

IMPROVING EFFICIENCY OF SAVINGS MOBILIZATION IN GHANA

BY

QUARSHIE JOSEPH

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## **DECLARATION**

I hereby affirm that this research in its entirety is my work through study and inspiration and not a reproduction of previous works.

Borrowed ideas and concepts as well as resources from other sources have been duly referenced and acknowledged.

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## **LIST OF ABBREVIATIONS AND SYMBOLS**

ASB – Amarah Saham Bumiputra

ASN – Amarah Saham Nasional

BoG – Bank of Ghana

BSN – Bank Simpanan Nasional

ERP – Economic Recovery Programme

FINSAP – Financial Sector Structural Adjustment Programme

GCB – Ghana Commercial Bank

GRA – Ghana Revenue Authority

GSE – Ghana Stock Exchange

GSS – Ghana Statistical Service

HIPC – Highly Indebted Poor Countries

NIB – National Investment Bank

P&T – Post and Telecommunications

PNB – Perbadaran Nasional Berhad

WDI – World Development Indicators

WHO – World Health Organization

\$ - United States Dollars

GH¢ - Ghana Cedis

## **ABSTRACT**

Ghana's economy has been stabilized since the introduction of the Economic Recovery Program via the World Bank led Structural Adjustment Program in 1983. Source of funding for government expenditure has been heavily reliant on taxation and acquisition of foreign loans which forced the country into joining the Highly Indebted Poor Countries (HIPC) initiative in 2001 in order to be granted debt relief. Mobilizing domestic savings as a means of financing investment has been ignored in Ghana although it also comes along with the building institutions, social infrastructure and fostering national unity. Consequently, mobilizing domestic savings is a better option of capital formation as opposed to sourcing foreign loans which increases Ghana's indebtedness to foreign countries hence making Ghana vulnerable to dictates about internal monetary policies, use of the loans acquired, etc. from foreign countries and international organizations.

It was imperative therefore to research into how savings mobilization can be improved and undertaken in Ghana. To do this the history and status quo of savings mobilization in Ghana was analyzed as a means of identifying the inefficiencies. A framework specifying the roles of the government, financial institutions and households was designed and analyzed to ensure that it is requisite to improving savings mobilization in Ghana. In addition, Japan and Malaysia's experience in using postal savings and national savings bank respectively coupled with nationwide savings awareness campaigns was analyzed to adduce tenets for Ghana.

Although the research dealt with mobilizing savings in general, particular attention was given to mobilizing private savings by focusing on households. The household economy (flow of funds) was explicated in the light of helping to tailor a suitable mobilization program. Regression analysis was conducted with data from 1966 to 2006 to determine the factors that highly influence or have contributed to Gross Domestic Income, Gross Domestic Savings and in effect Savings Mobilization. The results from the regression analysis were contrasted with results from corresponding Pair wise and Partial Correlation as a matter of second opinion.

The major finding of this research was that Rural Population had a moderate positive correlation to both Gross Domestic Income (GDI) and Gross National Income (GNI) per capita while Urban Population had a weak correlation to both GDI and GNI per capita. However, Urban Population had a strong positive correlation to Gross Domestic Savings. In effect supporting the assertion that although the Rural Population are capable of saving, they lack the avenue to do so, thus the advocacy of extending savings means through

formalization of informal and traditional savings arrangement called Susu and the use of postal savings supported by the government-led financial literacy education and savings mobilization campaign. Additionally, the inability of the current financial system to mobilize savings of the Rural Population can be attributed to the concentration of most financial institutions especially banks in the urban centers. While Ghana's population stands at 23.8 million, approximately 12 million economically active people who are gainfully employed in Ghana do not deal with formal financial institutions. Additional findings revealed that credit to private sector had strong positive correlation to Gross Domestic Income. On the other hand, credit to private sector and inflation had strong negative correlations to Gross Domestic Savings meaning that increase in income or macro monetary policies does not necessarily increase savings but rather the availability of the means to save in addition to pertinent education.

It is recommended that since extending the coverage of financial services and avenues for saving is the key to improving savings mobilization, the Banking Act 2004, be amended to include provisions for banks, etc. to graft in Susu collectors or create special accounts for informal savings arrangements. In addition, incentives should be created for banks that will direct their services towards the rural population. Furthermore a portion of corporate taxes from financial institutions is to be used to improve road networks and social amenities in the rural areas in order to increase the incentive for rural banking. In the same vein, provisions should be included in the national budget for public financial literacy education.

**Keywords:** Savings Mobilization, Susu, Post Office, Ghana, Household, Informal sector

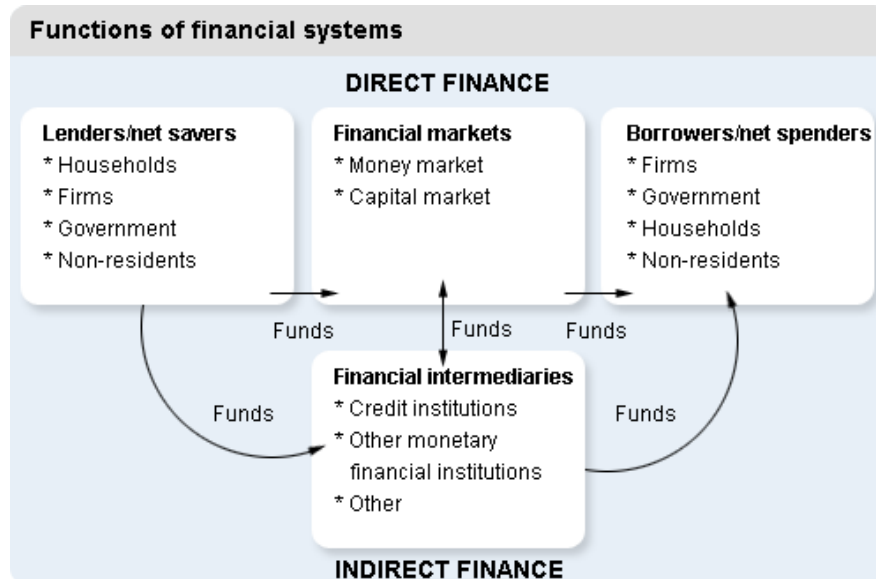
## CHAPTER ONE

### 1 INTRODUCTION, DEFINITION OF TERMS AND THESIS STRUCTURE

#### 1.1 Why improve efficiency of Savings Mobilization in Ghana

An effective financial system attracts capital from fund-suppliers (household, companies, governments) – people who have more money than they need and want to put some away – and gives it to fund-users (households, companies, governments) – people in need of capital. (Bank of Finland, 2004) It goes without mention that returns (interests) that are made on the invested capital finds their way back to the fund-suppliers in the form of dividends, increased salaries and corporate social responsibility.

Figure 1.1: Flow of funds in an economic system



Source: Bank of Finland (2004). The financial system in brief

In Ghana however the financial system (mainly banks and the capital market) is not doing enough to mobilize funds from fund-suppliers to fund-users, as it were. This problem can be

partly traced to the economic anatomy of Ghana that has close to **80% of the working class in the informal sector** which in effect accounts for the about **90% of the population not having bank accounts** or using the services of formal financial institutions. (Abor et al, 2010: Fidelity Bank Ghana Limited, 2010) That notwithstanding stakeholders of fund mobilization like the government, and the financial system – especially the banking institutions – has failed in facilitating the flow of funds from fund-suppliers to fund-users. Consequently the financial institutions like banks, microfinance organisations do not have the funds available to lend to fund-users. In cases where they are available, lending rates range between 22.7% and 40% depending on the parties involved. (www.thebftonline.com, 2010)

In another vein the capital reserves of about 44% in total requested by the Bank of Ghana to other banks can also be held accountable for the apparent credit crunch in Ghana. (Dordunoo, 2010) Operators of banking institutions have asserted that in order to stay in business, they must charge rates of not less than 23%, the reason being that, after the requirement for the reserves have been observed, there is not much left to grant loans and satisfy other financial obligations of the bank. (Joy Business News – myjoyonline.com, Sep. 2010)

Clearly the problem with Ghana's financial system begins with at the start of the cycle of funds flow from suppliers to users and this is the scope and focus of the thesis – improving efficiency of savings mobilization so good health will be restored to Ghana's financial system.

In order to do this, this research will be looking at the use of the postal savings or Post Bank model in collaboration with regular banking institutions and government revenue agencies and also the formalization of the a traditional means of savings mobilization called 'Susu'.

Susu is a less-dubious method of community-based saving and investing, which is still practiced in parts of West Africa and the Caribbean. Susus are essentially savings plans. Man Hau Live is reported to have listed different names for this form of informal savings scheme where, “Latin Americans refer to them as Tandas or Quotas; Koreans call them Kyas or Kaes; Gambians and Nigerians refer to them as Tontines” (Kunzemann, 2007)

One type of Susu is the **Rotating Savings and Credit Associations (ROSCAS)** where a group of people regularly pay a fixed sum into a pool held by a Susu collector. Each time group members make a contribution, one of them receives the entire sum. Thus, if 20 people each contribute 10 dollars per week, every one of them will receive 200 dollars at a certain point in time. (Kunzemann, 2007)

Susu is believed to have been introduced to Ghana from Nigeria where it is known as “esusu” in the Yoruba language. (Aryeetey and Udry, 1995) Unlike the rotating savings scheme described by Kunzemann, the susu in Ghana mostly takes the form of **non-rotating savings scheme**. Here, savings are accumulated in the fund rather than distributed with each collection. These groups provide the obvious benefits of reducing saving transaction costs and providing for inexpensive safekeeping of savings. In addition, however, a key property of non-rotating saving associations is the availability of a fund of savings which can be disbursed as loans to members in the case of emergencies. (Aryeetey and Udry, 1995)

This involves a collector (usually male) who visits shops, workplaces, market stalls and homes at agreed times on each day and collects funds towards a savings plan. Following this plan, a saver agrees to deposit a specific amount determined by himself/herself in consultation with the collector for an agreed period of time- -

usually a month-- after which period, his/her deposits are returned less a day's deposit. (Aryeetey and Udry, 1995; Page 22)

## **1.2 Definition of terms**

### **1.2.1 Savings**

Savings and Investment has been a part of human life and activity since prehistoric times. Indeed, many proverbs and folklore are constructed on the essence of savings. And this is common across cultures and religious faith around the world. One common element that used in many cases is the study of nature. A few of the statements are;

“Little drops of water, makes a mighty ocean” – British

“The Yangtze never runs backwards; man recaptures not his youth.”

“The rich man plans for tomorrow, the poor man for today.” - Chinese

“A crab does not beget a bird.” – Ghanaian

“A penny saved is a penny earned.” - Benjamin Franklin

Savings is therefore a universal activity. Some schools of thought have tried to draw a distinction between the words “saving” and “savings”. Some have described the former as fit for contexts related to rescues, preservation and the like where as the whole lot support the definition of savings as being;

“The money which you keep in an account in a bank or similar financial organization”

Although in relation to this research this definition will be chiefly applied, other definitions by the Oxford and Cambridge dictionaries respectively are;

“An economy of or reduction in money, time, or another resource” (Oxford Dictionary)

“An amount of money that you do not need to spend”

In the two above-mentioned definitions the idea of ‘deferring consumption’ is inherent. Where deferred consumption means money set aside for future use or an opportunity cost. (Encarta, 2009) It is interesting to note that, “Consumption is normally the largest GDP component. Many persons judge the economic performance of their country mainly in terms of consumption level and dynamics.” (Economics Web Institute, 2010) Consumption here is defined as the, “value of goods and services bought by people. Individual buying acts are aggregated over time and space.”

According to Economics Web Institute the composition of consumption,

“...may be divided according to the durability of the purchased objects. In this vein, a broad classification separates durable goods (as cars and television sets) from non-durable goods (as food) and from services (as restaurant expenditure). These three categories often show different paths of growth.” (Piana, 2001)

Deducing from the definition, it can be said that “Savings – deferred consumption” also falls under “Services” which has to do with intangibles expenditure example purchase of capital assets.

“A major theme in economic theory is that economic growth requires accumulation” (Minsky, 2008: 24) In order to accumulate – or in this case – undertake savings, there must be the means to do so such as surplus income<sup>1</sup>, need to meet future financial obligations such as housing, education, retirement, etc. Keynesian theory of consumption function spells out clearly that income affects savings propensities. Income is therefore the “glob in determining consumption behavior.” (Minsky, 2008)

### **1.2.2 Mobilization**

Mobilization according to the Cambridge dictionary is “to organize or prepare something, such as a group of people, for a purpose.” Although this definition is right, it lacks the sense of urgency and the connection to resource (capital or money).

Encarta (2009) defines mobilization as,

“...to organize people or resources in order to be ready for action or in order to take action, especially in a military or civil emergency, or to be organized for this purpose”.

This definition is more suited to the research because unlike that of the Cambridge dictionary, it presents the urgency, what needs to be mobilized (people and resources) as well as opens a window into the future essence of the mobilization exercise which is for productive investments, wealth distribution and general economic growth of Ghana by extension.

Why savings accumulation is not being used it because by definition ‘accumulation’ has to do with “the process of gathering together and increasing in amount over a period of time”

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<sup>1</sup> Here referring to disposable income (income minus taxes) left after catering for ‘normal’ expenditure.

(Encarta, 2009) which is far from the intents of this research because it lacks purpose hence the title 'Savings Mobilization' in Ghana.

#### **1.2.2.1 Proposed Solution of how Savings Mobilization can be improved in Ghana**

According to Harrod-Domar's model, it is evident that Savings equals Investment. The amount of savings an economy can mobilize is therefore quintessential to capital available for investment. (Hussain et al, 2002) The importance deepens in the case of developing countries like Ghana that are pursuing export-led growth and thus must significantly undertake manufacturing, infrastructural developments, etc. Increase in domestic savings in the long term also unties an economy from knots of increasing foreign debt. With the decline in capital supply to the government in the form of foreign loans, the government will be forced to cut down spending and delegate developmental projects to local industry. This will in turn focus attention of domestic lending by banks to local industry. Consequently, local industry will begin to flourish since access to credit and cost of credit is its major problem. Inflation figures will also reduce owing to cut in government spending thus creating a conducive environment for transacting business and at the same time putting the government in a good position for regulating the system and improving institutions to succour industrial growth. In the long term this will foster effective dissemination of information, financial literacy, patriotism, wealth distribution just to mention a few.

This research is proposing a 3-point framework involving the Government, Banking institutions and Households (represented in a triangle). In this framework, each of the parties has a contribution to and from the other. For instance, if the high capital reserves requirements of banks are reduced by the government, Banks will have a little more money

to increase interests on deposits which will attract a relatively high savings edge from Households. Following this, banks will be able to grant loans with relatively lower interest rates to both the Government and Households.

There are trajectories within the framework that might be limited to a chain-reaction but not a complete cause and effect on all parties as described above. For instance, where the Government increases financial literacy coupled with both formal and informal education in the media and school curriculum respectively, Household budgeting and savings plans will encourage an increase in Household savings – some of which might find their way to the banks. From here it is possible banks will engage in productive investment or financing government projects which might require labour from Household. As mentioned earlier, this trajectory does not have a direct contribution from Households to Government.

The major contributions by parties in the framework are;

a. Government

1. to Banking institutions – Reduce Capital reserve requirements and form partnership to reinstate Post Office Banking as a means of proliferating banking infrastructure.
2. to Households – Both formal and informal financial literacy education with more emphasis on savings through school curricula and the mass media. Also printing and distribution of budgeting booklets.

b. Banking Institutions

1. to Households – increase outposts and create both mobile and immobile savings deposit centers (formalization of the susu system), increase interest on deposits and reduce lending interest rates.
2. To Government – offer loans at lower interest rates for government projects or domestic investment opportunities and work as partners to increase trust in mobilization effort.

c. Households

1. to Banking institutions – fund-suppliers must deposit money with financial institutions while fund-users ensure to productively invest loans in order to be value enhancing.
2. to Government – take the educational programs seriously, assist in implementing and use of budgeting booklets and offer information during feedback programs.

The abovementioned is chiefly the approach of the thesis in improving efficiency of savings mobilization in Ghana.

### **1.2.3 Savings Culture in Ghana**

#### **1.2.3.1 Savings in Traditional Ghanaian Society**

Savings has been a part of Ghanaian culture for as far back as pre-colonial time. Like any other society in the world, once the need for survival is met accumulation of wealth comes next. The wealth created is in many cases handed down to succeeding generations in the form of inheritance. Indeed the word inheritance in the Akan

language of Ghana is “agyapadie” literally, “a good father’s things” or better still “things a good father left behind”. It is therefore not out of place to assert that the Ghanaian society has high appreciation for tangible assets. Some other reasons buttressing this assertion is the practice of barter trade before the use of a printed currency in Ghana. It is also interesting to note that life-cycle events such as; weddings, puberty rites, funerals and the like demand the use of tangible assets like pieces of cloth, jewelry, cattle, just to mention a few. In this light, items are prepared or accumulated over a period of time.

Traditionally, the Ghanaian appreciates the importance of savings both as deferred consumption and wealth accumulation.

#### **1.2.3.2 Efforts at Savings Mobilization by Government and Financial institutions**

To conclude that there has been no effort at mobilization domestic funds within the over 50 years of Ghana’s independence will be a will be an indictment on resource mobilization in Ghana. What has been lacking is the aim at mobilizing savings in the informal sector.

Until present internal means of raising funds has been through taxation. The Value Added Tax system is used in Ghana. Recently it has been increased to 12.5% owing to the addition of the National Health Insurance Levy. Other instances that might be seen as fund mobilization will be encouragement of investment in the capital market

which frankly is direct investment in companies – whether private or government owned – rather than actual lending to the government.

Sale of government bonds like the treasury bills and other long term government papers although present are in a way is means of controlling money supply in the economy.

Plans towards consolidating mobilization of domestic funds since 2004 has led to the establishment of the National Revenue Authority which comprises of three former independent revenue agencies; Customs Excise Preventive Service, Internal Revenue Service and VAT Service.

In the case of financial institutions fund mobilization has mainly been limited to persons in the formal sector. There have been little attempts to mobilize savings from the informal sector. The only notable attempts to reach the informal sector would be the example of Barclays Bank Ghana Limited's product that involved encouragement of Susu collectors to deposit their 'stock' with them. Susu accounts for more than 110 million Euros per year in Ghana alone, according to Barclays figures. (Kunzemann, 2007)

As mentioned earlier, Fidelity Bank is also embarking on the revamping of the Postal savings model which was lost in Ghana after the only Post Office Savings Bank was commercialized in 1975 as the National Savings and Credit Bank. (Boateng et al, 2010)

Apart from these two significant efforts, financial institutions comprising of

commercial banks, rural banks, micro finance institutions have basically sought to receive deposits and provide credit to clients – mainly in the formal sector.

#### **1.2.4 What is expected to be learnt from Japan's experience**

The choice of Japan as a field for study is fueled by the proximity to information owing to the studies being carried out in Japan, Japan as the second best economy and one with a reputable savings culture alongside Germany.

Lessons from Japan will be drawn from the activities of a council that was formed at the beginning of the Meiji period (1868-1912) as a Savings Promotion Movement. At the time “savings were encouraged by the government as a means to rehabilitate the Japanese economy and to put down vicious inflation.” With the passage of time and change in needs of the Japanese populace, the Central Council for Savings Promotion metamorphosis into the Central Council for Savings Information and the Central Council for Financial Services Information in 1952, April 1988 and April 2001 respectively.

#### **1.2.5 What is expected to be learnt from Malaysia's experience**

After the ethnic riots of 1969 between the indigenous Malay and Chinese in Malaysia, the government enacted the National Economic Policy 1971 which was “aimed at fostering national unity and nation building through eradication of poverty and economic restructuring so as to eliminate the identification of ethnicity and economic function.” Through the First Outline Perspective Plan (OOP1) poverty,

irrespective of ethnicity, was sought to be reduced. On the other hand, there was also the objective of “restructuring of employment, ownership of capital in the corporate sector and the creation of Bumiputera<sup>2</sup> Commercial Industrial Community (BCIC)”. (Kinuthia, 2010: 2)

The focus of the lesson from Malaysia thus borders on means of achieving ownership of capital in the corporate sector through capital market investment. Secondly is the history of public savings through the Bank Simpanan Nasional or National Savings Bank established in 1974 which had the following as its corporate objectives;

- i. To promote and mobilise savings, particularly from small savers
- ii. To inculcate the habit of thrift and savings
- iii. To provide the means for savings by the general public
- iv. To utilise the funds of the Bank for investment including financing of economic development of the nation.

(www.mybsn.com, 2010 : Corporate Profile)

### **1.3 Background of the research**

#### **1.3.1 Extent of the research (scope)**

Kweku Tsikata (2007) in Challenges of Economic Growth asserts that “Economic growth poses the strongest challenge to the overall development of Ghana”. In this published work, he enumerates; leadership, human capital development, and

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<sup>2</sup> Bumiputera or Bumiputra is a Malay ter used widely in Malaysia embracing indigenous people of Malay Archipelago. Ther term comes from the Sanskrit word bhumiputra which can be translated literally as “son of earth or soil”. (Kinuthia, 2010: 3)

growth-promoting cultures like export-led growth and propensity to save as the major stumbling blocks to Ghana's economic success.

This research will be focusing on the issue of propensity to save in the context of creating formal channels to mobilize the about 90% informal private savings in Ghana's economy. The boundaries of this work will thus be limited to improving the means of mobilizing savings and not how the mobilized funds should be used – although that is also essential.

### **1.3.2 Research objectives**

The objectives of the thesis will be, but not limited, to the following;

1. Analyze the history and status quo of savings mobilization in Ghana in order to come up with more efficient means.
2. Engineer means to channel savings of the Ghana populace into the formal sector.
3. Educe tenets from the Japanese and Malaysian experience of savings mobilization through the activities of the Central Council for Savings Information and the New Economic Policy respectively in order to ascertain the extent to which they will serve as templates for Ghana.

### **1.3.3 Research questions**

The issues this research is attempting to find answers to are;

1. Whether or not there is a potential for savings in Ghana?

2. Can those savings be mobilized, if yes, what has been or is being done about it and what factors contribute to its success or failure?
3. Will financial literacy education, formalization of the susu system and expansion of the savings infrastructure coupled with governments efforts to reduce capital reserves requirements be the long awaited solution?
4. To what extent can the capital market assist in the savings mobilization effort in Ghana?
5. How suited and applicable are the experience of the Japanese and Malaysians to Ghana undertaking?

#### **1.4 Data Collection and analysis**

##### **1.4.1 Description of Information to be collected and their sources**

Although the literature review will deal with works that support ideas and assertions put forward by this research, other secondary data from national and international agencies like the Ghana Statistical Service, World Development Indicators will be consulted for analyses in the methodology and findings of this research.

Data that will be sought will include, but not limited to, reasons for low savings in Ghana as compared and contrasted with other African countries, status quo of savings mobilization in Ghana, trend of bank deposits before and after the financial sector liberalization in Ghana, Household Data on income and expenditure from the GLSS (Ghana Living Standards Survey), contents of the National Revenue Act of 2004,

activities of Japan's Central Council for Savings Information and Implementation of Malaysia's National Economic Policy.

Data will also be collected using Ritsumeikan Asia Pacific University Library and its online interlibrary system, online research libraries and databases like EBSCO, EMERALD and JSTOR.

#### **1.4.2 Tools for analyses and Modeling**

This research hopes to present a cogent model by which savings mobilization can be improved in Ghana. This will be the paramount original idea contributed to academia by this research. Apart from the aforementioned, the "leakage" – amount of informal private savings - described in Hussain et al's review of the Harrod-Domar model will be employed to justify assertions of whether Ghana truly has about 90% of its citizens not dealing with formal financial institutions. The Harrod-Domar model will also establish to what extent this 'leakage' can be converted into funds for investment.

Furthermore, in the quest to reveal what factors really affect income and savings in Ghana, Linear regression will be used. Here, the dependent variable – Income or Savings – will be set against other factors such as; age, educational level, household size, occupation, and the like to test their correlations to the dependent variable as well as help in forecasting after having set a desired mix of independent variables.

### **1.5 Limitations of the study**

It is evident that the scale of the research being national rather than focusing on just how a single company can improve its savings drive alone poses enough threat to the load of work required to accomplish it. However the relative easy access to information necessary to conduct the research goes a long way to mitigate that threat as it catalyzes the analyses effort.

The use of primary data in this case would have also been time consuming and expensive pertaining to the large of the populace and even with respect to sampling because of the geographical distance of Ghana and Japan.

### **1.6 Outline of the thesis (details of chapters)**

Chapter 1 deals with the significance of the study in an introduction followed by definition of terms and concepts in addition to a general overview of the content in the main body of the work.

Chapter 2 primarily deals with the review of literature that touches on all aspects of the work especially theoretical and conceptual backgrounds to the research. It also includes a discussion on use of postal services and the formalization of Susu as means of savings mobilization.

The third chapter is dedicated to an in-depth discussion on low savings rate and why there is inefficient savings mobilization in Ghana. The development of three means of mobilizing savings; Postal Services, Financial Institutions and the Capital market are discussed with respect to Ghana's case.

In Chapter 4 the actual process of improving efficiency of savings mobilization in Ghana is presented by looking at Household income and expenditure in Ghana as well as exposition of the 3-point framework designed by the researcher. Japan and Malaysia's experience in savings mobilization are observed.

Chapter 5 will be on findings and analyses. This is where data collected pertaining to the factors that influence income, savings and savings mobilization in Ghana is analyzed through regression and correlation analysis in order to ascertain the implications of applying the 3-point framework and whether it is the requisite answer to the hypothesis of this research.

Chapter 6 concludes the work with policy recommendations and summary of what has transpired in the entire research.

## CHAPTER TWO

### 2 LITERATURE REVIEW

#### 2.2 Theoretical framework

##### 2.2.1 Consumption function

Consumption is the total quantity of goods and services that people in the economy wish to purchase for the purpose of immediate consumption. As such, it is one of the main determinants of an economy's aggregate demand (that is, the sum of all planned expenditures in the economy). (Miller, 1996) In a closed economy, aggregate demand is defined as the sum of consumption, investment, and government expenditures:

$$y^d = c + i + g$$

where,  $y^d$  is aggregate demand,  $c$  is consumption,  $i$  is investment

and  $g$  is government expenditures.

In economics, the consumption function is a single mathematical function used to express consumer spending. It was developed by John Maynard Keynes and detailed most famously in his book *The General Theory of Employment, Interest, and Money*. The function is used to calculate the amount of total consumption in an economy. It is made up of autonomous

consumption that is not influenced by current income and induced consumption that is influenced by the economy's income level. (D'Orlando et al, 2010)

Many macroeconomic policies rely on an ability to influence the aggregate demand in an economy without directly increasing government expenditure. Although Keynes (1936) treats many issues in economic theory, he postulates that the major (and perhaps the only) influence on personal consumption was an individual's income. (Miller, 1996)

The simple consumption function is shown as the linear function:

$$C = c_0 + c_1 Y^d$$

Where,

- $C$  = total consumption,
- $c_0$  = autonomous consumption ( $c_0 > 0$ ),
- $c_1$  is the marginal propensity to consume (*ie the induced consumption*) ( $0 < c_1 < 1$ ),  
and
- $Y^d$  = disposable income (income after taxes and transfer payments, or  $W - T$ ).

Thus, the consumption level is influenced by an autonomous consumption ( $c_0$ ), and a constant fraction of income ( $c_1 Y^d$ ). Keynes theorized that the autonomous figure would always be positive, and the multiple of income would lie between one and zero, varying according to the individuals in the economy. (Miller, 1996)

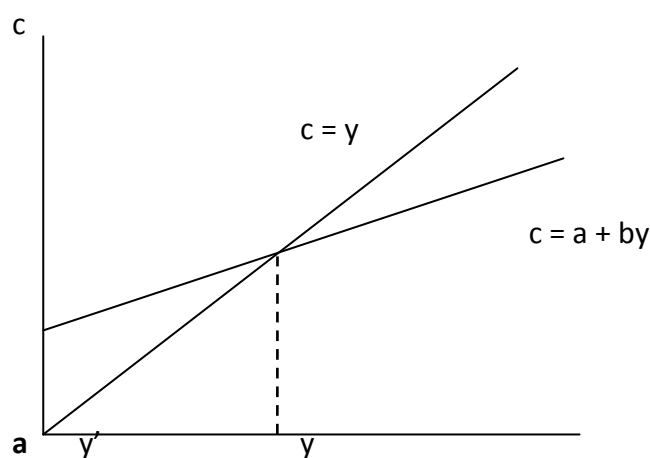
Autonomous consumption represents consumption when income is zero. In estimation, this is usually assumed to be positive. Thus, as income increases, consumption increases.

However, Keynes mentioned that the increases (for income and consumption) are not equal. According to Keynes, "as income increases, consumption increases but not by as much as the increase in income" (D'Orlando et al, 2010)

The marginal propensity to consume (MPC), on the other hand measures the rate at which consumption is changing when income is changing.

One key idea raised from this theory was that of saving. By definition, all money not spent on consumption in a two-sector economy (that is, without government) will be saved by an individual. In a three or four-sector economy this assumption still holds, but must be examined more closely; money not spent may be either saved or given as tax, and this tax may be either spent as government expenditure, spent as consumption (via benefits), or is saved.

Figure 2.1: Consumption function and the determinant of Marginal Propensity to Consume (MPC) taking (a) as autonomous consumption and (by) as MPC and indisposable income.



Source: Miller, 1996

Keynes reasoned that there is a certain level of consumption that is necessary for an individual to stay alive; this would typically consist of expenditure on food, heat, and shelter, although in certain cases it could contain other items. This amount, the autonomous element  $a$ , can be seen above as the intercept with the y axis. At this point, and, indeed, at any point to the left of  $y'$  (the break-even income), consumption is above income, and individuals must use money from savings (that is, they must dissave) to pay off the deficit. At  $y'$  consumption exactly equals income, and there is no savings or dissaving, while above this level of income (to the right) the individual will save any surplus income not consumed. With reference to the diagram it is quite easy to see why MPC cannot be greater (or even equal to) one – if this was the case, and the autonomous level of consumption was strictly greater than zero, the two lines would never cross and the individual would be in a permanent state of dissaving. (Miller, 1996)

### **2.2.2 Harrod-Domar model**

The Harrod-Domar model is named after two famous economists: Sir Roy Harrod of England and Professor Evesey Domar of the US who independently formulated the model in the early 1950s. (Todaro, 1992) The model is said to have been created to study the business cycles.

It attempts to prove that economic growth is founded on level of savings or savings ratio and productivity of investment. Economic growth therefore depends on “the amount of labour and capital where National Income is expressed as a function of Capital and Labour [ $NY = f(K, L)$ ] Labour is considered to be in excess supply and thus it is capital that needs to be mobilized in order to pursue development. Capital on the other hand is considered to

come through domestic savings, foreign investment or foreign loans. **It is important to note that it will be more prudent in the long term for the country to mobilize domestic savings** rather than receive foreign loans owing to the fact that loans must be repaid while in the case of using domestic funds the economies' growth is assured without external pressures of loan repayments which in some instances result in dictates of monetary policies, etc. by the lending economy to the borrowing economy.

The basic model assumes that it is a closed economy and that there is no government, no depreciation of existing capital so that all investment is net investment, and that all investment (I) comes from savings (S).

Assume that there is a relationship between the total capital stock, **K**, and total GDP, **Y**.

For example, if \$3 of capital is always necessary to produce \$1 of

GDP, it follows that any net additions to the capital stock in the form of **new investment** will bring about a corresponding increase in national output, GDP.

Now suppose that this ratio, known as the **capital-output ratio**, is

3 to 1, and we define this as **k**.

Assume that the national saving ratio,  $s$ , is a fixed proportion of national output.

Assume that total new investment is determined by the level of total savings.

Therefore:

Savings,  $S$ , is some proportion,  $s$ , of national income,  $Y$ , such that

$$S = s (Y)$$

Investment,  $I$ , is defined as the change in capital stock,  $K$ , such that:

$$I = \Delta K$$

Total capital stock,  $K$ , bears a direct relationship to total national output (or income),  $Y$ , as expressed by the capital-output ratio,  $k$ , (new investment as a percentage of GDP) then:

$$K = kY \quad \text{or}$$

$$K/Y = k \text{ or}$$

$$\Delta K/\Delta Y = k \quad \text{or}$$

$$\Delta K = k (\Delta Y)$$

Since total national saving, **S**, must equal total investment, **I**, then:

$$S = I$$

The Harrod-Domar Equation of economic development therefore states that:

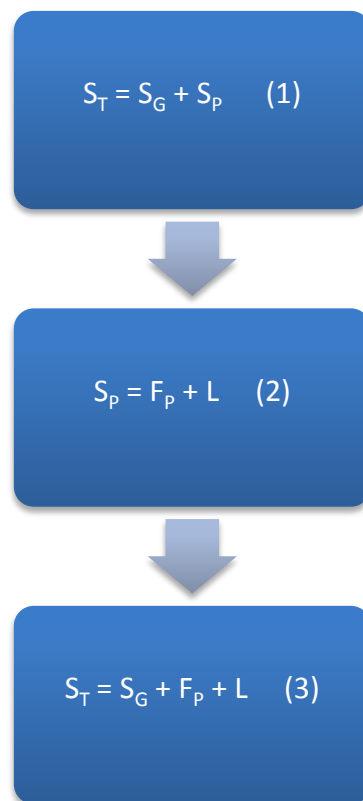
The rate of growth of GDP ( $\Delta Y/Y$ ) is determined jointly by the national saving ratio (usually expressed as a percentage), **s**, and the national capital-output ratio (expressed as an integer), **k**.

where,

- 1) **The growth rate of national income is directly (positively) related to the savings ratio,**  
i.e., the more an economy is able to save – and therefore invest – out of a given GDP, the greater will be the growth of that GDP.
  
- 2) **The growth rate of national income is indirectly (negatively) related to the economy's capital-output ratio,** i.e., the higher is  $k$ , the lower will be the rate of GDP growth.

In another vein, Hussain et al (2002) in their study of resource mobilization for some selected African countries consider total national savings ( $S_T$ ) as made up of public saving ( $S_G$ ) and private (Household and Enterprise) savings ( $S_P$ ). Private savings is then further divided into private savings kept in the form of financial assets kept in the formal financial sector (FP) and private savings residue – private savings kept in non-financial forms or put into other uses (L).

Figure 2.2: Composition of national savings.



Source: Hussain et al (2002)

## 2.3 Conceptual framework (Postal Savings and the Susu System)

### 2.3.1 Post Office Bank

Many developing countries around the world receive financial aid from developed countries like the United States of America, United Kingdom, and international bodies like the International Monetary Fund and the World Bank “that is, borrowing the “savings” of other countries.” (Scher & Yoshino, 2004).<sup>3</sup> The practice is good to an extent because naturally, an

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<sup>3</sup> The field research for this book was conducted by Dr. Scher in fifteen Asian countries and Special Administrative Regions (SAR), meeting with personnel of national savings, postal services and remittances systems. (Scher and Yoshino, 2004:6)

individual, community or nation might lose his ability to fend for himself if he is always being provided for. The same happens in the case of a nation. The nation refuses to investigate and pursue other avenues for raising funds or capital domestically for its use. In another vein, loans from foreign countries and international bodies also have 'strings' – requirements, prescriptions, etc. – attached. It is common knowledge that these, requirements, etc. – consciously or unconsciously, do not greatly improve the development pace of the borrowing or recipient nation.

Scher and Yoshino (2004) after studying savings mobilization in many Asian economies including; Japan, China, India, Malaysia, South Korea, just to mention a few found the following as “concerns for individual savers”.

1. Individual savers is the safety of their deposits
2. Ease of accessing funds when needed
3. Convenience and design of the savings products offered.
4. Access to credit facilities, if needed
5. Interest rate paid on funds deposited.

In all, “postal savings have played a leading role in savings mobilization [in Asia] for a long time.” (Scher and Yoshino, 2004:4) Postal savings systems as formal savings institutions have, since the mid-thirteenth century, provided a secure way for savers to save and for societies to mobilize savings for development. Historically a source of funds for economic and industrial growth in developed countries., most notably in Europe and Japan, today they

remain the preeminent depositories by far of individual and household savings. This has also been true in a number of developing countries, particularly in Asia. The individual country case studies in this book examine the Asian experience in postal savings where, in most countries, postal savings have played a leading role in savings mobilization for a long time. (Scher and Yoshino, 2004:4)

In fact, the demand for **small savings services** outstrips by five-to-one the demand for microcredit. Indeed, as will also be argued, **microcredit** is unsustainable without small savings, and yet on the other hand, the role of government-sponsored savings institutions has been almost entirely ignored. As a **collection system** for small-scale savings of households and individuals, postal savings systems provide more access points for savings and other household financial services globally than all the world's bank branches combined. (Scher and Yoshino, 2004:4)

The essential characteristic distinguishing postal financial services from private banking is the obligation and capacity of the postal system to serve the entire geographic and economic spectrum of the national population. This mandate is unlike the purpose of conventional commercial banks, which seek to service only the sectors of the population they deem profitable, namely, commercial and private banking accounts in urban areas. In the developing countries where they may be much dispersed settlements, the post may represent the only significant service contact many people living in isolated areas have with their government. (Scher and Yoshino, 2004:5) It is however good to have other

organizations formed to share the infrastructure (“brick and mortar” facilities) of the postal savings bank. With such an arrangement, the costs of operation will be borne by both organizations.

The experiences of a number of Asian countries in postal savings has raised issues relating to management and organization including savings product development, investment policy on funds collected, methods to increase availability and reduce costs in the transfer of overseas remittances, and issues relating to the introduction of appropriate financial technology.

It is interesting to note that, among those countries that have a shared colonial past and shared postal savings model based on the British, French and Japanese postal systems, various countries in their post independence period took very different paths;

- i. The national savings organization model found in India and Bangladesh
- ii. The postal savings bureau model found in Japan in the Republic of Korea, and with socialist variations in China and Vietnam
- iii. The linkage of postal remittance and benefit payments to postal savings account deposits in Kazakhstan and other Commonwealth of Independent (CIS) countries; and
- iv. National savings bank model found in Malaysia, Sri Lanka, and formerly in Singapore.

#### **2.3.1.1 The Postal Savings Bureau Model**

This is practiced in Japan, Korea and China since 1875, 1905 (and re-established in 1983) and 1986 respectively. This involves an upgrade of the duties of the postal service owing to its reach in the country to mobilize funds for financing national development projects and also provision of simple financial services. In Japan's case, the Fiscal Investment and Loan Program (FILP, a section of the Ministry of Finance) managed the funds mobilized by the postal service which was under the supervision of the Ministry of Posts. This was to maintain public confidence in the use and management of the funds. In the case of China however, postal financial services has been given some level of autonomy by the central bank. In the last ten years it has increased its services to include; remittance services and payments systems. (Scher et al, 2004:10)

#### **2.3.1.2 National Savings Organizations (NSO) and the Post Office Savings Bank Model (POSB)**

The role of the national savings organization in Asia cannot be overemphasized. It is a division of the Ministry of Finance which devises, develops and tests the savings products sold through the Post Office Savings Bank. It is important to note that the services and products are designed with high consideration of the social and cultural background of the populace and thus are designed to cater for and appeal to specific segments of the population, such as; farmers, housewives, urban salaried workers, and the like. The POSB both serves as a deposit and withdrawal point for clients.

In India, specially trained female staffs of the NSO go out into “educate and bring in both women and other disadvantaged groups as depositors” by offering savings products and services designed both for housewives and for outreach to rural populations. (Scher et al, 2004:11)

### **2.3.1.3 National Savings Bank Model**

Unlike the first two models which lay more emphasis on reaching the underprivileged by extending financial services and mobilizing savings, the National Savings Bank model, as it were, establishes “their own branch networks in urban markets while still utilizing the postal branch network mainly in rural areas.” NSBs are therefore not owned by the national post offices. (Scher et al, 2004:12)

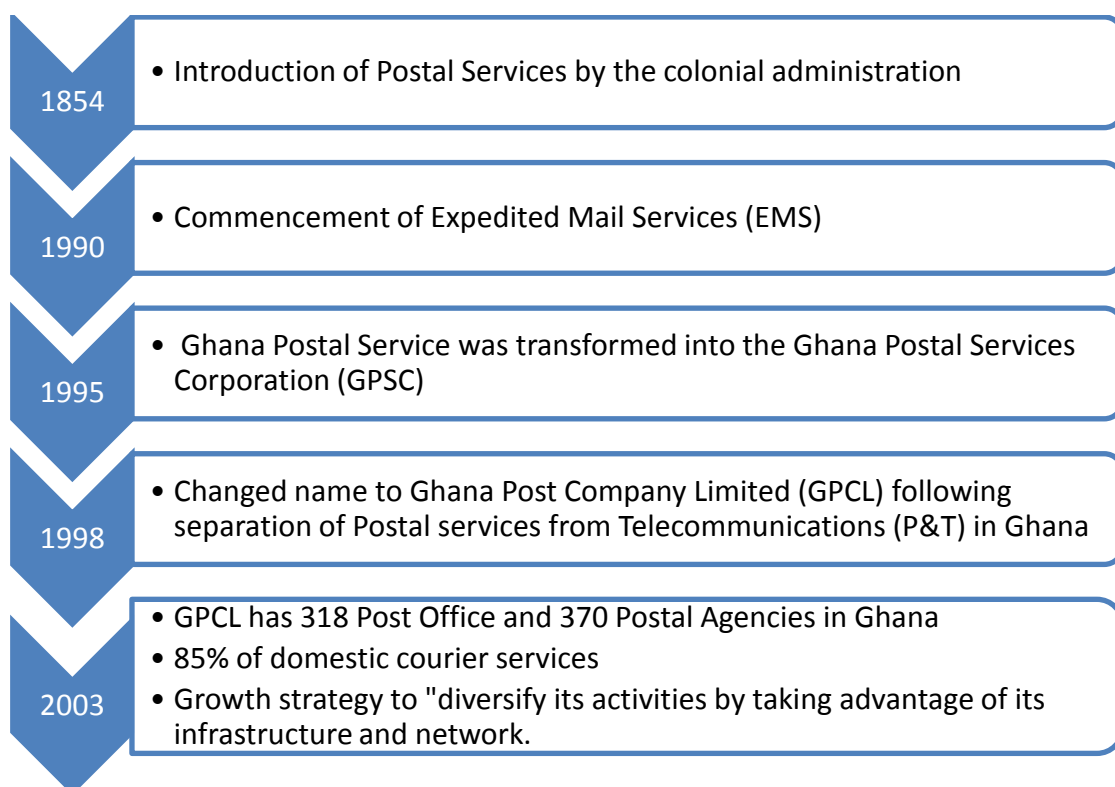
### **2.3.1.4 New Postal Savings Start-ups in Asian Transition Economies**

“As in most countries in Europe, Asia, and Africa, telecommunications, that is, telephone and telegraph services, were owned by the post office, hence the post was known as the PT&T.” (Scher et al, 2004:12). Economic liberalization policies in the last twenty years has seen the opening up of markets for private investors and the drive to maximize profits has resulted in the decoupling of the post from the telecommunications business. In Kazakhstan, the two services were decoupled in 1990. The revenues by the post office significantly dropped and in order to recoup that started the following postal savings services; First providing payment system for pension benefits and before long “salary transfer services,

overseas remittances, foreign currency accounts and foreign exchange facilities, and securities brokerage and dealer activities, agency services for utilities, and insurance and pension fund payments.” (Scher et al, 2004:12,13)

In Ghana, the P&T (Post and Telecommunications) was decoupled following the privatisation of the Telecommunications division in 1998. In Ghana however, only provision of agency services for utility companies like the Ghana Water Company, Electricity Corporation of Ghana are available. There are also money order transfers and payment order services.

Figure 2.3: Summary of development and prospects of Ghana Post Company Limited



Source: EbizGuides Website (2010)

In addition to the summary of the GPCL, Figure 2.3 shows that the GPCL has 318 Post Offices and 370 affiliated agencies around the country bringing it to 688 physical infrastructures in all, a positive addition to the about 300 branches of commercial banks in Ghana for savings mobilization.

At a conference in Keio University (2000) the participants found that “**demand for access to safe savings services was universal in developing and developed countries alike** and, as such, was remarkably insensitive to interest rate incentives in all participating countries”.

### **2.3.2 Susu**

“In Ghana as a whole, informal savings mobilization and credit facilities continue to dominate the financial market, in spite of over thirty years of formal banking in the country. The expression ‘informal financial sector’ is by definition the antithesis of the formal financial system. “The formal financial sector is seen to include all financial institutions, covered by the banking law or other financial regulations of government, thus the informal financial sector absorbs all other financial transactions not covered by the above” (Aryeetey and Gockel, 1991, p. 1). This catch-all definition for the informal sector would then include such schemes as the rotating savings and credit clubs, susu collector schemes, money-lending and to some extent credit unions.” (Bortei-Doku & Aryeetey, 1995: 78)

“For the purpose of savings most men and women keep their cash at home or save with ROSCAs and susu collectors. The ROSCA is known in Ghana as susu. Rotating susu clubs have long existed here [in Ghana] although no date has been firmly associated with their introduction. The essential practice of rotating susu, namely the pooling of scarce resources

by a group of people periodically for each member's benefit, is not new to Ghana. It is likely that the pooling of cash resources gathered momentum with the increased monetization of the economy following the growth of the export economy in the latter part of the nineteenth century." (Bortei-Doku & Aryeetey, 1995: 79)

In Ghana the majority of collectors are men from primary and middle school teaching fields, who undertake collection on a part-time basis. Only twelve women were found in a collector's association of 500 members in the Accra District. (Bortei-Doku & Aryeetey, 1995: 88)

Susu clubs have survived due to its **flexible and cost effective strategies**. When necessary, the clubs have been able to suspend their operation for long periods, and then re-group after improvements in the economic circumstances of members. The fact that rotations are complete cycles on their own promotes fairness and transparency. In addition, the use of oral record-keeping instead of book keeping reduces operational cost.

Harsh economic times especially during the liberalization of the economy under the Structural Adjustment Programme led by the World Bank in the 1980s have a negative effect on the Susu organization. All the same about 43% of susu club members contacted in Accra had failed at least once to pay their contributions on time in their current rotation. Nevertheless, the rotating susu clubs pride themselves in maintaining strict discipline over

payments among their members. Mutual trust, obligatory feelings and perhaps personal pride are among the driving forces that sustain regular payments.

#### **2.3.2.1 Features of Susu**

Some notable features about Susu clubs are that;

1. No formal application and membership by introduction

“Recruitment is usually drawn from close and trusted associates of the founder. Sometimes members are allowed to bring others as long as they can vouch for them. There is little indication that membership in the susu club runs in the family. Some clubs also do approach people to join them instead of the conventional means of waiting to be approached by an interested person. Members are expected to have a regular income (not necessarily paid employment).

2. Limited membership in the case of clubs (on the average between 10 to 80 people)

3. Oral accounts occasionally

4. Often administered by a founder-leader or in some cases, executive arrangements

5. Multiple contributions from one person is allowed. In this case, the member can only receive the lump sum one at a time as would be done for two separate people in the rotation.

6. Balloting is carried out to determine the order of rotation.

7. Two function types;

i. Single-purpose susu savings clubs and

Makes up for about two-thirds of the clubs that were contacted in the literature's fieldwork. There is often a founder-leader and an assistant and collections are carried out by group members periodically. General meetings are held occasionally because in most instances, the participants are market women who will not like to leave their wares unattended to. Meetings take about 30 minutes, when they are held.

ii. Mutual aid susu savings clubs with multiple functions

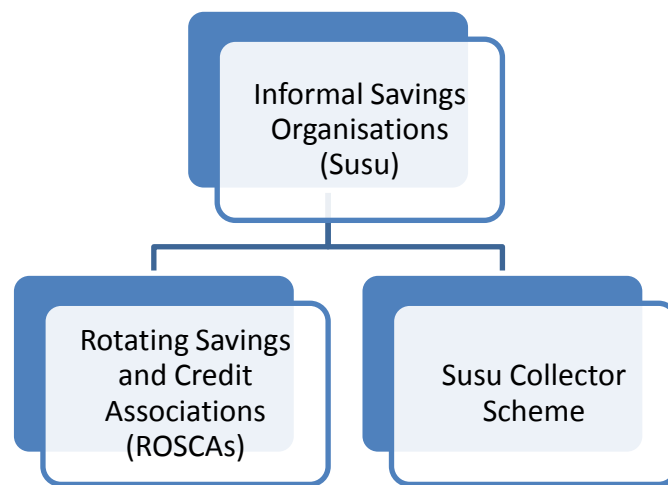
- a. Primary focus on savings
- b. Provision of limited social security for members
- c. Organization of socializing and entertainment programs for members

The typical types of mutual aid provided by the clubs include donations for funerals, child-outdoorings, marriage celebrations and health care. Members also count on each others' moral support, apart from the donations. (Bortei-Doku & Aryeetey, 1995: 82, 83)

#### **2.3.2.2 Types of informal savings (Susu) organizations**

There are mainly two types of informal savings organizations in Ghana. One can be described as ROSCAs (Rotating Savings and Credit Associations) while the other can be termed as the Susu Collector Scheme. Although both primarily deal with savings collections from members, their nature differs in relation to; **Membership relations** and **Receipt of the contributions**.

Figure 2.4: Classification of Susu organizations



Pertaining to membership relations, Susu Collector Scheme types involve individuals who make personal arrangements with the Susu collector and thus do not have any relations or connections with the other members making contributions to the Susu collector whereas ROSCAs are organized groups, clubs, or associations and thus have a known or recognized membership.

Secondly, in Susu Collector Scheme, contributions (normally daily) are received either at the end of the week or at an agreed time. The susu members receive their savings minus a day's contribution, which is the collector's fee for the service he provides. (Bortei-Doku & Aryeetey, 1995: 89) On the other hand, members of ROSCAs at one point in the rotation receive a lump sum i.e. total of all the contributions collected from other members.

#### **2.3.2.2.1 Rotating Savings and Credit Associations (ROSCAs)**

Advantages of Susu:

1. Members receive lump sum that supports their economic activities. For example, traders gain substantial sums through susu in order to pay off credit purchases made in the past, debt or make purchases for business.
2. Members in Susu associations also use their memberships as security for repayments when accessing loans or making credit purchases. It boosts their credit-worthiness.
3. As members of associations, especially those in the mutual
4. In terms of flexibility a member must discontinue after a rotation is completed

Disadvantages

1. Owing to the large memberships of some associations, it takes a long time to complete a cycle. That also means that some members will have to wait in line for a long time to receive their lump sums.
2. Members are obliged to contribute regularly.

#### **2.3.2.2.2 Susu Collectors**

Advantages

1. Contributions to the susu collector are personalized to suit the individuals capacity.
2. Members do not feel pressured to be consistent with their contributions.

## Disadvantages

1. Members do not receive substantial lump sums associated with ROSCAs
2. There is no sense of belonging and attachment to an association
3. Members do not receive social benefits such as welfare donations as is the case with mutual aid susu schemes.

### **2.3.3 Relationship, Trust and Resource Mobilization in Traditional Ghanaian Society**

Traditional Ghanaian society is characterized by the existing and dominance of the extended family system. It is a system where all the members of a particular family, normally spanning at least two generations (from a grandparent to a grandchild and all those within) live in a large compound or have their houses very close and, in a sense, operate as a unit. The oldest male or female thus becomes the head of the family. Many more of these family units come together to form a clan and a number of clans or families make up a community or village. In the case of the village however, the leader is a chief – one who is enstooled or enskinned – to serve as the custodian and head of the community. In some cases, royal families are created while in others the chieftaincy is rotated between a few households in the community. As men have learnt to make use of resources around them, traditional occupations in Ghana has been very much in touch with the environment and availability of natural resources – fertile lands, grasslands, rivers, mineral resources, etc. There is dominantly farming activity in the forest and middle regions of Ghana owing to the presence of rich fertile lands and adequate rainfall. Most of Ghana's Cocoa is cultivated in such areas. There is also fishing activity in communities along rivers, lakes and other water bodies. Notably will be the Volta River which stretches from the Northern region, through the Brong

Ahafo region and parts of Ashanti region and finally the Volta Region where it joins with the Gulf of Guinea. There is cattle-rearing in the Northern parts and other occupations like; cloth weaving, basketry, mining, etc in the country.

There are also traditional systems like Nnobia and Susu which are value enhancing and catalyst for development. Nnobia is a system where persons engaged in a common economic activity for example, farmers during harvesting season, will come to an agreement for all parties involved to work on one's farm in rotation until the end of the harvesting season. There is also Susu which can be better explained as 'rotating savings'. Similar to the way Nnobia is operated, a group of persons willing to save money make arrangements to contribute an agreed sum within an agreed duration, let's say a week, which will be given to a member until every member has received the contributions.

## **CHAPTER THREE**

### **3 ANALYSES OF THE STATUS QUO: LOW SAVINGS RATE AND INEFFICIENT SAVINGS MOBILIZATION IN GHANA**

#### **3.2 Low Savings in Africa and Ghana**

Africa is the second large continent occupying 30,065,000 sq km and about 20% of the Earth's land size. (www.myuniversalfacts, 2010) It is also home to about 700 million people on Earth. Although Africans look pretty much alike to foreigners owing to their dark skins, citizens of neighbouring African countries share very little things in common pertaining to culture and language. There are, of course, cultures that have been built up owing to colonialism which started in the mid-19<sup>th</sup> Century (1886 in Ghana). Another important source of reference for shaping the lives of Africans that brings out similarities is the weather, topography (highlands, water bodies, etc.), rich soil (with minerals and oil) and vegetation of continent (Mainly Forest, Savannah, and Desert). One other major distinction brought to bare in discussing issues about Africa is the mention of Sub-Saharan Africa (SSA) in many literatures. This 'segregation' is achieved by reference to the Sahara Desert in the mid-West of Africa beyond which is North Africa (with countries such as: Tunisia, Morocco, and Algeria just to mention a few). Persons living in those areas have lighter skins than those living in SSA and are predominantly Muslim.

In line with the life cycle hypothesis, African youths work hard to create wealth after puberty (averagely after 13 years of age) in order to be independent, raise a family

of their own and also hand down property to their family in the event of their death as inheritance. Contrary to Ando and Modigliani (1963) standard life-cycle model which “posits that individuals build up a store of wealth during their younger working lives not to pass on these savings to their descendents but to consume during their own” (Encyclopaedia Britannica, 2010: Quartey et al, 2008:3) The aforementioned, although clearly set in a traditional African society, can be extended to represent activities of Africans today. It therefore goes without saying that these possessions are ‘amassed’ in the form of physical assets or holdings – farmlands, buildings, building materials, jewellery and the like. Apart from these, assets are also held in the form of financial assets. These could be divided into currencies held in local currency or foreign currency. Pertaining to the first situation of financial assets holdings i.e. in the local currency, the individual or household either loan the money out to near-relatives or friends (who also form part of the informal sector) or simply keep the money with them at home or decide to engage in informal savings schemes like Susu. There is also the second situation where an individual or a household decides to convert the local currency into a foreign currency like the United States Dollar (USD), Euro (EUR) and British Pound to be kept safely at home. A similar case is reflected in Maimbo and Mavrotas (2001) case study of Zambia. However their studies revealed that savings rates increased as a result of financial reforms because prior to that they had been poorly functioning institutions. (Quartey et al, 2008:3)

There are many reasons why people decide to hold their savings in physical assets. One obvious reason is **financial security**. By this, individuals or household can purchase durables that are liquid or can easily be converted to cash. Examples of such items are: Electronic gadgets, jewellery, building materials and so on. For instance, when a household is hit with a financial problem and need to raise money internally, the intuitive responses are to sell off possessions they do not need. In such instances, they fall on items like; cars, refrigerators, television sets, machinery, and furniture. It is noteworthy that these items are always on demand owing to the different poverty levels in the economy; as the saying goes “one man’s meat is another man’s poison”. The sales are also made on a one-on-one basis characterized by, needless to say, lot of bargaining. The use of pawn shops are not in existence and if they were might increase the transaction cost owing to the fact that the agent facilitating the sales must be paid a commission or charges for the service.

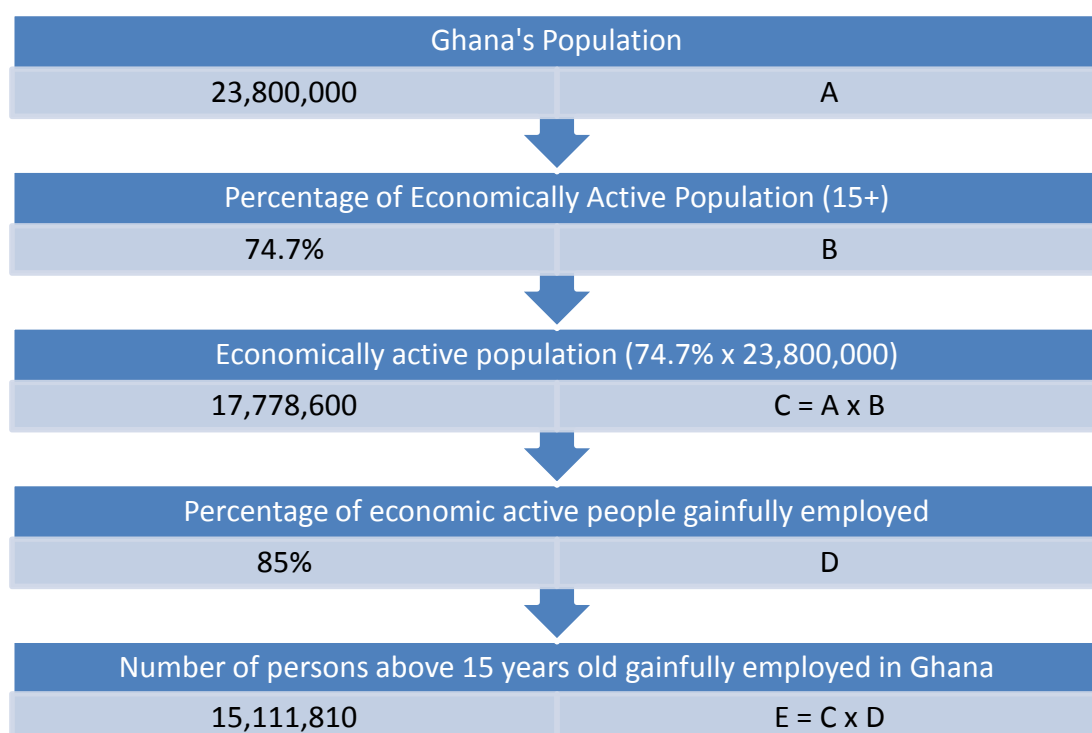
In another sense, these goods can also serve as **collateral or long-term security** for unforeseen huge debts that might befall the unit (individual or household). There is also the reason of perceptions in relation to **political upheavals** or economic shocks. It is common that in an election period, where tensions are high, people withdraw money from banks, recollect debts, etc. in order to prepare for any disturbances that might destabilize the country. Furthermore, **economic uncertainties** and shocks such as a sudden drop in interest rates, depreciation of the currency, natural disaster-induced shocks and ripple effect of international economic crises, although

occasional can be very damaging to ones' savings in currency notes or financial assets and so spurs on the thought of safer savings through physical assets.

### **3.2.1 Calculating the 'Leakage' – Number of Economically active people outside of the formal financial system**

A vast majority of Ghana's economy is under the informal sector. Although the government plays a very important role in provision of major social amenities like; water, electricity, roads, etc. almost everything else is provided by the informal sector. The informal sector in that sense encapsulates those that can be classified as Small and Medium Scale Enterprises (SMEs) spanning almost every industry – agriculture, services, manufacturing – and in addition individual (one man) businesses like porters at market centres, operators of mini-supermarkets popularly known as 'provisions store', fishmongers, and host others. It is not surprising therefore to know that **"SMEs in Ghana have been noted to provide about 85% of manufacturing employment of Ghana. They are also believed to contribute about 70% to Ghana's GDP and account for about 92% of businesses in Ghana."** (Abor et al, 2010:223)

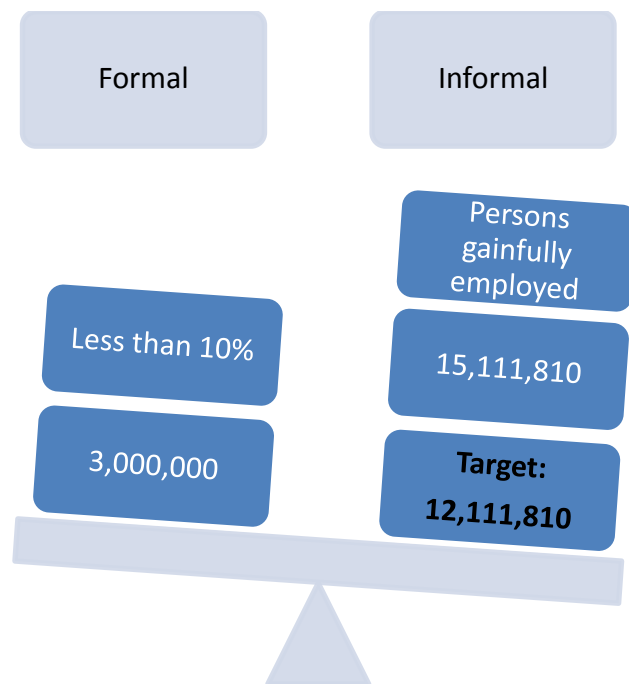
Figure 3.1: Number of economic active people gainfully employed in Ghana



Source: Ghana Statistical Service: Ghana in Figures 2008

As Figure 3.1 shows, the active workforce of Ghana is about 74.7% of the population thus 17,778,600 people (74.7% x 23,800,000). Taking it that Abor et al (2010) is accurate to say that 85% of Ghanaians are gainfully employed in some sort of manufacturing or under SMEs that leaves the number of persons with the ability to earn money and subsequently save to 15,111,810 (85% x 17,778,600). However even from the optimistic point of view, only about 10 of the population i.e. 3,000,000 people deal with or have bank accounts – savings. (Fidelity Bank Ghana Limited, 2010) Savings as a percentage of GDP in Ghana between 1980 and 2001 averaged 6.4% (Quartey et al, 2008) as against the African average of 8% (Aryeetey et al, 2000) This raises the question of why savings is low in Africa and more especially Ghana?

Figure 3.2: Calculating the Leakage (Number of income earners who have no dealing with regular banking institutions)



Apart from the traditional background which has **influenced savings** to be in physical assets, what extent has the **political climate and economic structure** impacted on the problem? Quartey et al (2008:2) cites clearly that “the apparent low savings in Ghana has been due to a combination of micro and macroeconomic and political factors”. In line with this research, they (Quartey et al) seek to substantively examine determinants of savings with respect to the effects of macro-financial policy on household savings behavior in developing countries, particularly, Ghana.

### 3.2.1.1 Low income level

One of the obvious factors that affect savings anywhere in the world is level of income or how much a person earns. As discussed earlier, a person **cannot save when their disposable income (net income minus regular expenses) is negative or insignificant.** Having used “panels of countries and aggregate data to test the relationships between key variables and savings and the effects of policy on savings”, both Loayza et al (2000) and Attanasio et al (2000) conclude on a **positive relationship between income growth and savings.** Conversely, Masson et al (1998) found that growth in income was associated with higher rates of savings but beyond a certain point, as increases savings ratios fall. (Quartey et al, 2008:3, 4)

At this juncture, the issue of whether or not Ghanaians earn enough in order to save cannot be overlooked. Economic Indicators on Ghana from the Food and Agriculture Organization of the United Nations in 2000 show that 44.8% of Ghanaians live on less than \$1 a day.<sup>4</sup> The CIA fact book in 2007 records that 28.5% of Ghana’s population is below the poverty line. Between 1999 and 2008 the average annual household income in Ghana increased from \$947 to \$1,217. Within the same period, the average per capita income rose from \$220 to about \$400; almost doubling in this case. Actually,

“...with an average exchange rate of GH¢0.92 (₵9,176.48) to the US dollar prevailing in June 2006, the average annual household income is US\$1,327

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<sup>4</sup> Taking that the minimum wage is \$1.25 a day.

and the average per capita income is US\$433.” Ghana Living Standards Survey 5 (GLSS 5), (2008: viii)

With these figures, it will not be out of place to conclude that the poverty level In Ghana is fast declining. That in effect, supports the assertion that Ghanaians over the years are earning enough to undertake savings save. Inflation figures have been reducing over the years and are almost stable as a single digit.

Table 3.1: 91-day Treasury Bill Rate, Annual Inflation figures and Average annual lending rate in Ghana 2000 – 2009

Year	Average Treasury Bill Rate (%)	91-day Year-on-year Inflation Rate (%)	Average Annual Lending Rate (%)
2000	N/A	40.5000	47.0000
2001	N/A	21.3000	44.0000
2002	26.6000	15.2000	38.5000
2003	18.7000	23.6000	32.7500
2004	17.1000	11.8000	28.7500
2005	11.4000	14.8000	26.0000
2006	10.7000	10.5000	24.2500
2007	10.6000	12.7500	24.2500
2008	24.7000	18.1300	27.2500
2009	22.5000	15.9700	32.7500

Source: Author's compilation of data from the Bank of Ghana website (2010)

Despite the increase in income as illustrated above, inefficient savings mobilization lingers on in Ghana because financial institutions, mainly commercial banks, are not interested in mobilizing small savings. From the bankers perspective, having people troop into the banking hall each day with less than \$1 will only put a burden on their limited resources not to mention longer queues in the banking halls. Moreover additional cost may arise from record keeping for a large number of 'small' savings accounts whose duration of being clients are unknown as well.

### 3.2.1.2 Existence of credit opportunities especially in the informal sector

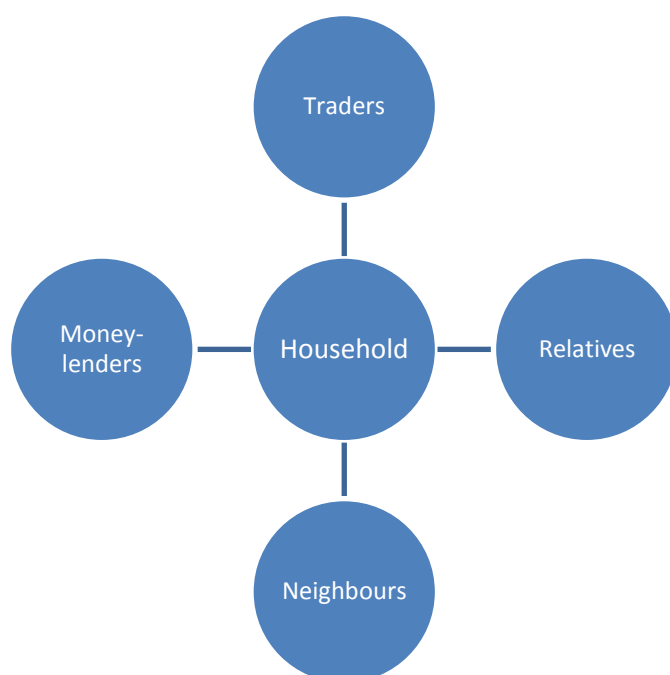
The low savings in Ghana can also be attributed to the existence of credit opportunities.<sup>5</sup> Although there is not much opportunity to access credit in the formal financial sector, family ties – nuclear and extended, relationships and the community-centeredness of Ghanaian society eases the access to credit in the informal sector. “Over half of household loans come from relatives, friends and neighbours. Traders form the second most important source of loans for households followed by state banks”. (Ghana Living Standard Survey, 2008: viii; Bortei-Doku & Aryeetey, 1995: 79)

In effect, **there is over reliance on informal means of savings and credit which results in less patronage of the formal financial institutions** and thus deepening the inefficiency of savings mobilization or savings that can be accounted for formally.

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<sup>5</sup> This idea is generic from the work of Alessie, Devereux and Weber (1993) and Browning and Lusardi (1996) as cited in Quartey et al (2008:2)

Figure 3.3: Main sources of credit in the informal sector



This practice affects savings negatively, in that, because a person is assured of external financing, the incentive to save reduces.

“Once some of the consumption expenditures are externally financed, and units accept a cyclical and uncertain (rather than an equilibrium and certain) view of income over time, then the standard permanent or life-cycle income concept becomes less relevant for determining current-period consumption expenditures.” (Minsky, 2008:26)

People in many cases see lending to relatives and others, once they have a good reputation and honestly in need of money, as a moral obligation. It can also be captured in the sense of “one good turn deserves another” i.e. helping out today

that it is a bit more comfortable for you because you may never know when you might be in need of assistance from others, especially the one you are helping out today. In another light, individuals or households who engage in Susu although employing a more convenient way of savings also look forward to being granted loans by the Susu system when they have met the criteria (normally a prearranged procedure of for example, having been a participant for three months). As a result of this, **money that is needed for the day to day running of the household** like; food, rent, utility bills, and children's' school fees can be accessed at the informal level. However, there is **a problem when larger sums of money for expansion of business and other purposes are needed** which cannot be supplied by the informal sector.

### **3.2.1.3 Availability of affordable consumer goods**

Some other latent reasons why people do not save much in Ghana are because there is the availability of consumer goods on the market. Cheap electronic products from China, Dubai, etc. are available on the Ghanaian market and affordable to the persons in the low-income bracket of income distribution. For example, mobile phones that can take dual SIM cards and have other facilities such as; radio, WAP, camera, video and MP3 are going for sometimes \$50. Other products in that range are; DVD players, Large screen television sets, Home theatres, Refrigerators, just to mention a few. The availability, affordability and the **perception of contemporary wealth (increasing standard of living) attached to these items** make it a lot more difficult for individuals and households to save. Not to mention the low quality of these products that will result in **early repairs or purchasing of new ones** thus

increasing the demand on disposable income that could have been saved. Gregory et al (1999) after studying Russian households found that “savings were actually relatively high in the Soviet era because of shortages of consumption goods (a form of forced saving) and that saving was lower with price liberalisation.” Other arrangements like **credit purchases** – which is quite a norm in Ghana owing to the relationship based, community-centred society structure – and consumer financing arrangements, reduce the incentive to save because after all one does not always need money to make purchases.

#### **3.2.1.4 Physical distance, Hustle for opening and managing accounts and transaction cost**

As already established, financial services do not reach the majority of Ghanaians and one of the reasons can be alluded to the fact that there is **not sufficient infrastructure**. As a result, working people eligible (willing and able) to save do not find the opportunities. For instance, market women are reported to not being able to leave their wares at the peril of thieves and the like just to deposit money at the bank. What is needed here is that the banks go to them by setting up savings collection outposts or roaming vans.

Not only physical distance from banking institutions but also **high minimum deposit and balance requirements** have plagued the Ghanaian banking sector and thus accounted for the low savings rate over the years. It is sad to say that financial liberalization in Ghana did not focus on increasing domestic savings but rather reducing inflation among other things. (Zorklu and Barbee, 2003 as cited in Quartey

et al, 2008:4) The number of commercial banks with Universal banking status as at June 2009 stands at 26. (Bank of Ghana website, 2010) In the 1990s the banking environment in Ghana was dominated by Barclays Bank Ghana Limited, Standard Chartered Bank and the Ghana Commercial Bank. It is worthy of note that the first two banks are expatriate banks – were established during pre-independence to cater for the needs of the colonial officials living in Ghana. These were supported by a few locally owned commercial banks including rural banks dotted around the country. The Ghana Commercial Bank, having the largest reach of about 300 branches nationwide, followed the example of the expatriate banks and kept its minimum balance requirement at not less than \$100. This meant that a customer must at all times at least have more than \$100 in their account. In a country with close to half of its population earning less than \$2 a day (UN-FAO, 2004) savings is not an option.

In East Africa, Ethiopia, Uganda and Tanzania each have less than one bank branch per every 100,000 people. The ratio is better for some Southern African countries. Namibia has more than four, Zimbabwe more than three and Botswana nearly four.

Banks' minimum balance requirements and the cost of maintaining an account are too high for many people. Opening a bank account in Cameroon requires a \$700 deposit, according to a 2007 World Bank policy research report. That is more than the annual income of many Cameroonians.

Many banks also insist on considerable documentation to open an account. Banks in Cameroon, Sierra Leone, Uganda, and Zambia require at least four

documents, including an identity card or passport, recommendation letter, wage slip and proof of address. In a continent where many people work in the informal sector and more than 60 per cent live in rural areas, gathering such documentation can be a challenge. (Dovi, 2008)

Before 2002 in Ghana, banks like Standard Chartered and Barclays demanded that a prospective customer needed to be 'endorsed' or recommended by an existing customer in order to be allowed to open a bank account. In the other banks, a prospective customer was overwhelmed with a lot of paper work. At first sight, the problem with the inconvenience of paper might seem to be linked to illiteracy in Ghana. However **51 percent of adults are literate in English or a local language** (GLSS, 2008: iv) and between 2003 and 2008 UNICEF records **literacy rate in Ghana as 65%**. These figures thwart the perception that illiteracy might be or is a major challenge to opening bank accounts in Ghana. From the banker's perspective, records need to be kept; the customers must be traceable and prove trust worthiness before transactions can ensue. Assenso (2010) links the **absence of proper resident address system** as a primary challenge to guaranteeing trust between financial institutions and banks in Ghana. After 2005, close to 10 more banks started operations in Ghana. They migrated from Nigeria and South Africa. Some industry commentators describe the influx of 'Nigerian banks' – United Bank for Africa, Zenith Bank, Access Bank, etc. – to Ghana as a result of a banking institutions consolidation exercise which caused many small banks to merge with large banks. (Dovi, 2008) As a result, the few banks amassed large infrastructure and capital as well. With this, the Nigerian market became too small in view of their

capacity and so sought avenues of expansion in neighboring countries and thus the commencement of operations in Ghana.

The impact this influx of banks had on Ghana's banking industry among others was that it reduced the procedures for opening accounts in relation to time and paper work and also did away with the high minimum balance requirements. Bank accounts were officially opened in a few hours and ATM card could be issued within 3 days.<sup>6</sup>

The increase in banking infrastructure and improved services especially towards the lower income earning bracket has increased savings rate. Notwithstanding, efficiency of savings mobilization has not improved significantly because **most of the banking infrastructure is still concentrated in the urban areas.**

### **3.2.1.5 Interest rate spreads (Low Deposit Rates, High Lending Rates Interest rates) and Inflationary pressures**

In cases where people have extra money, there may be little incentive to save. In Ghana the interest paid on savings is insignificant – ranging between 5% and 6 % per annum, while annual interest rates on loans range between 23 and 25 per cent. (Dovi, 2008)

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<sup>6</sup> The Author recalls opening a savings account with United Bank for Africa, Las Cala branch, Accra, in March 2009, a few days before departure to Japan. The account was officially opened in a day with no initial deposit required and an ATM card was issued the following day for collection.

In Ghana, the “market participants respond only to the Central Bank’s actions, which come either through movements in the bank Rate or the results of preceding auctions. Thus, even if all other indicators (inflation, growth, etc.) point to a change in rates, the market participants appear to wait for signals from the central bank before reacting themselves.” The long history of controls (especially regulated interest rates) has rendered market participants dependent on the central bank. (Quartey et al, 2008: 11)

Significant changes have been observed in the conduct of monetary policy in Ghana, particularly with regards to the type of instruments used though the primary objective of price stability remains unchanged since independence and through to the launching of the Economic Recovery Programme (ERP) in 1983. Ensuring price stability through improvement in monetary policy instruments has been particularly necessary so as to boost confidence in the financial system both within the national and international community to increase financial flows. (Quartey et al, 2008: 5)

Presently, the instruments of monetary policy have been improved and made more indirect relative to instruments used prior to the ERP. Prior to the ERP, the main instruments adopted were direct controls in the form of credit ceilings on commercial banks credit to the private sector and the regulation of interest rates. This system of monetary management though was implemented with ease had several disadvantages. All the Bank of Ghana had to do was to determine the money supply growth for the year based on economic growth and inflation objectives, determine the credit growth among banks based on set criteria and then monitor

compliance of banks to the guidelines. High reserve requirements were also imposed during that era. This method of monetary management was thus seen to be simple and straightforward (Addison, 2001 as cited in Quartey et al, 2008: 5, 6)

With high-unremunerated reserve requirements, however, coupled with credit ceilings, there was excess liquidity accumulated in the banking sector with no avenue for investing these funds. As a result of this, banks had no incentives to mobilize savings. In addition, interest rates became negative in real terms as a result of ceilings on lending rates often kept low to keep the cost of borrowing especially to government low; this was a further disincentive to savings. The system of direct controls, therefore, contributed to the deterioration in the banking system by increasing transaction costs, discouraging financial intermediation and leading to misallocation of resources. (Quartey et al, 2008: 6)

The low level of formal savings deposits means that many banks have limited funds to lend out and enables them to charge high interest rates. As a result, the World Bank estimates, firms in sub-Saharan Africa fund between one-half and three-quarters of their new investments from internal company savings. While such “self-investment” may be productive, industry experts say that retained earnings are normally not sufficient, and this constrains the operations of many businesses. (Dovi, 2008)

### 3.2.1.6 Public sector reforms coupled with socialist states (China, Japan)

The puzzle of whether people will save more when social services are provided by the government comes to play under this section. With the introduction of the National Health Insurance Scheme (NHIS), many Ghanaian households are only concentrating on paying the annual premiums as opposed to savings money in order to access health services under the former 'Cash and Carry' system. Logically, Ghanaians' disposable income should increase on the relatively in response to the two situations.

In a different context, one of the reasons why Japanese have high savings rate is because of "substantial sums" of money was needed for housing, land, children's education and children's marriage. (Central Council for Savings Information, 1992: 9; Tachibanaki, 1996) In this context, Japanese disposable income could increase if the government provided free education on all levels and also affordable housing for all workers.

Tachibanaki (1996) also points out that the **flexible tax laws in Japan during its growth period after the Second World War aided in increased savings and investment**. What can be deduced from this is that because companies paid less taxes, they had a relatively higher income with which they could increase salaries and thus household income, increase investment which would create more wealth, just to mention a few. Relying on the positive relationship between income and savings, it is envisaged that with the increase in disposable income of households, savings will increase provided the means to savings have been established and are efficient.

### 3.3 Means of Savings Mobilization

#### 3.3.1 Postal Savings

Postal services have come a long way and over many centuries. Since the time the Pharaohs of Egypt were known to have been sending written correspondence through similar practise in ancient kingdoms like; Persia, Rome, China, Mongol, India to more recent past as in the national postal systems of the mid-19<sup>th</sup> century. (Dorn 2006: 145; Prasad 2003: 104; Mote 1978: 450) These services were mostly established and run by governments and recently have been targets for privatization owing to attempts to make them more efficient. (Rothbard, 2004) Although services of the postal service were scaled up to include telecommunication services, there seem to be the general trend towards decoupling the two services.

One of the very outstanding **features of postal services** in general is its infrastructure – **buildings, communication lines, transportations facilities**, etc. – that has the ability to reach a significant number of the population in a country. Having established safety, security and reliability therefore led to the inclusion of money orders and other monetary transactions at post offices. Eventually the Postal savings model was born. The Postal Savings Bank model is said to have been first established in Great Britain in 1861 and following its success was replicated in France and Netherlands (1881), Austria (1883), Japan (1875) and United States (1910). (Kamewe, 2005: Cargill et al, 2003:35)

Table 3.2: Establishment of Postal Savings by Countries in Chronological order

Country	Date
United Kingdom	1861
New Zealand	1867
Canada	1868
Belgium	1870
Japan	1875
Italy	1876
France	1881
Netherlands	1881
Austria	1883
Sweden	1884
Finland	1887
Greece	1902
United States	1910
Spain	1916
Ireland	1923
Germany	1939
Norway	1950
Denmark	1991

Source: Cargill and Yoshino (2003) *Table 2.1. Initiation of PSS in developed countries* (Page 35) re-arranged by the Author in chronological order.

“...postal retail network represents a unique infrastructure: the number of post offices usually matches or exceeds the total number of branches of mainstream banks...The rationale of this model has been to use the convenience of post office outlets to minimise the cost of mobilising small savings and to maximise outreach. In addition, the main attraction for postal savings banks has been safety, since they usually enjoy a state-guarantee on their liabilities, which is sometimes combined with tax-exemption on interest rates paid to depositors” (Kamewe, 2005)

In contrast to the size of the Post Office infrastructure and thus postal banking network, the postal savings model shares similarities with micro financing. The size and security (mostly government-guaranteed) makes it a more organized, well-structured and easily approachable medium of mobilization savings especially in relation to the informal sector of an economy. Studies conducted in East Africa by Kamewe and Radcliffe have shown that instead of using informal systems like Susu, the postal savings institution serves as a comfortable springboard of getting connected to the formal sector. There also stands the possibility of accessing loans from the postal savings which a relatively bigger well of contributions from which to grant loans.

In Africa, postal savings institutions are the legacy of pre-independence times (e.g., Ghana 1886, Nigeria 1888, Kenya 1910 and Senegal 1922), and in most countries, they even pre-dated commercial banks in laying the groundwork for a modern financial system.

Table 3.3: Number of accounts, types of deposits services and contributions by labor force in selected African Countries.

Number of accounts					
Country	Banks	Postal	Active	Population	Total population
		Savings Bank	and percentage out		
			of total population		
Benin (2001)	162,614	360000	2834944 (41.2%)		6879133
Burkina Faso (2001)	328,994	325000	5190750 (42.3%)		12261952
Kenya (2003)	1,970,542	1837000	1581600 (4.6%)		33779932
Tanzania (2003)	1,400,000	1000000	18089797 (48.9%)		36929648

Source: Kamewe (2005) Table 1: Provision of deposit services. Data gathered from WSBI members in his paper *Reinventing Postal Savings Institutions in Africa: A New Role as Large-scale Microfinance Providers* for UNCDF.

In Ghana's case, the pre-independence Bank of the Gold Coast (BGC) was separated into the Bank of Ghana (BoG) – Central Bank – and the Ghana Commercial Bank by a legislative instrument of Parliament after Independence in 1957. In this vein,

“There was also the Post Office Savings Bank (POSB), which was, in fact, not a bank by definition; it was only an institution set up by the government to mobilise public savings through the agency of the numerous post offices in the country, for investment in government paper.” - Bank of Ghana, Corporate Profile: page 2.

The Post Office Savings Bank (POSB) in May 1975 was changed into the National Savings and Credit Bank (NSCB) and mandated by Decree “to satisfy the credit needs of specific sectors of the economy.” The POSB “was the oldest organized savings institution in Ghana since 1888. As NSCB, “it started full commercial banking business with concentration on small borrowers in the informal trade sector.” (Boateng et al, 2008:37) There has not been a national postal savings network in Ghana until June 2010 when Fidelity Bank Ghana Limited declared their intention to embark on revamping savings mobilization by using the Ghana Post infrastructure in a concept dubbed as ‘Post Bank’. (myjoyonline.com, June 2010: Fidelity Bank Ghana Limited, 2010) This expansion drive and concept comes in connection with the discovery by the bank that whereas only about three million people have bank accounts in the country (close to 10% of the population) there are about eight million more people “still keeping their monies all by themselves outside the banking system.” (Fidelity bank Ghana Limited, 2010) This effort goes a long way to buttress the point that there is more money roaming outside of the formal financial system that can be mobilized.

### **3.3.2 Banks, Non-banks and Microfinance Institutions**

As mentioned earlier, financial institutions in Ghana have focused more on providing funds to clients than mobilizing funds. As at June 2009, there were 26 commercial banks with universal banking status registered and operating in Ghana. Apart from these main banks normally found in the urban areas are rural banks, co-operatives banks and similar formal financial institutions. Besides these are also non-bank institutions like discount houses, savings and loans companies, insurance companies, brokerage firms, financial advisory services, just to mention a few. Sam Mensah (1997:14) postulates that 39 non-bank financial institutions have been licensed since 1987.

Table 3.4: Number of Some Financial Institutions in Ghana as at June, 2009

Type of Bank and Non-Bank Institution	Number as at June, 2009
Central Bank	1
Stock Exchange	1
Universal Banks	26
Finance Houses	19
Discount Houses	2*
Leasing and Hire Purchase Companies	7
Venture Capital Funds	1*
Mortgage Finance Company	1
Savings and Loan Companies	18
Stock Brokerage Companies	15**
Forex Bureaux	278

Source: Bank of Ghana website ([www.bog.gov.gh](http://www.bog.gov.gh)) \*Sam Mensah (1997:14) \*\*Business Ghana Website (Dec. 2010)

### 3.3.3 Capital Market Investment

The idea of establishing a stock exchange in Ghana dates back to 1968 and subsequent promulgation of the Stock Market Act of 1971, which laid the foundation for the establishment of the Accra Stock Market Limited (ASML) in 1971. Unfavourable macroeconomic environment, political instability and lack of government support undermined the take off of Accra Stock Market Limited (ASML) remained a mirage. In spite of these early setbacks, two stock brokerage firms, namely National Trust Holding

Company Ltd (NTHC) and National Stockbrokers Ltd, now Merban Stockbrokers Prior to the establishment of the Ghana Stock Exchange in November 1990, did over-the-counter (OTC) trading in shares of some foreign-owned companies.

Under the supervision of the IMF and World Bank, Ghana underwent structural reforms in 1983 to remove distortions in the economy together with other financial reforms including but not limited to deregulation of interest rates, removal of credit controls, and floating of exchange rates. After the financial liberalization and the divestiture of a host of state owned enterprise the need for stock market in Ghana became unavoidable.

The Ghana Stock Exchange was incorporated in July 1989 as a private company under the Ghana companies' code, 1963(Act179). However, the status of the company was changed to a public company under the company's Code in April 1994. The exchange was given recognition as an authorized stock exchange under the stock Exchange Act of 1971. Trading on the floor of the exchange commenced on November 12, 1990. The number of listed companies increased to 13 in 1991; 19 in 1995 and currently stands at 32 (GSE Quarterly Report, June 2007). The increase in the number of listings has also reflected in market capitalization. The Ghana stock market was voted sixth and best performing emerging market in 1993 and 1994 respectively. The GSE capital appreciated by 116% in 1993 and gained 124.3% in its index level in 1994 (GSE quarterly bulletin, March 1995). This follows the listing of Ashanti Goldfields Company (AGC) now AngloGold Ashanti. The listing of AGC changed the face of the Ghana stock Exchange and attracted many foreign investors. In 1995, the index grew 6.3%, this abysmal performance is partly

attribute to high inflation and interest rate. At the end of 2004, market capitalization stood at US\$ 2,644 million. Annual turnover ratio just remains about 3.2% in 2004, from an all-time high of 6.5% in 1998. As of October 2006 the market capitalization of the Ghana Stock Exchange was about \$11.5billion. The Ghana Stock Exchange (GSE) holds trading every working day. All trading are carried on the floor of exchange except Ashanti Gold shares which can be traded both (i) through the GSE and (ii) over-the-counter after GSE trading hours, but all such trades must be subsequently reported to the GSE at the next trading session. The main indices are the GSE All Share index and the Databank stock index (DSI). Three new indices comprising the SAS index (SASI), SAS Manufacturing index (SAS-MI) and the SAS Financial index (SAS-FI) have also been published Strategic African Securities Limited. (Adam and Tweneboah, 2008: 4,5)

## **CHAPTER FOUR**

### **4 EFFICIENT MOBILIZATION OF SAVINGS IN GHANA**

#### **4.2 Household Income and Expenditure in Ghana**

Before moving on to discuss how savings can be mobilized efficiently using the 3-point framework and experience of Japan and Malaysia, this section will be dealing with Household income and expenditure for the purposes of understanding the household economy (flow of funds) in Ghana and thus have formulate requisite channels of mobilizing household savings.

Household income and expenditure vary across the country. There a lot of factors that influence income and expenditure of Ghanaian households ranging from; area of settlement (rural or urban), type of occupation, level of education, etc. to even economic factors.

Stocks of houses and number of households have increased significantly in Ghana over the years (as shown in the table below). In comparison with the number of person per house, it is evident that although population is increasing, the number of people per house is decreasing. There is also an indication that there are more households in the rural areas than the urban centres. According to data from the Ghana Statistical Service, rural population in Ghana is more than that of urban population. Although both have been increasing especially since the late 1980s, rural population is still higher than that of urban. It is interesting to note also that the population of women outstrips that of men in both the rural and urban areas but more significantly more in the case of the latter. (Ghana in Figures, 2008:9)

Table 4.1: Household information 1970, 1984 and 2000

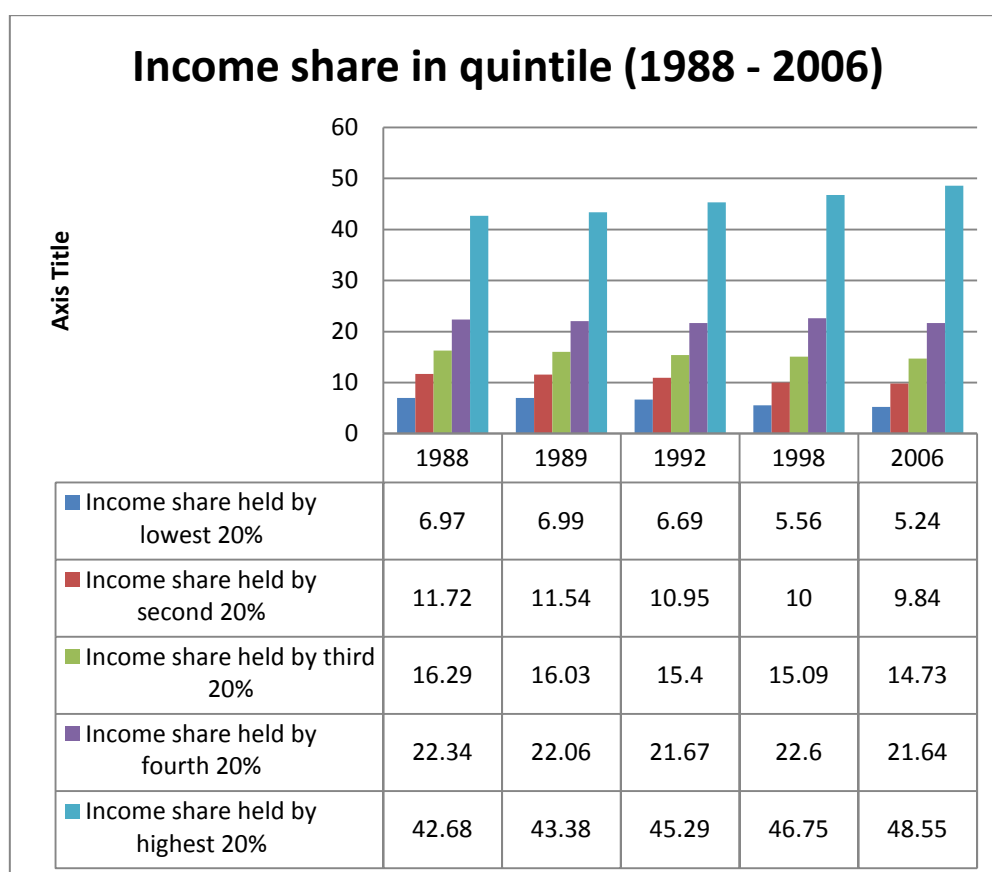
Characteristics	1970	1984	2000
Stock of houses	880869	1216667	2181975
Number of person per house	9.0	10.2	8.7
Number of households	1793580	2480368	3701241
Percentage urban	33.0	36.0	34.1
Percentage rural	67.0	64.0	65.9
Average household size	4.7	4.9	5.1

Source: Ghana in Figures 2008. Publication by the Ghana Statistical Service (GSS) with data from the 2000 Population and Housing Census volumes.

Ghana, like many developing countries has the problem of inequality in income distribution. Having divided the population of the labour force into a quintile, it is evident that income share held by the highest 20% has been in the above 40% since 1988. Contrary to its movement upwards, the income share held by the lowest 20% is rather decreasing from 6.97% to 5.24% in 1988 and 2006 respectively. This indicates that the income inequality gap in Ghana is widening. There could be many reasons for this trend. One of them might be the increase literacy among a few members of the population which in turn creates the situation where few people earn much or in a sense are overpaid to the detriment of a large labour force caught up in agriculture, construction and manufacturing. Another factor could be because of the apparent failure of the financial system to mobilize from fund suppliers and appropriately distribute funds to fund users, as it were. In this case, people with

business acumen, mostly in the informal sector which constitutes about 92% of businesses in Ghana, do not have access to funds in order to undertake their ventures. In effect, the few people who have access to funds or have acquired them keep earning more because there is a lot of business opportunities in the economy.

Figure 4.1: Income distributions in Ghana by quintile of the population (1988 – 2006)



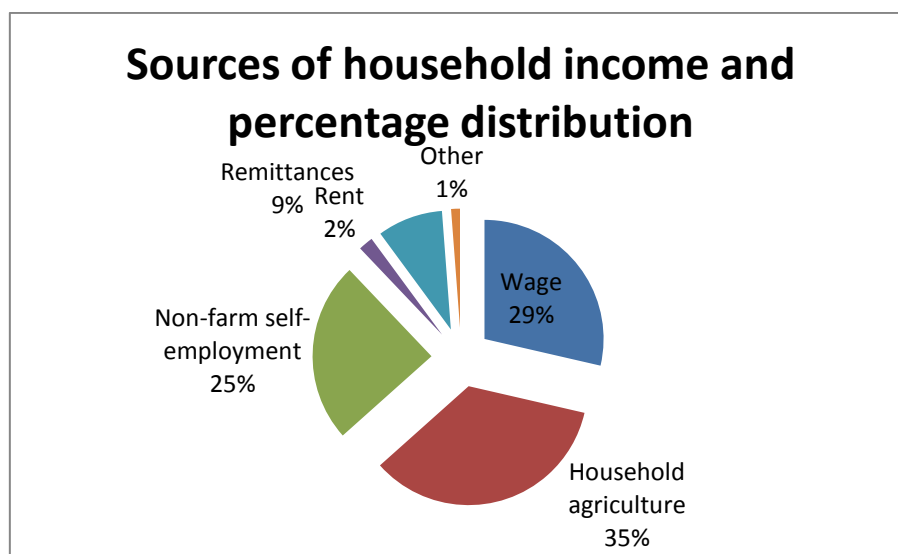
Source: Compilation of data from World Development Indicators

Household income be mainly attributed to; Household agriculture, Non-farm self-employment, Wage, Remittances, Rent and Others. (Ghana Statistical Service, 2008) The figure below shows the different sources of household income and the percentage

distribution among the various categories. It is not surprising that Agriculture composes of the highest source of income in Ghana. This is because as at 1996, 55% of the total labour was engaged in agriculture and agriculture related businesses or in other words, working in the agricultural sector. This also goes a long way to explain why rural population is larger than the urban population in Ghana.

Furthermore, the data on employment by sector indicates that 31% of the labour force is engaged in the services sector. In relation to the figure below, it explains why Non-farm self-employment and Wage account for the second and third largest sources of income. As mentioned earlier, the informal sector encompassing Small and Medium Scale enterprises, manual labourers, etc. is large in Ghana thus a high percentage of wages. Other non-farm employment are; workers in the public sector (public servants) persons engaged in manufacturing, services, etc. The residual in the form of 'Other' is very small. Interestingly, Remittances form a significant part of sources of income. Here it is noteworthy that remittances in this case do not only refer to remittances from outside of the country but also between family and friends from urban to rural areas. Substantially however, the remittances are likely to be coming from overseas as compared to the value of internal remittances.

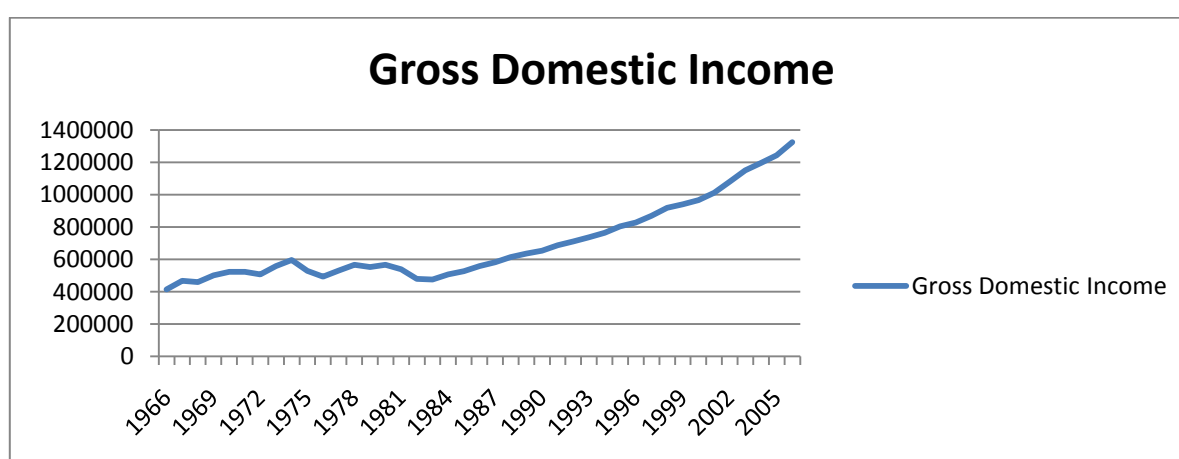
Figure 4.2: Sources of Household Income and percentage of contribution



Source: Ghana Living Standards Survey 5, 2008

On the national front, Gross Domestic Income has increased steadily over the years (as shown in the figure 4.3 below) on the other hand, Gross National Income has suffered declines over years (as shown in figure 4.4 below).

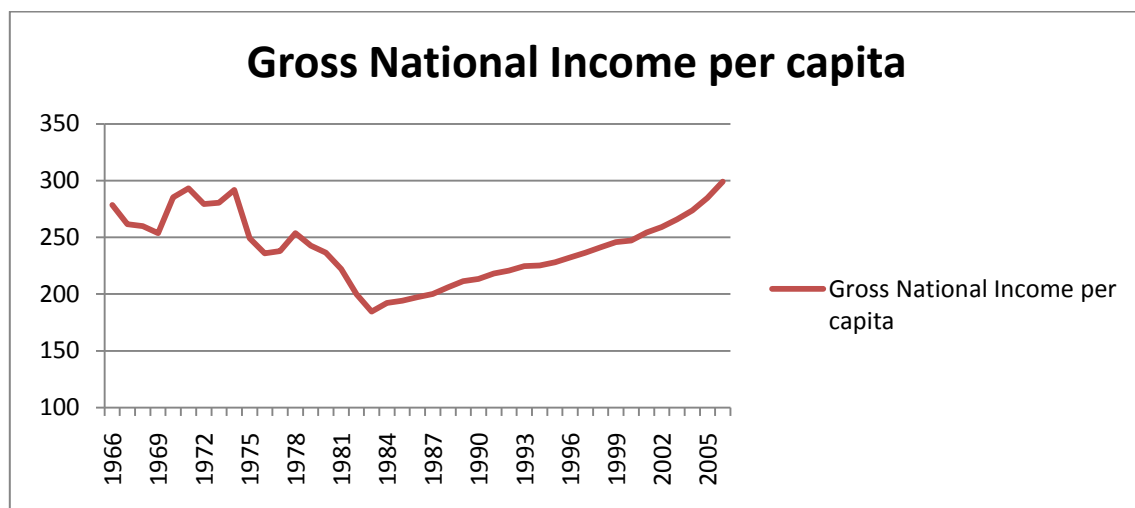
Figure 4.3: Gross Domestic Income of Ghana (1966 – 2006)



Source: World Development Indicators, 2010

The declines as vividly illustrated in the figure are between 1966 up to the early 1980s after which it has been on the increase. It is essential to point out that the period aforementioned was characterized by juxtaposition between military and civilian governments. Owing to the fact Gross National Income comprises of; remittances and balance of payment issues, the decline in national income can be ascribed to the increase of national debt, reduction of aid (financial) to the country and also national productivity (GDP).

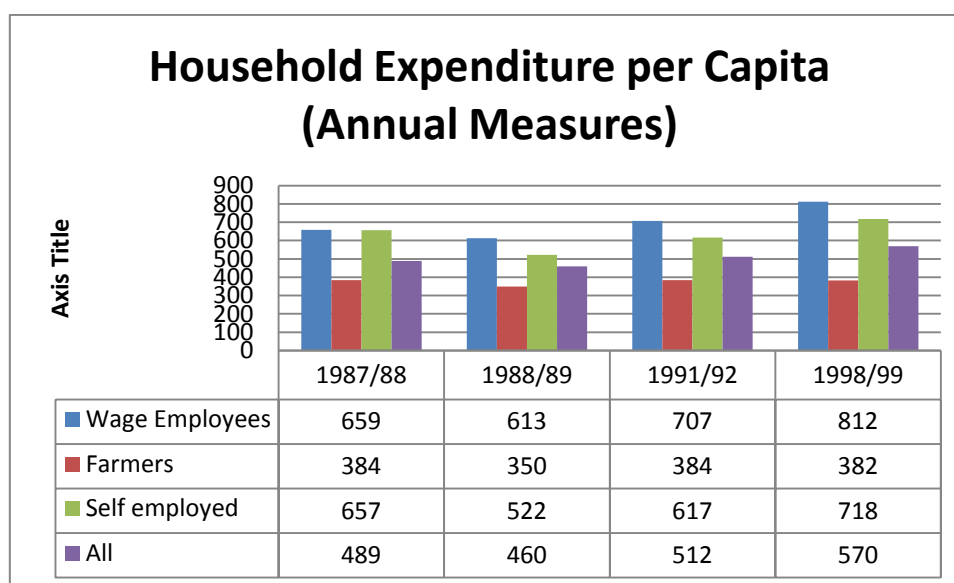
Figure 4.4: Gross National Income per capita of Ghana (1966 – 2006)



Source: World Development Indicators, 2010

Household expenditure in Ghana is made up of about 43% Food and Non-alcoholic beverage, 10% Housing, Water, Electricity & Gas, 9% Clothing & Footwear, 9% Education, 7% on Transport. Other expenses are; Household equipment and Furnishings, Health, Recreation, Restaurants and Hotels and Miscellaneous, most of which are not more than 5%. (See Appendix)

Figure 4.5: Annual Measures of Household Expenditure per Capita between 1987 and 1999



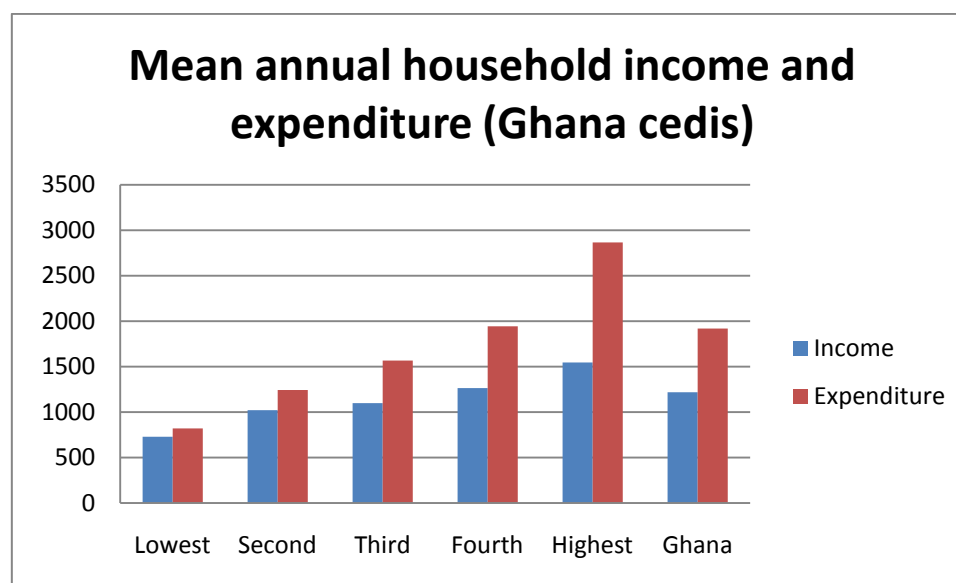
Source: Ghana Living Standard Survey 4, 1998/1999

The annual measures of household expenditure in the figure above shows that wage employees spend more than Farmers and Self-employed however on according to the data on percentage of income distribution in Figure 4.2 above, Wage employees come third after Farmers and Non-farm self-employed. It would be however premature to conclude at this point that Wage employees spend more than what they earn, although it is a possibility. From another direction, the apparent mismatch between income and expenditure can be explained by the analogy that it is more difficult to save wages because they have to be used to cater for daily needs such as food, transport, health, etc. and thus the frequent spending while more stable incomes (salaries or seasonal incomes) in the case of farmers and some proportion of self-employed provide avenues for planning and managing expenses.

In the same vein both the mean annual household and per capita income and expenditure reveal that expenditure is more than income in all the quintile groups as well as the national

average. In fact the higher the income level, the bigger the difference between income and expenditure.

Figure 4.6: Mean Annual household income and expenditure in Ghana Cedis



Source: Ghana Living Standard Survey

#### 4.2.1 Effect on Financial Liberalisation and Monetary Policy on Savings in Ghana

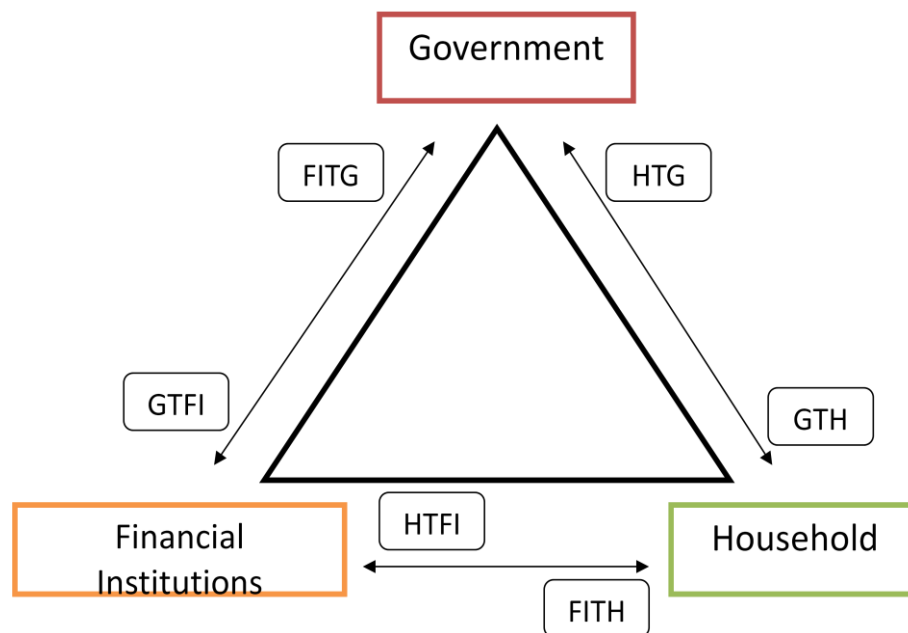
“Using Principal Components, we construct a 25-year time series index of financial Liberalization for each of eight developing countries: Chile, Ghana, Indonesia, Korea, Malaysia, Mexico, Turkey and Zimbabwe. This is employed in an econometric analysis of private saving in these countries. We find that the pattern of effects differs across countries. In summary, liberalization appears to have had a significant positive direct effect on saving in Ghana and Turkey, and a negative effect in Korea and Mexico. No clear effect is discernible in the other countries. There is no evidence of significant, positive and sizeable interest rate effects. For the present, our results must be taken as an indication that there is no firm evidence that financial liberalization will increase

saving. Indeed, under some circumstances, liberalization has been associated with a fall in saving. All in all, it would be unwise to rely on an increase in private savings as the channel through which financial liberalization can be expected to increase growth.” (Caprio, 1998)

#### **4.2.2 The 3-point Framework**

The triangular three point framework has been introduced briefly in subsection 1.1.3.2 of this research work. As mentioned earlier, it advocates for cooperation between the Government (G), Banking Institutions (BI) and Households (H) in improving efficiency of savings mobilization in Ghana. The framework prescribes specific tasks to be undertaken by the parties involved thereby expanding the triangular three point framework into a decagonal framework. Another notable feature about the framework is that each party has ‘give and take’ relationship or causality effect with all the other parties.

Figure 4.7: 3-point framework



Source: Authors representation of core strategy for improving savings mobilization in Ghana; where G is Government, FI is Financial Institutions, H is Households and T is to.

#### 4.2.2.1 Government

The place of the government in improving efficiency of savings mobilization is directed both at already existing financial institutions and Households. Here the term 'government' is used to encapsulate government agencies like; the Central Bank of Ghana, the Ghana Stock Exchange, Ministry of Education, Ministry of Information including state media apparatus, and the Ghana Post Service.

An immediate reaction required by the Bank of Ghana is collaboration with regular banking institutions to decrease reserve requirements by the central bank from the current 44% (39% in the central bank, and 6% by the banks). This is meant to increase the amount of money banks have for lending. However care

must be taken to enjoin banks to lend that money or larger portions of it to households through local industry and not buy more of government debt instruments, as the case has been.

Another step from the government will be to lease out spaces within Post Office infrastructure across the country to banks (Commercial, Merchant, Development, Savings and Loans, Rural, etc.) in order for desks to be setup for collecting deposits or micro savings. Considering the extensive coverage of postal services in Ghana coupled with its network, much of Ghana's population – mostly rural – are bound to be reached. As already noted, Post offices in Ghana are already engaged in allocating desks to be used by major utility companies in Ghana for payment of bills. The sharing of Post Office infrastructure especially by banks therefore is not out of the blue and is thus feasible. In addition to Post Offices, offices and outlets of other government revenue agencies like the Ghana Revenue Authority<sup>7</sup> will be an added advantage. The sharing of infrastructure by government agencies to ensure a wider network and reach on the populace is also characterized in Malaysia's experience of sharing infrastructure between the Post Office, Bank Simpanan Nasional (BSN) and Amarah Saham Bumiputra (ASB). (Abu, 2010)

Most paramount in the government's role of mobilizing savings in Ghana will be through formal and informal financial literacy education. This financial literacy education is supposed to teach people both the importance of an increasing

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<sup>7</sup> The Ghana Revenue Authority was established through Act 791 in 2009. Three of Ghana's revenue agencies: Internal Revenue Service (IRS), Valued Added Tax Service (VAT) and Customs Excise and Preventive Service (CEPS) were brought under one umbrella to consolidate the revenue mobilization effort.

domestic savings as a country as well as show them the means (facilities, channels, products, advantages) through which they can contribute (for instance by saving at the Post Office) Formal, in this sense, refers to inclusion in academic curricula right from elementary school level in order to build a savings culture in Ghana's elite. What might make a bigger impact on building this culture is the use of electronic media; television and radio. Owing to the increase in living standards and availability of consumer goods, many households own television sets or radios thus making it a catalysing factor. This mass media education must appeal to all major divisions (Sex, age brackets, ethnicity, literacy level, etc.) of the populace. Already such media has been explored for during elections and other events of national concern to educate the populace.

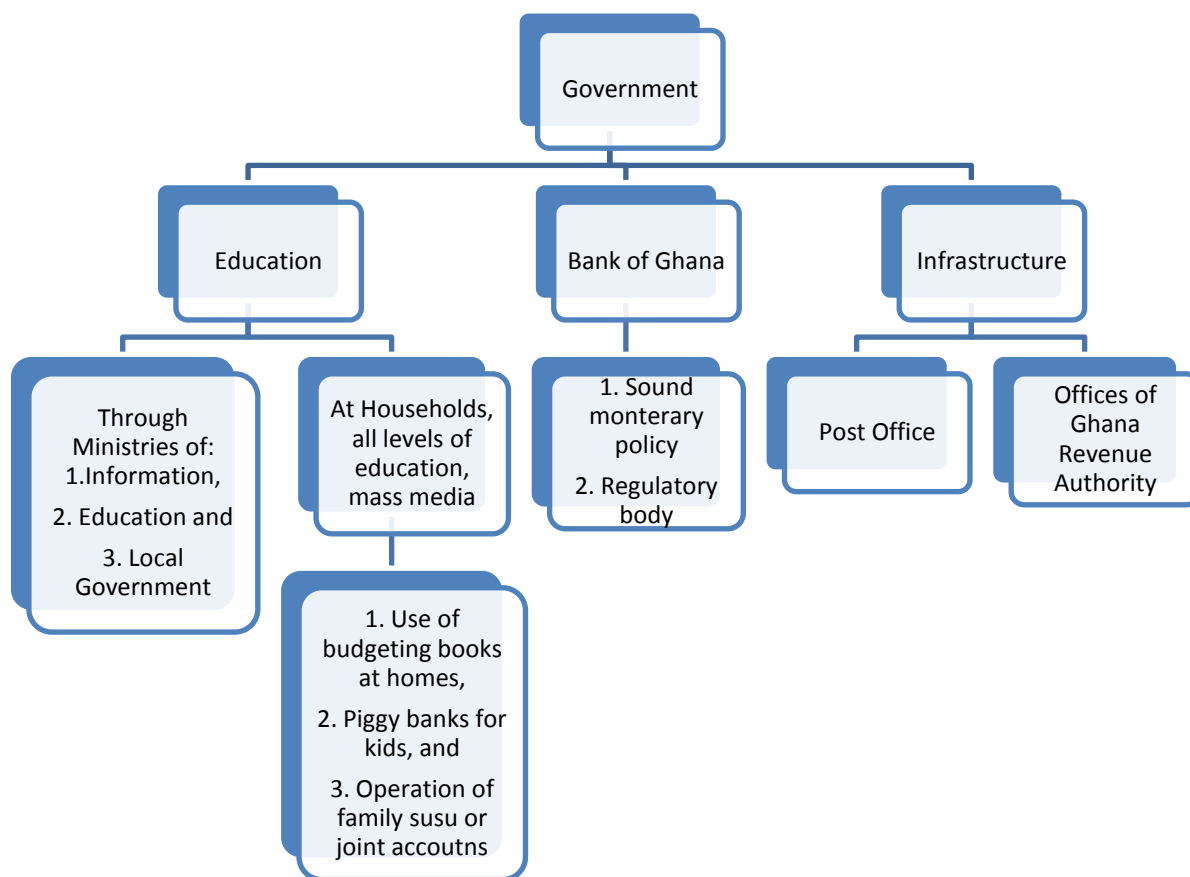
As part of the financial literacy education<sup>8</sup>, the government must also design, print out, distribute and train the populace on how to use budgeting booklets at the household level. The Central Council for Savings Information of Japan was set up in 1952 to oversee that aspect of Japan's national savings mobilization campaign. Households must be adequately trained on how to use the budgeting booklets including inputting data, planning household income and expenditure as

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<sup>8</sup> Generally speaking, education increases people's awareness of risks of economic activity, and at the same time imparts to them knowledge and skills by which to avert or mitigate those risks. Risks of any kind are always expression and a function of ignorance, and hence education helps to diminish them and to enhance the spirit of providence among all peoples. This does not, of course, prevent the ability of more or less accurate economic prediction from varying between one country and another, because this ability too depends to some extent upon innate characteristics which cannot be wholly suppressed or indeed greatly altered by cultural advance. (Dell'Amore, 1977: 4)

well as personalized savings plans either for the household as a unit or as per individual members. Another important lesson about Japan's case is the involvement of local authorities from the community or village level, ward level, etc. (Nakayama, 2010) It is easy to achieve a similar involvement of sub divisional authorities and their staff in this venture. Ghana for instance has 10 regions which are subdivided into Constituencies, Districts and Municipalities, etc. Apart from these there are also metropolitan assemblies. All these subdivisions come under the Ministry of Local Government which works hand-in-hand with the traditional chieftaincy institution. The involvement of the local government structure in disseminating information will ensure that information is more personalized so the people in the locality can associate with it. It is also essential because of the existence of trust in a locality or community which inevitably plays a role in financial issues, which in this case is savings deposit.

Figure 4.8: Role of Government in Savings Mobilization in Ghana

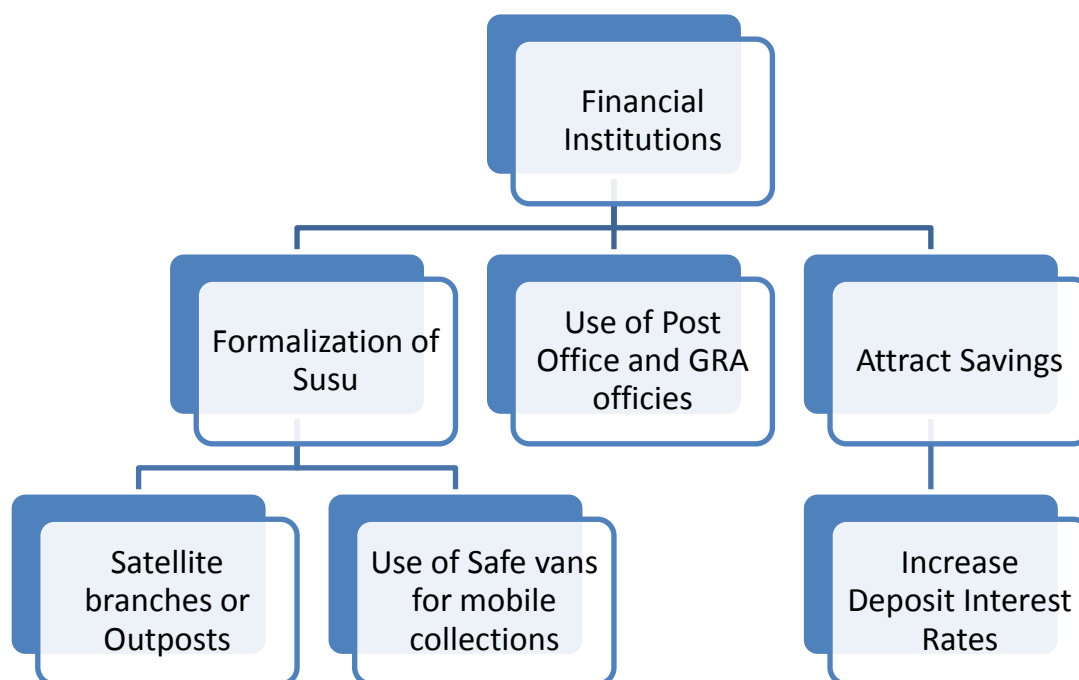


#### 4.2.2.2 Financial Institutions

First and foremost financial institution is used here instead of banking institutions because by the nature of the methodology in improving efficiency of savings mobilization envisaged, both formal (regular banks, non-bank financial institutions, savings and loans companies, Micro finance companies and Cooperatives) and informal financial institutions (mainly Susu system and other

indigenous financial schemes and arrangements) come to play. In this respect, the use of financial institutions as a whole will be much appropriate.

Figure 4.9: Roles of Financial Institutions in Savings Mobilization in Ghana



The framework stipulates that formal financial institutions especially commercial (since they have the widest network in Ghana) should increase interest rates on deposits. As an already tested principle in economics, the volume of deposits is bound to increase. The Central Bank of Ethiopia upon the assumption that “there are a lot of savings outside the banking system” has increased the deposit interest rates with the hope to particularly “attract savings from the rural areas.” (Davison, 2010) This is bound to work in Ghana’s case because as already established, people hoard money, invest in physical assets and the like because there is lack of

savings or investment opportunities. Increasing interest rates on deposits will therefore create the avenue and incentive for savings. It is also timely to add that government guarantee of savings up to significant amounts will boost public confidence in their savings. A fatal incident occurred in Ghana in the mid-1990s when a financial institution bolted with the savings of its clients. Many people lost confidence in and became sceptical about mutual funds, unit trust and savings in general. Such incidents cannot be allowed to happen if Ghana is to succeed in improving on the efficiency of savings mobilization. The advocacy for increasing deposit rates is against the background that lending rates have also been reduced. From the micro economic point of view, the current large interest rate spread of about 18% will be bridged while on the macroeconomic point of view, industry (in a sense household) will be able to access funds relatively easily and will also be encouraged to deposit profits or disposable income thus breaking the persistent seemingly credit crunch.

Another very important role of financial institutions which demands the collaboration of both formal and informal sectors is the formalization of the Susu system. In other words, consolidating the efforts of or bridging the gap between informal and formal financial institutions to create a synergy towards improving savings mobilization. This can be achieved by formal financial institutions engaging the services of informal savings mobilization operators (Susu collectors). Whether Susu is run as an organized club, rotating savings and credit associations, or other, there is a leader or person in charge of collecting and keeping the funds.

This obviously non value enhancing activity can be tied or affiliated to regular banks as a means of channelling their collected funds into a general pool at the bank which will further be invested to yield a possibly good return as opposed to the practise of 'hoarding' on large scale undertaken by the susu collector. In another vein, the formal financial institutions (banks) could also deploy their staff as agents to directly undertake susu collections for the bank. Another perspective might be to employ the existing susu collectors as staff of the banks. Aryeetey (1994) observes that Susu collectors put the bulk of their daily receipts into commercial bank accounts, retaining some to return to clients who need funds before the end of the month and some for their own short-term business transactions. In one [bank] branch, such deposits reached 40 percent of total demand deposits. Nonetheless, bank managers, largely unaware of the collection activities of account holders, have done little to facilitate deposits by susu collectors

Pertaining to enlarging the coverage, formal financial institutions especially banks must increase their outposts not only through the use of the Post Office infrastructure and that of the Ghana Revenue Authority but also create mobile and immobile savings depots at strategic locations in the length and breadth of the country. Such places will be; market centres, office complexes, educational facilities and other clusters where funds are likely to be tapped from. The mobile apparatus will be effective in neighbourhoods and places with dispersed settlements whereas the immobile structures, not limited to 'brick and mortar'

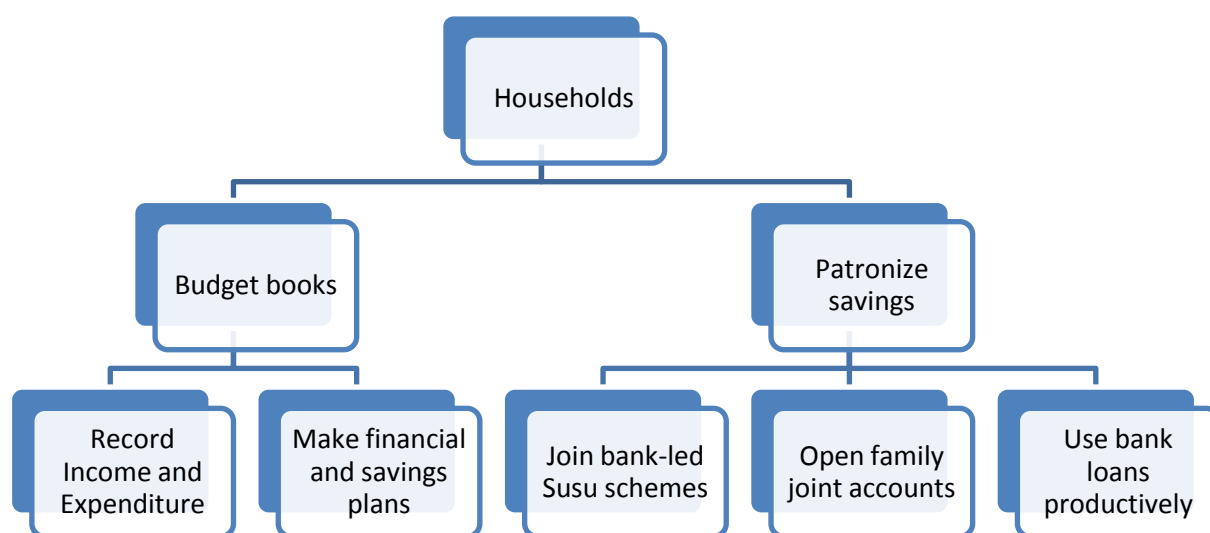
buildings or metal kiosks, will suit densely populated areas and clusters as mentioned above. In order to ensure security of the funds collected, the mobile savings machinery must go round at arranged times or at least once a day to transport daily collections to the bank vaults, for example, for safe keeping.

Apart from the aforementioned, financial institutions – in response to the reduction of the prime rate by the Bank of Ghana coupled with stabilization of the inflation rate – must make it a point to lower lending interest rates accordingly. With this also comes the responsibility to be cautious in irresponsible lending that result in high incidence of non-performing loans. Both formal and informal financial institutions must therefore seek out domestic and viable investment opportunities either led by the government or by the private sector. This is to ensure that financial institutions play their role of intermediating between fund suppliers and fund users – a role which has been found to be dormant in Ghana.

#### **4.2.2.3 Households**

The importance of households in the framework cannot be overemphasized. Indeed, savings mobilization cannot be undertaken without households even if the government and financial institutions play their role well. The concept of household in relation to the framework encompasses; all residents of stocks of housing units in Ghana. This includes farm employees, non-farm employees (manufacturing, services, etc.) and the unemployed like; school going persons, the aged and infants.

Figure 4.10: Roles of Households in Savings Mobilization in Ghana



As the final piece in safeguarding the sustainability of the framework, households must make good use of funds collected at lower lending rates from financial institutions in order to be able to pay back on time to boost trust at the same time, deriving profits from the use of the funds. Why it is essential for households to productively invest the funds acquired is so that they (households) can deposit the disposable incomes of those earnings back into financial institutions as ‘fund suppliers’ thus keeping the cycle going and making financial institutions effective intermediaries. Much education by the government in this direction is very necessary because many a times, households in Ghana take loans only to use them on unproductive social endeavours like; buying of clothing for life cycle events, paying back debt, just to mention a few.

It also behoves on household to heed the educational programs by the government through the various media and information apparatus. In order to achieve this as well, the savings mobilization campaign must be void of political innuendos or in other words, wrapped in an air of partisan politics. This is because the sustainability of the mobilization process and support from government will be threatened as one political party might withdraw its support in mere opposition to the deeds of the ruling government during the implementation process. Also, the patronage by the general public will be limited owing to 'allegiance' to ones political orientation.

Irrespective of the literacy level or economic conditions of households, members must be ready to study and use the budgeting booklets and also offer correct information to officials during feedback programs. It is only through this means that the implementation process will be completed.

#### **4.2.3 Japan's experience of Savings Mobilization**

In the pursuit of savings mobilization in Japan, the Japanese Government set up the Central Council for Savings Information in 1952. This was after WWII when the capital that remained after the war had to be mobilized in order for investment leading to the rebuilding of the economy. Prior to this, Japan's savings promotion movement had been born in the Meiji Era (1868 – 1912) as a source of funding for new industries and supporting government policies. (www.shiruporuto.jp, 2010) Specifically, it was meant to spur on the countries development to catch up with the West alongside growing industries and the military. There was also the government policy of slowing down inflation after the war. Prior to the establishment of the

council, there was a public opinion survey on household savings. (Central Council for Savings Information, 1992: 7, 9, 15)

The agenda relied on means of increasing household savings ratio by increasing nominal wages (wage higher than consumer spending) and income besides salaries or bonuses. It is this focus on targeting household savings that accounted for the high gross savings rate in Japan. Apart from this, other issues such as; the need for substantial sums of money to undertake very essential activities in the life of Japanese like; purchase of land or house, children's education, children's marriage, retirement plans, purchase of durable consumer goods, contributed immense to building a savings culture in Japan and thus the success of the savings mobilization campaign. (Central Council for Savings Information, 1992: 9)

The duties of the Council were to:

1. Provide financial and economic information
2. Encourage the drafting of life plans
3. Disseminate pecuniary education

These activities were planned and publicized by the Central Council for Savings Information through;

1. Designing education materials and awareness programs for both children and adults by means of television programs (August 1962),
2. Life Planning Computer Consultation Service (December, 1962)
3. Establishing model schools for disseminating pecuniary education in April 1973

The implementation at the household level was led by local committees in the form of cell groups, community assembly, etc. (Central Council for Savings Information, 1992: 16, 17)

The framework included;

1. Distribution of housekeeping account books (October 1952)
2. Setting up group activities in Model Savings Districts (June 1958)
3. Collaborating with womens' organisations

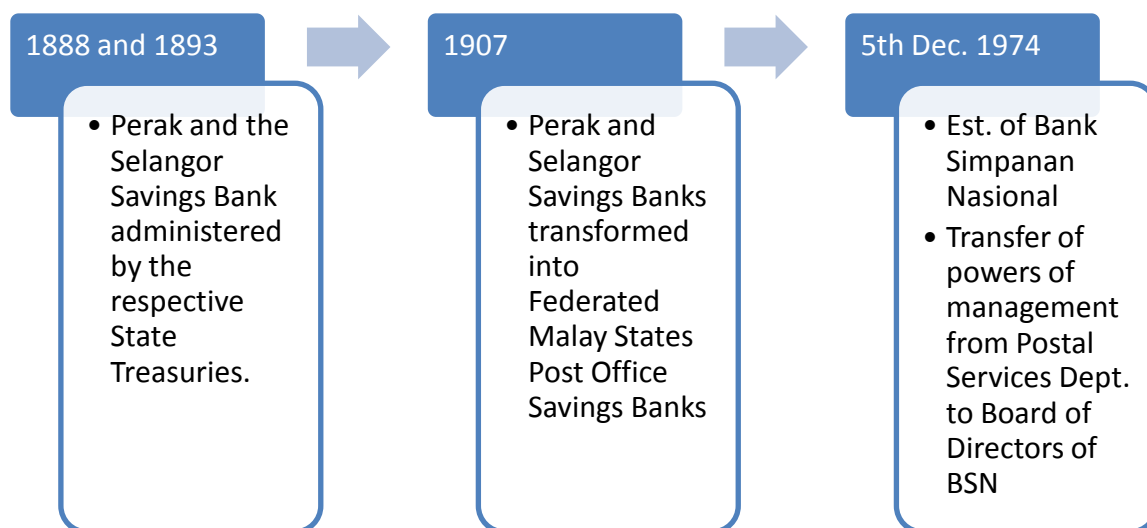
Clearly the Japanese experience of savings mobilization is founded on building a savings culture through;

1. **Education and sensitization of the public (both old and young)**
2. **Targeting household savings** and
3. Providing **housekeeping account books** and making it a **communal activity** in order to make it self-sustaining.
4. Creating the avenue for mobilizing savings through the **use of Postal Savings** which had a nationwide coverage and network.

#### **4.2.4 Malaysia's experience of Savings Mobilization**

Malaysia's effort at Savings Mobilization was through the use of the National Savings Bank which in Malay is Bank Simpanan Nasional (BSN). Having gained autonomy from the Postal Services Department in 1974 under Act 146 of Parliament, BSN embarked on a restructuring and simplification exercise in order to "provide improved facilities and services to its depositors". ([www.mybsn.com](http://www.mybsn.com), 2010)

Figure 4.11: Summary of Formation of Malaysia's National Savings Bank (Bank Simpanan Nasional)



Source: Bank Simpanan Nasional website ([www.mybsn.com](http://www.mybsn.com)), 2010. Corporate Profile.

To do this it;

1. Decentralized the administration and control of activities by setting up branch offices in major towns throughout the country.
2. Used post offices facilities<sup>9</sup> to mobilize savings in areas it could not reach.
3. Public campaigns to “promote savings habit and to encourage thrift...on a national scale.”

While executing the above listed, BSN was guided by the following objectives;

1. To promote and mobilise savings, particularly from small savers.
2. To inculcate the habit of thrift and savings
3. To provide the means for savings by the general public

<sup>9</sup> As at 1976, the BSN was operating through **538 post offices** and 147 postal mobile units.

4. To utilise the funds of the Bank for investment including financing of economic development of the nation. ([www.mybsn.com](http://www.mybsn.com), 2010)

Malaysia's efforts at undertaking Savings Mobilization can be said be a major contributor to its national development and ascent into the upper middle income country. It is not surprising therefore that although both Ghana and Malaysia won independence from the British in 1957, by 2000 the GNP of Malaysia was thirteen times that of Ghana's - \$3,884 and \$285 respectively. (World Bank, 2009)

Apart from the use of the National Savings Bank and post offices infrastructure coupled with national educational campaigns, Malaysia, in order to improve the income distribution situation in the country after the 1969 ethnic riots through the New Economic Policy, set up bodies like the; Amarah Saham Bumiputra (ASB) and Amarah Saham Nasional (ASN) which were under the Perbadaran Nasional Berhad (PNB). (Abu, 2010)

The ASB was operated in the form of a unit trust. Its main function in conjunction with the Foreign Investment Committee (FIC) was to ensure that Bumiputra (Ethnic Malays) owned up to about 30% of shares in corporate Malaysia. It therefore took the form of capital mobilization because the funds were mobilized from individuals with the sheer intension of purchasing shares of companies through the capital market.<sup>10</sup> Although this is a laudable idea, it may not be feasible in Ghana for the following reasons;

1. Among the lot, less than 30 companies are listed at the Ghana Stock Exchange thus mitigating the motivation for mobilizing funds for capital market investment.

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<sup>10</sup> The ASB was in charge of mobilizing the funds and managing them while the FIC focused on direct dealing with the stock market (including purchase of shares, etc.) (Abu, 2010)

2. The ASB was acting only on behalf of the Bumiputra in line with the nation's bid to distribute wealth. This cannot be emulated in Ghana since there is no case of income inequality among the ethnic groups.
3. There are also many brokerage companies and some investment banks like; DataBank Ghana Limited that are already providing services similar to that of the ASB – units trust and mutual funds. ([www.mybsn.com](http://www.mybsn.com), 2010)

Also worthy of note about Malaysia's approach to savings mobilization is the sharing of infrastructure between Bank Simpanan Nasional, Amarah Saham Bumiputra and the Post Office Services Department in Malaysia. In this regard, BSN or ASB staff could use post office infrastructure where they lack offices and vice-versa. This arrangement assisted in extending financial services to the rural communities which hitherto were not catered for by the commercial banks. (Abu, 2010)

## CHAPTER FIVE

### 5 FINDINGS AND ANALYSES

In order to come up with potent means of improving efficiency of savings mobilization in Ghana, the factors affecting Income and Savings, the flow of money in both the formal and informal sectors of the economy and the current state of the financial environment in Ghana must be understood. Most importantly, it is essential to ascertain the extent to which the 3-point framework discussed in the previous chapter can improve the efficiency of savings mobilization in Ghana.

Most of the data gathered were from the Ghana Statistical Service and the World Bank's World Development Indicators especially those with particular reference to Africa in order to derive adequate data about Ghana. The data sets was from 1960 to 2010 however, there were unfilled cells in the data collected which led to varying ranges in the period used in the tests. For instance, if out of five variables arranged in columns, one variable lacked inputted data from 1960 to 1969 as well as 2007 to 2010, then the range of the variables to be used for the regression analysis will be limited to 1970 to 2006.

As intended, linear regression was conducted on selected data sets. Most of the data sets spanned over 20 years with an  $R^2$  above 50% indicating that the variation of the dependent variable is accounted for by the independent variable. Apart from regression analysis, Pairwise correlation is used with reference to Gross Domestic Savings, Gross Domestic Income and Gross National Income per capita. This was to help support the results of the regression analysis and in some cases, contrast them. In addition to these tools for analysis, Partial Correlation which displays both the correlation results and the Significance level of

each result is conducted as a means to creating both a check on the results from the regression analysis and that of the pairwise correlation analysis.

## 5.2 How understanding factors relating to income can help improve efficient mobilization of savings

Below is the key used for the fourteen (14) variables used in the data analysis.

Table 5.1: Key for Data Analysis Results

Number	Variable	Full Description
1	gdscurus	Gross Domestic Savings Current US\$
2	gdi2000	Gross Domestic Income 2000 LCU
3	gnipc2000us	Gross National Income Per Capita 2000 US \$
4	pop014	Percentage of Population between 0 – 14 years
5	pop1564	Percentage of Population between 15 –65 years
6	pop65	Percentage of Population above 65 years
7	popr	Percentage of Rural Population
8	popu	Percentage of Urban Population
9	gdppercapita	Gross Domestic Product Per Capita
10	cps	Credit to Private Sector
11	lit15	Literacy rate 15+
12	lendir	Lending Interest Rate
13	inflation	Inflation
14	depintr	Deposit Interest Rate

Although not directly related to improving efficiency of savings mobilization in Ghana, understanding the sources of income of the populace, what factors account for increased Gross Domestic and National Incomes, essential policies can be put in place to tap or attract the incomes from the sources where they are made, be it in the formal or informal sector. In the same vein, knowing what factors affect rise in incomes or where incomes are highly concentrated will assist in best designing the right channels of mobilizing them.

Table 5.2 contains correlation analysis information about how nine variables relate to Gross Domestic Income. The obvious results are that the population range 0 – 14 and 65+ have strong negative and weak negative correlation to Gross Domestic Income respectively. This is because the two age brackets are dependent population who do not particularly engage in economic activity. With the life expectancy of Ghana at 57 years, not much income and savings can be expected from the aged population of Ghana. (World Health Organization, 2006) The issue of retirement age comes to play here in the sense beyond age 65 many retire to receive meagre pensions, sometimes half of their last take home pays thus reducing their income.<sup>11</sup> It is not surprising also that the population between 15 and 64 shows a strong positive correlation with Gross Domestic Income.

Interestingly, **rural population and credit to the private sector show moderate and strong correlations of; 0.51 and 0.67 respectively to Gross Domestic Income.** This on one hand implies that the rural population contribute a lot to domestic income thereby asserting that they generate a substantial amount of capital, contrary to the traditional notion that the rural population is poor and thus unable to save. In effect, the machinery of savings

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<sup>11</sup> Annual pension is valued at 50% of the pensionable income where “pensionable income” is defined to be the average of the three best annual incomes based on the annual insurance contributions throughout the member’s working life. (Tibuahson, 2003: 10)

mobilization should be targeted towards the rural population vindicating the use of the postal savings system, the sharing of public infrastructure as mobilization points, and other methods discussed in the previous chapter are indeed efficient means of mobilizing savings in Ghana. On the other hand, the strong correlation of Credit to Private Sector although expected supports the essence of this research in devising means of pooling funds (mobilizing) for future investments.

Table 5.2: Gross Domestic Income Partial and Pairwise Correlation (1966 – 2006) Results

Variables	Pairwise Correlation	Partial Correlation	
		Correlation	Significance Level
Gnipc2000us	0.3212	-0.0872	0.630
Pop014	-0.9637	-0.8104	0.000
Pop1564	0.9573	-0.7982	0.000
Pop65	-0.3565	-0.0820	0.650
popgrowth	0.0283	-0.5098	0.002
Popr	0.5056	0.4401	0.010
Popu	0.1561	-0.3188	0.071
Gdpper capita	-0.1715	-0.4214	0.015
cps	0.6719	0.1835	0.307

In addition to determining to what extent some variables relate to Gross Domestic Income to assist with the focus areas in constructing the channels for mobilizing savings domestically, further analysis was done with respect to how the following ten (10) variables relate to Gross National Income per capita with the attempt to find out some other factors that could be accounted for in the Gross Domestic Income computation. This computation spanned from 1970 to 2006 following incomplete data for all the variables in the datasets between 1966 and 1969.

Table 5.3:Gross National Income per capita 1970 - 2006

Variables	Partial Correlation		Regression	
			F = 1210.43 Prob > F = 0.0000 R-Squared = 0.9971	
	Correlation	Significance Level	Coefficient	p> t
gdi2000	0.4978	0.005	0.0000765	0.005
Pop014	0.4852	0.007	78.02034	0.007
Pop1564	0.4496	0.013	71.71226	0.013
Pop65	-	-	-	-
popgrowth	0.2796	0.135	1.699688	0.135
Popr	-0.2973	0.111	-2.143939	0.111
Popu	-	-	-	-
Gdppercapita	0.9525	0.000	0.8588614	0.000
Cps	0.3473	0.060	0.5452503	0.060
Lit15	-0.2211	0.240	-0.1572782	0.240

In line with established thoughts, Population (15-64), Population Growth and Gross Domestic Product per capita have a strong positive correlation of; 71.71, 1.69 and 0.85 respectively (Results from Regression Analysis).

Again, **Credit to Private Sector shows a moderate positive correlation of 0.54**. Interestingly, **Literacy Rate shows a weak negative correlation**. By indicates to some extent that the kind of activities that generate income does not require a high level of literacy. It will therefore not be out of place to conclude that such activities include; wage employees and farming activities. Actually, farming and wage employment accounts for 64% of household income sources (Figure 4.2). Taking it that almost all of farming employment and half of wage employment to rural areas and the urban poor, the point that the use of increasing banking infrastructure through Post Office Savings Bank model and formalization of the Susu system – mobile and immobile means – are reinforced.

### 5.3 How understanding factors relating to savings rate can help improve efficient mobilization of savings

In tandem with established knowledge and the results so far, Gross Domestic Income, Population from 15 to 65 and above as well as Literacy Rate of the population above 15 years, based on the average of the three results, have a strong correlation with Gross Domestic Savings.<sup>12</sup> It is needful to point out here that, the framework's emphasis on the government spearheading nationwide financial literacy education through both the formal and informal sector will yield positive results because literacy as a variable does have a strong correlation to increased savings.

Some very interesting result is that, **consistent with all the statistical tools employed, the Rural Population has a strong negative correlation to Gross Domestic Savings whereas the Urban Population has strong positive correlation.** This can be ascribed to the fact that most of the financial institutions have limited their operations to the urban centres for obvious reasons such as;

1. availability of infrastructure and social amenities,
2. proximity to formal business activity,
3. proximity to wealthier prospective clients, etc.

To an extent, that is understandable because as business organisations they have to make the best use of opportunities and resources. As a developing country, it might take Ghana some time before it can attain a high standard of infrastructure and social amenities nationwide. For that matter, the most appropriate measure to improves savings

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<sup>12</sup> Gross Domestic Savings is the sum of public savings and private savings. ([http://dirp.pids.gov.ph/cgi-bin/dd?GROSS\\_DOMESTIC\\_SAVINGS\\_\(PERCENT\\_OF\\_GNP\)+eds.dict](http://dirp.pids.gov.ph/cgi-bin/dd?GROSS_DOMESTIC_SAVINGS_(PERCENT_OF_GNP)+eds.dict))

mobilization from the short to medium term is to share infrastructure of public offices of revenue agencies as well as the Post Office in densely populated rural areas in addition to the use of mobile and immobile methods in disperse settlements for savings mobilization.

As has already been proven, the Rural Population contributes more to both Gross Domestic Income and Gross National Income per capita than the urban population. This indicates that the extending of financial or banking services with the intension to mobilize savings will not be a wild goose chase because they have the means to save but lack the opportunity to. Figures 3.1 and 3.2 show that only about 10% of Ghanaians have bank accounts. **With the concentration of banking infrastructure in urban areas it is not out of place to assume that most of the clients are urban dwellers. This is the reason why Urban Population according to the Pairwise Correlation analysis, reveals a strong positive correlation of 0.6128 while the rural population shows a strong negative correlation with the same figure.** What this also means is that the Rural Population currently does not contribute at all to the Gross Domestic Savings. Hence implying that the Rural Population is a great untapped asset with respect to savings mobilization and also that the **contents of the 3-point framework adequately responds to the objectives of this research and justifies the hypotheses.**

Table 5.4: Results from the Regression, Partial Correlation and Pairwise correlation (1966 – 2006)

Variables	Pairwise Correlation	Partial Correlation		Regression	
		Correlation	Significance Level	Coefficient	p> t
gdi2000	0.6234	0.0931	0.631	1073.667	0.631
Gnipc2000us	0.2703	-0.0317	0.870	-2423127	0.870
Pop014	-0.6162	0.3099	0.102	4.21	0.102
Pop1564	0.6184	0.3165	0.094	4.36	0.094
Pop65	0.5929				
Popr	-0.6128	-0.2211	0.249	-1.26	0.249
Popu	0.6128				
Gdpper capita	0.2894	0.0285	0.883	1966291	0.883
Cps	0.4162	-0.2220	0.247	-8391765	0.247
Lit15	0.4834	-0.1461	0.449	622043.7	0.447
inflation	-0.2273	0.1040	0.592	-4.08	0.592

Although Credit to Private Sector had a positive correlation to both Gross Domestic Income and Gross National Income per capita, it has a negative correlation to Gross Domestic Savings. This shows that Credit to Private Sector is indirectly related to savings although has it has direct bearings on Income. Following the above mentioned, it is not surprising to see that Lending Rate also has moderate negative correlation with Gross Domestic Savings.

In addition to this, **inflation also shows a negative correlation to Gross Domestic Savings.** With this kind of effect of inflation on savings, public confidence is assured that economic policies and for that matter, a conscious effort is being made to preserve the purchasing power of their deposits. This will inevitably support the savings mobilization effort with the guarantee of patronage to the means proposed by this thesis' framework.

Table 5.5: Relationship between lending and deposit interest rate on Gross Domestic Savings (1978 – 2006)

Variables	Pairwise Correlation	Partial Correlation	
		Correlation	Significance Level
lendir	-0.4159	-0.3711	0.052
depintr	0.4050	0.3583	0.061

In support of conventional wisdom, Table 5.3 also shows that the increase in deposit interest rates is essential to help improve efficiency of savings mobilization. Indeed, Gordon (2008) having conducted regression analysis between Savings and Interest rate found that there is a positive relationship between savings and interest rate in the Ghanaian economy from January 2000 to June 2003.

In a nutshell the data analysis has revealed that because financial institutions have limited operations to urban areas, the rural population has been left out with respect to savings mobilization even though they are in a better position financially to save (potential recipients of 62% of household income) thus supporting the frameworks an imperative and factual means of reaching the hypothesis which advocates for the use of postal savings and government agency offices for expanding the saving infrastructure, financial literacy education and formalization of the Susu system.

## CHAPTER SIX

### 6 CONCLUSION AND POLICY RECOMMENDATIONS

In this qualitative research, cogent arguments and presentation have been made logically to come to the conclusion that;

1. Yes, there is a potential of savings mobilization in Ghana.
2. Such means as government-led nationwide financial literacy education, formalization of the susu system and expansion of the current savings infrastructure especially the sharing of Banking Institutions sharing Post Office and the Ghana Revenue Authority infrastructure nationwide improves efficiency of savings mobilization in Ghana.
3. In addition, creating mutual funds to channel funds through the capital market as a means of savings mobilization is also possible and more efficient than both the traditional means of savings and the status quo in relation to the operations of formal financial institutions.

The Status quo of savings and savings mobilization was analysed in order to come up with more efficient means. Throughout the thesis it was noticed that traditional forms of savings which was in the form of; hoarding both foreign and local currency, acquiring physical assets such as land, buildings, jewellery, etc. was not peculiar to Ghana as other literature proved that savings is carried out in such forms when there is insecurity in the financial system.

In Ghana's case however, the above mentioned inefficient forms of savings was carried out firstly in line with traditional norms of 'Agyapadie' or Inheritance (where an individual is obliged to accumulate wealth that can be passed down to succeeding generations). Secondly, savings was carried out in this form not only because of political or economic

insecurity like in some other societies around the world but also because although people were willing to save, they did not find the avenues to save. Most of these people the rural population which although contribute significantly to the Gross Domestic and Gross National Income per capita of Ghana, do not have easy access to formal financial institutions where their funds can be mobilized.

In this regard and against the background that most financial institutions have limited their operations to urban centres, demonstrate that the in the over 30 years of banking in Ghana, there has not been a conscious effort to mobilize savings. The main failures of the status quo in mobilizing savings or not mobilizing savings efficiently have been because of the following;

1. Over-reliance and content in providing service for the urban rich population.
2. Inability to explore such less expensive means as
  - a. Sharing infrastructure of government agencies with national presence like the Post Office,
  - b. Formalizing the susu system by encouraging susu collectors and clubs to make deposits at banks.
  - c. Unchanging position of perceived difficulty in dealing with informal sector owing to apparently low income levels, high illiteracy, going-concern of their business activities, etc. which has overshadowed the potential of pooling substantial funds if ever the means was made available.

The failure of the current system of mobilizing savings does not only lie with banking institutions but also widespread perception in the informal sector that banks especially are

for some calibre of people (so called 'high class' in the society). This perception over the years can be said to have been fuelled by the concentration of banks to tailoring their services meet the needs of high income earners (the urban rich). Sometimes the sheer interior decoration and clothes of personnel or clients in the banking hall intimidates potential savers in the informal sector. The path this research has chartered for mobilising savings in the informal sector – including the rural population – will ensure that these excesses are mitigated especially within the framework where potential savers will carry out transactions at local Post Offices, Bank-licensed outlets or mobile bankers situated in their communities, markets and other places of work, area or district revenue offices, just to mention a few.

## **6.2 Policy Recommendations**

Currently the Ghanaian government is emphasizing on mobilizing funds in the form of tax revenue. This is evident in the consolidation of the three main tax agencies; Valued Added Tax Service, Customs Excise and Preventive Service and Internal Revenue Service to form the Ghana Revenue Authority. One of the significance in this study is complimenting the government's effort in pooling funds through savings mobilization. In order to attain this, some policies must be put in place. As the highest law making body, much contribution will be expected from the government if the content of this research is to see the light of day.

1. **Budget item.** To ensure that resources requisite for a successful mass financial literacy education program will be funded, the government must include this undertaking in the budget statement for at least 5 years to establish a firm take off process. This quota in the budget needless to say will be further divided for the

Ministry of Information, Ministry of Education and the Ministry for Local Government to facilitate their roles in the sensitization and implementation exercise.

2. **Use of Corporate Taxes.** A quota of corporate taxes collected from financial institutions must also be dedicated to improving social amenities in rural areas. In spite of the fact that road network is being developed in Ghana and recently, revamping of the railway network much of the country's transportation network leaves much to be desired. The proceeds from this tax revenue used extensively for developing the road networks to aid with the mobile banking and accessibility of financial institutions themselves to rural areas. Good road networks and presence of social amenities like schools, toilet facilities, etc. will create an incentive for retaining staff and family of financial institutions who will be relocated to rural areas owing to the savings mobilization until the end of their contract.

Instead of the use of Corporate taxes which seems more like a Government initiative, the financial institutions themselves can decide in consultation with the government (Bank of Ghana, Ministry of Finance and Ghana Revenue Authority) to reduce corporate taxes on financial institutions to the end that financial institutions will contribute that tax rebate into a general fund which will be used for improving the quality of the government owned infrastructure to be shared, and the other reasons stipulated above.

3. **Incentive for rural-centred banking.** As a form of attracting banking institutions to share government-owned infrastructure, the lease or share agreement should wave off building rents for the first year and drastically reduce initial huge sums associated with normal renting agreements.

Other things such as Banking Awards organized by the Ghana Bankers Association should have a category for Best Savings Mobilizing Bank of the year award to foster competition for banks to give off their best in efficiently mobilizing funds. It is envisaged that such competitions will cause banks also to be innovative in designing products that will attract savers irrespective of their income levels and thereby improving upon the status quo where lower income earners are ignored completely.

4. **Legislation.** The Banking Law of Ghana should also be amended to include regulations directing banking institutions to design products that foster partnerships with fund 'mobilizers' (susu collectors) in the informal sector.

Undoubtedly, savings mobilization is imperative for the growth of Ghana's economy because it will not only provide the needed funds for investment but in the mobilization process will lead to; development of social amenities, job creation by way of banks expanding their coverage, closer ties between formal and informal financial institutions, financial literacy for the populace among other things.

### **6.3 Further research**

Further study on improving savings mobilization in Ghana can be directed towards the use of the booming telecommunications system in Ghana particularly the use of mobile phones for banking (savings, money transfer, among others). Thus how can 'Mobile Banking' considering the proliferation of cellular phone handsets in Ghana be employed as a more cost effective option to the conventional, more physical means of savings mobilization?

Another area of concern might also be how the funds mobilized can be invested productively in order to yield returns and thus sustain the flow of capital in the economy. This includes determining productive industries, drafting investment plans, just to mention a few.

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## **APPENDIX 1 – ADDITIONAL LITERATURE**

### **APPENDIX 1A - Ghana: Country Briefing**

#### **1.1 External Geography**

The republic of Ghana is along the coast in the lower half of West Africa. It extends inland from the Gulf of Guinea on the western 'bulge' of Africa, and is bordered by the Atlantic Ocean to the south, Togo to the East, Burkina Faso to the north and La Cote D'Ivoire to the west. With a surface area of 238,837 square kilometers, it is similar in size to Great Britain or American state of Oregon. It is bisected by the Greenwich Meridian (Longitude zero degrees) and lies entirely within the northern tropics between 4.50N and 110. Most of the country is relatively flat and lies below an altitude of 150m but several peaks in the east rise to above 800m. It has a tropical climate close to latitude 23 degrees, warm to hot all year through and can be divided into two broad geographical zones: the south and centre are moist and support a cover of a direr savannah environment. (Ministry of Tourism website, 2010)

#### **1.2 Location on the globe – its advantages and disadvantages**

The geographical position of Ghana has provided it with enormous opportunities. Owing to its location on the coast line and presence of water bodies, Ghanaians have access to a lot of fish protein, internal means of transportation, availability of fresh water for domestic use as well as water for agriculture. It is noteworthy that the major source of electricity generation is the Akosombo Hydroelectric Dam. Being along the Atlantic Ocean has opened Ghana up for trade, needless to say, since colonial times. Ghana has the Tema Harbour and the Akosombo Harbour. In addition, oil was discovered about two years ago and consequently production begins at the end of 2010. Production is estimated to increase gradually over approximately six months to a plateau level of 120,000 barrels per day. (www.myjoyonline.com, 2010)

#### **1.3 Internal Geography**

Apart from the water bodies there are also vegetations – natural parks and forest across the country. There are also dots of mountains ranges like the Afram Plains, Shai hills, Mountain Afadjato just to mention a few.

Ghana can be divided into five different geographical regions. The coastline is mostly a low, sandy shore backed by plains and scrub and intersected by several rivers and streams while the northern part of the country features high plains. Southwest and south central Ghana is

made up of a forested plateau region consisting of the Ashanti uplands and the Kwahu Plateau and the hilly Akuapim-Togo ranges are found along the country's eastern border.

The Volta Basin also takes up most of central Ghana. Ghana's highest point is Mount Afadjato which is 885 m (2,904 ft) and is found in the Akwapim-Togo Ranges. The climate is tropical. The eastern coastal belt is warm and comparatively dry (see Dahomey Gap); the southwest corner, hot and humid; and the north, hot and dry. Lake Volta, the world's largest artificial lake, extends through large portions of eastern Ghana and is the main source of many tributary rivers such as the Oti and Afram rivers. (Wikipedia Online Encyclopedia, 2010)

The South Western part is located within the warm wet forest zone similar to the Amazon. Accra, the capital, is located in the dry equatorial cones. Kumasi is in the wet savanna. It lies between 4 and 11 degrees North at the equator and has a coastline of 540 km.

Northern Ghana has a range season from about April to October. The rest, of the year is hot and dry with temperatures up to about 38 degrees Celsius. In Southern Ghana the rains last from April to June and again from September to October. Generally temperatures are between 21°C and 31°C. The rains are usually restricted to specific times each day during the rainy season; they are not continuous throughout the day.

## **1.4 Socio economic**

### **1.4.1 Ethnicity, Languages, Regional Divisions and Religion**

The last population census in Ghana in 2003 arrived at a headcount of about 19 million people. Current figures however fix the number at 23.8 million. (WDI, 2010) Roughly ten percent of the population lives in and around the capital city of Accra. Other major urban centres include Kumasi, Tamale, Tema, Takoradi and Cape Coast.

More than 70 languages and major dialects are spoken countrywide, classified in four linguistic groups: Akan, Mole-Dagbani, Ewe and Ga. The most widespread Akan language is Twi, which is spoken by roughly half the population, including the Asante (Ashanti) people of Kumasi and the coastal Fante. Two-thirds (about 75%) of Ghanaians are Christians, another 15% are Islamic, and the remainders adhere to traditional animist beliefs. (Ministry of Tourism website, 2010)

There are ten regions in Ghana subdivided into 130 constituencies with numerous districts, municipalities and assemblies.

Table 7.1: Regions of Ghana, regional capitals, and Population distribution

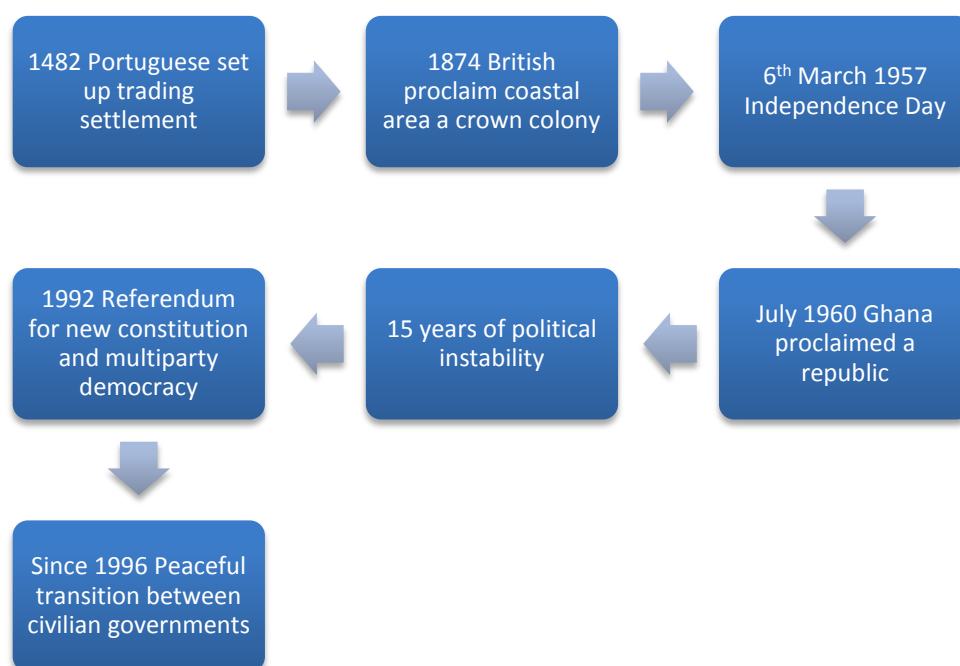
Name of Region	Regional Capital	Population	Percentage of total population
Greater Accra	Tema	2909643	15.8
Eastern	Koforidua	2108852	11.5
Volta	Ho	1612299	8.8
Central	Cape Coast	1580047	8.6
Western	Sekondi/Takoradi	1842878	10.0
Ashanti	Kumasi	3187607	17.3
Brong Ahafo	Sunyani	1824822	9.9
Northern	Tamale	1854994	10.1
Upper East	Bolgatanga	917251	5
Upper West	Wa	573860	3.1

Source: Data compiled from Ministry of Tourism website and Ghana Web (Online news website) 2010

## 1.5 Political History

Ghana was settled by Africans and Europeans occupied it since 1482 but external rule was imposed only 1874, which Britain claimed a strip of land extending less than 50km inland as the Gold Coast Colony. The more northerly territories were annexed to that colony in 1902, following a war with the Asante Empire, while the eastern border extended to include present-day Volta Region (formally part of German Togoland) in 1919. The Gold Coast attained independence and was renamed Ghana under the leadership of Dr Kwame Nkrumah in 1957. Nkrumah, having banned all political opposition, was overthrown in 1966 by what transpired to be the first of four military coups within the space of 15 years. A multi-party constitution was introduced in 1991. Jerry Rawlings won the first democratic presidential election in 1992 and served the constitutional maximum of two terms before stepping down in 2000, when former opposition leader John Kufuor was voted into power. (Ministry of Tourism website, 2010) The world looked on with respect as President Kufuor peacefully handed over power after 8 years to John Atta Mills, leader of the National Democratic Congress which won the elections.

Figure 7.1: Summary of Ghana's Political history



Source: Author's compilation of information from various Ghana government online portals.

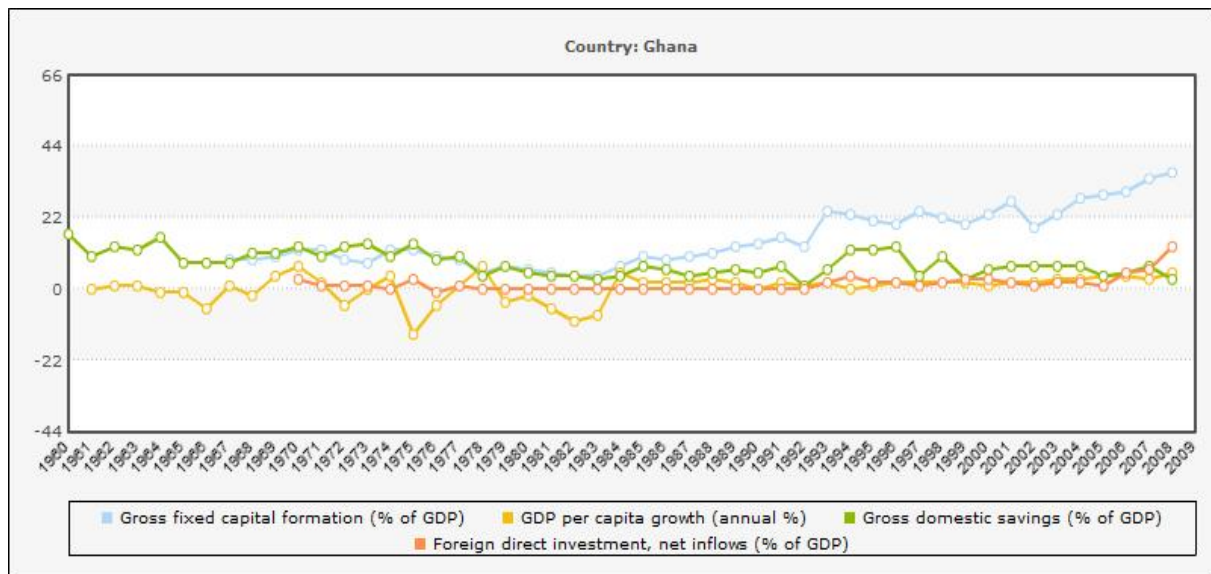
## 1.6 Economy

Ghana's economy has closely tied to the political climate of the country. After independence, the first President Dr. Kwame Nkrumah led the economy in a more socialist direction. Massive construction and other infrastructural works were put in place to facilitate development. Many utilities including; transportation, electricity, water, health were state-owned and run. There was the drive to quickly develop and contribute to the liberation of other African countries.

The 15 years of political instability when power was tossed between civilian and military juntas marked a time of little progress. It received little support from international donors and financial institutions like the World Bank and IMF. This was partly because the leaders were not credit worthy owing to the uncertainty surrounding the duration of their tenure and whether the loans or funds will be repaid upon the ascension of a new leader.

Since the implementation of the Structural Adjustment Program in the 1980s under the Provisional National Defense Council (PNDC) and later NDC government under President Rawlings Ghana has turned more towards Democracy crowned with peaceful transitions of government, rule of law, accountability, etc. which has seen an increase in the flow of Foreign investments, economic stability, and the like. It is important to note that the liberalization of the financial sector (FINSAP) took off within this period.

Figure 7.2: Major Economic Indicators of Ghana between 1960 and 2009



Source: World Development Indicators, 2009

In relation to the figure above, Ghana has had stable economic growth (GDP) since then. Whereas Gross fixed capital formation and Foreign Direct Investment have increased in the last 20 years, Gross domestic savings is on the decline. It will not be a far cry to purport that capital for investment in Ghana is mostly in the form of foreign loan, aid, grant and Foreign Direct Investment. As enticing as borrowing might be, Ghana must be cautious of the opportunity cost of developing herself while pursuing domestic savings mobilization like the building of roads, public financial literacy as against merely receiving 'aid' which comes with 'strings' attached.

## **APPENDIX 1B – Background Information: Ghana Living Standard Survey**

One of the major challenges facing Ghana is the need for a more comprehensive, reliable and up-to-date statistics and indicators to monitor and evaluate the effects of development policies and programmes on living standards. The Ghana Living Standards Survey was initiated to address this need.

The Living Standards Measurement Study (LSMS) customized by implementing countries including Ghana (Ghana Living Standards Survey) is a research project that was initiated in 1980 by the Policy Research Division of the World Bank. This was to make available relevant data for policy and decision makers to measure socio-economic indicators and appreciate their determinants. Programmes could then be drawn to address challenges identified in sectors of the economy such as health, education, economic activities and housing among others. Living Standards surveys have therefore come to provide valuable insights into living conditions of developing countries.

The Ghana Living Standards Survey (GLSS) has emerged as one of the important tools in the welfare monitoring system and together with other surveys like the Core Welfare Indicators Questionnaire (CWIQ) and the Ghana Demographic and Health Survey (GDHS) has provided a wealth of information for understanding living conditions in Ghana.

In Ghana, the first Ghana Living Standards Survey (GLSS) was conducted in 1987. The second, third and fourth rounds followed in 1988, 1991/92 and 1998/99 respectively. The previous rounds of GLSS have always had a specific focus. In the 5th Round, the Non-Farm Household Enterprises Module was made the focus and additional sections covering Tourism and Migrants & Remittances were introduced.

### **Objectives of GLSS 5**

The objectives of the Ghana Living Standards Survey- Round Five are to:

1. Provide insight into living standards in Ghana by providing data to facilitate in-depth analysis of the living conditions of households.
2. Provide information on patterns of household consumption and expenditure at a sub regional level of disaggregation.

3. Provide data on total earnings, hours of work, etc., for in-depth study of differentials among branches of industry, sectors of employment, occupations at geographic areas, levels and between women and men.
4. Provide the basis for the construction of the consumer price index.
5. Up-date the National Accounts and
6. Provide databases for national and regional level planning and poverty monitoring.

### **Survey Instruments**

To achieve the set objectives, detailed information were collected on key elements of socioeconomic life using four sets of questionnaires namely:

1. Household Questionnaire
2. Non-farm household enterprise module;
3. Rural Community Questionnaire; and
4. Prices of Food and Non-Food Items Questionnaire.

## **APPENDIX 2 – LIST, TABLES, FIGURES AND CHARTS**

### **List of Financial Institutions in Ghana as at June, 2009**

#### **Central Bank**

1. Bank of Ghana

#### **Universal and Off shore Banks**

1. Barclays Bank of Ghana Limited

#### **Universal Banks**

1. Access Bank (Ghana) Limited
2. Agricultural Development Bank
3. Amalgamated Bank Ltd.
4. Bank of Baroda
5. Banque Sahelo – Saharienne Pour L’investissement et le Commerce (BSIC)
6. Cal Bank Ltd.
7. Ecobank Ghana Limited
8. Fidelity Bank Limited
9. First Atlantic Merchant Bank Ghana Ltd.
10. Ghana Commercial Bank Ltd.
11. Guaranty Trust Bank (Ghana) Limited
12. HFC Bank (Ghana) Limited
13. Intercontinental Bank (Ghana)
14. International Commercial Bank Ltd.
15. Merchant Bank (Ghana) Limited
16. National Investment Bank Limited
17. Prudential Bank Ltd.
18. SG-SSB Limited

19. Stanbic Bank Ghana Ltd.
20. Standard Chartered Bank Ghana Ltd.
21. The Trust Bank Ltd.
22. Unibank Ghana Limited
23. United Bank for Africa (Ghana) Limited
24. UT Bank Limited
25. Zenith Bank (GH) Ltd.

### **Other Banks**

ARB Apex Bank Ltd.

### **Finance Houses**

1. Bond Financial Services Limited
2. Chrisline Financial Services Ltd.
3. City Investments Company Limited
4. Crest Finance House Limited
5. Eximguaranty Co. (GH) Ltd.
6. Export Finance Co. Ltd.
7. Express Funds International Ltd.
8. Forms Capital Limited
9. Bayport Financial Services
10. Golden Link Financial Services
11. Ivory Finance Company Ltd.
12. Jislah Financial Services
13. N.D.K. Financial Services
14. Oak Financial Services
15. Sterling Financial Services

16. TF Financial Services
17. Trans-Continental Financial Services Ltd.
18. Unique Trust Financial Services Ltd
19. Utrak Financial Services

### **Savings and Loans Companies**

1. 1<sup>st</sup> African Savings & Loans Co. Ltd.
2. Adehyeman Savings and Loans Co. Ltd.
3. Advans Ghana
4. Eb-Accion Savings and Loans Company Limited
5. Express Savings and Loans Co. Ltd
6. Ezi Savings & Loans Ltd.
7. First Allied Savings and Loans Co. Ltd
8. First Ghana Building Company
9. First National Savings and Loans Co. Ltd
10. Garden City Savings & Loans Company Limited
11. Global Access Savings and Loans Company Limited
12. Midland Savings and Loans Co., Ltd.
13. Opportunity International Savings and Loans Co. Ltd
14. Pacific Savings & Loans Co. Ltd
15. Procredit Savings & Loans Co. Ltd.
16. Unicredit Ghana Ltd.
17. Union Savings and Loans Ltd.
18. Women's World banking-masu

## **Mortgage Finance Company**

Ghana Home Loans

## **Leasing and Finance Companies**

1. Dalex Finance and Leasing Company Ltd
2. Ecobank Leasing Co. Ltd
3. F&D Finance and Leasing Company Ltd
4. Ghana Leasing Co. Ltd
5. IFS Finance & Leasing Company Limited
6. Leasafric Ghana Ltd
7. SDC Finance and Leasing Co. Ltd.

## **Brokerage Companies**

1. Cal Brokers Ltd
2. Capital Alliance Co. Ltd.
3. CDH Security Ltd.
4. DataBank Brokerage Ltd.
5. EcoBank StockBrokers Ltd.
6. First Atlantic Brokers Limited
7. Gold Coast Securities Limited
8. Merban Stock Brokers Ltd.
9. New World Investments Ltd.
10. NTHC Ltd
11. SDC Brokerage Service Limited
12. Sterling Securities Ltd.

13. Sem Capital Management Ltd
14. Strategic African Securities Ltd
15. WorldWide Securities Ltd.

Source: Bank of Ghana (2010) and Business Ghana Online Portal (2010)

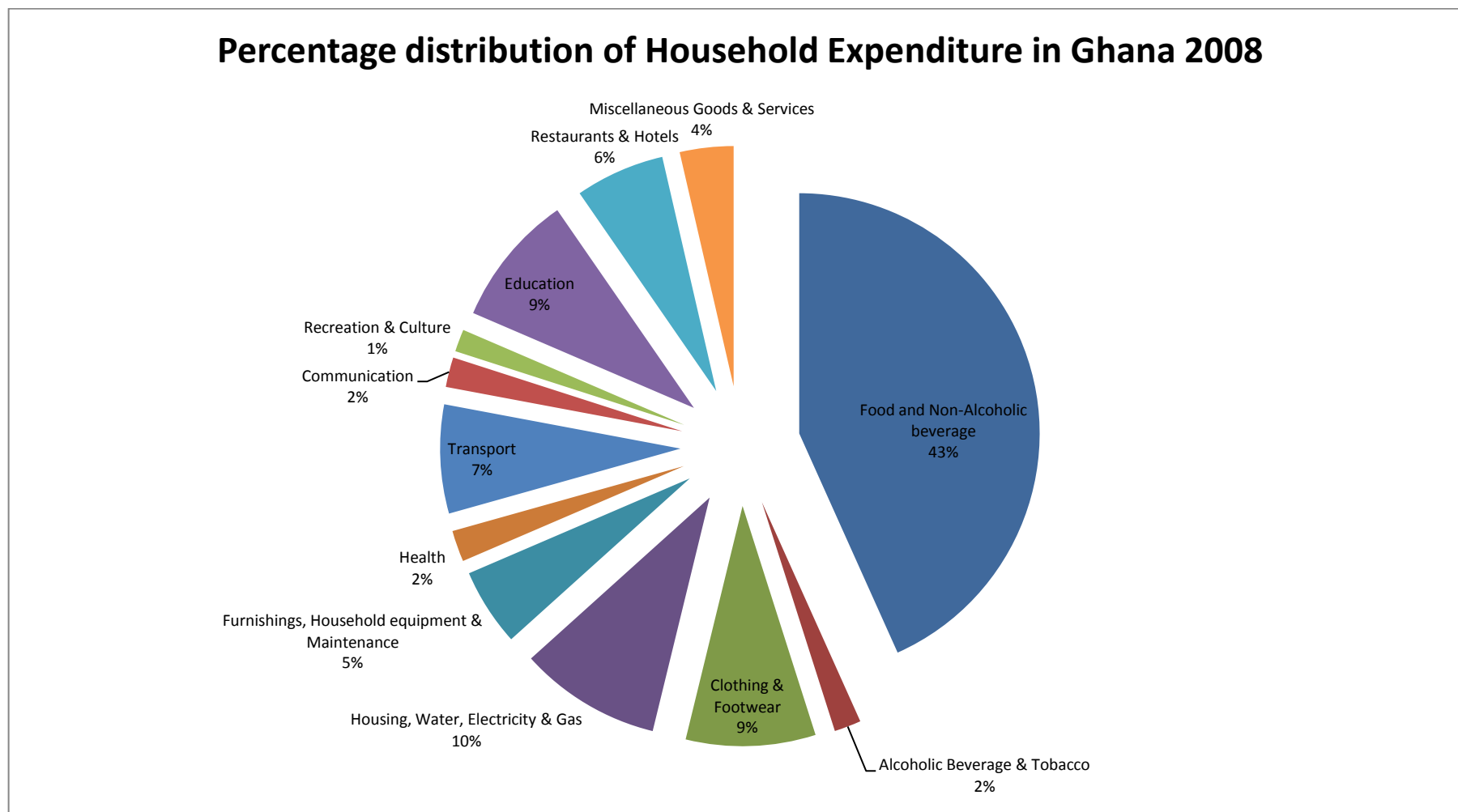
**Table 7.2: History of Activities of Japan's Central Council for Savings Information**

History of the Activities of the Council		
	Characteristics	Characteristics
<b>1946-51</b> <b>Savings campaign for economic salvation</b>	Developed by government initiative mainly to control inflation	Lectures by the Finance Minister and the Governor of the Bank of Japan Children's Bank (Jan. 1948)
<b>1952-58</b> <b>Special savings movement</b>	The Central Council for Savings Promotion established (Apr. 1952) Various movements developed to promote savings for capital accumulation and exports at the Central Council's initiative	Lectures Distribution of housekeeping account books (Oct. 1952)
<b>1958-61</b> <b>Consolidation</b>	Framework of current system completed	Group activities in Model Savings Districts (established in June 1958), tie-up with womens' organizations, and Savings Promoter System established (June 1960)

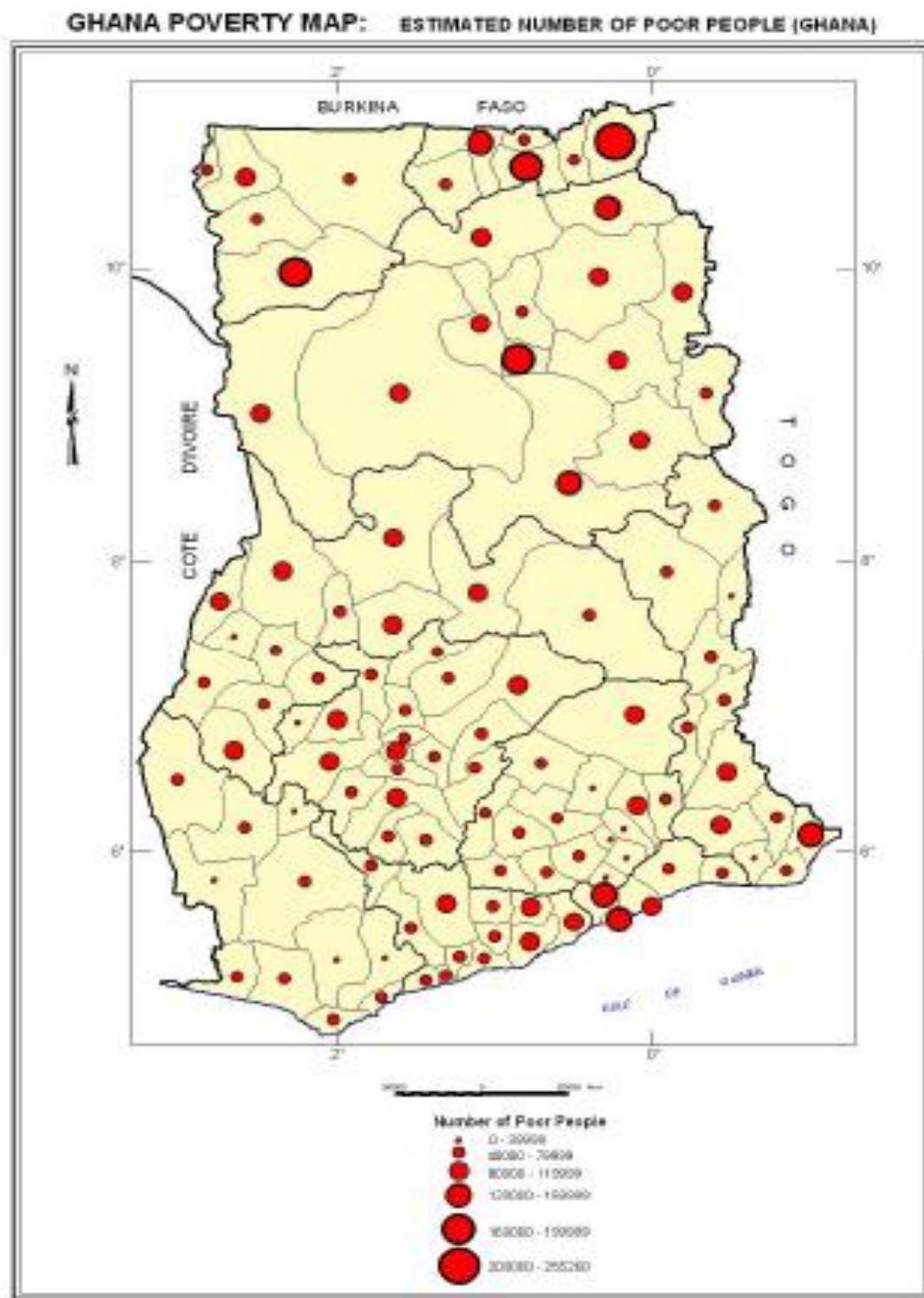
<b>1961-73 Expansion</b>	Additional activities for children	Regular TV programs started (Aug. 1962) Life Planning Computer Consultation Service (Dec. 1962) Activities to disseminate pecuniary education, including model schools for pecuniary education (established in Apr. 1973)
<b>1974-80 Support of Energy-Saving Campaigns</b>	Energy-saving campaigns and movements to review consumption actively supported (1st and 2nd oil crises)	
<b>1981- Review of savings promotion</b>	Three mainstays established (since FY 1983): --to provide financial and economic information --to encourage the drafting of life plans --to disseminate pecuniary education The Central Council for Savings Promotion changed its name to the Central Council for Savings Information (Apr. 1988) and to the Central Council for Financial Services Information (Apr. 2001) Savings Districts were renamed to Study Group on Financial and Economic Matters and Savings Promoters were renamed to Study Adviser on Financial and Economic Matters (Apr. 2002)	Website of the Central Council (Oct. 1999) "Guide to Consumer Education for Financial Literacy" released (March 2002)

Source: Central Council for Savings Information Website (2010)

**Figure 7.3: Percentage Distribution of Household Expenditure in Ghana 2008**



**Source: Ghana Statistical Service: Ghana in Figures 2008.**



**Figure 7.4: Ghana Poverty Map**

Source: Ghana Living Standards Survey 4 Workshop Presentation. Ghana Poverty Map.  
 Accessed from:

[http://www.egnghana.org/forum\\_pages/docs/sdm/Ghana%20Living%20Standards%20Surveys%20Jan06.pdf](http://www.egnghana.org/forum_pages/docs/sdm/Ghana%20Living%20Standards%20Surveys%20Jan06.pdf)

**Table 7.3: Market Indicators For Some Selected Countries - 2002**

Region	No of listed Coym	Market Cap US\$m	Turnover Ratio
<b>Africa</b>			
South Africa	450	184,622	78.6
Egypt	1033	32,838.0	31.6
Nigeria	195	5,740	10.6
Zimbabwe	76	15,632	19.2
Ghana	24	340	2.5
Botswana	18	1,723	5.0
<b>Other Emerging Markets</b>			
India	5,650	131,011	225.8
Malaysia	865	123,872	17.5
Brazil	399	223,807	35.0
Taiwan	59	3,962	6.4
Argentina	83	103,434	2.2
<b>Developed Markets</b>			
United States	6,355	13,810,429	210.3
Canada	4,004	700,751	
Japan	2,471	2,251,814	81.1
United Kingdom	1,923	2,217,324	84.4
<b>Source : World Development Indicators – 2002</b>			

Source: Osaze, B. E. (n.a.) African Stock Exchanges - A Curiosum. Accessed from:  
<http://bobosaze.com/paradigmshift1.php>

### APPENDIX 3 – COPY OF STATISTICAL RESULTS

#### Regression analysis with Gross Domestic Savings as the dependent variable

regress gdscurus gdi2000 gnipc2000us pop014 pop1564 pop65 popr popu gdppercapita cps lit15 inflation

Source	SS	df	MS	Number of obs = 37		
Model	7.9591e+17	9	8.8435e+16	F( 9, 27) = 3.63		
Residual	6.5705e+17	27	2.4335e+16	Prob > F = 0.0044		
				R-squared = 0.5478		
				Adj R-squared = 0.3970		
Total	1.4530e+18	36	4.0360e+16	Root MSE = 1.6e+08		

gdscurus	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
gdi2000	1073.667	2209.568	0.49	0.631	-3459.993	5607.326
gnipc2000us	-2423127	1.47e+07	-0.16	0.870	-3.26e+07	2.78e+07
pop014	4.21e+09	2.49e+09	1.69	0.102	-8.90e+08	9.31e+09
pop1564	4.36e+09	2.52e+09	1.73	0.094	-8.00e+08	9.53e+09
pop65	(dropped)					
popr	-1.26e+08	1.07e+08	-1.18	0.249	-3.47e+08	9.37e+07
popu	(dropped)					
gdppercapita	1966291	1.33e+07	0.15	0.883	-2.53e+07	2.92e+07
cps	-2.64e+07	2.23e+07	-1.18	0.247	-7.21e+07	1.94e+07
lit15	-8391765	1.09e+07	-0.77	0.449	-3.08e+07	1.40e+07
inflation	622043.7	1145332	0.54	0.592	-1727982	2972070
_cons	-4.08e+11	2.42e+11	-1.69	0.103	-9.04e+11	8.80e+10

### Pairwise Correlation of other variables against Gross Domestic Savings

```
. pwcorr gdscurus gdi2000 gnipc2000us pop014 pop1564 pop65 popr popu gdppercapita cps lit15 inflation
```

	gdscurus	gdi2000	gnipc2~s	pop014	pop1564	pop65	popr
gdscurus	1.0000						
gdi2000	0.6234	1.0000					
gnipc2000us	0.2703	0.4362	1.0000				
pop014	-0.6162	-0.9795	-0.2978	1.0000			
pop1564	0.6184	0.9794	0.3072	-0.9999	1.0000		
pop65	0.5929	0.9709	0.2202	-0.9919	0.9898	1.0000	
popr	-0.6128	-0.9628	-0.2021	0.9921	-0.9904	-0.9963	1.0000
popu	0.6128	0.9628	0.2021	-0.9921	0.9904	0.9963	-1.0000
gdppercapita	0.2894	0.4702	0.9960	-0.3396	0.3492	0.2609	-0.2439
cps	0.4162	0.8070	0.7276	-0.7662	0.7725	0.7100	-0.6946
lit15	0.4834	0.7363	-0.1936	-0.8294	0.8249	0.8581	-0.8813
inflation	-0.2273	-0.3533	-0.3694	0.3705	-0.3788	-0.3015	0.3187

### Partial Correlation with Gross Domestic Savings as the dependent variable

```
. pcorr gdscurus gdi2000 gnipc2000us pop014 pop1564 pop65 popr popu gdppercapita cps lit15 inflation
(obs=37)
```

Partial correlation of gdscurus with

Variable	Corr.	Sig.
gdi2000	0.0931	0.631
gnipc2000us	-0.0317	0.870
pop014	0.3099	0.102
pop1564	0.3165	0.094
pop65	(dropped)	
popr	-0.2211	0.249
popu	(dropped)	
gdppercapita	0.0285	0.883
cps	-0.2220	0.247
lit15	-0.1461	0.449
inflation	0.1040	0.592

**Partial Correlation: Gross Domestic Savings against Lending Interest Rate and Deposit Interest Rate**

```
. pcorr gdscurus lendir depintr  
(obs=29)
```

Partial correlation of gdscurus with

variable	Corr.	Sig.
lendir	-0.3711	0.052
depintr	0.3583	0.061

**Pairwise Correlation: Gross Domestic Savings against Lending Interest Rate and Deposit Interest Rate**

```
. pwcorr gdscurus lendir depintr
```

	gdscurus	lendir	depintr
gdscurus	1.0000		
lendir	-0.4159	1.0000	
depintr	0.4050	-0.2073	1.0000

Regression Analysis: Using Gross Domestic Income as dependent variable with a dataset between 1970 -2006

```
. regress gdi2000 pop014 pop1564 pop65 popgrowth popr popu gdppercapita cps lit15
```

Source	SS	df	MS	Number of obs =	37
Model	2.1148e+12	7	3.0211e+11	F( 7, 29) =	1498.53
Residual	5.8465e+09	29	201603685	Prob > F =	0.0000
				R-squared =	0.9972
				Adj R-squared =	0.9966
Total	2.1206e+12	36	5.8906e+10	Root MSE =	14199

gdi2000	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
pop014	11375.36	21512.89	0.53	0.601	-32623.44	55374.16
pop1564	(dropped)					
pop65	764363.8	138905.4	5.50	0.000	480270.5	1048457
popgrowth	-11513.2	7850.589	-1.47	0.153	-27569.45	4543.061
popr	(dropped)					
popu	18736.23	8944.859	2.09	0.045	441.9419	37030.52
gdppercapita	1764.894	197.6266	8.93	0.000	1360.702	2169.086
cps	-6073.085	1714.453	-3.54	0.001	-9579.534	-2566.636
lit15	-3443.672	725.4223	-4.75	0.000	-4927.327	-1960.017
_cons	-2936836	1291584	-2.27	0.031	-5578422	-295249.8

Regression Analysis: Using Gross National Income per capita as dependent variable with a dataset between 1970 -2006

```
. regress gnipc2000us gdi2000 pop014 pop1564 pop65 popgrowth popr popu gdppercapita cps lit15
```

Source	SS	df	MS	Number of obs =	37
Model	35878.614	8	4484.82675	F( 8, 28) =	1210.43
Residual	103.744493	28	3.70516045	Prob > F =	0.0000
				R-squared =	0.9971
				Adj R-squared =	0.9963
Total	35982.3585	36	999.509959	Root MSE =	1.9249

gnipc2000us	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
gdi2000	.0000765	.0000252	3.04	0.005	.0000249	.000128
pop014	78.02034	26.57431	2.94	0.007	23.58533	132.4553
pop1564	71.71226	26.92333	2.66	0.013	16.56231	126.8622
pop65	(dropped)					
popgrowth	1.699688	1.103041	1.54	0.135	-.5597885	3.959165
popr	-2.143939	1.301134	-1.65	0.111	-4.809192	.5213138
popu	(dropped)					
gdppercapita	.8588614	.0518815	16.55	0.000	.752587	.9651358
cps	.5452503	.2781938	1.96	0.060	-.0246039	1.115105
lit15	-.1572782	.1310974	-1.20	0.240	-.4258192	.1112627
_cons	-7114.58	2588.153	-2.75	0.010	-12416.17	-1812.989

**Pairwise Correlation: Using Gross National Income per capita as dependent variable with a dataset between 1970 -2006**

```
. pwcorr gnipc2000us gdi2000 pop014 pop1564 pop65 popgrowth popr popu gdppercapita cps lit15
```

	gnipc2~s	gdi2000	pop014	pop1564	pop65	popgro~h	popr
gnipc2000us	<b>1.0000</b>						
gdi2000	<b>0.4362</b>	<b>1.0000</b>					
pop014	<b>-0.2978</b>	<b>-0.9795</b>	<b>1.0000</b>				
pop1564	<b>0.3072</b>	<b>0.9794</b>	<b>-0.9999</b>	<b>1.0000</b>			
pop65	<b>0.2202</b>	<b>0.9709</b>	<b>-0.9919</b>	<b>0.9898</b>	<b>1.0000</b>		
popgrowth	<b>-0.5759</b>	<b>-0.3622</b>	<b>0.2404</b>	<b>-0.2413</b>	<b>-0.2310</b>	<b>1.0000</b>	
popr	<b>-0.2021</b>	<b>-0.9628</b>	<b>0.9921</b>	<b>-0.9904</b>	<b>-0.9963</b>	<b>0.2160</b>	<b>1.0000</b>
popu	<b>0.2021</b>	<b>0.9628</b>	<b>-0.9921</b>	<b>0.9904</b>	<b>0.9963</b>	<b>-0.2160</b>	<b>-1.0000</b>
gdppercapita	<b>0.9960</b>	<b>0.4702</b>	<b>-0.3396</b>	<b>0.3492</b>	<b>0.2609</b>	<b>-0.5775</b>	<b>-0.2439</b>
cps	<b>0.7276</b>	<b>0.8070</b>	<b>-0.7662</b>	<b>0.7725</b>	<b>0.7100</b>	<b>-0.4467</b>	<b>-0.6946</b>
lit15	<b>-0.1936</b>	<b>0.7363</b>	<b>-0.8294</b>	<b>0.8249</b>	<b>0.8581</b>	<b>0.0009</b>	<b>-0.8813</b>

**Partial Correlation: Using Gross National Income per capita as dependent variable with a dataset between 1970 -2006**

```
. pcorr gnipc2000us gdi2000 pop014 pop1564 pop65 popgrowth popr popu gdppercapita cps lit15
(obs=37)
```

Partial correlation of gnipc2000us with

Variable	Corr.	Sig.
gdi2000	<b>0.4978</b>	<b>0.005</b>
pop014	<b>0.4852</b>	<b>0.007</b>
pop1564	<b>0.4496</b>	<b>0.013</b>
pop65	(dropped)	
popgrowth	<b>0.2796</b>	<b>0.135</b>
popr	<b>-0.2973</b>	<b>0.111</b>
popu	(dropped)	
gdppercapita	<b>0.9525</b>	<b>0.000</b>
cps	<b>0.3473</b>	<b>0.060</b>
lit15	<b>-0.2211</b>	<b>0.240</b>

### Results of Partial Correlations using Gross Domestic Income as dependent variable (1966 – 2006)

Partial correlation of gdi2000 with

Variable	Corr.	Sig.
gnipc2000us	-0.0872	0.630
pop014	-0.8104	0.000
pop1564	-0.7982	0.000
pop65	-0.0820	0.650
popgrowth	-0.5098	0.002
popr	0.4401	0.010
popu	-0.3188	0.071
gdppercapita	-0.4214	0.015
cps	0.1835	0.307

### Results of Pairwise Correlations using Gross Domestic Income as dependent variable (1966 – 2006)

	gdi2000
gdi2000	1.0000
gnipc2000us	0.3212
pop014	-0.9637
pop1564	0.9573
pop65	-0.3565
popgrowth	0.0283
popr	0.5056
popu	0.1561
gdppercapita	-0.1715
cps	0.6719