AN ANALYSIS OF THE EFFECTS OF GHANA COMMERCIAL BANK CREDIT ALLOCATION TO BUSINESS SECTORS ON GROWTH OF THE SECTORS

Mawuli Setorwu Kwaku Nyahe (Bed Accounting)

PG3078209

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DECLARATION

I hereby declare that this thesis is the result of my own original research work towards the Executive Masters of Business Administration degree and that, to the best of my knowledge it contain no material previously published by another person nor has been accepted for the award of any degree in the university except where due acknowledgement has been made in the test.

Mawuli Setorwu Kwaku Nyahe ………………… ……………

(PG3078209) **SIGNATURE** **DATE**

Certified by:

Mr. Osei-Fosu A.K ……………………… ………………

SUPERVISOR **SIGNATURE** **DATE**

Certified by:

Prof. I.K. Dontwi ….…………………. ..……………

HEAD OF DEPARTMENT **SIGNATURE** **DATE**

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DEDICATION

Dedicated to Elikplim and Ape Nyahe my two lovely sons who in most cases kept wake with me while compiling the various data to put together and to the glory of GOD almighty.

I also dedicate it to my mother posthumously for her sacrifices towards my academic progression.

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ABSTRACT

The aim of this project was to determine the effect of Ghana commercial bank credit allocation to business sectors of the economy on growth and development or expansion of individual business sectors of the Ghanaian Economy.

Ghana commercial bank has been chosen among many microfinance companies and organizations that assist businesses in credit for their investments due to the major role it plays in financial sector improvement and credit allocation to various sectors of the economy. The level of credit granted to individual sectors enables the business sectors to effectively combine resources to create wealth and enable growth in the national economy. In granting credit to the sectors, it is imperative on the part of the bank to consider equity in the distribution of credit to the various sectors it deals with.

The study also looks at which sectors of the economy receive more credit than the others and which one received less. What reasons account for the disparity and how these can be overcome?

A simple descriptive method was used for the study that employs both qualitative and quantitative methods to analyze the data collected which was largely secondary data. The insistence on collateral security as a guarantee and high interest rate was found to be one of the major reasons for the inequity in bank credit to the sectors. To bring about equity in the grant of credit to the various sectors the study recommend that the bank should have a policy to assist all firms especially those that are weak in their capital and asset base and also prioritize sensitive and productive sectors that have difficulty in getting collateral security. Government as the major shareholder of the bank can also devise a means of channelling money to the productive sectors of the economy through the bank.

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LIST OF ABBREVIATIONS

CEPA	Centre for economic policy and analysis	20
SINE	SYSTERM on new firms	29
INSEE	National institute of statistical and Economic studies	29
MFI	Micro finance institutions	33
FDI	Foreign Direct Investment	42
K/N	Ratio of capital stock to Employment	51
N/Y	Ratio of Employment to real value added	51

CHAPTER ONE

INTRODUCTION

1.0 Background to the study

Since independence, fifty-five years ago, various governments of Ghana have been devising various measures to accelerate the development of the economy. They consistently try to identify and prioritize sensitive sectors that need boost for the economy to be put on sound footing. It could be noted that in the immediate years after independence up to the 1980s, the basic criteria under which investment was approved were the ability to utilize the particular investment to contribute to the following:

a. The development of the production sector of the economy.
b. Savings on imports and boosting of exports
c. Contribute to nation-wide distribution of wealth.
d. Creating employment.
e. Importation and transfer of technologies and technical skills to Ghanaians.

(Ghana Commercial Bank 1984)

The investment code of 1981 reserved some areas of investment sorely for Ghanaians to operate in. These areas include, all retail and wholesale trade and oversees business representation that employs capital of two hundred Ghana cedi (GH¢200.00). The operation of produce brokerage, Commercial overland transport, travel, estates and advertising agencies and other areas not requiring sophisticated technology was also reserved for Ghanaian participation. State participation was mandatory in enterprises that engage in mineral, Petroleum and natural Gas extraction. Under the investment code, there was a minimum of 60% Ghanaian participation in any insurance business and at least 40% in banking. The investment code also gave priority to some economic activities whose benefit was to promote their growth. The production of food and livestock, poultry, fish and flowers for export, processing and preservation for agriculture production and the provision of services were the main stay of the agriculture sector.

The exploration, extraction and processing of mineral and petroleum products and natural gas, sand and stone were some activities found to be priority areas of the manufacturing sector. The economy of Ghana has seen tremendous changes. Since then and as stated earlier, successive governments made strenuous effort to change the state of the economy to bring hope and development to the people.

The revised investment code of 2005 again looked at priority areas and governments tried to turn their attention to these areas. The areas include agriculture, health, education, commerce, industry, trade, tourism and services, which the government think when developed, will bring fortune and growth leading to progress and development in people's lives. It also means having excess to invest and invigorate the energy of the economy. Until now, the retail and wholesale trade is reserved for the local people participation (Ghana Commercial bank quarter report no 2 page 15 (1984).

Any foreigner, who wishes to enter it, must have an investment package of thirty thousand Ghana cedi (GH¢ 30,000.00) and to employ the locals to assist him/her.

The issue of bank credit to sectors was, whether the banks were able to grant adequate credit to the various sectors of the economy, in the country or not. Even when loans are granted, how fair was the credit quantity to meet the investment needs of those who need it. The operations of Ghana Commercial Bank in terms of financing business activities were the focus of this research and therefore form the basis of analysis. Arguably it is the largest commercial bank in Ghana therefore, research into its credit investment that it was equitably distributed to all sectors of the economy in all fair and just manner need to be investigated.

1.1 Statement of the problem

The government after 1985 gave directive for credit to be channelled to all productive areas identified using interest rates and selective credit control and ceiling (Bank of Ghana annual report 1980). Even with this directive, the banks appeared reluctant to grant credit equitably to all sectors. To date, the practice is still prevalent and the danger is that only those sectors that are considered to be viable by the banks standard are attended to (Source: Ghana Commercial Bank Annual Report). The local economy dwells on Agriculture, Fishing and Forestry, Construction, Health, Education, Commercial and Finance, Manufacturing and Services among others to improve. The complaint was that, all the sectors are not being treated fairly in terms of credit received from the commercial bank.

It must also be noted that once all the sectors are treated fairly in the granting of credit the growth of the whole economy will pick up. It also allows for a multiplier effects in the investments of the areas where the credit is granted.

This research was conducted in order to bring out the main issues and challenges that confront the disparities in the allocation of credit to the sectors by Ghana Commercial Bank and hence, form the scope of the research.

1.2 Objectives of the study

The objectives of this study are:

a. To ascertain the effects of Ghana commercial bank credit to sectors growth.

b. To ascertain which sectors of the Ghanaian Economy have attracted more credit over the study period and in what amount?

c. To determine the causes of differences in bank credit to the various sectors of the Economy.

d. To determine in percentage terms the trend of growth to the credit allocated.

1.3 Research questions

The following were the research questions asked.

1. Which sectors of the Ghanaian Economy have had more bank credit over the study period?
2. What are the effects of the differences in the bank credit to the various sectors of the Ghanaian Economy?
3. How can bank credit be made more equitable to the various sectors of the Ghanaian Economy?
4. What was the trend of growth to credit compared?

1.4 Significance of the study

Bank credit plays a major role in the development and expansion of the individual sectors of the economy. Both public and private sectors fall on bank credit from time to time to satisfy their quest to develop. Since financial resources available are limited to energize the potential in the entire economy, so it is important for external credit to steer up growth in the economy. Bank credit in

Ghana is of particular importance because it helps in the mobilization and redistribution of resources in terms of investment to increase growth that is needed in the economy. The significance of this research was to serve as the basis for Ghana Commercial Bank to make specific policy on allocating credit to her customer if the bank really wants to help in the efforts of improving sectors growth bearing in mind that the sectors growth will eventually result in the growth of the economy.

This research will guide government in any policy direction to develop the sectors by channelling some funds meant for microfinance through the banks with specific aim of lending to the sectors to improve growth.

This research again serves as a basis for banks to as much as possible extend credit considering equity because all sectors must develop for the whole economy to grow. Individual businesses will guided by the requirements of banks to grant credit and strive to attract the attention of the banks in this regards.

Finally this research will serve as a reminder to the banks to put in place a policy to extend credit to especially productive sector in line with government policy.

1.5 Limitations of the study

A research of this nature is bound to face many challenges. Challenges relating to finance, gathering of information, limited time frame as well as putting together the data to come out with a meaningful report. To obtain as much as possible the needed information, this research, employed various techniques and also applied varied measures appropriate towards the course.

The first limitation was the problem of conducting interviews with bank staff. Banks in Ghana do not want to disclose information on the nature of their operations, the successes or mode of transactions. Most officials were tight lipped to divulge information when I called to interview and obtain information from them.

Secondly, bank operations were considered confidential and therefore any official caught licking information faces dismissal outright. I managed to obtain some information through some staff at Akosombo local branch and some other officials at head office who volunteered the information but in secret. Since I intended to use more of secondary data, it was not very difficult to obtain the annual reports produced by the bank and which was public knowledge for all the years under review. Even though I was questioned for its use, my humble approach to the request made it easier to obtain the reports.

Concerning finance, it was very difficult due to the fact that cash resource was difficult to get. More also the report had to be rewritten several times before coming out with the final report. The time was simply a greater challenge not to talk for on a topic like this.

1.6 Organization of the study

The study was organized in five chapters. Chapter one talked about the introduction that comprised of the background to the study, statement of the problem, objectives of the study, research questions, significant of the study, organization of the study and limitations.

Chapter two was concerned with the literature review. It duels on the works of other researchers on the topic, their views and how it was related to the current research.

Chapter three was the methodology applied in data collection and analysis. It dealt with the population, sample size, sampling technique, mode of data collection instrumentation, research design and data analysis.

Chapter four dealt with analysis of the research and answering of research questions. In the analysis, the researcher used trend analysis in other to compare the trend of bank credit to sector growth rate over the years and how effective it has been for the period under review.

Chapter five talked about conclusions, summary of findings, and recommendations. It explained into detail the conclusions drawn on the topic researched into giving the research opinion on the point of view of the effects of credit allocation to the sectors of the economy, with regards to the growth rates over the years, the summary of the findings made on the research questions and recommendations given as to the way forward for their application.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Chapter two reviews the relevant literature on Sectoral allocation of bank credit. It tries to discuss the theoretical framework of forms of bank credit and its impact on the economy especially the activities of Ghana commercial bank in granting credit to its customers clustered in sectors of the economy.

2.1 Theoretical framework

Bank credit comes in several forms. Generally, it can be categorized under short term and long term lending. Long-term loans are usually bank loan with maturity of more than one year. Short-term loan is one that matures within a year.

According to Sir leaf and Nyirjesy (1991) in a world bank working paper on debt and international finance, the classification of commercial bank credit is by long term and short term lending. The paper further classifies commercial bank credit by the type of risk involved, the type of borrower, terms of the loan and the nature of activity to be financed. Therefore, loans are classified as secured, unsecured lending and asset based finance lending. Secured loans are those that are collateralized by identified irrevocable source of payment such as cash deposits, cross guarantees among direct investors, and undertakings from official agencies. Unsecured loans on the other hand are loans that are naked. It means that specifically it is the short term loans that are granted without any security or guarantee.

Such credits lead to the bank declaring bad debt if the borrowers default to pay or abscond. (Sir leaf and Nyirjesy, 1991)

Sir leaf and Nyirjesy (1991), again opine that, asset based financed lending was where the banks are willing to finance movable assets such as vessels and aircraft and mobilize equipment based on the lien typically for a reasonable percentage (50%-70%) of the assets market value.

A purposeful research provides a structure for decision-making. The word research identifies a process by which the researcher attempts to supply the information needed for making sound management decision. A systematic approach is important in this research. Each step must be so planned that it leads to the next step. Literature review section of the research covers the important literature related to the problem being investigated.

The review shed light on what was already known about the problem and what aspect has not been covered and is being investigated. Theories developed were based on the research topic which, was discussed and analyzed. It was therefore important to view this research material as an added or continuation of existing research. This research therefore was not considered conclusive, further investigations into the problem as a whole or part of it is welcome.

2.2 Banks and Banking

Stein (1995), Banks are financial institutions established by law to perform functions such as accepting deposits, creating of money, keeping valuable assets for customers and granting of loans both short term and long term.

2.3 Credits to Sectors of the Economy

Business sectors get credit from various sources available that they utilise for their productive activities leading to growth in the sectors. This assertion explains clearly that there are numerous sources of credit that is available to the sectors. Today, there are various financial institutions that provide credit and they include commercial banks such as Barclays Bank, Standard Charted Bank, Agricultural Development Bank; Savings and Loan Schemes, various micro financial institutions, National investment Bank, Rural Banks, and a lot more financial entities who aid the sectors to get loans to and improve their productivity.

Although all these financial institutions aid the sectors with credit, the focus for this research is on the Ghana Commercial Bank which happens to be the major commercial bank in the country. It was envisaged that being the biggest commercial bank, its credit allocation to the sectors will have a greater impact on the productivity of the sectors leading to growth of the economy.

2.4 Borrowing from the bank

Traditionally, Banks give short-term loan rather than long-term loan to businesses to finance their investments. March and Simon (1994). Investors are also aware of that fact therefore they act accordingly to attract the needed credit for their businesses.

20 per cent of all the funds invested by British Companies, and in most cases it is the most important external source of funds. The importance of Commercial bank as a source of credit to investment drive is greater than any other factor of finance to the business because the credit received act as a greater source of funding or safety net upon which firms can fall when in distress. It enables the firm to utilize their own financial resources to the fullest.

2.4.1 Short-term lending

Short-term loans are the core of the banking business even in countries where commercial banks make long-term loans to industry. Much short-term lending consists in the provision of working capital, but the banks also provide temporary finance for fixed capital development, aiding a customer until long-term finance can be found elsewhere. March and Simon (1994)

Much of this short-term lending is done by overdraft, particularly in the United Kingdom and a number of the Commonwealth countries, or by way of "current account lending" in many western European countries. The overdraft permits a depositor to overdraw an account up to an agreed limit. In theory, overdrafts are repayable on demand or after reasonable notice have been given, but often they are allowed to run on indefinitely, subject to a periodic review.

An advance is reduced or repaid whenever the account is credited with deposits and recreated when new checks are drawn upon it, interest being paid only on the amount outstanding.

An alternative method of short-term lending is to debit a loan account with the amount borrowed, crediting the proceeds to a current account; interest is usually payable on the whole amount of the loan, which normally is for a fixed period of time. (In Britain arrangements are sometimes more flexible, and the term of the loan may be set by oral agreement.) www.wiekipaedia.com

In a number of countries, including the United States, the United Kingdom, and France, Germany, and Japan, short-term finance is often made available on the basis of discountable paper--commercial bills or promissory notes.

Some of this paper is usually rediscount able at the central bank, thus becoming virtually a liquid asset, unlike a bank advance or loan.

Credit may be offered with or without formal security, depending on the reputation and financial strength of the borrower. In many countries, a customer may use a number of banks, and these institutions usually freely exchange information about joint credit risks. In Britain and The Netherlands, however, most concerns tend to use a single banking institution for most of their needs.

Traditionally bankers took the view that the liabilities of a bank (in particular, its deposits) were more or less stable and concerned themselves primarily with the investment of these funds. Since the late 1950s and '60s, especially in North America and latterly in the United Kingdom, there has been a change in emphasis.
Banks began to find it more difficult to obtain deposits. Interest rates rose to high levels, and banks were obliged to compete with each other and with other institutions for funds.

At the same time, there was little point in paying a high rate of interest for money unless it could be employed profitably. Bankers began to relate the cost of borrowed money directly to the return on loans and investments. Previously the main limitation on a bank's expansion had been its ability to find profitable new business, but now the determining factor became the availability of funds to lend out. The essence of assets and liabilities management, as it came to be called, was deciding what kinds of new money to buy and what to pay for it. In the United States the liabilities side of bank balance sheets now included, inter alia, in much larger proportion than during the 1960s, repurchase agreements (under which securities are sold subject to an agreement to repurchase at a stated date). Federal funds purchases (on the assets side, federal funds sales), excess balances of commercial banks and other depository institutions (regularly traded throughout the United States), negotiable certificates of deposit (which can be traded on a secondary market), and, for the larger banks, Eurocurrency borrowings, mostly Eurodollars (dollar balances held abroad).

In the United Kingdom, "bought" money consisted of wholesale (i.e., large) deposits (on which money market rates were paid), negotiable certificates of deposit, interbank borrowings, and Eurocurrency purchases. This bought money could then be used to finance the loan demand, including term loans, long favoured in the United States but a more recent innovation in the United Kingdom and elsewhere, where they were developed considerably in the 1970s. (Financial Times)

2.4.2 Long-term and medium-term lending

Banks that do a great deal of long-term lending to industry must ensure their liquidity by maintaining relatively large capital funds and a relatively high proportion of long-term borrowings (e.g., time deposits, or issues of bonds or debentures), as well as valuing their investments very conservatively. Such banks, notably the French Banques D'affaires and the German commercial banks, have developed special means of reducing their degree of risk. Every investment is preceded by a thorough technical and financial investigation.

The initial advance may be an interim credit, later converted into participation.

Only when market conditions are favourable is the original investment converted into marketable securities, and an issue of shares to the public is arranged. One function of these banks is to nurse an investment along until the venture is well established. Even assuming its ultimate success, a bank may be obliged to hold such shares for long periods before being able to liquidate them. In addition, they often retain an interest in a firm as an ordinary investment as well as to ensure a degree of continuing control over it. Specialist institutions usually handle the long-term provision of industrial finance in Britain and the Commonwealth countries, with the commercial banks providing only part of the necessary capital. In Japan, the long-term financial needs of industry are met partly by special industrial banks (which also issue debentures as well as accepting deposits) and partly by the ordinary commercial banks.

In Germany, the commercial banks customarily handle long-term finance. Since World War II the commercial banks in the United States have developed the so-called term loan, especially for financing industrial capital requirements. The attempt to popularize the term loan began in the economic depression of the 1930s, when the banks tried to expand their business by offering finance for a period of years. Most term loans have an effective maturity of little more than five years, though some run for 10 years or more.

They were usually arranged between the customer and a group of lending banks, sometimes in cooperation with other institutions such as insurance companies, and are normally subject to a formal term loan agreement. Banks in Britain, Western Europe, the Commonwealth, and Japan began during the 1960s to give term loans both to industry and to agriculture.

2.5 What Explains Differences in Bank Lending?

As stated earlier, the issue was to determine whether changes in bank lending can be explained by industry effects and/or banking group effects. R.D. Karmerschen (1980). The evidence indicates that the null hypothesis of equal means can be rejected at the level of the industry and the banking group. That is, industry-specific bank lending differs across industries as well as across banking groups. This result holds for aggregate and short-term bank credit and for the main banking groups and the sub-sectors of the cooperative banking group. Even though the volume of bank credit differs across industries as well as across banking groups, industries are the more important source of variation. This is suggested by the F-value for the industry effect which is much larger than the corresponding value for the banking group effect. These findings point to cross-industry heterogeneities in bank credit demand which are likely to be determined by structural and cyclical industry characteristics.

Besides industry-specific structural factors, bank lending might also be influenced by regional factors. This section concludes by testing for regional effects in bank lending. Savings banks, credit cooperatives, and small commercial banks confine their business to narrow local areas.

Cooperatives and small commercial banks are locally constrained by sheer size, whereas savings banks are prohibited from crossing local borders by the principle of regional demarcation.

2.6 Effects of Bank lending on Bank credit

Monetary policy changes are propagated through a multitude of transmission channels such as, the credit and interest rate channel. Both types of transmission channels predict bank lending to change in response to monetary policy actions. While the direction of the change is the same in the credit and interest rate view, the underlying reasons differ. The credit channel view explains monetary policy induced movements in bank lending with changes in bank loan supply, whereas the interest rate channel stresses changes in bank loan demand. Bank of Ghana (1994)

Apparently, the correlation of monetary policy shocks with loan demand and loan supply and the consequent role of interest rates as joint determinant of credit demand and credit supply preclude the unique identification of the interest rate and credit channel effects of monetary policy.

In order to solve the problem of identifying the loan supply and loan demand effects of monetary policy, empirical studies typically rely on disaggregated macro or micro data. These illustrate the distributional effects of monetary policy by stressing within-group and between group heterogeneity of banks in terms of asset size (e.g., Kashyap and Stein, 1995), liquidity (e.g., Kashyap and Stein, 2000), and capitalization (Peek and Rosengren, 1995). The identification of loan supply effects builds on the assumption that bank heterogeneity in bank size, liquidity, and capitalization reflects cross-bank differences in the severity of asymmetric information problems and therefore differences in the ability of banks to offset monetary policy induced changes in deposits with other types of finance. When stressing bank-specific characteristics, the identification of credit supply effects is achieved by assuming that the response of bank credit supply to changes in bank credit demand is homogenous across all banks.

Besides, banks are assumed to serve customers which do not differ in terms of bank credit demand and for which bank credit demand is determined by similar factors. These are strong assumptions and their likely violation suggests the persistence of the identification problem.

The identification bias is likely to be particularly strong for Germany for two reasons. The first reason refers to the house bank principle in German banking. German banks belong to banking groups which confine their business to customers which differ in the degree of bank dependence. Commercial banks are the house bank to large corporations, while savings and cooperative banks are the house banks to small- and medium-sized firms. In general; small firms are more dependent on banks as source of external finance than large firms.

The greater bank dependence results from credit market, imperfections which are more pronounced for small than for large firms given that reporting and accounting standards become more stringent with firm size.

Credit market imperfections therefore cause the portfolio of savings and cooperative banks to be biased towards bank-dependent firms and that of commercial banks to be biased towards firms with access to non-bank sources of finance (Deutsche Bundesbank, 1998, 2002). In view of these relationships, banking groups are likely to differ in the extent to which they (i) face changes in credit demand and (ii) adjust credit supply.

The second reason refers to the existence of pronounced cross-industry differences in credit demand. The Deutsche Bundesbank (1996) attributes these to heterogeneities in the cyclical and structural characteristics of industries. The cyclicality of industry output affects the need for external finance through its effect on the availability of internal funds of finance.

Cross-industry differences in bank credit demand reflect dissimilarities in the amplitude and frequency of cyclical fluctuations and in the sensitivity of cash flows to cyclical demand changes.

Structural characteristics such as the degree of capital intensity, firm size distribution, or openness to trade explain industry differences in credit demand with differences in the costs of maintaining and expanding production structures and with heterogeneities in the severity of credit market imperfections and the corresponding access to non-bank funds of finance.

Besides possible heterogeneities in bank credit demand and in the response of bank lending to changes in bank credit demand, the identification of the bank credit supply effects of monetary policy is also complicated by the net worth effects of monetary policy. The complication arises because net worth effects because the volume of bank lending to be determined by bank credit supply side effects and bank credit demand side effects. The supply side effects are at the core of the credit channel theory of monetary policy transmission which links the bank lending decisions of banks to the net worth position of firms. In response to a monetary contraction, the credit channel theory predicts an unambiguous decline in bank credit supply given the deterioration in the balance sheet position of potential borrowers such as firms (Bernanke and Gertler, 1989).

The paper on bank lending effects as opined by Chatelaine et al (2003) do not impose the assumption of homogenous bank credit demand and use the industry dimension of bank lending data to identify the bank lending effects of changes in bank credit demand and monetary policy in Germany.

In view of these findings, the conclusion was that empirical studies which do not control for the industry structure of bank lending provide an incomplete view on the bank lending effects of bank credit demand and monetary policy. The underlying results only reflect the influence of the average industry.

However, neglecting banking group effects is unlikely to affect the overall conclusions as to the determinants of bank lending.

2.7 Effects of Bank Credit Lending to Industries

Raabe, Arnold, and Kool, (2006) presented evidence on the industry effects of bank lending in Germany and ask whether bank lending to single industries depends on industry-specific bank credit demand or on monetary policy as determinant of bank credit supply. To this end, they estimate individual bank lending functions for 17 manufacturing and non-manufacturing industries and five banking groups using quarterly bank balance sheet and bank lending data for the period 1992 – 2002. The evidence from dynamic panel data models illustrates that industry bank lending responds more to changes in industry-specific bank credit demand than to changes in monetary policy.

Their report was evidenced in favour of a credit channel through bank lending, but found out that bank lending effects of monetary policy to be very sensitive to the choice of industry. The empirical results, hence, lend strong support to the existence of industry effects of bank lending. In view of this finding, they conclude that bank lending growth and monetary policy effectiveness crucially depend on the industry composition of bank credit portfolios.

2.8 Growth in the Sectors of the Economy

The liberalization of the economy has brought in its wake, change in the financial environment. The credit controls were lifted; the banks determine their own interest rates for lending. Bank credit to both private and public sector grows over the years. Access to the capital market has always been a problem to small businesses and indeed restricted to public companies and large firms especially those that register with the stock exchange. Most small firms therefore rely on bank borrowing as a principal source of external finance since they cannot raise capital by a share sale to the public. (Bank of Ghana1997)

Perhaps this is why commercial bank serves as a most important financing source to the businesses especially the small firms. Small businesses often complain that the commercial bank treat them less favourable than larger firms when providing them loans and overdraft facility.

Again, this is the source of disparity in the grant of credit. For economy to grow the entire sector must see appreciable borrowing to increase their investment. The issue is simple, growth of big firms will continue to occur when the attention is only on them and in a case of a down turn like in the recent time (2007-2008) credit crunch that occurred and collapse some companies, and the economy will fall into recess. The American government even has to bail out some of the companies to stand on their feet again. In as much as the bank tries to protect its lending and therefore would lend to big companies or particular sectors more, it is important for the general economy to grow than only segment of it to grow. Financial times (2009)

The small firms will also grow to bigger ones in the future to increase economic activity and this will result in the increase economy production. The view that banks tend to favour large firms than small firms is supported by the Wilson committee on the financing of small firms, which published its findings in 1979. (Powell, 1993). It must not be gain said that the benefits that accrue to the economy propelling its growth are enormous when credit is extended to the whole facets of the economy rather than some parts.

Perhaps this is the reason why the government designed social intervention packages for small scale firms (SMEs) to increase their capacity and this will lead to increase economic activity.

Benefit like employment of the unemployed to participate in the production activity will also result from this arrangement. Again, when income increases production will result in more revenue and increased savings this money will be invested back into the economy. Another benefit to the economy is where because of improvement in the income of the firms it will lead to research and development which also leads to new inventions and creations. The utilization of factors of production to the fullest is a great challenge most of the times without the required financial support. Credits from the banks therefore are sure to provide safety nets for firms to do that duty.

2.9 The role bank credit plays in economic growth

The free credit myth is one of the oldest and certainly one of the most enduring of economic fallacies. The essence of the fallacy is quite simple: interest is a monetary phenomenon, that is, it is determined by the supply and demand for money. (Gerard Jackson 2006). Therefore interest can be virtually if not entirely eliminated by a continuous increase in the supply of money. Once interest has been eliminated society will enjoy an abundance of capital. It should now be clear that this view also sees the scarcity of capital as being artificially created in order to earn interest.

But who is responsible for this scarcity and the existence of interest? The answer, according to the monetary cranks, was that the banks had been given a monopoly of credit. Well, like every monopoly, it was claimed that banking system acts to restrict the supply of their product (credit) so as to artificially raise its price (interest) to consumers and businesses. The solution was abundantly clear and that was for the government to use the central bank to bypass the monopoly banks and make credit freely available to governments or to others at very low rates or even free of any charge. This myth springs in part from the fact that monetary cranks realize that technically banks were able to reduce the amount of interest on any credit they grant right down to their working expenses. From this, they deduce this interest that had been created by the monopoly position of the banks; otherwise the 'price of credit' would have been bid down to its working costs.

These cranks have also observed that increases in the quantity of credit have the initial effect of lowering short term rates. This fact only confirms their belief that interest is a monetary phenomenon and can be easily eliminated by monetary means. Professor von Misses (a leading Austrian economist) rightly described this view as one "of unsurpassable naivety". Yet it was one that Keynes preached.

It should be obvious that according to this doctrine interest should not exist at all. Yet, if interest did not exist land could never be bought because the value of land would be equal to the entire sum of all of its future earnings. Only the existence of interest makes it possible to buy and sell land by discounting the sum of its future earnings. Interest was not and never had been the price of money — if anything, it was the price of time, a ratio of the value of present goods to future goods. It was "a category of human action". It also determined the supply of and demand for capital goods. Not only do monetary cranks not understood this, so do a number of people who were paid to know better.

Monetary cranks are forever confusing credit with capital. Because they believe abundant credit would eliminate interest they then assume an equally abundant supply of capital would appear. But credit is not capital. Professor Von Lachman (1978) and so many others put it that "Capital is the *material means of production*. Capital comes from savings and savings are forgone consumption. 'Gratuitous' increases in credit are therefore not additions to savings. When credit expansion gets under way the rate of interest was artificially lowered and that expands the demand for more credit. The situation then arises where investment exceeds savings: The newly created credit did nothing to increase real savings.

Eventually, in accordance with the social rate of time preference (society's savings/consumption ratio), the additional spending created by the credit expansion will be spent by factors on consumption goods. (BrookesNews.Com Monday 23 October 2006).

It was true, of course, that an asset boom could be terminated by expectations of a credit squeeze. It is equally true that a severe run on the banks would initiate a recession. But 'expectations' and 'runs' only strengthen the analysis that booms are generated by loose monetary policies. Another objection was that booms could not arise in a country whose banks are based on the Giro system, as was the case in seventeenth century Holland when tulip mania broke out. Once a again an important point has been overlooked, which was that banks can have both demand deposits and Giro accounts. Therefore Giro banking and fractional reserve banking are not mutually exclusive. The monetary cranks' views can be easily summed up as:

1. Capital is abundant but is kept artificially scarce by interest.
2. Interest is created by monopoly banks to exploit the community.
3. Interest is a purely monetary phenomenon that can be eliminated by monetary expansion.
4. There really was a Santa Clause.

Lunch man et al (1978) maintain that least monetary cranks can be excused as economic illiterates but what were we to make of the great majority of economists who believe that central banks can promote economic growth by manipulating interest rates and the money supply? The difference between them and the monetary cranks was one of degree and not substance. After all, says the monetary crank, if the central bank can force down interest rates to stimulate the economy why can't it eliminate interest altogether?

2.10 The multiplier effect on sector investment growth.

The multiplier is defined as the numerical co-efficient that is multiplied by a change in any of the component of aggregate expenditure to arrive at the resultant change in national income.

The essence of the multiplier is to see the effect that will result as the bank grant credit to the sector for investment and the growth-generated from it.

The multiplier is represented by $K = I/1 - MPC$ or $K=1/MPS$

Where MPC = Marginal Propensity to consume

MPS = Marginal Propensity to save

I = Investment

Where due to an improvement in business expectation investment expenditure rises permanently from one point to another e.g. L to L1 per period of time (banks have increased credit for firm to invest) the investment schedule will shift from a lower point to say Y1 to Y2 hence aggregate demand will be affected.

This is an upward shift in the aggregate expenditure line. From the analysis above, the conclusion was that, changes in the component of aggregate expenditure or change in injection will lead to affect the national income by a multiplier effect.

2.11 Effect of disparities in credit allocation

When bank credit is extended to the sector, it results in expansion of the economy. Using the theory of multiplier, an initial investment could be a multiplier in itself all things being equal and this leads to further multiplication of the investment once economic conditions are favourable Aboagye (2001).

As increase in the investment of a sector, lead to the employment of idle factor of production in that sector. It also a fact that an increase in the investment of all the sectors will lead to the employment of idle factors in the whole economy.

In applying the theory of the multiplier to explain the effects in the economy, (McConnell, 1996) explain that multiplier is used based on a fact that an economy has the repetitive, continuous flow of expenditure and income through which money spent the sectors that receive more of banking credit get more investment as a resultant of multiplier effect.

2.12 Model of Bank Behaviour

Presently there exist numerous micro economic models of commercial banks. There numerous models can be classified as the following.

Model that require monopoly power for solutions model that utilize a portfolio structure and models that recognize the resources in producing banking service (Robert Thomas Clair 1985).

The researches seem to suggest that the Ghana Commercial Bank uses the model that utilizes a portfolio structure. These models therefore show the basis of the banks behaviour in the grant of credit to the borrowers because the bank must be seemed to be managing its portfolio to her advantage. Many decision-making works provide basic insights into how anyone may make decisions that could be used for the development of a descriptive model. March’s primer on decision-making has a great summary of many different facets of decision making as they may apply to this work. His work covers various decision making theories including limited or bounded rationality, rule following, and multiple actor theories for how decisions are made (March, 1994).

Rowe and Boulgarides (1992), offer a four-factor model of decision making that includes task demands, organizational influences, personal needs, and environmental forces. Organizational behaviour works take a different look at behaviour and study how the system of the organization works and influences its decision-making (March and Simon, 1993; Cyert and March, 1992). Several works develop specific effects on decision making that are related to this research.

Another study showed that there is a tendency for decision makers to escalate commitment beyond what would be warranted by the objective facts of the situation. External justification will lead decision makers to commit in an effort to prove they were right when facing an external threat or evaluation (Staw 1981). Unfortunately, neither individual decision-making theories, specific effect research, nor organization theories can totally account for individual behaviour under risk.

2.13 Access to Finance

Beck et al (2008) in contributing to a World Bank economic review on access to finance claim recent data compilations show that many poor and non-poor people in many developing countries face a high degree of financial exclusion and high barriers in access to finance. Theory and empirical evidence point to the critical role that improved access to finance has in promoting growth and reducing credit inequality. An extensive literature shows the channels through which finance promotes enterprise growth and improves aggregate resource allocation. There is less evidence at the household level, however, and on the effectiveness of policies to overcome financial exclusion. The article summarizes recent efforts to measure and analyze the impact of access to finance.

2.14 Credit Market Imperfections and Persistent Unemployment

Daron Acemoglu (2001) opines that credit market frictions may be an important contributor to high unemployment in Europe. When a change in the technological regime necessitates the creation of new firms, this can happen relatively rapidly in the U.S. where credit markets function efficiently. In contrast, in Europe, job creation is constrained by credit market imperfections, so unemployment rises and remains high for an extended period. The data show that there has not been slower growth in the most credit dependent industries in Europe relative to the U.S., but the share of employment in these industries is lower than in the U.S. This suggests that although credit market imperfections are unlikely to have been the major cause of the increase in European unemployment, they may have played some role in limiting European employment growth.

2.15 Credit Reporting, Relationship Banking, and Loan Repayment

Brown and Zehnder (2007), contributing on information sharing between lenders effect on borrowers' repayment behaviour, explained in a laboratory credit market, that, information sharing increases repayment rates, as borrowers anticipate that a good credit record improves their access to credit. This incentive effect of information sharing was substantial when repayment was not third-party enforceable and lending was dominated by one-shot transactions. If, however, repeat interaction between borrowers and lenders is feasible, the incentive effect of credit reporting is negligible, as bilateral banking relationships discipline borrowers. Information sharing nevertheless affects market outcome by weakening lenders' ability to extract rents from relationships.

2.16 Finance, Growth and inequality

Robert King and Ross Levine (1993) presented cross-country evidence consistent with the view that the financial system can promote economic growth, using data on eighty countries over the 1960-89 periods. Various measures of the level of financial development were strongly associated with real per capita GDP growth, the rate of physical capital accumulation, and improvements in the efficiency with which economies employed physical capital. Further, the predetermined component of financial development was robustly correlated with future rates of economic growth, physical capital accumulation, and economic efficiency improve in many developing countries; access to funding and financial services by firms and households is still much skewed. Recent evidence suggests that poor access does not only reflect economic constraints but also barriers erected by insiders. Inequality affects the distribution of political influence, so financial regulation often is easily captured by established interests in unequal countries.

Captured reforms deepen rather than broaden access, as small elites obtain most of the benefits while risks were socialized. Financial liberalization motivated to increase access may in practice increase fragility and inequality, and lead to political backlash against reforms. Thus financial reforms may succeed only if matched by a build-up in oversight institutions. (Stijn Classers and Enrico Perotti (2007)

2.17 Finance and Inequality

Bonnet et al (2005) reveal explicitly that, Financial constraints affecting new firms were some of the factors most cited for impeding entrepreneurial dynamics from flourishing. The statement introduced the problem of regional patterns of financial constraints. The discussion was conducted with regard to the French regions and the new French firms being tracked at the firm level. As regards the new firms, the findings relied mainly on the use of the Information System on New Firms (SINE) that is released by the French National Institute of Statistical and Economic Studies (INSEE). The SINE dataset did not refer to the general entrepreneurial intention in the French population but to entrepreneurial projects that were concretized in new firms. As a consequence, entrepreneurial intentions that were aborted due to financial constraints were not reported. The point was of importance as the firm financing conditions were considered.

First, an assessment of the global situation of the banking density and activity within and between the French regions led to the conclusion of a relatively homogeneous banking supply and banking activity, with the activity of the core-region Île-de-France appearing however more contrasted. Second, the financial constraints affecting new firms were distinguished according to a four-case typology. Additionally to the "no credit rationing" situation, "weak" or "strong credit rationing" were distinguished from the "self-constraint" situation, a situation describing the case when firms do not ask for a bank loan although they declare facing financial constraints subsequently. It appears that a majority of new firms were not facing credit rationing, but also that a non-negligible share was "self-constrained". The classification was, third and finally, differentiated according to the regions. (Bonnet et al 2005) Despite the relative homogeneity of the banking supply, it appears that some regional differences may still be at work. The given explanations were still hypothetical at that stage but the empirical results suggest already that the regional dimension should definitely deserve further attention.

2.18 Financial Dependence and Growth

Raghuram Rajan and Luigi Zing Ales (1998) examines whether financial development facilitates economic growth by scrutinizing one rationale for such a relationship: that financial development reduces the costs of external finance to firms. Specifically, the authors ask whether industrial sectors that are relatively more in need of external finance develop disproportionately faster in countries with more-developed financial markets. They found this to be true in a large sample of countries over the 1980s. The authors show the result was unlikely to be driven by omitted variables, outliers, or reverse causality.

2.19 Financial Development and Economic Growth

Ross Levine (1997) viewed the critique that the preponderance of theoretical reasoning and empirical evidence suggests a positive, first-order relationship between financial development and economic growth. The body of work would push even most sceptics toward the belief that the development of financial markets and institutions is a critical and inextricable part of the growth process and away from the view that the financial system is an inconsequential sideshow, responding passively to economic growth. Many gaps remain, however, and the paper highlights areas in acute need of additional research.

2.20 Law, Finance, and Firm Growth

Kunt et al (1998) investigate how differences in legal and financial systems affect firms' use of external financing to fund growth. It was agreed that in countries whose legal systems score high on an efficiency index, a greater proportion of firm's use long-term external financing. An active, though not necessarily large, stock market and a large banking sector were also associated with externally financed firm growth. The increased reliance on external financing occurs in part because established firms in countries with well-functioning institutions had lower profit rates. Government subsidies to industry do not increase the proportion of firms relying on external financing.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter deals with the methodology employed for the study. It looks at the business profile of Ghana Commercial Bank, research design which deals with how the research was carried out, the population, sampling, data collection procedure and the method of data analysis

3.1 Nature of Ghana Commercial Bank's Business

Ghana Commercial Bank is a major commercial bank that operates in both Ghana and out of Ghana for some time as group and as bank. It was established in 1953.The Ghana Commercial Bank (GCB) operates as a universal Bank. It was incorporated as a Public Limited Company on 7th September 1994 and is listed on the stock exchange. As the main bank for the government, it serves varied purposes for the business of the government. The government's shareholding is 21.36%. Other shareholders include social security and National insurance trust (SSNIT) 29.81% and others (individuals inclusive) 48.83%.

The Board members have broad experience and expertise in Banking ,Industry and Commerce, Management, Law, Information Technology and Finance which enables them to make informed decision that assist the bank in its strategic direction the bank operations indicate that the bank profit before tax was stable over the years.

For example, it decreased drastically in 2009 after consistently increasing marginally for the previous years up to 2008. The total asset bases continue to increase each year while the customer base also increases tremendously over the period under review.

Loans granted to individuals and companies and for that matter the sectors keeps increasing marginally but dropped significantly in 2010.

3.2 Population

Ghana Commercial Bank has employees numbering 2,315 over the country working in 157 branches and was considered a very large size of population. However due to the source of the information which is the annual reports gathered over the ten year period it was found not necessary to duel on a population as a basis of population which will also lead to a sample size. This idea was also found convenient to both the researcher and the staff of the bank in view of the tight schedule they have.

3.3 Sample size

Since the secondary data was used which was basically the annual reports of the bank from 2001 to 2010, there was no purpose for a sample size in this research, and hence the research did not duel on a sample size for data collection and analysis.

3.4 Research design

The research depended on the secondary data collected from the annual report of Ghana Commercial Bank for the years 2001 to 2010. The data collected was from the various annual reports from the bank and used as the basis of analysis.

The research was designed using the data available to find out the effectiveness of credit allocated by the Ghana Commercial Bank to the various sectors of the economy and its impact on growth of the economy. In analysing the data, the research, depended on statistical analysis using bar charts, pie charts and trend analysis to compare the rate of growth of the sectors of the economy to credit allocation. The bar charts and pie charts were used to give a pictorial representation of the data used which also explains the differences in the credit allocated and showing yearly growth rate. The trend analysis seeks to relate the growth of the sectors to the available credit granted to them by Ghana Commercial Bank. The research was also based on the descriptive study, which seeks to gather information for the description of the situation as recorded in the manual and as a result of which this research was conducted.

3.5 Data Collection Procedure

The research was based mainly on secondary data. The data was collected through interviews conducted to answer the oral questionnaire as well as from the annual Commercial Bank reports provided over the years. The majority of the data was gathered from the records as presented in the annual report submitted by the bank to its customers (business sectors). Contact was made with the bank and the manuals covering the period. Some important questions were also elicited from the bank staff.

3.6 Method of Data Analysis

Microsoft Excel was used to analyse the data collected and relied on the simple statistics like Pie chart and Bar graph to show the outlook statistically. The data was collected purposely to analyse and see the extent to which Ghana Commercial Bank grants credit to its customers and the effects it has on the National

Economy. In analyzing the data, consideration was given to the research questions that were asked and the responses provided.

The research looked at the absolute figures collected to see the amount allocated to each sector of the economy. It also looked at the conditions and criteria devised by the Bank to grant credit to the various sectors of the economy. Therefore it relied on the secondary data collected from the statistics provided in the annual report of the bank. The analysis also considered in percentage and absolute terms year by year credit received by each sector of the economy as indicated in the annual report provided by the bank and indicated in table 4.1.

Table 4.1 shown in the report explains in absolute terms the amount in Ghana cedi allocated to the sectors of the economy year by year for the ten years under study and total amount for each sector for the period.

Table 4.2 show the trend analysis of the rate of growth of the sectors based on the credit available to the sectors.

The data again was analyzed to find out the sector that received the highest credit over the period and how effective bank credit applied to the sectors have on growth of the economy.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

Chapter four dealt with the results of the study, analysis of data and answering research questions. The analysis was done in three parts. Part one of the analyses was based on table 4.1 which gave figures in absolute terms showing the amount of credit advanced to the various sectors of the economy. Table 4.1 gave a fuller explanation to what amount was received by each sector of the economy.

Part two of the analysis duel on the total yearly credit allocated to the various sectors as shown in table 4.3 and was also shown in percentages represented by a pie chart. Part two again discloses the trend analysis of the growth rate of the business sectors as indicated in table 4.2 and form the relationship between the credits granted to sectors and its association to growth of the individual sectors.

Part three gives a general analysis and comparison between the growth rate and credit allocated to the various sectors of the economy. The analyses were done to enable the researcher answer the research questions, come to a conclusion and suggest appropriate recommendation as the case may be.

Table 4.1: Yearly Allocation of Bank Credit to the Various Sectors in Ghana cedi Terms between 2001 and 2010

Business Sectors	**2001** GH¢	**2002** GH¢	**2003** GH¢	**2004** GH¢	**2005** GH¢	**2006** GH¢	**2007** GH¢	**2008** GH¢	**2009** GH¢	**2010** GH¢	**TOTAL** GH¢
Services	318,796	315,413	331,691	377,467	,603.24	40,074,400	74,055,88	120,482,867	15,957,820	173,920,398	350,439,223
Agriculture, Forestry & Fishing	5,871	5,982	11,563	8,191	1,896,152	1,976,100	1,355,469	3,750,399	4,819,059	4,041,392	15,942,612
Mining and Quarrying	78,001	8,1540	99,141	117,143	2,580,000	2,660,800	2,117,170	9,729,270	21,122,792	14,827,183	5,0457,503
Manufacturing	112,723	121,159	152,714	274,316	226,8.63	23,587,200	17,002,282	40,380,394	21,990,978	23,851,442	126,814,631
Construction	15.3811	15.1122	9.2507	9.8078	10,800,50	9,884,400	7,726,361	22,115,106	38,805,909	49,611,458	128,144,364
Electricity, Gas and Water	3,546	43	124	297	00	00	00	28,624,733	61,912,268	15,624,744	106,161,745
Commerce and Finance	1,366,994	440,323	1,320,207	1,470,469	1,211.252	287,272,600	650,266,417	868,586,943	999,421,702	830,001,889	3,635,551,222.09
Transport, Storage & Communication	45,567	38,072	36,361	128,052	1,120,015	10,533,600	5,774,040	7,202,463	9,548,289	14,005,166	4,764,703
Miscellaneous	1,163	3,173	13,413	492	638,100	196,500	2,269,473	2,968,958	1,714,226	2121387	9,270,545.8
TOTAL	1,156,827	2,084,472	205.7921	247.4505	9,750.96	376,185,600	760,567,092	1,103,841,133	1,318,914,043	1,128,011,059	4688E+09

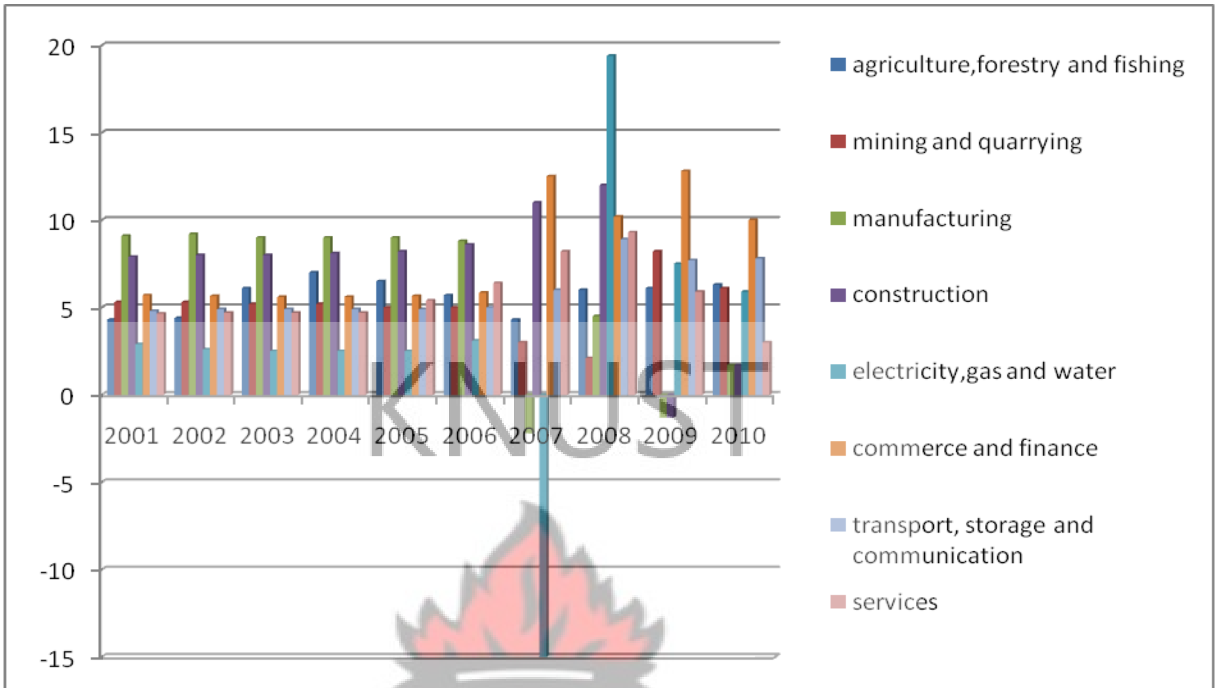
Source: Ghana Commercial Bank Annual Report on credit to Business Sectors 2001-2010

Table 4.2: Shows analysis of growth rates in the sectors of the economy

Years / Sector	Agric, Forestry and fishing	Mining and quarrying	Manufacturing	Construction	Electricity Gas and Water	Commerce/ Finance	Transport Storage Communication.	Services
2001	4.3	5.3	9.1	7.9	2.9	5.7	4.8	4.65
2002	4.4	5.3	9.2	8	2.6	5.65	4.9	4.7
2003	6.1	5.2	9.1	8	2.5	5.6	4.9	4.7
2004	7	5.2	9	8.1	2.5	5.6	4.9	4.7
2005	6.5	5	9	8.2	2.5	5.6	4.9	5.4
2006	5.7	5	8.8	8.6	3.1	5.85	5	6.4
2007	4.3	3	-2.2	11	-15	12.5	6	8.2
2008	6	2.1	4.5	12	19.4	10.2	8.9	9.3
2009	6.1	8.2	-1.3	-1.3	7.5	12.8	7.7	5.9
2010	3.0	6.2	1.7	4.7	3.8	11.1	8.9	6.3

Source: Institute of statistical and social research on state of the Ghanaian economy (ISSR)

Figure 4.1: Shows sectoral growth rates of the sectors of the economy for 2001 to 2010



Source: Ghana Commercial Bank Annual Report on Credit Allocation for 2001 – 2010

4.1 Sector by Sector Analysis of relationship between Credit and Growth Rate

To find out the impact of credit on the growth of the sectors, the research considers analyses of each sectors share of credit and the rate of growth generated by the sector as can be established from the following discussion on the various sectors and also as related to tables 4.1 and 4.2 respectively. The tables also give the trend of credit increase or decrease as against growth rate of the sectors.

It would be realised that credit from Ghana commercial bank alone cannot be said to have the singular impact on the sectors resulting in the kind of growth the sector exhibits rather, influences from the pressures like interest rates and credit from other financial institutions may also have contributed to the trend of growth exhibited by the sectors.

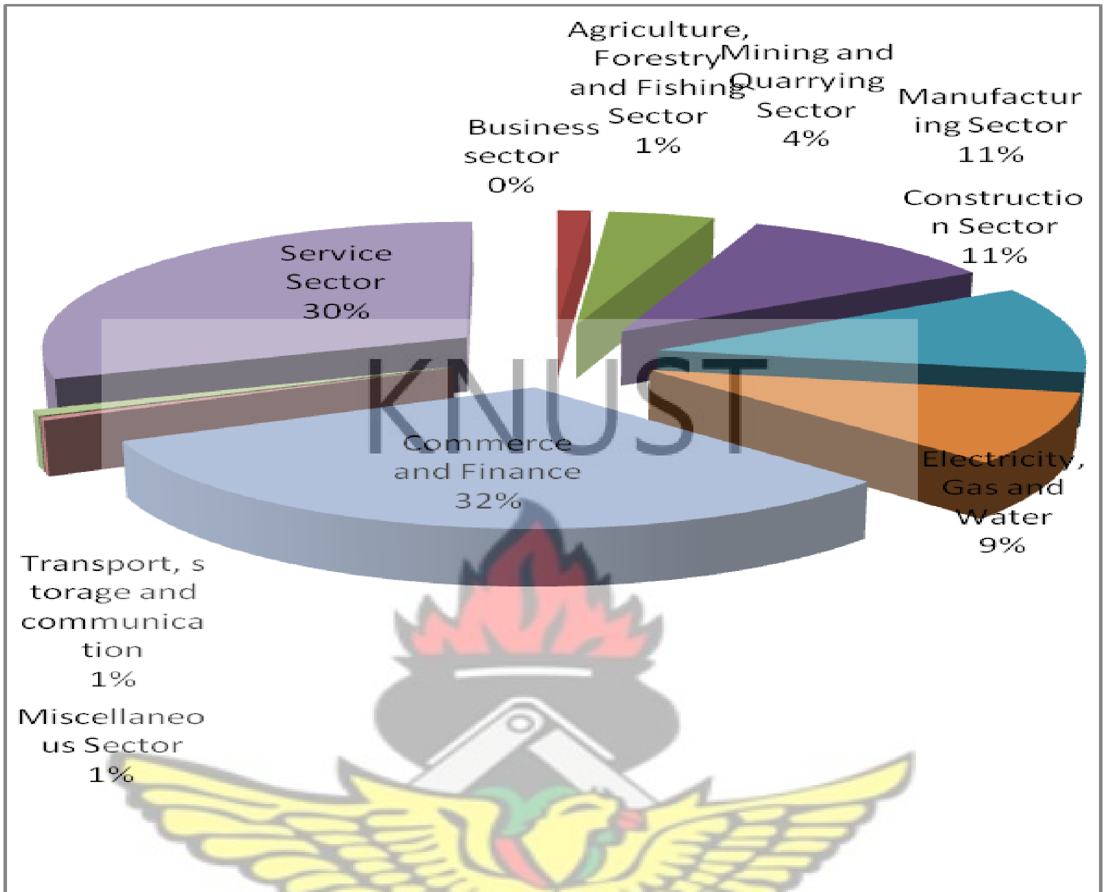
Table 4.3: Show the total sums of money received by the sectors in absolute terms

Business sector	Amount (GH¢)
Service Sector	350, 439,223.00
Agriculture, Forestry and Fishing Sector	15, 942,612.00
Mining and Quarrying Sector	50, 457,503.00
Manufacturing Sector	126, 814,531.00
Construction Sector	128, 144,365.00
Electricity, Gas and Water	106, 161,745.00
Commerce and Finance	3, 635,551,222.09
Miscellaneous Sector	9, 270,545.80
Transport, storage and communication	4, 764,703.00

Source: Ghana Commercial Bank Annual Report

Below is a graphical description of credit allocated to sectors over the ten (10) year period. Reference to data in table 4.3. Commerce and finance sector received the greater portion of the total credit. The same was depicted in the pie chart below where commerce and finance sector was indicated by the bigger sector of the chart. It should also be observed that the transport, storage and communication sector took the least credit of GHc4, 764,703 according to table 4.3 and this was also shown by the smallest sector in the pie chart below.

Figure 4.2: Pie chart showing credit allocated to various sectors of the economy



Source: Ghana Commercial Bank Annual Report on Credit Allocation for 2001 – 2010

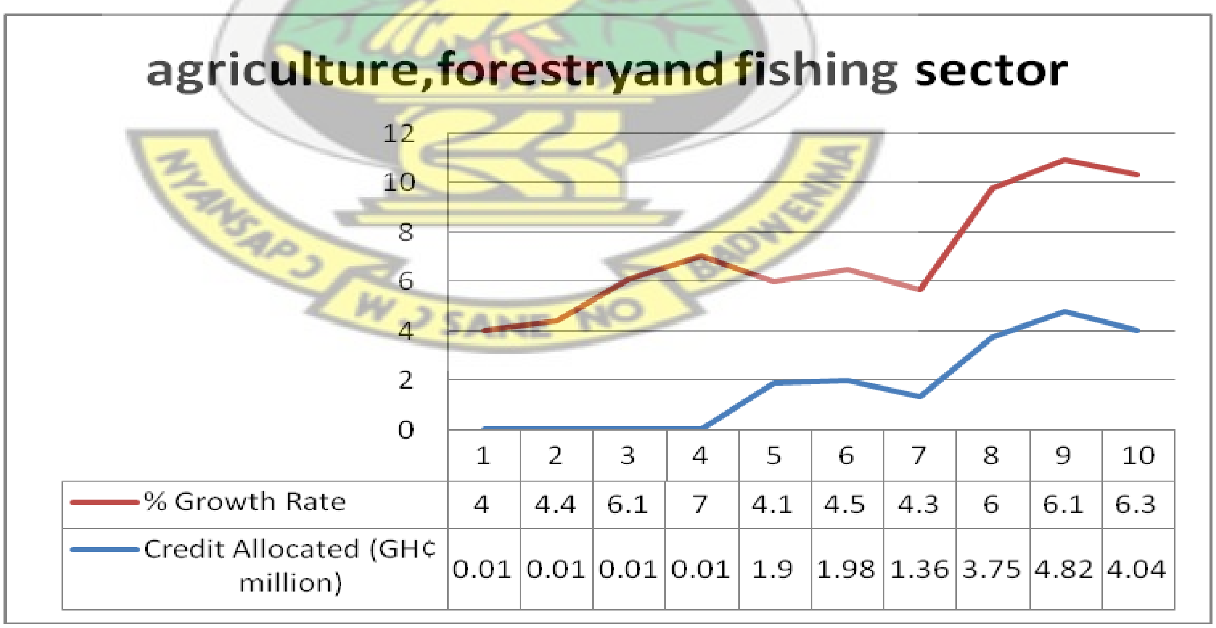
The performance of the sectors show clearly that credit from Ghana commercial bank to the sectors has impacted a lot on the growth of the sectors culminating in the general growth of the national economy.

Table 4.3(i) shows credit and growth rate Analysis of Agriculture, Forestry and Fishing Sector.

Year	Credit Allocated (GH¢)	Credit Allocated (GH¢ million)	% Growth Rate
2001	5,871	0.01	4.0
2002	5,982	0.01	4.4
2003	11,563	0.01	6.1
2004	8,191	0.01	7.0
2005	1,896152	1.90	4.1
2006	1,976000	1.98	4.5
2007	1,355469	1.36	4.3
2008	3,750399	3.75	6.0
2009	4,819059	4.82	6.1

Source: Institute of Statistical, Social and Economic Research: The state of Ghanaian Economy

Figure 4.3: A graph showing trend analysis on agriculture, forestry and fishing sector on growth



Source: Ghana Commercial Bank Annual Report on Credit Allocation for 2001 – 2010

4.1.1 Analysis of the Agriculture, Forestry and Fishing Sector

Analyzing the sectors performance in terms of growth, it was clear that when more credit was given, growth increased even though marginally in some case. Specific instances however show that, credit increased but growth slowed and this can be attributed to other factors than the mere increase in credit to the sector. Growth of the sectors cannot be attributed to credit from Ghana commercial bank alone. Other financial institutions, the interest rates and other economic pressures might have affected the increase or decrease of the growth of the sectors.

Table 4.3(ii) shows Mining and Quarrying Sector Analysis on rate of growth and credit

Year	Credit Allocated (GH¢)	% Credit (GH¢ million)	% Growth Rate
2001	76,001	0	-1.6
2002	81,540	0	4.5
2003	99,143	0	4.7
2004	117,143	0	3.0
2005	2,580000	3	6.3
2006	2660,800	3	13.3
2007	2,117170	2	3.0
2008	9,729270	10	2.1
2009	21,122792	21	8.2
2010	14,827183	15	6.2

Source: Institute of Statistical, Social and Economic Research: The state of Ghanaian Economy

4.1.2 Analysis of the Mining and Quarrying Sector

The Mining sector also provided fluctuating analysis as it showed a trend of increase in credit as against corresponding increase in growth rate. However, the analysis also reveal that, in 2007 and 2008 whilst credit was increased to GH¢ 2,117,170 and GH¢ 9,729,270 respectfully, growth reduced and this perhaps can be attributed to other economic factors that might resulted in the general conditions leading to growth other than just the increase in credit.

Figure 4.4: Showing relation of credit to growth rate in the mining and quarrying sector

Source: Institute of Statistical, Social and Economic Research: The state of Ghanaian Economy

4.1.3 Analysis of the Manufacturing Sector

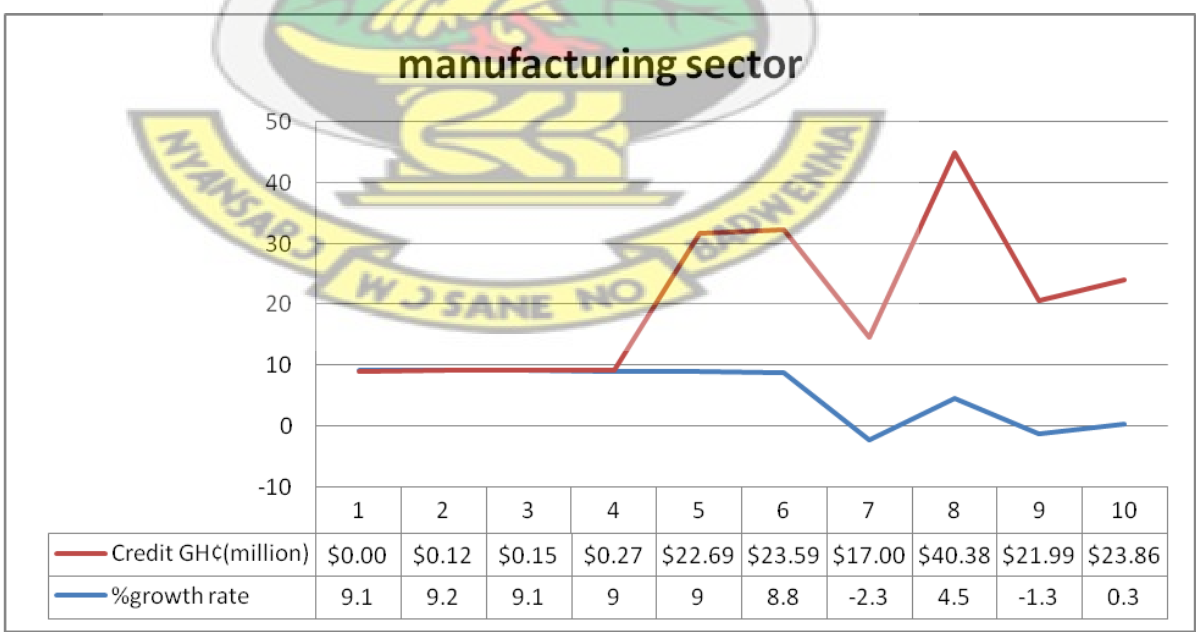
The manufacturing sector can be said to be a major sector contributing to the general growth of the national economy. Indications however do not depict significant growth rates in the sector. Reference to table 4.2 the trend of growth rate was indicated for the sectors.

This, when related to the credit allocate the sector it may be realised that there was a relationship between increase in credit and growth rate of the sector.

Table 4.3(iii) Analysis of manufacturing sector in both credit and rate of growth.

Year	Credit GH¢	Credit (GH¢ million)	% Growth rate
2001	112,72	0.00	9.1
2002	121,159	0.12	9.2
2003	152,714	0.15	9.1
2004	274396	0.27	9
2005	22,686,300	22.69	9.0
2006	23,587,200	23.59	8.8
2007	17,002,282	17.00	-2.3
2008	40,380,394	40.38	4.5
2009	21,990,978	21.99	-1.3
2010	23,857,442	23.86	0.3

Figure 4.5: showing relationship between sector growth rate and credit to sector



Source: Institute of Statistical, Social and Economic Research: The state of Ghanaian Economy

4.1.4 Analysis of the Construction Sector

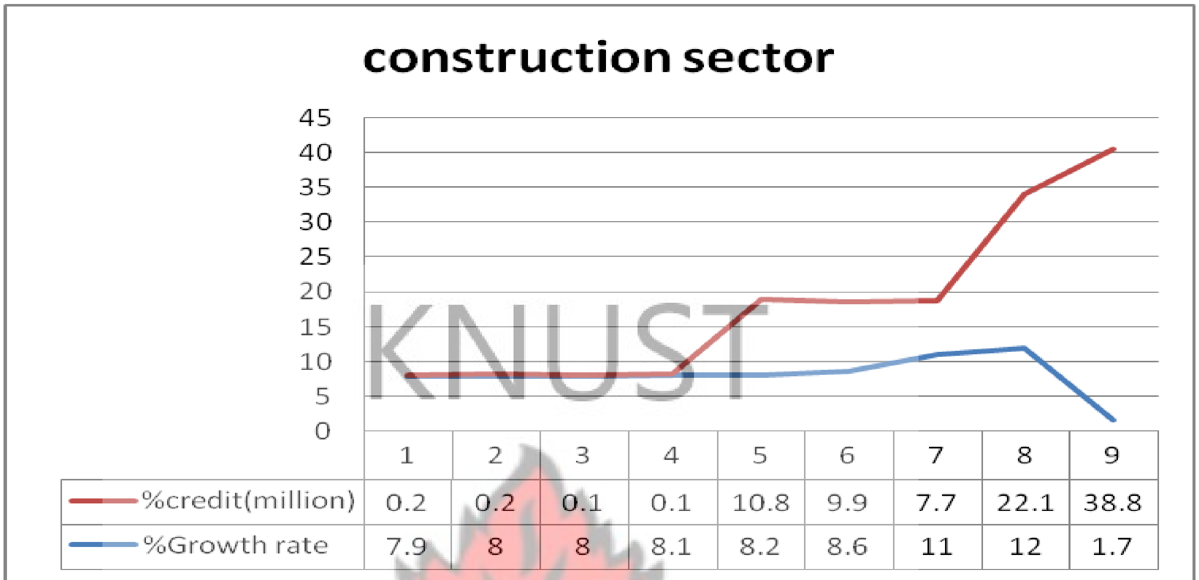
The construction sector is one of the vital sectors of the economy so essential to the development of the economy. Credit to this sector will go to a greater length to improve the productivity of the economy. Therefore the limited amount of money provided to the sector has resulted in the growth rate that was shown by the sector. The sector could also not expand infrastructure as expected due to the level of credit as evidenced by table 4.1 and growth rate as in table 4.2.

Table 4.3 (iv): shows the analysis of the Construction Sector

Year	Credit GH¢	% Credit (GH¢ million)	%Growth rate
2001	153,811	0.2	7.9
2002	151,122	0.2	8
2003	92,507	0.1	8
2004	98,078	0.1	8.1
2005	10,800,500	10.8	8.2
2006	9,884,400	9.9	8.6
2007	7,726,361	7.7	11.0
2008	22,115,106	22.1	12.0
2009	38,805,909	38.8	-1.7
2010	49,611,458	49.6	4.7

Source: Ghana Commercial Bank Annual Report on Credit Allocation for 2001 – 2010

Figure 4.6: Showing relationship between credits to growth rate to construction sector



Source: Institute of Statistical, Social and Economic Research: The state of Ghanaian Economy

4.1.5 Analysis of the Electricity, Gas and Water Sector

The trend of credit to growth compared to other credit from Ghana Commercial Bank to the electricity, gas and water sector from 2005 to 2008 yet there were some positive and negative growths in the sector. The general view of the phenomenon was that, funds from other sources other than from Ghana Commercial Bank were available to the sector resulting in the growth identified. The rate of growth as indicated in table 4.2 show that insignificant though it may be, growth arises when there was increase in the credit allocation to the sector resulting in increase growth rate.

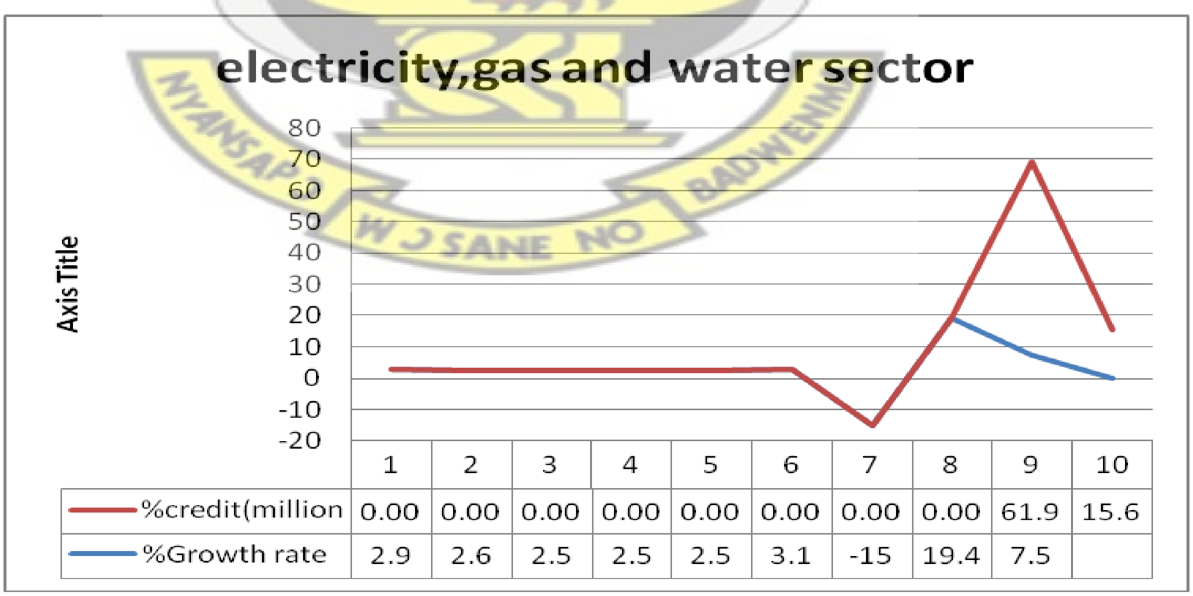
Table 4.3 (v): Shows the analysis of Electricity, Gas and Water Sector

Year	Credit GH¢	% Credit (GH¢ million)	%Growth rate
2001	3,546	0.0	2.9
2002	43	0.0	2.6
2003	124	0.0	2.5
2004	297	0.0	2.5
2005	00	0.0	2.5
2006	00	0.0	3.1
2007	00	0.0	-15
2008	00	0.0	19.4
2009	61,912,268	61.9	7.5
2010	15,624,744	15.6	3.8

Source: Ghana Commercial Bank Annual Report on Credit Allocation for 2001 – 2010

The table above can also be shown pictorially to indicate the relationship between the sectors growth and credit allocated to the sector.

Figure 4.7: Showing pictorial representation of trend of growth rate to credit to sector



Source: Institute of Statistical, Social and Economic Research: The state of Ghanaian Economy

4.1.6 Analysis of Commerce and Finance Sector

This sector proved to be one of the sectors that constantly received an increase in the credit allocation except 2003 and this was also reflected in the growth rate of the sector either increased or maintaining the level of growth. Compared to other sectors, this sector could be said to have a major impact on the economy resulting in the reference to the economy as buying and selling economy.

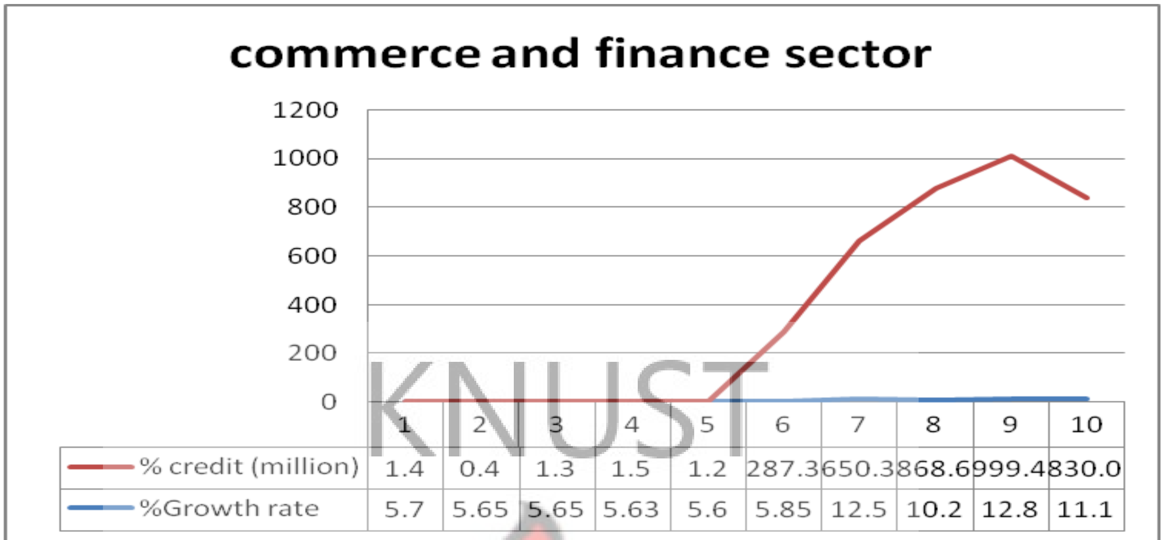
It must also be noted that Ghana Commercial Bank is not the only financial institution in the economy; hence activities of other institutions could be positive or negative on the performance of the sectors in terms of growth.

Table 4.3(vi) shows the analysis of credit to growth rate to the commerce and finance sector

Year	Credit allocated (GH¢)	% credit (million)	%Growth rate
2001	1,366,994	1.4	5.7
2002	440,323	0.4	5.65
2003	1,320,207	1.3	5.65
2004	1,470,469	1.5	5.63
2005	1,161,250	1.2	5.6
2006	287,272,600	287.3	5.85
2007	650,266,417	650.3	12.5
2008	868,586,943	868.6	10.2
2009	999,421,702	999.4	12.8
2010	830,001,889	830.0	11.1

Source: Calculated from institute of statistical and economic research and G.C.B Report

Figure 4.8: Showing trend of growth to credit allocation to the manufacturing sector



Source: Institute of statistical and economic research and G.C.B Report

4.1.7 Analysis of the Transport, Storage and Communication Sector

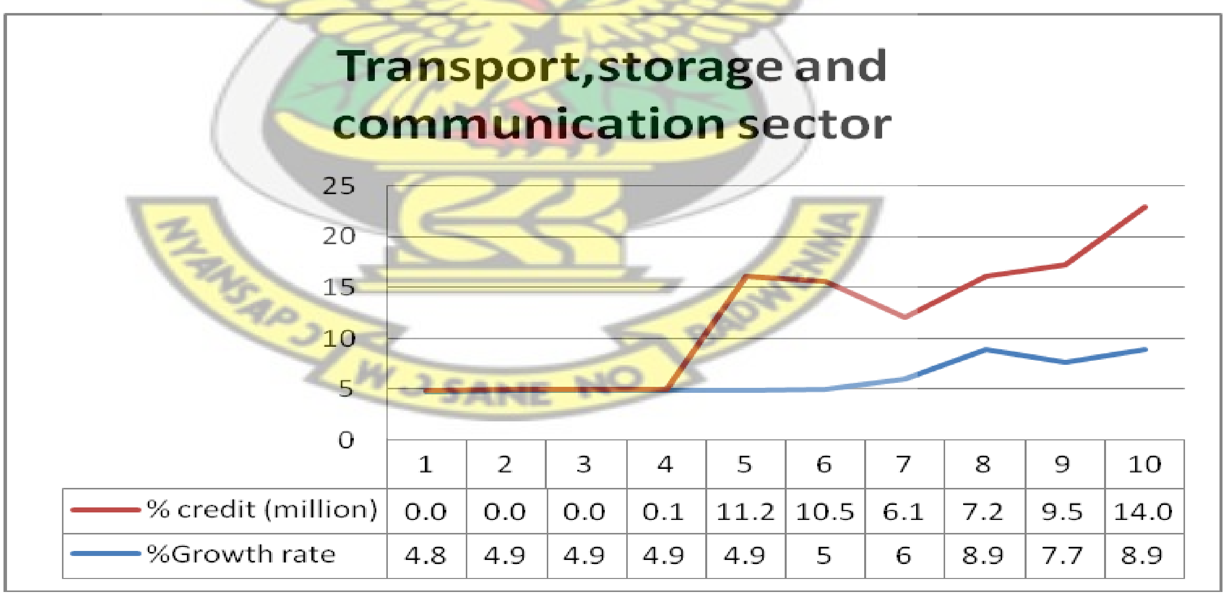
The transport and communication sector is another sector that generates a lot of revenue in the economy and which improves the growth of the sector and economy. Credit to this sector like other sectors; seem not adequate to increase the growth of the sector and the economy at large. The data as provided in table 4.1 and 4.2 respectively testify to the fact that there was inadequate credit allocation to the sector resulting to the low growth rate generated by the sector. The picture is also clear that when credit increased the rate of growth also increases. Other sectors like the service sector and miscellaneous sectors follow in like manner in terms inadequacy of credit and growth rate which was also low.

Table 4.3(vii) Analysis of the credit and growth rates for Transport, Storage and Communication Sector

Year	Credit GH¢	% credit (GH¢ million)	%Growth rate
2001	45,567	0.0	4.8
2002	38,072	0.0	4.9
2003	36,561	0.0	4.9
2004	128,052	0.1	4.9
2005	11,200,150	11.2	4.9
2006	10,533,600	10.5	5.0
2007	6,089,106	6.1	6.0
2008	7,202,463	7.2	8.9
2009	9,548,289	9.5	7.7
2010	14,005,166	14.0	8.9

Source: Ghana Commercial Bank Annual Report on Credit Allocation for 2001 – 2010

Figure 4.9: Showing trend of credit allocation to growth rate in the sector



Source: Institute of statistical and economic research and G.C.B Report

4.2 Analysis of data (credit allocation to the sectors)

Table 4.1 above indicates credit allocation to the sectors. The data as provided also affirm the accession that some sectors receive more credit than others especially credit to productive sectors was very low. The question of equity in credit allocation was therefore identified as a major issue.

The data in table 4.1 shows a particular trend of events that is to say the figures to all the sectors were fluctuating. Comparing year on year allocation, there was either an increase or decrease in the trend of allocation. The data in table 4.1 does not show that there was any direct policy laid down by the bank concerning credit allocation to businesses they deal with otherwise certain sectors will consistently receive more credit than others rather, fluctuations in the figures is what was revealed in the data and this can be assumed to be the cause of the disparity in credit allocation.

Commerce and finance sector for example hold to the top as the highest recipient of credit even though credit to the sector dropped significantly in 2004 and further sharply in 2005 to GH¢1,211,252 of the total allocation for that year. Electricity, Gas and Water sector even though had negligible allocations over the years received no allocation in 2005 to 2008. Perhaps this was one of the reasons why development in the sector for those years suffered a setback. The sector had in total for the ten years GH¢106, 161,745.00

The trend of credit allocated to other sectors, show no different trend than was talked about earlier. There was no consistent increase or decrease in any order of the allocation hence the disparity in credit allocation.

4.3 How credit affects growth of the sectors and the economy

The analyses also show that the general growth of the economy over the years was not encouraging as the productive sectors had little to show for in terms of credit. This accession was due to the fact that credit forms a greater economic resource that businesses need to drive productivity towards economic growth. Looking at the analysis on growth rate of the sectors, it was evident clear that the miscellaneous sector received the lowest credit each year for the ten years compared to other sectors. As stated earlier the general lack of progress in the economy was due to the disparities that arose in the credit allocation especially to the productive sectors over the years in the point of view of Ghana Commercial Bank. Since there was no policy on credit allocation it was difficult to pin point a particular reason for the stagnation of growth in the economy except to say the bank should put in a plan to distribute credit fairly to the sectors especially the productive sectors.

Table 4.4: Total amount of credit to businesses by Ghana commercial bank and rate of growth in the sectors

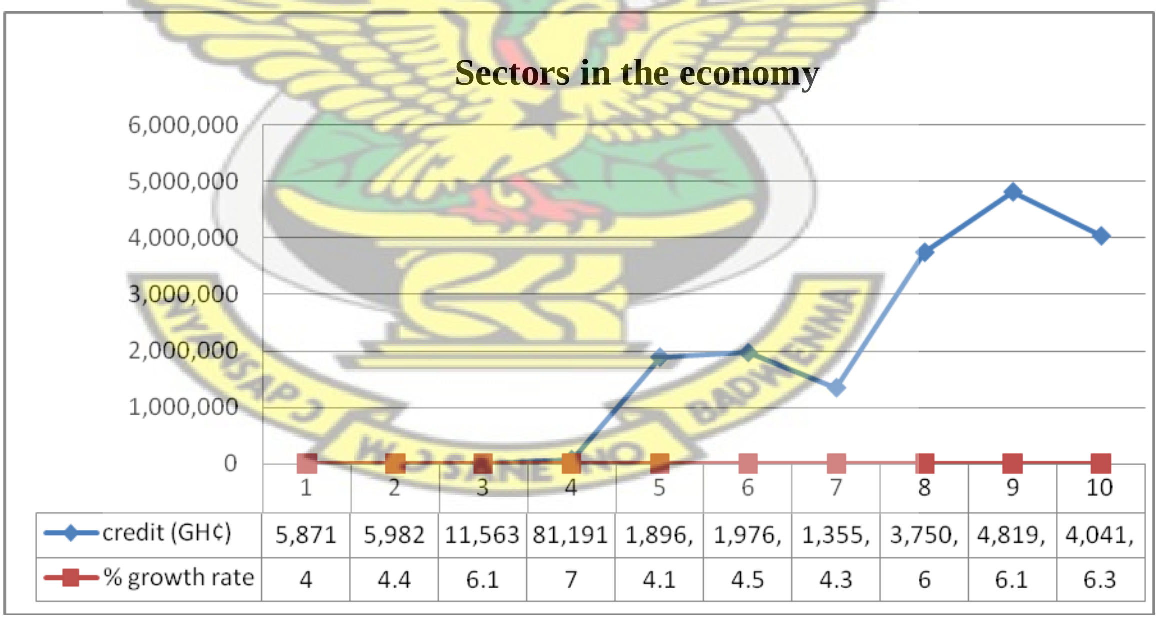
Year	Credit GH¢	%Growth rate
2001	1,156,827.0	3.0
2002	208,447.2	5.8
2003	205,792.1	4.7
2004	247,450.5	5.4
2005	256,157.0	5.9
2006	376,185,600	6.0
2007	760,882,158	5.5
2008	1,103,841,043	7.3
2009	1,318,914,043	4.1
2010	1,128,011,059	5.7

Source: Ghana Commercial Bank annual report, 2008

The graph below is the pictorial analysis of the table 4.3 above and it gives the trend of credit to the sectors and average sectoral growth rate of all sectors over the ten years of study. A closer look at the figures in table 4.3 shows that there is a staggering trend in the rates each year. This clearly indicate that the impact of the credit to the sectors was not greatly felt resulting in low performance of the sectors. It was also observed from table 4.3 that consistently in the years where credit was high, growth rate was also high. The circumstances that negate growth in 2009 however may be explained by other factors other than just the increase in credit allocation to the sectors.

The graph below also explains the trend of credit the sector had received each year for the ten years and the rate of growth of the sectors for the same period.

Figure 4.10 shows total credit to all the sectors in million cedi and sectors growth rate



Source: Institute of statistical and economic research and G.C.B Report

4.4 Equity in Bank credit distribution to sectors

A careful look at the research findings reveal that in as much as the bank does not have any policy on lending to the business sectors of the economy, it would be very difficult to state a position as to how it could be done even though there was the need. More so, the bank was under no obligation to grant credit in any manner whatsoever. The advice one may want to give based on the kind of operations of the bank therefore was for the bank to consider such a proposal of equity in credit allocation as it will benefit all the parties. The advantage is that all the sectors will utilise the resources (credit) available to develop individual capacity to increase productivity and growth altogether. It means the general economy will be affected by growth. In short the data did not indicate equity in credit allocation to sectors and so does not reflect in the growth pattern of the sectors over the ten year period.

4.5 Effects of bank credit on growth of the various sectors

Judging from the outcome of the research credit allocation was not based on any policy laid down by the bank to follow. In the light of this, the issue of effectiveness in credit allocation does not arise at all. A central view is that a policy in this regard was necessary for the bank to measure the trend of the bank's lending to the sectors thereby assisting in measuring the effects or impact the increased credit to the sectors will have on the growth of the sectors. Government policy to channel resources to the productive sectors of the economy will also boost the growth of those sectors.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

Chapter five deals with the conclusion, summary of findings, and recommendations provided by the researcher after careful study of the research outcomes.

5.1 Summary of Findings

In sum, the results of the research agreed to the fact that effects of sectoral allocation of Ghana commercial bank credit are varied and positive and also accepted the position that there was inequity in the allocation of credit to the various sectors of the economy. This was evidenced in the fact that more allocation was made to the commerce and finance sector than any other sector altogether. (Table 4.1) The sector received close to 55% of the total credit made available during the ten-year period. Miscellaneous took the least of 3%.

It was also revealed that collateral security played a major role in sourcing for the credit from the Bank. According to bank sources, the bank considers it low patronage on the part of the borrowers rather than inequity because the customers were unable to pay the high interest rates and also provide collateral security. However, other considerations like the viability of the sector also played a part.

5.2 Conclusion

In conclusion, the issue of sect oral allocation of bank credit to the sectors of the economy in a fair and equitable manner to steer up growth cannot be gain said. It was important that the commercial bank as would be faced with the choice of who to grant credit to come to the realization that all the sectors are important and must be accorded the needed boost to improve their capacity and generate the growth needed for the economy. The objective of the research was to find out the effects of bank credit on growth of the sectors and also determine the causes of differences in bank credit to the various sectors of the economy. It was also to improve the capacity of all the sectors of the economy towards sustainable growth. The areas covered by the research include the introduction that concerns the purpose of the study, significance of the study, objectives and research questions. The research also looked at literature works of others.

A simple description of the problem was applied using qualitative techniques that applied the use of interviews and analysis of a secondary data. Statistically the pie chart and bar graph was used to display the information on the data.

Ghana commercial bank can see it as a challenge especially as it was more of government bank than private, to face the reality of the time and think about equity in the distribution and allocation of credit to the various sectors. Credit allocation to electricity, gas and water was woefully inadequate, as indicated by the data in table 4.1 as the sector never received anything between 2005 and 2008.

Industries need power to do their businesses and without the boost that will obviously come from credit granted to the companies in the sector, no much work will be done to improve the sectors performance. Again, the analysis of the data in 4.1 proves differently. This also reflected in the annual growth rate of the sector.

The need for further scrutiny of the topic is welcomed as further information from the sectors will help to test the variables and energise the growth of the economy.

5.3 Recommendations

Bank credit is inevitable and the most important source of external credit to finance business activities by the various sectors. Credit finance leads to improvement of the sectors leading to increase productivity and job creation. All these efforts lead to growth in the general economy.

The following were my suggestions and recommendations:

1. That the bank should not only depend on collateral security in granting credit to especially small businesses but think about alternative ways like repayment of the loan in bits and on softer terms from the beneficiary companies reducing the interest rates which were coincided too high for the businesses.
2. That the government should assist companies through the bank to asses, certain categories of loans like development loans to improve the economy. This the Government can do by way of using the bank as a channel of distribution of certain funds to achieve the goal of public and private partnership collaboration. This idea was the kind of action taken on the establishment of the Agricultural development bank.
3. That the bank considers equitable distribution of credit as a matter of urgency. However, the bank should motivate the beneficiary companies in the use of the facility; for that matter, training sessions may be organized for the beneficiary businesses on how to apply for credit, how to develop a

congenial relationship with the bank and how to improve credit rating to the benefit of the sectors with regards to the credit extended to them.

4. That, the bank should organize management training courses for staff of beneficiary organizations on how to utilize the funds and repay loans without any problem.
5. Finally, the bank should consider espousing a policy to follow in the allocation of credit to businesses this would help to find out the effectiveness in the credit allocation to the sectors.

   Businesses should negotiate terms with the bank even if they do not have collateral security so that they will improve on their investment.

For the way forward to bring equity into the whole credit system each sector must strive to be credit worthy and improve its status that will attract attention and recognition from the bank.

It was realized that the Ghanaian economy will only grow to the expected level if the generality of the sectors of the economy grow. Therefore government should consider financing certain projects through the bank; this will also help to boost the productivity of productive sectors that may be identified by the government.

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