SAVING PRACTICES AMONG CUSTOMERS OF GHANA COMMERCIAL BANK LTD, MAKOLA BRANCH, ACCRA

by

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CANDIDATE'S DECLARATION

With exception of the references and quotations from other sources, which have all been acknowledged, I hereby sincerely declare that the entire project work is my own effort and has never been presented for another degree in this university or elsewhere.

Candidate:

ERIC ABORGAH (PG 8768405)

Signature:..............................

Date: 16th July, 2007

CERTIFICATION

I hereby declare that this submission is my own work towards the MBA 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 any other degree of the University, except where due acknowledgement has been made in the text.

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Head of Dept. Name Signature Date

DEDICATION

This work is dedicated to my mum, Mrs. Rejoice Winfred Aborgah and dad, Mr. Samuel Kwasi Aborgah for their love and financial support throughout my university education. It is also dedicated to my supervisor, Mr. P.K Opong-Boakyi for his guidance and constructive criticism.

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ABSTRACT

Savings deposits constitute a significant proportion of the funds, which are usually available as loans for developmental purposes in the lives of individuals and organizations on both the micro and macroeconomic levels. However, the greater percentage of the Ghanaian population does not operate savings accounts (Business & Financial Times, 2007). The primary objective of the study was to assess the saving practices of customers of Ghana Commercial Bank Ltd., Makola branch, Accra. Specifically, the study aims at determining the role of commercial banks in promoting a saving culture among Ghanaians and finding out the factors inhibiting saving by Ghanaians in financial institutions. Simple random, and purposive sampling techniques were employed for the study to enable it achieve the research objectives. In all, three hundred (300) questionnaires were administered to clients with disguised personal observations made while purposive sampling was used in gaining insight into the commercial banking system. Unstructured interview was conducted for management of the Bank. The research revealed among others the reasons for saving including the need to accumulate savings balances for future large expenditure, and for emergency such as ill-health, death. The findings implicated the long transactional time spent in bank premises as a disincentive to saving. Moreover, a direct variation of savings with income levels was also realized during the study. In this direction, it was highly recommended that good recruitment, training, empowerment and accountability should be made core components of the organization's value system. Cost of transaction at bank premises should be considerably reduced by adopting innovative measures of service delivery. The bank should orient customers by strategizing ways of easy saving and withdrawal of funds, bringing banking to the door step of clients, awarding prizes/bonuses for good saving, offering high interest rates and a reduction in formal banking procedures to minimize delays in transaction. These measures will undoubtedly promote saving since customers consider such attributes before saving with a bank.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The importance of financial savings in the socio-economic life of individuals, organizations and nations cannot be overemphasized. However, financial savings which is a necessary engine of a nation's economic growth has been very low in Ghana. The apparent low saving in Ghana has been due to a combination of micro and macroeconomic and political factors. In order to overcome the problem of low savings in Ghana, various monetary and fiscal policies have been pursued over the years but these have not yielded the required results (Quartey 2002; Zorklu and Barbee, 2003). This study is restricted to financial savings in institutions, precisely commercial banks.

Savings deposits constitute a significant proportion of the funds, which are usually available as loans for developmental purposes in the lives of individuals and organizations on a microeconomic level and the nation on a macroeconomic level (Dadzie et'al, 1989).

Survey research centre studies have shown repeatedly that savings are accumulated as protection against emergencies and for important long-run purpose, particularly retirement, the education of children and the purchase of a house (Mueller E., Jean J., 2003). Whatever the purpose for making the savings deposits, these funds are usually kept in a savings institution or privately at home or with Susu collectors and credit unions. The deposited funds earn interest when kept with a savings institution, but no interest accrues on the funds when kept at home.

Once the savings deposits of individuals are made with the savings institutions, they become source of loans to other individuals, organizations and even the government. Thus the savings deposits channeled through the formal banking system serves as an accumulated source of capital for funding development projects (Adams, 1998). Without such saved funds, most socio-economic undertakings could not be executed.

Funds saved with savings institutions are of greater importance nationally than those saved privately at home. These savings institutions act as financial intermediaries, mobilizing and organizing the saved funds into a more realistic and reliable source of loans which they make available to the loan seeking entities. Furthermore, bank-based savings mobilization programs enhance state revenues through taxation and control of currency in circulation, which in turn can help bring consumers into the monetary economy (Adams, 1998; Miracle et al, 1980; Porter 1984).

In view of the numerous benefits of savings to the economy, an aggressive marketing approach should be adopted by savings institutions to promote savings in Ghana.

1.2 Problem Statement

Savings among Ghanaians is low (Asenso-Okyere, 2004). Following a prolonged economic depression, the Government of Ghana embarked on a new path by launching the Economic Recovery Program (ERP) in 1983. Ten years later, Ghana had made significant achievements. Real Gross Domestic Product (GDP) growth averaged 5% a year and the economy had been substantially liberalized (Hans-Martin Boehmer et al, 1994). Thus Ghana appeared to have a bright future, yet Ghana has never been able to record high savings rates. In fact, Gross national savings never rose above 15% of GDP.

After falling to under 5% in 1983, the savings rate recovered but remained below 10%. This level compares quite unfavorably with East Asian countries where savings rates of 30% are common. Similarly, recorded investment rates are far below levels required to push Ghana into an accelerated growth mode (Hans-Martin Boehmer et al, 1994).

Furthermore, comparing Ghana to many African countries, Gross Domestic savings as a percentage of GDP in Ghana has been low; between 1980 and 2001, it averaged 6.4% in Ghana, 37.4% in Botswana, 21.4% in Cameroon, 21.6% in Nigeria, 13.9% in Kenya and 7.3% in Malawi (WDI, 2003).However, according to surveys, private savings in Ghana are probably higher than the official data suggest. Savers hesitate to keep their assets in financial form. Instead they prefer to hold them in less risky forms that provide a very low or negative rate of return (Hans-Martin et al, 1994). It has been established that over ¢1 trillion is outside the formal banking sector of the country (Bank of Ghana Annual Report, 2000).

1.3 Research Questions

The following research questions arise in the course of the study:

1. Are institutions associated with savings in Ghana promoting or discouraging the culture of savings among Ghanaians?
2. What factors discourage savings among Ghanaians?

1.4 Research Objectives

The study aims to specifically address the following objectives:

1. To find out the factors inhibiting saving by Ghanaians in financial institutions.

2. To determine the role commercial banks are playing to promote a savings culture among Ghanaians.

1.5 Significance of the study

The study should be relevant to policy makers of the economy, management of financial institutions, academia and the general public.

- *Academia*- The outcome of this study is to augment the existing store of knowledge on the subject and serve as a catalyst for further research on innovative ways of mobilizing funds for economic development.
- *Financial Sector*- The findings of this research should enhance the capability of the financial sector to adopt workable marketing strategies to mobilize the large volume of cash outside the banking sector for economic development.
- *Policy makers*- Policy makers at the regulatory level and political level would certainly be empowered by the findings of this study to formulate policies that will create a stable macroeconomic environment conducive for building a capital base towards economic development.
- *The Public*- The study findings should educate the public on the importance of financial savings to the individual citizen and the economic well-being of the nation.

1.6 Scope of the Study

The geographical area of study is Accra, specifically the suburb where there is a boom in commercial activity. The Ghana Commercial Bank in the central business district of Accra, Makola is therefore suitable for the case work. This area is chosen because it has the highest population of income earning Ghanaians required during the period of data collection, morning and afternoon. GCB Ltd is chosen for the case work because it has the highest market share and income earners with varying characteristics suitable for this study.

1.7 Limitations of the Study

A major limitation of the study was the unco-operative attitude of some senior management staff that was reluctant to disclose sensitive information for strategic reasons, since the competitive landscape is quite turbulent. For instance Information on the number of savings attracted by the various products was unavailable. Some respondents only received salaries through the bank and do not actively operate accounts so time was spent in sorting out the active customers.

Some of the respondents also demanded an answer of the relevance of the study to their lives. This was because they had no idea about the whole exercise. However, after a brief explanation about the intended purpose of the study, they began to appreciate the study and co-operated fully in the exercise.

1.8 Organization of the Study

The study would be organized into five chapters. Following the general introduction constituting chapter one, chapter two provides a review on existing theoretical and empirical literature. Chapter three involves Research Methodology and chapter four is for Data presentation, analysis, and discussion. Finally, chapter five concludes with Summary, Recommendations and Suggestion on areas for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Framework

Saving is defined as all income that is not consumed i.e. all unconsumed income is saved. Savings refer to the amount of money or financial assets held at a period of time (Ritter S.L., Silber W.L., 1991)

According to Ritter and Silber (1991), two general kinds of saving exist:

1. Some people may spend only part of their income, holding the balance unspent. They hold more money or perhaps exchange money for other financial assets, such as time deposits, bonds or stocks. This may be called obvious saving and corresponds fairly closely with everyday usage of the word "savings"
2. Some people may spend all their income, but partly on non-consumption goods. Perhaps they buy a truck or build a warehouse. They have saved but their savings accounts do not reflect it. Also, neither the truck nor the warehouse nor the money spent for them is in itself saving, even though it is the result of saving i.e. non-consumption of income. Therefore all assets may be increased by savings but they are not in themselves saving.

There are various forms of savings: long-term savings, medium-term savings and short-term savings (Agbenya K.F, 2001). Medium-term to long-term savings includes payment of pension funds for the individual by his employers and payment of provident fund (a retirement plan) by the employee. Another effective form of long-term savings for the individual is purchase of shares and bonds in the capital market. Short-term savings include depositing money in operational accounts in the banks and savings with the informal sector such as Susu operators, credit unions etc.

According to the classical interest theory (Rither L.S., Silber W.L., 1991), saving is a function of the rate of interest. The higher the rate of interest, the more will be saved as shown in fig 2.1(a) below, since at higher interest rates, people will be more willing to forgo present consumption. The rate of interest is an inducement to save, a reward for not giving in to baser instincts for instant gratification by consuming all your income. Furthermore, the excess of saving over investment puts downward pressure on the rate of interest, as savers try to lend out their funds. As the rate of interest declines, some people will give in to their baser instincts and spend a greater part of their income (saving less, and enjoying it more). At the same time, the decline in the interest rate will encourage business firms to expand their investments as shown in fig 2.1(b) below. From fig 2.1(b), the rate of interest will settle at a lower equilibrium, at which point all that is saved out of current income is still invested by entrepreneurs.

The interest rate is influenced in the long run only by the saving of the public, determined by their habits of thriftiness, and by capital investment of entrepreneurs, determined by the productivity of capital.

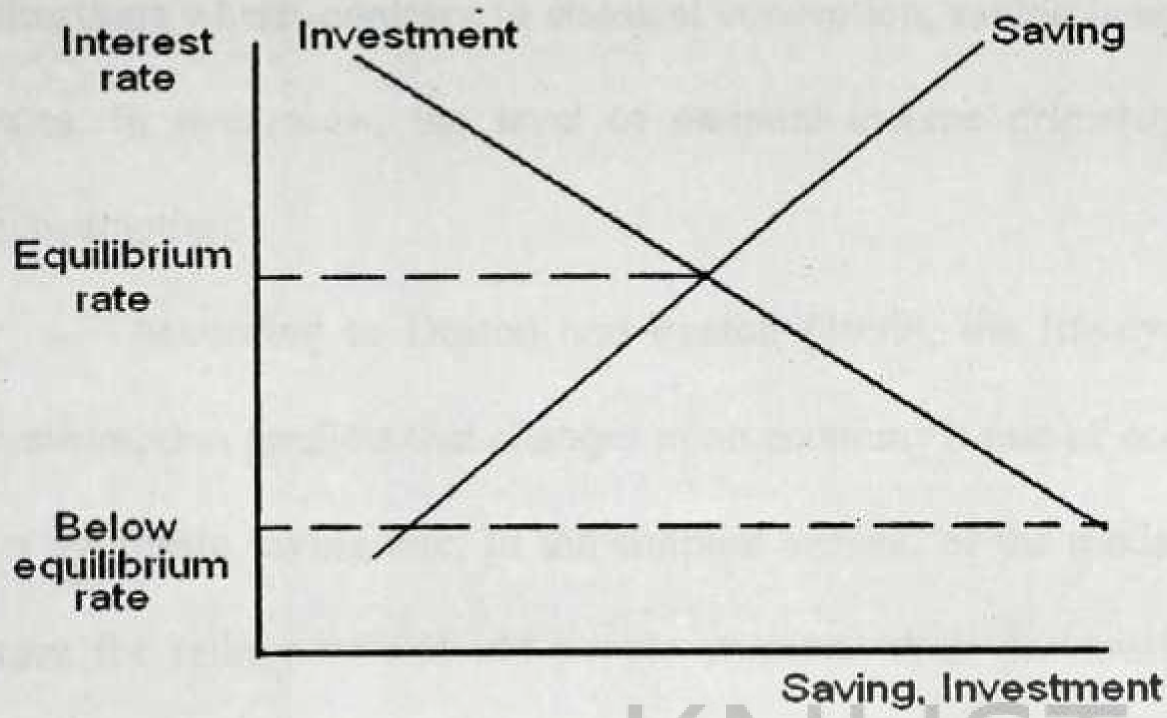

Fig 2.1(a): *Relationship between interest rate and Saving, Investment*

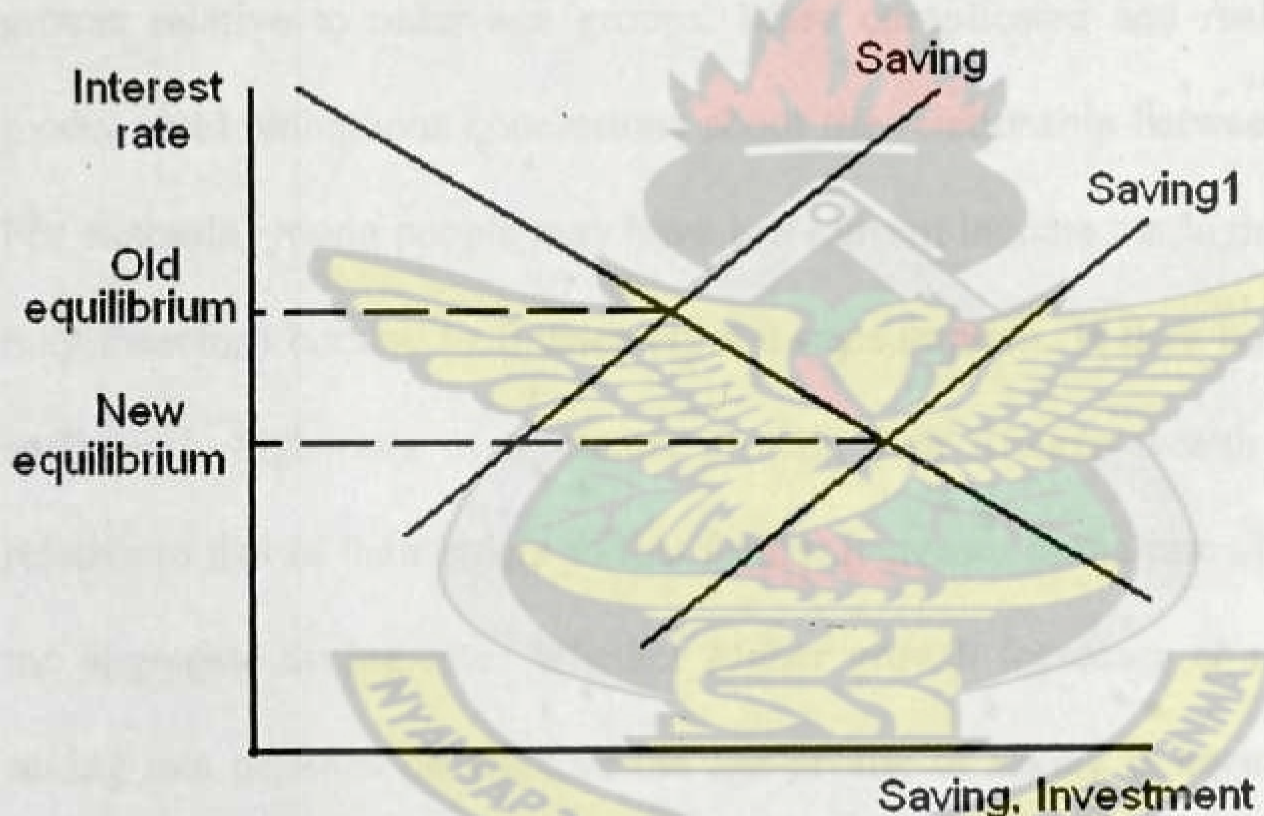

Fig 2.1(b): *Relationship between interest rate and different saving scenarios, and Investment*

The classical theory has however been criticized by the Keynesian revolution which held the view that savers and investors are essentially distinct groups that formulate their savings and investment plans for different reasons. These reasons are in each instance, largely unrelated to the rate of interest. They argue that there are situations where, contrary to classical conception, saving is inversely related to interest rates. In their view, the level of national income primarily determines saving and consumption.

According to Deaton and Paxton (1999), the life-cycle theory of saving and consumption predicts that changes in an economy's rate of economic growth will affect its aggregate saving rate. In the simplest version of the model, in which young people save for retirement and old people consume their previously-accumulated assets, an increase in the rate of economic growth will unambiguously increase the aggregate saving rate, because it increases the lifetime resources (and saving) of younger age groups relative to older age groups. More complicated and realistic versions of the model yield ambiguous conclusions about the relationship between saving and growth. For example, young people may have low current income but high life-time wealth, and may therefore borrow to finance current consumption. If they borrow enough, then at sufficiently high rates of economic growth, their lifetime wealth will be high enough relative to that of their elders so that further increases in the rate of growth will decrease the aggregate saving rate. Whether higher growth increases or reduces the aggregate saving rate depends on whether the age-profile of saving is negatively correlated with age, which is an empirical matter.

The results of recent studies of life-cycle saving behavior have not been favorable to the lifecycle model's interpretation of the positive correlation between growth and aggregate rates of saving (Poterba, 1994; Paxson, 1996; Deaton and Paxson, 1997). Cohort studies in both developing and developed countries have used time series of cross-sectional household surveys to trace out consumption and saving behavior of birth cohorts, and have not found evidence of the required negative relationships between saving rates and age. Estimated age-saving profiles are typically fairly flat, so that increases in economic growth that redistribute resources toward the young will have either very small positive effects, or sometimes small negative effects, on the aggregate saving rate. This micro-based evidence is not consistent with international cross-country evidence that indicates that a one-percent increase in the rate of per capita growth is associated with roughly two percentage point increase in the saving rate, which leads to the conclusion that the aggregate relationship between growth and saving is caused by something other than growth driving saving through the life-cycle mechanism.

The literature reviewed for this study covered the following relevant areas;

- Saving trends in Africa
- Purposes for Savings
- Factors affecting saving
- The Financial sector in Ghana
- Bank account operation in Ghana
- Trends in interest rates in Ghana
- Domestic resource mobilization

2.2 Saving trends in Africa

2.2.1 Some Trends in Savings Rates in Africa

According to Aryeetey and Udry (2000), Sub-Saharan Africa (SSA)'s savings performance is far below that of other developing regions, notably Southeast Asia. The observed that some of the best saving rates in Africa may be found in Angola where the domestic saving rate has averaged 28 percent in 1980-96, and Gabon with an average saving rate of 38 percent for the same period. Their high saving rates can be attributed to their being relatively small economies with large oil exports. The public sector dominates saving in these two countries. Despite the economic reforms that many African countries attempted in the last decade, there is little evidence of these having a major impact on savings and investments in countries (World Bank, 1994).

Trends in aggregate saving over the period 1988-96 show that only a couple of serious reformers saw some modest improvements in their savings performances. One of the more comprehensive reformers, Ghana, has had a very low average domestic saving rate of about 5 percent of GDP for the same period. Indeed, Ghana's saving rate only rose from 4 percent to 7 percent after a decade of reforms. By 1990, the only SSA economies (besides Angola and Gabon) with domestic saving rates above 20 percent were Kenya and Zimbabwe. One of the characteristics of all the data on domestic saving rates is that they declined for most countries in the period 1980-96 and have not seen a revival yet. (Elbadawi and Mwega 1998).

The region indeed boasts of some contrasts in country performance with savings. In Tanzania, aggregate savings ratios remained strikingly low throughout the period of adjustment. Huge losses made by public enterprises have been a substantial drain on the economy's financial resources.

Nigerian trends with aggregate savings have been interesting and different from the situation in many other countries. It first experienced a general decline during 1979-86, but this was reversed after that. While this was happening, however, increasing debt service payments widened the gap between national and domestic savings after 1986. The domestic savings ratio rose to more than 30% in 1990, an increase that was largely accounted for by private savings as government savings fell.

In Ghana, for example, under a program for accelerated growth in the midst of Bank supported reforms that would transform the economy into a middle-income economy by the year 2020, it was programmed to achieve an annual growth rate of 8% for the rest of the century which would require an investment/GDP ratio of 25 percent. This would push the required domestic savings/GDP ratio to 20 percent, assuming foreign savings remained at 5 percent (World Bank 1993). Obviously, the challenges posed by those demands on the domestic economy were enormous, and it is not surprising that not much progress has been made in that direction.

Indeed very few countries have ever achieved their savings targets. In contrast, we note that the fast growing East Asian economies recorded average saving rates of about 33 percent in 1980-95. Singapore maintained a saving rate in excess of 45 percent for the period while Korea exceeded 35 percent. In Southeast Asia, Malaysia has seen impressive growth of its savings which also went beyond 36 percent, indeed reaching 40 percent in 1995. India's performance in South Asia was far higher than the African average at 20 percent.

An interesting point about the performance of savings in Africa in contrast with savings performance in the fast growing Asian economies during the reform period is that any changes in the saving rates in Africa were driven by public savings (World Bank 1994), while in Asia they were usually driven by private savings. Srinivasan (1993) observed that public sector savings in East Asian countries do not appear to have increased significantly in the last four decades. The private sector was thus responsible for the measured rise in aggregate savings rates. The importance of private savings in Asia is again underscored by Collins (1991) who suggests from Korean data that while urban households have increased savings dramatically since 1965, rural households on average save a lot more. This savings, however, is primarily in inventory increases, and excluding this component shows average rural savings to be 6.5percent as opposed to 18.6 percent of disposable income for urban households. In contrast private saving in Africa dropped from 11.4 percent of disposable income in the 1970s to 7.5 percent in the 1980s. By the mid-1990s it was still less than 9 percent. Public saving performed even worse, staying at under 3percent of disposable income by the mid-1990s after falling from 4.5 percent in the 1980s. In many of the African countries where saving rates declined, they did so because public savings declined. This was certainly the case in Kenya and Niger. In countries like Tanzania and Malawi the decline in the saving rate came following large increases in external transfers. Indeed, the issue of foreign savings substituting for domestic savings has been noted (World Bank 1994). The important issue for Africa is why private savings, including household savings, do not rise fast enough to offset the negative trends in public savings. In 1990, South Africa's gross private savings according to the national accounts was 25% of GDP. Household survey evidence indicates that in the same year, households saved an average of 2.6% of their income (Makgetla, 1995). In Ghana in 1996, gross domestic savings were 8% of GDP, but the following year in a household survey of southern Ghanaian farmers, Goldstein and Udry (1999) found that the median household saved over 30% of its income.

2.2.2 Explaining the Trends

Mwega (1997) has conducted a comparative analysis of average private saving rate in 15 African countries and finds evidence that saving rates are unambiguously lower than in other developing countries. Relying primarily on life-cycle and permanent income intertemporal models of household saving, he estimates a private savings function for a number of developing countries. The estimation for the entire sample shows (among other things) a positive and highly significant coefficient on per capita income (that decreases as income increases), a positive and highly significant coefficient on growth of per capita income (1% increase in economic growth raises private saving rate by 1.6%), a negative and highly significant coefficient on public saving (1% increase in the public savings rate reduces the private rate by at least 0.9%), a positive and highly significant coefficient on the degree of financial depth, and an insignificant coefficient on financial constraints. The estimation for the African countries shows that the unambiguously important variables determining private savings behavior are the dependency ratio, level of per capita income. His sample of 33 developing countries included 15 African, 9 Asian and 9 Latin American countries with comparable data for the period 1970-1993 effect). Mwega (1997) concludes that the low savings rate in Africa reflects both the private savings function and the initial economic conditions not explained by his study. Given the low saving rates from the private sector, we need to understand saving behaviour in rural or poor communities. The weakness of the life-cycle hypothesis for poor economies is corroborated by the work of Collins (1991). She discusses saving behaviour in ten developing countries (nine in Asia and Turkey). Aside from highlighting savings trends in these countries since the early 1960s, she answers questions about the major determinants of savings empirically, using primarily a life-cycle model. She finds that the population share of children, per capita income and growth of per capita income are all significant. Household saving also seems to be less sensitive to the age distribution as well as to changes in income for poorer countries in the sample. Furthermore, there is a distinct interaction effect of mean age of consumption/ earnings and real growth rate that suggests that middle income countries reduce savings when dependency ratios increase. These same countries increase aggregate savings when per capita income increases, while decreasing savings when the growth rate of per capita income increases. If poor households everywhere have the same motivations to save, why do African households save less than others? To explain this, Deaton (1992) suggests that when agents do not have access to credit markets, they can still smooth their consumption over time by accumulating and selling off assets. He suggests that saving behavior may be guided by rules of thumb, and that short-term falls/increases in income are the primary causes of savings/dissavings.

Deaton (1992) cautiously suggests that a case could be made for credit markets playing a modest role in smoothing consumption, a view consistent with Udry's findings in Northern Nigeria (1990). The role of credit markets is implied to be moderate at best. Deaton's (1992) analysis, however, is unlikely to provide a route for understanding the generally low level of household saving in Africa. Variations over time in saving by an agent are determined largely by variations in income, so that looking over time at an individual's saving you will find high saving in periods of high income, and low saving in periods of low income. This does not, however, translate into aggregate differences in saving rates. The buffer stock model of savings does not imply any strong relationship between average levels of income and average saving rates. Aside from preferences, the primary determinants of saving rates in this model are not average incomes, but: (1) the *variance* of income; and (2) the availability of credit markets. Agents facing a more uncertain income path will be willing to sacrifice a larger amount of current consumption in order to protect themselves against large drops in consumption in the future. And agents without access to credit markets are forced to rely more heavily on buffer stocks of saving to protect their future consumption. On both counts, we might expect households in Africa to have higher rates of savings than households in other parts of the world.

Institutional impediments to saving may be particularly important in Africa. One important clue is that a substantial part of that saving in Africa is done informally, which may be attributed to the nature of the savings institutions in rural Africa. Discussion of the structural and institutional constraints to savings mobilization has seen a contribution from Ikhide (1996) who argues mainly that rural savings mobilization is weak because of the low presence of formal institutions. He studied the extension of commercial bank offices to rural areas in five African countries to assess their impact on private savings, conducting empirical tests of the determinants of gross domestic savings rates using population per bank branch as one of his explanatory variables[7]. It turned out to have the strongest effect on savings. The individual country regressions show the weakest effect of the population per bank branch variable in Ghana (7%) and the strongest effect in Kenya (21%). Nissanke and Aryeetey (1998) have discussed a number of structural and institutional constraints to the mobilization of savings, particularly from poor households. They suggest that financial markets in Africa are highly fragmented and that the high transaction costs for economic agents of trying to move across different segments act as a disincentive in savings mobilization. They relate these structural features to various institutional constraints of the formal sector, noting, for example, that savings mobilization from rural areas is very costly and that banks in Africa have not been designed to counter this through innovative approaches in savings mobilization. The answer does not simply lie in having more rural outlets for commercial banks, as they indicate that rural savings mobilization is not necessarily positively correlated with the number of bank outlets. Indeed. The study countries were Nigeria, Ghana, Ethiopia, Kenya and Tanzania. Other explanatory variables are real exchange rate and rate of growth of per capita income. All three independent variables are shown to be significant and together explain over 80% of the change in domestic savings ratios. Nissanke and Aryeetey (1998) suggest that there have been few innovative savings instruments developed with a view to reaching untapped segments of the financial market. While informal sector agents are acknowledged to play a major role in savings mobilization, their operations are confined to specific groups of people, which effectively preclude the participation of others not belonging to those groups. The fact that only a few such informal savings mobilizers also lend creates a problem for financial intermediation. The outcome is that even though the informal sector provides a haven for many savers, its full potential has not yet been reached. Together with all the reasons provided about the uncertainty of the rural environment, this would explain why saving in rural areas is intended to meet specific expenditure targets.

2.2.3 Formal Savings

The capacity of formal financial institutions to attract deposits has not seen much improvement in the last decade. Most suggestions that private saving, including household saving in Africa is not growing rapidly enough are supported by trends in bank liabilities and data on deposit mobilization. Some of the most recent data on household holdings with banks is from the work by Nissanke and Aryeetey (1998). On magnitude, they indicate from reviews of central bank annual reports and flow of funds analysis that private deposits are larger than government deposits, and the private deposits are largely held by households. What their work also shows is the relatively high liquidity of savings instruments in many countries. They show from bank-branch data that in the study period (1989-93) which also saw considerable reform of financial sectors in their study countries, the numbers of depositors and the amounts being deposited did not vary significantly. In the cases where some increase in the deposit sizes were observed, as in Ghana, this was attributed to an income effect following economy-wide reforms.

In terms of the liquidity of formal savings, Nissanke and Aryeetey (1998) note that a feature of Commercial bank deposits are that they are overwhelmingly short-term, and attract little or no return to the depositors. Very few depositors use the few long-term deposit instruments that are available. One of the most important changes that occurred in their study countries was a reduction in the proportion of deposits in liquid instruments. The proportion of demand deposits to the total dropped from 70 percent to 57 percent in Ghana between 1985 and 1991. Added to savings deposits, this left about two-thirds of all bank liabilities in liquid instruments. Tanzania, Malawi and Nigeria also showed similar variation, even though demand deposits continued to dominate total deposits. Using survey data on the numbers of depositors and average deposit sizes from sample branches, Nissanke and Aryeetey (1998) also show inconsistent growth in the numbers of depositors and deposit sizes over the period 1989-1991. They observed that where deposit mobilization grew fastest, it was usually the outcome of some exogenous intervention in the process. For instance, in Tanzania, they observed that commercial bank branches in Dar es Salaam saw their depositors grow 11 times as fast as in regional towns in the period 1990-92. In small rural towns, the number of depositors grew even faster than in Dar es Salaam. This rapid growth was largely the result of a government decision to pay salaries and farmers' payments through rural bank outlets. Many bankers that they interviewed believed that the most significant factor behind the rapid rise in the number of rural depositors was this new payment mode adopted by government for agricultural export purchases. Indeed, as in many other African countries, many people holding deposits at banks do so under compulsion, as their salaries and other payments are channeled through banks. They are usually kept in the most liquid deposit instruments, and withdrawn within days of placement, thus supporting the argument that they are more a reflection of transactions balances than a demand for savings.

2.2.4 *Informal Savings*

The widespread use of informal agents for saving is quite well documented (Chandarvarkar 1989; Aryeetey 1995). The several different types of informal deposit mobilizers in different regions include savings collectors, savings and credit associations, cooperatives and credit unions (Seibel 1989). As indicated earlier, while this may be a well-known avenue for saving throughout Africa, the structures are such that only people with specific characteristics can save with particular kinds of agents (Aryeetey 1995). These are generally persons or households about whom the operator of a savings facility has enough information to enter into repeated transactions. Thus, for example, one will have to be a member of a cooperative to be able to save with it, and membership is not open to all. Similarly, membership requirements for a number of other informal groups may be based on ethnicity, religion, age or other social characteristics that may effectively bar open participation. Despite the above limitations, saving informally remains popular in many parts of Africa. Deaton (1989) suggests that ~~this form~~ of saving is intended to smooth consumption over relatively short periods.

While there may be a lack of precision about the relative magnitudes of formal and informal savings in African economies, there are a number of other country reports that support the view that informal saving is larger than formal saving (Aryeetey 1995). Field surveys for the Nissanke and Aryeetey (1998) study suggested that informal saving grew in popularity in a number of African countries even as they underwent financial sector reforms. The growth was attributed to a low level of confidence in the formal sector as well as the relatively high transaction costs associated with formal saving.

While the suggestion that saving informally is largely intended to smooth consumption over short periods is certainly credible, there is also evidence of considerable variation in the manner in which informal savings can be utilized. And this is related to the period over which the depositors can afford to give up control of the asset. There are very short periods, as in the case of the one-month deposits held with savings collectors in West Africa. In contrast, some institutions are designed for longer periods of saving, as with some of the rotating savings and credit associations (RSCAs), which can tie up savings for a period of between six months and a year. Most studies of fund utilisation by such associations suggest that funds are usually spent on consumer durables and for providing working capital (Miracle et.al., 1980). For traders and other market women in ROSCAs the fund is normally regarded as working capital, utilized in replenishing stocks (Aryeetey and Gockel, 1991). Chipeta and Mkandawire (1991) reported that in 1988/89, 72 percent of takings from savings and credit associations in Malawi were "invested", which was made up of expenditures on fertilizer (64.9percent), farm labour (4.9 percent); and school fees/uniforms (2.9 percent). Consumer goods and services took the remaining 27.3 percent. In Ghana, some market women explain that they use the fund to "expand" their businesses, which often means increasing the stock of whatever items they sell at the market (Aryeetey and Gockel 1991). There are hardly any exclusive uses of such funds.

The findings of Miracle et.al (1980) on the uses of savings funds portrayed a broad scope of use patterns in West Africa. On net financial returns, while there is considerable variation by type of agent and by region/country, there is reason to believe that these are generally lower than returns on formal sector savings (Aryeetey, 1995). It may be noted that savings and credit associations seldom pay direct interest on deposits, while savings collectors in West Africa actually charge a fee to take in deposits. In the absence of direct financial returns, why do people choose to save via these informal agents? In many cases, the primary motivation seems to be to gain access to loans from the informal agent or to accumulate a target amount for consumption or other purposes without incurring the large transaction costs associated with accumulating that amount in formal savings (Aryeetey, 1995). Indeed, where borrowing possibilities exist, as with some savings collectors in Nigeria and Ghana, deposits have been known to grow fastest. The predominance of informal savings in financial savings, therefore, appears to be a consequence of imperfections in formal financial markets.

2.3 Purposes for Saving

UNDP conducted a study in 1999 on microfinance and poverty reduction with purposes for saving identified as follows:

- *Accumulation*- building up savings balances in order to undertake future large expenditures.
- *Daily financial Management*- the need to keep cash safely in order to manage and deal with day to day expenses and occurrences including emergencies.
- *Insurance*- building up savings balances to deal with irregular events such as illness, marriages.

* *Consumption smoothing-* dealing with seasonality or unemployment by holding over income from one time period to another.

A different survey conducted by FAO in 1995 revealed that customers of banks considered certain attributes before saving with a bank. These attributes are ease of withdrawal of funds, proximity to home or workplace, prizes or bonuses for good saving, high interest rates and reduction in formal banking procedure required in account opening and during saving of funds.

2.4 Factors affecting saving

In an earlier survey conducted by FAO (1995), it was established that on the average, rapidly growing countries have higher savings rather than slower growing countries. These rates are influenced by factors including the level of income per capita, the rate of income growth, the age composition of the population, attitude towards thrift, macroeconomic expectations and political stability, services provided by Government such as social security, Government financial policy and changes in interest rates. The major macroeconomic variables that affect the level of savings in any economy are income, inflation, interest rates, wealth and exports. Others are cultural factors, taxation, the availability of pension scheme and demographic variables.

(a) Income

Real per capita income is positively correlated with private savings rates, suggesting that policies that spur development are an effective way of increasing private saving. The influence of per capita income is larger in developing economies than in industrial countries, suggesting that the effect of the level of development on saving tapers off at medium or high levels of income (World bank bulletin, 1999).

The Keynesian Savings function and the Permanent Income of Friedman postulate a positive relationship between savings and income. According to the permanent income hypothesis, which distinguishes between permanent and transitory components of income, households will spend mainly the permanent income while the transitory income is channeled into savings with a marginal propensity to save from this income approaching unity. The positive relationship postulated by the Keynes and Friedman's permanent income hypothesis has been confirmed by empirical studies (Rossi, 1988; Gupta, 1987; Koskela and Viren, 1982; Avery and Kannickel, 1991). Increased growth rates in income are expected to have a positive effect on household savings (Collins, 1989).

(b) Growth

Growth and saving are positively correlated. Much of the causation appears to run from growth to saving, however, rather than from saving to growth. A sustained increase in the level of saving is typically followed by an acceleration of growth that persists for several years but eventually disappears. By contrast, sustained increases in growth are associated with permanent increases in the rate of saving. The effect of real income growth on saving appears substantial, with a 1 percentage point increase in the rate of growth raising the private savings rate by 1 percentage point (World bank bulletin, 1999).

(d) Inflation

The direction of the effects of inflation on household savings is ambiguous in the theoretical literature. The Tobin-Mundell effect suggests that higher inflation leads to lower real interest rates and causes a portfolio adjustment from real money balances towards real capital. Thus, anticipated increases in inflation would be expected to lead to increased investment. However, given the limited portfolio choices available in Ghana, such anticipated increases in inflation will lead to portfolio adjustment from real money balances to real assets (land, livestock, foreign currency, and consumer durables). Thus, higher anticipated inflation could reduce household savings in Ghana. Empirical literature provides ample evidence in support of both views. Gupta (1987) found that in a group of Asian countries, both expected and unexpected components of inflation had a positive effect on savings but the work of Lahiri (1988) had inconclusive results.

Zorklu and Barbie (2003) also found that the inflationary pressures in Ghana during the reform period resulted in negative real deposit interest rates and as a result, the savings response was weak. According to the World Bank bulletin (1999), evidence shows that inflation is positively correlated with private saving (holding other factors constant).

(e) Rates of Return

The direction of the effect of interest rate changes on savings is inconclusive. Due to inter-temporal consumption decisions, an increase in the real interest rate can adversely affect savings. Koskela and Viren (1982) observed that savings increase as real rate of interest increase. It is worth noting that the effect of the interest rate may also be explained by the inflation effect, that is, assuming nominal rates of interest are constant, and a rise in the inflation rate lowers the real cost of borrowing which in turn increases consumers' expenditure and lowers savings.

An empirical study by Ouliaris (1981) found that real interest rates in Australia exert a negative influence on the savings ratio hence a decline in the real interest rates leads to a rise in savings ratio. Giovannini (1985) in an empirical study found that in most countries, the response of savings growth to real rates is no different from zero. He argued that in developing countries, assumptions about elasticity of substitution may not hold because a significant proportion of the population may not be able to borrow even at black market rates.

(f) Foreign Inflows

Foreign savings are commonly used as a determinant of national savings in some empirical studies. Access to foreign borrowing in international markets is expected to supplement domestic resources and fill in the savings gap. Thus foreign inflows are expected to reduce national savings. Giovannini (1985) observed a significant negative effect of foreign savings but Gupta (1987) observed a positive effect of foreign savings. However, foreign inflows are expected to influence national aggregate savings not household savings. Rather, private remittances would be an important decision parameter for household savings.

(g) Fiscal Policy

Often advocated to increase national savings rates is changing the rate of public saving or introducing tax incentives. A permanent increase in public saving of 4 percent of gross national disposable income will raise national saving by 3 percent of disposable income within a year and 1.5 percent over the long term. The private savings response to changes in public saving varies widely across countries, however. In India private saving falls by 30 percent of the increase in public saving; in Mexico it declines by almost 80 percent. Tax incentives have only small effects on national saving, particularly when the negative effects on public saving are taken into account. But tax incentives may change the composition of saving without changing the overall savings rate.

(h) Pension reform

Many developing countries, particularly in Latin America, are replacing their pay-as-you-go pension system with a fully funded scheme-a reform often advocated because of the belief that pay-as-you-go pension systems reduce saving. Countries with pay-as-you-go systems do tend to have lower savings rates than those with fully funded systems, other things equal. But the direct, short-term effects of pension reform on saving will depend on how the government finances the transition deficit. Theoretical models suggest that debt financing has no effect on savings rates in the short run, while the effects of tax financing are ambiguous. The welfare of low-income, borrowing-constrained earners may be reduced, however, if pension reform forces them to save more than they would have chosen to save. In the long run the indirect effects of pension reform may predominate. If reform is effective in reducing labor market distortions and spurring capital market development, these indirect effects may increase efficiency and growth, raising the rate of saving (World bank Policy and research bulletin, 1999).

(i) Financial liberalization

Financial liberalization has long been thought to encourage aggregate saving. But analysis of eight financial liberalization episodes (in Chile, Ghana, Indonesia, the Republic of Korea, Malaysia, Mexico, Turkey, and Zimbabwe) failed to find a systematic direct effect on saving. (The effect was negative in Korea and Mexico, positive in Ghana and Turkey, and negligible in Chile, Indonesia, Malaysia, and Zimbabwe.) Financial liberalization that includes interest rates usually results in a rise in real interest rates on deposits. This means that each unit of resources saved yields more interest income, reducing the need to save. But the "price" of current consumption rises with interest rates: households might save more because a unit of income saved now would yield greater interest income in the future. Liberalizing interest rates will increase saving only if this inter-temporal substitution effect overcomes the income effect. There is no consistent evidence supporting a positive net effect of liberalization on saving. If liberalization expands the supply of credit to agents that had been credit-constrained, this can reduce saving, because easier access to credit reduces the need to set aside resources in anticipation of adverse income changes. Cross-country evidence reveals that a 1 percentage point increase in the private credit flow to income ratio reduces the long-term private savings rate by 0.74 percentage point (World bank policy and research bulletin, 1999).

(j) External borrowing and foreign aid

Higher levels of external borrowing tend to replace private (and thus national) saving. But the effect of foreign aid on saving is unclear. Cross-country time-series data from Africa suggest that higher foreign aid tends to reduce national saving (that is, a large fraction of aid is consumed). But this evidence may reflect the fact that aid to poor countries increases at times of adverse income shocks, when saving is lowest. Scrutiny of the countries that have moved from low to high savings rates reveals that increases in foreign aid are positively associated with takeoffs of both private and national saving. Aid may reduce saving in some countries and increase it in others. If a country is unable to borrow all it wants, foreign aid would be expected to replace domestic saving. But if the country is undergoing economic reform that invites more aid and induces higher investment and growth, aid and savings rates would tend to move together. This is probably what we see in the takeoff economies (World bank policy and research bulletin, 1999).

(k) Macroeconomic uncertainty

Increases in uncertainty should increase saving, as risk-averse consumers set resources aside to protect themselves against possible adverse changes in income, taxes, and other factors (World bank policy and research bulletin, 1999).

(f) Demographic Variables

The life-cycle hypothesis postulates that demographic variables affect savings rates (Ando and Modigliani, 1963). The dependency ratio is the most common demographic variable. The young and the elderly are expected to consume out of past savings while those within the working age are expected to accumulate savings. A developed capital market as well as the number of children in the family has been seen as alternative means of maintaining income in old age. Hence, as a country develops its age structure is likely to change and people will save more rather than rely on the benefits expected from children. However, Cornia and Jerger (1982) using an ILO statistics found that household size contributes to savings only for middle income economies and does not have any significant effect in developing countries.

A World Bank policy and research bulletin (1999) confirms that an increase in the share of either young or elderly dependents in the population tends to reduce private saving. An increase in the young age dependency ratio of 3.5 percentage points leads to about a 1 percentage point decline in private saving; an increase in the old age dependency ratio has a negative savings effect more than twice as large. Developing countries undergoing a demographic transition in which the working-age population is a large and growing share of the population-may witness a transitory increase in their savings rates. This may persist until the next demographic stage, in which elderly dependents become a large share of the population. The saving across the World project by the World Bank (1999) has increased our knowledge of saving and yielded several important policy lessons:

- Disparities in savings rates across countries are large and have increased over the past three decades. Cross-country disparities can be explained largely by differences in income levels, growth rates, economic policies, and demographics.
- Income growth and savings rates move together. The positive correlation between growth and saving is partly explained by the fact that growth contributes to saving. But increases in the rate of saving are followed by permanent increases in income levels, suggesting that higher saving accelerates the move to higher income.
- Increasing public saving can increase the national savings rate. But offering tax incentives is not likely to increase the private savings rate.
- Contrary to the traditional view, financial liberalization can reduce private saving in the short run. But in the long run indirect effects of financial liberalization are likely to increase saving.
- Replacing a pay-as-you-go pension system with a fully funded scheme may not increase save in the short run. But again, in the long run indirect effects of reform are likely to increasing saving.

- Better access to foreign financing tends to reduce national saving, with aid flows in particular largely financing consumption. Some economies have achieved lasting increases in their savings rates following increases in foreign aid, however.
- Macroeconomic stabilization can both increase and decrease saving. On the one hand, macroeconomic stability reduces the precautionary motive for saving, thereby decreasing saving. On the other hand, fiscal adjustment through higher public saving raises national saving. The net effect on saving is likely to be positive because growth will increase as a result of stabilization.

2.5 The Financial sector in Ghana

The financial system mobilizes savings, provide payment services and allocate credit. They limit price, pool and trade the risks resulting from these activities. These diverse services are used in varying combinations by individuals, businesses and governments and are rendered through an array of instruments and institutions. A financial system's contribution to the economy depends upon the quantity and quality of its services and the efficiency with which it provides them (World Development Report, 1989).

Financial institutions have had the traditional responsibility of mobilizing savings for efficient transformation into real investments for economic growth. By providing savings and time deposits, as well as demand deposits, banks provide a safe, convenient, liquid and rewarding means of financial savings. The financial system in Ghana is made up of the money market and the capital Market.

2.5.1 The Capital Market

The capital market is a market for trading in long-term securities such as stocks, debentures, bonds. The main objective of the capital Market is to make the financial system less bank-oriented and more responsive to the needs of the economy for long-term finance. The capital market mobilizes domestic resources (funds/savings) by providing the avenue through which shares of companies are bought and sold. Ghanaian companies that require long-term funds to finance their operations issue shares to the general public. Individuals who purchase these shares can hold on to them for as long as they wish. These individuals sell the shares for various reasons including when they need cash. Sale of shares by companies thus becomes a way by which they mobilize domestic resources for their operations in the long term. Purchases of shares by the individual serve as a way of saving their funds and participating in the profits of the company. In the developed world, capital formation is obtained mainly from capital markets. In developing countries, the capital markets are not fully developed so most businesses and individuals go to the money market to deposit and obtain funds.

2.5.2 The Money Market (MM)

The MM is a market for trading in short-term securities including Government securities (treasury bills and notes), Bank of Ghana bills, Repurchase Agreements, Certificates of Deposits and Commercial Paper. It comprises the formal and informal financial sectors. The formal financial sector in Ghana forms the banking sector and the non-banking sector.

Informal financial intermediaries- this includes Susu operators, microfinance organizations, welfare groups, cooperative unions. The deficiencies of the formal sector created the opportunities for the informal sector to survive.

Formal (Banking) Financial Intermediaries- These comprises about 23 licensed banks currently operating in Ghana and have been categorized by the Bank of Ghana as shown below:

Table 2.5: BoG's Categorisation of the Banks in Ghana

CBs (Ltd)	MBs (Ltd)	UBs (Ltd)	DBs (Ltd)
GCB	AB	BB	ADB
SCB Ltd	FAMB	EBG	NIB
TB		CMB	Prudential
ICB		HFC	ARB Apex.
SG-SSB		MBG	- Rural banks
UBG		SB	
PBI		UBA	
		ZB	

Source: *Bank of Ghana (BoG) Annual Report (2005*); Website:

Key: *CBs-Commercial Banks; MBs-Merchant banks; UBs-Universal Banks; DBs-Development Banks; UBG-Unibank Ghana; MBG-Merchant Bank Ghana; SB-Stanbic Bank; UBA-United Bank for Africa; ZB-Zenith Bank; CMB-Cal Merchant Bank; EBG-Ecobank Ghana; BB- Barclays Bank; ADB-Agricultural Development Bank; NIB-National Investment Bank; AB-Amalgamated Bank; TB-Trust Bank; FAMB-First Atlantic Merchant Bank; ICB-International Commercial Bank; SCB-Standard Chattered Bank; GCB-Ghana Commercial Ban*

Banks are very important in developing countries in financing trade, agriculture and industry. Banks are able to do this because of their ability to mobilize savings and channel these savings into these productive sectors of the economy.

The regional distribution of banks indicates that it is highly skewed towards the Greater Accra Region (GAR). "With 15.8% of the population of Ghana, the GAR has 31.5% of the Commercial banks, 46.7% of the Merchant banks, and 29% of the development banks branches. Merchant banks operate in only GAR, Ashanti and Western Regions (Asenso-Okyere, 2000).

Rural/Community banks which provides the rural community with specialized banking services is another aspect of Ghana Banking. "By the end of 1999, the number of rural banks was 111 and they were classified into 2 satisfactory, 57 mediocre, and 2 distressed. The classification was based on the capital adequacy ratio required by the Bank of Ghana (BoG). The regional distribution of the 111 rural banks was as follows: Ashanti 21, Brong Ahafo 17, Central 20, Eastern 19, GAR 6, Northern Region (N/R) 3. Volta Region (V/R) 5, Western Region (W/R) 12" (Asenso-Okyere, 2000).

Non-Banking Financial Intermediaries: This sub sector includes institutions that do not accept transferable deposits but incur liabilities such as fixed, time and savings deposits. Non-Bank financial institutions in Ghana include Discount houses, Mortgage financing companies, S& L companies, credit unions, insurance companies, the SSNIT and Ghana Stock Exchange (GSE).

2.5.3 Commercial Banks as Depository Institutions

A commercial bank is a type of financial intermediary and a type of bank . Commercial bank can also refer to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses, as opposed to normal individual members of the public (retail banking). It raises funds by collecting deposits from businesses and consumers via checkable deposits, savings deposits, and time (or term) deposits. It makes loans (generally short-term loans) to businesses, consumers and non-business institutions. It provides other services such as checking services and credit cards. It also buys corporate bonds and government bonds. Its primary liabilities are deposits and primary assets are loans and bonds. These institutions are run to make profit.

Because a commercial bank is required to hold only a fraction of its deposits as cash reserves, it can use some of the money deposited by its customers to extend loans- (Britannica.com, wikipedia, investwords.com). Currently there are about 8 commercial banks in Ghana based on the BoG's categorisation, including the Ghana Commercial Bank (GCB) Ltd, International Commercial Bank Ltd, Standard Chattered Bank and trust bank (Bank of Ghana Annual Report, 2005).

2.5.4 Profile of Ghana Commercial Bank Ltd (GCB)

GCB was established in May, 1953 for Ghanaian entrepreneurs and is now the largest bank with 133 branches nation-wide. The bank has established the following objectives:

- To support the private sector and facilitate the nations economic growth.

- To bring banking to the doorstep of existing and potential customers and extend credit facilities to the private sector.

Vision and Mission

The vision of the bank is to be an established leader in commercial banking in Ghana, satisfying the expectations of customers and shareholders, providing a wide range of cost efficient and high quality services nation wide through the optimization of information technology and efficient branch network.

The mission of the bank is as follows:

- Provision of first class customer service
- Focus on its core business and competence, which is commercial banking.
- Constant improvement in the use of information technology.
- Ensuring that staffs are well motivated and have conducive work environment.
- Recruiting and retraining the best human resource to carry out the bank's mandate.
- Applying best practices in internal policies, procedures, processes and service delivery and
- Constant improvement in shareholder value

Performance

In 1996, the bank was listed on the Ghana Stock Exchange (GSE) and it is one of the most capitalized companies. In line with its mission, GCB is committed to providing first class customer care services and delivering long-lasting relationships with its publics. The bank is doing this by networking branches, restructuring the human resource base and strategizing. This was reflected in the company's remarkable improvement in profit after tax (PAT) which rose by 124.12% from ¢62.60 billion in 1999 to ¢140.30 billion in year 2000. The bank posted ¢167.974 billion PAT. This could be attributed to the bank's restructuring of its assets in favour of loans and advances and to overnight money market operations. This resulted in net interest income increasing by 151% in 2001 compared to 95% the previous year. The Bank's PAT again went up from ¢167.974 billion in 2001 to ¢174.4 billion in 2002 representing a 3% increase, which is another impressive performance in 2002. However for the year ended December 31, 2003, GCB registered ¢93.419 billion PAT, this figure representing -46.3% drop from the ¢174.32 billion over the same period the previous year. This negative development the management of the bank explained was due to increasing competition and challenging economic development. At the close of the 2004 financial year GCB's PAT made a turn around and went up to ¢165 billion representing a 76.7% appreciation. GCB received a profit before tax of ¢392.1 billion in 2006 as compared to ¢233.7 billion in the previous year. This represents an increase of 67.7% over the 2005 level. Total deposits grew by ¢1,615.8 billion from ¢4,729.9 billion in 2005 to ¢6,345.7 billion by the end of 2006.

The bank has the most extensive branch network of 131 branches. It has branches in all the 9 regions and 110 districts and have staff strength of 2,158.

Services and Products

GCB offers services in a wide range of services and products as captured by appendix 4 including Corporate banking, Personal banking services (Accounts Products), Money transfer etc. The bank promotes financial savings by offering these products and services.

(i) *Savings Accounts* – this product offered by GCB is usually a fund for future use. The initial deposit for individual savings account of GCB is ¢100,000 with minimum operating balance of ¢50,000.00. To apply, the customer fills and submits an application form with 2 passport-sized photos. The standard savings account is available to all people. It could be an individual, joint-operated, group and society accounts. A special savings account for children is trustee savings, for a child's education and development.

(ii) *"Save and Prosper" product*- this is a specialized account that seeks to regulate the process of savings of potential account holders. An account holder is allowed to determine hoe much he or she wants to save and at what frequency. This enables the account holder to have a stable and controlled planning of how much he/she wants to put aside. This particular type of savings accounts is targeted at the salaried worker. The initial deposit is ¢50,000.00. Management lists the benefits of this product as follows:

- The account holder cultivates the habit of saving
- The bank offers a safe, secure, flexible and convenient account facility
- The account earns interest from ¢500,000 which is applied monthly.
- The account holder can make withdrawals from his or her accounts
- The account holder has access to loan after 6 months of consistent saving
- The loan depends on how much is saved.
- Savings are done weekly, fortnightly/or monthly.

2.6 Bank account operation in Ghana

Generally banks in Ghana operate three main types of accounts for deposit mobilisation-Demand deposit Account, Savings deposit Account and Time deposit Account. Others include checking Accounts, Money Market Deposit Accounts (Kenneth Morris and Alan Siegel, 1993).

(i) *Savings Deposit Account*

With savings accounts you can make withdrawals, but you do not have the flexibility of checks. The number of withdrawals or transfers per month may be limited. In Ghana, cash withdrawal from the savings account is allowed once in a week but this has changed with the recent competition. Many banks offer more than one type of savings account-for example, passbook savings and statement savings.

With passbook savings you get a record book in which deposits and withdrawals are entered; this record book must be presented when making deposits and withdrawals. With statement savings, the bank mails you a regular statement showing withdrawals and deposits. As with other accounts, various fees, such as minimum balance fees, may be charged on savings accounts. To open this account in Ghana, banks demand an initial deposit, which is determined by the bank. The bank insists on a minimum account balance that should be maintained in the account at all times. Cash withdrawal made below the minimum required account balance attracts a penalty determined by the bank. Bank cash mobilization efforts are aimed at enriching this account.

(ii) Demand Deposit Account

As a way of encouraging their customers to leave money in this account, banks in Ghana pay an interest on accounts with an average minimum balance of ¢ 5million in a quarter. This account does not normally serve as a savings account for the customer. Reliance on this account in the long term planning by the bank is minimal. All businesses operating an account with the bank are expected to operate this account.

(iii.) Time Deposit Account

It is aimed at attracting customers who cannot afford to keep a specified amount in this account for a given period (i.e. 91 days, 182 days, 364 days or more and it can be rolled over if the customer so to be done). Money kept in this account earns a higher rate of interest than those kept in either the savings or other accounts because the customer is leaving his/her funds with the bank for a set period of time, Typically, the longer the term, the higher the annual percentage yield. Interest is calculated on the principal that was initially deposited. If the principal is withdrawn before maturity, a penalty is usually charged. Penalties vary among institutions, and can be hefty-sometimes greater than the interest earned, eating into the customer's principal. Examples of time deposit accounts are fixed deposit account, Savings certificate deposits and open account time deposit.

A savings certificate of deposit is a type of time deposit service offered by a bank. The customer patronizing this service is given a savings certificate, a type of receipt showing the amount deposited, the interest rate, the maturity date and other terms of the contract between the customer and the bank. The savings certificate is issued in larger denominations and banks pay a higher rate of interest on it than the ordinary savings account. If the customer intends to withdraw the money before the maturity date, he must notify the bank days in advance and agree to take a 25% cut in interest rate.

The open account deposit is unique in the sense that the amount may be added to after the deposit has been opened. The money in the account cannot be cashed before maturity. This type of deposit has been popular with business firms in the developed world. The rate of interest payable on this account depends on the amount and their maturity. Christmas saving funds owned by small savers is a type of open account deposit. This service is currently not common among commercial banks in the country.

(iv) Checking Accounts

With a checking account, the individual writes checks to withdraw his/her deposited funds from the account. Checking accounts provide the individual with quick, convenient and frequent access to his/her money. One can make deposits as often as possible. Most institutions provide customers with access to an automated teller machine (ATM) for banking transactions or debit features for purchases at stores. Some checking accounts pay interest; others do not.

A regular checking account -usually called a demand deposit account-does not pay interest, while a negotiable order of withdrawal (NOW) account-does. Various fees are charged on checking accounts. The individual generally must pay for the printing of his/her checks. Other fees vary among institutions. Some charge a maintenance or flat monthly fee regardless of the balance in the individual's account. Other institutions ~~charge a~~ monthly fee if the minimum balance in one's account drops below a certain amount any day during the month or if the average balance for the month drops below the specified amount. Some charge a fee for every transaction, such as for each check one writes or for each withdrawal one makes at an ATM.

(v) Money-Market Deposit Accounts (MMDA)

A money market deposit account (MMDA) is an interest-bearing account that allows one to write checks. An MMDA usually pays a higher rate of interest than a checking or savings account. MMDAs usually require a higher minimum balance to start earning interest, and often pay higher rates of interest for higher balances. Making withdrawals from an MMDA is less convenient than withdrawing from a checking account. You are generally limited to six transfers per month to another account or to other parties, and only three of these can be by check.

2.7 Trends in interest rates in Ghana

The prime rate has declined consistently from a high of 37.0 per cent in 1998 to 25.5 per cent in 2003 and further to 18.0 per cent in 2004.The Prime rate at the end of 2006 was 12.5% and stabilizes at this figure to date. The Monetary Policy Committee (MPC) raised the prime rate from 24.5 per cent in December 2002 to 25.5 per cent in January 2003 to reflect the generated inflationary pressures following the monetary expansion that was undertaken during the last quarter of 2002. The rate was reduced in February to its December 2002 level, only to be raised steadily to 27.5 per cent by April 2003 when petroleum price adjustments caused inflation to reach 30 per cent. The prime rate was maintained at this level until July when the inflationary pressures receded. The MPC gradually reduced the rate to 21.5 per cent by year-end 2003 and it was 18.8 percent by the end of 2004 (Peter Quartey, 2005).

Table 2.7: Interest rates, 1998-2003

Average (% per annum)	1998	1999	2000	2001	2002	2003
Central bank						
Bank rate/Prime rate*	37.00	27.00	27.00	27.00	24.50	5.50
T-Bill discount rate(91dys)	26.75	31.49	38.00	27.65	23.68	6.36
Interest rate equivalent	28.67	34.18	41.99	29.70	25.16	8.27
Commercial banks						
(a) Deposit rates						
Demand deposits	4.70	8.50	16.75	13.50	8.00	8.50
Savings deposits	16.50	10.50	18.00	14.50	11.13	11.09
Time deposits (3 mnths)	29.50	21.75	33.50	23.25	16.22	14.28
Certificate of Deposit	25.25	18.75	33.75	18.00	14.56	15.79
Call money	23.00	Na	28.00	17.00	12.17	12.52
Others	22.27	17.44	24.80	18.33	12.83	13.42
(b) Lending rates	38.50	36.50	47.00	43.75	36.36	34.95

Note: * The prime rate was introduced at the end of March 2002.
Source: *Bank of Ghana Statistical Bulletins (2004).*

Meanwhile, the savings rate has increased marginally over the same period: from 16.5 per cent in 1998 to 18 per cent in 2000 but declining thereafter to 11.09 per cent in 2003. Similarly, the lending rates of banks have also responded marginally to the decline in the bank's prime rate. The lending rate was 38.5 per cent in 1998, rose to 47 per cent in 2000 but declined to 34.95 per cent in 2003. Obviously, such a huge margin between the lending and savings rate does not augur well for financial intermediation and this is reflected in the low savings rate in the economy. In contrary, the money market rates were more flexible to interest rate movements compared to lending and borrowing rates.

Between 2002 and 2004, the rates on money market instruments and the inter-bank weighted average rates were the most responsive to movements in the prime rate during the period. In response to the downward trend in the prime rate during the second half of 2003, the 91-day bill rate and the weighted inter-bank average rate declined by the end of 2003 by 16.61 and 9.55 percentage points, respectively.

2.8 Domestic resource mobilization

The level of private savings in Ghana is low by African standard and in recent times there appears to be a shift from savings and time deposits towards money market instruments (ISSER, 2004).In reference to table 2.8 below, the share of money market instruments increased consistently from 48.9 per cent in 1995 to 57.7 per cent in 2001 and then to 62.7 percent in 2003, while the share of savings deposits in total private savings declined steadily from 27.1 per cent in 2001 to 23.0 per cent in 2003 as shown in Table 2.7 above. However, although time deposits declined from 15.8 per cent in 2001 to 13.1 per cent in 2002, these increased to 14.3 per cent in 2003. Thus, money market instruments remain a dominant component of total private savings, accounting for 62.7 per cent of total private savings in 2003, while savings deposits and time deposits accounted for 23.0 percent and 14.3 per cent of total private savings, respectively as shown in Table 2.7 above. Also, between 2001 and 2003, preferences shifted from short-term instruments towards long-term instruments. The year 2003 also recorded an increase from ¢ 3,332.7 billion in 2002 to ¢ 4,786.0 billion in the nominal values of private savings and an increase of 43.6 per cent for time deposits as compared to the 32.5 per cent growth rate recorded between 2001 and 2002. Foreign currency deposits with domestic money banks (DMBs) rose from ¢ 3553.3 billion to ¢ 4576 billion, representing a 28.8 per cent increase compared to an increase of 49.7 per cent recorded in 2002 (Table 2.7). This partly accounts for the relatively low changes in 2003 in money supply growth, inflation and the exchange rate as compared to the preceding year.

It is worth emphasizing that most savings, especially by the relatively poor, are held in the form of real assets. Aryeetey (2005) argues that this equilibrium portfolio allocation results from both the poor performance of financial assets and the strong desire for owning the real assets used directly in production. These, in turn, are both consequences (in large part) of information asymmetries. The poor performance of financial assets is not particularly surprising, because financial 'saving' is affected by precisely the same information and enforcement difficulties as 'lending'. As a result, much of the financial savings that does occur is held within close social groups in order to circumvent the moral hazard and adverse selection problems associated with entrusting assets to strangers.

Table 2.8: Private Savings with formal financial Institutions, 1995-2003(%)

Year	MMI	SD	TD	Total
1995	48.9	40.2	10.9	100
1996	51.0	39.8	9.2	100
1997	52.0	30.7	17.3	100
1998	55.6	25.3	19.1	100
1999	51.5	19.9	28.6	100
2000	61.2	23.8	15.0	100
2001	57.7	27.1	15.8	100
2002	58.1	28.8	13.1	100
2003	62.7	23.0	14.3	100

Source: *Calculated from the Bank of Ghana Statistical Bulletin (February, 2004)*

Key: *MMI-Money market Instrument; TD -Time deposits; SD- Savings deposit; TTL- Total*

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This section looks at the study population, the sample size, and then provides a clear reason for choosing the central business district of Accra, Makola branch of the Ghana Commercial Bank Ltd (GCB) as the study area. In addition, data and sources of data have been explained. Research instrument, data presentation and analysis, and the limitations in this study have also been tackled.

3.2 POPULATION, SAMPLING AND THE STUDY AREA

Ghana Commercial Bank Ltd (GCB) in the central business district of Accra was chosen as the study area. This was because the area has the highest population in terms of market share and income earning. This made the data collection more convenient as respondents were available throughout the day. Access to information was another reason for choosing GCB Ltd. Again, proximity to the place was another reason for choosing the study area.

The total population was based on the number of active clients of the institution which is six hundred and two (602) and the number of staff of GCB Ltd. There are ten (10) senior staff comprising four (4) directors, three (3) middle level management staff and three (3) lower level management staff.

The sampling techniques used in this study were simple random and purposive sampling techniques. Six(6) senior staff comprising two (2) directors, two (2) middle level management staff and two (2) lower level management staff were interviewed using the unstructured interview format. Purposive sampling was adopted because the intention was to gain an insight and first hand information on the commercial banking system, hence the need to choose management personnel who had the technical know-how on the activities of the bank. In all two (2) respondents were purposively selected from management and board of directors. There was however a synchronization of responses from these two top personnel.

In addition, personal observations of employees were made by using disguised method. Simple random sampling was important to the study since the study was intended to ensure some randomness and representation in the sample. The selection of the respondents for the study was guided by sampling procedure: the process involving sampling frame identification and the determination of relevant sample size. In arriving at the sample size, the basic criterion adopted was that the clients should have been an active customer of the bank for a minimum period of six months or more. This minimum period was thought to be acceptable for customers to have experienced some form of impact of the bank's operation and its effect on their lives. Out of the total population, three hundred (300) respondents were selected.

3.3 DATA AND SOURCES OF DATA

The type of data that were gathered included information on gender, age, employment, income, number of dependents/children and educational background, the purpose of saving in the institution, and hindrances to saving. Quantitative data was applied on indicators such as employment and income levels, sex composition, age, level of savings and time spent in banking hall whilst the qualitative data was used in social phenomena such as the purposes for saving and hindrances to saving.

The study made an extensive use of both primary sources of data. The primary sources of data included information gathered from the questionnaires that were administered to the clients in the institution and the unstructured interview conducted with officials of GCB.

3.3 RESEARCH INSTRUMENT.

Questionnaires were administered to management and customers of the bank. In all, three hundred (300) questionnaires were administered to clients with the aim of finding out the role of commercial banks in savings promotion and factors inhibiting saving. The questionnaire was purely close-ended type with few open-ended ones.

3.4 DATA PRESENTATION AND ANALYSIS.

Data was presented in tabular, graphical and narrative forms. In analyzing the data, descriptive statistical tools such as bar chart and pie charts were used. Microsoft Excel and Statistical Programs for Social Scientists (SPSS) were used in running the data.

3.5 LIMITATIONS OF THE STUDY

A major limitation of the study was the uncooperative attitude of some senior management members who were reluctant to disclose sensitive information for strategic reasons, since the competitive landscape is quite turbulent. For instance, information on the amount of savings attracted by the various products was unavailable. Besides, some respondents only received salaries through the bank and do not actively operate accounts so time was spent in sorting out the active customers.

Some of the respondents also demanded an answer of the relevance of the study to their lives. This was because they had no idea about the whole exercise. However, after a brief explanation about the intended purpose of the study, they began to appreciate the study and co-operated fully in the exercise.

CHAPTER FOUR

ANALYSIS AND DISCUSSION OF DATA

4.1 Introduction

This section deals with the analysis and interpretation of the data collected. The chapter is in two sections. The first section describes the analyses of data on the responses provided by customers of Ghana Commercial Bank Ltd, with the aim of finding out the factors inhibiting savings by Ghanaians in financial institutions. The second section also describes the analysis of the responses from staff with the aim of investigating how financial institutions are promoting or discouraging the culture of savings among Ghanaians. Descriptive statistics were used in analysing the data. Frequencies, percentages and pie charts were employed to explain certain points where necessary. The data was analysed and discussed to find out answers to research questions set out in the chapter one. Three hundred (300) questionnaires were given out to customers of Ghana Commercial Bank Ltd, Makola branch in the central business district of Accra.

4.2 Analysis of Responses from Clients

This section looks at the analysis of respondents who save in GCB Ltd. located at the central business district of Accra, Makola, with the aim of finding out the factors inhibiting savings by Ghanaians in financial institutions, and then come out with how some of the variables are interrelated.

Table 4.2(a): Sex composition of respondents

Responses	Frequency	Percentage
Male	193	64
Female	107	36
TOTAL	300	100

The table 4.2(a) above shows the gender composition of the respondents. As depicted, 64% of the respondents were males as against 36% being females. The analysis shows that there is not gender balance in relation to saving habit in Ghana Commercial Bank Ltd. The majority who save are males.

Table 4.2(b): Age and Reasons for Saving

Ages (Years)	Reasons for saving				
	Emergences	Long Expenditure	Day to – day Expenditure	Others	TOTAL
18-25	4	9	23	14	50
26-33	37	24	17	16	94
34-41	77	23	7	6	113
Others	26	11	5	1	43
TOTAL	144	67	52	37	300

In finding out the ages of respondents against the reasons for saving, the study showed that the majority representing one hundred and thirteen (113) respondents were within the ages of 34- 41 years as shown in table 4.2 above. It also revealed that the majority

(77) who fall within this age range save to meet the unexpected, notably ill-health, theft, death etc.This confirms the study conducted by United Nations Development Program (UNDP) in 1999 on microfinance and poverty alleviation which revealed that most people save in order to deal with irregular events such as illness, deaths, marriages etc.

In addition, sixty-seven (67) of the respondents said they build up savings balances in order to undertake future large expenditures such as education of oneself and children, purchase of a house, large capital to start new business etc. Only a few representing fifty-two (52) gave the need to keep cash safely in order to manage and deal with day to day expenses and occurrences. Other reasons such as dealing with unemployment by holding over income from one time period to another were given for savings purposes and this constitutes only thirty-seven (37) of the respondents.

Table 4.2(c): Employment Status of Respondents

Responses	Frequency	Percentage
Self-employed	54	18
Services/Trading	177	59
Agriculture(Animal farming)	10	3
Others	59	20
TOTAL	300	100

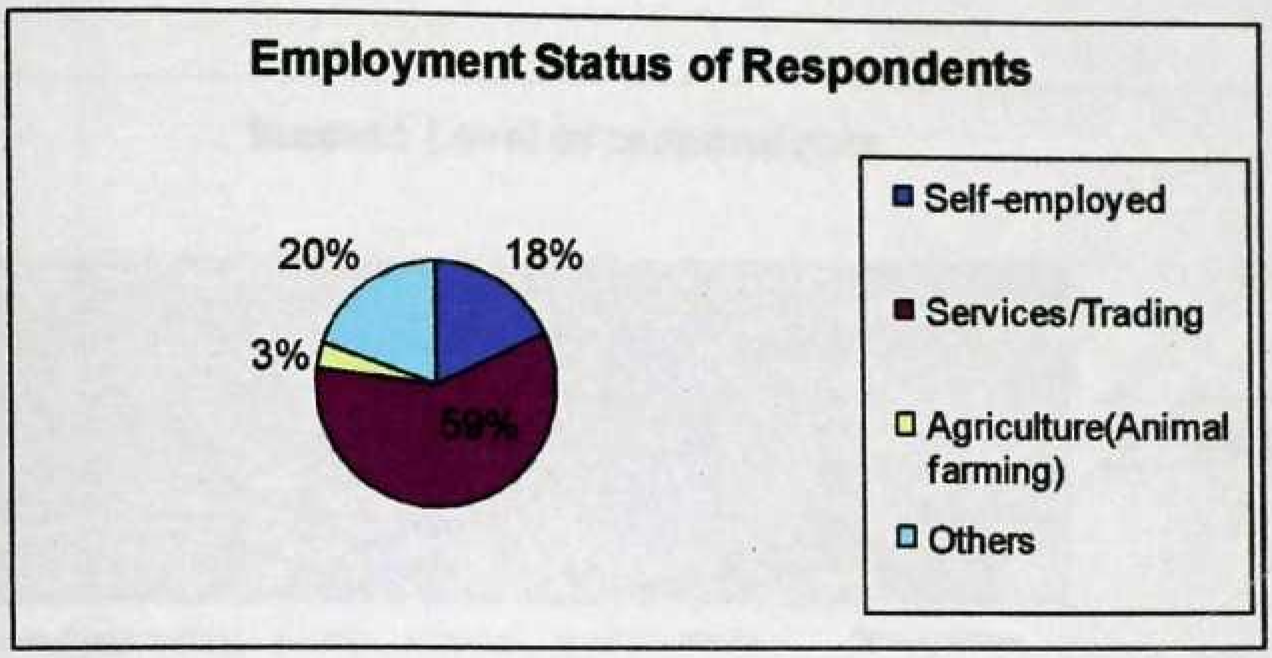

Fig 4.2(c): Pie chart on Employment Status of Respondents
Source: Field work, April 2007

In response to the employment status of respondents, 59% have been in the service/trade sector, followed by 20% who have been in other sector such as construction, and some unemployed as depicted in Pie chart above. Those who are self-employed and those in the agricultural sector represent 18% and 3% respectively. This analysis reveals that the public sector dominates with respect to savings in the Ghanaian economy. Only 3% of the respondents from the agricultural sector (animal farming) have very low saving level in Ghana.

Table 4.2(d): Income level of respondents

Responses	**Frequency**	**Percentage**
Less than ¢ 1million	18	6
¢ 1 million - ¢3million	50	17
¢4 million - ¢6million	174	58
Other specified	58	19
TOTAL	300	100

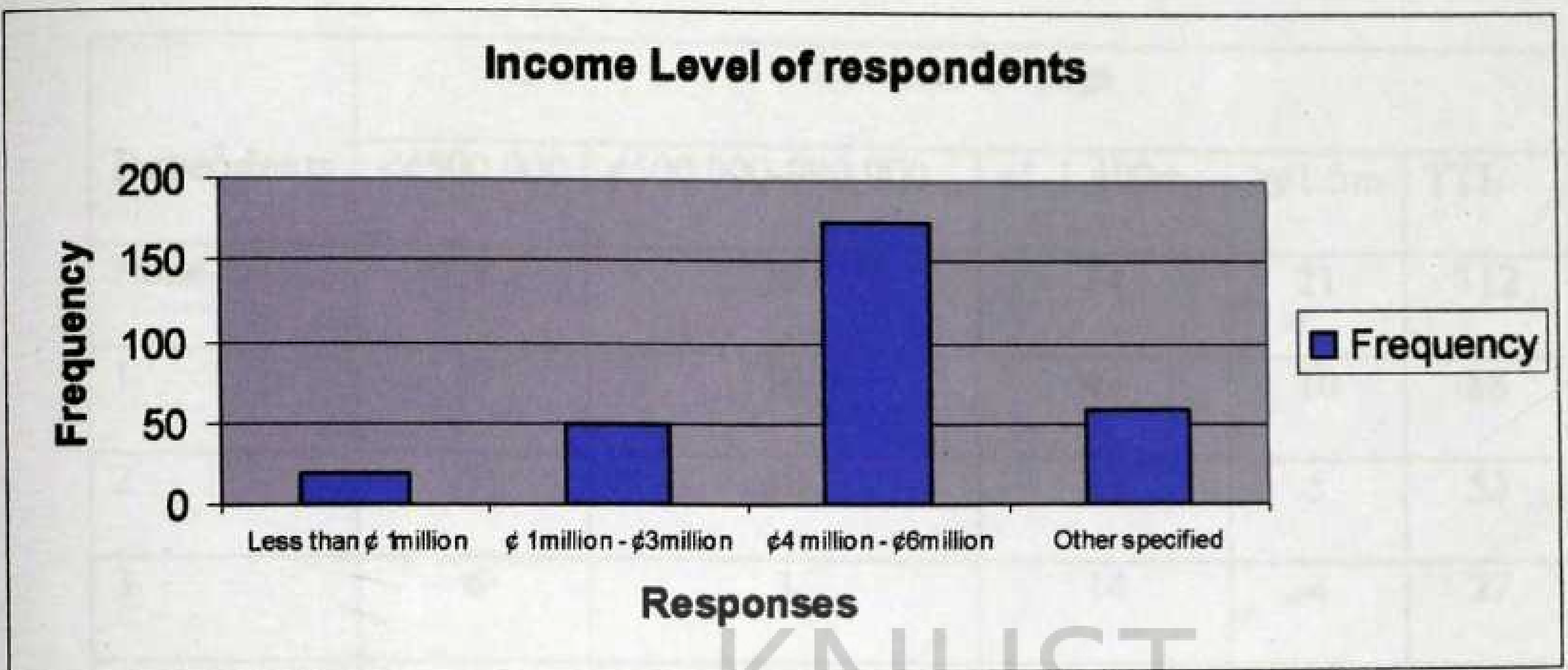

Fig 4.2(d): Bar chart on Income Level of Respondents
Source: Field work, April 2007

This item in the questionnaire was to find out the income levels of respondents and 17% of the respondents have income levels within the range ¢1,000,000-¢3,000,000; 58% were within ¢4,000,000-¢6,000,000 whilst those with incomes less than ¢1,000,000 and above ¢6,000,000 represent 6% and 19% respectively. This study reinforces the World Bank (1999) world project on savings which revealed that income growth and savings rates move together. The positive correlation between growth and savings is partly explained by the fact that growth contributes to savings. But increases in the rate of savings are followed by permanent increases in income levels, suggesting that higher savings accelerate the move towards higher income.

Table 4.2(e): Number of dependents and level of savings

Dependents	Level of Savings				
	<¢500,000	¢500,000-990,000	¢1-1.490m	≥¢1.5m	TTL
None	58	19	14	21	112
1	19	16	43	10	88
2	7	18	23	5	53
3	6	3	14	4	27
Others	8	2	7	3	20
TOTAL	98	58	101	43	300

Here, respondents were asked to state the number of dependents and savings level. The objective was to find out how the number of dependants affects the savings level of respondents and it showed that those who had no dependents often save. This is represented by one hundred and twelve (112) constituting 37%, followed by those who had one dependent (88), which is a confirmation of Ando and Modigliani (1963) life-cycle hypothesis which postulates that demographic variables affect savings rates and that dependency ratio is the most common demographic variable. They emphasise that a developed capital market as well as the number of children in the family has been seen as alternative means of maintaining income in old age. This study is also consistent with the World Bank policy and research bulletin (1999) that an increase in the share of either young or elderly dependents in the population tends to reduce private savings.

Table 4.2(f): Income level and Savings level per month

Income Level	Level of Savings per month				
	< ¢500,000	¢500,000-990,000	¢1m-1.490m	≥¢1.5m	TTL
< ¢1 million	14	4	-	-	18
¢1 m- ¢3m	11	9	16	14	50
¢4m- ¢6m	16	58	21	79	174
Others	7	11	19	21	58
TOTAL	48	82	56	114	300

The study attempted to find out whether there is a relationship between income level and savings level per month as captured in the questionnaire. It indicated that the majority of respondents who had higher income (ranging from ¢4 million to ¢6 million) constitutes the majority of respondents who had higher savings level per month as shown by one hundred and seventy-four (174) of the respondents. It also depicts that seventy-nine (79) of the respondents receive such amount of income saved ranging from ¢1.5 million and above. Those with lower income levels ranging from below ¢1 million had lower savings level. The study shows that those with higher income levels save higher amount of money per month which reinforces the World Bank world project on savings (1999): income growth and savings rates move together. This is partly explained by the fact that growth contributes to savings. But increases in the rate of savings are followed by permanent increases in income levels, suggesting that higher savings accelerate the move towards higher income.

Table 4.2(g): Educational level and level of savings per month

Educational Level	Level of Savings per month				
	< ¢500,000	¢500,000-990,000	¢1m-1.490m	≥¢1.5m	TTL
J.S.S	7	3	1	1	12
S.S.S	18	9	3	5	35
Tertiary	16	34	49	89	188
Others	13	30	15	6	64
None/illiterates	1	-	-	-	1
TOTAL	55	76	68	101	300

An item in the questionnaire was to find out the educational level of respondents. The objective was to find out how the level of education of respondents relates to the quantum of money saved per month. The finding revealed that the majority of respondents constituting one hundred and eighty-eight (188) had tertiary education certificates ranging from nursing training to various university degrees. It further indicates that the majority in the tertiary group representing eighty-nine (89) saves more than or ¢1.5 million per month. This is followed by those holding other qualifications especially professionals such as Accountants and ICA holders. Only one (1) of the respondents had no education with his savings level below ¢500,000.

With regards to the level of savings, the numbers of respondents with the JSS and SSS certificates are 35 and 12 respectively. The trend indicates that educational level influences the level of savings as demonstrated by the fact that those with higher educational certificates save more money as compared with those with lower or no qualifications. This suggests a dependence of saving ability on educational background.

The study area is predominantly made up of educated people hence the likelihood that few illiterates may respond. It is also likely that some illiterate clients might have closed their accounts due to frustrations they experience in their daily transactions with the bank as they cannot read and write. This illiterate group might possibly have resorted to other informal means of saving such as Susu or may be keeping their money at home.

Table 4.2(h): Time spent in the banking hall

Responses	Frequency	Percentage
Less than 30 minutes	15	5%
30 minutes- 1 hour	82	27%
1 hour-1:30min	141	47%
Others specified	62	21%
TOTAL	300	100%

Tables 4.2(h) above shows the time respondents spend in the banking hall when saving money. It revealed that the majority (47%) of the respondents spend 1hr-1:30minutes; 27% spends between 30minutes and 1 hour. Those that spend more than 1:30minutes represent 21%. Only 5% spends less than 30minutes. The analysis is consistent with a different survey conducted by FAO in 1995 which revealed that customers of banks considered certain attributes before saving with a bank and among these attributes include ease of withdrawal of funds and reduction in formal banking procedure required in account opening and during savings of funds.

Table 4.2(i): Interest on Savings

Responses	Frequency	Percentage
High	50	16.67%
Average	100	33.33%
Low	150	50%
TOTAL	300	100%

An item in the questionnaire was to know customers' rating of interest rates on savings and the table above indicates that the majority which constitutes 50% rated interest as low, 33.33% rated it as average and 16.67% rated it as high. This is consistent with the decreasing interest rates trend exhibited in Appendix 3, being data obtained from the research department of the bank on savings interest rates trend from 2001 to 2006.

Table 4.2(j): Factors militating against the culture of saving

Responses	Frequency	Percentage
Salaries are too low or high cost of living	112	37%
Procedures at saving institutions too difficult	53	18%
Investing rather in the stock market	13	4%
Investing in other institutions	4	1%
Lack of motivation to save	101	34%
Others,	17	6%
TOTAL	300	100%

An item in the questionnaire was to find out from respondents the factors which militate against the culture of savings in Ghana; the majority of respondents indicated low salaries with its associated high cost of living as the major factor which hinders the culture of savings. 34% specified the lack of motivational factors such as higher interest rate on savings, good customer relations among others; 18% pointed to procedures that clients go through at saving institutions as being too bureaucratic and cumbersome; 6% made other comments not catered for by the questionnaire.

4.3 Analysis of Reponses from Management

Responses to some questions posed in the unstructured interview are captured below.

According to management, the objectives of the GCB Ltd are as follows:

- To support the private sector and facilitate the nation's economic growth.
- To bring banking to the doorstep of existing and potential customers and extend credit facilities to the private sector.

In fulfilling the first objective above, GCB has spearheaded the drive towards supporting the private sector through the mobilization of funds that is made available as loans for fuelling the growth of the sector which eventually facilitates the growth and development of the economy as a whole.

In fulfillment of the second objective, the bank has established branches in all the regions and districts in Ghana to make it possible for all Ghanaians to easily transact business with the bank wherever they find themselves. The bank also has on offer many innovative and interesting banking services and products designed to suit the Ghanaian customer. With the legislation that mandates salaries to be paid through the banks, more people needed to open savings accounts with the bank. The only problem is with the levels that are saved by the account holders and the frequency of saving, which do not enable the accounts to generate encouraging interest.

The performance of GCB over the years has been good. For instance, the profit made by the bank in the year 2001 made the bank the best performer in the sector. The success of the bank is mainly attributed to the prudent measures instituted by the management and the capable staff of the bank.

The savings accounts of the bank and the banking industry as a whole have been experiencing a downturn in recent times. Generally, saving as a function has not seen much performance due to a number of factors. These include the dynamic changes the banking industry has been experiencing in recent times through competition, deregulation, sophisticated customer demand and technology. Like other banks in the industry, GCB has had to evolve innovative and interesting banking services and products, which tend to move away generally from the traditional savings deposit account.

Presently, most of the profit of the bank comes from charges on transactional services other than the interest earned on loans it gives out from savings deposit.

Interest earned on savings deposits are obtained from the interests paid on the loans given out. Usually, the longer a deposit takes to be withdrawn, the greater its chances of being used as a loan and therefore it being able to earn some interest. Then again, the amount should be such that it is significant enough to loan out in terms of the size or amount deposited. Because these loans are used in time- related ventures, they take time to gain some profit. This is why the bank places conditional initial deposit and maintenance balance on the savings and some other accounts. In the past, savings accounts required depositors to wait 30 days before withdrawals could be made. This is no longer the case today. It is however too simplistic to say interest rates are very low. As the amounts saved increases, the rate of interest also goes up. Interest rates associated with savings accounts therefore depend on the level of savings made. There is also the issue of cost transaction the bank incurs in handling the account, which must be covered. These transactional costs come in the form of stationary, human resources and overheads. Even though it is the bank's policy and objective to make profit, the bank encourages everyone who has money to save and can meet the set conditions to save. This is evidenced in the number and varieties of savings accounts the bank has on offer. Moreover, unlike the competition and particularly the multinationals, the GCB has very low if not the lowest opening deposit and maintenance balances in the banking sector. The bank now offers very simple registration procedures, measures that should encourage everyone to save at least with the bank.

The major challenge facing the bank with regards to the savings account facility as with other account products is the long queuing time of customers usually during the last and first weeks of the months. This is particularly due to the extra pressure that comes with the payment of salaries at the time. Complaints received from customers have usually been about the length of time customers spent in queues as well as the low interest rates returned on their deposits.

The savings products have been designed for persons, groups and other organizations that have funds to save or put aside for the future. The different savings products have all been fashioned in such a way that will collectively target all those who have funds for setting aside and have the means to meet the conditions that comes with the savings products. The various saving products and services offered by the bank to promote savings are listed under appendix 4. Thus the bank promotes financial savings by offering these innovative products and services.

The trend observed in the recent past shows a general decline in the activities of the saving functions of the bank. Indeed, this seems to be the case with the banking industry as a whole. The situation is even more discouraging when one considers the low-income situation of Ghanaians and the stiff competition within the banking industry. The future of the saving function in the banking industry does not look encouraging due to the earlier challenges mentioned.

Conclusion

In fact, the financial system's contribution to the economy depends upon the quantity and quality of its services and the efficiency with which it provides them; there is therefore the need to adopt workable marketing strategies to mobilize the large volume of cash outside the banking sector.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter is devoted to the summary of conclusions, recommendations for policy formulation and suggestions for future research. The main objective was to assess the saving practices among customers of GCB, Makola-Accra.

5.2 Summary of Findings of the study

Basically, the study focuses on saving practices among customers of GCB using the Makola branch in the central business district of Accra as the case. Among the objectives and visions of any financial Institution is to mobilize enough savings. In recent times financial savings in Ghana have been very low as compared to other sister countries, even though there is an upswing of both foreign and local banks and non-bank financial institutions entering into the financial markets. Despite this, savers hesitate to keep their assets in financial form; instead they prefer to hold them in less risky forms that provide a low or negative rate of returns. It is evident that over ¢1 trillion is outside the formal banking sector of the country which could have been used as loans for developmental purposes in the lives of individuals and organizations. The study is therefore aimed at:

1. Determining the role of commercial banks in promoting a saving culture among Ghanaians.
2. Finding out the factors inhibiting saving by Ghanaians in financial institutions and recommending the factors that can influence Ghanaians to save.

Simple random and purposive sampling techniques were employed in the study to enable the study achieve the research objectives. In all, three hundred questionnaires were administered to clients who save in Ghana Commercial Bank Ltd, Makola Branch whilst purposive sampling was used in gaining insight into the commercial banking system. In addition, personal observations were made on employees using the disguised method. Secondary data was also collected by reviewing relevant materials from Ghana commercial Bank Ltd, such as data on statement of account, annual reports, by reviewing other peoples work, journals, and magazines and through the internet.

The major findings of the study were:

1. The majority of the respondents fall within the youthful age (from 18 – 41 years). This may be due to that fact that the structure of Ghana's population is such that the youth constitutes the greater percentage.
2. The research revealed that the major reasons for saving include building up savings balances to deal with irregular events such as illness and then building up savings balances in order to undertake future large expenditures.
3. The findings revealed that there is gender inequity in terms of savings since the majority of the respondents forming about 64% were males and 36% females.
4. More than half of the respondents had income ranging from ¢4 million to ¢6 million indicating that there is a dependence of savings on income levels.
5. The findings showed that clients spend an appreciable level of time in the banking hall when saving. This is shown by the fact that almost half (47%) said they spend between 1 hour and 1hour 30 minutes which is a disincentive to saving since they go through a hell of time before leaving the banking hall.

5.3 CONCLUSIONS

In actual sense, the objective of commercial banks is to serve as financial intermediaries by mobilizing savings from savers and channeling the money to prospective or intended borrowers for development purposes which could boost economic growth. Most of the customers mentioned long period of transactions and low salaries/high cost of living among others as the major factors that hinder low savings rate in Ghana. It was also observed that emergences and long-term expenditures were the major reasons for savings.

5.4 RECOMMENDATIONS

With the influx of foreign banks, there is the need for Ghana Commercial bank Ltd to strategise towards creating an effective and smooth business environment meant to increase their market share and profit. To this end, the following recommendations could be made:

1. GCB Ltd should adopt innovative strategies for mobilising funds such as , awarding prizes for high savings, offering high interest rates and reduction in formal banking procedure required in accounts opening and saving. These will serve as an incentive to save since customers of banks consider such attributes before saving with a bank.
2. They should develop the strategy of delivery the same product in different outlets and environments.
3. Employees should be empowered through adequate training for efficient, effective and quality service delivery.

5.5 AREAS FOR FURTHER RESEARCH.

This study could not cover all aspects of saving practices in Ghana. The following suggestions could therefore be made for future researchers interested in these areas:

1. The impact of marketing orientation on savings growth.
2. The impact of savings on investment.
3. The impact of fiscal or macroeconomic policy on saving.
4. Saving in the capital market and investment in real assets.

It is hoped that the recommendations made will help to eliminate the problem of low savings in Ghana. It is expected that this study will serve as a "springboard" for further research. Other commercial banks in other parts of the country should also be taken into consideration in any further research.

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APPENDIX 1

QUESTIONNAIRE FOR RESPONDENTS

A STUDY ON THE SAVING PRACTICES AMONG CUSTOMERS OF GCB LTD, MAKOLA BRANCH, ACCRA

1. Sex: [ ] Male [ ] Female
2. Age: Tick appropriate box below
   [ ] Less than 15 years
   [ ] 18 years -25 years
   [ ] 26 years - 33 years
   [ ] 34 years - 41 years
   [ ] 42 years and above
3. Nationality ---------------------
4. Place of residence --
5. Are you self-employed? Yes [ ] No [ ] Please thick
6. Are you an employee of someone or organization? Yes [ ] No [ ] Tick
7. State your occupation..
8. a) [ ] Married [ ] Single. Tick where applicable.
   b) If married, do you have children? [ ] Yes [ ] No
   c) If yes, how many children? [ ] one [ ] two [ ] three [ ] greater than three.

9a) Do you have dependants? [ ] Yes [ ] No
9b) If yes how many? (a) 1 (b) 2 (c) 3 (d) other, specify

10. What is your level of income per month?
(a) Less than ¢1million (b) ¢1-3million (c) ¢4-6million (d) other, specify

11. What is your level of education? Tick below where applicable.
(a) Primary School (b) Junior Secondary School (JSS) (c) Senior Secondary School (SSS).(d) Ordinary Level Secondary Education (G.C.E "O" Level). (e) (G.C.E "A" Level or 6th Form). (f) Polytechnic (g) University (h) Vocational School (i) Training College (j) None (i) All

12. How long a time do you spend in the banking hall in saving money?
(a) Less than 30mins (b) 30mins to 1hour (c) 1hour 30mins (d) other, specify
13. What is your saving in a month with the bank?
(a) Less than ¢500,000 (b) ¢500,000-¢990,000 (c) ¢1m-¢1.490m (d) ¢1.5m and above.

14. State your saving in a year with the bank. Provide estimate of amount in cedi. - - - - -

15. How long have you saved with this bank?
(a) Less than one year (b) 1-3 years (c) 4-6 years (d) others, specify

16. Do you intend to continue saving with this bank? Yes [ ]   No [ ]

17. Why do you save in the bank (your purpose for saving in the bank)? Tick appropriate box

(a) To take care of emergencies such as illness, theft, death etc.

(b) To finance long term (future) large expenditures such as education of children, buy house, car etc.

(c) To finance short-term goals such as commodities purchase, home improvements and repairs

(d) To provide a ready source of cash for managing and dealing with day-to-day expenses

(e) To have a source of income during periods of unemployment and lay-off.

18. For only those who tick options a, c, d or e under question 13 above. Do you think you might be using savings for large expenditure in the next year (2008) or so?
[ ] Yes   [ ] No   [ ] don't know

19. Did you finance large consumption expenditure out of your savings account in the last year (2006)?

20. How do you rate the interest on savings?
(a) High (b) average (c) low (d) Others (very high)

21. Please identify in an order of importance using 1, 2, 3, etc (with 1 being the most important) the factors below which militate against the culture of saving in Ghana. You can ignore items that you don't consider important.

- ❖ Salaries are too low or high cost of living [ ]
- ❖ Interest paid on savings is too low [ ]
- ❖ Procedures at savings institutions too difficult [ ]
- ❖ Investing rather in the stock market [ ]
- ❖ Investing in other institutions [ ]
- ❖ Lack of motivation to save [ ]

APPENDIX 2

UNSTRUCTURED INTERVIEW QUESTIONNAIRE FOR MANGEMENT-
<u>A STUDY ON THE SAVING PRACTICES AMONG CUSTOMERS OF GCB LTD, MAKOLA BRANCH, ACCRA</u>

1. Why the low interest on savings?
2. Why the minimum opening and operating balance for a savings account?
3. Is the institution encouraging everyone to save?
4. What are the challenges facing the Institution with respect to savings facility?
5. What are the reported challenges facing savings account holders?
6. What is the future of Ghana in relation to saving with the institution?

APPENDIX 3
SAVINGS INTEREST RATES TREND FROM YEAR 2001 TO 2006

Year	Min. amount in account to attract interest	Interest rates
2001	¢300,000-¢1,000,000	3%
	¢1,000,000-¢5,000,000	10%
	¢5,000,000-¢50,000,000	17%
	¢50,000,000-¢200,000,000	24%
	¢200,000,000-¢300,000,000	26%
	Above ¢300,000,000	Referred to head office
2002	¢500,000-¢1,000,000	3%
	¢1,000,000-¢5,000,000	5%
	¢5,000,000-¢50,000,000	10%
	¢50,000,000-¢200,000,000	15%
	¢200,000,000- ¢300,000,000	20%
	Above ¢300,000,000	Referred to head office
2003	¢1,000,000-¢5,000,000	4%
	¢5,000,000-¢50,000,000	8%
	¢50,000,000-¢200,000,000	12%
	¢200,000,000-¢500,000,000	18%
	Above ¢500,000,000	Referred to head office
2004	¢1,000,000-¢5,000,000	1.5%
	¢5,000,000-¢25,000,000	1%
	¢25,000,000-¢50,000,000	1.75%
	¢50,000,000-¢200,000,000	4.5%
	¢200,000,000-¢500,000,000	6.5%
	Above ¢500,000,000	Referred to head office
2005	¢1,000,000-¢5,000,000	1%
	¢5,000,000-¢25,000,000	1.75%
	¢25,000,000-¢50,000,000	2.75%
	¢50,000,000-¢200,000,000	7%
	Above 200,000,000	Referred to head office
2006	¢1,000,000-¢5,000,000	0.75%
	¢5,000,000-¢25,000,000	1%
	¢25,000,000-¢50,000.000	1.75%
	¢50,000,000-¢200,000,000	4.50%
	¢200,000,000-¢500,000,000	6.5%
	Above ¢500,000,000	7.5%

Source: Research Department, Ghana Commercial Bank Ltd.

APPENDIX 4

PRODUCTS & SERVICES OF GHANA COMMERCIAL BANK LTD

Deposit Products/Services

- Current Account
- Standard Savings Account
- Flexsave Account
- Save & Prosper Account
- Kudi Nkosuo Savings Scheme

Investment Products/Services

- Fixed Deposit Receipt
- Call Deposit Account
- Premium certificate of Deposit
- Negotiable Certificate of Deposit

Credit Products/Services

- Personal Loan
- Personal Credit Line
- Consumer Credit Scheme
- Short-Term Loan (Commercial)
- Overdrafts
- Special Package for Petroleum Dealers
- Management and Staff Loans

Foreign Products/Services

- Foreign Currency Account
- Foreign Exchange Account
- FODEM Account
- Fast International Money Transfer
- International Money Transfer via SWIFT
- Travellers' Cheques

International Trade Finance Products/Services

- Letters of Credit
- Documentary Bills for collection
- Bonds
- Guarantees
- Foreign Lines of Credit
- Advisory Service

Electronic-Banking Services

- Automated Teller Machines
- Commernet Plus (Internet Banking)

Miscellaneous Services

- Payment Order
- Bankers' Payment
- GCB Xpress Money Transfer

Source: Marketing Department, Ghana Commercial Bank Ltd. Headquarters, Accra.