Kingdom economies where these institutional investors are well developed coupled with the high accounting standards and corporate laws, the role of commercial banks in mobilizing deposits has greatly reduced. According to Rajan (2005) the share of commercial banks assets as a ratio of the total assets of the financial institutions has declined from 70% to 30% in the United States while banks share of corporate debt has reduced from 19.6% in 1979 to 14.5% in 1994. This demonstrates the efficiency at which the stock market mobilizes funds/deposits for investments.

The stock markets in Ghana are not matured to the extent of mobilizing sufficient funds/deposits for investments (Kenny et al. 1998). This is due to the problem of information asymmetry, inappropriate accounting methods, low level of risk management, underdeveloped institutional investors such as insurance companies, pension and mutual funds, inappropriate corporate regulations and independent judiciary that must exist to ensure and articulate stock market capable of protecting investors and investment funds (Ross and Levine, 2000), (Beim and Calomiris, 2001). Though Kenny and Moss (1998) acknowledge growth of stock markets in Africa with the onset of certain institutional reforms like the Financial Sector Adjustment Program (FINSAP), the stock market contribution of 13.30% to GDP in Ghana is still too low to provide sufficient credits in the economy(Global Stock Markets Factsbook, 2003). While efforts are underway in these economies to provide the necessary macroeconomic environment and institutions conducive for a market-based system of financing investment there is the need to strengthen the banks along side due to the vital role they still have to play in the agriculture, Small and Medium Scale Enterprises (SMEs).

The function of the commercial banks in Ghana regarding deposits mobilization has not yielded maximum results. Banks deposit mobilization has tended to concentrate more in the urban areas. This covers the rich with regular incomes and a few large reputable companies who have the ability to save. Needless to say, most of the rural folks and small scale businessmen have limited access to the commercial banks. In many instances these people resort to ‘susu’ collectors and rotational savers for their saving services. As far as these services may achieve their purpose of mobilizing deposits, they face threats of frauds and subsequent mistrust of operators. The benefits of extending bank services to these areas would be enormous either extending bank branches where profitable or bank personnel making periodic visits and training of local group leaders capable of using bank expertise to mobilize deposits.

In Ghana there are limited sources of funds to investors and looking at the dominance of the commercial banks operating in 277 areas and commanding 70% of the banking business (Embassy of Ghana in Washington DC) there is the need for bank reforms that devise more effective ways of mobilizing deposits from these small scale enterprises and subsistent farmers and widens their scope to meet the entire population with bank products and services. The more banking services are extended to the rural savers, the more deposits will increase and “all other things being equal” supply of loanable funds will increase proportionately.

1.1 Statement of Problem

The problem this thesis seeks to address in Ghana is that mobilizing domestic deposits has not yet achieved the level sustainable for domestic investments. Most organisations still depend on foreign sources for investment funds through bilateral loan agreements (concessionary loans) and/or aid from donations to the Ghana government. The net effect is that a reduction in the volume of aid and loans reduce domestic output and has the possibility of accumulating external debt. For the purpose of achieving self sufficiency there is the need to improve ways of mobilizing domestic deposits. Records indicate that large chunk of deposits are lying idle under pillows and in bamboos in the rural areas being left out of the banking stream (Rutherford, 2000). The onus therefore, lies on the commercial banks to play a major role or to devise the most effective ways of mobilising deposits so as to increase investment funds in Ghana.

1.2 Objectives of the Study

This dissertation will focus on achieving the following objectives with respect to deposit mobilization in Ghana;

Generally, the study seeks to examine deposits mobilization of commercial banks in Ghana.

The specific objectives are;

(1) To study the trend of deposits mobilization among commercial banks over the previous years specifically, from 2000-2004.

(2) To evaluate the methods used for deposit mobilization.

(3) To identify the challenges commercial banks face in the collection and management of deposits.

(4) To find out whether the average deposit growth rates among the commercial banks are equal or not.

1.3 Research questions

Related questions to ask include;

(1) What is the trend of deposits mobilization among commercial banks from 2000-2004?

(2) What are the methods used by commercial banks for deposits mobilization?

(3) What are the challenges faced by commercial banks in the collection and management of deposits?

(4) Are the commercial banks average deposit growth rates the same?

1.4 Scope of the Study

Deposit mobilisation in Ghana is performed by many other banks in addition to commercial banks. These include developmental banks, rural banks, merchant banks, building societies and savings and loan institutions. However, this study is limited to commercial banks which specialise in mobilising deposits and maximize profits on interest on loans. The commercial banks included in this study are Ghana Commercial Bank Ltd., Standard Chartered Bank (Ghana) Ltd., Barclays Bank (Ghana) Ltd., SG-SSB Bank, the Trust bank, International Commercial Bank, Stanbic Bank (Gh) Ltd, Prudential Bank and HFC Bank (Gh) Ltd. The scope covers these banks because they have the largest share of the deposits mobilised in the country and further control the largest proportion of the financial system.

1.5 Methodology

This study was based on review of past research work. Secondary data from publications of commercial banks, Bank of Ghana (BOG) and Ghana Statistical Services was also used.

The population of the study is commercial banks in Ghana due to their use of common tools in attracting deposits and functions.

1.6 Limitations of the study

Although this study has been completed successfully, there were practical difficulties. In its best, this research work should have been extended to cover all the commercial banks in Ghana to collate facts however, the inadequacy of time, material and financial constraints have compelled the researcher to limit the study to only nine commercial banks.

1.7 Organization of the thesis

The study is structured as follows;

Chapter one deals with the general introduction to the study, the problem identification, objective of the study, the scope of the study, methodology, limitations of the study and organization of the thesis. Chapter two seeks to review research related to mobilising deposits. Issues to be reviewed include macroeconomic factors that determines deposit mobilisation, the concept of liquidity, type of deposits mobilised by commercial banks in Ghana and the effects of deposit mobilisation on capital growth and investment in the country. The structure of commercial banks is also highlighted. Chapter three presents the population and sample size; research design; sources of the data; validity and reliability of the data as well as method of analysis. Chapter four is the main body of the research work where tables and diagrams would be used in the assessment of the information acquired. It discusses the trend of deposit mobilization, the instruments used in mobilizing deposits, and problems encountered. Also, this chapter contains processing of data and information gathered from the commercial banks and personal experiences.

Chapter five evaluates commercial banks' process of mobilising deposits in Ghana. It also encompasses the findings, suggestions and conclusions drawn from the study and recommendation as to how commercial banks can maximise deposits or otherwise eliminate practices and policies which are detrimental to deposit mobilisation in Ghana

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The principal source of funds for commercial banks in Ghana is the deposits they mobilise from households and other company surpluses. According to a lecture produced by Dighe (2005), deposits form 63% of commercial bank liabilities. This indicates that factors that affect deposits mobilisation have a huge impact on the performance of commercial banks. Developing economies are characterised by unstable macroeconomic environments such as inflation, inappropriate fiscal and monetary policies, interest rate controls (Kose et. al. 1999). The net effect is the change in liquidity which affects savings and capital formation. Where the macroeconomic environment is favourable to savings then the commercial banks are in a better position to increase savings. On the contrary, where macroeconomic policies erode liquidity from the hands of the people then deposits reduce and may negatively impact on capital growth and investment in the country.

This chapter seeks to examine the concept of liquidity, the macroeconomic factors that affect deposit mobilisation, and the effects of deposit mobilization on capital growth and investment in an economy.

2.1 The Concept of Liquidity.

Liquidity has diverse meanings according to the context within which it is used. Jason (2001) in his article "Liquidity: Advanced Trading Concept" defines it to be the ease at which assets can be turned into cash.

The faster an asset can be turned into money, the more liquid it is (Freixas et. al 1998). Liquidity from the banks' point of view is the ability of the bank to meet its day to day withdrawals. Banks by accepting short term deposits (liabilities) and lending them to borrowers by loan commitments (assets) have the obligation to keep part of the deposits to meet daily demands for money (Hull 2003). Where the bank has enough cash to meet daily demand for money then it is liquid (Freixas et. al. 1998). This is not in any way a measure of soundness of the bank regarding its capital adequacy ratio. The latter is the ratio of the bank's paid up capital and accumulated reserves (adjusted capital) to total asset, less risk free assets plus off balance sheet assets (adjusted asset base) (GCB, 2002).

A bank can be liquid but not necessarily solvent (Basel II). Households and firms who are the bank main depositors are also affected by the concept of liquidity. The latter is based on their motives and preferences. Liquidity preference on the part of household/firms is the desire to hold money other than assets. Thus, it is the unwillingness on the part of potential savers to part with money based on three motives; transaction, speculative and precautionary (Keynes 1964). Keynes identifies that people keep money rather than investing it for the purpose of meeting daily transactions and/or making a purchase of securities they speculate to appreciate in value and/or meeting unforeseen expenditures. Speculation is higher in the developing countries with persistent inflation. In such economies people keep money in assets and these affect deposits banks receive. In an economy of political and future uncertainties lots of precautions have to be taken. People keep money and/or any form of assets rather than deposits with the banks to deal with unexpected situations such as making unplanned journeys, sickness and bereavement. Expenditure affects liquidity and it is inversely related to deposit mobilisation.

2.2 Macroeconomic Factors that Affect Deposits Mobilisation

Introduction

The macroeconomic factors that affect money in circulation and consequently deposits with the banks discussed in this piece of work are interest rates, fiscal policy, monetary policy and inflation.

2.2.1. Interest Rate

Interest rate is the price for money that depositors receive from the bank. This is the opportunity cost of capital that savers/borrower receive/pay by lending to/borrowing from the financial intermediaries. With regards to deposit mobilization the ruling interest rates attracts more deposits when it is comparatively higher than the rate of investment. In the developing countries the trend of the government has been the use of interest rate ceilings as a regulatory mechanism to provide cheap credit to SMEs (World Development Report (1989). Regulation of interest rate below the competitive market interest rates by government legislation leads to capital flight by the international investors especially where portfolio investment is significant and withdrawal of deposits domestically (Gilbert et al, 2001). McKinnon-Shaw

(2001) hypothesis also confirms that regulating interest rates at or below the equilibrium damages economic development by reducing incentive to hold financial assets and encouraging unnecessary credit rationing. This hypothesis further argues that freeing interest rate as part of the liberalisation policy will promote deposit mobilisation and ensure efficient allocation of credits to the sectors where returns can be maximized (Laurenceson , 2004).

However, Hellman et. al. (2000) cautioned the fragility of the banking sector through interest rate liberalisation and its susceptibility to crisis where the necessary precautions and preconditions are not adhered to. The above arguments confirm that, high interest rates attract savers to save more and this increases the rate of deposits banks receive. Thisen (2004) identifies that the average rate of returns or the average deposit rates offered by financial institutions range between 12 and 18 percent while the average rate of return on commercial banks time deposits was 6-8 per cent in Sub-Saharan Africa. Deposit mobilization will be ideal for commercial banks where market forces are allowed to determine the equilibrium interest rate where government concentrates on creating an enabling environment condusive for investment and capital formation. Hellmann et al.(1995) emphasized that deposits rate controls breed asset substitution where depositors seeks alternative way to save such as real estates, gold and other durable assets rather than money. A positive real interest rate is an incentive for saving and increased deposit mobilization. Otherwise, negative real interest rates as often the case in the developing countries is a disincentive to savings and subsequently reduce bank deposits.

2.2.2. Fiscal Policy

2.2.2.1 Taxation

Fiscal policy relates government revenue to its expenditure. In Ghana taxation is the main source of government revenue and the effectiveness of which rests on its ability to generate required revenue and support investment (Tanzi, 1991). Taxation is often defined as 'the levying of compulsory contributions by public authorities having tax jurisdiction, to defray the cost of their activities'. No specific reward is gained by the tax payer. The money collected is used for the common good of the citizenry -for the production of certain services, as aforesaid, which are considered to be more efficiently provided by the State rather than by individuals e.g. maintenance of law and order at home, and defence against external enemies, etc. (Ali-Nakyea, 2008).

According to Obeng (2008) 'Tax is a person's share, contribution and obligation for the maintenance of socio-economic order, and good governance and to enjoy the sovereign rights, privileges and powers of a state'. Dua Agyeman (2005) defines taxation as 'the demand by the central or local government for a compulsory payment of money by citizens of a country other than as payment for some specific service or as a penalty for some specific offence'.

'Taxation is the process whereby a state or government exacts contribution from its citizens or from the residences of its territory for the maintenance of the state machinery' (Goldsmith, 1951).

Salifu Wumbei (2010) stated that 'taxes are compulsory statutory payment made to government with no obvious and immediate benefit to the taxpayer but for the benefit of all'.

He further indicated that the correct payment of taxes by citizens promoted the development of every nation and the well-being of its people.

Keen and Mintz (2004) have pointed towards the opportunity costs associated with raising a small taxpayer threshold. On the other hand, there is revenue loss when the small taxpayer threshold is raised. On the other hand, there is higher output from producers at the margin which can expand production while staying under a newly raised threshold.

Tax is also defined to be a ‘‘compulsory contribution to government made without reference to a particular benefit received by the taxpayer’’ (Goode, 1984. pp75). Where the tax system is effectively designed to widen the base rather than imposing a high rate on the tax payers, ‘all other things being equal’, disposable income will be high and deposits will increase proportionately.

The governments of the developing countries have both poorly designed tax systems which are over dependent on trade taxes and have persistently increased tax rates as a means of generating more revenue. This makes them disincentive to investment (Tanzi 1991). Russel, (1999) acknowledges that a tax system with high incidence on investment income reduces capital formation. On the contrary, tax subsidies increase disposable income and the ability to save more for future investment. Hussain, (2000) advocates for tax holidays on dividends for a period of time sufficient to boost local capital formation and increase savings. The above arguments suggest that tax policy in a country has an impact on deposit mobilization and a developing country aimed at boosting local savings must have efficient tax policies.

2.2.2.2. Government Expenditure

Government expenditure refers to all monetary expenditure on goods and services made by the government on behalf of the community. It includes both recurrent and capital expenditure on items like health, education, administration and so on. The recurrent expenditure refers to the expenditures that occur at regular intervals in the annual budget of the government. These expenses include expenditure on defence, administration and debt servicing particularly payment of interest on loans, road maintenance, and cost of health and education services.

Capital expenditure on the other hand, is the expenditure incurred on capital project. That is, it is the cost of major projects which will not be a regular expense in future years. It includes expenditure on fixed assets like construction of dams, new school building, new roads, hospital building and other expenditure on productive ventures such as agricultural, industry and mining.

Government spending generally focuses on consumption and investment and these have a different impact on the Gross Domestic Products of a country. Evidence from Singapore and Kenya from 1960 to 1996 confirms the Neo-classical economic view that GDP growth directly affects savings (Wikipedia Encyclopedia, 2005). Sahoo et al (2001) in the Indian case accepts that saving is the engine of growth. The inference from the above is that government expenditure that supports investment will surely facilitate deposits mobilization. Keynes in his Macro-Crossed Diagram in the open market economy on short and long run concludes that government expenditure on consumption (imports of consumables) worsens the balance of payment problem in both the short and the long run and has the multiplier effects of low savings and output. In addition, unnecessary competition by government and the private sector for domestic investment crowd out investments and reduce outputs. An increase in the government expenditure on interest payments which often takes more than half of total government expenditures denies the resources that can be invested in the productive ventures to create more employment (Virmani 2002). Expenditure that creates jobs ensures regular income and savings, hence, bank deposits increase. On the other hand, expenditure on investment such as importation of capital goods, development of institutional and infrastructure facilities which aid private sector investments may generate employment and multiplier on savings and output in the long run. Where the latter situation holds, all things being equal, deposit mobilization will increase.

Generally, an increase in government expenditure injects more money into the hands of the people and assuming no change in inflation and tax rates as well as demand for more goods and services, more income will be available for savings and deposits will increase accordingly. Also, where expansionary government expenditure leads to increase in domestic borrowing, interest rates on loans increase and 'all other things being equal', more deposits would be attracted. However, Virmani 2002 argues that high interest rates will increase cost of borrowing and crowd out private investments.

2.2.3. Monetary Policy

The investor dictionary defines monetary policy to be "a policy used by a government or central bank to influence the supply of money and credit in private hands, used for controlling inflation (Investor Dictionary.com)." In Ghana, the government controls money supply through the central banks unlike in the United Kingdom where the Bank of England is independent of the government in pursuing monetary policies. The central bank being the main actor in this respect uses monetary tools such as reserve ratios, discount rates, and open market operations to control money supply and inflation in the economy. Control of money supply has a direct relationship with deposit mobilization and inflation control. This section will deal with how control of money supply with the use of instruments above can affect deposit mobilization while in the subsequent section the effect of inflation on deposit mobilization would be discussed.

2.2.3.1 Open Market Operations (OMO)

Open market Operations (OMO) is one of the three monetary tools commonly used by the central banks to regulate money in circulation. This deals with the purchase and sales of government securities in the open market with the objective of influencing bank reserves. Like the Federal Reserve Bank of New York, the OMO enables the central bank to influence short term interest rates and reach other monetary targets of either reducing money in circulation or otherwise and/or create seasonal or cyclical shift of funds between sectors (Fedpoints, 2001). The central bank sells out securities to its dealers through their clearing banks and the accounts of the dealers are debited upon delivery of the security (contraction monetary policy). This drains reserves from the banks and reduces liquidity in the hands of purchasers. On the contrary, where the central bank is bent on increasing bank reserves and liquidity in the hands of the purchasers, it buys securities from the primary dealers and credits their accounts at their clearing banks (expansionary monetary policy). In the developing countries, central banks have the habit of printing money to finance deficits, though may be inflationary has similar expansionary effect on the liquidity (Roubini, 2005).

The central bank receives the security back from the dealers which enable it to issue them back at the appropriate time (Ruby, 2003). Where the action of the central bank is to influence money supply and /or interest rate in the short term, then a sale may be accompanied by repurchase agreements. Otherwise on a long term monetary policy, selling and buying of securities may be subjected to bidding (Federal Reserve Bank of New York).A contractionary monetary policy which involves selling of securities like treasury bills, treasury bonds and treasury notes reduces money stocks and loanable funds. Costs of credit become high as interest rates on loans increase. All other things being equal, high returns on loans induce depositors to deposit more of their money surpluses in the banks if prices and income levels remain constant. However, softening the interest rates through repurchases of securities and injection of reserves induces interest rates to fall. This makes depositors' substitute for real assets which may appreciate in the future which may reduce bank deposits. As reported in the Indian Express, a fall of time deposits of more than one year maturity from 10-12% to 9-11% led to a fall in the aggregate deposit growth from 4.6% to 4.3% and the growth in time deposits declined from 7.2% to 6.6% (Indian Express, Friday, Oct. 2, 1998).

2.2.3.2 Reserve Requirements

Out of every deposit that commercial banks receive from depositors, a proportion is set aside in accordance with the central bank directives. This reserve neither forms part of the loanable funds nor earns interest and serves as a form of liability to the commercial banks. The central bank is the repository of reserve and uses it to facilitate inter bank clearance as well as bailing out banks in time of crises (Beim et al, 2001). Reserve is revenue to government by making it possible to reduce the amount of interest bearing coupons that government would have issued thereby reducing cost of debt servicing. Conversely, it is an implicit tax on banks with the incidents of it being borne by depositors. This accounts for the reason why central Bank in Ghana mostly has high reserve ratios on bank deposits. High reserve requirements affect bank operations in two main ways. On one hand, it induces banks to impose high interest rates on loans to enable them to cater for future interest rate risks, market and liquidity risks

(Hull, 2003). On the other hand, it compels banks to pay lower interest rates on savings to enable them to pay for administrative and other overhead costs. Lower returns on savings discourage deposit mobilization in an economy.

2.2.3.3 Money Creation by Commercial Banks

The central bank influences reserves through open market operations, discounted rates and reserve requirements. Based on the assumption that borrowers invest money, make no cash withdrawal and banks make use of reserves, money supply can be increased through the multiplier in money creation. With the further assumption that there is a 10% reserve ratio, the central bank sells government bond to the commercial banks for ¢10,000 and reserves decrease by ¢10,000. The bank must make a new reserve of ¢10,000 either by sales of asset, recall loans and/or borrow additional reserves. If Bank 'F' recall loans of ¢10,000 the borrower pays from Bank 'E'. The former increases reserve enough to meet the requirements while the latter falls by the same amount of loan. Therefore, the higher the reserve requirement ratio the lesser the money banks can create with their available reserves.

2.2.3.4 Discount Rates(prime rate)

Money supply and interest rates which determine deposits can be influenced by the discount rates at which central banks lend to commercial banks. Commercial banks borrow from the central banks when they are in need of excess reserves to buttress their reserve requirements to meet withdrawals and extend more loans. The rate at which central banks charge commercial banks is the discount rate. In the event of a higher discount rate less would be borrowed and this will reduce the supply of money and loanable funds. High discount rates reduce returns on loans from firms and individuals who borrow from the banks, deposits and consequently savers will offer fewer deposits to banks. Lower discount rate allows banks to borrow more and extend more loans to borrowers as well as reducing possible moral hazards and adverse selection. It further facilitates loan repayments and increase returns to depositors. This facilitates deposit mobilization by commercial banks and all things being equal more deposits will be received.

2.2.3.5 Special deposit - This is the amount the Commercial Banks are required by law to keep with the Central Bank when the need arises. The Central Bank may reduce or increase it to regulate the money in circulation. When the special deposit is increased by the Central Bank, it reduces the money in circulation and hence, deposit mobilization.

2.2.4. Inflation

Banks in their quest to boost deposits and increase self sufficiency must analyze the behavior of depositors in a period of inflation. The latter is the persistent increase in the general price level for a specified period of time. Thus, it is a fall in the market value of money (purchasing power) as a result of persistent rise in prices. Real value of money declines resulting in benefit to debtors and loss to creditors (Brealey and Myers 2003).

From the monetarist point of view inflation is demand pull and an exogenous rise in money supply is the causality. In the short run an increase in money supply induces demand above supply of goods and services which causes prices to rise until the market adjusts to the equilibrium. The structuralist, however, argues from the effect of changes in the socio-political, economic and institutional structures with the view to increasing growth in the economy of market failures (Kirkpatrick and Nixon, 2002).

Beim expresses the most popular view held by economists by characterising on inflationary period as the period of uncertainty, distortion of capital gains and negatively impacts on the real interest rates making markets difficult to allocate resources efficiently (Beim et al., 2001). Investors with surplus funds hold on to assets which can appreciate in value rather than money whose value are frequently eroded away. Empirical evidence from Latin American countries as stated in the World Development Reports indicates that inflation is an implicit tax on depositors and has the capacity to reduce profits through low deposit rates. A strong correlation exists between real interest rates and inflation as both can impact on deposits and savings (World Development Report, 1989).

2.2.5 Income Levels

Income level is another macroeconomic factor that affects deposit mobilization in Ghana. The Trade Union Congress (Ghana) stipulates that incomes in Ghana are very low despite the growth in the Gross Domestic Product (GDP) (Trade Union Congress Report, 2004). According to the UN report as stated by the TUC an average Ghanaian with a household of four earn 65 US cent as daily per capita income and less than $1 a day with the exception of those in the top 20% of the income distribution living in Accra. The GDP growth rate is 4.2% with the GDP per capita income of the country being US $ 390. These have negatively affected national savings (Gross Domestic Savings (GDS) to be as low as 9.8 as a percentage of GDP while Gross Domestic Investment (GDI) is 24.1.% of the GDP (Sowa, 2004). Incomes in Ghana differ greatly in accordance with the type of work and the place of work. The Ghana Living Standard Survey (GLSS) conducted in 2000 reveals that 86.2% of the population are in the non-formal wage employment while 13.8% are in the formal employment (Ghana Statistical Service, 2000). This implies that formal wage employment employs less than a quarter of the labour force. Meanwhile, these are the very people dealt with by commercial banks. The people who are in non-formal wage employment should by all indications have the ability to save more numerically.

2.3 The Link between Deposits Mobilization, Investment and Capital Growth

Investments and savings in Ghana have been classified as low and this has been attributable to low incomes and the inability of the financial institutions to mobilise investment funds locally (Loayza et al, 2000). Investment and capital growth in the country are dependent on the ability of the financial intermediaries to mobilize deposits from saver and prudently lending them to firms and individual borrowers (World Development Report, 1989). This section examines the relationship between deposits, investment and capital growth. One of the arguments in favour of capital account liberalisation is widening the scope within which banks can mobilize more resources for investment (Gilbert at al; 2001) (Fry, 1997). Schmidt-Hebbel et al (1996) reviewed in Mussa and Goldstein (1994), Tesar and Werner (1992) that national savings are largely retained in the home country where they increase domestic investment and these are left with the local institutions to mobilise more deposits to increase savings.

The argument now is whether investment increases capital formation and growth which will necessitate the banks efforts for more deposits for investment. The neoclassical theorist of the 1960s and 1970s argue there is no causality between investment and long term growth and attribute growth to technological innovations. They, however, admit that capital formation affects growth in the transition stages of economic development. Above all, empirical evidence from the East Asia and Latin American economies indicate strong links between gross domestic investment ratios and long term growth performance (Schmidt-Hebbel et al, 1996).Bank deposits are crucial for investments in the economies where savings and capital formation are low. Deposits are forms of savings and both have a direct relationship with capital formation and growth. Invariably, this provides the banks with more capital in the form of credits to be able to extend more loans to investors. Investors employ more human capital; carry out innovations and research to expand output ‘all other things being equal’. Where these conditions hold, employees receive regular and save income to increase their savings and capital formation while investors have access to cheap investment funds to increase production. Efforts by commercial banks in Ghana, more especially where they dominate the financial market, to increase local deposits are step towards self reliance and sustainability.

2.4 Commercial Banks in Ghana

In all, there are twenty-seven (27) commercial banks in Ghana performing an active role in mobilizing deposits in the country. These include the Ghana Commercial Bank Ltd, Barclays Bank (Ghana) Ltd, Standard Chartered Bank (Ghana) Ltd, SG-SSB Bank Ltd, Trust Bank, Prudential Bank (GH) Ltd, HFC Bank (Ghana) Ltd, International Commercial Bank, Unibank (Ghana) Ltd, Ecobank (Ghana), Access Bank (GH), Cal Bank, Energy Bank, Banque Sahelo-Sahariennne pour l’investissement et le commerce (BSIC), Guarantee Trust Bank (GH), Intercontinental Bank, United Bank for Africa, UT Bank, Zenith Bank, Bank of Baroda, First Atlantic Merchant Bank (Ghana), Merchant Bank (Ghana) Ltd, Fidelity Bank (GH) List, ARB Apex Bank Ltd. Amalgamated Bank, and Metro-politant&Allied Bank Ltd, listed in descending order of rank in accordance with the standards set up by both Fitch and Standard and Poor (S&P) Credit Rating Agencies (Bankscope, 2005). Bank ratings largely depend on the strength of both their capital adequacy ratio and the volatility to credit and interest rate risks. The larger a bank's capital adequacy ratio, the less vulnerable it is to crisis and 'other things being equal', the more solvent it becomes.

In summary, deposit mobilization is crucial for investment and growth in Ghana in their strives for self reliance. However, the stock market which seems to be the driving force for the mobilization of investment funds in Ghana is still underdeveloped. Commercial banks continue to dominate in financial intermediation and have the obligation to expand their deposits in order to extend more loans. In doing so, commercial banks need to be aware of the liquidity situation in Ghana, the macroeconomic environment within which they operate and the influence of the central bank in the regulation of money supply so as to facilitate their product design and services to attract depositors. This piece of work further assesses the present mechanisms that commercial banks in Ghana employ to mobilise deposits, the challenges they encounter and the ways of improving future performance.

2.5 Functions of commercial banks

Commercial banks are joint stock financial institutions whose main aim is to make profit for their shareholders. They accept deposit and keep valuable items for their customers and make them available on demand. Commercial banks by accepting deposits provide safe keeping place for their customer's money and at the same time mobilize savings for development. The deposit is made up of three forms; demand, savings and time deposits. Through these savings, the banks mobilize idle resources and channel them into productive sectors for higher production and economic development. One of the main forms of deposit kept by commercial banks is savings account. This type of account is operated with the use of passbook. Deposits and withdrawals are recorded in this passbook by the bank. The account attracts interest for their customers but if withdrawals are more than twice in a month, it may not attract interest. Someone else could pay in money into the account but withdrawal is made personally by the customer. It is the most common form of bank account. It encourages the low income earners to form or develop the habit of savings. Saving account holders can apply for loans but not overdraft.

Another form of deposit operated by commercial banks is the current account or demand deposit. They are deposits kept by commercial banks for customers which are subject to withdrawal by cheques. Money can be withdrawn as soon as the need for it arises. This type of account is usually operated by businessmen, organisations and what have you. This type of account does not attract any interest but rather the owner pays the bank some economic charges. The owners can also apply for overdraft and loan.
Apart from savings and current accounts, commercial banks operate fixed or time deposit account for people who can afford to keep their money in the bank for reasonable long period without making any withdrawal from the account. This means that, a time lag or a period is allowed to pass after one has deposited before withdrawal can be made. Individuals and firms use fixed deposit account for keeping money they do not need at present. A customer who operates a fixed deposit account receives a higher interest rate than on the ordinary savings account. Before the money in fixed deposit account is withdrawn the bank must be given between 7 and 14 days notice.

Not only do commercial banks accept deposit but also grant credits to their customers. Commercial banks grant short-term loans and overdrafts to their customers. With overdraft, the customer is allowed to withdraw an amount more than what he has in his account and pay an interest on the excess. Through these credit facilities, producers, businessmen and other individuals are able to secure capital for investment, increase output and incomes to achieve economic development. Contrally, commercial banks at times face the problem of loan or credit repayment. Wills (1956), stated that cheap credit from formal banking institutions make people less careful about its use and then, use them on unprofitable areas thereby facing repayment difficulties.

Commercial banks again perform the function of stabilizing the economy by helping to implement government monetary and credit policies for rapid economic growth and development. They do this by buying and selling government securities such as treasury bills and also help in using the various monetary tools such as bank rate, open market operations, cash ratio etc. to regulate money supply in the economy.

Also, commercial banks sometimes undertake direct investment in the productive sectors of the economy. Minsky (1982, 1985) assumes that bank financing is needed in an investment project and the decision of investment is made under uncertainty. Once the decision to invest is taken and the project financed, there is the likelihood of getting high expected revenue for the development of the economy.

Advisory service is also a function performed by commercial banks. Commercial banks give expert advice to their customers especially those who have huge capital and want to invest. They have research department which undertake research on the various sectors of the economy and therefore advise their customers on the productive or profitable areas for their investment.

2.6 The Structure of Commercial Banks in Ghana

Commercial banks in Ghana differ in their ownership structure. They range from those wholly owned by foreigners such as the International Commercial Bank to those of Ghanaians like the Unibank and Amalgamated Bank. Others have different sizes of ownership where foreign or local ownership may dominate. Acquah,2003 observed that out of the thirteen commercial banks operating in Ghana foreigners own the larger percentage. Among the four top rated commercial banks in Ghana, GCB has 97% Ghanaian to 3% foreigners' ownership ratio while Barclays Bank (Ghana) Ltd has 10% to 90%, Standard

Chartered Bank (Ghana) Ltd 24% to 76% and SG-SSB Bank Ltd 46% to 54% local to foreign ownership respectively.

CHAPTER THREE

METHOLOGY AND ORGANIZATIONAL PROFILE

3.1 Introduction

This chapter covered the methods of the study. It took into account the entire research design that is, methods adopted in the sampling technique; population and sample size of the study; the nature and source of data, and the way these data were collected and analyzed. The validity and reliability of the data were also high –lighted.

3.2 Design of Study

A research design is the logic that links the data to be collected (and the conclusions to be drawn) to the initial questions of the study (Yin, 2003). If empirical research has no an explicit research design; it has an implicit plan which guides through the research process. For determining the case study design, five components need to be taken into account: the study's questions, its propositions, its unit of analysis, the logic linking the data to the propositions and the criteria for interpreting the findings (Yin, 2003).

This study mainly had an explanatory research purpose since it aimed to establish the effect of methods used by commercial banks on deposits mobilization.

According to Yin (1994), there are five major research strategies used to answer research questions which are experiments, surveys, archival analysis, histories and case studies. This study adopted a case study approach (i.e. commercial banks in Ghana as a case). Yin (1994) suggests that a case study methodology is a preferred research approach where the research question to be addressed is a type of how-why; control of the researcher over the research is none or very insignificant and the focus is on a contemporary phenomenon. Because of these differentiating characteristics, no approach could have answered and achieved the research questions and objectives respectively than the case study method. In the case study methodology, the focus is not on a limited number of predetermined independent variables, but on factors, which are helpful in explaining the observed phenomena.

3.3 Population and sample size

The population of the study is commercial banks in Ghana. Out of the twenty-seven (27) Commercial banks, nine (9) have been selected as the sample size because of access to ready data. In addition, some of the banks were not in operation during the periods under consideration (2000-2004)

The sample include the Ghana Commercial Bank Limited, Barclays Bank (Ghana) Ltd, Standard Chartered Bank (Ghana) Ltd, SG-SSB Bank Limited, Trust Bank, Prudential Bank Ltd, Stanbic Bank (GH) Ltd, HFC Bank (Ghana) Ltd, International Commercial Bank, listed in descending order of rank in accordance with the standards set up by both Fitch and Standard and Poor (S&P) Credit Rating Agencies (Bankscope, 2005). Banks' ratings largely depend on the strength of both their capital adequacy ratio and the volatility to credit and interest rate risks. The larger a bank's capital adequacy ratio, the less vulnerable it is to crisis and other things being equal the more solvent it becomes. Due to the small sample size, it is recommended that interpretation of the results from the study should be done with some degree of caution.

3.4 Sources of Data

The secondary data source used included audited and published financial statements for the years 2000 to 2004. The websites of the various banks, annual reports, brochures, past research work, publications of Ghana statistical service, books as well as print media were also scrutinised for information. The periods were chosen because of access to ready data. The data was sourced from nine (9) commercial banks and was basically from the Annual Financial Reports which were gathered through contacts of their Managing Directors.

.

3.5 Validity of Data

The validity is concerned with accuracy of data. That is, the validity refers to the extent to which the data obtained is accurate for the purpose. The researcher exercised validity by soliciting an audited and published financial statements from competent Managing Directors of the banks. The data especially, the Annual Reports of the banks did not pose any problem to the researcher since they were outside their ‘zone of indifference’ and therefore was authentic. This helped the researcher to get relevant information for the purpose of the study.

3.6 Reliability of Data

Reliability of data concerns its consistency. Thus, reliability refers to the extent to which the data is the same irrespective of their source. That is, the data specifically, the annual reports of the banks and publications of Ghana Statistical Service were not at variance with each other and therefore were reliable.

3.7 Method of Data Analysis

Data analysis as defined by Montgomery (1991) is a careful examination of collected information in an organised form in order to understand the growing trend in any situation. Creswell (2005) defined data analysis as a process which involves drawing conclusions and explaining findings in words about a study.

The analysis of the data generated from the financial reports was graphically represented with the help of excel and explanatory notes to determine trends of the various components listed under sample structure and size. This is intended to show the nature and the extend of risks or healthy nature of commercial banks operation. Again, SPSS was used for the analysis of variance (ANOVA). The detailed of the analysis is captured under chapter four.

3.8 Analysis of variance (ANOVA)

In order to know whether the average deposit growth among the commercial banks are equal or not, the researcher used ANOVA.

One way ANOVA test with amount of deposits being the dependent variable and the bank being the factor is to determine whether the banks average deposit growth rates are equal or not.

Factor= Year and then the dependent is the amount of deposit generated.

Table 3.1 Commercial banks average deposit growth comparison

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	56456422676616.375	8	7057052834577.047	28.125	.000
Within Groups	11542092169262.258	46	250915047157.875		
Total	67998514845878.633	54			

Source: Bankscope (2004).

Let Ho= Null hypothesis

H1= Alternative hypothesis

Ho: There is no significant difference among the banks deposits.

H1: There is significant difference among the banks deposits.

From F distribution table above (table 3.1), since the significant level from the ANOVA is 0.000 which is less than 5%(0.05) significant level for accepting null hypothesis, we reject the null hypothesis and conclude that there is significant difference among the banks deposit mobilization.

Table 3.1.1 Commercial banks annual average deposit comparison

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	6140630977436.772	4	1535157744359.193	1.241	.306
Within Groups	61857883868441.870	50	1237157677368.837		
Total	67998514845878.642	54			

Source: Bankscope (2004)

Again, for the researcher to know whether the average deposit within the years are equal

or not, analysis of variance(ANOVA) was used.

The hypothesis were as follows;

Ho: There is no significant difference among the yearly deposit.

H1: There is significant difference among the yearly deposits.

Since the significant value from table 3.1.1 above is 0.306 which is greater than 5% significant level, we reject the alternative hypothesis and accept the null hypothesis and conclude that there is no significant difference among the banks yearly deposit.

To conclude, even though there was significant difference as far as the banks general average deposits growth rate was concerned, in terms of year to year average deposits growth rate there was no significant difference.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSIONS

4.1 Introduction

One of the most important functions of the commercial banks in Ghana is financial intermediation; mobilizing deposits from those who have excess supply and lending them to those with excess demand. In their quest to accomplish these objectives commercial banks identify various tools to facilitate their operations.

Commercial banks in Ghana through their various products have embarked on an intensive marketing drive to enhance deposit mobilisation. The mechanism has always been product design. These products must be designed to be customer focused. Indeed, they must be designed to either target their corporate customers such as Unilever Ghana Ltd, Guinness Ghana Ltd, Ghana Brewery Ltd, Small and Medium Scale Enterprises (SMEs) and/or individuals saving through current and/ or saving accounts. Above all, the products must attract and retain valuable customers to be able to generate the required profits.

4.2 Trend of Deposit Mobilisation in Ghana

A study of deposit mobilisation in Ghana from the year 2000 to 2004 reveals an upward trend. A sample of nine(9) out of the twenty-seven(27) commercial banks involving the top rated banks by Ficth and Standard & Poor Rating Agencies indicates an average yearly increase of 32.1% calculated from the yearly percentage increase in deposits.

Theoretically, a growth rate of 32.1% in deposits may be considered sufficient to increase supply of loanable funds. However, the present level of deposits as a ratio of the total amount of money in circulation is woefully inadequate (Chapter one).

There is a wide disparity in the rate of deposit growth among commercial banks. The newly established commercial banks for instance Stanbic Bank (Gh) Ltd, Prudential Bank and International Commercial Bank have higher deposit growth rates than the traditional commercial banks such as the Ghana Commercial Bank, Barclays Bank (Gh) Ltd and the Standard Chartered Bank (Table 4.1 and figure 4.1). Over the years studied, Stanbic Bank has more than doubled its deposits yearly while International Commercial Bank and Prudential Bank almost doubled their deposits receipts in 2001. However, Standard Chartered Bank fell behind its deposits in the previous year.. This is likely to be the effect of the high rate of inflation in early 2001 as discussed in chapter two. Though there were increases in the deposits received by all the other commercial banks in the year in question (2001), the rates were comparatively minimal.

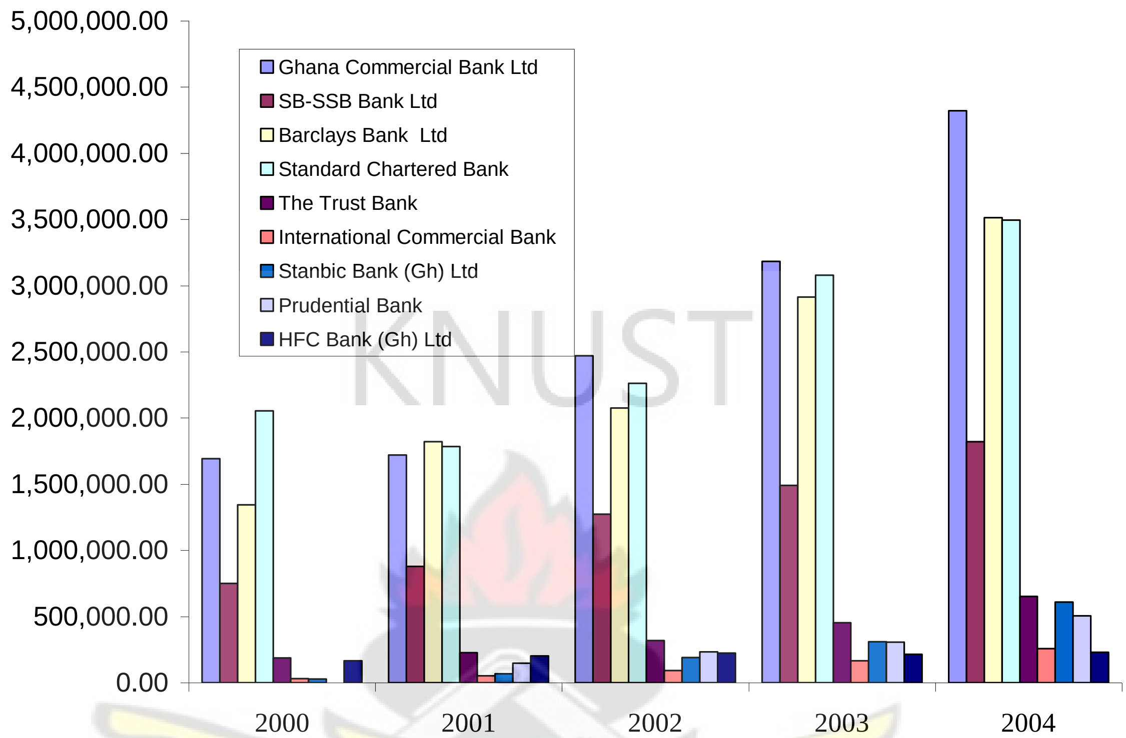
The data presented in table 4.1 and figure 4.1 below only gives an idea about the amount and the rate of increase over the years studied. There is no distinction as to the proportion of annual deposits mobilized domestically. Evidence from the ownership structure as given in (Acquah, 2003) indicates that foreigners own a greater percentage of commercial banks in Ghana. This suggests that more of their deposits may rather come from foreign sources instead of the domestic country. If the latter scenario holds, then in the event of macroeconomic instability as has been the case in the previous years (chapter two) with its related capital flight, the Ghanaian commercial banks may be prone to financial crises.

Table 4.1 Commercial Banks (Ghana) Deposits (2000-2004)

Bank	Annual Bank Deposits (Mil GHC)						
	2000	2001	2002	2003	2004	Total	Average Growth Rate(%)
Ghana Commercial Bank Ltd	1,693,283.0	1,720,419.0	2,470,177.0	3,183,830.0	4,321,166.0	13,388,875.0	21.9
SB-SSB Bank Ltd	748,435.0	879,010.0	1,273,180.0	1,491,561.0	1,821,854.0	6,214,040.0	24.7
Barclays Bank Ltd	1,344,383.0	1,819,836.0	2,075,643.0	2,912,024.0	3,511,465.0	11,663,351.0	22.0
Standard Chartered Bank	2,053,668.0	1,783,000.0	2,262,199.0	3,077,375.0	3,494,800.0	12,671,042.0	12.5
The Trust Bank	186,613.6	227,158.1	317,845.1	452,847.7	652,760.1	1,837,224.6	29.6
International Commercial Bank	29,278.9	50,976.6	91,998.2	166,441.9	257,516.0	596,211.6	47.2
Stanbic Bank (Gh) Ltd	26,825.1	67,408.0	190,832.3	308,690.4	610,446.6	1,204,202.4	98.8
Prudential Bank	80, 664.5	145,693.2	234,062.0	305,914.0	503,950.0	1,189,619.2	47.3
HFC Bank (Gh) Ltd	164,409.0	201,889.6	224,307.2	213,753.0	230,539.0	1,034,897.8	7.4
Total	6,246,895.6	6,895,390.5	9,140,243.8	12,112,437.0	15,404,496.7	49,799,463.6	**32.1**

Source: Bankscope; annual deposits figures were extracted from the balance sheets and used to calculate the growth rates.

Figure 4.1 Trend of Commercial Banks Deposits Average Growth Rate



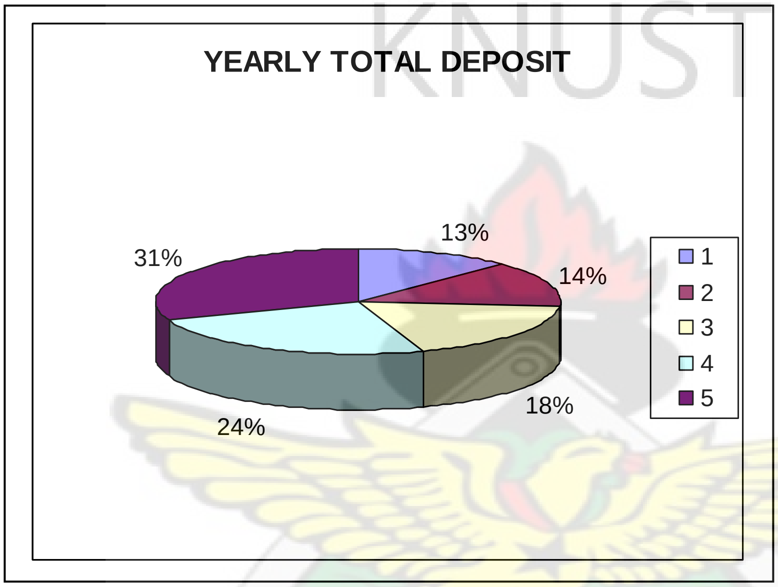
Source: Bankscope; annual deposits figures were extracted from the balance sheet.

The figure 4.1 above, though, review upward trend, the average deposits growth rates were comparatively minimal..

Considering the individual commercial bank's strength of mobilising deposits, the study reveals that the amount of deposits gathered over the five year period is directly related to the number of branches. The larger the number of branches the larger the volume of deposits received. The Ghana Commercial Bank has the highest number of branches and total deposits as well as Barclays Bank and Standard Chartered Bank in that order. However, SG-SSB Bank ranks second in branches but fourth in total deposits. This must be due to over concentration on pension funds and students loan schemes previously. In all, total deposits commercial banks receive increase yearly. Figure 4.1

illustrates the total deposits of individual banks and total deposits in each year over the five year period respectively.

Figure 4.1.1 Yearly Total Deposits (2000-2004)



YEAR

1. 2000
2. 2001
3. 2002
4. 2003
5. 2004

Source: Bankscope (2004).

From figure 4.1.1 above, the percentage of the commercial banks yearly total deposits increased from 13% in 2000 to 31% in 2004.

Deposits form a major proportion of commercial banks' liabilities (Bankscope, 2004) and are the main source of loanable funds to individual investors and corporate customers. In the year 2004 alone the share of deposits (from table 4.1) as a percentage of Ghana Commercial Bank's liabilities was 77.0% while Barclays Bank (Gh) Ltd, Standard Chartered Bank (Gh) Ltd and SG-SSB Bank recorded 73.3%, 79.5%, 74.7%

respectively. This underscores the over dependency of commercial banks in Ghana on deposits and the issue of their efficient mobilisation needs to be addressed.

4.3 Instruments of Deposit Mobilisation in Ghana

Generally, commercial banks in Ghana use common tools to attract deposits. These tools have dual functions. Primarily, they are means of mobilizing deposits from customers. Secondly, they are media through which other financial products and services are sold to the customers. These tools are in the form of products and services and may have different names in the various commercial banks, however, they have similar modes of operation and effectiveness. The mechanisms discussed below are the general and specific products designed to meet their wide range of targets. Indeed, the mechanisms or methods help to satisfy the achievement of objective two of the study.

4.3.1 Savings Accounts

Savings accounts enable customers to deposit their money for investment and/or future use. This account is a provision for future convenience. Customers have the benefit of accumulating funds from their own occasional savings and earning interest. Depending on the type of commercial bank in Ghana operators of this account may have twenty-four hour access to their money or a specific time with limited amount to be withdrawn. Savings accounts are available to all customers, personal individuals, groups, corporate bodies and societies. Unlike the developed countries like the United Kingdom savings account in Ghana demand initial deposits and a minimum balance to be retained in the account to make it operational. Aside the standard savings account explained above, some commercial banks have specific savings accounts for specific customers with specific needs. These may include Trustee/High rate savings for children and people with disabilities, Fixed Deposit which in itself is an investment hedged against time. Fixed Deposits are available in 3months, 6 months and one year with negotiated interest rates, and a Flexsave account which has flexible withdrawals. The minimum balance requirement as a condition for savings account favours regular income earners who have the ability to meet this minimum balance. Savings accounts are made attractive differently in the various commercial banks with different accompanying products which will be discussed in the subsequent sections.

4.3.2 Current Account

A current account is the type of account which operators have access to their money at all times. There are no restrictions as to the number of times a current account holder can withdraw provided there is sufficient balance in the account and the maximum daily withdrawal limit of the account is not exceeded.

Current accounts are cheque guaranteed and depending on the bank that operates them as well as the outstanding balance left may or may not attract interest. It enables customers (enterprises, societies, individuals and corporate bodies) to transact business and pay for them later. Current accounts in Ghana are normally operated by worthy individuals, cooperate bodies who wants to attract interest on their deposits while enjoying flexibility regarding withdrawals (call account). Current account holders in Ghana must earn regular and specific minimum incomes to qualify. Banks provide other services in connection with current accounts for instance bill payments to make them attractive to customers.

4.3.3 Accompanying Products and Services to Customers

Savings and Current account holders enjoy a wide range of other services that are cross sold by the banks. These products and services have dual benefits to both the banks through the fees paid and to customers access to smooth income. The most popular ones normally used by commercial banks in Ghana are overdraft facility where worthy customers are allowed to overdraw their accounts in the short term (maximum of 12months), medium term (3-5years) and long term (over 5years) loans payable by monthly instalments. Others include consumer credit schemes which allow regular income customers to hire purchase domestic appliances and communication gadgets and Commernet purposely designed for corporate customers to access their accounts and request for other services at the comfort of their offices.

4.3.4 Kudi Nkosuo Account

The Kudi Nkosuo is a ‘Susu’ saving scheme for the informal sector designed to encourage members of this sector to save and have access to credit facilities to expand their businesses. The different currents and savings accounts with their inherent benefits favour regular income earners in the formal sector. The informal sector which employs the highest proportion of the labour force is excluded. Kudi Nkosuo targets petty traders, artisans, market women and men (www.gcb.com). Bank personnel are deployed to the door steps of the savers to collect their daily savings. The door to door service enables savers to cultivate the habit of saving, develop credit records with the bank and to benefit from loans, overdrafts and other financial services. This type of account is unique to the Ghana Commercial Bank in it efforts to reduce financial exclusion on both the informal sector and the rural savers. Huge sums of rural deposits are harnessed through this service.

4.3.5. Fodem Account /Foreign Currency Account

Commercial banks efforts to expand deposits they have been extended beyond the borders of the country to entice Ghanaians abroad. Coupled with their money transfer services commercial banks are used as a medium through which huge sums of remittances from Ghanaians abroad are received. Most of these deposits are retained in the accounts of customers, hence increasing deposit liabilities of the banks.

4.3.6 Innovative Marketing Strategies towards Deposit Mobilisation

The greatest challenge facing the banking industry in recent times is competition among the banks. All the commercial banks have similar products designed to attract the same customers. It is therefore imperative to adopt the best customer care services to attract and retain valuable customers.

The innovative marketing strategies currently used by commercial banks are the use of automated teller machines (ATM) to facilitate cash withdrawals, telephone banking, net working of bank branches to speed up credit deliveries and computerisation of banks to encourage inter bank transactions.

4.4 Problems of Deposit Mobilisation in Ghana

4.4.1 *Outreaching Rural Savers*

In Ghana, Commercial Banks are faced with many challenges in their desire to mobilise more deposits. As observed in the previous chapters, more than 60% of the population live in the rural areas in isolated villages. It therefore become cost ineffective to have bank branches that can conveniently provide door step financial services to the rural inhabitants hence, their concentration in the urban and the southern part of the country (Jones et al, 2000). In many instances bank are forced to close down their branches. Gockel (2003) observed that between 1989 and 1998, then SSB closed down 32 rural branches and Barclays and GCB closed down16 each for the purpose of cost reduction. He further observed that none of the newly established banks in the 1990s had branches outside the cities of Accra, Kumasi or Tarkoradi. Commercial Banks therefore battle with the problem of how to effectively harness the large volume of deposits left in the rural areas.

4.4.2 *Regaining Confidence in the Banking Sector*

The Banking sector in Ghana has not fully regained the confidence that many customers lost; thus making deposit attraction difficult. This could be due to partly the attitude of bank staff towards customers and the government action of controlling the operations of the banks. In the early 1980s most depositors had their deposits frozen because of the government's decision to withdraw fifty cedi notes from the money in circulation. Depositors are therefore reluctant to deposit in the banks for the fear of suffering similar action. In other instances depositors have been subjected to bank officials' brutalities in their attempt to withdraw their own deposits in times of need. The net effects of loss of confidence in the banking system are the low deposits that commercial banks receive in Ghana.

4.4.3 ***Unstable Macroeconomic Conditions***

Another problem militating against deposit mobilisation in Ghana is the unfavourable macroeconomic environment with high inflation and reserve requirement and their associated low returns on deposits. In a period of high inflation, hedging is inevitably a prudent measure depositors pursue in order to enjoy future appreciation of value. Thus, more deposits are redirected into the purchase of real estate properties. The high reserve requirement of 44% (BOG Statistical Bulletin- Up to January 2005, Table 7) compose of both secondary and primary reserves in addition to high tax and a 10% development levy reduced the volume of loanable funds which subsequently reduce returns on investment and deposits. Currently, the reduction of reserve requirement to 15% still has the tendency to erode loanable funds and reduce interest payments, thereby discouraging deposit mobilisation. Deposits are withheld in a period of unstable macroeconomic environment.

4.4.4 ***Insufficient Instruments***

Currently, the main instruments used to attract deposits in Ghana range from the simple savings and current accounts that require unaffordable initial deposits, money remittances business, branch expansion, corporate imaging, negotiable interest rates, promotion and advertisements, overdrafts and loan facilities to complex internet, telephone and ATMs. These instruments in the first place are not sufficient to cater for the financial needs of all the settlements. Secondly, they favour regular and formal service income earners than the informal workers such as artisans, farmers and other small scale operators who are the majority. Thirdly, customers require literacy to utilise these instruments which majority of the population especially the rural inhabitants do not have.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

The study reveals certain basic facts about commercial banks in Ghana in their struggle to mobilize greater domestic deposits. Firstly, Commercial banks deposits mobilization in Ghana from 2000 to 2004 indicates an upward trend however, the present level of deposits as a ratio of the total amount of money in circulation is woefully inadequate. Secondly, the methods or the design of product and services, like initial deposits as a precondition for bank account as well as ways of promoting products, have tended to benefit formal sector workers who earn regular income than the informal workers such as artisans, farmers and other small scale operators who are the majority. Thirdly, the concentration of commercial banks in urban areas couple with the insufficient instruments used for deposit mobilization make them battle with the problem of how to effectively harness the volume of deposits left in the rural areas. Also, the attitude of bank personnel towards rural savers in Ghana has not been customer friendly to entice more depositors. Finally, even though there is a significant difference as far as the banks general deposits growth rate is concerned, in terms of annual average deposit growth rate, there is no significant difference.

5.2 Conclusion

Commercial Banks are absolutely essential in the development of the financial system in Ghana. At the moment they are the major mobilizers of local resources in the form of deposits. They are indeed the appropriate media to secure investment funds in these economies where the stock market is yet to develop. The deposits they attract over the years keep increasing, but are insufficient for self sustainability and form a meagre proportion of the money in circulation. The implication is that large unproductive deposits are left to be squeezed into loanable funds for investment. The onus rests on the commercial banks in collaboration with all other formal and informal financial service providers and government to introduce immediate reforms towards achieving these goals. The strive towards self sufficiency in the financial sector should embrace all calibre of people in Ghana to make the Millennium Development Goals achievable.

5.3 Recommendations

5.3.1 *Extending Banking services to the rural savers.*

Commercial banks should now target the rural majority. Where the usual way of extending bank branches has not been helpful, there could be formation of Self Help Groups (SHGs) made of members with similar occupations. Bank personnel can then be deployed periodically to train them simple book keeping, account maintenance and depositing and other related business advice. This is likely to develop rapport between banks and savers. On the other way round, rural saving mobilizers such as mutual fund operators, ROSCA, credit unions, rural banks and 'susu' collectors should be commissioned and monitored to ensure savers' safety.

5.3.2 *Restoring Confidence in the Banking Sector*

The banking sector has been unnecessarily controlled by government where depositors suffered losses through account freeze and interest rate ceilings. Depositors are reluctant to save. Making the central bank independent in taking monetary policy regulations while, government concentrates on fiscal and infrastructural development would be helpful to restore savers confidence. Prudent macroeconomic policies to subduing inflation to a reasonable level will ensure positive real income.

5.3.3 *Removal of High Initial Deposits and Minimum Balance.*

Basic bank products and services such as opening bank account and withdrawals should be made absolutely unconditional. Initial deposits and minimum balance requirements squeeze out savers' available income. Depositors should have their money as and when needed through ATMs and Retail shops. This will do away with the habit of keeping money under pillows. Efforts should be made to ensure employees in the formal and informal sector receive their wages through the banks.

5.3.4. *Strengthening the Financial Sector Regulations*

The legal system in Ghana is weak and subject to manipulation from both the government and the opinion leaders. Investors/depositors are not protected in such a situation to invest their money. Good accounting methods, auditing and other checks and balances would ensure smooth interpretations of the law. Enforcing regulations to guide and protect depositors would provide a safe environment for depositors to increase their savings.

5.3.5. *Bank Personnel Direct Contact Promotions*

Commercial banks should form the habit of reaching savers with their products and services in vantage areas like shopping malls, super markets and other similar places.

The usual trend of waiting to receive depositors in the banking halls need to be extended. In such cases, telephone and internet banking would help in the urban areas while other resources would be left for personal contact between bank officers and rural savers. Detailed education on product benefits to customers should be promoted and advertised.

5.3.6. ***Direct Rural Development***

Commercial banks in Ghana do not usually commit part of their profits into village development. In many cases the huge profits declared are only paid as dividends. The rural savers therefore see commercial banks as institutions belonging to the rich. However, evidence from the GCB Quarterly Economic Review, (2003) confirms that banks which are used as media for micro projects in the villages increase their rural customers. Commercial banks would increase deposits should they combine with the government in developmental projects at the community level.

REFERENCES

Adabre, J. (2005) '*Government and Development Partners Gross Sword over Per Capita Income*' Public Agenda (Accra) August 12, 2005.

Bank of Ghana, (2001): *'The State of Ghana's Economy'* Journal of BOG vol.20,May, pp. 25-60

Bank of Ghana Statistical Bulletin January, 2005.

Beim, O.D and Calomiris, P. (2001): *'Emerging Financial markets'*.

Boadu, A. E. (2001): *'Rapid Population Growth and Development in Ghana'*.

Brealey, R. A and Myers, S.C. (2003): *'Principles of Corporate Finance'*.

Bikker, J. and Hu, H.(2002): 'Cyclical Patterns in Profits, provisioning and Lending of Banks. DNB Staff Reports, n.86, Armsterdam'.

Cantoni, E .(2004): '*Financial statement analysis and insolvency forecasting model*: a proposal for local firms'.

CIA World Factbook, (1994) :The Library of Congress Country Studies.

Dickson, K. B. and Benneh, G. (1995): A New Geography of Ghana.

Dighe, R. (2005): *'The Banking Firm and the Management of Financial Institutions'*.

Freixas, X. and Rochet, J. (1998): *' Microeconomics of Banking'*.

Ghana Statistical Service (2000): Population Census Report.

Gilbert, L.C., Irwin, G. and Vines, D, (2001): *'Capital Account Convertibility, Poor Developing Countries, and International Financial Architecture'* Development Policy Review, 19 (1): 121-141

Gockel, F. A. and Brownbridge, M. (1997): *'The Impact of Financial Sector Policies on Banking in Ghana'*

Gockel, F. A. (2003): *'Banking in Ghana is for the rich*' Business News of Sunday, 30 November, 2003.

Goode, R. (1984): '*Government Finance in Developing Countries'*. PP75-180

Government of Ghana (2003): 'An Agenda for Growth and Prosperity'.

Government of Ghana (2004): 'Ghana Letter of Intent: Memorandum of Economic and Financial Policies and Technological Memorandum of Understanding'.

Gyan-Baffour, G. (2003): *'Ghana Poverty Reduction Strategy*: Poverty Diagnostics and Components of the Strategy'.

Hellmann, T., Murdock, K. and Stiglitz, J. (1995): "Deposits Mobilization through Financial Restraints

Hellman, T., Murdock, K., Stiglitz J. (2000): *Liberalization, Moral Hazard in Banking, and Prudential Regulation*: Are Capital Controls Enough? *American Economic Review*, 90(1), 147-165.

Hommel, J. (2004): "*Liquidity; Advanced Trading Concept"*.

Hubka, A. and Zaidi, R. (2005): *'Impact of Government Regulation on Micro Finance'.*

Hull, J. C. (2003): 'Options, Futures and Other Derivatives'.

Hussain, M. N. (2000): '*Linkages between SMEs and Large Industries for Increased Markets and Trades*: An African Perspective'.

Jones, H., Sakyi-Dawson, O., Harford, N. and Sey, A. (2000): *'Linking Formal and Informal Financial Intermediaries in Ghana*: Conditions for Success and Implications for RNR Development'.

Kenny, C.J. and Moss, T..J. (1998): '*Stock Market in Africa*: Emerging Lions or White Elephants'. U.K.

Keynes, J. M. (1964): '*The General Theory of Employment, Interest and Money'.*

Kirkpatrick, C.H. and Nixson, F. I. (2002): *'The Origin of Inflation in Less Developed Countries:* A Selective Review'.

Kose, M. A. and Riezmanb, R. (1999): *'Trade Shocks and Macroeconomic Fluctuations in Africa'.*

Laurenceson, J. (2004): *'Banking Industry Liberalization, Franchise Values and Deposits Mobilization:* Evidence from International Panel Data'.

Micro, S. (2001): '*Economic Research Foundation'* New Delhi

Oppong-Asante, L. (2002): House Journal of Ghana Commercial Ltd, Vol.2 pg. 10."

Rajan, G. R. (2005*): Do We Still Need Commercial Banks?*

Ross, L. (2000): *"Bank-Based or Market-Based Financial System*; which is Better?"

Roubini , N. (2005): *"Money and Inflation*".

Routledge, P. (1994): *' Macroeconomics for Developing Countries'* .

Ruby, A. D. (2003): *"The Money Supply Process and Interest Rate Determination"*. London.

Rutherford, S. (2000): *' The Poor and Their Money'.*

Russel, C. W. I. (1999) *'The Taxation of Personal Investment Income*: A Recipe for Reform'. New Delhi.

Sahoo, P., Nataraj, G., Kamaiah, B. (2001): *'Savings and Economic Growth in India*: the Long Run Nexus. *Savings & Development Quarterly Review*, Issue 1 2001

Sowa, N. K. (2004*): 'Poverty Situation in Ghana*'.

Thisen, J. K., (2004): *'Mobilizations of Savings through Increased Monetization of African Economies'.* New Delhi.

Tanzi, V. (1991): 'Public Finance in Developing Countries'.

Trade Union Congress (Ghana), (20004): 'Incomes in Ghana'.

Virmani, A. (2002): 'Fiscal Deficit and the Quality of Government Expenditure'. London.

Wikipedia, A. (2005): 'Exogenous Growth Model'.

Word Bank (2005): '*World Development Indicators Database'*; Gross National Incomes Per Capita, 2003.

World Development Report (1989) WB, WashingtonD.C. www.investordictionary.com