RURAL FINANCE STUDY

AUGUST, 1988

BEST AVAILABLE COPY

ACKNOWLEDGEMENT

The following Technoserve staff participated in the Rural Finance Study: Mike Borish (Study Director), Paul Warmka, John Heloo and Van Sesi. Technoserve would like to thank Mark Owusu-Ansah of the Agricultural Development Bank for his hard work and valuable contributions and insights. Technoserve also wishes to thank the U.S. Agency for International Development. This study was financed in part by the U.S. Agency for International Development through Partnership Grant PDC-0280-A-00-6205-00.

TABLE OF CONTENTS

Chapter		Page No.
	Acknowledgement	ii
	Table of Contents	iii-vii
	Abbreviations	viii-x
	Introduction	xi-xiv
	Executive Summary	xv-xviii
I.	OVERVIEW OF THE MACROECONOMIC ENVIRONMENT	
	A. Introduction	1
	B. Brief Economic Review (1970-82)	2
	C. Economic Recovery Program (1983-1987)	2 - 5
	D. Economic Performance (1983-1987)	5 - 8
	E. Macroeconomic Environment (1988-1991)	8 - 14
	F. Summary	14 - 15
	Annex I-1: GDP by Economic Activity: 1980-1987	16
	Annex I-1A: GDP Sectoral Shares: 1980-1987	17
	Annex I-2: Selected Economic Indicators: 1980-1991.	18
	Annex 1-3: Central Government Operations and Financing: 1980-1987	19
	Annex I-3A: Government Financing as a Percentage of GDP: 1982-1987	20
	Annex I-4: Balance of Payments: 1983-1987	21
	Annex I-4A: Balance of Payments as a Percentage of GDP: 1983-1987	22
	Appendix I-1: Description of Key PAMSCAD Projects	23 - 24
II.	ROLE OF THE AGRICULTURAL SECTOR IN THE ECONOMY	
	A. Introduction	25
	B. Government Policy and Food Production	25 - 26
	C. Physical Geography	26 - 28
	D. Crops and Livestock	28 - 29
	E. The Role of Agricultural Exports	29 - 30
	F. Producer Groups	30
	G. Land Tenure	30 - 31
	H. Extension Services	31 - 33
	I. Agricultural Pricing and Marketing	33 - 38
	J. Input Distribution System	38 - 44
	K. Condition of the Rural Infrastructure	44 - 47
	L. Profitability of Agricultural Activities in Ghana	47 - 53
	M. Summary	53 - 54
	Annex II-1: GDP by Industry Origin at Constant 1980 prices	55
	Annex II-2A: Ghana Sectoral Growth Rates of GDP	56
	Annex II-2B: GDP by Kind of Economic Activity in Producers' Value	57 - 58
	Annex II-3: Merchandise Exports: 1983-89	59
	Annex II-4A: Selected Production Indicators	60

Chapter | Page No.

Annex II-4B: Crop Production 61
Annex II-5: Monthly and Average Rainfall ..... 62 - 67
Annex II-6: Contribution of Various Crops to Agricultural GDP: 1987 68
Annex II-7: Imports 69
Annex II-8: Livestock Population 70
Annex II-9: Domestic Fish Catch, Imports and Consumption 71
Annex II-10: Export Performance of the Non-Traditional Sector: 1987 72
Annex II-11: Traditional and Potential Yields under Prevailing Ecological Conditions in Ghana 73
Annex II-12: Crop Production 74
Annex II-13A: Wholesale Prices Deflated by CPI 75
Annex II-13B: Nominal Prices of Commodities Converted to Real Prices for 1983-1987 76
Annex II-14A: Cost of Production of 1 Hectare of Maize 77
Annex II-14B: Profitability of Rice Production 78
Annex II-14C: Determination of Minimum Guaranteed Prices for Maize and Rice 79
Annex II-15: Demand and Supply of NPK for Cereals . 80
Annex II-16: Determination of Fertilizer Prices for 1988 81
Annex II-17: Demand and Supply of Imported Seed Maize 82
Annex II-18: Final Evaluation MIDAS II ..... 83 - 84
Annex II-19: Analysis of Comparative Advantage and Incentive Framework by World Bank .... 85 - 86
Annex II-20A: Profitability of Sorghum Production .. 87
Annex II-20B: Profitability of Maintaining and Harvesting of Cocoa ..... 88 - 89
Annex II-21: Profitability of Inshore Canoe Fishing 90
Annex II-22A: Profitability of Small-Scale Poultry Enterprise: 1000 layers 91
Annex II-22B: Profitability of Raising 1000 Broilers 92
Annex II-23: Nominal Financial Net Returns Converted to Real Returns 93

III. STRUCTURE OF THE FORMAL FINANCIAL SECTOR
A. Introduction ..... 94 - 95
B. Banking Sector ..... 95 - 96
C. Role of the Bank of Ghana ..... 96 -100
D. Monetary Survey 100-101
E. Specific Regulations and their Enforcement 101-103
F. Possible Regulatory Changes with Restructuring 103-104
G. Summary 104-105

Annex III-1: Composite View of Ghana's Banking Sector: 1987 106

Chapter | Page No.

Annex III-2A: Primary Bank Loan/Deposit Composition: 1987 107
Annex III-2B: Secondary Bank Loan/Deposit Composition: 1987 108-109
Annex III-3: Money and Credit: 1977-1987 110
Annex III-4: Monetary Survey: 1984-1988 111
Annex III-5: Liquidity Reserve Requirements: 1983-1988 112
Annex III-6: Inflation Rates vs. Lending Rates: 1983-1987 113
Annex III-7: Inflation Rates vs. Deposit Rates: 1983-1987 114

Appendix III-1: Insurance Companies 115-116
Appendix III-2: Social Security and National Insurance Trust 117
Appendix III-3: Consolidated Discount House 118-119
Appendix III-4: National Trust Holding Company 120
Appendix III-5: First Ghana Building Society 121

IV. POLICIES AND PERFORMANCE OF BANKING INSTITUTIONS
A. Introduction 122
B. Geographic Distribution 122-124
C. Deposit Mobilization 124-131
D. Non-Deposit Liabilities 131
E. Equity 131-132
F. Loan Policies 132-136
G. Loan Portfolios 136-141
H. Other Services Offered by Financial Institutions ... 141-144
I. Organization and Management of Financial Institutions 144-148
J. Credit Operations 149-152
K. Critical Performance Indicators 152-154
L. Summary 154-156

Annex IV-1: Formal Financial Sector Balance Sheet: 1987 157
Annex IV-2: Regional Distribution of Branches: 1987. 158
Annex IV-3: Regional Distribution of Ghana's Banks: 1988 159
Annex IV-4: Bank Market Shares: 1983-1987 160
Annex IV-5: Regional Distribution of Deposits: 1987. 161
Annex IV-6: Deposit Structure: 1983-1987 162
Annex IV-7: Interest Rates: 1980-1987 163
Annex IV-8: Nominal Loan Portfolios: 1983-1987 164
Annex IV-9: Sector Distribution of Bank Lending: 1983-1987 165
Annex IV-10: Regional Loan Distribution: 1987 166
Annex IV-11: Organizational Chart 167

Appendix IV-1: Ghana Commercial Bank 168-172
Appendix IV-2: Barclays Bank..... 173-175

Chapter | Page No.

Appendix IV-3: Standard Chartered Bank..... 176-179
Appendix IV-4: Social Security Bank 180-183
Appendix IV-5: National Savings and Credit Bank ... 184-187
Appendix IV-6: Merchant Bank 188-190
Appendix IV-7: Bank of Credit and Commerce 191-193
Appendix IV-8: Agricultural Development Bank 194-199
Appendix IV-9: National Investment Bank 200-202
Appendix IV-10: Bank for Housing and Construction .. 203-205
Appendix IV-11: Ghana Co-operative Bank 206

V. RURAL BANKS
A. Introduction 207-208
B. Criteria for Establishing Rural Banks 208-210
C. Ownership 210
D. Management, Personnel and Compensation 211
E. Credit Operations 211-213
F. Financial Performance 213-222
G. Summary 222-223

Annex V-1: Sectoral Allocation of Loans 224
Annex V-2: Rural Banks Balance Sheet: 1983-1987 ... 225
Annex V-3: Composite View of Ghana's Rural Banks: 1987 226

VI. CO-OPERATIVE CREDIT
A. Introduction 227
B. Structure of the Co-operative Movement 227-231
C. Membership Statistics 231
D. Types of Co-operatives 231-232
E. Rationale for Formation of Co-operatives 232
F. Reasons for Co-operative Failure 232-233
G. Multilateral Credit Programs 233-235
H. Bank Credit Programs 235-236
I. Summary 237

Annex VI-1: Number and Distribution of Societies Registered: 1987 238
Annex VI-2: Co-operative Movement Organizational Chart 239-240
Annex VI-3: Department of Co-operative Curriculum . 241
Annex VI-4: Afife Production Cost per Acre 242

VII. CREDIT UNIONS
A. Introduction 243
B. Ghana Co-operative Credit Union Association 243-245
C. General Provisions Governing Credit Unions 246-247
D. Membership 247
E. Meetings 247-248
F. Committees 248-249
G. Aggregate Credit Union Performance 249-255
H. Financial Performance of the CUA 255-257
I. Summary 257-258

Chapter Page No.

Annex VII-1: Credit Union Association Education Plan: 1988-1990 259
Annex VII-2: Composite Financial View of the Credit Union Association: 1987 260
Annex VII-3: CUA Income and Expenditure: 1987 261
Annex VII-4: CUA Balance Sheet: 1987 262

VIII. THE ROLE OF SUSU AND MONEY/LENDERS
A. Introduction 263
B. Susu 263-265
C. Moneylenders 265-267
D. Summary 267-268

Appendix VIII-1: The Greater Accra Susu Collectors Society 269-270

IX. NON-GOVERNMENTAL ORGANIZATIONS
A. Introduction 271
B. Origins and Types 271
C. Motivation and Focus 271-272
D. Activities 272
E. NGO/Government Relationships 272-273
F. PAMSCAD 273
G. NGO Involvement in Rural Credit 274

Annex IX-1: NGO Sectors and Activities 275-278

Appendix IX-1: Global 2000 279-283
Appendix IX-2: Technoserve, Inc. 284-285
Appendix IX-3: National Catholic Secretariat 286
Appendix IX-4: Presbyterian Church/FAO PPP at Begoro 287-288
Appendix IX-5: Women's World Banking 289-290
Appendix IX-6: Committee on Churches Participation in Development 291
Appendix IX-7: Meals for Millions 292-293
Appendix IX-8: World Vision 294-295

X. CONCLUSION 296-299

XI. RECOMMENDATIONS
A. Strengthened Research Stations 300
B. Private Input Production and Supply Companies 300-301
C. Ministry of Agriculture 301
D. Department of Cooperatives 301-302
E. Credit Unions 302
F. Non-Governmental Organizations 303
G. Rural Banks 303-304
H. Agricultural Development Bank 304
I. Summary 304-305

Bibliography 306-308

ABBREVIATIONS

ADB	-	Agricultural Development Bank
BCC	-	Bank of Credit and Commerce
BOG	-	Bank of Ghana
BHC	-	Bank for Housing and Construction
BFDB	-	Bast Fiber Development Board
CCCE	-	Caisse Centrale de Cooperation Economique
CIDA	-	Canadian International Development Agency
COCOBOD	-	Cocoa Board
CDR	-	Committees for the Defence of the Revolution
CCPD	-	Committee on Churches Participation in Development
CPI	-	Consumer Price Index
CIF	-	Cost Insurance and Freight
CUA	-	Ghana Cooperative Credit Union Association
DRC	-	Domestic Resource Coefficient
ERP	-	Economic Recovery Programme
FAO	-	Food and Agricultural Organization
FASCOM	-	Farmers' Services Company
FOREX	-	Foreign Exchange Bureaux
GTZ	-	Deutsche Gesellschaft fur Technische Zusammenarbeit
GCB	-	Ghana Commercial Bank
GCC	-	Ghana Cotton Company
GFDC	-	Ghana Food Distribution Corporation
GIDA	-	Ghana Irrigation Development Authority
GNPA	-	Ghana National Procurement Agency

GSC	-	Ghana Seed Company
GDB	-	Grain Development Board
GASCS	-	Greater Accra Susu Collectors Society
GDP	-	Gross Domestic Product
GOG	-	Government of Ghana
IDA	-	International Development Agency
IFAD	-	International Fund for Agricultural Development
IMF	-	International Monetary Fund
ITG	-	International Tobacco Ghana Ltd.
JICA	-	Japanese International Cooperation Agency
MIDAS	-	Managed Input Delivery and Agricultural Services
MB	-	Merchant Bank
MT	-	Metric Tonne
MOA	-	Ministry of Agriculture
MFEP	-	Ministry of Finance and Economic Planning
NCS	-	National Catholic Secretariat
NIB	-	National Investment Bank
NSC	-	National Savings and Credit
NGO	-	Non-Governmental Organization
ODA	-	Overseas Development Agency
PPP	-	Peoples Participation Project
PTC	-	Pioneer Tobacco Company
PCG	-	Presbyterian Church of Ghana
PVO	-	Private Voluntary Organization
PTP	-	Production Test Plot
PAMSCAD	-	Programme of Action to Mitigate the Social Cost of Adjustment

SSB	-	Social Security Bank
SSNIT	-	Social Security and National Insurance Trust
SC	-	Standard Chartered
SIC	-	State Insurance Corporation
TNS	-	Technoserve
UNICEF	-	United Nations International Children's Education Fund
UNDP	-	United Nations Development Project
USAID	-	United States Agency for International Development
WB	-	World Bank
WWB	-	Women's World Banking
WVI	-	World Vision International

INTRODUCTION

Technoserve embarked on its rural finance study to clarify the impact the current economic and financial sector restructuring would have on small-scale farmers, and to establish recommendations for increasing rural productivity and incomes. The study was not intended to be a rehash of other organizations' cumulative work, but a basis from which to explore ways of reducing or eliminating credit and non-credit constraints.

To achieve these basic objectives, the study followed two approaches. The structure was developed to look at formal and non-formal institutions as potential vehicles for promoting agricultural productivity. In this sense each chapter is focussed on strengths and weaknesses and somewhat compartmentalized. To link this approach with potential solutions, the multitude of credit and non-credit constraints was incorporated into each chapter to point to the institution's viability in rectifying these constraints. Our recommendations in Section XI suggest ways to lessen the negative impact of these constraints, and also identify institutions that would be useful in implementing programs seeking to increase small-scale farmers' output and earnings.

Information and data collection were achieved primarily by reviewing secondary data (much of which is listed in our bibliography), conducting numerous field surveys, and testing our assumptions and findings in interviews with a wide array of bankers, businessmen and public servants. Field surveys were carried out in all regions but the Upper East, and included interviews with small-scale farmers, cooperative members, credit union members and Rural Bank personnel. These were used for our analysis of the formal financial sector and non-formal alternatives. Unfortunately, our attempts to meet with a large number of susu collectors and moneylenders met with less than optimal success. Thus, our section on these financial intermediaries was not subject to quantitative analysis.

One caveat must also be mentioned with regard to information gathering for the formal financial sector. The banks are generally reluctant to share information due to the sensitive negotiations currently underway between the Government of Ghana and multilateral institutions providing financial assistance. In some cases, even when there may have been a willingness to share information, it was often out of date or incomplete. Reporting requirements of the Bank of Ghana from the primary and secondary banks are weak, so the available information was likewise incomplete. Technoserve has made an effort to make the information as uniform and consistent as possible. While the numbers should be regarded as reasonable approximations of reality, our numerous discussions with officials from the banks,

business community, public sector and international agencies have confirmed that our identification and analyses of trends are generally accurate.

The study evolves from a descriptive macroeconomic (Section I) and sectoral approach (Section II) to a discussion of formal financial institutions (Sections III-V) and non-formal alternatives (Sections VI-IX). The first section is solely intended to provide a brief description of the macroeconomic environment and place the small-scale farmer within that broader context. This is an area in which the Ministry of Finance, World Bank, IMF and other institutions have produced voluminous studies, and Technoserve has simply attempted to extract the key points of the Economic Recovery Programme without contributing anything new.

Section II discusses the agricultural sector of the economy, with particular focus on input supply, distribution systems, infrastructure development, marketing considerations and comparative advantage. Some of this section is descriptive, but much is analytical and attempts to assess areas of strength in which a more rationalized agricultural sector may focus. From this section we believe small-scale farmers have a number of opportunities to pursue, although in cereal production Ghana appears to have only a marginal comparative advantage in some areas (i.e., maize) and a comparative disadvantage in others (i.e., rice). Sorghum is an exception, where Ghana appears to enjoy a high degree of comparative advantage, particularly with high yields recently achieved under Global 2000 Production Test Plots. Our outlook for non-rice cereal producers is generally positive because of the strength of consumer preference for local varieties, the potential for achieving and exceeding self-sufficiency with improved packages and techniques, and the probability of efficient alternative uses (i.e., maize for livestock feed).

Sections III-V take a close look at the formal financial sector. The general conclusion is that the formal sector is in dire need of restructuring, recapitalization, asset revaluation, retraining and overall reorientation. This process has begun, but will take substantial commitment and years to complete. Section III describes the role of the Bank of Ghana in monitoring, supervising and examining the banks, and addresses areas in which the BOG needs to improve its performance to perform its role efficiently. Section IV assesses the performance of the banks and attempts to point out the reasons why levels of formal financial intermediation remain low in Ghana compared to world standards as well as many African states. We believe our approach has broken down trends in a statistical manner that has not been done before, and if so constitutes a contribution to the collective work being done by numerous groups and officials on the formal sector. Section V uses the same methodology in looking at the Rural Banks. We believe, once again, that our approach makes a net contribution to numerous groups' assessments of the Rural Banks. This is

particularly important as the Rural Banks are likely to fill some of the vacuum in rural areas that may be created if primary and secondary banks reduce their commitment to rural finance. Once again, we did not have access to the diagnostic studies performed on the key primary and secondary banks, so there is certainly margin for error. However, we believe our analyses and conclusions are sound, and have sought confirmation from various sources to claim this.

Section VI begins our discussion of the non-formal sector. In this section, we look at the problems of the Cooperative movement in Ghana, and find parallels between what is needed to revitalize the Cooperative movement with what is required to establish a stable and efficient banking system. Reorientation along business principles, (re)training from the most decentralized units to the Department of Cooperatives, and careful monitoring to avoid misappropriation of funds are essential to rebuilding the Cooperative movement. While the Cooperative movement is currently weak, Technoserve believes cooperatives can be restructured to play a key role in the distribution of inputs and credit, construction of storage and facilitation of marketing at favorable producer prices. As the Cooperative movement has succeeded in many other countries, we find no reason to rule out success in Ghana.

Section VII takes a look at the credit union movement in Ghana. As with the cooperatives, Technoserve believes the credit unions offer a potentially effective vehicle in an integrated package of credit and services to small-scale farmers. Whether they are associated with a cooperative, or simply based on a common bond separate from cooperative formation, credit unions represent an important potential link to the formal financial sector on a decentralized, community-based level. The credit union movement needs improved training, logistical support and services at the local level, but Technoserve believes that there is a reasonably strong chance that the credit union movement can become a prominent feature in rural finance. Technoserve also believes its analysis of the data represents a slightly closer look at the consolidated credit union movement and apex organization than has been performed to date.

Section VIII is descriptive and discusses the traditional "susu" (savings groups) and moneylender in rural and urban areas as they apply. These two institutions are prominent in financial intermediation in Ghana, and will continue to play a role due to their proximity and low transactions costs. The importance of this section has to do with ways in which the formal sector can learn from and accommodate them, as well as why it is beneficial for the small-scale farmer to organize into groups (i.e., cooperatives, credit unions) to avoid dependence on financing from moneylenders that often eliminates any surplus production and keeps the small-scale farmer at subsistence levels.

Section IX takes a look at the non-governmental organizations that have long worked in Ghana, their contributions to development, and the roles they may play in input and credit schemes to small-scale farmers. Technoserve believes they can play an important role in technical assistance, management and training. The two best examples of success Technoserve has found have been Catholic Church involvement for over 30 years in the credit union movement in the Upper West Region, and Global 2000's vastly improved maize and sorghum yields based on improved packages since 1986.

Sections X and XI are the conclusion and recommendations of our study. The conclusion sums up the constraints and judges trends under the ERP that are likely to improve on these constraints. The recommendations in Section XI constitute an attempt to put a package together, by identifying key institutions to facilitate rural development. These should be viewed as component parts of a program that could be developed over time to stabilize the role of the small-scale farmer within the context of a more dynamic, market-oriented economy.

EXECUTIVE SUMMARY

The following constitute some of the central findings of the Technoserve Rural Finance Study. While these are not all-inclusive, the following points represent what Technoserve considers to be most relevant in terms of the current macroeconomic and formal financial sector restructuring, and how they are likely to impact the small-scale farmer. Recommendations are also summarized at the end.

-- Macroeconomic policy under the Economic Recovery Program will promote efficiency and improve resource allocation on a long-term basis, reducing Government "crowding out" of private sector investment and making Ghana more competitive in local and international markets. In terms of the small-scale farmer, some of these changes are likely to have an unfavourable short-term impact (i.e., phasing out of subsidies that will increase fertilizer costs), although there will be benefits as well (i.e., increased fertilizer supply, higher yields). Longer term, however, small-scale farmers should benefit from a more competitive economy that produces goods and services more efficiently.

-- Past Government policies favouring urban-based industrial programs, combined with waste, poorly managed parastatals and misappropriated funds, have done much to erode the national infrastructure. Low producer prices favouring urban consumers have created disincentives to increase agricultural production, and encouraged cross-border smuggling where CFA compensation is higher. Focus on urban compared to rural infrastructure has also encouraged labour migration flows from the rural to the urban areas, reducing the quality and supply of farm labour while increasing average age and costs. Current Government priorities are attempting to address these problems, but it will take a considerable period of time for Ghana's agricultural sector to approach its potential. This will mean limited improvement in the small-scale farmer's standard of living in the coming years.

-- The formal financial sector needs to be restructured, recapitalized, retrained and reoriented to emphasize real cash profitability and efficient management at all levels of each institution. Such changes need to be accompanied by stricter and more capable monitoring by the Bank of Ghana, including far more detailed and frequent accounts from the banks and a strengthening of accounting institutions in the country. The introduction of capital markets to provide outlets for bank funds and to subject company management to public information will also promote market efficiency. An expanded role for the Consolidated Discount House will likewise provide more options for banks in meeting their

liquidity needs and managing their liquid assets. The banks need to commit themselves to far higher productivity and service standards that will radically transform their operating performance. In the rural areas, it is likely that banks will limit their deposit mobilization and credit exposure until such activities are profitable. This will further reduce the already limited contacts small-scale farmers have with formal financial sector institutions, making it imperative to develop and strengthen alternative credit and non-credit programs at local levels. If the Bank of Ghana forces the banks to allocate a minimum quantity or percentage of resources to the agricultural sector for socio-political reasons, this will make bank resource allocation less efficient without noticeably improving the lot of the small-scale farmer.

-- The Rural Banks, while small compared to the primary and secondary banks, have demonstrated a consistent ability to mobilize deposits and, in some cases where local economies are strong, compete with their primary and secondary counterparts. However, in areas where the local economy is not strong, the Rural Banks are often deviating from their stated objectives of promoting agricultural development and cottage industries in their unit areas, instead promoting activities geared to trade with the urban areas which do not generate funds for reinvestment in rural areas. Rural Banks need to have greater flexibility in investing funds instead of simply recycling local deposits into bad credits to stay within their stated mission. Thus, Rural Banks need to have access to a wider range of financial instruments to boost profitability and local development simultaneously. The Rural Banks need to be creative in the financing of well-managed, profitable enterprises that would be useful in promoting local development (i.e., input and marketing companies). Management and training levels will need to be improved to foster greater efficiency at each unit. The degree to which the Rural Banks address these issues will determine the degree to which they impact the small-scale farmer.

-- The Cooperative movement has not succeeded in Ghana due to past misappropriation of funds by Executive members and Department of Cooperatives personnel, and an aversion to managing cooperatives in a manner consistent with business principles. The cooperative movement can be an effective tool in promoting rural development, and particularly in delivering credit and non-credit benefits to the small-scale farmer. To do so, however, the entire movement needs to be reoriented and strengthened, emphasizing profitability, a limited regulatory, educational and monitoring role by the Department of Cooperatives, and increased involvement and participation from non-governmental organizations to improve management skills.

-- Credit unions have suffered from lack of training and management skills in most parts of the country. Nevertheless, the movement has functioned for 20 years, and an infrastructure exists on which to expand in rural areas at a time when many banks are likely to withdraw from rural areas. Given the localized nature of credit unions, these can serve as valuable institutions in promoting small-scale farmer productivity, income, savings and investment.

-- Traditional financial institutions, i.e., moneylenders and susu, are likely to continue playing an important role in financial matters due to their accessibility, convenience and low transactions costs. In the case of susu, this is viewed as a positive development, although on a longer-term basis people subscribing to susu should be enabled to receive interest on their savings rather than receiving nominal declines. Moneylenders, while providing a service in the absence of alternatives, hold their small-scale farmer clientele in a cycle of financial dependence, preventing them from generating surplus production and cash. Combined with very limited access to formal financial sector credit, the small-scale farmer will have to develop alternatives if he is to rise above subsistence.

-- Non-governmental organizations are diverse in their goals, orientation and experiences. Some have assisted in rural development by contributing to infrastructure development, cooperative and credit union management and training, health care, famine relief, and a range of other assistance activities. Some have been successful with input supply and credit packages that have dramatically boosted output, most notably Global 2000. As independent organizations, these groups have a wealth of experience and resources on which to draw for rural development.

From the basic observations of our study, Technoserve proposes the following as components in a model to be developed for the promotion of small-scale farmer productivity, income, savings and investment. These recommendations are predicated on improved technical packages, alternative credit programs, expansion and improvement of storage capacity, and a far greater sense of interplay between institutions at local, district, regional and national levels:

-- Strengthening of public sector research stations focussing on localized research needs and committed to sharing their findings with input supply companies, the Ministry of Agriculture (which should oversee research functions, rather than the Ministry of Industry, Science and Technology, and play a key role in identifying and directing research stations into areas that need to be explored and developed), financial institutions, cooperatives and any other groups related to agricultural development.

-- Privatization of input production and supply companies to promote the propagation and increased availability of appropriate seeds, fertilizers and other inputs as needed, and far more efficient distribution networks with profit incentives.

-- Improvements in the number, quality and mobility of MOA extension officers, with performance-based compensation and increased exposure to research findings and training.

-- Strengthening of the cooperative movement along business principles to promote efficiently managed, profitable enterprises that stimulate rural development.

-- Commitment to strengthening credit unions as community-based financial institutions, especially in rural areas where formal sector services are limited or non-existent.

-- Emphasis on expanding the Rural Banks simultaneous with a greater commitment to improving management and training levels so that Rural Banks can serve as financial intermediaries vital to local development.

-- Greater involvement of NGO's in rural development from an institutional and community-based perspective with a long-term objective of developing enterprises and transferring skills such that these enterprises may become completely autonomous.

-- Change in the focus of the Agricultural Development Bank from lender to all farmers to a "wholesale" distributor of credit and advisory services, promoting more decentralized efforts at rural development in partnership with organizations rooted at the local levels and responsible for monitoring.

Technoserve believes that if all of these components are grouped together in a coordinated manner, community-based initiatives assisted by the necessary managerial and technical assistance so many of these institutions are capable of providing will serve as a model for rural development. Such an approach will take years to achieve, and for the moment Technoserve believes it is more constructive to concentrate small-scale farmer efforts on building small, community-based models that emphasize self-reliance (i.e., cooperatives, Production Test Plots), while institutions at more centralized levels (i.e., Ministry of Agriculture, research stations) focus on improving resources, the quality and quantity of work, and direct application at the farm level. Nevertheless, over time, it is felt that an integrated approach will improve the prospects for small-scale farmers rising above subsistence levels, and that this will make a strong contribution to future national economic development.

I. OVERVIEW OF THE MACROECONOMIC ENVIRONMENT

A. Introduction: Ghana is well-endowed with natural and human resources, with 13.5 million people, 10 million hectares of cultivable land, and tropical climate suitable for growing a broad range of agricultural crops. Ghana also possesses considerable forestry, fishing, and mineral resources, substantial hydroelectric power, rail lines and two major ports. Annex I-1 and I-1A highlight economic activity from 1980-1987.

The economy is based primarily on the small-scale production of cocoa and staple foods, but agricultural productivity is low because of low producer prices, inadequate support services, a rundown infrastructure, erratic input supplies and lack of access to affordable credit. Once the world's largest producer of cocoa, Ghana now ranks third behind the Ivory Coast and Brazil. The country is still heavily dependent on cocoa, which accounts for about 60% of the country's export earnings, generates 25% of Government tax revenue, and employs 24% of the total labour force. The Government is promoting non-cocoa exports, but for the near term cocoa and subsistence will remain the central features of Ghana's agricultural production.

In addition to cocoa, Ghana is relying on gold and timber to boost export earnings. Gold production was 319 ounces in 1987, up 9.1% compared to 1986. Such production generated $139.8 million in export earnings and $24 million in post-tax profits and will play a key role in future development. The Government is issuing new prospecting licenses with the intention of producing 2.7 million ounces by 1992. Ghana enjoys a comparative advantage in gold production, with average costs of US$120 per ounce while world market prices are currently around US$400/ ounce. With such a large margin, the Government will be looking to increased gold production to boost the economy.

Timber exports, mainly in the form of logs, also played a central role in export earnings in 1987, generating a net US$90 million. Export volume increased 69.4% in 1987 to nearly 494,000 cubic meters. Due to environmental concerns about deforestation, the Government will likely reverse its emphasis on log exports and promote processed wood products while attempting to conserve hardwoods.

Food production will be central to efforts to meet local needs at minimal foreign exchange cost, while cocoa, gold and processed wood exports will be priority exports. This strategy highlights the importance of agriculture and rural development in the overall economic recovery, and puts the savings and credit needs of small-scale farmers into perspective.

B. A Brief Economic Review (1970-82): After a period of relative prosperity in the 1960's, Ghana experienced a protracted economic decline in the 1970's and early 1980's. The economic decline was marked by shrinking output, high and accelerating inflation and growing external imbalances. With an annual population growth rate of 3% and high inflation rates, real per capita income declined by almost half from the 1970's to 1983. The productive base of the economy deteriorated rapidly as a result of the emigration of skilled labour to neighbouring countries, lack of private capital formation and erosion of the national infrastructure. As a result, production, exports, savings and investment declined while consumption of imports and retailing activities increased and the underground economy flourished.

The economic decline was fueled by Government policies favouring rapid industrialization by State-Owned Enterprises (SOE's) at the expense of an agricultural sector that traditionally had been Ghana's most important foreign exchange earner. In addition, the industrialization policy attached great importance to self-reliance by establishing import-substituting industries under highly protective trade and non-trade barriers. The Government incurred large budget deficits which were primarily financed by the banking system, thereby diverting investment away from the private sector.

Government monetary and economic policy fueled domestic demand under conditions of declining domestic supply, leading to growing balance of payment deficits and accelerating inflation. Successive governments tried to address the macroeconomic imbalances with controls on distribution and prices: inflation was countered by price controls; balance of payment deficits were countered by import controls; and scarcities of goods were countered by distribution controls. These policies led to the development of a thriving parallel market for both goods and money, while the fundamental problems of low productivity, savings and investment continued to plague national development efforts.

External factors also played a part in the nation's economic decline. The two oil price shocks of 1973 and 1979, sharp rises in world interest rates and the collapse of primary commodity prices in the early 1980's all had adverse effects on the economy of Ghana. While the world price of cocoa was buoyant in the second half of the 1970's, the benefits of higher cocoa prices were not passed on to the farmer, but retained by the cocoa board and the Government. Thus, the declining real cocoa producer price prevented an expansion of cocoa production and diverted exports through parallel market channels.

C. Economic Recovery Programme (1983-1987): To arrest the economic decline, the Government in 1983 launched an Economic Recovery Programme (ERP), supported by both the World Bank and the IMF, to lay the foundation for an increasingly productive and efficient economy. The IMF supported the ERP under three successive stand-by arrangements totalling $655.6 million, while the World Bank backed the program with two reconstruction import credits amounting to $127 million. The policy package sought, among other things, to:

i) reform prices and restore production incentives;

ii) arrest the runaway rate of inflation;

iii) realign interest rates;

iv) restore fiscal and monetary discipline;

v) reduce the cumulative budget deficit;

vi) rehabilitate the country's economic and social infrastructure;

vii) encourage private savings and investment; and

viii) establish proper priorities for the allocation of scarce foreign exchange resources.

To improve the allocation of resources and external payments position, the ERP placed particular emphasis on a progressive movement toward a realistic and flexible exchange rate. The exchange rate was adjusted periodically, which made it possible to improve price incentives in the economy. Increases in the producer price for cocoa more than doubled the real purchasing power of cocoa farmers from 1983-1987, rising from C20,000 per ton in 1983 to C140,000 per ton in 1987. In addition, other administered prices (i.e., fuel and cement) increased markedly, the number of goods subject to statutory price controls were substantially reduced, distribution controls were removed, and interest rates increased sharply in an effort to achieve positive real levels for both depositors and financial institutions.

During the 1983-1987 period, there was an appreciable easing of the supply situation as increased food crops, spare parts and consumer items began to flow into the marketplace. Exports of cocoa increased from 158,000 tons in 1983 to 225,000 tons in 1987. With the expansion of agricultural, mining and manufacturing output, real GDP grew on average by 5.0% during the period. In addition, there was a rapid deceleration of inflation (as measured by the national consumer price index) from 123% in 1983 to 40% in 1987 (see Annex I-2).

With the exhaustion of external funds supporting the ERP at the end of 1986, the ERP entered a second phase with the World Bank's $130 million Structural Adjustment Program (SAP) for 1987-1989, and the IMF's $245.4 million Extended Fund Facility (EFF) for 1987-1990 as components. The SAP is designed to improve incentives, strengthen the capability of ministries at policy formulation, and implement and monitor programmes so as to remove constraints that still impair the efficiency and growth of some segments of the economy. The EFF, meanwhile, has set annual macroeconomic performance targets (i.e., growth rates in real GDP, domestic inflation, the rate of velocity and growth of broad money). The main instruments and policies of SAP are: trade and exchange rate policy reform, cocoa sector policy,

public expenditure policy, State enterprise reform, public sector management and social sector issues.

i) Trade and Exchange Rate Policy Reform: In pursuit of a flexible exchange rate policy, the official value of the cedi in relation to the major currencies is determined at a weekly auction introduced in September 1986. At the beginning of the auction, crude oil, cocoa receipts and pharmaceuticals were still valued at a fixed rate of C90 to the U.S. dollar (window 1). As of February 1987, the two windows for foreign exchange were unified, and all official foreign exchange transactions have since been converted at a single rate determined at the auction. In addition, about 50% (in value terms) of goods being imported under the Special Import Licence (SIL) scheme were moved onto the "A" list of goods eligible for funding through the auction for foreign exchange. Increasing eligibility has facilitated the flow of goods into Ghana, alleviating some of the supply constraints (i.e., spare parts) that negatively affected industrial and agricultural growth.

While progressively widening access to the auction, the Government has taken steps to increase the flow of resources to the auction. Thus, the foreign exchange retention ratio of log exporters was reduced from 20% to 5%, while the Ashanti Goldfield Corporation (which owns the largest gold mine in the world) has started paying dividends to the Government in foreign exchange out of the corporation's retention account. Cocoa exports under bilateral arrangements have been reduced significantly, so that cocoa can be sold for hard currency that is used to supply the auction.

The cedi depreciated from its pre-auction level of C90/$1 to an average of C163/$1 in 1987. At mid-1988, the cedi was officially valued at C190/$1, although the recent opening of bureaux de change have priced transactions at between C250-C260 to the US$1.

ii) Cocoa Sector Policy: The key steps to strengthen the cocoa sector are further real increases in returns to farmers, the reduction of procurement and marketing costs of cocoa by streamlining cocoa board operations, and the formulation of a corporate development strategy to address constraints on output arising from the need for improved extension services, adaptive research, disease control, essential inputs and credit. It has been Government policy under the ERP to pass on to the producer the full effect of exchange rate movements of the cedi.

iii) Public Expenditure Policy: There has long been the need to increase public expenditure to promote economic development and production capacity without stimulating inflation. A rolling three-year Public Investment Program 1986-1988 (PIP) has been designed to ensure that its composition is consistent with the growth targets and other objectives of the SAP to support key sectoral programs.

state ownership. A stranger to the village can obtain land by grant, licence or contract.

The major forms of tenancy are the Abusa and the Abunu. Neither have written agreements, and payments are made to the landlord in the form of a share of the produce. Under the Abusa system, this share is usually 67% in favour of the lessee, whereas under the Abunu, produce is shared equally. The existing tenurial arrangements are flexible and practical, and individuals can usually acquire usufruct on agricultural lands available with their respective communities.

In some southern regions of Ghana, particularly in the cocoa areas, land can be held by individuals, clans or families under freehold or leasehold terms by purchase from the original owner. In the Northern and Upper Regions of Ghana, nearly all land is held under traditional methods of communal ownership. A 1985 FAO-sponsored seminar (*) in Accra on land tenure agrarian systems and rural development revealed that:

i) the traditional system of land tenure did not prevent individuals from acquiring land;

ii) individuals were constrained by physical conditions (i.e., the area of land cultivable by hoe and cutlass methods) rather than by the system of land tenure; and

iii) land tenure was not considered a constraint to credit, since both the formal and informal rural credit systems circumvented the possibility of tenurial problems by lending to small-holder farmers on a group basis.

The seminar also pointed out the main weaknesses in the existing arrangements inherent in the Abunu and Abusa tenancies as:

i) lack of clarification of the rights of parties which lead to disputes; and

ii) restriction of tenants to specific crops.

The seminar therefore recommended replacing share-cropping tenancies by cash tenancies; and enacting rent stabilization legislation.

H. <u>Extension Services:</u> Agricultural extension is conducted on a specialized basis as every department in the MOA (crop services, livestock and fisheries) maintains its own staff for extension activities. There are an estimated 2,500 extension officers employed by the MOA. The current MOA estimate of extension staff to farmer is about 1:5000, while the international standard is about 1:500.

(*) Report on FAO-Sponsored Seminar on Land Tenure and Agrarian Systems & Rural Development. Accra, June 1985.

PAGES 5-30 are missing

Several other agencies also undertake extension work. They include the Grain Development Board (GDB), the Ghana Cotton Company (GCC), the Bast Fiber Development Board (BFDB), the Cocoa Board (Cocobod), Pioneer Tobacco Company (PTC), International Tobacco Ghana Ltd. (ITC) and the Ghana Irrigation Development Authority (GIDA).

Some development projects operating semi-autonomously under the MOA provide extension services. These include the Volta Region Agricultural Development Project and the Ghanaian-German Agricultural Development Project.

The organization of extension work streams from the MOA's central offices to regional, district and sub-district levels. Central and regional levels are involved mainly in planning and monitoring, while the actual implementation of policies rests with the districts and sub-districts.

Extension work responsibilities include:

i) establishing field demonstration plots of improved farming practices to farmers;

ii) managing, procuring and distributing inputs (improved seeds and seedlings, farm tools and equipment, fertilizers and other chemicals);

iii) organizing Nnoboa (group) farms for joint activities under mechanization and co-operative associations for group credit from financial institutions;

iv) collecting rainfall records and crop prices; and

v) undertaking market surveys.

With regard to tractor hire and overall mechanization services, the Government wants to encourage groups to own tractors themselves. The tractors, however, would be serviced by the Government. Schemes of this nature have started in the Afram Plains (Eastern Region) and Atebubu (Brong-Ahafo Region) with assistance from the FAO and the Italian government.

Morale and motivation of extension staff have generally been low due to low salaries, inadequate transportation, absence of extension materials, little or no in-service training and relevant technical literature, and insufficient linkages with research stations around the country. The World Bank (*) revealed that the results of research during the last 10 to 15 years in Ghana are largely unknown because of the financial constraints hindering research institutions from publishing their findings. To ensure the required co-ordination of agricultural research and extension, the Agricultural Research, Development and Advisory Committee of the MOA

(*) World Bank, Report No. 6645: April 1987

has been set up to bring together research institutes, the MOA and development agencies.

Most extension workers are graduates and certificate holders from the country's universities and five agricultural colleges. There is limited post-graduation in-service training for staff due to financial constraints. Workshops and seminars for extension staff, which were frequent in the 1970's, are now infrequent. These and other deficiencies are due to low budgetary allocations for extension work.

Also, extension services have been organised according to departments (home economics, fisheries, livestock, crops), creating cost-ineffectiveness and duplication of work. The Government is trying to address this issue by setting up a new separate department for Extension Services in the MOA to manage and co-ordinate all extension activities. Until these and other changes are made, morale will likely remain low.

I. Agricultural Pricing and Marketing: In Ghana, the marketing of agricultural produce is characterised by a combination of price selling, price floors and free market trade. Major export crops such as cocoa, coffee and sheanut receive fixed producer prices. Minimum guaranteed prices are applied to major food items like maize and rice by the GFDC and other state marketing agencies. These only affect up to 10% of maize production and 50% of rice production, with the rest determined by market forces. Prices are fixed by monopolies or cartels for industrial crops like tobacco, palm oil and cotton. Other food items such as cassava, yams, peppers, tomatoes and plantains are freely traded in the open market. These different pricing policies have a direct impact on production levels, marketing decisions and infrastructure investment, and will continue to play a key role in national development as they are increasingly liberalized.

i) Domestic Production, Consumption and Exports of Agricultural Commodities: It is estimated that for major food items such as maize and rice, not more than 20% of annual output is grown for home consumption by peasants, leaving about 80% of the produce for the remainder of the domestic market. While Production for cocoa, cotton, tobacco and rubber showed a downward trend from the 1970's to 1983, and began rising from 1984. The production of cocoa declined from an average of 400,000 m.t. in the early 1970's to 159,000 mt. in 1983/84. Cotton production, which grew steadily in the early 1970's to 11,363 mt. by 1977, fell to 502 mt. by 1983. Tobacco production, which had also grown steadily to an average of 2750 mt. by the mid-1970's, started falling from 1976 and was only 500 mt. in 1983. Annex II-12 highlights production trends for rice, maize, cocoa, cotton and tobacco from 1970-1987. Though data on other commodities (i.e., rubber, sorghum) are not readily available, there are strong indications that production has increased since 1983, reflecting more favorable weather and improved Government policies.

ii) **Pricing Trends:** Except for data relating to producer prices of cocoa, cotton and tobacco which are officially regulated, data from the MOA regarding prices and production of agricultural commodities are of doubtful reliability (*). Nevertheless, we have taken the MOA's national average wholesale prices and deflated them by both the rural consumer price index (CPI) and rural non-food CPI in order to have an idea of real price trends and incentives to producers. The rural non-food CPI has been used as another deflator to measure the changes in real purchasing power of farmers, at least for major staples, since most farmers usually cover their subsistence needs for major staples from their own production and will mostly buy non-food items with their cash incomes.

With some year to year fluctuations, the wholesale prices of almost all agricultural commodities have risen in real terms since 1970. There are, however, exceptions for cocoa, cotton and tobacco. Deflated by the rural CPI, the real prices of cocoa, cotton and tobacco in 1983 were only 39%, 34% and 56% of 1970 prices, respectively. The World Bank further indicates that the nominal cocoa producer price per ton of C30,000 for 1984/85 was about 25% of the world market price at the official exchange rate (C53 = US$1), 19% at the shadow exchange rate (C70 = US$1), and only 11% at the black market rate (C120 = US$1) (**). In comparison, the cocoa producer prices in neighbouring Cote d'Ivoire and Togo were about 3.3 and 2.5 times the producer price in Ghana at the black market exchange rates in 1984/85. Wholesale prices in Ghana from 1970-1983 for a basket of commodities is shown in Annex II-13A.

Annex II-13B illustrates real producer prices for cocoa, maize and rice in Ghana from 1984-1987. Employing the same analytical technique, the producer prices for cocoa, maize and rice have been converted to real prices for the period 1984-1987. Results of the conversion indicate that in real terms the producer prices of cocoa, maize and rice have increased, though marginally for maize and rice over the period. The increases in real producer prices have contributed to the increases in production of cocoa, maize and rice since the ERP was launched. But in comparison with 1970 prices, the real prices of cocoa, maize and rice in 1987/88 were only 14.1%, 1.4% and 2.0%, respectively. As such, while production trends have been favorable since 1984, real producer prices are still low compared to those in the 1970's.

(*) World Bank, Report No. 5366-GH, (Ghana Agricultural Sector Review)

(**) World Bank, Functions of the GFDC

iii) Pricing of Agricultural Commodities: Since the launching of the ERP in 1983, the Government has to some extent liberalized price setting for agricultural produce. However, producer prices of the main export crops, including cocoa, are set by the Government. Due to its position as the main source of foreign exchange, cocoa pricing will remain in the hands of Government during the period 1988-1993. The Government intends to increase annually the nominal producer price of cocoa to an indicative target of 55% of the world market price by 1990. The 1986/87 price was about 37.2% of the export price (see Annex 11-13B). It is likely that complications will arise if the world market price remains low, however. A decline in world market prices offsets the Government's efforts to increase the producer price. If the indicative target is raised above 55% to compensate the farmer to promote added production, the Government sacrifices revenues needed for other development programs. If the producer price remains low, it discourages cocoa production, thereby reducing critical foreign exchange earnings.

For industrial crops like cotton, tobacco and palm oil, monopolies or cartels purchase the outputs and, therefore, prices are set by the Government in close consultation with the main buyers. The key pricing parameter is costs of production, while comparison with border prices is done to ensure that farmers are offered remunerative prices based on expected border prices and competitiveness with other crops. However, due to the paucity of data on the production and export/world market prices of these crops, it has not been possible to estimate aggregate subsidies by the Government to farmers, or export taxes paid by farmers to the Government. Likewise, it is difficult to ascertain production trends for these crops in recent years.

As regards the main food items, guaranteed minimum prices are set by a Food Prices Review Committee of the Ministry of Agriculture. The major objective of the minimum guaranteed pricing system is to ensure that producers of maize and rice do not go bankrupt in years of surpluses. The prices set cover the farmer's costs of production, and have a profit margin built in. The problem, however, has been during periods of glut or harvest, when the market price falls below the GFDC price. As the GFDC has often been unable to purchase large quantities of cereals due to limited storage or liquidity, it has not been entirely effective in achieving its objectives.

About 90% of the maize and up to 50% of the rice marketed in Ghana is traded privately, while the Ghana Food Distribution Corporation (GFDC) and other parastatals take the remaining 10% and 50%, respectively. The GFDC either acts as a wholesaler by selling in bulk to retailers in kiosks, or retailer by selling directly to the general public and

institutions such as secondary schools, the Army and Prisons Service.

The GFDC was set up to perform the following key functions:

a. to provide a ready market for all staple farm produce (rice, maize, cocoyam, plantain, cassava, vegetables, edible oil, etc.) from farmers who cannot obtain a ready market for their farm produce elsewhere;

b. to develop adequate storage and preservation facilities, (i.e., cold stores, silos, warehouses, barns) and other scientific means of preserving the perishable and seasonal food items produced by farmers in excess of their immediate demand;

c. to stabilize prices by purchasing excess food items during the bumper period for storage and release during the lean period; and

d. to ensure equitable distribution by carting food items from areas where there are surpluses to deficit areas.

In normal years of production or years of shortages, farmers are able to obtain relatively good prices for their produce, and, therefore, do not find it necessary to sell to the GFDC and other parastatals at the guaranteed minimum prices. However, during years of bumper harvests, the minimum guaranteed prices become relevant and beneficial to the farmer as they serve as the selling prices of last resort.

The main parameters used in setting minimum guaranteed prices are as follows:

a. costs of production, which take into account the quantities of all inputs including fertilizers, chemicals, labour, sacks, cutlasses, land rent, etc.;

b. costs of borrowing, as the farmer is assumed to borrow up to 70% of his total cost from the banks for a period of one year at the prevailing commercial interest rate; and

c. contingency and management expenses, each at 5%.

The above cost of producing one acre is divided by the yield of the crop, weighted 60% in favour of the traditional small-scale farmer's yield and 40% in favour of the large-scale farmer's yield.

A mathematical example of how the price is computed is provided in Annex II-14A, 14B & 14C for maize and rice. The computed minimum guaranteed prices obtained for maize and rice at 1988 market prices are C6,000 for a 100 kg. bag of

maize and C9,200 for a bag of paddy rice weighing 82 kg. However, the Ministry of Agriculture has announced that the minimum guaranteed prices for maize and rice during the 1988 crop season are C4,800 and C5,500 respectively. The disparities in the prices seem to suggest some protection for urban workers since higher prices for the two staples may encourage an upward spiral in wage rates at a time when the Government is attempting to control labour costs and increase the marginal production of the labor force. At the same time, producers of maize and rice do enjoy some protection as minimum guaranteed prices announced by the Government have tended to be higher than world market prices. For instance, the Ghana Commercial Bank Quarterly Economic Review Vol.9, No.3 for July-Sept, 1986 reported that the minimum guaranteed prices announced for maize and paddy rice in 1986 were higher than prices of imported rice and maize from New York or Brazil. At the mid-year official exchange rate of C190 = $1, the minimum guaranteed prices for maize and rice are higher than the world market prices of maize and rice by about 135% and 40%, respectively. This situation stems from the fact that Ghanaian farmers generally realize lower yields, a situation which urgently calls for productivity improvement programs such as those being implemented by Global 2000.

If this position of minimum guaranteed prices being higher than world market prices is tenable, than imported rice through food grants and aid should sell more cheaply than local rice. But such a policy would have a negative impact on production levels, hence the policy of selling imported rice at prices above locally produced rice, and the margin theoretically utilized for agricultural development.

iv) Announcement of Producer Prices: The announcement of producer prices for export crops is either made during the presentation of the Government budget for the fiscal year or well before the main crop season, while minimum guaranteed prices for maize and rice are announced at the time of harvesting due to uncertainties concerning possible market manipulation. Minimum guaranteed prices for 1988 were announced in May, and effective 1st August, 1988 during the peak harvesting period for maize. Whereas the announcement for producer prices of export crops may serve as an incentive for farmers to boost their output through regular farm maintenance, food crop farmers rationally decide on acreage levels for the present time on the basis of previous year price levels.

v) Marketing of Food Surpluses: Food surpluses, particularly of maize and rice, are to be marketed through the GFDC which is responsible for establishing and maintaining buffer stocks for food security purposes. Towards this end, the GFDC has developed a buffer stock programme, and is receiving donor assistance to construct 50,000 metric tonnes of storage facilities.

At a consumption rate of 40.3 kg/capita/year in 1990 as projected by the FAO, the above tonnage of maize will be sufficient to feed about 1.25 million people in a year. However, to be able to purchase the 50,000 mt of maize at the computed minimum guaranteed price, the GFDC will require at least C2.85 billion which may be beyond the financial capacity of the consortium of banks financing the GFDC at the moment. In addition to the financing problem, inadequate drying capacity, insufficient transport fleets and a shortage of trained management may limit maize purchases by the GFDC in years of bumper harvests.

In short, the World Bank and other multilateral institutions such as IFAD claim that the GFDC is unlikely to receive adequate funds and logistical support to intervene effectively in the market. At the moment its share of the market is not more than 10% of the marketed surplus and, as such, its impact has been insignificant in both producer and consumer price stabilization. Therefore, the role of the GFDC as a purchaser of last resort needs be reviewed in favour of policies which provide adequate credit facilities and input supplies in an efficient manner to small-holder farmers as well as facilities for on-farm storage. This will strengthen the capacity of the small-holder farmers to anticipate and adjust to market forces with a view to stabilizing their incomes.

J. Input Distribution System: It is generally believed that improvements in the productivity of the small-scale farmer depend to a large extent on the availability of technical packages which are profitable to him. The adoption of these improved technologies calls for the availability of improved seeds, fertilizers, pesticides, etc., in the right quantities, at the right time and at affordable prices. Though complete input packages have been developed for cereals and legumes production in the country by various research institutes, the universities and the Grains Development Board, the supply of improved inputs, seeds, and fertilizer in particular, has been inadequate and irregular. The efforts of Global 2000 to provide integrated and improved input packages in a timely manner has been noteworthy in dramatically increasing maize and sorghum yields. Replication of their efforts could do much to alleviate input supply bottlenecks that have long had an adverse impact on food production in Ghana.

NB: World market price for maize applied is $110/mt and the price for rice is $248/mt.

Source: GNPA

While the Government has provided subsidies to farmers on fertilizer imports over the years, the prices of improved seeds supplied by the Ghana Seed Company have not been commensurate with the quality of seed. Generally, the subsidies on fertilizers have been in favour

of large-scale farmers who are able to transport fertilizer allocated to them. Small-scale farmers without transport or any visible higher returns from improved seeds over their own seeds have tended to use very little improved seeds.

Under the ERP, the Government has announced new measures to remove fertilizer subsidies by 1990, while the supply and distribution of both fertilizer and improved seeds is to be gradually privatized. The implications of these new measures on the productivity of the small-holder farmer will be analysed for future programmes' design and formulation. The analysis on the input distribution system has been restricted to fertilizer and seed supply due to inadequate statistical data on other inputs. The distribution of other inputs such as matchets, axes, protective clothing, sprayers, chainsaws, etc. are handled by commercial houses like UAC, GNTC, etc. and private traders. On the otherhand, inputs like weedicides, insecticides, fungicides are traded by oil companies, notably Reiss and Co., Tema Chemicals Ltd., Danafco, Dizengoff, etc. Alongside the commercial houses and private traders, some banks are involved in the importation and distribution of agricultural and fishing inputs. Prominent among these are the Agricultural Development Bank (ADB), National Investment Bank, (NIB), Ghana Commercial Bank (GCB) and the Rural Banks. The inputs are brought in under the various lines of credit contracted at concessionary terms from international lending institutions like the African Development Bank and the European Development Fund/EEC. However, this phenomenon which was very popular in the early 1980's is losing favour amongst the banks as they are now facing strong competition from the commercial houses in the wake of trade liberalization and higher inventory costs.

i) <u>Fertilizer Imports, Distribution and Pricing:</u> The major policy issue on input supply centres around fertilizer importation and distribution. In the past, with the scarcity of fertilizers (owing to foreign exchange shortages) and subsidies on fertilizers leading to a perceived need for rationing, the Ministry of Agriculture was solely responsible for distribution of fertilizers throughout the country while the Ghana National Procurement Agency (GNPA) was and is responsible for imports. Available data indicate that imports of fertilizer for cereal production have only satisfied about 18.1% of the aggregate demand over the years (see Annex II-15).

With the establishment of Government-owned farmers' services companies (FASCOM), fertilizer distribution has been transferred from the MOA to these companies in the Upper East, Upper West and Volta Regions. In all other regions, the MOA is still responsible for fertilizer distribution. However, the distribution of fertilizer by the MOA extension agents has been recognized as a major factor for their non-performance. This is due to the fact that the extension agents spend a considerable amount of time dealing with the questions of anxious farmers, actual allocation of fertilizer, storage, sales, and accounting for stocks and sales proceeds, leaving them little time for extension work.

Delays in importation and distribution of fertilizers have also been common problems over the years. Transportation of fertilizer has been particularly inefficient since the MOA has little transport capacity of its own and the Government's transport rates are usually not attractive to private transporters.

Other problems associated with the existing distribution system include:

a. procurement and distribution based on ad-hoc measures;

b. late arrivals of fertilizer;

c. delivery mistakes relating to type and volume of fertilizer;

d. inadequate storage facilities leading to caking of fertilizer;

e. lack of distribution arrangements between sub-districts, depots and villages; and

f. unreliable stock records.

Against the above background, the World Bank has recommended strongly that the Government delink input supply from the MOA functions, concentrating on upgrading extension services, supporting research and moving towards privatization of fertilizer importation and distribution to improve efficiency of input supply operations. Several arguments have been made to support the above recommendation:

a. with the recently implemented reforms in the import licensing system and establishment of a "core" and "peripheral" import program, there should not be a fertilizer shortage anymore, since fertilizers will obviously be in the "core" program and therefore, will have a full foreign exchange cover;

b. donor support is likely to be forthcoming for fertilizer imports, with conditions that the system be made more efficient; and

c. with the expected regular adjustment in the exchange rates and consequent adjustment of fertilizer prices when the subsidies are finally removed, distribution of fertilizers may look attractive in terms of profit margins for some commercial houses to trade in fertilizer.

The Government has accepted this recommendation and has evolved a policy of phasing out the subsidy on fertilizer in order to foster the establishment of a viable fertilizer

marketing system by 1990. In 1987, the subsidy level stood at 42% of the total cost of importing fertilizer (comprising the CIF) and the internal distribution cost (including cost of transportation, bank charges, margin, etc.). The subsidy has been reduced to 30% in 1988 and will be further reduced to 15% in 1989. The policy also aims at having no subsidy at all on fertilizer by 1990. See Annex II-16 for mathematical computations of fertilizer prices for the 1988 farming season.

ii) Removal Of Subsidies and its Effects on Farmers' Output: The main effect of removing subsidies on fertilizer will be increases in the selling prices of fertilizer by at least the level of subsidy removed. An increase in price will curtail demand for a normal good and vice versa. However, in the case of fertilizer, whether or not an increase in price will result in a reduction in demand depends on factors such as:

a. the price elasticity of demand for fertilizers;

b. the degree of substitution of chemical and inorganic fertilizers by organic fertilizers such as compost;

c. the availability of sufficient input supplies at the appropriate time;

d. farmers' traditional risk-aversion and preoccupation with weather, pest control and labor costs;

e. the availability of credit to the farmer to buy the required quantity of fertilizers; and

f. the perceived profitability of using fertilizer for a particular crop.

By removing the subsidies, farmers would be required to back their demand for fertilizer with higher financial outlays. This will manifest itself in higher small-scale farmer demand for credit from the banking system. It is therefore the ability of the small-scale farmer to obtain credit, either from the formal or non-formal sectors, that will, to a large extent, determine the farmer's response to the removal of subsidies.

The marginal benefit of utilizing fertilizer despite rising costs may best be illustrated by looking at the economics of maize production in Ghana. Based on improved technical packages, the yield of maize can be increased from the traditional yield of 1000kg/hectare to 1800kg/hectare. In the Upper West Region, where Global 2000 has been most active to date, maize yields have increased from the traditional four bags/acre to 10-15 bags/acre. Maize production can therefore be a very profitable venture, with the small farmer likely to reap a net return of about C13,344 per hectare with increased yields already being achieved. Since the marginal

revenue of applying fertilizer exceeds the marginal cost, farmers will continue to reap profits, though at diminishing returns when they apply fertilizer. Besides the profit incentives, the cost of fertilizer is about 21.2% of the total cost of production compared with that of labour which is about 47.9%. This means that fertilizer procurement does not constitute the critical constraint in maize production for farmers to minimize its use if prices increase (see Annex II-14A for details). However, fertilizer is clearly a major cost component, and as increased prices are passed on to the consumer, this may lead to increased labor costs as well. The above references cannot be drawn for rice production in Ghana since the country appears to have a comparative disadvantage for rice production.

iii) Seed Supply System: The supply of seed has been grossly inadequate largely due to the weakness of the Ghana Seed Company (GSC). The Ghana Seed Company produces foundation seed from the breeder's seed made available mostly by the Crop Research Institute, and then issues the foundation seed to registered private farmers to produce certified seed on a contract basis. The cleaning, processing and selling of certified seed is by the GSC. The improved maize and rice seed supplied between 1982 and 1987 by the GSC were enough to cultivate on average about 5.3% and 10%, respectively, of total maize and rice lands that were cultivated annually within the period (see Annex II-17).

iv) The Ghana Seed Company: The weakness of the Ghana Seed Company (GSC) is attributed to financial and management problems. Owing to liquidity constraints and inadequate foreign exchange allocations, there are problems such as inadequate processing equipment, drying facilities and transport facilities for distribution of certified seed and supervision of seed growers. These problems have been exacerbated by the termination in 1986 of the 1979 USAID/"MIDAS" contract under which USAID provided assistance to the Seed Company in the form of equipment, logistics, technical assistance and training. The termination of the USAID contract was predicated on the conclusions and recommendations embodied in the Final Evaluation Report on MIDAS, presented in November, 1985. Annex II-18 highlights the summary of conclusions and recommendations on the Ghana Seed Company.

Up to 1981/82, the GSC had operated satisfactorily, supplying about 12.6% of the demand for seed. Due to the drought conditions in 1982/83, the supply of seed fell to about 7.1% in 1983 and as low as 1.2% of 1984 demand (see Annex II-17) for details). Seeds brought in by various church organizations and other NGO's in 1984, in response to the Government's appeal for aid in the wake of severe food shortages during 1983, were either distributed freely or at prices far below the GSC. Donor seed prices depressed demand for GSC seed and consequently served as a disincentive to the

GSC to buy more seed from the seed growers for further processing and sale.

Since 1984, pricing of seed maize has become a major problem to the GSC. In 1984, the selling price of seed maize was about three times the grain price, and farmers were unwilling to buy seed at a price more than 50% above the market price for well-stored maize unless they were convinced from their own or close neighbours' experience of its superior quality in terms of higher yields. At the moment, the selling price of seed maize of C70/1b is about twice the selling price of well-stored maize. Pricing of seed is done by the Agricultural Prices Review Committee by taking into account the production cost of seed by seed growers, overheads of the GSC in processing and storing as well as a margin up to 7.5% above the breakeven cost. With high overhead costs arising out of redundant labour carried over from the Seed Multiplication Unit of the MOA, the prices of seeds are invariably higher than the 'parity relationship' of two times the selling prices of food maize recommended for implementation by the GSC.

In light of the above problems, the Government is seeking immediate financing from donor sources for urgent rehabilitation needs of the seed industry with a view to embarking on implementation of the recommendations of a diagnostic study of the GSC. The study comprises:

a. a program of privatization through the involvement of private sector entities in the production of seed, greater participation of individual farmers in seed multiplication and the divestiture of the GSC; and

b. the establishment of a seed quality control system in the MOA.

v) <u>Effects of Privatizing Seed Production on Farmers' Output:</u> If privatizing seed production means that more seed will be produced effectively by investors, the Ghanaian small-scale farmer will be able to buy his seed at prices determined by the forces of supply and demand. However, this situation is only achievable in the long-run since the basis for forecasting demand for seed now is not well established. The main reason is that seeds being supplied now are termed "open pollinated" type from which farmers can select good seeds from their own previous year's crops for planting in subsequent years. In contrast, estimating demand for hybrid seeds will have a firm basis because farmers advisedly will have to buy seed every year to avoid "hybrid segregation" and serious crop losses.

Another factor worth considering in propagating hybrid seeds is the relative high cost of producing hybrid seeds and consequently its higher selling prices. Though hybrid seeds do give yields about twice the open-pollinated types, their

higher seed cost coupled with requirements of higher doses of fertilizer, pesticides and labour for maintenance make the cultivation of hybrid crops more financially rewarding to large-scale farmers who normally behave as 'risk-seekers' than small-farmers who are generally conservative and 'risk-averse'.

The above account seems to suggest that the availability of critical farm inputs may not constitute a bottleneck to increased production under the present trade and pricing policies. What seems to present a problem is the lack of knowledge about the profitability of using improved inputs, coupled with the lack of effective demand for these inputs by small-scale farmers. These problems can be reduced by extension officers coordinating test plots to show the substantial increases in output likely to be obtained by adopting improved technical packages. Effective demand of farmers for these inputs can obviously be enhanced by the provision of adequate credit. However, to minimize the incidence of cash credit diversion to non-productive uses, the provision of in-kind (inputs) credit is essential.

The distribution of inputs is a specialized function more efficiently undertaken by commercial houses and private traders. Therefore, a more pragmatic approach lies in the banks funding the commercial houses to ensure supplies of inputs in the right quantities and on a timely basis. (One exception may be the Rural Banks, as their unit focus makes their role as credit suppliers for economic development a natural fit in a decentralized input supply scheme). The banks, in adopting this approach, will not only pass on the inventory risks of not being able to sell inputs to the commercial houses, but small-scale farmers will be able to obtain required inputs on a continuous basis.

K. <u>Condition of the Rural Infrastructure:</u> Ghana at independence and up to the early 1960's had a good network of roads and a railway system which hauled the bulk of cocoa and minerals to the ports for export. There also existed reliable health and educational facilities in the rural areas, although only a small percentage of rural people had (and still has) access to good drinking water. At present, about 60% of the Ghanaian population has access to potable water. While 93% of the urban people drink good water, only 39% of the rural population is estimated to have access to good drinking water.

From the late 1960's until the launching of the ERP in 1983, the rural infrastructure became completely run down due to lack of maintenance, foreign exchange constraints on the importation of vital spare parts, and inadequate budgetary allocations for modernization. The poor condition of roads and the unreliability of transport led to higher transport costs in marketing agricultural produce, resulting in lower net incomes to farmers. The lack of good drinking water results in frequent outbreaks of water-borne diseases such as guinea-worm and bilharzia among rural communities,

with their attendant effects on rural labour productivity. These conditions reduce the effectiveness of credit, and demonstrate that credit alone is not a solution to the problems of rural development.

Since the launching of the ERP, the Government has made (and is continuing to make) strenuous efforts to reverse this trend by rehabilitating roads, revamping the transport sector through importation of essential spares, and replacing broken-down equipment and vehicles. Health facilities are being re-equipped and re-stocked with essential drugs while the educational system is undergoing re-structuring. Attention is also being given to rural water supplies to alleviate the plight of the rural population from the above-mentioned diseases. The Government's efforts are being complemented by multilateral and bilateral donor assistance as well as assistance by NGO's. Notable among these multilateral and bilateral agencies are the World Bank/IDA, IFAD, CIDA, GTZ, USAID, JICA, ODA and the French Aid Agency. Catholic Relief Services, the Christian Council, World Vision and Global 2000 are major NGO's in the field of rural infrastructure development (see Section IX for a discussion of NGO activities).

This section attempts to take stock of the Government's short-, medium- and long-term plans and strategies to develop the rural infrastructure, as well as the involvement of the various multilateral, bilateral and non-government organizations with a view to assessing the effects of such investments on the efficiency of rural credit.

i) <u>The Government's Plans and Strategies to Develop the Rural Infrastructure:</u> The Government's plans and programmes to modernize the rural areas through the provision of good roads, health and educational facilities as well as good drinking water are outlined in the Government's annual budgets which seek to implement the medium-term plans under the ERP I and II (see Section I).

ii) <u>Other Agencies Involved in Rural Infrastructure Development:</u> The following chart indicates the involvement of other agencies and institutions in rural infrastructure development in Ghana for the next five years.

<u>Information on Agencies Involved in Rural Infrastructure Development</u>

	Donor Agency/Country	Amount	Purpose
1.	World Bank and IFAD	Part of $42.0m	Feeder roads development and drilling of bore holes in the Volta Region under VORADEP.
2.	World Bank/IDA and African Development Bank	$30 million	For water systems rehabilitation.

	Donor Agency/Country	Amount	Purpose
3.	IFAD	$2.25 million	670 kms. feeder roads rehabilitation in the Northern Region.
4.	C.C.C.E (French Aid Agency)	N.A.	Support 1000 wells in the Central Region.
5.	JICA (Japanese Aid Agency)	N.A.	Boreholes in the Bimbilla area in the Northern Region.
6.	Romania	N.A.	1000 wells in the Western Regior
7.	CIDA	$10.0 million	Technical Assistance and local manufacture of hand pumps.
8.	UNICEF	About $1.0m per year	For small-community water and sanitation projects.
9.	KFW	DM5.0 million	For borehole rehabilitation works.
10.	ODA (British)	$5.0 million	Aid for rehabilitation of Kumasi water system.
11.	World Vision	$7.0 million committed.	4-year well drilling program.
12.	GTZ	N.A.	On-going rehabilitation program.
13.	Wenchi Project	$0.75 million	About 85 wells
14.	UNDP	$2.0 million	3 new projects
15.	Catholic Church	$2.5 million	For surface water catchment and treatment in Northern Region.

iii) Outlook for Rural Infrastructure Development: From the above analysis and the Government's firm commitment to rural development as well as the support from donor agencies and the NGO's, it is most likely that the programme of rural infrastructure development will be sustained over the years. If the pledges of the various agencies are fulfilled, the GWSC will be able to implement its five-year development plan. The plan envisages the completion of 6000 boreholes equipped with hand pumps and 1000 dug-out wells throughout the country. Under this program, it is expected that the level of rural people's accessibility to good-drinking water will be raised from 39% at present to about 85% in 1992. The rehabilitation of the rural infrastructure development will

enhance credit effectiveness, primarily from a health and marketing standpoint. This, in turn, is likely to increase the prospects of banks extending credit to small-scale farmers over time.

L. Profitability of Agricultural Activities in Ghana: To the extent that small-scale farmers are rational investors, they undertake activities which are profitable to them. However, by being more risk-averse than large-scale farmers, the investment decisions of small-scale farmers may not strictly be based on profit-maximization objectives. For example, some small-holder farmers devote portions of their cultivable lands to mixed vegetable production for the farm-family's requirements and subsistence. To such farmers, the opportunity cost of foregoing vegetable production is quite high in terms of the effort and time needed to search for such produce at the marketplace. Another factor small-scale farmers take into account in deciding what to produce, how to produce and how much to produce is the sustainability of their operations over the years. For instance, though tobacco growing may be the most profitable activity in a particular area, the continuous growing of tobacco without crop rotation may deplete the soils of major plant nutrients in the long run, leaving the land completely barren for cropping again. Therefore, the farmer's decision to undertake any activity is taken in an environment of risk and uncertainty which the credit administrator has to analyse with a view to minimizing such risks while delivering the credit to him.

i) Comparative Advantage and Relative Profitability of Major Agricultural Activities: The agro-climatic conditions of Ghana favour the production of important crops such as cocoa, oil palm, rubber, cotton, groundnuts, sugarcane, tobacco, maize, sorghum/millet, rice, cassava, cocoyam, yam and plantain.

In 1985, the World Bank undertook an analysis of comparative advantage in major tradeable crops using different techniques of production. An analysis of the incentive framework was also undertaken both in terms of financial returns to land and labour and nominal and effective rates of protection. The comparative advantage analysis was undertaken to provide a basis for the formulation of an investment strategy, given the scarcity of resources, with many competing demands in Ghana and the need to concentrate these resources on crops and techniques which promise to be the most efficient. On the other hand, the analysis of the incentive framework was carried out in order to determine whether the prevailing incentive structure was conducive to successful implementation of the investment strategy resulting from the comparative advantage analysis.

Comparative advantage was assessed by calculating the Domestic Resource Cost Coefficients (DRC's), which measure the cost of domestic resources (land, labour, capital, raw materials, etc.) used to save or earn a net unit of foreign exchange. The lower the DRC coefficient, the more efficient

the activity. A DRC of less than or equal to one indicates comparative advantage in a particular commodity and technique. A negative DRC indicates that value added at the world market price is negative.

From the results of the analysis, the WB made the following conclusions:

a. Ghana has a strong comparative advantage in tree crops such as cocoa, oil palm, rubber and coconut. The DRC's for tree crops remain favourable in a variety of scenarios, including the projected declines in world prices in real terms for cocoa, oil palm and copra by 1990;

b. the DRC's are also attractive for tobacco and cotton except for irrigated cotton due to extremely high cost of irrigation water in Ghana.

c. there is a marginal comparative advantage in groundnut and a clear comparative disadvantage in sugarcane for sugar production unless and until world market prices of sugar rise substantially from their present low levels; and

d. except for rice, which appears extremely uneconomic owing primarily to low yields, all other commodities are borderline cases.

Sole cropping of maize, under bullock farming and tractor mechanization, can become economic with about a 25% increase in yields which is achievable through appropriate incentives and more concentrated extension and inputs. The remarkable increases in output recorded by small-scale maize and sorghum farmers in the UWR under the Global 2000 program have already been mentioned, and are discussed fully in Section IX. Maize production alone has increased as much as 275% among the 15,000 farmers in the Northern and Upper Regions who are involved in the Global 2000 project.

For rice, the DRC's are extremely unfavourable for all techniques in all scenarios, even for large-scale mechanized and irrigated techniques. Even under very optimistic assumptions of a 75% higher yield per ha. and a 1990 CIF price projected to be more than 30% higher than 1984 prices, the DRCs were found to be considerably above 1.00. The cost of pursuing rice self-sufficiency is, therefore, extremely high, particularly since 40% to 50% of rice production is at present through large-scale mechanized techniques. The results of the WB analysis are provided in Annex 11-19.

The results of the incentive framework analysis indicated that the explicit or implicit tax on cocoa, cotton, tobacco and rubber is high. For example, cocoa farmers did receive about 37% and 44.6% of the world market price in 1986/87 and

1987/88, respectively, which constitute implicit taxes of 63% and 55.4% on cocoa farmers for these years (see Annex II-13B). Based on 1984 domestic prices, there was positive net protection to industrial crops such as oil palm, coconut and sugarcane, but this was low relative to that enjoyed by groundnut and foodcrops, primarily due to quantitative restrictions on imports. The protection to rice was the highest (net nominal rate of protection of 722% and net effective rate of protection ranging from 356% to 1503%). The report further indicated that rice production, which had grown rapidly in the 1970's under heavy subsidies on machinery services and fertilizers, was still enjoying high protection due to quantitative restrictions on imports and implicit subsidies on machinery services, fertilizers and irrigation water. (Until 1984, no irrigation water charges were levied on beneficiaries).

In view of the foregoing, the WB concluded that the incentive structure was highly distorted, with high net taxation on some crops with clear comparative advantage (cocoa, rubber, tobacco and cotton) and high net protection to crops with clear comparative disadvantage (rice and sugarcane). Therefore, the WB recommended that the incentive structure has to be adjusted to ensure full utilization of the country's comparative advantage, with the resultant maximization of agricultural sector output given resource constraints. It should be noted that the Government has adopted this recommendation, among others, and is implementing a policy of gradually phasing out fertilizer subsidies by 1990, auctioning foreign exchange for fertilizer imports, and conducting a time-phased reduction of taxes on cocoa farmers to 45% of the world market price by 1990. At the same time, however, producer prices set for maize and rice are reportedly higher than world market prices. Due to lack of reliable data, it is not possible to analyze either the trend of farmers' shifts in crop acreages or changes in the number of farmers growing various crops in response to the Government's current policies aimed at putting emphasis on comparative advantage.

From the results of the WB analysis, the difference between financial viability or profitability of an investment and its economic viability becomes manifest. Based on the profitability measure of Financial Net Return per ha, all the activities under the study were profitable, warranting local bank support. Incidentally, computations based on 1988 market prices for maize, rice, sorghum and cocoa in Annex II-14 and Annex II-20 tend to confirm the positive financial net returns/ha figures. However, applying the financial net returns to family labour as a measure of profitability, those activities with financial net returns to family labour lower than the "next best alternative use of labour" (or opportunity cost of family labour), which may be assumed to equal the Government's minimum wage (though realistically lower) rate for 1985, may not be considered profitable to the

farmer. For example, large-scale mechanized rice, flue-cured tobacco, and semi-improved cotton do not look profitable to the farm-family. On the other hand, when the economic viability measure is applied, only activities which have comparative advantage such as cocoa, rubber, oil palm, cotton, tobacco, sorghum (semi-improved), and marginally for maize and groundnut, passed the economic viability test to justify support by the country. In short, an investment may be profitable but not necessarily viable economically, and vice versa.

Theoretically, the main difference between the profitability and/or bankability of an activity vis-a-vis its economic soundness lies in whether the prices being used are 'market prices' (including taxes, subsidies, etc.,) or economic/ 'shadow or accounting' prices (less taxes, subsidies, etc.). The shadow prices are presumed to reflect the "true-scarcity" values of the items in question.

Given that shadow prices have not been firmly established for foreign exchange, labour and capital under Ghanaian circumstances, the coefficients established should be interpreted with some conservatism. Nonetheless, these measures can be used as broad guidelines for investment strategy for the agricultural sector, and agricultural credit priorities for the banks.

ii) <u>Profitability of Fishing and Livestock (Poultry) Enterprises:</u> Fishing and livestock production are also two major agricultural activities which preoccupy many small-scale operators in Ghana. Both fishing and livestock accounted for 6% each of the agricultural GDP in 1987. Despite the fact that the livestock sector is relatively undeveloped, the poultry industry has grown rapidly over the past 15 years. In 1972, some 250,000 tons of fish were landed in Ghana, but current landings are about 200,000 tons per annum out of which about 90% come from inshore marine fishing.

Annex 11-21 shows that though marine inshore-canoe fishing is highly profitable, the activity requires high investment capital outlay which cannot be provided by small-scale operators from their own resources. Annex 11-22A and Annex 11-22B also provide the details of the profitabilities relating to layer and broiler poultry enterprises. These activities exhibit the need for high capital outlays. This characteristic feature of the fishing and poultry sub-sectors stems from the fact their import contents are very high and, therefore, very price-sensitive to the auctioning system. Therefore, it can be concluded that though fishing and poultry have high profit incentives, adequate credit facilities are needed by prospective investors to undertake such activities. Banks naturally need to assess market conditions and the management skills of the investors to determine if the project constitutes a good credit.

iii) <u>Enterprises Which are Profitable in the Present Policy/ Pricing Environment:</u> The current profitability computations obtained for cocoa, maize, rice and sorghum are based on current market prices of inputs and nominal producer prices. These prices are the combined effects of the present policies relating to:

a. flexible exchange rates through the auction system;

b. gradual removal of subsidies on inputs such as fertilizers, sprayers and agro-chemicals for cocoa;

c. reduction of implicit taxes on cocoa farmers; and

d. liberalizing trade with a view to removing the restrictions on imports, particularly rice, and thereby reducing the very high protection it enjoys or restoring its comparative disadvantage.

The results of the analyses indicate that while the financial net returns for maize and rice have declined in nominal terms compared with the 1985 figures obtained by the WB, the profitability of cocoa has increased substantially. Sorghum's profitability shows an increase of about 3.4% over and above the 1985 figure.

In nominal terms, therefore, it can be concluded that the Government's new policy reforms are enhancing the profitabilities of cocoa and sorghum while the high protection on rice is being reduced. In effect, the policies are tending to support comparative advantage at the expense of comparative disadvantage in an effort to promote efficiency in the allocation of resources. To confirm this observation in real terms, the Rural CPI deflator (combined) has been applied to the nominal returns calculated by the WB in 1985, and those computed by the Technoserve team (see Annex II-23 for details).

It is evident from the analysis that the net financial return to cocoa has increased in real terms between 1985 and 1988. On the other hand, the real net financial return for rice has drastically declined by 87.3%.

In the case of maize, which is a borderline case, the decline in real net returns is about 69%, whilst the decline for semi-improved sorghum, in which Ghana has comparative advantage, is about 41.4%. The decline in real net returns for sorghum may be very low or even reversed if substantial increases in yields being reported by farmers under the Global 2000 programme are confirmed by the Ministry of Agriculture and subsequently applied. In short, these changes in real net financial returns seem to confirm the shift in emphasis from high protection on crops with comparative disadvantage to those with comparative

advantage, which should ultimately improve upon the efficiency in resource allocation.

iv) Constraints to Success of Enterprises: The main constraints which will affect the success of the above-mentioned enterprises include:

a. a fall in the world market price of cocoa and reduction in real prices of agricultural produce;

b. a recurrence of drought;

c. shortages of farming inputs, including seasonal labour shortages;

d. delays or problems in the rehabilitation of the rural infrastructure and construction of on-farm storage facilities; and

e. the availability of cash.

To the extent that cocoa accounts for about 60% of the foreign exchange earnings of the country, a fall in the already low world market price has risky implications for the country. Government's budgeted revenues will fall and development programs will suffer.

Based on the world market price of 800 pounds St./ton in April 1988 indicating a fall of about 50% from the 1985 price, the breakeven price for one acre of cocoa is estimated at C86.70/kg. The nominal producer price for the 1987/88 season was C140.0/kg. Assuming that the cocoa price will stay at 44.6% of the world market price as it was in 1986/87, the nominal producer price for cocoa 1988/89 season is estimated at C150.3/kg. This price will ensure an increase in the nominal producer price of about 7.4%, though the Government would have maintained its implicit tax on the farmer of about 54%. The analysis, therefore, seems to suggest that the Government can afford, under the circumstances, to maintain its 1987 targeted percentage of the world market price to the farmer without necessitating a reduction in the nominal cocoa price as being speculated (see Annex 11-20B for details). Incidentally, the new producer price per tonne announced in June, 1988 is C165,000/ton. In real terms, the producer price has also increased.

The recurrence of drought would have a negative effect on agricultural production in spite of the availability of inputs. Agro-meteorological records indicate that Ghana receives abundant rainfall in most years throughout the country with periods of drought occurring once in every 15 to 20 years. This record gives a reasonable probability of optimal rainfall for years to come.

With the removal of subsidies and the placement of major inputs like fertilizer in the 'core' import program to be backed by foreign exchange, the scarcity of inputs is not likely to be pronounced in future. The problem will be enhancing effective demand of the farmer through the education and implementation of improved technical packages and integrated methods, and provision of adequate credit in the most efficient manner to compensate for the removal of subsidies and declines in real income. This is clearly one of the key considerations of this study.

Seasonal labour shortages are likely to arise, owing to the non-planning of farming activities as a result of farming under rainfed conditions. However, with expected improvements in the economic environment, improved terms of trade for the rural sector and improvements in water, electricity and health in the rural areas, younger labourers being and health in the rural areas, younger labourers being re-deployed or retrenched under the ERP can be expected to augment the labour of the ageing farmers.

M. Summary: Agriculture has long been the most dominant sector of the Ghanaian economy, accounting for nearly 50% of GPD and providing employment to approximately 55% of the total labor force. As nearly three out of every four Ghanaians live in rural areas, the long history of Government programs favoring the urban classes with industrial-based policies has adversely impacted agricultural production. Even in areas in which Ghana enjoys a comparative advantage (i.e., maize, cocoa), it either fails to produce enough to be completely self-sufficient, or needs to export due to the inability to otherwise generate foreign exchange.

The bulk of the country's agricultural production is from small-scale farmers using mainly traditional techniques which result in low productivity. The main causes of low agricultural productivity include insufficient or inadequate inputs (i.e., seeds, fertilizers) to promote higher yields and better quality, insufficient storage facilities, inadequate credit facilities, an inefficient transport system, ineffective support services (i.e., extension and research), and poor infrastructural development (i.e., roads, water and health facilities).

Other factors which have adversely affected agricultural productivity in the past are inappropriate Government policies such as the pricing of agricultural inputs, low producer prices, a malfunctioning wage system, rigid interest rate regimes, uncontrolled budget deficits and inflationary pressures, and the failure of development projects, programs and institutions to achieve their goals due to mismanagement and poor execution. These factors distorted incentive package systems for implementing investment strategies favouring comparative advantage activities.

Nevertheless, even in a worst case scenario, Ghana still has a comparative advantage in cocoa, and important tree crops like rubber and oil palm. For staples, Ghana has a clear comparative advantage

in sorghum and a marginal advantage for maize. The problem with staples is the low yields being obtained by small-scale farmers. Areas in which the country has comparative disadvantage include rice and sugarcane production.

Since 1983, appreciable increases in production have been recorded for cocoa, maize, cotton, sorghum and tobacco. These are mainly attributable to the new pragmatic policies being pursued under the Economic Recovery Programme and favourable climatic conditions. Some of these measures are improvements in the real incomes of producers through higher producer prices and improvements in rural infrastructures such as feeder roads, water and health facilities.

Some policies, such as the removal of subsidies on fertilizers, to add to farmers' costs of production in the near term. The positive net return on investment through the proper use of improved inputs, even with increased input prices, has been demonstrated on thousands of Global 2000 Production Test Plots operated by small-scale farmers. However, higher yields by small-scale farmers will only be achieved with an integrated approach linking education, credit and distribution with effective demand. Without coordination, it is likely that agricultural production will remain well below targets and potential.

BEST AVAILABLE COPY

GDP by Industry Origin at Constant 1980 Prices, 1981-1986 (Million Cedis)

	1981	1982	1983	1984	1985	1986
Agriculture	21036	19889	17498	21048	21640	22722
Agric. & Livestock	14607	13990	12870	15356	15664	16447
Cocoa	3805	3150	2704	2502	2647	2780
Forestry & Lodging	1945	2097	2252	2512	2638	2770
Fishing	679	652	672	677	691	725
Industry	5489	4558	3909	4240	5089	5343
Mining & Quarrying	479	442	379	415	476	500
Manufacturing	3388	2694	2393	2680	3216	3377
Construction	1270	1099	940	962	1077	1131
Electricity & Water	351	323	197	183	320	336
Services	13315	12833	13126	14027	14867	15610
Transport & Comm.	1292	1307	1402	1514	1665	1749
Trade & Hotels	3982	3569	3381	3719	4121	4327
Banking, Ins. Real	2836	2930	3028	3340	3506	3681
Government Services	4746	4549	4819	4928	5017	5268
Other Services	459	479	496	526	557	585
Sub-total	38269	41896	40830	41009	39840	37280
Imputed Ser. Charge	-1211	-1213	-1294	-1424	-1566	-1644
Import Duties	388	250	320	369	462	485
GDP at Market Prices	39017	36318	34558	38260	40491	42516
Per Capita GDP (Cedis)	3426	3107	2882	3113	3211	3286
Population (Million)	11.39	11.69	11.99	12.29	12.61	12.94
Agric.'s Share of GDP (%)	54	55	53	55	53	53

Sources: Central Bureau of Statistics up to 1985:
Min. of Finance and Economic Planning estimates for 1986.

GHANA: SECTORAL GROWTH RATES OF GDP
(Continued Reform Case; in 1984 Prices)

	1985 %	1986 %	1987 %	1988 %	1989 %	1990 %	1991 %	1992 %	1993 %	1994 %	1995 %
Industrial Sector	16.1	6.4	13.8	12.8	13.5	6.2	4.8	5.2	5.2	5.2	5.2
Mining	12.7	-1.1	19.0	9.9	9.1	9.2	5.9	3.8	3.8	3.8	3.8
Manuf.	19.0	7.0	14.0	14.0	15.0	6.0	5.0	5.5	5.5	5.5	5.5
Utilities	20.7	9.9	12.0	12.0	13.0	4.0	4.0	5.0	5.0	5.0	5.0
Construction	8.0	7.0	11.0	11.0	11.0	6.0	4.0	5.0	5.0	5.0	5.0
Agricultural Sector	0.2	4.8	1.8	2.8	2.7	3.5	3.5	3.1	3.1	3.0	3.0
Cocoa	13.2	11.2	0.0	8.0	8.0	5.8	5.5	2.8	2.5	1.8	1.7
Forestry	0.2	0.7	6.0	10.0	8.0	6.1	5.5	5.0	5.0	5.0	5.0
Other	-1.1	4.5	1.7	1.6	1.6	3.0	3.0	3.0	3.0	3.0	3.0
Other Sectors	8.2	5.4	6.0	5.6	5.3	4.8	4.4	4.6	4.6	4.6	4.6
Transport	6.4	4.5	6.0	5.0	5.0	5.0	5.0	4.5	4.5	4.5	4.5
Wholesale & Retail	9.1	6.2	6.5	6.2	5.7	5.0	4.5	4.8	4.8	4.8	4.8
Financial Services	9.3	3.8	5.5	5.5	5.5	5.0	4.0	4.5	4.5	4.5	4.5
Public Admin.	4.1	1.5	2.0	2.0	2.0	2.1	2.2	2.3	2.4	2.5	2.6
Other Services	3.8	3.8	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
GDP Growth Rate	5.1	5.3	5.0	5.3	5.3	4.5	4.1	4.1	4.1	4.0	4.0

GHANA: SECTORAL DISTRIBUTION OF GDP
(Continued Reform Case; in 1984 Prices)

	1984 %	1985 %	1986 %	1987 %	1988 %	1989 %	1990 %	1991 %	1992 %	1993 %	1994 %	1995 %
Industrial Sector	10.6	11.7	11.8	12.8	13.7	14.8	15.0	15.1	15.3	15.5	15.6	15.8
Mining	1.2	1.3	1.2	1.4	1.4	1.5	1.5	1.6	1.6	1.6	1.5	1.5
Manuf.	6.4	7.2	7.4	8.0	8.6	9.4	9.6	9.7	9.8	9.9	10.1	10.2
Utilities	0.8	0.9	1.0	1.0	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Construction	2.2	2.3	2.3	2.4	2.6	2.7	2.7	2.7	2.8	2.8	2.8	2.8
Agricultural Sector	49.2	46.9	46.7	45.3	44.2	43.2	42.8	42.5	42.2	41.8	41.4	41.0
Cocoa	4.1	4.4	4.7	4.5	4.6	4.7	4.7	4.8	4.8	4.7	4.6	4.5
Forestry	3.4	3.3	3.1	3.2	3.3	3.4	3.4	3.5	3.5	3.6	3.6	3.6
Other	41.6	39.2	38.9	37.7	36.4	35.1	34.6	34.2	33.9	33.5	33.2	32.9
Other Sectors	40.3	41.4	41.5	41.9	42.1	42.1	42.2	42.3	42.5	42.8	43.0	43.2
Transport	6.4	6.5	6.5	6.5	6.5	6.5	6.5	6.6	6.6	6.7	6.7	6.7
Wholesale & Retail	28.3	29.3	29.6	30.0	30.3	30.4	30.6	30.7	30.9	31.1	31.4	31.6
Financial Services	1.7	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Public Admin.	3.4	3.3	3.2	3.1	3.0	2.9	2.9	2.8	2.8	2.7	2.7	2.7
Other Services	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Annex II-2B

Gross Domestic Products, By Kind of Economic Activity
In Producers' Values
(Current Million Cedis)

		1970	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
A.	AGRICULTURE	1051	2518	3300	6274	12742	16924	24820	38553	49572	109927	133232	153373
	Agriculture and Livestock	634	1567	2347	5068	10011	12858	19776	33558	44003	92047	110422	118026
	Cocoa Prod. Marketing	317	577	494	624	1469	2294	2269	1197	639	10228	11138	18755
	Forestry and Logging	74	293	374	440	1002	1301	1805	2135	3235	5609	9300	11350
	Fishing	25	81	85	143	260	472	971	1663	1695	2044	2372	5241
B.	INDUSTRY	412	1109	1254	1768	2524	3466	5086	6653	5401	12199	28631	57651
	Mining and Quarrying	38	105	87	90	119	238	462	369	285	1944	3214	3739
	Manufacturing	258	736	858	1204	1813	2448	3346	4338	3117	7101	17306	40087
	Electricity and Water	23	33	48	53	74	122	223	456	513	358	2166	4045
	Construction	93	236	262	422	517	659	1055	1491	1486	2796	5945	9780
C.	SERVICES	705	1637	2003	3124	5717	7939	13202	27993	32740	62764	109068	162649
	Transport, Storage, Comm.	97	206	259	331	553	759	1130	2329	2568	7663	17451	27031
	Wholesale, Retail Trade	261	642	856	1294	2786	3994	7327	19074	22951	43120	76544	105944
	Finance, Insurance, Business	122	276	314	471	648	1066	1314	1927	2621	3311	4676	7750
	Gov't and Other	225	513	574	1029	1731	2121	3430	4663	4601	8670	10398	21923
	SUB-TOTAL	2167	5264	6557	11167	20982	28330	43108	73199	87712	184890	270931	373672
	Less Imputed Bank Charge	11	77	128	188	304	521	651	1207	1802	2259	2865	5476
	Import Duties	81	96	97	185	308	422	397	634	541	1407	2494	4786
	GDP at Market Prices	2259	5283	6526	11163	20986	28231	42853	72626	86451	184038	270561	372982
	Percentage distribution												
A.	Agriculture	47%	48%	51%	56%	61%	60%	58%	53%	57%	60%	49%	41%
	Agriculture and Livestock	28%	30%	36%	45%	48%	46%	46%	46%	51%	50%	41%	32%
	Cocoa Production, Marketing	14%	11%	8%	6%	7%	8%	5%	2%	1%	6%	4%	5%
	Forestry and Logging	3%	6%	6%	4%	5%	5%	4%	3%	4%	3%	3%	3%
	Fishing	1%	2%	1%	1%	1%	2%	2%	2%	2%	1%	1%	1%
B.	Industry	18%	21%	19%	16%	12%	12%	12%	9%	6%	7%	11%	15%
	Mining and Quarrying	2%	2%	1%	1%	1%	1%	1%	1%	0%	1%	1%	1%
	Manufacturing	11%	14%	13%	11%	9%	9%	8%	6%	4%	4%	6%	11%
	Electricity and Water	1%	1%	1%	0%	0%	0%	1%	1%	1%	0%	1%	1%
	Construction	4%	4%	4%	4%	2%	2%	2%	2%	2%	2%	2%	3%
C.	Services	31%	31%	31%	28%	27%	28%	31%	39%	38%	34%	40%	44%
	Transport, Storage, Comm.	4%	4%	4%	3%	3%	3%	3%	3%	3%	4%	6%	7%
	Wholesale, Retail Trade	12%	12%	13%	12%	13%	14%	17%	26%	27%	23%	28%	28%
	Finance, Insurance, Business	5%	5%	5%	4%	3%	4%	3%	3%	3%	2%	2%	2%
	Gov't and Other	10%	10%	9%	9%	8%	8%	8%	6%	5%	5%	4%	6%
	Imputed Bank Charge	0%	1%	2%	2%	1%	2%	2%	2%	2%	1%	1%	1%
	Import Duties	4%	2%	1%	2%	1%	1%	1%	1%	1%	1%	1%	1%

Sources: 1978-85 data are from Statistical Services, Accra

1976-77 data are from QDS, June 1984, P.75
1975 data are from Economic Survey 1977-80, pp.22-24
1970 data are from Economic Survey 1972-74, pp.4-5

Notes:

1. 1968 prices were converted into 1975 prices using the 1971 data as a basis.

2. Data for 1985 are provisional estimates.

MERCHANDISE EXPORTS, 1983-1989
(US$ million)

	1983	1984	1985	1986	1987	1988	1989
COCOA (beans)							
Volume (MT)	159,280	149,574	171,747	198,335	210,000	224,000	240,000
Unit Value ($/MT)	1,583	2,351	2,189	2,434	2,100	2,000	2,000
Total Value ($ million)	252	352	376	483	441	448	480
COCOA (products)							
Volume (MT)	15,000	15,265	15,966	17,657	20,000	20,000	20,000
Unit Value ($/MT)	1,573	1,967	2,254	2,062	1,700	2,100	2,200
Total Value ($ million)	24	30	36	36	34	42	44
COCOA (Total)							
Volume (MT)	174,280	164,839	187,713	215,992	230,000	244,000	260,000
Unit Value ($/MT)	1,582	2,315	2,195	2,403	2,065	2,008	2,015
Total Value ($ million)	276	382	412	519	475	490	524
GOLD							
Volume ('000 fine oz.)	278	286	285	288	337	384	434
AGC		250	255	249	290	320	344
SGMC		36	30	39	47	64	90
Unit Value ($/fine oz.)	367	361	319	369	386	390	394
Total Value ($ million)	102	103	91	106	130	150	171
DIAMONDS							
Volume ('000 carats)	439	425	640	565	678	785	785
Unit Value (US cents/carat)	640	690	860	850	885	890	890
Total Value	3	3	6	5	6	7	7
MANGANESE							
Volume ('000 MT)	127	248	263	257	270	278	285
Unit Value ($/MT)	39	34	34	32	33	32	35
Total Value ($ million)	5	8	9	8	9	9	10
TIMBER							
Volume ('000 cu. meters)	103	126	247	354	375	434	477
Unit Value ($/cu. meter)	142	167	113	135	144	150	155
Total Value	15	21	29	48	54	65	74
RESIDUAL OIL							
Volume (MT)	112	124	199	204	200	200	200
Unit Value ($/MT)	180	182	168	86	125	125	130
Total Value ($/million)	20	23	33	18	25	25	26
ELECTRICITY							
Volume (mn kwh)		624	1,700	2,500	2,750	3,025	3,025
Unit Value ($/mn kwh)		31,971	21,798	19,600	19,636	19,835	19,835
Total Value ($ million)	12	20	35	49	54	60	60
OTHER GOODS							
Volume (Constant 1984 $)		6	17	18	20	33	40
Unit Value		100	101	114	118	120	122
Total Value ($ million)	8	6	17	20	24	39	48
GRAND TOTAL	440	566	632	773	777	845	920
% AGRIC. CONTRIBUTION	67	72	72	75	71	70	70

Source: Bank of Ghana for 1983-86; World Bank Staff estimates for 1987-89.
Exports/GHCEM1

SELECTED PRODUCTION INDICATORS
(000 metric tons, unless otherwise noted)

	1970	1980	1981	1982	1983	1984	1985	Est. 1986
Agriculture								
Cereals	858	674	725	543	308	965	780	905
Maize	482	382	376	346	172	574	395	495
Rice	49	78	97	36	40	76	80	80
Millet	141	82	119	76	40	139	120	140
Sorghum	186	132	131	86	56	176	185	190
Starchy Staples								
Cassava	2,388	2,322	2,065	2,470	1,729	4,065	3,075	3,040
Cocoyam	1,136	643	631	628	720	600	580	n.a.
Yam	909	650	591	588	866	725	560	660
Plantain	1,641	734	829	749	342	760	676	n.a.
Cocoa a/	413	258	224	179	159	174	219	230
Forestry								
Logs ('000 m3)	1,560	480	550	410	560	578	620	890
Sawn Timber ('000 m3)	360	150	190	150	189	180	223	232
Mining								
Index of Mineral Production (1977-100)	100	73.8	68.2	59.9	50.2	57.9	66.3	62.6 b/
Gold ('000 fine troy ounces)	642	353	341	331	277	287	299	288
Diamonds ('000 carats)	2,550	1,149	836	684	339	346	636	556
Manganese Ore	392	250	223	160	175	267	357	333
Bauxite	337	225	181	64	70	49	170	204
Electricity								
Electricity Generation (million Kwh)	2,920	5,316	5,373	4,982	2,575	1,819	3,020	3,599 b/
of which:								
Akosombo Hydroelectricity	2,882	5,276	5,341	4,103	2,080	1,469	2,461	3,000 b/
Crude Oil Refinery Throughput	1,120	1,058	1,129	1,040	481	747	958	958

a/ Purchases by Cocobod during season beginning in year stated.
b/ January-October 1986

Source: Ghana Statistical Services

SPI/GHCEM1

GHANA

Crop Production
('000 tonnes)

Commodity	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Maize	481.6	465.4	402.4	426.8	485.7	343.4	286.0	274.0	218.0	380.0	382.0	378.0	346.0	172.0
Sorghum	185.9	172.7	152.4	166.6	176.8	135.1	189.0	131.0	121.0	158.0	132.0	131.0	85.0	56.0
Rice	48.8	54.9	70.1	62.0	73.2	71.1	70.0	109.0	108.0	93.0	78.0	97.0	36.0	40.0
Millet	141.2	130.1	98.6	108.7	154.4	121.9	144.4	125.0	93.0	149.0	82.0	119.0	76.0	40.0
Yams	909.0	909.4	678.8	605.9	849.5	709.2	574.9	535.0	544.0	602.0	650.0	591.0	588.0	866.0
Cocoyams	1136.0	1136.0	945.0	1325.0	1510.0	1099.4	773.0	722.0	726.0	749.0	643.0	631.0	628.0	720.0
Cassava	2387.8	2387.8	2840.0	2865.0	3606.1	2398.0	1819.0	1811.0	1895.0	1759.0	2322.0	2063.0	2470.0	1729.0
Plantain	1641.0	1641.0	1669.5	2070.8	2024.1	1245.7	1255.6	927.0	940.0	817.0	734.0	829.0	745.0	342.0
Cowpeas	10.6	10.6	9.1	7.4	10.8	10.7	12.1	11.0	8.0	9.0	N.A.	N.A.	N.A.	N.A.
Groundnuts	101.6	101.6	89.4	127.0	156.5	110.8	113.0	81.0	83.0	107.0	N.A.	N.A.	N.A.	N.A.
Coconut	301.8	301.8	295.8	305.8	306.9	310.9	229.0	152.0	159.0	159.0	N.A.	N.A.	N.A.	N.A.
Cocoa	413.0	454.0	407.0	340.0	376.0	396.0	320.0	271.0	265.0	281.0	254.0	220.0	178.0	158.0
Sugarcane	111.8	111.8	145.3	161.2	170.9	204.9	190.0	258.0	272.0	N.A.	N.A.	N.A.	N.A.	N.A.
Seed Cotton	0.2	0.4	1.3	1.9	2.5	3.0	9.0	11.4	4.5	5.2	3.0	0.7	0.5	0.5
Rubber	0.7	1.0	1.2	1.3	1.8	2.1	2.7	2.7	3.3	3.3	1.7	0.7	0.7	0.5
Tobacco	0.9	1.4	1.7	2.6	3.3	2.3	2.1	0.8	0.8	0.8	0.4	0.5	0.6	0.5
Banana	15.6	15.6	15.6	11.4	8.1	6.8	9.0	4.0	3.0	7.0	N.A.	N.A.	N.A.	N.A.
Tomatoes	92.5	92.5	110.8	98.6	104.7	90.4	99.9	103.0	104.0	125.0	N.A.	N.A.	N.A.	N.A.
Oranges	129.0	129.0	90.8	128.0	150.4	150.4	51.5	19.0	21.0	N.A.	N.A.	N.A.	N.A.	N.A.
Garden Eggs	10.1	10.1	21.3	30.5	28.5	28.5	26.0	12.0	12.0	12.0	N.A.	N.A.	N.A.	N.A.
Oil Palm (fresh fruit bunches)	696.0	696.0	711.2	782.4	916.5	901.3	280.6	739.0	935.0	1012.0	N.A.	N.A.	N.A.	N.A.

Source: Ministry of Agriculture except as noted below.

(i) Production volume figures for cocoa are reported by the Cocoa Marketing Board. Production data for cocoa refer to crop years, beginning 1970/71 and ending 1983/84.

(ii) Production data for rubber are only for Ghana Rubber Estates Ltd. (formerly Firestone Plantation) which accounts for 75% of total rubber hectarage in the country (9,000 ha out of total 12,000 ha).

(iii) Production figures for cotton are from the Cotton Development Board.

(iv) Production data for tobacco are from the Ghana Tobacco Co. Ltd.

N.A. - Not Available.

GHANA METEOROLOGICAL SERVICES DEPARTMENT
Values of Monthly and Average Rainfall (mm)

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ADA												
1986	0.4	27.8	83.0	58.2	75.3	127.6	2.6	0.0	8.0	76.7	36.2	0.0
Raindays	1	1	4	4	13	9	2		1	4	1	
1987	0.0	0.0	55.3	18.3	35.6	148.7	19.9	160.6	339.9	135.7	7.6	9.4
Raindays			4	4	5	8	5	16	15	6	1	1
AVERAGE RAINFALL - ADA												
1946-75	14	23	72	121	166	262	68	21	45	84	34	19
Raindays	1	2	5	7	11	14	6	3	5	8	3	2
TEMA												
1986	0.0	47.3	28.6	27.9	85.5	63.4	0.8	0.0	5.3	73.2	6.1	29.9
Raindays		5	6	4	10	9	2		3	4	3	2
1987	24.2	5.2	42.6	45.5	106.4	3.4	21.2	57.4	297.9	75.7	0.0	14.0
Raindays	2	1	3	3	7	2	4	13	14	8		1
AVERAGE RAINFALL - TEMA												
1961-85	8.2	25.5	48.9	88.4	129.1	203.3	63.9	25.7	45.9	56.5	25.3	12.8
Raindays	1	2	4	6	10	15	6	5	6	6	3	2
ACCRA												
1986	0.0	63.7	65.9	19.8	144.1	60.7	33.1	0.8	29.9	83.1	38.5	5.6
Raindays		4	6	3	11	11	5	2	6	9	4	1
1987	3.8	3.3	21.7	24.6	62.2	16.7	18.7	79.3	275.8	83.2	9.1	41.9
Raindays	1	1	3	5	6	5	4	19	17	8	1	2
AVERAGE RAINFALL - ACCRA												
1951-80	15	28	67	101	141	238	60	25	58	81	31	18
Raindays	1	2	5	7	11	15	8	7	8	8	4	2
AKIM-ODA												
1986	0.0	41.7	203.9	90.6	207.5	77.6	127.9	17.5	136.3	158.8	34.3	5.3
Raindays		10	13	9	16	8	13	7	19	15	9	1

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
AKIM-ODA												
1987	36.6	86.2	92.5	173.4	106.0	100.9	142.8	182.3	275.1	295.4	21.5	45.2
Raindays	2	6	11	13	13	11	18	24	23	19	3	5
AVERAGE RAINFALL - AKIM-ODA												
1976-85	11	74	148	167	227	191	104	63	138	204	101	36
Raindays	3	7	11	12	16	19	14	13	13	18	11	4
WENCHI												
1986	4.2	11.0	116.8	164.7	102.6	114.4	100.3	109.9	178.3	219.8	47.5	0.0
Raindays	1	3	8	9	13	11	6	10	17	22	6	
1987	0.0	24.2	132.4	34.1	144.4	116.6	134.0	156.9	297.8	201.5	8.8	0.4
Raindays		4	6	7	14	13	12	18	21	12	12	1
AVERAGE RAINFALL - WENCHI												
1946-80	8	34	95	147	167	174	87	74	188	208	56	18
Raindays	1	4	9	11	13	15	10	8	17	19	7	2
WA												
1986	0.0	2.3	8.1	33.2	69.2	59.3	107.9	81.5	135.1	24.9	2.2	0.0
Raindays		2	3	4	10	6	6	13	17	5	2	
1987	0.0	0.0	18.6	30.3	30.4	104.2	96.6	294.6	104.6	97.5	0.0	0.0
Raindays			3	5	6	14	14	19	12	11		
AVERAGE RAINFALL - WA												
1946-80	4	9	35	84	128	135	157	193	209	90	14	6
Raindays	1	2	4	7	10	11	13	15	17	8	2	1
BOLE												
1986	0.0	3.8	59.2	60.6	152.7	147.2	156.9	126.8	189.8	124.1	13.3	0.0
Raindays		2	4	8	12	7	19	13	12	5	3	
1987	0.0	8.4	51.6	50.4	81.1	176.7	105.0	192.0	211.9	108.4	1.3	0.0
Raindays		1	2	7	8	11	11	20	19	5	1	
AVERAGE RAINFALL - BOLE												
1962-80	1	11	56	101	127	143	183	141	203	122	25	11
Raindays	1	1	6	8	11	11	13	13	17	12	2	1

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
NAVRONGO												
1986	0.0	9.4	9.4	37.8	113.1	179.2	248.8	142.4	447.7	41.0	5.8	0.0
Raindays		2	2	5	7	9	15	18	18	4	2	
1987	0.0	85.5	85.5	9.3	31.8	274.3	176.6	413.0	95.3	46.1	0.0	0.0
Raindays		3	2	1	4	13	16	17	13	4		
AVERAGE RAINFALL - NAVRONGO												
1946-75	2.0	4.3	16.0	56.9	105.9	123.4	194.3	270.0	211.3	49.0	7.6	1.3
Raindays	1	1	2	5	8	14	13	17	16	6	1	1
AKATSI												
1986	0.0	88.8	131.5	93.8	93.3	214.5	27.6	2.0	76.2	99.3	43.0	0.0
Raindays		4	8	5	11	10	4	1	7	9	3	
1987	0.0	32.7	74.8	111.8	70.9	92.1	39.4	113.2	273.7	78.6	12.4	43.7
Raindays		3	6	8	5	7	7	13	15	7	2	1
AVERAGE RAINFALL - AKATSI												
1976-85	12.7	39.0	89.4	102.4	130.4	124.9	66.2	35.6	77.2	140.0	66.2	29.4
Raindays	2	4	5	7	12	12	6	9	8	9	8	3
HO												
1986	2.1	212.7	100.2	125.7	186.8	117.3	200.6	21.0	62.1	154.1	45.5	0.0
Raindays	5	12	9	9	10	14	12	4	16	13	6	
1987	8.5	17.1	155.9	119.3	247.5	134.1	110.9	254.1	206.3	124.6	23.0	7.7
Raindays	3	8	11	7	12	12	15	20	15	17	2	1
AVERAGE RANINFALL - HO												
1946-75	24	71	122	142	183	206	122	85	154	182	62	41
Raindays	3	6	11	12	14	17	13	11	15	16	7	4
KETE-KRACHI												
1986	0.0	11.9	64.2	74.9	195.6	142.3	214.0	229.2	207.3	228.1	2.6	0.0
Raindays		2	6	9	12	15	17	11	15	13	2	
1987	TR	2.8	50.0	25.9	127.9	202.8	162.4	261.6	398.1	119.5	0.0	0.4
Raindays		1	5	2	9	16	15	19	16	13		1

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
AVERAGE RAINFALL - KETE-KRACHI												
1951-80	9.7	12.4	50.0	103.2	165.9	209.1	190.9	171.7	218.1	167.4	38.5	12.4
Raindays	1	1	5	8	11	15	13	13	17	14	5	1
TAMALE												
1986	0.0	0.0	43.2	80.0	149.8	172.6	168.1	131.8	178.5	126.0	32.3	0.0
Raindays			4	8	9	9	11	12	15	6	3	
1987	0.0	0.0	28.0	14.3	128.0	188.5	173.4	143.8	173.0	107.9	0.0	TR
Raindays			3	4	9	10	11	15	12	6		
AVERAGE RAINFALL - TAMALE												
1946-75	3.3	10.9	51.1	84.6	119.1	145.5	150.4	198.6	142.6	83.6	11.4	1.8
Raindays	1	1	4	7	10	12	13	15	18	11	2	1
YENDI												
1986	0.0	0.4	26.1	68.5	50.0	196.6	220.2	177.2	235.5	147.3	15.5	0.0
Raindays		1	3	9	7	10	13	19	15	9	4	
1987	1.2	0.0	48.4	8.1	101.5	126.3	234.4	216.8	181.8	96.1	0.0	
Raindays	1		4	1	7	13	13	19	16	8		
AVERAGE RAINFALL - YENDI												
1951-80	2.6	12.6	51.0	81.8	138.8	165.1	177.0	200.9	258.8	118.2	18.9	9.1
Raindays	1	1	4	7	11	13	14	16	19	12	2	1
KUMASI												
1986	TR	132.1	64.4	70.7	154.8	268.0	176.3	29.4	114.2	62.8	12.7	TR
Raindays		7	9	10	10	11	11	3	12	6	3	
1987	5.9	64.8	110.0	171.0	46.3	245.9	156.8	192.1	188.7	74.4	3.0	13.5
Raindays	2	6	8	11	9	16		20	17	15	2	2
AVERAGE RAINFALL - KUMASI												
1946-75	21.3	67.6	141.0	152.9	184.6	220.7	148.6	89.4	157.7	197.9	96.0	70.5
Raindays	2	6	11	13	19	19	16	14	19	20	12	4
SEFWI-BEKWAI												
1986	0.0	54.9	150.0	120.5	125.0	138.7	108.4	45.5	243.8	88.7	82.9	TR
Raindays		7	12	10	12	13	18	8	10	12	10	

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
SEFWI-BEKWAI												
1987	8.4	79.3	110.0	46.2	122.5	144.3	184.1	178.2	353.3	233.4	25.7	21.3
Raindays	1	8	8	11	13	10	16	23	20	16	5	1
AVERAGE RAINFALL - SEFWI-BEKWAI												
1976-85	14	63	126	109	230	220	117	78	150	165	75	21
Raindays	2	5	10	10	14	20	15	15	15	17	8	3
SUNYANI												
1986	TR	66.3	229.0	67.3	210.0	150.6	122.5	75.5	165.1	319.6	12.5	TR
Raindays		6	12	8	14	11	15	6	14	17	6	
1987	7.8	92.3	99.1	79.0	133.3	364.8	97.1	178.6	296.2	138.5	12.8	0.0
Raindays	2	6	6	6	10	16	17	20	21	15	4	
AVERAGE RAINFALL - SUNYANI												
1976-85	12.7	52.4	109.3	109.3	146.1	162.7	99.7	77.0	153.3	178.3	35.5	9.0
Raindays	1	3	7	9	10	13	11	10	13	12	4	1
TAKORADI												
1986	0.0	62.3	20.0	50.4	99.4	185.2	163.6	21.3	18.6	51.9	61.4	8.3
Raindays		7	4	6	16	17	12	6	4	8	6	2
1987	5.1	19.5	39.8	92.2	170.3	202.9	126.3	333.4	339.2	169.5	27.9	30.7
Raindays	1	2	5	6	18	13	17	19	22	17	3	4
AVERAGE RAINFALL TAKORADI												
1941-80	29.9	33.9	83.8	115.0	238.5	336.2	117.8	45.4	59.5	125.3	77.1	31.7
Raindays	3	4	7	9	16	19	12	11	13	14	9	5
AXIM												
1986	0.0	55.7	125.3	147.6	224.8	807.1	304.7	7.0	100.2	162.5	117.9	4.1
Raindays		5	8	12	17	23	15	4	18	13	17	3
1987	79.1	1.6	184.4	45.4	376.2	375.1	174.5	460.7	465.8	388.2	118.4	79.2
Raindays	6	2	14	8	22	18	24	25	26	21	9	4
AVERAGE RAINFALL - AXIM												
1941-80	50.9	65.2	143.6	168.6	393.2	595.1	197.0	59.8	86.1	209.8	156.2	85.5
Raindays	4	6	10	13	20	23	14	12	15	18	15	9

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
SALTPOND												
1986	4.3	51,7	32.5	72.9	141.0	334.2	32.1		7.9	87.6	119.3	13.4
Raindays	1	5	7	4	11	12	9		6	10	3	3
1987	9.5	0.0	112.2	42.2	97.8	31.7	99.7	93.2	378.0	220.2	34.1	42.6
Raindays	2		7	7	9	8	11	17		12	4	1
AVERAGE RAINFALL - SALTPOND												
1941-80	17.0	28.8	72.2	102.1	187.7	367.0	79.9	28.1	39.1	96.1	67.2	26.3
Raindays	2	3	6	8	14	18	10	8	10	11	7	3
AKUSE												
1986	0.8	57.4	123.1	102.3	220.5	79.9	42.0	22.9	113.4	94.5	31.5	0.0
Raindays	1	8	11	6	10	10	8	2	10	10	3	
1987	1.3	4.1	117.4	84.4	82.1	60.9	38.6	139.0	187.9	87.6	67.0	12.7
Raindays	1	2	6	9	9	6	9	15	13	12	5	2
AVERAGE RAINFALL - AKUSE												
1946-80	18.6	49.5	102.8	123.7	166.1	197.0	81.6	43.7	122.4	144.0	98.8	27.0
Raindays	2	3	8	9	12	14	9	7	11	12	9	3
ABETIFI												
1986	1.8	76.1	170.5	83.9	253.3	99.4	108.9	39.6	159.4	144.8	60.5	0.0
Raindays	1	7	14	12	19	16	10	5	11	13	6	
1987	9.7	115.4	81.3	95.7	121.8	122.5	236.4	323.2	401.8	189.4	0.7	6.5
Raindays	2	12	10	7	10	17	21	23		15	2	1
AVERAGE RAINFALL - ABETIFI												
1981-85	1.7	32.0	10.9	117.2	153.0	212.4	151.1	133.8	125.3	130.7	50.9	10.1
Raindays	1	3	7	11	14	17	16	12	12	13	7	1
KOFORIDUA												
1986	0.0	108.9	83.9	115.7	126.7	84.1	204.5	52.9	118.2	136.3	66.0	3.3
Raindays		7	11	9	14	10	11	9	15	14	7	1
1987	21.7	95.1	55.1	123.0	108.6	109.2	113.4	244.8	277.3	126.5	21.7	3.3
Raindays	2	8	11	14	8	13	16	20	15	17	5	2
AVERAGE RAINFALL - KOFORIDUA												
1976-85	17	55	97	137	155	184	121	85	142	190	67	30
Raindays	3	7	12	11	15	17	14	12	14	16	9	4

CONTRIBUTION OF VARIOUS CROPS TO (AGRICULTURAL) GDP 1987

C R O P	1987 Production (ton)	Average Price C/Ton (Wholesale)	C million Revenue	Share of G D P
Cassava	2,000,000	40,000	80,000	17%
Maize	470,000	40,000	18,800	4%
Fish	350,000	80,000	28,000	6%
Cocoa	210,000	352,000	74,000(1987)	15%
Cotton	2,000	225,000	450	-
Tobacco	2,000	136,000	272	-
Sorghum/Millet	300,000	25,000	7,500	2%
Rice	71,000	80,000	5,700	1%
Oil Palm	50,000	90,000	4,500	1%
Yam	800,000	70,000	42,000	9%
Plantain	1,000,000	60,000	60,000	13%
Cocoyam	1,000,000	50,000	50,000	10%
Vegetables	125,000	100,000	12,500	3%
Poultry (birds)	6,000,000	600	3,600	1%
Sheep	500,000	4,000	4,000	1%
Goats	500,000	3,000	3,000	-
Cattle	200,000	100,000	20,000	4%
Forestry Others*			60,000	13%
Total Agric. GDP(1987)			475 billion	100%

* Estimate

Source: PPME, Ministry of Agriculture (1987).

BEST AVAILABLE COPY

IMPORTS

ITEM		1984 Quantity (M/T)	1984 Value ($)	1985 Quantity (M/T)	1985 Value ($)	1986 Quantity (M/T)	1986 Value ($)	1987 Quantity (M/T)	1987 Value ($)
Pig Feet	Govt. Purch.	136.45(3022 bls)	0.105m	90.72(2016 bls)	0.065m	47.52	0.033m	-	-
	Private	-		159	0.112m	393.28	0.270m		0.203m
Rice	Govt.	4,640	1.010m	20,632	5.266m	-	-	-	-
	Private			279	0.060m	1,319	0.290m	37,657.77	8.368m
A	Aid	45,745	-	33,213	-	18,822	-	10,000	2.0m
Maize	Govt.	38,000	6.770m	-		-		10,000	1.275m
	Aid	11,340	-	-		-		-	-
Wheat	Govt.	25,000	5.112m	71,530	17.458m	45,000	8.380m	130,000	18,730.0m
	Aid	61,758	-	20,340	-	17,900	-	10,000	2.0m
Wheat Flour	Private	-		-		-		14,840.23	4.432m
	Aid	-		740	0.05m	-		1,095	0.342m
Sugar	Govt.	20,000	15.630	30,110	5.904m	30,319	6.289m	12,500	2.826m
	Private	-	-	8,814	2.0m	29,730	6.667m	78,938.26	17,856.0m
	Aid	250	-	-	-				
Cooking Oil	Govt.	854.2	0.930m	100,112 cts +2000 dr	1.939m	100,000 cts	1.520m	170,000 ctns	1.642m
	Private	-	-	-			0.020m	-	.160m
	Aid	8,422.1	-	-		550	-	138,139 ctns	1.334m
Hops & Malt		2,200	0.809m	8,046.20	2.242m	6,520.30	1.785m	10,226	2.583m
Fertilizer		-		5,757.80	0.944	20,100	2.827m	27,200	9.686m
Meat	Govt.	-		1,300	2.011	-		-	
	Private	-		-		-			0.041m
Meat in airtight						-			0.031m
containers	Private	-	-	-					
Fish	Govt.	2,118	1.133m	5,000	1.550m	1,925.16	0.597m	2,000	0.620m
	Private	-		-		-		-	0.612m
Canned Fish	Private	-		-		-			0.446m
	Aid					50,556 ctns	1.406m	-	-
Poultry	Private	-		-		-			0.033m
Margarine/Butter	Private	-		-		-			0.049m
Tea	Private	-		-		-			0.111m
Vegetables	Private								0.172m
Milk Products	Aid	9,127		900	-	900	-	900	-
	Private	-		-	-	-		-	0.029m
	Govt.	-		26,960	0.460m	7,500 ctn	0.133m	-	-
Sugar confec.	Private	-		-		-		-	0.019m

LIVESTOCK POPULATION
(in thousands)

LIVE ANIMALS	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total Population	14,077	14,921	15,634	16,310	17,155	12,591	15,423	18,643	19,007	19,378	19,758	15,628	9,841	10,557	11,033	15,096
Cattle	926	755	839	876	912	910	384	625	643	662	682	1,536	1,859	1,002	1,078	1,065
Sheep	1,315	1,337	1,421	1,506	1,606	1,223	1,438	1,969	2,033	2,099	2,167	1,656	1,540	1,750	1,977	1,987
Goats	1,356	1,615	1,587	1,559	1,616	1,935	1,674	1,920	1,958	1,997	2.037	2,031	1,310	1,539	1,678	1,605
Pigs	280	300	324	334	383	270	328	569	522	597	609	245	269	317	407	413
Poultry	10,200	10,814	11,463	12,036	12,638	8,253	11,098	3,560	13,796	14,025	14,263	14,263	10,160	4,863	5,949	10,024

Source: Veterinary Services (Ministry of Agriculture

DOMESTIC CATCH, FISH, IMPORTS AND CONSUMPTION
(Quantities in Tons, Values in Million Cedis)

ITEM	1970	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
1. Imports	30.2	16.4	18.0	22.1	17.0	42.9	16.2	2.7	5.3	10.0	5.0	2.2	3	-	1
2. Domestic Catch															
a. Marine	157.5	249.1	155.3	182.1	217.7	195.8	226.2	222.1	188.0	184.1	200.4	199.1	205	231.5	234.2
b. Volta Lake	39.9	32.4	40.7	37.3	41.9	39.0	35.0	40.0	40.0	40.0	42.0	42.0	43.0	41.0	43.0
c. Sub-Total	187.4	281.5	196.0	219.4	259.6	234.8	261.2	262.1	228.5	224.1	240.4	241.1	248.0	272.5	277.2
3. Landings Foreign Vessels	22.0	0.5	1.0	4.9	0.9	1.3	1.4	17.8	1.1	0.5	1.5	0.8	8.37	2.12	-
4. Tuna Sold Locally	0.5	0.3	0.4	0.9	2.9	5.0	2.7	1.6	2.1	4.0	9.0	10.5	7.43	5.815	10.07
Total	250.0	298.7	215.5	247.3	275.3	282.0	281.5	284.2	236.2	228.8	250.0	247.6			
Total Consumption (1+c+3+4)															
Values in '000 cedis															
Imports	13.9	11.8	11.9	16.9	14.5	18.2	13.5	7.5	16.8	9.0	4.5	3.1	3		
Domestic Catch															
Marine	27.3	45.9	53.0	60.6	102.9	110.1	160.5	301.6	502.5	1058.3	1888.5	950.2	2576.0	5592.0	8174.0
Volta Lake	8.9	4.9	9.0	11.9	12.6	11.7	35.0	70.0	40.0	80.0	80.2	95.0	86.0	-	-
Sub-Total	36.3	50.8	62.0	75.5	115.5	121.8	195.5	371.6	542.5	1138.2	240.0		1045.2		
Landing Foreign Vessels	2.7	0.1	0.2	2.1	0.3	0.4	0.5	10.0	0.7	0.5	-	-	47192.5	34281.9	
Tuna Sold Locally	0.1	0.1	0.2	0.4	0.9	0.9	0.8	0.8	1.7	5.2	-	-			
Total	52.9	62.9	74.2	91.9	131.1	141.3	210.3	389.9	561.7	1144.0	-	-			

Source: A World bank country study: Ghana 1984 Pg. 95
Fisheries Department, Ministry of Agriculture Statistical Service: Economic Surveys.

GHANA EXPORT PROMOTION COUNCIL

EXPORT PERFORMANCE OF THE NON-TRADITIONAL SECTOR
JANUARY-DECEMBER 1987

PROVISIONAL

PRODUCT/EXPORTER	QUANTITY	VALUE US$	VALUE CEDI EQUIVALENT (C)
Non-Traditional Products: Totals of which	-	28,837,729.35	4,642,705,450.12
Agricultural Products: Totals of which	-	18,684,736.12	2,997,581,395.44

Quantity: Tonnes (unless otherwise stated)

Value: U.S. Dollar (US$/Cedis (C)

GHANA AGRICULTURAL SECTOR REVIEW

TRADITIONAL AND POTENTIAL YIELDS UNDER PREVAILING ECOLOGICAL CONDITIONS IN GHANA

	Traditional (kg/ha)	Progressive (kg/ha)	Irrigated (kg/ha)
Food Crops			
Rice (paddy)	1,000	2,000	3,500
Maize	1,200	2,400	-
Sorghum	500	1,000	-
Millet	400	800	-
Cassava	5,000	7,000	-
Yam	5,000	8,000	-
Groundnut (in shell)	800	1,500	-
Cowpea	200	800	-
Industrial Crops			
Cotton (seedcotton)	500	1,000	1,500
Tobacco (flue-cured)	250	750	-
Sugarcane (cane, ton/ha)	20	35	65
Oilpalm (oil)	800	2,000 (estate)	-
Export Crops			
Cocoa	250	500	-
Coffee	250	500	-
Rubber (dry rubber)	400	1,000 (estate)	-
Coconut (copra)	1,000	3,000	-

Notes:

(1) Yields of tree crops refer to non-estate crops, if not otherwise stated.
(2) Yields of annual crops refer to mono-cropping.
(3) Yields for irrigated crops have been mentioned for rice, sugarcane and cotton only, being crops with the highest potential for irrigation.
(4) Anticipated yields for progressive farming and for estates are mission estimates and, where possible, related to experimental yields (70%).
(5) Maize yields are for transitional and forest zones; yields for savannah areas would be 15-25% lower.

Source: World Bank

ANNEX II-12

CROP PRODUCTION
('000 tonnes)

Commodity	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1987
Maize	481.6	465.4	402.4	426.8	485.7	343.4	286.0	274.0	218.0	380.0	382.0	278.0	346.0	172.0	574	395	495
Rice	48.8	54.9	70.1	62.0	73.2	71.1	70.0	109.0	108.0	93.0	78.0	97.0	36.0	40.0	66.0	80.0	80.0
Cocoa	413.0	454.0	407.0	340.0	396.0	320.0	271.0	263.0	281.0	254.0	220.0	178.0	158.0	174.0	219.0	193.0‡	-
Seed Cotton	0.2	0.4	1.3	1.9	2.5	3.0	9.0	11.4	4.5	5.2	3.0	0.7	0.5	0.5	-	N.A.	-
Tobacco	0.9	1.4	1.2	2.6	3.3	2.3	2.1	0.8	0.8	0.8	0.4	0.5	0.6	0.5	-	N.A.	-

Source: 1) Ministry of Agriculture
2) World Bank Report No. 5366-GH. Ghana Agricultural Sector Review August 6, 1985.
3) ADB Appraisal Report GHAB/PAAA.GH) Ghana Agricultural Sector Rehabilitation Programme.

‡ Provision estimates from CMB.

GHANA
AGRICULTURAL SECTOR REVIEW : 1985

Year	Wholesale prices deflated by nonfood rural CPI															Producer prices detailed by nonfood rural		
	Maize	Guinea corn	Rice	Millet	Yams	Cocoyam	Cassava	Plan-tain	Cowpeas	Ground-nut	Banana	Tomatoes	Coconut Oil	Palm Oil	Groundnut Oil	Cocoa	Cotton	Tobacco
1970	117.13	172.73	269.30	174.49	95.10	68.36	42.78	55.88	212.78	287.50	43.04	133.86	597.66	505.24	855.21	292.70	180.00	810.00
1971	112.80	171.24	262.06	176.75	107.28	79.01	52.81	77.65	227.31	266.57	44.16	125.10	593.72	538.53	728.50	275.98	169.72	905.15
1972	148.27	177.90	323.48	182.73	105.33	79.58	56.66	64.03	234.58	268.54	42.42	148.86	621.07	648.07	709.49	314.43	154.68	953.85
1973	137.65	216.60	336.27	204.35	111.74	87.11	50.05	82.58	241.77	324.37	40.57	176.07	790.85	756.40	951.13	327.22	134.17	879.55
1974	123.62	189.97	304.88	194.88	118.11	86.03	48.77	96.38	317.48	337.02	40.44	150.46	850.24	721.53	941.86	337.18	135.17	731.14
1975	122.38	154.64	333.17	153.16	128.68	70.73	59.50	71.06	262.50	321.08	44.63	156.46	826.45	809.56	967.66	286.68	107.74	866.80
1976	193.50	269.23	473.34	264.54	129.04	75.96	87.78	100.15	290.47	421.24	68.31	169.76	698.22	822.01	1151.36	248.33	261.33	631.26
1977	233.10	346.24	386.65	253.12	154.91	182.54	128.43	172.50	341.91	466.40	69.44	184.25	1040.26	832.86	1317.20	261.24	150.87	411.46
1978	113.04	180.01	249.63	186.97	121.01	104.32	56.88	136.40	205.61	366.17	53.64	112.76	954.95	918.98	1103.68	248.34	122.93	331.53
1979	112.79	153.06	200.07	157.90	105.67	90.35	46.70	95.83	276.57	380.93	51.78	147.54	902.38	798.40	998.60	262.24	86.54	383.53
1980	177.10	291.63	353.09	229.10	103.16	91.19	65.25	91.73	315.51	361.69	57.54	136.06	843.12	803.10	1105.56	171.06	56.45	458.86
1981	151.53	186.84	232.90	185.59	83.22	86.95	73.14	64.86	354.30	355.99	51.25	116.66	639.07	573.91	967.73	234.58	25.80	488.72
1982	137.20	225.32	379.36	232.46	102.03	107.04	72.41	79.05	356.15	498.94	52.01	137.19	923.43	893.21	1302.84	206.04	22.66	429.24
1983	337.96	350.67	550.15	318.12	141.99	210.93	137.39	140.81	538.73	488.91	66.91	234.15	1120.84	901.50	1709.16	184.00	98.53	736.02

Year	Wholesale prices deflated by rural CPI															Producer prices deflated by rural CPI		
	Maize	Guinea corn	Rice	Millet	Yams	Cocoyam	Cassava	Plan-tain	Cowpeas	Ground-nut	Banana	Tomatoes	Coconut Oil	Palm Oil	Groundnut Oil	Cocoa	Cotton	Tobacco
1970	117.13	172.73	269.30	174.49	95.10	68.36	42.78	55.88	212.78	287.50	43.04	133.86	597.66	505.24	855.21	292.70	180.00	810.00
1971	109.82	166.72	255.14	172.08	104.45	76.92	51.41	75.59	221.30	259.52	42.99	121.79	578.02	524.29	709.24	268.68	165.23	881.22
1972	145.05	174.02	316.41	178.74	103.03	77.85	55.42	62.63	229.45	262.67	41.50	145.61	607.49	633.91	693.98	307.56	151.30	933.01
1973	132.28	208.16	323.16	196.39	107.39	83.72	48.10	79.36	232.35	311.73	38.99	169.21	760.03	726.93	914.06	314.47	128.94	845.27
1974	122.47	188.20	302.04	193.07	117.01	85.23	48.32	95.48	314.52	333.88	40.06	149.05	842.33	714.81	933.08	334.04	133.91	724.33
1975	119.45	150.95	325.20	149.50	125.60	69.04	58.08	69.36	256.23	313.40	43.57	152.72	806.70	790.21	944.54	279.83	105.16	846.08
1976	172.37	239.83	421.65	235.65	114.95	67.66	78.20	89.22	258.75	375.24	60.85	151.22	621.97	732.25	1025.63	221.21	232.79	562.32
1977	165.12	245.27	273.90	179.31	109.74	129.31	90.98	122.20	242.20	330.39	49.19	130.52	736.91	589.99	933.09	185.06	106.87	291.47
1978	96.44	153.57	212.96	159.51	103.24	89.00	48.53	116.37	175.41	312.39	45.76	96.20	814.70	784.01	941.58	211.86	104.87	282.84
1979	85.83	116.47	152.25	120.16	80.42	67.76	35.54	72.93	210.47	289.88	39.41	112.27	686.70	607.57	759.92	199.56	65.86	291.86
1980	128.25	211.18	255.68	165.90	74.70	66.03	47.25	66.43	228.47	261.91	41.67	98.52	610.54	581.55	800.58	123.87	40.88	332.28
1981	114.64	141.35	176.19	140.40	62.96	65.78	55.33	49.07	268.04	269.31	38.77	88.25	483.48	434.18	732.11	177.47	19.52	369.73
1982	96.47	158.43	266.74	163.45	71.74	75.26	50.91	55.58	250.42	350.82	36.57	96.47	649.28	628.04	916.06	144.87	15.94	301.81
1983	207.50	215.31	337.78	195.32	87.18	129.51	84.36	86.46	330.77	300.18	41.08	143.76	688.18	553.50	1049.39	112.98	60.50	451.90

Source: World Bank

NOMINAL PRICES OF SOME COMMODITIES CONVERTED TO REAL PRICES FOR 1983-1987

	(a)	(d)	(e)	Cocoa (b)			Maize (c)		Rice (c)	
Year	Rural CPI Combined 1977 = 100	Rural CPI (1977 base) Converted to 1970 base	World Price Per Ton	Nominal Producer Price Per Ton	Real Producer Price Per Ton	(5) as % (World Price (4)	Nominal Producer Price Per Ton	Real Producer Price Per Ton	Nominal Producer Price Per Ton	Real Producer Price Per Ton
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1983/84	3,652.4	17,702.9	83,723	20,000	1.1	23.9	-	-	-	-
1984/85	3,973.6	19,259.7	96,077	30,000	1.6	31.2	20,000 (1985)	1.0	24,000	1.2
1985/86	4,824.3	23,383.0	183,676	56,600	2.4	30.8	26,000 (1986)	1.1	29,000	1.2
1986/87	6,590.6	31,944.1	229,865	85,500	2.7	37.2	42,000 (1987)	1.3	43,000	1.3
1987/88	7,009.7‡‡	33,975.5	313,600‡	140,000	4.1	44.6	48,000 (1988)	1.4	67,073	2.0
1988/89	7,009.7‡‡‡	33,975.5	-	165,000	4.9	50.0‡	-	-	-	-

(a) Statistical Service, Ghana in Figures, 1987.
(b) Cocoa prices provided by CMB.
(c) GFDC recommended purchase prices.
(d) Conversions by Technoserve Team.

‡ assumed by Government
‡‡ as at January 1988
‡‡‡ assumed as constant

Source: WB Report No. 6635-GH, 30th March, 1987
Ghana Policies and Issues of Structural Adjustment.

Note: Estimated world market price based on the Economist Intelligence Unit (1st Qtr, 1988 Report).
$0.80/lb forecast of cocoa price.

COST OF PRODUCTION - 1 HA OF MAIZE

MAIZE

Item	Rate		% of Total Cost
Seed:	37.5lbs of seed maize @ C70/lb	- C 2,625	3.6
NPK:	5 bags C2000/bag	- C11,500 }	21.2
Sulphate of Ammonia	2.5 bags C1000/bag	- C 4,000	
Jute bags for ready maize	17 @ C500/sack	- C 8,500	11.6
Labour for land clearing to food harvesting	140 mandays @ 250/day	- C35,000	47.9
	TOTAL COST	- C61,625	
Interest (70% of total cost as being borrowed at 26.5% p.a.		- C11,431	15.7
∴ Total cost of Production/ha.		= C73,056	100.0

YIELD: 1800kg/ha

Gross Income = 1800kg X C4800/100kg = C86,400

Net Financial Return/ha = 13,344

Marginal Revenue of using fertilizer = (1800-1000)kg x 4800/100kg = 38,400

Marginal cost for applying fertilizer = Fertilizer cost + Mandays in applying + Marginal Interest cost

= 15,500 + 3,000 + 3,432 = 21,932

∴ MR>MC

* Production costs (i.e. land preparation, seeds, fertilizer, etc) average about C30,000 per acre, in Ghana.

Source: Ministry of Agriculture AGS 1988

PROFITABILITY OF RICE PRODUCTION - 1 ACRE

Inputs	-	Seed rice 80lbs @ C100/lb	-	8,000
NPK Fertilizer	-	2 bags @ C2,000/bag	-	4,000
Sulphate of Ammonia	-	2 bags @ C1,000/bag	-	2,000
Jute bags for ready crops	-	10 pieces @ C500/bag	-	5,000
Labour for land preparation	-	12 mandays @ C250/m-day	-	3,000
Sowing/planting including 2 mandays for basic fertilizer application	-	8 x C250	-	2,000
1st Weeding	-	10 mandays 10 x 250	-	2,500
2nd Maintenance & Scaring of Birds	-	22 m/days @ 250	-	5,500
2nd Fertilizer application Top dressing		2 m/days x 250	-	500
Harvesting	-	32 mandays @ 250	-	8,000
Total Cost			=	40,500
Yield = 820kg/acre Selling Price (per 82 kilo bag			=	5,500
Total Rev.			=	44,000

Financial Net Return/acre = C3,500
Thus Financial Net Return/ha = C8,750

DETERMINATION OF MINIMUM GUARANTEED PRICES FOR MAIZE AND RICE

MAIZE		RICE	
1. Cost of Prod. B/F from Annex II-16	- C24,650	Cost of Prod. B/F	- C40,500
2. 26-1/2% pa. of 70% of (i)	- 4,573	26-1/2% pa. of 70% of (i)	- 7,513
3. 5% for contingency	- 1,233	5% for contingency	- 2,025
4. 5% for management	- 1,233	5% for management	- 2,025
5. Yield = 720kg (.40) + 0.6 (400 kg) = 288kg + 240kg = 528kg/acre		Yield = 1000kg (.6) + 0.4(1400/ha = 600 + 560kg/ha = 464kg/acre	
6. Total cost (1+2+3+4)	= C31,689	Total cost	= C52,063
7. Min. guaranteed price per kg.	= C 60.0	Min. price/kg	= C 112.2
Thus, the minimum guaranteed price for a bag of maize weighing 100 kg.	= C 6,000	Therefore Minimum guaranteed price for a bag of paddy rice weighing 82 kg.	= C 9,200
Government's minimum guaranteed price	= C 4,800	Government's minimum guaranteed price	= C 5,500
. . Breakeven yield	= C24,650	. . Breakeven yield	= C40,500
	4,800		5,500
	= 5.1 bags		= 7.4 bags/acre

DEMAND AND SUPPLY OF N.P.K. 15-15-15 FOR CEREALS

Year*	N.P.K. Demand for Cereals (Mt)	Imports of NPK (Mt)	% of Demand Supplied
1975	201225	16075	8
1976	210700	36626	17.4
1977	192000	4200	2.2
1978	161250	15896	9.9
1979	231000	39650	17.2
1980	205500	39650	19.2
1981	206000	-	-
1982	208000	20000	9.6
1983	176250	-	-
1984	220000	24550	11.2
1985	213750	21362	10.0
1986	217500	3300	1.5

Source: Ghana Sectoral Import Programme - Fertilizer

*In 1988, 13000 mt of NPK fertilizer were brought in by the Dutch govt. Another 1900 mt of sulphate of Ammonia arrived in Mid-April, 1988. These imports have been timely.

1988 PRICE DETERMINATION BY AGRICULTURAL POLICY CO-ORDINATION COMMITTEE'S FORMULA/ BAG OF 50KG. OF FERTILIZERS

	COST ITEM	15-15-15	SULPHATE OF AMMONIA	MURIATE OF POTASH	10-20-15
1.	CIF Cost	C1,928.76	C1,118.30	C1,726.02	3,036.89
2.	Bank Charges 5%	96.40	55.92	86.30	151.85
3.	Interest on Bank loans 7.5%	144.65	83.87	129.45	227.77
4.	Transport and other charges from Tema to Tamale	650.00	650.00	650.00	650.00
5.	Total Expenses	2,819.81	1,908.09	2,591.77	4,066.51
6.	Importers Margin (7.5% of Item 1)	144.65	83.87	129.45	227.77
7.	Wholesale Price (Item 5 + 6)	2,964.46	1,991.96	2,721.22	4,294.28
8.	Retail Margin (10% of Item 7)	296.45	199.20	272.12	429.43
9.	Retail Price without subsidy (Item 7 + 8)	3,260.91	2,191.16	2,993.34	4,723.71
10.	30% Subsidy	2,282.64	1.533.81	2,095.34	3,306.60
11.	Recommended Price	2,300.00	1,600.00	2,100.00	3,300.00

Source: PPME, Ministry of Agriculture

DEMAND AND SUPPLY OF IMPROVED SEED MAIZE

Year	Demand for Seed Maize (mt)	Supply of Improved Seed Maize (mt)	% of Demand through Supply
1982	6210	780	12.6
1983	6075	430	7.1
1984	10125	120	1.2
1985	8550	90	1.1
1986	8550	318	3.7
1987	7425	450	6.1

Source: Ministry of Agric, PPME, February, 1988

FINAL EVALUATION - MIDAS II (641-0102)
NOVEMBER 1985, USAID GHANA

The Ghana Seed Company was established with the expectation that it would be able to operate on a commercial basis in providing improved seed to farmers. The assumption that technical persons from the Ministry were to operate a large commercial company was unrealistic and unfair to a group of dedicated civil servants assigned to this task. Despite the lack of business orientation, the company, with the help of a U.S. contractor, embarked on the task of fabricating the structure of a seed company. During its initial period little thought was given to its management and accounting functions. However, by 1982/83, subsidies, high demand for seed (for food as well as planting material) and free vegetable seeds tended to distort GSC's management difficulties.

USAID probably gave the company more commodities than it could use effectively. The management and accounting staff could not cope with the demands of a rapidly growing company. Its ability to make the best use of commodities and technical assistance was hampered. USAID and the Government should have paid closer attention to the 1983 mid-term redesign effort as well as the 1984 mid-term evaluation, both of which raised legitimate issues which tended to be ignored by all parties.

The GSC is not integrated with other Government services such as extension, development projects, research stations and other seed handling institutions. This has tended to fractionalize the seed industry in Ghana.

The Seed Company's lack of attention to supply/demand analysis, pricing policy, grower contractual arrangements and cost accounting of its own operations has left it vulnerable in these difficult times. Current operational practices and lack of management, accounting and marketing support are not conducive to further inputs by external donors or the GOG. The company has had difficulties complying with the provisions of the Ghana Companies Act, e.g., it does not comply with financial reporting requirements, does not maintain an assets register and does not maintain proper control over revenues and expenditures by area managers and departments.

The Seed Inspectorate Service is deemed a necessary adjunct to a sound seed program. However, the present act just approved by the Government now needs to be implemented with a realistic plan of action.

Recommendations

Given that a seed multiplication, processing, storage, certification and distribution function is needed in Ghana to ensure continued progress toward increased productivity, a fundamental reorganization of the seed multiplication, storage and distribution functions should be undertaken. The guidelines for a new entity should be as follows:

-- reorganize the Ghana Seed Company and the establishment of a joint company with the GOG and private shareholders;

-- reduce the scope of the company's activities, e.g., locate foundation seed farms near area offices where feasible to obviate the need to run tractors and equipment on rough roads over long distances;

-- organize the company so that its major activities are near major maize and rice growing areas in Ghana. This means Kumasi and Tamale, respectively; and

-- install a three person Management team to organize and operate the new company and assign them to work with the company consultants. Review progress every six months with the target for complete phase-out of consultants no later than four years. As a first step in this effort, the evaluation team recommends an expert team of two or three persons who have operational experience with Seed Companies to work with a GOG team to design and negotiate the basis for a new company.

Source: USAID/GHANA: November, 1985

ANALYSIS OF COMPARATIVE ADVANTAGE AND INCENTIVE FRAMEWORK BY WORLD BANK

Crop/ Techniques	Yield (kg.ha) 1/	Financial Net Returns per ha. (C)	Financial Net Returns to Family Labor (C Manday)	Net Nominal Rate of Protection (%)	Net Effective Rate of Protection (%)	Domestic Resource Cost Coefficient
Rice						
Traditional	1,000	15,669	348	722	356	2.73
Improved	1,400	24,892	479	722	566	4.05
Advanced	2,000	38,823	681	722	955	8.75
Large-Scale Mechanized	1,000	2,620	64	722	- 2/	-0.72 2/
Irrigated -Large-Scale	3,500	93,436	1,139	722	1,503	-7.04 2/
-Small-Scale	3,500	95,877	1,169	722	974	4.94
Maize						
Improved - Draft	1,800	24,038	253	249	144	1.27
Improved - Mechanized (tractor)	1,800	24,038	253	249	149	1.39
Advanced - Draft	2,400	34,757	316	249	156	1.21
Advanced - Mechanized (tractor)	2,400	34,757	316	249	160	1.32
Maize/Cassava						
Traditional	2,300	13,274 3/	241 3/	249	104	1.08
Improved	3,300	24,117 3/	345 3/	249	113	0.75
Maize/Plantain/Cocoyam	- 4/	26,541 5/	722 5/	- 6/	- 6/	- 6/
Yam	5,000	37,251	141	- 6/	- 6/	- 6/
Sorghum/Millet						
Traditional	600	13,213	167	122	116	1.08
Semi-Improved	1,100	27,918	307	122	138	0.79
Groundnut						
Traditional	800	14,764	114	125	202	1.45
Improved - Draft	1,200	24,014	189	125	191	1.00
Improved - Mechanized (tractor)	1,200	24,014	189	125	201	1.09
Sugarcane						
Irrigated	62,000	46,984	1,236	3	33	3.35
Tobacco Flue-cured	750	15,544	94	-42	-42	0.39

Crop/ Techniques	Yield (kg.ha) 1/	Financial Net Returns per ha. (C)	Financial Net Returns to Family Labor (C Manday)	Net Nominal Rate of Protection (%)	Net Effective Rate of Protection (%)	Domestic Resource Cost Coefficient
Seed Cotton						
Semi-Improved	550	3,514	27	-62	-64	0.62
Improved - Draft	1,000	14,072	63	-62	-69	0.61
Improved - Mechanized (tractor)	1,000	14,072	63	-62	-74	0.62
Irrigated -Large-Scale	1,500	18,144	76	-62	-68	1.08
Rubber Rehabilitated	1,000	- 6/	- 6/	-51	-52	0.18
Coconut (Copra)						
Traditional	1,000	52,649	863	20	17	0.14
Improved	1,500	74,460	1,064	20	25	0.16
Advanced	3,000	157,395	1,574	20	20	0.16
Oil Palm						
Outgrowers (Advanced)	7,000	37,130	2,475	50	57	0.14
Cocoa						
Replanted	500	4,427	260	-80	-73	0.19
Rehabilitated	175	1,065	118	-80	-73	0.22

1/ Yields are for paddy; cereal equivalent for maize/cassava; groundnut in shell; seed cotton; dry rubber content; copra for coconut; fresh fruit bunches for oil palm; and beans for cocoa.
2/ Negative value added at world prices.
3/ Discounted (at 10%) average annual net return per ha over 2 years; discounted return to family labor is for total labor over 2 years.
4/ Four year cycle; 800 kg for maize in year 1; 4200 kg for plantain in years 2 and 3, and 2200 kg in year 4; 600 kg for cocoyam in years 2 and 3, and 200 kg in year 4.
5/ Discounted (at 10%) average annual return per ha over 4 years; discounted return to family labor is for total labor over 4 years.
6/ Not calculated.

Source: World Bank, Agricultural Sector Review, 1985, Report No. 5366-GH.

PROFITABILITY OF SORGHUM PRODUCTION - 1 ACRE

INPUTS

Seed Sorghum	20 lbs @ C70/lb	-	C 1,400
NPK Fertilizer	2 bags @ C2,000/bag	-	4,000
Sulphate of Ammonia	2 bags @ C1,000/bag	-	2,000
Land Clearing & Land Preparation	18 days @ C250	-	4,500
Sowing/Planting	6m/days @ 250	-	1,500
Maintenance	26m/days @ 250	-	6,500
Harvesting	15m/days @ 250	-	3,750
	Total Cost	-	C23,650
Yield	- 1100kg/ha or 440kg/acre		
Selling Price	- C8,000/100kg bag	-	35,200
Financial Net Return/acre		-	11,550
Thus Financial Net Return/ha		-	28,875

PROFITABILITY OF MAINTAINING AND HARVESTING 1 ACRE OF COCOA

Cost of Establishing 1 acre of cocoa.

Inputs

			C
Seedling	600 x C30/seed	-	1,800
Plantain Suckers	600 x C20/sucker	-	1,200
Land Clearing 28 mandays for felling to lining & pegging at	250/manday	-	7,000
Land Preparation and planting	18 mandays at 250	-	4,500
1st Maintenance	6 days x 250	-	1,500
2nd Maintenance	24 days x 250	-	6,000
Fertilizer application	10 mandays	-	2,500
Sub-Total		-	24,500
Assume 15% contingency for management, Int. on Loan, etc			3,675
Total Cost for 1 year		-	28,175

2nd to 4th Year for Maintenance

Labour at	45 mandays/yr @ C250/day	-	33,750
Maintenance after 4th Yr.	30 mandays C250	-	7,500
Harvesting	28 mandays/yr @ 250/day	-	7,000
Plus 15% contingency for management, spraying, etc.		-	2,175
Grand Total Cost computation			
(1) Recoupment of 1st-4th Yr. cost within 15 years economic life span		-	4,128
Regular maintenance cost		-	7,500
Harvesting		-	7,000
Plus 15% contingency		-	2,175
Grand Total Cost per Acre		-	20,803

Yield is assumed at 240kgs/acre or 8 bags each weighing 75kgs.

Thus Break-even price for 1 acre of cocoa yielding 240 kgs/acre - 86.7/kg

1986/87 nominal cocoa producer price was - 85.5/kg
(see Annex II-13)
And that of 1987/88 - 140/kg

(Cost of Establishing 1 acre of cocoa.) CONT'D.

At current low world market price of about 885 pounds per ton, i.e. about $1,792/tonne,			C
Gross Rev/ton to Govt.		-	336,896
Assume 1988/89 cocoa producer price is 165,000/tonne the same as 1987/88	- C150.3/kg	-	150,255.61
At the price of C150.3/kg, the cocoa farmer will have received 44.6% of the world price, an increase in the nominal producer price of about 7.4% though the Govt. would have maintained its implicit tax of about 55% (including CMB overheads).			
At the price, Net return per acre = (150.3-86.7) 240		-	C15,264
Thus, Net return per ha.		-	C38,160

PROFITABILITY OF INSHORE CANOE FISHING

Assumptions: (i) Canoe equipped with outboard motor
(ii) Fishing days - 200/year,
60 days for High Season (herrings) and
140 for tuna and trigger fishing.

Costs: (iii) Depreciation Cost.

	Value	Economic Life	Depreciated Cost
Canoe	C1,000,000	10	C100,000
Nets	1,200,000	10	120,000
Ropes, etc.	400,000	5	80,000
Outboard Motor	400,000	5	80,000
			C380,000

Net Repairs	C120,000
Canoe maintenance	50,000
50 new crates @ 400	20,000
Repairs & Maintenance of Motor (10% of cost)	40,000
Food for 8 member crew (200 days x 1600)	320,000
Gas oil - 15 gals/day @ C220/gal	660,000
Interest- 70% of capital borrowed @ 26% p.a.	800,800
Plus 20% contingency	478,160
Total Cost	2,868,960

Revenue:

High Season- 60 x 20 crates @ 2,000/crate	2,400,000
Lean Season- 140 x 8 crates @ 2,500/crate	2,800,000

Assume catches and No. of days fishing deflated by 25 as currently catches are dwindling and sea-going days are also being reduced:

Thus total Revenue	C3,900,000
Thus Financial Net Return/Canoe/Yr.	C1,031,040

NOTE:

1/3 of the Net Financial Return will be shared among the crew members while the 2/3 remaining goes to the boat-owner.

PROFITABILITY OF SMALL-SCALE POULTRY ENTERPRISE - 1000 LAYERS

	Year 1	Year 2
Capacity: 1000		
Capital Investment for deep litter houses, feeders, waterers, etc.	1,500,000	-
Stock purchases @ C175/chicken	175,000	-
Feed purchases:		
0 - 6 months 1000 layer chicks, 3.5lb/bird/month @ C30/lb	630,000	-
6 - 12 months 1000 layers 7.5lb/bird/month @ C30/lb	1,350,000	-
12 - 18 months 1000 layers 7.5lb/bird/month @ C30/lb		1,350,000
Drugs and Vet. Services -Assume 5% of feed cost	166,500	83,250
Feed transportation @ C60/bag	66,600	33,300
Utilities - allow C2,000/month for water and electricity	24,000	12,000
Labour		
Management cost C10,000/month	120,000	60,000
2 stockmen @ C5,000/month each	120,000	60,000
Depreciation		
Buildings 5% rate (building cost is 1,200,000)	60,000	
Equipment @ 20% rate (equipment worth 300,000)	60,000	} 90,000
Maintenance and Repairs - 50% of depreciation	60,000	
	2,832,100	1,688,550
Total Cost		4,520,650
Production Vol. Assume - 10% mortality rate and 60% laying rate	$= \frac{.6 \times 900 \times 30 \times 6}{30}$	$\frac{.6 \times 900 \times 30 \times 6}{30}$
	= 3240 crates	3240 crates
Culled Birds	-	900
Revenue:		
From Eggs @ C700/crate for 6480 crates		C4,536,000
Culled birds - 900 birds @ C1000 ea.		900,000
Total Revenue		C5,436,000
Thus Financial Net Return		C 915,350

PROFITABILITY OF RAISING 1000 BROILERS

Capital Investment for deep litter houses, feeders, waterers, etc.	C 1,500,000
Stock purchases @ C150/day old chick	150,000
Feed purchases - 1 lb/bird/week for 12 wks @ C20/lb	240,000
Drugs - 5% of feed cost	12,000
Transport @ C60/bag	6,000
Utilities - allow C2,000/month	6,000
Labour	
Management - C10,000/month	30,000
One farm attendant - C4,000/month	12,000
Depreciation:	
Allow 5% on buildings	15,000
Equipment 20% rate	15,000
Maintenance and Repairs - 50% of depreciation	15,000
Total Viable Cost	501,000
Sales	
Mortality rate - 10%	
900 birds @ C800/bird	720,000
Financial Net Return	219,000

NOMINAL FINANCIAL NET RETURNS CONVERTED TO REAL RETURNS

Year	1 Combined Rural CPI	2 Nominal Return Cocoa	3 Real Return Cocoa	2 Nominal Return Maize	3 Real Return Maize	2 Nominal Return Sorghum	3 Real Return Sorghum	2 Nominal Return Rice	3 Real Return Rice
1985/86	3,973.6	4,427	1.1	24,038	6.0	27,918	7.0	24,892	6.3
1986/87	6,590.6	10,350	1.6	9,040	1.4	15,150	2.3	3,710	0.6
1987/88	7,009.7*	38,160	5.4	13,344	1.9	28,875	4.1	8,750	0.8

Source: 1) Statistical Service CPI for Jan, 1988
2) Returns from World Bank Report No. 5366-GH, Ghana Agric Sector Review, 1985
3) Computations by Technoserve Team.

Notes
*Calculation by Technoserve team.

III. STRUCTURE OF THE FORMAL FINANCIAL SECTOR

A. Introduction: Ghana's formal financial sector is composed primarily of its banking sector which is regulated by the Bank of Ghana. The banking system is categorized as follows:

Primary Banks:
Ghana Commercial Bank
Barclays Bank
Standard Chartered Bank

Secondary Banks:
Social Security Bank
National Savings and Credit Bank
Merchant Bank
Bank of Credit and Commerce
Agricultural Development Bank
National Investment Bank
Bank for Housing and Construction
Ghana Cooperative Bank

Unit Banks:
Rural Banks

The Agricultural Development Bank, National Investment Bank and Bank for Housing and Construction are officially considered development banks, although they have long been involved in commercial banking activities. As with the Rural Banks and Ghana Cooperative Bank, these institutions were designed with particular targets or sectors on which to focus, but have since deviated from the original focus. The Rural Banks are unit banks, whereas the other banks are entitled to have branches.

Non-bank financial institutions include insurance companies, the Social Security and National Insurance Trust (SSNIT), credit unions and one mortgage finance company (First Ghana Building Society). Insurance companies and SSNIT provide a potential source of liquidity for capital markets when developed. Their importance currently lies in the large deposits they have placed with the banks, although free reserves and the term structure of their activities constitute potential resources for medium-term financing.

Ghana has a series of credit unions and savings/credit associations grouped under the Department of Co-operatives (see sections VI and VII). The collective savings deposits of Ghana's 157 registered credit unions account for 1.4% of total savings placed with the formal financial sector.

There is only one mortgage finance company, although its importance may increase with efforts to alleviate housing shortages in urban areas. Mortgage lending represents only a small percentage of total bank loans, mainly through Social Security Bank and the Bank for Housing and Construction for large projects.

Because Ghana has no active capital market activity, there are no banks that underwrite corporate issues, actively trade in securities or engage in other corporate or brokerage activities typical of Western merchant or investment banks. The National Trust Holding Company was originally established to become an underwriter of equities to be traded on the proposed stock exchange. However, only 18 stocks have been registered, and there is no active trading. Thus, the banks dominate the formal financial sector, with SSNIT, insurance companies and the aggregate credit union movement serving as large depositors.

B. Banking Sector: Ghana has 12 bank organizations regulated by the Bank of Ghana, consisting of three primary, eight secondary and the Rural Banks. Annex III-1 highlights dates established, distribution networks and key balance sheet items concerning Ghana's banking sector.

The primary banks consist of Ghana Commercial Bank (GCB), Barclays and Standard Chartered. The GCB is Ghana's largest commercial bank and 100%-owned by the Government, while Barclays and Standard are subsidiaries of British bank holding companies and 40%-owned by the Government of Ghana. Together, these three banks held 51.1% of the banking system's loans at year end 1987, and earned approximately 80% of the banking system's reported 1987 net income; almost all of the 80% was from Barclays (43.5%) and Standard Chartered (34.9%). Trends concerning market share have not favored these three banks, as the primary banks held 53.8% of the system's loans in 1983. Nevertheless, these statistics are misleading as they do not address asset quality (see Section IV). If all bad loans were written off and cash income rather than accrued income were reported, the primary banks (particularly Barclays and Standard Chartered) would likely have a far larger share of the market.

Ghana's secondary banks can be subdivided into commercial banks and development banks, with the lines between the two becoming increasingly blurred with the progressive liberalization of banking sector regulations. Rural Banks are considered separate from secondary banks.

Specialized institutions have been evolving into fuller service banks over the years as their own limited niches have not provided the returns or volume required to maintain healthy portfolios. The most dramatic of these patterns can be found in the Ghana Co-operative Bank which, due to its near liquidation in the mid-1980's, is now attempting to restructure itself as a commercial bank, co-operative only in name. Similar patterns have been shown in other specialized and development institutions. Annexes III-2A and 2B highlight the sectoral distribution of loans and composition of deposits of all of Ghana's banks. Noteworthy among credit and deposit portfolios are the following, which are discussed in full detail in Section IV:

i) the concentration of most portfolios in industrial and commercial loans;

ii) the limited commitment of most banks to agricultural sector loans; and

iii) the variety of deposit composition across banks as institutions show differing levels of aggressiveness in attracting savings and fixed/time deposits.

All the banks are regulated by the Bank of Ghana, which has regulatory authority to monitor, examine and supervise the banking system and implement monetary/credit policy. These powers are discussed below.

C. The Role of the Bank of Ghana: While the Ministry of Finance and Economic Planning is responsible for designing economic policy, the Bank of Ghana (BOG) is responsible for licensing all banking institutions, monitoring bank performance, enforcing statutory obligations and applying prudent regulatory policy consistent with Government objectives and institutional stability. These powers have been conferred onto the BOG via the Bank of Ghana Act (1963) and Banking Act (1970). The Bank is also responsible for monetary/credit policy, although policy formulation is developed in association with the Ministry of Finance and Economic Planning.

The Bank of Ghana is responsible for monitoring the performance of the banking sector. The Banking Act stipulates that the Central Bank is to carry out its responsibilities by enforcing reporting requirements, performing on-site examinations, and supervising management when deemed necessary. While the BOG has not been as effective as it should have been in performing its duties, staffing and regulatory weaknesses are currently being redressed. Our discussion below deals with existing regulations and to-date performance, and acknowledges that performance is likely to improve in the coming years as the Government moves to strengthen the BOG's authority and improve levels of staff training.

i) Reporting Requirements: Each bank is required to submit to the Bank of Ghana:

a. weekly liquidity reserve reports;

b. monthly balance sheets within 21 days of the close of business for that month;

c. reports analyzing six-month operating results from loans, advances and overdrafts within 30 days of the close of business in June and December; and

d. any other reports the Bank may request.

Most banks have consistently distorted the health of their balance sheets and sustainability of earnings by keeping non-performing loans on the books. Income is usually reported on an accrual basis, and assets are overstated due to the absence of arrearage analysis and virtually no ageing of accounts. Reporting requirements concerning Income and

Expenditure concerning Income and Expenditure statements are non-existent. Little detail or notes are attached to explain the dynamics of bank operations and performance, and these reports are generally submitted late, if at all. In fact, diagnostic studies by major international accounting firms have reportedly claimed that some banks' subsidiary ledgers are not satisfactorily reconciled with formal financial statements, further highlighting the need for tougher standards and improved monitoring of the quality of assets and returns of the banks by the BOG.

ii) Examinations: The inability of the Central Bank to perform the requisite annual on-site examinations, owing to the limited trained staff capable of overseeing such examinations, has further undercut the Bank's ability to monitor the strengths and weaknesses of individual banks and provide remedial steps to put these institutions on sounder financial and operating ground. A World Bank study recently claimed that of the 30 examiners hired by the Bank Examination Department of the Central Bank, only five are considered by the Department Head to be capable of leading an examination. Among the 30 examiners, only one has greater than ten years of experience, and only four have five-ten years of experience. Employee turnover has been high, and limited training for professional advancement has slowed the Bank's ability to perform its examinations with efficiency and frequency. Only three banks were comprehensively examined in 1987, and it has been reported that none of the three primary banks has ever been subject to a strict examination. Minimal reporting requirements and weak examination resources have thus limited the Central Bank's ability to monitor the performance of its member banks. As a result, the diagnostic studies carried out by the accounting firms are reportedly recommending that the banking institutions:

a. revalue loan portfolios to more accurately reflect realizable values, thus shrinking those portfolios and divulging erosion of net worth due to diminution of loan loss reserves;

b. recapitalize balance sheets to compensate for the real financial value lost in asset revaluation; and

c. restructure to ensure better management, supervision, prudence and long-term stability.

The deterioration of the banking sector partially reflects the Bank of Ghana's diminished capabilities in carrying out its responsibilities as codified by the Banking Act.

iii) Supervision: The BOG has attempted to promote stability in the banking system by enforcing statutory obligations as described in the Banking Act. All member banks are required to:

a. maintain a Reserve Fund to boost equity;

b. meet certain equity and cost recovery criteria before paying dividends;

c. adhere to specific conflict-of-interest and quantity regulations concerning the allocation of credit; and

d. observe restrictions on non-banking activities and investments.

The BOG can modify or eliminate these obligations as they concern development finance institutions, although these still must observe capital adequacy criteria set by the Bank. With liberalization of the banking laws, latitude is apparently being given to commercial banks as well. For instance, the Bank of Ghana is reportedly reviewing a plan that will allow banks to play a direct role in agricultural, commercial and industrial enterprises by establishing subsidiaries.

Maintenance of a Reserve Fund constitutes the means by which the BOG requires member banks to retain a stipulated percentage of earnings to strengthen capital positions. The Banking Act requires the following schedule of annual earnings retention:

a. when the Reserve Fund is less than 50% of paid-up capital, no less than 50% of the bank's net income must be retained;

b. when the Reserve Fund is between 50% and 100% of paid-up capital, no less than 25% of the bank's net income must be retained; and

c. when the Reserve Fund is greater than/equal to 100% of paid-up capital, no less than 12.5% of net income must be retained.

The Bank of Ghana also has it within its power to adjust minimum Reserve Fund requirements of each bank when it believes it prudent to do so. Despite the statutory obligation to maintain a Reserve Fund, individual Reserve Funds have long been unsatisfactory as banks overstated their assets and loan portfolios, not taking into account the non-recoverability of so many of their loans. As such, capital inadequacy has evolved as a serious problem irrespective of member bank adherence to Reserve Fund obligations.

Erosion of net worth (due to diminished loan loss reserves resulting from loan write-offs) could be a problem with the restructuring of the formal financial sector. Dividend payments that could have been retained, bonuses paid to management when loan quality continued to deteriorate, and high administrative costs without commensurate productivity have all damaged the capital position of the banks. The BOG permits dividend payments by the banks on the condition that they have met Reserve Fund requirements and completely recovered "capitalized expenditure" (i.e., preliminary expenses, share selling

commissions, brokerage losses and any items related to intangible assets). While certain banks (i.e., Barclays, Standard Chartered) appear to have been financially sound enough to issue dividends, it is clear that the wholly Government-owned banking sector could have benefitted from greater earnings retention to address the serious asset quality, staffing, training and overhead weaknesses that have burdened the performance of most of these banks. These outflows to the Government are also an example of how the Government utilized scarce resources to finance perennial budget deficits through 1985.

The Bank is also responsible for enforcing conflict-of-interest and quantity provisions on bank credit. Unsecured advances are limited by the Bank of Ghana to a stipulated percentage of paid-up capital and reserves. The Bank of Ghana has additional power to limit unsecured credit to firms in which any of the bank's directors are partners, guarantors and/or principal shareholders. Unsecured credit to bank directors can be limited at the discretion of the Bank of Ghana, and credit to an official or employee cannot exceed two years' salary. In addition, no bank can secure a credit with its own shares. Because reporting requirements are lax and the Central Bank's Examination Department has been understaffed and insufficiently trained, it has been difficult for the BOG to monitor member bank adherence to conflict-of-interest provisions. When the BOG had to intervene and restructure the Ghana Co-operative Bank in 1983, waste, mismanagement and fraud were some of the causes cited for the Ghana Co-operative Bank's collapse. (The abuse was so serious that restructuring continues to this day, with serious doubts about the future of this institution). Recently, directors and managers of the Rural Banks have reportedly received loans without BOG approval, sometimes defaulting on repayment and diverting rural-based deposits to commercial trading activities in urban areas. The Managing Director of the Social Security Bank has also recently been accused of practices which violate banking laws and undermine confidence in the banking system. For the BOG to better enforce the statutory obligations of member banks, it will need increasing numbers of better-trained examiners and stricter monitoring standards.

Concerning the non-banking activities of banks, these institutions are forbidden from engaging in commercial, agricultural or industrial activities or holding immovable properties (except for official bank business, such as liquidating a secured but non-performing loan or for staffing amenities). This provision, from which development banks (N.I.B, A.D.B, B.H.C.) and Rural Banks are exempted, is intended to prevent bank management from taking undue investment risk that might jeopardize shareholder value, bank liquidity, and confidence in the banking system. Nevertheless, in recent years, some other banks have taken on venture capital roles to increase profitability during periods in which credit ceilings and investment quotas placed limits on earning assets. In 1987, bank investments in enterprises were nearly C2.0 billion (US$11.1 million), or 1.2% of aggregate bank assets. Liberalization will permit greater entry into non-banking activities, although this will require capable monitoring to prevent non-banking losses from jeopardizing confidence and deposit security. To ensure stability,

the Bank of Ghana is likely to stipulate investment in bank subsidiaries at a maximum proportion of bank net worth (i.e., 25%).

D. Monetary Survey: Monetary trends under the ERP have shown increases in broad money (see Section I) and a steady decline in the proportion of Government borrowings relative to total credit (see Annex III-3). Before 1984, the Government virtually monopolised bank credit, with Government borrowings averaging 87.6% of total borrowings from 1979-1983. These rates have declined from 78.9% in 1984 to 45.7% in 1987 due to greater Government spending discipline, a more aggressive fiscal policy, and a commitment from the Government to revitalize the private sector.

The Bank of Ghana is responsible for managing credit policy consistent with the prerogatives of policy designed by the Ministry of Finance. Broad money is estimated to increase 9.6% in 1988 on a constant basis. The Government has tightened real M2 growth out of concern for hyperinflation. In 1985, real growth was only 3.6%, with a real decline of 21.5% in 1986 and 0.2% growth in 1987. Despite a real increase in broad money, the Bank of Ghana has imposed higher reserve requirements to avoid inflationary growth.

Net domestic assets on a constant basis have declined from 1984, with cocoa and private sector borrowings increasing while the Government concentrates on repaying its domestic and foreign debts. In 1987, the Government repaid international creditors a net C113.7 billion, while repaying the Bank of Ghana C7.4 billion to compensate the banking system for past borrowings. Annex III-4 highlights key monetary accounts, including net foreign assets, net domestic assets and broad money.

Aggregate bank credit has decreased 50.6% in constant terms since 1984 due to Government concerns about inflation. Combined with the high level of reserves held at the Bank of Ghana due to concerns about inflation and bank liquidity, credit availability from the banking sector will not be sufficient to finance the Government's considerable development plans. Additional credits from international institutions and periodic credit squeezes engineered through the Bank of Ghana are likely to continue. These trends suggest that the banking system will not meet the needs of small-scale farmers, and that alternative funding sources will have to be utilized if food self-sufficiency and increased agricultural export earnings are to be achieved.

Deposit mobilization has improved since 1984, with more bank branches and better efforts at educating the public showing some effect. Nevertheless, approximately 40% of broad money remains outside the banking system, limiting the degree of formal financial intermediation in the economy. While the Government has made efforts to restore confidence in the banking system, poor service levels, traditional skepticism, fraudulent management, liquidity needs, high transactions costs, negative real returns and inability to access credit all contribute to people keeping their money outside the banking system.

Borrowings remained high as donors provided funding of $747 million to help Ghana finance the restructuring of the national economy. Debt service of $568 million was 70.7% of export earnings in 1987. Given the Government's dedication to increasing Ghana's creditworthiness after four previous defaults and re-schedulings in the 1960's and 1970's, debt service will remain a top priority.

E. Specific Regulations and their Enforcement: To reinforce Government economic policy, the BOG uses a series of selective regulations to direct monetary/credit policy. Chief among these regulations have been liquidity reserve requirements, interest rate controls on deposits and loans, and credit floors (agriculture) and ceilings (non-agricultural sectors) to diversify commercial bank portfolios.

i) Liquidity Reserve Requirements: The Bank's liquidity reserve requirements concern primary (deposits) and secondary (Government paper) reserves. Reserves that banks have been required to keep at the BOG (see Annex III-5) have varied depending on Government monetary policy. As bank loans to the public sector from 1977-1985 were at a 4.35-1 ratio compared to private sector loans (see Annex III-3), Government budget deficits accompanied by weak fiscal policies crowded out private investment and stimulated inflationary trends in the 1970's and early 1980's (see Section 1). This explains why high reserve requirements were ineffective at containing excess liquidity in the system.

With the implementation of the Economic Recovery Program, the Government in recent years has focused on controlling/reducing the inflation rate. As a result, liquidity reserve ratios since 1987 have been above 1984-1986 levels (see Annex III-5), with the objective of taking money out of circulation to reduce the 40% inflation rate that prevailed in 1987. As of February 1988, actual cash on hand and reserves held at the banks had to be at least 25% of total demand deposits plus 12.5% of savings and time deposits. In addition, secondary reserves (i.e., Government Treasury Bills and Stocks, Cocoa, Grain and Cotton Bills, and any other paper approved by the Bank of Ghana) had to be 10% of total deposit liabilities. With a less expansionary monetary policy and more restrictive fiscal policy in place, the current liquidity reserve requirements reflect Government concern about inflation, and Central Bank concern about the health of the banking system at a time when it is preparing for restructuring and recapitalization. It is also anticipated that liquidity reserve requirements will have more impact on reducing inflation than in the past as the Government has registered budget surpluses since 1986, partially the result of a more aggressive fiscal policy.

ii) Interest Rate Regulation: The Bank of Ghana has also utilized interest rate regulation as a means of influencing the amount of money in circulation, and more specifically as a means of inducing certain behaviour with regard to credit

and savings. These measures have generally been unsuccessful because rates have meant negative real returns except in 1985 (see Annexes III-6 and 7), inducing people to buy physical assets whose value may increase more equally with the inflation rate.

The very structure of Ghana's banking system, emphasizing specialization, was to provide credit access to priority sectors and allow for focus in banking operations. This has been particularly the case with agriculture. In recent years, the BOG has allowed a 0.5-4.0% differential in interest rates between agricultural and non-agricultural loans, with agriculture enjoying softer terms. However, due to the low returns generated from and high non-performance of agricultural sector loans, most banks have diverted credit away from the small-scale farmer in favour of urban industrial and commercial lending, staying below the recommended floor established by the BOG for the banks. In 1987, only the Agricultural Development Bank, Ghana Commercial Bank and Rural Banks had more than 20% of their loans out to agriculture. (The Ghana Cooperative Bank also had more than 20% of its loans outstanding in agriculture, but most of this institution's loan portfolio is considered non-performing). Banks are generally unwilling to take on additional lending risk to farmers, reflecting lack of success in mobilizing credit to the agricultural sector. Below market interest rates and negative real returns have reduced credit flows to farmers, thus negatively impacting food production.

For both credit and savings, real interest rates have been negative since the 1970's due to rampant inflation; this trend was temporarily broken in 1985, but has since returned. This has been a contributing factor to limited deposit mobilization, with about 40% of broad money still estimated by the Ministry of Finance to be outside the banking system. As such, Ghana's level of formal financial intermediation (as measured by M2/GDP) has remained low. (In the fourth quarter of 1986, the Ghana Commercial Bank published comparative statistics of financial intermediation between Ghana, Nigeria, Liberia, Tanzania, Zambia, Kenya and Sierra Leone(*), and concluded that Ghana's formal financial sector attracted less money into the system than all these nations' banks except Sierra Leone. Thus, Ghana's level of formal financial intermediation remains comparatively low by many African standards, diminishing the banking system's role in economic development).

In September 1987, the Central Bank liberalized interest rate regulations, eliminating interest rate ceilings (previously 26%). In February 1988, the BOG went a step further,

(*) Ghana Commercial Bank Quarterly Economic Review, October-December, 1986, P.8.

eliminating both savings floors (previously 21.[illegible]) and the differential on agricultural loans. Nevertheless, because of a BOG freeze on credit, the free market play of interest rates had not had a chance to influence credit patterns by mid 1988. Ultimately, liberalization of interest rates will have to be accompanied by a wider range of financial instruments and improved service levels before it will have its desired effect of increasing financial intermediation levels and making the formal financial sector more efficient. Likewise, a fluid capital market will eliminate the need for quotas on investment in public securities, giving the banks a chance to earn higher returns for their deposit mobilization efforts.

iii) Credit Allocation: As part of its February 1988 notice to banks on 1988 monetary policy, the BOG liberalized credit policy concerning credit allocation. While the minimum sectoral allocation to agriculture remained 20%, the other 80% of bank credit was not subject to specific floors or ceilings. Despite the 20% allocation to agriculture, most banks have about 15% of their portfolios in this sector. The aggregate figure was 18.9% in 1987. Further, given the fungibility of loan classification, whatever agricultural credit has been extended has generally been to large-scale farmers and agro-processing industries, or used for trading purposes. Further, the Bank of Ghana has failed to assess penalties on banks for being below their 20% mandated targets, giving them less reason to comply. Thus, peasant farmers have been left out of the formal rural credit process irrespective of Central Bank policy. As long as the agricultural sector continues to pose high risks to the banks, and without opportunities to earn returns that more accurately reflect risk, it is unlikely that sectoral allocations for agriculture will be effective in increasing access to rural credit for the small-scale farmer.

F. Possible Regulatory Changes with Restructuring: The sensitive negotiations underway between the World Bank and Government of Ghana concerning financial sector restructuring are likely to include reforms that apply to the Bank of Ghana and its role in monitoring and supervising the banking system. In addition to improved management information systems, more rigid accounting standards, increased levels and volume of training, additional Bank Examination staff, and more frequent on-site examinations, the Bank of Ghana is also likely to apply stricter standards in monitoring bank performance. These include the following:

i) Paid-up Capital: The BOG is likely to demand the following minimum levels of paid-up capital:

a. Ghanaian (i.e., wholly Government-owned) commercial banks: C200 million.

b. Foreign commercial banks: C500 million, of which C300 million will have been injected into Ghana from abroad in convertible currency.

c. Ghanaian development banks: C1.0 billion.

These will be subject to review, but are likely to be adopted as minimum capital guidelines. It is uncertain if such levels would be continuously adjusted for inflation and currency exchange rates.

ii) Capital Adequacy: Minimum capital and reserves are expected to be 6%, with the BOG reserving the right to increase that percentage when it is considered prudent. If banks stay below specified capital adequacy requirements, fines will be assessed and limits will be established on their banking activities (i.e., loans, investments, deposit-gathering).

iii) Risk Exposure: Secured advances, credits, guarantees and indemnities are likely to be permitted up to but not exceeding 25% of net worth. On an unsecured basis, these will only be permitted up to 10% of net worth. This will make it all the more imperative to have capital market opportunities available to the banks, including offshore investment opportunities, so that funds do not lay idle.

iv) Dividends: Dividend payments will not be allowed if banks do not meet capital adequacy standards.

v) Non-banking Activity: Banks will be permitted to engage in agricultural, industrial and commercial enterprises by creating subsidiaries. One subsidiary will receive investment up to 25% of bank net worth. Total subsidiaries (two or more) will be permitted up to 35% of bank net worth.

G. Summary: The Bank of Ghana has proved itself to be weak and inefficient in carrying out its basic role of monitoring, supervising and examining the formal financial sector. Reporting requirements are lax, follow-up is limited, on-site examinations are infrequent and staff lack training to carry out these roles. To remedy these problems, the Bank of Ghana will need to increase staff and improve training levels at the Bank Examination Department to effectively carry out its supervisory and monetary functions. Reporting requirements will have to include far greater detail on portfolios and operations, and on-site examinations will have to be performed with greater frequency and efficiency.

At the policy level, until the economy features capital markets, term instruments to meet the needs of depositors and consumers of cash will exist in limited quantities. This, in turn, will slow resource mobilization and investment in production capacity. Liberalization of interest rates and sectoral ceilings will encourage more efficient resource allocation, but will likely divert lending away from the small-scale farmer.

The importance of these changes towards increased efficiency highlights the need for institutional alternatives in rural finance to serve as links to the formal financial sector. As the banks streamline their operations, rationalize branch networks and emphasize economic as opposed to accounting profits, small-scale farmer access to formal financial sector services will decrease. Thus, the extension of formal financial sector services to credit unions, savings associations and even moneylenders will be necessary to raise levels of financial intermediation. It is unlikely that the small-scale farmer will directly benefit from financial sector restructuring, except insofar as the banks will be in a stronger position to provide services to non-formal institutions that they are currently not providing.

COMPOSITE VIEW OF GHANA'S BANKING SECTOR: 1987

Bank	Date Est.	Branches	% Gov't. Owner	Loans*	Total Assets*	Deposits*	Total Liabilities*	Equity	Equity/ Loans	Deposits/ Loan
Ghana Commercial	1953	150	100	15,716	60,808	27,499	58,212	2,596	16.5%	175%
Standard Chartered	1896	25	40	6,919	14,390	10,263	11,678	2,080	30.1%	148%
Barclays	1917	30	40	4,918	17,059	10,922	15,013	2,122	43.2%	222%
Bank for Housing/Const.	1973	10	100	9,948	14,614	5,411	14,129	484	4.9%	54%
Social Security	1977	44	100	6,337	23,390	15,322	22,399	991	15.6%	242%
National Investment	1963	10	100	3,881	14,976	2,747	14,420	556	14.3%	71%
Ghana Co-operative	1946	76	100	1,236	N/A	1,242	N/A	N/A	N/A	100%
Agric. Development	1965	34	100	3,509	9,288	1,925	9,060	228	6.5%	55%
Nat'l Savings/Credit	1972	18	100	1,175	3,784	2,114	3,544	240	20.4%	180%
Merchant	1971	3	30	1,924	7,540	2,706	7,116	398	20.7%	130%
Bank for Credit/Comm.	1978	1	13	421	2,170	1,349	2,081	89	21.1%	321%
Rural Banks	1972	117	25	1,156	3,537	2,203	3,301	236	20.4%	191%

* millions of cedis

Sources: Banking and Insurance Guide of Ghana: 1988-1989; Banking Sources

PRIMARY BANK LOAN/DEPOSIT COMPOSITION: 1987
(%)

	GCB	STANDARD	BARCLAYS
Credit:*			
Industrial	17.1	28.8	38.2
Commercial	33.2	41.4	40.0
Agricultural	24.9	19.5	13.4
Real Estate	-	-	-
Other	24.8	10.3	8.4
Deposits:**			
Current Account	61.8	50.9	48.5
Savings Account	34.7	27.4	30.8
Fixed Deposits	3.5	21.6	20.7

* As a percentage of total loans
** As a percentage of total deposits

Source: Banking Sources

SECONDARY BANK LOAN/DEPOSIT COMPOSITION: 1987
(%)

	BHC	SSB	NIB	ADB
Credit:*				
Industrial	36.3	29.8	63.9	2.4
Commercial	14.7	21.7	14.5	7.3
Agricultural	1.4	16.1	15.1	68.5
Real Estate	12.3	8.2	0.2	-
Other	35.3	24.2	6.3	21.8
Deposits:**				
Current Accounts	51.7	60.2	59.5	57.5
Savings Accounts	13.4	14.6	6.3	42.0
Fixed Deposits	34.9	25.3	34.3	0.5

* As a percentage of total loans
** As a percentage of total deposits

Source: Banking Sources

SECONDARY BANK LOAN/DEPOSIT COMPOSITION: 1987
(%)

	NSC	MERCHANT	CO-OPERATIVE	BCC
Credit:*				
Industrial	19.2	47.9	17.1	29.6
Commercial	8.8	21.3	11.5	50.0
Agricultural	17.7	12.7	34.5	12.7
Real Estate	6.2	-	3.8	7.7
Other	48.1	18.1	33.2	-
Deposit:**				
Current Accounts	43.2	52.6	N.A.	27.0
Savings Accounts	31.9	-	N.A.	4.1
Fixed Deposits	24.9	47.4	N.A.	68.9

* As a percentage of total loans
** As a percentage of total deposits

Source: Banking Sources

MONEY AND CREDIT: 1977 - 1987
(millions of Cedis)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Money and Quasi-money 1/	3,044	5,131	5,942	7,949	12,029	14,837	20,497	35,300	56,300	86,400	132,300
Bank Credit to Government	3,203	5,636	4,903	6,518	10,649	11,057	21,059	27,800	40,700	46,500	38,700
Bank Credit to Private Sector	560	739	796	940	1,342	1,558	2,841	13,700	26,000	42,700	55,600
Money and Quasi-money as % of GDP 1/	27.3	24.4	21.1	19.4	15.7	16.7	10.7	13.0	15.1	16.9	17.7

1/ Includes primary banks only from 1977-1983;
1984-1987 includes total bank system.

Sources: World Bank Ghana: Policies and Issues of Structural Adjustment, March 30,1987 (for 1977-1983 data); Ministry of Finance for 1984-1987 data.

MONETARY SURVEY: 1984-1988 (billions of Cedis)

	1984	1985	1986	1987	1988
Net Foreign Assets	-31.4	-48.7	-130.7	-113.7	-123.
Net Domestic Assets	39.9	67.1	95.1	105.3	124.
Claims on Govt (net)	24.2	27.2	29.6	22.2	16.
Cocoa Financing	3.6	13.5	16.9	16.5	24.
Credit to ROE*	13.7	26.0	42.7	55.6	70.
Other Items (net)	-1.6	0.4	5.9	11.0	13.
Revaluation Account	29.9	41.9	133.1	151.8	179.
Broad Money	35.3	56.3	86.4	132.3	169.
Money	27.4	44.0	65.8	95.0	
Quasi-money	7.9	12.3	20.6	37.3	
Counterpart to SDR allocation	33.1	4.0	11.1	11.1	11.
Memo Items:					
GDP (Current Price)	270.6	372.9	510.8	748.3	947.
Velocity (GDP/M2)	7.7	6.6	5.9	5.7	5.

* ROE - Rest Of the Economy

Source: Ministry of Finance.

LIQUIDITY RESERVE REQUIREMENTS: 1983-1988

	1983	1984	1985	1986	1987	1988
Cash Reserves-1/ (%)	N.A.	20.0	15.0	-	-	-
- Demand Deposits	N.A.	N.A.	N.A.	10.0	21.5	25.0
- Savings/Time Deposits	N.A.	N.A.	N.A.	5.0	10.75	12.5
Secondary Reserves-2/ (%)	N.A.	25.0	25.0	15.0	12.5	10.0

-1/ Cash Reserves: Cash in hand, balances with Bank of Ghana, and money-at-call with Discount House. 1987 refelcts average of quarterly requirements. 1984-1985 represent cash reserve totals.

-2/ Secondary Reserves: Treasury Bills/Stocks, Cocoa Grain and Cotton Bills, and other paper approved by the Central Bank. Ratio expressed as a percentage of total deposit liabilities. 1987 reflects average of quarterly requirements.

* Rates stated are for primary commercial banks. At times, these have differed from secondary bank reserve requirements.

Source: Bank of Ghana.

INFLATION RATES vs. LENDING RATES: 1983-1987

	1983	1984	1985	1986	1987
Inflation Rate	122.8	39.6	10.4	24.6	39.8
Lending Rates					
Agriculture	12.5	16.0	18.5	22.5	22.75 - 30.
Export	12.5	20.0	20.5	23.0	25.0 - 30.
Manufacturing	-	20.0	20.5	23.0	26.0 - 30.
Secured by Govt Securities	16.5	20.0	20.5	23.0	26.0 - 30.
Secured by Stock in Trade	19.0	22.5	23.0	23.0	26.0 - 30.
Secured by Immovable Property	14.5 - 19.0	22.5	23.0	23.0	26.0 - 30.
Mortgage	10.0	15.0	18.0	20.0	20.0

Source: Statistical Service (Lending Rates)

BEST AVAILABLE COPY

INFLATION RATES vs. DEPOSIT RATES:1983-1987

	1983	1984	1985	1986	1987
Inflation Rate (%)	122.8	39.6	10.4	24.6	39.8
Deposit Rates (%)					
- Savings Deposits	11.0	14.5	16.5	18.5	21.5
- 3 mo. Time Deposits	11.25	14.75	16.25	-	18.0 - 22.0
- 6 mo. Time Deposits	11.5	15.0	17.0	19.0	19.0 - 22.0
- 12 mo. Time Deposits	12.5	16.0	18.0	20.0	20.0 - 22.5
- 24 mo. Time Deposits	-	-	19.0	22.0	21.0 - 23.0
- Demand Deposits (*)	0.0	0.0	0.0	2.0	3.0

(*) Interest earned if balance greater than C50,000 beginning October, 1986 and C100,000 beginning March, 1987.

Source: Statistical Service; Bank of Ghana (Demand Deposits)

INSURANCE COMPANIES

Ghana has approximately 20 insurance companies, with estimated assets of C2.0 billion (US$13.2 million) at year end 1986. This sector is regulated by the Insurance Act (1965), and has been separated from the banking sector such that it has not been involved in most commercial banking activities.

The State Insurance Corporation (100%-owned by the Government of Ghana) is the largest insurance company, with 60% of the industry's total assets. Other companies include jointly-owned companies started by foreign firms before independence (20% of industry assets), and privately-owned indigenous firms (20% of industry assets). Total premiums for 1986 were C2.6 billion (US$17.1 million), although most insurance companies showed limited net income due to high operating and management costs.

The insurance companies represent a significant pool of funds that, due to the term structure of their policies, could provide medium- and long-term financing for investment needs that are currently unmet by the banks. Legislation is under review to permit greater flexibility for insurance companies in investing their "free reserves". The Insurance Act limits free reserves to 60%, with the other 40% constituting liquid reserves for claims settlements. Of the 60% in free reserves, insurance companies have been instructed to invest 50% in Government securities and 50% in other securities which also support public sector activities. The current Government review of insurance legislation points to the possibility of allowing insurance companies to invest up to 70% of their free reserves (still 60% of total reserves) in small- and medium-sized enterprises (including agricultural ones) to diversify risk and promote development. This, in effect, would permit insurance companies to invest in and/or provide funds to private enterprises instead of limiting investment options to public securities. It is likely that insurance companies could also figure significantly in private placements. If such changes are made, they will clearly have to be accompanied by regulatory standards that in no way undermine confidence in the insurance industry by jeopardizing claims to which policy-holders are contractually entitled.

It is possible that investment portfolio diversification will also create opportunities to diversify types of insurance available in Ghana. To date, most insurance is urban-based and in Accra, Kumasi and Takoradi. With ventures outside these areas, insurance services may lessen the risk of investment to various other areas/sectors of the economy. Nevertheless, insurance companies are designed to be risk-averse, so it is unlikely that they will assume a major role in agricultural development.

One other area in which insurance companies may figure to be important is in mobilizing savings. Insurance companies are sometimes found at the outdoor markets, playing a type of formal "susu" role. However, they apparently have not been as successful as they had hoped because peoples' savings are held for long periods of time. The traditional "susu" tends to make savings available to the depositor on a monthly basis, whereas insurance companies have designed access to savings to be on an annual basis. While rotating savings plans do exist with susu (see Section VIII), they are based on trust and solidarity that formal institutions have been unable to establish. It is possible that insurance companies will be more successful in mobilizing savings, but only if they show greater ability to meet depositors' liquidity needs.

SOCIAL SECURITY AND NATIONAL INSURANCE TRUST (SSNIT)

The Social Security and National Insurance Trust (SSNIT) is a Government fund which administers the accrued pension income of retired workers. SSNIT is currently restructuring to emphasize pension fund management. Some objectives coming from the restructured SSNIT are monthly (versus lump sum) payments to retired workers, higher yields, and greater decision-making powers as to how to invest funds.

The Government currently charges workers 5% of their wages/salaries, while employers contribute 12.5% of non-casual labour costs to the Social Security Fund. As a Government unit, it has generally invested in public sector securities, effectively financing deficit spending. As a result, SSNIT has received negative real returns. With Government efforts to improve record keeping and accelerate tax collection, it is likely that SSNIT will continue to represent a large pool of funds that could provide term liquidity for capital investment. This will not occur, however, without investment opportunities in capital markets.

Most of SSNIT's deposits are with its bank, Social Security Bank, although SSNIT has deposited some of its funds in the National Savings and Credit Bank and the Bank for Housing and Construction. While SSNIT officials claimed that their central concern when determining where to deposit funds was the bank's management and liquidity, this is hard to accept given the existing or potential liquidity problems of BHC and NSC. The vast majority of its deposits, however, is with Social Security Bank which is viewed as a bit more stable despite serious problems. The large 1987 increase in Social Security Bank's fixed/time deposits is due largely to SSNIT, as SSNIT became more aggressive in demanding higher nominal rates on its deposits.

CONSOLIDATED DISCOUNT HOUSE (CDH)

The CDH was established in 1987 as part of the financial sector restructuring under the ERP. It functions mainly as the 'banker' of banks in the sense that it is a specialized financial institution whose activities involve the acceptance of money at call from the banks and other financial institutions (i.e., SSNIT, insurance companies), and indirectly from commerce and industry. The CDH invests these funds and makes a market in short-term financial securities. The CDH has been formed as a nucleus to the development of a money market in Ghana and should become a more significant feature in Ghana's formal financial sector in the coming years as restructuring efforts address liquidity problems and expand investment options.

Deposit maturity levels are concentrated in the "call", "demand" or "sight" areas. Maturities range between seven and 30 days. Investments, on the other hand, are purchased for periods ranging from one to 90 days. The Discount House may sometimes also accept limited amounts of securities with durations of six months and one year.

In principle, however, the Discount House operates on the "borrow short, lend long" strategy. Because of this situation, total risk exposure is kept low by limiting trading to securities with negligible default risk, and careful structuring of portfolios in terms of both yield and duration.

The Discount House has also been set up to provide a means through which the banks can adjust their day-to-day liquidity positions. Banks are now in a position to leave money at call with the Discount House because such funds attract interest, qualify as cash reserves for the Bank of Ghana's liquidity reserve requirements, and are secured by the assets of the banks. Funds received by the Discount House are used to invest in Treasury Bills, Bankers' Acceptances, Cocoa Bills, Grain Bills, Government Stocks and Negotiable Certificates of Deposit.

It has not been possible to obtain information on the operations of the CDH since it has operated for less than a year. However, the institution is playing an important role in encouraging deposit mobilization. The CDH provides banks with an investment avenue for excess liquidity reserves instead of holding them at the Bank of Ghana as idle funds earning no return.

The establishment of the Discount House broadens the still limited access financial institutions have to other financial instruments. An example of constraints on access to financial instruments is Treasury Bills, which are auctioned on a quota system, with the quota structured highly in favour of the non-banking public so as to curtail inflation.

In short, financial intermediation levels of banks will increase through the operations of the Discount House. However, to foster the growth of an efficient money market, more discount houses need to be established to promote competition and offer a wider range of choice in money market transactions.

NATIONAL TRUST HOLDING COMPANY LTD.

The National Trust Holding Company Limited was established in 1976 under the auspices of the National Investment Bank. The Company is empowered to carry out the following as its authorized business:

i) to purchase, hold, manage and sell securities and other properties;

ii) to provide brokerage services to investors;

iii) to provide secretarial, legal, accountancy, registral, investment and other related services to companies;

iv) trustee services;

v) company advisory services;

vi) issuing of house services (i.e., private and public issues of shares); and

vii) management of the Government's equity portfolio in confiscated companies.

At present, there are only 18 public companies registered with the NTHC for transactions, and there is no active trading. Aside from the limited number of public companies, shareholders are very reluctant to trade in shares since there are no other investment alternatives.

The NTHC will be expected to perform as the key feature in the development of a capital market and, subsequently, a full fledged Stock Exchange. However, slow growth, limited public awareness of stock market activities, and limited savings may prevent the NTHC from becoming effective in the near term.

FIRST GHANA BUILDING SOCIETY

The FGBS, Ghana's only building society, was established in 1956. The general public holds 93.5% of the shares, and the Government holds the remaining 6.5%. It is therefore a private entity owned by its shareholders, with very little interference from the Government.

Its main function is to help ordinary savers to purchase their own houses. There are two types of deposits available to society members: ordinary shares and special shares. With ordinary shares, the saver operates an ordinary savings account, depositing and withdrawing with no fixed amounts. With special shares, fixed amounts are deposited on a regular monthly basis. The current rate of interest paid on ordinary shares is 9% p.a. while the latter attracts 10% p.a. This is low relative to other instruments such as fixed/time deposits.

The minimum time period to qualify for a mortgage loan is three years. The applicant has to pay 10% of the loan being requested. The lending rate of the FGBS is 20% p.a., and the amortization period is 30 years. The current maximum loan it grants is C500,000.

Patronage has been low since the early 1970's. The major reasons include:

i) inadequate mortgage loans granted to savers;

ii) relatively low rates of interest paid to savers; and

iii) a low marginal propensity to save among Ghanaians under persistent inflationary trends.

In effect, the FGBS is not effective as a 'mortgage loans' lender for buildings.

IV. POLICIES AND PERFORMANCE OF BANKING INSTITUTIONS:

A. Introduction: The banking system in Ghana shows a reasonable distribution of loans and assets, with the primary banks still dominating but in a less concentrated manner than five years ago (see Annex IV-1). The following chart highlights some of the key balance sheet items of the various banks in late 1987 (in millions of cedis). Ghana Co-operative Bank is excluded from our analysis as they have been restructuring since 1983, and only very limited data are available. Secondary bank data are from September 1987, while primary and Rural bank data are from December 1987.

	Primary Banks	Secondary Banks	Rural Banks
Loans	27,553	25,187	1,156
Investments	6,248	3,585	N.A.
Total Assets	100,536	67,428	3,537
Deposits	49,369	28,456	2,203
Borrowings	1	15,237	N.A.
Total Liabilities	93,182	64,467	3,301
Capital and Reserves	7,354	2,961	236
Bank Branches	205	124	117

Source: Statistical Service (Primary and Secondary Banks); Banking Sources (Rural Banks)

While loan sizes are roughly equivalent between the primary and secondary banks, the primary banks have a better aggregate balance sheet due to higher quality loan portfolios, stronger deposit bases and superior capitalization. The secondary banks suffer from weak loan portfolios which have reduced earnings. The secondary banks have also had to borrow domestically and offshore to increase liquidity as they have been less effective at mobilizing deposits. The Rural Banks are unit banks designed to provide banking services in areas generally not served by commercial banks. While numerous, they are small and have succeeded in mobilizing less than 3% of total deposits held with the banking system (see Section V).

B. Geographic Distribution: There were 446 bank branches in Ghana in late 1987 (see Annex IV-2), up from about 355 in 1983. Most of the increase has come from the growth of Rural Banks (57) and secondary banks (30) since 1983. Annex IV-3 highlights the regional distribution of banks in mid-1988.

Nearly half of all bank branches at the end of 1987 were those of the primary banks, which have remained steady since 1983 (201 vs.205). Ghana Commercial Bank is the largest bank in Ghana with 150 branches. Barclays and Standard Chartered have 30 and 25 branches, respectively.

The secondary banks (less Ghana Co-operative Bank) had 124 branches as of September 1987. The largest of these was Social Security Bank (44 branches), followed by the Agricultural Development Bank (34) and National Savings and Credit Bank (18). The Rural Banks numbered 117.

The geographic distribution of branches was far less concentrated than deposits and loans, although the Northern and Upper Regions had only 32 total bank branches. The Greater Accra Region had the most bank branches (76), with 41 primary banks and 29 secondary banks. The Ashanti (71) and Eastern (65) Regions followed; each of these Regions was widely represented by the Rural Banks, with 21 and 22, respectively. The least represented regions were the Northern (14) and Upper (18) Regions.

Based on 1984 population figures, the distribution of bank branches does not significantly deviate from population distribution except in the Greater Accra, Northern and Upper Regions. The following chart highlights the distribution of population and bank branches:

	1984 Population	1987 Bank Branches
	(%)	(%)
Greater Accra	11.6	17.0
Ashanti	17.1	15.9
Western	9.2	9.6
Eastern	13.8	14.6
Central	9.4	12.3
Brong-Ahafo	9.7	12.6
Volta	9.8	9.4
Northern	9.5	3.1
Upper	9.9	4.0

Source: Statistical Service (Population);
Banking Sources (Bank Branches)

If we consider only the primary and secondary banks, the pattern of concentration in Greater Accra becomes more apparent. Representation in the Northern and Upper Regions increases on this basis as there are only four Rural Banks in these three regions.

	1984 Population (%)	Primary/Secondary Branches (%)
Greater Accra	11.6	21.3
Ashanti	17.1	14.9
Western	9.2	9.7
Eastern	13.8	13.1
Central	9.4	9.7
Brong-Ahafo	9.7	12.2
Volta	9.8	9.4
Northern	9.5	4.3
Upper	9.9	5.5

Source: Statistical Service (Population); Banking Sources (Bank Branches)

Due to the distribution of branches and low representation in the Northern and Upper Regions, credit unions have provided some of the basic banking services not provided by the formal sector (see Section VII). However, it is unlikely that the formal sector will dramatically raise its profile in these areas any time soon. Even in Tamale, Ghana's 4th largest city (population: 500,000), there are only 10 banks, showing that it is economic activity and not population that drives bank branch openings. While branches have been opened in many rural areas, this has been due to the urgings of the Government of Ghana for social reasons, and not based on profit considerations.

C. Deposit Mobilization: The aggregate balance sheets of the formal financial sector (see Annex IV-1) reflect differences in size and funding sources. The primary banks rely on deposits (Ghana Commercial Bank, Barclays, Standard Chartered) and short-term balances due to other banks (Ghana Commercial Bank) to fund their assets, whereas the secondary banks have often had to borrow long-term, domestically and offshore, to complement their deposits. The Rural Banks depend on savings accounts and general deposits, with less borrowings proportionally than the secondary banks.

Historically, the primary banks have attracted greater deposits (see Annex IV-4), standing at C49.4 billion (US$280.8 million) at year end 1987, or 63.4% of total demand, savings and fixed/time deposits. Nevertheless, market share has decreased since 1984, when the primary banks held 70.8% of total deposits. Furthermore, given the primary banks' 205 branches compared to 124 secondary bank branches at year end 1987, the secondary banks have shown slightly greater per branch efficiency in mobilizing deposits. Part of this has to do with the Government placing its deposits with Government-owned banks, most of which are secondary banks. The following briefly summarizes competitive efficiency in attracting deposits (figures in millions of cedis from December 1987):

	Total Deposits	Deposits/Branch
Primary Banks:		
Ghana Commercial Bank	28,184	187.9
Barclays	10,952	365.1
Standard Chartered	10,276	411.0
Total/Average	49,412	241.0
Secondary Banks:		
Social Security Bank	15,322	348.2
National Savings and Credit Bank	2,095	116.4
Agricultural Development Bank	1,925	56.6
Bank for Housing and Construction	5,411	541.1
National Investment Bank	2,747	274.7
Merchant Bank	2,507	835.7
Bank of Credit and Commerce	1,881	1,880.9
Total/Average	31,888	257.2
Rural Banks:		
	2,203	18.8

Source: Banking Sources; these totals exclude the Ghana Cooperative Bank.

The efficiency of deposit attraction is skewed, with the most efficient being Bank of Credit and Commerce (BCC) and Merchant Bank. These two banks only have four total branches, focusing on trade and corporate finance. Located in Accra, Kumasi and Takoradi, they are in the prime areas of industry and commerce which generate the greatest amount of deposits. They are also both part of a multinational system, making it easier to establish foreign exchange and corporate accounts with Ghanaians at home and abroad.

At the lower end is the Agricultural Development Bank (ADB) and the Rural Banks which were designed to provide banking services to the rural agricultural communities not served by the other institutions. Their inability to attract greater deposits relates to their focus on small-scale farmers and isolated rural areas, as well as the general problem of why 40% of broad money is not deposited with Ghanaian banks:

- -- poor service;
- -- inconvenience;
- -- high transactions costs;
- -- lack of confidence and trust in the banking system;
- -- personal short-term liquidity needs;
- -- unsuccessful bank advertising and marketing; and
- -- more personalized, localized and convenient alternatives (i.e., "susu").

Whether rural depositors place importance on negative real rates is debatable as the "susu" concept is predicated on negative nominal rates. Rural communities appear to place a higher value on safe stores of wealth (i.e., banks, honest susu men), rather than positive real returns.

However, a major share of broad money not held by the banking system are the funds of affluent traders and wealthy individuals concentrated in the urban areas. This is due to their general skepticism resulting from Government measures in earlier years to freeze accounts while investigating tax liabilities, recalling of loans used to finance trading inventories, negative real returns and demonetization of high denomination notes. The Government has since made a public commitment to respect bank account confidentiality, and most bankers believe public confidence has been partially restored as a result. These attitudes affect the urban-based banks more than the ADB or Rural Banks.

Ironically, the National Savings and Credit Bank (NSC) rates as one of the least efficient institutions at attracting deposits. Designed specifically as a savings institution which later broadened its banking scope, its 18 branches have the lowest per branch deposits aside from the ADB and the Rural Banks. This is partially due to the similarity in focus on smaller-scale individuals, with NSC's customers often representing lower- and middle-income urban residents. It is also due to mismanagement of their relationship with the postal service, which was used until 1985 to attract savings deposits.

If branch efficiency is skewed in favor of the small corporate banks, the regional distribution of deposits is even more skewed (see Annex IV-5) as shown in the following chart:

	Regional Deposits	Regional/ Total Deposits (%)
Greater Accra	56,502	66.7
Ashanti	8,216	9.7
Western	5,514	6.5
Eastern	4,341	5.1
Brong-Ahafo	2,767	3.3
Central	2,757	3.2
Volta	2,295	2.7
Upper	1,142	1.3
Northern	1,229	1.4

Source: Banking Sources

While Greater Accra has only about one in five of all primary and secondary bank branches, its deposit share is more than three times that. This clearly reflects the regional concentration of wealth, and with it banking needs and relationships, public familiarity, population density and transport facilities. While Greater Accra

attracts a far greater percentage of deposits compared to number of branches, all other regions show the reverse. Thus, despite 83% of all bank branches being located in Ghana's nine other regions, they only constitute 33% of the deposits in the banking system.

All together, primary and secondary bank deposits totalled C81.3 billion, or 61.5% of broad money at year end 1987. Adding the Rural Banks, deposits were 63.1% of broad money. While increasing slowly since 1985, the 1987 Deposit/M2 ratio reflects a decline compared to 1983, suggesting that much of the money put into circulation in recent years has stayed outside the banking system due to inflation, currency depreciation, some lingering skepticism about Government declarations to respect bank account confidentiality, and a general lack of confidence in the banking system. The following chart highlights recent deposit trends measured against broad money:

	Total Deposits	M2	Deposits/M2 (%)
1983 :	14,965	20,497	73.0
1984 :	21,343	35,300	60.5
1985 :	34,572	56,300	61.4
1986 :	54,615	86,400	63.2
1987 :	83,500	132,300	63.1

Source: Statistical Service (for deposits 1983-1986); Banking Sources (1987 deposits) and all Rural Bank deposits World Bank and Ministry of Finance (for M2)

These figures do not include the deposits of the Ghana Cooperative Bank, although these would not change the relationship significantly. Ghana Cooperative Bank had only C1.2 billion in deposits in September 1987, and possibly less by year end.

The structure of deposits shows differences between the primary and secondary banks (see Annex IV-6), as well as with the Rural Banks. The primary banks had 55.7% of total deposits in current accounts, 31.8% in savings deposits and only 12.4% in fixed/time deposits. The secondary banks had 58.5% of deposits in current accounts, 28.7% in fixed/time deposits, and 12.8% in savings deposits. Rural Banks were far different, with 75.6% of deposits in savings accounts and only 24.4% in current accounts. This suggests that meager as the deposits are, that there is substantial demand in rural areas for savings plans, and that banks can be more effective in attracting these.

Due to their greater number of branches, more established presence and history of corporate clienteles, the primary banks have always dominated the banking sector's aggregate current accounts. The banks generally require an active current account to be operative

for a minimum of six months before entertaining credit requests. Considering that approximately 51.1% of all outstanding loans are through the three primary banks, this serves as a magnet for attracting deposits. The following chart highlights the primary banks' leading share of demand deposits:

	1983	1984	1985	1986	1987
Primary Bank Demand (%)	68.0	70.5	64.7	57.9	61.7
Secondary Bank Demand (%)	30.8	28.4	34.3	41.3	37.3
Rural Bank Demand (%)	1.2	1.1	0.9	0.8	1.0

While the secondary banks appeared to be gaining demand deposit share from 1985-1986, the primary banks increased their share in 1987. It is not clear exactly why this occurred. The primary banks had a net decrease of two branches in 1987 while the secondary banks added two (net) branches. One possibility is that there has been some restoration of confidence in the safety of deposits, and that some of the larger depositors, whose money was outside the system, decided to place their funds with the primary banks. This was most notably the case with Barclays, whose nominal deposits increased 74.3% in 1987. Ghana Commercial Bank and Standard increased their nominal deposits 40.9% and 36.2%, respectively.

What is crucial about primary bank demand deposits relative to the secondary banks is cost. As these deposits usually constitute "free" funds for the banks, the higher the proportion of demand deposits, the lower the bank's cost of capital. At year end 1987, the primary banks' demand deposits were 29.5% of total liabilities, while the secondary banks' ratio was 25.8% in September 1987. This, as well as the marginal benefit of having more savings deposits than fixed deposits, contributed to the primary banks having lower relative interest costs compared to most of the secondary banks. The Rural Banks had current accounts that were only 20.4% of total liabilities, due primarily to their larger proportional share of savings accounts. Relative to system-wide demand deposits, Rural Bank figures are immaterial.

While the secondary banks have increased their share of demand deposits in the 1980's, they have traditionally not been able to attract savings nearly as effectively as the primary banks. Secondary bank savings share has never been higher than 21%, and has shown a net decline since 1983. Rural Banks have clearly been more effective at mobilizing savings deposits compared to demand deposits, achieving 6.8% of total system-wide savings deposits despite having been effectively in operation for less than ten years.

	1983	1984	1985	1986	1987
Primary Bank Savings (%)	74.3	72.6	72.8	72.8	75.7
Secondary Bank Savings (%)	18.7	19.3	20.5	21.2	17.5
Rural Bank Savings (%)	7.0	8.1	6.7	6.0	6.8

To attract more deposits, the secondary banks have been more aggressive in utilizing fixed/time deposits. This has most notably been the case with Social Security Bank, as the Social Security and National Insurance Trust has demanded higher interest earnings for the large deposits it places. As shown in Annex IV-7, interest paid on fixed/ time deposits has varied, but generally been 50-150 basis points above the savings rate depending on duration. Among the secondary banks, Social Security Bank held 41.4% of fixed deposits and 25% of total bank fixed deposits. The Rural Banks have made no impact in fixed/ time deposits, reflecting the liquidity constraints of their customers and limited marketing efforts by the Rural Banks. The following highlights fixed deposit shares:

	1983	1984	1985	1986	1987
Primary Bank Fixed (%)	17.4	27.8	53.2	50.2	39.6
Secondary Bank Fixed (%)	82.6	72.2	46.8	49.8	60.4

As far as the composition of fixed/time deposits, all deposits were no longer than 12 months through 1984. In 1985, the Bank of Ghana introduced a fixed deposit scheme of 24 months to promote more stable funding sources for the banks. While no statistics were available on the specific breakdown of fixed deposits, it is assumed that only a minute portion of 1987 deposits were for 24 months. Fixed deposits of 24 months were attractive in 1985, paying 19% interest while Treasury bills paid 17.5%, savings paid 16.5% and the inflation rate was reduced to 10.4%. Nevertheless, a rekindling of inflation in 1986-1987 turned fixed/time deposit rates negative in real terms, and depositors are assumed to have their money committed for shorter durations to meet the rising costs of consumption and investment needs.

Overall, deposits have shrunk in real terms since 1983. Adjusting cedi deposits to average official exchange rates with the U.S. dollar, the following represents a constant value of bank deposits since 1983:

	1983	1984	1985	1986	1987
Primary Bank Deposits	502.7	407.7	419.7	374.3	304.1
Secondary Bank Deposits	209.6	166.2	200.7	224.7	193.2
Rural Bank Deposits	23.8	19.1	15.5	13.3	11.5
Total	736.1	593.0	635.9	612.3	508.8

Only in 1985, with drastically reduced inflation and a restoration of confidence, was there a real increase in the value of cedi deposits. Nevertheless, the real value of 1985 deposits was still 13.6% less in value than in 1983. Small as Rural Bank deposits are, it is worth noting that in the last five years there has not been a real increase in deposits, reflecting limited cash resources

available for savings, high transactions costs, and bank ineffectiveness at mobilizing demand deposits.

To promote increases in deposits, banks need to improve services and develop instruments that pay competitive rates to provide depositors with higher and, ultimately, positive real returns. The current method of paying interest on savings accounts is to pay a nominal interest rate (i.e., 21.5%) on the lowest balance during a six-month period. This reduces the effective savings rate, creating less of an incentive for depositors to place their funds with banks. Banks could also include inflation-adjusted or indexed returns, free checking and other privileges for balances held above certain levels for varying periods of time, free services (i.e., transfers) in exchange for long-term deposits, and basic financial planning to accommodate the cash flow needs of farmers to encourage increased deposits. While this will increase interest and operating expenses, the recent deregulation of interest rates provides room for increased earnings from loans to cover additional expenses associated with deposit mobilization. Some banks have established sub-branches and agencies to broaden their distribution networks, but these have generally been unsuccessful at generating profits or mobilizing deposits. A better effort at integrating banks into communities, using funds for visibly local development, educating the public and being sensitive to customer needs will all be necessary if the banks are going to be effective at increasing deposit shares relative to broad money.

The key to mobilizing greater deposits ultimately relates to management, public confidence and profitability. Improved management of credit portfolios, investments and operations will increase interest margins and reduce overhead ratios. This in turn will provide banks with the resources needed to compensate depositors at positive real rates, something which urban depositors are bound to be more cognizant of over time. Likewise, management will be required to improve services, effectively reducing transactions costs to the depositor. This is likely to be noticeable to both rural and urban depositors. Barclays is currently computerizing its savings accounts, eliminating the time-consuming and inefficient passbook system. This is a step in the right direction, although much easier to achieve when a bank's deposits are so highly concentrated. Clearly a bank such as the ADB or the Rural Banks will find it more difficult to computerize to improve services.

The banking system could also devise a deposit insurance scheme collectively or through the Bank of Ghana to add to public confidence. Typical of many developing countries' banking systems, focus has been on the asset side of the balance sheet, accentuating credit to promote productive investment. Thus, an insurance scheme exists for agricultural loans, but has not been developed for deposits. When the Co-operative Bank declared itself insolvent in 1983, the Bank of Ghana had to intervene to ensure depositors received their funds upon demand. Nevertheless, this shattered confidence in the banking system as there is no guarantee that the Central Bank would or could do so again. In some cases, depositors

have yet to receive their funds, further undermining confidence. Combined with other past developments (i.e., the freezing of accounts to investigate tax liability, the demonetization of 50-cedi notes) and still frequent reports of corrupt bank management, public confidence in the banking system has still not been fully restored. The banks will need to innovate, be more aggressive and improve service levels if they are going to attract the 40% of broad money that is currently outside of the banking system. Further, the Government will have to demonstrate over the long term that its stated respect for the confidentiality of bank accounts is effective policy, and not a temporary measure to simply attract deposits to the formal sector. The indicators suggest that Government interference with individual bank accounts is perceived as far less of a problem now than a few years ago.

D. Non-Deposit Liabilities: Deposits constituted 53% of primary bank liabilities (December, 1987) and 44% of secondary bank liabilities (September, 1987). The primary banks make up the difference in different ways. Barclays and Standard Chartered have the vast majority of their liabilities in deposit form, achieving a stable funding position. The GCB, on the other hand, has a large proportion of "other liabilities", generally thought to be employee-related reserves (i.e., pension, welfare, gratuities, etc.). However, the GCB was not specific about these, and it is possible they constitute borrowings to shore up liquidity. Despite this, the GCB still has a strong deposit base of 47% of total liabilities, although this lags Standard (88%) and Barclays (73%).

The secondary banks have a different non-deposit liability structure, borrowing long from domestic and foreign institutions, primarily the latter. As of September 1987, foreign bank borrowings were 18% of total liabilities and domestic borrowings were 5.5% of total liabilities. Thus, secondary bank long-term borrowings were nearly 24% of total liabilities, compared to 0% for the primary banks. Much of these borrowings were passed through the Bank of Ghana, which was responsible for administering loans originally financed by the World Bank and IMF, and utilized to ensure adequate liquidity for depositors. In other cases, loans have come from the EEC, African Development Bank and IFAD. In the event of substantial loan write-offs, additional equity will be needed to cover lost reserves as the banks' creditworthiness will have declined. Rural Bank borrowings were not disclosed, but are proportionally less than those of the secondary banks.

E. Equity: Aside from Barclays, Standard Chartered, the Bank of Credit and Commerce and Merchant Bank, most of the banks appear to be undercapitalized. Because detailed Income and Expenditure and loan quality information is not readily available, it is difficult to determine capital adequacy. Nevertheless, given the generally accepted notion that most banks have a high percentage of non-performing loans that will ultimately be written off the books, it is safe to say that capital adequacy is a problem, particularly with the secondary banks.

At year end 1987, capital and reserves at the primary banks were 26.7% of total loans and advances. Whether this is adequate depends on asset quality. In the case of Barclays and Standard, capital and reserves accounted for 43.2% and 30.1%, respectively, of loans and advances. This would appear to be satisfactory, particularly since these banks are multinationals of recognized creditworthiness. In the case of Ghana Commercial Bank, however, the ratio of capital and reserves to loans is 16.5%, which may not be satisfactory, particularly with 25% of its loan portfolio out to agriculture.

On the part of the secondary banks, capital and reserves were only 11.8% of loans and advances. This is far less cushion than is necessary, particularly since most of the secondary banks have less portfolio diversification than the primary banks. Banks such as the National Investment Bank, Bank for Housing and Construction and Agricultural Development Bank have all borrowed heavily from domestic and international sources to shore up liquidity. Fears of a liquidity crunch at these and other banks relate to poor asset quality, limited earnings, insufficient capital and bad management. Given poor loan quality, the secondary banks will ultimately have to recapitalize as reserves will not be sufficient to cover write-offs.

The Rural Banks had capital and reserves at 20.4% of loans at year end 1987. This is also thought to be low given that nearly 50% of loans are extended to agricultural enterprises, loan repayment rates are low, management skills are generally lacking, and most of the areas show limited value-added economic activity. To their credit, however, the Rural Banks only report cash profits. Thus, whatever earnings are retained to strengthen capital are economic profits as well as accounting profits.

F. Loan Policies: Though loan policies differ from bank to bank, there are some similarities with regard to sectoral loan allocation requirements, as stipulated by the Central Bank, and loan schemes involving small-scale farmers. The Central Bank's regulation on agricultural lending is that all banks except BHC and NIB are obligated to commit at least 20% of their total loan portfolios to agriculture. In practice, however, reported agricultural loans were only 18.9% of total loans at year end 1987, with only the Ghana Commercial Bank, Agricultural Development Bank and Rural Banks above 20%. Further, the Bank of Ghana failed to assess penalties on those banks not complying with the regulation. Lack of enforcement served as an additional disincentive for banks to lend to agriculture. Other considerations are discussed below.

i) Group Loan Policies: As regards loans to small-scale farmers, the banks use a Group-Lending System for small producer groups instead of lending to cooperatives (which have not been effective in Ghana in past). Under the Group Lending System, small-scale operators cultivating specific crops or undertaking similar ventures with comparative advantage are organized and financed. Such group loans are payable at the end of each season.

The group members on their own elect a leader and executive members, while the entire group jointly and severally guarantees repayment of the loan. Executives assist in loan collection at the end of the season. While the loan is granted to the group, each member is responsible for a proportional part of the loan. Failure of a member to repay results in the group being held in default (unless the rest of the group covers his obligation), and is denied further credit until full payment is made. Because of this collective responsibility for repayment, group pressure is brought to bear on defaulting members so as to ensure continuity of loans to the group. Under this system, no formal security or collateral arrangements are enforced since the group itself and social sanctions serve as security.

This group lending approach was innovated by the ADB in 1969, and even though there have been various modifications by other banks, they all tend to serve the same purpose of providing credit to small-scale farmers with no tangible security. For instance, the GCB's version is called the Commerbank Farmers Association (CFA) under which 1% of the loan amount granted to the group is held by the bank and put into an insurance scheme against defaults by deceased members.

While the group lending scheme is not foolproof, repayment rates of about 80% have been recorded by the ADB in normal years of production. Other banks, such as Standard Chartered, have claimed repayment rates are very high. However, this is often a question of management. The GCB has reported repayment problems with its scheme, due largely to poor management and lack of monitoring. Generally, however, recovery rates obtained under group lending are higher than individual loans because of the group pressure applied by members.

ii) Individual Loan Policies: Individual loans are usually provided to farmers considered as medium- to large-scale holders. In Ghana, farmers cultivating between 10-50 acres of maize may be considered medium-scale holders while those cropping above 50 acres are termed large-scale farmers. Loans granted to individuals are generally backed by securities which may take the form of immovable properties, personal guarantees and indemnifiers, life insurance policies, etc., depending on the condition, nature and amount of facility granted.

iii) Types of Loans: Three types of agricultural loans based on duration are provided by banks in Ghana. These are:

a. short-term, or up to 1.5 years. These are typically granted to meet production, transportation and marketing costs, i.e., working capital requirements;

b. medium-term, or between 1.5 to 5 years. These loans are mainly for purchases of farm equipment, livestock and fishing; and

c. long-term, or loans granted for over 5 years. These are made for new and existing projects which require heavy capital outlays with long gestation periods, such as tree crop plantations (i.e., oil palm, coconut, etc.) and cattle ranching.

iv) Eligibility Criteria for Loans: Eligibility criteria for loans include:

a. activities to be financed must be in Government-determined priority sectors, i.e., food crops and export commodities. In some cases, banks have their own priority areas and may not finance activities outside these areas. For instance, Standard Chartered does not favour the financing of piggeries and backyard poultry enterprises, presumably because of the marketing problems piggery farmers encounter, while backyard poultry is not considered a viable economic unit to warrant bank funding;

b. activities attracting loans must pass viability tests relating to technical, commercial, financial/ economic and managerial aspects; and

c. prospective borrowers are required to make some equity contribution to the project being financed as an indication of a borrower's commitment to the project. Borrowers' contributions may take the form of existing investment, cash contributions, farm-family labour contributions, etc. In the case of equipment purchases, the contribution may be as high as 40% of the total investment cost.

v) Interest Rates and Non-Interest Fees Charged by Banks: Until October 1987, interest rates charged by banks were regulated by the Bank of Ghana. The current policy of deregulation allows banks to determine their own interest rates which are to be displayed on notice boards at banking premises.

The general observation since deregulation is that banks have revised their interest rates only once, making it a fairly stable interest regime. The previous interest levels were 23.5% p.a. for agricultural loans while all other activities, including overdrafts and advances, carried 26% p.a. Currently, the rates for agriculture are about 26%, with a range of 29-31% for all others. Though discriminatory interest rates for agriculture and other activities are not prescribed by the Central Bank now, the banks have generally maintained a 3% disparity between agricultural loans and others.

At the outset of interest rate deregulation, the GCB announced a 2% reduction on agricultural loan interest. The rationale behind this was not clear since the GCB has problems with its loan portfolio and has generally shown a reduction in relative commitments to agriculture since 1984. A plausible explanation may be that since most other banks are reducing their exposure to agriculture, the Government has pressured the GCB to partially compensate for the difference. The lower interest rate should stimulate demand.

Another interesting observation since the deregulation of interest rates is that the primary banks have set the interest rate targets for the smaller banks, with the latter following the primary banks' lead. This situation is indicative of conditions not dissimilar to a monopolistic or oligopolistic banking industry. However, it is uncertain if these rates are in fact high enough to cover most banks' operating costs. With weak profitability reported on an accrual basis, high volumes of non-performing loans, and a large number of employees without commensurate levels of productivity, it is likely that existing interest rates are not high enough to cover operating costs. This point is made more apparent when compared to the inflation rate which is reported to have risen above the 1987 figure of 40%.

Another interesting point is that, while banks find negative real rates of interest to be an obstacle to efficient banking, most of the Ghanaian public believes interest rates are far too high. Nominal rates have risen in recent years, and the perceived inability to afford the interest rates banks charge discourages potential borrowers from applying for loans. That these very same interest rates would not cover the banks' operating costs is viewed as an impossibility by most of the non-banking public.

Non-interest charges levied by primary and secondary banks include a uniform rate of 1% as a commitment fee, a maximum of 2% as supervision fees (mostly applied by specialized secondary banks such as the ADB and NIB), and stamping duties and fees sanctioned by the Lands Valuation Board and Deeds Registry. These fees are regulated, although many Rural Banks charge higher fees (up to 8%).

Though the banks have designed and evolved loan policies for small-scale borrowers, the high risks associated with agricultural lending coupled with the lack of adequate collateral has led to most banks not complying with the 20% regulation of total loan portfolios to agriculture. Even if banks comply, since there is no regulation as to the percentage which should be allocated to small-scale farmers, it is most likely that small-scale operators will continue to be discriminated against.

The deregulation of interest rates has not brought about any appreciable level of competition among the banks since the 'small' banks have not innovated enough to compete with the 'leaders'. The

end result is that small-scale farmers are less likely to have increased access to formal credit in the near future.

G. Loan Portfolios: The aggregate balance sheet (see Annex IV-2) for primary and secondary banks shows roughly equal loan sizes. Primary banks have a 51.1% share of loans, the secondary banks have 46.7% (this excludes Ghana Co-operative Bank), and the Rural Banks have 2.1%. Ghana Cooperative Bank had C1.2 billion in loans in September 1987, although recovery rates were reported to be less than 10%. Trends in the last five years show that the secondary banks have increased their share of loans, although the chart below does not take into account the quality of the loan portfolio. The Rural Banks have never held anything but a very minor share of aggregate loans, and this relative share has become more marginal since 1983 despite nearly doubling the number of Rural Banks.

	1983	1984	1985	1986	1987
Primary Bank Loans (%)	53.8	53.1	55.0	54.4	51.1
Secondary Bank Loans (%)	41.5	42.9	42.7	44.0	46.7
Rural Bank Loans (%)	4.7	4.0	2.4	1.6	2.1

Most notable in terms of loan growth (see Annex IV-8) has been the Bank for Housing and Construction (BHC) which, since 1985, has had the second largest loan portfolio in the country. This partially reflects increased activity in the building and construction trades and BHC's loans to manufacturing interests. Nevertheless, deposit growth is well below loan growth, BHC is borrowing heavily and recycling those borrowings into loans, and many of its loans to contractors are apparently not being serviced as contractors either await payment or misappropriate funds. BHC's problems of non-performing loans are typical of the development banks, and highlight problems affecting most of the secondary banks. Deterioration in asset quality, particularly with capital and reserves at only 4.9% of loans, is a disastrous prospect with which BHC will undoubtedly have to deal. The following summarizes loan share among the primary and secondary banks (excluding Ghana Cooperative Bank) since 1983:

	1983	1984	1985	1986	1987
	(%)	(%)	(%)	(%)	(%)
Ghana Commercial Bank	38.8	32.9	33.7	33.3	28.7
Bank for Housing & Const.	10.5	10.7	14.7	13.3	18.2
Standard Chartered Bank	10.0	12.6	12.4	12.5	12.6
Social Security Bank	13.6	11.9	9.8	12.9	11.6
Barclays Bank	8.3	10.2	10.0	9.6	9.0
National Investment Bank	4.4	5.7	5.9	6.0	7.1
Agric. Development Bank	8.4	7.9	7.0	5.9	6.4
Merchant Bank	2.3	4.5	3.1	3.5	3.5
National Savings & Credit	3.4	2.7	2.6	2.3	2.1
Bank for Credit & Commerce	0.2	0.8	0.6	0.7	0.8

Source: Banking Sources

The most consistent bank has been Standard Chartered, with 12.6% market share. The Ghana Commercial Bank has been dominant, yet in 1984 and 1987 experienced sharp declines in loan share; since 1983, GCB's position has declined from 38.8% of total loans to 28.7% in 1987. Barclays has maintained relatively stable loan shares, although its position has declined since 1984 from 10.2% to 9.0% in 1987. Among the secondary banks, BHC has grown from 10.5% in 1983 to 18.2% in 1987, while Social Security Bank has declined from the second (13.6%) to the fourth (11.6%) loan producer in the banking system. Once again, these numbers include non-performing loans, thus obscuring effective market share. If only performing credits were measured, there is a good chance that the shares of Standard and Barclays would rise, while most others would fall. How bad most loan portfolios are, and how much real market share each bank has will not be known until after the banks recapitalize, write off bad loans, and develop effective loan monitoring, ageing and arrears procedures.

With regard to loans to small-scale farmers, it is noteworthy that the Agricultural Development Bank, with its 34 branches and 16 sub-branches (second after GCB), had only 6.4% loan share in 1987. The ADB clearly does not have a monopoly on agricultural credit, and GCB's reported agricultural credit alone would rank sixth in loan size against the total portfolios of the other banks. Nevertheless, with ADB's specialized focus and relatively large distribution network, and given that agriculture accounts for roughly 50% of GDP, it is clear from the chart that the banking system has been ineffective at credit management regarding small-scale farmers. This is not synonymous with credit delivery, as agricultural loans were a far higher percentage in 1983. But loan losses in agriculture have created disincentives to this sector, reducing credit delivery. This point is reinforced when we add the 117 Rural Bank branches that were responsible for only 2.1% of total credit from the formal financial sector at year end 1987. This relates to the banks' general perception that the risk of agricultural credit generally exceeds the return, thus diverting credit to the industrial and commercial sectors.

Most of the credit provided by primary and secondary banks is allocated to industry and commerce (trade). The aggregate sector distribution of bank lending (see Annex IV-9) shows that 62.5% of total 1987 primary and secondary bank loans were extended to manufacturing, construction and trading operations, with 18.9% extended to agriculture. The figure for agriculture should be regarded with caution, however, as many banks classify certain loans as agricultural when, in fact, they are often used for trading purposes.

One branch manager in the Volta Region claimed that up to 75% of farmer loans were used for commercial purposes, a revealing point as it underscores several key constraints to agricultural lending:

i) trading offers quicker repayment to the bank, sometimes with less risk;

ii) banks use these and other approaches to avoid Government mandated quotas for agricultural lending (including increasing fees to compensate for the now-defunct concessionary interest rate differential on agricultural loans);

iii) banks do not systematically provide loans based on farming debt capacity, although they sometimes do incorporate non-farming cash flow considerations when determining creditworthiness;

iv) farmers sometimes overstate their credit needs, and the banks are aware of this; and

v) farmers are clearly willing to divert credit allocated for farming to non-farming activities, with the risk to the bank being whether the non-farming activities generate cash flow (i.e., trading) or do not (i.e., weddings, funerals, school fees, alcohol, etc.).

The following chart highlights the general mix of primary and secondary bank loans since 1983 on a percentage basis:

		1983	1984	1985	1986	1987
Industry	- Manufacturing	21.7	27.2	26.9	26.6	28.2
	Construction	12.6	10.1	8.9	9.7	9.4
Commercial	- Import	1.7	2.5	4.7	7.2	6.6
	- Export	1.6	2.1	2.2	3.5	4.9
	- Other	10.8	10.8	17.0	17.3	13.4
Agriculture		31.9	30.9	23.1	18.3	18.9
Mining/Quarrying		6.7	4.1	4.3	3.5	4.7
Transport/Communications		6.3	5.4	5.2	5.0	6.0
Electricity, Gas, Water		0.8	0.2	0.2	0.1	0.1
Other		6.0	8.5	9.4	8.9	7.9

Source: Statistical Service

The key trend since 1983 has been the growth in commercial and industrial loans. In 1983, industry (34.3%) and commerce (14.1%) were less than half of all loans outstanding, whereas agriculture constituted 31.9% of all loans, second only to industry. This sectoral allocation changed dramatically in 1985 as loans were transferred from agriculture (23.1%) to commerce (23.9%), while industry remained stable at 35.8% (increasing manufacturing loans at the expense of construction loans). The shift to commerce was a rational response to pent-up demand after severe supply constraints and drought had virtually bankrupted the economy, and with the return of nearly 15% of the nation's population from Nigeria after the 1984 redundancy order. Nevertheless, the shift in credit from agriculture to "non-productive" commerce intensified the indigenous food shortage, encouraging people who might otherwise engage in agricultural production to pursue different ventures, thereby

increasing imports at a time when foreign exchange was scarce. Thus, the allocation of credit diverted funds away from "productive" enterprises, although it clearly helped alleviate the severe shortage of goods that existed in Ghana during the drought years. In 1987, the sectoral allocation of credit was little changed from 1985, with industry (37.6%) and commerce (24.9%) overshadowing agriculture (18.9%).

Given that most industrial and commercial loans are focused in the Accra-Tema area, Greater Accra was the leading beneficiary in terms of loan distribution (see Annex IV-10), with 68.4% of total primary and secondary bank loans. As with deposits, loan distribution is skewed. What is clear is that loans that used to be made in other regions are now being channeled to Greater Accra. Every region except Greater Accra has shown a percentage decrease in loans since 1983 (the Upper Regions were flat and virtually inconsequential). The following chart highlights the regional distribution of primary and secondary bank loans excluding Ghana Cooperative Bank) since 1983 on a percentage basis:

	1983	1984	1985	1986	1987
Greater Accra	54.7	51.4	56.1	66.4	68.4
Ashanti	13.8	14.1	13.2	10.4	9.7
Western	7.2	8.0	8.1	6.2	6.6
Eastern	6.2	6.8	6.1	4.1	3.7
Brong Ahafo	6.3	6.9	5.7	4.3	3.7
Central	4.0	3.8	3.0	2.5	2.3
Volta	2.2	2.4	1.9	1.8	1.8
Northern	3.9	4.0	3.4	2.3	2.1
Upper	1.8	2.6	2.6	2.0	1.7

Source: Banking Sources

With most loan activity occurring in the Accra, Kumasi and Takoradi areas, it is no surprise that 85% of these loans are concentrated in the Greater Accra, Ashanti and Western Regions. However, given that most deposits are in these areas as well, one cannot say that the deposits of 70% of the population that is rural are being used to finance the industrial and commercial activities of urban residents. For one, most rural people do not deposit money with the banks. Second, it is the industrial and commercial enterprises that are generating cash, and thereby driving increases in the nominal aggregate value of banking system deposits. While it is fair to say that industrial and commercial loans have increased at the expense of agriculture, thus reinforcing a rural to urban flow of economic activity, it is the urban activities which are generating the deposits. There is some evidence of deposit outflows from the Eastern, Central and Volta Regions, but these are minor compared to the total sum of deposits. There is also evidence that the banks cannot prudently invest small-scale farmer deposits in agricultural enterprises without jeopardizing deposit safety. However, the amounts appear to be small relative to the aggregate sum of deposits. The problem with the trend is simply that existing

deposits, limited in the rural areas, are not being re-invested in those areas, draining the minimal cash resources of the agricultural regions and preventing the areas from becoming more economically dynamic and self-sufficient. This is particularly evident with the Rural Banks (see Section V), as well as the ADB and GCB. The following chart highlights the positive correlation between bank deposits and loans (excluding Ghana Cooperative Bank) on a regional basis for 1987 (in percentages):

	Deposits	Loans	Net
Greater Accra	66.7	68.4	(1.7)
Ashanti	9.7	9.7	-
Western	6.5	6.6	(0.1)
Eastern	5.1	3.7	1.4
Brong Ahafo	3.3	3.7	(0.4)
Central	3.3	2.3	1.0
Northern	1.4	2.1	(0.7)
Volta	2.7	1.8	0.9
Upper	1.3	1.7	(0.4)

Source: Banking Sources

As for loan maturity, the banks did not provide data on short-term (i.e., less than one year) versus medium- and long-term credit. Aside from the National Investment Bank, the Bank for Housing and Construction, and possibly the Social Security Bank (consumer installment loans) and Merchant Bank (corporate loans), most banks are assumed to have the vast majority of outstanding loans on a short-term basis. Longer-term loans, unless having a variable interest rate feature (which the banks do not yet have) are costly to banks in an inflationary environment. The high level of borrowings at the NIB and BHC is directly related to their term-financed (medium and long) assets which apparently have not generated sufficient earnings to shore up capital and meet liquidity needs.

What is clear from the banks is that substantial improvements must be made in terms of asset-liability management, including updated ageing and arrearage analyses to monitor asset quality and direct portfolio decisions. Generally, the banks have shown little traditional commitment to such standards, thereby ignoring universally accepted banking practices used in portfolio and cash management.

While the nominal value of loans has increased since 1983 for the primary and secondary banks, the real value of those loans decreased in 1987 when adjusted on a constant basis for average official exchange rates to the US dollar. The following chart shows the steady increase in real values of primary and secondary bank loans through 1986, and the 1987 reversal (in millions of US dollars). Only the Rural Banks have shown a systematic decline each year in the constant value of their aggregate loan portfolio, a confusing problem as the number of Rural Banks has doubled from 60 to 120 in the last five years.

	1983	1984	1985	1986	1987
Primary Bank Loans	178.0	188.0	233.0	253.6	169.7
Secondary Bank Loans	133.5	149.1	181.5	204.1	167.5
Rural Bank Loans	15.7	14.1	10.2	7.7	6.2

The reason for the 1987 decline to its lowest real level since 1984 has to do with credit ceilings imposed by the Bank of Ghana to restrict money in circulation. It was apparent in 1987 that the inflation rate was increasing for its second consecutive year, from 10.4% in 1985 to 24.6% in 1986 to 39.8% in 1987. After the Government's concerted effort to reduce the inflation rate from 122.8% in 1983 to nearly single-digit inflation in 1985, there was fear that the economy might be "overheating" with budget surpluses and excess money in circulation. Thus, after steady increases in real loan values from 1984-1986, the real value of the primary and secondary bank loan portfolios declined 26.3% in 1987. With inflation still not under control, Bank of Ghana credit ceilings and the continuing depreciation of official cedi exchange rates, it is possible that 1988 will also show a decline in the real value of bank loans.

Once again, it should be stressed that the "real" value of loan portfolios is ultimately determined by the ability of the banks to recover principal and interest, be it from operating cash flow and/or asset repossession and disposal. Our "real" value is more accurately a real book value, with the real value of loans still unknown.

H. <u>Other Services Offered by Financial Institutions:</u> Aside from the traditional role of financial intermediation, banks in Ghana also render other services such as collection of cheques, standing orders, dealership in travellers cheques and foreign currencies (through Foreign Exchange Bureaux), foreign trade (i.e., letters of credit), executor and trustee work, safekeeping of valuables, acting as registrars for companies in the issuing of shares to the public (i.e., Merchant Bank) and providing investment and business advice. Other services are discussed below with a view to assessing how they relate and affect credit to small-holder farmers.

i) <u>Advisory/Extension Services:</u> Technical advice and extension services to farmers are the traditional responsibilities of the Ministry of Agriculture, research institutes and the integrated rural development projects like URADEP, VORADEP and NORRIP. These agencies are complemented by bilateral technical assistance such as GTZ and GGADP (see Section II) and NGO's such as Global 2000, Technoserve, and various church organizations (see Section IX). If these services are rendered effectively, there is no need for a bank to duplicate efforts by way of human resources and logistics in providing the same services.

Unfortunately, since the 1970's, extension services have not been satisfactory (see Section II). This compelled the ADB to employ its own technical staff to complement the efforts of the insufficient extension staff of the Ministry of Agriculture. The ADB technical staff, mostly of middle-level training, are attached to the bank's Farm Loan Offices (sub-branches) to offer technical advice to bank customers in addition to other duties such as disbursement and collection of loans. Most banks have many agriculturalists and agricultural economists on their staffs to contribute to improved extension services, although the decline in formal financial sector interest in agricultural lending has limited their scope and influence.

With the restructuring and reorganization of the Extension Department of the MOA, encouraged and funded by the World Bank/IDA and the African Development Bank/ADF, the technical staff employed by the ADB will have to be re-trained and directed to effectively deliver credit, collect loans and provide credit education. Other banks may follow this pattern, particularly in the case of Standard Chartered, which increased its commitment to agriculture in 1987.

ii) Equipment Sourcing: In the late 1970's and up until the introduction of the foreign exchange auctioning system in 1986, the availability of foreign exchange to major commercial houses for the importation of agricultural equipment and inputs was a major constraint. Consequently, most Government-owned banks contracted lines of credit and, to a lesser extent, supplier's credit used to bring in equipment and inputs for onward distribution to farmers and fishermen. The lines of credit, mainly from the African Development Bank and EEC, were long-term loans with concessionary terms. The ADB, NIB, SSB, BHC, the Rural Banks, and to a lesser degree the GCB, were the major players in providing equipment services to agriculture. The ADB and BHC have subsidiary companies for farm equipment and construction equipment leasing, respectively: DEMCO (Development and Mechanization Company) of the ADB and Plant Pool Ltd. of BHC.

As already discussed in Section II, the provision of inputs as a non-banking service is now facing strong competition from commercial houses. This has resulted from the improvements in commercial house access to foreign exchange through the auctioning system, whilst small private traders have now gained legal access to foreign exchange through the operations of foreign exchange bureaux.

iii) Mobile Banks: Mobile banking service is very limited in Ghana. In the early 1960's the Post Office Savings Bank (now NSCB) used mobile savings banks extensively, but in recent years its operations have been curtailed due to logistical support problems and poor roads. At present, apart from a

few mobile banks operated by the NSCB and some Rural Banks, the service has not become widespread.

An operational strategy for mobilizing financial resources around, marketplaces and other brisk business centers (such as the National Lotteries and the Ministries) has been implemented to some degree by the SSB, NSCB and the Cooperative Bank (in the market centre). The mobile banking service offers a cost-effective means of reaching out to rural people with banking services, while it provides direct (albeit limited) services to potential urban customers.

iv) Farm/Enterprise Feasibility Preparation: Banks on their own prepare feasibility studies to determine the viability of loan requests by individual applicants, companies and well-established cooperatives. On the other hand, no elaborate feasibility studies are prepared on loan requests by small-scale borrowers in "loose" groups.

On request, however, some banks do prepare farm/enterprise feasibility studies for individual clients and companies. These reports are provided on a consultancy basis and at cost to the one making the request. Such studies could either be used to obtain facilities from the bank which prepared the report, or be placed with other banks in support of loan requests. The general rule, however, is that a feasibility study prepared by a bank's consultancy unit does not automatically qualify the applicant for a loan. In other words, such reports are non-committal on the banks as they are subjected to the same viability tests as other loan requests by the loan approving bodies within the banks.

The NIB has the most well-established consultancy unit, called the Development Services Institute, while the SSB operates a business consultancy unit. The ADB attempted to run a consultancy unit in the early 1980's, but due to lack of patronage and staffing problems, the unit did not function as expected. The consultancy outfits operated by the banks charge fees approximating 1% of the total estimated cost of the project.

In recent years, private consultancy outfits have been established to undertake feasibility studies for clients. The most prominent ones are IMAS, Manconsult, Planconsult, Agrovets and Agroplan. The general observation, however, is that farmers, and most particularly small-scale farmers, do not patronize these firms since they are costly and do not offer real advantages over loan applicants without feasibility reports.

v) Credit Education: In practice, banks in Ghana have not offered credit education as a service to their clienteles. No regular meetings are held between banks and their customers or prospective clienteles. Except on rare occasions when the national radio and newspapers report on annual general

meetings of Rural Banks (which relate to appeals of "moralsuasion" for customers to repay loans), not much is heard.

Nevertheless, credit education is necessary for the borrower to know the benefits, responsibilities and obligations associated with credit, as well as the advantages of being thrifty and saving with banks. The main benefits to be derived from credit education are:

a. an increase in public confidence in the banking system leading to greater deposit mobilization; and

b. efficient use of credit by borrowers which will enhance repayment capacities and creditworthiness.

The costs likely to be incurred in providing credit education are difficult to determine, but may be far lower than the above-mentioned benefits as mass education strategies are usually employed. These may take the form of seminars and workshops at schools, clubs and churches. Credit education may also take the form of cinema, radio and video shows to the rural people. To date, only credit unions appear to be explicitly committed to credit (and savings) education (see section VII).

vi) Accounting/Bookkeeping Services: The provision of accounting and bookkeeping services as a banking service is virtually non-existent in Ghana. Though these services are vital for the effective financial management of enterprises, a general shortage of trained personnel in accounting and other related fields in Ghana does not make it feasible for the banks to provide this service. With a commitment to training, this is an area of opportunity that could be exceptionally lucrative to the banks.

Occasionally, the Management, Development and Productivity Institute (MDPI) organizes short-term courses in accounting and bookkeeping for private entrepreneurs at cost. These courses are run in the cities for literate entrepreneurs. The vast majority of rural people are not even aware of such courses, let alone beneficiaries. In this regard, the banks will welcome technical assistance from the NGOs in providing accounting/bookkeeping services to their clientele.

I. Organization and Management of Financial Institutions:

i) Organizational Chart: The organigrams of the various financial institutions are fashioned on similar lines, with the Board of Directors/Interim Management Committee (IMC) at the apex and shareholders in the background. Next in the hierarchy is the Managing Director, his Deputy Managing Director and Executive Directors. Below the Executive Directors are Heads of Departments, Area Managers and Branch Managers, in that order.

The Managing Director, his Deputy, the Executive Directors and Heads of Department constitute the management at the head office. In some banks, only the heads of key departments, namely, Finance and Accounting, Operations (those connected with loan risk management), Personnel and Administration, Research and Internal Audit, together with the Executive Directorate, form the Management Committee. Since 1982, the Trade Union Congress, the CDR's and the Senior Staff have also had representatives on bank management teams as a result of the PNDC Government's directive of having grassroots participation in bank decision-making processes.

At the branches, the management team comprises the Branch Manager, Branch Accountant, the head of the Loan Risk Analysis Team and a CDR representative. A typical example of a banking organizational chart is depicted in Annex IV-11.

ii) Board of Directors, Composition and Role: The composition of the Board of Directors differs from bank to bank depending on whether the Government is the majority shareholder or not. Where the Government is a minority shareholder, as in the case of Standard Chartered, Barclays, Merchant and BCC, the Boards only have Government representations. As regards other banks which are Government-owned, the Government appoints the Boards as well as the Managing Director, the Deputy Managing Director and Executive Directors.

In all the Government-controlled banks, there are representatives from the Ministry of Finance and Economic Planning and the Bank of Ghana. The sector ministry for which a particular bank has a special focus is also represented on the Board of Directors. For example, the Ministries of Agriculture and Rural Development and Cooperatives are represented on the ADB's Board of Directors.

The difference between an Interim Management Committee (IMC) and a Board of Directors lies in their composition. Whereas the IMC's have representation from the local union, CDR and Senior Staff Association, the Board of Directors have no such representatives. Another striking difference between the two is that, while a Managing Director serves as the Chairman of an IMC, the BOD has an external chairman appointed by the Government. To date, only the ADB and NSCB still have IMC's, with all other banks having had their IMC's replaced by BOD's. In general, since the respective management teams of the banks are accountable to their BOD's, the Boards are more effective than the IMC's in performing the roles for which they are appointed.

The overall governing of the banks rests with the BOD's, while day-to-day management and administration responsibilities are vested with the Managing Director, assisted by his management. The main roles played by the BOD include policy formulation relating to operations, wage and

benefit policy, and the hiring of all senior staff. Managements have the prerogative to hire junior staff members.

A general observation amongst employees in Government-controlled banks is a feeling of discontent, low morale, resentment, frustration and insecurity. This is partially due to the tendency of the Government to appoint senior executives from outside a particular bank to manage the affairs of another bank without due reference to internal staff. The frequent removal of top hierarchy staff by Governments also undermines the security and tenure of office.

iii) Staffing, Salaries and Training: Like other State-Owned Enterprises, the Government-controlled banks have redundant labour, particularly amongst the non-banking staff (i.e., security officers/watchmen, gardeners, drivers and artisans). Within the banking staff, overstaffing is more pronounced with clerks who are employed to do manual computations in the absence of computer facilities.

Whilst redundancy persists at the Government-owned banks, there is also a general lack of qualified accountants and experienced bankers at these banks, leading to higher turnover at the budgeting and accounting centres. On the other hand, other professionals like economists, agronomists and agriculturists with university degrees tend to stay longer with the banks, perhaps resulting from an oversupply of these professionals in the market.

According to a recent Government Wages and Income Rationalization Policy, banking institutions have been categorized. Most of the primary banks belong to the second category, with the secondary banks in the third stratum. In practice, salaries are uniform within each stratum, but fringe benefits (allowances, etc.) differ from bank to bank according to the ability of the institution to pay. Here, the primary banks have superior benefits, pushing them into the second stratum. The rationale behind this is to minimize frequent movement of staff from one institution to the other. While compensation for staff within the banks is generally higher than civil servants, it is below what obtains in the private sector.

Training of staff is through local and offshore courses. All the banks have training schools where courses are run by experienced peers in the field of banking, loan risk management, project or credit appraisal, accounting, etc. The local courses are supplemented by overseas training funded by the USAID, British Technical Assistance, Fin Africa (funded by the Italian Government), Indian Technical Cooperation, CIDA, etc. Since the realignment of the cedi against the major world currencies, the banks are finding it increasingly

difficult to meet the cedi cost of training staff abroad. The trend, therefore, is to have some of these courses organized locally by bringing the lecturers down. The World Bank has started this under the Industrial Sector Adjustment Credit (ISAC), by using the services of Arthur D. Little Inc. of the U.S.A. All banks are eligible to send participants to such training courses.

Since the training of banking staff is fragmented and the universities have yet to run courses in banking and related fields, it will be worthwhile to have a national institute for the training of bankers. Though the GCB Training School is well endowed to serve this purpose, equipment such as computers, audio-visuals and logistics will be required to bring such a plan to fruition. In this respect, technical assistance from donor countries and agencies will be most welcomed to put bank training on a sound footing within the framework of the current restructuring of the financial sector.

iv) Budgeting and Accounting: Each bank branch submits its annual budget estimates to a Budget Committee, usually under the Chairmanship of the Controller of Finance, to be incorporated into the Master Budget. The bank branches implement the approved budgets with controls from the head office.

In theory, each bank branch is expected to operate as a viable entity. In practice, many branches are not profit-making centres, but are retained to perform certain social functions like purchasing 'Akuafo' (cocoa) cheques and mobilising deposits in the rural areas. Globally, however, since all banks are incorporated to be self-financing, it is clear that the more viable branches are subsidizing the inefficient ones. Such tendencies adversely affect the overall net worth of banks and encourage complacency among profit-making centres. Therefore, banks in the future may rationalize their branch networks by either closing down loss leaders or reducing staff according to the volume of banking business in the area.

v) Other Resources at the Branch Level: We were unable to obtain sufficient information on employee distribution across banks to measure for redundancy and excess overhead. Aside from the ADB and NSC, the banks did not provide information on numbers of employees, levels of training, staff at headquarters versus branches, etc.

Except for the GCB, which owns a greater percentage of its branches, most of the banks lease bank premises at the branch level and at the head office. The head offices and branches in Accra of ADB, SSB and BHC are operating in rented premises at higher rentals which, when capitalized, could be used to put up their own buildings. The economic justification for renting bank premises at branch levels is that bank investment in fixed assets in rural areas may constitute a

sunk cost that could not be retrieved in the event of closure. To reduce financial risk and preserve strategic flexibility, most banks therefore lease their branches.

In the case of Ghana Commercial Bank, it is uncertain whether their investment in branches has been a good investment. Given limited investment alternatives, one might argue that investment in real estate may create a store of asset values that could be readily sold in the event that cash flow was undermined by slow banking business or poor risk management. This, however, is speculative. It is questionable whether the GCB would be able to sell most of its branches at a profit. As it has the most extensive branch network, if it decides to leave a locality, one must raise the question of who would purchase the property. In the event that limited investment or economic activity in the area prompted the GCB to close down a branch, it may be that this lack of activity would also reduce the market value of the branch below cost on a constant basis.

Other resources, such as computer facilities, are highly concentrated in Accra, more specifically at banks' head offices. For instance, the ADB maintains a computer for current-account customers at its head office branch (Ring Road Central Branch). Barclays and Standard Chartered are operating computer facilities at their High Street offices. BCC's operations are computerized, and the GCB, SSB and BHC all have computer facilities in Accra. The concentration of computer facilities in Accra is largely attributable to the fact that all the computer companies (IBM, NCR, Wang, etc.) are located in Accra, with limited branch operations in Kumasi and Takoradi. In addition, apart from Accra, Kumasi and Takoradi, where electricity supplies are somewhat reliable, other areas like Tamale and Sunyani have yet to be connected to the national electricity grid for a constant flow of electricity.

Another major consideration influencing the installation of computer facilities is the volume of banking transactions. Greater Accra, being the national capital with its population density, industrial set-up and greater volume of national business, accounted for about 67% of total formal bank deposits (excluding the Rural Banks) and had 21% of total bank branches. Accra is therefore more favourably disposed to getting a greater percentage of total bank resources, and bank facilities have been computerized to accommodate this.

Though the head offices of most of the banks are linked up with the rural branches through radio communication equipment (i.e., Motorola), the frequent breakdown of equipment and malfunctioning of batteries which have to be re-energized at urban centres makes information flow between head offices and branches unreliable. Thus, lack of computerization and poor telecommunications facilities combine to keep the rural areas detached from the urban areas, further reinforcing the divide between economic activity in the cities and countryside.

J. Credit Operations:

i) Steps for Loan Application to Approval: All individual loan applications go through the following steps to the point of approval:

a. every applicant applies to a bank branch near his village/town or project location, either in writing or by personal contact. As a policy, all applications for financial assistance must originate from a bank branch and not head office. This is because disbursement, project supervision/monitoring and loan collection are the responsibilities of a bank branch in the project area so as to minimize the cost of executing the above functions;

b. each applicant is interviewed, and from the ensuing discussions, if the project has a chance of success, an application form is distributed to the applicant to complete, giving more details of the proposed project;

c. the information furnished by the applicant is verified by a project officer visiting the project site and assembling the necessary data for a feasibility study;

d. in the case of agricultural loans, if the feasibility study confirms the technical viability of the project in terms of soil suitability, topography, drainage, rainfall amounts, intensity and distribution, sunshine hours, wind direction, etc., a more detailed feasibility report is prepared to establish the bankability of the application from a marketing, financial, economic and managerial perspective. The suitability of the security or collateral being offered is also assessed.

It must be emphasized that applications by groups of farmers do not go through the above steps. Such applications receive prompt attention and approval at the branch level without reference to either the area office or head office. These loans are approved because of the references provided before application, the joint and several liability associated with the scheme, and the relatively high rate of repayment.

Depending on the amount of the loan and what is subsequently determined by a bank branch as adequate to satisfy the applicant's credit needs, the feasibility study report is passed on to the following loan approval/sanctioning bodies. The following represents this structure at the ADB at year end 1987.

a.	Branch Loan Committee	-	Up to C50,000
b.	Area Managers Committee	-	C 50,001 - C 100,000
c.	Sub-Management Credit Committee	-	C 100,001 - C 500,000
d.	Management Credit Committee	-	C 500,001 - C2,500,000
e.	Executive Directorate Committee	-	C2,500,001 - C3,000,000
f.	Board of Directors/IMC	-	Above C3,000,000

The approval limits are reviewed periodically in line with prices of goods and services.

From the above steps, and through the various loan sanctioning bodies, there is a positive correlation between the amount of the loan and the length of time the loan is finally approved. In general, while a loan up to C100,000 (1987 figure) could be processed and approved within two weeks between the branch and area offices, a bigger loan amount which has to receive the BOD/IMC final approval could take about two months. The length of time needed for approving bigger loan amounts also depends on the availability of the applicant's title deeds covering project land and immovable property to be mortgaged as security.

ii) Reliability of Borrower/Loan Information: In general, information provided by borrowers is not reliable. This is true when dealing with illiterate borrowers as well as literate ones who do not keep records of their operations. In most cases, the balance sheets and income and expenditure statements of companies are not up to date (if they exist at all). Cash flow statements are rarely provided. This is the reason why project officers visit project sites to ascertain the accuracy of data provided in application forms. To circumvent this problem, banks have established their own standardized formulae in assessing the credit needs of borrowers. The ADB has its own standards while the Rural Banks' standards are embodied in their "Manual of Operations".

iii) Efficiency of Loan Disbursements: There are certain conditions which must be satisfied before a loan is disbursed:

a. execution of legal documents, such as Heads of Agreement, Promissory Notes and contract of indemnity;

b. depositing of valid land title deeds; and

c. payment of commitment and other fees.

Upon satisfying the above conditions, disbursement approval authority is issued to the branch responsible for the project loan.

In the case of the specialized development banks, disbursements are usually staggered over the economic life of the project and upon certification by the monitoring department that loan use is in accordance with the pre-

determined purposes in the disbursement schedule. For projects with long gestation periods, the transaction costs of borrowers could be higher since the frequency of disbursements depends on the activities being executed. On the other hand, for group loans, the transaction costs by individual borrowers within the group may be very insignificant as the total cost is shared amongst the group members. At most, two time-phased disbursements are made to small-scale farmers during a farming season. The first disbursement is normally for land preparation, input procurement and maintenance, whilst the second disbursement is usually for additional maintenance and harvesting activities relating to annual crops.

While the banks reported relatively uniform disbursement procedures, timely disbursement has in fact been a complaint in both urban and rural areas. Particularly with small-scale farmers, current bank reluctance to extend loans is partially the result of past misused funds that were never repaid because they were received well after the time of need. Thus, late disbursements encouraged farmers to utilize credit for household or non-productive purposes, with non-repayment reducing their ability to access credit at future dates.

iv) Comprehensibility and Regularity of Borrowers' Statements: In general, the submission of financial statements (balance sheets, income and expenditure, cash flow) by customers to banks when applying for loans is irregular. For most small- to medium-scale farmers, these statements are not produced. The situation is attributable to a shortage of accountants and bookkeepers in the system, a lack of awareness on their parts, and lack of demand from the banks. There is also a lack of awareness on the part of borrowers for financial discipline and the need to use these statements to control operating costs. In short, financial management and record-keeping are very weak within Ghanaian enterprises. These weaknesses invariably affect the quality of loans granted.

v) Effectiveness of Loan Collection Systems: As already mentioned above, each bank branch is responsible for the collection of loans made by the branch itself and approved by the head office. Apart from this, banks have Post-Finance departments responsible for loan collection. For instance, the ADB has a Post-Finance Department at its head office whose main responsibilities include monitoring of loan use, re-appraisal of troubled loans, funds shortages, mismanagement, and collection of loans in collaboration with bank branches. Such a department can be found in all the primary and secondary banks.

When loans become overdue, demand notices are sent to defaulters with copies to personal guarantors reminding them of their obligations to the banks. After two such demand notices, most banks send a third one which gives a definite time after which legal action will be taken. Although

foreclosure procedures do exist, they are not rigidly enforced as court actions take too long to be decided. In some cases, the marketability of the foreclosed assets is a problem. The best solution to problems of defaults is the ability of loan approval bodies to sanction good loans in the first place since the projects themselves serve as the first source of security for loan repayment. "Bad" projects with good immovable properties as security often default, with the securities attached in redeeming loans.

vi) Accessibility of Financial Services to Clients: With the establishment of the Rural Banks since 1976, accessibility to financial services has improved considerably. In addition to the expansion of Rural Banks, the Government-controlled banks such as the SSB, ADB, NSCB and GCB have opened more branches in the rural areas, primarily to support the purchasing of 'Akuafo' cocoa cheques.

However, the expansion of the national banking network has lacked a strong savings and credit education program to induce more people to save. The lack of financial instruments which may increase deposits has also been an inhibiting factor. Insuring deposits and providing bridge-gap financing between the major and slack seasons to rural farmers might provide incentives for people to patronize banking services.

K. Critical Performance Indicators: Due to the limited and doubtful information provided by the banks, a strict analysis of critical performance indicators is difficult to achieve. In some cases, key balance sheet indicators have been discussed in earlier sub-sections concerning deposits, equity and loan portfolios. With limited (and distorted) income and expenditure information, key operating ratios are impossible to gauge. The following charts constitute a brief overview of return on assets and equity, although these should be discounted for the high probability of error due to accrual accounting, generally weak accounting standards, and virtually non-existent reporting requirements concerning operations.

RETURN ON ASSETS (%)

	1983	1984	1985	1986	1987
Ghana Commercial Bank	0.3	1.4	0.8	0.3	0.1
Barclays Bank	N A	N A	3.5	2.7	2.6
Standard Chartered Bank	3.9	3.2	2.6	4.4	3.0
Social Security Bank	N A	0.5	0.8	1.8	0.3
National Savings/Credit	1.6	1.1	0.5	1.6	0.9
Merchant Bank	4.6	2.7	4.0	2.4	1.1
Bank of Credit & Commerce	N A	N A	N A	1.4	1.0
Agric. Development Bank	0.1	0.1	0.0	0.1	N A
National Investment Bank	N A	N A	N A	N A	N A
Bank for Housing/Const.	N A	N A	N A	N A	N A
Cooperative Bank	N A	N A	N A	N A	N A
Rural Banks	N A	N A	N A	N A	N A

What is clear from the above is that returns on assets are meager, particularly among the Government-owned banks. In light of returns being measured on an accrual basis (except in the case of the Rural Banks and ADB), chances are that most of these returns are overstated. The generally low levels of ROA reflect inefficient management and excess overhead, and militate against most banks paying out dividends.

The picture for returns on equity is little different, with the Government-owned institutions ironically showing the most limited returns to shareholders (i.e., the Government). In the future, an active stock market trading on a freer flow of information would encourage a tendency toward market efficiency which, in turn, would serve as a check on the mismanagement and inefficiencies that have heretofore characterized the banking system. In the long run, as in other markets around the world, this should promote increasing levels of competence and efficiency in financial institutions, making them far more able to increase levels of financial intermediation. Once again, we caution against the importance of these indicators. High returns on equity in many cases reflect inflated (accrued) returns against insufficient capital.

RETURN ON EQUITY (%)

	1983	1984	1985	1986	1987
Ghana Commercial Bank	9.1	38.7	18.0	4.8	2.3
Barclays Bank	N A	N A	51.5	38.3	20.9
Standard Chartered Bank	43.8	35.4	25.3	40.8	20.0
Social Security Bank	N A	8.4	15.5	26.0	7.1
National Savings/Credit	62.5	51.9	34.5	68.8	14.2
Merchant Bank	58.2	42.7	45.1	30.2	20.6
Bank of Credit & Commerce	N A	N A	N A	94.7	23.6
Agric. Development Bank	1.6	1.6	1.1	2.0	N A
National Investment Bank	N A	N A	N A	N A	N A
Bank for Housing/Const.	N A	N A	N A	N A	N A
Cooperative Bank	N A	N A	N A	N A	N A
Rural Banks	N A	N A	N A	N A	N A

Appendices IV-1 through 11 contain brief profiles of each of the primary and secondary banks. The Rural Banks are discussed in depth in Section V. Our profiles have included issuing questionnaires, meeting with bank managers, and analyzing what limited financial statement information was available. These profiles are incomplete, however, due to problems that plague the banking system in general:

i) poor management information systems that do not provide the necessary resources or output to satisfactorily analyze balance sheet, income and expenditure, and cash flow considerations;

ii) lack of monitoring and supervision by the Bank of Ghana, making it easier for the various banks to provide only minimal financial and operating data which are not sufficient for in-depth analyses; and

iii) management reluctance to divulge information at a time when sensitive negotiations are underway between the World Bank and the Government of Ghana concerning the restructuring of the formal financial sector.

The constraints on information gathering have prevented us from performing some of the most basic tests of financial, operational and managerial soundness:

i) arrears analysis, in which delays, delinquencies and loan loss provisions are analyzed;

ii) cost of capital, comparing each bank's effectiveness in attracting deposits, reducing interest expense to boost net interest margins, and optimizing the value of its equity for its shareholders;

iii) capital adequacy, to determine historical and sustainable earnings, appropriate dividend policy, and depth of reserves;

iv) overhead ratios, to gauge the cost-effectiveness of banking operations so as to not be a drain on net interest margins;

v) credit risk analysis, to determine how effective banks are at judging the full recoverability of principal and interest and how the mix of loans impacts portfolio management decisions; and

vi) asset-liability management, to judge bank management's ability to maximize returns without jeopardizing liquidity and depositors' confidence.

Nevertheless, we have used what has been available to provide a view of each individual bank's balance sheet. Only with greater access can a reasonable analysis be performed.

L. Summary: The myriad of problems facing the formal financial sector, and how they negatively impact the small-scale farmer's ability to increase agricultural production to points of national self-sufficiency have been thoroughly discussed in Section IV. All of these factors have contributed to keeping levels of formal financial intermediation lower in Ghana than in many of its counterpart states in Africa.

Deposit mobilization has been hindered by high transactions costs, poor service levels, limited financial instruments for depositors, negative real rates of interest paid (nominally and effectively), lack of public trust in the banking sector, convenient and personalized alternatives (see Sections VII and VIII), less cash on

hand due to rising costs of production and consumption, and an unwillingness in recent years by banks to increase their commitment to small-scale farmers. Rationalization of branch networks is also likely to decrease deposits to some degree.

Not all the problems associated with deposit mobilization, however, are the blame of the banks. Expanding branch networks to attract deposits also entails investing in overhead that sometimes is not profitable. Macroeconomic conditions are shaped by other institutions, with banking behaviour usually a consequence. Only recently has deregulation begun, and increasing competition will inevitably increase levels of efficiency, although this is not likely to be true until well into the 1990's. In spite of all this, the banks have shown some progress in terms of attracting broad money into the formal sector, albeit at levels below 1983. The Rural Banks have also demonstrated an ability to effectively attract savings deposits. As their staff training, service levels and units increase, the Rural Banks should be able to make a strong contribution to levels of formal financial intermediation and rural development.

Despite some signs of progress in deposit mobilization, one of the key constraints is a lingering lack of public trust and confidence in the formal financial sector. This may well be intensified due to the poor quality of loans the banks are carrying on their books. Bad credit management, past emphasis on security as opposed to cash flow, inadequate commitment by banks to staff training, poor levels of financial analysis, weak or non-existent monitoring standards, and even a general disregard for basic ageing of accounts has led to a thorough deterioration in loan quality. The inability of the banks to manage risk has further driven them from extending credit to small-scale farmers, as high processing costs, low repayment rates, an emphasis on accounting versus economic profits during a period of devaluation and inflation, and the broad array of non-credit constraints that negatively impact farmers have heightened the risk to this sector.

The result of the banks' collective inability to judge, monitor and manage risk has led to limited earnings. As most banks operate on accrual rather than cash accounting methods, income reported has almost always been overstated. In fact, in many cases real cash net losses have been reported as positive net earnings. The reported paper profits that have been retained have systematically inflated capital and reserves, even though these reported levels are generally well below accepted levels given poor loan quality. Even on an accrual basis, most banks have very low returns on assets, signifying weak earnings (on an accrual basis) as a result of high operating expenses and low quality assets. The irony is that the banks most guilty of this have been the Government-owned institutions in which the Government has been the sole shareholder. Thus, mismanagement of these institutions has reduced their net worth, and ultimately their collective ability to pay real cash dividends to the Government without undermining bank operations.

As for small-scale farmers, it is likely that they will have less access to formal financial sector credit in the coming years. As banks restructure, revalue assets, recapitalize to cover loan write-offs, and generally retrench operations, they will have less incentive to invest in the highest risk sectors of the economy until they learn how to manage the process with pricing mechanisms in place to compensate for the risk. With the deregulation of interest rates and non-enforcement by the Bank of Ghana of mandated agricultural sector allocations, the supply of credit to farmers will diminish and interest rates will rise to reflect risk. However, while the pricing mechanism may be in place in the relative near term, the banks' collective ability to efficiently manage agricultural credit will take longer, and will depend on overall macroeconomic changes, not just their own efforts. With an anticipated reduction in access to formal credit, farmers will have to look to alternatives to the primary and secondary banks. The expansion of the Rural Banks, and revitalization of the cooperative and credit union movements would serve as highly valuable links in a chain of rural finance that would raise levels of financial intermediation and, ultimately, economic development. These are discussed in the following sections.

FORMAL FINANCIAL SECTOR BALANCE SHEET: 1987
(millions of cedis)

	Primary 1/ Banks	Secondary 2/ Banks	Rural 1/ Banks
ASSETS:			
Cash on Hand	4,003	3,417	607
Balances w/B.of Ghana	14,473	5,891	352
Foreign Currency	120	300	-
Balance Due by other Banks	5,311	7,281	101
Treasury Bills	1,042	1,336	530
Commercial Bills	260	299	-
Loans and Advances	27,553	25,187	1,156
Investments	6,248	3,585	-
Other Assets	41,527	20,133	791
Total	100,536	67,428	3,537
LIABILITIES:			
Balances Due to Other Banks	14,547	767	327
Borrowings from Local Banks	1	3,519	-
Borrowings from Foreign Banks	0	11,718	-
Deposits of Other Banks	13	0	-
Demand Deposits	27,517	16,644	538
Savings Deposits	15,720	3,644	1,165
Time/Fixed Deposits	6,132	8,168	-
Other Liabilities	29,252	20,007	771
Total	93,182	64,467	3,301
Capital and Reserves	7,354	2,961	236
Total	100,536	67,428	3,537

1/ December 1987
2/ September 1987

Source: Statistical Service (Primary and Secondary Banks); Banking Sources

REGIONAL DISTRIBUTION OF BRANCHES: DECEMBER 1987

REGION	PRIMARY	SECONDARY	RURAL	TOTAL
Greater Accra	41	29	6	76
Ashanti	30	20	21	71
Eastern	30	13	22	65
Brong-Ahafo	23	16	17	56
Central	21	12	22	55
Western	19	11	13	43
Volta	25	5	12	42
Upper	7	7	4	18
Northern	9	5	0	14
Total	205	124*	117	446*

* The locations of six secondary banks are unaccounted for.

Source: Statistical Service; Bank of Ghana;
Banking and Insurance Guide of Ghana: 1988-89.

REGIONAL DISTRIBUTION OF GHANA'S BANKS (‡): MID 1988

Bank	Greater Accra	Ashanti	Western	Eastern	Central	Volta	Brong Ahafo	Northern	Upper East	Upper West	Tot
Ghana Commercial	23	23	14	23	14	22	19	5	4	3	15
Barclays	10	3	3	6	2	3	2	1	0	0	3
Standard Chartered	9	3	5	1	3	0	1	1	1	0	2
Social Security	8	11	6	4	5	1	5	1	2	1	4
Agricultural Development	5	3	2	5	4	3	8	1	2	1	3
National Savings/Credit	8	3	1	2	1	0	2	1	0	0	1
National Investment	2	1	1	1	1	1	1	1	1	0	1
Bank for Housing/Construction	5	2	0	1	0	0	1	1	0	0	1
Merchant	1	1	1	0	0	0	0	0	0	0	3
Bank of Credit/Commerce	1	0	0	0	0	0	0	0	0	0	1
Rural Banks	6	22	22	22	13	13	18	0	2	2	12
Total	**78**	**72**	**55**	**65**	**43**	**43**	**57**	**12**	**12**	**7**	**44**

(‡) Excludes Ghana Cooperative Bank; two bank branches unaccounted for

BANK MARKET SHARES: 1983 - 1987
(millions of Cedis and percentage bases)

	1983		1984		1985		1986		1987	
	Cedis	%	Cedis	%	Cedis	%	Cedis	%	Cedis	%
Loans:										
Primary Banks	3,619	53.8	6,766	53.1	12,666	55.0	22,624	54.4	27,553	51.1
Secondary Banks‡	2,787	41.4	5,462	42.9	9,833	42.7	18,302	44.0	25,187	46.7‡‡
Rural Banks‡‡‡	319	4.7	508	4.0	552	2.4	686	1.7	1,156	2.1
Total Assets:										
Primary Banks	19,453	67.8	27,969	65.6	40,168	61.0	67,047	58.9	100,536	59.0
Secondary Banks‡	8,603	30.0	13,780	32.3	24,544	37.3	45,252	39.7	67,428‡‡	39.6‡‡
Rural Banks‡‡‡	637	2.2	919	2.1	1,151	1.7	1,627	1.4	2,497	1.5
Deposits:										
Primary Banks	10,216	68.3	14,533	68.6	22,810	66.0	33,319	61.1	49,369	61.7
Secondary Banks	4,262	28.5	5,980	28.2	10,911	31.6	20,044	36.8	28,456	35.6‡‡
Rural Banks‡‡‡	484	3.2	688	3.3	843	2.4	1,184	2.2	2,203	2.7

‡ Excludes Ghana Cooperative Bank
‡‡ September 1987
‡‡‡ June 1983-1986, December 1987

Source: Statistical Service (Primary and Secondary Banks);Banking Sources (Rural Banks)

REGIONAL DISTRIBUTION OF DEPOSITS: 1987 (‡)

	Primary Banks	Secondary Banks	Rural Banks	Regional Deposits	Regional Deposits/ Total Deposits	Bank Branches
Greater Accra	30,967	25,420	115	56,502	66.7%	76
Ashanti	5,455	2,415	346	8,216	9.7%	71
Western	3,659	1,521	335	5,514	6.5%	43
Eastern	2,743	1,128	470	4,341	5.1%	65
Brong Ahafo	1,767	859	141	2,767	3.3%	56
Central	1,708	557	492	2,757	3.3%	55
Volta	1,646	397	251	2,295	2.7%	42
Northern	807	422	0	1,229	1.4%	14
Upper Regions	660	429	53	1,142	1.3%	18
Total	**49,412**	**33,148**	**2,203**	**84,763**	**100.0%**	**446**

‡ Six bank branches are unaccounted for; Ghana Cooperative Bank deposits from September 1987; all others December 1987.

Source: Banking Sources

DEPOSIT STRUCTURE: 1983 - 1987
(millions of Cedis)

	1983	1984	1985	1986	1987
Demand Deposits:					
Primary	6,131	9,569	14,406	19,427	27,517
Secondary	2,783	3,858	7,642	13,874	17,354
Rural	108	156	206	278	539
	9,022	13,583	22,254	33,579	45,411
Savings Deposits:					
Primary	3,989	4,778	6,895	10,959	15,720
Secondary	1,004	1,272	1,938	3,186	4,666
Rural	376	532	637	905	1,165
	5,369	6,587	9,470	15,050	21,551
Fixed/Time Deposits:					
Primary	100	328	1,517	3,002	6,132
Secondary	475	851	1,332	2,984	9,354
Rural	-	-	-	-	-
	575	1,179	2,849	5,986	15,486

Source: Statistical Service (1983 - 1986);
Statistical Service and Banking Sources (1987)

INTEREST RATES: 1980 - 1987

End of	Bank of Ghana				Commercial Banks				
					Deposit Rates				
					Fixed Deposits				Savings Deposits
	Government Stocks	Treasury Bills	Other Loans	Re-Discount Rates	3 Months	6 Months	12 Months	24 Months	
1980	5 - 13.5	12.00	14.5	13.5	12.50	12.5	13.0	-	12.0
1981	5 - 19.5	18.50	19.5	19.5	18.25	18.5	19.0	-	18.0
1982	5 - 19.5	9.50	10.5	10.5	8.25	8.5	9.0	-	8.0
1983	5 - 19.5	13.00	14.5	14.5	11.25	11.5	12.5	-	11.0
1984	5 - 19.5	16.75	18.0	18.0	14.75	15.0	16.0	-	14.5
1985	5 - 19.5	17.75	18.5	18.5	16.75	17.0	18.0	19	16.5
1986	5 - 19.5	19.75	20.5	20.5	-	19.0	20.0	22	18.5
1987	5 - 19.5	19.60	23.5	23.5	18.00	19.0	20.0	21	21.5
					22.00	22.0	22.5	23	

Source: Statistical Service

NOMINAL LOAN PORTFOLIOS: 1983 - 1987
(millions of cedis)

	1983	1984	1985	1986	1987
Primary Banks:					
Ghana Commercial	2,460	3,994	7,597	13,582	15,716
Standard	632	1,533	2,805	5,104	6,919
Barclays	527	1,238	2,264	3,938	4,918
Total	3,619	6,765	12,666	22,624	27,553
Secondary Banks:					
Bank Housing/Construction	668	1,293	3,307	5,412	9,948
Social Security	860	1,445	2,215	5,254	6,337
National Investment	278	696	1,337	2,455	3,881
Agricultural Development	535	961	1,580	2,423	3,509
Merchant	144	544	704	1,420	1,924
National Savings/Credit	217	331	583	944	1,175
Bank of Credit & Commerce	13	98	141	300	421
Total	2,715	5,368	9,867	18,208	27,195
Rural Banks:	319	508	552	686	1,156

Source: Banking Sources

SECTOR DISTRIBUTION* OF BANK LENDING: 1983 - 1987

	1983	1984	1985	1986	1987
Industry:					
Construction	795	1,236	2,009	3,951	4,950
Manufacturing	1,369	3,326	6,055	10,885	14,808
Commercial:					
Import Trade	107	308	1,059	2,931	3,440
Export Trade	99	252	491	1,451	2,580
Other	684	1,317	3,825	7,086	7,027
Agriculture:	2,013	3,779	5,208	7,476	9,904
Mining/Quarrying:	422	504	972	1,452	2,448
Electricity, Gas & Water:	50	21	37	46	37
Transport/Communications:	399	665	1,166	2,033	3,171
Other:	376	812	1,675	3,615	4,030
Total	**6,314**	**12,220**	**22,499**	**40,926**	**52,395**

* Primary and Secondary banks only; excludes Ghana Cooperative Bank. all figures from December except in 1987, when secondary bank figures are from October.

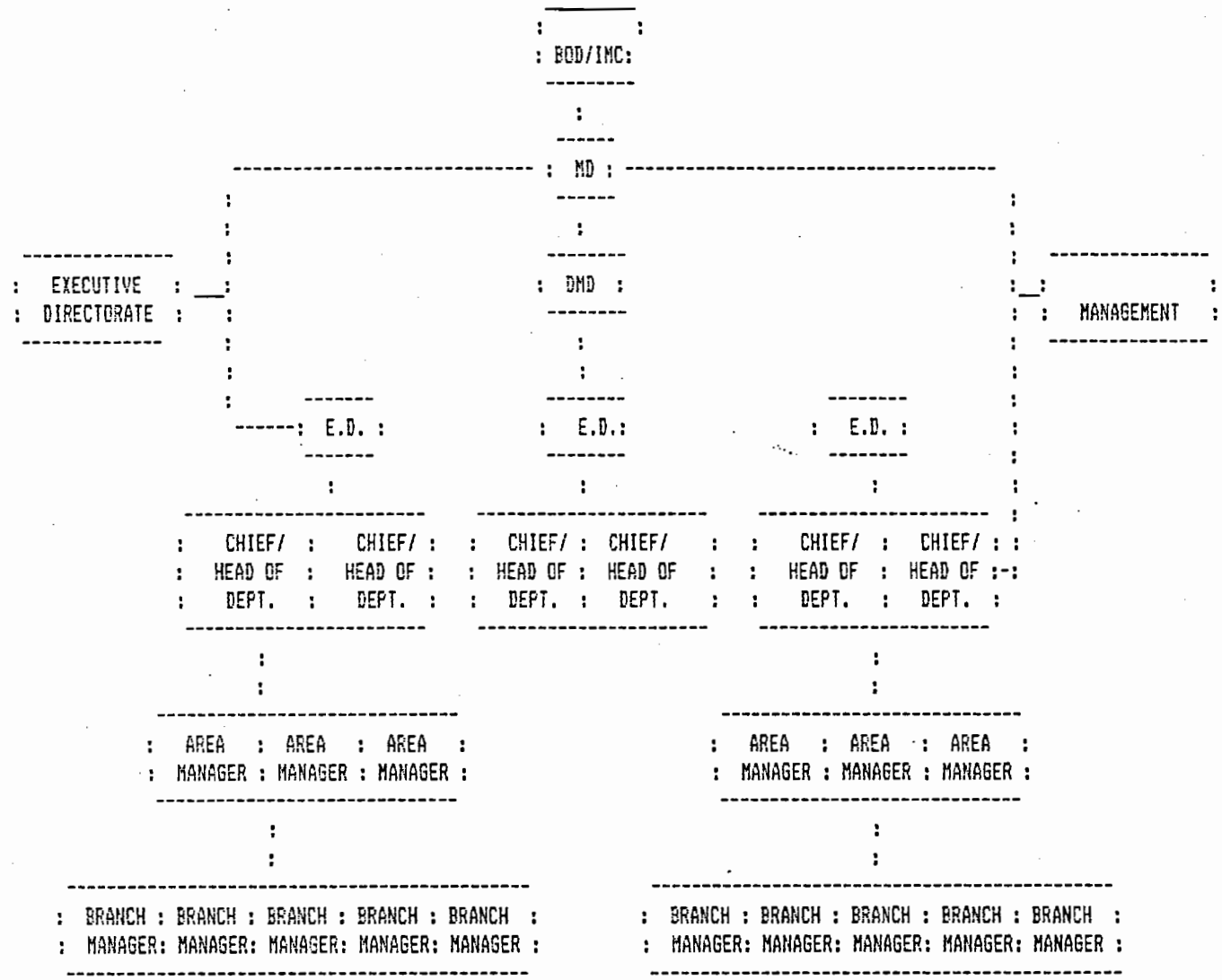
Source: Statistical Service

REGIONAL LOAN DISTRIBUTION: 1987
(millions of Cedis)

	Primary Banks	Secondary Banks	Rural Banks	Regional Loans	Regional Loans/ Total Loans	Bank Branches
Greater Accra	17,416	20,911	71	38,398	68.4%	76
Ashanti	3,543	1,744	172	5,459	9.7%	71
Western	1,587	1,935	206	3,728	6.6%	43
Brong Ahafo	1,350	612	97	2,059	3.7%	56
Eastern	1,222	685	166	2,073	3.7%	65
Central	808	198	257	1,263	2.3%	55
Northern	648	524	0	1,172	2.1%	14
Volta	433	442	164	1,039	1.8%	42
Upper	590	378	22	990	1.7%	18
Total	**27,597**	**27,429**	**1,156**	**56,182**	**100.0%**	**446**

Source: Banking Sources;
these figures exclude the Ghana Cooperative Bank;
six bank branches unaccounted for.

A TYPICAL ORGANIGRAM OF GOVERNMENT-CONTROLLED BANK



GHANA COMMERCIAL BANK

Date Established	:	1953
Focus	:	Comprehensive
Branches	:	150
Sub-branches	:	12
Government Ownership	:	100%

ASSETS:	1983	1984	1985	1986	1987
Cash on Hand	629	846	1,100	1,080	2,114
Balances w/Bank Ghana	2,798	6,027	6,929	16,047	12,184
Foreign Currency	-	-	4	14	79
Balances due by Other Banks	764	215	104	128	2,308
Treasury Bills	143	143	343	343	120
Commercial Bills	200	-	1,050	80	140
Loans + Advances	2,460	3,994	7,597	13,582	15,716
Investments	2,603	1,943	3,493	3,613	3,450
Other Assets	2,828	3,435	2,521	4,456	23,283
Total	12,425	16,603	23,141	39,343	59,394
Balancing Adjustment	(768)	(570)	(1,359)	942	1,414
LIABILITIES:					
Balances due to Other Banks	348	1,005	1,026	4,587	13,780
Deposits	6,099	8,279	13,394	19,517	27,499
Other Liabilities	4,891	6,180	6,340	13,717	16,933
Total	11,338	15,464	20,760	37,821	58,212
Capital + Reserves	319	569	1,022	2,464	2,596

INCOME & EXPENDITURE:	1983	1984	1985	1986	1987
Interest Income	-	-	-	3,117	5,857
Fee Income	-	-	-	1,076	1,978
Interest Expense	-	-	-	1,394	2,826
Provision for Loan Loss	-	-	-	815	1,696
Operating Expenses	-	-	-	1,484	3,313
Provision for Taxes	43	324	400	381	705
Net Income	29	220	184	119	59
Dividends	-	150	80	50	20

** Figures are in millions of cedis

Ghana Commercial Bank (GCB) is Ghana's largest banking institution, with 150 branches in all 10 regions of the country and reported assets of C60.8 billion (US$345.5 million) at year end 1987. GCB also ranked first in deposits and loans by wide margins.

GCB's loan portfolio was reported to be C15.7 billion (US$89.2 million) in 1987, with the largest concentrations in the Greater Accra (56%), Ashanti (10%), Brong Ahafo (8%) and Eastern (7%) Regions. GCB's loan portfolio was well distributed, with 50% of loans in commercial (33%) and industrial (17%) enterprises, 25% in agriculture and 25% in other sectors. No information was provided regarding asset quality (arrearages, delinquencies, etc.), except that its strongest credits were to professionals (i.e. medical), while its most problematic areas were in agriculture and transport. GCB had an 80% increase in the adjusted amount of its 1987 loan loss provision, and admission in past annual reports of loan recovery problems all suggest that GCB's balance sheet values are overstated.

GCB's balance sheet at December 1987 contained ratios that indicate excess liquidity and overhead, and weak capitalization. Cash on hand, balances held with the Bank of Ghana, balances due from other banks and securities totalled C16.9 billion, or nearly 28% of total assets. After netting out balances due to other banks, GCB had C3.2 billion, or 11.5% of deposits. While some investments may not be current, approximately 40% of deposits were in savings or fixed/time instruments, suggesting that GCB has adequate liquidity in the event that customers withdrew substantial amounts of current accounts. As these deposits tend to be stable, it is unlikely that GCB would face a run on its deposits, particularly given the Government's commitment to restoring confidence in the banking system. Thus, even if poor asset quality led to public concern, insolvency would be unlikely as this would damage the entire financial system. The C16.9 billion in other liabilities, 29% of total liabilities, contain obligations to trade and other creditors.

With its 150 branches, GCB has been more successful in mobilizing deposits than any other bank. At year end 1987, GCB had C17 billion (US$97 million) in current accounts (61.8%), C9.5 billion (US$54 million) in savings accounts (34.7%) and C1.0 billion (US$5.5 million) in fixed/time deposits (3.5%). This averages C183 million (US$1.0 million) in deposits per branch, a comparatively low average, but constituting about 34% of total deposits in the banking system. Deposits were 1.75 times loans, and due to their composition were relatively low cost funds. Interestingly, the GCB said that its deposit mobilization efforts had been impacted by the presence of Rural Banks, and that stronger effort to educate the public and provide better services were needed to ensure more stable funding.

A major problem GCB faces is costly overhead associated with its large branch network. Officials at the GCB claimed that at least 25% of its branches should be closed to promote profitability. While fixed assets tend to be a small percentage of total assets, GCB's high overhead costs include depreciation, leasing and personnel

expenses that must be covered by its net interest margin after loan loss provisions to generate pre-tax profits. Given that only 31.9% of GCB's assets were earning assets, of which 80.9% were loans (including non-performing loans), GCB's potential for strong net profitability is limited.

This makes GCB's low capitalization an even more serious problem. GCB had only C2.6 billion in capital and reserves, or 16.5% of loans and advances. This was only a 5.3% nominal increase over 1986, and with its high proportion (25%) of agricultural loans, GCB's capital and reserves are probably insufficient as a cushion against potential loan write-offs. As earnings are unlikely to build up reserves to adequate levels, GCB will ultimately have to infuse new capital into its system to stabilize operations.

The GCB supplied limited information concerning operations. Interest income in 1987 was nearly C5.9 billion (US$33 million), while fee income from commitment fees, commissions, foreign exchange transfers and trade finance activities was C2.0 billion (US$11.2 million). Interest expense and loan loss provisions were C4.5 billion (US$25.7 million), with C3.3 billion (US$18.1 million) covering taxes, operating expenses and Reserve Fund requirements. GCB's contribution to its Reserve Fund was C36.0 million, with C20 million paid in dividends to the Government. As with most of the banks, the GCB accrues interest earnings on non-performing loans for up to one year beyond maturity. This suggests that the GCB may have overstated earnings, and that its small increase in loan loss provisions was far from satisfactory.

As Ghana's largest commercial bank, the Government relies on GCB to be at the forefront of public sector efforts to provide financial intermediation. As such, GCB's 150 branches constitute 34% of the nation's total bank branches (including 120 Rural Banks overseen by the Central Bank), or roughly one branch for every 84,000 citizens.

Because of its role, the GCB has a higher percentage of agricultural sector loans in its portfolio than the other primary banks, although these percentages have declined from 37% in 1984 to 25% in 1987. (The GCB's trough was 20.5% in 1986, due largely to low loan recoveries which reduced funds available for repeat lending.) With the Government's emphasis on lending to agriculture and multi-and bilateral aid injected into the system, agricultural loans increased 20% in 1987. Of GCB's agricultural loans, most were to food production, agro-processing and fisheries. GCB has never had much of its portfolio in forestry. No breakdown was provided on how many loans were made to agriculture, or loan repayment performance, although agricultural loan repayments have been a problem due to mismanagement of the credit process, an emphasis on accounting instead of economic profits, lack of monitoring and follow-up, and the general feeling that the returns on loan collection efforts do not exceed the costs. Given GCB's status as the largest bank in Ghana, it can be assumed that the GCB will continue to play a vital role in official efforts to provide formal financial services to the agricultural sector. It can also be assumed that in the near-term, pending effective policy reform in the agricultural sector, such a

high profile in agricultural lending will reduce earnings and weaken the bank's balance sheet.

GCB's agricultural portfolio has symbolized its role as the Government's leading financial institution in terms of providing credit to farmers. GCB has also been one of the leading institutions in managing/administering credits on a multilateral or consortium basis to promote food purchases in an effort to stabilize producer prices. Credit to the Ghana Food Distribution Corporation (see Section II) to give it the means to purchase maize has received Ghana Commercial Bank's support in the form of up to C70 million in credit. The GCB has formed a Commercial Farmers' Association to extend and recycle loans. This program has suffered, however, due to significant non-payment problems. These problems are due to the GCB extending a lump sum to the leaders of a group of 25-30 farmers without inspecting the farms, monitoring the use of the credit or following up on repayment. The result has been diversion and misappropriation. The GCB has worked with the EEC to alleviate foreign exchange difficulties and make available agricultural machinery and equipment, primarily to rice farmers who utilize tractors and rice hullers. Ghana Commercial Bank's leasing operation has sold or rented agro-chemicals and inputs, particularly cutlasses and spraying machinery, through its branch network around the country. The FAO's People's Participation Projects in the Eastern and Brong-Ahafo Regions (see Section VII), in which FAO donations are used to back up credit, are administered through the GCB which channels credit through the Catholic and Presbyterian dioceses for use by poor farmers in localities where GCB has no branches. The GCB claims this program has failed in both areas due to unsuitably fragile equipment, insufficient credit amounts, and lack of farmer initiative. The GCB also claims that it has absorbed losses on the projects as the FAO has never provided the back-up funds promised, but instead used them for its equipment purchases. Most recently, the GCB has committed financing for 6000 of Global 2000's 1988 Production Test Plots, about 30% of Global's estimated volume.

From the results of these programs, it is difficult to determine what course the GCB will take regarding agricultural lending. The decline in deposits from farmers, high cost of account holder processing, low repayment rates and limited (if any) profitability from these operations suggest it is imprudent for the GCB to be aggressive in the agricultural sector without better management of the process. However, in light of the Government's stated commitment to achieve self-sufficiency in food production, it is likely the Government will look to the GCB to be the lead financial institution in providing credit to agriculture.

Given the precariousness of asset quality, ceilings on credit, the sectoral allocation to agriculture that impedes profitability, limited investment alternatives, negative real rates of return on public sector securities and high overhead costs, it has been nearly impossible for GCB to shore up its equity position. Its deposits offer low-cost liquidity, yet GCB's extensive branch network entails high operating costs. With doubts about asset quality and its role as a public sector institution whose priorities are not always

directed by the profit motive, GCB will need to maintain a strong equity position and make operations more efficient to promote confidence in it and the banking sector in general.

BARCLAYS BANK

Date Established	:	1917
Focus	:	Comprehensive
Branches	:	30
Sub-branches	:	10
Government Ownership	:	40%

ASSETS:	1983	1984	1985	1986	1987
Cash on Hand	217	396	944	774	1,004
Balances w/Bank Ghana	250	584	451	1,534	1,433
Foreign Currency	154	247	4	-	-
Balances due by Other Banks	7	7	337	200	2,142
Treasury Bills	766	788	848	848	922
Commercial Bills	54	-	330	53	76
Loans + Advances	527	1,238	2,264	3,938	4,918
Investments	610	610	610	600	1,277
Other Assets	1,110	2,397	4,642	7,078	8,874
Total	3,695	6,267	10,430	15,025	20,646
Balancing Adjustment	(533)	(1,387)	(1,427)	(2,179)	(3,511)
LIABILITIES:					
Balances due to Other Banks	153	441	2,115	2,199	767
Borrowings from Local Banks	-	-	15	-	-
International Borrowings	-	-	-	-	-
Deposits	2,107	2,972	4,475	6,267	10,922
Other Liabilities	643	1,151	1,782	3,463	3,324
Total	2,903	4,564	8,387	11,929	15,013
Capital + Reserves	259	316	616	917	2,122

INCOME & EXPENDITURE:	1983	1984	1985	1986	1987
Pre-tax Operating Profit	-	-	554	808	584
Provision for Taxation	-	-	237	457	319
Net Income/Extra Item	-	-	317	351	443
Dividends	-	-	50	50	50
Retained Earnings	-	-	267	301	393

** All figures are in millions of cedis

One of three UK-based banks operating in Ghana, Barclays was established in 1917 to serve as a commercial bank offering comprehensive banking services to the public. Barclays is Ghana's third largest bank based on total assets, with 10.0% of the estimated total assets in the banking system. The bank ranks third in deposits as well.

Barclays had one of the stronger balance sheets in the banking system based on earning assets, capitalization and liability structure. Net liquid assets were C4.8 billion, or 44.0% of total deposits, due to limited non-deposit liabilities and Central Bank pressure to keep money out of circulation.

The bank had 42.0% of total assets in earning assets (loans, securities and investments). While this was the median point in the banking system, it is generally recognized that its loans (C4.9 billion) are performing better than those at many banks which have higher earning assets/total assets ratios (i.e., Bank for Housing and Construction, National Savings and Credit). Nevertheless, the ratio is low due to excess liquidity resulting from constraints placed on loans by the Bank of Ghana and limited investment alternatives.

Barclays was the best capitalized bank in the entire banking system, with an equity/loans ratio of 43.2%. With 1987 defaults equivalent to 4.3% of the total loan portfolio, Barclays appeared to have more than ample cushion to protect itself against loan losses. Delinquencies increased to 14.3% of total 1987 loans, increasing from 5.4% in 1985 and 1986. It is unclear if this is due to deterioration of loan qualify, or a more conservative approach to potential loan losses. To protect itself against write-offs, capital was bolstered in 1987 by retained earnings (C393 million) as well as the issuance of new capital (C812 million).

The bank has a favorable liability structure, with deposits constituting 64.0% of total liabilities. Deposits constitute a stable source of funding except when doubts about a bank's solvency emerge. With a comparatively strong loan portfolio, confidence in the institution remains strong.

With its 40 branches and sub-branches located almost entirely in the more populous southern half of the country (fixed assets were C1.0 billion, or 11% of total assets), Barclays was able to increase the adjusted value of its deposits 50.5% to C10.9 billion (US$62.1 million). Deposits were 64% of total liabilities at year end 1987 consisting of current accounts (48.5%), savings (30.8%) and fixed/time (20.7%) deposits. It is in the area of fixed/time deposits that Barclays showed the greatest percentage increase (183%), although this partially reflects slow mobilization of these instruments in the past compared to Standard Chartered. The two UK-based banks have outpaced their larger competitor, Ghana Commercial Bank, in absolute fixed/time deposit collections since 1986 (Standard Chartered since 1984), while Social Security Bank has shown strong mobilization of these deposits due to its role serving the Social Security and National Insurance Trust.

The bank had C17.1 billion (US$96.9 million) in total assets in 1987, with C4.9 billion (US$27.9 million) in its loan portfolio. Barclays' portfolio is concentrated in the commercial (40.0%) and industrial (38.2%) sectors, with 13.4% extended to agricultural enterprises. Barclays' concentration of loans is also reflected in its geographic distribution, with the Greater Accra (76.4%) and Ashanti (10.6%) Regions receiving most of the loans due to Barclays emphasis on manufacturing and export/import trade. Most of the 7.9% adjusted increase in its 1987 loan portfolio was in the industrial sector, with adjusted value decreases in 1987 in the commercial (5.0%) and agricultural (9.1%) sectors.

The bank's loan policies, like those of virtually all the banks in the system, are geared to short-term lending. Facilities are opened for one year, and then reviewed for quality. Barclays loan policies generally promote Government priority sectors, but the primary criterion for the extension of credit is project viability. Speculative ventures are discouraged, implying a conservative loan portfolio to minimize loan defaults. Barclays is very active in export and import financing, with the former consistent with the Government's campaign to increase foreign exchange earnings.

With regard to the agricultural sector, Barclays likewise attempts to extend loans to priority areas (i.e., oil palm development, fishing and livestock development, etc.). Recent loan trends appear to favour food and cash crops and poultry and livestock production. The bank claims that a considerable portion of its agricultural loans is to small-scale farmers, although all of its 1,120 agricultural loans issued in 1987 were greater than C50,000. Because of the risk inherent in the sector, Barclays appeared to lessen its commitment to agriculture in 1987.

Agricultural loans totalled C658.3 million (US$3.7 million), or 13.4% of total loans. With 1986 agricultural loans at 15.9% of the loan portfolio, management made a decision to reduce its relative exposure to this sector in 1987. Of Barclays' 1987 agricultural loans, food and cash crops were 42.3%, poultry and livestock 36.4%, fisheries 20.9%, and the rest (logging, cocoa and forestry) less than 1.0%.

Information on operating results was limited. Bank management made efforts to shore up capital and reduce loan exposure in risky areas. Barclays had less in 1987 pre-tax operating profits than in 1986 due to its relatively low volume of loans. Nevertheless, with net income of C265 million and C178 million in extraordinary income, Barclays had C393 in retained earnings after a C50 million dividend. Combined with ample liquidity, minimal non-deposit obligations and strong reserve coverage of loans, Barclays should remain one of the banking system's leading performers.

STANDARD CHARTERED

Date Established	:	1896
Focus	:	Comprehensive
Branches	:	25
Sub-branches	:	8
Government Ownership	:	40%

ASSETS:	1983	1984	1985	1986	1987
Cash on Hand	200	468	726	534	885
Balances w/Bank Ghana	247	437	699	182	856
Foreign Currency	6	2	2	43	41
Balances due by Other Banks	35	43	56	80	731
Treasury Bills	134	195	121	120	-
Commercial Bills	149	-	364	45	44
Loans + Advances	632	1,533	2,805	5,104	6,919
Investments	1,332	1,102	1,642	1,263	1,140
Other Assets	593	977	366	2,123	2,552
Total	3,328	4,757	6,781	9,494	13,168
Balancing Adjustment	(236)	(129)	(244)	(413)	590

LIABILITIES:					
Balances due to Other Banks	4	-	-	-	-
Borrowings from Local Banks	-	2	1	3	1
International Borrowings	-	-	-	-	-
Deposits	2,010	3,282	4,941	7,535	10,263
Other Liabilities	804	931	926	562	1,414
Total	2,818	4,215	5,868	8,100	11,678
Capital + Reserves	274	413	669	981	2,080

INCOME & EXPENDITURE:	1983	1984	1985	1986	1987
Pre-tax Profit	217	327	385	927	934
Provision for Taxation	97	181	216	527	519
Net Income	120	146	169	400	415
Dividend	11	35	53	88	112
Retained Earnings	109	111	116	312	303

** Figures are in millions of cedis

Standard Chartered (SC), one of the three UK-based commercial banks in Ghana, opened operations in 1896. As part of an international network under the direction of its London headquarters, SC was set up primarily as a lending institution with depository, transfer and trade finance capabilities. It has since evolved as one of Ghana's best capitalized banks, with an equity/total loans ratio of 30.1% reported at year end 1987. SC's assets are the fifth largest in Ghana, with 8.0% of the estimated total banking system assets. SC ranks fourth in deposits, slightly behind its archrival, Barclays.

SC's balance sheet was one of the strongest among Ghanaian banks. The bank has virtually no obligations to anyone but its depositors, with 88% of total liabilities in the form of deposits. SC had C5.2 billion in contingent liabilities (off the balance sheet), and it is possible that these could jeopardise liquidity. Nevertheless, SC has not had a problem with this in the past, so it is unlikely that this will emerge as a serious problem.

SC had C2.5 billion in net liquid assets, or 25% of deposits. Loans were C6.9 billion, and along with investments accounted for 56.0% of total assets, one of the highest earning assets/total assets ratios in the banking system. In the event that loan quality deteriorates, SC had equity of C2.1 billion to cover its position, or 30% of total loans. It is unlikely that 30% of SC's loan portfolio would cease performing, suggesting that SC is an adequately capitalized bank. Its equity/loan ratio was second only to Barclays, and far higher than the banks wholly-owned by the Government.

SC had C13.8 billion (US$78.2 million) in total assets in 1987, with its loan portfolio valued at C6.9 billion (US$39.3 million). This was an increase of 17.1% over 1986 on an adjusted basis, although more loans could have been issued had it not been for the restrictive monetary policy of the Bank of Ghana. As with most of the banks, SC's portfolio is heavily weighted in favor of commercial (41.4%) and industrial (28.8%) loans, with 19.5% of its loans to the agricultural sector. Nearly all of SC's loans are concentrated in the Greater Accra (69.4%) and Ashanti (21.2%) Regions, with only limited exposure in the Eastern, Central, Western, Upper, Northern and Brong-Ahafo Regions, and none in the Volta Region. Of SC's 33 branches and sub-branches, 10 are in the Greater Accra Region.

On an adjusted basis, deposits increased 17.6% to C10.3 billion (US$58.3 million) in 1987. Of its deposits, 50.9% were current account deposits, while 27.4% were in savings and 21.6% in fixed/time deposits. SC's deposits/branch ratio was C411 million, placing it fourth, and ahead of its closest peer, Barclays.

Operating results in 1987 were comparable to those of 1986 on a nominal basis. The most important development on SC's balance sheet was the issuance of new capital, and retention of most earnings, doubling nominal capital and reserves from C1.0 billion to C2.1 billion.

SC's agricultural loan portfolio nearly doubled on an adjusted basis in 1987, from 12.9% of 1986 loans to 19.5% in 1987. This was the largest increase registered among its loan classifications. Most of SC's agricultural loans were to food production and agro-processing enterprises (93.1%), with the rest to fisheries. Standard has achieved a strong position compared to the other banks in mechanized rice farming in the Northern Region and large-scale poultry enterprises in Ashanti.

While management did not provide a specific breakdown of the number, size or quality of loans, it did convey a commitment to agricultural group lending to units of five to ten people on an unsecured basis. SC chooses its groups based on a village's reputation, references from the village chief, age of the farmers, amount of group acreage, and general feasibility of the area. Its four branches in Tamale, Kumasi, Accra and Cape Coast oversee agricultural lending in their respective areas, with loans often on an unsecured basis. Once an application is originated from these offices, it takes two-four weeks for the approval process to be completed and loan disbursement to be made.

The Tamale office provides loans for rice, maize, groundnut and millet production. SC's office in Kumasi shows a portfolio composed of poultry and food crop loans. The Accra and Cape Coast offices lend to maize, cassava and poultry farmers. All of its offices have avoided piggeries, and bad experiences in the past have shifted SC away from cooperatives, absentee farmers and backyard ventures. Most of SC's loans to small-scale farmers are for durations of less than one year, while poultry and large-scale farmers often receive loans of two-five years.

SC stated that its group lending program was working successfully, with loan officers visiting farm sites to permit ongoing monitoring. Management claimed that repayment rates were high, providing funding and confidence for a recycling of loans to the agricultural sector. No new loans are issued until previous loans are fully repaid. In the event that agricultural loans are not repaid, the Bank of Ghana provides a 66.6% guarantee up to C50,000. These loans are aged over a five-year period, with SC (or any other bank) notifying the Central Bank that it may need to collect on the guarantee. However, SC rarely utilizes this guarantee as it believes the harm to its public reputation and reduced confidence in its stability would be too great a price to pay for the cedi amounts recovered.

In the future, SC may involve itself as a distributor of inputs with extension service back-up. This would be a self-financing venture that would more closely associate the bank with its customers to better monitor its credits. This move, however, must receive approval from the Bank of Ghana.

With a liquid and well-capitalized balance sheet, relatively lean operations, strong market position and international reputation, SC should continue to maintain a competitive advantage in the banking system. Its share of the loan market has consistently been maintained at 12.5% since 1984, and is effectively higher as its

loan portfolio probably has a smaller percentage of non-performing loans. Assuming bank management remains effective, staff training programs continue and increased computerization improves efficiency while lowering operating costs, SC will continue to be one of the top performers in the banking system.

SOCIAL SECURITY BANK

Date Established : 1977
Focus : Real Estate, Consumer and Commercial Lending
Branches : 44
Government Ownership : 100%

ASSETS:	1983	1984	1985	1986	1987
Cash on Hand	208	290	256	504	2,009
Balances w/Bank Ghana	74	92	1,663	1,004	4,238
Foreign Currency	-	-	-	120	401
Balances due by Other Banks	-	10	20	323	2,996
Treasury Bills	17	267	27	602	1,014
Commercial Bills	-	-	-	-	-
Loans + Advances	860	1,445	2,215	5,254	6,337
Investments	846	1,279	1,581	3,426	3,351
Other Assets	318	733	996	1,147	2,828
Total	2,323	4,116	6,758	12,380	23,174
Balancing Adjustment	484	202	388	174	(2)
LIABILITIES:					
Balances due to Other Banks	-	-	-	-	-
Borrowings from Local Banks	-	55	-	-	-
International Borrowings	-	-	-	-	-
Deposits	2,180	3,202	5,942	9,347	15,322
Other Liabilities	450	916	938	2,584	7,077
Total	2,630	4,173	6,880	11,931	22,399
Capital + Reserves	177	285	361	874	991

INCOME & EXPENDITURE:	1983	1984	1985	1986	1987
Pre-tax Operating Profit	-	82	132	636	395
Provision for Taxes	-	58	76	409	325
Net Income	-	24	56	227	70
Dividends	-	-	20	30	20
Retained Earnings	-	24	36	197	50

** Figures are in millions of cedis

Social Security Bank (SSB) was established in 1977 to provide credit primarily for workers' and consumers' needs, and to serve as a depository base for the Social Security and National Insurance Trust (SSNIT), its, sole shareholder. Due to its specialization, the SSB has evolved as a unique bank in Ghana due to its hire purchase scheme which provides installment credit for durable goods stocked by the bank. The result has made SSB Ghana's second largest bank in total assets and fourth in loans, although with weak earnings it is uncertain how stable SSB's loan portfolio is. SSNIT's deposits have helped push SSB to the second ranking deposit institution after Ghana Commercial Bank.

SSB's critical strength is its liquidity, owing largely to the stability of its built-in deposit base from SSNIT. SSB, however, had excess liquidity at year end 1987, with net liquid assets of C10.7 billion, or 70% of deposits. Such liquidity was largely due to SSB's nearly C7.8 billion in contingent liabilities, the Bank of Ghana's squeeze on money in circulation to contain inflation, and the need to keep sufficient reserves to meet depositors' needs in the event that lack of confidence concerning loan quality led to extraordinary withdrawals.

Deposits increased, and were 68.4% of total liabilities, second strongest in the banking system. Nevertheless, this proportion declined from 78.3% in 1986 as SSB showed a marked increase in other unspecified liabilities.

SSB's capital remained low when measured against total assets (3.3%) and total loans (15.6%). Whether this constitutes a satisfactory measure of protection against bad loans is highly unlikely in light of the percentage of loans in arrears. Weak earnings suggest SSB has overvalued assets in its loan portfolio, consistent with the banking system's unfounded practice of keeping non-performing loans on the books. Being a Government-owned bank, it is assumed that many of its non-performing loans are to financially troubled parastatals.

SSB had a better mix of earning assets than the other banks. While loans were only 27.1% of total assets, earning assets were 45.8%, the fourth highest figure in the system. SSB had C4.4 billion in other earning assets, namely securities and investments. This partially compensates for idle funds and bad loans, but is clearly not enough to generate strong earnings.

SSB's loan portfolio of C6.3 billion (US$36.0 million) increased 4.2% in 1987 on an adjusted basis. While most loans were concentrated in the Greater Accra Region (72.6%), SSB increased its exposure most aggressively in the Western (291%) and Ashanti (55%) Regions in 1987; these two regions constituted 15.3% and 6.4%, respectively, of year end 1987 loans. Like the rest of the banking system, only a minute portion of the bank's assets and loans are in the Northern and Upper Regions.

SSB's loan portfolio has a different sectoral composition from the primary commercial banks. While industrial loans (29.8%) were the largest category, SSB only had 21.7% of its portfolio out to commercial enterprises. Aside from Merchant Bank, whose portfolio is heavily weighted towards corporate industrial enterprises, and NSC, SSB is the only commercial bank with less than 30% of its portfolio to the commercial sector. This is due to SSB's poor risk management, as a considerable portion of loans in arrears are in the commercial sector. With 16.1% of its portfolio in agriculture and 8.2% in real estate, it is assumed that most of the remaining 24.2% is in the form of consumer installment loans. (Mining is less than 1% of SSB's total loans). As such, SSB appears to have one of the most diversified loan portfolios in the banking system, consistent with the overall diversification of its balance sheet. This portfolio also appears to include the second largest real estate portfolio in the banking system after BHC.

While diversification is one of the most useful vehicles of efficient portfolio management, SSB's diversification strategy carries risks with it. Its hire purchase credit scheme to promote consumer lending, export/import business and joint ventures have increased overhead as many of the consumer goods (household appliances, furniture, bicycles, etc.) are stocked with the bank. This has necessitated storage capacity, personnel, paperwork and other administrative costs typical of an in-house strategy, raising the overall cost structure of the bank's operations. In the event that net interest margins become very narrow and/or demand for consumer credit stalls, the SSB would have to cover its fixed and inventory costs from non-interest income sources. In addition, some of these credits are likely to be medium- and long-term, thus tying up liquidity. With 58.3% of its loans classified in arrears, the risks of exceptionally weak loan quality appear be dangerous at this point, particularly as SSB has only a reported 15.6% equity/loan ratio.

Despite the consumer orientation, SSB has 16.1% of its loans out to the agricultural sector, some under its Special Farmers' Credit Scheme for export crops (cocoa, coffee and sheanut). Most of its loans are to fisheries (55.3%) and livestock breeding and poultry enterprises (23.0%). Nearly 72% of its agricultural loans are stated to be for one year or less, although it is unclear how many of these "short-term" loans have been rolled over. SSB's agricultural loans are broken down into four classifications: annual food crops (maize, rice, cassava, plantain, yam, sorghum); perennial cash crops (oil palm, pineapple); livestock (piggery, poultry, sheep and goats); and fishing (marine, fresh water and inland). The SSB has commitments in all these areas, with an active current account of at least 12 months and a lease on the land as minimum requirements for most agricultural credits.

SSB's focus on consumer banking has led to impressive deposit growth in recent years. Part of this deposit growth is the result of more effective public sector efforts to enforce Social Security contributions, increasing SSNIT's deposits. The bank's policy is

that customers must have active accounts with SSB for a minimum 12 months (most banks demand only six) before credit is granted. With its 44 branches (25 of them in the Ashanti, Greater Accra and Western Regions), SSB had C15.3 billion (US$87.1 million) in total deposits at year end 1987. Total deposits increased 41.6% on an adjusted basis without a net increase in its branch network. Current accounts, which increased 13.7% in 1987, constituted 60.2% of total deposits, second only to Ghana Commercial Bank. Savings increased 15.3% in 1987, and accounted for 27.4% of total deposits. But it was in the field of fixed/time deposits where SSB registered its greatest percentage change, increasing these deposits 400% in 1987, largely due to increased SSNIT deposits. As a percentage of total deposits, fixed/time deposits increased from 7.2% in 1986 to 25.3% in 1987. In terms of gross cedi values, SSB had the largest volume of fixed/time deposits in the entire banking system.

Other liabilities increased 137% on an adjusted basis to C7.1 billion (US$40.2 million) in 1987. SSB was not specific about what these other liabilities were, but they probably consist of reserve obligations to employees (i.e., pension, welfare, etc.) and borrowings to shore up liquidity needs. Despite its strong deposit base, the increase in other liabilities constituted a marked increase in the bank's leverage as it was unaccompanied by a comparable increase in equity.

SSB's operations showed limited net income. While 1987 results cover 12 months compared to the 18-month period from mid-1985 reported in the 1986 statements, even on a pro-rated basis income was down. With C70 million in net income against C23.3 billion in year end assets, SSB had only a 0.3% return on investment, one of the lowest in the banking system. The bank attributes this weakness to Bank of Ghana intervention (credit constraints, reduced service fees, liquidity reserve requirements), increased operating costs (personnel, office), and a weakened economy. Nevertheless, as these factors affected all banks, SSB's earnings were very weak, largely due to the bank's failure to pare down overhead in an economic environment of monetary restrictiveness and weak earnings from loans.

With regard to management, SSB's reputation was recently tarnished when the Managing Director was interdicted for misappropriation of funds. Given the high public profile of the bank due to SSNIT's deposits, and the need for public trust, this interdiction once again raises questions about confidence in the banking sector. With the Government attempting to restore confidence in public institutions, the restructuring of the banking system will have to include controls that monitor operations to prevent such abuses from recurring.

NATIONAL SAVINGS AND CREDIT BANK

Date Established : 1972
Focus : Savings Mobilization and Development Finance
Branches : 18
Government Ownership : 100%

ASSETS:	1983	1984	1985	1986	1987
Cash on Hand	28	81	79	119	184
Balances w/Bank Ghana	-	-	11	155	197
Foreign Currency	-	-	-	-	3
Balances due by Other Banks	6	3	4	11	33
Treasury Bills	-	-	72	185	177
Commercial Bills	-	-	167	150	220
Loans + Advances	217	331	583	944	1,175
Investments	56	56	295	392	772
Other Assets	587	799	850	289	1.040
Total	894	1,270	2,061	2,245	3,801
Balancing Adjustment	21	4	(113)	(182)	(17)
LIABILITIES:					
Balances due to Other Banks	80	362	42	45	71
Borrowings from Local Banks	-	-	530	580	530
International Borrowings	-	-	-	-	-
Deposits	340	439	573	1,028	2,114
Other Liabilities	471	488	774	362	829
Total	891	1,289	1,919	2,015	3,544
Capital + Reserves	24	27	29	48	240

INCOME & EXPENDITURE:	1983	1984	1985	1986	1987
Gross Income	66	96	128	349	461
Interest Expense	4	4	6	88	136
Provision for Loan Loss	2	2	5	5	40
Other Operating Exp.'s	45	76	107	223	251
Net Income	15	14	10	33	34

** Figures are in millions of cedis

National Savings and Credit Bank (NSC) was formed in 1972 to formalize the hitherto postal savings effort that had been implemented by the Government of Ghana, and to bolster the personal savings mobilization effort of the Ghana Savings Bank. The relationship with the post office's 400 branches undermined operations, however, charging expenses to the bank without transferring deposits. The result was a costly drain on NSC with the bank now claiming the postal system owes NSC C270 million, or 113% of 1987 capital and reserves. The bank has filed claims to encourage the Government to reimburse NSC, but to date no funds have been received. In 1985, NSC curtailed its relationship with the postal system as a source of savings mobilization.

Originally conceived as a savings institution, NSC concluded that offering credit would serve as an incentive to attract additional savings, hence the evolution from a savings bank to a savings and credit institution. NSC's focus has traditionally been on the small- and medium-sized borrower and depositor, although there now appears to be evidence that the current management team is focussing on larger credits and not small savings accounts. The traditional target group includes farmers, shopkeepers, tailors, traders, artisans, drivers, etc. Despite recent trends favoring larger customers and salaried employees, NSC still remains one of Ghana's smallest institutions in deposits and total assets. In fact, despite its emphasis on deposit mobilization, it is the second smallest primary or secondary institution (excluding Ghana Co-operative Bank) in attracting deposits on a per branch basis, reflecting its clientele.

Despite NSC's apparent ineffectiveness at large deposit mobilization on a per branch basis, some of the bank's balance sheet is not nearly as weak as that of some of its competitors. Deposits are 59.7% of total liabilities, suggesting its borrowings do not play nearly as significant a funding role as they do at the more illiquid development banks (ADB, BHC, NIB). In fact,its long-term borrowings from the Bank of Ghana are for 20 years and at concessionary rates (5%). However, NSC's real balance sheet problem (discussed below) is equity and loan quality.

NSC had positive liquidity at year end 1987, with net liquid assets of C212 million. Thus, while NSC was one of the least liquid banks, its liquidity was positive and appeared to provide marginally adequate coverage of liabilities. NSC needed less liquidity on hand than other banks as a majority of its deposits were savings and fixed/time deposits which, although bearing a higher cost, tend to be more stable and have less turnover. Its cash and reserves were well above Bank of Ghana liquidity reserve requirements, signifying a positive turnaround from the liquidity problems it faced in 1983-1984.

NSC's total assets were C3.8 billion (US$21.5 million) at year end 1987, with a loan portfolio valued at C1.2 billion (US$6.7 million) and earning assets 62% of total assets. It is the loan portfolio that is most questionable about NSC's balance sheet, with

non-performing loans estimated to be as much as 85% of the total loan portfolio. The bank believes this is because people perceive the bank as a Government-owned institution, and that if enough defaults occur, the Government will find the means to rescue the bank. Whether this is true, the bank has long had difficulty in managing credit, undermining returns on investment. It is also quite true that bad service, high effective interest rates on loans, fees, etc., have reinforced a negative image in the public's eyes.

NSC's loan portfolio grew 7.6% on an adjusted basis in 1987. The bank's loan portfolio is diversified, with 19.2% in industrial loans, 17.7% to agriculture, 8.8% to commercial interests, 6.2% to real estate and 48.1% to non-specified (i.e., mining and quarrying, transport, consumer, etc.) categories. Non-specified loans are mostly consumer installment loans (for stoves and refrigerators) as NSC has packaged a savings plan that qualifies people for consumer loans with a "sizeable" savings account (operative for one year and frozen as collateral) and a 45% down payment. With 11 of its 18 branches in the Greater Accra (8) and Ashanti (3) Regions, loans were concentrated to these two regions, constituting 68.3% and 11.4%, respectively, of NSC's total portfolio.

The problem with NSC's loan, as with virtually every bank in Ghana, is quality. The NSC that nearly 83% of its loans were in arrears in late 1987, mostly in commercial (35.9%), industrial (18.3%) and agricultural (16.4%) enterprises. Even if most of these (i.e., 75%) were ultimately repaid, the NSC would be technically insolvent with its reported (and probably overstated) 20.4% equity/loan ratio. Many of these bad loans may be attributed to the management team that was replaced in 1984. One source stated approximately 25% of loans not repaid have been outstanding for greater than five years. Nevertheless, on a purely statistical basis, and assuming capital and reserves are real and not accrued, the current management team would have to recover every loan to be at the breakeven point between solvency and insolvency. Of NSC's loans in arrears, 43% have been aged beyond three years, suggesting that NSC may be technically insolvent.

Of NSC's agricultural portfolio, most of its loans are concentrated in food crops (55.1%), fisheries (26.3%), and agro-industrial enterprises (18.2%). New loans to small-scale farmers are insignificant, reflecting NSC's limited commitment to small-scale farmers, small number of branches in rural areas, and centralized approach to lending which has biased the loan portfolio in favor of industry, commerce and consumer credit. Those small-scale farmers who receive loans tend to be organized on a group basis. More than 85% of agricultural loans were outstanding for greater than one year, implying serious repayment problems.

On the deposit side, NSC's total deposits were C2.1 billion (US$12.0 million), 59.7% of total liabilities and an increase of 78% on an adjusted basis from 1986. NSC's deposit growth was in all areas: current accounts increased 87.3%; savings increased 45.7%; and fixed/time deposits increased 120.0%. NSC's year end deposit composition was 43.2% in current accounts, 31.9% in savings, and

24.9% in fixed/time deposits. These deposits were almost entirely in Greater Accra (73.9%), including all of its fixed/time deposits, and Ashanti (21.7%). Thus, the other regions were inconsequential with regard to deposit mobilization, with seven of NSC's branches accounting for only 4.4% of its deposits.

The increase in deposits is due to an expansion in NSC's branch network in Greater Accra, its longstanding policy of accepting savings accounts of any size, and its attempt to use savings to promote a lending scheme for consumer goods and real estate. It is noteworthy, however, that its deposits increased 78% at a time when NSC processed fewer loans and showed only 7.6% real growth in its loan portfolio. This raises the question of whether an institution designed to specialize in savings deposit mobilization needs to be aggressive from the credit side to attract savings.

Long-term domestic borrowings were constant at C530 million (from the Bank of Ghana for 20 years at 5%). NSC's debt/equity ratio declined from 5.0:1 to 2.2:1 as the bank liquidated C50 million in short-term borrowings from the National Investment Bank and increased equity C125 million.

Capital and reserves were 20.5% of loans, giving NSC some margin for write-offs. Without having the information needed to ascertain loan quality, it is unclear whether its equity/loans ratio is adequate. NSC did increase its capital position, as equity increased 80% on an adjusted basis to C240 million (US$1.4 million), due primarily to a 76% real increase in retained earnings. Nevertheless, with only a 0.9% return on investment, there is much to suggest that NSC's loan portfolio has problems of performance and recoverability, and that a 20.5% equity/loan ratio may not be satisfactory. Further, as its net income is accounted for on an accrual basis, there is a high probability that retained earnings were far less on a cash basis, and that NSC's equity/loan ratio is far below its stated 20.5%.

APPENDIX IV-6

MERCHANT BANK

Date Established	:	1971
Focus	:	Corporate Banking
Branches	:	3
Government Ownership	:	30%

ASSETS:	1983	1984	1985	1986	1987
Cash on Hand	6	20	40	28	41
Balances w/Bank Ghana	12	39	176	141	562
Foreign Currency	3	3	-	1	1
Balances due by Other Banks	30	174	48	1,406	3,273
Treasury Bills	-	34	141	229	85
Commercial Bills	-	-	-	-	-
Loans + Advances	144	544	704	1,420	1,924
Investments	281	195	375	466	239
Other Assets	89	91	171	576	1,151
Total	565	1,100	1,655	4,267	7,276
Balancing Adjustment	162	455	440	(396)	239
LIABILITIES:					
Balances due to Other Banks	131	46	240	169	114
Borrowings from Local Banks	-	30	-	-	200
International Borrowings	-	-	-	-	-
Deposits	254	556	945	1,767	2,507
Other Liabilities	263	772	631	1,634	4,296
Total	648	1,404	1,816	3,570	7,117
Capital + Reserves	55	96	175	301	398

INCOME & EXPENDITURE:	1983	1984	1985	1986	1987
Total Income	-	-	-	534	683
Op. Costs/Provision for Loan Loss	-	-	-	189	452
Operating Profit	51	96	182	345	231
Provision for Taxes	20	55	104	223	149
Net Income	32	41	79	91	82
Dividends	4	-	-	30	-

** Figures are in million of cedis

Merchant Bank (MB) was established in 1971 and began operations the following year. Merchant is part of the Grindlays international banking network which is now a part of the Australian New Zealand Bank of Australia. Grindlays has 30% of equity. The National Investment Bank (25%) and State Insurance Corporation (15%) also have equity shares, as does the Government of Ghana (30%) MB was designed to address .the needs of corporate investors in Ghana in investments, corporate finance, project finance and capital markets activities, as well as export/import trade. Due to this focus, MB has virtually none of its loan portfolio out to farmers. At year end 1987, 13% of MB's loans were in agriculture, almost entirely to fisheries in the Greater Accra Region.

MB's size and corporate focus make its balance sheet different from most of its competitors. MB's activity primarily focuses on the inter-bank lending market as a source of funds, lending those funds out at either more favorable rates or for shorter durations. This process is reversed if banks demand funds, and MB feels this will constitute a greater return than loans, securities or other investments.

At year end 1987, MB had excess liquidity, with net liquid assets of C3.6 billion. The largest asset MB had was balances due from other banks, suggesting that credit constraints from the Central Bank made MB a net creditor to the banking system. Loans/advances and other unspecified accounts decreased by C965 million, while deposits and other unspecified liabilities increased nearly C2.0 billion, creating excess liquidity.

The main source of funding was from other liabilities, which were 60.4% of total liabilities and consisted primarily of acceptances, guarantees, and indemnities for its corporate customers. Deposits were only 35.2% of total liabilities as MB emphasizes only corporate deposits, avoiding retail services except for those associated with corporate accounts.

Of MB's total assets of C7.5 billion, only 29.8% were in the form of earning assets. Most of these were loans (C1.9 billion), concentrated in the industrial (48%) and commercial (21%) sectors, with 85% of its loans in the Greater Accra Region. Average loan size was over C20.0 million (US$120,000), reflecting MB's corporate focus. MB did not provide information on the term structure of its loans, ageing of accounts or overall quality of assets, although its adjusted provision for loan losses increased 50% in 1987 and was the main reason why net income declined roughly 20% on an adjusted basis.

In 1987, MB was successful in attracting time deposits from corporate customers. On an adjusted basis, fixed and time deposits increased nearly 1.5 times, and constituted nearly 50% its of total deposits. Deposits were 1.3 times outstanding loans, slightly below the median point when compared to other banks in the system. Because deposits are from corporate clients, it is likely that less expense is involved in administering bank liabilities as the deposits are in

larger amounts per customer. MB does not open current accounts for individuals unless they are also corporate customers.

MB's capital and reserves at year end 1987 were reported to be C398 million (US$2.3 million). Total capital and reserves were 20.7% of total loans, providing more protection against loan write-offs than most other banks. Whether this constitutes adequate capital is uncertain as Merchant's management was unwilling to provide information on the financial condition of the bank, operations, or anything else of substance.

Operating information is quite limited, as is the description of the balance sheet. However, the bank increased its loan loss provision to protect shareholders against write-offs. Since 1984, MB's equity/loan ratio has ranged from 17.7% (1984) to 24.9% (1985), and been in between the two in 1986-1987. By maintaining about a 21% cushion against loans, MB management feels shareholders can remain confident about long-term profitability. Nevertheless, because of MB's excess liquidity, its earnings were limited, reducing net income on a nominal basis and thereby leading to a management decision to not issue dividends. With credit constraints imposed by the Bank of Ghana, 1988 may resemble 1987 in terms of generating limited income, although this may also carry with it less of a need to increase loan loss provisions if asset quality is maintained and relatively few new loans are issued.

BANK OF CREDIT AND COMMERCE (GHANA) LTD.

Date Established	:	1978
Focus	:	Trade Finance
Branches	:	1 (in Accra only)
Government Ownership	:	13% by BOG
Foreign Ownership	:	55% by BCC (Int)

ASSETS:	1983	1984	1985	1986	1987
Cash on Hand	-	17	18	62	66
Balances w/Bank Ghana	8	8	82	441	375
Foreign Currency	-	-	2	16	53
Balances due by Other Banks	31	28	24	142	1,016
Treasury Bills	7	90	135	197	148
Commercial Bills	-	-	30	60	190
Loans + Advances	13	98	141	300	421
Other Assets	-	2	10	28	35
Total	59	243	442	1,246	2,304
Balancing Adjustment	(8)	4	(2)	48	(134)

LIABILITIES:					
Balances due to Other Banks	-	1	45	227	14
Borrowings from Local Banks	-	-	-	-	-
International Borrowings	-	-	-	-	-
Deposits	33	199	297	859	1,349
Other Liabilities	15	41	84	189	718
Total	48	241	426	1,275	2,081
Capital + Reserves	3	6	14	19	89

INCOME & EXPENDITURE:	1983	1984	1985	1986	1987
Interest Income	-	-	-	40	78
Fee Income	-	-	-	-	189
Interest Expense	-	-	-	-	145
Provision for Loan Loss	-	-	-	7	6
Other Expenses	-	-	-	44	95
Net Income	-	-	-	18	21
Dividends	-	-	-	10	10

** Figures are in millions of cedis

The Bank of Credit and Commerce (BCC) is a limited liability bank established in 1978 with only one branch in Accra. It is part of a larger Pakistani-based bank network located in more than 70 countries. BCC's main focus is commerce and foreign business transactions (i.e., establishment of letters of credit).

With its limited focus and overhead, BCC has one of the best balance sheets in the banking system. Liquidity is strong due to limited obligations and the need for adequate funds in the event its backing for trade finance transactions is required. Net liquid assets were C1.8 billion at year end 1987, with no borrowings and virtually no funds owed to other banks.

BCC has to be liquid as it takes on contingent liabilities with its focus on trade finance. By backing letters of credit, BCC's risk is that the party it is backing will not meet the terms of trade, thus obligating the bank to fulfill the monetary requirements for the transaction to take place. Nevertheless, this is now becoming less of a risk to banks. Whereas in earlier years, licensed importers/exporters needed to borrow the full amount to establish letters of credit before a transaction was initiated, they now are done on a collection basis. As such, clients now only need part of the total value of the letter of credit up front, with the rest collected after the transaction is finalized. This, in turn, has reduced bank exposure to trade finance liabilities.

On the funding side, BCC's deposits/total liabilities ratio was 64.9%, one of the best in the system. As most of BCC's clients are engaged in trade, they maintain steady balances with the bank to ensure letters of credit and other instruments to facilitate trade. Another factor of considerable importance is BCC's international network and foreign accounts. Since early 1986, BCC has advertised extensively through Ghanaian embassies for Ghanaians to hold foreign exchange accounts in Ghana to be able to transfer funds back to Ghana. As such, of BCC's 7000 deposit accounts, 2000 are foreign exchange accounts. This has substantially boosted the bank's funding. As such, the bank's deposits constitute a stable source of funding, as well as a source of security for its customers' obligations.

At year end 1987, BCC reported assets of C2.1 billion (US$12.3 million). BCC's total loan portfolio was C420.9 million (US$2.4 million), with 50.0% to commerce, 29.6% to industry, 12.7% to agriculture and 7.7% to real estate. Because of its emphasis on liquidity, earning assets were only 35% of total assets, with most other assets in cash form or due from other banks.

BCC's investments in agriculture over the years have been in food crops, fisheries and timber exports. Food crops constituted 88.9% of BCC's 1987 agricultural loan portfolio, with fisheries at 8.4% and timber exports at 2.8%. On an adjusted basis, BCC's agricultural loans declined by 42.2% from 1986. While food crops showed a slight (2.4%) increase in growth in 1987, fisheries loans declined drastically by 92.9% during the same period. This was due to the poor fishing seasons experienced in recent years, coupled

with the high capital outlays required for fishing operations arising out of the high foreign input content of large-scale fisheries. BCC said its agricultural loans tend to be to small- and medium-scale farmers.

In 1988 BCC plans to diversify its risk in agricultural financing. BCC has provided a C20.0 million grant to the Government to be distributed by the ADB and Co-op Bank Ltd. to small-scale farmers in the Upper West Region under the Global 2000 programme. One possibility concerning agricultural lending is that BCC will continue to back Global 2000's efforts. BCC's propensity to lend to these projects will depend on how efficiently managed loan disbursements and collections are via the services of other banks. Nevertheless, BCC's international management is close to leading Global 2000 figures, and despite BCC being the smallest bank in Ghana, it is committed to making a contribution to local agricultural development. Thus, its involvement with Global 2000 projects could lead to a larger financing role that could benefit small-scale farmers in the long run.

Other assets reported by BCC at year end 1987 were fixed assets worth about C35.3 million. Fixed assets were only 1.6% of total assets, yet BCC's office appeared as modern, well-managed and computerized as any branch or home office we visited.

At year end 1987, BCC had mobilized C1.3 billion (US$7.7 million) in deposits, with 68.9% in fixed/time deposits, 27.0% in current accounts, and 4.1% in savings. Between 1986 and 1987, there was a real reduction in current account mobilization of 28.2%, while fixed deposits increased by 106% in real terms. This reflected BCC's corporate and commercial clientele, as well as accounts set up by Ghanaians residing abroad to facilitate transfers back home. BCC's cost of funds increased in 1987 due to the changed composition of its deposits.

No borrowings were reported, but other liabilities stood at C717.7 million, having grown from C188.8 in 1986. Given BCC's high volume of contingent liabilities due to its trade finance activities, it is possible that the increase in other liabilities (i.e., bonds) has been utilized to enhance liquidity as a cushion against non-performance of customers whose letters of credit have been established. Nevertheless with an overall decline in contingent liabilities to the banks, it is difficult to ascertain why other liabilities increased as they did without branch expansion, increased office and personnel obligations, etc.

BCC's equity was reported to be C89.1 million (US$506,250), or 21.2% of total loans. Given its stable deposit base, seemingly adequate coverage of non-performing loans, low overhead costs and strong liquidity, BCC appears to have a solid position in the market. Trends have favored commerce and trade for years, and BCC has played a supporting role in the financing of some of that trade. With its international network in more than 70 countries, BCC should be able to continue playing a small but effective role in trade finance in Ghana.

AGRICULTURAL DEVELOPMENT BANK

Date Established : 1965
Focus : Agricultural Lending
Branches : 34
Sub-branches : 16
Government Ownership : 100%

ASSETS:	1983	1984	1985	1986	1987
Cash on Hand	67	94	118	161	206
Balances w/Bank Ghana	26	83	16	151	-
Foreign Currency	-	-	-	-	-
Balances due by Other Banks	6	9	15	50	37
Treasury Bills	72	2	53	89	11
Commercial Bills	-	-	100	-	-
Loans + Advances	535	961	1,580	2,423	3,509
Investments	143	73	425	361	282
Other Assets	587	838	1,085	3,299	5,700
Total	1,436	2,060	3,392	6,534	9,745
Balancing Adjustment	(34)	(30)	(162)	5	165
LIABILITIES:					
Balances due to Other Banks	-	-	-	-	622
Borrowings from Local Banks	119	223	719	786	789
International Borrowings	232	240	244	1,147	2,030
Deposits	532	570	1,003	2,025	1,925
Other Liabilities	457	935	1,172	2,434	4,316
Total	1,340	1,968	3,138	6,392	9,682
Capital + Reserves	62	62	92	147	228

INCOME & EXPENDITURE:	1983	1984	1985	1986	1987
Interest Income	33	58	107	197	-
Other Income	56	111	169	351	-
Provision for Loan Loss	1	2	2	3	-
Other Expenses	87	166	273	542	-
Net Income	1	1	1	3	-
Dividends	-	-	-	-	-

** Figures are in millions of cedis

The Agricultural Development Bank (ADB) was established in 1965 as a secondary bank primarily to provide credit facilities for the development and/or modernization of agriculture and allied industries. Like the other development banks, the ADB has deviated from its original focus to some extent, increasingly transferring deposits from rural areas into urban commercial enterprises. As of 1987, the ADB was one of the banking system's most poorly capitalized institutions, with recurrent liquidity problems, a high percentage of non-performing loans, an expensive branch network system and an inefficient organizational set-up at headquarters.

The ADB has a network of 50 branches and sub-branches in all 10 regions of the country. The distribution of these is as follows:

Greater Accra	- 6	Volta	- 5
Ashanti	- 4	Brong Ahafo	- 9
Western	- 4	Northern	- 3
Eastern	- 7	Upper East	- 4
Central	- 7	Upper West	- 1

The ADB, with its eight offices in the under-represented Northern and Upper Regions, makes it unique among all banks (including the Rural Banks) as these constitute 16% of the ADB's total branch network. This has much to do with its high administrative and operating costs, as many of these branches and "farm loan offices" carry high overhead without generating high levels of deposits or income. Part of this has to do with economic inactivity in these areas, leading to the transfer of deposits for investment in the more active urban areas of the country. Part of this also has to do with loan losses in the ADB's agricultural portfolio, leading to insufficient earnings to cover operating costs at many of its branches and sub-branches.

ADB reported assets of C9.3 billion (US$52.8 million) at year end 1987. These assets grew at an adjusted rate of 21.7% in 1987. It is likely that total assets have been overstated since the quality of loans has not been firmly established through a critical ageing analysis. It is probable that about 50% of the ADB's loan portfolio is past due or in permanent default, largely the result of its heavy concentration in agriculture. To its credit, the ADB has made an effort to supervise the use of its credits and to collect agricultural loans by visiting farmers during the planting and harvesting seasons.

The ADB has fundamental problems with regard to liquidity, overhead, capital and asset quality because its role is to finance the riskiest sector of the national economy. As a development bank established to provide credit to and mobilize deposits from farmers, the ADB has established a network of banks in areas that were generally unserved by the other banks. In fact, the ADB's original mission, although on a less decentralized basis, was not altogether different from that of the Rural Banks today.

The results have not been favorable. Today, the ADB has a serious liquidity problem, with borrowings exceeding cash, balances with the Bank of Ghana and securities by C2.6 billion at year end 1987. As the ADB has about C9.7 billion in assets, this reflects long-term borrowing to shore up short-term needs. Most of the borrowings have come from the African Development Bank, European Development Fund (EEC), IFAD and the Bank of Ghana for lending to fisheries, food crops, oil palm and food processing, as well as to provide logistical support (i.e., vehicles, office equipment). The rationale behind this is that the bank cannot prudently invest customers' deposits in agriculture without jeopardizing their safety. Without long-term borrowings, the ADB cannot therefore extend loans to agriculture, a reversal of its intended function.

Its branch network carries overhead costs that are often greater than the profit generated by the branch. Further, because of the ADB's focus, its clientele deposits far less per branch than that of any other primary or secondary bank except Ghana Co-operative Bank. With a low deposits/total liabilities ratio (21.3%) that is better only than the troubled National Investment Bank, the ADB is unable to meet its liquidity needs from low-cost deposits and trying not to risk their safety by lending them out to small-scale farmers.

Ultimately, the vicious cycle of weak asset quality, limited earnings and inadequate capital relate to the fundamental problems ADB has long encountered due to its risky focus. Only with a write-off of bad loans, injection of capital, better management of the credit process, improved availability, preparation and use of financial information for management purposes, and emphasis on making its branches profit-centers with a more flexible focus can ADB contribute to a restoration of confidence in the banking sector. A "wholesale" banking role for the ADB is discussed in our recommendations (see Section XI).

While largely overstated because of bad loans that have been carried forward, ADB's loan portfolio stood at about C3.5 billion at year end 1987, having grown 25.1% on an adjusted basis in 1987. The regional distribution of the loan portfolio was far more balanced than most of its competitors, as follows: Greater Accra (36.8%), Eastern (11.1%), Volta (10.9%), Brong-Ahafo (10.8%), Upper West and East (8.8%), Ashanti (6.7%), Northern (5.1%), Central (3.9%) and Western (2.1%), and a residual approval of 3.8% at the Head Office level for special projects such as block farms, palm oil mills, etc. A contributing factor to the largest concentration of loans being in Greater Accra is the concentration of the population in the capital. As Greater Accra's agricultural potential is far less than the other regions, it is assumed that many of ADB's non-agricultural loans were made in Greater Accra, confirming a trend of many rural deposits ultimately finding their way to urban market centers.

Agriculture (including fisheries) took 68.5% of the total loans granted by the ADB at year end 1987, consistent with the bank's focus on agriculture. Commercial activities reportedly received 7.3% of total loans, industrial entities 2.4%, with 21.8% of the total loan portfolio for others (i.e., consumer loans).

The portion of industrial loans has declined dramatically on an adjusted basis, by 50.2% in 1986 and an additional 40.2% in 1987. Commercial loans on an adjusted basis have also declined since 1985, with almost all the drop in 1986 (32.5%) and flat commitments in 1987. The decrease in industrial sector loans may be attributed to the high cost of foreign exchange to import raw materials under the foreign exchange auction system. However, with other banks increasing both industrial and commercial loans, the declines in these loans at ADB relate more to liquidity problems and their chartered focus on allocating credit to agricultural enterprises, two factors which are linked. It is likely that loans allocated for agriculture have, in fact, been used for trading purposes, thus obscuring some of the sectoral allocations as reported.

As for agriculture, 43.4% of the 1987 agricultural loan portfolio went to food crops and other cash crops. Fisheries took 25.2%, although the number of fisheries loans was not high. Because of the high capital costs involved (i.e., outboard motors imported from abroad), the cedi value of these loans during a period of inflation and devaluation results in a high proportion of fisheries loans. The ADB claims that its focus is on food crops, and that the fisheries portion of its agricultural sector is deceptive. The EEC has assigned a consultant to help the ADB manage problems with its fisheries loans. Financing of cocoa started only in 1985 due to the bank's policy of financing other crops of economic importance (oil palm, cotton, etc.) in line with the country's crop diversification strategy. In 1987, however, ADB financing of cocoa was immaterial.

The average loan amount received per customer increased from C18,349 in 1986 to C37,717 in 1987. The general increase in the loan amounts per customer over the years signifies that the ADB has taken into account inflationary pressures in the system and approved higher loan amounts to counteract increases in costs of production. However, most of its loans are smaller, entailing high administrative costs that increase operating costs without substantially increasing profits, and in fact often creating losses due to low repayment rates.

At year end 1987, ADB had mobilized C1.9 billion (US$10.9 million) in deposits, out of which 57.5% was in current accounts, 42.0% in savings and only 0.5% in fixed deposits. ADB's deposits were only 2.4% of the total deposits of the entire banking system, making it one of the least effective institutions in mobilizing deposits on a per branch basis. As 12 of its 34 branches are in Greater Accra or regional capitals, this points to the ADB not being particularly effective in mobilizing deposits, although the ADB's clientele clearly does not have the financial resources of the urban-based target groups of other banks. The trend in deposits is also impacted by increasing costs of production and small-scale farmer doubts about obtaining credit, as farmers utilize their cash for investment and consumption needs rather than placing their funds with the banks.

While savings increased by 21.1% (adjusted) in 1987, current accounts declined 34.0%. As with the Rural Banks, depositors in rural areas show a demand for savings plans that the banks could be more effective in meeting. Fixed deposits remained a minor portion of deposits. Mobilizing more savings and time deposits at the expense of current accounts entails higher costs to the bank, although the banks have generally managed to pay far less in savings to depositors than the posted nominal rate by enforcing six-month grace periods and paying on the lowest balance during a six-month period of time. With 68.5% of its loan portfolio in agriculture, it appears that the ADB's net interest margin will, however, continue to erode, making restructuring and recapitalization all the more imperative.

Short-term domestic borrowings at year end 1987 were about 41.1% of total deposits. There is a strong correlation between short-term domestic borrowings and financing of short-term activities, mainly food crops and other cash crops, an indication of borrowing short to lend short against banking prudence. Heavy short-term domestic borrowings reflect the ADB's liquidity crisis, brought on by a high proportion of non-performing assets and weak earnings. Deposits were only 55% of loans.

At year end 1987, ADB had borrowed about C2.8 billion, mainly from the African Development Bank, the EEC and IFAD. Most of these loans are of long-term duration and at concessionary rates to service agriculture through the supply of agricultural and fisheries inputs. Though the distribution of inputs by the bank has brought in substantial income (C25.0 million in 1985 and C120.0 million in 1986), such activity also entails high inventory costs. ADB will likely not be able to compete with commercial houses in the distribution of agricultural inputs now that the economy is becoming more competitive in the wake of trade liberalization. Nevertheless, the privatization of input supplies will provide the ADB with an opportunity to expand in-kind credit schemes by working with these input companies.

The ADB's other liabilities stood at C4.3 billion at year end 1987, or nearly 45% of total liabilities. The exact composition of these liabilities is not known, although they include employee-related reserves. If these other liabilities are also in the form of guarantees under documentary credits, it is conjectured whether the values of mortgages, securities or collateral are worth more than the guarantees. If not, this may add to the ADB's liquidity problems.

The ADB had a debt-equity ratio of 12:1 at year end 1987, far too high for a development bank with a weak loan portfolio. Capital and reserves were only 2.5% of total loans. This figure is abysmally low given that default rates for agricultural loans are comparatively high. The only consolation concerning equity is that the ADB reports earnings on a cash basis, unlike most of the banks that unjustifiably accrue unearned income. Nevertheless, the ADB is severely undercapitalized with a 2.5% equity/loan ratio.

Serious doubts remain about the ADB's capacity to serve as an efficient vehicle of credit delivery to the agricultural sector. Without a major restructuring of operations, material injection of capital, an improved organizational and administrative structure, increased commitment to enhancing the efficiency of its staff and more satisfactory use of research to support project officers, the ADB will not become an effective institution. Without a centralized head office (instead of five buildings spanning a quarter of a kilometer on different sides of a busy street), adequate telephone system, more timely preparation of critical information to assist with project officer financial analysis, increased number and capabilities of post-finance officers, added logistical and training support (vehicles, typewriters, computers), and the right to close down unproductive offices, the ADB will not succeed as an institution. Further, even with these changes, the ADB needs a new strategic plan focussing on targets that generate profits and are easier to administer. This would lead the ADB to focus on larger agricultural institutions rather than attempting to meet all the needs of the country's entire agricultural sector.

NATIONAL INVESTMENT BANK

Date Established : 1963
Focus : Term Financing of Industry
Branches : 10
Government Ownership : 75%

ASSETS:	1983	1984	1985	1986	1987
Cash on Hand	22	43	65	125	142
Balances w/Bank Ghana	47	78	306	94	773
Foreign Currency	-	-	-	-	-
Balances due by Other Banks	88	201	997	1,074	1,102
Treasury Bills	-	1,164	1	43	411
Commercial Bills	5	-	-	527	40
Loans + Advances	278	696	1,337	2,455	3,881
Investments	59	78	344	256	303
Other Assets	230	420	1,111	4,189	7,890
Total	729	2,680	4,161	8,763	14,542
Balancing Adjustment	61	(1,198)	4	290	434
LIABILITIES:					
Balances due to Other Banks	13	39	102	155	122
Borrowings from Local Banks	37	40	924	915	911
International Borrowings	172	463	778	1,469	5,196
Deposits	135	233	725	1,696	2,747
Other Liabilities	350	597	1,482	4,480	5,444
Total	707	1,372	4,011	8,715	14,420
Capital + Reserves	83	110	154	338	556

** Figures are in millions of cedis

The National Investment Bank (NIB) was established in 1963 as a specialized institution to provide medium- and long-term financing to industrial enterprises. Since 1975, it has diversified into comprehensive commercial banking functions, although its portfolio activity and limited branch network shows it has deviated little from its original mission. The NIB has long attempted to promote industrial development in joint efforts with foreign partners, including direct investment with the intention of ultimately selling NIB-owned shares to Ghanaian investors. These efforts have been frustrated by lack of investor confidence since the 1970's, the virtual non-existence of money and capital markets to provide a free trade environment for public shares, and the NIB's own severe problems in credit management and developing a strong asset-liability management approach to ensure attractive returns.

NIB suffers from high leverage and weak liquidity on its balance sheet. While its C15.0 million (US$85.1 million) in total assets qualify it as Ghana's fourth largest bank in this category (narrowly ahead of Standard Chartered), loans constituted only 25.9% of total assets. Taking into account NIB's term financing, much of its loan portfolio carries interest rates from earlier years when regulated rates were far lower, making its returns in an inflationary environment even more negative in real terms. With only 31.0% of its assets designed to generate earnings, and with weak deposit and equity bases, NIB has incurred C11.6 billion in borrowings and other liabilities to provide liquidity and to finance operations.

The result of NIB's borrowings, weak deposit base and poor capitalization is precarious liquidity and a balance sheet with values that are inflated and do not account for non-performing loans. Readily liquid assets (cash, balances with the Bank of Ghana, foreign currency and securities) totaled only C1.4 billion, barely more than balances due to other banks and borrowings from local banks. Together with the lowest deposits/total liabilities ratio in the banking system (19.1%), the NIB has had to look to long-term borrowings to provide some measure of liquidity for day-to-day operations. Other assets are the largest feature of NIB's balance sheet, reflecting joint venture interests and properties that have accumulated over the years but probably contribute little to earnings.

Of NIB's C3.9 billion (US$22.1 million) in loans, most are concentrated in the Greater Accra (69.6%), Western (14.3%) and Ashanti (8.2%) Regions. Such a regional distribution highlights NIB's emphasis on industrial loans, and increasing interest in the Western and Ashanti Regions while other area exposures are reduced or limited.

NIB's agricultural loans, 15.1% of total loans, were C585 million (US$3.3 million) at year end 1987. Most of its loans were to fisheries (64.9%), presumably in the Greater Accra Region, while the remainder was mostly in food crop production (32.1%). The NIB has never been a major player in agricultural lending.

NIB's deposits were C2.7 billion (US$15.6 million), only 71% of loans. Of its deposits, 59.5% were in current accounts and the remaining 40.5% in savings and fixed/time deposits. Given the term nature of its loan portfolio, NIB is paying out more on its savings and fixed/time deposits then it receives from many of its loans, forcing it to borrow to cover operating costs and meet its obligations to its depositors. Its problems with asset-liability management have not only created a disincentive to provide medium-and long-term loans, its original mission, but have chipped away at earnings, further preventing the bank from developing a stronger capital position to reduce its borrowing needs.

With severe liquidity problems, a loan portfolio that is often non-performing or carries below-market interest rates, a weak capital base, and a reliance on non-deposit liabilities, the NIB is desperately in need of recapitalization, restructuring and new management. Its capital and reserves are unsatisfactory, only 14.3% of loans when far greater than 15% of total loans should probably be written off. Without an infusion of capital, a revaluation of assets would almost definitely make NIB insolvent.

NIB typifies the inability of a development bank, with a specified mission and designed to meet a social need, to function as an efficient and profitable institution. Driven from the credit side to spark development, it has failed to manage its portfolio in such a way as to promote profitability, emphasize asset quality or stress the importance of deposit mobilization to a bank's operational soundness. This, in turn, has ultimately weakened NIB's ability to achieve its original mission of industrial development, as well as its ability to generate the earnings required to be competitive in other service areas of the banking industry.

BANK FOR HOUSING AND CONSTRUCTION

Date Established	:	1973
Focus	:	Housing and Road Construction
Branches	:	10
Government Ownership	:	100%

ASSETS:	1983	1984	1985	1986	1987
Cash on Hand	21	37	85	109	215
Balances w/Bank Ghana	164	63	270	822	488
Foreign Currency	-	-	-	-	3
Balances due by Other Banks	-	2	-	-	58
Treasury Bills	280	158	248	82	478
Commercial Bills	-	-	30	150	150
Loans + Advances	668	1,293	3,307	5,412	9,948
Investments	10	13	22	30	41
Other Assets	758	1,165	873	1,698	2,432
Total	1,901	2,731	4,835	8,303	13,813
Balancing Adjustment	(109)	119	380	377	801
LIABILITIES:					
Balances due to Other Banks	6	9	90	312	441
Borrowings from Local Banks	25	110	943	1,191	1,037
International Borrowings	769	1,139	1,331	2,005	5,122
Deposits	659	800	1,427	3,323	5,411
Other Liabilities	279	691	1,206	1,567	2,119
Total	1,738	2,749	4,997	8,398	14,130
Capital + Reserves	54	101	218	282	484

** Figures are in millions of cedis.

The Bank for Housing and Construction (BHC) was established in 1973 as a specialized institution. Since that time, it has grown to become Ghana's fifth largest bank in total assets, although this is largely due to its high level of long-term domestic and international borrowings, and in no way reflects asset quality.

BHC's balance sheet is one of the weakest in the banking system in terms of liquidity and capital, with doubts about loan quality reinforcing these weaknesses. At year end 1987, BHC's borrowings and balances due to other banks were C5.3 billion in excess of cash on hand, balances with the Bank of Ghana, foreign currency and securities. This constituted the worst net liquidity figure in the entire banking system, with borrowings from multilateral agencies via the Bank of Ghana used to finance BHC's increased loan portfolio. The strategy was to borrow at concessionary rates over longer periods, and lend short-term in areas that are less risky and generate cash flow. These loans, in turn, would shore up liquidity while the long-term loans could be used to match the long-term construction and real estate loans in BHC's portfolio.

With only 10 branches, BHC has been effective at mobilizing deposits (C5.4 billion), although these are only 38.3% of total liabilities. Borrowings are utilized because deposits are insufficient to cover BHC's loan portfolio and equity remains dangerously low. In fact, because BHC's assets are not generating sufficient earnings, BHC has been unable to bolster capital and reserves to anywhere near the level necessary to cover potential write-offs. Without higher deposit levels or strong earnings, BHC is caught in the cycle of borrowing to cover bad loans which do not generate earnings, impeding BHC's ability to strengthen capital and maintain adequate liquidity.

Total assets were C14.6 billion (US$83.0 million) at year end 1987. BHC reported a total loan portfolio of C9.9 billion (US$56.5 million) in 1987, which was distributed among industrial enterprises (36.3%), commercial activities (14.7%), mining (17.5%), real estate (12.3%), agriculture (1.4%) and other sectors (17.8%).

BHC's limited exposure to agriculture is distributed primarily to food crop producers (64.2%). BHC had some loans outstanding to fisheries and cocoa, with the rest of the agricultural portfolio presumed to be in agro-processing enterprises. Despite the limited role BHC plays in agricultural lending, in the next five-year period (1988-1993), BHC will administer loans amounting to the cedi equivalent of US$350,000 to small-holder farmers in the Northern Region under an IFAD loan to the Government.

At year end 1987, BHC had C5.4 billion (US$30.7 million) in total deposits, ranking it fifth in the banking system in this category. While BHC's deposits do not provide sufficient liquidity, its ability to attract the level of deposits it has with only 10 branches compares favorably to most banks, and is one of the few strengths demonstrated by BHC. It is assumed that many of these deposits are from Government institutions. BHC's deposits consisted of C2.8 billion (US$15.9 million) in current accounts (51.8%),

C723.8 million (US$4.1 million) 13.4% in savings (13.4%) and C1.9 billion (US$10.7 million) in fixed deposits (34.9%). BHC's deposits constitute about 6.7% of primary and secondary deposits, although BHC had only 3.0% of all bank branches. Of BHC's deposits, 92.5% were generated in Greater Accra.

BHC's equity was reported to be C484.4 million, only 3.3% of total assets and 4.9% of total loans. This represents one of the lowest coverage ratios of loans in the banking system, and points to the need for a major recapitalization and restructuring to shore up confidence in its portfolio and liquidity.

GHANA CO-OPERATIVE BANK

The demise of the Ghana Cooperative Bank (CB) is too long and detailed to profile as we have the other banks. In brief, the CB has long suffered from a high degree of mismanagement, organizational weakness and staff incompetence. While there is pressure to maintain and restructure this institution, there is also a serious debate about whether CB can be revived again. This is the third proposed restructuring of an institution long known for fraud, weak internal controls, unclear loan procedures and policies, poor and sometimes non-existent credit risk analysis, high overhead (including personnel expense) relative to productivity and returns, condescending attitudes towards those whom the institution is designed to serve, perennial liquidity problems, an inability in some cases to honor its obligations to depositors, and overstated assets, profits and equity.

One of the unfortunate by-products of CB's inefficiency is the failure to play a professional role as chief financier and advisor to the cooperative movement in Ghana (see Section VI). While cooperatives in Ghana have failed for many other reasons (mismanagement, fraud, lack of business training, philosophical bias against profit, etc.), a strong Cooperative Bank may have been able to alleviate some of those problems and play a constructive role in cooperative enterprises.

Whether the CB can be restructured into an efficient operation is uncertain. While the current senior management officials, above all its Managing Director, are highly regarded in banking and professional circles, the gross inefficiency of the vast majority of personnel forces senior management into day-to-day tasks and away from developing a longer-term strategy for a viable future. For the Cooperative Bank to become viable, it will first have to be rationalized such that its loan portfolio would shrink to virtually zero in value. Even with recapitalization and a fresh start, the CB would need to be conceived in a new light, with a complete restructuring of operations, organization, staff training and accountability that would take years. Even if all these changes take place, the remaining question is whether the Cooperative Bank can ever overcome the degree to which it has violated public trust and undermined confidence in itself and the banking sector. An answer to that question will also take years.

V. THE RURAL BANKS

A. Introduction, Formation and Objectives: The concept of what has evolved as the Rural Banks began around 1970 to introduce banking services that were generally lacking in rural areas. The idea was to establish financial institutions based on local initiative to mobilize rural savings and extend credit to deserving customers in the same area. The first Rural Bank was opened in 1976, but not until the mid 1980's was there any appreciable expansion of the Rural Bank system. Their focus was designed to be on rural development, with special emphasis on small-scale farmers, entrepreneurs and merchants. To prevent the outflow of funds to other parts of the country, the Rural Banks were structured as unit banks, designed to be locally owned and managed, with supplemental equity contributions, training and planning from the Bank of Ghana. The BOG's role would eventually be reduced to its proper supervisory function once the Rural Banks were stable and viable. The unit concept was adopted so that deposits mobilized by the community would be recycled in credit form back into the community to priority sectors (primarily agriculture and cottage industries) for the promotion of job- and income-creating activities.

The Bank of Ghana had tried to achieve these general objectives with the formation of the Agricultural Development Bank in 1965. Nevertheless, because of that bank's more specialized focus, and the high costs involved in setting up an extensive branch network for a development institution, the Bank of Ghana devised a more localized approach to complement the efforts of the ADB towards small-scale farmers. The Rural Banks were also intended to support Government initiatives for agricultural cooperatives, although these generally were unsuccessful due to mismanagement, misappropriation of funds, lack of membership commitment and training or general problems facing the agricultural sector (see Section VI).

Several factors played a role in developing an extensive unit banking system whose focus was geared specifically to small-scale levels of production and distribution in rural areas:

i) many small-scale farmers, particularly subsistence farmers, have traditionally not held deposit accounts with banks due to lack of resources, education and/or access, resulting in an inability to obtain credit from formal financial institutions;

ii) the small-scale farmer's inability to access credit from banking institutions, and the general absence of viable financial alternatives, has led the small-scale farmer to moneylenders; moneylender interest rates have traditionally been far higher than bank rates, and repayment often diminishes the farmer's resources (cash and/or produce) to the point where capital investment in storage facilities, better implements, improved seedlings, etc., becomes difficult;

iii) the inability of the small-scale farmer to generate surplus cash from his output has encouraged the cycle of poor agricultural development, limited investment and increased dependence on the moneylender, with many farmers simply abandoning the land or cultivating less land, leading to a general decline in food production;

iv) the general degree of poverty affecting the small-scale farmer, often subsisting with little or no surplus, means less of a potential market for artisans and entrepreneurs whose activities might promote the production and distribution of inputs that could improve agricultural productivity;

v) the overall stagnation of many of these areas, with limited economic activity aside from subsistence, limits the formation of groups that could effectively store and market an area's inputs and food products; and

vi) without increased productivity and investment, people leave for urban areas seeking employment, taxing public services, reducing food production, rendering existing (i.e., older) farm labor more inefficient, and driving up food costs.

By devising a unit banking system to address these fundamental problems, it was believed that deposit mobilization would stimulate economic production with attendant multiplier effects. With lower interest rates charged on credit than those of moneylenders, and with interest paid on savings (in contrast to nominal lump sum declines from the traditional "susu", or savings associations), the Bank of Ghana believed small-scale farmers, craftsmen and entrepreneurs would have a financial incentive to place their deposits with the Rural Banks.

The localized orientation inherent in a unit system would provide safeguards against credit risk, as customers would be better known and peer pressure likely to be effective with debt service. Greater availability of funds would induce a spiral of higher levels of financial intermediation, encouraging a freer flow of goods and services that would reflect a more dynamic community development process in the rural areas. In short, the Rural Banks were designed to be the catalyst for capital formation in rural areas that would lead to a more advanced level of production and consumption, increasing jobs and income for its residents.

B. <u>Criteria for Establishing Rural Banks:</u> From the outset, the Bank of Ghana established several criteria by which to judge the merits of opening a Rural Bank:

i) community initiative;
ii) economic activity;
iii) demographic considerations;
iv) infrastructural support; and
v) social factors.

Before the Bank of Ghana sends a survey team to gather initial data on an area's feasibility for a Rural Bank, people from that area need to organize themselves and apply. This is considered a sign of the minimum degree of commitment required for the establishment of a financial institution with long-term viability.

Once in the field, the Bank of Ghana survey team assesses the population of the town and area, number of people older than 20 who are likely to patronize the bank, and the educational levels of the community to ensure adequate personnel. Of paramount importance is an area's economic activity, although a case can be made that a Rural Bank is appropriate in virtually any non-city context where ample competition would not exist. If a town or area is moderately prosperous, its potential for deposit mobilization, capital support and a high-quality loan portfolio is high. If a town or area is poor, much of this may have to do with the absence of financial institutions that promote capital formation and development. The necessary infrastructure must be in place, with particular focus on buildings, roads, postal services, and police for security. Finally, social factors such as anti-banking taboos are investigated to be certain that the presence of a bank would not undermine the social fabric of a community.

Assuming that all the criteria are satisfactorily met, the Bank of Ghana will approve issuance of a license for the opening of a Rural Bank in the area. As of mid-1988, there were 120 Rural Banks with the following regional distribution:

Region	Rural Banks
Central	22
Eastern	22
Ashanti	22
Brong-Ahafo	18
Western	13
Volta	13
Greater Accra	6
Upper	4
Northern	0

The Central Bank had approved 37 additional banks for opening, conditionally approved seven, with 228 areas yet to be appraised. As of 1986-1987, only 17 requests had been denied, or 10% of total applications. The Bank of Ghana estimates there will be 150 Rural Banks open for business by 1990.

The most under-represented areas of the country, the Northern and Upper Regions, have only four Rural Banks. Eight have been approved for the Northern Region (where zero currently exist), while two additional Rural Banks have been approved for the Upper Regions. Lack of ability to collect adequate share capital has delayed their openings. (The raising of share capital is often delayed in the formation of Rural Banks, cooperatives, and other

community-based enterprises as it is a new concept to Ghana. Here the role of education and development of trust is crucial, but due to past and current misappropriation of funds, mobilizing share capital is not an easy task).

C. Ownership: Once an area has received approval to open a Rural Bank, the Bank of Ghana has stated it must raise a minimum of C1.5 million, with an individual's share no larger than C25,000. Ordinary voting shares are issued to local residents or people originating from the area despite currently living elsewhere. The average value of shares at the end of 1987 for ordinary shareholders was C1,406, although this does not take into account the book value per share of reserves. Each individual shareholder has one vote.

Preferred shares of C500,000 (originally C125,000) are issued to the Bank of Ghana. Thus, the BOG holds up to 33.3% of share capital from the outset, as its C500,000 remains constant until eventually phased out when the area's residents are trained and equipped to assume full control. At start-up, where geographically feasible (i.e. the southern part of the country), the BOG assumes a seat on the Board of Directors, trains Rural Bank personnel, and is supposed to supervise, monitor, and examine the Rural Banks as with the primary and secondary banks.

Shareholders at Rural Banks serve the same function as those of the other banks. These consist of the following:

i) electing or removing directors from the Board; this includes increasing or decreasing the number of directors, usually six from the community and one from the BOG at start-up;

ii) increasing or decreasing share capital;

iii) amending its regulations;

iv) adopting, amending or repealing its bye-laws; and

v) disposing of assets and/or liquidating the institution according to the laws of Ghana.

The presence of the Bank of Ghana on the Board of Directors is designed to establish a supervisory presence that is frequently in touch with operations. Directors who are chosen by the shareholders must be approved by the Bank of Ghana, and any loans to directors are supposed to be cleared by the Central Bank. In recent months, however, violations of loan clearance and subsequent defaults by directors have become public, reflecting the need for more efficient supervision of Rural Bank operations. This also demonstrates the risk of cronyism and nepotism in the unit banking approach, although these problems occur elsewhere in the banking system.

D. Management, Personnel and Compensation: Shareholders, via the Board of Directors, are responsible for management and personnel hiring, policy and performance. Managers are expected to possess a minimum of 10 years of banking experience, with a considerable portion of that at the managerial level. The Bank of Ghana is responsible for clearing the manager, as well as providing training. Subordinates (i.e., accountants, assistant accountants, project officers, etc.) are also expected to satisfy specific educational and experience requirements. At the end of 1987, the Rural Banks had 1,173 employees, or about 10 people per branch.

Compensation for all personnel is expected to be lower than at the commercial banks, at least until the institution is viable and can afford to increase salaries and benefits. Changes in compensation are at the discretion of the shareholders via the Board, although the Bank of Ghana is explicit about Rural Bank staff and directors serving in a manner that is "public spirited".

In our surveys, several Rural Bank managers claimed that insufficient compensation served as a disincentive for employees to stay at the Rural Banks. More importantly, and partially resulting from apparently unsatisfactory remuneration, all the managers complained of the need to improve staff training (bookkeeping, accounting, project analysis, etc.). Thus, it appears that many of the Rural Banks have problems with staff turnover, and that levels of staff training are inadequate to support an efficiently-managed institution. This reinforces the cycle of low remuneration as the Rural Banks are not operated with enough surplus to increase compensation to attract higher levels of talent. Inadequate compensation also increases the temptation of managers and staff to commit fraud, further undermining confidence in a banking system beset by problems of mismanagement and abuse.

E. Credit Operations: Eligibility standards for credit from Rural Banks have been set to focus on small-scale clienteles, although exceptions can be made when essential or necessary services to the community are at stake. Current practices do not place maximum values on capital investment cited below in examples (ii) and (iii). Original eligibility standards for loans from Rural Banks were established as follows:

i) farmers with less than 50 acres under cultivation;

ii) operators of rural enterprises whose capital investment in plant and machinery had been less than C100,000 (1976 prices);

iii) merchants whose capital investment had been less than C100,000 (1976 prices); and

iv) associations of small farmers, merchants, livestock and poultry producers, and fishermen and fishpond owners.

Group loans can be extended, with groups jointly and severally liable. Our surveys indicate that most loans tend to be to individuals. Some Rural Bank managers indicated that group lending was an attractive alternative in the agricultural sector to reduce loan losses and operating costs, although little has been done by them to test this.

Given a mandated sectoral allocation of credit for agriculture of 45%, and due to its focus on the small-scale farmer, most Rural Bank loans (including non-performing ones) have been for farm expenses (i.e., labor, harvesting, processing, etc), input purchases, the purchase of animals for breeding, and repairs or fees related to improvements in equipment. Some loans are granted to farmers for household needs, particularly for those with seasonal production cycles (i.e., tree crop producers), although most loans are reported to be geared to food crop production. Collateral (life insurance, mortgages, deeds, savings, guarantees, etc.) is welcomed by the Rural Banks, but most small-scale farmers claim to have little in assets that are convertible to cash aside from their output, clothing and shelter. The banking system in general is not keen on asset seizure as it is costly, of limited value, and negative for their image. According to our surveys, the result is that fewer loans are now (since mid-1987) being issued to farmers, and those issued are in smaller real amounts to lessen the impact of non-performing loans on the Rural Banks' operations.

Other loans (i.e., cottage industries, transport and commerce) are supposed to promote or support agricultural production. Thus, cottage industries may include blacksmiths or mechanics who can contribute to the farmer's ability to maintain tools, storage and equipment. In reality, however, the majority of these loans are to distilleries, soap manufacturers, charcoal/firewood enterprises, etc., and do little to promote agricultural development. Transport and commercial loans can likewise play an important role in the supply of inputs and distribution of output. However, most of these loans are not at all related to the supply of inputs or marketing of food that encourages incremental local economic activity. Farmers complain of low prices for their output, while traders and transporters (who are often from urban areas) reap the profits by selling locally produced goods in major urban markets without reinvesting the funds in rural areas of production.

The following distributions have been established for the Rural Banks by the BOG to continue their focus on short-term, small-scale loans. Whether the Rural Banks are continuing to adhere to these guidelines must be assessed on a unit basis. Particularly in light of the high rate of non-performance in the agricultural sector, sectoral allocations are difficult for the Rural Banks to follow:

Sectoral Allocations

Agriculture	45%
Cottage Industries	30%
Others	25%

Quantity Distribution

<- 30,000 cedis	60%
30,000 - 100,000 cedis	30%
> 100,000 cedis	10%

* a loan >400,000 cedis requires Bank of Ghana approval

Duration

0 - 1.5 years	70%
1.5 - 5 years	20%
5 - 15 years	10%

While the Rural Banks in our survey claimed to be in compliance with sectoral allocations, trends suggest that the cedi value of new loans being issued to agriculture is less than 45% of total loans, and that the transport and trading sectors are receiving about 35-40% of new loans. In fact, the consolidated financial statements from June 1987 show aggregate non-compliance (see Annex V-1). This suggests that the high risk of agricultural loans is diminishing the supply of Rural Bank credit to this sector, and that cottage industries are also being neglected. In other words, aggregate Rural Bank lending is now increasingly directed away from local production and into distribution in major urban markets. With the shift in emphasis, the lending activities of the Rural Banks are reinforcing trends that deviate from the objectives the Rural Banks were intended to promote.

F. Financial Performance: The Rural Banks, with their limited number of units until the mid-1980's, are small within the context of the formal financial sector (discussed in Section IV). The Rural Banks have shown initial signs of success, significantly increasing the number of their account holders, loans and deposits each year, and being effective at savings mobilization (6.8% of total formal sector savings in 1987).

Nevertheless, the Rural Banks face problems endemic to the banking system, and have generally not yet had the time to develop into effective agents of rural development. Rural Bank deposits are still less than 3% of total formal financial sector deposits. A weak loan portfolio (2.1% of total formal sector loans), driven largely by non-performing agricultural loans, has undermined earnings and capital. Average equity/loans was 20.4% at year-end 1987, probably

below the capital and reserves required to cover loan write-offs. Under such circumstances, the possibility remains that many Rural Bank units' bad assets may lead to a run on deposits, undermining liquidity and leading to insolvency.

It is noteworthy that of the 120 Rural Banks established since 1976, the Bank of Ghana retains equity in all 120 of them to instil confidence and provide the Rural Banks with capital support. One official estimates that 15% of the Rural Banks are very sound, 20% fairly strong, and the remainder either troubled or struggling. It is also noteworthy that the Bank of Ghana increased the cedi value of its preference shares in new Rural Banks in 1986, from C125,000 to C500,000, reflecting the devaluation of the cedi and the need for increased capital and reserves from local residents from the outset. The Bank of Ghana has reduced its maximum equity share from 50% to 33%, hoping to encourage greater local initiative and managerial responsibility.

Following is a brief discussion of the consolidated December 1987 Rural Bank balance sheet. An aggregate balance sheet from 1983-1987 is found in Annex V-2, while a composite view of leading Rural Bank indicators is featured in Annex V-3.

i) <u>Deposits:</u> At year end 1987, the Rural Banks had total deposits of C2.2 billion, or 2.75% of formal financial sector deposits. Of the Rural Banks' deposits, 75.6% of these were in savings accounts and 24.4% were in current accounts. The distribution of deposits approximated the distribution of accounts, with 79.1% of total accounts in savings and 20.9% in current accounts. One area of success has been in the number of account holders, rising from 164,000 (savings and current) in 1983 to 553,000 at the end of 1987. Thus, accounts increased 2.4 times with a .95 times increase in Rural Banks. The Rural Banks did not report any fixed/time deposits, and given their clientele's lack of familiarity with these instruments and the higher costs involved to the banks, it is unlikely that the Rural Banks have engaged in marketing these instruments.

   Total deposits per region were almost 100% positively correlated with the number of Rural Banks in each region. The one exception is the performance of the Rural Banks in Brong-Ahafo, whose deposits lag those of the Western and Volta Regions despite having more Rural Banks. This is due to most of the Rural Banks in Brong-Ahafo being new, and the degree of established secondary (particularly the ADB) bank activity in the region. The following chart highlights the regional distribution of Rural Banks and deposits relative to total deposits in the Rural Bank system as at the end of 1987:

Region	Rural Banks	% Total RB's	Deposits (millions of cedis)	Regional Deposits/ Total RB Deposits (%)
Central	22	18.8	492	22.3
Eastern	22	18.8	470	21.3
Ashanti	21	18.0	345	15.7
Western	13	11.1	335	15.2
Volta	12	10.3	251	11.4
Brong-Ahafo	17	14.5	141	6.4
Greater Accra	6	5.1	115	5.2
Upper	4	3.4	53	2.4
Total	117	100.0	2,203	100.0

Thus, on a comparative distribution basis of Rural Banks and deposits, the strongest performers are in the Central, Eastern and Western Regions, while Brong-Ahafo and Ashanti show the weakest performance. Brong-Ahafo, for the reasons mentioned above, has not yet been effective at attracting deposits and account holders.

On a per branch basis, the distribution of regional performance changes in favor of the five regions along the coast. As the earliest Rural Banks were generally established on the coast with active fishing markets, this suggests there may be positive correlation between regional Rural Bank efficiency and both steady cash flow (fishermen) and the greater number of years having been in operation. Nevertheless, this would have to be analyzed on a unit basis as several Rural Banks in non-coastal regions are well-managed and successful while other Rural Banks in the coastal regions have not been successful. It also does not appear that primary and secondary bank competition nullifies a Rural Bank's chances for success, as several along the coast are competing with the commercial banks. Following is a breakdown of regional branch efficiency in attracting deposits:

Region	Average Branch Deposits (millions of cedis)
Western	25.8
Central	22.4
Eastern	21.4
Volta	20.9
Greater Accra	19.2
Ashanti	16.4
Upper	13.3
Brong-Ahafo	8.3

On an aggregate basis, average deposits per Rural Bank were C18.8 million at year end 1987, compared to C236.5 million for the primary and secondary banks. Even when compared to the Agricultural Development Bank, which averages C56.6 million in deposits per branch, the Rural Banks are small. Their size reflects the limited resources of their clientele, the short period of time in which most Rural Banks have been established, rural as opposed to urban locations, and difficulty in promoting capital formation to the degree necessary to induce more dynamic levels of economic development. With limited capital, the Rural Banks depend on deposits for 62.3% of their total funding (compared to 46.3% for the primary and secondary banks). As such, the Rural Banks are channeling their loans to enterprises and sectors that have a higher probability of generating quick profits (i.e., trading), diverting funds from investments in an area's productive capacity or efficiency. To do otherwise at this point would be to risk depositors' confidence, which would undermine the institution itself, and reduce profitability.

To highlight the limited resources of the Rural Bank's clientele, the following charts illustrate the number of account holders and average amounts deposited with the Rural Banks at year end 1987:

Savings Accounts

Region	No. of Accounts	Savings (millions of cedis)	Avg. Savings/ Account
Central	103,871	372.1	3,583
Eastern	108,257	355.3	3,282
Ashanti	84,055	276.6	3,290
Western	52,716	252.5	4,791
Volta	41,902	191.4	4,568
Brong-Ahafo	30,115	108.8	3,612
Greater Accra	10,945	71.6	6,546
Upper	6,062	36.8	6,069
Total/Avg.	437,923	1,665.2	3,802

Current Accounts

Region	No. of Accounts	Deposits (millions of cedis)	Avg. Deposits/ Account
Central	26,685	119.5	4,478
Eastern	26,829	114.9	4,281
Western	13,519	82.1	6,070
Ashanti	14,716	68.8	4,672
Volta	14,389	60.0	4,168
Greater Accra	5,722	43.8	7,663
Brong-Ahafo	9,960	32.0	3,211
Upper	3,732	16.6	4,444
Total/Avg.	115,552	537.6	4,652

The charts provide several points of interest in assessing the Rural Banks' clientele, as well as regional trends among the Rural Banks. Concerning savings, the average amount held at year end was C3,802, probably comparable to an individual's one-two months savings in many "susu" associations in both rural and urban areas (see Section VIII). It is possible that some of the Rural Banks' savings account customers also participate in "susu" if they do not travel frequently to the town in which the Rural Bank is located. It is also possible that the average savings account is lower at year end due to withdrawals for Christmas purchases. (Most Rural Banks lend heavily in February/March for land clearance, planting and maintenance for food crops and cocoa. Cash comes in during July/August with the food crop and cocoa harvests and the peak fishing season). Regardless of whether the average savings account holder has additional financial resources that could be placed in these accounts, the fact is that the average account is small. The Rural Banks have demonstrated success in attracting these deposits, although the Rural Banks will need to generate a far higher volume of accounts if they are going to achieve a sizeable portion of national deposits.

The total savings distribution, like deposits in general, is comparable to the distribution of Rural Banks except in the case of Brong-Ahafo. Perhaps most surprising is the average savings account in the Upper Regions (C6,069), second only to Greater Accra (C6,546), and nearly 60% above the average Rural Bank savings account. This suggests that the Upper Regions, despite their transportation and weather problems, may in fact have money outside the formal sector that it would like to place with a bank. These four banks, located in Bessfa (Upper East), Kasena Nankan (Upper East), Nandom (Upper West) and Sonzele (Upper West), are all distant from Tamale. With little incentive for the primary and secondary banks to broaden their networks in the Upper and Northern

Regions, it is possible that the Rural Banks can fill this gap even more effectively than in other regions due to the lack of competition. Establishing links with credit unions would support this effort (see Section VII).

Perhaps the most revealing statistics concerning current accounts are in relation to savings accounts. Average deposits were C4,652, larger than average savings and about 25% of the estimated C15,000-C20,000 range of the average size of small-scale farmer loans in 1987. However, because total demand deposits were only 24.4% of total deposits, the Rural Banks have not been successful at mobilizing "free" deposits to reduce their costs of capital. To compensate, most Rural Banks pay interest rates on savings well below (i.e., 16.5%) the nominal primary and secondary bank rates. Further, like the other banks, the effective savings rate is well below the stated rate as payment is usually made every six months on the lowest balance during that period. In some cases, the Rural Banks take longer to pay interest, or forego payment unless a customer complains. This, too, happens with the other banks. As long as current accounts remain a small percentage of total deposits, it is likely that the Rural Banks' net interest margins will continue to be pressured, due primarily to a large number of non-performing loans, but also because of their high proportion of saving accounts.

ii) Other Liabilities: Non-deposit liabilities were C1.1 billion, or 33.3% of total liabilities. These generally consisted of borrowings from correspondent banks that relate to inter-bank clearing purposes. The Rural Banks have no liabilities to other banks except for check clearing purposes. This, in fact, is partially because the primary and secondary banks look at the Rural Banks as competition.

iii) Equity: Capital and reserves were C236 million at year end 1987. Share capital consisted of C78 million held by ordinary shareholders (C1,406 on average), and C17.5 million in preference shares to the Bank of Ghana. Reserves were C141 million. One source of confidence in the Rural Banks is that its reserves are not overstated. Unlike most banks, the Rural Banks report and retain income on a cash basis, not accrual.

Stated capital and reserves were 20.4% of total loans. As most Rural Bank managers surveyed estimated that 50% of agricultural loans were non-recoverable, it is probable that most Rural Banks are inadequately capitalized. These problems are likely to be most serious in the Upper, Western and Volta Regions, although capital adequacy obviously depends on asset quality. The following chart highlights regional equity/loan ratios among the Rural Banks at year end 1987:

Region	Equity/Loans (%)
Eastern	30.7
Brong-Ahafo	22.7
Central	21.8
Greater Accra	19.4
Ashanti	18.0
Volta	17.7
Western	15.5
Upper	11.4

The equity/loan ratios in many ways are comparable to those of the primary and some secondary banks. However, because the Rural Banks have been required to maintain higher proportional allocations in risky sectors, their equity/loan ratios should be higher. Nevertheless, one major difference between the Rural Banks and other banks is the former's cash accounting of income. As such, retained earnings are retained on a cash basis, and therefore constitute real equity. This cannot be said for most of the other banks. Thus, it is conceivable that most Rural Banks are, in fact, better capitalized than most of its competitors.

The unit system was supposed to be a safeguard for high quality loans, but Rural Bank managers surveyed indicated that loan recovery was a major problem. As such, it is very probable that, like most of the rest of the formal financial sector, most of the Rural Banks are undercapitalized.

iv) Loans: At year end 1987, the Rural Banks had C1.2 billion in loans, or 2.1% of total loans outstanding from the formal financial sector. Loans were only 52.5% of deposits, suggesting that the Rural Banks had adequate liquidity (discussed below). Average loan size in mid-1987 was C28,387, with the largest average sectoral loan (C138,157) to transport and the smallest average sectoral loan (C17,703) to agriculture.

While we do not have sectoral allocations for year end 1987, we do have these distributions for the previous two fiscal years ending June 30, 1986 and 1987. The following chart highlights loan distribution trends that our surveys suggest have intensified after June 30, 1987:

Sector	June 1986 (%)	June 1987(%)
Agriculture	43.6	41.0
Cottage Industry	7.8	6.0
Transport	12.8	11.8
Trading	24.8	26.8
Other	11.0	14.4

The chart shows that the Rural Banks are diverting their loans away from the riskiest sectors, primarily loans to

food crop farmers, and channeling them to traders and other unclassified (i.e., school fees, funerals, weddings, etc.,) areas. Even more revealing is the inactivity of cottage industries, which are supposed to constitute 30% of total loans. These declined from 7.8% to 6.0% over a period in which the sectoral allocation was increased from 20% to 30%. Most Rural Bank managers claimed that their agricultural loans to small-scale farmers were used for other purposes, namely trading. Considering that trading and transport are supposed to constitute no more than 25% of total loans (down from the original 30%), their 38.6% proportion was "excessive" and nearly equalled agriculture. Given that many agricultural loans are used for commerce, there is a good chance that a large portion of the cedi value of Rural Bank loans is used for distribution and consumption and that a diminishing portion of loans is actually used for production purposes. This seems to indicate that, in an effort to remain solvent, meet higher costs and increase profitability, the Rural Banks have had to deviate from their original objectives of promoting small-scale agriculture and allied industries/enterprises. It also demonstrates how ineffective sectoral guidelines have been with regard to risk management.

These trends are consistent with the banking sector in general. Formal sector loan recovery from small-scale farmers has been low, with most Rural Banks claiming that little more than 50% of agricultural loans are recoverable. In one case, the rate was estimated at 15%. At another Rural Bank, no agricultural loans were issued in 1987 due to problems with repayments. While Rural Bank managers cite weather as a problem, the following were also cited as reasons why small-scale farmers do not repay their loans:

a. farmers are expanding too fast and beyond their means, leading to insufficient cash flow for short-term loan repayments;

b. farmers divert their loans for trading, family and consumption purposes, often wasting the money without producing goods that could be used to repay their loans:

c. banks are unable to provide adequate amounts of loans because of the number of outstanding loans that are not being serviced or repaid;

d. farmers sometimes ask for loans too late in the production cycle, leading to lower productivity;

e. farmers have marketing problems regardless of the weather; drought wipes out their crops, while bumper harvests reduce prices and limit farmer returns;

f. farmers often lack pesticides for spraying, and their crops suffer from plant diseases;

g. farmers are sometimes unreliable, taking advantage of what they perceive as free money; only when pursued do they repay their loans; and

h. some farmers are poor financial planners; at one Rural Bank, the manager claimed that of C60 million paid through cocoa checks, zero was retained on account.

Curiously, none of the Rural Bank managers cited moneylenders as a reason why farmers did not repay the Rural Banks. Perhaps this was implicit when managers claimed some farmers simply did not have the cash (i.e., after repaying moneylenders). However, most Rural Bank managers claimed that moneylenders meet about 20% of small-scale farmer financing needs, and that most moneylenders gear their loans towards trading and fisheries (with their steady cash streams). The Rural Banks tend to blame weather, poor judgment and dishonest character as the main reasons why loans are not repaid by farmers.

To improve on loan collection, the Rural Banks appear to be more willing to use harsh measures to retrieve their loans. The Rural Banks generally visit the borrowers and send up to three reminders of a loan's due date. In some cases, these notices are sent before maturity. However, once these measures have been exhausted, most of the managers claimed to use the militia, CDR's, and courts to effect loan repayment. Not once was the influence of the village chief mentioned, although it is hard to believe this avenue is not taken. It is difficult to ascertain how effective these measures have been given the large percentage of non-performing loans on the books. It is also uncertain what the net impact of these measures has been on deposit mobilization, as many potential depositors interested in obtaining credit might stay away to avoid complications with law enforcement agencies.

The impression from our surveys, however, was that legal action is used as a last resort, and that it has not been resorted to on a frequent basis. In some cases, the Rural Banks reschedule. In other cases, the managers stated explicitly that they do not wish to use law enforcement measures, and instead try moralsuasion and education to induce repayment. This is consistent with their emphasis on serving the community by emphasizing local attachments and improved service levels.

The end result in many cases, however, has been a weak loan portfolio that has led to weak earnings. By adhering to strict sectoral allocations and lacking adequately trained staff and logistical support, the Rural Banks have evolved into institutions that are now primarily financing commercial and trading activities, effectively diverting funds away from production enterprises in the local area. Strengthening guarantees, abolishing sectoral allocations, encouraging

closer monitoring standards, improving staff skill levels in determining creditworthiness, adding vehicles, developing in-kind and group credit schemes and financing local marketing efforts can all contribute to better performance of Rural Bank loan portfolios. However, in the interim, most Rural Banks will continue to be plagued by a generally weak loan portfolio, similar to most of the other banks.

v) Liquidity: The Rural Banks appeared to have adequate liquidity to meet short-term obligations at year end 1987, and this has been true throughout the 1980's. Savings deposits tend to show little turnover, constituting a relatively stable source of funding. This was the largest liability the Rural Banks had. The Rural Banks had about C1.6 billion in liabilities that may have been of a short-term nature. Chief among these were "other" liabilities (owed to Bank of Ghana, correspondent banks, other creditors), current accounts and balances due to other banks.

To cover these liabilities, the Rural Banks had C1.6 billion in the form of cash, securities, balances with the Bank of Ghana and balances due from other banks. This appeared to be satisfactory in light of a relatively stable aggregate deposit base.

The Bank of Ghana required primary reserves of 10.0% of current and savings accounts, and secondary reserves of 20.0% of total deposits. This amounted to C553 million. The Rural Banks had cash alone of C607 million, plus reserves at the Bank of Ghana of C352 million. Thus, primary reserves were 43.6% of deposits and secondary reserves were 67.6% of deposits. By all measures, liquidity did not appear to be a problem at the end of 1987, or at any time in the 1980's on an aggregate basis.

In this category, the Bank of Ghana has been very effective in monitoring Rural Bank liquidity. The intention of the Bank of Ghana is to create an effective inter-Rural Bank system of intermediation such that Rural Banks with excess liquidity can lend to their illiquid counterparts at market rates. To date, the system appears to work well, and this should become increasingly so with the opening of more Rural Banks.

G. Summary: As with the rest of the formal financial sector, the Rural Banks are generally faced with problems of loan quality, capital adequacy, staff efficiency and transactions costs to most rural people. Because of problems with loan quality in sectors to which the Rural Banks are supposed to give priority attention (agriculture and cottage industries), current lending trends are away from these areas in favor of trading. In some cases, this means diversion of surpluses from the Rural Bank's area to other regions, usually urban centers. This, in fact, undermines the central objective of each Rural Bank: to raise levels of financial intermediation on a community-based level so that deposits are

recycled back into the area in credit form to promote economic development.

Nevertheless, the Rural Banks have made great progress in the short time they have been operating, particularly in the field of savings mobilization. As unit banks that are community-based, and with the Bank of Ghana eager to establish more Rural Banks, they should become an effective institution in rural finance.

Approximately one in three Rural Banks is considered to be stable, well managed, and with a financial condition that indicates long-term viability and competitiveness. In many cases, primarily along the coast with active fishing communities, the Rural Banks are competing effectively with primary and secondary banks. Thus, it appears that Rural Banks can make a formidable contribution to rural development.

There are problems the Rural Banks face, however. Some communities lack sufficient initiative, management, skilled personnel and/or economic activity to make a Rural Bank viable. In other cases, the Rural Banks are faced with the dilemma of choosing between their intended community-based development objectives, and their obligations to depositors and shareholders to seek profitable investment opportunities to preserve liquidity and capital, even if that means failing to recycle funds in the community. Ultimately, the Rural Banks will have to improve in-house training, raise service levels, and resolve the conflict they currently encounter as to their "unit" structure and funds flows out of their targeted areas. Nevertheless, they serve as a community-based formal institution with far less overhead than the rest of the banks. With demonstrated examples of success, they should be able to function well once skill levels are improved. Particularly in areas where there is no competition, the Rural Banks may have a very positive future.

RURAL BANKS - SECTORAL ALLOCATION OF LOANS

SECTOR	30 JUNE 1986 AMOUNT	BENEFICIARIES	% DISTRIBUTION	30 JUNE 1987 AMOUNT	BENEFICIARIES	% DISTRIBUTION
A. Agriculture	C					
i) Cocoa Rehabilitation	8,797,514	569	4.5	29,985,527	1,835	8.1
ii) Food Crops	53,221,168	5,149	27.2	76,967,334	5,227	20.8
iii) Livestock	8,355,510	159	4.3	15,068,963	1,101	4.1
iv) Fishing	10,126,202	463	5.2	12,031,838	150	3.2
v) Inputs	4,738,901	74	2.4	17,710,301	260	4.8
Sub-Total	**85,239,295**	**6,414**	**43.6**	**151,763,963**	**8,573**	**41.0**
B. Cottage Industry						
a) Local Distilleries	2,793,995	65	1.4	3,060,280	88	0.8
b) Soap Manufacturing	930,396	25	0.5	1,551,439	27	0.4
c) Kenkey & Allied Food	197,438	8	0.1	1,119,802	32	0.3
d) Charcoal/Firewood	300,519	9	0.2	1,092,939	24	0.3
e) Others	11,035,331	145	5.6	15,391,787	190	4.2
Sub-Total	**15,257,679**	**252**	**7.8**	**22,216,247**	**361**	**6.0**
C. Transport	25,108,902	240	12.8	43,519,590	315	11.8
D. Trading	48,454,065	1,377	24.8	99,051,290	1,197	26.8
E. Others (Unclassified)	21,392,368	1,167	11.0	53,497,741	2,593	14.4
Grand Total	**195,452,310**	**9,450**	**100.0**	**370,048,831**	**13,036**	**100.0**
Number Reporting	83			90		
Number in Operation	106			110		

RURAL BANKS BALANCE SHEET :1983 - 1987

	Fiscal Year Ending June 30					December
	1983	1984	1985	1986	1987	1987
ASSETS:						
Cash on Hand	36	45	65	110	177	607
Balances w/B. of Ghana	97	86	83	154	259	352
Bal. due by Other Banks	12	12	16	32	93	101
Government Securities	100	154	224	346	519	529
Loans & Advances	319	508	552	686	1,002	1,156
Other Assets	73	114	206	299	447	791
Total	637	919	1,151	1,627	2,497	3,537
LIABILITIES:						
Bal. due to Other Banks	4	12	22	44	34	327
Deposits	484	688	842	1,184	1,869	2,203
Other Liabilities	83	110	147	234	384	771
Total	571	810	1,011	1,462	2,287	3,301
Capital and Reserves	66	109	140	165	210	236

COMPOSITE VIEW OF GHANA'S RURAL BANKS: 1987

Region	Branches	Loans	Total Assets	Deposits	Total Liabilities	Equity	Equity/ Loans	Deposits/ Loans	Deposits/ Total Liabilities
Central	22	257	782	492	726	56	21.8%	191%	67.8%
Eastern	22	166	829	470	778	51	30.7%	283%	60.4%
Ashanti	21	172	572	345	541	31	18.0%	201%	63.8%
Brong-Ahafo	17	97	262	141	240	22	22.7%	145%	58.8%
Western	13	206	511	335	479	32	15.5%	163%	69.9%
Volta	12	164	356	251	327	29	17.7%	154%	76.8%
Greater Accra	6	72	154	115	140	14	19.4%	160%	82.1%
Upper	4	22	70	53	68	2.5	11.4%	241%	77.9%
Northern	0	0	0	0	0	0	N.A.	N.A.	N.A.
Total	**117**	**1,156**	**3,537**	**2,203**	**3,301**	**236.5**	**20.4%**	**191%**	**66.7%**

VI. CO-OPERATIVES IN GHANA

A. Introduction: Co-operatives have generally been viewed as a potential means of achieving rural development, especially in Third World countries. Co-operatives are useful as a vehicle of change in developing countries due to their potential for pooling resources, facilitating transport and delivery of goods and services, increasing purchasing and borrowing power and providing loosely grouped people with organization.

The Ghana Co-operative movement had its origin in 1928 by the then Department of Agriculture to secure improvements in the quality of cocoa meant for export. The success of this venture encouraged the Director of Agriculture to consider establishment of more permanent institutions, giving birth to the Co-operative movement. As a matter of course the early co-operatives were founded in cocoa-growing areas.

Today, there are 10,148 registered cooperatives (see Annex VI-1) in Ghana, although most are not functioning and few can be considered successful. These cooperatives are found in all 10 regions. Because so few are functioning, it is difficult to determine the number of people affected. While beset by problems of mismanagement, the Cooperative movement offers a potential vehicle through which to provide services to small-scale farmers, including credit.

B. Structure of the Co-operative Movement: The structure of the Co-operative movement starts with the society as the basic unit, and all other co-operative organizations are organized to help the societies with their work. The various co-operative organizations are described below, and illustrated in the Co-operative movement's organizational chart (see Annex VI-2):

i) The Society: The basic unit of the Co-operative movement is the primary society. The society has a definite internal structure which makes it possible to function as an economic unit. The supreme decision-making body of the primary society is the assembly of its members in general meetings. Each registered society is expected to hold its general meeting at least once every year, and it is this annual general meeting which decides on all constitutional matters, receives the Secretary's report, discusses the annual returns and accounts presented by the Treasurer and lays down broad business policy. There is one vote for each member irrespective of his share-holding, and each member must attend in person as proxy voting is not allowed. The society may hold any number of special general meetings during the year, as and when the need arises, to discuss specific issues affecting the operations of the society. The functions of the society are performed as set forth in the society's bye-laws.

Since the general meeting is held only once a year, a Management Committee or Board of Directors is elected from among the members in a general meeting, to be responsible for the daily operations of the society. It is the day-to-day decision-making body and is responsible for the administration of the society.

ii) The Union: Societies engaged in a particular sphere of economic activity (i.e., maize growers, poultry farmers) and operating in a particular locality may come together at the district or regional level to form a secondary society or union. The membership of the Management Committee of the union is composed of representatives elected by the component societies. The union provides a forum for the discussion of problems affecting the operating focus of its members in its particular district or region.

iii) The Association: The Association is a national group to which unions may belong (i.e., the Ghana Co-operative Livestock Farmers Association Limited, the Ghana Federation of Agricultural Co-operative, etc.). The regional unions elect representatives, usually from among their committees, to serve on the national apex body or association. Each co-operative can therefore be said to have potential for vertical integration, but this has only been achieved in a few instances, such as with distillers' cooperatives (see Annex VI-2).

iv) The Ghana Co-operative Council: The Co-operative Council is the national body of the Co-operative movement, composed of 15 national co-operative associations and three central societies. The central societies gain direct affiliation to the Council because they have no apex bodies. The three central bodies are:

a. The National Cooperative Wholesale Unit Ltd.;
b. The Ghana Cooperative Bank; and
c. The Ghana Mutual Insurance Society Ltd.

The various vertically-integrated associations achieve horizontal integration through affiliation to the Ghana Co-operative Council, which is the official mouthpiece of the Co-operative movement, representing it both locally and internationally. The objectives of the Ghana Co-operative Council are:

a. to promote the principles of Co-operation in Ghana;

b. to encourage the development of co-operative enterprises and assist in their organisation;

c. to collect and collate information and statistics relating or of interest to co-operative societies and their membership;

d. to undertake research services for co-operative societies;

e. to disseminate co-operative information gathered from reports, publications, seminars, workshops and audio-visual aids; and

f. to act as the mouthpiece of the Ghana Co-operative Movement on such international bodies as the International Co-operative Alliance.

Due to financial constraints and lack of satisfactorily trained personnel, the Council has had to limit itself to the performance of only the last named function. In some cases, such as the Ghana Cooperative Credit Union Association (see Section VII), the association has fulfilled a role for its members similar to that designed for the Council. However, here too, financial constraints and poor training have led to inadequate support for and dues from chapter members.

In the past, the Council was funded through affiliation fees, grants from the Government, the Co-operative Bank and foreign donations. Responsibility for financing the Council has currently come to rest solely on the Government due to financial constraints faced by these organisations. Ideally, the bulk of the Council's funds should be derived from affiliation fees but this is not the case as the affiliates themselves have weak financial positions and do not believe they are receiving adequate services for their contributions. For example, the balance sheet for 1982/83 shows C15,100 as the amount collected from affiliates as against a Government grant of C40,000. In the 1986 provisional estimates, the Council was provided with a C43,000 grant from the Government. The Department of Co-operatives does not have current records of affiliation fees. These are thought to be minimal, as members do not believe they have received sufficient services to merit payment of affiliation fees, and inadequate for any meaningful operations of the Council.

Coupled with insufficient management skills, lack of funding and training keep the Council ineffective. Most co-operative members are rural and uneducated, lacking in management and bookkeeping skills. The Council lacks the resources and personnel to address this situation.

v) <u>The Department of Co-operatives:</u> The Department is the Government agency responsible for implementation of Government policy on co-operatives. It is headed by a Registrar of Co-operative Societies who has a number of supporting staff to help him carry out his statutory functions of registration, audit, inspection and supervision.

The Department, however, is inadequately staffed. Staff who went overseas for training usually resigned to join other organizations due to the Department's lack of

wage/benefit incentives. Most of the current staff do not possess satisfactory skills to carry out their statutory responsibilities.

Until the early 1980's, the Co-operative College offered an initial eighteen-month training programme for staff of the Department, followed by another six months of training (see Annex VI-3 for the curriculum at the Cooperative College). In recent times, however, the College has not been able to offer these training programmes due to financial constraints. The Ghana Cooperative College should be able to provide training, guidance and other assistance to cooperatives, but it is constrained by a lack of funds and facilities. At present the Cooperative College is housed in part of a Kumasi shoe factory in an atmosphere not conducive to learning. Lodging, catering and other facilities do not exist. The library is poorly equipped, and teaching aids are non-existent. The teaching staffs are not adequately trained for their tasks. The college has acquired a site for permanent buildings, but the project has not proceeded due to lack of funds. As a result, the college is only able to offer three-month courses for the secretaries of cooperative societies. This is inadequate for the management skills necessary to be transferred for successful management of cooperatives. Because members cannot always afford to spend three months away from their livelihoods, coming to Kumasi for study is not always desirable. Decentralized facilities would help solve this problem, and allow for more direct contact near the point of production and/or distribution.

The accounting system used internally by the cooperative societies is not focussed on generating management information for decision-making and control of cooperative operations. This is because all cooperative societies use the Annual Return Format designed for the Registrar of Cooperatives. This form is adequate for returns to the Registrar of Cooperatives, but in as much as it does not include variance analysis and cash flow statements, it is inadequate for performance reviews and as a planning base for future cooperative operations.

The above problems of society-level training in business and accounting are aggravated by the inability of qualified bookkeepers and accounting personnel to prepare the books for the various cooperative societies. The problem is reinforced due to the lack of skilled audit personnel with the Department of Cooperatives to monitor and audit the various cooperatives. This has often led to a spiral of mismanagement and fraud within the cooperatives. Misappropriation of funds became a common practice, resulting in the collapse of many cooperatives. In many cases, literate Executive Committee members misused cooperative funds, taking advantage of illiterates' inabilities to monitor funds flows. With proper supervision by the Department of Cooperatives, and better management and

accounting skills of society members, such gross manipulation may have been thwarted.

C. Membership Statistics: The number of registered co-operative societies at December 1987 stood at 10,148. It is obvious, however, that many of these societies exist in name only. The actual membership figure of the Co-operative movement is not available.

D. Types of Cooperatives: For convenience, the Cooperative movement is grouped under four functional headings: agricultural, industrial, financial and service (see Annex VI-1).

i) Agricultural Co-operatives: This group embraces all the societies engaged in the production, processing and marketing of agricultural products. Although the Government has always expressed great interest in agricultural cooperatives, little success has come from them. Generally, agricultural cooperatives perform poorly due to poor management and administration skills, credit constraints, untimely delivery of inputs, low producer/farmgate prices, and marketing and storage problems. This makes them less creditworthy, adding to the cycle which makes them ineffective at increasing production and income.

Many agricultural cooperatives involved in food production have long cash cycles, and thus provide little short-term incentive to members to contribute to cooperative efforts. In contrast, fisheries cooperatives have more regular benefits due to their steady cash generation. Most agricultural cooperatives experience difficulty in obtaining credit from commercial sources as they are considered high risks by the banking sector.

ii) Industrial Co-operatives: Societies included in this sector are seamstresses, tailors, artisans, blacksmiths, construction workers and distillers. By far the most active and successful in this group are the distillers' cooperatives. No one is allowed by law to distill unless she/he belongs to a co-operative. This is designed to ensure quality control and to facilitate tax collection, although evasion still occurs. The success story of distillers' co-operatives is linked to high demand for the product, low capital requirements, easy transport and disbursement on a year-round basis. These cooperatives are the only ones that get loans on a regular basis, due largely to their ability to generate cash flow resulting from cheap inputs, quick production and rapid inventory turnover.

iii) Financial Cooperatives: This sector was originally composed of the Ghana Co-operative Bank, the Ghana Co-operative Credit Unions Association (including all member credit unions) and the Ghana Co-operative Mutual Insurance Society. In recent times, the Bank has gone through a period of re-organisation that has placed it directly under the supervision of

management appointed by the Bank of Ghana (see Appendix III-11). Previously it had operated under two legislative acts, the Banking Act and the Cooperative Societies Decree, and this led to conflict of allegiance.

Credit unions are the most functional in this sector. Although (as discussed in detail in Section VII) credit unions suffer from low levels of management and training, in many parts of the country they constitute the only access to savings and credit facilities small-scale farmers have.

The Co-operative Insurance Society has also had problems resulting from poor management and limited capital. It is now attached to the State Insurance Corporation for both technical and management assistance.

iv) Service Co-operatives: Among the important groups in this sector are the National Co-operative Wholesale Unit (which procures goods in bulk on behalf of cooperatives), the Ghana Co-operative Transport and Mechanics Association and the Ghana Cooperative Pharmaceuticals Limited. Service cooperatives have played a leading role in the distribution of goods in recent years, especially in times of scarcity. Nevertheless, due to problems that have hindered the performance of most cooperatives in Ghana, most small-scale service cooperatives have not been effectively managed or sustained, and are currently inactive.

E. Rationale For Formation of Cooperatives: Cooperatives seek to promote the economic and social interest of their members by increasing production (through the supply of raw materials, farm inputs, advisory services, etc.), incomes and employment. Cooperatives can assist in the processing, storage and marketing of members' output. In addition, members' production can be enhanced by the provision of sufficient and timely credit facilities, although these are not always available.

Among the non-economic services cooperatives can supply are seminars, workshops and demonstrations for members on improved methods of farming, industrial production or delivery of services. General membership education encourages stronger institutions. For example, some cooperatives promote subject-oriented literacy, which leads to general improvements in knowledge and provides an opportunity for basic business training. All of these services, when provided, serve as additional incentives for participation in cooperatives.

F. Reasons for Co-operative Failure: The performance of most cooperatives in Ghana has been unsuccessful, due largely to fraud, mismanagement and neglect of business principles. Illiteracy in Ghana is estimated to be 60-70%, mostly in the rural areas where most efforts at cooperative formation have occurred. This has made successful cooperative management more difficult, as the people with the requisite bookkeeping, accounting and management skills are not always available. This leads to poor planning and execution of work

as well as a limitation on the types of services provided to the members.

Other causes of failure include insufficient capital and business volume. The cooperative might not produce enough goods or services to cover costs, operating below breakeven, and ultimately becoming insolvent. Members may not have contributed enough share capital to provide the money needed for investment in the business of the society, or to carry it through difficult times. This may often be the result of too few active members in the cooperative, reflecting lack of appeal, commitment and/or basic trust.

In some cases, societies have been organized for the sole purpose of obtaining a loan or a service, hardly functioning or surviving after loans have been disbursed or services rendered. Inadequate storage and market facilities often render cooperatives unable to take advantage of pricing cycles. Poor communication between management committees and membership may also lead to poor participation by members.

As for the potential of cooperatives to channel credits and other related services to the small-scale farmer, it is necessary that the Cooperative movement re-organize. Greater attention should be placed on local initiative, adherence to business management principles, and training of members to assume as much responsibility as possible. These efforts could be initially coordinated by NGO's with experience in viable cooperative management and development.

To supplement such a reorganization at the local level, the Department of Cooperatives could play a facilitating role in organization and training. Training facilities could be improved and decentralized to increase the managerial and accounting skills of cooperative members. The Department of Cooperatives could perform more frequent (i.e., quarterly) audits to monitor performance and legality without directly interfering in cooperative affairs. Logistical support (i.e., motorbikes) and improved compensation packages to attract more competent personnel would help these efforts.

G. <u>Multilateral Credit Programs:</u> Despite the poor performance of cooperatives, there have been attempts by some institutions to develop credit programmes with farmers associations and cooperatives. In the early 1970's, the FAO/UNDP fertilizer use project tried to educate and encourage cooperative farmers to increase their production and incomes through the correct use of improved seed, fertilizer and herbicides. The project identified production, processing, storage, transport and marketing as major problems facing small- and medium-scale farmers. The main production constraints were limited or no access to credit, lack of training, inadequate extension services and lack of agricultural or production inputs. The project concluded that credit per se was not a solution to agricultural problems, but an important element in an integrated approach which facilitates the impact of input delivery, advisory services, improving productivity and marketing.

Although the fertilizer use project achieved limited success during its life, most participating cooperatives collapsed soon after the project came to an end. While this may in part be attributed to the disastrous decline of the Ghanaian economy in the late 1970's-early 1980's which resulted in many previously viable businesses experiencing serious financial difficulties, the project provided too many artificial supports and failed to promote self-reliance of the cooperatives to manage their affairs in a business-like manner.

The UNDP developed an alternative approach, using the FAO as the executing agency assisted by the Ministry of Agriculture, by launching the Integrated Agriculture Development Programme in 1986 in the Sekyere and Ejura Districts of the Ashanti Region, initially using three cooperatives. To address the above mentioned constraints, the project offers the members both cash and in-kind credit. In addition, the project provides constant guidance and technical advice to the cooperatives on the proper use of improved inputs through seconded Ministry of Agriculture staff. Machinery and transport services are provided, and farmers are charged market rates. Farmers have been encouraged to form loan and machinery committees which, assisted and trained by technical staff, prepare detailed individual farm budgets for loans. Interest rates for loans at 15% and 18.5%, respectively, for 1986 and 1987, were below-market. The loan recovery rate has been reported to be 100%. Maize yields of 7-10 bags/acre have been reported as against previous yields of about 4 bags/acre. These are still below yields of 12 bags/acre which could reasonably be expected. Due to subsidized interest rates and liberal loan policies, disbursement per capita has increased by 300%, and average holdings per farmer have increased. The following chart highlights numbers of farmers, loans and acreage affected.

YEAR	SEASON	TOTAL LOAN	FARMERS	AVERAGE LOAN	ACREAGE CUL.(Ac)	AVERAGE ACREAGE/FARMER
1986	Minor	838,820.00	114	C 7,358.07	182.25	1.59
1987	Major	4,275,950.00	150	28,506.33	590.75	3.93
1987	Minor	5,527,317.50	155	36,660.11	468.50	3.02
1988	Major	10,248,600.00*	210	48,802.85*	779.00	3.70

Recovery rate 100%
*Excludes values for other subsidiary, mechanical services.

Source: UNDP/FAO Integrated Agriculture Development Programme.
Sekyere and Ejura Districts (Ashanti Region).

Processing, storage and marketing facilities are provided by the project for a fee. The cooperative accepts produce in lieu of cash for repayment of the loan, and this is done immediately after harvest. Maize is treated and stored for higher market prices. Members may also store their own produce for a minimal storage fee. Storage and marketing are taken care of by the marketing committee, which arranges to sell in bulk to the GFDC, schools and other institutions. The individual farmer may sell his or her stored produce anywhere he chooses after paying storage and other

charges to the cooperative. The project's success to date has primarily resulted from external support, with very low investment in the cooperatives by members themselves. It is significant, as well, that while yields have increased, they are below levels achieved in less optimal maize-growing parts of the country where Global 2000 is active, and about 50% of what Global 2000 Production Test Plots are achieving in the maize belt in Brong-Ahafo.

Starting with the 1988 season, members will be levied C50/bag of maize sold, subject to review by the membership. A levy of C100/acre will be charged on every member, and income from the cooperatives' communal farms will be retained to strengthen the currently limited capital base. Also, members will be expected to make an in-kind equity contribution of one bag of maize after harvest. It is projected that each cooperative will make at least C500,000 in net income every year. We have not been able to review these projections to determine the validity of their underlying assumptions. The project has also proposed setting up a revolving fund to be used for replication of the project.

H. Bank Credit Programs: Cooperatives would appear to be attractive financial intermediaries for channelling credits to small-scale farmers as the cost of processing and administering a loan for a group of farmers should be lower than the aggregate cost of processing individual small-scale farmer loans. Banks in the past have developed credit programmes for cooperatives. These programmes have usually failed due to the constraints mentioned earlier, poor management and misuse of funds resulting in extremely low recovery rates. Most of the banks have therefore suspended or reduced further credit assistance to cooperatives.

As an alternative to cooperatives, banks have developed Group Loan Schemes to provide credit to informal or 'loose' associations. Most of these groups are chosen through recommendations made by influential people within the community. The groups select committee members who approach the bank for credit needed by their members. They enter into agreements with the bank promising joint and several liability for the repayment of loans granted. Group lending occurs without collateral. Peer pressure serves as security to encourage loan repayment. By 1985, over 60,000 small-scale farmers benefited under a Group Loan Scheme operated by the Agricultural Development Bank, while the Ghana Commercial Bank helped about 300,000 peasant farmers under the scheme. Rural Banks are also undertaking the Group Loan Scheme, although it is unclear how many farmers they have assisted.

The Group Loan Scheme, however, has not been operated very efficiently, as evidenced by default rates. Most of the banks do not visit the farmers to verify the utilization of loans. Most loans approved for the farmers under the group scheme are not often related to the intended production activity reported by the farmers, but on the basis of availability of funds. The result is that the credit extended is sometimes not enough to carry the farmer through the season.

Nevertheless, if banks did a better job of studying the various phases of the production cycle, improving administrative efficiency, and monitoring repayment obligations, it is believed that banks could reduce the risk of repayment from small-scale farmers, either individuals or groups. Another way to reduce risk would be for the banks to demand compulsory marketing of specified portions of output to ensure immediate loan recovery from cooperative proceeds. This would help the banks, thereby ensuring credit for cooperatives the next time. Such a marketing arrangement could be organized with parastatal marketing boards. In the event of default, denying further credit to the whole society and individuals who are members until all society debts are paid would serve as an incentive for repayment, and help the cooperative weed out unproductive members.

The most successful credit programmes are those in which land preparation, input supply, pricing and marketing are all tied in with loan repayment. The FAO's Integrated Agricultural Programme has been cited above. Another example is the Afife Irrigation Rice project in the Volta Region, in which the management organises mechanization services and input supplies which are financed by Ghana Commercial Bank and the Agricultural Development Bank. The disbursement of credit is in-kind (services, inputs, etc.), thus separating the farmers from direct contact with money. The farmers sign a collective agreement with the management and the bank. Interest is paid at prevailing bank rates. The farmers are given storage facilities, and are monitored to compulsorily sell a percentage of the produce at a negotiated price to an approved agency, leading to immediate recovery of loans from the proceeds.

Although this scheme is working well, it is reported that the farmers require additional credit to cover their personal or maintenance needs through the season till harvest time as the credit extended by the banks covers only about 80% of production costs. (Annex VI-4 details production costs per acre of the Afife Rice Farmers). The farmer consequently may resort to traditional sources of credit which are very expensive and demand first repayment resulting in some farmers not being able to repay their formal loans on schedule. One must question the validity of rice production in this project if net incomes render 80% financing inadequate without further recourse to traditional lenders.

There are other credit schemes for farmers, such as cocoa maintenance loans. In this scheme, cocoa farmers are advanced credit on an ad hoc basis when in need. The lending banks are able to recover almost all such loans through the special farmer's cheque (Akuafo Cheque) issued by Cocobod for payment of farmers' cocoa. However, there are instances where some farmers evade repayment by obtaining cheques drawn on other banks. This problem could be averted if lending banks at the time of disbursement ensure that borrowers sign authority notes so that their cheques are issued and drawn on lending banks.

I. <u>Summary:</u> Government support for the primary cooperatives is weak, and almost non-existent in some areas. The Cooperative Council, the supreme body, has limited influence on the Cooperative movement resulting in the Council's inability to collect even affiliation fees from members due to the primary cooperatives' failure to perceive benefits from affiliation.

Skills within and among the Cooperative Department, the Cooperative Council and individual primary cooperatives are generally low, resulting in part from poor incentives, inadequate training and facilities, and a general perception that cooperative principles are incompatible with profits. Due to the failure to promote the development of business and management skills at all levels, cooperatives, with few exceptions, have failed to serve as an effective vehicle for economic development. More often they have served as a vehicle for the enrichment of the few at the expense of the many. As evidenced in other countries, business-oriented cooperatives can effectively deliver services, inputs and credit to their members on a sustainable basis with growth.

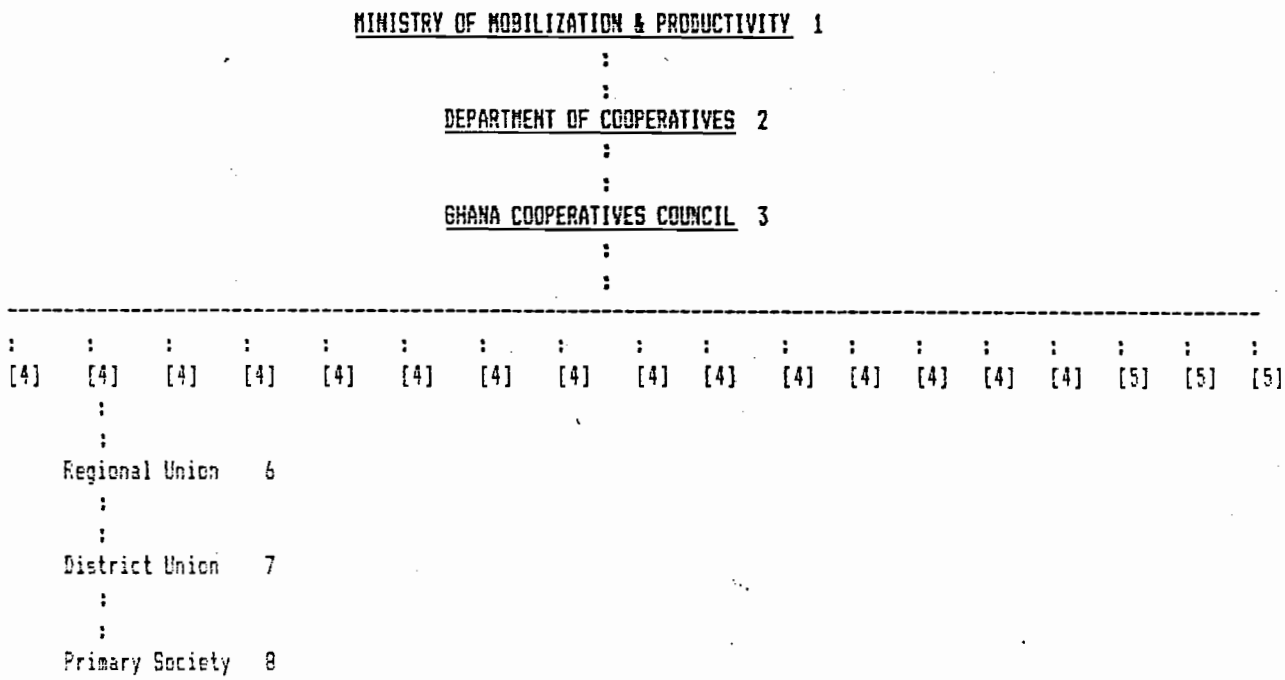
Given the tarnished record of the cooperative movement in Ghana, re-establishing confidence in the movement will be difficult. However, there is currently no apparent preferable alternative through which to channel technical skills, inputs and credit to small-scale farmers in the rural areas for increased productivity. The movement possesses a basic infrastructure, weak though it may be. A philosophical re-orientation recognising that cooperatives must make a profit for members (which would bring the movement more into line with the ERP), together with a corresponding commitment to the development of business and management skills at all levels, would justify commitments towards strengthening the movement.

Above all, cooperatives should be useful in organizing farmers to access greater input supplies, credit, storage and marketing arrangements. A group of farmers will be able to procure more inputs, and enjoy economies of scale in transport and bulk purchasing. Credit schemes designed on in-kind (input supply leading to cash or in-kind repayment) and inventory (in-kind collateral for cash credit) concepts can provide the small-scale farmer with the input and cash relief he needs at the planting and harvesting seasons, respectively. Central to the small-scale farmer's ability to store surpluses for access to inventory credit are appropriate storage facilities that can be constructed on a cooperative basis. Further, the element of storage presents opportunities to individual members and the cooperative enterprise as a whole to hold surpluses until prices are more favorable, generating increased cash and reducing dependence on formal financial sector credit and moneylenders. Despite the problems faced in the past, cooperatives have an important role to play in raising the small-scale farmer above subsistence levels of production.

NUMBER OF SOCIETIES REGISTERED AS AT 31ST DECEMBER, 1987 (ACCORDING TO FUNCTIONAL HEADINGS)

REGION	AGRICULTURAL	SERVICES	INDUSTRIAL	FINANCIAL	TOTAL
Volta	525	245	149	27	946
Western	378	154	173	31	736
Greater Accra	458	1,027	178	148	1,811
Brong Ahafo	831	186	472	40	1,529
Ashanti	1,079	511	256	65	1,911
Central	584	173	184	31	972
Northern	302	103	15	32	452
Eastern	639	639	253	49	1,580
Upper West/East	153	33	17	8	211
TOTAL	4,949	3,071	1,697	431	10,148

Source: Department of Cooperatives



1. **Ministry of Mobilization & Productivity:**
   The sector Ministry responsible for Cooperatives.

2. **Department of Cooperatives:**
   The Government agency responsible for implementation of Government policy on cooperatives. It is headed by a Registrar.

3. **Ghana Cooperative Council:**
   The Council is composed of fifteen national apex bodies/associations and three central societies. Its responsibilities include collecting and collating information and statistics relating and of interest to cooperatives and acting as the mouthpiece of the Ghana Cooperative Movement.

4. **The Affiliated Associations:**
   The Regional Unions elect representatives, usually from among their Committee, to serve on the national apex body or association. The various national associations are:

   i) The Ghana Cooperative Marketing Association Ltd.
   ii) The Ghana Cooperative Transport/Mechanics Association Ltd.
   iii) The Ghana Cooperative Credit Union Association Ltd.
   iv) The Ghana Cooperative Poultry Farmers Association Ltd.
   v) The Ghana Cooperative Distillers Association Ltd.
   vi) The Ghana Cooperative Fisheries Association Ltd.
   vii) The Ghana Cooperative Butchers Association Ltd.
   viii) The Ghana Cooperative Livestock Farmers Association Ltd.
   ix) The Ghana Cooperative Agricultural Producers & Marketing Ltd.

BEST AVAILABLE COPY

x) The Ghana Cooperative Bakers Association Ltd.
xi) The Ghana Cooperative Kente and Adinkra Weavers Association Ltd.
xii) The Ghana Cooperative Housing and Builders Association Ltd.
xiii) The Ghana Cooperative Federation of Agricultural Cooperatives.
xiv) The Ghana Cooperative Rice Meals Sellers Association Ltd.
xv) The Ghana Cooperative Consumers' Association Ltd.

5. **Central Societies:**
These are:

i) The National Cooperative Wholesale Unit Ltd.
ii) The Ghana Cooperative Mutual Insurance Society Ltd.
iii) The Ghana Cooperative Bank.

These societies gain direct affiliation to the Ghana Cooperative Council because they have no apex bodies.

6/7. **Regional/District Union:**
The Societies engaged in a particular sphere of economic activity, and operating in a particular locality come together at the district or regional level to form a Union.

8. **Primary Society:**
The basic unit of the cooperative movement is the primary society.

It can therefore be seen that each type of cooperative is fully vertically integrated (1 through 8), and likewise achieve further horizontal integration through affiliation to the Ghana Cooperative Council (Line 4 & 5)

BEST AVAILABLE COPY

CURRICULUM OF COURSE FOR STAFF OF DEPARTMENT OF COOPERATIVES

Duration: 6 months classroom work + 12 months field work.

1. Co-op. Law, Principles and Practice
2. Bookkeeping and Accounts
3. Duties of the Government Cooperative Staff
4. Economic Surveys
5. Elementary Economics
6. Economic Geography of Ghana
7. Secretariat Practice
8. History and Structure of the Ghana Cooperative Movement
9. The Legal Aspects of Cooperation
10. Economics of Co-operation
11. Inspection and Grading of Produce
12. Constitution and Functions of the Ghana Marketing Board, the Investment Bank and other Statutory Boards and Corporation directly connected with Cooperatives
13. Work of other Government Departments and Ministries - Agriculture, Fisheries, Forestry, Labour - Local Government, Social Welfare, etc.
14. Survey of Cooperatives in other lands
15. English

CURRICULUM OF COURSE FOR SECRETARIES OF COOPERATIVES

Duration: 3 months

Design for: 10 Societies Secretaries in Cooperative Cooperation

Participants: Men and women who have no formal education in Cooperation.

Content:

1) Introductory lectures followed by practical exercises and case studies.

2) The principal subjects will be:
   a) Co-operative Secretariat Practice
   b) History of Cooperatives
   c) Elementary Bookkeeping and Accounts
   d) English Language
   e) Co-operative Law, Principles and Practice
   f) Economics of Cooperatives

PRODUCTION COST PER ACRE OF PADDY RICE (SEMI-MECHANISED) AFIFE IRRIGATION PROJECT - 1987 WET SEASON

1) SERVICES:

1.1	Irrigation Charges	C 3,000.00	
1.2	Rotary Slashing	1,800.00	
1.3	Plowing	2,600.00	
1.4	Harrowing (twice)	2,600.00	
1.5	Seeding (drilling)	1,300.00	
1.6	Combined Harvesting	5,850.00	
1.7	Carting	1,000.00	
	Sub-Total		C 18,150.00

2) MATERIALS:

2.1	Seed @36Kg/Acre	3,600.00	
2.2	Compound Fertilizer (3 bags)	4,500.00	
2.3	Straight Fertilizer (2 bags)	1,800.00	
2.4	Herbicides 3 lit/acre	4,600.00	
2.5	Insecticide 4kg/acre	1,600.00	
2.6	Fungicide 5kg/acre	3,500.00	
2.7	Sacks: 40 for 2 seasons	4,000.00	
2.8	Drying Sheet for 2 seasons	3,185.00	
2.9	Knapsack Sprayer for 3 seasons	2,000.00	
	Sub-Total		C 28,185.00

3) LABOUR:

3.1	Rotary slashing	1,800.00	
3.2	Bond-weeding (Herbicide)	1,600.00	
3.3	Hand-weeding (10 m/days x 250)	2,500.00	
3.4	Fertilizers Application	750.00	
3.5	Insecticides Spraying	800.00	
3.6	Scaring (40 days x 150.00)	6,000.00	
3.7	Dry winnow, Bag	1,000.00	
	Sub-Total		C 14,450.00
	Total		60,785.00
	Add 23.5% Bank Charges		14,285.00
	Add 25% Profit on Investment		15,195.00
	GRAND TOTAL		C 90,265.00

Estimated Yield: 25 bags of 82kg/acre.

SUBMITTED BY: PROJECT MANAGER

VII. CREDIT UNIONS

A. Introduction: Credit unions began in Ghana in 1955 with the formation of the Jirapa Credit Union in the Upper West Region. This credit union was formed under the auspices of the Roman Catholic Church, and its example was replicated thereafter throughout the Upper and Northern Regions. Today credit unions are found in all 10 regions of Ghana, and the Catholic Church continues to play an important role in the operation and management of many of these institutions in the northern half of the country, as well as provide key logistical support for the apex organization, the Ghana Cooperative Credit Union Association (CUA). It is in the Upper, Northern and Brong Ahafo Regions where most of the successfully functioning credit unions are located.

Credit unions in Ghana, like their counterparts in other countries, are established to provide savings and credit facilities to communities to promote economic activity and self-reliance. These unions are based on a common bond, usually residential, occupational or associational (i.e., religious, clubs, etc.), with the bond serving as a basis for trust and confidence. Based on these bonds, it is believed that loan committees can quickly process loan requests for disbursement with confidence that members will repay according to schedule. The encouragement of regular savings is meant to provide security, both for credit and for medium- and long-term financial planning.

In Ghana, credit unions must have a minimum of 40 people to be registered. The estimated number of functioning credit unions is 157, with 1987 membership of more than 61,000. The most successful credit unions have more than 1000 members, located primarily in the Upper West, or high savings rates as in Brong-Ahafo and Greater Accra. The consolidated credit unions had savings of C345 million, and loans of C234 million in 1987. Savings were about 20% that of the Rural Banks, and equivalent to 1.4% of the total banking system.

B. The Ghana Cooperative Credit Unions Association: To facilitate the formation of credit unions, the Ghana Cooperative Credit Unions Association (CUA) was established in 1968 to promote, organize and develop credit unions, primarily in rural areas. The objective was to provide fundamental savings and credit facilities to people who generally were unable to access these, with the ultimate objective being that deposits mobilized could then be used for "provident and productive" purposes that would promote local initiative, development and self-reliance.

The CUA, a non-governmental institution that is registered as a cooperative organization, has its own bye-laws and falls under the supervisory requirements of the Department of Cooperatives. Member credit unions are affiliated with the CUA either directly or through its regional chapters. The organization is explicit about its non-governmental status, emphasizing that it has not requested or

received grants from the Government despite being a registered society with the Department of Cooperatives.

The CUA has its own Board of Directors (elected biennially with representatives from each regional chapter), Chief Executive, and Field Officers in its eight regional chapters. The Chief Executive has recently revamped the organization since assuming control in mid-1987, stressing finance, management and accounting expertise to shore up the financial condition of dormant credit unions and to further solidify the position of the stronger ones. Recent moves have included assigning an additional Field Officer to the Upper East (to oversee the Northern Region as well), adding three new Field Officers in the Upper West, Brong-Ahafo and Greater Accra (to assist with Canadian funding for womens' projects), and retraining several of the others to increase levels of managerial competence.

The Chief Executive is also supported in the home office by the following:

i) a Financial Officer with an accounting degree from one of the institutes and auditing experience in Nigeria;

ii) a Public Affairs specialist who is a trained teacher with public relations experience and has been with the CUA for five years;

iii) an Administrative Manager who handles personnel matters and has been with the CUA for 20 years; and

iv a Research and Development specialist who was recently hired to improve the CUA's problems with information retrieval, analysis and dissemination.

In addition, all of these senior staff are supported by an additional 16 employees to coordinate ancillary activities, including six accountants who travel around the country to audit credit union books. The CUA has a total of 33 employees, including 12 Field Officers.

Originally, the CUA received financial and managerial assistance from the Konrad Adenauer Foundation (Federal Republic of Germany) and Rabobank (Holland). These sources of support were designed to help the CUA develop and promote a credit union movement that would eventually be stable enough to finance the apex organization from chapter dues. According to the CUA, personnel sent by the Adenauer Foundation were not skilled in business, finance and management, and as such were ineffective at promoting a strong managerial base conducive to self-reliance. These problems continue into the present, although the current Chief Executive appears determined to change them. The CUA continues to receive support from Rabobank, but Adenauer funds have been curtailed since 1983. As member dues are well below financing requirements, the CUA remains dependent on external financing, and prospects for achieving financial self-sufficiency from member dues anytime soon appear to

be weak. (The financial condition of the credit union movement and CUA are discussed in VII-G and H).

The CUA provides a number of services to the credit union movement, although their effectiveness (as with the Cooperative movement in general; see Section VI) has been less than hoped for. Field Officers in the regional chapters are placed to identify potential groups, educate the public on credit union principles and benefits, and conduct workshops/seminars for credit union staff to improve skill levels. Their efforts are complemented by the auditing services provided by the CUA's six mobile accountants. In addition, the CUA operates a central fund out of Accra to provide safekeeping for surplus credit union savings, issue loans to credit unions, counsel credit unions on how to best invest idle funds, and in the process provide economies of scale in financial intermediation. While the credit unions place most of their deposits with local banks, surplus funds are supposed to be placed with the CUA so it can allocate funds to illiquid credit unions. At June 1987, the CUA reported C3.8 million in loans to 21 societies, or 12.3% of its total assets out to nearly 14% of its active membership. Member savings with the CUA were C10.9 million, suggesting that those savings were helping to fund the CUA's operations at a time when membership dues are grossly insufficient to sustain operations.

While not successful at creating a pervasive and dynamic credit union movement, the general consensus is that the CUA and its active memberships have made an impact in some rural areas, primarily in the Upper West and Brong-Ahafo, as well as some urban marketplaces and workshops. Its approach is meant to be based on the familiarity and commitment of members to credit union principles, with the near elimination of transactions costs that are so high in the formal financial sector (see Section IV). Minimization of bureaucratic formalities, familiarity with members' needs, equal voting rights for each member, greater personalization in resource allocation, favourable credit terms, and a reinforcement of common bonds that serve as a basis for a credit union's formation are all meant to create a sound financial operation that actually functions as a social institution. To a large degree this has worked, particularly since repayment rates are far higher (above 90%) than the banks. However, the lack of staff training and limited membership of many societies has prevented the movement from growing and becoming financially stable. Limited financial bases and growth have prevented many of them from paying dues to the CUA. In other cases, particularly with the industrial-based credit unions, declining purchasing power among urban workers has reduced savings. They, in turn, tend to be apathetic, look solely to the credit union for a loan, and otherwise do not pay their dues claiming limited funds. This reinforces the cycle, as the CUA then cannot deliver the support services demanded by the credit unions. As with the Cooperative movement, limited funds, lack of skills and training, and little perceived return by member credit unions have discouraged them from paying dues to the CUA, preventing the CUA from accomplishing its objectives.

C. General Provisions Governing Credit Unions: As mentioned earlier, credit unions are designed to provide savings and credit facilities at reasonable interest rates. The following guidelines are designed to ensure that the credit union remains solvent, meets the needs of the membership, and observes the principles of the general credit union movement:

i) Funding: To finance operations, credit unions are to charge membership fees, prudently manage interest income, solicit donations, mobilize savings deposits and borrow when necessary to carry out their functions;

ii) Savings: Members are supposed to save on a regular basis. The general membership establishes a minimum savings level to be observed, below which a member may lose membership. The minimum savings level established cannot be withdrawn without loss of membership. Maximum individual savings are not to be greater than 20% of total membership savings, although management may adjust this accordingly;

iii) Interest: Interest on savings is paid at the end of each fiscal year, although members may vote to disallow payment if the financial condition of the credit union would be materially affected;

iv) Withdrawals: Amounts exceeding the credit union's usual daily cash on hand cannot be withdrawn without sufficient notice. A member's savings cannot be withdrawn if the member is indebted to the credit union or has pledged his/her savings to guarantee another member's loan;

v) Credit: The extension of credit is limited to a percentage of each member's minimum savings as set by the credit union. This amount could conceivably exceed 100% of savings if backed by guarantees (see security below). Total credit is limited to 75% of the society's unpledged funds, although this can be adjusted at the discretion of the Committee of Management. Loan applications must be submitted on prescribed forms, and funds must be used for production or to meet household requirements. New members cannot receive loans in excess of savings;

vi) Security: Security can be provided in the form of one's savings, the pledges of guarantors, and wage assignments of guarantors. Pledged savings cannot be used as a guarantee for more than one outstanding loan at a time. A wage/salary earner can arrange for his/her employer to reimburse the credit union for unpaid or overdue loan balances from the worker's compensation. When loans are repaid, a guarantor's pledge is released before that of the borrower. If there are two or more guarantors, their pledges are reduced proportionately with loan repayment. Wage assignments are released after guarantor savings pledges, but before the borrower's savings pledge;

vii) Loan Collection: Loans not repaid according to schedule may be rescheduled by the Loan Committee. In some cases, borrowers must pay collection expenses and up to 10% per annum on unpaid balances above the ordinary interest charge;

viii) Borrowings: The society may borrow up to 40% of non-pledged assets (i.e., fixed assets) from outside the society;

ix) Investments: Cash not utilized on a day-to-day basis should be invested in securities or enterprises of minimal risk. The CUA is established to provide those services at minimal cost;

x) Reserves: A minimum of 25% of a credit union's net surplus is to be transferred to reserves on an annual basis. Reserves are not to exceed 10% of outstanding loans;

xi) Signatures: All checks, notes, drafts, etc., require two signatures of credit union members and a counter-signature from an authorized representative of the Department of Cooperatives. Credit union members authorized to sign on behalf of the membership are appointed by the Committee of Management. The names are posted so that the membership is always aware of those individuals empowered to effect transactions on the credit union's behalf; and

xii) Financial Information: All prepared financial statements will be posted in the credit union office so that members can be kept aware of the financial condition of their society.

In brief, these provisions are designed to ensure prudent cash management, institutional liquidity and solvency, adequate capitalization and increased local savings. All of this is to be practiced in an open, democratic manner that encourages confidence, trust and local development.

D. Membership: All prospective credit union members must submit an application on a prescribed credit union form. If two-thirds of the general membership approves an application, that person becomes a member only after paying an entrance fee and agreeing to maintain a minimum savings amount as determined by the general membership.

A member may withdraw from the credit union, but must give the society at least three months notice and settle any outstanding debts or guarantees. Expulsion results from a two-thirds vote of the general membership, and can be for savings arrears, misuse of loans or character deemed to be detrimental to the interests of the credit union.

E. Meetings: The annual general meeting of the entire membership is held within four months of the end of the fiscal year to discuss the financial condition of the credit union, determine how to allocate the net surplus, elect committee members, amend bye-laws, and attend to other credit union business. Special

general meetings can be held at any time of the year if requested by two-thirds of the Committee of Management, the entire Supervisory Committee or the lesser of 25% of the total membership or 20 members. Each member has one vote, and voting can be in ballot form. In order to vote, however, a member must be present at the meeting.

F. Committees: Each credit union is to have a minimum of three committees composed of different individuals. These committees are charged with general management and policy responsibilities, credit assessment, and supervision. In addition, the credit union is supposed to have an Education Committee, and any other committees required to promote the interests of the society. It is to these committee members, primarily the secretaries and treasurers, to whom the CUA's workshops and seminars are directed on central, regional and local bases (see Annex VII-1 for the CUA's 1988-1990 education plan). The three key committees are discussed below:

i) Committee of Management: The Committee of Management (COM) is composed of a minimum of five members: Chairman; Vice-Chairman; Secretary; Treasurer; and Assistant Treasurer. The CUA views the Secretary and Treasurer as the key posts in terms of ensuring proper recordkeeping, bookkeeping and management support for the committee to be successful. These members are elected by the general membership at the annual meeting, and are expected to meet at least once a month with the Loan and Supervisory Committees to oversee the credit union's activities for the month. Failure to attend three consecutive meetings disqualifies that person from the COM. Any vacancies on any of the committees are replaced by the COM until the annual meeting.

The COM's key responsibilities concern financial management, operations and policy. On the financial front, the COM opens bank accounts, decides on appropriate day-to-day cash needs, authorizes borrowings and invests funds. The COM also makes recommendations on appropriate rates of interest to pay on savings accounts, and how to distribute interest income earned from loans.

As for operations, the COM handles personnel matters, assigns signatories for credit union checks, empowers members to represent the society in financial transactions, monitors bookkeeping and takes action against delinquent borrowers. The COM also can suspend members from the credit union, effective until the general membership confirms or rejects such action.

Concerning policy matters, the COM is responsible for establishing loan procedures and policies, in accordance with the society's bye-laws. Policy and other matters are dealt with in concert with the other committees, but are the responsibility of the COM.

ii) Loan Committee: The Loan Committee (LC) is composed of three members elected by the general membership who are not on the COM. Their decisions can only be official at properly scheduled meetings when a quorum is present, and consistent with credit union bye-laws. The LC considers all loan applications, makes sure loans are properly secured, determines the conditions of repayment and monitors delinquent accounts.

iii) Supervisory Committee: The Supervisory Committee (SC) consists of three members who are not on the COM or LC, are not signatories, and do not handle cash. The SC has three main functions: monitor the COM and LC; ensure proper bookkeeping, accounting and financial reporting; and report to the annual meeting.

Monitoring the COM and LC is necessary to ensure there are no conflicts of interest, and that the credit union is prudently managed. By supervising the accounts, overseeing preparation of financial reports, checking members' passbooks and personal ledger cards, and monitoring cash on hand and investments, the SC is able to confirm that the COM and LC are performing their functions. Based on these observations, the SC reports to the annual meeting, and this report should influence the outcome of the election of the new COM and LC.

While some credit unions function well, many of them, primarily in the rural areas, lack the qualified and literate personnel to efficiently manage their credit unions. The rules governing credit prevent institutions from becoming overextended, but lack of qualified personnel means inferior services and limited growth. The CUA has ongoing workshops and seminars, and its six accountants also attempt to transfer bookkeeping and accounting skills while performing their periodic audits. However, the frequency of those and Field Officer visits have been erratic, limiting the degree of skills transfer at the local level. Without those skills, it is difficult for these committees to oversee operations, let alone properly prepare documented financial statements in a timely manner.

G. Aggregate Credit Union Performance: Credit unions have appeal for a number of reasons:

i) the community-based nature of the organizations formed out of a bond that has already been established;

ii) limited transactions costs, as the approach is personalized in a local setting with minimal bureaucracy, responsive service and hardly any fees;

iii) low interest rates on loans, timely credit delivery, easy borrowing procedures, easy collateral requirements and flexible repayment terms;

iv) facilities to maintain deposits to assist with future financial needs; and

v) the participatory structure of the organization, as members have voting rights and can see the tangible community benefits derived from the credit union's services.

Based on these criteria, credit unions have made an impact on some communities where financial services hardly existed. They have provided individuals with savings facilities, encouragement and interest earnings, while credit facilities (albeit small) have been made available. This has been particularly helpful to small-scale farmers who are usually illiterate, unable to access credit and too intimated to even try.

However, credit unions have either remained too small to make a significant impact on community development, or become functionally non-existent. The inability to use savings as a locomotive for economic development in an area has less to do with the concept than with the amounts involved. In rural areas, these deposits have generally been small. In urban areas, credit unions are overshadowed by formal institutions on the one hand, and family, friends, susu, etc. on the other.

The inability to replicate effective credit unions on a grander scale relates to the inability to establish a firm financial base. This has prevented effective management, training, accounting, etc., from emerging, further stifling growth and reinforcing the cycle of sub-optimal performance.

As with the banking system and cooperatives, credit unions suffer from inadequately trained local staff, insufficient support services, high illiteracy rates of its members, disorganization, discouragement and demoralization from unfulfilled expectations, and the limited economic activity of their areas. Efforts have been made through the Credit Union Association to improve management, bookkeeping and administrative skills of chapter committees, but these have met with limited success.

Financial statements are not produced on time, accurately, or with sufficient documentation. Committee members usually devote themselves only part-time to the credit union on a voluntary basis as they are employed elsewhere. Between handling retail accounts and the books, the few committee members who contribute time barely have the resources and ability to properly perform their functions. Regional visits from CUA field offices are irregular (they have one vehicle in the field, in the Upper West Region), adding to the problems of improving on bookkeeping and accounting efficiency. While loan recovery rates are comparatively high (at least 90%), the credit unions are unable to follow up effectively on delinquencies. This is a problem for thinly capitalized credit unions. Although security in the form of savings mitigates the danger of delinquencies, using those savings to cover a delinquent

loan depletes resources, keeping the credit union small and relatively ineffective. In some cases, the presence of banks has diverted deposits away from the credit union.

There have been successful operations, although they are a minority. Some rural credit unions have mobilized savings, pre-financed trading activities, and achieved high levels of repayment over short periods. Credit unions in urban areas have benefitted from members whose skill levels are higher and cash streams are more regular. These have most notably been composed of teachers. However, the vast majority have remained small or become obsolete, claiming that declining real wages in recent years have rendered their savings virtually non-existent.

The following highlights key financial data on the 157 credit unions that reported information in June 1987. A more detailed summary is found in Annex VII-2.

Region	No. of Societies	Membership	Savings (MM cedis)	Loans (MM cedis)
Greater Accra	47	8,835	98.8	46.7
Ashanti	17	4,382	24.7	21.6
Brong-Ahafo	36	5,164	105.7	89.5
Upper West	17	33,024	76.8	48.1
Western	15	6,849	25.6	18.2
Central	9	1,723	6.8	5.6
Eastern	16	1,481	7.1	3.8
Total	157	61,458	345.4	233.6

As mentioned earlier, savings approximates 20% of total Rural Bank savings and 1.4% of the formal financial sector's savings. While small, considering that these funds are placed with banks in the end, the credit unions are sizeable source of deposits for the formal financial sector. It is clear that the credit unions, with limited overhead, represent a potential vehicle by which the banks could attract additional deposits. However, the banks will have to significantly improve efficiency and service levels to do so. The CUA claimed that transfers through the Ghana Commercial Bank took several weeks, far too long for the CUA to get funds to illiquid credit unions, reflecting exceptionally low service levels at the nation's largest bank. Likewise, the CUA has had problems with Barclays concerning international transfers, likewise taking several weeks. Thus, the credit unions could be a valuable link in the chain of rural finance to increase levels of formal financial intermediation, but this will have to be predicated on banks becoming more efficient, competent and service-oriented.

On a regional basis, Greater Accra and Brong-Ahafo have the largest number of societies, although membership in their credit unions average 188 and 144, respectively. In fact, aside from the Eastern

Region, the average membership of credit unions was smallest in Brong-Ahafo and Greater Accra. The following chart highlights average membership figures, clearly depicting credit unions out of the Upper West chapter as the largest:

Region	Average Membership
Upper West	1,943
Western	457
Ashanti	258
Central	191
Greater Accra	188
Brong-Ahafo	144
Eastern	93
Total Average	391

The average membership per credit union is 391, skewed because of the larger unions in the Upper West Region. These 33,024 members constitute 54% of the total credit union movement membership. Credit unions in the Upper West are large due to their longevity, lack of financial alternatives, and the strong bonds that have been established by the Catholic parishes on a parish or residential basis. Other denominations have not been very active in the credit union movement.

If the Upper West membership figure is excluded to smooth out distortions in the average, the average credit union membership would be 203 members. Thus, from that approach, the Western and Ashanti chapters have shown marked success, even though both regions are fairly well represented by the banking system (see Section IV). Likewise, the Central and Greater Accra chapters hover around the average. Only the Brong-Ahafo and Eastern chapters are below the average membership norm. The CUA is adding another Field Officer in Techiman in Brong-Ahafo to complement the efforts of the Field Officer in Sunyani. The feeling is that strong potential for credit union expansion exists in this area, and these efforts may well show increased numbers of societies and members over the next few years.

The reasons for expanding in the Brong-Ahafo Region are clear when one looks at the average savings of its members. While average membership is the second lowest among the seven regional chapters, it is by far the highest on an average savings basis, nearly double Greater Accra (second) and almost four times the average nationwide. The following chart shows the average savings per member:

Region	Average Savings/ Member (cedis)
Brong-Ahafo	20,468
Greater Accra	11,182
Ashanti	5,626
Eastern	4,769
Central	3,990
Western	3,737
Upper West	2,325
Total Average	5,620

The average savings chart is practically a reverse of the average membership chart. Aside from Ashanti, which is consistent in terms of members (third) and savings (third), the three chapters with the lowest average membership happen to be the three with the largest average savings. Based on this, it is likely that the CUA will intensify the efforts of its Brong-Ahafo, Greater Accra, Ashanti and Eastern (which includes the Volta Region as well) chapters. The recent addition of two Field Officers in Brong-Ahafo and Greater Accra constitute a first step.

It is also clear that, while the Upper West has the most members, its members have far less in the way of financial resources. As such, it is likely that the impact of credit unions on rural development has been less marked in this area, although the organizational structure and potential for expansion remain highly viable options.

From the credit side, the pattern is almost the same as with savings. Brong-Ahafo has a very high average credit outlay, including a high percentage (85%) of absolute savings outstanding in the form of credit. Greater Accra and Ashanti follow, with the Upper West issuing the smallest average loans.

Region	Average Credit/ Member (cedis)
Brong-Ahafo	17,335
Greater Accra	5,288
Ashanti	4,939
Central	3,262
Western	2,653
Eastern	2,552
Upper West	1,458
Total Average	3,801

The average allocation of credit may be distorted in that some chapters may have fewer numbers of loans outstanding relative to its membership. Thus, in some cases, average loan size may be larger if fewer members have received loans. Our assumption is that each individual member has received a loan.

What is noteworthy about the credit unions is the way in which they have managed their resources. Minimum savings levels are established per member, and credit is not supposed to be allocated above a certain percentage of savings unless backed by the guarantees of fellow members. In some cases, credit allocations appear to have been prudently managed. In other cases, the percentage of loans to savings is high, above the 75% ceiling recommended in the bye-laws. There are reasons for maintaining high loans/savings ratios:

i) savings and guarantees provide security for repayment;

ii) credit is an effective incentive to induce increased membership and activity; and

iii) overhead costs are low, as labor is usually on a volunteer basis and office space tends to be a small room in a parish.

Thus, if a credit union has a high loan/savings rate, it should not be necessarily perceived as imprudent. However, if those loans are not put to productive purposes, it diminishes the member's ability to generate additional savings to expand the financial base of the credit union. This has happened in the past, keeping the credit union from having a dramatic impact on rural finance.

Region	Loan/Savings Ratio (%)
Ashanti	87.8
Brong-Ahafo	84.7
Central	81.8
Western	71.0
Upper West	62.7
Eastern	53.5
Greater Accra	47.3

From these distributions, it is difficult to ascertain the role of credit. The Ashanti chapter has been consistent in terms of membership and savings, perhaps due to its high loan/savings ratio. Likewise, Brong-Ahafo has attracted the largest average deposits while issuing the largest average loans. However, Greater Accra has the lowest loan/savings ratio despite having the second highest average savings rate. This may reflect more money in circulation in urban areas, but many members in workplaces (i.e., in Tema) complain of limited funds for savings.

On an income and expenditure basis, the credit unions appear to have satisfactory resources for their operations. In all regional cases, income exceeds expenditure, although the accuracy of these numbers is questionable. The following chart highlights income, expenditure and surplus as of mid-1987. The Central Region did not report these statistics. (All figures are in cedis).

Region	Income	Expenditure	Surplus
Greater Accra	6,416,125	2,032,940	4,383,185
Ashanti	6,355,960	795,571	5,560,389
Brong-Ahafo	5,899,128	2,874,904	3,024,224
Western	4,641,447	1,161,081	3,480,366
Upper West	3,312,969	2,170,153	1,142,816
Eastern	726,379	328,731	397,648
Total	27,352,008	9,363,380	17,988,628

These totals are interesting from the standpoint of local liquidity, and how the credit unions may in fact have sufficient resources to generate greater credit union movement activity on a regional basis. Even if we discount the surplus for other accounts and obligations consistent with Brong-Ahafo's reserve/surplus ratio of 11% (Brong-Ahafo was the only region to report reserves), it appears the credit union has a reasonable reserve (C2.0 million) from which to re-energize the movement. (It is unclear if reserves are separate from capital). While not a significant sum of equity relative to the formal financial sector, the credit unions represent an existing structure on which to build.

In general, the credit union performance has made an impact, but stagnated since 1978 when membership was 56,038 with 388 societies. To revitalize the movement, much will have to be done to improve the training and marketing skills of the societies, regional chapters and head office. Recent trends suggest this is beginning to happen, perhaps for the first time since the 1970's. Nevertheless, it is a slow building process, and will not radically alter the state of rural finance any time in the near future.

H. <u>Financial Performance of the CUA:</u> To facilitate the ongoing education and training needed at the local level for the effective management of credit unions, the CUA will have to improve its financial condition. As the credit union movement was originally dependent on external financing from the Konrad Adenauer Foundation and Rabobank, the influx of funds from these groups served as a disincentive for members to pay their dues. Arrears as a percentage of fees billed averaged 47% from 1971-1978, reflecting the general lack of resources or discipline on the part of the credit unions to build a credit union movement based on cooperative principles. Part of this may reflect low service levels provided by the apex organization, but there is also the general opinion that outside funding was used as an excuse to not pay member dues.

When the Adenauer Foundation withdrew financial support in 1983, this exacerbated the credit union movement's problems at a time when the national economy was depressed from drought and years of bad Government economic policy. The CUA has not recovered from this, and even to this day dues rates have not been changed to account for the steady devaluation of the cedi in recent years. The current charge per member is 24 cedis, with 8 cedis for the regional chapter and 16 cedis for the head office. Clearly, this will have to be adjusted at the next biennial general membership meeting in September 1988 in Accra. To date, the CUA has carried forward nearly C8.0 million cedis in operating deficits, a situation that can only be reversed with a one-time contribution from each individual member, prompt payment of dues, appropriate fee structures and prudent management of CUA operations.

The following highlights key Income and Expenditure and Balance Sheet items at June 1987. A more detailed look at the CUA's statements is featured in Annexes VII-3 and 4.

Income and Expenditure:

Income	3,518,246
Expenses	7,265,694
Net Loss	(3,747,448)
Deficit Carried Forward	(4,159,480)
Total Deficit on Balance Sheet	(7,906,928)

Balance Sheet:

Current Assets	12,802,931
Fixed Assets	18,009,834
Total Assets	30,812,765
Liabilities	13,144,933
Capital	17,667,832
Total Funds	30,812,765

While the CUA continues to receive grants from Rabobank (C0.8 million in 1987), its 1987 income was only half of expenses. Salaries alone were 60% of income, while interest paid on loans was more than double what was earned on its loans extended to its chapters. Most notable is that the Income and Expenditure did not even feature chapter dues and fees as a source of income. The balance sheet featured nearly C1.0 million in dues receivable, but whether they will be received is debatable. The Chief Executive stated that dormant credit unions in the Upper East have agreed to pay dues in arrears in exchange for the appointment of a Field Officer. However, whether this trend will ultimately reverse the

dues problem is uncertain. On the other hand, while dues receivable were 7.7% of current assets, it must be said that CUA's current liabilities are minimal. However, it is clear that CUA cannot cover its annual operating costs under the current circumstances.

To increase dues and fees will be a difficult policy to implement. Assuming 157 credit unions are functioning in Ghana, average incremental fees to cover the 1987 cumulative deficit would be 50,363 per branch. While reserves were not reported except in Brong-Ahafo, it is likely that balancing the budget would erase the movement's collective reserves. A better approach would be to charge all individuals a C130 one-time fee. This, in turn, would shore up the CUA's operations to improve service levels.

Another possibility is to cut costs. While there is undoubtedly waste, to cut salaries is to reduce the level of currently unsatisfactory skills that are needed to operate credit unions on a well-managed basis. The Chief Executive claims that the inability to provide better compensation has hindered the CUA's ability to hire more skilled professionals. As with the formal financial sector, for credit unions to become viable and have a major impact on rural finance, they will need to be recapitalized, with intensive efforts to improve skill levels, bookkeeping and accounting standards, data processing and analysis, and managerial efficiency as essential counterparts. Without recapitalization, the CUA's equity will be reduced to zero in less than five years at current rates. Likewise, without more efficient operations, the credit unions will not receive a broader range of support services from the CUA to help with their efforts. Increased fees and regular payment by credit unions would help, but whether they will comply is questionable.

I. <u>Summary:</u> While credit unions have not had a major impact on rural finance, there are regions where they not only operate successfully, but (and partially due to this) are the only financial institution that is viable. This is primarily in the Upper West Region. In other cases, such as in Brong-Ahafo and Ashanti, they have succeeded despite the presence of banks. In the most populous region of Greater Accra, they have managed to attract savings without loan portfolios rising to imprudent levels. These elements of success point to the credit unions having an important role to play in rural finance, particularly as low-cost operators in areas where banks are unwilling to commit overhead for the mobilization of deposits and production of loans.

The credit unions represent the most viable "semi-formal" link in the chain of rural finance, from individuals without access to financial services except from family, friends, moneylenders, susu, etc., to the formal financial sector itself. As credit unions place their deposits with the banks, their existence indirectly increases levels of formal financial intermediation. However, because they are based on common bonds, democratic principles, conservative risk profiles and low transactions costs, they constitute an institution in which skeptical and uneducated people can have confidence. The importance of this feature within a broader context of devising

integrated programs of input supply, credit, extension and training, and marketing to improve the lot of small-scale farmers cannot be overstated.

To make the credit unions assume their proper role in the restructuring of the nation's financial sector and economy, efforts will have to concentrate primarily on training and logistical support. Higher quality staff with greater experience in finance, accounting and business management will be essential. The current Chief Executive of the CUA is committed to this approach, and has already begun to take steps in this direction. Improved information retrieval, data processing and information dissemination will be essential to the Field Officers' and CUA's collective abilities to reach members on as local a basis as possible. Once again, current trends show the CUA is committed to inculcating the credit union movement with a strong commitment to education and training. This is reflected as well in recent decisions implemented by the Chief Executive.

Nevertheless, even with improvements in the head office operation, logistical support in the form of vehicles (i.e., motorbikes) will be needed to make contact between Field Officers, accountants, and other CUA officials more frequent with local members. Until this occurs, it is likely that the credit union movement will not be able to expand unless organized on a purely grassroots level. Even here, however, limited skills in management and bookkeeping suggest the need for assistance without disrupting what is conceptually a decentralized financial institution.

While the challenges currently faced are difficult, they do not appear to be nearly as severe as those of the formal financial sector. Credit unions are generally risk-averse and service-oriented on a localized basis. With an organizational framework already established, the credit unions offer an excellent opportunity to increase levels of financial intermediation, link financial with non-financial institutions in a more integrated model for rural development, and establish a community-based program in which the viability of an investment has with it the feature of equity and local initiative.

GHANA CO-OPERATIVE CREDIT UNIONS ASSOCIATION (CUA) LTD.
EDUCATION PLAN: 1988-1990

1. GENERAL LEADERSHIP COURSE (1 Day)
   Participants: Chairpersons, Secretaries and Treasurers

   Course Content
   Co-operative Principles
   The Credit Union Structure in Ghana
   Human Relations
   General Principles of Management
   Duties of the Various Credit Union Committees
   Current Trends in the Credit Union movement.

2. GENERAL BUSINESS COURSE (5 Days Residential)
   Participants: Secretaries and Treasurers

   Course Content
   Co-operative Principles
   General Principles of Management
   Duties of the Various Credit Union Committees
   Bookkeeping
   Loan Administration (including Central Finance)
   Techniques of Gathering Statistics
   Co-operative Societies Decree
   Society Model bye-laws
   Risk Management

3. MEMBER EDUCATION DAY (1 Day)
   Participants: Members of a Specific Society

   Course Content
   Co-operative Principles
   The Credit Union Structure in Ghana
   Human Relations
   The Society's Bye-Laws
   Loan Procedures
   Risk Management

   NOTE
   The execution of this education plan for the stated period shall be at district and/or regional levels, whichever is most appropriate. It may be considered necessary to hold one or two courses at the national level.

Annex VII-2

GHANA CO-OPERATIVE CREDIT UNIONS ASSOCIATION: JUNE 1987

	CHAPTERS	NO. OF SOCIETIES	TOTAL MEMBERSHIP	TOTAL SAVINGS	TOTAL LOANS	TOTAL INCOME	TOTAL EXPENDITURE	TOTAL INVESTMENT	TOTA RESER
1.	Greater Accra	47	8,835	98,795,530	46,716,813	6,416,125	2,032,940	2,707,896	N A
2.	Ashanti	17	4,382	24,654,284	21,644,331	6,355,960	795,571	242,147	N A
3.	Brong-Ahafo	36	5,164	105,694,621	89,516,860	5,899,128	2,874,904	N A	611,28
4.	Upper West	17	33,024	76,786,940	48,144,048	3,312,969	2,170,153	4,639,811	N A
5.	Western	15	6,849	25,592,510	18,172,450	4,641,447	1,161,081	1,471,387	N A
6.	Central	9	1,723	6,815,055	5,620,391	N A	N A	286,753	N A
7.	Eastern	16	1,481	7,062,369	3,778,884	726,379	328,731	149,060	N A
		157	61,458	345,401,111	233,593,778	27,352,008	9,363,380	9,497,055	611,283

BEST AVAILABLE COPY

CONSOLIDATED CREDIT UNION ASSOCIATION
INCOME AND EXPENDITURE: JUNE 1987

Income:

Treasury Bills	903,933
Rent	889,743
Rabobank Grants	799,037
Sales	500,816
Interest	387,497
Other	37,220
Total	3,518,246

Expenses:

Salaries	2,512,526
Depreciation	1,995,460
Interest Paid	865,583
Repairs/Maintenance	369,622
Other	1,522,503
Total	7,265,694
Net Deficit	(3,747,448)
Previous Years' Deficits	(4,159,480)
Total Deficit	(7,906,928)

CONSOLIDATED CREDIT UNION ASSOCIATION
BALANCE SHEET: JUNE 1987

ASSETS:		
Cash		
- Current Bank Accounts	2,655,990	
- Petty Cash	4,582	
- Investments	4,145,000	
Total Cash		6,805,572
Loans		3,761,059
Accts. Receivable		
- Dues Receivable	980,497	
- Interest Receivable	608,108	
- Other	45,999	
Total Receivables		1,634,604
Stock-in-Trade		60,696
Net Fixed Assets		
- Land and Buildings	14,886,500	
- Automotive	2,223,334	
- Equipment	900,000	
Total Net Fixed Assets		18,009,834
Total Assets		30,812,765
LIABILITIES:		
Member Savings		10,928,131
Accounts Payable		1,367,001
Endowment Fund		686,121
Other		163,680
Total Liabilities		13,144,933
EQUITY:		
Fixed Asset Account		21,415,383
Capital Grants		2,893,172
Other		1,266,205
Deficit		(7,906,928)
Total Equity		17,667,832

VIII. THE ROLE OF SUSU AND MONEYLENDERS

A. Introduction: The susu system and moneylenders are the dominant informal financial institutions in Ghana, with susu common in rural marketplaces and urban settings, and moneylenders prominent at the village, town and city levels. In rural areas in particular, susu men and moneylenders provide reliable services that encourage trust and confidence among their customers, thus reducing the transactions costs that are so characteristic of the banking system. The strength of these longstanding institutions is such that the banks, credit unions and insurance companies might consider accommodating them rather than attempting to supplant them. Even in urban areas where moneylenders are viewed as usurious loan sharks, transactions costs are low due to easy borrowing procedures, ready cash and a general lack of formality.

To integrate these resources into the banking system, and to do so at minimal cost, the banks should look to supply these groups with effective services (i.e., safe store for deposits, easy and fast withdrawal procedures, investment advice, etc.) rather than competing with them. The ADB is accommodating the only registered susu association (the Greater Accra Susu Collectors Association; see Appendix VIII-1) with adequate and convenient services. This is a positive trend that may increase levels of formal financial sector intermediation as susu collectors become increasingly organized.

For formal institutions to compete directly with susu will likely not be successful. The State Insurance Corporation has apparently tried to organize its own susu collection system at markets, with savings returned after a full year. However, this has not been successful, and it is likely that formal financial institutions will be unable to master the susu practice or break the solidarity of the participants.

B. Susu: There are two general types of susu systems, with overlap between the two: susu collection and rotating savings. These savings associations are generally located in urban and rural market settings, and their impact on the small-scale farmer is difficult to determine as subsistence farmers generally produce limited (if any) surpluses and are often unable to save. The following highlights key aspects of the two systems:

i) Susu Collection: The susu collection system is prominent with merchants, craftsmen and market traders, and appears to be of greater economic significance than rotating savings. Susu men (collectors) visit shops, workplaces and markets at fixed times on a daily basis to collect funds for the savings plan. Once the transaction is completed, which usually takes only a matter of seconds, the susu man marks off the deposit on a card which is a sign of the depositor having met his/her daily obligation. For illiterate savers, this is a simple and understandable method.

The plan involves daily collections for the full month, with a full month's savings returned to the saver at the end of the month. The susu man receives his compensation on the first day of each month, equivalent to one full day's collection. Thus, people who save with the susu men actually receive less at the end of the month than they have deposited, showing that nominal or real interest rates are immaterial.

People are willing to accept a nominal decrease in their savings in exchange for service. Because the susu man is punctual and processes transactions quickly, customers can plan out their day with certainty that the susu man will arrive on time. In markets, the fact that the susu man comes to the customer is indispensable as traders cannot leave their wares. The susu man works every day, even on holidays, reinforcing his sense of dependability and trustworthiness to his customers.

The basic reason for saving with the susu man is to forego immediate consumption for future investment. As people who are in a position to save are often pressured by relatives and friends to lend or give money to them, the people utilizing the susu system find it useful to shelter those funds with a susu man to prevent cash outflows that might undermine the saver's business or prevent the saver from making an intended purchase at a later date.

In addition, as susu men also engage in rotating savings plans, savers sometimes use the susu man to invest some or all of their savings into a rotating savings plan (discussed below). The system is flexible, and offers the daily saver an opportunity to increase savings and lump sum payments for consumption or investment. In fact, the nominal sum of money decreases, but safety, service and the periodic aggregation of funds provides the saver with a sense of security that would be difficult to achieve otherwise.

Because the susu man bases his business on service and trust, he is also flexible in meeting customers' liquidity needs. If a customer needs to withdraw savings before the end of the month, the susu man will usually permit that on the condition that savings are "repaid" by the end of the month. In this sense, participation in a savings plan provides a credit feature in the form of advances that would probably be unavailable when needed from a bank. The incentive to the susu man is increased fee income and greater loyalty from the customer.

ii) <u>Rotating Savings:</u> The rotating savings system, indigenous to Ghana, is not as common as the susu collection system. This plan is practiced by craftsmen in urban sites and junior officers in Government departments, and is based on trust among friends and colleagues.

While the susu collection system is performed on a daily basis, the rotating savings system is done over longer periods. A typical example of rotating savings is a group of colleagues at a Government office who are paid once a month, placing an agreed amount of savings into the system within a few days of payment. The system operates on the basis of trust, with the number of months equal to the number of participants (i.e., 10). The group randomly selects the month in which each individual will receive the full lump sum. Once every individual has rotated, the group has the option of continuing, expanding, contracting or disbanding.

The benefits of such a group are similar to those of the daily susu collection system. Individuals apportion some of their compensation towards savings for future investment and consumption. When the lump sum is received, it is possible to make a large purchase that otherwise would be difficult to make. In the event that a person is the last to receive the lump sum, he has no further obligations to the group and can dispose of his funds freely.

Every system has its risks. In the case of susu men, there have been instances of these people fleeing with others' funds. In the case of rotating savings associations, this too has happened. In the event that a member absconds with a group's funds, the difference is made up on a proportional basis each month so as to not jeopardize those who have yet to receive their lump sums.

The Government attempted to ban susu in earlier years, largely because of the number of people in operation who were dishonest. However, recognizing the strength of the institution, it has now chosen to license and regulate it. Susu men are supposed to register with the Government to be in practice. The Greater Accra Susu Collectors Association is registered with the Ghana Cooperative Credit Union Association, and therefore has a surface relationship with the Department of Cooperatives. However, given the individualistic nature of the enterprise, susu collectors in other towns have yet to register, and this will likely take time.

C. <u>Moneylenders:</u> While susu is found primarily in urban centers and rural markets, moneylenders are found in the villages as well as towns and cities. Of the 14 Rural Banks surveyed for this study, the managers or staff we spoke with felt that moneylenders met 20% of small-scale farmers' needs. They also felt that rural moneylenders tended to prefer the financing of trading and fisheries activities, as these generally led to prompt repayment. The financing of trade in urban areas appears to be the most common form of credit allocation by moneylenders.

The difference between moneylenders and susu is the difference in perception at the various levels. Susu are universally viewed as a favorable institution which promotes thrift and planning, with commendable service levels that take into account customer needs. The emphasis here is on savings and its associated benefits, and the

character and service of the individuals representing the institution.

The view of moneylenders is not nearly so universal. In the villages, where susu are virtually non-existent, the moneylender is sometimes a relative or friend who is perceived as helping family or neighbors during difficult times. While interest rates are high, repayment periods can be flexible, formalities are kept to a minimum, and the transaction is kept private. The agreement is that the borrower will be honest and willingly repay, obviating the need for the moneylender to apply social pressure. It is uncertain if borrowing from a moneylender in a village carries a social stigma. What appears to be most stigmatic is the borrower's unwillingness or inability to repay.

This is not to say that moneylenders are universally praised. In some cases, the moneylender is dishonest, claiming that a borrower did not repay on time, and that a penalty on top of principal and interest is owed. The degree to which this view is held in villages is difficult to determine, although it is less pervasive than in the cities.

In some cases, the moneylender is a market woman who pre-finances a farmer's operations, receiving payment in-kind and selling the produce in the market. These moneylenders are not always appreciated, and are utilized only because farmers may lack the funds needed for maintenance, land preparation and planting. More than once, market women have been accused of demanding higher in-kind payments from farmers, as well as profiting substantially from the farmer's output without the farmer earning enough return to lower his costs for the next season.

Perceptions of moneylenders in the towns and urban areas, particularly the larger cities, are very negative. Moneylenders are considered greedy, depersonalized and ruthless. Borrowers tend to go to moneylenders to facilitate trading activities, and repayment terms are strict. If a borrower fails to repay, the lender will often resort to legal methods (courts, CDR's, etc.) to effect full repayment. There is no question that in urban areas, a stigma is attached to the institution as well as to the borrower.

As small-scale farmers are usually unserved by banks, credit unions and susu, their only alternatives are to family, friends and moneylenders. Clearly there are constraints concerning family and friends, usually lack of funds to lend out or keeping funds at home for future needs. This is not to say extended families and friends do not provide money, because they clearly do. However, these are not always dependable sources for funding. Particularly at planting time, most farmers' relatives and friends are also farmers with the same capital needs. As such, they cannot borrow from each other, and instead go to the moneylender. The moneylender is sometimes a larger farmer who understands the plight of the subsistence farmer. When he acts in a manner that is viewed as helpful, the perception is favorable. However, when a moneylender attempts to change the terms of trade, harass the borrower, seize large portions of a

farmer's output or otherwise humiliate that person in the eyes of the community, the public image of the moneylender is clearly negative. This has occurred with market women.

There are two facts that are common to the moneylending institution in both rural and urban areas: interest rates and repayment rates are high. Interest rates are far higher than bank rates, presumably to compensate for risk and foregone investment. This is particularly the rationale in urban areas where risk is higher and investment opportunities more numerous.

Repayment rates are close to 100% for different reasons. In rural areas, the social fabric of the closely-knit community makes it a point of honor to repay according to terms. The social pressure for not honoring obligations serves as a deterrent to default. In addition, in the event of default, the assets of family members are often used as substitute repayment, shifting the risk to the family and away from the moneylender. In most cases, the moneylender will only provide funds to people he knows are fully capable of repaying. Thus, by knowing his customers well and using social pressure, the rural moneylender rarely loses money.

In the urban areas the methods of repayment are strict. Terms are fixed from the outset. If a borrower fails to repay, assets are seized. If it becomes difficult to effect repayment in cash or in-kind, the moneylender will use law enforcement agencies to force repayment and/or to punish the defaulter. There is no illusion of what the moneylender will do to recoup his funds. The result is that the urban moneylender's repayment is also nearly 100%, although there is always the risk of a person fleeing the city with funds. This risk appears to be much less in smaller villages.

D. Summary: The key advantages of susu and moneylenders over the formal and semi-formal (credit unions) financial institutions relate to service and convenience. Susu and moneylenders represent limited transactions costs, and both rural and urban consumers are willing to forego higher financial rewards or lower costs in exchange for these services. The implication is that banks must improve service levels to attract funds that otherwise go to or come from susu and moneylenders.

As the informal sector is mobile and without overhead, the formal sector should regard these institutions as informal links that could be accommodated. Rather than banks attempting to replicate susu, they should make an effort to utilize susu mobility by providing it with services befitting a large depositor. As deposits would be in the susu man's account, interest income paid monthly could accrue to him, supplementing the service fees he derives from his customers. A special effort at the end of the month by banks to promptly provide the susu man with the savings he needs to return to his customers, with all paperwork and other formalities prepared in advance, would improve the chances of obtaining his loyalty.

While moneylenders are not likely to be brought into the system as such, changes in bank policy charging higher rates of interest for

loans (while reducing the myriad service fees for which customers receive little service) would generate more interest income, making it possible for the banks to increase deposit rates. This may have little effect in rural areas, but higher deposit rates may turn out to be effective in attracting excess moneylender balances in the urban areas when inflation is brought under control and financial assets more effectively compete with physical assets.

The best opportunity for the formal sector to attract non-formal deposits is to accommodate the susu with better service. In this manner, the banks could capitalize on the susu's mobility without having to commit excessive overhead.

THE GREATER ACCRA SUSU COLLECTORS SOCIETY

The Greater Accra Susu Collectors Society (GASCS), registered in 1987 with the Department of Cooperatives, is the first registered society of susu collectors in Ghana. Membership in mid-1988 approximated 300. Efforts are underway to organize susu collectors in other areas, most notably Kumasi, Takoradi and other regional capitals in the southern part of the country.

Members join the society by paying a C2,000 entrance fee and investing an additional C2,000 in share capital. The primary function of the GASCS is to operate a central fund in which the susu collectors deposit their collections on a daily basis. The GASCS then deposits the funds with the ADB at Kaneshie, with a check written out to the collector at the end of the month for his commission plus disbursement to his customers. At the end of the year, the GASCS is supposed to dividend its surplus income (including interest income accrued from deposits) back to the collectors.

There is no reason why individual susu collectors could not arrange for banking services themselves. However, the central fund of the GASCS facilitates the process by providing economies of scale, effectively reducing the individual susu collector's transactions costs.

The GASCS has also established a credit scheme out of its central fund. The susu collector can draw on these funds for short-term advances, with the susu man lending the funds out and closely monitoring the use of those funds. Credit to date has been most commonly used to pre-finance market women who trade in palm oil and distilled spirits. Theoretically, principal and interest are paid into the central fund, with the surplus dividended back to the membership at year end. In practice, however, it is likely that the susu collectors keep a part of the interest charge as a type of commission.

The existence of the GASCS is interesting from several perspectives. After the Government once attempted to ban the susu practice, it has accepted susu's importance and is now attempting to institutionalize it. The society constitutes a first step in this direction.

The activity of the society is based on its central fund, applying the traditional susu practices of collection, rotating savings and short-term advances on a more concentrated scale to reduce transactions costs. This should provide the susu collectors with greater clout in performing their roles as financial intermediaries. The most likely example of exercising that clout is providing increasingly large credits from the central fund that should generate greater interest income, ultimately boosting the shareholder's dividend at year end. The personalized and frequent

contact the susu man has with his customers should provide the GASCS with better monitoring capabilities than any of the formal financial institutions. Based on those monitoring capabilities, and given the emphasis of their loans on trading activities (with quick turnover and cash flow generation), repayment rates should approximate 100%.

One last consideration is the role of linkage between the formal and non-formal financial sectors. The ADB is providing the susu collectors with safekeeping and, to date, adequate service levels. In exchange for those simple procedures, the ADB benefits from the GASCS's deposits with minimal costs incurred. The account is simple to operate and entails little work. In the past, much of this money stayed outside the banking system because of transactions costs. However, with susu collectors now beginning to organize, they should be able to derive equal or greater benefits from traditional practices while the banking system is able to attract increased deposits (primarily current accounts). Thus, formal financial intermediation levels are raised without committing incremental overhead or sacrificing traditional non-formal practices.

IX. NON-GOVERNMENTAL ORGANISATIONS (NGO)

A. Introduction: NGO's are private voluntary organisations that attempt to provide humanitarian assistance in both developed and developing countries in the form of health care, family planning, nutrition, food aid, famine relief, infrastructure development, management training, and a series of other activities intended to promote economic development and improved living standards.

Past development efforts by Governments in collaboration with multilateral and bilateral agencies have not succeeded in eliminating the severe poverty and disease that continue to afflict many countries of the world. In certain cases, programs and policies have worsened conditions. The Economic Recovery Programme has been designed to rectify problems inherited from previous Governments, and NGO's are projected to have an important role to play.

NGO's offer material, technical and managerial assistance at community levels to reverse the conditions of poverty facing many societies. They have become increasingly results-oriented in Ghana, especially since 1986 when many NGO's significantly re-designed their programmes to emphasize training and development to contribute to the development of sustainable and viable institutions.

B. Origins and Types: Initially, most NGO's came to Ghana from the developed countries (U.S. and Europe) as disaster relief agencies. Later on, as more social sector development to provide basic health and education needs became their concern, other NGO's entered Ghana, including from Asia. Over the past decade, income generation has become a central focus of many NGO's. NGO's of foreign origin have been joined by indigenous NGO's which are organized at local, district, regional and national levels. Some of these local NGO's assume basic responsibility for leading the development process in poorer communities, although their number and influence are currently limited.

The Ghana Association of Private Voluntary Organisations in Development (GAPVOD) was established in 1980 by a group of NGO's active in Ghana to provide services to members, coordinate their activities and provide a liaison between members, the Government and the business community. Although past performance has been weak with little active input from its members, GAPVOD has recently taken moves to strengthen its capabilities and promote NGO participation in PAMSCAD (discussed in Section IX-F).

C. Motivation and Focus: NGO's are primarily motivated on humanitarian grounds to support peoples' efforts to alleviate social and economic hardships such as infant mortality, malnutrition, disease, poor health care, economic and infrastructure deterioration, and declining quality of education and social services. NGO's also attempt to establish institutions that respond to the needs of the poor within their own capacities and which are

based on local initiative. While some NGO's are donor organizations, most apply principles of self-reliance in varying degrees to encourage communities to overcome these problems. With the growing perception that traditional foreign aid allocations have not succeeded in alleviating poverty, hunger and disease, NGO efforts are receiving increasing recognition and support.

D. Activities: In Ghana, the activities of NGO's cover all 10 regions of the country. Where offices are not maintained because of communication and other logistical problems, contact representation often exists. The Northern and Upper Regions, where conditions are harshest and resources are most lacking, receive the bulk of their assistance from religious NGO's. Prominent among these are the Catholic Secretariat, World Vision International and the Christian Council of Ghana, who provide assistance in the form of relief services, food and nutrition, health care and immunization, and agricultural and cottage industry development.

Throughout the entire country, NGO's are active in water, sanitation, health care and other areas of social infrastructure development. In some areas, people would be lacking health services entirely were it not for the involvement of NGO's which have often filled a vacuum which previous Government's were unable or unwilling to fill.

The drought of 1982/1983 and the repatriation of over one million Ghanaians resident in Nigeria widened the dimension of the social and economic support needs of the country. NGO's such as the Christian Council of Ghana and the World Council of Churches set up the Churches Relief Operations. Massive international aid was mobilised to lessen the hardship caused by the drought. By July 1985, Protestant church-affiliated operations were reorganized to focus on improving the condition of the national infrastructure, prompting the formation of the Committee of Churches Participation in Development (CCPD).

While many NGO's have engaged in famine relief and developing Ghana's social infrastructure, some NGO's have focussed more sharply on specific sectors and activities. These include Global 2000, which is concentrating on increased cereal production and eradicating guinea worm, and Technoserve, Inc., whose primary focus is on enterprise development. Such focussed NGO's usually have more specialized personnel, can more often be found operating at the institutional level, and can be instrumental in influencing the development of national policy.

From the list of 31 NGO's attached as Annex IX-1, the major activity classifications are: Agriculture (25), Health (22), Education (21) and Humanitarian Aid and Relief (12).

E. NGO - Government Relationships: Unlike NGO's in many Latin American countries, NGO's in Ghana have not traditionally functioned in opposition to the Government, largely because of the complementary role they play and greater Government need for their assistance. Given the field experience and long-term commitments

demonstrated by most NGO's, coupled with inadequate skill levels in Ghana's public sector, their role in Ghana's economic development may increase in importance.

Twelve NGO's listed in Annex IX-1 claimed to be involved in general development policy and planning formulation. World Vision's budget is incorporated into the nation's annual budget under Rural Development Projects. Other NGO donations such as those of Catholic Relief Services may also be factored in, although this has not been verified in the course of our study.

It is likely that NGO's will have increasingly more impact at the policy level given their anticipated role in PAMSCAD, and possible use by multilateral agencies such as the World Bank and FAO in the implementation of long-term projects. The positive results produced from successful programs will directly influence Government approaches in priority sectors. Global 2000's accomplishments in cereal production are the best example to date.

The indigenous NGO's should be in a position to bring alternative policies to the attention of the Government as the ERP's ultimate objective is economic stability, self-sufficiency and increased self-reliance. However, many local NGO's are poorly organised and managed, limiting their impact in current policy debates.

F. PAMSCAD: As the Government pursues its Economic Recovery Programme, effectively restructuring the economy in a manner that promotes increasing competition and efficiency, it has recognized the need to address near-term hardships that will affect many of the rural and urban poor. The manifestation of its concern is documented in PAMSCAD, or the Programme to Mitigate the Social Costs of Adjustment.

Many PAMSCAD projects are consistent with the projects normally undertaken by NGO's engaged in enterprise and infrastructure development. These include community-based projects that call for outside assistance, but involve local initiative in the identification and implementation of programs to rehabilitate and construct facilities that will offer education, health, employment, income and an improved standard of living. For many PAMSCAD activities, funds will be transferred from the Ministry of Finance and Economic Planning (MFEP) to district councils. This is designed to encourage a decentralization of procedures in development planning and implementation. The councils will then appraise the projects proposed by the communities, and disburse funds to the projects that satisfy predetermined criteria.

Grassroots NGO's and NGO's with expertise in accounting, management and training will be expected to participate at various levels in the identification and implementation of PAMSCAD projects.

G. NGO Involvement in Rural Credit: NGO involvement in rural credit has been limited, either due to past experiences in which credit was improperly administered, allocated and used, or because the focus was geared to other goals. In other cases, NGO's have simply not been successful in credit delivery programs. The Presbyterian Church and Catholic Church, each respectively administering the FAO's People's Participation Project in the Eastern and Brong-Ahafo Regions, have apparently achieved very low repayment rates (see Appendix IX-4). Other NGO's simply will not intervene due to past experiences.

In other cases, credit allocation has been successful in achieving larger goals, such as with Global 2000's yield increases and high repayment rates. Technoserve, which is collaborating with Global 2000 to establish pilot agricultural service cooperatives for the provision of inputs and credit to small-scale farmers on a sustainable basis, has had considerable experience in the field of credit in other countries, most notably the Savings and Credit movement in Kenya. While most NGO's have limited involvement in credit schemes, it appears that many could play useful roles in the implementation of well-designed and coordinated credit programs.

Brief profiles of selected NGO's and their involvement in credit and non-credit programs are attached as Appendices IX 1-8.

SUMMARY OF ACTIVITIES BY SECTORS OF NATIONAL AND INTERNATIONAL NON-GOVERNMENTAL ORGANISATIONS AND THE AVERAGE ANNUAL EXPENDITURE ON DEVELOPMENT (IN US DOLLARS)

AGENCIES	General Dev. Policy & Planning	National Resource	Agri-culture	Indus-try	Trans. and Coms.	Int. Trade & Finance	Popula-tion	Human Re-Settlement	Health	Educa-tion	Employ-ment	Human-itarian Aid & Relief	Social Condi-tion & Equity	Cul-ture	Science & Tech.	Average Annual Expenditure on Development US$
Adventist Development & Relief Agency	X		X						X			X				327,108.00
Ahmadiyya Muslim Mission			X		X				X	X		X				n.a.
Amasachina Self-Help Association	X	X	X	X					X	X				X		n.a.
Annuale Women's Community Project			X	X							X					n.a.
Association of People for Life Education			X				X		X	X	X	X				70,000.00
Catholic Relief Services			X						X			X				650,000.00
Centre for Community Studies	X		X						X	X						13,333.30
Christian Council of Ghana	X		X				X		X	X		X				450,000.00

AGENCIES	General Dev. Policy & Planning	National Resource	Agri-culture	Indus-try	Trans. and Coms.	Int. Trade & Finance	Popula-tion	Human Re-Settlement	Health	Educa-tion	Employ-ment	Human-itarian Aid & Relief	Social Condi-tion & Equity	Cul-ture	Science & Tech.	Average Annua Expenditure o Developaent US$
Federation of Ghana Business and Professional Women	X		X	X	X	X			X	X	X				X	n.a.
Ghana Organization of Voluntary Assistance	X		X						X	X			X			50,000.00
Ghana Association of Private Voluntary Organization in Development																n.a.
Ghana Rural Reconstruction Movement			X						X	X				X		16,666.70
Grace Fellowship Incorporated			X							X		X				20,000.00
Konrad Adenauer Foundation											X		X			n.a.
Mayday Rural Clinic Project	X		X			X	X		X	X		X	X			26,666.7
Meals for Millions									X							164,000.00
National Catholic Secretariat	X		X													

AGENCIES	General Dev. Policy & Planning	National Resource	Agri-culture	Indus-try	Trans. and Comm.	Int. Trade & Finance	Popula-tion	Human Re-Settlement	Health	Educa-tion	Employ-ment	Humani-tarian Aid & Relief	Social Condi-tion & Equity	Cul-ture	Science & Tech.	Average Annual Expenditure on Development (US$)
National Council of the Ghana Young Men's Christian Association	X		X			X	X	X	X	X		X		X		26,666.70
Opportunities Industrialization Centre				X						X	X					126,666.70
Oxfam			X					X	X	X		X	X			160,000.00
Planned Parenthood Association of Ghana							X		X	X						969,000.00
Presbyterian Church of Ghana	X	X	X	X				X	X	X	X	X	X	X		80,000.00
Technoserve, Inc.			X	X												300,000.00
The Churches Participating in Development			X						X	X						
The Church of Pentecost			X	X					X	X	X	X				248,666.70
The Ghana Scout Association			X						X	X						3,800.00
The Methodist Church of Ghana	X		X					X		X	X	X	X	X		33,666.70

AGENCIES	General Dev. Policy & Planning	National Resource	Agri-culture	Indus-try	Trans. and Comm.	Int. Trade & Finance	Popula-tion	Human Re-Settlement	Health	Educa-tion	Employ-ment	Human-itarian Aid & Relief	Social Condi-tion & Equity	Cul-ture	Science & Tech.	Average Annual Expenditure on Development
																US$)
Union of West African Citizens										X			X			n.a.
World Vision			X							X	X		X			3,800,000.00
Voluntary Workcamp for Community Development			X						X	X						n. a.
Young Women's Christian Association	X		X						X				X			2,660.50

Source: UNDP, "Preliminary Directory of National and International NGOs involved in development activities in Ghana" July 1987 Pp. 44-46.

GLOBAL 2000

Introduction: Global 2000 began work in Ghana in late 1986. The organization's focus in Ghana is in two areas of development:

i) agricultural production, with an emphasis on maize and sorghum, although millet and rice may be included in the future; and

ii) health care, with a concentration on eradicating guinea worm.

The agricultural program is funded by the Sasakawa Peace Foundation, while the health program is funded by the Bank of Credit and Commerce International. The BCCI recently provided a C20 million grant to the government to finance Global 2000 agricultural activities. Along with Ghana, Global's work is being carried out in Zambia, the Sudan, Nigeria, India, Pakistan and China.

Staffed with specialists in sorghum breeding, maize breeding and soil science, Global 2000's agricultural program now has projects in all 10 regions of Ghana. It is estimated that in 1988, Global will have directly or indirectly had an impact on 10% of the rural population.

Global 2000's Objectives and Approach: The central objective of Global 2000's agricultural program is to increase cereal production through the introduction of higher-yielding input packages. A Production Test Plot (PTP) on a participating farmer's own land is used as the vehicle for education and demonstration, involving clusters of roughly 10 farmers during a season. Global works with the Ministry of Agriculture through Regional Agricultural Officers and their subordinates to provide extension services necessary for improvements in yields. Assuming timely delivery of appropriate input packages, proper planting, maintenance and harvesting techniques, and favorable rainfall distribution, Global believes farmers' output can meet consumption needs and generate surpluses for input repayment and additional consumption, savings or investment.

Global's technological packages comprise improved seed varieties, appropriate fertilizers, extension services to ensure good cultural practices and timely field operations in accordance with the Ministry of Agriculture's recommendations. In Ghana, all four of these areas have served as constraints to increased food production. Appropriate fertilizers have often arrived in the countryside after the planting season due to foreign exchange scarcity, inadequate storage capacity, the unwillingness of transporters to haul these stocks at Government rates, or general managerial ineptitude in

handling logistics. Seed varieties, locally produced, have often been of low quality or improperly stored. Field operations, likewise, have not always been well coordinated due to the uncertainty of input supplies, lack of credit or other means by which to pay labor for maintenance, erratic rainfall and emigration of young laborers to the urban areas and other countries. Given all of these constraints, it is Global's belief that the technological packages themselves must be demonstrably higher-yielding to provide incentives to the farmer for adoption.

The Production Test Plot: To achieve its objectives Global uses the PTP as an experimental plot where the farmer and his peers contrast the new package and techniques with traditional methods. The average PTP is roughly one hectare. The input package is applied to half of this, and the other half is cultivated by the farmer using his traditional technology. Any small-scale farmer who has land that is visible and accessible and has not participated in previous on-farm production trials meets Global's criteria for the PTP. With an improved technological package and appropriate farming practices, Global believes the difference in yields will gain the farmers' confidence and create a multiplier effect for future planting seasons. The evidence bears this out as the number of PTP's increased from 40 in 1986 to about 1,600 in 1987; 1988 estimates approximate 19,000.

As Global has a very limited staff, its work necessarily involves working with the Ministry of Agriculture at regional levels. With three scientists coordinating field work in all 10 regions, Global's scientists are charged with training extension staff, arranging funds for inputs, providing vehicles for extension service mobility, and monitoring and evaluating technology. The last function keeps the scientists in direct contact with the farmers.

Extension workers are responsible for selecting PTP farmers, making inputs available, demonstrating appropriate fertilizer application and planting techniques, collecting payments from farmers for inputs, collecting yield data and helping farmers organize block farms. While this approach helps to integrate the Ministry of Agriculture into the plan and train district level people, Global has acknowledged that some of the responsibilities are actually a burden to extension workers and take them away from their specializations. For instance, the provision of inputs could be handled more efficiently by private distribution companies with their own network of depots, vehicles and logistical support. Likewise, a more efficient banking system should be able to develop a loan collection scheme rather than having extension workers function as unofficial collection agents. Both of these institutional weaknesses need to be addressed to promote agricultural production. It is expected that the privatization of input companies will play an important role in increasing the supply and improving the distribution of fertilizers, seeds, etc. However, it is not yet clear what measures (if any) will be made available under the financial restructuring package of the World Bank to incentivize local banks to play a greater role in providing credit to the agricultural sector.

Production Test Plot Results: Global has been successful at introducing improved packages to a steadily increasing number of farmers, achieving input credit repayments (equivalent to principal) at a 90-100% rate. This is due to the impressive increase in maize and sorghum yields which have convinced farmers that the approach works and generates enough output to repay inputs and still have a comfortable surplus. The following charts highlight incremental maize and sorghum yields on PTP's compared to traditional methods:

MAIZE

Region	Year	Sample Plots	Incremental Increase (%)
Northern	1986	20	88.0
Northern	1987	70	84.6
Ashanti	1987	26	138.5
Brong-Ahafo	1987	23	133.3
Eastern	1987	30	145.5
Central	1987	20	92.9

SORGHUM

Region	Year	Sample Plots	Incremental Increase (%)
Upper West	1986	18	819.2
Upper West	1987	103	613.9

The dramatic increase in sorghum yields is especially remarkable as it was achieved using selected traditional seed. Incremental maize production increased less dramatically, but Global believes the traditional maize packages available to farmers in the past have generally been better than the traditional sorghum packages.

Two indications of farmer acceptance have been used as a success measure by Global. One is the repeat application of production technologies after the one-year PTP demonstration has concluded. In the Northern Region, all 20 maize plots from the original 1986 PTP's repeated the prescribed practices. Of the original 20 sorghum PTP's, 17 of 20 repeated, with the other three not complying due to death, illness and departure from the town.

Another indicator of success relates to the recovery rate of input costs. Given that loan repayments to the banks from farmers tend to be low, Global views a high recovery rate as reflecting improved profitability from higher yields, as well as the average farmer's

desire to repay a debt to avoid social stigma. Reports from around the country indicate repayment rates of between 90-100%. Although these constitute only principal repayment, and do not include transport subsidies, the feeling is that higher yields offer enough surplus to make the farmers nearly 100% creditworthy. In some cases, input repayment needs to be rescheduled, but these are generally not for long periods. In addition, Global's success in the Upper West Region, one of the poorest regions in Ghana, has meant 100% recovery.

Summary: Limited as this evidence is, such high repayment rates suggest that with a more decentralized, integrated, hands-on management approach, agricultural loans can in fact be recovered at a rate equal to those in other sectors. Another important point is that Global's input credit is always in-kind, never in cash form. This minimizes the chance of diversion, and close supervision further lessens the chance of the farmer converting inputs to cash. This may become a problem as input supply activity is privatized and prices increase, requiring close monitoring. Farmers have also shown a preference for repaying in-kind, knowing that reduced supplies drive up prices. As such, farmers tend to repay Global in-kind, dispose of some of their output for immediate needs, and sell the rest several months after harvest to capture higher prices.

Global 2000's achievement demonstrates the importance of an integrated approach to food production. While climatic and macroeconomic factors always have a direct influence on agricultural production and pricing, the following key elements are essential to achieving increased yields and farmer income:

i) high quality inputs that are readily available on a timely basis and at affordable prices;

ii) the availability of sufficient cash to provide the small-scale farmer with the means to pay labor and meet household needs until he is able to sell off produce to liquidate obligations;

iii) the availability of in-kind credit to the small-scale farmer to reduce risk to the bank. Banks and input supply companies can arrange simple debit and credit systems, and jointly monitor creditworthiness of individual farmers. With computerization, lists can be centralized and stored so that defaulters are not granted additional credit of any kind until the original loan is repaid. Likewise, banks and marketing companies can establish joint debit and credit systems to handle the repayment side of the equation when repayment is not in cash.

iv) the option of rescheduling remaining principal repayments for short durations (i.e., three-six months);

v) ongoing education so the farmer continues to use the best available inputs, performs all required maintenance and follows appropriate farming techniques on a timely basis;

vi) close supervision by extension officers (which will require a substantial increase in commitment from the Ministry of Agriculture), availability of vehicles to facilitate extension worker mobility, and strict monitoring by banks to promote agricultural development to strengthen their credits and to educate the farmer that repayment is necessary for future credit; and

vii) construction of additional private storage facilities for the distribution of inputs by companies, to hold and sell at higher prices by the farmers, and to facilitate in-kind payment to marketing companies on behalf of the banks.

Global's approach demonstrates the important link non-government organizations can play in promoting a more integrated approach to small-scale farming and food production. Central to this role, as with everything else, is not just program design but program management. With proper coordination and execution, the integrated approach Global has helped initiate will continue to increase cereal yields. The on-going ability to manage input supplies, training, farm practices, marketing and repayment will ultimately determine the success of Global 2000's initiative.

TECHNOSERVE, INC. (TNS)

Technoserve, Inc. is a private non-profit organisation formed in 1968 to promote self-reliance, viable community-based enterprises in rural areas and institutional development in Africa and Latin America. The resulting benefits to the rural poor are increased productivity, job creation and income enhancement. TNS achieves these objectives by providing management, technical assistance and training to the people of more than 260 communities in ten countries in Africa and Latin America.

TNS started operating in Ghana in 1972. With 16 years of country experience, TNS's strategy involves capitalizing on enterprise development by focussing on selected commodity sectors, regions and delivery systems in order to establish models of success for widespread replication. Oil Palm processing has been selected as a principal commodity in which cooperatives with appropriate and locally-sourced technologies can invigorate regional oil palm markets, raising farmgate prices for producers while offering profits and jobs for processors. TNS has also been active with Global 2000 in identifying maize-producing communities that show considerable local initiative and a demonstrated interest in developing multi-purpose (input and inventory credit, marketing, etc.) cooperative enterprises. TNS is currently active in seven regions in Ghana, all but the Northern and Upper Regions.

TNS is providing the following services to rural communities in Ghana:

i) working with farmers and village groups to identify viable enterprise opportunities;

ii) playing a catalyst role in the formation of cooperatives and other organizations in solving economic problems;

iii) providing management and operations support, including the development of marketing, production and accounting systems;

iv) providing interim management for new enterprises and training for replacement managers;

v) assisting with the sourcing and arrangement of debt financing based on appropriate equity; and

vi) contributing to local efforts to determine and locate appropriate technologies for production purposes.

TNS will continue to focus on the development of sustainable and viable enterprises that can be easily replicated with local initiative. In the future, the company is likely to direct more of its efforts to transferring know-how to other groups, including

NGO's and indigenous organizations, rather than being directly involved in the management of a large number of enterprises. When TNS does provide active management, it will be doing so to establish workable models that others will be able to replicate and manage.

In addition to its work in Ghana, TNS has had substantial experience in promoting financial intermediation and management in the Sudan, Kenya and Zaire. In the Sudan, Technoserve is currently working with the Agricultural Bank of the Sudan to improve its loan procedures to facilitate credit flows to farmers in the Kordofan Region (population: 3.2 million). With greater credit flows, improved storage capacity and reduced dependence on merchant moneylenders, farmers are expected to increase production and incomes.

In Kenya, TNS has long been involved in the financial sector, primarily the savings and credit movement. Technoserve provided interim management for the large Harambee Cooperative Savings and Credit Society to rehabilitate the 46,000 member credit union. From 1977 - 1981, TNS trained the new management team, developed the computerized accounting and financial management system, and increased deposits by 85% to the KS equivalent of $6 million. Systems designed and introduced by TNS have been maintained, and the society had 66,000 members and $20 million in deposits in 1987. The controls introduced by TNS served as the basis for the bookkeeping manual used by the Kenya's entire credit union movement. This manual was written by Technoserve.

Such work has similarly been replicated by Technoserve with many credit union operations, including the Reli Cooperative Savings and Credit Society (Kenya), the apex Kenyan Union Savings and Credit Cooperatives, the apex Central Union of Savings and Credit Cooperatives in Zaire and the COOPEC/IDIOFA Credit Union, also in Zaire.

NATIONAL CATHOLIC SECRETARIAT (NCS)

The NCS has been involved in the social infrastructural development of Ghana for decades. Its health care delivery system has been in place for over 50 years. If not for its clinics, some villages in Ghana would have had no health care delivery for two decades (mid-1960's to mid- 1980's). Although functioning under the dioceses, new projects are discussed with the Ministry of Health. NCS also engages in workshops for women's development, focussing on corn-grinding, fish smoking, sewing and literacy. Other community development activities include advisory services in the planning and implementation of drainage systems, feeder roads, latrines and water. It also operates primary and secondary schools, teacher training colleges and technical/vocational schools in all ten regions of Ghana. Its Department of Socio-economic Development coordinates the implementation of projects throughout Ghana and provides funding assistance for them.

Agriculture (including Credit): The Northern and Upper Region programmes are better organised than those in the south. Due to the harsh environment of the northern part of the country, the focus is on improved crop production through increased acreage and improved methods and seed. Extension services and inputs are provided to farmers, including bullock ploughs, hoe blades, cutlasses, bicycles, tubes and improved seeds. Diocesan cooperatives have been set up to provide credit to farmers in Wa, Tamale and Bolgatanga. The Church Agricultural Projects Service Centre in Tamale trains farmers throughout the northern regions in bullock traction.

The southern agricultural programme started only in 1983 after the drought. A "microfund credit programme" has been set up to provide inputs to farmers. Using the Nigerian returnees as pioneers, farms have been set up in almost every diocese. In addition, three agricultural training centres for students who have left middle school are being run by the NCS.

PRESBYTERIAN CHURCH OF GHANA (PCG)/FAO - PEOPLES PARTICIPATION PROJECT (PPP), BEGORO

The Begoro project started by the FAO came under the PCG in 1984, and was restructured in 1987 as phase II. In that year, the World Conference of Agrarian Reform and Rural Development (WCARRD) identified the non-participation of the rural poor in planning and implementing development programmes as the main reason for the ineffective impact of development efforts. The project received an initial grant of US$240,000 from the Dutch government in 1982 when the FAO launched the project.

To implement the phase II restructuring exercise, it was agreed that:

i) the project would run for three years with outside donor funding, and then become self-sustaining;

ii) that the project would be directed to groups of eight-fifteen poor farmers and fishermen organized into six "clusters";

iii) the members of the group themselves would be responsible for identifying the type of income-generating activity they needed;

iv) the project would assist the groups to improve the identified activities; and

v) the leaders of the groups would be trained in improved farming methods, credit responsibilities, and other aspects of the program.

Farm Credit: A major activity of the PPP is linking the farmer, through his "cluster", with institutions related to farming (i.e., input suppliers, extension officers, banks, etc.). The FAO pledged $20,000 (U.S.) to the Ghana Commercial Bank (see Appendix IV-1), with the bank granting credit to qualifying project beneficiaries. PPP gives the beneficiaries enough information about the benefits and obligations of credit to enable them to make a sound decision about credit. Our survey of the PPP indicated that 800 farmers had been helped with farm implements like hoes and cutlasses, but that seeds and fertilizers were apparently financed from other sources.

The program has had severe problems surrounding the issue of credit. Credit requests usually range between C20,000 and C40,000, with the average credit issued usually C15,000. Credit has characteristically been disbursed in May, when most farmers have already planted their crops. The manager of the program stated that credit was supposed to be allocated for farming purposes, but late disbursement

and limited monitoring suggest that some of these funds have been diverted to non-productive purposes. As the program is flexible in allowing the farmer to decide how to use the credit, results have been less than anticipated. Repayment rates have been 48% despite having 12-14 months to repay. Defaulters do not qualify for new financing, but these loans are carried on Ghana Commercial Bank's books and must be written off from its own reserves.

Administration of the PPP credit program appears to be characterized by late deliveries and improper monitoring. According to the Ghana Commercial Bank, farmers have not used the program to expand their acreage for incremental production, tools supplied have been of low quality, and the FAO's dollar backing was used to purchase tools rather than provide a reserve against loan defaults. Whether the fault is on the credit side or due to lack of farmer initiative is uncertain. What is certain is that the program has not succeeded in achieving its objectives.

WOMEN'S WORLD BANKING (GHANA), LIMITED (WWB)

In January 1983, WWB was incorporated and authorized to do business as a private credit guarantee company. As an organization that was only recently founded, WWB is still in its formative stage of development, and to date has had limited impact in achieving its goals of facilitating access to credit for women and promoting their economic development. The main objectives are established as follows:

i) to act as a bridge or link to bring organized credit within easy reach of women entrepreneurs;

ii) to provide advisory services and monitor projects being assisted; and

iii) to encourage more women to take part in the economic development of Ghana by training the unskilled and unemployed.

Funding: The stated capital of WWB is well over C10 million, with a minimum contribution of C50,000 from each member. WWB is also affiliated to Stichting Women's World Banking (International) SWWB in Holland. SWWB gives a 50% equivalent of the stated capital in US dollars to WWB. The Pew Foundation has also granted some aid to WWB.

The Programme: The activities of WWB centre on areas of economic activity where the involvement of women in certain schemes might facilitate access to credit. Most of these efforts concern research where female labor is prominent.

WWB does not have its own banking facilities in the form of overhead, but it does have an agreement with Barclays Bank to transact all bank business on its behalf. WWB maintains a banking manager and project advisor. In practical terms, WWB is designed to assist women who have no collateral to access institutional credit.

The criteria for WWB assistance are:

i) to have a project accepted by a bank as feasible;

ii) to have a creditworthy reputation;

iii) to be willing to accept WWB management advice and supervision; and

iv) to have skills/management in the field proposed.

Applicants need not be shareholders in the bank. WWB encourages groups, consisting primarily of benevolent societies (religious/ welfare societies and housewives), federations of market women, and

business and professional women (i.e., hairdressers, tailors, industrialists, teachers, bankers, etc.). Groups needing WWB assistance are expected to register their businesses, and the Federation of Women Lawyers is willing to help women do this.

Two main schemes are used to guarantee viable women's projects:

i) WWB/Barclays Bank Loan Guarantee Scheme, in which the risk is shared by WWB (75%) and Barclays (25%); and

ii) WWB Revolving Fund, set up with Pew Foundation funds.

Having helped the women identify viable economic ventures, WWB engages in managerial, technical, recordkeeping and finance training, as well as general awareness campaigns. Barclays Bank and the Agricultural Development Bank are strong support structures for these courses and workshops.

At this stage, some of WWB's projects are for social and image building purposes. However, others have had more tangible economic benefits. In May 1988, at Doryumu, a purely social Methodist group was formed into an agro-forestry enterprise. They have started growing leuceana and teak varieties of wood. As an integrated scheme, leuceana, a fast-growing variety, will serve as fuel for kilns (ovens used to bake clay), while teak will be sold for use as electric poles. WWB has also assisted 200 migrant women workers in the maize- and rice-growing area of Lolobi (Volta Region), and pottery enterprises.

COMMITTEE ON CHURCHES PARTICIPATION IN DEVELOPMENT (CCPD)

CCPD is the development arm of the Christian Council of Ghana. It receives its funding from Bread for the World (Federal Republic of Germany), Christian Aid (Federal Republic of Germany), United Methodist Committee on Relief (US), and the Interchurch Co-ordinating Organisation (Holland). It also raises money internally by running some grinding mills.

CCPD acts as a consultant to the various projects run by the churches, and does not engage directly in any major projects on its own. Projects for which CCPD consults are geared to the improvement of the productive capacity of farmers through agricultural and health extension and community development.

MEALS FOR MILLIONS

Meals for Millions, an agency of the Freedom From Hunger Foundation (US), works closely with the Ministry of Health, the Department of Community Development and the National Council for Women and Development on a single project called "Applied Nutrition Programme" (ANP) in the Kintampo district of the Brong-Ahafo Region. An initial nutritional survey of 400 children under the age of four found 23.9% to be malnourished.

A later country background study confirmed the seriousness of the malnutrition of children and indicated that the basic resources, including a cooperative and required infrastructure, were in place to successfully improve nutrition and institutionalise the ANP process. Consequently, 10 communities of the Kintampo district were served with a package that included the following:

i) tomatoes and okro grown at the Kintampo Nutrition Rehabilitation Centre;

ii) higher yielding maize, beans and groundnuts grown at the Rehabilitation Centre;

iii) fertilizer made available for experimentation at the Centre; and

iv) immunizations and adult literacy classes.

At the end of May 1988, 38.9% of children 5 years and below were fully immunized in the district from BCG, DPT polio and measles.

To date, Meals for Millions has been engaged in indirect services to farmers' families that free up farmers' resources to improve yields and productivity. Again, activities have been restricted to the 10 communities in the Kintampo district of the Brong-Ahafo Region.

Proposals are being drawn up to help Northern Region farmers to form tomato cooperatives. Studies have revealed that tomato and pepper farmers are often exploited by middlemen from the South who complain of cash shortages, promise to pay once the produce is sold, and then renege on their promises. Meals for Millions is devising a package that involves storage at "cool sheds" to be erected for the tomatoes and dried pepper and provision of reliable trucks hired from State Transport Corporation. By transporting the produce to the South to sell to pre-arranged distributors for spot cash, middlemen will be completely bypassed, improving returns to the farmer.

In the South, gari factories are planned to be established and owned by women's cooperatives that Meals will encourage to be formed. These then will be provided with funds to be arranged from the Cooperative Bank for the purchase of cassava graters. (It is currently uncertain if the Cooperative Bank will be able to make good on this request, although other institutions may look at the proposal as well). The purchase of rice shellers will also be encouraged among other cooperatives.

The home gardens demonstration farm has been selected as an easy source of food for home consumption. Higher yielding seeds are to be utilized, and Ministry of Agriculture staff are to be seconded to Meals to help implement the program. In some ways, these efforts closely resemble Global 2000's Production Test Plots.

Meals is interested in starting a "seed stock" of livestock: goats, pigs and poultry. Males and females will be given out to breeders, feed and drugs will be provided, and the cost of supplies will be gradually repaid in-kind by the breeder based on a specified percentage of broods.

Finally, Meals for Millions is interested in directly granting small credit to farmers, but extremely cautious because of the high risks involved. With a budget of $164,000 (US) fixed for the next five years, it is highly improbable that Meals will develop a direct credit scheme for farm activities of any significant magnitude.

WORLD VISION INTERNATIONAL (WVI)

Introduction: WVI is a religious development organisation committed to training and strengthening local leadership to assume full responsibility for the management of their own community projects. It facilitates and guides these leaders to utilize their own resources within their own communities. To this end, both technical and managerial grades of staff are provided to assist rural poor through processes that will enable them to design, implement and control their own projects.

The thrust of WVI's training and development programme, aside from religious indoctrination, is project management and financial recordkeeping. The indigenous leadership is educated on the benefits offered by banking and cooperative organizations in terms of the community and savings mobilization.

Organization: Founded in 1950, WVI now maintains an international office based in the US which coordinates its support and field offices. The Ghana office was opened in July 1979 and, apart from the main office in Accra, three sub-offices are maintained in Tamale, Takoradi and Sunyani.

Six religious ministries are utilized to train the rural poor in the following areas:

i) child and family care;
ii) emergency relief and rehabilitation;
iii) developing self reliance; and
iv) strengthening leadership.

The Ghana Programme: The Ghana programme is active in eight of the 10 regions of Ghana. The two regions not impacted directly are the Upper East and Upper West. WVI has 130 current projects. These projects are submitted annually to the Ministry of Finance and Economic Planning for inclusion in the country's integrated rural development budget.

WVI projects cover both economic and social infrastructural development. In 1987, a $10 million (US) water development project was started across the country.

Direct involvement in agriculture covers input delivery in terms of Ministry of Agriculture policy guidelines relating to technological packages and extension services. These are not handouts, but are expected to be paid back by individual farmers into their societies in kind and in cash. Farm leasehold lands are made available for use by specific societies, and the local CDR, women's societies, chiefs and elders are involved in the approval of societies that receive assistance from WVI in the agricultural sector. Rural banks in the locality are invited to give seminars to educate the farmers

on bank facilities and financial intermediation, paid for by WVI. Until 1987, WVI dealt with loose societies, but from 1988, a decided move was made to educate the beneficiaries on the usefulness of cooperatives.

Agricultural-related activities assisted are:

i) food and cash crops (especially oil palm);

ii) poultry and animal husbandry;

iii) fish farming;

iv) food storage and preservation; and

v) food processing (a corn mill, cassava and copra mill and palm-oil processing mill).

The following chart profiles some of World Vision's activities in Ghana:

Project No. GHA-11-028136 at Akim Akropong in the Eastern Region Fiscal Year Costs : C2.7 million

PROJECT GOALS	ACHIEVEMENTS	PROJECTIONS	PARTNER AGENCY	LIFESPAN
1. Day Care Centre	Day Care Centre	Day Care Centre	Community Management Committee including CDRs.	Feb 1982 to Sept 1987
2. Middle School Block	Middle School Block	Community farm		
3. Adult Education	Nursery School Block	Church Leadership training		
4. Renovation of School furniture	Renovation Furniture for Schools	Corn mill operations		
5. 2 Sanitary Latrines		Street drains		
6. Street drains		Sanitary toilets		
7. Primary Health Care	Primary Health Care Clinic	Agric Extension		
8. Cutlasses supplies	Cutlasses	Supply of Drugs		
9. Nursery (plant)	Nursery (oil palm)	Women's Club		
10. Corn mill	Corn mill	Extra Classes for pupils		
11. Community farm	Community farm	Pig production/ Rabbit rearing		
12. Church leadership training	Church Leadership training	Training Seminars on Community Dev./ Health/Agriculture		
13. Animal rearing	Animal rearing			
14. Good News club	Child Evangelism (Good News Club)			
15. Agric Extension	Agric Extension Services			
16. Supply of School Uniform	Supply of School Uniform			
17. Adult Literacy	Supply of Drugs			
18. Women's Club	Immunization			

X. CONCLUSION

Throughout the course of this study, a number of non-credit and credit constraints have been identified concerning small-scale farmer productivity and income. Along with the normal risks of weather and poor infrastructure development, the constraints affecting the Ghanaian small-scale farmer are many.

From the non-credit side, the major constraints have concerned input supplies, quality and dissemination of research, effectiveness of Ministry of Agriculture extension officers, labor efficiency, on-farm storage facilities and marketing problems. Input supplies, namely seed and fertilizer, have generally been low in quality, unavailable in sufficient amounts at the appropriate time, improperly stored or perceived as being too costly for the small-scale farmer. Researchers have been unable to perform sufficient research, or to disseminate that research in ways tailored to adapt to localized conditions. Where research has been performed, that research has not been adequately transferred to the Ministry of Agriculture to apply at the farm level with assistance from extension officers. Nor has there been adequate communication from the Ministry of Agriculture in identifying and directing research stations into areas that need further exploration to promote local agricultural development. Extension officers are likewise limited in number, lacking in logistical support and poorly compensated, creating a sense of demoralization among staff. Until recently, Government development policy since the 1960's had encouraged population flows to the cities, reducing the supply and efficiency of farm workers while increasing their average age and costs. Sometimes a farmer's unwillingness or inability to experiment with new labor-saving devices (i.e., weedicides) has made it difficult for the farmer to reduce his labor costs. Many farmers lack on-farm storage, or their facilities are inadequate, leading to estimated post-harvest losses of 30%. The inability to store surpluses for several months at a time has prevented farmers from holding their output until planting season, when farmgate prices are higher and cash requirements are greater due to labor and input needs. Marketing problems are made more difficult by lack of transportation facilities, bad roads, or the simple unavailability of sacks for cartage. The result of all of these non-credit constraints is a cycle of subsistence that prevents the small-scale farmer from generating any reasonable measure of cash or surplus, forcing dependence on borrowings during planting season that usually eliminate any surplus during harvest. This prevents the farmer from expanding his acreage and production, eliminating the possibility of cash savings for future investment that might increase levels of productivity and efficiency.

The logical alternative to the small-scale farmer is to leverage off his limited assets from bank borrowings, but this is virtually impossible for numerous reasons. From the small-scale farmer's perspective, bank credit is very difficult to access, or not worth the transactions costs of trying. Banks are often considered

inaccessible due to their concentration in the urban and cocoa-growing areas. Even when small-scale farmers have obtained loans in the past, service has been bad in terms of late disbursements or insufficient amounts. Combined with perceptions of condescension and a general lack of cooperation from the banks toward small-scale farmers, many of the farmers have developed a sense of distrust and lack of confidence in the banks. While this is not universal, these attitudes are prevalent, leading the small-scale farmer to believe lack of access to credit is a constraint.

In fact, in many cases this is true. Banks often view small-scale farmer loan requests as a bad risk, costly to produce and monitor, without security, and failing to generate adequate returns due to low repayment rates. As the banks have an obligation to protect deposits, risking customer deposits on potentially bad credits violates this principle and undermines most banks' abilities to attract additional funds. Considering, as well, that returns are higher in other sectors, lending to small-scale farmers constitutes an opportunity cost that also reduces profitability, lessening the bank's ability to generate earnings that could be retained to shore up equity or used to pay dividends to shareholders. Thus, the banks believe they have limited incentive to extend credit to small-scale farmers when repayment rates are low, costs of administration are high, security is weak or non-existent, and returns are less than what can be obtained in other sectors. This results in decreasing access by small-scale farmers to formal financial sector credit, increasing their dependence on non-formal sources that lessen the chances of surplus production, cash generation and investment to boost yields and income.

The current liberalization of the economy under the Economic Recovery Programme is a mixed blessing for the small-scale farmer. In the near term, the phasing out of subsidies on transport and inputs will increase their costs. However, privatization will provide profit incentives to private suppliers that should lead to improved quality and availability at the needed time. As fertilizers are a priority item on the Government's list of imports, access to foreign exchange is likely to be guaranteed. Combined with the ERP's willingness to allow other seed suppliers (i.e., FASCOM) to compete, there is a chance that seeds, fertilizers and other inputs will generally be available as required, an improvement over past policies which reduced agricultural productivity.

The ERP appears to appreciate the need for greater commitment from the Ministry of Agriculture, particularly in the form of a higher level of skills and increased numbers and mobility of extension officers. This will serve as an important link in combining better input supplies with appropriate farming techniques. It is unclear, however, if linkages with research institutes have been improved, and if research is appropriate to the specific requirements of each climatological zone.

With regard to labor supply, it is possible that the Government's retrenchment of thousands of public sector workers will alleviate labor shortages in some areas. Through PAMSCAD, the Government is also attempting to provide incentives to reverse rural-to-urban population flows, mainly by improving the quality of clinics, roads, water, housing, bridges and other infrastructure. Given the Government's interest in reversing some of the urban-oriented policies of the past, the ERP should be beneficial in reducing labor shortages in many rural areas. Improved infrastructure, particularly those related to water, sanitation and health, should also improve the quality of that labor.

From the credit side, the deregulation of the formal financial sector should diminish access to credit by small-scale farmers. However, it is unclear if the Government is going to permit full-scale liberalization which would allow the banks to determine its portfolio mix irrespective of sectoral allocations recommended by the Central Bank. If the banks are fully liberalized, profit considerations will likely reduce their commitments to small-scale agriculture. In the event that regulations are imposed, it may still be possible for the banks to avoid such regulation as in the past.

Under such circumstances, new approaches must be developed in terms of institutional strengths and weaknesses, integrating the relative and complementary strengths of those institutions into integrated models which promote higher yields and income, and developing models that ultimately reduce the small-scale farmer's dependence on subsistence patterns.

Some of the changes under the ERP are addressing these issues. Input supplies will be subject to competition with market-oriented prices. The Ministry of Agriculture is apparently committed to increasing the volume, quality and mobility of extension personnel. However, there are still questions to be raised about the role of research, and whether the Government is moving to execute plans that link up research findings with practical applications at the farm level. In addition, it is uncertain if the Government has any plans to promote a revitalization of some of its own institutions, such as the Department of Cooperatives, which could be useful in organizing farmers into groups to facilitate the work of MOA extension officers.

Technoserve believes the current restructuring of the economy will have positive long-term effects in terms of promoting more efficient resource allocation and a higher degree of competitiveness. Nevertheless, we also believe a more integrated approach between the public and private sectors, emphasizing productive activity at the local level, can do much to ensure enhanced yields, increased aggregate productivity and higher farmgate prices for the small-scale farmer. Technoserve believes this approach will take considerable time before becoming effective, and that it is currently more appropriate to promote community-based, self-help models (i.e., cooperatives, Production Test Plots) at the small-scale level while strengthening institutional resources at the

more centralized levels (i.e., Ministry of Agriculture, research stations). As local communities and larger institutions develop their relative strengths, a convergence of activity will then be helpful in promoting a more productive and efficient agricultural sector. Our recommendations in Section XI discuss some of the components of that model which is guided by a commitment to increasing yields per acre, in-kind and inventory credit schemes, and storage facilities on individual and group bases that will allow farmers to capitalize on favorable price swings about the time their cash demands increase for the planting season, helping to break the subsistence cycle.

XI. RECOMMENDATIONS

The following have been identified as key institutions and interventions that could play a significant role in enhancing yields, quality, overall productivity and income for small-scale farmers:

A. Strengthened Research Stations: These stations, specializing according to the requirements and characteristics of Ghana's climatological zones, would perform soil suitability, agronomic and other forms of relevant research on a localized basis. The findings would be geared to optimizing agricultural productivity without damaging the environment in a manner that might limit future productivity. These would be public sector institutions, and would be instructed to share their findings with input supply companies (to assist them in determining appropriate inventories for local markets), the Ministry of Agriculture (to assist extension officers), financial institutions (to improve on in-kind credit programs), and farmers, be they individuals, in loose groups or cooperatives. The emphasis of the research stations would be to put research findings in closer proximity to the farmer where practical application would be more probable. It is recommended that research fall under the domain of the Ministry of Agriculture instead of the Ministry of Industry, Science and Technology so that the MOA could play a more direct role in identifying areas that need further research exploration and coordinating those activities. In the past, coordination between research and execution has been complicated by lack of communication and bureaucratic rivalry between the two Ministries. Placing all agriculturally-related public sector functions under one roof will encourage efficiencies and coordination. It is also recommended that successful findings be rewarded with financial allocations, publications and publicity (i.e., The Ghana Broadcasting Corporation).

B. Private Input Production and Supply Companies: These would take several forms. Private companies should be established to propagate high yielding seeds on a decentralized basis in differing climatic zones. Higher yielding seeds would constitute a first step towards surplus production for the farmer, a possibility made more likely if localized research findings are disseminated, demonstrated and tested.

Another important feature to input supply is the establishment of private companies that distribute fertilizers, herbicides, pesticides, etc. This does not mean that Government-owned companies such as FASCOM have no role to play, but that added competition from the private sector would ultimately benefit the small-scale farmer and agricultural productivity in general. Private companies could be organized by entrepreneurs, cooperatives, or anyone else who felt the cash flow potential was worthy of investment. One of the key aspects of input supply companies making a strong contribution to enhanced agricultural productivity is linkage with research institutes. By having the latter perform appropriate studies, the

input companies could draw from this information to ensure proper inventory stocks. Thus, not only would they be supplying adequate quantities of inputs at the correct time, but those inputs would be appropriate as well. Global 2000's remarkable yield increases have primarily come from locally selected seeds combined with proper fertilizer use and farming techniques. The role of appropriate technical packages that promote increased yields cannot be overemphasized. The role of cooperatives in supplying inputs is discussed below.

C. Ministry of Agriculture: The MOA's key contribution to improving productivity is its corps of extension officers that, with proper support, could serve as the link between research and practice. While increased contact between researchers and farmers can be mutually beneficial, mass dissemination of research could best be accomplished by extension officers encouraging farmers to develop production test plots so that farmers can witness the difference in new versus traditional techniques themselves. A commitment by the MOA to greater numbers of better qualified, better paid and more mobile extension officers would do much to improve productivity. Most of these changes are being implemented, with the MOA increasing the number of extension officers by retraining many of its employees who previously had limited contact in the field. The MOA will need to set its priorities, reward solid performance, ensure mobility, and insist on better data collection and tabulation. It is believed these data would be useful to the research institutes, input supply companies, banks and other institutions linked to the agricultural sector. It is also believed that these activities could be more efficiently coordinated if research was directed by the Ministry of Agriculture rather than the Ministry of Industry, Science and Technology.

D. Department of Cooperatives: While this department is currently weak, it is Technoserve's belief that a proper and necessary restructuring of the Cooperative movement based on business management principles would contribute markedly to agricultural productivity in the long run. The limited assets and leverage of small-scale farmers have been discussed in depth in this study. By organizing farmers into self-help cooperatives, they are able to overcome their limited individual asset constraints and establish a pool of human and material resources that opens up opportunities based on leverage that do not exist at the individual level. Key among these are economies of scale in transporting (and possibly purchasing) inputs, establishing joint storage facilities, arranging for in-kind (inputs instead of cash) and inventory (cash or inputs for output) credit, and arranging marketing contracts with large purchasers. Cooperatives also have the potential to make a profitable business out of services they provide to members. One likely choice is to buy inputs in bulk, provide in-kind credit to members, and with the proceeds expand over time to sell inputs to non-members. Thus, what might begin as an in-house service can be expanded into a profitable marketing venture for a major part of a district. Nor is there anything to prevent a group of cooperatives from collaborating and expanding further, or simply establishing joint programs (i.e., tractor services). Further, from an

educational standpoint, farmers organized into larger groups are easier to mobilize, thereby making the work of extension officers and researchers more efficient.

There is a lack of confidence among farmers towards the Department of Cooperatives due to past problems that are well documented in Section VI. For this reason, it is recommended that the Department of Cooperatives play more of a support and regulatory role similar to that of the Central Bank in terms of the formal financial sector. This would involve auditing cooperatives and playing a training/educational role with the decentralization of the Cooperative College. To perform these functions effectively, however, Department of Cooperative personnel would need training in bookkeeping, accounting, financial analysis and management information systems to provide cooperative members with business management and planning advice. Current levels of training and limited mobility reduce the ability of the Department to play this vital role. Non-governmental organizations represent a valuable resource in business management and training on which the Department of Cooperatives can draw. NGO's have long been involved with cooperatives at the local level, and usually have staff specially trained in the business skills needed by both the cooperative membership and Department of Cooperatives staff. A program in which NGO's train Department personnel to monitor and provide broad educational and training programs, as well as direct involvement with the cooperative enterprises themselves would help to revive the cooperative movement.

E. <u>Credit Unions:</u> Nominally part of the cooperative movement, although seemingly more functional in terms of active membership, the credit unions represent a potentially valuable institution in terms of rural finance, development and education. At a time when some financial institutions (i.e., Ghana Commercial Bank) may consider withdrawing from some rural areas, and while many rural areas remain without any financial services except moneylenders, the credit union offers the possibility of groups forming a common bond that could be centrally related to agricultural production. Credit unions are also a natural fit for cooperatives seeking to provide financial services. While credit unions would be primarily useful as a provider of financial services in areas otherwise lacking such services, they could also serve an educational function by being a link with research institutes, input supply companies, MOA extension workers, cooperatives and formal financial institutions. Their most important role as financial intermediaries promoting agricultural development would likely be in the northern part of the country, where credit unions have functioned for over 30 years (i.e., the Upper West Region). To achieve this end, however, the credit union movement will require training and assistance in bookkeeping, accounting, financial management and general resource mobilization at all levels, and increased support from the CUA. As the Catholic Church has demonstrated in the northern part of the country, NGO's can play a major role in improving the management skills of the credit union movement and thereby strengthen the movement at a time when banks are showing limited enthusiasm for the financing of small-scale rural activity.

F. Non-Governmental Organizations: As cited previously, NGO's can play an effective managerial and training role. Many NGO's, be they church-affiliated or wholly non-religious in orientation, have demonstrated track records of success in managing cooperatives and credit unions, as well as working with banking institutions and Government ministries. Thus, in the interim, NGO's appear to be a strong option for the Government of Ghana and bilateral and multilateral organizations to utilize as they devote their attention to the broader concerns of economic restructuring. Further, as the Government is retrenching, use of NGO's is a cost-effective means of providing services and training when skills or employees are lacking. While PAMSCAD addresses the role of NGO's, it is recommended that they be given a broader role to play, particularly in areas of institutional restructuring at local levels. The best areas of focus would be involvement in the cooperative movement and credit unions, either in terms of enterprise management and/or institutional training (i.e., the Cooperative College, Field Officers of the Credit Union Association, etc.), and at the ADB and Rural Banks to strengthen management information systems, credit risk analysis and portfolio management.

G. Rural Banks: The Rural Banks represent potentially the most important formal financial sector institution in promoting agricultural development for the small-scale farmer. While the Rural Banks are small compared to the primary and secondary banks, their unit concept makes well-managed Rural Banks ideal community-based intermediaries. Ultimately, the degree to which the Rural Banks play a significant role in rural finance and development will be a question of management. The Rural Banks need substantial training in accounting, financial analysis and credit risk assessment to be able to develop strong loan portfolios, viable institutions and a prosperous rural economy.

Having demonstrated their ability to attract deposits, primarily savings, many Rural Banks are currently diverting credit to purposes that do not promote local development. The rationale is to generate greater profitability to make them more viable institutions capable of serving the area. Nevertheless, by extending credit to areas that do not directly (or even indirectly in many cases) contribute to development in their localities, they are deviating from the reason why they were established in the first place: to provide formal financial intermediation in areas that are unserved or underserved by the formal financial sector, and to allocate credit flows for development in the communities from which they derive their deposits.

One of the ways in which the Rural Banks can adhere to their community "obligations" and promote rural development is to emphasize the financing of local input supply and output marketing companies. The Rural Banks also need to be more aggressive with group lending schemes to small-scale farmers. As other banks have succeeded in developing credit schemes with farmers groups, the Rural Banks could follow the same principle of joint and several liability with the added advantage of having greater contact with

these groups given the localized nature of the Rural Banks. However, for the Rural Banks to serve their function, most of them will have to significantly improve project analysis and management skills, increase monitoring capabilities and ensure mobility of supervisors.

H. Agricultural Development Bank: The ADB is one of the most poorly capitalized banks in the system, with a troubled loan portfolio and dependence on debt financing to shore up liquidity needs. Despite these serious weaknesses, the ADB could continue to play a role in rural finance as a provider of services to some of the more decentralized efforts to promote rural development. In the case of the credit unions, the ADB could be the link to the formal financial sector, particularly in the Upper West and Brong-Ahafo where the credit unions have the largest membership (Upper West) and most active accounts (Brong-Ahafo). As it has had experience with input supply schemes, the ADB could play an advisory role to the Department of Cooperatives to advise cooperatives establishing these enterprises. Key to such an advisory role would be identification of risks, problems and mistakes.

What is most recommended is that the ADB establish its rural target market at the "wholesale" level, providing financing to district and regional input suppliers, larger-scale farming enterprises, established marketing companies, and other agricultural targets which would be more economical to monitor and administer. It is also recommended that the ADB take the lead in financing NGO activities such as those of Global 2000. These are generally stable credits, sometimes featuring guarantees, and often involving careful monitoring by extension officers and NGO representatives to ensure repayment. This would be consistent with the ADB's focus while lessening risk.

While the ADB was originally established to promote agricultural development, it appears incapable of monitoring the volume of small-scale credits it has provided. As such, the ADB will need to make a substantial commitment to improving management information systems, staff accounting, and financial and credit analysis skills. The ADB will also need to appoint a well-trained individual in portfolio management as this is currently lacking. These measures, a change in strategic focus, and stronger ties with input supply and marketing companies, the Department of Cooperatives, Ministry of Agriculture, credit unions and NGO's will make it easier for the ADB to fulfill its mission while allowing more decentralized institutions to monitor and supervise smaller credits.

I. Summary: The institutions cited above represent the components of an integrated model that needs to focus on improved technical packages, greater integration of research with practical implementation, availability of credit in cash and primarily alternative (in-kind) forms, expanded and improved on-farm storage (on individual and group bases) to take advantage of favorable price swings and a broader array of services (in-house input supply and output marketing capacity), and ongoing management and technical training so that small-scale farmers are ultimately in a position to

manage their own affairs without depending on outside assistance. While the institutions all function in different ways, Technoserve believes the thrust of rural development must focus on decentralized, community-based initiatives to break the subsistence cycle. Not only can such efforts reduce dependence on institutions that effectively prevent small-scale farmers from boosting productivity and income, but they can also establish local institutions that offer multiple options for expansion, diversification and training. It is highly recommended that efforts made by the Government of Ghana, World Bank, IMF, and other multilateral and bilateral organizations focus on the strengthening of the local institutions from an economic, technical and managerial standpoint. Much depends on nature, infrastructure development and macroeconomic policy, but it is believed that models that address both credit and non-credit constraints based on local initiative can overcome obstacles to rural development. It is also believed than anything less than an integrated approach over time will result in failure, worsening the prospects and living standards of the majority of the Ghanaian population.

BIBLIOGRAPHY

1. A History of The Cooperative Credit Union in Ghana (1968-1978), Ghana Cooperative Credit Union Association, 1978.

2. A Programme of Structural Adjustment, G.O.G., May, 1987.

3. A Synthesis of AID Experience: Small-Farmer Credit, 1973-1985; Agency for International Development (AID), October, 1985.

4. Appraisal Report: Agricultural Sector Rehabilitation Programme Ghana, African Development Fund; 1987.

5. Annual Report, Agricultural Development Bank, 1984.

6. Annual Report, Agricultural Development Bank, 1985.

7. Annual Report, Agricultural Development Bank, 1986.

8. Annual Report, Ghana Commercial Bank, 1984.

9. Annual Report, Ghana Commercial Bank, 1985.

10. Annual Report, Ghana Commercial Bank, 1986.

11. Annual Report, Merchant Bank (Ghana) Limited, 1987.

12. Annual Report, National Savings and Credit Bank, 1984.

13. Annual Report, National Savings and Credit Bank, 1985.

14. Annual Report, National Savings and Credit Bank, 1986.

15. Annual Report, Social Security Bank Limited, 1985.

16. Annual Report, Social Security Bank Limited, 1986

17. Annual Report, Social Security Bank Limited, 1987.

18. Annual Report, Standard Chartered Bank, 1984.

19. Annual Report, Standard Chartered Bank, 1985.

20. Annual Report, Standard Chartered Bank, 1986.

21. Annual Report, Standard Chartered Bank, 1987.

22. Country Report: Ghana, Sierra Leone, Liberia, The Economist, No.1, 1988.

23. Credit Scheme for Small Farmers, Food and Agricultural Organization, September, 1985.

24. Development Alternatives: The Challenge for NGO's, World Development, 1987.

25. Economic Development in 1987: A Status Report, World Bank, December, 1987.

26. Final Evaluation: Managed Inputs and Delivery of Agricultural Service (Midas II), No. 641-0102, USAID/GHANA, 1985.

27. Galiba, M., Akposoe, M.K., Hong, C.W., Martinez, E., Global 2000 - Sasakawa Africa Initiative, Agriculture Project: Maize Production in Central and Southern Ghana. (Paper presented at the 1988 Workshop Reviewing the African Agricultural Projects, Nairobi, March 15-18, 1988.)

28. Ghana Agricultural Sector Review, World Bank, August, 1985.

29. Ghana: Agricultural Services Rehabilitation Project, No. 6645-GH, World Bank, April, 1987.

30. Ghana Commercial Bank, Quarterly Economic Review, Vol. 9 No.1, January-March, 1986.

31. Ghana Commercial Bank, Quarterly Economic Review, Vol.9 No.2, April-June, 1986.

32. Ghana Commercial Bank, Quarterly Economic Review, Vol.9 No.3, July-September, 1986.

33. Ghana Commercial Bank, Quarterly Economic Review, Vol.9, No.4, October-December, 1986.

34. Ghana: Policies and Issues of Structural Adjustment, World Bank, March, 1987.

35. Ghana: Report on Policy Options for Mobilising Rural Savings and Expanding Rural Credit, Government of India/UNDP, February, 1987.

36. Small Farmer Credit in Ghana: The Rice and Maize Scheme of the Agricultural Development Bank, USAID/GHANA, December, 1972.

37. Improved Mechanism of Rural Finance Ghana, IBRD, May 1987.

38. Programme of Action to Mitigate the Social Costs of Adjustment, G.O.G., November, 1987.

39. Public Investment Programme (1986-1988), Volume II Project Profiles and Summary Tables, Ministry of Finance and Economic Planning, March, 1987.

40. Quarterly Digest of Statistics, Ghana Statistical Service, December, 1987.

41. Rural Finance in Niger: A Critical Appraisal and Recommendations for Change, USAID/NIGER, February, 1987.

42. Sheetal, K, Reinold, V.I., Ghana: Toward Successful Stabilization and Recovery, Finance and Development; March, 1988.

43. Testing the Crop Production Technologies with Farmers in Ghana, Global 2000 - Sasakawa Africa Initiative, March 1988.

44. Turtiainen, T., Von Pischke, J.D., Investment and Finance in Agricultural Service Cooperatives, World Bank, 1986.

45. Von Pischke, J. D., Financial, Political Economy and Negative Externalities as Issues in Rural Finance Policy and Project Design, May, 1983.

46. Von Pischke, J.D., Primary Problems in Rural Project Operations, June, 1983.

47. Von Pischke, J.D., Adams, D.W., Donald, G., - Rural Financial Markets in Developing Countries, 1983.

48. Von Pischke, J.D., Resource Mobilization Issues in Rural Finance Policy and Project Design, June 1983.

49. Von Pischke, J.D., The Quantification of Farm Debt Capacity, World Bank, May, 1976.

50. Wharton Econometrics, The Role of the African Financial Sector in Development, (Submitted to USAID, July 1987).