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Financial Intermediation For The Poor: Credit Demand By Micro, Small And Medium Scale Enterprises In Ghana. A Further Assignment For Financial Sector Policy?

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FINANCIAL INTERMEDIATION FOR THE POOR: CREDIT DEMAND BY MICRO, SMALL AND MEDIUM SCALE ENTERPRISES IN GHANA. A FURTHER ASSIGNMENT FOR FINANCIAL SECTOR POLICY?

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Abstract

Ghana liberalized its financial system by removing policy induced-distortions to enhance competitive banking practices, improve resource mobilization, increase quantity and quality of investments to a greater number of enterprises at market rates than had hitherto been the case. However, banking has rather become urbanized and elitist with marginalization of local enterprises from credit market. More intriguingly, most credit demands are requests for loans for unbankable projects; credit is therefore not the single most important constraint on local enterprise development as is generally believed. Financial reforms would have to go beyond liberalization if finance is to be productive.

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Résumé

Le Ghana a procédé à la libéralisation de son secteur financier en éliminant les distorsions nées des politiques économiques passées dans le but de développer la concurrence dans les pratiques bancaires, d'améliorer la mobilisation des ressources, et d'augmenter le nombre et la qualité des investissements faits aux conditions du marché. Cependant, le système bancaire s'est essentiellement développé dans les zones urbaines et pour une élite économique, limitant l'accès au crédit pour les entreprises locales. Plus surprenant est cependant le fait que la plus grande partie des demandes de crédits sont pour des projets qui ne peuvent être financés. Ainsi, la disponibilité du crédit n'est pas la contrainte la plus importante pour le développement des entreprises locales et les réformes du marché financier doivent aller au delà de la libéralisation pour être productives.

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Executive summary

Having determined that restructuring of the financial system was indispensable to the success of the Economic Recovery Programme (ERP) begun in 1983, the PNDC Government, with technical and financial assistance from the IDA, embarked upon a Financial Sector Reform Programme (FINSAP) in 1988. The FINSAP measures were expected to engender financial deepening, increase supply of loanable funds, enhance the efficient allocation of investible resources, and promote competitive banking practices and integration of the financial system. It was also expected to increase the access to credit for small and medium-scale enterprises, which had been marginalized under the financially repressive regime that previously operated in the country. This study draws on Ghana=s experience with financial liberalization to investigate how access to finance by micro, small and medium scale enterprises (MSEs) have been affected by the Financial Sector Adjustment Programme.

The study found that the banking sector is now largely private-sector owned as opposed to what was the case before the financial reforms. Furthermore, although the number of deposit money banks (DMBs) have increases from 11 to 18, total branch network diffusion is now lower than was the case. The major players in the banking industry have closed down their branches in the rural areas of Ghana. Similarly, the DMBs have come out with minimum balance requirements and strict operational rules. The study also found that despite a number of positive developments such as the computerization of banking services and the introduction of universal banking practices that make banking services more accessible to customers under one roof, financial liberalization has also brought in its wake a number of undesirable effects. Banks in Ghana have implemented strategic moves that have made the post-FINSAP financial superstructure elitist and concentrated in the major urban centres. As a consequence of these changes rural enterprises and urban micro and small-scale enterprises have been severely marginalized from the credit markets. Though part of the problem could be traced to deficiencies on the part of the MSEs as will be evident from the rest of this summary, part of the blame lies in the dogged pursuit of the profit motive by the DMBs. The DMBs are now largely concerned with private profitability and risk minimization without social profitability considerations.

We explore further the reasons as to why MSEs in Ghana may not ordinarily qualify for bank credit in a liberalized financial regime. We administered questionnaires to the DMBs designed to find out the extent to which MSEs have projects that meet the DMBs price vectors and to elicit information on why banks typically tend to reject savings and credit demands made by micro, small and medium scale enterprises.

Our findings cast serious doubts on the widely accepted notion that lack of credit has been the overriding constraint to local enterprise development in Ghana. The purported demand for credit by these enterprises does not necessarily reflect genuine credit demand. There is ample evidence that loan applications were in most cases rejected not because banks lack funds but because of several other shortcomings of these applications. In effect, what the study revealed is that from the perspective of banks, there is a shortage of viable projects that are bankable. Micro, small and medium scale enterprises have high levels of spurious demand for credit and rather than a substantial number of viable projects vainly chasing scarce credit, excess credit has been vainly chasing viable projects. Apparently, there are not enough bankable projects that meet banks= price vector.

Past researchers reached erroneous conclusions because the issue was not critically examined. A response by an entrepreneur ranking the lack of credit or finance first among a proffered list of needs does not signify an effective demand. Even merely applying to a bank for credit does not by itself constitute effective demand for credit. An effective demand is one backed by at least preparedness to meet a spectrum of requirements such as a liquidity cushion in the form of equity financing, a loan purpose related to a technology and economic activity, measures to contain the effects of probable risks, interest rate and collateral requirements and others. This spectrum of requirements is what constitutes the price vector of credit. The central issue is whether loan applicants meet the requirements of this price vector. The study revealed that generally, most micro, small and medium scale enterprises do not.

By and large, Ghana=s experience with directed credit policies suggest that although entrepreneurs may lack access to credit, policies that were framed to make credit available by arbitrarily defining a demand for them through MSE-targeted programmes did not reckon with the complex issues involved in finance and development. These enterprises are saddled with problems which mere credit provision could not solve. Finance is a binding constraint only when all other ingredients for successful investment are available, and when finance can conveniently activate these other ingredients for positive returns on the investment. What the rejected applications and the subsequent accrual of large amounts of non-performing assets by banks in Ghana suggest is the shortage of creditworthy projects.

These findings caution against merely increasing the availability of funds to MSEs without at the same time dealing with other constraints to their effective performance. Even within the framework of financial liberalization, such credit may not have much positive impact on enterprise development, unless measures are taken to correct the defects in credit demand and enterprises weaknesses. Financial reforms must entail interventions that go beyond the delivery of financial services. The fact that managerial deficiencies and lack of demand for product, for example, are more significant constraints on enterprise development than lack of finance meant these issues have to be tackled along with credit supply issues.

1. Introduction

Both at the macro and micro levels, the general perception has been that inadequate finance was the over-riding constraint on enterprise growth in Ghana. This was believed to be particularly so for indigenous micro, small and medium scale enterprises (MSEs). It was argued that this constraint was exacerbated by financially repressive policies pursued until 1988 when the financial system was liberalized as part of overall economic reforms begun in Ghana. The Financial Sector Adjustment Programme (FINSAP) was to remove the policy-induced distortions, promote financial savings mobilization and make banks more receptive to the credit needs of enterprises, especially those who were marginalized by the repressive policies. This was to lead to improved quantity and quality of investment. However, financial liberalization notwithstanding, anecdotal evidence suggests that MSEs appear to be still suffering from credit scarcity.

It is in this respect that this study investigates the extent to which MSEs have been able to access financial services within the financial superstructure arising out of the financial sector reforms. How has FINSAP affected the demand for credit by micro and small scale enterprises? Has inadequate finance been the over-riding constraint on enterprise growth in Ghana or is the demand for credit by MSEs a spurious one?

To provide meaningful answers to these and related questions, we used both secondary and primary data. With secondary data, drawn from Bank of Ghana and other sources, we examined the historical context of the institutional and policy framework of the financial system that has produced financial repression, and hence necessitated FINSAP. Next, we examined the FINSAP measures and the gaps created by the emergent pattern of financial superstructure. The study further investigated whether MSEs have bankable projects. This was investigated within the capital shortage illusion framework using the price vector quoted for credit by the DMBs.

We also examined the perceptions of the MSEs about banks and other credit schemes using the answers provided to questionnaires administered to selected MSEs drawn largely from enterprises that have registered with the National Board For Small-Scale Industries and have participated in some credit programme including the Fund for Small and Medium Scale Enterprises (FUSMED) and the Business Assistance Fund (BAF).

The main finding of the study is that even in a liberalized financial system where interest rates are largely market determined, banks have consistently rejected loan requests made by MSEs. Contrary to expectations that financial services would be increasingly available and accessible to a greater number of private agents than had been the case, the study has shown that banks in Ghana have implemented strategic moves that have made the emergent pattern of financial superstructure, since the introduction of FINSAP, elitist and concentrated in the major urban centres. As a consequence of these strategic changes rural enterprises and urban micro and small-scale enterprises have been severely marginalized from credit markets.

Furthermore, and rather paradoxically, the results of our investigations also provide strong evidence that the generally held belief that capital shortage has been the single most important constraint to the development of indigenous enterprise in Ghana is an illusion created by spurious demand for bank credit. From the perspective of banks, there is a shortage of viable projects that are bankable. What the rejected applications and the subsequent accrual of large amounts of non-performing assets by DMBs in Ghana indicate is the shortage of viable or creditworthy projects.

This result is not wholly unexpected given that there has been a high level of excess liquidity in the banking system while at the same time the MSEs were complaining of credit scarcity. The excess liquidity ratios of the DMBs suggested that DMBs have large amounts of surplus funds and credit flows to MSEs were not constrained by unavailability of funds.

The rest of the study is structured as follows. Section 2 reviews the relevant the literature while section 3 examines the demand for credit from the institutional approach perspective. Section 4 looks at the demand for credit at the macro level in terms of policies. Two main frameworks are examined here, namely, the incremental output and proportional output approaches. These are done with a view to assess how credit demand has shaped the financial superstructure in Ghana before the financial sector reforms, FINSAP. Section 5 outlines the main thrusts of FINSAP and examines its impact in terms of ownership, bank diffusion, market shares and banking practices. Section 6 investigates the spurious credit demand or capital shortage illusion hypothesis. Section 7 focuses on issues for further financial sector reforms while section 8 provides a conclusion.

2. Literature Review

2.1. Some Definitional Issues

This section examines the literature on the role and importance of finance or credit in economic development, and how the process of financial development in Ghana, both in terms of institutions and policies, was shaped by the perception of credit shortages to micro, small and medium scale enterprises that we term the entrepreneurial poor. Analytically, being poor is defined as an unacceptable level of physiological and socio-economic deprivation in an entity. Hence, micro, small and medium scale enterprises (MSEs) can be described as Apoor@ once they are unable to secure sufficient amounts of goods and services to meet their basic production needs. These poor we call the entrepreneurial poor as distinct from the welfare poor.[1] It is within this frame of reference that we classify MSEs as private economic agents that have been marginalized by the financial system in so far as they cannot have access to both institutional savings and credit facilities at affordable terms. It is this entrepreneurial poor that financial policies targeted and it is this approach that shaped the development of the financial system before FINSAP.

[1] The welfare poor refer to unacceptable deprivation in human well-being that can comprise both physiological and social deprivation. Physiological deprivation involves the non-fulfilment of basic material or biological needs, including inadequate nutrition, health, education and shelter. A person can be considered to be poor therefore if he or she is unable to secure sufficient amounts of goods and services to meet these basic material needs.

Operationally in Ghana, policy makers have defined MSEs in several ways[2]. We shall, however, adopt the definition by the Statistical Service as used in the 1987 Ghana Industrial Census. By this, micro enterprises are defined as those enterprises in both manufacturing and services sectors that employ up to 5 persons or whose fixed assets do not exceed $10,000 excluding land and building. Small scale enterprises are those which employ 5-29 workers or whose fixed assets have a value not exceeding $100,000 whereas medium scale enterprise are those with 30-99 employees; and large scale enterprise have at least 100 employees.

The importance of MSEs' in Ghana's economy has been the concern of policy makers who wanted as much credit as possible to go to them. Thus, the monetary authorities used all sorts of proxies for the beneficiaries of financial policy - micro and small-scale Enterprises, Small and Medium-Scale Enterprises, small farmers, artisans etc. Irrespective of terminology, however, the intention was usually clear (Gockel, 1995). The question was therefore reduced to how credit was to be made available to these designated priority groups. In order to establish the framework within which this is investigated we first review the relevant literature which inspired the credit policies in Ghana.

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[2] Relevant as these various definitions might be to the defining institutions, it is our view that they are all subject to a basic weakness in so far as attempts are made to define overhead costs in cedis. Macroeconomic instability, especially the intractability of inflation and the continuous depreciation of the exchange rate, meant that the quotation of fixed assets in cedis is not tenable since more cedis would have to be mobilized to bring in same volume of imports, purchase new machinery or maintain capital intact. As we see later, macroeconomic instability was one main reason for poor performance of MSEs in spite of financial liberalization.

2.2. Development Hypothesis View of Finance

Although there is consensus among economists and policy makers that finance is a crucial factor in enterprise development and, in fact, economic development at large, there is less such consensus on the interactive mechanism between finance and economic development, especially what the institutional and policy framework should be (Chandavarkar, 1992). Levine (1997) argues that the financial system plays a crucial role in development through the reduction of information and transactions costs and that its efficiency in reducing these costs influences savings rates, investment decisions, technological innovation and long run growth rates. He further argues that while the basic functions of the financial system are the same across countries and time, there are big differences in the quality of financial services provided and the institutional structure of the financial system. Llewellyn (1997) argues that an efficient and robust financial system is a necessary, but not sufficient, condition for economic development. The efficiency of the financial system influences the volume of saving and the proportion of savings allocated to productive investment, while its robustness determines its ability to avoid financial crises which can prove extremely costly for the real economy and for government budgets.

In recent times, the policy advice and technical assistance of the World Bank, and other international financial institutions are also motivated by the view that stable, efficient and competitive financial systems are necessary for growth and development in a market oriented economy (Long, 1991; World Bank, 1989). It is to investigate this perspective of the debate that this study draws on Ghana's experience with financial liberalization to investigate the extent, if any, to which MSEs have benefitted from improved financial services within the liberalized dispensation.

Previous to the liberalization thesis the prevailing paradigm has been the development hypothesis view of finance. This model, which evolved from the works of Goldsmith (1969), Gerschenkron (1962), Patrick (1966), among others, advocated that in the earliest stages of economic development proactive Agovernment@ interventions in the form of institution building, suppressed interest rates and directed credit policies were necessary to provide the financial impetus necessary for economic development. Through the supply-leading thesis, Patrick urged that financial institutions play a leading role in promoting growth by ensuring the availability of low cost credit to potential investors. Consequently, it was prudent to build institutions well in advance of demand for their services, and interventionist policies put in place to make finance a catalyst in real sector development. Patrick, however, acknowledged a demand-following thesis when he argued that the financial sector expands as a consequence to the demand created from growth within the ›real= economy and is thus dependant on stimulation from market sources.

2.3. Financial Liberalization Hypothesis and its Critique

The proactive development hypothesis view of finance was heavily criticized by the resurgence of neo-liberal thinking on the grounds that such interventions were equivalent to "economic repression". In particular, McKinnon (1973) and Shaw (1973) argued that Keynesian policies that advocate low interest rates within relatively fixed policy regimes as a means to stimulating investment for greater output, savings, and employment have purely short-run orientations. They argued that financial repression - interest rate ceilings, exchange rate control, and other quantity rationing devices such as selective credit controls and reserve requirements - distorts impulses from the financial sector to the real sector by causing reductions in saving, encouraging capital flight, misallocation of resources, inappropriate choice of production techniques, fragmentation and decreased use of financial institutions as well as problems of monetary control. By so doing financial repression creates distortions, uncertainties and imperfect conditions that repress the development of both the financial and real sectors of the economy.

The financial liberalization orthodoxy, largely represented by McKinnon (1973), Shaw (1973) and the World Bank (1989) shifted emphasis from proactive government intervention to a framework based on a demand-following rather than a supply-leading finance approach. They presented forceful arguments for greater reliance on the market to determine the rates of interest and the allocation of credit. This neo-orthodoxy advised that with the rise in real interest rates, the rate of saving would increase substantially with financial incentive to save in banks. With increased savings, it is argued, the supply of loanable funds would increase and banks would be in a position to expand their loan portfolios while at the same time reducing their dependency on external support.

The McKinnon-Shaw hypothesis has attracted criticisms on several fronts including those of neo-structuralists who, through the works of Van-Wijnbergen (1983) and Taylor (1983), attacked the McKinnon-Shaw thesis as being incomplete. Van-Wijnberger (1983) argued that the result and, hence, the conclusion obtained by the McKinnon and Shaw depend crucially on a hidden assumption on asset market structure, namely, that portfolio shift into bank deposits is coming out of an 'unproductive asset' rather than from loans extended on the curb market. Using arguments based on fractional reserve banking practices, Van-Wijnberger (1983) and Taylor (1983) further noted that if informal market assets shift into bank deposits as a result of higher interest rates, total supply of credit to the business sector would decline as banks provide only partial intermediation. Prudential and other statutory reserve requirements would lead to an increase in reserves and consequently, a reduction of effective supply of funds as funds were moved out of informal financial markets that provide one for one intermediation. Beneficiaries of credit in the informal market would be crowded out of the credit market as their source of credit dried up. Moreover, informal market rates would rise alongside the liberalized interest rates, implying higher prices for working capital. This would further crowd out marginal beneficiaries of credit out of investment opportunities. Furthermore, even if loanable funds at the DMBs increased, MSEs are not likely to benefit from credit because they may not be able to meet the price vector quoted by the banks.

A further strand in the debate is based on the assertion (Collier and Mayer, 1989) that there is no guarantee that financial reform based on a market-based system would attain a significant level of competition and efficiency of the banking system in the domestic economy. Competition would not be possible if, the banking sector is dominated by a few banks, so that the risk of inefficiency associated with direct credit controls or government intervention in the banking sector before the reform is replaced by the inefficiency of an oligopolistic banking structure. Collier and Mayer argued that in many African countries where there are a small number of commercial banks controlling a large proportion of financial deposits in the banking sector, the pricing by one bank may have a significant impact on other smaller banks in the banking sector. In this instance, banks may prefer to hold proportionately large assets in liquid form rather than holding a diversified portfolio. They argued that the opening of the domestic financial markets to foreign competition will provide an incentive to the domestic banking institutions to adopt efficient means of delivering banking services.

It is against this background that the study investigates first, the development hypothesis view of financial development within the Keynesian framework that low interest rate policies induce investment growth and through the multiplier effect, output would grow thereby enabling savings to increase. Secondly, we investigate the hypothesis that with financial liberalization financial savings will increase and banks will accordingly increase their credit creation and will be able to respond to the increased credit demand by micro, small and medium scale enterprise. This is important as the financial liberalization view of financial development has gained currency among neo-liberal economists and has become the orthodoxy with the IMF and the World Bank structural adjustment policies.

2.4. Micro-foundations of Credit Demand

Ghana has pursued various financial reforms with the basic objective of increasing savings mobilization and making credit more accessible especially to micro, small and medium scale enterprises. Indeed, both the pre-FINSAP and post-FINSAP financial reforms emphasize greater credit flow to micro, small and medium scale enterprises. That the Government and Bank of Ghana had the general perception that there was a shortage of finance for private investment cannot be attributed exclusively to the macro-approaches to the determination of credit demand. The basic universal finding of industrial surveys conducted in Ghana is that shortage of credit or finance is the single most pressing constraint on domestic private investment and consequently, economic development. Since colonial times indigenous private enterprises complained about credit scarcity as a limiting factor on industrial development. Apparent credit scarcity to indigenous enterprises, as we see later, was the basic reason for the establishment of the Ghana Commercial Bank in 1953, and was what subsequently shaped the development of the indigenous banking system in Ghana until the financial reforms started in 1988.

Micro level studies in recent years seem to reinforce the idea of the existence of a large unsatisfied credit demand. Thomi and Yankson (1985) carried out a survey of 36 small and medium townships where 13,363 enterprises were enumerated and 933 selected for a more thorough investigation. Among other findings, they found out that 61.3 percent of their sample cited lack of finance as a limiting factor on enterprise growth or expansion, in addition to such other problems as lack of raw materials and spare parts, and inadequate demand for the enterprises' products. In another study, Anheier and Seibel (1987) surveyed 209 wood-working and metalwork firms in Accra and Kumasi. They also found out that the three biggest problems cited by the enterprises as constraining their expansion were lack of finance, raw materials and machinery or equipment.

Whilst other surveys came to similar conclusions that credit is the most significant constraint on enterprise growth in Ghana, two other studies involving the World Bank deserve reporting on because of the Bank's commitment to financial liberalization as means to easing the credit constraint on enterprises. Steel and Webster of the Industry and Energy Department of the World Bank in a 1989 survey of 31 large and 83 small-scale enterprises in Ghana came to the conclusion that for potentially dynamic firms, the most critical constraint on expansion was lack of finance for working capital and new investment. They therefore conclude that "more than 70 percent of the firms with 10 or more workers had applied for a loan since the ERP began, thus indicating a high demand for credit" (See Steel and Webster, 1992). Baah-Nuakoh and Teal (1993) in another study for the African Regional Programme on Enterprise Development, World Bank, came to conclusions similar to those of the previous studies. They reported that firm size, age or sector notwithstanding, lack of credit was the single overwhelming constraint facing manufacturing enterprises in Ghana.

Indicative as the findings of these surveys are of finance as a constraint on indigenous enterprise development, an examination of the liquidity positions of the banks and the large amounts of nonperforming loans of the banks suggest that the stated demand for credit by these enterprises may not necessarily reflect genuine credit demand. Admittedly, the operational definition of credit demand is difficult, even in a liberalized system where interest rates are the main price of credit. But asking entrepreneurs to list the most important constraints on their productive potential, or whether credit is a problem in the operations of the firm would be unlikely to elicit reliable answers to reflect genuine credit demand. It is highly questionable if entrepreneurs would restrict their expressed demand for credit to financing that would be acceptable to banks and which they, as borrowers, would be able to repay. An in-depth analysis of the demand for credit certainly goes beyond entrepreneurs' applications for loans. Otherwise, we define such credit requests by entrepreneurs as desire for credit but not an effective demand for credit backed by at least preparedness to meet the interest rate and collateral requirements. It was too simplistic to conclude as Steel and Webster (1992) have done that their interviews with firms was "thus indicative of high demand for credit" Consequently, we explore further the issue as to why micro, small and medium scale enterprises in Ghana may not ordinarily qualify for bank credit in a liberalized financial regime within the critique of Van-Winberger and other neostructuralists thesis.

3. The Institutional Framework Approach to the Demand for Credit in Ghana

The financial system as it evolved in Ghana after independence was based on some perceived notion of credit scarcity to indigenous enterprises as a result of the colonial banking arrangements.

Primarily, the allegations of the indigenous population against the British Bank for West Africa and Barclays Bank D.C.O suggested that they tended to act in concert regarding loan conditions and bank charges within a framework of a discriminatory credit policy. In a pioneering study on ABanking Conditions in the Gold Coast and the Question of Setting Up a National Bank" Trevor (1951) noted that indigenous feeling was that the banks favoured the European, Levantine and Asian communities to the detriment of the indigenous Africans. He further noted that African dissatisfaction with the existing Gold Coast banking structure was pervasive, permeating all strands of society. Consequently, the local entrepreneurs considered that a National Bank should be formed to Aprovide a useful nucleus and training ground for the development of an indigenous banking system to meet the growing need of the country and to encourage the banking habit among the population" in addition to providing a banking system that would be sympathetic to local financial needs at a reasonable rate of interest" (See Trevor, 1951, paras.46 and 50).

In another study, Newlyn and Rowan (1954) also argued that although start up and term credit were what most African entrepreneurs required, the banks were not prepared to provide venture capital or lend long. This, they noted, was in spite of the fact that the liability structure of the banks was such that they could conveniently engaged in medium-term lending, if they wanted to.

A different source of criticism against the pre-independence banking practices was the export of funds from the Gold Coast. It was questioned why an underdeveloped economy like the Gold Coast which needed all its savings and more from outside for economic development, should become an exporter of credit. British Bank of West Africa's (BBWA) historical records indicated that, A(...) *the real grievances of the African traders were not concerned with the British banks or banks as such but with two aspects of the financial system.* ***First, African savings, private and public, were already substantial in the inter-war period, but the greater part was held or invested in London rather than converted into lending in West Africa. This was true of private deposits in the banks as much as of the reserves built by the West African Currency Board, and after the war of surplus funds of the produce boards*@**. (Emphasis ours; see Fry, 1976, p.216).

Writing on the same theme, Lewis (1952) contended that while the sterling balances of the U.K. had been falling since the second World War, the Colonies had consistently invested more money every year in the U.K., albeit these territories needed resources for economic development. More interestingly, the Gold Coast Government had to borrow from the U.K. at relatively high rates of interest investable resources which had originated in the Gold Coast and had been transferred to the United Kingdom. For example, by 1951, the Public Debt of the Gold Coast Government amounted to ,8.41 million, "all of which was raised in London" (Trevor Report, 1951, para.171).

As a result of the perceived weaknesses of the then banking superstructure and subsequent recommendations of the Trevor Report, the Bank of the Gold Coast was established in 1952 Ato provide finance both on a long term and short term basis at very low rates of interest for Government development projects and for African farmers, traders, and industrialists against such security, land or otherwise, as they are in a position to offer" (See Trevor, 1951, para.46). Then in 1957 on the eve of independence, the Bank of the Gold Coast was split into two, namely Bank of Ghana (as the central bank with full panoply of executive powers) and Ghana Commercial Bank. The Ghana Commercial Bank was established to offset the dominance of the banking system by the expatriate banks, Standard Chartered Bank and Barclays Bank, and to ensure adequate supply of credit to the deprived or marginalized but productive sectors of the economy. To give it a competitive edge over the expatriate banks, Ghana Commercial Bank (GCB) was given legal authority to be the sole bank to handle government business in areas where Bank of Ghana was not in a position to do so.

In its operations, however, GCB tended to favour the large indigenous enterprises, and was unable to reach what in the literature are the MSEs. From then, post independence financial development in Ghana concentrated on institution building to provide credit to various designated centres considered as deprived sectors. Thus the National Investment Bank (NIB) was established in 1963 to provide term credit facilities for manufacturing and agro-based industries; the Bank for Housing and Construction (BHC) was established in 1974 to cater for the credit needs of private housing schemes, expansion and modernization of immovable property estates as well as industrial construction; and in 1976, the Agricultural Development Bank was established to provide finance for the development of agricultural and allied industries.

Next were what Bank of Ghana calls "Secondary Commercial Banks". They included the Social Security Bank (SSB), the National Savings and Credit Bank (NSCB) and the Co-operative Bank. An intriguing feature of these banks was, that though commercial banks, they were apparently established to meet certain exigencies of the credit lacuna. Thus, the SSB and NSCB emphasized consumer credit facilities and finance for small-scale projects whilst the Co-operative Bank caters for cooperative ventures. In terms of corporate banking, the Merchant Bank was established in 1972 to provide management and corporate financial services, underwriting the floating of stocks and shares of various maturities, block discounting and consultancy services to businesses.

Although banks were established to cater for virtually all the sectors of the economy, micro finance was still a major problem. This spurred Government on to come out with the unit banking concept, the Rural Banks. These Rural Banks are to mobilize rural resources and channel them to micro and small-scale enterprises and other informal economic activities in their respective localities. Thus, an examination of the emergence of banks in Ghana indicates that the banking system developed as a response to certain perceived credit needs. Apparently, the more banks were established, the sharper the focus on the inadequacies of the existing credit schemes. For example, the need for rural banking became evident when it was realized that the credit facilities provided by the specialized banks could not adequately cover the credit needs of small peasant farmers who produce about 90 percent of the agricultural output and that the commercial banks serve only the large-scale enterprises neglecting small-scale as well as other informal businesses whilst these banks divert large parts of rural savings to urban centres. In this vein, the evolutionary process of the financial system in Ghana was not different from the experience of the Philippines described by the World Bank (1980, p.50) as follows:

A*(...) when it was observed that commercial banks made little effort to penetrate the countryside and to supply financial services to its residents, a system of rural banks was set up (1952). When a rising demand for medium- and long-term development finance was felt in the early years after World War 11, development institutions such as the Development Bank of the Philippines (1947) and a number of private development banks (1959) were created or encouraged. Recognition of unfulfilled credit needs of small-scale industries led to the creation of the National Cottage Industries Bank(1963). The perceived shortage of financial services in the Muslim provinces of Mindanao prompted the establishment of the Amanah Bank (1963)*@.

Consequently, on the eve of the financial sector reforms in 1988, the institutional structure of the banking system showed that it was relatively diverse and apparently adequate in terms of the sheer physical existence of banks. Besides the central bank, Bank of Ghana, there were what was then referred to as the three primary commercial banks, seven secondary or specialized banks, one merchant bank and 123 unit banks that were designated as rural banks. Within the supply leading finance thesis, the premise is that this multitude of banks as well as their diverse character could serve as a catalyst in promoting the development of financial services and economic development.

4. The Demand for Credit: The Macro Policy Framework Approach

To support institution building in Ghana's supply-leading finance path of economic development strategy, a policy regime was put in place to, ostensibly, enable the banks make credit to designated priority areas to promote accelerated economic development. The policy framework focused on Keynesian models that the interactive mechanism between finance and economic development proceed from low interest rates to increased investment to high rate of output/income growth, and subsequently to higher savings rates. It must be emphasized that within the framework of the pre-independence and immediate post-independence financial structure, savings were not considered as constraints on credit creation. Historically, as mentioned earlier, banks were exporting funds to the UK and other overseas countries within the framework of branch banking. Until FINSAP, the excess liquidity ratios of the DMBs further suggested that credit flows to the various private sector agents were not constrained by unavailability of funds. Banks in Ghana appeared to have adequate funds. It was therefore a paradox that a believed excess demand for credit co-existed with large amounts of surplus funds at the banks.

Four general considerations tended to influence financial policies in Ghana immediately after independence up to 1988 when FINSAP was introduced. These policies were the desire to: a) increase the level of investment; b) improve the allocation of investment among the various sectors of the economy, including the micro and small-scale enterprises; c) keep financial costs down in order to avoid what was believed to be the inflationary effects of liberalized market rates of interest; and d) maintain low and stable interest rates to countervail the perceived baneful effects of exorbitant rates in the informal financial markets.

To achieve these objectives, the post-independence reforms included: i) government-determined interest rates, typically low and different for deposits and loans of different maturity and loans to different sectors credit ceilings, ii) sectoral credit controls; iii) reserve requirements; iv) government directives to lend to state-owned enterprises; v) limits on lending to foreign-owned companies; vi) institution building, namely, creation of development banks, outwardly specialized by sector; and vii) nationalization of foreign-owned banks or participation in such banks with majority share.

Whilst the quest of easing credit constraints underpinned the evolution of banks and Bank of Ghana's financial programmes, the quantitative derivation of credit demand was based on the type of economic strategies pursued immediately after independence and continued until the financial sector reforms was launched in 1988. Ghana's development strategy after independence was the planned economy strategy with active state interventionists policies. By this, the growth path of the economy was selected and predetermined targets were set for the economy and its constituent parts. The strategy emphasized the importance of capital in production so that the output targets for the economy and the various sectors were set. The essential issue was thus reduced to how much investment was needed to achieve target increases in output. This led policy makers at both Bank of Ghana and the Ministry of Finance and Economic Planning to define credit demand in terms of incremental output and proportional output. We examine these approaches to the quantification of credit demand in turn.

4.1. The Incremental Output Approach to Credit Demand

The fundamental assumption of the Incremental Output Approach is that credit is required to support economic growth in the same proportion that it is used to fund present levels of economic activity. Current credit requirement figures begin with the amounts of credit disbursed during a recent period for the economy as a whole and for the respective sectors. These amounts are multiplied by one plus a projected fractional increase in the sector's output. The fraction decided on depends on the monetary authority's overall macroeconomic objectives. In this scheme, new credit demand is defined as the difference between the amount of credit disbursed in the previous year and that derived for the current year.

Thus, for each year until 1990, Bank of Ghana's Research Department prepared a Monetary and Credit Plan, taking into account the actual economic developments during the year, the major trends in monetary and credit developments and the estimated expansion of the money stock, other bank liabilities and net foreign assets in the ensuing year. Based on these estimates, the Bank of Ghana derived its expansion coefficient for total credit, which was then broken down into the respective sectoral credit needs according to the sectors' projected percentage increases in output. In determining the shares of the various sectors in total credit, Government financing needs were taken as given and the shares of the other sectors as a residual. Thus for example, Bank of Ghana in its 1983 financial policy defined credit demand for the sectors as follows:

A*(...) the cash reserve requirement ratio of the major commercial banks was, however, changed from 35 percent to 20 percent to enable the banks to finance the expected increase in economic activity. Ceilings on sectoral credit to some of the priority sectors were also raised to ensure an adequate flow of credit to these sectors. In this regard, the credit ceilings were raised from 75 percent (of the level of December 1982) to 100 percent for the transport, storage and communications sector. The highest proportional increase was however, in respect of import trade, whose credit ceiling was raised from 100 percent to 600 percent. As in the previous year, there was no ceiling for the agricultural sector; furthermore all the banks were required to lend at least 20 percent of their total loan portfolio to the agricultural sector. Ceilings on credit to electricity, gas and water as well as construction, designated non-priority sectors, were raised from 50 percent to 100 percent and 25 percent to 100 percent respectively. The proportion of the permissible total domestic credit increase to Government was reduced from 40 percent in the previous year to 28 percent in the year under review in order to make adequate provision for the credit needs of the non-government sector and to curb Government reliance on borrowing from the banking system."* (See Bank of Ghana, 1983, p.1).

The above excerpt is typical of many such policy statements. For the sectoral credit needs for designated priority sectors, Bank of Ghana prescribed permissible percentage increases over each bank's disbursed credit to a sector at the end of the preceding year, making no allowance for bad debt provisions. Thus, by adding all sectoral demands for a bank, Bank of Ghana also set an overall ceiling for each bank.

4.2. The Proportional Output Approach to Credit Demand

The proportional output approach derived credit demand from a sector's contribution to the economy. In this respect, GDP was analyzed in terms of the relative importance of the different sectors' contribution to economic activity. The ratios obtained were then used as bases of credit policy where the total amount of credit disbursed in the previous year was multiplied by the ratio to quantify the sector's credit demand, or the amount of credit which ought to be flowing to the sector in the ensuing year. Unlike the incremental output approach (which defines credit demand in terms of some target output), the proportional output approach generally indicated credit insufficiency rather than an exact amount of credit to be made available to a sector. This was reflected in the Government's 1983 financial policy when the Bank of Ghana directed that:

A*To give more concrete expression to its agricultural policy, The P.N.D.C. Government adopted policy measures which sought to increase the level of credit to the agricultural sector, especially to the small-scale farmers who produced the bulk of the country's food requirements. In this regard, all commercial banks were required to lend at least 20 percent of their total loan portfolio, as at every reporting date, to the agricultural sector. This proportion was meant to comprise at least 12.5 percent of that portfolio to the small-scale farmers and at least 7.5 percent to other farmers ... to ensure effective implementation of that agricultural credit policy, all banks were required to comply with those directives. Where, for some reason, a bank was unable to comply, it was required to transfer to the Agricultural Development Bank [ADB] such amounts as would bring their total lending to the agricultural sector to the required proportion. Such transfers, however, would not attract any interest*@. (Bank of Ghana, 1983, pp.14-15).

Unfortunately, however, both institution building and elaborate credit programmes failed and an immiserizing growth process ensued with both stunted economic and financial development. By their very nature, both the incremental and proportional output methods of estimating credit demand by Bank of Ghana did not take into account other binding constraints on investment, particularly in the sectors designated as priority sectors and which were to be apportioned the greatest credit demand. Fundamentally, the reasons why a sector has difficulty in attracting credit were not taken into account by such measures. Credit demand targets did not contain measures for discriminating against proposals of credit applications likely to lead to bad investments and bad loans. These approaches to quantify credit demand entail cheap credit policies without proper remunerative uses of credit. Indeed, because of the extreme regulation of banking practices, banking became a mechanical process, especially as banks were programmed by Bank of Ghana as to how to manage their portfolios. Since management of these banks did not share any risk of loss, they had a propensity to take on additional risk without paying any price for their actions. Not surprisingly, the banks, especially the state-owned banks, accumulated huge amounts of non-performing assets as shown in table 1.

Table 1: NPAs Transferred to Non-Performing Assets Recovery Trust by Banks in 1990. Millions of Cedis

Bank	Amount Of Non-Performing Assets Transferred To NPART	% Of Total Non-Performing Assets Transferred To NPART
GCB	14,321	28.4
SSB	12,585	25.0
NSCB	725	1.4
ADB	1,293	2.6
NIB	6,623	13.1
BHC	12,853	25.5
Barclays	689	1.4
SCB	462	0.9

MBG-	881	1.7
Total	50,433	100

Source: Gockel (1995)

In substance, the incremental approach could be reduced to officials making decisions about priority sectors and what they felt was desirable. Apart from its simplicity, the approach failed to go beyond the mathematical relationship between output and credit. It did not deal with the substance of transactions or the financial calculations it sought to influence. It also did not provide an indication of the quality of the credit in use or expected to be used. Worst still, it did not take cognisance of the larger amounts of non-performing loans carried by the banks. Indeed, it failed to analyze why the priority sectors have difficulty attracting credit in the first place. In fact, while the non-performing loans indicated that lending could not have been sustained without policy changes in the credit system, the incremental output approach to credit demand always indicated that more credit should be made, regardless of the borrowers' potential and of the incentives to repay such loans.

Prolonged quantitative controls on credit as happened in Ghana tended to discourage many forms of competition. Credit ceilings tend to limit competition between banks as credit is allocated on the basis of historical market shares, and not according to lending opportunities. Bank -by- bank ceilings distort competition by penalizing more dynamic banks and discouraged financial savings mobilization. Once a bank reaches its ceiling, it has no incentive to compete for additional deposits, even though indications were that some of the major banks had profitable clients. As was the case, banks tried other innovative practices to beat the dirigiste approach to credit management, for example asking their favoured clients to establish pseudo subsidiaries which fall in the designated priority sectors. Our discussions with DMBs= management at the head offices during the surveys suggested that the bigger and more innovative banks advised their prime customers to establish farms for purposes of accessing credit under the agricultural sector=s allocation. Thus emerged such farms as UTC FARMS, KINGSWAY FARMS and GLAMOUR FARMS[3], to mention a few. Not surprisingly, the bigger primary commercial banks were able to operate within their ceilings and sectoral guidelines whilst maintaining their traditional focus. By this, bank credit became fungible and Bank of Ghana was not achieving its financial policy objectives. As it was, directed credit programmes limited the scope of borrowers to switch banks. Not only were banks limited in how they could use funds, but in a situation of rationing, would-be borrowers had to win the goodwill of potential lenders; one way to do this was to leave on deposit larger balances than would otherwise have been desirable.

In addition, credit ceilings and sectoral credit allocations are incompatible with the need for increased intermediation as they tend to encourage both intermediation outside the banking system and capital flight. Together with low interest rates, once a bank met its ceilings, not enough incentives existed to mobilize savings. Once banks refused to accept further interest-bearing deposits, this would tend to encourage intermediation outside the banking system, capital flight and/or the acquisition of durable goods. Thus, intermediation was discouraged as was reflected in the low and declining bank deposit-money ratio. This fell consistently from 7.3% in 1975 to 1.9% in 1984 and did not recover substantially thereafter, that is, there was an increasing trend in currency- money ratio (see Bank of Ghana, 1986).

Ghana=s experience with directed credit policies tended to suggest that although entrepreneurs

[3] UTC, Glamour and Kingsway were large multinational trading corporations.

may lack access to credit, policies that were devised to make credit available by arbitrarily defining a demand for them did not reckon with the complex issues involved in finance and development. In particular, the macro-approach to credit demand tended to obscure the micro implications of credit and how banks and MSEs actually relate to each other in credit allocation. Finance is scarce, and it is this scarcity which gives it value. This is especially the case with bank finance or credit for productive purposes. Finance is a binding constraint only when all other ingredients for successful investment are available apart from finance, and when finance can conveniently activate these other ingredients for positive returns on the investment.

5. Financial Sector Adjustment Programme and Developments in the Banking Industry

5.1. Measures Implemented in Ghana

By 1988, the World Bank and the PNDC Government had agreed that a reform and restructuring of the financial system was indispensable to the success of the Economic Recovery Programme (ERP) begun in 1983. With technical and financial assistance from the IDA through a Financial Sector Credit (FINSAC 1), the PNDC Government embarked upon a Financial Sector Reform Programme (FINSAP) in 1988. The objectives of the program were to: a) undertake restructuring of financially distressed banks; b) improve savings mobilization and enhance the efficiency of credit allocation through interest rate liberalization; c) enhance the soundness of the banking system through an improved regulatory and supervisory framework; develop money and capital markets; and d) establish a non-performing assets recovery trust (NPART).

The restructuring of these banks involved the following measures: (a) reconstitution and strengthening of Board of Directors of affected banks; (b) closure of unprofitable branches; (c) reduction of operating costs through retrenchment of staff; (d) cleaning of balance sheets by off-loading non-performing loans to state-owned enterprises, loans guaranteed by the government of Ghana, and non-performing loans granted to the private sector. Other changes include upgrading of managerial capacity and deficiency of distressed banks, intensified staff training of affected banks, and the provision of enough capital and adequate liquidity to enable the distressed banks to operate in a self-sustaining manner after restructuring. Furthermore, part of the process of restructuring banks involved removing from the banks portfolios all nonperforming loans and other Government-guaranteed obligations to state-owned enterprises which totaled **4**431.4 billion at the end of 1989 and nonperforming loans to the private sector amounting to **4**421.9 billion at the end of 1989 through the issuance of bonds (Non-Performing Assets Recovery Trust, *1994 Annual Report And Accounts*, p.6). The nonperforming assets of the distressed banks were transferred to a newly created and wholly owned government agency, the Non-Performing Assets Recovery Trust (NPART) whose mandate was to realize proceeds from such assets to the extent possible. In return, the distressed banks were issued interest-bearing FINSAP bonds which were to be redeemed in annual installments.

In 1990, FINSAP 2 was launched with the following objectives: (a) to reduce state shareholding in state-owned banks, (b) to continue the bank restructuring program which was launched under FINSAP 1, (c) to intensify the recovery of non-performing loans by NPART, (d) and to enhance the effectiveness of a broad range of non-bank financial institutions.

Analytically, as we saw in the literature review, these FINSAP measures were expected to engender, inter alia, financial deepening, increased supply of loanable funds, efficient allocation of investable resources, competitive banking practices and integration of the financial system and more access to funds by marginalized enterprises under the financially repressive regime. It is this greater access to funds postulate of financial liberalization that we focus on in the rest of the paper.

5.2. Basic Characteristics of Banks Surveyed

This section is based on primary data collected through interviews and questionnaires administered to the management of deposit money banks (DMBs) in Ghana. At the time of the survey, there were 18 DMBs. Questionnaires were sent to the head offices of all the 18 DMBs but only 11 of them returned completed questionnaires. However, interviews were held with top management at the head offices of all the DMBs including the top management of those which did not return the questionnaires. The survey questionnaires were organized into a series of modules designed to find out the ownership and emergent practices of DMBs since the inception of FINSAP and to elicit information on why banks typically tend to reject savings and credit demands made by micro, small and medium scale enterprises. Furthermore, a participatory approach involving a number of identifiable groups was adopted. Notable among these groups were interviews with representatives of the Private Enterprise Foundation (PEF), Association of Ghana Industries (AGI), and Executive Officers at National Board for Small Scale Industries (NBSSI). The main focus of the participatory interviews was to elicit the perceptions of MSEs through these representative institutions about the financial needs of the MSEs and what programmes they think could be put in place to help them, especially in terms of credit packaging. The essential characteristics of the DMBs surveyed are summarized in table 2. The other salient results from the survey and interviews are discussed in the succeeding sections.

Table 2: Some Key Characteristics of Banks Surveyed

Bank Type	Commercial Banking	Merchant Banking	Development Banking	Universal Banking
Number of Deposit Money Banks (DMBs)	7	3	3	5
Total Branch Network Of All DMBs	218	10	49	8
Pre-FINSAP Branch Network of Banks	211	5	49	Nil
Post-FINSAP Branch Network of Banks	7	5		11
Number Of DMBs Branches Surveyed	23	3	12	5
Market Share -Deposits	86%	5%	9%	-
Market Share -Assets	71%	16%	13%	-
Market Shares -Credit	76%	19%	15%	-

Source: Survey Questionnaires for Bank Managers: General Information Module.

5.3. Ownership Profile of Banks

The analysis in this sections is based on response to questions 5 to 14 by the banks in the questionnaires to the management of DMBs. As we saw in earlier sections, the banking industry was largely public sector owned with Government as minority shareholder in Barclays and Standard

Chartered Bank before the inception of the financial sector reforms. Indeed, apart from the then Social Security Bank which was licensed under the Companies Code, the banking system was driven by government legislation before FINSAP, and was predominantly state-owned. However, with divestiture of about 40% Government shares in SSB Bank and Ghana Commercial Bank, and licensing of 8 new firms as banks, there is now greater private involvement in the banking industry in Ghana than was the case before reforms. The post-FINSAP banking system is now virtually private sector driven, and in terms of ownership and management of the banks, evidence shows that among the founding fathers of each of the banks is someone who did hold a very responsible post in one of the older banks, including two former Governors of the Bank of Ghana. Typically also, most of the staff of the new banks are experienced bank officials who have been enticed to join the new banks from the older banks. For instance, the core of the top management of Prudential Bank are from National Investment Bank whiles First Atlantic City Bank can boast of former staff of the Merchant Bank.

5.4. Institutional Diffusion of Deposit Money Banks (DMBs)

Although the total number of banks has increased from 11 in 1990 to 18 by the end of 1999, total branch network has consistently declined within the period. Survey data shows that the principal players, Standard Chartered Bank, Barclays Bank, Ghana Commercial Bank and SSB Bank have closed down many of their branches outside the major urban areas. For example, between 1989 and 1996, SSB Bank had closed down 20 of its branches. Similarly, Barclays Bank had 42 branches in 1988 but by 1998, it had closed down 16 branches. GCB had 150 branches in 1987 but by 1998, only 134 branches were in operation. Table 3 shows the trend in branch network of the banks surveyed between 1988 and 2000.

Table 3: Banks by Type and Branch Diffusion: 1988 and January 2000

Name of Deposit Money Bank	Type of Deposit Money Bank	Year Operations Began	Number of Branches	
			1988	2000
Standard Chartered Bank	Commercial	1897	25	20
Barclays Bank	Commercial	1917	42	24
Ghana Commercial Bank	Commercial	1952	150	136
SSB Bank	Commercial	1977	56	36
The Trust Bank	Commercial	1996	N/A	6
International Commercial Bank	Commercial	1996	N/A	1
Bank Of Commerce & Credit	Commercial		5	1
Bank For Housing & Construction	Development	1974	15	15
National Investment Bank	Development	1963	11	11
Agricultural Development Bank	Development	1967	38	38
Merchant Bank (Gh) Ltd	Merchant	1972	5	5
CAL Merchant Bank	Merchant	1992	N/A	3
First Atlantic Merchant Bank	Merchant	1994	N/A	2
Metropolitan & Allied	Universal	1995	N/A	3
Prudential Bank	Universal	1994	N/A	2
Ecobank (Gh) Ltd	Universal	1990	N/A	4

Amalgamated Bank	Universal	1997	N/A	1
Stanbic Bank Ltd	Universal	1999	N/A	1

Source: Survey Questionnaire For Bank Managers. (N/A = Not available)

An interesting aspect in the reasons for the closure of banks branches is that whilst the state-owned-banks were closed down primarily because of loss making and in preparation towards divestiture, the privately owned Barclays Bank and Standard Chartered Bank closed down some of their branches as strategic cost minimization choice. Standard Bank has closed down three of its branches in Sunyani, Swedru and Koforidua. Similarly, Barclays had to close down two of its Kumasi Zongo and Agogo branches as a cost reduction strategy. These privately-owned banks have embarked on financial innovations with technological changes, especially computerization and global link of all branches across the country. Discussion with the management of these DMBs at their head offices show that though these branches were making profits, if they should be put through the technological revolution taking place, they could become unprofitable branches and riders on the other more profitable branches. Hence their closure. Whilst Standard Bank and Barclays Bank have closed down branches in the regions, they have opened new branches in plush areas of Accra and Kumasi. For example, Barclays Bank has since 2000 established 6 new branches in plush areas of Accra to bring total branch network to 30, and Standard Chartered Bank has established four new branches in emerging classy areas of Accra. Similarly, the newer banks that have been established are currently operating only in the principal cities. Indeed, none of the banks that was established after 1989 has a branch outside Accra, Kumasi and/or Takoradi.

All the DMBs are now trying to connect all their branches wherever they are in Ghana to a central electronic network at the head office in Accra. These are all positive developments, but these notwithstanding, banking in Ghana is fast becoming an urban phenomenon. Indeed, the disheartening emerging pattern of urbanization of banking is that rural banks are also fast failing in their initial conceptual framework. Rural Banks are now tending to devise financial services that satisfy urban residents in Accra, Kumasi and Takoradi, among other urban centres, thus neglecting the peculiar financial needs of the rural population for which they have been set up. This cannot be more tersely put than was done in an editorial by the Daily Graphic after the Governor of the Bank of Ghana expressed its indignation against the practice where rural banks are establishing agencies in urban centres.

A*The concept of rural banks evolved as an antidote to the lack of banking services in the rural areas. Since the rural banks are sited in the rural areas and their customers are resident in those areas, they are better predisposed to play the intermediation role in mobilization and provision of financial resources to stimulate activities. But somewhere along the line, some of them veered and established mobilization centres in the urban areas. The initial successes motivated them to set up permanent agencies in the urban centres to the extent that for some of them, the managers spend more time with the agencies than at the main offices of the banks. In all these instances, they are either directly or indirectly supported by officials of the BOG who are interested in the profits of the rural banks [more] than their impact on the rural areas. This might have given the wrong impression about the approval of the Central Bank, resulting in more rural banks competing among themselves to establish agencies in the urban centres. But once the banks become firmly rooted in the urban centres, they needed to do things so as to attract and retain their urban customers. That is where the possibility of neglecting the rural areas become apparent.*@ (Excerpt from Daily Graphic Editorial Captioned BOG's Order to Rural Banks, Monday, September 14, 1998).

Added to the closure of bank branches is the implementation of minimum balances and deposit guidelines by the DMBs in Ghana. A typical example is the SCB=s bank's 20-80 rule. According to management of SCB, 80% of the bank's profitability hinges on only 20% of its customers. Consequently, it would be in the bank=s interest to provide this 20% with quality service. The 80% of the customers who account for only 20% of the bank's progress have accordingly been advised by management to transfer their custom elsewhere. Corporate customers with 50 million cedis balances or less have been advised to make alternative arrangements. As regards the non-corporate sector, the DMBs have started introducing savings products that would marginalize not only the rural dwellers who will have no access to financial services, but would more significantly render even formal sector workers helpless with regard to saving with banks or having access to banking services. Minimum deposit balances required for savings and demand deposits have been raised substantially beyond the capacity of average enterprises and potential depositors, and (in the context of those who receive their salaries through the bank) above minimum monthly income levels in the formal sector of the economy. For example, Barclays Bank announced that:

A*(...) accounts that are below the minimum required balance after 1st August, 1998 will be closed in our books, and those customers whose salaries are paid through their accounts, should make alternative banking arrangements, and advise their employers of changes, to avoid delays in receipt of salaries*@. (Barclays Bank, Treasury Department Notice To All Savings Account Holders, April 1998).

Ghana Commercial Bank is no exception to the emerging pattern as evidenced by the following public notice issued by the Bank. It is an understatement that these mandatory minimum balances on accounts demanded by the banks may spell problems for saving mobilization not only for those in the rural areas but urban residents who cannot meet the minimum balance requirements but are desirous of cultivating the banking habit of financial saving.

PUBLIC NOTICE

To ensure continuous efficient customer services and prudent business operations, ***Ghana Commercial Bank Limited*** *in line with market trends has reviewed its minimum balances and initial balances and initial deposits as follows:*

Current Account: Account Type	Minimum Balance	Initial Deposit
Individual/Salaried Workers	*N/A*	*100000*
Joint, Clubs/Societies	*N/A*	*100000*
Trustee/Executors/Administrators	*N/A*	*100000*
Sole Proprietors	*N/A*	*500000*
Limited liability Companies	*N/A*	*100000000*

Savings Account: Account Type	Initial Deposit	Minimum Balance
Individual/Salaried Workers	*50000*	*50000*
Joint Accounts	*50000*	*50000*
Akuafo Cheques	*20000*	*20000*
Cubs and Societies	*100000*	*100000*
Sole Proprietors	*100000*	*500000*
Partnerships	*300000*	*300000*
Limited liability Companies	*500000*	*500,000.00*

Source: Ghana Commercial Bank, Operations Department Notice to the General Public, June 1998

The urbanization of banking and the revision of minimum balances upwards tend to suggest that there appears to be an intense oligoplistic competition among Barclays, Standard Chartered, Ghana Commercial bank, Trust Bank, Ecobank, Social Security Bank and the other newly established banks for middle and upper market customers that provide large business volumes and pay premium transaction rates for quality service[4]. Accordingly, rural enterprises and urban micro and small-scale

[4] This is not surprising if we recall that staff of new banks were largely recruited from older banks. These staff have brought their knowledge and acquaintanceships from their previous employment on their new jobs. This was the case

enterprises are fast being marginalized as the strategic moves by the DMBs makes banking elitist and concentrated in the major urban centres. With the liberalized financial policies where banks are free to pursue private profit motives, it is quite evident that a banking development gap would be created if adequate alternative arrangements are not made to cater for the marginalized population, especially those in the rural areas. A dualistic banking system would likely be created, aggravating micro-finance.

The obvious question is as follows; Asince banking is becoming urbanized and all the banks are raising the minimum balances, where would these marginalized customers get the needed services?@ Without pre-empting further justification, this raises the stakes for further assignment for financial reforms. The basic issue in this respect is whether banks prefer borrowers who are productive socially, or put another way, whether the most efficient entrepreneurs apply for credit. Once liberalization is emphasized with banks as profit maximizers, banks naturally tend to seek avenues for their funds where the expected return to them is highest, the risk of non-repayment small, and the cost of loan administration low. In such a case, bank credit may not flow to the socially most efficient and desirable sectors of the economy, liberalization notwithstanding. This goes to reinforce the divergence between private profitability considerations of the banks and the social benefit considerations of society. Ghana=s experience with financial liberalization so far appears to show that getting the prices right is too simplistic a solution to achieving allocative efficiency. As we see shortly, even in the absence of controls, DMBs still rely heavily on their assessment of creditworthiness of borrowers and the collateral security availability. In so far as the existing DMBs tend to focus on private profitability to the exclusion of social

at First Atlantic Merchant Bank where the top management, all from the Merchant Bank, had managed to secure the custom of key clients of Merchant Bank.

profitability and real sector development, the Bank of Ghana should examine other ways of financial intermediation that meet the financial needs of marginalized micro and small scale enterprises and rural dwellers. This is the only way to enable them contribute meaningfully to the realization of rapid economic development and poverty alleviation.

5.5. Emergent Banking Practices: One-Stop-Shop Banking or Universal Banking

The financial services currently provided by the DMBs show that the distinctions among commercial, merchant and development banking does not exist in practice. All the banks now virtually perform commercial and developmental banking businesses in addition to merchant banking. In particular, the new banks are one-stop-shop banks or financial supermarkets offering virtually all types of financial services under one roof, and which are characterized by the combination of deposit taking and credit making with the business of trading in securities as well as their ownership of investments in other banks and nonbank financial intermediaries. A couple of examples will suffice. Typically, Ecobank Ghana Ltd has as subsidiaries ECOBANK Stockbrokers Ltd (ESL) and EBG-Investment Managers Limited (EBG-IML) to perform specialized services. Trust Bank describes itself as a "Universal Bank" that provides corporate finance and treasury services for corporate bodies and government agencies. The Agricultural Development Bank's Western Money Union Transfer and SSB Bank's MONEYGRAM have transcended development banking practices whilst Eco-Bank and Merchant Bank's attempts to induce the general public use these banks for the payments of utility bills are anything but merchant banking, instricto sensu. National Investment Bank=s aggressive Aloan for school fees@ programme is both retail banking and insurance in practice. Standard Chartered Bank and Barclays Bank also have products that are of an insurance character. Hence, after the 1988 financial reforms, banking has been characterized by investment banking activities combined with commercial and development banking activities.

Banks are now into all financial services including insurance, leasing, and capital market activities. Table 4 shows the major financial services provided by the six largest banks and the Trust Bank (by market shares of total deposits and loans). Apparently, the functional overlap has been facilitated by the very definition of the business of banking across for all banks by the 1989 Banking Law, irrespective of whether the bank is to be registered as a commercial, merchant or development bank. The business of banking is defined by Banking Law, 1989 (PNDCL 225), Section 48 as follows: (1) Athe acceptance of deposits of money from the public repayable on demand and withdrawal by cheques, drafts, orders or by other means: or (2) the financing whether in whole or in part or by way of short, medium, or long term loans or advances, of trade, industry, commerce or agriculture@. The only clear distinction that exists among the DMBs is the capital requirements for each type of bank, commercial, merchant and development[5].

[5] 1989 Banking Law, PNDCL 225 requires minimum paid-up capital of 4200m for merchant and commercial banks, and 41 billion for development banks.

Table 4: The Major Financial Services Provided by the Top Six Banks

Type of Service	*GCB*	*SCB*	*SSB*	*BBG*	*ADB*	*Eco-Bank*	*Trust Bank*
Deposit taking	√	√	√	√	√	√	√
Syndicated Money Transfer	√		√		√		
Overdraft facilities	√	√	√	√	√	√	√
Advances	√	√	√	√	√	√	√
Line of credit	√	√	√	√	√	√	√
Letters of credit	√	√	√	√	√	√	√
Venture capital	√		√		√	√	√
General loans	√	√	√	√	√	√	√
Mortgage loans	√	√	√	√	√		
Corporate loans	√	√	√	√	√	√	√
Project loans	√		√		√	√	√
Small Business guaranteed loans	√		√		√	√	√
Leasing		√		√		√	
Pledging	√	√	√	√	√	√	
Insurance		√		√			
Stock brokerage						√	√
Cash management	√	√	√	√	√	√	√
Business counseling	√	√	√	√	√	√	√
Agricultural loans	√	√	√	√	√	√	√
Consumer loans	√		√		√	√	√
Car loans	√	√	√	√		√	√

Source: Survey Data: Answers to questions 15 and 35 of Questionnaire for Bank Managers

Undoubtedly, the emergent banking practices have certain inherent advantages. Universal banks make for easy access to banking services and other non-bank financial services under one roof, and therefore facilitate the creation of an efficient system of financial intermediation. Because of their one-stop-shop nature, universal banks tend to have lower costs when acquiring new customers, or new information. Furthermore, there are also internal cost advantages due to the possibility of mixed calculation, and because of economics of scope and scale effects. These advantages of universal banking notwithstanding, it must be pointed out that the combination of commercial banking with security trading could create conflict of interest, and could probably provide undue opportunities to use insider information and to manipulate, or at least manage, stock market prices. Moreover, the accumulation of bank and nonbank investments in the hands of the banks could give them too much economic.

The evidence adduced in this section clearly shows that the distinctions among commercial, merchant and development banking has virtually disappeared. Banks in Ghana, especially the newer ones, are offering virtually all types of financial services under one roof. We have also seen that, rural enterprises and urban micro and small-scale enterprises are being marginalized at a very fast rate. With the liberalized financial policies where banks are free to pursue private profit motives, it is quite evident that a banking development gap would be created if adequate alternative arrangements are not made to cater for the marginalized population, especially those in the rural areas. A banking system that is likely to aggravate rural finance will be created. There is therefore a further assignment for financial reforms in Ghana to ensure that the marginalized sectors have access to financial services.

6. Spurious Demand for Credit or Capital Shortage Illusion

As mentioned in section 2.4, the general perception has been that lack of finance was the over-riding constraint to growth of indigenous enterprises. It is our contention that such a view is erroneous. A genuine analysis of credit demand requires the examination of the entrepreneur's debt capacity, which itself enables both loan size and repayment schedules to be determined simultaneously against the background of prevailing risks. This analysis of debt capacity defines a bankable project that can conveniently be included in the credit demand analysis, which further entails that loan applications meet the requirements of the DMBs including an experienced entrepreneur or an entrepreneur that has demonstrated his qualities as a borrower; a liquidity cushion in the form of equity financing to protect the interest of the bank; a discounted cash flow that would reasonably cover expected claims within a defined period; a loan purpose related to a technology and economic activity; a commodity or industry that would perform satisfactorily in a competitive environment; and measures to contain the effects of probable risks that are exogenous but most threatening to the efficacy of the enterprise. When we add the interest cost to these constraints, we arrive at what we call the price vector of credit. Thus, it is erroneous to presume that only interest rates are the price of credit. The issue is whether many of these characteristics are possessed by the loan applicants in addition to their willingness to pay the prevailing rate of interest quoted by the banks.

In the light of the above reasoning, the issue of a large unsatisfied demand for credit in Ghana becomes a contestable issue. Our basic premise is that the credit shortage argument is overstretched and applications for credit by entrepreneurs are a desire for credit but not an effective demand for credit backed by preparedness to meet the price vector of credit quoted by DMBs. To empirically assess the relevance of the spurious demand thesis or capital shortage illusion, a module of the questionnaire administered to the DMBs explored the issue that from the perspective of banks, there is a shortage of viable projects that are bankable. By this, if a project is assessed as unlikely bankable, then its commercial viability is doubtful. Such an unbankable project could be badly conceived, lack or is devoid of sufficient entrepreneurial ability, or because exogenous factors are heavily weighed against the project. Merely applying to a bank for credit does not by itself constitute effective demand for credit. Using data from the questionnaires to the DMBs, the following findings go to support the capital shortage illusion hypothesis.

NIB's records showed that the Bank received 303 loan applications in its first year of operation. Out of this number, only 27 merited submission to the Bank's Development Service Institute for feasibility studies. The number eventually found to be feasible and therefore bankable was 16. Implicitly, only 16 loan applications, representing 5 percent of total applications for loans, constituted effective demand or true demand for bank credit. That is, 95 percent of loan demands was spurious demand. What NIB experienced in the 1960s still persists about lack of bankable projects. Indeed, so far as the DMBs are concerned, most applications for credit are still unbankable or do not meet the price vector of the banks. Table 5 shows the total number of applications received by four major banks and the percentage rejected as unbankable.

Table 5: Loan Applications Rejected as Percentage of Total Loan Applications for Selected Banks. 1985 -1998

Year	*ADB*		*SSB Bank*		*BHC*		*Barclays Bank*	
	No. of Application Received	*% Rejected*	*No. of Application Received*	*% Rejected*	*No of Application Received*	*% Rejected*	*No of Application Received*	*% Rejected*
1985	*78537*	*74.11*	*7230*	*67.9*	*N/A*	*N/A*	*N/A*	*N/A*
1986	*48788*	*64.89*	*7337*	*63.56*	*N/A*	*N/A*	*N/A*	*N/A*
1987	*40778*	*60.49*	*8583*	*66.77*	*N/A*	*N/A*	*N/A*	*N/A*
1988	*38927*	*64.14*	*8765*	*66.66*	*N/A*	*N/A*	*N/A*	*N/A*
1989	*N/A*	*N/A*	*9501*	*68.91*	*N/A*	*N/A*	*N/A*	*N/A*
1990	*N/A*	*N/A*	*13228*	*66.77*	*N/A*	*N/A*	*N/A*	*N/A*
1991	*N/A*	*N/A*	*15054*	*66.66*	*N/A*	*N/A*	*N/A*	*N/A*
1992	*N/A*	*N/A*	*17779*	*67.77*	*N/A*	*N/A*	*1690*	*3.92*
1993	*27836*	*55.02*	*18948*	*65.65*	*7900*	*8.53*	*1939*	*7.53*
1994	*51070*	*66.9*	*25060*	*67.77*	*9368*	*10.49*	*1824*	*6.77*
1995	*28700*	*43.78*	*27852*	*66.77*	*9185*	*9.81*	*1765*	*2.28*
1996	*70771*	*65.48*	*2807*	*66.66*	*6321*	*5.87*	*2976*	*22.29*
1997	*9423*	*19.29*	*24584*	*66.66*	*2095*	*5.6*	*2790*	*14.31*
1998	*N/A*	*N/A*	*28410*	*65.77*	*1530*	*5.91*	*2590*	*2.48*

Source: Survey Data, Answers to questions 25 - 27 of Questionnaire for Bank Managers

The rejected percentages shown in the table are generally very high, consistently over 60% for several years for ADB and SSB Bank. An intriguing phenomenon is the outlier characteristic exhibited by Barclays Bank. For the years that data was available, the loan rejection rate was extremely low. This was less than 4% in 1992, and was 7.53% and 6.77% for 1993 and 1994. It fell to 2.28% in 1995, but rose very sharply in 1996 and 1997 to 22.29 and 14.31. In 1998, the rejected percentage was 2.48%. Apparently, Barclays Bank has the custom of the more creditworthy borrowers who have the capacity to meet the price vector quoted by the Bank. This partly explains the low value of nonperforming assets of Barclays Bank taken over by NPART. Nevertheless, the overall picture of the rejections suggest that not many loan applicants do their homework very well to meet the price vector of the banks, especially those DMBs that have been established to meet the credit needs of the designated priority areas and the marginalized groups.

To find out why the banks rejected the loan applications as not bankable, the DMBs were asked to rank 13 variables in descending order of severity. Out of the 11 DMBs that responded to the questionnaires, 3 banks, SCB, BBG and SSB Bank, all had the following ranking as the five top reasons for rejecting loan requests: i) lack of acceptable collateral; ii) lack of a clear repayment plan or poor project reports and/or lack of comprehensive project plans; iii) poor financial and/or managerial expertise; iv) poor performance in relevant sector; and v) end use of loan request not being bank's target market or suspicion of fungibility. On the other hand, GCB and ADB did not consider collateral as very important among the top five reasons to warrant rejection of application. GCB ranked collateral as the 6^{th} factor whilst ADB ranked it as the 8^{th} factor. GCB and ADBs rankings for the five top most factors are as follows: i) lack of a clear repayment plan or poor project reports and/or lack of comprehensive project plans; ii) poor financial and/or managerial expertise; iii) poor performance in relevant sector; iv) not enough information on potential borrower; and v) physical remoteness of enterprise. Table 6 shows the rankings of reasons for rejection of loan requests made to the other 6 banks that responded to the questionnaires submitted to them.

Although the banks have different rankings for the variables cited for rejection of loan requests, an intriguing feature of the responses is that all the 11 responding banks have not considered Ahigh ratio of transaction costs to loan ratio@ as important in loan decisions. This is much so if we note that the major banks are invoking the 20-80 rule and are revising minimum balances upwards whilst they are at the same time urbanizing their operations, significantly restricting them to the more affluent areas, apparently as cost reduction strategies. Furthermore, apart from Standard Chartered Bank, Barclays Bank and SSB Bank, Cal Merchant and Merchant Bank who have ranked collateral as the number one factor in loan decisions, all the other banks consider Alack of a clear repayment plan or poor project reports and/or lack of comprehensive project plans@ as the overriding factor in making loan decisions.

Table 6: Reasons for Banks Rejection of Loan Requests of Selected Banks[a/]

Reason For Loan Rejection	NIB	Trust Bank	Eco-Bank	Prudential Bank	Merchant Bank	CAL Merchant
Lack of acceptable collateral	5	2	2	5	1	1
Not enough information on potential borrowers	2	3	4	2	6	3
Poor project reports/lack of comprehensive business plan	1	1	1	1	2	2
Applicant does not show managerial competence	4	5	5	3	N/A	N/A
Lack of booking or inadequate compliance framework	3	4	3	4	7	N/A
Poor performance in the relevant sector	8	6	N/A	N/A	5	4
Physical remoteness of enterprise	7	8	N/A	N/A	N/A	N/A
Poor previous performance or unfavourable track record	6	N/A	N/A	N/A	4	N/A
High ratio of transaction costs to loan size	N/A	N/A	N/A	N/A	3	N/A

Source: Survey Data: Response to Questions 23 and 24 of Questionnaire for Bank Managers.
[a/] Ranking is from 1 in terms of significance.

The reasons adduced by the banks as to why they reject loan requests clearly indicate that the generally held belief that capital shortage constrained the development of indigenous enterprise would appear to be an illusion created by spurious demand for bank credit. What the rejected applications and the subsequent accrual of large amounts of non-performing assets by the DMBs in Ghana suggest is the shortage of viable bankable projects or what we call creditworthy projects.[6]

On the issue of Aill-prepared projects and inadequate equity investment in the projects by loan applicants@ discussions with bank managers suggest that in several instances when they adjudged an application as potentially bankable or creditworthy, they requested the applicants to go back to make the necessary improvements like updating of records, layout, staff policy or whatever the bank felt was deficient as a condition for granting the loan. More often than not, however, most such applicants never came back. On this theme, the Managing Director of SSB Bank explained that most entrepreneurs in the micro and small scale industries conceive projects without considerations of investing any of their own funds in the business. Such enterprises expect the banks to finance 100% the operations of the business. He said that this was not only unacceptable to banks but that it implied that the entrepreneurs were not committed to the projects and were not prepared to assume risk. They want the banks to assume all the risk. It was therefore not surprising that SSB Bank emphasized collateral as the overriding factor in loan decisions.

Furthermore, the bank managers we interviewed pointed out that most enterprises did not keep adequate books of account; in several cases, the accounting records kept were receipt books and bank paying-in-slips. Because of the inadequate records of their transactions, the bank managers argued, the

[6] It must be cautioned, however, that the banks= rejection of large numbers of private sector applications may also stem from their cautious approach to analysis of loan requests. This appears especially so if we note that banks carried large amounts of non-performing loans that were securitized by Bank of Ghana, and transferred to NPART in 1990.

enterprises were unable to put up any meaningful appraisal reports. Consequently, the bank managers were doubtful of the managerial capabilities of the entrepreneurs to use credit productively. Not surprisingly, SCB, BBG, SSB, Eco-Bank and Prudential Bank ranked Apoor financial and/or managerial expertise@ as the third most important factor in loans decisions whilst GCB, ADB, and NIB ranked it as the second most important factor for the rejection of loan requests from these banks.

We also gathered from our discussions with the bank managers that most micro and small scale enterprises operate bank accounts because of some external stimulus like a government directive for taxes to be paid by cheque or because of the customers' awareness of the existence of government credit programmes that might avail them of the opportunity to get cheap credit, "a subsidy or even a gift". In such instances, bank managers noted that instead of well-prepared projects as bases for loan applications, entrepreneurs attach testimonials, registration certificates or other such documents from the sector ministries to the loan applications. A typical example that was cited and which we followed up was the Fund for Small and Medium Scale Enterprise Development (FUSMED). FUSMED was set up in 1989 to provide credit facilities to 102 small and medium-scale enterprises at concessionary interest rates as a means of meeting their perceived credit needs. The banks that administered the fund were Ghana Commercial Bank, National Investment Bank, SSB Bank, Agricultural Development Bank, and Bank for Housing and Construction. Two of the participating banks, SSB Bank and Ghana Commercial Bank reported that several of the enterprises that benefitted from the FUSMED loan used these banks to access the facility after the enterprises submitted applications to Bank of Ghana to be considered for the loan. That is, these enterprises did not have accounts with the banks before the inception of the FUSMED credit scheme.

An assessment of the FUSMED[7] scheme showed that by the end of July 1995, 46 out of the 102 beneficiaries had defaulted in repaying the loans. To ascertain the factors that have contributed to this high default rate despite the fact that these enterprises were assessed viable and all that was required was credit, we visited some of them, five successful ones and ten defaulters. We then contacted officials at the Bank of Ghana to double check some of the details furnished us by the management of the firms. Interviews with the management of the defaulting enterprises reveal that, in general, they were not able to meet their loan repayment commitment because of one or several of the following factors; a) late disbursement of loans, b) late arrival of equipment, c) high interest rates, d) inadequate capitalization, e) lack of working capital, f) lack of appropriate marketing strategies, g) trade liberalization, f) limited co-operation between administering bank and beneficiary enterprises, g) high operational cost, h) lack of effective monitoring at the implementation stage, i) management deficiencies of the enterprises, and j) adverse micro and macroeconomic conditions.

In terms of individual enterprises, management of some of the beneficiary enterprises indicated that the process of loan approval by the banks was cumbersome and in several instances, the process took 2 years before first disbursements were made of the requested amount. According to the management of some of the enterprises that we interviewed, despite the delay in loan approval and disbursement, the loan amounts were not revised to take care of the intractable inflationary pressures and depreciating exchange rate. Worst still, the loan amounts were reduced in a few instances by the project

[7] The default rate for the Business Assistance Fund (BAF) was higher than the 45% for FUSMED. It was estimated at 67%. This higher default rate was due to the fact that the administration of BAF was highly political as the loan were largely to political cronies.

officers of the banks. The overall effect of these actions derailed the initial projections made by the enterprises in their loan requests as inflation and depreciating cedi rates worsened. Thus, late loan disbursement in an unstable macroeconomic environment has led to some of the beneficiaries not being able to use the loan productively so as to be able to pay back according to schedule. For example, BEF OPPAN ELECTRIC AND CARBIDE WORKS requested for a loan facility to purchase machinery and equipment to improve and expand its welding services in Techiman in the Brong Ahafo Region of Ghana. The loan request was made to ADB and it took 20 months for the bank to approve the loan in 1990. This delay resulted in the increases in prices of the machines to be purchased while the drilling and sanding machines which the company wanted to buy were sold out on the market. The funds were diverted to buy a commercial vehicle, which unfortunately was lost in a fatal accident in July 1994 after only one and a half years of operation.

Another interesting case was that of PENIM FARMS LTD. Loan approval was delayed and when it was finally approved, there were no funds in the ADB account to be disbursed for operations to commence. When funds became available, the suppliers of the equipment to be purchased were forced into liquidation and could not supply the machine. The company had to wait for another two years before getting the right equipment from elsewhere.

In the case of high interest rates, it was found out that the loan rates which were set between 22% and 29% at the time that the loans were approved in 1989 had to be revised to between 35% and 48% when the loans were being disbursed around 1994. Apparently, the revised interest rate was a reaction to macroeconomic instability, largely represented by intractable inflationary pressures and depreciating exchange rates. In fact, the interest rate review problem was particularly pervasive and tended to affect all the beneficiaries. However, other problems compounded this for some 23 enterprises so that they became extremely distressed. This compounded the cash flow problems of the enterprises and consequently, their inability to repay the loan. Furthermore, the enterprises lamented the fact that the participating banks capitalized the interest rates onto the principal on due dates when they failed to make good their indebtedness on time.

Another constraint was the apparent misunderstandings between some of the banks and the enterprises. There was an instance where vehicles imported for a project were held by the bank for seven months before being released to the loan beneficiary. Although the bank held onto the vehicles, it was nevertheless charging interest on the loan amount. Apparently, the bank=s position was that the enterprise was embroiled in a court suit about who was the legal executive of the company. The bank argued that it was therefore not in a position to determine to whom to hand over the vehicles. To bank management therefore, it was not the bank that must be held responsible for any lapses but the enterprise on account of its litigant stand. Similar misunderstandings occurred in relation to exchange rate adjustments. Companies involved included Lonpol Ghana Ltd, Ghana Private Road Transport Union (GPRTU), Achimota Vegetable Oil Mills Ltd and J. T Osei Ltd. Apparently, neither the companies nor the banks involved wanted to be saddled with the exchange rate risk associated with the FUSMSED programme.

Further investigations also revealed that some of the beneficiaries under the FUSMED programme indulged in loan diversion as a result of lack of effective monitoring at the implementation stage. With the enterprises in the hotel industry, the following examples are noteworthy. For instance, Mount Pleasant Hotel did not consult the bank before increasing the number of rooms of the original design from 26 to 30 whilst the original furnishings were also changed for more expensive ones. Similarly, SECAPS Hotel altered the original project concept and had to look for other sources for assistance before it was able to get the project operational. In the meantime, its commitment to the bank was not honoured. In metal industry, it was found out that Alone With God Metal Works and BEF Oppan Carbide And Electric Works diverted the loans completely from their originally approved purposes. These companies used the loan to buy passenger vehicles when the equipment they wanted to buy were sold out on the market before the loans were approved. Unfortunately, they could not operate the transports profitably and found themselves unable to meet their obligations.

Although the above mentioned problems exerted their own influences on the cash flow position of the enterprises that benefitted from the FUSMED and BAF programmes, it was clearly evident that one overall weakness that encapsulates these problems is Amanagement deficiencies@. The enterprises that benefitted from FUSMED scheme were limited liability companies. Yet the shareholding structures were very much circumscribed, often limited to the original founders and their families. Furthermore, very few of these enterprises had well defined organizational charts spelling out job descriptions and line of authority that make for efficient running of an organization. Most of these enterprises appear not to employ competent and adequate staff to manage the business on sound basis. Indeed, the entrepreneurs did not hide the fact that they did not have the necessary complement of staff. Rather, their perception was that they had come this far and they could go further with the existing staff. Consequently, the accounting practices were found to be weak, records were not adequately kept, while budgets were not adhered to where they existed, or were not prepared at all. Several of the managing directors of the enterprises availed themselves of company funds freely to the neglect of the enterprises= financial obligations. Not surprisingly, decisions were changed frequently without reference to effective project appraisal or laid down procedures. Thus companies were able to divert funds from original uses to other uses without reference to good management practices.

In the light of the foregoing findings, it is indisputable that credit per se has not been an overriding constraint on enterprise development in Ghana; 46 out of 102 enterprises that benefitted from FUSMED defaulted in repaying the loans. With this high default rate and the high rejection rate of loan applications by banks, it can be argued that micro, small and medium scale enterprises are suffering from capital shortage illusion or they have high levels of spurious demand for credit. It is therefore our contention that once projects are considered in all probability to be commercially unviable, either because of bad conception, deficient entrepreneurial ability or due to unfavourable external conditions, the credit constraints argument becomes untenable. As Lewis (1953 p.12) emphatically concluded from his study of Ghanaian enterprises some 40 odd years ago:

AAfricans enterprises cannot be built up simply by lending Africans money. To lend money to enterprises who lack managerial capacity is merely to throw it down the drain. What potential African industrialists lack is not primarily money; it is rather technical knowledge, and the experience of factory organization. If the government lends money, it should do this only as a supplement to rendering technical and managerial assistance.@

There appears to be a great amount of spurious demand for credit, and rather than a substantial number of viable projects vainly chasing scare credit, excess credit has been vainly chasing viable projects. As the high default rate has shown and as the banks had accumulated huge amounts of non-performing loans, we can surmise that the relative supply of credit available for investment in the private sector exceeded the effective demand for such capital for potentially profitable investment opportunities. The fact that managerial deficiencies and lack of demand for product are a more significant constraint on enterprise development than supply-constraints meant that increasing the availability of funds on the supply side, even through measures of financial liberalization, may not have much positive impact on enterprise development, unless measures are taken to correct the defects in credit demand and enterprises weaknesses.

7. Further Assignments for Financial Reforms

In view of the findings of this study, the following recommendations are made for further financial reforms. There is the need for further institution building to take banking services to the rural areas. It is recommended that interventions be made to make financial services available to micro, small and medium scale enterprises, especially those that operate in the urban areas but have been marginalized by minimum balance and/or stringent collateral requirements. Ghana has the basic capacity to promote such types of banking institutions to take care of the gaps created by orthodox banking practices. The various SUSU[8] schemes are sufficiently mutual in character and once they are encouraged as bottom-up schemes in well designed financial reform programmes, they are likely to serve as the nucleus of an indigenously based financial system.

Programmes must also be designed that would assist some of the existing non-bank financial institutions (NBFIs) to provide the needed financial services. In this direction, financial reforms would have to look particularly at Savings and Loans Associations (S&LAs) that are practically banks but are forced by law to register as non-bank financial institutions. These S&LAs currently mobilize funds from micro, small and medium scale enterprises which are in turn lodged with deposit money banks. In so far

[8] SUSU Schemes are indigenous mutual savings and credit institutions.

as there is a flow of funds between S&LAs and banks, effective linkages are being developed. Indeed, such a linkage, emerging at the instance of the market, is a bottom-up approach on which policy makers could capitalize for effective credit policies and programmes to marginalized entrepreneurs. If we recall the fact that some firms that benefitted from the FUSMED programme opened accounts with the operating banks only to have access to the facility, then it is highly recommended that a further assignment for financial reforms would have to examine how to promote S&LAs so that they can make funds available to MSEs. This would be a way of integrating the financial markets. The added advantage is that S&LAs are basically operating in the market mode, with both functional and allocative efficiency considerations. Again, if we recall that directed credit programmes such as FUSMED emphasize only loans to marginalized groups, then it is recommended that financial reforms should look at S&LAs as both savings and credit channels. This may reduce the high default rates in programmes that emphasize credit to the neglect of savings.

In view of the universal banking practices that have emerged with DMBs performing virtually all financial services without distinction, it is suggested that Bank of Ghana should take measures to streamline the functions of the deposit money banks so that these other services do not create problems for money management which is the core business of banking, especially in a developing economy with a fragile banking system.

Further assignments for financial reforms must entail interventions that go beyond the delivery of financial services to taking care of factors that have militated against the ability of MSEs to access credit. What is needed are the development and practice of new styles of operations and new kinds of bankers and borrowers who will recognize the importance of credit and try to meet the price vector of banks. As was noted earlier, the institution of money and banking was imported into the Gold Coast to satisfy a given clientele but did not evolve as an autonomous indigenous institution appreciated by the local people of the Gold Coast. By contrast, banking and monetary institutions as obtained in Britain (whose system was imported into Ghana) and the other European countries were born out of their indigenous historical experiences. It is in this respect that further financial reforms must be based on the fact that the institution of money and banking are not indigenous to Ghana and therefore efforts must be made to educate the people about money and how to use it to be productive. The institutional development alone is not enough; interventions must go beyond the delivery of financial services to education and awareness creation about money and the knowledge as to how to make money a productive force in economic development for poverty alleviation. Such education and awareness reforms would have to take into account, among others, the inherent weaknesses of micro, small and medium scale enterprises that make them bank rejects.

8. Conclusion

The financial system as it evolved in Ghana after independence until the financial sector reforms in 1988 was against the background of perceived credit scarcity to local enterprises that were marginalized by pre-independence banking arrangements. Thus, the post-independence reforms typically included creation of institutions and adoption of policies aimed at making credit available to the designated poor, normally defined as micro, small and medium scale enterprises. The credit policies included sectoral targets for lending for all banks, government-determined interest rates, typically different for deposits and loans to different sectors credit programmes. Unfortunately however, by 1988, both institution building and directed credit programmes failed to make the necessary impact on credit demand by micro, small and medium scale enterprise. The consequences of the post independence financial reforms was an immiserizing growth process both in the real and financial sectors of the economy.

This called for financial sector reforms aimed at improving savings mobilization and increased credit to private sector agents, inter alia. The study has found that financial liberalization is yet to make an appreciable impact on the accessibility to financial services by MSEs. Even in a liberalized financial system where interest rates are largely market determined, DMBs have consistently rejected loan requests made by MSEs. Contrary to expectations that financial services would be increasingly available and accessible to a greater number of private agents than had been the case, the study has shown that banks in Ghana have implemented strategic moves that have made the emergent pattern of banking practices since FINSAP elitist and urbanized. As a consequence, rural enterprises and urban micro and small-scale enterprises have been severely marginalized from credit markets.

The study has also cast serious doubts on the widely accepted notion that credit is the single most important constraint on local enterprise development in Ghana. Out of 102 enterprises that benefitted from a Fund For Small and Medium Scale Enterprise Development (FUSMED) 46, representing 45%, defaulted in repaying the loans. With this high default rate and the high rejection rate of loan applications by banks, it can be argued that micro, small and medium scale enterprises suffer from capital shortage illusion or they have high levels of spurious demand for credit. Apparently, there are not enough bankable projects that meet banks' price vector. The fact that managerial deficiencies and lack of demand for product are a more significant constraint on enterprise development meant that availability of funds even through measures of financial liberalization and packaged credit programmes may not have much positive impact on enterprise development unless measures are taken to correct the defects in credit demand and enterprises weaknesses.

It is clear from the study that getting the prices right along the lines of financial liberalization is too simplistic; some guiding hand quite distinct from the invisible hand would be necessary to make financial reforms more constructive, especially in making financial services available to micro, small and medium scale enterprises in Ghana.

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APPENDIX I: Questionnaire for Bank Managers

General Information

1 Questionnaire No
2 Name Of Interviewer
3 Date And Time Of Interview
4 Town/Area
5 Name of Bank
6 Location of Bank Branch
7 Type Of Bank
______________Commercial Bank
______________Merchant Bank
______________Development Bank
______________Rural Bank
______________Others
8 Year in which Bank began operations
9 What factors have you taken into account in locating the office premise?
______________Nearness to customers
______________Central point to facilitate transactions
______________Cost of premise
______________Security of premise
______________Others (please specify)
10 Give Number of branches for the following years
1999
1998
1997
1996
1995
1994
1993
1992
1991
1990
1989
1988
11 Give Number of branches opened and number of branches closed since 1988

	Opened	Closed
1999	______________	1999
1998	______________	1998
1997	______________	1997
1996	______________	1996
1995	______________	1995
1994	______________	1994
1993	______________	1993
1992	______________	1992
1991	______________	1991
1990	______________	1990

1989 ______________ 1989
1988 ______________ 1988

12 Indicate the location of the new branches

13 Indicate the location of the closed bank branches

14 What are the major Reasons for bank branch closure?

Credit Management Characteristics

15 What financial services do you provide apart from deposit collections? (Please tick appropriate space).

Type of Service	Important	Not Important	Not Provided
Overdraft facilities			
Advances			
Line of credit			
Letters of credit			
Venture capital			
General loans			
Mortgage loans			
Corporate loans			
Project loans			
Small Business guaranteed loans			
Leasing			
Pledging			
Factoring			
Insurance			
Stock brokerage			
Cash management			
Business counseling			
Agricultural loans			
Consumer loans			
Car loans			
Other (specify)			

16 Who are your largest category of borrowers? (Please Rank)

______________Large Companies
______________Government
______________State-Owned Enterprises
______________Public Institutions

______________Public servants
______________Market women
______________Small Businesses
______________Smallholders
______________Commercial farmers
______________Artisans
______________Households
______________Others (specify)

17 What factors do you consider when making a loan? (Please Rank in terms of importance)

______________Borrower's total income
______________Borrowers credit worthiness
______________Borrower's savings deposit
______________Borrower's credit needs
______________Borrower's line of economic activity
______________Borrower's character
______________Borrower's family background
______________Previous credit record
______________Availability of acceptable collateral;
______________Performance trend of relevant sector;
______________Demonstrable managerial and/or financial competence
______________A clear repayment plan
______________Experience, literacy and numeracy of borrower
______________Accessibility or location of business.
______________Others (Specify)

18 What are your concerns for lending to Micro and Small Scale Enterprises (MSEs)

______________High default risks
______________Lack of collateral
______________Fungibility of credit practices of MSEs'
______________High transaction cost of loan origination
______________Others (Specify)

19 Do you require collateral for a loan? ______ Yes ______ No

20 If yes to question 20, what type of collateral do you require?

______________Land
______________Life insurance
______________Real estate
______________Stock certificate
______________Treasury bill
______________Bank deposits
______________Savings balance at NBFI
______________Jewelry
______________Consumer durables
______________Others (specify)

21 Do you make unsecured loans? ______ Yes ______ No

22 If yes to question 21, who are the beneficiaries of such unsecured loans?

______________Large Companies
______________Government
______________State-Owned Enterprises
______________Public servants
______________Market women

_____________Artisans
_____________Smallholders
_____________Commercial farmers
_____________Merchandise traders
_____________Service traders
_____________Households
_____________Others (specify)

23 Have you ever refused a loan request? ______ Yes ______ No

24 If yes to question 23, give reasons for the rejection of the loan request

____________lack of acceptable collateral;
____________not enough information on potential borrowers;
____________poor project reports and/or lack of comprehensive project plans;
____________poor performance in relevant sector;
____________applicant does not show managerial competence;
____________poor previous performance or unfavourable track record;
____________ability to pay back not proven;
____________lack of a clear repayment plan
____________Suspicion of fungibility
____________small size of transaction with high ratio of transaction costs to loan size
____________physical remoteness of many enterprises, especially in the rural areas.
____________lack of book keeping or inadequate compliance framework
____________lender prejudices against small business

25 Please provide the following information

Year	Largest Amount of Loan Made	Smallest Amount of Loan Made	Average Size of Loan Made	No. of Loan Applications Received	No. of Loan Applications Successful
1999					
1998					
1997					
1996					
1995					
1996					
1994					
1993					
1992					
1991					
1990					
1989					
1988					
1986					

1985					
1984					

26 What is the average processing time between receipt of loan application and disbursement?

_____________Less than 3 days
_____________1 week
_____________1 to two weeks
_____________two weeks to 1 month
_____________1 to 3 months
_____________3 months to 6 months
_____________more than 6 months

27 Do your customers default on loan repayment? ______ Yes ______ No

28 If yes to question 27, what are the reasons for loan default?

_____________Outright refusal to meet loan obligation
_____________Poor performance of borrower company
_____________Lack of judgement in loan approval
_____________Political interference or clout
_____________Unwillingness on part of bank to enforce compliance
_____________Excessive interest charges
_____________Others (Specify)

29 If no to question 27, what mechanism have you put in place to ensure loan repayment?

_____________Stringent loan approval process
_____________Periodic visits to borrower
_____________Threat of legal action
_____________Other (Specify)

30 Do you acquaint yourself with the business interests of your potential borrowers?

_____________Yes _____________No

31 If yes to question 30, give reasons for such interest

_____________To assess his creditworthiness
_____________To ensure proper use of loan
_____________To reduce default
_____________To encourage him to save
_____________Others (Specify)

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

_____________Credit rationing
_____________Collateral to strengthen repayment incentives
_____________small loans
_____________Shorter term loans
_____________Lending for certain sectoral economic activities only
_____________Lending for purposes that will strengthen ability to repay loan
_____________Other (please specify)

33 What is the maturity profile of loans made? (Please Rank)

_____________Less than 6 months
_____________Greater than 6 months but less than 1 year
_____________Between 1 and 2 years
_____________Above 2 years and up to 5 years
_____________Other (Specify)

Source of Funds and Deposit Mobilization

34 Which are the *major* sources of fund? (Please Rank)

______________Deposits from clients
______________Returns on investment/plough back profit
______________Borrowing from other banks
______________Borrowing from public
______________Borrowing from Bank of Ghana
______________Borrowing from the Consolidated Discount House
______________NGO support
______________Government support
______________Other (specify)

35 What savings instruments do you provide to the public?

______________Deposits that can be withdrawn at any time
______________Savings deposits
______________Fixed deposits
______________Time deposits
______________Certificates of deposits
______________Investments in Government Treasury Bills
______________Bearer bonds
______________Mutual funds
______________Savings bonds
______________Others

36 Who are your target group or regular customers?

______________Large Companies
______________Government
______________State-Owned Enterprises
______________Public servants
______________Market women
______________Artisans
______________Smallholders
______________Commercial farmers
______________Merchandise traders
______________Service traders
______________Households
______________Others (specify)

37 Who are your largest depositors? (Please Rank)

______________Large Companies
______________Government
______________State-Owned Enterprises
______________Public servants
______________Market women
______________Artisans
______________Smallholders
______________Commercial farmers
______________Merchandise traders
______________Service traders
______________Households

______________Others (specify)

38 Do you advertise your services? ______ Yes ______ No

39 If yes to question 38, what mediums do you use?

______________Radio

______________TV

______________Newsprint

______________Bill boards

______________Others (Specify)

40 How do you collect deposits from customers?

______________Go around customers

______________Depositors come to premise

______________Depositors come to centrally designated area at particular time

______________Other (Specify)

41 Why do your customers save with you?

______________Bank offers attractive interest rate

______________Easy access to loans

______________Opportunity to realize bulk sum

______________Income security or protection

______________Other (specify)

42 What determines the rate at which depositors make savings?

______________Income level

______________Inflation

______________Depreciation of the exchange rate

______________ Others (Specify)

43 What innovative schemes have you put in place to attract deposits?

______________High interest rates

______________Access to money

______________Access to credit

______________Taking financial service to the customer at his convenience

______________Others (Specify)

44 What is the minimum acceptable amount to open a deposit account?

______________Below **4**50,000

______________Not below **4**100,000

______________Not below **4**200,000

______________Not below **4**500,000

______________Not below **4**,1000,000

______________Other (please specify)

45 How have you determined the minimum amount for deposit accounts?

______________Transactions costs

______________Time and travel cost to collect deposit

______________Nature of business of borrower

______________No definite criteria used

______________Others (Specify)

46 What major policies introduced under FINSAP have improved your deposit mobilization?

__________ Liberalization of deposit and lending rates

__________ Removal of sectoral ceilings on lending

__________ Introduction of foreign exchange accounts

__________ Deregulation of the Exchange Rate market

__________ Introduction of Treasury Bills

__________ Reduced cash and secondary reserves

__________ Unification of cash reserve requirements on all types of deposits
__________ Establishment of Non-Performing Assets Recovery Trust
__________ Restructuring of banks
__________ Divestiture of bank
__________ Others (Specify)

47 Please provide the following information

Year	Number of Depositors	Amount of Deposits Mobilized
1999		
1998		
1997		
1996		
1995		
1996		
1994		
1993		
1992		
1991		
1990		
1989		
1988		
1987		

Interest Rate Structure

48 Are deposits sensitive to interest rates? ______ Yes ______ No
49 Do you use interest rates as an incentive to attract customers? ______ Yes______ No
50 Do you charge different interest rates for different borrowers? ______ Yes______ No
51 If yes to question 50, give reasons for charging different interest rates
______________Depends on Sector of economic activity
______________Government Policy
______________Scale of operation
______________Nature of Business activity
52 What factors make up your lending rate of interest?
______________Transactions or administration costs
______________Risk premium
______________Cost of funds
______________Profit margin
______________Lending rates of banks
______________Inflation
______________Duration of loan

_____________Other (please specify)

53 What elements make up your transactions cost?

_____________Costs of appraising the loan request

_____________Administration costs of the credit (processing cos)

_____________Costs of monitoring loan usage

_____________Costs of enforcing repayments

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

_____________Community and neighborhood ties

_____________Transactions in other market

_____________Previous credit record of applicant

_____________Others (Specify)

55 Which of the following make up the opportunity cost of funds?

_____________Lending rates in other markets

_____________Borrowing rates at the banks

_____________Treasury bill rates

_____________Land price

_____________Maximum deposit rate provided by your S&L institution

_____________Others (Specify)

56 How do you determine the profit rate of the bank?

_____________Mark-up over return on next best investment

_____________Mark-up over sum of transaction cost, cost of funds & risk premium

_____________Profit margins of other companies

_____________Availability of close substitutes

_____________Rate of credit disbursement (Number of customers)

_____________Other (Specify)

APPENDIX II. Questionnaire for Bank Customers, Micro and Small Scale Enterprises

General Information

1 Questionnaire No
2 Name Of Interviewer
3 Date And Time Of Interview
4 Type Of Business
______________Retail Trading
______________Export
______________Manufacturing
______________Service
______________Real estate
______________Farming
______________Financial services
______________Artisan
______________Others (Specify)
5 Classification of Business Activity
______________Micro Enterprise
______________Small Scale Enterprise
______________Medium Scale Enterprise
______________Large Scale Enterprise

Banking Information and Savings Behaviour

6 What is your main Bank
______________Standard Chartered Bank
______________Barclays Bank
______________SSB Bank
______________Ghana Commercial Bank
______________Agricultural Development Bank
______________National Investment Bank
______________Eco-Bank
______________Metropolitan & Allied Bank
______________Prudential Bank
______________Cal Merchant Bank
______________Merchant Bank
______________Amalgamated Bank
______________Stanbic Bank
______________International Commercial Bank
______________The Trust Bank
______________Bank For Credit & Commerce
______________First Atlantic Merchant Bank
______________Savings And Loans Company (Specify)
______________Others (Specify)
7 Why do you keep your accounts with this Bank?
______________Nearness to my Business
______________Peer recommendation

______________Management has close connections with Bank
______________Easy access to loans
______________Offers attractive deposit rates
______________Efficient banking services with minimum delay
______________Others (specify)

8 How long have operated with this Bank?

______________Less than one year
______________Between 1 and 2 Years
______________Above 2 years but less than five years
______________Over 5 years

9 Do you have an account with another Bank? ______ Yes ______ No

10 Were you banking with another bank before joining your present bank?______ Yes ______ No

11 If yes to Question 10, give name of bank

______________Standard Chartered Bank
______________Barclays Bank
______________SSB Bank
______________Ghana Commercial Bank
______________Agricultural Development Bank
______________National Investment Bank
______________Eco-Bank
______________Metropolitan & Allied Bank
______________Prudential Bank
______________Cal Merchant Bank
______________Merchant Bank
______________Amalgamated Bank
______________Stanbic Bank
______________International Commercial Bank
______________The Trust Bank
______________Bank For Credit & Commerce
______________First Atlantic Merchant Bank
______________Savings And Loans Company (Specify)
______________Others (Specify)

12 What types of bank accounts do you operate (Rank)

______________Savings Account
______________Time Deposits
______________Demand Deposits
______________Foreign Exchange Account
______________Fixed Deposits
______________Others (Specify)

13 What is the minimum acceptable deposit to open a savings account at your Bank?

______________**4**50,000
______________**4**100,000
______________**4**200,000
______________**4**500,000
______________**4**1,000,000
______________**4**5,000,000
______________**4**10,000,000
______________**4**50,000,000
______________**4**100,000,000

14 What is the minimum acceptable deposit to open a current account

______________**4**50,000

______________**4**100,000

______________**4**200,000

______________**4**500,000

______________**4**1,000,000

______________**4**5,000,000

______________**4**10,000,000

______________**4**50,000,000

______________**4**100,000,000

15 How do you find the minimum deposit requirement?

______________Too high

______________Acceptable

______________Very low

16 Have you ever applied for a loan from a bank?

______________Yes

______________No

17 If no question 16, give reasons.

______________Lending rates are too high

______________Lack of collateral

______________No need for loan

______________Other (Specify)

18 If yes to question 16, was the loan request approved? ______ Yes ______ No

19 If no to question 18, why was the loan request not approved?

______________Lack of collateral

______________Ability to pay back not proven

______________Inadequate managerial competence

______________High debt obligation

______________Poor previous performance or unfavourable track record

______________Lack of accounting or booking records

______________Not enough information on potential borrowers

______________Poor project reports and/or lack of comprehensive project plans

______________Lack of a clear repayment plan

______________Physical remoteness of many enterprises, especially in the rural areas

______________Lack of book keeping or inadequate compliance framework

______________Lender prejudices against small business

20 Have you ever applied for an overdraft facility? ______ Yes ______ No

21 If yes to question 20, was the request for overdraft facility approved? ______ Yes ______ No

22 If yes to question 21, was an overdraft facility ever rolled over for the business?___ Yes ___ No

23 If Yes to question 22, for how long has the overdraft been continuously rolled over?

24 What are the major sources of funds for your business?

______________Bank loans

______________Company savings

______________Company retained profit

______________Suppliers credit/Trade credit from NBFIs

______________Loans from Savings and Loans Companies

______________Susu Contributions

______________ Loans from money lenders

______________Loans from relatives/friends
______________Others (Specify)

25 Have you ever benefitted from any loan type? ______ Yes ______ No

26 If yes to question 25, what was the purpose of the loan?

______________Start-up capital
______________Working capital
______________Personal use
______________Other (Specify)

27 What was the maturity profile of the loan?

______________6 months
______________Up to 1 year
______________Over 1 year
______________Other (Specify)

28 What was the interest on the loan?

29 What are the major constraints on the growth of your company (Please Rank)

______________Lack of credit
______________Inadequate demand for company's product
______________High utility charges
______________Too much competition from imports
______________High interest rates
______________Taxes
______________Lack of infrastructure
______________Location regulation
______________Labour regulations
______________Others (Specify)