THE ROLE AND CHALLENGES
OF
SAVINGS AND LOANS COMPANIES
IN GHANA

KNUST

BY

Mercy Muriel Mensah B. Sc. (Admin.)

A Thesis
submitted to the School of Graduate Studies
Kwame Nkrumah University of Science and Technology
in partial fulfilment of the requirements for the of degree
of

COMMONWEALTH EXECUTIVE MASTERS IN BUSINESS ADMINISTRATION

MAY 2009

Declaration

I hereby declare that this submission, ‘The Role and Challenges of Savings and Loans Companies in Ghana’ is my own work towards the CEMBA and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of another degree of the University, except where due acknowledgement has been made in the text.

KNUST

………………………………….   …………………………….

MERCY MURIEL MENSAH   **DATE**
INDEX NO: PG1825607

Certified by:

………………………………………………..   ……………………………

EMMANUEL SARPONG KUMANKOMA   **DATE**
SUPERVISOR

Certified by:

……………………………………….   ………………………..

HEAD OF DEPARTMENT   **DATE**

Dedication

I dedicate this work to my husband Mr S.W.Y Inkoom and my children Kweku, Abena and Adwowa through whose sacrifice, support and encouragement I have come this far.

KNUST

Abstract

The Ghanaian economy, like all developing economies has a large proportion of business in the small-scale and self employed group. These people have needs which are not being satisfied by the traditional banks resulting in a situation of large amounts of funds in the hands of players in this market, thus remaining outside the banking system. It is hoped that the Non-Bank Financial Institutions, which comprise various categories of organizations, including Savings and Loans Companies will service this part of the market which remain outside the traditional banking scope resulting in mopping up of these funds.

This study sought to determine the role and challenges of Savings and Loans Companies in Ghana with particular focus on their contribution to savings mobilisation and credit availability within the five-year period 2003 to 2007.

Three sets of questionnaires were used in this study; one each for Savings and Loans Companies, traditional banks and customers of the Savings and Loans Companies respectively. These questionnaires served as a guide to interviews that were conducted with the respondents. Annual reports for the years 2003 to 2007, Statistical Bulletin (February 2008) as well total contributions of various financial players to savings mobilisation and credit availability were obtained from Bank of Ghana.

It was found that even though their contribution to savings mobilisation cannot be judged as being significant, there was a steady rise in contributions of Savings and Loans Companies to savings mobilisation during the period 2003 to 2007. The average annual growth of loans and advances of Savings and Loans Companies far exceeded

that of the economy as a whole. In respect of the study sample, there was no presence of Savings and Loans companies in four out of ten regions of the country. The impact of Savings and Loans companies could increase immensely if they expanded their services to cover areas where they are yet to establish their presence, located branches closer to their customers and offered additional services.

KNUST

Table of Contents

.

List of Tables

List of figures

KNUST

List of abbreviations / acronyms

ASL	Adehyman Savings and Loans
BOG	Bank of Ghana
ESL	Express Savings and Loans
EzSL	Ezi Savings and Loans
GCSL	Garden City Savings and Loans
MSL	Midland Savings and Loans
NBFI	Non-Bank Financial Institutions
OIS	Opportunity International Savings and Loans
PLR	Primary Liquidity Ratio
SLC's	Savings and Loans companies
SLR	Secondary Liquidity Ratio
UCL	Unicredit Limited
WWB	Women's World Banking
CGAP	The Consultative Group to Assist the Poor
MFI's	Microfinance Institutions
ERP	Economic Recovery Programme
FINSAP	Financial Sector Adjustment Programme
GHAMFIN	Ghana Micro Finance Institutions Network
IDA	International Development Association
ICB	Institution in Credit Business

Acknowledgement

I am immensely grateful to the Omnipotent Father for sustaining me in my quest for higher education.

The preparation and submission of this project work would not have been possible without the support of certain personalities who deserve my gratitude. I wish to offer my profound appreciation to Mr. Emmanuel Sarpong Kumankoma, my supervisor, who is a lecturer at the University of Ghana Business School for his valuable suggestions and constructive criticisms of the content, structure and preparation of this report.

I owe a debt of gratitude to Ms Joyce Okang Lomo for urging me on especially when the pressures of combination of full time employment and academic work got quite unbearable.

I am also grateful to Mr. Dela Selormey, Head of Banking Supervision Department, Bank of Ghana and the staff of Bank of Ghana Library, as well as employees of various Savings and Loans Companies and Banks who offered me assistance in the course of data gathering.

To Mr. Henry Mensah of Institute of Distance Learning, KNUST, I am sincerely grateful for readiness to offer help and promptly attending to our enquiries.

KNUST

References

1. Anin, T.E. (2001), *Banking in Ghana*, Woeli Publishing Services

2. Appiah, M., (2008). *Microfinance Development in Ghana: Achievements, Challenges and Issues for the way forward*, The Microfinance News

3. Aryeetey, E., (1994), *Financial Integration and Development in Sub-Saharan Africa: A Study of Informal Finance in Ghana*, *Overseas Development Institute*, Working Paper 78, London

4. Aryeetey, E., 2008, *From Informal Finance to formal Finance in Sub-Saharan Africa: Lessons from Linkage Efforts*, IMF Institute and the Joint Africa Institute (Paper presented at High-Level Seminar on African Finance for the 21st Century)

5. Atta-Bronyah, K., (1995) *The Non-Bank Financial Institutions and Banking*, The Ghanaian Banker

6. Bass, J., Henderson, K., & Weidermann Associates, (2000), *The Microfinance Experience with Savings Mobilization*, USAID-Microenterprise Best Practices (MBP) Project

7. Basu, A., Blavy, R.and Yulek, M., (2004) *Microfinance in Africa: Experience and Lessons from Selected African Countries,* (IMF Working Paper WP/04/174), International Monetary Fund

8. Bank of Ghana Working Paper, (2007), *A Note on Microfinance in Ghana*, WP/BOG-2007/01, Bank of Ghana Research Department

9. Bank of Ghana Annual Reports, 2003 – 2007

10. Bank of Ghana, (2007), *A Note on Microfinance in Ghana*, Working Paper WP/BOG-2007/01

11. Basu A., Blavy R., Yulek M., (2004) *Microfinance in Africa: Experience and Lessons from Selected African Countries* IMF Working Paper WP/04/174 (Washington, World Bank)

12. Boateng, D., (2009) *Commercial Banks entering the Microfinance Market: Issues for Consideration*, Business and Financial Times

13. Council, H, S, R., (2002), *Micro-Finance in Rural Communities in Southern Africa: Country and Pilot Case Studies, Policy Issues and Recommendations*, HSRC

14. Crossley, J., Blandford J., (1975) *The DCO Story*, Barclays Bank International Ltd., London

15. Fiakpe, L., (2009), *Nigeria: Savings Market – Terrain of the Old Hawks*, Vanguard

16 Fry, R., (1976) *Bankers in West Africa*, London, Hutchison, Benham

Financial Institutions (Non-Banking, 1993) Law, PNDC 328

17. Firpo, J., (2005) *Banking the Unbanked: Technology's Role*, MicroCapital www.microcapital.org accessed on 03/03/09

18. GHAMFIN (n.d), *Microfinance Poverty Outreach and Performance Assessment: A Study of Rural Microfinance Institutions and Government Programmes in Ghana*

19. Goldstein, Barro, I., & Gentil, D., (1999), *The Role and Impact of Savings Mobilisation in West Africa: a Study of the Informal and Intermediary Financial Sectors in Benin, Burkina Faso, Ghana, Guinea, Mali and Togo),* MicroSave

20. Hirschland, M., (2003), *Serving Small Depositors: Overcoming the Obstacles, Recognizing the Tradeoffs*, The Microfinance Bulletin, Washington: Microfinance Information Exchange

21. Johnson. H.J., (1993) *Financial Institutions and Markets A Global Perspective*, McGraw-Hill

22. Owusu, T., (1993) *The Non-Bank Financial Sector*, The Ghanaian Banker

23. Steel, W., Andah, D., (2003) *Rural and Microfinance Regulation in Ghana: Implications for Development and Performance of the Industry*, Africa Region Working Paper, No 49 Washington; World Bank

24. World Bank -Africa Region, Studies in Rural and Micro Finance, (1999), *Financial services for Women Entrepreneurs in the Informal Sector of Ghana*, World Bank New York

25. World Bank, (1997), *Voices of the Poor: Poverty and Social Capital in Tanzania, Environmentally and Socially Sustainable Development Studies and Monograph*, Washington: World Bank

26. Bank of Ghana Website, www.bog.gov.gh accessed on 02/03/09

KNUST
NYANSAPƆ WƆSANE NO BADWENIMA

Appendix I

QUESTIONNAIRE (for Savings and Loan Companies)

Dear Respondent

This questionnaire forms part of a research on the Role and Impact of Savings and Loans companies in Ghana. The questions below are being asked to enable me gather information to undertake this study. Thank you for your co-operation.

1. Name of Institution

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

2. Date of incorporation

…………………………………………………………………………………………………

3. What savings instruments do you provide to the public?

Fixed deposit ( )
Savings deposit ( )
Deposits that can be withdrawn at any time
(Demand Deposits) ( )
Susu ( )
Others (Please specify)

4. Who are your clientele?

Public Servants ( )
Small & Medium scale enterprises and Traders ( )
Corporate Organisations ( )
Others (specify)

5. What methods do you employ for deposit collection from your customers?

Mobile banking teams to get to customers at their business locations ( )
Waiting for customers to come into the banking halls ( )
Others ( )

6. What are your hours and days of operation? (Please Specify)

……………………………………………………………………………………

7. What innovative schemes have you put in place to attract depositors?

High Interest rates ( )
Access to credit ( )
Access to money deposited ( )
Taking financial service to the customers at their doorstep ( )
Others (specify)

8. At what frequency do your customers make deposits?

Daily ( )
Weekly ( )
Others (specify)

9. Who are your largest categories of borrowers?

Public servants ( )
Medium & Large Enterprises ( )
Petty Traders & Artisans ( )
Corporate bodies ( )
Others (please specify)

KNUST

10. Factors considered in evaluating credit requests (please tick those applicable)

Feasibility Studies ( )
Collateral ( )
Track record (repeat borrowing) ( )
Character based assessment (selection based on personal relations) ( )
Family connections or knowledge ( )
Business relations ( )
Financial Statements of clients ( )

11. Duration of loans; Short term ( )
Medium term ( )
Long term ( )

12. Processing time between loan application and disbursement :

One week- fortnight ( )
One Month ( )

13 Which of these lending approaches do you practice?

Individual based lending ( )
Group based lending ( )

14 What is your loan default experience?

High ( ) Moderate ( ) Low ( )

15 How do you protect yourself against possible loan default?

Lending against collateral ( )

Lending against cash security ( )

Through rigorous appraisal ( )

Others (Please specify)

16 Do you give loans to non savers?

Yes……………………. No……………………………

17. What is the maturity profile of your loans?

Short term (within 1 year) ( )

Medium term (between 2years and five years) ( )

Long term (over 5 years) ( )

Other (please specify)

18. Which of the following measures do you adopt to reduce credit risk/default risk?

Credit rationing ( )

Collateral to strengthen repayment incentives ( )

Small loan amounts ( )

Shorter term loans ( )

Lending for certain sectoral economic activities only ( )

Lending for purposes that will provide ability to repay ( )

Others (specify)

19 How do you manage your interest rate risk?

Short term loans ( )

Transfer to customers ( )

20. How do you get information on potential borrowers before loan decisions are made?

Community and neighbourhood ties ( )

Transactions in other market ( )

The company's own records ( )

Others (Please specify

21. What problems do you encounter and would like to be addressed? (Please specify)

………………………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

……………………………………………………………………..

End of Questionnaire.

Thank You very much for your time.

Appendix 2

QUESTIONNAIRE (for Traditional Banks)

Dear Respondent

This questionnaire forms part of a research on the Role and Impact of Savings and Loans companies in Ghana. The questions below are being asked to enable me gather information to undertake this study. Thank you for your co-operation.

KNUST

1. Name of Institution and year of Incorporation

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

2. What savings instruments do you provide to the public?
   - Fixed deposit ( )
   - Savings deposit ( )
   - Deposits that can be withdrawn at any time (Demand Deposits) ( )
   - Susu ( )
   - Others (Please specify)

3. Who are your clientele?
   - Public Servants ( )
   - Small scale enterprises and traders ( )
   - Corporate Organisations ( )
   - Large and Medium Business Enterprises ( )
   - Others (specify)

4. What methods do you employ for deposit collection from your customers?
   - Mobile banking teams to get to customers at their business locations ( )
   - Waiting for customers to come into the banking halls ( )
   - Others ( )

5. Who are your largest categories of borrowers?
   - Corporate bodies ( )
   - Medium and Large Trading Enterprises ( )
   - Public servants ( )
   - Petty Traders & Artisans ( )
   - Farmers ( )
   - Others (please specify)

6. Duration of loans;

Short term ( )
Medium term ( )
Long term ( )

7. Processing time between loan application and disbursement :

One week- fortnight ( )
One Month ( )

8. Which of these lending approaches do you practice?

Individual based lending ( )
Group based lending ( )

KNUST

9. Do you give loans to non savers?

Yes……………………. No……………………………

10. What is the maturity profile of your loans?

Short term (within 1 year) ( )
Medium term (between 2years and five years) ( )
Long term (over 5 years) ( )
Other (please specify)

11. Which of the following measures do you adopt to reduce credit risk/default risk?

Credit rationing ( )
Collateral to strengthen repayment incentives ( )
Small loan amounts ( )
Shorter term loans ( )
Lending for certain sectoral economic activities only ( )
Lending for purposes that will provide ability to repay ( )
Others (specify)

12. How do you manage your interest rate risk?

Short term loans ( )
Transfer to customers ( )

13. How do you get information on potential borrowers before loan decisions are made?

Community and neighbourhood ties ( )
Transactions in other market (opinion) ( )
The company's own records ( )
Others (Please specify

End of Questionnaire.

Thank You very much for your time.

Appendix 3

Questionnaire to Customers

Dear Respondent

This questionnaire forms part of a research on the Role and Impact of Savings and Loans companies in Ghana. The questions below are being asked to enable me gather information to undertake this study. Thank you for your co-operation.

KNUST

1 What is your occupation?
   Student ( )
   Public Servant ( )
   Petty Trader ( )
   Artisan ( )
   Other (please specify)

2. Why do you save with the Savings and Loans Companies?
   Easy access to loans ( )
   Opportunity to realize bulk sum ( )
   Attractive interest rate ( )
   Flexible working hours ( )
   Ability to make regular small deposits (Susu) ( )
   Others (specify)

3. Do you currently maintain an account with any other financial institution?

   Yes ( ) No ( )

4. What type of financial institution?

   Bank ( ) Savings and Loan Company ( )

5. What is your reason for your answer to above?

   To access credit from both institutions at the same time ( )
   Proximity of bank from my business site ( )
   Satisfied with the services of my Savings and Loans Company ( )
   Dissatisfied with the services of the Bank ( )
   To obtain services unavailable at Savings and Loan Company ( )

6 Do you still maintain your account with the Bank?

   Yes ( ) No ( ) Not Applicable

7. If answer to above is No, what is your reason for abandoning your account with the bank?

Restricted withdrawals from your account	( )
Minimum balance to be maintained on account too high	( )
High bank charges	( )
Frustrations encountered in accessing credit	( )

8. Do you make deposits regularly?

Yes ( ) No ( )

9. At what frequency do you make deposits?

Daily	( )
Weekly	( )
Fortnightly	( )
Monthly	( )

10. Do your deposits entitle you to a loan?

Yes ( ) No ( )

11. Are there any concerns you want addressed? (Please specify)

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

Thank You very much for your time.

KNUST

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

The financial landscape of Ghana has gone through a chequered history over the past three decades. In the 1970's and the early 1980's the economy of Ghana was characterized by a steady decline with hyperinflation and exchange rate depreciation being major features. The malaise that afflicted the economy took its toll on the banking and financial system of the country. Among ills bedeviling the financial system, the following may be mentioned as prominent:

- Low capital base of banks
- High risk concentration
- Large portfolio of non-performing loans
- Weak accounting and management information systems
- Weak internal controls
- Weak supervision and deficiencies in the legal and regulatory framework

In addition to these the Banking system suffered from over-regulation of interest rates as well as sector allocation of credit being tightly regulated by the Central Bank. The weaknesses among others were identified by a Diagnostic Study of Banks commissioned by the Government of Ghana in 1987. Although the Diagnostic Studies mainly covered the state owned banks, the findings were largely relevant to the industry as a whole.

Following the publication of these findings the Government, with the assistance of the International Development Association (IDA) embarked on the Financial Sector Adjustment Programme (FINSAP). The objectives of FINSAP included the following, viz:

- Restructuring of distressed banks
- Improvement of deposit mobilization
- Enhancement in the efficiency of credit allocation
- Improvement in the supervisory and regulatory framework

Other measures pursued under the project included interest rate deregulation, abolition of credit ceilings and sectoral allocation of credit, as well as market determination of exchange rates.

As a consequence of these reforms, a new Banking Law, PNDC Law 225 was promulgated to replace the then clearly outdated Banking Act, Act 339. Under this new law new minimum capital requirements were prescribed for the various categories of banks. Other innovations introduced by the PNDC Law 225 included Capital Adequacy Ratio and other prudential requirements. (This legislation has since been replaced by the Banking Act, 2004, Act 673).

Subsequent to the reforms the number of banks increased significantly with the entry of banks with majority foreign ownership. A couple of state-owned banks, specifically Social Security Bank and the Ghana Commercial Bank, have undergone divestiture with the former almost wholly foreign owned while the latter has had a substantial portion of its shareholding offloaded to the Ghanaian investing public.

Alongside the PNDC Law 225, a separate legislation was introduced to regulate the licensing and operation of other players in the financial market which were not banks, namely the Financial Institutions (Non-Banking) Law,1993 (PNDC Law 328). Among the institutions covered by the Non-Bank Financial Institutions Law are Savings and Loans Companies, the subject of this study. Since the advent of PNDC Law 328, Savings and Loans Companies have gained greater visibility and are perceived as an important component of the financial system.

1.2 Problem Statement

The Banking Industry has experienced an influx of new entrants in recent years. The presence of foreign participants has resulted in several innovations in the industry. Apart from the entry of new traditional banks, there has also been a noticeable increase in participants in the non-banking financial sector. One would ask if all these participants will be able to generate enough business to warrant their existence. Even though there has been an increase of participants in the industry, a large proportion of the market still remains outside the scope of these institutions.

The Ghanaian economy, like all other developing economies, has a large proportion of business in the small-scale and self employed group. These people have needs which are not being satisfied by the traditional banks resulting in a situation of a large amount of funds in the hands of players in this market thus remaining outside the banking system. It is hoped that the Non-Bank Financial institutions, which comprise various categories of organizations, including Savings and Loan Companies, will service this part of the market which remains outside the traditional banking scope and thus assist in mopping up these funds.

It is of interest to know how these institutions are organized, their modus operandi, what makes their patrons prefer them to the traditional banks and how their operations impact on savings mobilization and credit availability in the economy.

KNUST

1.3 Research Questions

- What has been the contribution of Savings and Loans Companies to savings mobilization and credit availability?
- To what extent does their contribution address needs that have not been satisfactorily resolved by the traditional banking system?

1.4 Research Objectives

The broad objective of this study is to appraise the role and challenges of the Savings and Loans companies in Ghana.

Specifically, the study seeks

- To examine the nature of these organizations and identify differences between their service delivery and that of traditional banks
- to examine their contribution to savings mobilization and credit delivery
- to assess clients' perception of their usefulness and identify any problems militating against the realization of their full potential

1.5 Relevance of the Study

This study will aid policy makers formulate appropriate strategies to tap the potentials of that sector of the financial system. It will also serve as a reference and guidance material for researchers in banking, finance and economics. Furthermore, the information to be provided by the study will be useful to the Savings and Loans companies in packaging their services. It will also be useful to the customers of these companies as they will have a broader knowledge of services available in the industry. To industry regulators, it will help them appreciate the type of risks to which Savings and Loans companies are exposed to enable them formulate appropriate strategies for effective supervision.

1.6 Scope and Limitations of the Study

This study examined the contribution to savings mobilization and credit availability of Savings and Loans companies in Ghana for the five year period; 2003 to 2007. Owing to time and resource constraints, a representative sample of the companies and their clients was used in obtaining general information about the Savings and Loan companies, their products, nature of operations and customer perceptions.

A myriad of problems were encountered in the collection of the data for the research and it is quite important that these problems are brought to light. Most frustrating was the unwillingness of respondents to supply information, especially that which had to do with performance of the Savings and Loans companies. The Savings and Loans companies were unwilling to give out details of statistics as well as procedures they employed in their organisations with the suspicion of such information getting into the hands of their competitors.

Also the low level of literacy among respondents demanded that one on one interview questionnaire method be used. Even though respondents were forthcoming with answers, the method was time-consuming.

Furthermore, in some cases there was outright refusal of respondents to answer questions they thought were suspicious or could be used for covert purposes other than stated and explained to them.

Also respondent-fatigue due to lack of implementation of outcomes of such researches which have been conducted in the past was also expressed by respondents during questionnaire administration

1.7 Organization of The Study

The study is presented in five chapters:

- Chapter 1 shows briefly, background and general introduction to the study, the problem statement and objectives of the study.
- Chapter 2 takes a look at the theoretical framework and reviews related literature concerning the study
- Chapter Three gives an explanation of the research process and the methods adopted for collecting and analyzing data.
- Chapter 4 deals with analysis of the data.
- Chapter 5 presents a summary as well as conclusions and recommendations of the study.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

Small enterprises and most of the poor population in sub-Saharan Africa have very limited access to deposit and credit facilities and other financial services provided by formal financial institutions. For example, in Ghana and Tanzania, only about 5-6 percent of the population has access to the banking sector (Basu et al 2004). Banks are generally reluctant to give credit, especially to those starting a business without proper collateral. Small businesses are being denied credit due to insufficient guarantee or perceived risks. The cost of handling micro-credit and the perceived risks associated with them make such poor entrepreneurs 'unbankable' and thus of no interest to the traditional banks (Council, 2002).

According to the 2000 Population and Housing Census in Ghana, 80% of the working population is found in the primary informal sector. This group is characterised by lack of access to credit, which constrains the development and growth of that sector of the economy. Clearly, access to financial services is imperative for the development of the informal sector and also helps to mop up excess liquidity through savings that can be made available as investment capital for national development (World Bank, 1999). The goal of attaining economic development in many more countries around the world is unlikely to be realized while 1.7 billion working adults make less than US$2 a day and have little or no access to basic financial services. According to Firpo, (2005) the history of financial systems in the United States has shown that providing citizens with capital and the ability to save are key underpinnings of economic growth. Yet between

70% and 80% of the world's population has no access to even the most basic financial services

This lack of access to financial services from the formal financial system is quite striking, when one considers that in many African countries the poor represent the largest share of the population and that the informal sector is an important part of the economy. To meet unsatisfied demand for financial services, a large variety of microfinance institutions (MFI's) has emerged over time in Africa. Some of these institutions concentrate only on providing credit, others are engaged in providing both deposit and credit facilities and some are involved only in deposit collection (Basu et al, 2004).

Traditionally, commercial banks have shunned the microfinance sector, allowing it to be dominated by the 'Alternative Financial institutions' which consist of small savings and loans companies and Susu collectors. The excuse for neglecting the microfinance market is simply that the low-income earners, the main clientele for microfinance services, are not 'bankable' The Consultative Group to Assist the Poor (CGAP) has also highlighted the vast potential market for retail financial services to low-income earners. The CGAP reports that as of 2003 there were approximately three billion potential clients worldwide for the microfinance market with only one-sixth of this market being served, mostly by Alternative Financial Institutions. (Boateng, D., 2009). Firpo, (2005) argues that the microfinance industry has proven that the extreme poor are bankable. Not only do they repay loans, but they also do so with very low defaults and relatively high interest rates. Banks and entrepreneurs in developing countries are beginning to realise that there is a viable market for financial products among the vast unbanked populations of the world (Firpo, 2005). According to Appiah, (2008), microfinance has been successful in reaching the poor and helping them gradually escape poverty because of its strong competency in using scarce resources to efficiently reach the underserved.

Appiah, (2008) defines microfinance as the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients. It includes loans, savings, insurance, transfer services and other financial products and services.

2.2 Origins of Formal Banking In Ghana

Formal banking began in Ghana (then Gold Coast Colony) in 1896 with a branch of the Bank of British West Africa (Fry 1976) followed by Barclays Bank DCO in 1917 (Crossley and Blandford, 1975). Both banks were operated and supervised as branches of their London head offices. The first indigenous bank was the Gold Coast Cooperative Bank, which was established in 1945. Its main business was to support the marketing societies to buy cocoa from the farmers. Its registration was cancelled in 1961 and its operations absorbed into the Ghana Commercial Bank (Republic of Ghana 1970). In 1953, the Bank of Gold Coast was established by statute as the first indigenous commercial bank with some central bank functions. In 1957 the central banking functions and the commercial banking functions were separated between the Bank of Ghana and the Ghana Commercial Bank respectively. (Steel and Andah, 2003). At the time of independence, the Banking Industry in Ghana consisted of three (3) banks. The industry has grown over the years. As at 31st December 2007, there were twenty three (23) banks, one hundred and twenty six (126) Rural and Community Banks and forty one (41) Non-bank Financial Institutions, including fourteen (14) Savings and Loans Companies (Bank of Ghana, 2007).

The first formal micro finance institution in Ghana arose out of the micro savings product of the Post Office system. The institution was upgraded to the Post Office Savings Bank under the Savings Bank Act 1962 (Act 129), to operate independently within the Post Office system. It attained full bank status as National Savings and Credit Bank in 1972 under National Redemption Council (NRC) Decree 38. The new management abandoned the use of the network of the Post Office system and developed its own, leading to the destruction of the micro savings product (Anim, 2000)

Long before reforms, governments in sub-Saharan Africa attempted to diversify the institutional structure of the formal financial system. They established specialized banking and non-banking institutions. (Aryeetey, 2008). According to Aryeetey (2008), central banks were challenged to create commercial banks, merchant banks, development financial institutions and a number of non-banking and specialized finance institutions, including insurance institutions and provident funds. For their lending operations, banks have always been characterised by relatively high value and longer duration loans which require formal institutions that governments created and yet they failed to solve the problem of the huge financing gap. Aryeetey, (2008) states that the difficulty of trying to reach small borrowers with large formal institutions, among others, led to poor banking practices that eventually weakened many banks and made reforms necessary. He further argues that in contrast, individual savings collectors known all over West Africa made advances to their regular clients. These advances were usually low value, very short term (less that one month), provided interest free and disbursed immediately. Many analysts were of the view that combining the banks' capital with the intrinsic advantages of the informal agents could result in solving the financial gap problem. (Aryeetey, 2008)

2.3 Informal Finance

By the mid-1990's money-lending had become more of a part-time activity by traders and others with liquid funds than a full-time profession. Loans from money-lenders typically average 3 months and rarely are made for more than 6 months (although some borrowers may take longer). The typical interest rate in the early 1990s was 25-30% for a three-month loan; this represented a decrease from the 1983 rate of 100% on loans under 6 months, reflecting some market sensitivity to lower inflation and increased liquidity in the post-reform period (Aryeetey 1994). The moneylenders preferred security in the form of physical assets e.g. buildings, farmland and undeveloped land. They incurred little transaction costs in enforcing pledges of such collateral as they could simply make use of the property until the debt was repaid. Loans made to employees, including civil servants, are often secured by an arrangement with the paymaster. Verbal guarantees from family heads, friends and relatives may also be accepted as security (Steel and Andah, 2003).

Steel and Andah (2003) explained the operation of the Susu system as follows: The Susu system primarily offers savings products to help clients accumulate their own savings over periods ranging from one month to two years, although credit is also a common feature. All members of a Susu group except the last receive their lump sum earlier than if they saved on their own and Susu club operators try to attract more clients by advancing members' target savings amount well before the end of the cycle. Even Susu collectors give occasional advances to their best customers before the end of the month, and in some cases may make loans of up to three months – though their ability to do this is constrained by the fact that they generally lack capital apart from the savings they mobilize. In an effort to capitalize on Susu collectors' intimate knowledge of their clients, Savings and Loans Companies introduced a pilot program to provide funds to Susu collectors for them to on-lend to their clients. (Steel & Andah, 2003).

Steel and Andah (2003) identified the following different types of Susu institutions in Ghana, namely, Susu Collectors, Susu Associations or mutualist groups, Susu Clubs and Susu Companies

According to Steel and Andah (2003) Susu Collectors are individuals who collect daily amounts set by each of their clients (e.g. traders in the market) and return the accumulated amount at the end of the month, minus one day's amount as a commission

Susu Associations or mutualist groups as found by Steel and Andah (2003) are of two types, namely Rotating Savings and Credit Association and Accumulating Savings and Credit Associations. In a Rotating Savings and Credit Association, the members regularly (e.g. weekly or monthly) contribute a fixed amount that is allocated to each member in turn (according to lottery, bidding, or other system that the group establishes). In the case of Accumulating Savings and Credit Associations members make regular contributions, the resulting funds of which may be lent to members or paid out under certain circumstances (e.g. death of family member)

Susu Clubs, according to Steel and Andah (2003), are a combination of the above arrangement in which members commit to saving toward a sum that each decides over a 50 or 100 week cycle, paying a 10% commission on each payment and an additional fee when they are advanced the targeted amount earlier in the cycle.

Susu companies on the other hand, in the words of Steel and Andah (2003), existed as registered businesses whose employees collected daily savings using regular susu collector methodology, but promised loans (typically twice the amount saved) after a minimum period of six months

Some licensed financial institutions have offered a systematic savings plan termed Susu. Owusu (1993) argued that the mobilisation of domestic savings forms the bedrock of any financial system and much of this could be tapped from the informal sector.

2.4 Financial Sector Reforms

Financial Sector reform in Ghana came as a package with the Economic Recovery Programme (ERP) which was introduced in the country primarily to get the wheels of the economy back on track. This programme was implemented because the economy of Ghana had not been performing to expectation. According to Owusu T. (1993), the implementation of the Financial Sector Adjustment Programme (FINSAP), under the Economic Recovery Programme (ERP) was aimed at strengthening the overall financial system, including the informal non-bank sector in Ghana. In the late 1980's quite a number of Susu and finance companies sprang up and their objective was to mobilise savings ostensibly for on-lending to their customers. Owusu (1993) states that the generous credit overtures made by these companies enthused many petty traders, mostly women, to make colossal deposits with them. However, it turned out that the companies had fraudulent intentions and the millions of cedis mobilised were misappropriated by the owners and the employees without any recourse to redress by depositors.

In an effort to instil sanity into the system, the Bank of Ghana took steps in 1990 to license the Susu/finance companies under the classified name of Savings and Loans Companies. The effort being made to regulate and modernise/institutionalize the traditional/informal savings societies is aimed to achieve higher growth in mobilisation of savings for supporting economic ventures as a complement to the improvement in the formal banking sector (Owusu, 1993). A new law, PNDCL 328 known as Financial Institutions (Non-Banking) Law was to regulate the Non-Bank financial institutions.

The non-bank financial institutions, under which the subject of this study falls, form an integral part of the financial system and the fact that they were registered under a different law does not detract from their importance. The distinction is only a means to identify these institutions. The difference lies in the fact that these institutions cannot create money like the banks do (Atta-Bronyah, 1995). The advent of Savings and Loans Companies and their rapid growth followed the passage in 1993 of the Financial Institutions (Non Banking) law. The Savings and Loans companies are restricted to a range of services and are most active in microfinance and small-scale intermediation using various microfinance methodologies. Savings and Loans Companies are most effective in reaching large numbers of savers due in part to their location in urban and peri-urban areas.

The Non-Bank Financial Institutions were required to be licensed by the Bank of Ghana to operate as such. A license so issued could be revoked or suspended if the non-bank financial institution

- Obtained it by fraud or mistake;
- Contravenes any provision of the law or any terms or conditions upon which the licence is granted
- Engages in undesirable methods of conducting the business in respect of which the licence is issued; or
- Fails to maintain the minimum paid-up capital (PNDCL 328)

Savings and Loan associations, building societies and mutual savings banks are also classified as thrift institutions. Johnson, (1993) defines a thrift institution as a financial institution that encourages moderate-income workers to save money on a regular basis. Likewise, the institution invests in loans to these savers, especially mortgage loans. He further states that at the time building societies were necessary because commercial banks did not actively seek small savings deposits or solicit mortgage loan business. Early savings and loan associations were largely funded by savings deposits. However, unlike savings and loans associations, savings banks invested in consumer loans as well as mortgage loans. In addition, savings banks gave depositors more flexibility in terms of denomination, maturity and withdrawal. It is clear that savings and loans companies evolved because of unmet financial needs. Wage earners required an outlet for small savings and a source of mortgage and consumer finance. At the time, commercial banks did not satisfy these needs (Johnson, 1993).

2.5 Modus Operandi

Aryeetey, (2008) states that long before reforms, governments in Sub-Saharan Africa attempted to deal with the problem. One outcome of reforms is the graduation of Savings and Loans Associations from informal organisations to formal financial institutions, yet retaining most of the characteristics of the former. The mode of operations of savings and loans companies appears to be modelled largely along the lines of the Susu system.

Susu is said to have originated in Nigeria and spread to Ghana from the early 1900s. In the market places of West Africa, individual 'mobile bankers' help traders and others accumulate savings through small daily deposits. A market woman in Ghana typically sees her 'banker' everyday to deposit as little as 25 cents. At the end of the month, she gets back her accumulated savings, with which she replenishes her stock or buys something that she could not afford out of one day's profits. She often requests an advance on the month's expected proceeds, but her banker may avoid lending because he lacks cash reserves or access to credit in case repayment is delayed. This 'banker' is an informal savings collector, known in Ghana as a Susu collector. (Aryeetey, 1994).

Savings and Loans companies have utilized the traditional Susu methodology of daily or weekly deposit collection to raise their savings mobilization and to provide lower-income households with greater access to financial services (Steel and Andah, 2003). They have provided convenient transactions for urban commerce and households through adaptations of traditional susu and money lending methodologies.

Savings and Loans companies make use of microfinance strategies which are highly innovative in reaching relatively poor clients with very small, short-term transactions but which remain both costly and risky (GHAMFIN). The interest rates of these institutions are therefore higher than the traditional banks. However clients place greater value on ready access to funds than interest charges. The modes of frequent small payments (weekly, fortnightly and monthly) make it easier for clients to bear. A saving orientation that develops provides a useful strategy for screening and selection. Savings and Loans companies also demand that potential clients save with them before applying for loans. This aids in the selection of clients with discipline to pay off loans and to eliminate those who are unlikely to be able to bear the debt burden (GHAMFIN). The companies employ both individual and group lending strategies.

2.6 Nature of Clientele

The clientele of Savings and Loan companies is essentially urban-based and largely female (Goldstein et al, 1999). Savings and Loans companies deal with clients who are able to contribute to their strategy of savings mobilization. The clientele is made up of people with peculiar financial needs. These are people with relatively low social status and low income. Also a comparatively large number of the clientele needs to be served for the operations to be profitable. There is a high risk of default which needs to be well managed. (Boateng, 2009).

2.7 Differences In Service Delivery with Traditional Banks

Traditional commercial banking approaches to microfinance delivery often do not work. According to traditional commercial banking principles, the credit methodology requires documentary evidence, long- standing banker-customer relationship and collateral, which most micro and small businesses do not possess. The commercial banking system reaches only about 5 percent of households and captures 40 percent of money supply (Bank of Ghana, 2007). Personal guarantors have proven to be relatively effective and enforceable as security for loans in Ghana. Savings and Loans companies tend to rely relatively heavily on personal guarantees of the borrowers while banks often insist on third-party guarantors who are in a strong financial position and clearly understand their obligations. (Steel & Andah, 2003).

Formal financial institutions have to their advantage extensive infrastructure and systems, funds and opportunities for portfolio diversification which allows them to present a wide range of services to their clients. However, they are mostly accessible to populations in the upper and middle income strata and very often inaccessible to rural and the urban low income populations (Aryeetey, 2008). In contrast, Aryeetey (2008) states that informal financial institutions (to which Savings and Loan companies belong) operate close to rural populations and have information on their clients which enables them to conduct their operations productively. However, given their mode of operations they are unable to offer services beyond a small geographical area, resulting in highly concentrated loan portfolios (Aryeetey, 2008). Aryeetey (2008) argues further that the informal financial institutions have much better information about small borrowers than formal institutions. Informal lenders are often able to build a personal relationship with their borrowers that can ensure an extremely low loan default rate (Aryeetey, 2006).

The Savings and Loans companies are not directly included in the clearing and payments system. This is part of the trade-off that allows the entry of specialized financial institutions with lower minimum capital than commercial banks, and is intended to mitigate the risks of relatively weak internal controls. Bank of Ghana considers that Savings and Loans Companies are licensed to operate as savings institutions and not as general deposit institutions, and is not in favour of them issuing their own cheques (Steel and Andah, 2003).

Savings and Loans companies rely very little on external funding, and do not have access to refinancing by the Bank of Ghana. Client savings make up nearly the entirety of their financial resources. There is therefore a great deal of competition among institutions to capture savings which has led some Savings and Loans companies to set up alliances with informal mechanisms, such as susu collectors, in order to increase their funding base (Goldstein et al,1999) .

2.8 Contribution to Savings Mobilization

The purposes of savings are diverse. It has been observed that different people save for different purposes. Bass et al (2000) identified the following factors that influence the decision to save, namely, Product Design, Product Flexibility, Rate of Interest and Transaction Cost.

In the view of Bass et al (2000) Savings products must be designed to respond to the characteristics of different segments. Product Design must therefore consider earnings, consumption habits, socio-cultural obligations, personal ambitions, and the surrounding geographic and economic conditions.

Bass et al (2003) further finds that individual voluntary savings products attract a larger number of depositors and a higher savings volume than compulsory savings since the voluntary savings market is not limited to those who save only as a precondition for gaining credit. Product design must therefore be flexible to accommodate all potential savers irrespective of their motivations.

According to Bass et al (2000) the demand for Savings facilities by the poor also increases as the interest rate (on savings) increases. They maintain that even though it is assumed that the poor save even under negative real interest rates, evidence points to the importance of positive real interest rates.

With regard to the transaction cost of transforming available surplus into specific savings options, Bass et al (2003) found that the time factor, that is the time spent to gain access to savings in formal institutions, is one such cost that leads small savers to prefer the informal savings methods.

As regards product type Goldstein et al (1999) identified two categories of savings products, namely Voluntary and Compulsory. Voluntary Savings come in two forms, Cash Deposits and Time Deposits.

Cash deposits are the most commonly used savings products. They offer a great deal of flexibility to savers. A small sum is required to open an account; deposits are made according to clients' needs, while accounts are highly accessible and provide liquid deposit facilities. This kind of savings offers an opportunity for customers to place excess liquidity in a safe and secure place thus providing the capital for future investment or consumption expenditures. Institutions relying on savings to finance lending operations are concerned with attracting cash deposits while at the same time keeping transaction costs low.

A time deposit on the other hand represents a large sum of savings for a fixed term and at a fixed interest rate. Time deposits are primarily utilized by middle income earners.

According to Goldstein et al (1999) compulsory savings are directly linked to credit disbursement and are of two types namely, Preliminary Savings and Collateral Savings. Goldstein et al (1999) explain that Preliminary Savings are based on the idea that potential borrowers should prove their creditworthiness. The client must show capability of saving a fixed sum of money on a regular basis over a relatively long term (usually 3 to 6 months) and contributing from her own capital to a portion of the credit. In some cases, clients who make deposits cannot withdraw if they wish to take a loan. Collateral Savings, by contrast, are used as guarantee for individual, and sometimes group loans. The required sum can be as much as 50 percent of the credit.

According to Goldstein et al (1999) such compulsory savings are generally mobilized in three ways. One way is to require a client to deposit savings into an account before he receives a loan. Another method operates by way of a deduction of a percentage of the loan from the initial loan disbursement. The third method involves the collection of a percentage from each loan repayment. In other words what is booked as repayment is the amount received from the borrower less the amount applied to the (compulsory) savings account.

Goldstein et al (1999) also found that savings may be linked to a particular target or purpose. Hence there are Retirement Savings, Investment Savings plans and Housing Savings plans. Under Retirement Savings, savings are blocked until the client retires and earn interest at an agreed rate. Investment savings plans enable clients put money in savings, with the aim to obtain a credit for investment purposes. Under Housing savings plans, clients, after saving for a specified period are able to get a loan in order to build their home (Goldstein et al, 1999).

Fiakpe (2009) in his study of Nigeria Savings Market states that the interest paid on savings deposit is usually the least but the cost of administration could be much considering the retail nature of the market. However, pooled together, funds from this market constitute a veritable source of cheap money for banking business. The more of these funds a bank can garner, the cheaper it would be for it to transact business. It is for these reasons that most banks are deploying men and resources to explore this market the more. He is of the opinion that compared with other market segments, the savings market is still the least developed, an indication that not much has been done to mobilize sufficient funds from the informal sector of the economy said to control about 40 percent of the country's economy (Fiakpe, 2009).

In a study of Citi Savings and Loans Company (now absorbed by Intercontinental Bank Ghana Limited) Bass et al (2000) explains that the company worked through the traditional Susu providers to finance Susu clubs and collectors. It saw itself as a 'wholesaler' of funds and viewed the Susu network as a microfinance 'retailer'. Citi made use of Susu collectors. Each of the collectors had between 100 and 800 clients whom he visited personally each day, taking an average deposit of US$1.00 six days a week. Collectors received as much as US$10,000.00 a month in individual deposits, of which 50 percent was deposited with Citi in an interest bearing account. At the close of 1997, Citi's Kaneshie branch, which served the majority of Susu collectors, had 71 collectors with savings accounts totalling US$120,000.00 in deposits.

To beat the threat of competitors, Citi decided to find innovative ways to attract new clients. It decided to better understand its clients' needs through customer satisfaction surveys. With this client driven methodology, Citi was able to reach 10,000 customers, provide service out of three branches, and mobilize US$1.4 million in savings. Citi maintained a low overhead structure and preserved the Susu network's flexibility (Bass et al, 2000).

Through the products and methods discussed above, Savings and Loans companies and other microfinance institutions can be an important vehicle for mobilisation of substantial savings. Basu et al (2004) mentions the experiences of how microfinance institutions in some African countries have been successful in mobilizing deposits, while the outreach of the banking sector remains limited. He states that in Benin, the outreach of the banking sector is very limited with a small number of bank branches (35 nationwide for a population of 7 million) that mostly concentrate around the capital city. Against this backdrop, formal saving and loan cooperatives have been able to mobilize a significant amount of savings. Deposits at the Savings and Loans companies reached the equivalent of 10 percent of non-central government commercial bank deposits at end-2003. According to Basu et al (2004) in Ghana, the microfinance sector has a strong savings orientation and a much greater role of licensed institutions relative to nongovernmental organization than in many countries. The Savings and Loans companies account for most microfinance activities in the country, In the non-bank sector, eight Savings and Loans companies had over 160,000 depositors and 100,000 borrowers by 2002 and offered savings and credit products. In Tanzania, the primary source of microfinance services are about 650 Savings and Credit cooperatives with a total of 130,000 members (0. 4 percent of the population)(Basu et al, 2004).

2.9 Contribution to Credit Availability

Trends in loans and advances extended to small businesses, individuals and groups by Non-Bank Financial Institutions (NBFIs) in Ghana are positive. The total of such loans and advances amounted to GH¢50.97 million in 2002 as against GH¢ 39.64 million in 2001, indicating about 28.6 percent growth. The amount of loans continued to increase and reached GH¢72.85 million in 2004 showing an average annual growth rate of 42% over the 2-year period. In 2006 the total stood at of GH¢ 160.47 million which represents a 48.8 percent increase over the previous year's total (Bank of Ghana, 2007).

Availability of credit to savers also helps the savings mobilisation effort. Steel and Andah (2003) cited as an example, Citi Savings and Loan Company (now taken up by Intercontinental Bank) which was able to gain Susu club operators as clients not only by providing a safe place for weekly sums mobilized, but also by providing loans that would enable the operators to offer more advances than they would have been able to make out of their own accumulated resources. Operators were willing to borrow at 53% per annum even though they were earning only a 5% fee per month on early advances plus 10% commission on savings, because being able to make advances to a substantial number of clients improved their reputation and attractiveness to new clients (who pay an upfront membership fee) (Steel and Andah, 2003).

Citi helped provide liquidity to the club by providing the Susu operator with a loan which allowed her to make payouts as early as possible. The operator charged a small commission to all members that enabled her to borrow the funds and reap a small profit for herself. The average weekly individual deposit to the Susu clubs is between US$2 and US$90.00 for a total weekly collection of approximately US$3,333.00 which is used to make the weekly payout and to cover the fees charged by the club operator. Some of this money is deposited at Citi. Susu clubs use Citi primarily for obtaining loans. By the end of 1997, Citi's Fadama branch had made loans in amounts ranging from US$54,000.00 to US$125,000.00 totalling US$390,000.00 to only four of the 12 clubs the branch served (Steel & Andah 2003).

2.10 Problems

The high minimum capital requirement is a particular restraint on Ghanaian-owned Savings and Loan companies, whose microfinance methodologies and relatively poor clientele tend to make them relatively small and local. As deposit-taking Non Bank Financial Institutions, Savings and Loan companies have to post the same minimum capital as Discount Houses, implying that they would be expected to book comparable risk assets. Steel and Andah (2003) argue that in reality, Savings and Loan companies' assets average only an eighth of those of Discount Houses and only double those of Rural Banks. The table below shows total and average assets of various categories of financial institutions.

Table 2.1: Assets of Depository Financial Institutions, 2001 (GH¢ million)

	Major Banks GH¢million	Discount Houses GH¢million	Savings and Loan Companies GH¢million	Rural Banks GH¢million
Total	1,443.36	36.03	7.86	51.81
Number	17	3	8	115
Average	84.90	12.01	0.98	0.45

Source: Steel & Andah, 2003.

KNUST

Efficient use of a minimum capital of US$2 million would imply risk assets of the order of $18 - $20 million, implying that the present capital requirement is misaligned with the type of business that Savings and Loans companies actually do. Furthermore, mobilizing substantial additional capital would then create pressure to raise loan portfolios tenfold to use those funds efficiently- a risky rate of expansion for any financial institution.

Steel and Andah (2003) further state that the US$2 million minimum capital requirement risks driving underground those Savings and Loans companies that will be unable to comply and thus reverse the positive trends of both formalizing what were essentially money lending operations and enabling successful Non Governmental Organisations to move into mobilizing and intermediating savings as a basis of greater outreach.

CHAPTER THREE

3.0 METHODOLOGY

3.1 Introduction

This chapter pays attention to how questions of the research were answered, methods that were employed in the study, the target population, sample size and sampling techniques as well as the various and appropriate sources of data and how the data were collected.

3.2 Target Population

The population for this study was all Savings and Loans companies operating in Ghana, Banks that are operating in the country, as well as customers of these Savings and Loans companies. The target population is nine (9) Savings and Loans companies out of a total of fourteen (14) companies, representing 64.3 percent. However, the target population was reduced to eight (8), representing 57.1 percent due to non response on the part of one Savings and Loans Company (Procredit).

3.3 Sample Size

A total of (118) respondents consisting of one hundred (100) customers of Savings and Loans Companies, eight (8) Savings and Loans Companies and ten (10) Banks were sampled. Customers sampled were those in Accra at the time the exercise took place. The number of Savings and Loans companies sampled, eight (8) out of fourteen (14) represented 57.15 percent of companies which were in existence as at the end of December, 2007. The sample of traditional banks, which was ten (10) out of twenty three (23), represented 43.48 percent. This decision was taken as a result of limitations due to time and cost constraints on the researcher as well as high non response rate on the part of the target population.

3.4 Data Sources

Information from both primary and secondary sources was collected. The primary sources of data were obtained through questionnaire administered to respondents (customers of Savings and Loans companies in Accra) as well as a number of Savings and Loan companies and traditional banks. Questionnaires were administered to customers of Savings and Loans companies after the whole purpose of the research had been carefully explained to them. Interviews were also conducted with officials of the Savings and Loans Companies and traditional Banks.. Other data were obtained from brochures of the various Savings and Loans companies as well as their official websites. Annual reports for the years 2003 to 2007 as well as Statistical Bulletin (February 2008) were obtained from Bank of Ghana. Publications from Ghana Micro Finance Institutions Network (GHAMFIN) were also utilised. All materials used have been duly acknowledged.

3.5 Methods and Procedures Used For Obtaining Data

Purposive sampling was employed in this study as the researcher was constrained by resources and time. Questionnaires were administered over a period of 3 weeks from 20th March to 9th April, 2009 to customers of the Savings and Loans companies who had come to the banking premises to conduct business. Some questionnaires were also administered to customers of these companies at their various places of business as not all customers came to the premises of the banks to conduct business. In the case of the Savings and Loans companies and the banks, the questionnaire served as a guide for interviews that the researcher had with the respondents. This method of administration gave the researcher the advantage of understanding the details of the modalities employed by these organisations.

KNUST

3.6 Data Collection

Data for the research was collected mainly through the administration of semi-structured questionnaire to respondents. Three types of questionnaire were administered. One was administered to customers of Savings and loans companies), one for the Savings and Loan companies and another for the traditional banks. All sets of questionnaire contained open and closed-ended questions. Most of the clientele of the Savings and Loans companies were mostly illiterates and semi-literates. Those who were literate could hardly find time to devote to completing the questionnaire. As a result of the above, for a large part of respondents, the face to face interview method was employed. By this method, each question and corresponding set of answers were read out and translated in two dialects (Ga and Twi) to enable them understand and answer the questions appropriately. A questionnaire pre-test was done by the administration of twelve (12) questionnaires (8 to customers of Savings and loans companies and 2 to officials of Savings and Loans companies and traditional banks respectively). Responses generated from respondents indicated that the questions would serve the purpose of the research.

3.7 Data Cross Checking

In order to get exact and reliable results which will be a reflection of the research that was undertaken, the researcher examined all questionnaires individually to ensure that responses elicited from respondents addressed the research objectives stated in the proposal.

3.8 Data Analysis

Statistical Package for the Social Sciences (SPSS Version 16.0) was used for the data analysis, management and documentation. It enabled the researcher to come out with the final findings of the research. The data was edited for completeness and consistency after which data extraction was performed. Coding of the data was followed by data entry, after which results were run and presented in tables and charts.

CHAPTER FOUR

4.0 DATA ANALYSIS AND INTEPRETATION

4.1 Introduction

The focus of this chapter is to produce results of the field work. As stated in the previous chapter three sets of questionnaires were administered to three sets of respondents: one for Savings and Loans companies, another for customers of Savings and Loans companies and a third to traditional banks.

4.2 Nature of Savings and Loans Companies

Savings and Loans Companies are becoming increasingly more visible on the financial landscape of the country. Their numbers have grown from 9 in 2003 to 14 in 2007.

Table 4.1: Regional Distribution of Branches of Selected Savings and Loans Companies in Ghana

Region	WWB	OIS	UGL	EzSL	GCSL	MSL	ESL	ASL	Total
Greater Accra	6	5	3	6		3	6	3	**32**
Eastern		1					1		**2**
Central		1					2		**3**
Western	1						1		**2**
Volta									**0**
Ashanti	1	3		1	5		1		**11**
Brong Ahafo		2					1		**3**
Northern									**0**
Upper East									**0**
Upper West									**0**
Total	**8**	**12**	**3**	**7**	**5**	**3**	**12**	**3**	**53**

Source: Field Report, April 2009

Women's World Banking (WWB) was established in 1983, followed eleven years later by Opportunity International Savings and Loans (OIS) (Formerly Sinapi Aba Trust) in 1994. It operated as a Non Governmental Organization (NGO) until 2004 when it converted its operations into a Savings and Loan company on receipt of its license to that effect. Unicredit Ghana Limited (UGL) (formerly Katamanto Savings and Loans) entered the market in 1995. Ezi Savings and Loans (EzSL) (formerly Johnson Savings and Loans), Garden City Savings and Loans (GCSL), Midland Savings and Loans (MSL), Adehyeman Savings and Loans (ASL) and Express Savings and Loans (ESL) also appeared on the scene in 1996, 1999, 2002, 2005 and 2007 respectively.

Table 4.1 above shows a regional distribution of the branches of the eight Savings and Loans companies included in the study. Of the fifty three (53) branches of the eight companies as many as thirty two (32) or 60.4 percent are located in Greater Accra Region, while Ashanti Region has eleven (11) or 20.8 percent. Hence the two regions, Greater Accra and Ashanti have between them 81.1 percent of the branches of the Savings and Loans companies covered in the study. Three (3) companies have all three branches located in Greater Accra while one company, namely Garden City Savings and Loans Limited has all five (5) branches domiciled in the Ashanti Region. Only two companies, namely Express Savings and Loans (ESL) and Opportunity International Savings and Loans (OIS) showed a reasonably wide geographical spread with a presence in six (6) and five (5) regions respectively. A striking feature of the above data is the complete absence of any of the companies in the Volta, Northern, Upper East and Upper West Regions.

4.2.1 Regulatory Framework

Savings and Loans companies belong to a group of financial institutions previously regulated by the Financial Institutions (Non-Banking) Law, 1993 (PNDC Law 328). Following the passage of the Non-Bank Financial Institution Act, 2008 (Act 774) on 23rd December 2008, PNDC Law 328 has been repealed. A notable consequence of the advent of Act 774 is the migration of institutions previously regulated under PNDCL 328 to other regulatory regimes. Under the third schedule to Act 774 Savings and Loans companies, amongst others, are to be regulated under the Banking Act 2004 (Act 673). However by virtue of Section 49(1) of Act 774, regulations, rules, instruments, licenses, orders and decisions made under PNDC Law 328 remain valid and binding and deemed to have been made under the Act in so far as they are not inconsistent with it. The legislation governing the period covered by this study is the PNDC Law 328.

Under the law, the Bank of Ghana is the regulatory authority for all non-bank financial institutions. To qualify for a licence, Savings and Loans companies, like other non-bank financial institutions, must have a prescribed minimum paid-up capital. This minimum capital is subject to change from time to time as the Bank of Ghana deems fit. Consequently whereas upon the promulgation of PNDC Law 328 the minimum paid-up capital was one hundred million cedis, equivalent to GH¢10,000 (Ten thousand Ghana cedis) the minimum paid-up capital is currently one hundred thousand Ghana cedis (GH¢ 100,000) equivalent to one billion cedis (¢1.0 billion)

The businesses that Savings and Loans companies are permitted to engage in are enshrined in rules made under the main legislation. These rules are known collectively as the Non-Bank Financial Institutions (NBFI) Business (BOG) Rules. The NBFI Business (BOG) Rules have divided the NBFI into four categories, namely

A Deposit taking institutions (Other that Discount Houses)

B Non-deposit taking institutions in credit business

C Discount Houses

D Venture Capital Fund Companies

Savings and Loans companies belong to category A, i.e. Deposit taking institutions. Under the NBFI (BOG) Rules, the core business of Savings and Loans companies is defined as follows:

‘Savings and Loans Companies (SLCs) engage in mobilization of retail savings by acceptance of deposits from the public - mainly households and small business enterprises and provide credit largely with target group orientation (such as micro and small business financing) but also extending personal/consumer credits and finance to mid-market business. Target group oriented credits are usually linked to savings.’

Within the context of this prescribed business, a deposit is defined as ‘a sum of money placed with or paid to a financial institution on terms under which it will be repaid with or without interest or premium either on demand or at a time or in circumstances agreed by or on behalf of the person making the placement/payment and the person receiving it”. Deposits from the public also referred to as ‘public deposits’ or ‘retail deposits’ means ‘deposits placed or paid by members of the public (including legal persons) and include individual members of the general membership of co-operative institutions but exclude:

(i) amounts deposited by the directors and shareholders of the company. (The NBFI Rules require these to be shown separately as ‘Deposits from Shareholders/Directors in the financial reports of the Company);

(ii) amounts received from banks and other financial institutions;

(iii) amounts received in the ordinary course of business as dealership/earnest money deposits, security deposits (from employees) etc;

(iv) subscription monies received towards bonds and debentures to be issued by the company or for the purchase of securities issued by others.

It is to be noted that these exclusions are made for the purpose of definition (of deposits) and not meant to represent prohibited business. This classification is important within the context of the fact that certain regulatory/prudential requirements are defined in terms of deposit liabilities. Examples are:

- The Primary Liquidity Ratio (PLR) and
- The Secondary Liquidity Ratio (SLR)

which prescribe respectively minimum amounts of primary and secondary reserve assets that must be maintained by deposit taking institutions expressed as a ratio of deposit liabilities.

The NBFI (BOG) Rules for deposit taking institutions also provide the following definitions for Micro and Small Business finance:

‘Micro Finance means lending to borrowers having the capacity to service /support loans of not more than one million cedis (equivalent to GH¢ 100.00) and in the case of group lending-with Joint and several guarantees of the members of the group-not more than ten million cedis (equivalent to GH¢1,000.00)’.

‘Small business finance refers to lending to borrowers having capacity to support/service loans of up to twenty million cedis (equivalent to GH¢2,000.00), not being micro credits’. These definitions of ‘Microfinance’ and ‘Small Business Finance’ must not be mistaken for limits on financial exposures that Savings and Loans companies can undertake.

While microfinance and small business finance are an important characteristic of Savings and Loans companies they are not by any means restricted to these levels of lending. The actual limits on financial exposures that Savings and Loans companies can undertake are provided by the NBFI (BOG) Rules as follows:

> ‘No licensed institution shall assume financial exposure by lending or otherwise, including investing in equity, to a single entity/borrower or a group entities/borrowers which in aggregate exceeds:
>
> - 15% of the institution’s net worth, if the loan/exposure is secured,
> - 10% of the institution’s net worth, if the loan/exposure is unsecured.

These rates may be contrasted with Section 42 of the Banking Law, 2004 (Act 673) which prescribes the corresponding rates of 25% and 10% for banks. Financial exposure otherwise than by lending includes undertaking credit commitments by the issue of financial guarantee or indemnity on behalf of a customer or carrying out any other credit transaction for a person or customer.

It must be noted however that the passage of the NBFI Act, 2008 (Act 774) on 23rd December 2008 has effectively removed this distinction between Savings and Loans companies and the banks. Section 46(6) of the Act requires that Savings and

Loans companies be migrated to the regulatory regime of the Banking Act, 2004 (Act 673) as amended.

The NBFI (BOG) Rules include ‘Deposit-Taking Rules’ which impose certain ‘restrictions on depository products to be offered to the public’. Rule 32 provides as follows:

(i) ‘No non-bank financial institutions shall accept public deposits which are payable or withdrawable by cheque going through the clearing system. In other words the deposit product of current or checking account(s) shall not be offered by NBFIs.’

(ii) ‘Savings institutions may offer to their customers savings accounts beside other deposit products such as fixed and recurring deposits. They may, if they consider expedient, offer ‘in-house checking’ facility in the ‘savings accounts’ to their customers.’

The in-house checking facility is explained to mean: ‘drawing cheques on savings accounts of customers of the same institution (i.e. transfer cheques), and subject to the institution having put in place necessary controls, permitting select/well-rated savings account customers to draw cheques on the current account of the saving institution with a bank, under prior arrangement’.

From the foregoing it is clear that while Savings and Loans companies can offer various types of deposit product they are prohibited from offering current accounts or demand deposits in the strict sense. This may be a major factor that distinguishes Savings and Loans companies from mainstream banking institutions. However the concession in the rules which allows them to fashion out a sort of quasi current or checking accounts for prime customers makes this distinction rather blurred. In view of competitive pressures it is easy to imagine that such a facility could well end up being extended to all customers. The fact that the institutions have to fashion out their individual clearing arrangement for these cheques does still create a difference between them and the traditional banks though.

In the area of credit although the rules restrict Savings and Loans companies (and for that matter other companies licensed under the PNDC Law 328) to their core business as their 'principal business' they are allowed to undertake ancillary business subject to the prior approval of, or no objection certification from, Bank of Ghana. Principal business is defined by the NBFI (BOG) Rules as 'the financial activity/business of a licensed company (NBFI) from which not less than seventy five percent (75%) of its income is derived in a financial year. Ancillary business is defined as 'any of the financing activities engaged in by non-bank institutions in credit business (ICBs) which a licensed ICB may undertake, in addition to its principal business'. Any such ancillary business undertaken, 'shall be complementary to and supportive of its principal business'. The room for ancillary business makes the range of allowed businesses rather open ended and appears to further narrow down the distinction between Savings and Loans companies and banks. However, the requirement of prior approval or a no objection certification from the Bank of Ghana does represent a difference. This is because once a bank has obtained the appropriate class of licence or licences for its business, it can do the businesses so licensed without the need for prior approval or no objection certification. It may be argued though that the licensing process is one of obtaining prior approval or a no objection certification. This argument is rather weak considering the fact that once licensed a bank is not obliged to seek new permissions in respect of desired businesses. In an earlier section mention was made of lending restrictions in the form of single borrower exposure limits.

Another regulatory or prudential requirement that serves as an indirect curb on credit expansion is the 'capital adequacy requirement'. Under this regulation a savings and loans company is not allowed to expand the level of its risk assets beyond ten times the level of its 'unimpaired own funds'. In other words every savings and loans company is required to 'maintain at all times while in operation, a capital base which shall not be less than ten percent of its total risk weighted assets'. The Banking Act, 2004 (Act 673) prescribes the same ratio for banks.

4.3 Modus Operandi

Table 4.2: Hours of Operations

	Mon - Friday		**Saturdays**	
	N	Percent	N	Percent
8.30am to 4.30pm	7	87.5	1	12.5
8.30am to 5.00pm	1	12.5		
9.00am to 1.00pm			4	50.0
10.00am to 2.00pm			1	12.5
Not Applicable			2	25.0
Total	8	100.0	8	100.0

Source: Field Report April 2009

4.3.1 Hours Of Operation

From the responses, 87.5% of respondents operated from 8.30am to 4.30pm from Mondays to Fridays while 12.5% operated from 8.30 am to 5.00 pm. 50% of respondents operated between 9.00am and 1.00pm on Saturdays, 12.5% from 8.30am to

4.30pm and 12.5% from 10.00am to 2.00pm. It was observed that 25.0% of respondents did not operate of Saturdays.

Table 4.3: Methods employed for deposit collection

	N	Percent
Mobile banking teams to get to customers at their business	8	100.0
Total	8	100.0

Source: Field Report April 2009

KNUST

4.3.2 Methods employed for deposit collection

Responses obtained showed that all respondents employed mobile banking teams for deposit collection in addition to the traditional method where customers visited the offices of the Savings and Loans companies to lodge their deposits. The organizations engaged the services of field cashiers, who were each assigned a list of customers. The field cashiers visit their clients daily to collect their deposits. The amount to be paid and the frequency of payment were determined by the customers. The field cashiers were expected to be guided by the customers' instructions during their rounds for deposit collection. It was observed that the cashiers were given targets which they were expected to achieve. Some of the companies based the remuneration of their field cashiers on the quantum of deposits they were able to mobilize. In a bid to receive higher remuneration, the field cashiers also fished out for new customers from whom they could mobilize regular deposits thus performing marketing duties in addition to their deposit collection duties.

Table 4.4: Savings instruments offered

	Total Sampled	Yes	Percent	No	Percent
Fixed deposit	8	8	100.0	0	0.0
Savings deposit	8	8	100.0	0	0.0
Demand deposits	8	7	87.5	1	12.5
Susu	8	6	75.0	2	25.0

Source: Field Report April 2009

4.3.2 Savings instruments offered

100 percent of respondents offered fixed deposits and savings deposit accounts to their customers. Demand deposits were offered by 87.5 percent while 75 percent of respondents offered susu to their customers. It must be noted that respondents provided a combination of these instruments. 6 respondents representing 75 percent provided a combination of four instruments - Fixed Deposits, Savings Deposit, Demand Deposits and Susu; one respondent representing 12.5 percent offered 3 instruments – Savings Deposits, Fixed Deposits and Demand deposits; and 1 respondent representing 12.5 percent offered Fixed Deposit and Savings Deposit.

Table 4.5: Frequency at which customers make deposits

	Total Sampled	Yes	Percent	No	Percent
Daily	8	8	100.0	0	0.0
Weekly	8	1	12.5	7	87.5
Others (specify)	8	0	0.0	8	100

Source: Field Report April 2009

4.3.3 Frequency at which customers make deposits

From Table 4.5, Customers of all respondents (100 percent) made deposits on daily basis and customers of 12.5 percent made weekly deposits. It was obvious that customers deposited small sums of money at a time. The types of clients as well as the nature of their occupations were the reasons for such small deposits at a time. They were mainly engaged in micro businesses which did not require a big capital base. This resulted in the situation where they were able to save only small amounts at a time.

Table 4.6: Factors considered in fixing lending rates of interest

	Total Sampled	Yes	Percent	No	Percent
Transactions or administration costs	8	5	62.5	3	37.5
Cost of funds	8	6	75.0	2	25.0
Profit margin	8	2	25.0	6	75.0
Lending rates of banks	8	4	50.0	4	50.0

Source: Field Report April 2009

4.3.4 Factors considered in fixing lending rates of interest

In fixing their lending rates, 75 percent of respondents considered the cost of Funds, 62.5 percent considered their transaction/administration costs, 50 percent took the lending rates of banks into consideration while 25 percent considered their profit margin.

Table 4.7: Sources of information on potential borrowers before loan decisions are made

	Total Sampled	Yes	Percent	No	Percent
Community and neighbourhood ties	8	6	75.0	2	25.0
Opinions from other financial institutions	8	2	25.0	6	75.0
The company's own records	8	6	75.0	2	25.0

Source: Field Report April 2009

4.3.5 Sources of information on potential borrowers before loan decisions are made

From Table 4.7, 75 percent of respondents relied on community and neighbourhood ties and the company's own records for information on potential borrowers before loan decisions were made. 25 percent of respondents relied on opinions from other financial institutions. The researcher observed that the Savings and Loans companies employed an element of personal relationship with their customers. Unlike the traditional banking system where there was a heavy reliance on information supplied by the customer, these companies engaged themselves in obtaining personal details of their customers. They went the extra mile to know the residences of their customers or identified the various traders' organizations to which they belonged. Information relating to the character of the customers is obtained from interactions with people in the community or the traders' organizations to which they belonged. They have found this method of gathering information on their clients to be very useful as it enables them to know the customers better. Since the clientele of the Savings and Loans companies do not have assets that could be used as collateral for the credit advanced to them, the companies relied on information gathered by this method to ensure that the loans granted did not go bad.

Table 4.8: Innovative schemes put in place to attract depositors

	Total Sampled	**Yes**	**Percent**	**No**	**Percent**
High Interest rates	8	5	62.5	3	37.5
Access to credit	8	8	100.0	0	0.0
Access to money deposited	8	5	62.5	3	37.5
Taking financial service to the customers at their doorstep	8	7	87.5	1	12.5

Source: Field Report April 2009

4.3.6 Innovative schemes put in place to attract depositors

To attract depositors, all respondents (100 percent) employ access to credit to their customers as a bait, 62.5 percent made it possible for their customers to have unfettered access to the money they deposited any time they had a need for it. They did not impose restrictions on withdrawals.

Table 4.9: **Maturity profile of loans**

	N	Percent
Short term (within 1 year)	8	100.0
Medium Term	0	0.0
Long Term	0	0.0
Total Sampled	**8**	**100.0**

Source: Field Report April 2009

4.3.7 Maturity Profile of loans

The maturity profile as given by all 8 respondents (100 percent) was short term that is within one year. The Savings and Loans companies gave out loans as low as GHC50.00. The clients of the companies were mainly engaged in micro businesses which hardly required large capital. Their requests were therefore mostly for small loans. In response to the concept of demand and supply therefore, smaller loans are given since smaller loans are demanded. These loans obviously do not require long periods of repayment. Another factor is the fact that the loans given are to enhance the working capital of the clients and are not for capital expenditure. The Savings and Loans companies employ daily, weekly, fortnightly, and monthly repayment schedules. This results in high frequency of small installment payments.

4.4 Nature of Clientele

Table 4.10: Nature of Clientele

	Total Sampled	Yes	Percent	No	Percent
Public Servants	8	3	37.5	5	62.5
Small and Medium Enterprises and Traders	8	8	100.0	0	0.0
General Public	8	1	12.5	7	87.5
Corporate Organizations	8	0	0.0	8	100.0

Source: Field Report April 2009

KNUST

4.4.1 Nature of Clientele

Responses reflected in Table 4.9 give an insight into the nature of the clientele of the Savings and Loans companies. All eight companies sampled (100 percent) indicated that small and medium sized enterprises and traders formed part of their clientele, and none had Corporate Organizations. 37.5 percent of respondents had public servants 12.5 percent had the general public as their clientele. One of the sampled companies has a focus on the general public and has therefore designed its products to suit the needs of the various components of the general public.

4.5 Differences in service delivery with Traditional Banks

Table 4.11: Lending approaches practiced

	S & L Company		Bank	
	N	Percent	N	Percent
Individual based lending	8	100.0	10	100.0
Group based lending	5	62.5	0	0.0

Source: Field Report April 2009

4.5.1: Lending approaches practiced

Table 4.10 indicates that all Savings and Loans Companies and Banks (100 percent) employ the Individual based lending approach. 62.5 percent of Savings and Loans companies employ the group based lending approach as well. The researcher observed that Savings and Loans companies employed four main methodologies in their lending approaches.

(i) **Village Banking**: The organizations identify areas where there are concentrations of people who fall within their target market and divide these markets into territories which they identify as 'villages'. The emphasis here is for people living and trading in that identified vicinity (preferably operating from their houses). Since the people living in the 'village' know themselves, the companies rely on the inhabitants of these areas for information on these customers in respect of credit administration.

(ii) **Community Banking**: This methodology is employed mainly in identified markets. In this instance, the customers are not residents of the area but move from other areas to conduct business in the market. The companies make use of already existing groups or associations within the market. Information on the various members of the group can be obtained from the members of the group – most especially the 'queens 'of these market associations.

(iii) **Church Banking**: The Savings and Loans companies deal with identified groupings within the church.

(iv) **Solidarity group**: This methodology is normally employed for customers who in the company's view have benefited from loans a number of times without default. This group of customers normally benefit from larger loan amounts.

The companies employ group or individual based lending in these identified groups. In some circumstances, even though the group is considered for the loan, the applications of the individual members of the group are appraised on their own merit and credit so advanced is for the individual members of the group. Alternatively, a bulk amount is advanced to the group for its members. Distribution to members is undertaken by the group. Since the credit was advanced to the group and not the individuals within the group, repayment of the loan is the responsibility of the group. If a beneficiary of a portion of the loan (a group member) defaults in his repayment, it is the responsibility of the group to repay his portion as well. It must be noted that a new loan will not be given unless the old one has been paid in full.

Table 4.12: Processing time between loan application and disbursement

	Savings & Loans Co.		**Bank**	
	N	**Percent**	**N**	**Percent**
One week- fortnight	7	87.5	3	30.0
One Month	1	12.5	7	70.0
Total	8	100.0	10	100.0

Source: Field Report April 2009

4.5.2 Processing time between loan application and disbursement

From Table 4.12, 87.5 percent of loan applications of Savings and Loans Companies were processed between a period of one week and two weeks whereas only 30 percent of applications received by banks were processed within the same time frame. 12.5 percent of applications received by Savings and Loans companies were processed within at least one month while 70% of applications received by traditional banks were processed within the same period. It is therefore obvious that most loan applicants of Savings and Loans companies received attention faster than applicants of the traditional banks.

The reason for this difference in loan processing time has something to do with the size of loans and the issue of security. Savings and Loans companies give out smaller loan amounts to their clients which do not require elaborate or rigorous appraisal. Security for these loans is normally character-based, rather than on the provision of collateral. In the case of traditional banks which normally give larger loans and therefore require rigorous appraisal and provision of collateral by borrowers, the process requires a longer time to complete. The reason is that properties that are offered as security have to be verified for confirmation of ownership. They must also be valued. In the instances where landed property is used, consent has to be obtained from appropriate authorities from whom such properties were leased. These processes have to go through bureaucratic processes which take quite some time.

Table 4.13: Largest categories of borrowers

	Savings and Loans Co.		**Bank**	
	N	**Percent**	**N**	**Percent**
Petty Traders and Artisans	7	87.5	0	0.0
Medium & Large Enterprises	0	0.0	2	20.0
Corporate Bodies	0	0.0	7	70.0
Public Servants	0	0.0	1	10.0
Farmers	1	12.5	0	0.0
Total	8	100.0	10	100.0

Source: Field Report April 2009

4.5.3 Largest category of borrowers

The largest categories of borrowers of the Savings and Loans companies are petty traders and artisans (87.5%) while 70 percent of respondents of banks indicated their largest category of borrowers as corporate bodies, 10 percent of banks sampled indicated public servants as their largest category of borrowers while 20 percent indicated their largest borrowers as medium and large scale enterprises.

Table 4.14: Measures adopted to reduce credit/default risk

	Savings & Loans Company				Bank			
	Yes	**Percent**	**No**	**Percent**	**Yes**	**Percent**	**No**	**Percent**
Credit rationing	2	25.0	6	75.0	0	0.0	10	100.0
Collateral to strengthen repayment incentives	4	50.0	4	50.0	10	100.0	0	0.00
Small loan amounts	3	37.5	5	62.5	0	0.0	10	100.0
Shorter term loans	6	75.0	2	25.0	0	0.0	10	100.0
Lending for certain sectoral economic activities only	1	12.5	7	87.5	0	0.0	10	100.0
Lending for purposes that will provide ability to repay	2	25.0	6	75.0	0	0.0	10	100.0
Taking insurance	1	12.5	7	87.5	2	20.0	8	80.0

Source: Field Report April 2009

4.5.4 Measures adopted to reduce credit/default risk

Savings and Loans Companies adopt several measures to reduce credit/default risk. 75 percent of respondents adopt shorter term loans, 50.0 percent demand collateral (cash) to strengthen repayment, 25.0 percent adopt credit rationing, 37.5 percent give out small loans, 12.5 percent take insurance while 12.5 percent lend for certain sectoral economic activities only. All Banks on the other hand (100 %) demand collateral to strengthen repayment. The collateral demanded is not restricted to cash, while 20 percent of respondents took insurance. The premium is paid by the customer at the stage where the loan was being processed for disbursement.

Table 4.15: Loans to non savers

	Savings & Loans Co.		Banks	
	N	Percent	N	Percent
Yes	3	37.5	7	70.0
No	5	62.5	3	30.0

Source: Field Report April 2009

4.5.5 Loans given to non-savers

62.5 percent of respondents of Savings and Loans companies do not give loans to non savers while 70.0 percent of respondents of banks give loans to non savers. Most banks give loans to non savers. This helps them win more customers. Often non savers of banks receive credit in the form of mortgage and auto loans. As a condition for the credit advanced, the customer opens and maintains an account with the bank. The item for which credit is provided is also used as security for the credit advanced (e.g. cars purchased with auto loans serve as security for the loan given.). According to respondents of Savings and Loans companies who do not give loans to non savers, the nature of their clientele makes it unadvisable for them to give loans to non savers. They were of the view that since they relied mostly on character based assessment of their customers before advancing credit to them, it was not advisable for them to give loans to non savers whom they did not know well.

Table 4.16: Management of Interest Rate Risk

	Savings and Loans Co.		Banks	
	N	**Percent**	**N**	**Percent**
Transfer to customers	6	75.0	10	100.0
Short term loans (at most 6 months)	2	25.0	0	0.0
Total	8	100.0	10	100.0

Source: Field Report April 2009

4.5.6 Management of Interest Rate Risk

75 percent of respondents of Savings and Loans companies transfer interest rate risk to customers while 25 percent gave out short term loans (at most 6 months) to their clients as a measure to manage interest rate risk. All respondents of banks (100 percent) transfer their interest rate risk to their customers. According to respondents of Savings and Loans companies, their clients are very sensitive to interest rate changes. They are therefore very careful when dealing with issues relating to interest rates changes. They explained that even though they transfer their interest rate risk to their clients, the transfer is disguised so that it is not easily detected by the clients. They do not normally raise interest rates of loans taken by clients even when this has to be done.

Some of these companies charge a levy of 1 percent of any loan advanced to their customers. This levy is either termed as solidarity fee, monitoring fee or commitment fee. The fund which is created by this levy is set aside for recoveries. Even though interest rates increases are not directly passed on to customers, increases required to be made are catered for from proceeds of this fund.

According to respondents who gave shorter term loans as a means of managing interest rates risks, since their clients are very sensitive to interest rate changes, they do not change the rates even when there is the need to do so. The company absorbs the increase but the effect on them is reduced as a result of the term of loans that they give to their clients.

4.6 Contribution To Savings Mobilization

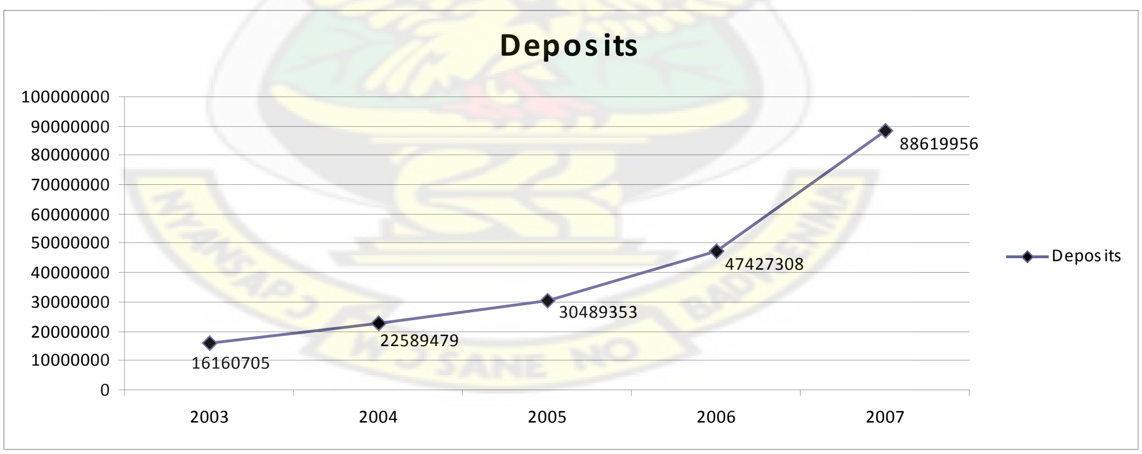
Deposits of Savings and Loans companies have shown a steady upward trend. The table below shows deposit levels of Savings and Loans companies, other deposit taking institutions and the economy as a whole over the period 2003 to 2007.

Table 4.17: Deposit Mobilization in Ghana

Institution	2003 GH¢'000	2004 GH¢'000	2005 GH¢'000	2006 GH¢'000	2007 GH¢'000
Savings and Loans	16,160.71	22.589.48	30,489.35	47,427.31	88,619.96
Rural Banks	94,919.42	135,731.10	165,456.95	225,045.19	293,787.11
Commercial Banks	1,549,426.07	2,008,824.41	2,391,761.75	3,381,941.66	4,914,144.78
Finance Houses	21,205.20	27,357.75	50,662.02	24,479.19	46,838.78
Total	**1,681,711.40**	**2,194,502.74**	**2,638,370.07**	**3,678,893.35**	**5,343,390.63**

Source: Bank of Ghana

Figure 4.1 below shows a graph of the trend of Savings and Loans Companies' deposits over the same period.



Source: Bank of Ghana

Figure 4.1: Trend of deposit mobilization of Savings in Loans Companies In Ghana (2003 to 2007)

The table shows that from 2003 to 2007 deposits grew from sixteen million one hundred and sixty thousand seven hundred and five Ghana cedis (GH 16,160,705) to eighty eight million six hundred and nineteen thousand nine hundred and fifty six Ghana cedis (GH

88,619,956). This shows a more than five fold increase over the five year period. Between 2003 and 2004 the growth rate was 39.8%. There was a slight decrease in the rate of growth in 2005 as that year posted a 35% growth. The speed of growth picked up in 2006 which recorded a remarkable 56% increase. The growth between 2006 and 2007 was even more impressive, a handsome 86.9%. The above figures translate into an average annual growth rate of 54.3%. In comparison with other deposit-taking institutions and the economy as a whole the above figures are quite revealing as far as the contribution to deposit mobilization is concerned.

Over the same period growth in deposits of Savings and Loans Companies and other deposit-taking institutions and the economy as a whole was as follows:

Table 4.18: Percentage Growth Rate of Deposits

	2004 %	**2005 %**	**2006 %**	**2007 %**	**Average %**
Savings and Loans Companies	39.8	35.0	55.6	86.9	54.3
Rural Banks	43.0	21.9	36.0	30.5	32.9
Commercial Banks	29.6	19.1	41.4	45.3	33.9
Finance Houses	29.0	85.2	(51.7)	91.3	38.5
Economy	30.5	20.2	39.4	45.2	33.8

Source: Bank of Ghana

While the growth in deposits of the economy as a whole averaged 33.8% over the period the corresponding average for Savings and loans companies was 54%. A comparison with other deposit-taking institutions shows a clear advantage in favour of Savings and Loans companies. The period average growth rates were 32.9%, 33.9% and 38.5% for Rural Banks, Commercial Banks and Finance Houses respectively.

Among the deposit taking institutions those more noted for micro finance and small/medium scale financing are Savings and Loans companies and Rural Banks. Some comparison between the two should therefore be interesting. The table below shows the respective numbers of Savings and Loans companies and Rural Banks over the period.

Table 4.19: Savings and Loans Companies and Rural Banks in Ghana

Year	Number of Savings and Loans Companies	Number of Rural Banks
2003	9	115
2004	11	120
2005	12	121
2006	13	123
2007	14	126

Source: Bank of Ghana

The following table combines information from Tables 4.17 and 4.19 to produce information on deposits per institution of Savings and Loans companies and Rural Banks.

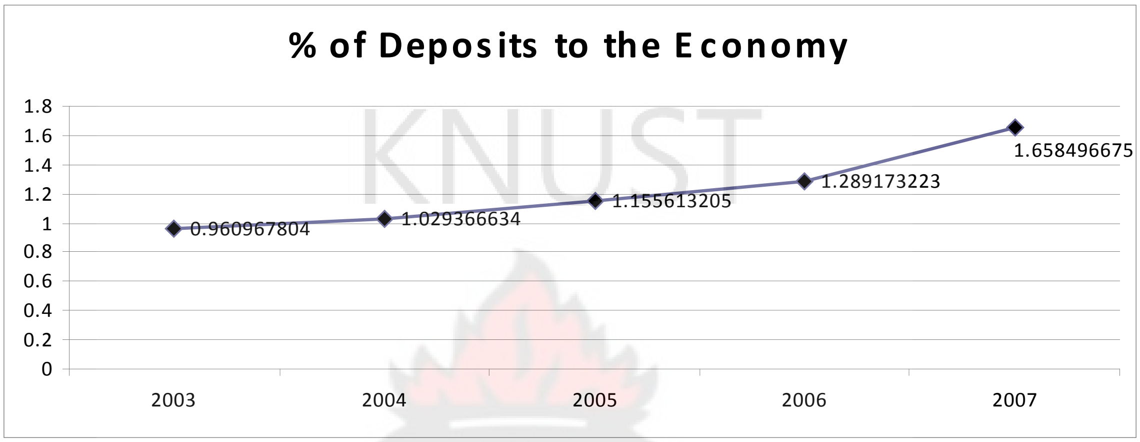
Table 4.20: Data on Deposits per Institution - Savings and Loans Companies and Rural Banks compared

Type of Institution	2003 GH¢'000	2004 GH¢'000	2005 GH¢'000	2006 GH¢'000	2007 GH¢'000	Average
(1) Savings and Loans	1,795.63	2,258.95	2,540.78	4,311.57	6,330.00	
(2) Rural Bank	825.39	1,131.09	1,367.41	1,829.64	2,331.64	
%of (2) to (1)	46%	50%	53.8%	42.4%	36.8%	45.8%

Source: Bank of Ghana

From Table 4.20, it is clear that on a per-institution basis the typical Savings and Loans company has more deposits than the typical Rural Bank. On average the deposit levels of the typical Rural Bank is about 46% of the deposit level of the typical Savings and Loans Company. It must be pointed out though that while Rural Banks are restricted in their areas of operation to a defined catchment area, Savings and Loans companies do not operate under any such restrictions

In relation to deposit levels of the economy as a whole, Savings and Loans Companies command an ever-increasing share. Figure 4.2 below shows a graph of how deposits of Savings and Loans Companies relate to total deposits of the economy over the period.



Source: Bank of Ghana

Figure 4.2: Percentage of Deposits to the Economy (2003-2007)

The contribution of Savings and Loans companies to total deposit mobilization in the economy rose steadily from 0.96 percent (0.96%) in 2003 to 1.66 percent (1.66%) over the period. While the relative contribution of Savings and Loans companies showed a consistent upward trend, the same cannot be said for the other deposit-taking institutions. The following table bears this out quite clearly.

Table 4.21 Percentage Contribution to Total Deposits

	2003 %	**2004 %**	**2005 %**	**2006 %**	**2007 %**
Savings and Loans Companies	0.96	1.03	1.16	1.29	1.66
Rural Banks	5.65	6.19	6.28	6.12	5.50
Commercial Banks	92.14	91.54	90.66	91.91	91.97
Finance Houses	1.26	1.25	1.92	0.67	0.88

Source: Bank of Ghana

The percentage contribution of Rural Banks rose steadily from 5.65 in 2003, through 6.19 in 2004 to 6.28 in 2005. However it declined over the next two years to 5.5, a level below even its 2003 contribution Although Commercial Banks accounted for more than 90 percent of total deposits, there was an overall though marginal decline in their share of the total from 92.14 percent to 91.97 percent over the period. Finance Houses' share remained about the same (about 1.26 percent) over the first two years but increased to 1.92 percent in 2005. Thereafter there was a decline to 0.88 percent.

4.7 Contribution To Credit Availability

Tables 4.22 and 4.23 below, show data on loans and advances of various types of financial institutions as well as annual growth rates.

Table 4.22: Loans and Advances in Ghana

Institution	**2003 GH¢'000**	**2004 GH¢'000**	**2005 GH¢'000**	**2006 GH¢'000**	**2007 GH¢'000**
Savings and Loans	7,007.04	13,047.25	25,086.77	47,760.44	96,352.72
Rural Banks	34,843.47	56,749.64	76,217.45	115,098.52	174,561.44
Commercial Banks	1,050,782.94	1,113,703.33	1,598,854.79	2,333,539.35	3,918,896.51
Finance Houses	18,209.72	30,091.69	52,902.77	86,556.25	124,522.57
Leasing Companies	23,491.49	28,827.43	26,295.15	25,381.44	40,381.03
Total	**1,134,334.66**	**1,242,419.34**	**1,779,356.93**	**2,608,336.00**	**4,354,714.27**

Source: Bank of Ghana

The table excludes figures for the one Mortgage Finance company among the NBFIs. These figures were not made available but can be considered to have no material effect on the total.

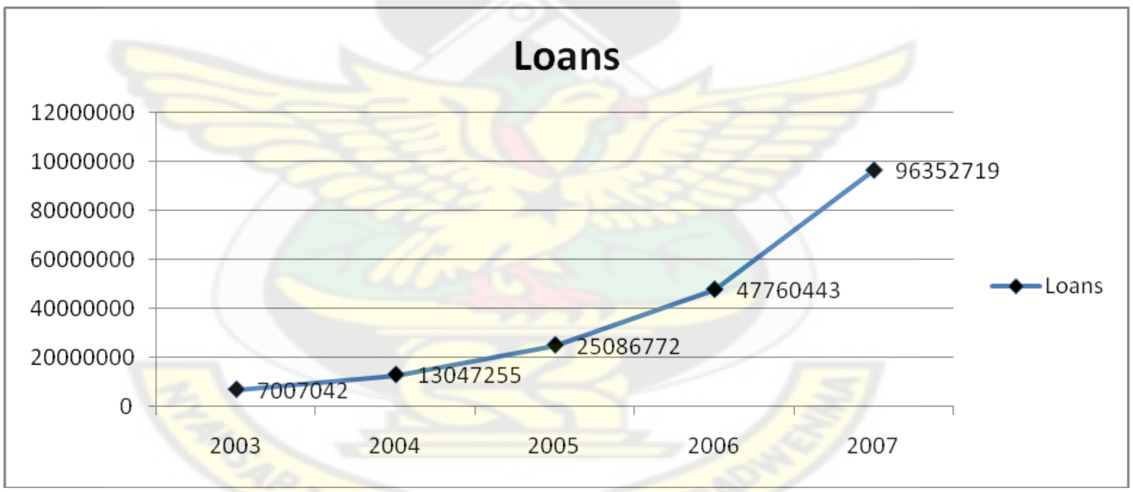
Table 4.23 below shows that the rate of growth in loans and advances was highest for Savings and Loans Companies for all the years within the period. While the average annual growth rate of loans and advances for the economy as a whole was 41.6 percent, that of Savings and Loans Companies was 92.7 percent

Table 4.23: Percentage Growth Rate of Loans and Advances

	2004 %	2005 %	2006 %	2007 %	Average %
Savings and Loans Companies	86.2	92.3	90.4	101.7	92.7
Rural Banks	62.9	34.3	51.0	51.7	50.0
Commercial Banks	6.0	43.6	46.0	67.9	40.9
Finance Houses	65.3	75.8	63.6	43.9	62.2
Leasing Companies	22.7	(8.8)	(3.5)	59.1	17.4
Economy (Total)	9.5	43.2	46.6	67.0	41.6

Source: Bank of Ghana

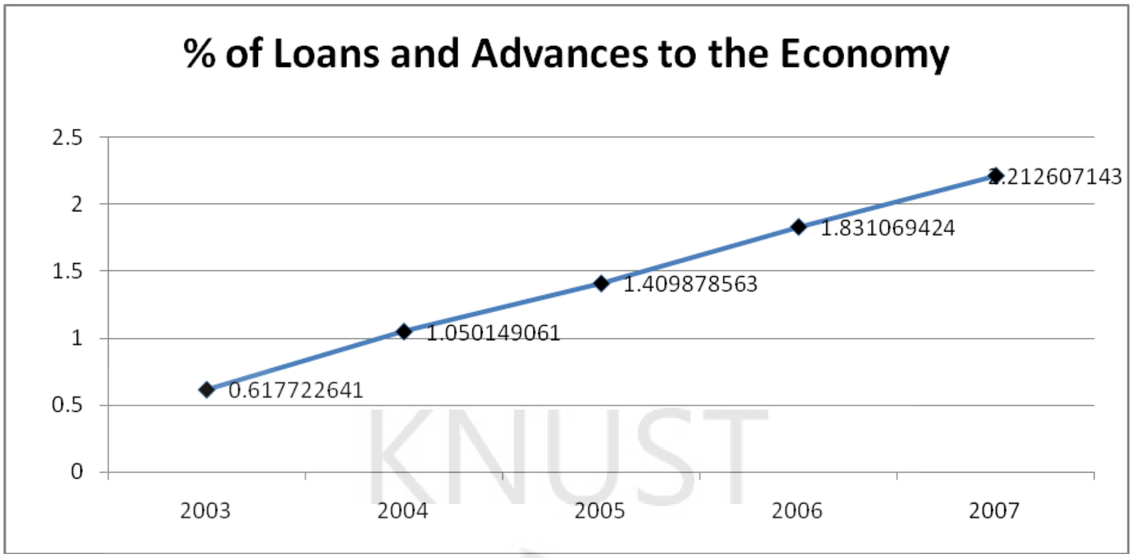
Figure 4.3 also shows a graph of loans and advances of Savings and Loans Companies over the period.



Source: Bank of Ghana

Figure 4.3: Trend of loans and advances of Savings and Loans Companies in Ghana (2003 to 2007)

Figure 4.4 below shows how the contribution of Savings and Loans Companies relative to total loans and advances in the economy has behaved over the period.



Source: Bank of Ghana

Figure 4.4: Percentage of Loans and Advances to the Economy (2003 to 2007)

The graph shows a consistent upward trend underscoring the growing relevance of Savings and Loans Companies in the effort to enhance credit availability in the economy. From a share of 0.61 percent of the total in 2003, Savings and Loans Companies' relative contribution to total loans and advances increased to 1.05 percent in 2004. There were steady increase in 2005 and 2006 and by end of 2007, Savings and Loans Companies accounted for 2.21 percent of the total loans and advances of financial institutions in the country. Even though a share of 2.21 percent of total loans and advances cannot be judged as very significant, the increasing nature of this contribution underscores the potential of Savings and Loans Companies in enhancing credit availability.

A comparison of this trend with that of other financial institutions shows some interesting results. The table below shows the relative share of the others, namely Rural Banks, Commercial Banks, Finance Houses and Leasing Companies in the total of loans and advances in the economy over the study period.

Table 4.24 Shares of Total Loans and Advances (other institutions)

	2003 %	2004 %	2005 %	2006 %	2007 %
Rural Banks	3.08	4.57	4.29	4.42	4.01
Commercial Banks	92.64	89.64	89.86	89.47	90.0
Finance Houses	1.61	2.43	3.0	3.32	2.86
Leasing Companies	2.07	2.32	1.48	0.98	0.93

Source: Bank of Ghana

The above figures suggest that although rural banks and finance houses also posted overall growth in relative contribution over the period the growth was not consistent. While the share of rural banks increased from 3.08 percent in 2003 to 4.57 percent in 2004, it declined to 4.29 percent in 2005, picked up to 4.42 percent in 2006 and declined again to 4.0 percent in 2007. In the case of finance houses, the relative contribution showed a consistent yearly increase from 1.61 percent in 2003 to 3.32 percent in 2006. However there was a decline in 2007 which posted a share of 2.86 percent.

The shares of commercial banks and leasing companies actually declined from 92.94 percent and 2.07 percent respectively in 2003 to 90.0 percent and 0.93 percent respectively in 2007. The relative contribution of commercial banks was actually below 90.0 percent between 2004 and 2006, averaging 89.66 percent over that period. It must be mentioned however that the relative contributions of leasing companies increased from 2.07 percent to 2.32 percent in 2004 before declining consistently to 0.93 percent.

As with deposit mobilization, a comparison of the levels of loans and advances per institution for Savings and Loans companies and Rural Banks is useful. The table below shows the levels of loans and advances of Savings and Loans Companies and Rural Banks on a 'per capita' or per institution basis.

Table 4.25: Amount of Loans and Advances per Institution

Type of Institution	2003 GH¢'000	2004 GH¢'000	2005 GH¢'000	2006 GH¢/000	2007 GH¢'000	Average
(1) Savings and Loans Companies	778.56	1,186.11	2,090.56	3,673.88	6,882.34	2,922.29
(2) Rural Banks	302.99	472.91	629.90	935.76	1,385.41	745.39
%of (2) to (1)	38.92	39.87	30.13	25.47	20.13	25.51

Source: Bank of Ghana

From the data above, it is quite clear that the typical Savings and loans Company has a larger portfolio of loans and advances than the typical rural bank. Over the period the average outstanding loans and advances of the typical rural bank was just about 25.5% that of the typical Savings and Loans company.

4.8 Problems That Hinder Realization Of Full Potential Of Savings And Loans Companies

Table 4.26: Problems Encountered

	N	Yes	Percent	No	Percent
Problem of Loan Recovery	8	2	25.0	6	75.0
Dishonesty and Multiple borrowing by customers	8	2	25.0	6	75.0
Lack of on lending funds	8	1	12.5	7	87.5
Loan default in 3rd cycle	8	1	12.5	7	87.5
Inability of clients to increase savings	8	1	12.5	7	87.5
Branches not located near majority of customers	8	1	12.5	7	87.5

Source: Field Report April 2009

Responses from respondents were varied in relation to problems that hindered the realization of the full potential of Savings and Loans companies. 25% of respondents identified the problem of recovery, 25% dishonesty and multiple borrowing by customers, thus resulting in inability to repay loans taken. 12.5% of respondents mentioned lack of on lending funds, loan default in the 3rd cycle of borrowing, inability of clients to increase savings and branches not being located near majority of customers respectively.

4.9 Customers' Perception Of Their Usefulness

Table 4.27: Why customers save with Savings and Loans Companies

	N	Percent
Easy access to loan	78	78.0
Attractive interest rate	2	2.0
Flexible working hours	2	2.0
Ability to make regular small deposits (Susu)	14	14.0
Collect salary through it	4	4.0
Total	100	100.0

Source: Field Report April 2009

4.9.1 Reasons why customers save with Savings and Loans Companies

From Table 4.27, 78% of respondents indicated that their reason for saving with the Savings and Loans companies was easy access to loans. Other reasons were given by respondents. These include 14% who indicated their ability to make regular small deposits, 4% intended their salaries to be routed through their accounts with these companies, 2% of respondents saved with the companies to take advantage of their attractive interest rates and 2 % as a result of their flexible working hours.

Table 4.28: Maintenance of account with other financial institution

	N	Percent
Yes	59	59.0
No	41	41.0
Total	100	100.0

Source: Field Report April 2009

Table 4.29: Type of financial institution

	N	Percent
Bank	47	47.0
Saving and Loans Company	12	12.0
Not applicable	41	41.0
Total	100	100.0

Source: Field Report April 2009

4.9.2 Type of financial institutions

47 percent of respondents maintained other accounts with the traditional banks while 12 percent maintained accounts with other savings and loans companies. 41 percent of respondents did not maintain other accounts with either the traditional banks or other savings and loans companies. These respondents maintained accounts with only one savings and loans company. It is evident that there is the practice of customers concurrently maintaining accounts with various financial institutions.

Table 4.30: Reasons for maintenance of accounts with other financial institutions

	N	Percent
To access credit from both institutions at the same time	17	17.0
Proximity of bank from my business site	6	6.0
Dissatisfied with the services of the Bank	5	5.0
To obtain services unavailable at Savings and Loan Company	31	31.0
Satisfied with services of my Savings and Loans company	41	41.0
Total	100	100.0

Source: Field Report April 2009

4.9.3 Maintenance of accounts with other financial institutions

In Table 4.28, 59.0 percent of respondents maintained accounts with other financial institutions while 41 percent did not maintain any accounts with other financial institutions

From Table 4.30, 41 percent of respondents maintained account with one Savings and Loans Company because they were satisfied with the services received. Other respondents who maintained accounts with other financial institutions gave reasons for their actions. 31 percent of respondents wanted to obtain services that were not available at their Savings and Loans Company, 17 percent had the intention of accessing credit from both institutions, 6 percent maintained accounts with another bank due to proximity of the bank from their business sites and 5 percent of respondents who were dissatisfied with the services of the bank decided to maintain an account with the Savings and Loans Company.

Table 4.31: Do you still maintain your account with the bank?

	N	Percent
Yes	32	32.0
No	15	15.0
Not applicable	53	53.0
Total	100	100.0

Source: Field Report April 2009

4.9.4 Do you still maintain your account with the bank?

53 percent of respondents indicated that the question was not applicable to them because they had never maintained an account with a bank. 32 percent of respondents still maintained their accounts with the bank while 15 percent had abandoned their accounts with the bank.

Table 4.32: Reasons for abandoning account with banks

	Total Sampled	Yes	Percent	No	Percent
Minimum balance to be maintained on account too high	15	15	100.0	0	0.0
High bank charges	15	0	0.0	15	100.0
Frustrations encountered in accessing credit	15	13	86.7	2	13.3

Source: Field Report April 2009

4.9.5 Reasons for abandoning accounts with banks

15 respondents (100 %) representing all respondents who maintained accounts with banks indicated that their reason for abandoning their accounts with the banks was the high minimum balance they were required to maintain on their accounts. 86.7 percent of the respondents also indicated their reason as frustrations encountered in accessing credit from the banks.

Table 4.33: Loans from Savings and Loans companies

	N	Percent
Yes	76	76.0
No	24	24.0
Total	100	100.0

Source: Field Report April 2009

4.9.6 Loans from Savings and Loans companies

76 percent of respondents indicated that their deposits with the Savings and Loans Companies entitled them to a loan while 24 percent of respondents indicated that their deposits with the Savings and Loans Companies did not entitle them to loans.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary, conclusion and recommendations on the findings made in the study.

5.2 Summary

Generally, this study sought to examine the contributions of Savings and Loans companies to savings mobilization and credit availability in Ghana for the five year period – 2003 to 2007. Responses elicited from respondents through questionnaire administration and interviews conducted with personnel of Savings and Loans companies, traditional banks as well as customers of Savings and Loans companies provided the input for this study.

The Savings and Loans companies are authorized to engage in mobilization of retail savings by acceptance of deposits from the public, households and small business enterprises and to provide credit largely with target group orientation in addition to extending personal/consumer credit and finance to mid-market business. Target group oriented credits are usually linked to savings. While micro finance and small business finance are an important characteristic of Savings and Loans companies, they are not restricted to these levels of lending. Actual limits to the levels of exposures that Savings and Loans companies can undertake per borrower or group of borrowers are stipulated in the single borrower exposure rules under the governing legislation of Non-Bank Financial Institutions.

In the strict sense, these companies are prohibited from offering current accounts or demand deposits. However, concessions in the rules allow them to fashion out quasi current accounts or checking accounts for prime customers. They may therefore offer in-house checking facility to their customers. However, cheques of these companies are not cleared through the central clearing system at Bank of Ghana but through bilateral arrangements with the companies' bankers. They are also allowed to undertake ancillary business subject to prior approval of, or no objection certificate from, Bank of Ghana.

A striking feature of their operations is the complete absence of any of the companies sampled in the Volta, Northern, Upper East and Upper West Regions. More than half of the branches of the sample of Savings and Loans companies used in this study can be found in the Greater Accra and Ashanti regions.

Field cashiers engaged for deposit mobilization also performed marketing duties.

The Savings and Loans companies dwell much on character based assessment of their customers and not collateral for credits advanced. Access to credit is an incentive for savings, and loans given are mostly short term.

Savings and Loans companies employ group based lending methodologies. Even in instances where individual based lending is employed, they make use of the groups to get reliable information on customers before credit is advanced. The processing time of loan applications is at most two weeks unlike what pertains in banks which could be as long as four weeks or more.

Savings and Loans companies have exhibited great potential for contributing to the growth of savings in the economy. There was a more than five fold increase in deposits of Savings and Loans companies over the five (5) year period. The annual growth rate of Savings and Loans companies in relation to that of other deposit taking financial institutions is quite impressive. The annual growth rate of the Savings and Loans companies exceeded that of Rural Banks, Commercial Banks, Finance Houses and the economy as a whole. On a per institution basis, the deposit level of the typical rural bank was less than half of that of the typical Savings and Loans company. The relative contributions of Savings and Loans companies to total deposit mobilization in the economy rose steadily during the five year period 2003 to 2007.

With regard to their impact on credit availability, the trend over the study period was positive. The rate of growth in loans and advances was highest for Savings and Loans companies for all years within the period. The average annual growth rate of loans and advances of Savings and Loans companies was more than double that of the economy as a whole. Percentage contribution of Savings and Loans companies to total loans and advances of the economy showed a consistent upward trend. While the percentage share of Savings and Loans companies showed a consistent upward trend the same cannot be said of the other institutions. Even though their share of total loans and advances as at the end of the period cannot be judged as being very significant, the increasing nature of this contribution underscores the potential of Savings and Loans companies in enhancing credit availability. The study also found that the typical Savings and Loans company had a larger portfolio of loans and advances than the typical rural bank.

Problems encountered by the sampled companies that hindered the realization of their full potential were inability of clients to increase their deposits and their branches not being located near majority of their clients. Another reason given was the practice whereby clients engaged in multiple borrowing from various institutions, thus creating problems of loan recovery.

Customers were of the perception that Savings and Loans companies provided very useful services to them. They had easy access to loans and were not prevented from availing themselves of the services of these companies by the imposition of high minimum balances for opening or maintaining accounts as is the practice with most traditional banks. However, some of them had to rely on the traditional banks to avail themselves of services which were not provided by the Savings and Loan companies.

5.3 Conclusions

Savings and Loans companies can now be said to be an integral part of the financial system. Their current relative shares of total deposits and total credit may not be very significant. However, trends in these contributions are a pointer to their great potential in enhancing overall deposit mobilization and credit availability.

Savings and Loans companies also provide an alternative avenue for savings and access to credit for small savers and borrowers for whom the procedures and requirements of the traditional banks are too burdensome and discriminatory.

The distinction between Savings and Loans companies and banks has become increasingly blurred in view of the possibility open to the former to undertake ancillary business in addition to their core business albeit with the prior permission or no-objection certificate from Bank of Ghana. In essence then, Savings and Loans companies are banks, but perhaps of a lower tier, the lower categorization deriving from their exclusion from the central clearing system and the need for prior permission before they can undertake ancillary business. It is perhaps in tacit recognition of this fact that the new NBFI Act 2008 (Act 774) has provided for the migration of Savings and Loans companies from its regulatory ambit to that of the Banking Act 2004 (Act 673).

The geographical spread of the Savings and Loans companies is too skewed in favour of the Greater Accra and Ashanti regions.

In relation to rural banks, which are another recognizable institutional vehicle for the mobilization of deposits from small savers and the delivery of micro-finance, the typical Savings and Loans company appears to hold greater promise for deposit mobilization and credit delivery.

5.4 Recommendations

Savings and Loans Companies must embark on branch expansion drive to establish their presence in areas where their presence is yet to be established. Extending their branch networks to other areas where they are not present would enhance their outreach considerably thus increasing their contribution to savings mobilization and credit availability in the economy as a whole.

Savings and Loans Companies could enhance their performance if branches were located closer to their clientele even within the regions where their presence is established.

Savings and Loans Companies must explore, as far as competitive considerations will allow, the possibility of sharing information on borrowers through opinion references from each other. This should help resolve the problem of multiple borrowing by customers and hence improve loan recovery.

Among reasons given by respondents who maintained accounts with Savings and Loans Companies while maintaining accounts with traditional banks was the need to avail themselves of services unobtainable at the Savings and Loans Companies. Savings and Loans Companies may therefore wish to examine services not currently provided which, with the permission of Bank of Ghana, may be added to their range of services. This investigation may be done through customer surveys.

.

.