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FINANCIAL INTERMEDIATION AND THE COST OF CREDIT IN GHANA

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FINANCIAL INTERMEDIATION AND THE COST OF CREDIT IN GHANA

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Abstract

The Ghanaian financial sector has been growing rapidly. It is, however, not clear how "financial intermediation" and "financial deepening" have been evolving. Further, the cost of credit has been persistently high, which stifles investment and economic growth. The reasons have not been fully investigated and documented. The paper seeks answers to these questions by applying a combination of analytical and survey investigative methods. The paper finds that financial intermediation and financial deepening are low and depict Ghana's financial sector as still "shallow." The paper also finds that, from the point of view of surveyed banks—which is also reflective of widely-perceived views—the persistent high cost of credit is primarily the result of competitive government borrowing, high cost of bank funds and high lending risks. The paper proposes interventions to address these deficiencies in the financial sector.

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Executive Summary

The Ghanaian financial sector has been growing rapidly in terms of the number of institutions and products offered. Financial institutions contribute to economic growth by channeling surplus resources from savers to borrowers/investors. With the rapid growth of the financial sector, an important question is how "financial intermediation" and "financial deepening"—in terms of access to financial services and the use of financial resources in the economy—have been evolving. The higher the level of financial intermediation/financial deepening, the greater will be the contribution of the financial sector to economic growth. This is because high financial intermediation and financial deepening increase the scope and pace of turning financial resources into real resources. There is not enough empirical evidence on this evolution. Meanwhile, it is known that the cost of credit has been persistently high. In fact, the cost of credit is placed high in the World Competitive Index Reports and Surveys by the Ghana Association of Industries among the obstacles to doing business in Ghana and it is considered to be a major impediment to investment and economic growth. This problem has also not been fully investigated.

The IEA has carried out a study of financial intermediation and the cost of credit in Ghana. The first part of the study involved measurement of financial intermediation/financial deepening using a number of standard indicators. The second part involved a survey of banks to investigate how industry costs, competition, efficiency, borrower risks, and credit allocation decisions, among others, affect the cost of credit.

The study determined that the number of bank branches per 100,000 people as of 2012 was about 3.5. This ratio is a standard measure of access to bank services and varies from country to country. Ghana's figure of 3.5 compares with 4.6 for Cote d'Ivoire, 5.5 for Kenya, 5.8 for Nigeria, 10.4 for South Africa, 18.4 for South Korea, 19.9 for Malaysia, and 21.6 for Mauritius. Clearly, Ghana's ratio is low even by the standards of our African peers let alone our non-African middle-income peers. Moreover, as in other countries, to the extent that the concentration of banks tends to be higher in urban areas, the ratio will be lower in rural areas. The low number of bank branches per the population suggests that financial intermediation/financial deepening is low.

Traditional measures of financial intermediation and financial deepening include credit-to-GDP, money-to-GDP and bank financial assets-to-GDP ratios. The study measured private sector-credit-to-GDP and money-to-GDP ratios for 1980-2011. The private sector-credit-to-GDP ratio increased from 2.1% to 15.2% during the period while the money-to-GDP ratio rose from 18.6% to 30.9%. The study also measured private sector credit/GDP, total credit/GDP and bank financial assets/GDP for a more recent period, June 2011-June 2013. The first indicator rose from 16.2% to 16.6%, the second from 18.8% to 19.1%, and the third 39.7% to 40.5%.

Ghana's private sector credit-to-GDP ratio, which stood at 16.6% in June 2013, compares with ratios as of end-2012 of 18.3% for Cote d'Ivoire, 20.9% for Nigeria, 36.6% for Kenya,100.8% for Mauritius, 117.8% for Malaysia, 148.0% for South Korea, and151.1% for South Africa. For

the money-to-GDP ratio, Ghana's figure of 30.9% as of end-2011, compares with ratios as of end-2012 of 36.5% for Nigeria, 39.0% for Cote d'Ivoire, 50.6% for Kenya,75.2% for South Africa, 100.5% for Mauritius, 141.2% for Malaysia, and 144.3% for South Korea. Ghana's ratios clearly are low by our African and non-African middle-income peer standards. They generally further confirm the shallowness of Ghana's financial sector.

The bank survey found that the number of deposit customers for the reporting banks ranged from 77,904 to 616,178, while the number of loan customers ranged from 988 to 25,398. The fact that the number of deposit customers is much higher than loan customers suggests that many depositors do not have access to loans. It is known that many individuals and small-sized businesses do not have access to credit. This is, ostensibly, due their perceived low credit worthiness and high borrowing risks—issues that the study also sought to investigate.

The survey found that banks consider interest payments as the most important determinant of their costs, while loan default costs came in a close second. The surveyed banks consider the Treasury Bill rate as the most important determinant of the cost of credit in the country. This confirms the widely-held view that Government borrowing plays a major role in driving up the cost of borrowing in addition to crowding out the private sector. When it comes to their own (high) lending rates, however, the banks blame their cost of funds as the most important determinant.

On (low) deposit rates, the banks consider low customer awareness/education as the most important cause. It is interesting to note banks blaming depositors for the low rates they pay them. While they may not admit it, low competition and collusive practices in the industry are believed to be important reasons for low deposit rates. On the level of borrower risks, banks consider it to be high. This tends be factored into lending rates, which differ from borrower to borrower. On loan defaults, banks consider inadequate borrower identification, inadequate credit reference on borrowers and inadequate loan recovery mechanisms as the important causes. On low access to credit by the private sector, banks blame it on high loan default rates, inadequate bankable projects and competition from Treasury Bills.

In the banks' view, competition in the industry is high. The question did not, however, state the measures of competition, which could range from quality of services to range of products to the milieu of fees and charges. Banks indicate that education of customers so that they can be more selective is the most important requirement for increasing competition in the banking industry.

Banks admit that efficiency in the industry is low. They suggest that improving management, reducing operational costs, improving labour quality and more modernization would help increase efficiency. Asking an industry to assess itself may have an element of bias due to self-interest. Future study would seek external opinion on competition and efficiency in the industry.

On the most-preferred lending sector, banks select the services sector, while agriculture is least-preferred. Banks' lending to a particular sector is influenced by both return/profitability and risk. A snapshot of sectoral distribution of outstanding credit as of July 2013, confirms the banks' view. Services dominates with 65% followed by industry with 31% and then agriculture with a mere 4%. Banks indicate that they prefer to lend to services because of the low risk, low

loan default rates, and good business prospects in the sector. Banks regard their reluctance to lend to agriculture as being influenced by high risk in the sector and the low market potential of agricultural produce due to reliance on weather.

Following from the results of the study, the following policy recommendations are made:

Financial intermediation/financial deepening: Access to, and the use of, financial services remain low in Ghana. This constrains the financial sector's contribution to economic growth. There is a need to promote further physical growth of the financial sector. Appropriate incentives should be introduced to encourage banks to locate in rural areas. Banks must also actively promote savings and expand lending services by extending their reach and introducing innovative products.

The cost of credit: The high cost of credit is the result of competitive government borrowing, structural inefficiencies in the banking industry that lead to high operational costs and high lending risks and associated loan defaults. There is a need to restrain government borrowing by entrenching fiscal consolidation. There is a need to improve efficiency in the financial sector by improving management practices, engaging qualified and well-trained staff and modernizing operations. There is a need for safety nets in the financial sector to reduce lending risks, including through effective Credit Reference Bureaus and Borrower Identification Systems.

Access to credit by the private sector: Banks' lending preferences and the low access to credit by the private sector—and the agricultural sector in particular—represent a market failure in the financial sector in the context of liberalization. This requires remedial intervention measures. There is a need to ensure availability of affordable credit for small-scale and informal private enterprises and for the agricultural sector. This can be done by creating a special bank or fund, with steps taken to limit potential government contingent liabilities.

Financial regulation: There is a need for vigilant and robust financial regulation. In particular, it is necessary to ensure that banks avoid the use of collusive practices in dealings with customers. Banks must pay fair rates to depositors and should avoid charging prohibitive rates for their services that incorporate unjustified costs.

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1. Introduction

The Ghanaian financial sector has been growing rapidly in terms of the number of institutions and products offered. The sector is dominated by formal banks that offer a wide range of products and services. Besides the banks, there are other nonbank financial institutions (NBFIs), including savings and loans companies, insurance companies, and the stock exchange. Financial institutions, in general, help to channel surplus resources from savers to borrowers. Investment of the resources contributes to economic growth.

The degree of access to financial services and the pervasiveness of financial resources determine the extent of "financial intermediation" and "financial deepening" in the economy. In Ghana, there is a dearth of empirical literature on these indicators. Meanwhile, it is known that the cost of credit is generally high in Ghana. In fact, the cost of credit is placed high in the World Competitive Index Reports and Surveys by the Ghana Association of Industries among the obstacles to doing business in Ghana and it is considered to be a major impediment to investment and economic growth.

The objective of this paper is to investigate financial intermediation/financial deepening and the cost of credit in Ghana. The first part of the study involves measurement of financial intermediation/financial deepening using a number of standard indicators. The second part involves a survey of banks to investigate the reasons for the high cost of credit.

The paper is structured as follows: Following this introduction, Chapter 2 reviews the relevant literature. This is followed by measurement of financial intermediation and financial deepening in Chapter 3. Chapter 4 analyses a survey of banks on the cost of credit. Chapter 5 concludes the paper, including some policy recommendations.

2. Background literature

Financial intermediation and financial deepening

Financial intermediation is the process of bringing together surplus spending units (savers) and deficit spending units (borrowers) in an economy. This function is performed by financial intermediaries, the variety of which varies from country to country depending on the level of development of the financial system. In Ghana, financial intermediation is performed largely by banks and, to a lesser extent, insurance companies, microfinance institutions, and a fledgling stock market. Financial intermediation allows the savings of savers to be channeled to borrowers for investment and consumption. Financial intermediation increases access to financial and the use of financial resources or financial deepening in the economy. As a result of financial intermediation and financial deepening, whereby financial resources are turned into real resources, the economy grows and generates higher employment and incomes.

The motivation for savers to give their funds to financial intermediaries for on-lending to borrowers is that they want to earn a return on their surplus funds. This return (the interest rate) is paid by the financial intermediary. Meanwhile, by facilitating the on-lending of the funds, the financial intermediary also earns an income, being the difference between what it charges the borrower (the lending rate) and what it pays the saver. The lending rate (also called the cost of credit) to an individual borrower usually includes considerations regarding specific risks associated with the borrower as well as profitability of the intermediary.

Basically, three lines of reasoning may be distinguished in explaining the raison d'être of financial intermediaries: information problems, transaction costs and regulatory factors.

Informational Problems: The first approach, which is used in most studies on financial intermediation, is the informational asymmetries argument. These asymmetries can be of an ex ante nature, generating adverse selection, they can be interim, generating moral hazard, and they can be of an ex post nature, resulting in auditing or costly state verification and enforcement. The informational asymmetries generate market imperfections, i.e. deviations from the neoclassical framework. Many of these imperfections lead to specific forms of transaction costs. Financial intermediaries appear to overcome these costs, at least partially. For example, Diamond and Dybvig (1983) consider banks as coalitions of depositors that provide households with insurance against idiosyncratic shocks that adversely affect their liquidity position.

Another approach is based on Leland and Pyle (1977). They interpret financial intermediaries as information sharing coalitions. Diamond (1984) shows that these intermediary coalitions can achieve economies of scale. Diamond is also of the view that financial intermediaries act as delegated monitors on behalf of ultimate savers. Monitoring will involve increasing returns to scale, which implies that specializing may be attractive. Individual households will delegate the monitoring activity to such a specialist, i.e. to the financial intermediary. The households will put their deposits with the intermediary. They may withdraw the deposits in order to discipline the intermediary in its monitoring function. Furthermore, they will positively value the intermediary's involvement in the ultimate investment (Hart, 1995).

Transaction Costs: The second approach is the transaction costs approach. (Examples are Benston and Smith, 1976; Campbell and Kracaw, 1980; Fama, 1980). In contrast to the first, this approach does not contradict the assumption of complete markets. It is based on non-convexities in transaction technologies. Here, the financial intermediaries act as coalitions of individual lenders or borrowers who exploit economies of scale or scope in the transaction technology. The notion of transaction costs encompasses not only exchange or monetary transaction costs (see Tobin, 1963; Towey, 1974; Fischer, 1983), but also searches costs and monitoring and auditing costs (Benston and Smith, 1976). Here, the role of the financial intermediaries is to transform particular financial claims into other types of claims (so-called qualitative asset transformation). As such, they offer liquidity (Pyle, 1971) and diversification opportunities (Hellwig, 1991).

The provision of liquidity is a key function for savers and investors and increasingly for corporate customers, whereas the provision of diversification increasingly is being appreciated in personal and institutional financing. Holmström and Tirole (2001) suggest that this liquidity should play a key role in asset pricing theory. The result is that unique characteristics of bank loans emerge to enhance efficiency between borrower and lender. In loan contract design, it is the urge to be able to efficiently bargain in later negotiations, rather than to fully assess current or expected default risk that structures the ultimate contract (Gorton and Kahn, 2000). With transaction costs, and in contrast to the information asymmetry approach, the reason for the existence of financial intermediaries, namely transaction costs, is exogenous. This is not fully the case in the third approach.

Regulatory Factors: The third approach to explain the raison d'être of financial intermediaries is based on the regulation of money production and of saving in and financing of the economy (see Guttentag and Lindsay, 1968; Fama, 1980; Mankiw, 1986; Merton, 1995b). Regulation affects solvency and liquidity with the financial institution. Diamond and Rajan (2000) show that bank capital affects bank safety, the bank's ability to refinance, and the bank's ability to extract repayment from borrowers or its willingness to liquidate them. The legal-based view especially sees regulation as a crucial factor that shapes the financial economy (La Porta et al., 1998). Many view financial regulations as something that is completely exogenous to the financial industry. However, the activities of the intermediaries inherently "ask for regulation". This is because they, the banks in particular, by the way and the art of their activities (i.e. qualitative asset transformation), are inherently insolvent and illiquid (for the example of deposit insurance, see Merton and Bodie, 1993). Furthermore, money and its value, the key raw material of the financial services industry, to a large extent are both defined and determined by the nation state, i.e. by regulating authorities par excellence.

Safety and soundness of the financial system as a whole and the enactment of industrial, financial, and fiscal policies are regarded as the main reasons to regulate the financial industry (see Kareken, 1986; Goodhart, 1987; Boot and Thakor, 1993). Also, financial history shows a clear interplay between financial institutions and markets and the regulators, be it the present-day specialized financial supervisors or the old-fashioned sovereigns (Kindleberger, 1993). Regulation of financial intermediaries, especially banks, is costly. There are the direct costs of administration and of employing the supervisors, and there are the indirect costs of the distortions generated by monetary and prudential supervision. Regulation, however, may also generate rents for the regulated financial intermediaries, since it may hamper market entry as well

as exit. So, there is a true dynamic relationship between regulation and financial production. It must be noted that, once again, most of the literature in this category focuses on explaining the functioning of the financial intermediary with regulation as an exogenous force. Kane (1977) and Fohlin (2000) attempted to develop theories that explain the existence of the very extensive regulation of financial intermediaries when they go into the dynamics of financial regulation.

The roles of financial institutions in financial intermediation

Businesses as well as governments sell securities to the public to raise money. In time, investors may sell the securities to other investors. Financial intermediaries facilitate this process. These roles are necessary to ensure the financial system works smoothly. The financial system makes it possible for surplus and deficit economic units to come together, exchanging funds for securities, to their mutual benefit. There are three types of financial intermediaries: investment bankers, brokers and dealers. In Africa, semi-formal institutions have emerged that both mobilize and lend funds to the general public. A study by the World Bank of both informal and formal financial markets in Ghana, Malawi, Nigeria and Tanzania, titled "Financial Market Fragmentation and Reform in Sub-Saharan Africa," shows that informal institutions use specialized methods to serve broad segments of the population that lack access to banks. Although they have responded positively in a liberalized environment, fragmentation into isolated market segments persists. These informal institutions are raising funds and lending the money to its members, after a 6-month wait period. They are assisting these developing countries in their development. It is important for companies to use financial intermediation, especially when a company first offers stocks to the general public for the first time (also known as IPO or initial public offering). The investment bankers handle all the details associated with pricing the stock and marketing it to the public.

Financial intermediation/deepening and economic growth

The relationship between financial development and economic growth goes back a long way in the economics literature. As far back as the early nineties, economists recognized that financial services were paramount in promoting economic growth. Production was seen as requiring credit to materialize as one could only become an entrepreneur by previously becoming a debtor. Before an entrepreneur required goods, he required credit first and foremost. Many advanced countries have relied on financial intermediaries to promote their development. In developing countries, however, not only does financial intermediation tend to be low, the cost of financial resources tend to be high as well. These deficiencies stifle economic growth.

Goldsmith (1969) observes that the financial superstructure of an economy "accelerates economic performance to the extent that it facilitates the migration of funds to the best user, that is, to the place in the economic system where the funds yield the highest social return".

The opinion of Greenwood and Jovanovic (1990) is in line with this view. They state that financial intermediation promotes growth because it allows a higher rate of return to be earned on capital, and growth in turn provides a means to implement costly financial structures. In his contribution, Montiel (1995) argues that growth and financial development/intermediation are mutually dependent in that the level of per capita income partially determines the

level of financial development, while financial development/ intermediation can contribute to economic development.

By and large, economic growth cannot be possible without the combined role of investment, labour and financial deepening. As Jao (1976) puts it, this role of money and finance in economic development has been examined by economists from different angles and with various degrees of emphasis. In particular, the writings of Gurley and Shaw (1955, 1956, 1967) and Goldsmith (1958, 1969) stress the role of financial intermediation by both banks and non-banks in the saving-investment process, where money, whether defined narrowly or broadly, forms a part of a wide spectrum of financial assets in the portfolio of wealth-holders.

3. Measures of financial intermediation and financial deepening

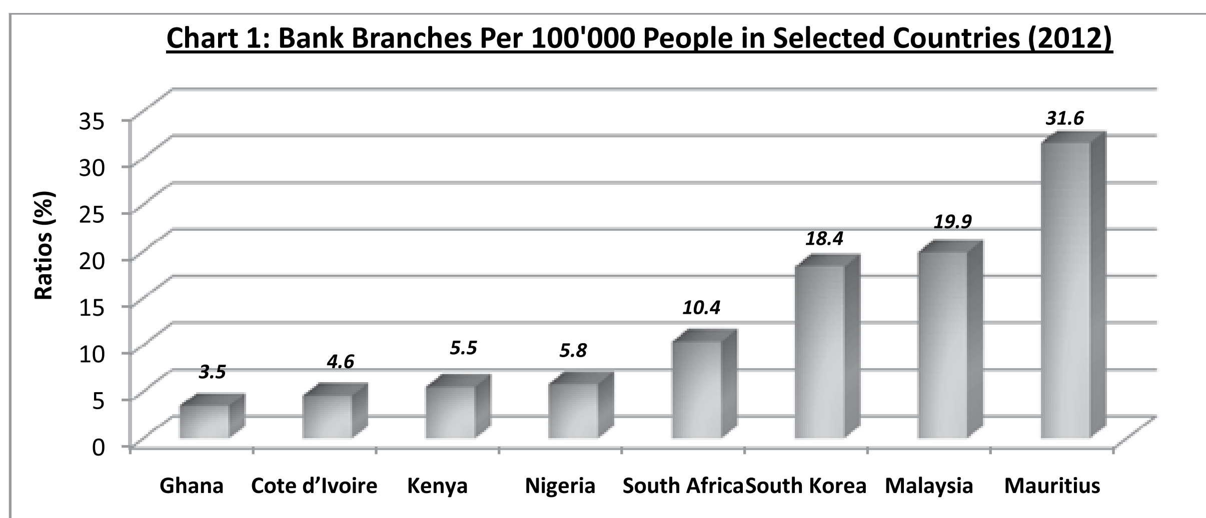
The level of financial intermediation and financial deepening in an economy are measured by a wide range of indicators. These include: banking density, credit-to-GDP ratio, deposits-to-GDP ratio, money-to-GDP ratio, real money balances per capita and total financial assets-to-GDP ratio.

Table 1. Bank Branches in Ghana as at December 2012

No.	Bank	No. of Branches
1	A	19
2	B	19
3	C	19
4	D	22
5	E	21
6	F	159
7	G	1
8	H	38
9	I	28
10	J	29
11	K	42
12	L	94
13	M	2
14	N	4
15	O	33
16	P	75
17	Q	79
18	R	27
19	S	21
20	T	17
21	U	17
22	V	29
23	W	11
24	X	7
25	Y	25
26	Z	21
	Total	859
	Population of Ghana*	24, 658, 823
	Number of banks per 100,000 people	3.5

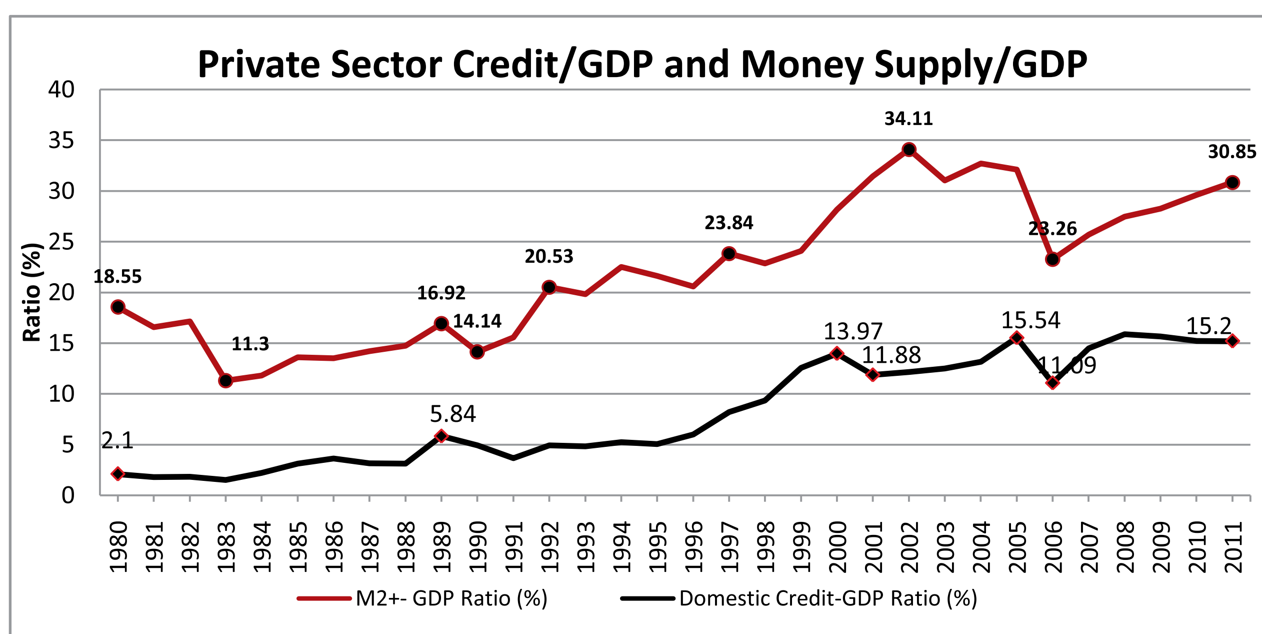
Source: Bank of Ghana, July 2013, *2010 Population and Housing Census Report

Table 1 Table 1 shows the number of bank branches for all 26 banks in Ghana as at end-2012. The study determined that the number of bank branches per 100,000 people as of 2012 was about 3.5. This ratio is a standard measure of access to bank services and varies from country to country. Ghana's figure of 3.5 compares with 4.6 for Cote d'Ivoire, 5.5 for Kenya, 5.8 for Nigeria, 10.4 for South Africa, 18.4 for South Korea, 19.9 for Malaysia, and 21.6 for Mauritius (See Chart 1). Clearly, Ghana's ratio is low even by the standards of our African peers let alone our non-African middle- income peers. Moreover, as in other countries, to the extent that the concentration of banks tends to be higher in urban areas, the ratio will be lower in rural areas. The low number of bank branches per the population suggests that financial intermediation/financial deepening is low.



Source: IMF Regional Economic Outlooks

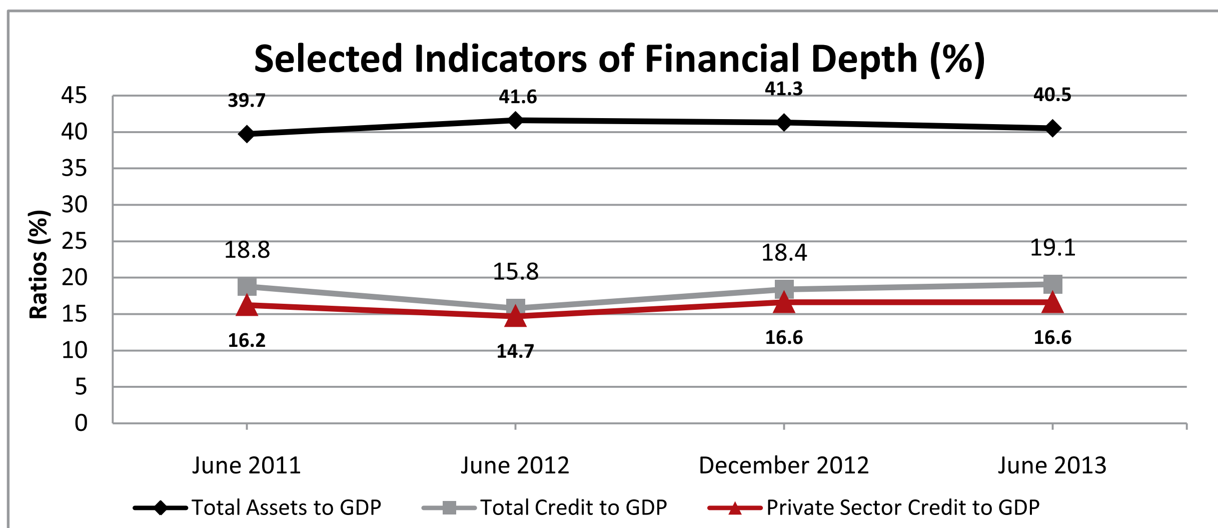
Chart 2: Selected indicators of financial intermediation/ deepening—private sector credit/GDP and money supply/GDP—1980-2011



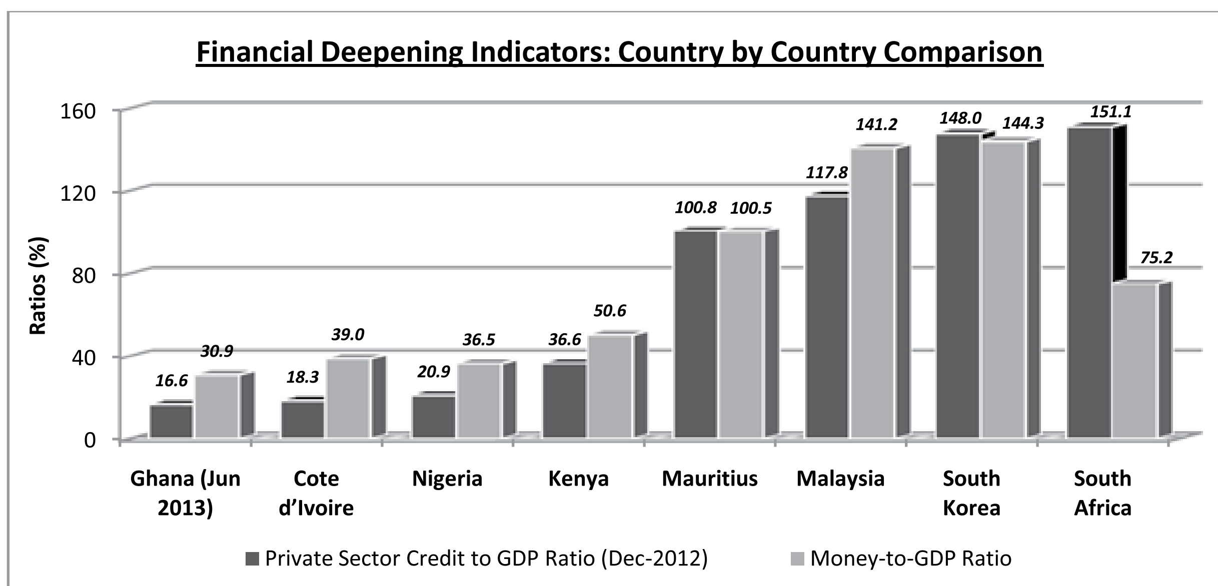
Source: Bank Of Ghana

Traditional measures of financial deepening include credit-to-GDP, money-to-GDP and bank financial assets-to-GDP ratios. The study measured private sector-credit-to-GDP and money-to-GDP ratios for 1980-2011. The private sector-credit-to-GDP ratio increased from 2.1% to 15.2% during the period while the money-to-GDP ratio rose from 18.6% to 30.9% (Table 2 in Annexe 1 and Chart 2). The study also measured private sector credit/GDP, total credit/GDP and bank financial assets/GDP for a more recent period, June 2011-June 2013. The first indicator rose from 16.2% to 16.6%, the second from 18.8% to 19.1%, and the third 39.7% to 40.5% (Table 3 in Annexe 1 and Chart 3).

Chart 3: Selected Indicators of Financial Depth (%), June 2011-June 2013



Ghana's private sector credit-to-GDP ratio, which stood at 16.6% in June 2013, compares with ratios as of end-2012 of 18.3% for Cote d'Ivoire, 20.9% for Nigeria, 36.6% for Kenya,100.8% for Mauritius, 117.8% for Malaysia, 148.0% for South Korea, and151.1% for South Africa. For the money-to-GDP ratio, Ghana's figure of 30.9% as of end-2011, compares with ratios as of end-2012 of 36.5% for Nigeria, 39.0% for Cote d'Ivoire, 50.6% for Kenya,75.2% for South Africa, 100.5% for Mauritius, 141.2% for Malaysia, and 144.3% for South Korea (See Chart 4). Ghana's ratios clearly are low by our African and non-African middle-income peer standards. They generally further confirm the shallowness of Ghana's financial sector.



Source: IMF Regional Economic Outlooks

4. Banks' survey on financial intermediation and the cost of credit

A survey of banks was carried out focusing on industry branches, customers, costs, competition, efficiency, borrower risks, cost of credit and credit allocation.[2] The banks were asked to complete a questionnaire comprising 15 questions. In 13 of the questions, options were given for the banks to choose from. The questionnaire was administered to all 27 banks in the country. However, despite strenous efforts to secure responses, only 6 banks (representing 22% of the industry in terms of numbers) provided responses. The results must therefore be taken with this limited sample of responses in mind.[3]

1. **Bank branches, deposit and loan customers:** Banks were asked to indicate the number of their branches, deposit customers and loan customers for 1980, 1990, 2000, and 2012. They provided answers for only 2012.

Table 4: Bank Branches (2012)

	Number of Responses	Minimum	Maximum	Mean
Total Number of branches	6	8	78	28
Total Number of Deposits Customers	5	77,904	616,178	235,954
Total Number of Loan Customers	4	988	25,398	8,694.5

While banks are not identified by name, the range of figures for branches, deposit customers, and loan customers show that the responding banks range from small to large. This should give some comfort that despite the limited number of responses received, the survey may still be moderately representative of the industry.

The number of bank branches ranges from 8 to 78 for the 6 reporting banks. While banks were not asked for regional distribution of their branches, urban areas usually have a lion's share of bank branches. The number of deposit customers ranges from 77,904 to 616,178 for 5 reporting banks, while the number of loan customers ranges from 988 to 25,398 for 4 reporting banks. These figures indicate wide differences in the scale of operations of the reporting banks. The much higher number of deposit customers compared with loan customers shows that many depositors do not have access to loans. It is known that many individuals and small-sized businesses do not have access to credit because of their low credit-worthiness and high borrowing risks.

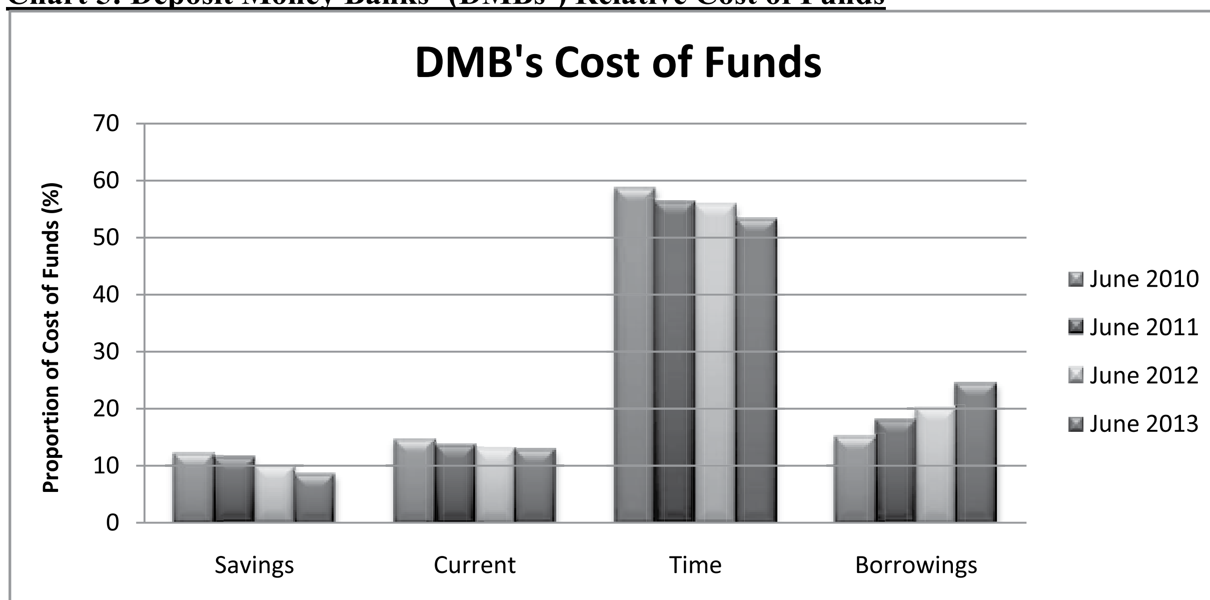
2. **Bank costs:** Banks were asked to rank in decreasing order of importance the determinants of their costs for 1980, 1990, 2000, and 2012. The options were: sources of funds, administrative costs, other operational costs, interest payments, reserve requirement costs, currency instability costs, loan default costs, and other (to be specified).

[2]See Annexes 1 and 2 for detailed questionnaire and analysis.

[3]The content and approach used for the survey will be improved in future studies in order to secure a larger and more representative sample of responses.

The respondents provided answers for only 2012. Thirty-three percent of them ranked interest payments and another thirty-percent sources of funds as the number one determinant of banks' costs. It has to be admitted that since interest payments are made on sources of funds, the two factors should not have been separated. Therefore, the two answers complement each other. Thus, interest payments (or sources of funds) is regarded by banks as the most important determinant of their costs. Remarkably, fifty-percent of respondents chose loan default costs as the second most important determinant of bank costs. Loan default rates are high due to lack of a well-functioning credit reference bureau and information on borrowers, which increase banks' costs

Chart 5: Deposit Money Banks' (DMBs') Relative Cost of Funds



Source: Bank Of Ghana

On relative cost of banks' funds, independent data from the Bank of Ghana for June 2010-June 2013 shows that time deposits constituted the most costly but declining source (See Table 5 in Annexe 1 Chart 5). This is due to the higher interest rates paid on time deposits. Time deposits is followed by upward-trending borrowings. Savings deposits seem to constitute the least costly source of bank funds. Thirty three percent of respondents ranked reserve requirements as the least determinant of bank costs. The current mandatory reserve ratio is 9% of both cedi and foreign currency deposits, payable to Bank of Ghana in local currency. These reserves are unremunerated and therefore constitute a cost to banks since they have to pay interest on them to their deposit customers. But it appears from the responses that it is the least determinant of their total costs.

3. **The general cost of credit—causes:** Banks were asked to rank in decreasing order of importance what they consider to be the factors responsible for the high cost of credit in Ghana generally. The options were: banks' cost of funds, banks' operational costs, Bank of Ghana Policy Rate, Treasury Bill rate, borrower default risks, reserve requirement costs, Government borrowing, inadequate competition in banking industry, collusion in banking industry, lax regulation and "other" (to be specified).

Fifty percent of respondents chose the Treasury Bill rate as the most important determinant of the high cost of credit. It is interesting to note banks pointing accusing fingers at the Treasur-

Bill rate for the high cost of credit. But this is not surprising since it is widely held that Government borrowing plays a major role in driving up the cost of borrowing in addition to crowding out the private sector. Sixty-percent of respondents indicated that banks' cost of funds was the second most important determinant of the cost of credit. Unsurprisingly, eighty-three percent of respondents ranked collusion in the banking industry as the least important determinant of the cost of credit. Banks may not admit to the role that collusion plays but there is a perception that the oligopolistic nature of the industry lends itself to such practice.

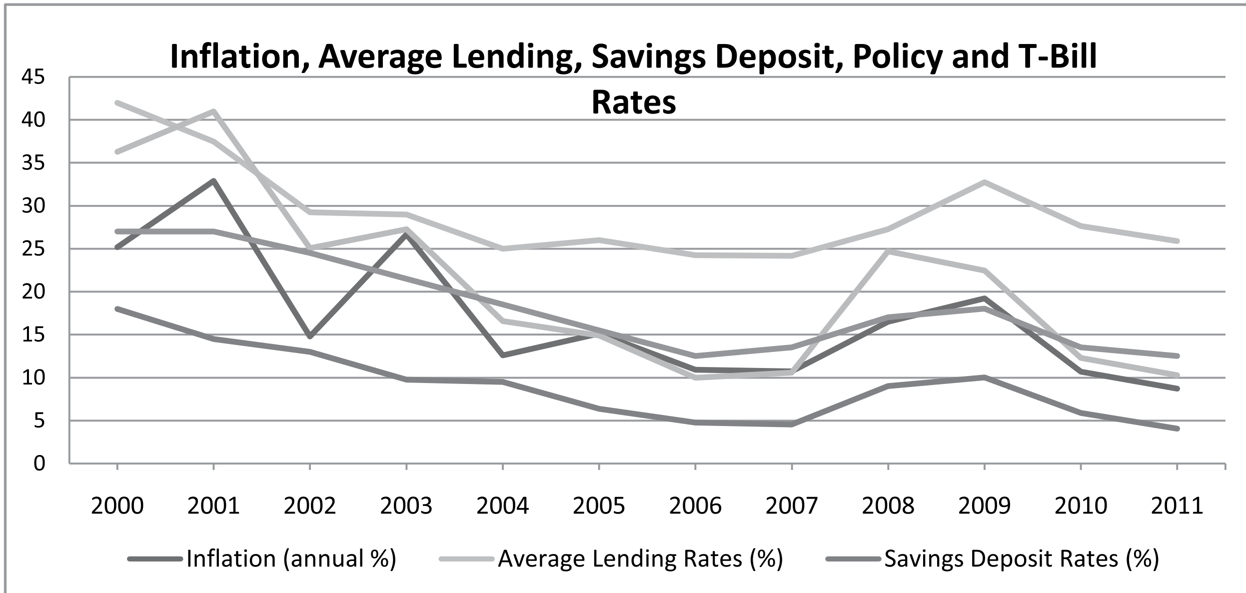
4. **Lending rates—determinants:** Banks were asked to rank in decreasing order of importance the factors that influence their lending rates. The options were: cost of funds, operational costs, Bank of Ghana Policy Rate, Treasury Bill rate, borrower default risks, reserve requirement costs, currency instability costs, and "other" (to be specified). On hindsight, collusion should have been included here, although it is not certain whether banks will admit to it.

Fifty percent of respondents said banks' cost of funds was the most important determinant of their lending rates, which have been persistently high. Another fifty percent also ranked the same factor the second most important factor, confirming its superiority in influencing lending rates. It is interesting to note that while respondents ranked the Treasury Bill rate as the first determinant of the cost of credit generally, when it comes to banks' own lending rates in particular, they choose their cost of funds. Currency instability costs was chosen by fifty percent of respondents as the least important determinant of lending rates.

5. Deposit rates—determinants: Banks were asked to rank in decreasing order of importance what they consider to be the factors responsible for low deposit rates. The options were: low competition in the banking industry, low depositor awareness/education, chronic excess liquidity in banking system, collusion in banking industry and "other" (to be specified).

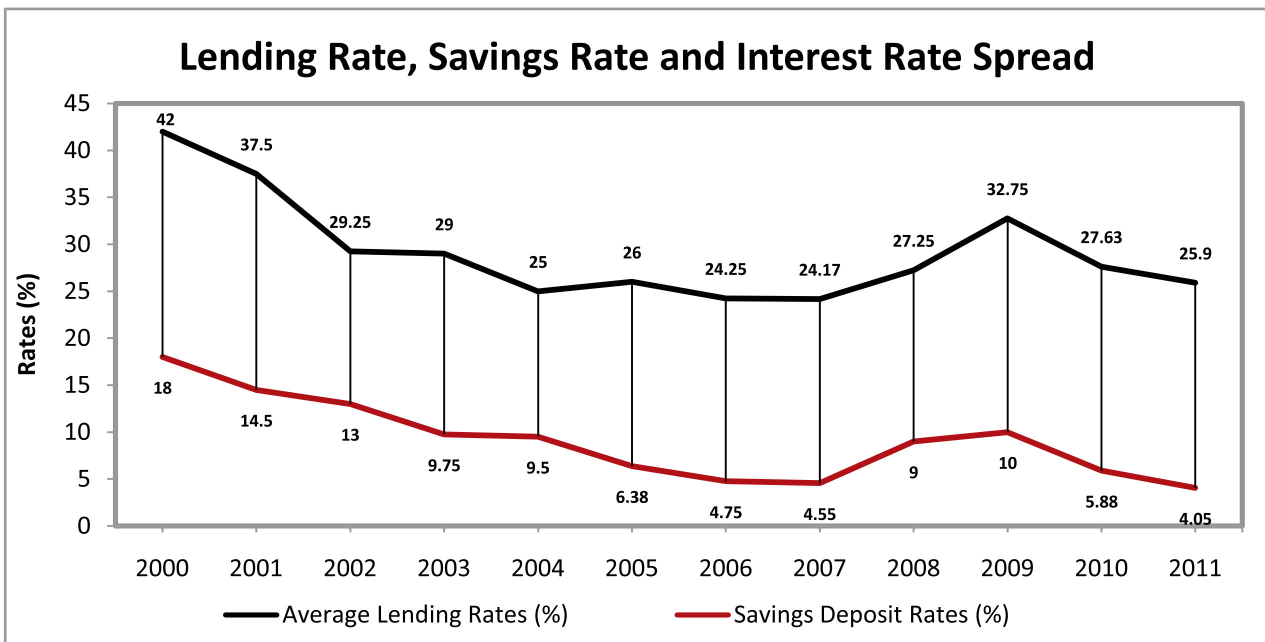
Fifty percent of respondents said low awareness/education was the most important cause of low deposit rates. This same factor was placed second by fifty percent of respondents, amplifying its importance. It is interesting to see banks blaming depositors for the low rates they pay to them. While they may not admit it, low competition in the industry is an important factor. Just as for the high cost of credit, an overwhelming eighty-three percent of respondents expectedly chose collusion in the banking industry to be the least important determinant of low deposit rates.

Chart 6: Inflation and Selected Interest Rates, 2000-2011



Source: Bank of Ghana

Chart 7: Selected Interest Rates, 2000-2011



Source: Bank of Ghana

Charts 6 and 7 provide information on selected interest rates for 2000-2011. They show persistently high average lending rates well above inflation and relatively low average deposit rates well below inflation . They also show persistently wide spreads between lending and deposit rates, averaging about 20% (Chart 7). The banks indicate in their responses that the cost of their funds is the key determinant of their high lending rates while lack of customer awareness/education largely drives the low deposit rates. It has to be said that low competion and high operational costs in the banking industry are also widely believed to be responsible for the wide spreads.

6. **Borrower risks—level:** Banks were asked for their opinion on the level of borrower risk in Ghana. The options were: very low, low, high, very high.

Fifty percent of respondents said borrower risk was high, while thirty-three percent said it was very high. Seventeen percent said it was very low. The average answer appears to be high borrower risk. This high risk is bound to be factored into determination of lending rates, which would differ from borrower to borrower.

7. **Loan defaults—causes:** Banks were asked to rank the possible causes of loan defaults in decreasing order of importance. The options were: inadequate borrower identification, inadequate credit reference on borrowers, inadequate loan recovery mechanisms, poor project management skills, poverty, national culture and "other" (to be specified).

A third each of the responds chose inadequate borrower identification, inadequate credit reference on borrowers and inadequate loan recovery mechanisms as the most important causes of loan defaults. The banks blame inadequate borrower identification and credit reference as important contributors to loan defaults. At the same time, they also admit to the fact that lapses in their own loan recovery mechanisms represent a contributing factor. Fifty percent of respondents chose poverty to be the least important factor along with 33 percent who chose national culture. Therefore, from the banks' point of view, loan defaults do not result from inability to pay; nor does it reflect a national culture. It would be interesting to hear also from borrowers. This could be included in a future study.

8. **Lending to the private sector—determining factors:** Banks were asked for the reasons for their apparent reluctance to lend to the private sector. They were asked to rank the following factors in decreasing order of importance: inadequate collateral, inadequate bankable projects, high loan default rates, competition from Treasury Bills and "other" (to be specified).

Fifty percent of respondents chose high loan default rates, 33.3 percent inadequate bankable projects, and 16.7 percent competition from Treasury Bills as the most important factor. On the other hand, 33.3 percent chose competition from Treasury Bills, 33.3 percent inadequate bankable projects, 16.7 percent inadequate collateral, and 16.7 percent high loan default rates as the least important factor. Putting all these responses together, it can be deduced that, from the banks' point of view, high loan default rates is probably the most important determinant of their reluctance to lend to the private sector. On the other hand, competition from Treasury Bills would appear to be the least important factor, again from the banks' point of view, although there is a strong perception that Treasury Bills do compete for loanable funds and may be favoured given the low related risk.

9. **Competition in banking industry—level:** Banks were asked how they will rank the level of competition in the Ghanaian banking industry. The options were: very low, low, high, and very high.

An overwhelming sixty-seven percent of respondents said competition in the industry was high while thirty-three percent said it was low. The question did not, however, state the measures of competition, which could range from quality of services to range of products to the milieu of prices. Asking an industry to assess itself is certainly not the best thing to do given the possibility of bias due to self-interest. Here also future study would seek external—and potentially less-biased—opinion on competition in the industry.

10. Competition in the banking industry—solutions: Banks were asked how competition in the banking industry can be further increased. They were asked to rank the following solutions in decreasing order of importance: by increasing the number of banks, by privatizing state banks, through bank

mergers, through education of customers to be more selective, through improved regulation, and "other" (to be specified).

An overwhelming eighty three percent of respondents said education of customers so that they can be more selective is the most important requirement for competition to be increased while seventeen percent selected increasing the number of banks. As the least important requirement, fifty percent of respondents selected bank mergers, thirty-three percent chose increasing the number of banks, and seventeen percent said by privatizing state banks. Putting all the answers together, it can be deduced that the banks opinion is that competition can be fostered on the industry by customers, while playing down on generating competition from inside. Further, they do not seem to believe that the structure of the industry—in terms of ownership or numbers—is important for competition.

11. **Efficiency in banking industry—level :** Banks were asked for their opinion on efficiency in the Ghanaian banking industry. The options were: vey low. Low, high, and very high.

Respondents unanimously said efficiency in the industry was low rather than very low, high or very high. This would seem to be an honest, albeit possibly biased, answer.

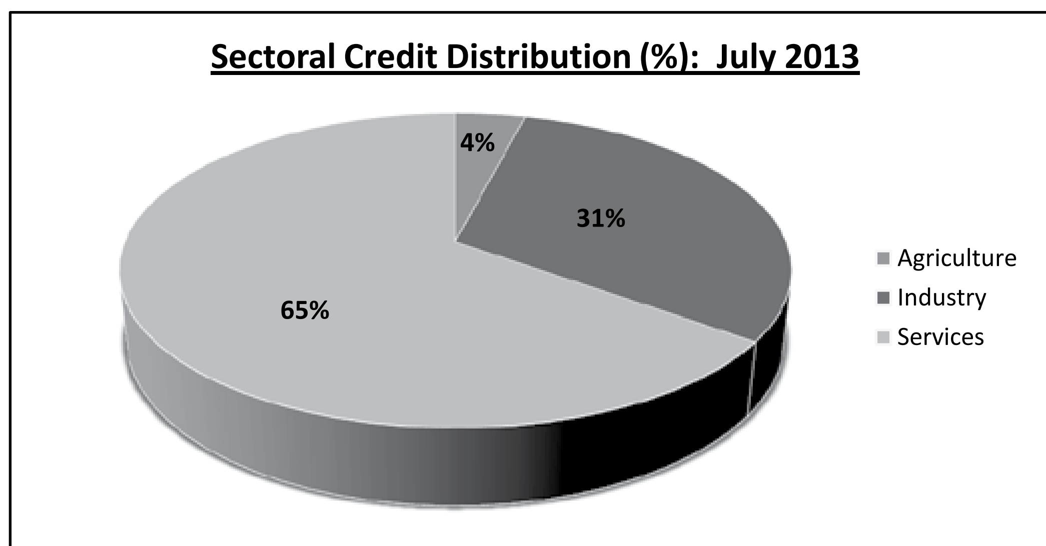
12. **Efficiency in banking industry—solutions:** Banks were asked how efficiency in the banking industry can be enhanced. They were asked to rank the following requirements in decreasing order of importance: by privatizing state banks, through bank mergers, by reducing operational costs, by improving labour quality, through improved management, through strengthened regulation, and through greater modernization.

Thirty three percent of respondents said improving management was the most important requirement, another 33 percent selected reducing operational costs, 17 percent chose improving labour quality, and another 17 percent selected more modernization. As the least requirement, 67 percent selected privatization of state banks, and 33 percent bank mergers. Clearly, banks admit that reforms are key to enhancing efficiency in the banking industry.

13 (a) **Sectoral allocation of credit—preferences:** Banks were asked which broad sectors of the economy they will most likely lend to. They were asked to rank agriculture, industry and services in decreasing order of preference.

Sixty seven percent of respondents placed services first, while 33 percent placed industry first. All respondents chose agriculture as the sector they would least likely lend to. Banks' lending to a particular sector will be influenced by both return/profitability and risk. These must explain their preference for lending to services—which includes finance and insurance, commerce, communications, transport, and public services—and their distaste for lending to agriculture. The next two questions seek to elicit these reasons.

Chart 8: Sectoral Credit Distribution (%)



Source: Bank Of Ghana

Table 6 (in Annexe 1) and Chart 8, which show a snapshot of sectoral distribution of outstanding credit, confirms the respondents' answer. Services dominates with 65%, followed by industry (which includes manufacturing, mining, oil, and construction) with 31%, and then agriculture with a mere 4%.

13. (b) **Sectoral lending preferences—reasons:** Banks were asked why their first selection in 13(a) is favoured.

A third of respondents said it was because of less risk in the sector, another 33.3 percent said because of low loan default rates, 16.7 percent said because of better management and good business prospects, and another 16.7 percent said because of the emerging and growing oil sector (under industry). Therefore, clearly, the sectoral lending decision is influenced by return/profitability and risk.

13. (c) **Sectoral lending avoidance—reasons:** Banks were asked why their third selection in 13(a) is disfavoured.

Sixty-seven percent of respondents said because of high risk in the sector and 16.7 percent said because of low market potential of produce due to reliance on weather, speaking about agriculture. There was no response from the rest 16.7 percent of respondents.

Again, the responses confirm the importance of return/profitability and risk in the sectoral allocation of credit. This a clear case of market failure in the financial sector in the context of liberalization. Given the importance of agriculture to the economy, there is the need for government intervention to ensure that the sector receives a sizable and affordable share of credit, possibly including under informal arrangements.

5. Conclusion

The Ghanaian financial sector has been growing rapidly in terms of the number of institutions and products. It was, however, not clear as to how "financial intermediation" and "financial deepening," in terms of access to financial services and the use of financial resources in the economy, have been evolving. Meanwhile, despite the growth of the sector, the cost of credit has been high, which is a major bottleneck to investment and economic growth. The issues of financial intermediation/financial deepening and the cost of credit in Ghana had not been fully investigated and documented. This study sought to study these issues by applying both analytical and survey investigative methods.

The study measured a number of standard indicators of financial intermediation and financial deepening, including banking density and credit-to-GDP, money-to-GDP and financial assets-to-GDP ratios. The study also conducted a survey of banks to investigate industry costs, competition, efficiency, borrower risks, lending rates, deposit rates and credit allocation decisions.

The study found that despite rapid growth of the financial sector, financial intermediation and financial deepening were low by international standards. The low levels of these indicators depict Ghana's financial sector as being "shallow." The study also found that, from the banking sector's point of view, the persistently high cost of credit is primarily the result of competitive government borrowing, high cost of bank funds, and high borrower risks. These causes reflect widely-perceived views regarding the high cost of credit in Ghana. Another important factor that did not, unexpectedly, come out of the survey is the uncompetitive nature of the banking sector that sustains high lending rates and spreads.

The study recommended the following policy interventions in the financial sector to foster financial intermediation and financial deepening and to reduce the cost of credit and improve its allocation:

1. Financial intermediation and financial deepening

Access to and use of financial services in Ghana are low. This constrains the financial sector in contributing to the growth of the economy. There is a need to promote further physical growth of the financial sector. Appropriate incentives should be introduced to encourage banks to locate in rural areas. Banks must also actively promote savings and expand lending services by extending their reach and introducing innovative products.

2. The cost of credit

The cost of credit has been persistently high. This is the result of competitive government borrowing, structural inefficiencies in the banking industry that lead to high operational costs, and high lending risks and associated loan defaults. There is a need to restrain government borrowing by entrenching fiscal discipline. There is a need to improve efficiency in the financial sector through improved management practices, engagement of qualified and well-trained

staff and more modernization. There is a need for safety nets to reduce lending risks, including through effective Credit Reference Bureaus and Borrower Identification Systems.

3. Access to credit by the private sector

Banks' sectoral lending preferences and the low access to credit by the private sector—and the agricultural sector in particular—represent a market failure in the financial sector in the context of liberalization. This requires remedial intervention measures. There is a need to ensure availability of affordable credit for small-scale and informal private enterprises and for the agricultural sector. This can be done by creating a special bank or fund, with steps taken to limit potential government contingent liabilities.

4. Financial regulation

There is a need for vigilant and robust financial regulation. In particular, it is necessary to ensure that banks do not engage in collusive practices in dealings with customers. Regulators must ensure that banks pay fair rates to depositors and avoid charging unjustifiably prohibitive rates for their services.

It is intended to repeat this study in future by covering a wider financial sector so as to broaden the measure of "financial intermediation" and "financial deepening." Also, the number of institutions covered—which was only 22% of the banking sector—would be increased to improve industry representation. Future surveys would also solicit the views of the public as well to obtain a broader view on financial intermediation/financial deepening and the cost of credit.

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ANNEXE 1: Tables

Table 2: Selected indicators of financial depth—domestic credit/GDP and money supply/GDP—1980-2011

Year	Private Sector Credit-GDP Ratio (%)	Money- GDP Ratio (%)
1980	2.10	18.55
1981	1.79	16.57
1982	1.85	17.16
1983	1.52	11.30
1984	2.22	11.81
1985	3.12	13.62
1986	3.64	13.51
1987	3.15	14.21
1988	3.14	14.75
1989	5.84	16.92
1990	4.93	14.14
1991	3.66	15.56
1992	4.94	20.53
1993	4.84	19.84
1994	5.25	22.51
1995	5.07	21.64
1996	6.01	20.60
1997	8.20	23.84
1998	9.36	22.86
1999	12.56	24.09
2000	13.97	28.17
2001	11.88	31.45
2002	12.15	34.11
2003	12.49	31.05
2004	13.17	32.72
2005	15.54	32.11
2006	11.09	23.26
2007	14.49	25.72
2008	15.88	27.46
2009	15.66	28.25
2010	15.23	29.62
2011	15.20	30.85

Source: Bank Of Ghana

Table 3. Selected Indicators of Financial Depth (%), June 2011-June 2013

Indicator	June 2011	June 2012	December 2012	June 2013
Total Financial Assets to GDP	39.7	41.6	41.3	40.5
Total Credit to GDP	18.8	15.8	18.4	19.1
Private Sector Credit to GDP	16.2	14.7	16.6	16.6

Source: Bank of Ghana, July 2013

Table 5: DMB's Cost of Funds as at June 2013 (%)

Indicator	June 2010	June 2011	June 2012	June 2013
Savings	12.0	11.5	10.0	8.5
Current	14.5	13.5	13.0	12.8
Time	58.7	56.2	55.8	53.4
Borrowings	15.0	18.0	20.0	24.5

Source: Bank of Ghana, July 2013

Table 6: Sectoral Allocation of Credit

Economic Classification of Credit (% of total) (July 2013)

Sector	Credit
Agriculture	3.7
Industry	31.2
Services	65.4
Total	100.00

Source: Bank of Ghana

ANNEXE 2

Analysis of Banks' Survey Questionnaire

1. Please indicate the number of your bank's branches, deposit customers, and loan customers for 1980, 1990, 2000, and 2012.

	Number of Responses	Minimum	Maximum	Mean
Total Number of branches	6	8.0	78.0	28.0
Total Number of Deposit Customers	5	77,904.0	616,178.0	235,954.0
Total Number of Loan Customers	4	988	25,398.0	8,694.5

2. Please rank in decreasing order of importance the determinants of your costs for each year (2012)

Rank	Factors	Frequency	Percent (%)
1	Interest Payments	2	33.3
1	Sources of funds	2	33.3
1	Other operational costs	1	16.7
1	Loan default costs	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
2	Loan default costs	3	50.0
2	Sources of funds	2	33.3
2	Interest Payments	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
3	Administrative costs	3	50.0
3	Currency Instability Costs	1	16.7
3	Reserve requirement costs	1	16.7
3	Interest Payments	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
4	Other operational costs	3	50.0
4	Administrative costs	1	16.7
4	Currency Instability Costs	1	16.7
4	Reserve requirement costs	1	16.7
	Total	6	100.0
Rank	Factors	Frequency	Percent (%)
5	Sources of funds	1	16.7
5	Administrative costs	1	16.7
5	Other operational costs	1	16.7
5	Reserve requirement costs	1	16.7
5	Currency Instability Costs	1	16.7
5	Loan default costs	1	16.7
	Total	6	100.0

Rank	Factors	Frequency	Percent (%)
6	Currency Instability Costs	2	33.3
6	Reserve requirement costs	1	16.7
6	Administrative costs	1	16.7
6	Other operational costs	1	16.7
6	Interest Payments	1	16.7
	Total	6	100.0

Rank	Factors	Frequency	Percent (%)
7	Reserve requirement costs	2	33.3
7	Sources of funds	1	16.7
7	Currency Instability Costs	1	16.7
7	Interest Payments	1	16.7
7	Loan default costs	1	16.7
	Total	6	100.0

3. Please rank in decreasing order of importance what you consider to be the factors responsible for the high cost of credit in Ghana generally

Rank	Factors	Frequency	Percent (%)
1	Treasury Bill Rate	3	50.0
1	Banks' cost of funds	1	16.7
1	Banks' Operational Cost	1	16.7
1	Borrower Default Risk	1	16.7
	Total	6	100.0

Rank	Factors	Frequency	Percent (%)
2	Banks' cost of funds	4	66.6
2	Treasury Bill Rate	1	16.7
2	Borrower Default Risk	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
3	Treasury Bill Rate	2	33.3
3	Banks' Operational Cost	1	16.7
3	BOG Policy Rate	1	16.7
3	Borrower Default Risk	1	16.7
3	Reserve Requirement Costs	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
4	Banks' Operational Cost	2	33.3
4	Banks' cost of funds	1	16.7
4	Reserve Requirement Costs	1	16.7
4	Borrower Default Risk	1	16.7
4	Currency Instability Costs	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
5	Reserve Requirement Costs	2	33.3
5	BOG Policy Rate	2	33.3
5	Banks' Operational Cost	1	16.7
5	Government Borrowing	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
6	Banks' Operational Cost	1	16.7
6	BOG Policy Rate	1	16.7
6	Borrower Default Risks	1	16.7
6	Resrve Requirement Costs	1	16.7
6	Government Borrowing	1	16.7
6	Currency Instability Costs	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
7	Government Borrowing	2	33.3
7	BOG Policy Rate	1	16.7
7	Borrower Default Risks	1	16.7
7	Currency Instability Costs	1	16.7
7	Inadequate competition in banking industry	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
8	Currency Instability Costs	3	50.0
8	Inadequate competition in banking industry	1	16.7
8	Lax regulation	1	16.7
8	Collusion in banking industry	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
9	Lax regulation	3	50.0
9	Government Borrowing	2	33.3
9	BOG Policy Rate	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
10	**Inadequate competition in banking industry**	4	66.7
10	Reserve Requirement Costs	1	16.7
10	Lax regulation	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
11	Collusion in banking industry	5	83.3
11	Lax regulation	1	16.7
	Total	**6**	**100.0**

4. Please rank in decreasing order of importance the factors that influence your own lending rates

Rank	Factors	Frequency	Percent (%)
1	Cost of funds	3	50.0
1	Treasury Bill rate	2	33.3
1	Borrower Default Risks	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
2	Cost of funds	3	50.0
2	Operational costs	2	33.3
2	Treasury Bill rate	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
3	Operational costs	2	33.3
3	Borrower Default Risks	2	33.3
3	Treasury Bill rate	1	16.7
3	Reserve requirement costs	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
4	Reserve requirement costs	3	50.0
4	Operational costs	1	16.7
4	BOG Policy Rate	1	16.7
4	Currency Instability Costs	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
5	Reserve requirement costs	2	33.3
5	Treasury Bill rate	2	33.3
5	Operational costs	1	16.7
5	Currency Instability Costs	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
6	BOG Policy Rate	3	50.0
6	Borrower Default Risks	2	33.3
6	Currency Instability Costs	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
7	Currency Instability Costs	3	50.0
7	BOG Policy Rate	2	33.3
7	Borrower Default Risks	1	16.7
	Total	**5**	**100.0**

5. Please rank in decreasing order of importance what you consider to be the factors responsible for low deposit rates

Rank	Factors	Frequency	Percent (%)
1	Low Depositor Awareness/Education	3	50.0
1	Chronic excess liquidity in the banking system	2	33.3
1	Low competition in banking industry	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
2	Low Depositor Awareness/Education	3	50.0
2	Low competition in banking industry	2	33.3
2	Collusion in banking industry	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
3	Low competition in banking industry	3	50.0
3	Chronic excess liquidity in the banking system	3	50.0
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
4	Collusion in banking industry	5	83.3
4	Chronic excess liquidity in the banking system	1	16.7
	Total	**6**	**100.0**

6. What in your opinion is the level of borrower risk in Ghana?

	Frequency	Percent
Very low	1	16.7
Low	0	0.0
High	3	50.0
Very High	2	33.3
Total	**6**	**100.0**

7. Please rank the following possible causes of loan defaults in decreasing order of importance

Rank	Factors	Frequency	Percent (%)
1	Inadequate borrower identification	2	33.3
1	Inadequate credit reference on borrowers	2	33.3
1	Poor project management skills	2	33.3
	Total	6	100.0

Rank	Factors	Frequency	Percent (%)
2	Inadequate borrower identification	3	50.0
2	Inadequate credit reference on borrowers	2	33.3
2	Inadequate loan recovery mechanisms	1	16.7
	Total	6	100.0

Rank	Factors	Frequency	Percent (%)
3	Inadequate loan recovery mechanisms	3	50.0
3	Inadequate credit reference on borrowers	2	33.3
3	A national culture	1	16.7
	Total	6	100.0

Rank	Factors	Frequency	Percent (%)
4	Poor project management skills	3	50.0
4	Inadequate loan recovery mechanisms	1	16.7
4	Poverty	1	16.7
4	A national culture	1	16.7
	Total	6	100.0

Rank	Factors	Frequency	Percent (%)
5	Poverty	2	33.3
5	A national culture	2	33.3
5	Poor project management skills	1	16.7
5	Inadequate borrower identification	1	16.7
	Total	6	100.0

Rank	Factors	Frequency	Percent (%)
6	Poverty	3	50.0
6	A national culture	2	33.3
6	Inadequate loan recovery mechanisms	1	16.7
	Total	6	100.0

8. What explains apparent reluctance of banks to lend to the private sector? Please rank the following factors in decreasing order of importance.

Rank	Factors	Frequency	Percent (%)
1	High Loan Default Rates	3	50.0
1	Inadequate bankable projects	2	33.3
1	Competition from Treasury Bills	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
2	High Loan Default Rates	2	33.3
2	Competition from Treasury Bills	2	33.3
2	Inadequate collateral	1	16.7
2	Inadequate bankable projects	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
3	Inadequate collateral	4	66.7
3	Inadequate bankable projects	1	16.7
3	Competition from Treasury Bills	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
4	Competition from Treasury Bills	2	33.3
4	Inadequate bankable projects	2	33.3
4	Inadequate collateral	1	16.7
4	High Loan Default Rates	1	16.7
	Total	**6**	**100.0**

9. How would you rank the level of competition in the Ghanaian banking industry?

	Frequency	Percent (%)
Very Low	0	0.0
Low	2	33.3
High	4	66.7
Very High	0	0.0
Total	**6**	**100.0**

10. . How can competition in the banking industry be further increased? Please rank the following solutions in decreasing order of importance

Rank	Factors	Frequency	Percent (%)
1	Through education of customers to be more selective	5	83.3
1	By increasing the number of banks	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
2	Through improved regulation	2	33.3
2	Through bank mergers	2	33.3
2	By increasing the number of banks	1	16.7
2	Through education of customers to be more selective	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
3	By privatizing state banks	3	50.0
3	Through improved regulation	3	50.0
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
4	By increasing the number of banks	2	33.3
4	By privatizing state banks	2	33.3
4	Through bank mergers	1	16.7
4	Through improved regulation	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
5	Through bank mergers	3	50.0
5	By increasing the number of banks	2	33.3
5	By privatizing state banks	1	16.7
	Total	**6**	**100.0**

11. How would you rank efficiency in the Ghanaian banking industry?

	Frequency	Percent
Very Low	0	0.0
Low	6	100.0
High	0	0.0
Very High	0	0.0
Total	**6**	**100.0**

12. How can efficiency in the banking industry be further enhanced? Please rank the following in decreasing order of importance

Rank	Factors	Frequency	Percent (%)
1	Through improved management	2	33.3
1	By reducing operational costs	2	33.3
1	By improving labor quality	1	16.7
1	Through greater modernization	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
2	Through improved management	3	50.0
2	Through bank mergers	1	16.7
2	By reducing operational costs	1	16.7
2	Through greater modernization	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
3	By improving labor quality	3	50.0
3	By reducing operational costs	1	16.7
3	Through greater modernization	2	33.3
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
4	By reducing operational costs	2	33.3
4	By improving labor quality	2	33.3
4	Through improved management	1	16.7
4	Through greater modernization	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
5	Through strengthened regulation	5	83.3
5	Through bank mergers	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
6	By privatizing state banks	2	33.3
6	Through bank mergers	2	33.3
6	Through greater modernization	1	16.7
6	Through strengthened regulation	1	16.7
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
7	**By privatizing state banks**	4	66.7
7	**Through bank mergers**	2	33.3
	Total	**6**	**100.0**

13 (a) Which broad sectors of the economy would you most likely lend to? Please rank in decreasing order of preference

Rank	Factors	Frequency	Percent (%)
1	Services	4	66.7
1	Industry	2	33.3
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
2	Industry	4	66.7
2	Services	2	33.3
	Total	**6**	**100.0**

Rank	Factors	Frequency	Percent (%)
3	Agriculture	6	100.0
	Total	**6**	**100.0**

13. (b) Why is your first selection in 13(a) favoured?

Reasons	Frequency	Percent(%)
Less risk in the sector	2	33.3
Loan default rates are low	2	33.3
It has better management and good business prospects	1	16.7
Due to the emerging and growing oil and gas sector	1	16.7
Total	**6**	**100.0**

13. (c) Why is your third selection in 13(a) disfavoured?

Reasons	Frequency	Percent(%)
High risk in the sector	4	66.7
Low market potential of produce due to reliance on weather	1	16.7
No Response	1	16.7
Total	**6**	**100.0**

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