The Development of the Monetary and Financial System of Ghana, 1950-64

by

A. K. Appiah

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Contents

Chapter		Page
Introductory		
	Political and Economic Background	i
	Political background	I
	Economic background	iv
One	Commercial Banking	1
	Introduction	1
	A. Expatriate banks	6
	B. The Ghana Commercial Bank	26
	C. Developments in commercial banking 1950-64	58
	Bank Offices	60
	Banking Services	83
	Assets and Liabilities	91
	Cash and liquidity ratios	123
	Lending policy (summary)	127
	Borrowing and lending rates	131
Two	The Monetary Authority - 1	137
	A. The West African Currency Board	137
	B. The Change to Central Banking	147
	C. Developments in Central Banking Constitutional Arrangements	157
Three	The Monetary Authority - 2	187
	Executive Personalities	187
	Departmental structure	190
	Liabilities	195
	Assets	203
	Interest rates	208
Four	Non-Bank Financial Institutions	210
	A. The Ghana Savings Bank	210
	B. The First Ghana Building Society	233
	C. The National Investment Bank	240
Five	Money and Capital Markets	249
	The Money Market	250
	A Capital market	261
Six	Organisation of Small Loans	264
	A. Agricultural Credit	264
	B. The Industrial Development Corporation	288
	C. The Guarantee Corporation and the Mortgage Loans Scheme	294

Chapter		Page
Seven	Analyses of Developments in the Monetary System	300
	A. Implications of the Sterling Exchange Standard	301
	B. The Balance of Payments, External Reserves and the Money Supply	313
	C. Analysis of the Money Supply	337
	D. Scope for Monetary Policy	351
	Basis for computing reserve requirements	358
	Monetary policy in practice	366
Bibliography		375

Tables

Table No.		Page
I	Estimated Mid-Year Population, 1950-64 (Selected Years)	vii
II	Age Distribution of Population, 1960	viii
III	Gross Domestic Product at Current Market Prices, 1955-64	ixA
IV	The Current Account Balance of the Balance of Payments, 1953-64	xA
V	Estimated Net Foreign Exchange Assets, Selected Years	xiA
VI	Known Government Liabilities, 1959-64	xiB
VII	Components of Exports of Domestic Produce, 1960-64	xiiA
VIII	Industrial Distribution of Economically Active Population, 1960	xiiA
IX	Average Size of Agricultural Holding, 1963	xiv
X	The Terms of Trade, 1957-64	xv
XI	Cocoa: Ghana's Output Compared with Total World Output, 1957-64	xvi
XII	Composition of Central Government Revenue, 1957-58 to 1963-64	xviA
XIII	Composition of Visible Imports, 1954-64	xviiA
XIV	Domestic and Imports Content of Estimated Private Consumption Expenditure, 1955 and 1960-64	xviiA
XV	Domestic Output of Manufactured Goods 1962-64	xviii
XVI	Sectorial Distribution of Manufactured Produce, 1962-64	xix
XVII	Sectorial Distribution of Employment	
1	Annual Issues of British Sterling Silver for Use British West African Colonies 1866-1900	4
2	Total Number of Branches of the Bank of West Africa, 1965	9

Table No.		Page
3	Ghana Commercial Bank: Staff Employment Position	42
4	Ghana Commercial Bank: Paid Capital 1953-64	45
5	Ghana Commercial Bank: Reserves 1960-64	47
6	Ghana Commercial Bank: Net Profits, 1957-64	48
7	Deposit Liabilities of the Ghana Commercial Bank and All Bank Deposits	50
8	Number of Commercial Bank Offices compared with GDP	61
9	Banking Density, 1951 and 1955-64	62
10	Banking Density: Comparison of Ghana with Selected Foreign Countries, 1964	64
11	Banking Offices of Expatriate Banks and the Ghana Commercial Bank. Selected years	66
12	Regional Distribution of Commercial Bank Offices, 1955-64	68A
13	National and Regional Area Per Banking Office, 1955-64	68B
14	Urbanization and Banking Density, 1960	70
15	Summary of Commercial Bank Liabilities, 1950-64	91A
16	Assets of Commercial Banks, 1950-64	92A
17	Commercial Bank Deposit Liabilities to Non-Bank Customers, 1950-64	94
18	Ownership of Commercial Bank Deposits, 1960-64	100A
19	Gross Assets of Commercial Banks - Domestic and Foreign, 1950-64	106
20	Commercial Banks' Earning Assets - Domestic and Foreign, 1950-63	106A

Table No.		Page
21	Loans and Advances by Reported End-Use, 1958-64	111A
22	Commercial Bank Bills and Security Investments, 1950-64	118A
23	Short-Term Interest Rates in London and Accra, 1960-61	119
24	Cash and Liquidity Ratios of Commercial Banks, 1950-64	123A
25	Commercial Banks' Borrowing and Lending Rates, 1957-63	131A
26	Amounts Distributed to the West African Governments by the West African Currency Board, 1950-62	141A
27	Ghana: Receipts from W.A.C.B. and Total Government Revenue, 1950-61	141B
28	Balance Sheet of the West African Currency Board, June 30, 1950	142
29	Liabilities of the Bank of Ghana, 1957-64	195A
30	Bank of Ghana, Currency Liabilities	200
31	Bank of Ghana, Contra Accounts (Liabilities) 1962-64	202
32	Assets of the Bank of Ghana, 1957-64	203A
33	Percentage Distribution of Currency Cover Assets, 1958-64	204
34	Bank of Ghana: Distribution of Gross Assets other than Fixed Assets and "Other Assets", 1959-64	207
35	Number of Savings Bank Offices, 1950-64	216
36	Transactions on Mobile Savings Banks, 1954-64	219
37	Ghana Savings Bank Investments as at 31st March 1962	222A
38	Ghana Savings Bank, Annual Deposits and Withdrawals, 1950-64	225

Table No.		Page
39	Ghana Savings Bank, Net Balances on Annual Transactions, 1950-64	225
40	Ghana Savings Bank: Outstanding Deposit Balances, Number of Accounts and Average Value of Account, 1950-64	226
41	Ghana Savings Bank: Deposits per Savings Bank Office Selected Dates	228
42	First Ghana Building Society: Total Deposits (All Accounts), 1958-64	236
43	First Ghana Building Society: Total Assets . 1958-63	237
44	Composition of Building Society:Assets, 1962 and 1963	238
45	Outstanding Short-Term Marketable Financial Assets, 1960-64	249A
46B	Quarterly Values of Outstanding Internal Commercial Bills, 1963 and 1964	249A
46	Known Internal Medium and Long-Term Marketable Financial Assets, 1959-64	249B
47	Co-operative Society Loans, 1931-56 (Selected Years)	273
48	Funds Received by C.P.C. (Loans Agency) from the C.M.B. for Loans to Cocoa Farmers, 1953-55	279A
49	C.P.C. (Loans Agency): Amounts Received from C.M.B. and Loans Issued	279A
49A	Industrial Development Corporation: Regional Distribution of Small Loans, 1960 and 1961	291

Table No.		Page
49B	Industrial Development Corporation: Distribution of Small Loans by Industry, 1959 and 1960	292
49C	Industrial Development Corporation: Number of Small Loans According to Type of Business	293A
50	The Balance of Payments and Changes in External Reserves, 1950-60	316A
51	Balance of Payments Accounts 1961-64	316A
52A	Changes in Money Supply and Sources, 1950-57	331A
52B	Changes in Money Supply and Sources, 1958-64	331B
53	Gross Credit by the Banking System, 1958-64	332A
54	Distribution of Bank Credit Outstanding, Classified by Broad Groups of Borrowers, 1959-64	333A
55	Total Bank Credit Outstanding, Classified by Lender, 1959-64	333A
56	Changes in Commercial Bank Credit to Private Sector and Central Governments, 1959-64	333B
57	Money Supply, 1954-64	337A
58	Composition of the Money Supply of the Public, 1954-64	338A
59	Ratio of Money Supply to Total Gross Financial Assets of the Public, 1958-64	341
60	Reserve Requirements of the Commercial Banks Under Credit Control Regulations, 1964	368A

Figures

Figure No.		Page
I.1	Index of Volume and Average Price of Imports and Domestic Exports, 1957-64	xivA
1 - 5	Distribution of Commercial Banking Offices, 1904, 1937, 1955, 1963, 1964	82ff
6	Interest Rates of Commercial Banks and the London and Local Bank Rates, 1957-63	134A
7	Outstanding Bank Credit to Central Government and the Private Sector, 1959-64	334A
8	Changes in Commercial Bank Credit to the Private Sector and Central Government 1959-64	335A
9	Money Supply, Foreign Exchange Assets, Bank Credit, Internal Public Debt and Price Movements	348A

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Preface

This thesis deals with the development of the monetary and financial system of Ghana during the period 1950-64 and was conceived of as a sequal to "Money and Banking in British Colonial Africa" by W.T. Newlyn and D.C. Rowan.

The period itself saw considerable changes in political and economic conditions and aspirations which left their mark on the financial system. Emphasis has generally been placed on the major changes and the work is largely a mixture of historical survey and analysis.

The Introductory Chapter deals with the general framework and characteristics of the economy laying emphasis on the changes and modifications which provide the background to some basic developments in monetary and financial practices.

Chapters One to Three deal with the monetary institutions - the commercial banks and the Currency Board supplanted in 1957 by the Central Bank. Chapter One deals with the commercial banking system. In Chapter Two are examined the functioning of the West African Currency Board, a review of discussions involving the change to a Central Bank and the evolution of Central Banking constitutional arrangements up to 1964. Chapter Three examines the structural development of the Central Bank as exemplified by the gradual gravitation of the Bank into the general economic administration of the nation and as reflected in important movements in the Bank's assets and liabilities structure.

Chapters Four to Six deal respectively with non-bank financial institutions extant at the end of 1964, a general appraisal of the prospects for the development of money and capital markets and a survey of the performances of various special credit schemes organised under governmental auspices. Included in Chapter Six is a survey of Agricultural Credit schemes and general related problems dating back much earlier than 1950.

The final Chapter (Seven) is a theoretical analysis of the relationship between the balance of payments, domestic credit operations and the money supply. In this is generally undertaken a review of the literature on these and other questions related thereto. Section D of Chapter Seven examines the scope for monetary policy which only took active form in the last year of the period under review. The general argument put forward is that the greatest scope in the immediate future lay in the use of selective reserve requirements as actually employed in April 1964. First the literature on the various bases for computing reserve requirements are reviewed with the special peculiarities of Ghana for appraisal. This is followed by a brief analysis of the credit control regulations actually adopted.

A separate chapter on summary and conclusions has not been incorporated because in a broad study of this kind it would merely lead to repetitions of various ideas and conclusions stated in the text.

The institutional arrangements described in the thesis

are based on interviews and discussions held with representatives of the institutions concerned, publications of the Bank of Ghana and the Government Statistician's office and personal knowledge.

Statistical data derive mainly from publications of the Bank of Ghana and the Government Statistician. Due to frequent changes in the basis of statistical data as well as revisions it has not been possible in all cases to present data comparable in every sense and covering the whole period under review. As far as practicable revised data have been used sometimes at the expense of presenting figures for the whole review period.

INTRODUCTORY CHAPTER

Political and Economic Background.

Political background

On March 6 1957 after over a hundred years of colonisation by Britain the Gold Coast attained Independence under the present name of Ghana.

Ghana (or the Gold Coast) has a long history of struggle for political independence but the most significant wave of nationalism was that which began in 1949 under Dr. Nkrumah whose Government and political party were deposed and disbanded by the military coup of February 1966.

In 1951 the first African-dominated Legislature sat in Accra. The other major political significance of this constitutional advancement was the appointment of the head of the political party with majority representation in the Legislature to the position of Leader of Government Business. The precise responsibility which went with this position is a field for political commentary and is beyond the scope of this study. The administration of the colony continued to be carried out by the Colonial authorities.

However, internal self-government was achieved in 1954 when a local politician became Prime Minister at the head of a Government formed by Ministers drawn from the political party with a majority of the seats in the Legislature. From then there was a rapid development to Independence although the path was by no means smooth being marked by considerable political

rivalry and physical conflict between opposing factions.

Under the Independence constitution the country was politically based on a kind of federal structure with Regional Assemblies whose approval was necessary to the final enactment of laws passed in the central legislature based in Accra. The Regional Assemblies were abolished shortly after Independence by an amendment enacted under Government sponsorship.

On 1st July 1960 Ghana became a Republic thus shedding the post of Governor-General. On that date Dr. Nkrumah who had been Prime Minister since 1954 became President of the Republic of Ghana, Head of Government and replaced the British Crown as Head of State.

An economic commentary on Ghana would be deficient without reference to three political developments which undoubtedly left their mark on the economy of Ghana.

First, from 1958 immense political power came to be centred in the hands of the Head of Government, namely Dr. Nkrumah, culminating in the formal dissolution of all Opposition by referendum in January 1964. There was widespread evidence that the Government did not countenance criticism of their policies and actions. Through the instrument of the much publicised Preventive Detention Act passed in 1958 the Government progressively stopped open criticism.

Secondly, by 1960 public statements by members of the governing party (the Convention Peoples Party) and the Government-controlled press indicated that the Government's policy was to build a socialist economy. The interpretation of

of socialism as frequently indicated in official statements was that the State was to build a state sector, alongside private and co-operative sectors, in industry, agriculture and distribution. From about 1960 there was a general stepping up of the rate at which state-owned enterprises were built. But private enterprise was generally stagnant because not only was there a marked shift of resources into the public sector but also the Government-controlled press showed many signs of hostility to private enterprise. The attitude of the general public was frequently one of doubt.

Whilst the building of a relatively large public sector led to frequent calls for austerity the obvious opulence of the politicians often belied the call for austerity.

Thirdly, shortly after the attainment of Independence Ghana was brought by the local politicians into the thick of Pan-Africanist movements. Towards the end of the period under review it was clear that the Government's aversion to criticism of or non-support for its African policy was no less severe then its reaction to criticism of its domestic political and economic policies.

As all these political developments coincided with considerable economic hardships the public generally ascribed the economic difficulties to the Government's political and economic policies. The public became apathetic to the Government's policies although many on the Government's side would not admit this. However, there followed a regime of compulsion and

victimisation spearheaded by a growing corps of political carecrists whose methods and pronouncements often short-circuited measures introduced in the attempts to resolve growing economic problems.

Economic background.

Over the period 1950-64 the economy of Ghana was undergoing certain significant modifications in practically all sectors which explained largely the major basic developments in monetary and financial arrangements. The modifications were in many cases not final in complexion and the general picture was one of evolution rather than revolution thus rendering difficult and hazardous attempts at generalisations. To a considerable extent the general developments in the economy upon which was based or which gave rise to the main monetary and financial developments were the result of changing political circumstances.

Thus in the course of the period under review the establishment of the first locally-owned indigenous commercial bank coincided with the approach of internal self-government in contrast to the period of full colonial status when the commercial banking system consisted of only British-owned institutions with relatively little credit dealings outside the expatriate sector.

Secondly, shortly after the attainment of Independence the West African Currency Board which had issued currency for circulation in Ghana since 1913 was replaced by a Central Bank. An Industrial Development Corporation formed as a development

bank in 1947 and later turned into a holding company organising a number of industrial establishments failed in 1962 and a year later was succeeded by the National Investment Bank currently in operation. The Industrial Development Corporation was operated entirely on Government capital, whilst as presently constituted private participation in the share capital of the National Investment Bank is limited to only 0.25% of the authorised capital.

Thirdly, from about 1960 the Government embarked on a general expansion of the public sector manifested in the purchase of a previously privately owned trading company, five gold mining concerns, the establishment of various manufacturing industries and a publicly-organised agricultural sector. The latter consisted of the Workers Brigade (formed about the time of Independence) and later the State Farms Corporation consolidated in 1963 out of various small semi-public agricultural organisations. Similar developments also took place in other economic sectors. By the end of the period under examination the Government was operating a modest international merchant navy an airline and a general insurance concern. The Government was also participating jointly with foreign private concerns in a number of distributive and manufacturing ventures. Thus for example the Government was a part-owner of the only oil refinery in the country.

All these developments originated from or were made possible by one or more of several general developments in the economy. These were (a) a heavy investment programme in the

infrastructure commenced in 1951; (b) a search for structural diversification partly to raise the resilience of an economy dominated by a narrowly-based export of primary produce, and partly to provide a long-term solution to a persistently adverse balance of payments; (c) the result of a socialist policy conceived in more than the welfare sense of the term.

As a result of such developments as have been outlined above, by the end of the period under review large-scale manufacturing industry and agriculture was dominated by the Government sector.

Previously the traditional structure of the economy was broadly divided as follows between the indigenous private sector and the expatriate sector. The former, as now, had a virtual monopoly of agricultural production for both export and domestic consumption, the retail end of local foodstuffs, virtually the entire domestic road transport system and a sizeable share of the retail distribution of imported consumer goods based mainly on supplies obtained from the large expatriate importing firms. The expatriate sector on the other hand dominated all other sectors of the economy including timber and mineral exploitation.

The basic framework of the economy will be brought out in the following paragraphs where we examine briefly the major statistical characteristics.

Population

A population census carried out in 1948 estimated the total population at 4.12 million. In March 1960 a second census much better-organised under the supervision of United Nations experts

arrived at a total population of 6.73 million. On the basis of the two results estimated population growth rate was calculated at 4.2% per year. This is generally regarded as an

Table I

Ghana: Estimated Mid-year Population 1950-64.
(Selected Years)
'000

1950	5,239
1955	5,946
1957	6,247
1960	6,727
1964	7,454

Source: Author's calculation based on 1960 Census at an estimated pre-1960 annual growth rate of 2.5% and a post-1960 growth rate of 2.6% (See Chapter 1 p.63).

overestimation arising from undernumeration in 1948 as indicated by a generally poor machinery for the collection of statistical data. Table I shows population figures in selected years over the period 1950-64 estimated from the 1960 census data based on annual growth rates as stated in the source to Table I.

The age distribution of the population is readily available for only 1960 and is summarized in Table II. The 1960 Population Censusrevealed that a substantial proportion of the population was youthful. With the minimum working age officially taken as 15 years it can be seen from Table II that in 1960 44.6% of the estimated total population were aged under 15 years. Of those in the age group 15 - 24, 152,000 or 13.4% of the total population in that age group were reported to be actually in various forms

Table II

Age Distribution of Population, 1960.

	'000	% of Total
All Ages	6,727	100
Under 1 year	278	4.1
1 - 4	1,019	15.2
5 - 9	1,019	15.2
10 - 14	681	10.1
15 - 24	1,132	16.8
25 - 44	1,762	26.2
45 - 64	623	9.3
65 and Over	213	3.2

Source: Central Bureau of Statistics, 1962 Statistical Year Book, pp.8-9.

of full-time education. Therefore of the total 1960 population of approximately 6.7 million over 3.1 million or 46.8% of the estimated total could be described as basically economically dependent. This does not take account of the 2.3%, aged 65 and above and the probably considerable number of the adult population dependent fully or partially on the normally active population. This huge backlog of youthful populations would require (1) correspondingly heavy investment in social overheads not contributing directly to the flow of goods (2) a high tax burden on the income-carning sections of the population and (3) a low level of personal savings given the familar low level of money income. As one would expect, by the end of the period

under review there were huge additions to the supply side of the labour market mainly as a result of Government and private investments in the education of the youth. This also partly explained the Government's policy of increasing investment in productive industries.

The National Accounts and General Structure of the Economy.

In Table III are presented estimates of the Gross Domestic Product together with the major components at current market prices for the period 1955-64 for which usable data are available.

The statistical limitations on the data are shown in the notes to Table III.

From 1956 there was a general concurrence of stability, growth and contraction in the major components of Gross Domestic Product. It may be useful to point specifically to developments in two of the listed items as providing explanations for the observed concurrence of stability, growth and contraction excepting the money Gross Domestic Product itself which showed a consistent upward trend. The two items are the ratio of total domestic expenditure to Gross Domestic Product and alternatively the difference between exports and imports. Over the period 1955-64 the ratio of total domestic expenditure to Gross Domestic Product exceeded 100% in all years except for 1955 and 1958. This is reflected in the excess of imports (visible and invisible trade) over exports in all years but 1955 and 1958.

The problems posed by the continuing deterioration of the

Table III

Estimates of the Gross Domestic Product at Current Market Prices, 1955-64.

	1955		1956		1957		1958		1959		1960		1961		1962		1963		1964	
	£GM.	% of G.D.P.	£GM.	% of G.D.P.	£GM.	% of G.D.P.	£GM.	% of G.D.P.	£GM.	% of G.D.P.	£GM.	% of G.D.P.	£GM.	% of G.D.P.	£GM.	% of G.D.P.	£GM.	% of G.D.P.	£GM.	% of G.D.P.
Private Consumption Expenditure (a)	258	75.9	270	76.5	298	80.5	286	73.3	325	73.0	347	72.6	402	78.7	415	75.9	458	75.8	494	72.6
General Government Consumption Expenditure (b)	26	7.6	30	8.5	33	8.9	35	9.0	39	8.8	48	10.0	55	10.8	61	11.2	69	11.4	80	11.8
Total Consumption Expenditure	284	83.5	300	85.0	331	89.4	321	82.3	364	81.8	395	82.6	457	89.5	476	87.1	527	87.2	574	84.4
Gross Domestic Fixed Capital Formation (c)	52	15.3	56	15.9	56	15.1	55	14.1	77	17.3	97	20.3	105	20.5	92	16.8	109	18.1	116	17.1
Change in Stocks (d)	-	-	5	1.4	-6	-1.6	-1	-0.3	10	2.2	11	2.3	-10	-2.0	-6	-1.1	-4	-0.7	7	1.0
Total Domestic Expenditure	336	98.8	361	102.3	381	103.0	375	96.2	451	101.3	503	105.2	552	108.0	562	102.7	632	104.6	697	102.5
Exports of Goods and Non-factor Services	101	29.7	91	25.8	96	26.0	110	28.2	120	27.0	123	25.7	122	23.9	120	21.9	117	19.4	120	17.6
Imports of Goods and Non-factor Services	97	28.5	99	28.0	107	28.9	95	24.4	126	28.3	148	31.0	163	32.0	135	24.7	145	24.0	137	20.1
Exports less Imports	4	1.2	-8	-2.3	-11	-3.0	15	3.9	-6	-1.3	-25	-5.2	-41	-8.0	-15	-2.7	-28	-4.6	-17	-2.5
Expenditure on Gross Domestic Product	340	100.0	353	100.0	370	100.0	390	100.0	445	100.0	478	100.0	511	100.0	547	100.0	604	100.0	680	100.0

(a) Covers expenditure by households and private institutions and associations on durable and non-durable goods and services including imputed values offarmers consumption of their own production and self-provided or free accommodation.

(b) Based on the accounts of the Central Government, local authorities, public boards and corporations.

(c) Covers investment expenditures by Government and the private secotr estimated from a variety of sources mainly imports of building materials and machinery and Government capital expenditures.

(d) Covers only certain important export and import commodities calculated as changes in the value of stocks between the ends of successive years.

Source: Central Bureau of Statistics, Accra.

balance of trade are reflected in the fluctuations in the ratios to Gross Domestic Product of total consumption expenditure, private consumption expenditure, fixed capital formation, and imports of goods and services. Investment expenditure and imports actually fluctuated in absolute terms as well. It is interesting to note that the one item of the national accounts which showed a general upward trend in both absolute value and relative share of Gross Domestic Product was Government consumption expenditure. This at once was the result of rising Government investment expenditures and reflected the dominant role of Government in the economy.

Available data does not permit a fair estimate of private capital expenditure, but the general evidence is that Government (including various governmental bodies and enterprises) accounted for a high proportion of fixed investment.[1]

With export values not subject to local control the attempt to correct the external trade imbalance took the form of rising quantitative restrictions on imports through various taxes, tariffs and restrictions on external payments all inaugurated in 1961. The answer was also partly sought in the building of manufacturing industry mainly by the Government sector, leading to attempts to restrict imports of consumer goods. The monetary significance of these developments will be elucidated in the text.

In the meanwhile we should draw attention to the general aspects of the economy which necessitated the policies outlined in the preceding paragraph and the general effects.

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1. This excludes gross additions to the stock of cocoa trees. For an attempt to estimate the "capital value" of the stock of cocoa trees see R. Szerezewski, "Capital and output in Ghana, 1955-61, The Economic Bulletin of Ghana, No.4, 1963.

Table IV

The Current Account Balance of the Balance of Payments, 1953 - 64

£G Million

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
1. Visible Trade including Non-Monetary Gold	+20	+54	+18	+ 3	+ 5	+29	+ 6	- 7	-15.6	+ 3.4	-10.7	+ 1.0
2. Invisible Trade	- 8	- 9	-11	-12	-13	-12	-11	-14	-20.8	-18.7	-14.7	-14.7
3. Investment Income	- 3	- 2	- 1	- 1	- 1	- 1	- 2	- 1	- 5.5	- 4.9	- 9.0	- 5.4
4. Miscellaneous Services	- 2	- 3	- 4	- 3	- 5	- 5	- 3	- 4	- 2.4	- 2.4	- 4.3	- 5.6
5. Total Merchandise and Services	+ 7	+40	+ 2	-13	-14	+11	-10	-26	-47.1	-22.5	-38.8	-24.7
6. Total Transfer Payments	- 2	+ 1	-	-	-	-	- 1	- 1	- 5.5	- 5.8	- 7.0	- 8.0
Total Current Account Balance	+ 5	+41	+ 2	-13	-14	+11	-11	-27	-52.6	-28.3	-45.8	-32.6

Source: Central Bureau of Statistics, Accra.

First, we should note developments in the external account. The Current Account balance for the period 1953-64 are presented in Table IV. Between 1956 and 1964 Ghana had an unfavourable balance on Current Account with the exception of 1958 when there was a reversal into a surplus. With all items other than the balance of merchandise trade traditionally negative the general emergence of a negative balance on merchandise trade from 1960 seemed to indicate a rather unfavourable prospect for the future.

It should be noted that the larger negative balance on investment income in the period 1961-64 relative to 1953-60 and probably pre-1953 shows on the one hand a growing disinvestment of foreign savings and on the other hand a rise in net foreign liabilities from 1961.

These points are illustrated in Table V and Table VI which show estimated net foreign exchange assets and known external liabilities of the Government. There may be some error in the figures for net foreign exchange assets arising from uncertainty about the full extent of foreign liabilities in particular in respect of Government liabilities on suppliers' credits the known size of which, as can be seen from Table VI, rose from under £G1 million at the end of 1959 to £G156.9 million at the end of 1964.

The ratio of exports to Gross Domestic Product over the period 1955-64 fell consistently in successive years from 29.7% in 1955 to 17.6% in 1964 against which must be seen the huge leakage from domestic income circulation via imports. In both

Table V

Estimated Net Foreign Exchange Assets of the Public and Banking Sectors. Selected Years.[a]

£G Million

	1956	1958	1960	1961	1963	1964
Assets Classified by Holders.						
Central Government	73.6	61.1	43.4	10.6	6.8	9.1
Local Authorities	0.07	0.3	0.09	0.1	-	-
Central Bank[b]	40.7	39.2	53.8	43.1	34.9	34.7
Other Banking Institutions	11.6	14.4	6.5	2.6	-6.0	0.2
Ghana Cocoa Marketing Board	51.3	51.8	30.1	6.8	-	-
Other Public Boards and Corporations	7.3	8.4	9.1	5.7	7.7	4.9
Higher Educational Institutions	5.2	6.0	5.7	4.7	--	-
Commercial Firms	-	-	-	-	0.2	-
	189.8	181.2	148.6	73.7	43.5	48.9

(a) All figures relate to the end of year except 1964 for which figures relate to June 30th.

(b) Data for 1956 relates to estimated currency reserve assets held by the West African Currency Board in respect of its currency issues to Ghana.

Differences between parts and totals are due to rounding.

Source: Bank of Ghana, Annual Report June 1964, p.105.

Table VI

Known Government Liabilities, 1959-64. £G Million.

(End of Year)

	1959	1960	1961	1962	1963	1964
External Debt						
Joint Consolidated Fund	1.9	3.1	5.0	4.3	4.8	5.5
Government Stocks	3.2	3.2	3.2	3.2	1.2	1.2
IMF Drawings	-	-	-	5.1	5.1	5.1
Volta River Project Loans	-	-	-	0.1	8.1	16.0
Suppliers Credit	0.9	13.8	28.4	60.8	117.3	156.9
U.S.S.R. Counterpart Fund (a)	-	-	-	-	-	2.5
Total External Debt	6.0	20.1	36.5	73.5	136.4	187.2
Total Internal Debt	16.5	38.3	54.1	84.9	137.5	162.0
Total Government Debt	22.5	58.4	90.6	158.4	273.9	349.2
Total External Debt as % of Total Govt. Debt.	26.0	34.4	40.3	46.4	49.8	53.6

(a) Debit balance against Ghana in bilateral trade.
Differences between totals and parts are due to rounding.

Source: Central Bureau of Statistics.

absolute terms and as percentage of Gross Domestic Product, imports showed considerable fluctuations particularly between 1961 and 1964. In absolute terms as well as the ratio to Gross Domestic Product imports tended to decline from 1962 to 1964 relative to the peaks experienced in 1961.

However, neither the progressively declining ratio of exports to Gross Domestic Product nor the observed declining ratio of imports to Gross Domestic Product indicate sufficiently a movement away from the characteristic external dependence of the economy. During the period 1961-64 the effects of restrictions on imports tended to hide the true dependence of the economy. It must, however, be pointed out that the decline in the ratio of exports to Gross Domestic Product reflected generally the effects of rising internal expenditure by the Government deriving to a significant extent from increased borrowing from the domestic banking system.

The characteristic monocultural structure of the developing economies is in the case of Ghana clearly illustrated in Table VII showing the composition of visible exports originating in the domestic economy in the five years 1960-64 for which usable breakdowns are available.

All exports of domestic produce originated in the primary sector and were practically all in the raw state with the limited exception of sawn timber and semi-processed cocoa or cocoa butter.

More significant, the value of a single crop, cocoa, (processed and unprocessed) averaged annually over the period 1960-64 63.3% of total exports of domestic produce.

Table VII

Components of Exports of Domestic Produce, 1960-64.

	1960		1961		1962		1963		1964	
	£GM.	% of Total	£GM.	% of Total	£GM.	% of Total	£GM.	% of Total	£GM.	% of Total
Cocoa Beans	66.4	58.8	69.3	61.1	67.0	60.0	68.1	63.7	68.1	60.2
Semi-Processed Cocoa Beans	1.0	0.9	1.5	1.3	3.7	3.3	3.6	3.4	4.7	4.1
Timber (logs)	10.4	9.1	9.1	8.0	5.8	5.2	7.2	6.7	8.1	7.1
Timber (sawn)	5.5	4.8	6.2	5.5	6.4	5.8	5.8	5.4	6.7	5.9
Bauxite	0.6	0.5	0.5	0.4	0.7	0.6	0.5	0.5	0.6	0.6
Manganese	6.4	5.6	6.0	5.4	5.5	4.9	4.0	3.7	4.3	3.8
Diamond	9.8	8.6	7.1	6.3	7.4	6.7	3.3	3.1	6.1	5.4
Gold	11.1	9.7	10.7	9.5	11.3	10.1	11.3	10.7	10.3	9.1
Kola Nuts	1.2	1.1	1.0	0.9	1.4	1.3	0.9	0.8	0.3	0.3
Others	2.0	1.7	1.8	1.6	2.4	2.1	2.1	2.0	3.9	3.5
Total Exports of Domestic Produce	114.4	100.0	113.2	100.0	111.7	100.0	106.9	100.0	113.2	100.0

Differences between totals and parts are the effects of rounding.

Source: Economic Surveys (of Ghana) 1961 pp.122-3; 1964 pp.43-5.

Table VIII

Industrial Distribution of Economically Active Population, 1960.

	Number '000	% of Total
All Industries (total)	2,561.0	100.0
Agriculture, Fishing and Related Activities	1,578.9	61.5
Mining and Quarrying	48.4	1.9
Total Primary Industries	1,527.3	63.4
Manufacturing(a)	249.3	9.8
Construction	89.4	3.5
Commerce	371.5	14.5
Transport and General Services	223.5	8.7

(a) Includes employment in Electricity and Water services.

Source: Economic Survey (of Ghana), 1961 p. 76.

This illustrates the general structural imbalance of the economy in being heavily dependent on the extractive industries, mainly agriculture. This is reflected in the structure of employment as revealed by the Population Census of 1960. Table VIII shows that in 1960 about 61.5% of the working population were employed in agriculture, fishing and related activities. The primary sector as a whole (agriculture, fishing, mining and quarrying) absorbed 63.4% of the working population. The considerably high ratio of employment in manufacturing industry should be seen against the fact that by 1960 large manufacturing establishments were few and the bulk of those reported as engaged in manufacturing activities would be largely very small scale self-employed operators in such activities as woodwork and bread-baking.

We may at this point draw attention to the fact that agriculture was and still is organised almost entirely be self-employed individuals working on farms of very small size in comparison with the average size of cultivated acreage per farmer in Western Europe or African countries with a settled European community. Table IX shows the average size of agricultural holding in Ghana in 1963. For the whole country the sample survey showed that on average each farmer's cultivated acreage was 6.2 acres and there was considerable variation between individual Regions. The relatively high acreage in the Western Region is due principally to the concentration in that Region of large plantation farms under Rubber and Oil Palms.

We must now emphasise one highly significant aspect of the

Table IX

Average Size of Agricultural Holding, 1963.(a)

Region	Acres
Western	11.1
Central	4.5
Accra	1.3
Eastern	3.8
Volta	3.1
Ashanti	8.7
Brong-Ahafo	7.1
Northern	7.2
Upper	6.7
All Ghana	6.2

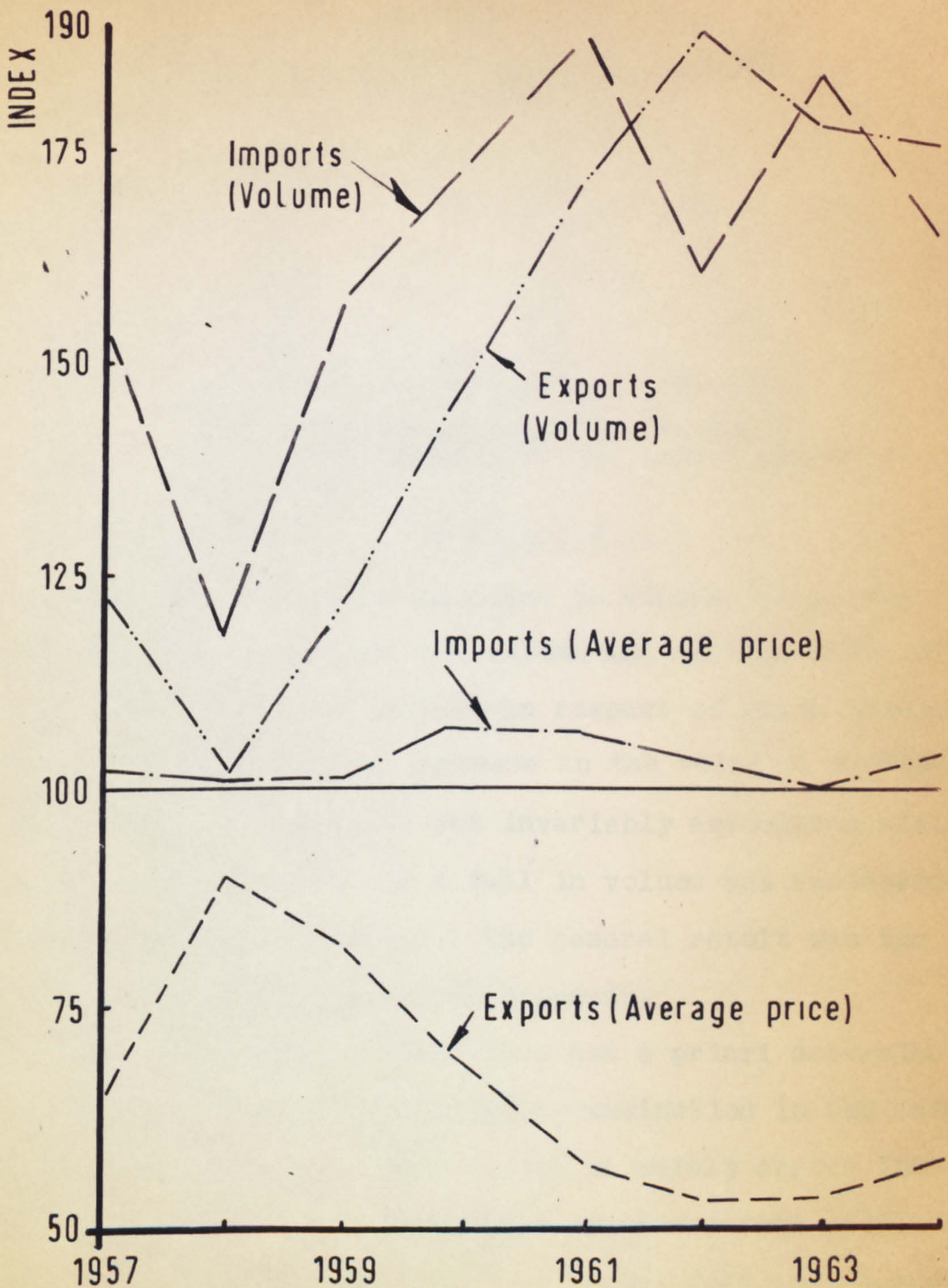
(a) In effect the acreages represent average size of cultivation per farmer. The data are based on a sample survey conducted by the Central Bureau of Statistics and the Ministry of Agriculture covering 1,000 holdings and 2,510 fields (separate farms).

Source: Economic Survey (of Ghana) 1963,p.64.

economy, namely the general deterioration of the terms of trade over most of the period under review. Indices of volume and average price of imports with 1954 as base year are plotted in Figure I.1 for the period 1957-64.

Whereas the unit price of visible imports was during 1957-64 generally above the unit price as in 1954 the corresponding magnitudes in respect of merchandise exports were in each of those years below the average level in 1954. The index of average price of imports averaged over the period 1957-64 at 103 over 1954 whereas the index of average price of exports averaged 65.7. The result was a general deterioration in the terms of trade against Ghana. Table X illustrates this clearly. Although the terms of trade moved considerably in the favour of Ghana in

INDEX OF VOLUME AND AVERAGE PRICE OF IMPORTS AND DOMESTIC EXPORTS 1957- 64 1954 =100



Source: Economic Survey (of Ghana) 1964, p.35

FIG I.1

1963 and 1964 over 1962 that it was generally unfavourable cannot be denied.

Table X

Ghana: The Terms of Trade, 1957-64 (a)
1954 = 100

1957	157
1958	112
1959	123
1960	153
1961	188
1962	198
1963	189
1964	182

(a) Obtained by dividing the import price indices by the export price indices.

Source: As for Figure I.1.

A noteworthy phenomenon revealed in Figure I.1 is the strong negative correlation between the volume and average price of exports. Over the period 1957-64 in respect of which usable statistics are available an increase in the value of visible exports (including non-monetary gold) was invariably associated with a fall in the average price and a fall in volume was associated with an increase in unit price. The general result was the absence of heavy swings in export proceeds.

Although strong correlation does not à priori determine causality between the variables under examination in the case of the situation described here it can be safely argued that the volume of exports was the determinant of the average price of exports. The basis for this argument is the fact that Ghana's output of cocoa (which accounted on average for 63.3% of domestic exports in 1960-64) was in volume terms around 30% of total

world output. This is shown in Table XI. Over the period 1956-57 to 1963-64 the ratio of Ghana's real output of cocoa averaged 32.5% of total world production.

Table XI

Cocoa: Ghana's Output Compared with Total World Output, 1957-64 (Coop Years)

'000 Long Tons

	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62	1962-63	1963-64.
World Production	893	767	905	1,041	1,172	1,127	1,157	1,216
Production in Ghana	264	207	255	317	432	410	422	421
Ghana's production as % of World output.	29.6	27.0	28.2	30.5	36.9	36.4	36.5	34.6

Source: Gill and Duffus Cocoa Market Report, April,1965 (Reproduced in Economic Survey (of Ghana) 1964 p. 64.

Thus, quite apart from the continuing adverse Current Account balance of international transactions the economy of Ghana was traditionally fraught with structural imbalance both as regards the structure of exports and the internal economic structure, all factors emphasizing the external dependence of the economy.

The basic external dependence of the economy is further illustrated in the composition of Government current revenue, that is excluding receipts on capital transactions, as reproduced in Table XII for the fiscal years 1957-58 to 1963-64 in respect of which reliable (revised) data are available.

Government revenue derived from exports of cocoa averaged approximately 30% of total current revenue of the Central

Table XII

Composition of Central Government Revenue 1957-58 to 1963-64.

Total Revenue[a]		Revenue from Cocoa[b]		Other Export Taxes		Import Duties		Other Production and Expenditure Taxes.		Taxes on Income and Property		Others[c]	
£GM.	% of Total	£GM.	% of Total	£GM.	% of Total	£GM	% of Total	£GM.	% of Total	£GM.	% of Total	£GM	% of Total
60.2	100	22.1	37.7	0.5	0.8	15.0	24.9	2.8	4.6	8.0	13.3	11.8	19.5
66.9	100	25.1	37.5	0.7	1.0	16.1	24.1	3.8	5.7	8.1	12.1	13.2	19.6
70.1	100	27.1	38.6	0.8	1.4	18.9	27.0	4.0	5.7	7.4	10.6	11.9	16.7
83.2	100	26.3	32.0	0.8	1.0	25.5	30.6	4.5	5.4	8.9	10.7	17.1	19.3
75.0	100	14.7	19.6	0.6	0.7	28.9	38.5	8.0	10.6	11.2	14.9	11.7	12.7
82.5	100	12.5	15.2	0.5	0.1	33.7	40.8	10.9	13.2	12.5	15.1	12.5	14.1
122.5	100	35.7	29.1	0.7	0.6	34.4	28.1	13.8	11.3	24.0	19.6	14.0	11.3

Excludes receipts which reduce assets or increase liabilities.

Includes farmers' "voluntary" contributions to the Government's development programme. This item first appeared in the Accounts in 1959-60 and has been entered in this Table as taxes on cocoa farmers.

Covers revenue on trading account, interest, fees, rents, grants etc.

Source: Central Bureau of Statistics, Economic Surveys.

Government in the fiscal years shown in Table XII. Altogether direct taxes on foreign trade (export taxes and import duties) constituted an annual average ratio of 61.4% to total Government revenue as defined in Table XII over the period 1957-58 to 1963-64. Moreover, it is reasonable to assume that the bulk of "Other production and expenditure taxes" were in respect of imported durable and non-durable consumer goods so that the ratio of Government receipts derived from foreign trade would be higher than the figures given here. However, the fact that export proceeds from cocoa form the bulk of domestically-owned income from exports means that in effect the value of cocoa exports was the most important single determinant of Government revenue from both exports and imports.

As stated earlier various attempts were made, in particular from 1960, to diversify the economy and that this took the form largely of Government-financed productive investment in manufacturing industry and other sectors generally.

Table XIII to Table XVII demonstrate the general trends in the economy resulting from the attempts at economic diversification itself partly due to increasing economic crises arising from the adverse balance of the external accounts.

Table XIII shows the tilting of imports towards producer goods against consumer goods. In 1963 and 1964 in both absolute value and relative terms imports of producer goods exceeded imports of consumer goods. A further illustration of this trend is provided by Table XIV which compares the absolute and relative levels of imported goods and domestically produced goods in estimated total <u>consumption</u> expenditure by the private sector

TABLE XIII

Composition of Visible Imports, 1954-64
(Values in Current Prices)

	Total Visible Imports[a] £GM (1)	Imports of Consumer Goods £GM (2)	Imports of Producer Goods (b) £GM (3)	Ratio of (2) to(1) % (4)	Ratio of (3) to (1) % (5)
1954	71.1	39.6	27.4	53.0	38.5
1955	88.0	50.3	33.0	57.2	37.5
1956	88.9	48.1	36.3	54.1	40.8
1957	96.7	55.0	35.8	56.9	46.6
1958	84.6	46.1	32.9	54.5	38.9
1959	113.1	56.9	50.7	50.3	44.8
1960	129.6	64.7	59.0	49.9	45.6
1961	142.8	70.6	66.2	49.4	46.4
1962	116.7	55.9	54.3	47.9	46.5
1963	130.4	51.4	71.7	39.4	55.1
1964	121.6	40.8	73.8	33.6	60.7

(a) Columns (2) and (3) do not add up to Column (1); the difference comprises imports of fuels and lubricants which cannot ordinarily be classified as consumer goods or producer goods.

(b) Includes raw materials and semi-processed goods.

Source: Obtained from detailed classifications of imports published by the Central Bureau of Statistics, Accra in Economic Surveys, etc.

TABLE XIV

Domestic and Import Content of Estimated Private Consumption Expenditure on Goods, 1955 and 1960-64.

	1955		1960		1961		1962		1963		1964	
	£GM.	% of Total	£GM.	% of Total	£GM.	% of Total	£GM.	% of Total	£GM.	% of Total	£GM.	% of Total
Total Durable and Non-Durable Goods	200	100.0	265	100.0	312	100.0	318	100.0	354	100.0	380	100.0
Imported	50.3	25.2	64.7	24.4	70.6	22.6	55.9	17.6	51.4	14.5	40.8	10.7
Domestic	149.7	74.8	200.3	75.6	241.4	77.4	262.1	82.4	302.6	85.5	339.2	89.3

Source: Based on Economic Survey 1964, Table 4, p.19.

on durable and non-durable goods in 1955 and 1960-64. In absolute terms the import content declined from the peak (in terms of the years shown) of £G70.6 million in 1961 to £G40.8 million in 1964. In relative terms the import content declined from 25.2% in 1955 to only 10.7% in 1964. In real terms the observed domestic private expenditure on imported goods would represent much lower magnitudes from 1962 to 1964 as imported consumer goods came to bear much higher expenditure taxes.

The converse of a declining level (absolute and relative values) of imported consumer goods in both money and real terms may be seen in the rising value of domestic output of manufactured goods as shown in Table XV. The relevant data, available for only 1962-64, show an increase in the gross value

Table XV

Domestic Output of Manufactured Goods, 1962-64. (a)

£G Million

	1962	1963	1964
Gross Output in Current Prices	35.7	46.5	53.5
Gross Output in 1962 Prices	35.7	43.9	47.3
Value Added in Current Prices	20.5	26.2	29.5
Value Added in 1962 Prices	20.5	24.6	25.0

(a) Relate to manufacturing establishments in which a minimum of 30 persons were engaged.

Source: Compiled from T.38 & T.41 of Economic Survey (of Ghana) 1964, p.78 and p.80.

in current prices and 1962 prices from £35.7 million in 1962 to £G53.5 million and £G47.3 million respectively in 1964. Table XV also shows value added (that is gross market value minus the value of imported raw materials). In current market

prices value added increased from £G20.5 million in 1962 to £G29.5 million in 1964. In the same years value added in constant 1962 market prices rose from £G20.5 million to £G26.0 million. These figures, as stated in Footnote (a) to Table XV referred to only manufacturing establishments with 30 or more persons engaged and therefore exclude the output of a large number of smaller establishments whose production was on the whole included in the national account estimates to only a modest extent.

In Table XVI are presented the absolute shares of the State sector in the output of manufactured goods. In terms of gross values measured in current market prices the fully State-owned

Table XVI

Sectorial Distribution of Manufactured Goods 1962-64.

	1962		1963		1964	
	£GM	% of Total	£GM	% of Total	£GM	% of Total
State Owned Establishments	4.2	11.8	6.6	14.2	7.5	14.0
Joint State-Private "	2.5	7.0	3.4	7.3	3.9	7.3
Co-operative "	0.04	-	0.1	2.1	0.3	0.5
Private "	28.9	80.9	36.3	78.0	41.8	78.1
Total	35.7	100.0	46.5	100.0	53.5	100.0

All figures refer to establishments in which 30 or more persons were engaged. All figures are gross values in current market prices.

Source: As for Table XV.

manufacturing sector increased their output from £G4.2 million in 1962 to £G7.5 million in 1964. In relative terms this

represented an increase of the fully State-owned sector from 11.8% to 14.0% of total domestic output of manufactured goods from enterprises in which 30 or more persons were engaged. In absolute terms the combined output of the State-owned and Joint State-Private sector increased their output from £G6.7 million in 1962 to £G11.4 million in 1964, equivalent to 18.7% and 21.3% of the totals in 1962 and 1964 respectively.

It must be emphasized that the output of State-owned manufacturing industry most probably does not provide an adequate measure of governmental participation in the manufacturing sector as defined in Table XVI. It is a familiar knowledge that public enterprises were generally inefficient.

The points raised in the preceding paragraphs appear to be adequately reflected in the industrial and sectorial distribution of recorded employment in establishments employing 10 or more persons in the period 1961-64 for which usable statistics were available.

In all three broad industrial sectors employment in the public sector exceeded employment in the private sector. In the extractive industries the public sector was in terms of employment larger in both agriculture and mining. This was due to the operation of a large agricultural organisation within the Workers Brigade formed at about the time of Independence and, from 1963, the establishment of the State Farms Corporation. Secondly, as stated earlier the Government purchased five gold mines in 1960. The general domination of the Government sector in the other industrial divisions were the result of developments

recounted earlier.

However, a few significant developments within the private sector must be noted. Within the period 1961-64 employment within the private sector declined in all industries taken together despite a continuous rise in total employment. The implied contraction of the private sector on the basis of the size of establishment with which we are here concerned was particularly marked in the Construction, Commerce and Transport industries. As will be shown in the text this development was the result of two interconnected trends: restrictions on total imports, more severe limitations on imports of consumer goods and thirdly a general allocation of resources in favour of the public sector. There is evidence that the public sector was in many cases about equally adversely affected by the restrictions on imports. That this was not reflected in the state of employment in that sector could be ascribed to an official policy that employment in Government-sponsored enterprises should be at least maintained at existing levels even where retrenchment would be the obvious economic policy.

The post-1960 developments outlined in this Chapter represented basic deviations from the traditional structure and nature of the economy. This was generally well mirrored in developments in the structure and practices of the monetary and financial system. In many senses 1960-61 marked the beginning of new trends in important areas of the financial system.

TABLE XVII

Distribution of Recorded Employment in Establishments Employing 10 or More Persons,[a] 1961-64

Absolute Figures '000

	1961			1962			1963			1964		
	Public Sector	Private Sector	Total	Public Sector	Private Sector	Total	Public Sector	Private Sector	Total	Public Sector	Private Sector	Total
All Industries	211.8	138.1	350.0	225.0	131.2	356.2	245.7	123.0	368.7	261.9	114.9	376.9
Primary Sector	55.6	20.9	76.5	47.7	19.8	67.5	55.0	20.7	75.7	56.2	21.4	77.8
Agriculture	41.4	6.6	48.0	32.8	6.0	38.8	40.2	5.8	46.0	43.2	6.5	49.8
Mining	14.2	14.3	28.5	14.9	13.8	28.7	14.8	14.9	29.7	13.0	14.9	28.0
Secondary Sector	56.7	51.6	108.3	59.3	48.2	107.5	59.8	44.6	104.6	64.7	44.8	119.2
Manufacturing	4.4	24.9	29.3	5.1	25.3	30.4	5.6	25.7	31.4	5.6	24.8	30.0
Construction	36.9	26.4	63.3	38.6	22.6	61.2	39.3	18.9	58.3	44.2	20.0	64.3
Electricity	15.4	0.3	15.7	15.6	0.3	15.9	14.9	-	14.9	14.9	-	14.9
Tertiary Sector	99.4	55.7	165.1	118.0	63.2	181.2	130.5	57.3	178.0	140.6	48.3	189.1
Commerce	2.5	35.2	37.7	5.3	33.9	39.2	5.6	29.0	34.7	6.0	25.5	31.5
Transport	24.5	9.0	33.5	27.5	5.1	32.6	27.3	5.3	32.6	28.3	5.1	33.5
General Services	72.4	21.5	93.9	85.2	24.2	109.4	97.6	23.0	120.7	106.3	17.7	124.1

(a) Excludes self-employed persons. The industrial divisions are approximations due to differing classifications in the published sources of information.

Source: Central Bureau of Statistics, various Publications.

CHAPTER ONE

COMMERCIAL BANKING

Introductory

During the period 1950-64 three commercial banks were operating in Ghana. These were in the order of their establishment in the country the Bank of West Africa,[1] Barclays Bank (Dominion Colonial Overseas) and the Ghana Commercial Bank. Before the attainment of Independence by Ghana in March 1957 the Bank of West Africa was known as the Bank of British West Africa. Similarly until that date the Ghana Commercial Bank operated under the name Bank of the Gold Coast.

The Bank of West Africa and Barclays Bank are both British-owned banks incorporated in England. The Ghana Commercial Bank, on the other hand is an indigenous bank wholly owned by the Government of Ghana.

The first banking office was opened for business in Accra on 1st January 1897. Thus compared to the advanced countries and some developing countries such as India commercial banking is a relatively recent business activity in Ghana.

One historical factor, among several, can be singled out as having been chiefly responsible for the late arrival of commercial banking in Ghana. This was the proliferation before the turn of the 19th century of diverse kinds of currencies that circulated in the areas now known collectively as Ghana. This was also true of other parts of West Africa. The following paragraphs deal briefly with the progress towards a uniform

1. The Bank of West Africa merged with the English bank the Standard Bank Ltd., in April 1965. The newly reconstituted bank now has American participants by the Chase Manhattan Bank of New York.

currency in Ghana.[1]

Prior to 1880 three broad types of currencies, or objects used as such, circulated in present-day Ghana. These were:-

(a) Primitive currencies such as cowrie shells, manillas, brass and copper rods.

(b) Gold dust and nuggets.

(c) Currencies issued and current in West European countries (including England) and other parts of the world notably the Americas.

Of the primitive currencies cowrie shells were wholly indigenous whilst the others even if initially native to the area were certainly cheaply obtained by European merchants from Birmingham, England.[2]

The use of gold dust and nuggets both as currency and for ornamental purposes was a practice of long standing among the natives.[3] Their use as currency or means of payment was, however, believed to have been restricted to

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1. For a detailed account see Albert Adomakoh, "The history of currency and banking in some West African countries". The Economic Bulletin of Ghana, Vol. VII, No. 4, 1963; J.B. Loynes, "The West African Currency Board, 1912-62", H.M.S.O. 1964.
See also Paul Einzig, "Primitive Money", Pergamon Press, London 1966 (2nd Edition) pp.137-46.

2. E.K. Hawkins, "The growth of a money economy in Nigeria and Ghana", Oxford Economic Papers, October 1958.

3. It has been estimated that "prior to 1880 the production of alluvial gold by the Africans (of the Gold Coast) was probably of the order of 15 million ounces". "The Gold Coast Handbook, 1937". (Gold Coast Government) p.64.
In 1873 a French trader, Pierre Bonnat, heard of the rich gold workings in the Wassa district whilst he was a prisoner of the Ashantis in Kumasi. Released from prison in 1874 he returned to France and formed a company to investigate these deposits. Thus began gold mining in the Gold Coast by Europeans. See "Gold Coast Handbook of Trade and Commerce", Accra 1955. p.41.

transactions of high value mainly transactions in the Chief's court among the broad group of people classified ethnically as the Akans.[1]

The foreign currencies consisted principally of British sterling (gold and silver), French gold napoleons, Spanish and South American doubloons, French give-franc pieces and the United States eagle of various denominations.[2] The many different kinds of foreign national currencies that prevailed in the territory reflected the diversity of foreign (European) nationals that had trading interests in the territory and in the adjoining areas.

In April 1880 the first group of currencies was demonetized,[3] thereby restricting legal tender to gold dust and nuggets, and British and other foreign currencies. In 1889 gold dust and nuggets were also demonetized.[4] This followed increasing exports of gold dust by European traders, which raised its monetary value locally and inevitably gave rise to the use of adulterated gold dust as currency.

By the turn of the 19th century the British silver was firmly entrenched; the other foreign currencies were already waning in popularity and were gradually disappearing. In 1912 when the West African Currency Board (see Chapter Two)

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1. A. Adomakoh, op. cit., p.10.

2. Ibid. See also Colonial Report (Gold Coast) No.465, 1904. p.12.

3. Demonetization Ordinance, No.2 of 1880 (Chap. 124 of the 1920 Edition of the Gold Coast Laws).

4. Ordinance No. 9/1889.

was being established the few remaining foreign currencies were completely demonetized.

From 1880 onward British silver coins increased greatly in circulation as unlimited legal tender as did the British bronze to an amount not exceeding one shilling, throughout the areas that constitute present-day Ghana.[1] Table 1 shows the amounts of British sterling silver issued for circulation in the former British West African colonies during the period 1886 to 1900.

Table 1.

Annual Issues of British Sterling Silver for Use in British West African Colonies(a), 1866-1900.

(Amounts in £)

Year	Amount	Year	Amount	Year	Amount
1886	550	1892	46,325	1898	334,340
1887	7,000	1893	141,100	1899	418,875
1888	16,150	1894	77,990	1900	154,730
1889	33,400	1895	235,450		
1890	65,000	1896	108,815		
1891	80,750	1897	63,200		

(a) The Gold Coast, Nigeria, Sierra Leone and Gambia.
Source: Albert Adomakoh, op.cit.

1. The demonetization of the other forms of currency was by no means simple in practice. In particular the absence of very small units of British coins encouraged the Africans to continue to use their own currencies for very small transactions. At that time, of course, such small transactions would represent roughly the average size of inter-African transactions.

Although during the period 1886-1900 imports of British currency into the West African colonies fluctuated annually the trend was clearly upward. This upward trend implied certain developments favourable to the beginning of commercial banking. First, the increasing annual imports of coins meant that trade on the West African coast was rising. Secondly, the place of British merchants in the volume of business was rising relative to the merchants of other European nationalities.

More important, from the point of view of commercial banking was the emergence of British coins from 1886 onward as the dominant currency in these colonies. This development reduced the risk of demonetization, an event which would create immense difficulties for a bank which happened to hold a sizable amount of the demonetized currency since all foreign currencies circulating in the area were not subject to any redemption agreements in the colonies or in their countries of origin.

Thus even though increasing foreign trade provided the fundamental basis for commercial banking in West Africa, the currency situation prevalent before the mid-1880's was clearly an extenuating influence. It required a rational and orderly currency system to reinforce the already well established trading lines before commercial banking could be regarded as a stable prospect.

The main body of this chapter is organised as follows. Section A deals with the expatriate banks with emphasis laid on their special features. There is, in addition, a brief

review of criticisms advanced against their policies and operations. Section B deals with the Ghana Commercial Bank - the Background to its establishment, its constitution and a general history of its operations. It must be emphasized that as an indigenous bank in an African country the Ghana Commercial Bank has a special significance which entitles it to a separate examination. Section C is the final and longest portion of this chapter. It deals with the development of the commercial banking system - involving all commercial banks - during the period 1950-64. Considerable space is devoted to examination of developments in the location of commercial bank offices, growth of and changes in the structure of assets and liabilities. On the whole the high proportion of space devoted to the commercial banks reflects the dominant position of the commercial banks in a financial system which during the period under review was basically a simple one.

Section A

Expatriate Banks

The first commercial bank in the whole of the former British West Africa was opened in Lagos (now Federal Capital of Nigeria) by the African Banking Corporation following upon the advice of Sir Alfred Jones a shipowner in the African Steamship Company.[1] This bank was closed down in 1893 probably because of the inconvenience of operating one branch in Lagos in view of the fact that the African Banking Corporation operated mainly in South Africa.[2]

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1. A. Adomakoh, op.cit.

2. Ibid.

However, the shipowner persisted in his belief that the time was ripe for the provision of banking services in West Africa.

Already by the turn of the 19th century the British colonies in West Africa had emerged with a uniform currency. Secondly, there was an increasing development of trade along the coast between the natives and European merchants, the latter being accustomed to banking services in their home countries. Thirdly, as the volume and value of trade increased, and production for export spread further inland it became increasingly expensive and probably unsafe for the merchants to transport large quantities of coins on their trading missions. Fourthly, to support the colonial administration there had emerged inter alia a sizable body of British administrative personnel, a militia and police force all calling for some kind of banking services.

Backed by such propitious circumstances the shipowner successfully persuaded the shipping firm of Elder Dempster and Company to take over the Lagos business of the African Banking Corporation. For one year the Lagos branch of this shipping firm operated as a bank keeping account for the Government of Lagos and controlling the flow of silver coins.[1]

Upon the insistence of the Lagos Government that the banking office operated by the Elder Dempster shipping firm should be registered as a joint stock bank, four major English banks collaborated to form the Bank of British West Africa, hereafter referred to as Bank of West Africa. The four English banks

1. A. Adomakoh, op.cit.

were Lloyds Bank, the Westminster Bank, the National Provincial Bank and the Standard Bank.[1]

On the 31st May, 1894 the Bank of West Africa commenced operations in Lagos with a fully subscribed nominal capital of £100,000 with £40,000 paid.

The first branch of the Bank of West Africa in present-day Ghana was opened in Accra on 1st January 1897. This was also the first commercial bank office to be established in Ghana.

Twenty years later, on 24th February 1917 a second banking company commenced business in Accra. This was the Colonial Bank which had been established in 1836 by Royal Charter and whose main sphere of activity was the East Indies. In 1925 the Colonial Bank was itself acquired by Barclays Bank which retained the business previously established in Ghana by the Colonial Bank. In 1926 the newly constituted bank operated nine branches in the whole of the former British West Africa.[2]

General features

As noted at the beginning of this chapter, both the Bank of West Africa and Barclays Bank are British banks incorporated in England with their head offices in London. The Ghanaian unit of each of these banks is part of a supra-territorial banking structure. Until recently this meant that the Ghanaian units were actively controlled from London. As will be shown presently and at other places in this study, there has been a considerable relaxation of the control

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1. Ibid.
2. A. Adomakoh, op.cit. 2. Ibid.

exercised from the head offices. But that they still remain essentially branches within a broad international setting is evidenced by the fact that separate accounts and reports are not published by either the Bank of West Africa or Barclays Bank in respect of their operations in Ghana.

The Bank of West Africa as the name implies operates as a bank almost entirely in West Africa although as a result of its long association with the foreign trade involving West African countries it is represented in important world trading centres outside West Africa. In 1964 its West African representation was as shown in Table 2.

Table 2

Total Number of Branches of the Bank of West Africa by Country, 31st March 1965.

Country	Number of Branches
Ghana	40
Nigeria	60
Sierra Leone	11
Republic of Cameroons	2
Total	113

Source: The Bankers' Almanac, 1964-65.

At the end of the period under review the Bank of West Africa operated in 4 West African countries. By contrast on the same date Barclays Bank D.C.O. was operating banking offices in 40 countries in addition to the United Kingdom where it is one of the "Big Five" of the London Clearing Banks.

At the time of writing, the expatriate banks operating in Ghana had obtained a large measure of autonomy in respect of control from the head offices in London. Already, such degree of autonomy as has been achieved was discernible towards the end of the period under review. It must, however, be noted that the measure of autonomy was acquired at slow stages probably in pace with the advancement of political independence in the country. Generally, expatriate business concerns initially controlled tightly from their foreign-based head offices were bound to be given a greater degree of local discretion as an expedient of averting the displeasure of the new political opinion. Moreover, given the extinction of colonial status there was always the possibility that the newly emerged political authorities would initiate reform of the relationships between local expatriate concerns and their head offices. Thus we would expect foreign businesses to take the initiative in this direction if only to forestall legislated policies likely to be more severe from the point of view of the foreign firms themselves.

Towards the end of the period under review Barclays Bank operations in Ghana were actually administered by a locally-based Board of Directors known to include at least one Ghanaian national. On the other hand, the Ghana unit of the Bank of West Africa continued to be under a Local Director.

The discretionary powers vested in the local executives or directors cover all the important areas of banking business including staffing, lending and investment. General overall

policies, however, were and still are administered from London.[1]

For a former colonial territory the post-Independence developments outlined in the preceding three paragraphs were significant from the point of view of the new political status. However, whether or not the reforms made any difference to the policies of the banks would depend on the influence of other considerations.

The Bank of West Africa was the currency agent, in the former British colonies of West Africa, for the West African Currency Board (a subject of the next chapter). This function dated back to 1892 when the bank's predecessor the African Banking Corporation was given the monopoly by the United Kingdom Government to handle the repatriation of redundant British silver coins from Lagos to London, and to obtain British silver coins in Lagos against prepayment of sterling in London.[2] The Bank of West Africa took over this business in Lagos in 1894 and subsequently in Accra when its first branch in present-day Ghana was opened in 1897. When the West African Currency Board was established in 1912 to issue and redeem a special currency for the British West African colonies it retained the Bank of West Africa as its currency agent in all those territories.[3]

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1. This was disclosed to the author during discussions with executive directors at both banks' head-offices in London and Accra.

2. See J.B. Loynes, op.cit. p.9.

3. The only exception was the Southern Cameroons (now part of the Republic of Cameroons) where in 1948 the West African Currency Board opened a sub-centre managed by Barclays Bank D.C.O. (See J.B. Loynes, op. cit., p.17.)

In Ghana both expatriate banks kept accounts for the Government until the situation changed considerably on the establishment of the Ghana Commercial Bank in 1953, when Government accounts in Accra were generally transferred to the latter bank. There is evidence that before 1953 the Bank of West Africa was the principal depository of the Government accounts.[1] From 1953 onward Government accounts were handled by either of the two expatriate banks only at centres where the Ghana Commercial Bank (and from 1957 the Bank of Ghana) was not represented.

Three important features of the expatriate banks were:-

1. The general pattern of location of their banking offices.
2. The place occupied by expatriates-that is British nationals - on the personnel.
3. The implications of the banks' position as branches within an international banking structure.

The nature of these features were the subjects of complaint in Ghana and other countries where expatriate banks were dominant in the domestic banking system. We shall here be concerned with developments in each of the features enumerated in the previous paragraph.

1. In terms of the number of branches the expatriate banks between them dominated the commercial banking system of Ghana up to the end of 1960. In Section B of this chapter there will be a detailed examination of the growth in the number of banking dots as well as the pattern of location during the

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1. According to Mr. J.B. Loynes (Ibid. p.17) "The B.B.W.A. had a special position in the West African colonies as Government banker".

period 1950-64. The following is only a brief account of the pattern along which the branch system of the expatriate banks developed in the earlier years compared to the 1950's and 1960's.

It must be pointed out here that available records show some inconsistency on numbers and location of bank branches in the period before 1951, and in some cases after 1951. The inconsistencies arise partly from the closure and reinstatement of branches between reporting periods. Figures 1 to 5 show the location of bank offices for each of the three banks extant during the period under review on specific dates for which it was possible to obtain most of the necessary information.

At the end of 1904 the Bank of West Africa had five branches in Ghana (Gold Coast) at the following towns: Accra, Cape Coast, Sekondi, Axim and Tarkwa. With the exception of Tarkwa all the others were sea ports handling various proportions of the country's foreign trade. Accra was then as now the capital. All the others were leading commercial towns. Tarkwa occupied the special position of being at that time the only gold mining centre.[1]

As mentioned earlier a second bank commenced operations in Ghana in 1917. At the end of 1937 when both banks were already firmly established numbers of banking offices had, of course, increased considerably over the 1904 figure. But the pattern of branch location had not changed fundamentally (See Figure 2 at the end of this chapter). In 1928 Takoradi

1. See Figure 1 at the end of this chapter.

had supplanted the old ports as the major harbour in the country and both banks had opened a branch each in this fast-growing harbour town. In addition to Tarkwa, Obuasi and Oda had emerged earlier as large mining centres, the former a notable gold-mining town and the latter the centre of a prosperous diamond-mining district. Few other sea ports had become banking centres. These new mining centres and sea ports apart, the banks had by 1937 expanded their branches to a few towns which were fast developing as commercial and provincial administrative centres. Such were Kumasi, capital of Ashanti, and Koforidua the centre of present-day Eastern Region of Ghana where up to the immediate post-war years the cocoa industry was principally concentrated.

At the end of 1955 (see Figure 3) the Bank of West Africa continued to be the larger of the two expatriate banks (the Ghana Commercial Bank established in 1953 had then only one office in the whole of Ghana). Significantly, by that date the Bank of West Africa had spread its branch network beyond the southern portion of the country and had branches at Suryani, Berekum and Tamale further north and away from the parts of the country which could be said to be relatively more developed. The Bank of West Africa had also established a branch at Tema which in 1955 was being transformed from a small fishing village into what in the 1960's became the country's largest sea port. Such developments apart, the pre-1957 banking system of Ghana could be summed up as one entirely dominated by the two expatriate banks and with banking offices concentrated in the

southern half of the country.

The basic cause for this pattern was the fact that commercial banking developed in response to foreign trade involving European firms and merchants. Until recently the banks' business was heavily skewed to providing facilities for the financing of imports and exports and of the internal activities -- mainly trading - of the foreign firms. This accounts for the concentration of expatriate bank offices (except in very recent years) in commercial centres and harbour towns. The banks were not involved in the productive sectors except to a limited extent in the ready facilities which were offered to mining and logging firms the most important of whom were foreign. That the banks concentrated their business in the main commercial centres was partly explained by the concentration in such towns of the African white-collar workers and professionals whose relatively high level of income and education made them a substantial proportion (at least, numerically) of the banks' customers.

However, from 1951 there was a tremendous expansion in the number of branches maintained by the expatriate banks. There was also a slight alteration in the pattern of location. At the end of 1960 the two banks had between them 97 branches as compared to 18 in the middle of 1951. Thus in the ten years from 1951 to 1960 the expatriate banks together opened an average of 8 branches per year as compared to one branch per three years during the period 1897 to 1950.

Two factors can be singled out as having influenced the post-1950 higher growth rate, namely rising economic prosperity, education and similar factors likely to influence the decisions of commercial banks anywhere affecting expansion. A sustained programme of investment initiated in 1951 by the Nkrumah Government obviously gave an edge to other economic trends operating independently as an inducement to bank expansion. The second factor - offered here tentatively - was the advent of the Ghana Commercial Bank as an additional stimulant to the expatriate banks to expand and thus strengthen further their already well-established position. Alternatively, it can be argued that the opening of the Ghana Commercial Bank induced the expatriate banks to bring forward existing plans for expansion which might otherwise have been realized at a slower rate.

2. In Ghana, both before and in the years immediately following Independence there were often complaints from various quarters that the expatriate banks deliberately refrained from appointing Ghanaians to senior positions. While carrying out investigations in Accra in connection with this study the author heard similar complaints from former Ghanaian employees of the expatriate banks.

The extent to which such accusations were justified is, of course, difficult to establish. But that until relatively recently the banks' senior staff were mainly British nationals was largely true.

We must, however, state in extenuation that until relatively recently a policy of appointing Ghanaians to senior

positions could not have been carried out at a speedy rate. There was a general scarcity of trained administrators, not to mention administrators trained in the technicalities of commercial banking. Moreover, the high demand for trained personnel in the rapidly growing civil service from 1951 onward must have limited the effectiveness of 'Africanisation' policies in private enterprise, generally.

This should not be taken to imply that at the end of 1964, for example, the problem had been completely solved. Whereas in 1951 the Gold Coast was administered by a small secretariat, the Ghana civil service today can be described as modern and comparable in structure to civil services in more advanced countries. However, with the continually rising supply of trained or educated people the banks' 'Africanisation policy' has parri passu been more effective. One fact which must be borne in mind is that in Ghana since the emergence of indigenous government in 1951 the bulk of trained men at the high levels have been sponsored by the State which has normally had a prior claim to their services.

It must be pointed out that it was clearly in the banks' own interest to offer senior positions to Ghanaians in place of expatriates. First, expatriates were and still are relatively more expensive to the banks in terms of remuneration. Both public and private employers have always paid higher salaries to expatriate employees than to their African counterparts. Secondly, the employment of African senior staff would reduce the social vacuum which was said to have

existed between the banks' executives and indigenous customers.[1] Their knowledge of the social and economic habits of the indigenous population would most probably have helped to better dealings with African customers.

As far as the 1950's were concerned one development which retarded the expatriate banks' "Africanisation" programme was clearly the establishment of the Ghana Commercial Bank which drew heavily on these banks to form the nucleus of its Ghanaian personnel.

3. The general principle underlying the international operations of the parent banks of both the Bank of West Africa and Barclays Bank D.C.O. is that each overseas unit should endeavour to stand on its own feet. In practice, when a territorial unit experiences a shortage of funds it can and does borrow from the London head office to supplement local resources. The corollary of this is the transfer to London of spare funds from the territorial units. Historically, as both banks operate in many countries - in particular Barclays Bank - they derive their strength from a pooling in London of resources from all the countries where they operate. Moreover, London provides a highly sensitive market where money can be implied overnight. By contrast, in many of the overseas countries where the banks operate there is a dearth of such facilities.

Until the end of 1961 the expatriate banks operating in Ghana maintained large balances in London, invested in

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1. W.T. Newlyn and D.C. Rowan, "Money and banking in British Colonial Africa", Oxford 1954, p.77.

various Money Market instruments and other sterling securities. This practice virtually ceased from 1961 following the introduction in July 1961 of severe restrictions on payments to the Rest of the Sterling Area. The exchange control regulations restricted every bank's sterling assets to a maximum of £G 0.5 million. Towards the end of the period under review the banks were sometimes net borrowers from overseas, implying for the expatriate banks that the balance of accounts with their head offices was negative.

The significance of the payments restrictions is that in the last years of the review period the expatriate banks' business in Ghana became very much separated from their general international business. During discussions with officials at the London offices of both the Bank of West Africa and Barclays Bank the author got the impression that from mid-1961 onward they did not regard their operations in Ghana as part of their supra-territorial banking structure.

In discussing the propriety of restricting the bank's sterling assets to a legal maximum of £G 0.5 million per bank we should recall both the gloomy and bright faces of a banking system that includes banks operated as branches of supra-national banks. On the one hand the holding of external (in this case sterling) assets implies an export of loanable funds from the domestic economy. On the other hand, it also implies that sterling resources can be brought in to supplement local resources when the latter proves inadequate for local credit operations. During the pre-1961 period

of free convertibility, from the point of view of the expatriate banks Ghana was a surplus area as indicated by the positive balances in their net external position. However, the expatriate banks did employ extensively sterling assets consisting of their own sterling balances and facilities implied at their London head offices. The use of sterling assets was limited to seasonal requirements for financing the cocoa crop and the upsurge in demand for credit associated with the cocoa harvesting season.

Actually, the imposition of restrictions on the banks' (all banks) holdings of sterling assets coincided with the concentration of cocoa financing in the hands of the Ghana Commercial Bank. Thus the expatriate banks' need for additional resources through conversion of existing sterling assets and borrowing facilities from London was correspondingly diminished.

From 1961 the commercial banks increased greatly their earning assets as compared to the period before. Towards the end of the period under review the banks taken together moved to a position of being fully loaned up. This, as will be shown later, is reflected by the low ratio of primary resources to deposit liabilities and low ratios of non-earning resources to local assets.

Assuming, therefore, that the expatriate banks were actually in a fully-loaned position it would appear that they were in a position to increase the gross loanable resources of the commercial banking system by making use of borrowing facilities normally available from their London offices.

However, as a result of the severe payments restrictions mentioned earlier it is very doubtful that credit facilities from London were easily obtainable. It is important to note that in practice from 1962 low levels of foreign exchange resources made it considerably difficult to remit funds abroad. Confidential information made available to the author shows that one of the expatriate banks maintained a zero net external account throughout the second half of 1964. Generally, the indication is that the expatriate banks are under pressure from London to rely exclusively on their local resources, which is contrary to the expectation of the authorities. The conclusion to be drawn from this is that from 1961 Ghana was on a closed commercial banking system.

Some common criticisms of the expatriate banks

Earlier investigations into banking practices prevailing in many British colonies tended to meet with several local criticisms of the branches of banks originating in the Metropolitan country. In some cases the investigators made their own independent criticisms in the light of their findings.[1]

Four of the recurring criticisms and conclusions

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1. Some of the references on this subject are:-

Newlyn and Rowan, op.cit. Chapter IV;
W.T. Newlyn, "The Colonial Empire" in "Banking in the British Commonwealth" (ed. R.S. Sayers), London 1952 Chap.13;
Sir Cecil Trevor, "Report on banking conditions in the Gold Coast and on the question of setting up a National Bank", Government Printer, Accra. 1951;
J.W. Williams, "State banking in the Gold Coast", The Banker, March 1957.
E. Nevin, "Capital funds in underdeveloped countries", MacMillan, London 1961, pp.45-53.

are summarized here. These are

1. That the operations and policies of the expatriate banks in the colonies made the monetary systems of the colonies an integral part of the monetary system of the United Kingdom without regard to the peculiarities of the colonial territories.

2. That the expatriate banks did not adapt their lending policies and operations to local conditions.

3. That, arising from the interaction of the first two alleged characteristics, the banks provided credit facilities mainly to expatriate business concerns. Since the latter were themselves engaged principally in foreign trade it follows from the allegation that the banks did not make an important direct contribution to the development of productive enterprise.

4. On African countries a complaint was frequently encountered that the banks deliberately discriminated against African applicants for credit accommodation.

The validity of these generalisations would, of course, vary with regard to individual colonial territories, especially because the colonies were not all at the same stage of development and constitutional status. Whether presented in the literature as conclusions, allegations or criticisms these points have been discussed in some depth in the references given above.

In Ghana the manner in which the commercial banks functioned as a branch of the United Kingdom banking system has been briefly mentioned in the last subsection. We will also return to the subject at various places in this study.

The following paragraphs deal generally with the central complaints levelled in Ghana against the operations of the expatriate banks.

In Ghana (or the Gold Coast) the dissatisfaction of the indigenous people with the banking services provided by the British-owned banks was echoed in the Trevor Report of 1951 to which reference has already been made above.

The European, Levantine and Asiatic communities were reported to have testified that the available banking facilities met their requirements.[1] But "the complaint was made that African traders, both large and small, experienced difficulty in obtaining their financial requirements at reasonable rates, owing to lack of confidence by the banks in their credit worthiness."[2]

Such complaints seem to have been prevalent in the country during the 1940's. It was, without doubt, such considerations which in 1948 prompted one prominent Ghanaian politician the late Dr. J.B. Danquah to call upon the Colonial authorities to set up a national bank in the then colony of the Gold Coast. Although in the correspondence which took place between Dr. Danquah and the Colonial authorities on this subject no explicit mention was made of such allegations there was no doubt about their presence in undertones. It may be that Dr. Danquah was only being tactful in not arguing his case on the basis of the widespread allegations of discrimination by the expatriate banks against Africans. Such allegations

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1. Sir Cecil Trevor, op.cit., para. 45.
2. Ibid, para.49.

might have been difficult to prove.

It is interesting to note that a few Ghanaians who were formerly employees of the exp-triate banks, and are now (1965) occupying high positions in state financial circles told the author about very grave difficulties, which the Ghanaian experienced "in the colonial days" when he sought financial accommodation from the expatriate banks. The allegations are further illustrated by the following quotation from the first Managing Director of the Ghana Commercial Bank who also later became the first Governor of the Bank of Ghana.

> "The Ghanaian business community claimed that the two British banks operating in the country (Ghana) favoured expatriate trading interests to the neglect of their Ghanaian counterparts."1

The statement ended: "there was some truth in this but it was only a half-truth".

It is by no means easy to pass objective judgement on the melee of allegations that the expatriate banks discriminated against the Africanpopulation on policy grounds. It is clearly inpossible to cross-check the accusations. As one would expect, the expatriate bankers interviewed by the author refuted all such allegations. Moreover, there appears to be no objective basis for supposing that a profit-seeking bank would deliberately desist from extending credit to any particular section of the community if the standards required were satisfied. The obvious implication of such a policy would be that the expatriate banks were

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1. A. Eggleston, Address delivered on the occasion of the tenth anniversary of the Ghana Commercial Bank in 1963, published in "Ghana Commercial Bank", Government Printer, Accra, 1963.

acting in concert with the expatriate business community to discourage indigenous trading or productive enterprise. Obviously, this would be a rather bold inference requiring substantiating evidence of considerable weight.

Probably, the allegations had a nationalistic tinge which could have clouded fair criticism.[1] The complaints did not seem to have been made in the light of the circumstances in which African applicants were rejected. Conversely, such complaints were not made in the context of the fact that some indigenous people were granted credit facilities albeit that the number was known to be very small and the amounts involved minute in relation to credits granted to expatriate businesses.

One way of testing the validity of such accusations is to examine the attitudes of Ghanaians to the indigenous Ghana Commercial Bank which was established in 1953 to provide the banking services so long demanded by the African population of the country.

As one would expect there have been both favourable and unfavourable comments on this bank. It is significant that the criticisms made against the Ghana Commercial Bank are fundamentally similar to those put forward against the expatriate banks. To give one notable example, - coming as it does from a prominent Ghanaian businessman - in August 1960 a Private Member's Motion introduced in the Ghana Parliament contended

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1. Newlyn and Rowan found this to be largely true of Nigeria. Ibid, pp.118-122.

that:

> "the conditions upon which the Ghana Commercial Bank grants loans and overdrafts should be made less restrictive."[1]

It is clear from the arguments and discussions above that the real issues raised by the allegations devolved on the credit standards of the expatriate banks vis-a-vis the financial and general business habits of the indigenous people. Did the banks transport wholesale to Ghana credit standards obtaining in the United Kingdom very likely to preclude the Africans from bank credit facilities? Could not such policies have been made less rigid to permit the Africans to benefit from credit facilities? Or were the banks' credit standards general universal standards likely to be found in any banking system, in which case the fault could be said to lie with Africans whose financial and business practices were not developed to universally acceptable standards? These are questions which will be discussed in respect of all three commercial banks. Throughout the 1950's and indeed up to the end of the period under review the Ghana Commercial Bank maintained lending policies substantially the same as those of the expatriate banks.

Section B

The Ghana Commercial Bank

The Ghana Commercial Bank was opened in 1953 under the name of the Bank of the Gold Coast, on the recommendations of Sir Cecil Trevor in the Report referred to in the previous

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1. Mr. C.C.K. Baah, M.P. (C.P.P. - Eastern Gomoa), Parliamentary Debates, Ghana. August 24, 1960.

section.

In this section we deal with (a) the background to the establishment of this bank including earlier attempts by a Ghanaian politician the late Dr. J.B. Danquah to get an indigenous bank established during the colonial period; (b) the structure of the Ghana Commercial Bank as indicated in its constitution, and (c) a general history of the bank's operations and policies.

The Background

It would be wrong to consider Sir Cecil Trevor's investigation of 1951 as the first expression of the need in Ghana for a bank substantially owned locally and required to cater for the interests of the Ghanaian section of the population.

In 1948 Mr. G. D. Paton an officer of the Bank of England was invited to the Gold Coast (as Ghana was then called) by the colonial authorities to look into the question of setting up a State-aided commercial bank and agricultural bank. Mr. Paton advised against both propositions generally, and in particular against the establishment of a commercial bank because, in his view, it could not safely operate on any more lenient scale than the existing (expatriate) banks.[1] He thought that the consideration was premature and the Secretary of State for the Colonies advised similarly.

Notwithstanding the expert advice to the contrary, Dr. J.B. Danquah then Third Eastern Provincial Member of the

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1. G.D. Paton, "Report on Banking in the Gold Coast", Government Printer, Accra, 1948.

(Colonial) Legislative Council took up the matter again. On May 18, 1948, he published in "The West African Monitor", an indigenous political mouthpiece, the copy of a draft bill entitled "The Gold Coast Bank Ordinance".[1] He sought leave by a letter to the Clerk of the Council to introduce the bill in the Legislative Council. The main points in his bill are set out below.

Dr. Danquah's proposed bank was to be set up with a capital of "not less than seven million pounds sterling". Presumably this meant authorised capital although the draft bill did not specify. Two-thirds of the capital were to be provided by the recently established Gold Coast Cocoa Marketing Board. The remainder was to be issued in shares to the general public. The appointment of directors, of whom there were to be seven, was vested in the Cocoa Marketing Board, the Governor (of the Gold Coast) and various native Provincial political and semi-political groupings including the Colony[2] Farmers' Union and the Ashanti Farmers' Union.

The proposed bank was to finance any approved system of cocoa marketing and of any other local produce. Secondly, the bank was to act as an agricultural bank arranging short- and long-term credits for cocoa and other agricultural

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1. There is evidence that Mr. Paton's investigation a few months earlier was to no small extent the result of pressures exerted on the Colonial authorities by Dr. Danquah. Official records made available to the author show that in November, 1947, during a visit to England Dr. Danquah had discussed the question of a Gold Coast bank with Mr. Rees Williams then British Under Secretary of State for the Colonies.

2. Before Independence the Western, Central and Eastern Regions of present Ghana were referred to collectively as the Colony.

producers, and manufacturers. Thirdly, it was to finance any industrial concern and to co-operate with the Government and any business in the Gold Coast or elsewhere to support or maintain any industry designed to foster the development of the resources of the territory. Fourthly, the bank would be required to assist in the advancement of trade and commerce by African firms and specifically to grant financial facilities which would enable Africans to engage in the export and import trade. Fifthly, and perhaps one of the ambitions provisions of the draft bill, the proposed bank was to be so prepared as to make it ready to take over from the West African Currency Board the issuing of a local currency.

These proposals for a national bank, as Dr. Danquah stated in the "Objects and Reasons" were intended "to meet the long-felt want of farmers and the public generally". Thus the proposed bank was aimed at alleviating the financial limitations on indigenous enterprise believed to exist as a result of the alleged "reluctance" of the two British banks to extend credit facilities to Africans.

The practical significance of Dr. Danquah's proposals was that they reflected generally the form of a commercial bank and banking services demanded by the native people. Clearly a bank organised in the form outlined above would not answer to the name of Commercial Bank in the British sense. The kind of bank proposed by Dr. Danquah was clearly a multi-purpose institution closely resembling the development banks

found today in many developing countries.[1]

The existing British banks restricted their lending to short-term working capital requirements. This obviously worked well with the foreign firms which could and did obtain investment capital requirements in their home countries. But as far as the local people were concerned the absence of any institution providing loans for capital investment was obviously a serious gap in the domestic financial system. It was therefore not surprising that the bank as proposed by Dr. Danquah would be required to provide loans of at least medium-term duration.

Viewed in a world-wide context, and assuming that the bank was to be basically a commercial bank, it was and still is not unusual for a commercial bank to finance investment in industry and agriculture. A few examples illustrate this point.

Traditionally, Australian banks have been more ready to make loans which are in practice of long-term nature, especially for agriculture, than have say banks in the United Kingdom, even though since the War the central bank of Australia has tended to discourage bank lending for the finance of fixed capital.[2] Secondly, in Sweden as in other countries in Continental Europe, there have always been close relations between the banks and industry. In Sweden where the people

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1. For a comprehensive account of development banks set up in developing countries see W. Diamond, "Development Banks", John Hopkins Press, Baltimore 1957; and Shirley Boskey, "Problems and Practices of Development Banks", I.B.R.D., John Hopkins Press, Baltimore 1957.
2. D.J.M. Frazer, "Banking in Australia" in "Comparative Banking" (ed. H.W. Auburn), Waterlow and Sons 1966. Third Edition.

were said to be disinclined to make direct investments in industrial enterprise, commercial banks are known to have played a major role at least at the initial stages of industrialisation, by financing a sizable part of long-term capital in industry. This was in spite of banking legislation which while not precluding the granting of long-term loans by the banks in Sweden was nevertheless positively in favour of short-term lending.[1] In recent years according to new rules introduced in July, 1965 a bank is allowed to grant loans maturing within ten years to an amount corresponding to 25% of its deposit liabilities plus capital and reserves.[2]

What was, however, controversial in Dr. Danquah's proposals was the suggestion that the bank should eventually take over the issuing of currency. Granting that the bank would not exercise direct controlling functions over the other commercial banks, the fact that the commercial banks would have to surrender some assets, local or foreign, to it in order to acquire currency would most probably give the currency-issuing bank an advantage over the others. The question of combining in one institution the issuing of currency and commercial banking has recurred several times in Ghana since the idea was pioneered by the late Dr. Danquah in 1948. This issue will be discussed in some detail in Chapter 2. A few other aspects of the proposals will now be discussed briefly.

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1. See Lars-Erik Thurholm on Sweden in "Banking Systems" (ed. B.H. Beckhart), Columbia University Press 1954. pp.663-80.
2. Rudolf Jalakasin H.W. Auburn (ed.) op.cit., p.144.

The proposed minimum capital of £7 million might be said to be rather high both in terms of the size of the economy and in terms of the relative share of bankable business in the hands of the African community. The following comparative figures serve to put the figure of £7 millioniin a meaningful context. On the 31st March, 1965 the authorized and paid-up capital of the Bank of West Africa operating in four countries were £6 million and £4 million respectively.[1] Secondly, the proposed capital of £7 million may be compared to the initial authorized and paid-up capital of the national bank - the Ghana Commercial Bank - amounting to £G 1 million and £G 0.3 million respectively. Thirdly, the figure may be compared to authorized and paid-up capital of £G 1 million on which the central bank of Ghana has been operating since it was established in 1957. These comparisons indicate the relatively large size of the capital which Dr. Danquah proposed for "his" bank. The rather large sum was clearly a direct reflection of the wide range of commercial undertakings in which the bank was to be involved.

Under the proposed constitution if the bank chose to be strict in its lending policies it might have remained heavily over-capitalized. On the other hand if it chose to be lenient - conceivably in the pious belief that it was serving a community starved dry of financial resources - it would most probably have ended up merely providing subsidies to African traders and farmers. There could be no doubt that lending to African farmers and traders of the Gold Coast of

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1. The Bankers' Almanac, 1964-65.

1948 on a large scale involved considerable risks.

This, however, is only a tentative view as a lot would depend on how effectively the bank attempted to surpervise the use of credits granted by it. It remains true to say, however, that the draft constitution of the proposed bank was clearly a compromise and probably was intended to woo politically all important sections of the indigenous population.

It was not clear how Dr. Danquah intended the difficult question of security against loans to be solved. In the Memorandum and Articles of Association which he specified in the draft bill, collateral security was to take the form of "agricultural, landed or other securities or assurances". The first two and the last were the nearest that most traders and farmers "of Gold Coast birth" could offer to any bank by way of collateral, but for reasons which will be explored in Section C even such collateral left much to be desired.

The draft bill did not go before the Legislative Council because the necessary permission was refused by the Colonial Governor who assigned the following reasons for his refusal.

1. That the bill dealt with a matter of great importance committing public funds on a grand scale and could not, therefore, be introduced by an unofficial member of the Council.

2. That Mr. Paton had shortly before advised against the formation of a third commercial bank as well as a separate agricultural bank.

3. That the Cocoa Marketing Board whose funds the bill

attempted to utilize was limited to the use of its funds for the benefit of cocoa farmers.

4. That the Cocoa Marketing Board had already earmarked a sum of £G 0.75 million for investment in an Agricultural Bank.

The establishment and constitution of the Ghana Commercial Bank

The efforts of Dr. J.B. Danquah achieved one important result; his proposals laid the basis for further demands for a national bank.

By 1951 the nationalist movement which gathered momentum in 1948 had already achieved considerable success, and the foundations of internal self-government were realised in the form of a Legislative Assembly with an elected African majority. In that year a Ghanaian was appointed Leader of Government Business. That Ghanaian was Dr. Kwame Nkrumah.

The demand for a national (indigenous) bank was by now regarded by the new politicians as a basis for installing the Ghanaian as master of his birthright. This attitude was echoed in the words of Mr. Eggleston:

> "It was clearly inconceivable that, in a country rapidly approaching self-government, no attempt should be made to redress the economic balance in favour of its own people, who had hitherto had to be content with the crumbs and were now ..... demanding a larger share of the national cake."1

By 1951 the fresh demands for a bank that would cater for the interests of the African had, in effect, merged with the nationalist sentiment for political emancipation.[2]

In 1951 Sir Cecil Trevor was invited by the Colonial

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1. A. Eggleston, op.cit.
2. Official records made available to the author confidentially, show that Dr. Nkrumah then Leader of Government Business displayed great personal interest in the preparations that preceded the opening of the Ghana Commercial Bank.

Government to "examine the whole field of banking in the Gold Coast and, in particular, to examine the question of setting up a national bank on commercial lines to finance development projects and to act as a reserve bank".

In his Report published in 1951 and referred to hereafter as the Trevor Report, Sir Cecil Trevor advised against the establishment of a central bank. But he recommended "the formation of a semi-Government Bank to be conducted on commercial lines to meet the present needs of the country as a whole."[1] He suggested that the bank should operate for the benefit of African industry, agriculture, commerce and trade. The bank could keep the Government's accounts, handle issues of government loans and provide credit to the Co-operatives. Lastly, a note of warning was sounded against extension by the bank of unproductive loans.[2] From the recommendations it was clear that the bank was to undertake ordinary commercial banking business on what might be called the orthodox British pattern. There was no indication that Sir Cecil Trevor expected the bank to operate in a manner significantly different from the operations of the existing banks. As one writer has commented, perhaps aptly, this "was hardly a brilliant solution".[3]

It has been said that the terms of reference drawn up for Sir Cecil Trevor reflected the confused ideas on banking which had been prevalent in the Gold Coast.[4] One such

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1. Sir Cecil Trevor, op.cit., para. 153.
2. Ibid.
3. J.W. Williams, op.cit.
4. Ibid.

confusion was the suggestion, embodied in the terms of reference, of a bank on commercial lines providing finance for development projects. As noted earlier, it is not unusual for commercial banks in countries without developed capital markets to finance industrial capital of medium-term nature. But a commercial bank operating on normal commercial lines can at best invest only a very limited proportion of its resources in loans connected with development projects which in an underdeveloped country usually means long-term capital projects of infrastructural kind. The other controversial aspect of the terms of reference was the idea of combining commercial banking and central banking in one institution. As noted earlier this idea was resurrected several times in Ghana and will be discussed in our examination of the development of central banking in Ghana.

We turn now to an outline of the constitution of the Ghana Commercial Bank known until 1957 as the Bank of the Gold Coast. To avoid confusion the current name of the bank will be used in further reference to it.

The Bank of the Gold Coast Ordinance was enacted in October, 1952.[1] The authorized capital of the Bank was £G 1 million, divided into 100,000 shares of a nominal value of £G 10 each. The general policy of the bank was to be administered by a Board of Directors. The power to increase the amount of authorized capital was vested in the Board of Directors, with the prior approval of the Ministry of Finance and with the consent of the shareholders.[2] The Government,

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1. Ordinance No. 49/1952.
2. Bank of the Gold Coast Ordinance, 1952, section 3.

the law stipulated, was to take up 30,000 shares upon the establishment of the bank and to pay £G 12 for each such share from funds appropriated by the Legislative Assembly.[1] Provision was made in the law for the sale of shares originally purchased by the Government but with the prior approval of the Colonial Governor.[2] The Bank was required to pay 20% of profits into a Reserve Fund before it paid dividend and this was to continue until the Reserve Fund equalled paid-up capital.

The law permitted the bank to transact practically the whole range of banking business developed in the United Kingdom. The range of permitted operations included "the paying, receiving, collecting and remitting of money, bullion and securities on behalf of the Government and the undertaking and transacting of any other business which the Government may from time to time entrust to the Bank".[3]

It is interesting to note that apart from a provision that it could purchase bills of exchange payable out of the country at any usance not exceeding three months[4] there was no specific ruling about the duration of any other forms of advances which the bank could make.

In addition to normal commercial lending the bank could invest in

1. stocks or other security issued by the Government of the

1, The difference between the nominal and purchase values of each such share was to be carried into a Reserve Fund.
Ibid, section 13.

2. Ibid, section 2.

3. Ibid; section 15.

4. Ibid.

Gold Coast.[1]

2. stocks and securities in which a trustee is authorized to invest money by any law for the time being in force in the Gold Coast or by any Act of Parliament of the United Kingdom and Northern Ireland or by any law enacted by any duly constituted Government within the British Commonwealth.[2]

Overdrafts could be granted "with or without security, to such extent as may be prescribed by bye-laws". But loans and advances (as distinct from overdrafts) were required to be made against security.[3]

Majoring among the types of security which the bank was permitted to accept were:-[4]

1. Stocks and other securities of the local Government and of Governments elsewhere in the British Commonwealth.

2. Debentures of limited liability companies incorporated locally or elsewhere, and fully paid shares of limited liability companies where an original security of the first type (that is (1) above) had already been obtained.

3. Goods hypothecated or documents and titles to these, deposited with or assigned to the bank.

4. Immovable property or documents of title if they were offered as secondary security.

In the prohibitive clauses the bank was precluded from making loans or advances on the security of its own shares. It was also forbidden to grant advances on mortgages or in any other manner on the original security of any immovable property or documents of title thereto. Such prohibitions were, however,

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1. Ibid.
2. Bank of the Gold Coast Ordinance, 1952, section 15.
3. Ibid. 4. Ibid.

to be waived in cases where their observance would prevent the bank from performing its duty as agent of the Government. In addition when granting loans out of funds made available for that purpose by the Government such restrictions were to be waived.[1]

A brief comment on the constitution is called for. On the whole it could be said that the constitution of the bank was not rigid. It allowed considerable discretion to the Board in such matters as asset distribution, borrowing and lending rates and other terms relating thereto. Judging from the background to the formation of the bank, the most interesting aspect of the bank's constitution were the provisions regarding collateral security.

It was doubtful from the beginning how the bank was to fulfil its special function of assisting African enterprise to any significant extent. Among the Africans stocks and shares were conspicuously absent. Other forms of collateral normally acceptable to banks such as life insurance policies were also generally unavailable to Africans. Thus it was obvious that the only permitted collateral which the Africans could offer were goods and related documents. This meant that even if the bank was willing and able to grant medium-term loans to the indigenous business sector it could not do so to an important extent because the kind of securities which were required against such lending were not available to African businessmen.

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1. Ibid, section 16.

Ironically, house property obviously discouraged by the law was the one form of security frequently available to the Africans. In Ghana success was and still is customarily identified by the ownership of house property. Secondly as most African businesses are usually rather small in size a house provides an asset on which to fall back in case of business failure. Finally, in the rapidly growing towns of the country a house could yield considerable income.[1]

One would therefore expect that the bank would be empowered to accept house property as primary security. In a sense this argument could be extended to cover land. That both house and landed property were not favoured by the law as suitable security against loans could be ascribed to the same practical reasons as must have discouraged the expatriate banks from accepting them. It is therefore useful to discuss such reasons in respect of all three banks. This will be done towards the end of Section C.

However, it can be appreciated from the points raised above that if the credit requirements of the Africans were to be adequately met it was doubtless necessary to surmount the problem of adequate collateral. An attempt to solve this problem took the form of two Government-sponsored schemes organised under the agency of the Ghana Commercial Bank. These were the Government Mortgage Loans Scheme and the Guarantee Corporation.

The Government Mortgage Loans Scheme was in effect a

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1. See J.W. Williams, op.cit.

fund contributed entirely by the Government out of which medium-term loans were made to Ghanaian businessmen against the security of house property. The Guarantee Corporation was also a fund subscribed by the Government and Ghanaian importers in the ratio 2:1. With the fund as security the bank could pay oversea suppliers for goods supplied to the members of the Corporation who were then required to repay in a given period.

At the time of writing both schemes had ceased to function. A brief account of their operation will be given later in this study. We now turn to give a short history of the bank.

A short history of the Ghana Commercial Bank

Four broad aspects of the bank's operations are outlined in this subsection. They are staffing and administration, capital and profits, deposits and credit operations and lending policy.

Staffing and general administration

The Ghana Commercial Bank was first opened for business on 20th May, 1953 seven months after the enactment of the law establishing it.

It commenced business with a staff of 27 in one office in Accra. The Government acting by the recommendation of Sir Cecil Trevor appointed to the position of Managing Director, Mr. Albert Eggleston, a retired officer of the Imperial Bank of India (known since July 1955 as the State Bank of India). Sir Cecil's advice was that for the post of chief executive a retired expatriate banker should be recruited until a Ghanaian with the requisite qualifications and experience became

available.

It is worth noting that of twelve expatriates who served on the bank between 1953 and 1963 the first seven came from the State Bank of India.

The initial problems were tackled with conscientious zeal. It was the first bank to introduce mechanised accounting in Ghana. Agency arrangements were completed in international financial centres among them London, New York, Hamburg, Bombay and Tokyo.

Having succeeded in attracting away from the existing banks its initial Ghanaian personnel the bank eagerly trained freshly recruited staff. University graduates and other high level personnel with professional qualifications were trained locally and abroad. Generally, the bank was overstaffed in the initial years in anticipation of future expansion.[1] From the initial staff of 27 the personnel development grew as shown in Table 3. In 1962 the bank opened a Banking

Table 3

Ghana Commercial Bank : Staff Employment Position
(End of Period)

May	1953	27
June	1960	270
June	1961	800
May	1963	1,300

Note: the figures are approximate
Source: Ghana Commercial Bank, Accra.

1. T.O. Asare (Managing Director from September 1960) Address delivered on Tenth Anniversary of the Ghana Commercial Bank in 1963, published in "Ghana Commercial Bank", Government Printer, Accra 1963.

Training School in Accra for its employees. As a result of intensive staff training begun in the initial years the bank advanced speedily its "Africanisation" policy. In 1960 the first Ghanaian Managing Director was appointed and six Ghanaian managers were appointed to head the branches.[1]

High standards have throughout been maintained in the composition of the Board of Directors all of whom are appointed by the Government in its capacity as sole shareholder. The significance of the high standards mentioned here should not be underestimated. In Ghana the record of directorates of Government-sponsored enterprises has not often been a happy one.

The Principal Secretary of the Ministry of Finance is an ex-officio member. Through him the Government maintains contact with the bank. Apart from this arrangement the Government wields no ostensibly direct control over the operations of the bank, having allowed it to work out its own policy.[2]

When the bank started operations there was considerable scepticism about its chances of success. The critics were reported to have forecast for it a maximum life of two years.[3] It will become clear in the subsequent paragraphs that the critics have been proved amply wrong.

The gloomy forecasts did not take account of the zeal and experience of the bank's senior executives. Secondly, the

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1. T.O. Asare, op.cit.
2. This is as far as can be judged by the known facts. It is probable that with the increased involvement of the bank in the financing of Government enterprises in recent years the Government may have exercised greater control over the bank than meets the eye.
3. Statement by A. Eggleston, op.cit.

critics did not reckon with the later developments in the economy in which the bank was to derive a considerable share. Furthermore, the Ghana Commercial Bank was not an ordinary indigenous bank in the sense that they were in Nigeria, for example.[1] As a Government-owned bank it could count on considerable assistance from the Government in various forms. As a state-owned commercial bank one of its potential advantages was that there would be no pressure on it to pay out dividends at the initial stages. But one comment was aimed at the foundation of the bank, that in view of its orthodox complexion it was doubtful that the bank could perform its special function of financing African enterprise.[2]

Capital and profits

In Table 4 is presented the paid capital of the bank as published in balance sheets for the dates shown.

The initial paid capital of £G0.3 million was raised by stages reaching the full authorized capital of £G1million

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1. See D.C. Rowan, "The native banking boom in Nigeria", The Banker, October 1951.
2. For a discussion on the Ghana Commercial Bank shortly after its establishment see Newlyn and Rowan, op.cit., pp.241-5. The authors argued that since the bank was established on orthodox lines it could not expect sufficient numbers of acceptable African borrowers. This would necessarily limit the bank's earnings and hence reduce its ability to offer attractive terms on deposits. They argued further that since the bank lacked connections with London (in contrast to the British banks) this would be a disadvantage to its operation. In these arguments was obviously implied considerable doubt about the success of the Ghana Commercial Bank.

Table 4

Ghana Commercial Bank : Paid Capital 1953-64

Date	Paid Capital £G Million
31-10-53	0.3
31-10-54	0.3
31-10-55	0.7
31-10-56	0.7
30-4-57	1.0
30-6-58	0.2
30-6-59	0.2
30-6-60	0.2
30-6-61	0.5
30-6-62	0.5
30-6-63	0.5
30-6-64	1.0

Source: Ghana Commercial Bank, Balance Sheets and Annual Reports

by 4th April 1957. The establishment of the Bank of Ghana in 1957 affected the capital position of the Ghana Commercial Bank in two ways. The authorized and paid-up capital of the latter were reduced by the Government to £G0.5 million and £G0.2 million respectively.[1] Secondly, the bank's reserves which stood at £G0.3 million in April 1957 were reduced to £G40,000 in the same year.[2] Funds and fixed assets realised from the reductions in the capital resources of the Ghana Commercial Bank were transferred to the Bank of Ghana

1. Ghana Commercial Bank Act, 1957.
2. Information supplied by the Ghana Commercial Bank.

to form part of the latter's initial resources.

Explaining the changes in the capital position of the Ghana Commercial Bank, the Minister of Finance argued that the country's capital resources were under strain and hence it was necessary to let the available money serve as far as possible. Furthermore, the Minister argued, experience from the first three to four years of the bank's operation indicated that the new capital position (that is to say, authorized and paid capital as well as reserves) was adequate.[1]

The strength of the second argument was dubious. In 1957 when the changes took place the Ghana Commercial Bank was operating only two offices in the whole country, having till then concentrated on strengthening its position.

During the 1960-61 financial year the Government paid the rest of the authorized capital thus bringing paid-up capital to £G0.5 million. This further capital subscription coincided with the beginning of the big expansion in the bank's branch network. Investigations by the author indicated that the expansion was the primary reason for the increased capital issues. In 1964, through capitalisation issues the bank's paid capital was again raised to £G1 million, the position in 1957 before the transfer of capital resources to the central bank.

The build up in issued share capital after 1957 was well reflected in a similar build up in the Reserve Fund. It has not been possible to obtain separate annual data on the state of reserves for the period before 1957. However, information

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1. K.A. Gbedemah, Ghana Parliamentary Debates, February 14, 1957. The balance handed over to the Bank of Ghana was partly in cash and partly in premises at Accra, Kumasi and Takoradi.

made available to the author indicates that at some time in 1957 the Reserve Fund amounted to £G0.3 million from which it was reduced to £G40,000 for the reasons given earlier. From this position the same source shows that between May, 1957 and 30th June 1960 a total sum of £G290,000 was credited to Reserves thus bringing the total to £G330,000 at the end of June 1960. From this level the Reserve Fund was raised substantially to £G850,000 at the end of June 1964. The level of the Reserve Fund is presented in Table 5. In Table 5 is also shown a second item the Development Reserve Fund which was started in 1961 to meet plans for expansion.

Table 5

Ghana Commercial Bank : Reserves 1960-64

£G'000.

Date	Reserve Fund	Development Reserve Fund	Total
30-6-60	330	-	330
30-6-61	400	100	500
30-6-62	500	370	870
30-6-63	800	670	1,470
30-6-64	850	720	1,570

Source: Ghana Commercial Bank, Accra.

The Development Reserve Fund increased over sevenfold from £G100,000 at the end of June 1961 to £G720,000 at the end of June 1964. The sum of both reserves showed the bank's financial position to be on the ascendancy during the period 1960-64.

In Table 6 we present the annual net profits of the Ghana Commercial Bank for the period 1957-64. Separate figures for net profits are not readily obtainable for the period before 1957. However, it can be safely assumed that

Table 6

Ghana Commercial Bank : Net Profits

1957-64

Date[a]	Amount(£G'000)
30-4-57	60.0
30-6-58[b]	74.0
30-6-59	102.0
30-6-60	123.0
30-6-61	185.5
30-6-62	419.9
30-6-63	871.2
30-6-64	902.6

(a) The dates correspond to the end of the bank's financial year and therefore the net profits refer to operations in the twelve months preceding the date shown, unless otherwise stated.
(b) Fourteen months.

Source: Ghana Commercial Bank, Accra.

during the first few years of operation profits, if any, were negligible. In the early years the bank's revenue was derived principally from discounts on British Government Treasury Bills holdings which provided the fulcrum for sound banking at a time when deposits other than the Government's were dominated by a large number of very small accounts.

From 1957 deposits increased in total volume and probably in average value. For one thing from 1957 statutory bodies were required to maintain accounts with this bank. Consequently the proportion of high yielding assets loans and advances could be increased. Towards the end of the period under review the bank was handling a substantial portion of foreign trade. This is borne out by confidential information supplied to the author showing inward and outward transfers of funds through individual banks. This is, however, only a summary outline of the factors which could have contributed to the tremendous growth of net profits from £G60,000 in 1957 to over £G0.9 million in 1964.

Deposits

Table 7 shows the bank's deposit liabilities during the period 1953-64 as published in balance sheets for the end of the financial year. For comparison the combined deposit liabilities for all commercial banks are presented in Table 7.

It must be noted that columns (1) and (2) in Table 7 are not strictly comparable. Column (1) includes provisions for taxation and contingencies and some internal capital liabilities of the Ghana Commercial Bank the exact nature of which is not known to the author. By contrast, Column (2) covers only total deposit liabilities to customers. The essence of the data in Table 7 is thus to demonstrate the approximate relative share of the Ghana Commercial Bank in the total deposits held within the commercial banking system. In particular we wish to draw attention to the tremendous

growth in this bank's deposits in the 1960's as compared to the pre-1960 period when deposits were clearly of small order.

Table 7

Deposit Liabilities of the Ghana Commercial Bank and All Bank Deposits.

	Total deposits of G.C.B.(a) £G'Million (1)	Total deposits of All Banks £G'Million (2)	Ratio of (1) to (2) % (3)
31-10-53	1.2	n.a.	-
31-10-54	2.4	"	-
31-10-55	2.7	"	-
31-10-56	3.0	"	-
30-4-57	3.0	"	-
30-6-58	4.6	24.3	19.1
30-6-59	6.9	30.7	22.4
30-6-60	10.0	33.9	29.4
30-6-61	15.3	45.2	33.8
30-6-62	36.3	47.8	75.9
30-6-63	33.6	61.6	54.5
30-6-64	38.6	73.9	52.2

Notes:- G.C.B. = Ghana Commercial Bank
(a) Deposits of G.C.B. include provision for taxation on profits and contingencies

Sources: (i) Economic Survey (of Ghana) 1961, 1963 and 1964.
(ii) Balance Sheets and Annual Reports of the Ghana Commercial Bank.

From May 1953 when the Ghana Commercial Bank commenced banking operations its deposit liabilities consisted of only current accounts until a Savings Department was opened in August 1959.

From the beginning the bank took over the Government's accounts. This was, however, a gradual process starting with the government master accounts in Accra. The only available factual information regarding the relative size of government accounts in the bank's total deposits states that on 31st October, 1956 of total deposits of £G3,033,953 (including provisions for contingencies) an amount of approximate £G2 million or 65% of the total was due to the Government.[1]

In about August 1957 government deposits and the deposits of statutory corporations then keeping accounts with the Ghana Commercial Bank were transferred to the Bank of Ghana. Shortly afterward the accounts of statutory corporations were returned to the Ghana Commercial Bank.

It is unlikely that the accounts of public and quasi-public bodies with the Ghana Commercial Bank amounted to much, before and by 1957. Most of such bodies (Local Authorities, Government educational institutions and corporations etc.) were until 1957 generally free to bank where they chose. Moreover, at the end of 1957 the Ghana Commercial Bank maintained only two banking offices in the country at Accra and Takoradi. Thus all such public and semi-public bodies based outside these two centres would necessarily maintain accounts with the other banks. From 1957 it was the Government's expressed policy

1. J. W. Williams, op. cit.

that all public institutions should maintain their accounts with the Ghana Commercial Bank. By December 1961 most of them were already banking exclusively with the Ghana Commercial Bank and the rest were in the process of transferring all their accounts to it. Certainly at the end of the period under review this process was complete. It will be argued shortly that this factor exerted a sizable upward influence on the observed high volume of the bank's deposits from 1960 to 1964. The Government's policy that public institutions should maintain their accounts with the Ghana Commercial Bank was made effective as a result of immense expansion in the bank's branch network from 1960 onward.

That the bank operated only two offices in 1957 would appear to imply that government accounts held by the bank, before it lost such accounts to the central bank, were a small proportion of total government bank balances. Such an inference would, however, be wrong. In a small country organised essentially on a centralised administrative system government accounts kept outside the capital must have been relatively small, being limited to temporary balances held for administrative purposes.

The large size of government accounts in the total deposit liabilities of the Ghana Commercial Bank carries the obvious implication that until mid-1957 government accounts contributed substantially to the bank's revenue. Given the fact (stated above) that the non-Government customer liabilities were small in aggregate and considering our earlier assumption that the average size of account was small,

that government accounts were a dominant factor in the bank's revenue was beyond dispute.

However, even the influence of government deposits should not be over-estimated. Government balances are characteristically volatile or active. Against them the bank would need to hold a considerable amount of liquid reserves which at that time would consist of short-term sterling balances and local currency. The greater was the proportion of reserves required to be held in currency the smaller would be the profitability permitted by the Government's deposits.[1] The low interest rates which prevailed in the United Kingdom from 1953 to early 1957 would have discouraged excessive holding of sterling assets as reserves especially if seen against the fact that it cost a total of 1% to transfer money to London and back.

The following account explains the influence of specific factors, in addition to general economic and social developments, on the growth in deposits recorded by the bank.

1. From the early years of its operation the Ghana Commercial Bank acted as agent to the Government and a section of the Ghanaian business community in the management of the credit schemes referred to above. As an attempt to ensure

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1. The bank's published balance sheets showed high currency holdings in the first seven years. In the first three years' accounts the ratio of cash to deposits were respectively 32.4%. 34.3% and 33.2%. Of course, since these ratios obtained on the accounting dates it is conceivable that assets were deliberately arranged to indicate a high level of liquidity. This tentative qualification does not, however, reduce the force of the argument above that while it kept the Government's accounts the bank had to hold large non-earning liquid reserves against such accounts.

repayment of loans obtained from these sources, borrowers were required to maintain accounts with the Ghana Commercial Bank which could be debited to repay their debts under the credit schemes. The bank maintained separate accounts in respect of the credit schemes. The effect of the arrangement on the bank's own deposit liabilities was obviously volatile as the bank accounts of debtors to the schemes were periodically debited to the credit of the accounts held separately under these credit schemes. Therefore to the extent that the bank's own deposit liabilities were published before the necessary deductions were made the published deposit liabilities of the bank would represent an inflated position. However, in the final analysis the bank most probably gained in the arrangements through the attraction into it of Ghanaian businessmen who would otherwise have banked elsewhere.

2. In August 1959 the bank established a savings department. In March 1962 it organised a National Banking Week marked by a nation-wide campaign for savings deposits. This was stated by the bank's chief executive to have marked the beginning of a steady increase in savings deposits held by the bank.

3. As the number of public (state-owned) enterprises increased from 1960 on the bank's deposits have undoubtedly been influenced upward.

41 From 1960 a change of policy initiated by the bank's executives permitted it to grant credits to non-Africans. Previously, as the bank was not permitted by its constitution to lend to non-Africans the latter naturally had no incentive to maintain deposit accounts with it.

Corresponding to the increase in deposit liabilities has naturally been a large increase in assets of various kinds. We should note, in particular, the influence of the bank's monopoly in banking business affecting the state-owned enterprises from 1961. This included the financing of a high proportion of cocoa purchases.

These developments apart, as far as deposits are concerned, we should note the influence of a tremendous growth in the number and coverage of the bank's offices from 1960 to 1964. This not only brought the bank within the reach of a wider section of the population, but also from a theoretical point of view meant that the net leakage of primary money from this bank was lessened. This development freed the bank from the obviously disadvantageous position, of operating virtually as a 'unit bank' alongside competitors which to all intents and purposes were branch banks.[1]

Lending policies

The lending policy of the Ghana Commercial Bank altered considerably from 1960. In the 1952 Ordinance (to which references have been made above) it was precluded from accepting immovable property or the documents of title against advances except where they were offered as secondary security. From 1960 under Mr. T.O. Asare the first Ghanaian Managing Director the bank began to grant advances against the deposit (with the bank) of titles to residential buildings without

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1. For a brief discussion of characteristics and problems of unit-banking see R.S. Sayers "Modern Banking", 5th edition, Oxford, 1960 pp.21-5. For a fuller discussion see R.I. Robinson "Unit banking evaluated" in "Banking and monetary studies" (ed. Deane Carson), Richard D. Irwin, Inc. Homewood. 1963 pp. 291-305.

taking charge of the properties as such.[1] In practice there is no differnece between accepting only title deed and taking charge of the property concerned. However, the significant point was that the decision introduced an element of flexibility into the bank's lending policy.

A second major deviation from the pre-1960 policy on lending was the decision (referred to above) in 1960 that the bank should be permitted to enter into credit transactions with any customer irrespective of nationality.

An important permissive and flexible aspect of the bank's original constitution was that it could, with the prior sanction of the Board of Directors, allow overdrawing of accounts without security, or without security of a type stipulated elsewhere in the law.[2] The granting of unsecured advances generally was a long-established practice among the expatriate banks. What should be noted, however, is that this provision allowed the authorities of the Ghana Commercial Bank considerable room for manoeuvre. It mitigated the effects of other provisions in the law which made the bank almost unsuitable as a bank intended to lend to the African population of the country.

In the 1952 Bye-Laws unsecured overdrafts were limited in amount to £G20,000 per customer. The limit was lowered to £G5,000 by amendment to the bye-laws on 3rd March, 1959. The reduction may have been promptod by a high incidence of defaults.

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1. Information supplied by the Managing Director (1965) of the Ghana Commercial Bank.
2. Bank of the Gold Coast Ordinance, 1952, section 15.

From the beginning the bank relied on personal guarantees as securities against overdrafts and other forms of customer credits. Such guarantees were oftwo main kinds: those guarantees by the politician and by the registered money-lender. According to information supplied by the Managing Director (1965) both forms of guarantee or assurance were, by 1962, almost entirely discontinued.[1] By 1964 the only form of personal guarantee acceptable, though rarely, was according to the Managing Director interviewed by the author in cases where the guarantor and the guaranteed were very ~~very~~ close family relations.

From 1960 the bank gave considerable weight to a policy of granting credit to businessmen on the basis of their liquidity rather than on what kind of collateral they could offer. Liquidity is here defined as a customers ability to settle his debts as determined by the nature of his business and turnover rate. This policy of being liquidity-conscious rather than security-conscious has constituted another important element of flexibility in the bank's lending policy.

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1. The guarantee by the politician was abolished because it involved the bank in many difficulties. For example, according to a high officer of the bank, in one case it was discovered that one politician had guaranteed loans to a total of £G90,000. When confronted with this fact it turnod out that he did not have the slightest intention of accepting liability.

The money-lender's guarantee was abolished because it led to numerous small accounts repayments on which tended to fall into arrears, implying also that the money-lender usually guaranteed overdrafts and loans for personal financing. Furthermore, it was widely known that a considerable part of the resources thus obtained by borrowers was transferred in commissions to the money-lender who thus quickly enriched himself.

Section C

Developments in Commercial Banking 1950-64

In many senses 1960-61 stands out as the divide after which basic changes in the pattern of commercial banking activity were registered or were noticeable.

First, from 1960 the traditional pattern of bank location began to alter and certainly at the end of 1964 the location of bank offices showed a pattern radically different from the 1950's.

Secondly, a continuous increase in deposit liabilities was accompanied by a decline in the relative share of demand deposits in favour of the aggregate of time and savings deposits.

Third, from mid-1961, in terms of earning assets, domestic assets became progressively more important quantitatively than sterling or foreign assets. (Foreign assets and sterling assets were in practice synonymous terms). At the end of the period under review the banks collectively held sterling assets amounting to very little. The amounts of sterling assets held were substantially non-earning balances maintained for day-to-day working purposes. This should be noted as one of the most significant changes in commercial banking practices since the commencement of commercial banking in Ghana.

Fourth, the developments outlined in the preceding paragraph were associated with two important changes in the composition of commercial bank assets. They were

(a) the beginning of a permanent float of local Treasury

Bills a large proportion of which was held by the banks; and (b) the decline of cash as a proportion of deposit liabilities and total non-fixed assets.

Fifth, in the last year of the period under review, in contrast to traditional practice commercial enterprise ceased to be the user of a major portion of bank credit. This development was the culmination of official policy statements dating back to about 1957. The shift was finally effected by credit regulations introduced in April 1964. It must be noted that these credit control regulations themselves represented the first attempt to subject commercial banking activity to official regulation. Previously the banks arranged their asset structure to suit their own operational policies. Thus April 1964 marked another significant turning point in Ghana's credit system.

Sixth, from about the end of 1960 the official policy was to sever the automatic linking of commercial banking practices to monetary measures prevailing in the United Kingdom. The break came clearly from mid-1961. Until then high interest rates, for example, in the United Kingdom were usually followed by increased commercial bank rates in Ghana.

The developments outlined above were responses to different forces political as well as economic, and were important aspects of monetary and general financial adaptation. In the remainder of this chapter the trends and developments outlined above will be examined in detail.

Bank offices

As noted earlier the two British banks were attracted to Ghana, as indeed to West Africa as a whole, primarily in response to rising foreign trade. Until the closing years of the period under review the banks' major operations were related to activities associated with foreign trade. As a result, bank offices were for a long time concentrated in the ports and commercial and mining centres where expatriate business activity was generally located. The establishment of the Ghana Commercial Bank did not change this pattern until after 1960. From then on bank offices were extended beyond the traditional centres in a pattern which, if maintained, will carry a considerable long-run significance for the development of the economy.

Table 8 and Table 9 show the number of bank offices (branches and agencies) in 1951 and 1955-64 compared with the Gross Domestic Product (GDP) and population of Ghana.

The number of commercial bank offices increased by nearly nine times between mid-1951 (see Table 8 footnote b) and the end of 1964, from 18 to 174. This represented an arithmetic average increase of nearly 12 offices per year. Thus over the thirteen-year period commercial bank offices were opened at the rate of one per month. This should be compared with an average arithmetic growth rate of one branch per three years in the period 1897 to mid-1951.

Table 8

Ghana : Number of Commercial Bank Offices Compared with GDP (a)

(End of period)	Number of bank offices(c)	Estimated GDP for the year £G Million	Estimated GDP per bank office £G Million
1951(b)	18	-	-
1955	42	340	8.1
1956	64	353	5.5
1957	79	370	4.7
1958	88	390	4.4
1959	100	445	4.5
1960	104	478	4.6
1961	130	511	3.9
1962	139	547	3.9
1963	158	604	3.8
1964	174	680	3.9

(a) Estimates GDP are in current market prices, and include farmers' subsistence output. Fairly reliable estimates are available for only 1955 onward.
(b) Refers to mid-year total of branches.
(c) Figures for 1955-59 include a few offices operated by a dissolved (1960) Co-operative bank. It has not been possible to separate out the small number of offices operated by the co-operative bank.
Figures for 1950 and 1952-54 could not be obtained.

Sources: Central Bureau of Statistics, Accra-Economic Surveys.
Bank of Ghana, Annual Reports.
1951 - Sir Cecil Trevor, op.cit., paras. 34 and 46.

Over the period 1960-64 the arithmetic average increase in the number of bank offices was 17.5 per year as compared to 12 offices annually over the period 1955-60.

Table 8 shows a fall over the period of GDP per bank office although no causal relationships can be deduced between the two magnitudes on the basis of the figures shown. It must be noted that the usefulness of comparing GDP to the number of bank offices is limited by the fact that the GDP is a flow of expenditures or money income receipts within the year whereas the numbers of bank offices refer to the end of the year and should be aptly regarded as stock figures.

Table 9

Ghana : Banking Density 1951 and 1955-64

(End of period)	Estimated population(b) '000 (1)	Number of bank offices(c) (2)	Estimated population per bank office '000 (3)
1951(a)	5,359	18	298
1955	6,041	42	144
1956	6,193	64	97
1957	6,355	79	80
1958	6,518	88	74
1959	6,685	100	67
1960	6,858	104	66
1961	7,036	130	54
1962	7,291	139	52
1963	7,407	158	47
1964	7,600	174	44

(a) Figures for 1951 show approximate mid-year position.
(b) Author's calculation based on a census figure of 6,727,000 for end of March, 1960.
(c) See Table 8 footnote (c)

Sources: Column (1) - based on 1960 population census of Ghana, Central Bureau of Statistics, Statistical Yearbook of Ghana, 1961.
Column (2) - As for Table 8.

Moreover, one cannot draw conclusions with any useful degree of finality about the declining ratio of GDP to bank office. On the one hand it could imply that transactions per bank office were declining. On the other hand, it could mean that the expansion in banking dots was a lubricating factor in the growth of GDP in current prices. These are questions which it is clearly impossible to pursue further.

Table 9 shows the approximate size of population per bank office or banking density for the period 1951 to 1964 excluding 1952-54 for which reasonably reliable statistics of bank offices could not be obtained. The population estimates are the author's own calculation based on census data in respect of the end of March 1960. The estimates given in Table 9 have been obtained first by projecting forward from 1960 at 2.6% annual growth rate and backward at 2.5%[1] to give annual estimates corresponding to the end of March. From these estimates have been made for the end of each year on the basis of the simple formula:

$$P_1 = x_1 + 0.75(x_2 - x_1) = 0.25(x_1 + 3x_2)$$

where P_1 stands for the required end of year population estimate, x_1 the estimate for the end of March in that year and x_2 the estimate for the end of March in the following year. Through this obviously simplified procedure it has been possible to bring the population figures and the number of banking offices on to a comparable basis.

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1. These are the official estimates of population growth rates. See Office of Planning Commission, "Ghana seven-year development plan", Government Printer, Accra 1963. p.7; and R. Szerezewski "Capital and output in Ghana, 1955-61", The Economic Bulletin of Ghana, No. 4, 1963. p.39.

From a banking density of 298,000 of population per bank office in mid-1951 the ratio fell consistently over the period reaching 44,000 per bank office at the end of 1964. For the purpose of comparison banking densities in terms of population in thirteen other countries as on 31st December 1964 are presented in Table 10. Three of these

Table 10

Banking Density : A Comparison of Ghana with Selected Foreign Countries, 31st December 1964.

	Number of banking offices	Approximate population per banking office.
1. Finland	900	1,500
2. Western Germany	34,000	1,700
3. Australia	5,580	2,000
4. Canada	5,614	3,250
5. England and Wales	11,500	4,100
6. Belgium	2,144	4,300
7. Sweden	1,423	5,300
8. U.S.A.	27,000	7,000
9. Portugal	400	22,500
10. Ghana	174	44,000
11. Kenya	164	54,000
12. India	5,478	80,000
13. Uganda	70	92,900
14. Tanganyika(a)	91	96,700

(a) Tanganyika is now part of Tanzania.

Sources: For (1) - (9) and 12 - H.W. Auburn, op.cit.
For (11), (13) and (14) - John Loxley, "The development of the monetary and financial system of the East African Currency Area", Unpublished Ph.D. Thesis, University of Leeds, 1966.

are African countries namely Kenya, Uganda and Tanganyika which in 1964 merged with Zanzibar to form the Republic of Tanzania. On the 31st December, 1964 all the three African countries had a greater population per banking office than did Ghana. On the whole the advanced countries had a lower banking density. From this it may be inferred that the decline in banking density for Ghana was a reflection of general economic and social development.

It is interesting to note the respective influences of the expatriate banks on the one hand, and of the indigenous Ghana Commercial Bank on the other, in the observed increase in banking offices.

Up to the end of 1959 the expansion was dominated almost entirely by the expatriate banks, with Barclays Bank registering a greater average yearly growth from 1955. From 1960 the position was completely reversed as the Ghana Commercial Bank expanded its branch system whilst the expatriate banks remained practically stationary in terms of numbers of offices. Table 11 illustrates these points clearly.

Table 11

Ghana : Banking Offices of Expatriate Banks and the Ghana Commercial Bank. Selected Years.

(End of period)	Total number of banking offices All Banks (1)	Banking offices of the expatriate banks (2)	Banking offices of the Ghana Commercial Bank(a) (3)	(3) as ratio of (1) % (4)
1951(June)	18	18	-	-
1955	42	41	1	2.4
1956	64	62	2	3.1
1957	79	77	2	2.5
1959	100	97	3	3.0
1960	104	97	7	6.7
1961	130	101	29	22.3
1962	139	100	40	28.8
1963	158	100	58	36.7
1964	174	100	74	42.5

(a) The Ghana Commercial Bank commenced banking operations in May, 1953.

Sources: Central Bureau of Statistics, Accra - Economic Surveys;
Bank of Ghana, Annual Reports;
Ghana Commercial Bank, Annual Reports.

The Ghana Commercial Bank increased its share of total banking offices from a meagre 2.4% at the end of 1955 to 42.5% at the end of 1964. In absolute figures, whereas the Ghana Commercial Bank increased its offices by only 6 from end-1953 to end-1960, it registered an increase of 67 in the four years 1961-64, working out at about 17 offices per year in

the latter period. This was the exact reverse of the pattern experienced by the expatriate banks taken together. By the end of 1963 in terms of the number of banking offices the Ghana Commercial Bank had come up from third (bottom) place to first position in the league.[1]

This development raises several important questions. It could be argued that by 1960 the expatriate banks had advanced their branch system to a point beyond which further expansion was considered unprofitable. Alternatively, it may be deduced that the establishment of the Ghana Commercial Bank stimulated the expatriate banks to expand their branch network faster than they would have done in the absence of the potential competition from this bank. As a state-owned commercial bank it would be reasonable to assume from the beginning that in time its potential advantages would materialize.

The post-1960 tremendous expansion of the Ghana Commercial Bank raises the question of what criteria should influence the operations of a state-owned commercial bank in an underdeveloped country. In particular, we would like to know whether the observed expansion of this bank was profitable and, if not, what are the issues thereby raised. These are questions to which we will return at the end of this subsection. We turn now to examine further the distribution of banking offices.

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1. It is highly probable that the Ghana Commercial Bank will maintain its leading position in the distant future. At the end of 1965 of a total of 186 banking offices the Ghana Commercial Bank had 92 or 49.5% of the total, with the two expatriate banks sharing 94 offices between them. At the end of 1965 one of the expatriate banks had 6 offices fewer than at the end of 1960.
See The Bankers' Magazine, March 1966, p.188.

Table 12 shows the regional distribution of commercial bank offices from 1955 to 1964. Regional breakdown is not available for the earlier part of the period under review. Table 12 should be read in conjunction with Table 13 which shows the average area served by one banking office for the whole country and individual administrative regions.

It is clear from Table 12 that most regions shared in the general branch expansion as is also indicated by the lowering of regional area per banking office (Table 13).

The exceptions were the Northern and Upper Regions where in absolute figures there was little expansion. In the case of the Northern Region at the end of 1964 there were only 3 banking offices same as at the end of 1955 although between the two dates the number actually rose to 5 in 1960 and 1961. Table 13 shows that throughout the period the Northern Region had by far a greater area per Banking office than did each of the other regions. At the end of 1964 the average area of the Northern Region per banking office was nearly as large as the whole area of the Western Region, and larger than the area of the Central, Eastern, Volta Regions and, of course, the Accra Capital District.

A rough division of the country into north and south with the Brong-Ahafo Region included in the northern division shows clearly that there was great disparity in terms of area per banking office as between north and south. The area in square miles per banking office for north and south as defined above were 2,146 and 264 respectively at the end of 1964. The corresponding figures at the end of 1955 were 7,500 and

Table 12

Ghana: Regional Distribution of Commercial Bank Offices 1955-64

(End of December)	Total number of banking offices All Ghana	Western Region	Central Region	Eastern Region	Accra Capital District	Volta Region	Ashanti Region	Brong-Ahafo Region	Northern Region	Upper Region
1955	42	8	6	5	6	5	5	2	3	2
1956	64	12	7	9	7	7	11	4	4	3
1957	79	15	9	11	13	7	12	6	4	3
1958	88	15	10	15	12	8	14	7	4	3
1959	100	17	10	19	14	8	16	9	4	3
1960	104	16	10	20	17	8	16	9	5	3
1961	130	19	12	23	24	11	19	12	5	5
1962	139	17	12	23	29	12	21	15	4	6
1963	158	17	14	Eastern Region and Accra District		20	23	16	4	6
1964	174	22	16	62		21	29	15	3	6

Sources: Central Bureau of Statistics, Accra. Economic Surveys 1961-64; Quarterly Digest of Statistics, June 1959; Statistical Year Book 1961.

TABLE 13

Ghana: National and Regional Area Per Banking Office
1955-64

Region	Area in Sq. Miles	Area Per Banking Office Square Miles									
		1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
All Ghana	92,100	2,194	1,439	1,166	1,047	921	886	708	663	582	529
Western	9,494	1,187	791	633	633	559	593	499	559	559	432
Central	3,656	609	522	406	366	366	366	305	305	261	229
Eastern	7,760	1,552	862	705	519	408	388	337	337	151	141
Accra Capital District	990	165	141	76	83	71	53	41	34		
Volta	8,000	1,600	1,143	1,143	1,000	1,000	1,000	727	667	400	381
Ashanti	9,700	1,940	882	808	693	606	606	511	462	422	334
Brong-Ahafo	14,900	7,450	3,725	2,483	2,114	1,656	1,656	1,242	993	931	993
Northern	27,122	9,041	6,781	6,781	6,781	6,781	5,424	5,424	6,781	6,781	9,041
Upper	10,478	5,239	3,493	3,493	3,493	3.493	3.493	2,096	1,246	1,246	1,246

Source: As for Table 12.

1,151. Both divisions obviously saw considerable increases in the number of banking offices. But in the case of the northern section the modest improvement was dominated by the Brong-Ahafo Region where the number of banking offices increased from only 2 at end-1955 to 15 at end-1964.

Thus in spite of a large increase in the number of banking dots in the country, at the end of 1964 banking offices were still heavily concentrated in the sourthern half of the country after 67 years of commercial banking. This fact is illustrated clearly in Figure 5.

Table 14 shows for 1960 the relationship between degree of urbanization and banking density on a regional basis. As stated in footnote (a) to Table 14 this exercise cannot be performed for other years because reliable regional estimates of population are only available for mid-1960. In view of the changes in the social and economic structure to be expected in a rapidly changing society it would be unsafe to apply the estimated national population growth rate to the separate regions.

For the whole of Ghana 22.8% of the population lived in urban centres defined in Table 14 as towns with population of 5,000 or more. In the same year banking offices were definitely concentrated in urban centres. Thus in 1960 and indeed all the period before the distribution of banking offices was heavily unbalanced as between town and country in favour of the former.

On the regional level the relationship was not so

clear-cut. In 1960 the Volta, Northern and Upper Regions not only were the least urbanized (in descending order respectively) but also had the highest banking density in

Table 14

Ghana: Urbanization and Banking Density, 1960(a)

Region	Estimated population Mid-1960 '000	Number of Banking Offices End-1960	Approximate population per banking office '000	Proportion of population in urban centres(b) %
Western	626	16	39.1	26.3
Central	751	10	75.1	28.0
Eastern	1,094	20	54.7	18.7
Accra Capital District	492	17	27.3	80.0
Volta	777	8	97.1	13.1
Ashanti	1,109	16	69.3	24.8
Brong-Ahafo	588	9	65.3	15.6
Northern	532	5	106.4	13.0
Upper	757	3	252.3	4.3
All Ghana	6,727	104	64.7	22.8

(a) Population figures relate to approximately mid-1960 whereas the figures of banking offices refer to end-1960. Population growth rates are not available for separate regions, and therefore this exercise cannot be done for years other than 1960 when reliable regional population statistics are available from census figures.

(b) Urban centres are taken to be towns with population of 5,000 or more. This corresponds to official classifications

Sources: As for Table 8.

ascending order respectively. Accra District was the most urbanized and conformed to the pattern illustrated in the preceding sentence in having the lowest banking density.

Between the two ends the other regions did not show the same parallelism. Thus the Central Region second in the proportion of urban population was sixth in banking density, whilst the Brong-Ahafo Region though sixth in urbanization was fourth in banking density. The disparities arise from the fact that in each region individual towns exercised different degrees of pull on the banks. In some regions a few relatively large urban centres had well-established commercial and industrial bases. Thus in the Western Region, for example, the twin towns of Sekondi-Takoradi and Tarkwa had special advantages which made them attractive centres for commercial banking. Furthermore, up to 1960 the Ghana Commercial Bank expanded mainly to the centres where the two older banks were already established. In all, up to the end of 1960 commercial bank offices were concentrated in major commercial centres principally in the southern half of Ghana.

The tremendous post-1960 expansion of the number of banking offices was marked by significant changes in the previous pattern of bank location. From 1961 banking offices were established in towns which though by our definition above could be described as urban were, however, not important commercial centres as were those in which banking offices had previously been established. Most of the new banking centres could be described as small rural towns with many rural characteristics such as the preponderance of farming as the major occupation. From 1963 banking offices were established in even smaller rural centres. The map (Figure 5)

showing bank location as in mid-1964 illustrates the developments described above.

In mid-1964 out of a total of 79 banking centres 27, or 34.2% of the total, were small towns or villages each with a mid-1960 population of less than 5,000. As mentioned above a considerable proportion of the rest were centres which though larger than the rural banking centres did, however, exhibit many of the characteristics of a rural economy. On the other hand, it must be noted that a few, specifically three, of the smaller banking towns (with population less than 5,000) were envisaged or in the process of becoming large industrial centres. These were up to mid-1964 Komenda in the Central Region, Akuse in the Eastern Region and Akosombo also in the Eastern Region. The first two were being rapidly developed as centres of a sizable sugar industry whilst Akosombo is the centre of the now completed hydro-electric power scheme on the River Volta.

The position of the indigenous Ghana Commercial Bank in the 1961-64 expansion deserves special emphasis. By mid-1964 in all but the Northern Region the Ghana Commercial Bank had a larger number of offices than did each of the other banks. More significant, on the same date out of 33 bank offices operated in small towns or villages each with a mid-1960 population of under 5,000, 21 were offices of the Ghana Commercial Bank.

At this point we should emphasize that banking offices are concentrated in the area of the country which coincides

broadly with the boundaries of the cocoa industry as marked on Figure 5. This fact illustrates the dominant position of the cocoa industry as the basic generating force in the economy. Two examples will illustrate further the influence of the cocoa industry on the location of banking offices. In the Brong-Ahafo Region where the extension of banking facilities was particularly marked after 1960, banking offices were by mid-1964 confined entirely to the cocoa-producing parts of the region whilst over two-thirds of the area was without any commercial banking facilities. Secondly, in the Volta Region banking offices were in mid-1964 densely concentrated in the cocoa-producing central portion.

One important point should be noted about the illustrations made above. In contrast to the pre-1961 period the post-1961 era of banking development was marked by the location of bank offices in the actual centres of cocoa production. Previously, banking centres though enclosed by the line demarcating the location of the cocoa industry were themselves usually not centres of cocoa production but rather general commercial points no doubt deriving their being essentially from the industry.

Four main conclusions emerge from the detailed account of Bank expansion over the period under review.

1. Except for the Northern and Upper Regions there was by the end of 1964 a more even regional distribution of banking offices in the country.

2. Contrary to the pre-1961 pattern of location the period 1961-64 was marked by a definite expansion of banking services to the rural or farming communities.

3. The Ghana Commercial Bank played the leading role in these developments.

4. The cocoa industry was, as in almost every aspect of the Ghanaian economy, the dominant factor in the observed expansion and pattern of location during the 1960's.

The points outlined above raise a number of questions which require some discussion. However, the post-1961 more even distribution of banking offices on a regional basis deserves a brief comment to which we should turn our attention immediately.

It is, of course, to be expected that bank expansion would follow a growing monetized economy an improved communication network and enlarged literacy - all factors which contribute to the growth of towns of commercial viability. But in addition to such universally identifiable influences on bank expansion, in Ghana there could have been some political influences in the extension of banking services to most regions as noted earlier. The present regional demarcations in Ghana are largely a post-Independence phenomenon. In some cases they arose from local political pressure and intrigues with influential members of the then ruling political party, in order to catch up with the level of economic development attained in other parts of the country. Thus the underlying regional, if not tribal, consciousness

could have led to influence-external or internal - on bank authorities to establish branches in areas where ordinarily the authorities might not have chosen to provide banking services. Such ~~influences~~ factors might be said to have influenced the observed extension of banking into the Volta and Brong-Ahafo Regions. Brong-Ahafo probably offers a good example. Having been administered as part of Ashanti for a long period in the colonial era, it is common knowledge that the inhabitants of Brong-Ahafo accumulated numerous complaints of neglect in development in favour of Ashanti proper. It may not be unrealistic to argue that the leaders of the Region - whose desire to gain from their newly-found freedom from Ashanti, so to speak, was often reflected in near-hysterical pro-Nkrumah support - might have influenced the expansion of banking to the Region as one element of progress

If this line of argument is realistic then it should also be noted that the one bank obviously susceptible to any such influence was the Ghana CommercialBank. As a state-owned bank it was in theory, at least, prone to the influence of politicians and being manned by Ghanaians it could be said to be susceptible to tribalistic considerations.[1]

The extension of banking services into rural and other less commercialised areas raises a few important questions to

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1. These are, of course, tentative arguments which, however, are supported by evidence from other quarters. For example, during discussions in Ghana early 1965 the author learned from authorities of a few state-owned enterprises that as a result of pressure from politicians they had established branches in centres which did not qualify on economic considerations.

which we must now devote some attention. Three main questions may be posed.

1. Why was commercial banking carried to such areas only recently?

2. How did the absence of banking services affect the economic life of the rural communities?

3. What are the implications of the recent developments for the economy and the banks themselves?

One of the chief answers to the first question was the preoccupation of the expatriate banks with expatriate business concerns which were mostly concentrated in the major commercial centres. The expatriate banks, it will be recalled, dominated the banking scene until about 1960. Other important negative forces were poor communications, a high degree of illiteracy among rural populations and the general nature of rural economic activity in relation to the British-oriented policies and practices of the expatriate banks. These general observations require further elucidation.

Under conditions of poor communications the operation of an extensive branch banking system would involve high costs in the movement of cash as well as central control over all branches. Two aspects of the high costs of moving cash should be noted. These would be the internal cost of moving cash from a bank's own larger or district centres and from the few currency depots operated by the Currency Board. Secondly, we should consider the cost of obtaining currency

supplies from the latter - and later the Bank of Ghana, which required prepayment of sterling in London. Thus the further away was a bank's branch from a currency centre the higher would be the cost of moving cash to such branches. The alternative would be to anticipate the cash needs of remote branches well in advance and to keep such branches sufficiently stocked with cash, a prospect not likely to be countenanced by the banks as it would involve the exchanging of income-yielding sterling assets for non-earning cash for mainly precautionary reasons. In the circumstances it was to be expected that the banks would restrict their offices to centres more cheaply accessible from currency centres and from their own district offices.

Apart from these cost considerations an understanding of, and a willingness to use banking facilities required some degree of literacy or sophistication both of them matters in which the balance was heavily in favour of the urban centres.

Furthermore, economic activity outside the commercialized urban centres was limited to mainly farming. Since the commercial banks were - and still are - largely averse to accepting the debt of farmers banking in such areas would necessarily be limited to the provision of deposit facilities. As the operation of current accounts would not appeal to illiterate populations it is likely that cash deposits would consist principally of savings accounts. As a considerable portion of farmers' money income is concentrated in the cocoa harvesting season (usually October to ~~January~~ February) one would expect

a substantial proportion of the average farmer's savings deposits to consist of transactions balances. This implies that a banking office serving a rural community would require large cash resources relative to deposit liabilities on which the bank would have to pay interest. In view of this analysis it could be argued further that the additions to total loanable resources for any particular banking institution arising from the extension of banking to rural or farming areas would be quite low.

Moreover, since deposit liabilities of rural banking offices would consist largely of savings accounts it should be noted that in many of the rural centres savings bank facilities were provided by the Ghana Savings Bank (Post Office Savings Bank). Until the latter part of 1959 when commercial bank interest rate on deposit accounts was permanently raised the only major advantage which the banks could have over the Ghana Savings Bank was the fact that they allowed withdrawals at minimum intervals of seven days as opposed to fourteen days permitted by the latter.

Such are some of the important considerations against which one should appraise any suggestions of conservatism on the part of the banks in the earlier pattern of branch location.[1]

On the second question raised earlier it can be argued that the absence of banking facilities among the farming communities until the modest beginning made in 1962 meant that the banking habit was not encouraged among the farming sector. This

1. See Bank of Ghana, Annual Report June 1963 p.68.

point, however, should not be overstated because, as noted above, many farming areas had access to savings bank facilities. However, what can be said with a reasonable degree of confidence is that partly as a result of his late contact with commercial banking the farmer remained largely a small-scale operator relying on his own meagre resources or alternatively on credits obtained from the money-lender usually on very harsh terms.

As it has been shown above the late arrival of commercial banking to the farming sector cannot in fairness be blamed on the policies of profit-motivated private banks. There were several factors that would militate against the profitability of commercial banking in rural communities.[1]

By 1961 most of the conditions which tended to discourage commercial banking beyond the traditional banking centres were considerably altered. All forms of internal communication had improved considerably over the pre-Independence position, education including adult educational schemes were well advanced; and many rural and semi-rural towns had been considerably infiltrated by non-farming populations bringing with them urban attitudes. The importance of these factors should not be underestimated as are reflected in the imbalance between the north and the south in the distribution of banking offices. From the distant colonial days the northern section of Ghana has always been behind the southern section in

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1. One of the anomalies in Ghanaian economic arrangements during the period under review was that ostensibly powerful means of effecting needed economic changes were short-circuited by political considerations. For example, as regards making the farmer's debt bankable the official support which could have been expected from the post-Independence organisation of farmers into one body never came to fruition. It soon became evident that the motive was essentially political.

communications, education and general prosperity. Such considerations apart, the Bank of Ghana established more currency centres thus reducing the cost of moving currency round the country.

The greater spread of commercial banking obviously augurs well for the future development of the economy. In addition to encouraging a greater spreading of the banking habit, it would, in future, be possible to extend commercial bank assistance to agriculture and general Ghanaian private enterprise based outside the major urban centres.

It would be interesting to know how the expansion of commercial bank branch system has been reflected in the profitability of banking. In this respect our interest is in the Ghana Commercial Bank which dominated the 1961-64 expansion.

It is theoretically impossible to isolate the effect of expansion in the profitability of the bank. We do, however, know from Table 7 that the bank's net profits rose from £G185,513 for the year ending in June 1961 to £G902,561 for the year ending in June 1964. During the period of remarkable branch expansion, 1961-62 to 1963-64, the average annual net profits of the bank were £G731,205 compared to an annual average of £G136,838 for the period 1959-60 to 1960-61.

The obvious inference from this comparison would be that the period of remarkable expansion was marked by much higher earnings. This, however, cannot be a firm basis for concluding that the post-1960 expansion was reflected proportionately in the absolute level of profits. In fact, the bank's net

profits for the year 1963-64 increased by 3.6% over the previous year as compared with an increase of about 127% in 1961-62 over 1960-61. Thus even though the net profits of the bank during the years covered rose in each successive year in absolute terms, the rate of increase was very much lower in the financial year 1963-64 than in each of the previous years.

This shows that whether or not the branch expansion of the period 1961-64 was a profitable move cannot be determined solely from the rising absolute level of profits. As in all business enterprises one would have to allow for a gestation period.

This brings us to a brief discussion of the significance attaching to the dominance of the Ghana Commercial Bank in the recent expansion of banking network. As this bank handles the accounts of the Government in all centres where the central bank (Bank of Ghana) is not directly represented the extended network of the bank's branch system was necessarily called for as a response to the extension of government activity spread away from the old administrative centres. Secondly, as the bank responsible for the financing of cocoa purchases the expansion into the farming centres may have facilitated the movement of the crop. Thirdly, following its emergence around 1961 as sole banker to state-owned enterprises its branch distribution has either followed the distribution of existing state enterprises or, other things being equal, should facilitate a more even regional distribution

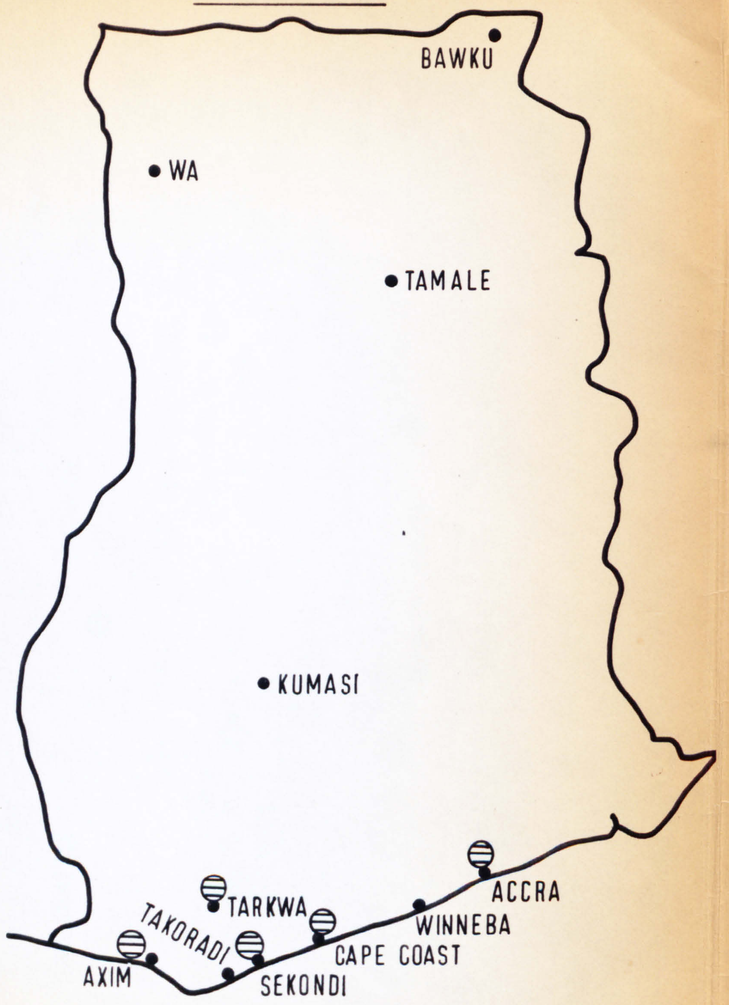
of both government and private industrial enterprise. These considerations would also indicate favourable prospects of profitability in the new areas of banking.

Lastly, it should be recognised that the expanded branch network of the Ghana Commercial Bank derives partly from its policy of "bringing banking to the people". Investigations by the author failed to disclose any direct pressures from the Government in the execution of this policy which, as noted earlier, had reached an advanced stage at the end of 1964. However, as the Government is the sole shareholder it is not unrealistic to assume some measure of governmental endorsement of the expansion. In any case even if the expansion should lower the bank's average profits per office or the marginal rate of profits, as a state-owned bank the opportunity cost of a loss in earnings (however calculated) within reasonable limits, can be classified as a government subsidy to the bank in the light of the long-run gains to be derived from an extensively-based banking system.

The fact that the expatriate banks completely desisted from further branch expansion from 1961 raises the question of whether or not their unwillingness to expand arose from expectations of poor prospects of profit. Certainly one cannot rule out this possibility. On the other hand, their unwillingness to extend their branch network could have resulted from a cautious attitude in an environment in which the official attitude to private enterprise was, rightly or wrongly, regarded by many as hostile.

GHANA: DISTRIBUTION OF COMMERCIAL BANK OFFICES

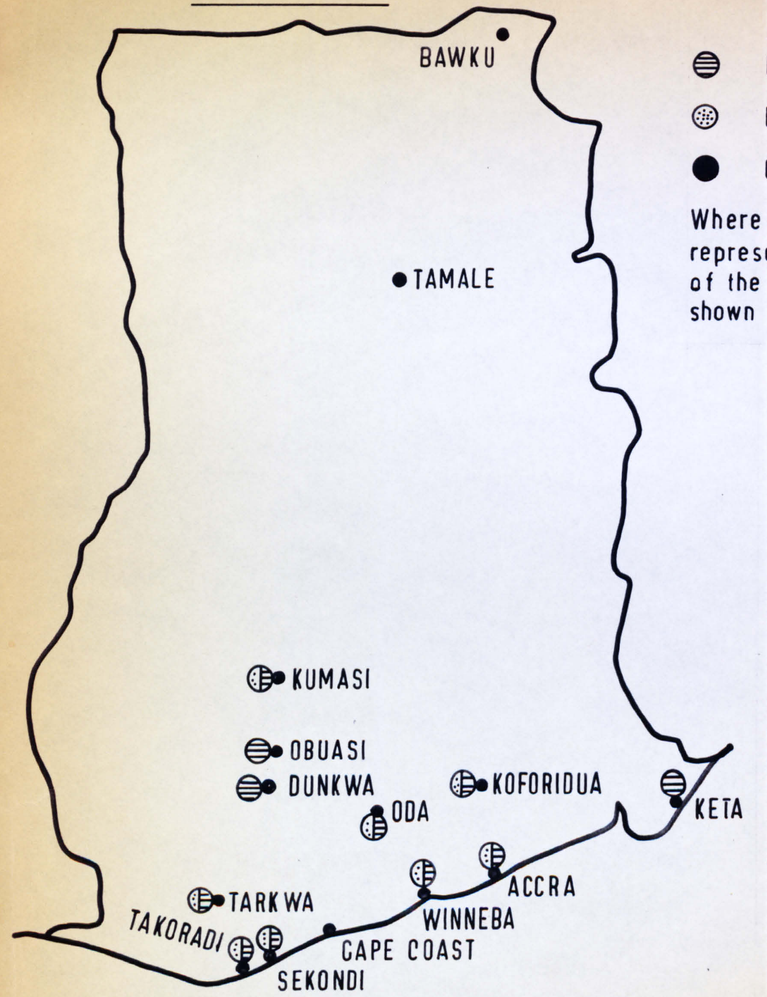
DECEMBER 1904



Source: Colonial Report (Gold Coast) No 465 1904, p.8

FIG 1

DECEMBER 1937



Bank of West Africa

Barclays Bank

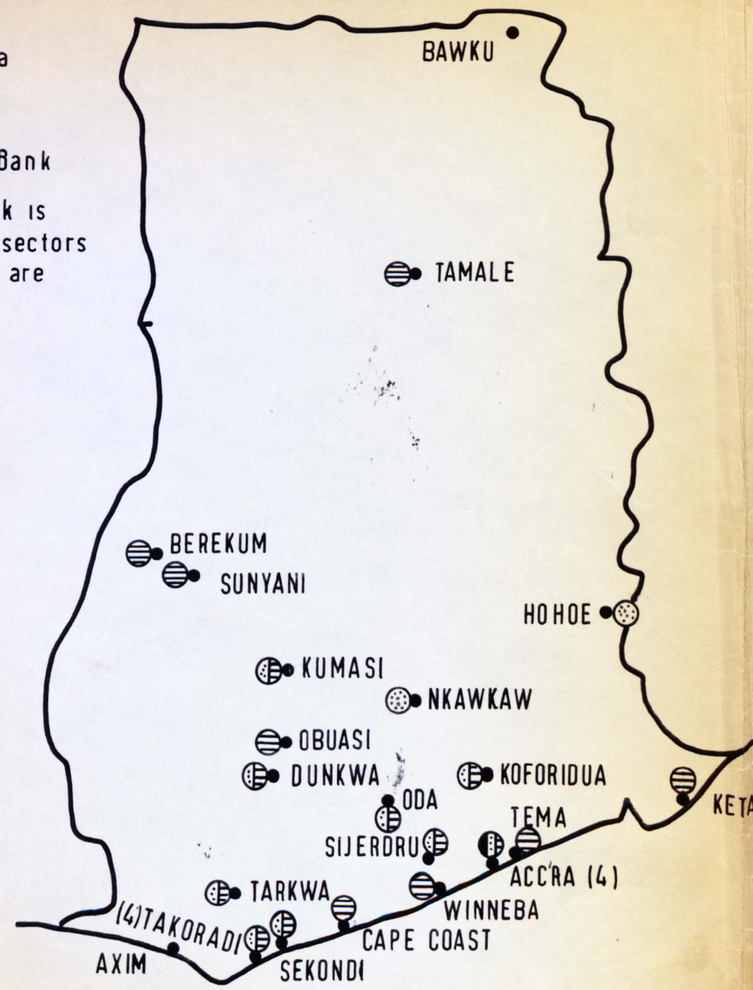
Ghana Commercial Bank

Where more than one bank is represented in one town sectors of the respective symbols are shown

Source: Gold Coast handbook 1937, Gold Coast Government p.103

FIG 2

MAY 1955



Source: Gold Coast handbook of trade and commerce 1955, Goverment printer, Accra

FIG 3

BAWKU
BOLGATANGA
UPPER REGION
WA
NORTHERN REGION
TAMALE
YENDI
BUI
BRONG AHAFO REGION
WENCHI
TECHIMAN
BEREKUM
SUNYANI
DORMAA AHRENKO
DUAYAW-NKWANTA
TEPA
BECHAM
MAMPONG
ASHANTI REGION
MIM
HWIDIEM
NEW OFFINSO
EFFIDUASI
GOASO
NKAWIE
EJISU
KUMASI (13)
KONONGO
NKAWKAW
KWAHU TAFO
BIBIANI
BEKWAI
AWASO
SEFWI-WIAWSO
SEFWI-BEKWAI
OBUASI
DUNKWA
ENCHI
WESTERN REGION
SAMREBOI
TARKWA
CENTRAL REGION
ESSIAMA
AXIM
SEKONDI TAKORADI (5)
CAPE COAST (4)
ELMINA
KOMENDA
WINNEBA
SALTPOND
NYAKROM
ACHIMOTA
SWEDRU
ACCRA (29)
TEMA (5)
ASSIN FOSO
ASAMANKESE
NSAWAM
AKIM ODA
SUHUM
MAMPONG
AKROPONG
KADE
NEW TAFO
KOFORIDUA (4)
AKOSOMBO
SOMANYA
EASTERN REGION
AKUSE
ADIDOME
ADA
AFLAO
KETA
VOLTA REGION
KETE KRACHI
WORAWORA
KADJEBI
JASIKAN
NKONYA AHENKRO
HOHOE
KPANDU
KPEDZE
HO
AGOTIME KPETOE

Bank of West Africa
Barclays Bank
Ghana Commercial Bank

Where more than one bank is represented in one town sectors of the respective symbols are shown

--- Regional boundaries
-.-.- Boundary of cocoa-producing area
..... Boundary of major cocoa producing areas (approx)

GHANA: DISTRIBUTION OF COMMERCIAL BANK OFFICES IN JUNE 1964

FIGURE 5

BAWKU
BOLGATANGA
UPPER REGION
WA
NORTHERN REGION
TAMALE
YENDI
BUI
BRONG AHAFO REGION
WENCHI
TECHIMAN
BEREKUM
SUNYANI
DORMAA AHRENKO
DUAYAW-NKWANTA
TEPA
BECHAM
MAMPONG
HWIDIEM
ASHANTI REGION
NKAWIE
KUMASI
KONONGO
NKAWKAW
BIBIANI
BEKWAI
SEFWI-WIAWSO
SEFWI-BEKWAI
OBUASI
DUNKWA
WESTERN REGION
CENTRAL REGION
TARKWA
ESSIAMA
AXIM
SEKONDI TAKORADI
CAPE COAST
WINNEBA
ACCRA
TEMA
ACHIMOTA
SWEDRU
ASSIN FOSO
ASAMANKESE
AKIM ODA
KADE
NEW TAFO
EASTERN REGION
KETE KRACHI
VOLTA REGION
WORAWORA
KADJEBI
JASIKAN
HOHOE
KPANDU
KPEDZE
HO
AKOSOMBO
KOFORIDUA
AKROPONG
ADIDOME
AFLAO
KETA
ADA
NSAWAM

Bank of West Africa
Barclays Bank
Ghana Commercial Bank

Where more than one bank is represented in one town sectors of the respective symbols are shown

--- Regional boundaries

GHANA: DISTRIBUTION OF COMMERCIAL BANK OFFICES IN JUNE 1963

FIGURE 4

Banking Services

Over the period under review all three commercial banks provided the banking services developed over the years in the United Kingdom, ranging from opening letter of credit for importers to offering advice to businessmen on financial arrangements and on matters affecting business organisation generally. The banks provide facilities for the safekeeping of customers' money and other valuables; they enable transactions to be carried out by cheque, and facilitate the transfer of funds within Ghana and between Ghana and the outside world.

The rapid expansion in banking offices since 1951 and the improved communication system of the country are some of the factors that have contributed to the banks' competence in effecting such services. The establishment of the central bank in 1957 has had two immediately favourable effects on the same efficiency of the banks. These were the opening of the Bankers' Clearing House in Accra on 1st July, 1958, and the opening of more currency depots in the country by the Bank of Ghana. At the end of June 1961 there were already nine major currency depots compared with four under the West African Currency Board. Since 1961 many smaller currency centres have been added to the major regional centres.

Deposit facilities cater for the usual three kinds of accounts, namely current accounts or demand deposits, savings and time deposits.

As in England current accounts are withdrawable on demand and earn no interest, but are subject to ledger charges.

Ordinary savings deposits are subject to withdrawal at a minimum interval of seven days. Withdrawals are permitted only at the customer's branch though a customer can avoid the obvious inconvenience of this arrangement by using a banker's draft.

Time deposits are in effect required to be lodged with the bank for a contractual mimimum period. The shortest period for which the banks accept time deposits is in practice six months. In all six months and twelve months are the main minimum periods for which the banks agree to accept time deposits.

The banks pay interest on both savings and time deposits. Deposit or borrowing rates remained stable from September 1960 to the end of 1964. Prior to the former date the banks' deposit rates fluctuated considerably allegedly in tune with movements of interest rates in London. There will be a more detailed examination of the banks' debit and credit rates towards the end of this chapter.

Generally the bankers interviewed in connection with this study were reluctant to divulge details of their rates, charges and other operational terms beyond broad generalisations common to all banks. The inference to be drawn from this is that even where inter-bank agreements govern some of their terms of operation such agreements relate to basic terms with each bank free to work out the details for itself. Attention will be drawn to the operations which are governed by inter-bank agreement. There are indications that the

Ghana Commercial Bank follows an independent policy in some matters. For example, from August 1959 when it started a savings department it usually paid a higher rate on savings deposits whilst the two British banks paid the same basic rate and at a lower level. It may be inferred from this that whilst the two British banks dominated the banking scene or were the only banks in the country the extent of inter-bank co-operation was greater. This inference would be supported by the fact that up to 1960 the clientele of the expatriate banks on the one hand and the Ghana Commercial Bank on the other were almost distinct. The former catered for all kinds of expatriate customers and, of course, African customers whilst the latter catered for only African customers.

On internal transfers Newlyn and Rowan found in 1952 that charges ranged up to ¾% in the former British West African Colonies.[1] Other sources indicate that about the same time the maximum charge on internal transfers was 0.875 per cent.[2]

The rate was later reduced to ½% and finally to ¼% at the end of 1960. The reduction of the maximum charge to ¼% was said to have been due to the insistence of the Bank of Ghana following the establishment of more currency depots to cover all the regions of Ghana.

The increased availability of local earning assets from 1959 was also an important factor which justified the reductions in internal transfer charges. The banks had argued in 1951

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1. Newlyn and Rowen, op.cit., p.84.
2. Bank of Ghana, Annual Report June 1961, p.9.

that the high charges were necessary because the cost of keeping their branches in funds was very high and that in addition there was such very little scope for making profits in the country that exchange charges on remittances constituted one of the few sources of profit.[1]

It has also been suggested that the reductions in internal transfer charges were made possible by the reduction of currency as a proportion of the total money supply,[2] implying proportionately lower requirements of currency by the banks. However, the significance of this factor should not be over-stated. Most payments in Ghana, except for inter-business transactions, are made in currency. The main force behind the reductions, in so far as the reductions were voluntary, was the increased availability of local earning assets.

Agreements between the banks applied to only the maxima stated above. The operative rates in each case were not necessarily uniform for all customers to any particular bank but varied according to distances involved and the status of a particular customer in the estimation of the bank.

One cannot be any more specific about charges on external transfers beyond the broad generalization that the maximum was around 0.875 per cent.

Both internal and external transfer charges are known to have caused considerable irritation to the firms which were usually the ones with large sums to transfer. Earlier

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1. Sir Cecil Trevor, op.cit., para. 123.
2. Tony Killick, "Monetary adaptation in a dependent economy" Paper on Ghanaian experience issued for limited circulation. 1964.

writers found abundant evidence of firms arranging to transfer funds within the country through private clearing, and the use of trucks and other forms of transportation.[1] On external transfers similar arrangements are known to have been made to avoid bank charges, which, at the least, must have exceeded ½% because the banks themselves had to pay as much to the Currency Authority on currency redemptions. For example, before 1961 the large expatriate trading firms used the cash resulting from sales in Ghana to buy cocoa from the farmers and were repaid by the Cocoa Marketing Board in London from the latter's sterling funds. Thus both the Board and the trading firms avoided payment of bank charges. It is also known that the Cocoa Marketing Board did of its own initiative arrange some direct matching of funds with other firms in order to avoid transfer charges.[2]

Before July 1961 when exchange control was introduced in Ghana against the rest of the Sterling Area the banks had been able to use their own sterling assets to effect external transfers, paying the ½% charge to the Currency Authority for the portion not covered by their own sterling assets. Following the introduction of these controls when each bank was allowed a maximum of £G0.5 million in sterling assets the situation described here has, of course, been removed. Most external transfers have since then had to be effected by means of sterling obtained from the Bank of Ghana. The implication of this development is that the banks have in

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1. Sir Cecil Trevor, op. cit., paras 123-4 and 127-32. See also Newly and Rowan, op.cit., p.84.
2. B.M. Niculescu, "Growth of banking in Ghana", The Banker's Magazine, December 1961.

most cases had to pay to the Bank of Ghana ½% in respect of each transfer. It is therefore highly probable that in order to preserve their profit margin on the exchange the banks have raised their own exchange charges.

By opening letters of credit for importers the banks lend their internationally known names to importers whose business reputation would otherwise be unknown to oversea suppliers. Since most expatriate trading firms are branches or subsidiaries of famous international holding companies it would be true to say that the service rendered by the banks was most valuable to the less well-known native traders.[1]

Letters of credit are of two kinds, revocable and irrevocable. The former is terminable by the bank without notice whereas an irrevocable credit cannot be cancelled without the consent of both supplier and buyer. However, should a bank find a customer unreliable the credit opened may be cancelled on the bank's own initiative, although according to information supplied by one of the banks, as far as it was concerned the need for such action had not arisen for a long time. The commissions charged on both types of

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1. The proportion of import trade handled directly by indigenous or African traders is unknown to the author. The indications are that over the last four years of the period many of the indigenous importers lost their business or simply obtained their supplies from local wholesalers, mostly expatriate firms. In any case the stringent payments restrictions tended to weigh against the usually small African importer. Moreover, if it is true that bribes or "commissions" were demanded prior to the granting of import licences and exchange permits, as indicated by the inquiries following the overthrow of Dr. Nkrumah's Government then it is reasonable to conclude that such practices affected most the usually small Ghanaian or African trader.

letters of credit have for a long time been governed by an inter-bank agreement. The commissions, unchanged throughout the period under review, were at the end of 1964 ¼% and ½% for revocable and irrevocable credits respectively calculated on the value of imports involved. In either case there was additional postal charge of two Shillings and sixpence.

The banks also act as intermediaries between importers and exporters by handling Sight and Acceptance Bills drawn for the purpose of effecting payment on trade, between residents and non-residents. Oversea suppliers send such bills to the banks together with invoices and other documents of shipment. In the case of Sight Bills the local importer is required to make payment to the bank immediately the documents covering the goods are received by the bank. With Acceptance Bills the drawee (importer) takes delivery of the goods but the payment is required to be made after a period stated on the bill. Sight Bills were sometimes converted into Acceptance bills where the drawees were unable to make immediate payment to the bank concerned. This would appear to substantiate a statement made to the author by one bank that it acted mainly as a passive agent between oversea suppliers and local importers. Generally, the bills indicate a "Case of Need", usually a local representative of the oversea supplier, whose duty is to intervene where payment is delayed. However, it is difficult to envisage the extent of the bank's passivity in such transactions in a country where there is a complete absence of discount or accepting houses. In practice,

given an importer's creditworthiness all the banks did, as now, purchase ~~discount~~ a good deal of such bills. What the alleged neutrality meant therefore was that the banks did not guarantee payment for any goods traded through the drawing of bills. As in the case of letters of credit the banks charged commission as well as a standard correspondence fee in respect of each transaction. The commission, fixed by agreement between the banks, was ½% of the value of the transaction. This charge too did not appear to have changed over the period under review.

In the operations described above the banks performed free but invaluable service towards the administration of the Government's exchange control and import licensing regulations introduced in July, 1961. Import licences were checked to ensure that importers for whom they opened credits or handled bills carried valid import licences actually issued in their name and that they had paid a required tax of 1% on the value of imports permitted by the licence.[1]

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1. Frequent changes in or additions to the exchange control regulations seemed to the author to aggrevate the banks' consciousness of the many man-hours devoted to a service which does not yield them any income.

Commercial Bank Liabilities and Assets

The various components of commercial bank liabilities and assets are presented in Table 15 and Table 16 respectively for the period 1950-64. The data are the most recently revised figures available to the author; as far as possible quarterly figures are shown to illustrate seasonal characteristics. Individual items are analysed below.

Deposit liabilities to non-bank customers

As mentioned earlier, the banks' deposit liabilities to non-bank customers consist of current accounts or demand deposits, savings and time deposits. Current accounts are withdrawable on demand and subject to cheque whether in withdrawals at the counter or in transactions involving a third party. Savings deposits are normally withdrawable at a minimum interval of seven days from the date of last withdrawal. Time deposits are in theory required to be left undisturbed by the customer for an agreed minimum period. In practice the minima are six months, and a year and above. It will also be recalled that until August 1959 the Ghana Commercial Bank did not operate savings and time deposits. In fact, its liabilities on these type of accounts only became quantitatively important as from 1962.

In relation to private individuals current account facilities are generally open to only persons whose income receipts follow some regular pattern within the year, mainly on a monthly basis. In addition, there are restrictions which limit the utilization of current account facilities to individuals in receipt of some minimum level of annual income,

Table 15

Ghana : Summary of Commercial Bank Liabilities
1950-64 £G'000

	Total Liabilities	Deposits and Balances of Other Banks	Deposits of Non-Bank Customers				Other Liabilities(a)
			Total	Demand	Savings	Time	
1950	11,344	192	10,911	8,755	1,611	545	240
1951	12,348	377	11,652	9,232	1,863	557	319
1952	16,359	382	14,573	11,756	2,204	613	1,404
1953	20,082	1,041	16,667	13,034	2,601	1,032	2,374
1954	23,585	1,299	19,656	15,423	2,938	1,295	2,629
1955	25,515	1,079	21,793	16,814	3,839	1,140	2,644
1956	24,721	803	22,114	16,289	4,693	1,132	1,804
1957	27,315	3,186	22,796	16,058	5,439	1,299	1,335
1958	30,168	1,323	27,340	19,150	6,675	1,515	1,504
1959							
March	31,797	1,669	28,670	19,127	7,388	2,155	1,457
June	34,578	3,207	30,015	20,335	7,572	2,108	1,357
Sept.	39,361	8,337	29,274	20,034	7,598	1,642	1,750
Dec.	37,583	3,287	32,484	21,480	8,461	2,543	1,810
1960							
March	34,771	996	32,269	20,967	9,167	2,135	1,525
June(b)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sept(b)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dec.	54,669	12,788	38,855	26,102	10,747	2,006	3,026
1961							
March	46,560	5,081	39,261	25,042	12,041	2,178	2,218
June	48,502	3,354	41,612	26,882	12,316	2,414	3,536
Sept.	47,116	5,292	38,019	25,175	10,491	2,353	3,805
Dec.	54,825	6,464	43,165	29,806	10,756	2,603	5,196
1962							
March	55,093	3,883	43,329	28,239	11,983	3,107	7,881
June	63,843	2,439	47,810	31,470	11,795	4,545	13,594
Sept.	61,297	1,634	46,139	30,617	11,395	4,127	13,524
Dec.	79,442	2,112	58,776	41,470	12,491	4,815	18,554
1963							
March	77,242	2,355	57,961	39,332	13,469	5,160	16,926
June	81,776	1,524	61,608	41,906	13,786	5,916	18,644
Sept.	70,215	1,905	58,978	38,785	14,010	6,183	9,332
Dec.	83,084	6,586	67,033	45,816	15,068	6,149	9,465
1964							
March	83,596	3,016	70,734	47,654	16,312	6,768	9,801
June	86,830	949	73,935	49,926	16,752	7,257	11,946
Sept.	92,150	875	76,666	52,120	16,888	7,659	14,609
Dec.	112,531	4,555	86,023	59,025	19,026	7,972	21,953

(a) "Other liabilities" is a miscellaneous item comprising capital and reserves, interest due on deposits, liabilities arising in respect of documentary credits unused overdraft facilities, etc.

(b) Revised figures not available.

Source: Central Bureau of Statistics and Bank of Ghana.

probably not uniform among all the banks.

Such conditions preclude a large section of the population from current account facilities. Moreover, there is little doubt that the operation of a current account cannot appeal to illiterates.

Savings accounts are thus the only commercial bank deposit facilities accessible to low-income earners both literate and illiterate. In theory as well as in practice low-income recipients are unable to meet the minimum balances required to keep open a time deposit account. Moreover, time deposits would not appeal to low-income earners whose financial balances are by and large held for transactions purposes.

Earlier writers, notably Sir Cecil Trevor, reported that savings accounts tended to be operated as current accounts; that is, a large number of customers tended to draw on their deposits at intervals of less than seven days. This practice, which from the author's conversations with bankers in Ghana has only been partially stopped by the banks, reflects the true monetary nature of savings accounts to depositors whose choice of financial asset is in practice limited to currency and savings deposits.

It seems that the bulk of time deposits were held by firms and other corporate bodies including statutory or public corporations with funds surplus to requirements over a given period. In an economy subject to strong seasonal fluctuations time deposits provided income on seasonally idle funds. Two points need to be noted here. First, for most firms and other

TABLE 16

End of Period — Ghana: Assets of Commercial Banks, 1950-64 £G'000

	Total Assets	Cash Reserve			Balances due by other Banks			Treasury Bills			Other Bills	Total Liquid Assets (Gross) (2)+(5)+(8)+(11)	Loans and Advances			Securities			Other Assets(a)
		Total	Cash	Balances with Bank of Ghana	Total	Banks in Ghana	Banks Abroad	Total	Ghana Govt.	Foreign Govt.			Total	On Current Account	On Other Account	Total	Ghana Govt.	Foreign	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
1950	11,344	2,495	2,493	-	4,072	139	3,933	-	-		-	6,565	3,993	-	-	-	-		781
1951	12,348	3,540	3,540	-	3,137	161	2,976	-	-		-	6,677	4,177	-	-	-	-		2,155
1952	16,359	2,581	2,581	-	6,992	158	6,834	-	-		-	9,573	4,632	-	-	-	-		1,841
1953	20,082	3,327	3,327	-	9,932	636	9,296	-	-		-	13,259	3,922	-	-	1,060	-	1,060	2,755
1954	23,585	4,878	4,878	-	10,039	1,067	8,972	-	-		-	14,917	4,177	-	-	1,736	126	1,610	1,925
1955	25,515	2,956	2,956	-	12,359	908	11,451	650	-	650	-	15,965	5,855	-	-	1,769	91	1,678	1,859
1956	24,721	2,958	2,958	-	10,055	652	9,403	700	-	700	-	13,713	7,443	-	-	1,707	36	1,671	2,044
1957	27,315	3,783	3,783	34	11,178	1,366	9,812	550	-	550	281	15,792	7,775	6,205	1,570	1,705	34	1,671	2,450
1958	30,168	4,845	3,500	1,341	12,125	746	11,379	1,800	-	1,800	286	19,056	6,830	5,747	1,083	1,831	161	1,670	2,138
1959																			
March	31,797	4,073	2,562	1,511	14,294	788	13,506	2,000	-	2,000	288	20,655	6,890	5,513	1,377	1,910	240	1,670	2,341
June	34,578	8,180	3,444	4,736	11,864	1,596	10,268	2,300	-	2,300	387	22,732	7,432	5,855	1,577	1,914	244	1,670	2,497
Sept.	39,361	13,433	6,262	7,167	8,335	970	7,365	3,000	-	3,000	448	25,216	9,417	7,573	1,844	1,915	245	1,670	2,812
Dec.	37,583	6,524	4,234	2,290	11,318	764	10,554	1,100	-	1,000	551	19,493	14,113	12,653	1,460	1,837	245	1,592	2,138
1960																			
March	34,791	3,883	1,830	2,053	12,073	419	11,654	5,110	3,610	1,500	632	21,698	8,896	7,587	1,309	1,837	245	1,592	2,359
June(b)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sept.(b)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dec.	54,669	7,349	4,286	3,063	14,092	1,084	13,008	4,635	4,635	-	4,019	30,095	19,581	17,972	1,609	1,838	247	1,591	3,155
1961																			
March	46,560	4,627	1,758	2,869	9,555	637	8,918	5,083	5,085	-	2,675	21,942	19,349	17,829	1,520	1,838	247	1,591	3,433
June	48,502	3,351	1,848	1,503	13,194	934	12,260	5,085	5,085	-	5,187	26,817	15,837	14,207	1,630	1,938	347	1,591	3,919
Sept.	47,116	4,164	2,472	1,692	6,854	942	5,912	5,030	5,030	-	1,659	17,707	23,208	21,543	1,755	1,857	1,766	1,591	4,344
Dec.	54,825	5,258	4,617	641	7,853	1,006	6,847	6,651	6,651	-	642	20,404	26,673	24,957	1,716	2,135	544	1,591	5,612
1962																			
March	55,093	9,068	4,258	4,810	2,175	943	1,232	12,470	12,470	-	487	24,200	23,833	22,046	1,788	2,202	611	1,591	4,858
June	63,843	6,240	2,822	3,418	1,317	774	543	21,906	21,906	-	440	29,903	18,645	17,504	1,141	3,333	2,235	1,098	11,962
Sept.	61,297	7,313	2,850	4,463	1,921	770	1,151	20,304	20,304	-	382	29,920	17,582	16,430	1,152	2,344	1,246	1,098	11,451
Dec.	79,442	9,236	7,053	2,183	3,447	1,604	1,843	18,063	18,063	-	969	31,715	29,950	28,696	1,254	1,373	1,282	91	16,404
1963																			
March	77,242	5,218	3,570	1,648	1,996	622	1,374	21,314	21,314	-	885	29,413	29,284	28,112	1,172	1,323	1,232	91	17,222
June	81,776	8,177	3,234	4,943	1,597	645	952	24,823	24,823	-	868	35,465	28,016	26,774	1,242	1,373	1,282	91	16,922
Sept.	70,215	6,405	3,299	3,106	1,214	653	561	9,273	9,273	-	4,083	20,975	30,378	29,200	1,178	11,423	11,332	91	7,439
Dec.	83,084	5,633	4,742	891	2,923	2,532	391	12,434	12,434	-	3,361	24,351	38,700	37,394	1,306	11,456	11,365	91	8,577
1964(c)																			
March	83,596	6,891	3,846	3,045	1,789	936	853	14,984	14,984	-	8,676	32,340	31,499	29,855	1,644	11,456	11,365	91	8,301
June	86,830	8,243	3,813	4,430	3,033	1,923	1,110	19,574	19,574	-	2,712	33,562	29,127	27,162	1,965	11,949	11,949	-	12,192
Sept.	92,150	9,723	3,510	6,213	1,893	n.a.	n.a.	19,025	19,025	-	3,812	34,453	31,374	28,985	2,389	13,529	13,529	-	12,794
Dec.	112,531	12,994	n.a.	n.a.	2,103	n.a.	n.a.	26,699	26,699	-	4,938	47,734	37,883	n.a.	n.a.	13,894	13,894	-	14,021

(a) Real assets and contra accounts (see Table 15 footnote (a))
(b) Revised figures not available.
(c) Breakdowns of totals not available for all items.
Total liquid assets (Column 12) for September and December 1964 do not have the same meaning as before due to alterations in the concept of a liquid asset implied in Credit Control Regulations introduced in the first half of 1964.

Source: As for Table 15.

bodies wishing to earn income on temporarily surplus funds the choice was until mid-1961 between local time and savings deposits (in both commercial banks and the Post Office Savings Bank) and short-term investments in London. Secondly, following the restrictions on the flow of funds out of Ghana from that date local Treasury Bills provided an alternative to bank debt as a source of income on temporarily surplus funds. These points will be further elucidated in various parts of this study.

Table 17 shows commercial bank deposit liabilities to non-bank customers, calculated as averages of end-of-month figures to enable comparison over the whole of the period under examination. Any other basis of calculation would either not be possible for the whole period or, in being related to only one month, would be unrepresentative of any given year as a whole.

Table 17

Ghana: Commercial Bank Deposit Liabilities
to Non-Bank Customers, 1950-64
(Averages of end-of-month figures)

	Total deposits £G Million	Demand Deposits Amount £G Million	% of total	Savings Deposits Amount £G Million	% of total	Time Deposits Amount £G Million	% of total
1950	11.8	9.7	82.2	1.6	13.6	0.6	4.6
1951	12.7	10.4	81.9	1.8	14.2	0.6	4.7
1952	13.3	10.6	79.7	2.0	15.0	0.6	4.5
1953	17.3	13.8	79.8	2.4	13.9	1.0	5.8
1954	19.3	15.3	79.3	2.7	14.0	1.4	7.3
1955	20.0	15.4	77.0	3.4	17.0	1.3	6.5
1956	21.9	16.5	75,4	4.2	19.2	1.3	5.9
1957	23.5	16.9	71.9	5.3	22.6	1.3	5.5
1958	25.3	17.4	68.8	6.4	25.3	1.5	5.9
1959	30.4	20.4	67.1	7.8	25.7	2.2	7.2
1960	34.4	22.8	66.3	9.5	27.6	2.1	6.1
1961	40.7	27.0	66.3	11.3	27.8	2.4	5.9
1962	49.4	33.8	68.2	11.7	23.7	3.8	7.7
1963	55.3	35.8	64.7	13.8	25.0	5.7	10.3
1964	67.1	44.4	66.2	15.4	23.0	7.3	10.9

Parts may not add up to totals due to rounding.

Source: Central Bureau of Statistics, Accra.

Total deposts as defined in Table 17 increased consistently over the period. The monthly average for 1964 was £G67.1 million as compared to £G11.8 million for 1950, an increase of 468% or an arithmetic average growth rate of about 33% per year.

Dividing the period somewhat arbitrarily into 1950-56 and 1957-64 (with the latter coinciding with the period of political Independence) the annual arithmetic growth averages 33% in 1957-64 compared to 14% over 1950-56. Furthermore if we separate 1957-64 into 1957-60 and 1961-64 so that the latter coincides with the period of limited convertibility

in Ghana we find that total bank deposits increased at an arithmetic average rate of 20.3% in 1961-64 as compared to 15.5% during 1957-60.

The picture depicted by these comparisons is also borne out in analysis conducted in terms of geometric averages. Over the period total bank deposits increased at a geometric average rate of approximately 13.5% per year. Over 1950-56 and 1957-64 the average growth rates per year were respectively 11.2% and 16.9%. During 1957-60 and 1961-64 the annual average growth rates were 15.2% and 17.2%.

It is thus clear that the growth of deposits was very much marked in the post-Independence period, and even more so from 1961.

The recorded growth rates reflected the general upward trends in the country during the period: increasing G.D.P. education and the expansion of banking offices to cover a greater area of the country.

In addition two basic changes in financial practices can be singled out as having influenced the higher growth rate of bank deposits during the second half of the period. The factors, themselves largely interconnected, were first an increased level of domestic lending by the banks and secondly the imposition of stringent restrictions on external payments from July 1961.

The first of these factors is clearly brought out in Table 16 where it can be seen that during most of the period 1950-60 total outstanding domestic loans (that is, the sum of loans and advances, discounts, Government securities and

Treasury Bills held by the banks) were lower than total gross external assets. Although for the country as a whole the volume of gross foreign exchange assets is determined basically by the overall balance of payments, under conditions of free convertibility the commercial banks, and indeed all sectors other than the monetary authority, could increase their foreign exchange balances independently by selling local currency for sterling held by the monetary or currency authority. Hence in relation to the banks a high level of foreign currency assets implied a correspondingly lower level of domestic lending relative to lending abroad. This stands opposed to the developments of the 1960's characterized by a much higher volume of domestic lending by the banks in terms of both customer credits and open-market credits.[1] It can be seen from Table 15 and Table 16 that the combined commercial bank cash/deposit ratios were much higher before 1960 than during the 1960's implying considerable excess loanable resources in the period 1950-60 as compared to the period 1961-64.

The restrictions on external payments influenced the expansion of deposits in three ways. First, the restrictions closed to the banks their traditional access to the London Money Market and therefore the banks were faced with a choice between excessive cash resources in relation to liabilities payable in local currency, and increased domestic lending.

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1. The term "open-market credits" which is used here to refer to shiftable assets as distinct from loans and advances as ordinarily understood is more appropriate to a setting with an established system of intermediate trading in financial instruments. The use of this term should not be interpreted to imply the existence of any significant level of trading in either short or longer-dated financial assets prior to maturity.

In the circumstances the banks increased their domestic lending to both the Government and the private sector. Secondly, other foreign firms unable to remit part of their funds abroad did invest such funds partly in income-earning deposits. As investment income due to foreign residents the stranding of such funds in Ghana in theory amounted to imports of capital which should show in the external account as debits on current account matched by aquivalent positive entries in the capital account. Thirdly, the restrictions on external payments led to severe real shortages with respect to both imports and domestically produced goods. Thus part of the increased deposits were forced savings in so far as they were gross of balances which would have been cancelled in payments for imports.

Table 17 also shows breakdowns of total deposits into the three components mentioned above. Excepting slight declines in 1955, 1957 and 1960 time deposits (as defined in Table 17) showed absolute annual increases over the period under review.

It is interesting to note that while demand deposits were higher in each year than the sum of savings and time deposits, the proportional share of demand deposits in total non-bank deposits fell over the period as a whole within the range of 82.2% in 1950 to 64.7% in 1963. By contrast, savings and time deposits each showed an upward trend in the annual relative share of total deposits, notwithstanding some fluctuation.

It is generally to be expected that the factors analysed

earlier as having influenced the expansion in total deposits were also influential in the rising absolute level of each of the separate deposit accounts.

Seasonal characteristics of deposit liabilities are clearly illustrated in Table 15 which shows quarterly figures for the period 1959-64. For other years reliable monthly or quarterly data were not readily obtainable.

Total deposits were highest in December, as mentioned earlier in conformity to other economic variables in Ghana and in response to the spurt of economic activity associated with the sale of cocoa.

Table 15 also reveals a smaller quarterly peak in total deposits and demand deposits at the end of June. It is difficult to point to specific factors responsible for this. However we could regard June as a hypothetical watershed preceded by a period of debt repayments with the banks, and followed by a period of various financial adjustments including remittances of profits abroad, payments of taxes and early orders for imports in anticipation of the ensuing cocoa season.

On the basis of the quarterly data in Table 15 it will be seen that fluctuations in total deposits arose mainly from the influence of demand deposits which exhibited a similar pattern of fluctuation.

Prior to 1961 time deposits were known to have fluctuated considerably during the year in response to, among other things, changes in short-term rates in London relative to commercial

bank borrowing rates in Ghana. Thus it is significant that from 1961, when severe restrictions were imposed on external payments including transactions with other Sterling Area countries, time deposits showed no important fluctuations.

On the other hand available information indicates that savings deposits were traditionally subject to a persistent upward trend both between successive years and within the year. The only known deviation occurred from mid-1961 to the third quarter of 1962 (see Table 15) when there was a decrease in savings deposits. This was an unprecedented occurrence for which the following three reasons were offered in the annual economic survey.[1]

1. That the increase in import duties and the introduction of purchase taxes in July 1961 led to intensified expenditure on goods which continued to bear pre-budget prices. Such expenditures were said to have been financed partly by dissaving.

2. That a wider coverage of income tax, and compulsory

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1. Economic Survey (of Ghana) 1961, p.91.
These explanations which may be adopted as generally valid were, of course, simplifications based on the assumption that there were no compensatory additions to savings deposits from the sectors in whose favour the original withdrawals were made. Moreover, rumour-induced net withdrawals on savings deposits should be reflected in increased holdings of currency outside the banking system because those susceptible to such rumours would also be people whose choice of financial assets would be limited to savings deposits and currency. In addition, the explanations given above should affect deposits in the Post Office Savings Bank as well. But it is well nigh impossible to isolate the effects of these factors in all such magnitudes.

savings in the same state budget led to disinvestment in order to replenish reduced disposable current income.

3. That in July 1961 there were widespreadfalse rumours that the Government was planning to confiscate all private savings in the country.

Reliable data on the ownership of deposits are available on a comparable basis for the period 1960 to September 1964. These are presented in Table 18, with ownership classified into three broad categories. Public Authorities include Central Government, government departments, and various statutory bodies and enterprises. Limited Liability Companies are firms incorporated locally and abroad and "Other Customers" embrace private individuals and partnerships.

Total deposits and the components should be equal to the figures shown in Table 15 for the same items. That this is not so for everyone of the three items in Table 18 cannot be explained by the author. However, the differences are so small that the picture depicted in Table 18 is not impaired in any sense.

We must also point out that deposits due to Central Government formed only a small proportion of deposits due to Public Authorities. This was especially so in the case of time and savings deposits.[1] The investments of public institutions in such deposits derived in no small measure from excesses of budgetary allocations over requirements at any particular time.[2]

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1. Bank of Ghana Annual Report, June 1964 p.61.
2. Bank of Ghana Annual Report June 1963, p.54.

Table 18

Ghana: Ownership of Commercial Bank Deposits, 1960-64 (a)
(End of period)

	1960		1962		1963		1964 (Sept)	
	Amount in £G Million	Total	Amount in £G Million	Total	Amount in £G Million	Total	Amount in £G Million	Total
Total Non-Bank Deposits	38.7	100.0	58.0	100.0	66.4	100.0	77.3	100.0
Public Authorities	6.9	17.8	17.1	29.5	23.9	35.9	24.7	32.0
Limited Liability Companies	8.2	21.2	13.0	22.4	12.2	18.3	17.1	22.1
Other Customers	23.6	61.0	27.9	48.1	30.2	45.3	35.5	45.9
Demand Deposits	25.8	100.0	40.8	100.0	45.2	100.0	5218	100.0
Public Authorities	5.9	22.9	15.8	38.7	22.4	49.6	23.0	43.6
Limited Liability Companies	8.1	31.4	11.3	27.7	9.3	20.6	13.2	25.0
Other Customers	11.8	45.7	13.7	33.6	13.5	29.9	16.6	31.4
Time and Savings Deposits	12.9	100.0	17.2	100.0	21.2	100.0	24.5	100.0
Public Authorities	0.9		1.3	7.6	1.5	7.1	1.7	6.9
Limited Liability Companies	0.1	0.8	1.7	9.9	2.9	13.7	3.9	15.9
Other Customers	11.8	91.5	14.2	82.6	16.8	79.2	18.9	77.1

(a) Available data for 1961 were found to be singularly unreliable, and therefore have been left out of Table 18. Parts may not add up exactly to totals due to rounding.

Sources: Central Bureau of Statistics, Quarterly Digest of Statistics, September 1963 and December 1964.

A few developments stand out prominently in Table 18. First, Public Authorities increased their share of total bank deposits from 17.8% at the end of 1960 to 35.9% on the same date in 1963. At the end of September 1964 the relative share was 32% but in view of the concentration of economic activity in the last quarter of the year we would expect the percentage to rise in December to over 32% as in September. Of demand deposits Public Authorities' share increased from 22.9% at the end of 1960 to approximately 50% on the same date in 1963. At the end of September 1964, even before the seasonal upsurge of bank credit to the public sector in connection with the purchases of cocoa from producers, the share of Public Authorities in demand deposits stood at 43.6%.

The increasing share of the public sector in demand deposits demonstrates the growth of this sector in the economy of Ghana from 1960 onward. On the basis of Table 18, whilst the public sector increased its share of demand deposits (held with commercial banks) from 22.9% in 1960 to 49.6% in 1963 the share of the private sector (limited liability companies and 'other customers') declined from 77.1% to 50.5%. From this it can be deduced that bank credit also shifted from the private sector in favour of the public sector. On the whole the increasing role of the public sector was an important aspect of developments in the monetary system over the period under examination. In the last three years of the period there was ~~ample~~ some evidence of credit stringency from the point of view of the private sector whilst the Government and its

various agencies continued to obtain a good measure of their credit requirements.

The other significant development in the ownership of bank deposit liabilities as presented in Table 18 were the increases in both the absolute and relative share of Limited Liability Companies in time and savings deposits (for which separate classifications by ownership were not available to the author). From a mere trickle of 0.8% at the end of 1960 this sector increased their share to 13.7% at the end of 1963 and 15.9% at the end of September 1964. In so far as this sector was dominated by foreign firms in terms of volume of business the increases recorded would, in no small measure, be due to the stranding in Ghana of funds earmarked for external remittance.

Deposits and balances of other banks

Deposits and balances of other banks are shown in Table 15. The corresponding assets, balances due by other banks, have been presented in Table 16. The latter have been separated into balances with banks in Ghana and balances with banks abroad. In actual fact balances abroad were assets of special interest as they were an important part of the banks' external assets. They consisted of liquid balances maintained with head offices and correspondents, mainly the expatriate banks' contributions to the pool of resources centred at their head offices and managed by the latter within the context of their supra-territorial banking operations. By contrast deposits and balances of other banks could not

be separated into domestic liabilities and external liabilities. However, in view of the fact that external balances were very high during most of the period it is reasonable to assume that the banks were seldom, if ever indebted to their head offices or foreign correspondent banks. Thus we can regard the bulk of balances due to other banks (Table 15) as domestic liabilities comparable to balances due by other banks in Ghana on the assets side (Table 16).

Theoretically, the sum of balances due to other banks and balances due by other banks in Ghana should be zero. In practice this was not so because of unadjusted debits and credits arising from customers' chequing operations with respect to any particular day.

Until the opening of the Bankers Clearing House in Accra in April 1958, inter-bank clearing was effected by debiting or crediting accounts which each bank maintained with every other bank at major centres. Net indebtedness on the part of any particular bank was settled by direct balancing and in a few cases by settlement through balances maintained in London. From April 1958 clearing continued to be effected through inter-bank deposits outside Accra but all clearing in the orbit of Accra was settled through daily meetings at the Accra Clearing House under the supervision of the Banking Department of the Bank of Ghana, which also provided the premises. At the Clearing House net indebtedness is settled by a debit to bankers' current accounts maintained at the Central Bank. The author was unable to obtain specific

information as to whether the occasion had ever arisen where a particular bank was overdrawn at the Central Bank and the terms on which a bank so indebted would be accommodated. However, the general impression gained from discussions with bankers in Ghana was that a bank was not normally allowed or expected to be overdrawn on its accounts with the Central Bank.

Other Liabilities

Table 15 includes a separate item "other liabilities" the size of which rose remarkably from the end of 1961. "Other liabilities" is a miscellany comprising capital and reserves, interest due on deposits, margins against contingent liabilities or unused overdraft facilities and liabilities arising in respect of documentary credits. The very high level of "other liabilities" between June 1962 and June 1963 (Table 15) relative to the previous period was said to have arisen from one bank including in its returns, inter-branch balances and thus overstating its assets and correspondingly "other liabilities".[1] The discovery of this mistake and the consequent exclusion of the offending item from returns explains the much lower level of "other liabilities" in the months immediately following June 1963. The upward turn of this collective item in 1964 may therefore be taken as of separate significance.

In all, the remarkable increases in "other liabilities" from 1962 reflected the influence of the restrictions on external payments, mentioned earlier, as prearranged overdraft

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1. Bank of Ghana, Annual Report June 1964 p.79.

facilities could not be utilized due to delays in obtaining foreign exchange permits.

Asset Distribution

The distribution of commercial bank assets is presented in Table 16, showing the latest revised figures with quarterly positions given wherever possible.

The collective and miscellaneous item "other assets" corresponds largely to "other liabilities" as explained in the previous section.

Total assets increased from £G11.3 million at the end of 1950 to £G112.5 million at the end of 1964, a rise of 892%. Total assets excluding "other assets" increased by 838% from £G10.5 million at the end of 1950 to £G98.5 million at the end of 1964 (see Table 19). In terms of earning assets as defined and presented in Table 20 the increase was 739% from £G7.9 million to £G66.3 million at the end of 1950 and 1964 respectively. In all these cases the expansion was strongly marked after 1957 and particularly ~~from~~ 1960.

The most remarkable development in commercial banking operations over the period under examination was the decline of external assets in total assets from 1959. This is illustrated in Table 20 where it is shown that in terms of earning assets the proportion of foreign - that is, sterling - assets ranged from 59.1% to 72.7% between end-1952 and end-1958. To this must be contrasted the rapid decline of foreign assets from 48.8% at the end of 1959 to only 0.8% at the end of 1963. We will now analyse individually the main classes of assets.

Table 19

Ghana: Gross Assets of Commercial Banks Classified into Domestic and Foreign Assets, 1950-64(a)

(End of Period)

	Domestic Assets £G Million (1)	Foreign Assets £G Million (2)	Total (1) & (2) (3)	Rates of (2) to (3) (4)
1950	6.6	3.9	10.5	37.2
1951	7.9	3.0	10.9	27.5
1952	7.4	6.8	14.2	47.9
1953	7.9	10.4	18.2	57.1
1954	10.2	10.6	20.8	51.0
1955	9.8	13.8	23.7	58.2
1956	11.1	11.8	22.9	51.5
1957	13.0	12.3	25.3	48.6
1958	12.6	15.1	27.7	54.5
1959	20.2	13.7	33.9	40.4
1960	32.9	18.6	51.5	36.1
1961	40.7	8.6	48.2	17.9
1962	60.7	2.3	63.0	3.7
1963	74.0	0.5	74.5	0.7
1964	97.7	0.8	98.5	0.8

(a) Assets exclude "other assets" which were for the most part provisions of a non-earning nature. Thus unused overdraft facilities are exluded even though some minimum charge is made on such facilities.

As far as possible trade bills have been separated into the foreign and domestic components (see Table 16).

Balances with banks in Ghana and abroad have both been entered gross of corresponding liabilities.

Differences
Discrepancies between totals and the sum of parts are due to rounding.

Source: As for Table 16.
Column (2) 1964 - Economic Survey 1964, p.134.

Table 20

Ghana: Commercial Banks' Domestic and Foreign Earning Assets,(a) 1950-63

	Domestic Earning Assets £G Million (1)	Foreign Earning Assets £G Million (2)	Total Earning Assets £G Million (3)	Ratio of (2) to (3) % (4)
1950	4.0	3.9	7.9	49.4
1951	4.2	3.0	7.2	41.7
1952	4.6	6.8	11.5	59.1
1953	3.9	10.4	14.3	72.7
1954	4.3	10.6	14.9	71.1
1955	5.9	13.8	19.7	70.0
1956	7.4	11.8	19.2	61.5
1957	7.8	12.3	20.1	61.2
1958	7.0	15.1	22.1	68.3
1959	14.4	13.7	28.1	48.8
1960	24.5	18.6	43.1	43.2
1961	34.4	8.6	42.9	20.0
1962	49.9	2.3	52.2	4.4
1963	65.7	0.5	66.3	0.8

(a) Foreign earning assets may be overstated because they consist largely of "balances with banks abroad" some of which would necessarily be perfectly liquid balances held for the purpose of effecting current transactions. Thus balances abroad have been wholly treated as earning assets because the sources of information do not distinguish between income-earning and non-earning foreign balances.

Domestic earning assets include all local assets other than cash (till money, balances with other banks and bankers' deposits at the Central Bank), and "other assets".

Parts may not add up exactly to totals due to rounding.

Source: As for Table 16.

Loans and advances

Until the first quarter of 1960 loans and advances constituted practically the entire local earning assets of the commercial banks.

On the basis of the data presented in Table 16 it can be seen that the high levels of loans and advances in the 1960's began in the last quarter of 1959 when the outstanding total of £G14.1 million was a little under twice the highest level at a comparable date in the period 1950-58. By contrast from the end of 1959 the level increased consistently, judging by the end-of-year position, to £G38.7 million in 1963.

Loans and advances were basically of the short-term, in theory self-liquidating type, granted for periods ranging between six months and three years, the latter being an exception rather than the rule.

For most of the period under examination (and certainly for the period before 1950) such credits were strongly associated with foreign trade, mainly inward trade. Commercial activity involving the importation and wholesale and retail of imported goods constituted the main beneficiary of bank credit until the last two to three years of the period under review.

The main reasons for this were clearly put by Newlyn and Rowan[1] and require only a brief analysis here.

The expatriate banks which dominated the commercial banking system up to the closing years of our period were traditionally accustomed to finance expatriate enterprise

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1. Ibid, pp.79-84.
See also E. Nevin, op.cit., pp.45-67.

comprising mainly commerce and mining. Expatriate enterprise was judged to be the principal creditworthy sector in terms of the banks' credit standards which in being standards prevailing in Britain and other Furopean countries were sometimes alleged to be in many cases alien to the indigenous sector. This at once explains the small volume of domestic lending in the form of customer credits as well as the concentration of such credits in commerce.

Agriculture, operated entirely by the indigenous population was until the 1960's precluded from bank credit. On the other hand manufacturing industry was until the 1960's very much underdeveloped. The bulk of what could be described as manufacturing industry was of very small scale of the back yard type. Thus manufacturing was largely untouched by bank credit. The small number of large-scale indigenous manufacturing establishments operating before 1960 were mainly state-owned enterprises which obtained their working capital requirements from the national budget. Furthermore, the banks were as now basically opposed to granting advances for other than short-term, mainly seasonal, purposes.

Further analytical points emerge from these factors.

First, bank credit was of small volume because, of the limited number of acceptable borrowers. The major ones were branches or subsidiaries of giant international firms which, in so far as they required external financing usually sought such credit in oversea money markets.

Secondly, the banks were able to restrict their lending

to short-term requirements because the major firms which depended on heavy fixed capital raised all capital loans in the advanced capitalist countries. Moreover, given the banks' unwillingness to lend domestically at medium - and long-term, they were able to operate on such low levels of domestic lending because they could always lend in London. As part of supra-national banking organisations the expatriate banks could always contribute their surplus resources into the much wider international pool of resources centred on and operated from London.

Thirdly, it was remarkable that agriculture, despite its immense weight in the recorded gross national product and foreign exchange earnings, was completely outside the organised credit market except for sporadic arrangements organised under Government auspices.

1960 and after

The higher level of loans and advances (which actually first occurred in December 1959) was not accompanied by any noticeable change in the industrial distribution of these assets up to 1962.

Several factors can be singled out as having exerted an upward influence on loans and advances during the 1960's.

First, the expansion of the Ghana Commercial Bank - from 1960 onward - which, in so far as its clientele comprised mainly Africans, extended credit to a section of the population previously with only very limited access to bank credit.

Secondly, from the second half of 1961 each bank was,

under the exchange control regulations, limited to only £G0.5 million in external assets. Thus foreign exchange assets held previously were repatriated, that is transferred to the Bank of Ghana, in exchange for the latter's liabilities - deposits and/or currency. As both these Central Bank liabilities were non-earning assets to the banks there was, ceteris paribus, a heightened inducement to expand the volume of earning assets.

Thirdly, corresponding to the point made above it is plausible to argue that the expatriate firms who could ordinarily obtain credit from abroad most probably refrained from doing so to the same extent because of difficulties involved in oversea remittances. This also would imply that such large firms made far greater use of local credit facilities.

Fourthly, the restrictions on foreign payments, in theory, not only severed the link between British and Ghanaian costs of money, but also contributed to greater stability in bank deposits by removing the ease with which firms could previously transfer funds to London in response to prospects of higher earnings. Unlike fluctuations inherent in the economy, such shuttle movement of funds between Accra and London was less predictable and therefore the banks needed to hold unnecessarily large cash balances.

Fifthly, it can be safely argued that there was a general improvement in creditworthiness due to the spread of education and, in no small measure, to the impact of the Ghana Commercial Bank whose constitution made it essentially a banker to the African populations. In other words, like racial prejudice

low creditworthiness is subject to a vicious circle which can hardly be broken as long as each side remains firm in its belief that contact with the other would inevitably lead to disappointment. Thus by granting higher credits to the indigenous people relative to the expatriate banks the Ghana Commercial Bank has been able to influence the indigenous business sector to improve their business methods and to adopt a more positive attitude to banks.

Table 21 is a tabular analysis of the distribution of outstanding loans and advances according to various economic sectors for the period 1958-64 (earlier years not available). The classifications for 1958-60 differ from those of 1961-64 in line with the prescriptions of the agents responsible for collection of data. The original separate kinds of sectorial classifications have been retained in Table 21 because there are immense conceptual difficulties in merging the classifications. Furthermore, the more detailed classification in respect of 1958-60 has its special usefulness in showing clearly the position with respect to particular economic activities even if only to indicate the smallness of credit to such areas.

It must be pointed out that in a country such as Ghana with the probable exception of the large (expatriate) firms, it is very unsafe to attach a high degree of finality to the industrial or sectorial divisions shown in Table 21. Most Ghanaian businessmen hardly specialize in any particular type of activity nor can one often identify the main activity.

Furthermore, in a large part of the country the concept of the family is so wide and the social financial obligations of ostensibly well-off members of the family so extensive that what is reported as an advance for a particular form of economic activity might in fact amount to an advance raised for the purpose of discharging purely social obligations.

In recent years considerable coverage has been given in the literature to bank lending in Ghana and therefore only the special developments will be noted here.[1]

First, until the third quarter of 1963 both the absolute and relative shares of the primary sector were remarkably low and particularly so for an economy heavily based on the primary sector. There is, however, evidence that before September 1963 one of the banks had included (in statistical returns) under credit for cocoa marketing credits which were actually connected with other agricultural purposes.[2] The adjustments which followed the discovery of this error account for the large increase in Item (1) in September 1963 with a corresponding decrease in Item (6) on the same date.

The increase in outstanding bank credit to the primary sector from September 1963 to the end of 1964 went largely to the sectors classified together as Agriculture, Forestry and Fishing.

Mining and quarrying were throughout the period small users of local bank credit due probably to the dominance of the mining industry by large firms with sufficient internal

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1. See B.M. Niculescu, op.cit.
Also the Bankers' Magazine. March 1966.
For a full account of the manner in which local financing of cocoa purchases evolved over the period see W.F. Crick (editor), "Commonwealth Banking Systems", The Clarendon Press 1965, pp.377-9
2. Bank of Ghana, Annual Report June 1964, p.71.

resources.[1]

The increased level of credit to Agriculture, Forestry and Fishing was due mainly to the influence of the State Farms Corporation established in 1963 out of various small agricultural organisations within the public sector. The State Farms Corporation would have access to credit from the state-owned Ghana Commercial Bank in contrast to the ordinary private Ghanaian farmer. In addition, fisheries organisations both private, publicly-owned and co-operative, have been on the increase since 1961 involving purchases of outboard motors fitted to traditional fishing canoes.[2]

Second, Table 21 shows that commerce was the largest single sectorial user of bank credit between 1958 and 1963 as well as in the first half of 1964. There is also ample evidence that this was the case from the initial years of commercial banking in Ghana.[3]

A distinction is made in Table 21 between credit for cocoa marketing and credit for commerce involving other commodities. The latter consisted of credits in respect of imports and other trading activities involving imported goods. The large wholesale importers also supplied goods to a host of small petty-traders on credit terms obviously excluded from Table 21.

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1. From the author's personal knowledge quarrying was largely a small-scale operation concerned with stone breaking though the construction of the Tema Harbour and the Volta Dam gave a considerable boost to the quarrying industry.
2. The author is indebted to Mr. Wynn-Davies (formerly of the University College of Cape Coast, Ghana and now at the University of Leeds) for drawing attention to this point.
3. See Newlyn and Rowan, op.cit., pp.79-84.

However, in an ultimate sense such credits might be regarded as financed by bank credit in so far the wholesale firms were themselves able to hold stock investments by means of bank credit.

One of the most significant developments in commercial banking practices was the general decline in credit granted for commercial undertakings, other than cocoa, in 1964, One cannot say specifically that this necessarily indicated the beginning of a downward trend. However, two developments would indicate that credit for commerce was on the downward slope for the foreseeable future. First, a persistently adverse trade balance coupled with an all-time low level of convertible reserves indicated that imports would be further restricted in subsequent years. Secondly, the credit control regulations introduced in April 1964 were clearly intended to channel bank resources away from commerce as such.

The use of local credit on a large scale to finance cocoa purchases is a recent development which commenced in 1960 with the appointment, by Government wishes, of the United Ghana Farmers Co-operative Council as the sole buying agent to the Cocoa Marketing Board.

Previously purchases of cocoa from producers had been handled mainly by the large expatriate trading firms. They depended largely on funds arising from their general trading operations and to a lesser extent on local credit and resources implied from overseas. After delivering their purchases at scheduled warehouses appointed by the Cocoa Marketing Board the latter paid them 90% of the value pending the marketing of

the crop overseas. During this period the Cocoa Marketing Board had large sterling funds and did not normally use bank credit to pay either the 90% or the remainder. Where the Board's sterling resources were not readily available to meet repayments to the buying agents it utilized credit in London on the security of its own sterling investments.

The appointment of the Farmers' Co-operatives was accompanied by a Government decision that the Ghana Commercial Bank should be the sole financier of local cocoa purchases.

Table 21 does not indicate the full extent of credits granted by the Ghana Commercial Bank for this purpose, as the actual manner of the bank's involvement tended to change between 1961 and 1964.

During the 1961-2 cocoa season (from September - October to February - March) purchases were financed partly through Government deposits with the Ghana Commercial Bank obtained by sale of sterling securities by the Government to the Bank of Ghana. These deposits were especially earmarked for cocoa financing.[1] Part of the necessary finance was advanced from the bank's own resources with the aid of stand-by arrangements with the Bank of Ghana to cover the portion for which the bank's own resources were inadequate.

The Bank of Ghana granted the extra advances against the

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1. Economic Survey (of Ghana) 1961, p.98. At the end of December special deposits maintained with the Ghana Commercial Bank amounted to approximately £G20 million. One source states that the initial deposit was £G23 million (see W.F. Crick, op.cit., p.379). That as much as £G20 million remained on deposit at the end of December, 1961 was partly because in that season the purchases of cocoa reached the peak in February 1962 instead of the usual peak in December. It could also be partly because the deposit was operated on a revolving basis replenished by proceeds from sales in the world markets.

security of sterling assets of the Cocoa Marketing Board pledged to it by the Ghana Commercial Bank on the prior understanding that the latter would redeem the pledged assets with proceeds from cocoa sales overseas.[1] Thus was commenced the participation by the Bank of Ghana in the financing of cocoa purchases.

During the 1963-64 season a new method was introduced again involving joint participation by both the Ghana Commercial Bank and the Bank of Ghana.

Domestic bills were drawn by the Cocoa Marketing Board on its marketing subsidiary the Cocoa Marketing Company, made payable to drawer's order and endorsed to the order of the Ghana Commercial Bank. The Ghana Commercial Bank discounted the bills thus providing direct finance, or re-discounted them with the Bank of Ghana. The Bank of Ghana played an important role in this financial arrangement by re-discounting a large portion of the cocoa bills. At the end of December, 1963 out of a total of £G17 million of the bills outstanding the Bank of Ghana held £G14.5 million or 83.5%.[2]

It is thus clear that the extent of commercial bank credit for cocoa financing is very much understated in Table 21 with regard to the last two years. Table 21 excludes the extension of credit through the discounting of commercial bills. This also implies a modification of our earlier statement that bank credit for commercial enterprise declined in the last year relative to the previous years covered by this study.

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1. Bank of Ghana, Quarterly Economic Bulletin, June 1962, p.7.
2. Bank of Ghana Annual Report June 1964, p.66.

Third, other economic activities until 1961 hardly using bank credit began in that year to use bank credit on an increasing scale. These were building and construction, manufacturing, power generation and water services.

This development which represented a deviation from the traditional pattern of uses of bank credit arose basically from several factors: the growing complexity of the economy and the increasing participation of the public sector in directly productive enterprise from 1960.

From 1963 the idea seemed to have dawned on the Authorities that the generally poor financial record of state-owned enterprises stemmed largely from the fact that unlike private firms the state-owned enterprises did not have to pay for their working capital. Whether or not this was a relevant diagnosis of the ailments of state-owned enterprises is beyond the scope of this study.

However, towards the end of the period under review many of the publicly-owned enterprises were obtaining working capital requirements from the Ghana Commercial Bank either directly on the basis of their own credit rating or on the basis of guarantees given by the Ministry of Finance and the State Enterprises Secretariat. It would be safe to argue that once the Government decided that its own enterprises should be financed by bank credit the Ghana Commercial Bank would have little or no option.

Fourth, the item labelled in Table 21 "other" (1958-60) or "miscellaneous" (1961-64) declined heavily from 1962.

The decline could have been due to one or both of two factors:

(a) A clearer identification of purposes for which advances were granted so that the reductions would be paralleled by increases in the other classi fications.

(b) In so far as the miscellaneous item embodied advances for sundry purposes, mainly personal, it would bear the brunt of any credit restrictions in an inflationary setting.

Bills and securities

Commercial bank holdings of Treasury Bills, commercial bills and Government securities are presented in Table 22.

The significant developments with regard to the bill and security portfolios of the banks were, first, the high volume of such assets towards the end of the period compared to the 1950's and, secondly, the complete shift from foreign (sterling) to local assets during the 1960's.

Local Treasury Bills were first introduced in February 1960 (after an unreplaced pioneer issue of £G0.5 million in 1954). From July 1961 the banks were not permitted to hold sterling assets in excess of £G1.5 million between them. Thus from that date whatever differential existed between London and local short-term rates was not relevant to the banks' holdings of local Treasury Bills. Given a bank's need for liquid assets for income purposes and as a secondary reserve the availability of local short-term earning assets was an important step in the evolution of a domestically-oriented banking system.

Table 22

Commercial Bank Bills and Security Investments,
1950-64 £G Million

(End of Period)

	Treasury Bills			Other Bills(Commercial)			Securities		
	Ghana Govt.	U.K. Govt.	Total	Domestic	Foreign (sterling)	Total	Ghana Govt.	U.K. Govt.	Total
1950	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	
1951	"	"	"	"	"	"	"	"	
1952	"	"	"	"	"	"	"	"	
1953	"	"	"	"	"	"	"	1.1	1.1
1954	"	"	"	"	"	"	0.1	1.6	1.7
1955	"	0.7	0.7	"	"	"	0.09	1.7	1.8
1956	"	0.7	0.7	"	"	"	0.04	1.7	1.7
1957	"	0.6	0.6	n.a.	0.3	0.3	0.03	1.7	1.7
1958	"	1.8	1.8	0.03	0.3	0.3	0.2	1.7	1.9
1959	"	1.1	1.1	0.01	0.5	0.6	0.2	1.6	1.8
1960	4.6	Nil	4.6	0.02	4.0	4.0	0.2	1.6	1.8
1961	6.7	"	6.7	0.5	0.1	0.6	0.5	1.6	2.1
1962 (June)	21.9	"	21.9	n.a.	n.a.	0.4	2.3	1.1	3.3
1962 (Dec.)	18.9	"	18.9	0.6	0.4	1.0	1.3	0.09	1.4
1963 (June)	24.8	"	24.8	n.a.	n.a.	0.9	1.3	0.09	1.4
1963 (Dec.)	12.4	"	12.4	n.a.	n.a.	3.4	11.4	0.09	11.5
1964 (June)	19.6	"	19.6	n.a.	n.a.	2.7	11.9	Nil	11.9
1964 (Dec.)	26.7	"	26.7	n.a.	n.a.	4.9	13.9	"	13.9

n.a. = not available separately. However, the general indication is that up to 1960 practically all commercial bills were sterling bills.

Parts may not add up to totals due to rounding.

Source: As for Table 16.

Thus what requires analytical examination was the complete switch from sterling Treasury Bills to local Bills in 1960. It is very likely that the issuing of local Treasury Bills was predicated upon the banks' prior indication of interest ascertained by the Authorities. However, since the choice between local and foreign earning liquid assets was still open to the banks we should need to consider the relative yields on local and foreign, in this case sterling, assets of similar duration.

Table 23 shows the relationship between the Treasury Bill Rate in Ghana and the average Discount on Treasury Bills on allotment in London. The latter is taken as representative of short-term rates in London.

Table 23

Short-Term interest Rates in London and Accra, 1960-61. %

(End of Period)	Treasury Bill Rate			
	1960		1961	
	London	Accra	London	Accra
January			4.16	3.87
February			4.40	3.87
March			4.48	3.94
April	4.68	4.7	4.41	3.94
May	4.58	4.7	4.44	3.94
June	5.68	5.7	4.54	3.94
July	5.54	5.7	6.69	n.a.
August	5.58	5.7	6.70	n.a.
September	5.56	5.0	6.55	4.37
October	5.09	n.a.	5.72	4.37
November	4.64	n.a.	5.44	4.37
December	4.35	3.87	5.40	4.37

Sources (i) Bank of England Reports

(ii) Bank of Ghana Reports

The Discount Rate on Treasury Bills in Ghana from April to August 1960 was actually higher than the rate on similar London short-term instrument. From September 1960 to June 1961 although the London rates were higher than those in Ghana the difference was not wide in view of the fact that it would cost the commercial banks in Ghana ½% to transfer funds to London.

If we assume that the banks' demand for short-term assets was seasonal then we should add 1% to the Ghana rates or subtract 1% from the London rates to make the rates comparable, in order to appreciate fully the banks' apparent preference for local Treasury Bills against similar short-term assets normally available in London. On the basis of this assumption the net yield on London assets (gross of all but remittance expenses) would be considerably lower than the yield on local uses of seasonally surplus funds.

From 1962 to 1964 the banks' holdings of Treasury Bills fluctuated as between June and December. This fluctuation could be analysed theoretically in terms of seasonal fluctuations in their cash requirements as dictated by the ebb and flow of the demand for cash in the economy. Thus we would expect the banks to reduce their Treasury Bill portfolio to meet the high cash requirements associated directly and indirectly with the cocoa season around December.

The decline of the Treasury Bill portfolio from £G24.8 million at the end of June 1963 to £G12.4 million at the end of December was due to the funding of £G10 million into five-year 5%

Conversion Stock in August. This operation did not make any difference to the volume of assets directly but certainly reduced the ratio of liquid assets in total assets and to deposit liabilities. The further increase at the end of 1964 was the direct result of the credit control regulations which will be discussed separately in a subsequent Chapter.

Commercial bills were only beginning to be important credit instruments towards the close of the period under examination. The commercial bill portfolio of £G4 million at the end of 1960 in fact consisted of sterling bills drawn by the Cocoa Marketing Board in the Cocoa Marketing Company and discounted by the Ghana Commercial Bank. The bills were treated as sterling assets because the Cocoa Marketing Company was then resident in London. In addition, as sterling bills they could be offered by the Ghana Commercial Bank in exchange for local currency as the prevailing central banking constitution was only modestly different from the Currency Board in the conditions of currency issue (see Chapter 2.)

Towards the end of the period, however, cocoa bills payable in local currency became the main commercial bills held in Ghana.

The increased volume of Treasury Bills and securities resulted directly from the Government's rising cash deficits. But, abstracting from the experiments in the use of bills to finance the movement of cocoa, there was no similar force tending to encourage a general use of commercial bills. One

expatriate bank is known to have made efforts to promote interest in the use of such bills, but without any success.

Commercial bank security investments were of very small order relative to total earning assets until the funding operation in August 1963 mentioned earlier. Of the small volume held between 1953 and mid-1963 by far the greater part were sterling securities of the United Kingdom Government. From the end of 1962 sterling securities declined to £G92,000 and thence to zero from June 1964.

The negligible amounts of Ghana Government securities held by the banks prior to the funding operation did not, however, imply a dearth of such securities. Most of the Government's medium- and long-term debt was then held outside the banking system, notably by the Cocoa Marketing Board. The latter was also the underwriter of Government loans raised locally during most of the period under review.

There is a dearth of factual information regarding the maturity distribution of commercial bank security investments except for the recent funded debt. However, most of the early Government loans were issued under Government undertaking to repurchase them at par. At any rate, the credit control regulations appear to have invalidated any such repurchase agreements by making it obligatory on each bank to hold Government stocks to the equivalent of 18% of deposit liabilities.

However, until April 1964 any commercial bank holdings of Ghana Government securities subject to repurchase undertaking were, in theory, classifiable as liquid assets because they

were guaranteed a market and were not subject to diminution of capital value in money terms.

Finally, it must be noted that during the period under review there was no significant development towards the beginnings of intermediate trading in any of the three financial instruments discussed in this section. The nearest to this were the re-discounting facilities provided by the Bank of Ghana on Treasury Bills and the cocoa bills. For the most part, all but the cocoa bills were held by the original purchasers pending maturity.

Cash and liquidity ratios

Table 24 shows approximate cash and liquidity ratios of the commercial banks on selected dates over the period 1950-63. Table 24 excludes 1964 because in that year the Central Bank credit control regulations changed radically the concept of bank liquidity. A remarkable aspect of the regulations was that to a considerable extent the decision as to whether a particular type of asset was liquid or illiquid was to be determined essentially by the Bank of Ghana. These points will be analysed further in a separate Chapter to be devoted to analysis of the monetary system. For the moment our attention will be focused on Table 24.

Net balances with commercial banks (Item 3) have been obtained by netting the sum of balances due by other banks in Ghana and abroad against balances due to other banks. The sources of information do not distinguish between gross balances due locally and abroad.

Table 24

(End of Period)

Cash and Liquidity Ratios of the Commercial Banks 1950-64

£G Million

	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	June 1961	Dec. 1961	June 1962	Dec. 1962	June 1963	Dec. 1963
1. Cash in tills	2.5	3.5	2.6	3.3	4.9	3.0	3.0	3.7	3.5	4.2	4.3	1.8	4.6	2.8	7.1	3.2	4.7
2. Balances with Bank of Ghana	-	-	-	-	-	-	-	0.03	1.3	2.3	3.1	1.5	0.6	3.4	2.2	4.9	0.9
3. Net Balances with commercial banks(a)	3.9	2.8	6.6	7.9	8.7	11.3	9.3	8.0	10.8	8.0	1.3	9.8	1.5	-1.0	-0.8	0.07	-3.7
4. Treasury Bills																	
(i) Ghana Govt.	-	-	-	-	-	-	-	-	-	-	4.6	5.1	6.7	21.9	18.1	24.8	12.4
(ii) Other	-	-	-	-	-	0.7	0.7	0.6	1.8	1.1	-	-	-	-	-	-	-
5. Other bills	-	-	-	-	-	-	-	0.3	0.3	0.6	4.0	5.2	0.6	0.4	1.0	0.9	3.4
6. Total liquid assets	6.4	6.3	9.2	11.2	13.6	14.9	12.9	12.6	17.7	16.2	17.3	23.5	14.0	27.6	27.1	33.9	17.8
7. Total deposits	10.9	11.7	14.6	16.7	19.7	21.8	22.1	22.8	27.3	32.5	38.9	41.6	43.2	47.8	58.8	61.6	67.0
8. Liquidity Ratio (6 ÷ 7)	70%	54.1%	63.1%	67.3%	69.3%	68.3%	58.4%	55.3%	64.9%	49.9%	44.5%	56%	32%	57.7%	46.7%	55.1%	26.5%
9. Cash Ratio (1 + 2 ÷ 7)	22.9%	30.4%	17.7%	20%	24.8%	13.6%	13.4%	16.4%	17.3%	20.1%	18.9%	8%	12%	13.1	15.7%	13.3%	8.4%

(a) Covers domestic and foreign (London) banks. See text for further comment.

Parts may not add up to totals due to rounding.

Source: Based on Table 15 and Table 16.

For the purpose of calculating the cash ratio it would be ideal to obtain net inter-bank balances positive or negative due locally. This, however, cannot be done for the reason given above.

Thus net inter-bank balances as calculated in Item 3 in Table 24 cover balances with banks in Ghana as well as abroad. Gross balances abroad were in fact mainly balances maintained at the head offices by the expatriate banks. Until the end of 1961 these balances were quantitatively a large portion of gross commercial bank assets, and consisted partly of short-term assets as well as perfectly liquid balances.

The fact that gross external balances consisted partly of perfectly liquid balances inseparable from the totals implies that the cash ratios as calculated in Table 24 are for most of the period understated. This problem of calculation does not, however, affect the liquidity ratio. It is, however, debatable whether we should regard cash balances overseas in the same conceptual classification as till money. If one were to take this view - which would be the case under the above statement that the cash ratios are underestimated - then it would be necessary to take into consideration the fact that sterling did not, as now, change for local currency on a completely one to one basis.

On the basis of Table 24 it will be seen that the cash ratios in the period 1961-63 were generally lower than the ratios for the earlier period 1950-60. At the end of June 1961 the cash ratio was 8% and at the end of 1963 the ratio

was 8.4%, the lowest ratios over the period 1950-63 on the basis of the data presented in Table 24.

Similarly, the liquidity ratios were generally lower in 1960-63 than in the earlier period. Taking the end-of-year position, the average liquidity ratio was 37.4% over 1960-63 as compared with 66.2% over 1950-59. On the same basis the cash ratio averaged 12.3% during 1961-63 as compared with 19.6% over 1950-60.[1]

From this it can be safely deduced that the cash and liquidity ratios underwent a secular decline in the 1960's over the earlier period. The concurrence of lower cash and liquidity ratios in the latter part of the review period symbolised the growing weight of non-liquid assets in the aggregate of non-provisional and non-fixed assets. Advances, though theoretically short-term in duration, in practice constituted a permanent float exhibiting the basic characteristics of illiquidity.

The lower cash ratios of the 1960's (excluding 1960 itself) would appear to bear a priori testimony to a secular decline in net or excess loanable resources. Under such a conclusion bank lending in Ghana during the 1950's would conform to the alleged pattern in many underdeveloped countries of being determined by acceptable demand rather than supply.

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1. It would, of course, be more useful to calculate cash and liquidity ratios based on monthly or quarterly data in order to point out the banks' reactions to seasonal economic variations. That this has not been done for 1950-60 is due to inadequate classification of data available on annual monthly averages for that period.

By implication this would also indicate that 1961-63 was an era of fewer excess loanable resources. In some cases it might be argued that the banks were fully loaned as exemplified by cash ratios as low as 8% and 8.4% or about the lowest normally permitted in the United Kingdom, for example. In practice bankers in Ghana would support these conclusions. However, if the cash ratio is to serve as a useful basis for comparative conclusions regarding excesses and low levels of loanable resources over 1950-60 and 1961-63 respectively, we must be aware of the underlying theoretical assumption: that the public's currency ratio during 1961-63 was proportionately lower than in the 1950's.

Banks, like any other firm, can be conceived of as operating on a production function on which cash and other assets readily convertible into perfectly liquid resources constitute a primary input determining output capacity. Moreover, it is common knowledge that in a banking system incorporating internationally operated banks, other things being equal loanable resources exceed at any one time locally held resources by facilities potentially available from oversea branches or headoffices. These are matters relevant to the general determination of bank credit on which further discussion will be postponed till Chapter 7.

Finally, we should draw attention to the emergence, from 1962, for the first time in probably a lengthy period back, of negative net inter-bank balances implying net external liability. However, the full analytical significance of net

inter-bank indebtedness is very difficult to establish. Information supplied to the author confidentially indicates that at the close of the period under review only one of the banks tended to maintain a negative external account without, in fact, giving sufficient detail about the nature of such negative external accounts. From the point of view of the monetary authorities a negative sign in a bank's net external position would be equivalent to capital imports. Under the then regulations on the holding of foreign exchange assets this would imply that at some past date the monetary authority added to its gross foreign exchange assets. On the other hand a net negative external account might be due to unrequited external liability arising solely from commitments originating in the domestic economy.

Lending policy (Summary)

This section is devoted to a summary of fundamental aspects of commercial bank lending policies over the period under review, to which references in varying degrees of detail have been made earlier.

Abstracting from the fact that in practice short-term advances tended to be permanent floats there was no noticeable sign of a significant increase in the basic maturity period of customer credits except, probably, in the last year of the period under examination. Thus the granting of medium-term loans by the banks only applied in the case of investments in Government securities which, as noted earlier, only became important both quantitatively and as a proportion of total

assets from August, 1963. Under current credit control regulations perhaps there will be a movement towards bank lending to the private sector at more than short-term. Or perhaps the answer to the need to fill this important gap in the Ghanaian credit system will eventually be provided by the recently established National Investment Bank (see Chapter 4).

Towards the end of the review period the banks were beginning to grant advances for productive enterprise as opposed to commercial enterprise involving foreign trade, as was the practice during most of the period. Clearly this was a welcome development considering the implied downward effect on imports and, probably, diversity of export commodities. Already by 1961 the balance of payments crises showed every sign of becoming a more than short-run phenomenon.

Throughout the period under review a large volume of bank advances were unsecured or were secured by goods expected to be rapidly turned over. In this the banks were aided by their wide knowledge of the foreign trade sector.

Personal guarantees and assurances, and property mortgages were generally less favoured by the banks as collateral security. The former were not easily enforceable in the event of default, whilst the latter were prone to special problems to be analysed shortly.

As the most favoured criteria of creditworthiness were largely considerations relating to the scale of business operations and assets a large section of the Ghanaian business community tended to experience difficulties with credit

requirements. Moreover, many Ghanaian businesses are not properly organised; in particular, it is often not possible to obtain from them audited or unaudited accounts. The arguments raised on this subject by Newlyn and Rowan were still being emphasized by expatriate banking officials interviewed in connection with this study.[1]

Apart from general considerations of a customer's business operations and assurances from third parties, other collateral known to be offered by the indigenous sector were house property and gold ornaments or jewels. House property is still in traffic as collateral security.

There is evidence that one of the banks accepted gold jewels in the early years of its operation. Not only did this practice wane rapidly in time, but in fact the acceptance of such collateral was never really on a significant scale. The main objection to such locally fashioned jewels is that the intrinsic gold value is not standardized. Jewels which passed for pure gold might in fact be alloys whose gold content would thus be unassayable in advance.

On the other hand, for reasons given earlier residential houses were available in large numbers to a section of the Ghanaian population. However, investigations by the author indicated that at least in the earlier part of the period the banks were reluctant to accept mortgages and, indeed the constitution of the indigenous Ghana Commercial Bank forbade acceptance of mortgages of immovable property until this was modified by executive decision in 1960.

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1. Ibid, pp.81-4.

Two main justifying reasons can be given for the low rating of house property as collateral against bank advances. First, the absence of firms dealing in real estate makes the sale of house property cumbersome and expensive especially if situated outside the large urban centres. Secondly, in most parts of Ghana house property is commonly a major form of asset passed on as legacy and the social system is such that a great deal of such legacies, even where made out in the name of particular individuals, are regarded operationally as common property by a large number of relations. Thus title is often unclear.

Landed property, also a common form of asset normally available to the Ghanaian sector is not known to have been ever accepted by a bank as collateral security. This is because title to land is singularly shady due to some form of communal ownership within large clans originating from tribal customs and historical developments.[1]

One form of collateral commonly applied in the unorganized credit market is the usufruct on land, that is, the pledging to a creditor of produce from a debtor's farm. However, this system often works successfully with the private money-lender because he is usually on the spot and can ensure that the value of the produce comes to himself. On the other hand, a bank whose centre of operation would usually be distant from the location of cocoa farms would require the co-oper tion of numerous officers in the cocoa buying process to ensure recovery of loans made to defaulted debtors.

1. See S.K.B. Asante, "Interest in land and the customary law of Ghana - a new appraisal", The Yale Law Journal, No.5, Vol. 75, April, 1965, p.848 ff.

One can hardly imagine any appeal of such a system to commercial banks as presently constituted in Ghana.

The question of title to property is a general problem tied up with the social and inheritance system, and short of legislation (which we cannot pretend would be a simple process) the emergence of a system of clear and distinct title to property is a prospect of the distant future. Thus over the short-run improvements in the bankability of private Ghanaian debt will depend very much on the indigenous sector's approach to modernisation of their business methods and operations including amalgamations of the existing atomized structure of Ghanaian enterprise. In addition to the initiative of the Ghanaians themselves, a lot can be done by a forward looking Government when such a Government appears in Ghana.

Borrowing and lending rates

Commercial bank interest rates are not readily available for the period before September 1957. The available data covering the period September 1957 to June 1963 are presented in Table 25. There is evidence that the rates obtaining at the end of the latter dates remained stable to the end of 1964.

Basic rates of all kinds (Table 25) remained completely stable from mid-1961 in contrast to the earlier period when all the different rates fluctuated considerably between successive years and within a given year.

Taking both kinds of rates it can be seen that the

Table 25

Commercial Banks' Borrowing and Lending Rates 1957-63 %

	Deposit Rates			Lending Rates					
	Fixed Deposits		Savings Deposits	Bills Purchased and Discounted	Loans and Overdrafts Secured by				Unsecured
	6 Months	12 Months and over			Government Securities	Stock in Trade	Immovable Property	Other(a)	
1957 September	$2\frac{1}{2}$ - $2\frac{3}{4}$	3 - $3\frac{1}{2}$	3 - 4	9 - $9\frac{1}{2}$	7	$7\frac{1}{2}$	7	8	-
" December	$2\frac{1}{2}$	$2\frac{1}{2}$	3	8	"	$6\frac{1}{2}$	6	"	10
1958 March	$1\frac{1}{2}$ - 4	3 - 4	3 - 4	7 - 10	$6\frac{1}{2}$ - 7	6 - $6\frac{1}{2}$	$5\frac{1}{2}$	$7\frac{1}{2}$	"
" June	$1\frac{1}{2}$	$2\frac{1}{2}$	3	"	$6\frac{1}{2}$	6	"	"	$9\frac{1}{2}$
" September	$1\frac{1}{2}$	$2\frac{1}{2}$	3	"	"	"	"	"	"
" December	$1\frac{1}{2}$	$2\frac{1}{2}$	3	"	"	"	5	7	"
1959 March	$1\frac{1}{2}$	$2\frac{1}{2}$	$2\frac{1}{2}$	"	6	$5\frac{1}{2}$	"	"	9
" June	$1\frac{1}{2}$	$2\frac{1}{2}$	$2\frac{1}{2}$	6 - $6\frac{1}{2}$	"	"	6	6	"
" September	2	$2\frac{1}{2}$	3	"	"	6	$6\frac{1}{2}$ - 8	$4\frac{1}{2}$ - 5	$7\frac{1}{2}$
" December	$1\frac{1}{2}$ - 2	2	$2\frac{1}{2}$	6 - $7\frac{1}{2}$	4 - 5	6 - $6\frac{1}{2}$	$6\frac{1}{2}$ - 7	$6\frac{1}{2}$ - 10	6
1960 March	2	$2\frac{1}{2}$ - 3	3 - 4	7 - 8	$5\frac{1}{2}$ - 6	7	7 - 9	7	$5\frac{1}{2}$ - 7
" June	$2\frac{1}{2}$	3 - $3\frac{1}{2}$	3 - 4	$6\frac{1}{2}$ - $7\frac{1}{2}$	$6\frac{1}{2}$ - 7	$6\frac{1}{2}$	7 - $7\frac{1}{2}$	$6\frac{1}{2}$ - 10	$6\frac{1}{2}$ - 7
" September	$2\frac{1}{2}$	3 - $3\frac{1}{2}$	3	"	6 - $6\frac{1}{2}$	$6\frac{1}{2}$ - 7	"	"	6 - 7
" December	$2\frac{1}{2}$	3 - $3\frac{1}{2}$	3	$6\frac{1}{2}$ - $7\frac{1}{8}$	6 - $6\frac{1}{2}$	"	"	"	"
1961 March	$2\frac{1}{2}$	3 - $3\frac{1}{2}$	3 - $3\frac{1}{2}$	7	6 - $6\frac{1}{2}$	"	$6\frac{1}{2}$ - 7	"	"
" June	$2\frac{1}{2}$	3 - $3\frac{1}{2}$	"	7	$5\frac{1}{2}$ - 7	6 - 7	"	"	$6\frac{1}{2}$ - 7
" September	$2\frac{1}{2}$	3 - $3\frac{1}{2}$	"	"	"	"	"	"	"
" December	$2\frac{1}{2}$	3 - $3\frac{1}{2}$	"	"	"	"	"	"	"
1962 March	$2\frac{1}{2}$	3 - $3\frac{1}{2}$	"	"	"	"	"	"	"
" June	$2\frac{1}{2}$	3 - $3\frac{1}{2}$	"	"	"	"	"	"	"
" September	$2\frac{1}{2}$	3 - $3\frac{1}{2}$	"	"	"	"	"	"	"
" December	$2\frac{1}{2}$	3 - $3\frac{1}{2}$	"	"	"	"	"	"	"
1963 March	$2\frac{1}{2}$	3 - $3\frac{1}{2}$	"	"	"	"	"	"	"
" June	$2\frac{1}{2}$	3 - $3\frac{1}{2}$	"	"	"	"	"	"	"

Source: Bank of Ghana, Quarterly Economic Bulletin, June 1963 pp.50-1.
(a) Personal guarantees and assurances, gold arnaments, customers' fixed and savings deposits, and guarantees from third parties on the basis of the latter's time and savings deposits.

difference between minimum and maximum rates was generally lower in the case of borrowing rates than for lending rates. This was decidedly so as from March 1960.

On the whole the stable borrowing rates, beginning around March 1960 in the case of fixed deposits and a year later for savings deposits, settled down at higher levels than the average levels in the previous period. On the other hand lending rates were stabilized at lower levels from 1961. Thus the difference between bank credit and debit rates narrowed from about 1961. But the significance of this development was indeterminate because on lending the operative rates stood within the ranges shown and therefore general reductions affecting the minima or maxima would not necessarily affect the operative rates.

It is commonly asserted by bankers in the British Commonwealth and economists that by and large changes in the London Bank Rate and the associated changes in United Kingdom money rates were transmitted to Ghana and similar countries.

The firmest statements of such a relationship between local rates (that is, the colonies and ex-colonies of Britain) and interest rates in London were made in written and oral evidence submitted before the Radcliffe Committee by the African Members of the British Overseas Banks Association. The following quotation provides the necessary illustration:

> "Hitherto, local rates have generally changed more or less automatically with a change in the London Bank Rate. If Bank Rate in London went up, advance rates

> and deposit rates in the (African) territory would also go up."[1]

This general statement was explained further in oral evidence before the said Committee.

1. A rise in the London Bank Rate led to increases in various short-term rates on the London money market which tended to attract to London large deposits from the African territories. Therefore the banks raised their deposit rates in order to prevent a fall in their deposits.[2]

2. Lending rates were also raised to counteract the effects of higher costs of borrowing by the banks themselves, and partly because if a rise in United Kingdom rates was accompanied by a credit squeeze British firms normally able to obtain credit requirements in London tended to seek advances from local banks. Thus it would seem that the increased local lending rates stemmed partly from a need to preserve the margin between borrowing and lending costs and partly from a desire to bring demand in line with available resources.[3] The indications are that in Ghana, at least up to the end of 1957 interest rates were adjusted in line with changes in the United Kingdom rates.[4]

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1. Committee on the Working of the Monetary System, Memoranda of Evidence, Vol.2, p.64; written evidence of the African Members of the British Overseas Banks Association. See also Minutes of Evidence, pp.313-8.
2. Minutes of Evidence, paras. 4341-2.
3. Radcliffe Committee, Minutes of Evidence, paras. 4341-57.
4. A clear illustration is given by the following quotation from the Minutes of Evidence:-
Question, Professor Cairncross: Do you find big variations in the rates of interest in the various African countries since the rise (19.9.57) in the London Bank Rate?
Answer, Mr. Smith (Bank of West Africa): Yes. In many of the territories, for example in West Africa and East Africa, the rates have been adjusted in line with those in the United Kingdom. It is only in some territories, such as Rhodesia, where we have been specifically asked by the Central bank not to alter the rates, that there is any very great difference.

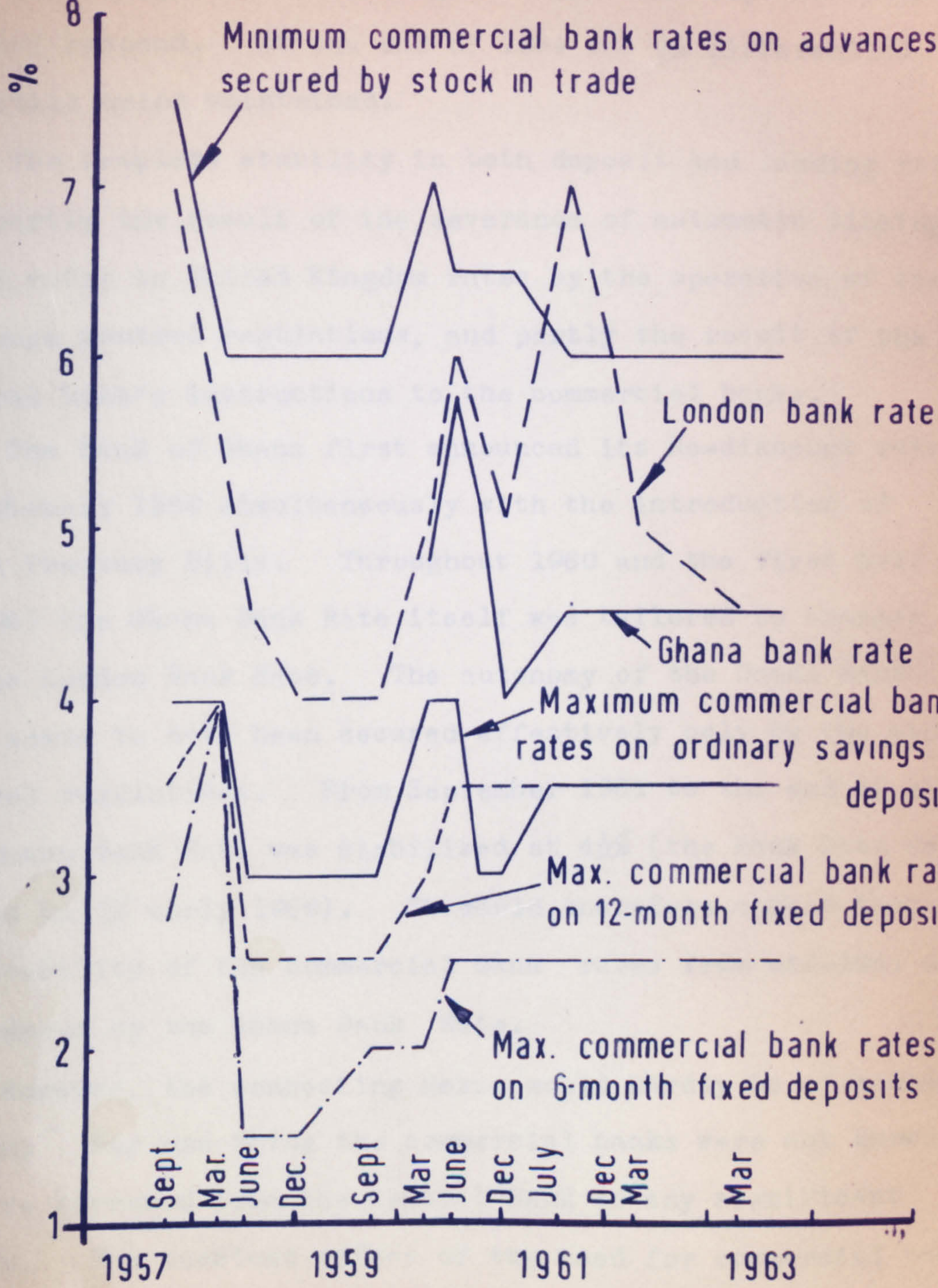
From March, 1957 when Ghana obtained political Independence it is possible that pressure was brought to bear on the banks not to adjust their rates, in particular lending rates, merely in response to changes in the United Kingdom economic situation. Evidence before the Radcliffe Committee indicated that the growth of nationalism in Africa usually led to considerable disagreement over any automatic adoption of United Kingdom economic policies.

In Ghana the relationship between local and United Kingdom rates is only modestly demonstrated by the available data. The attached graph shows a reasonably close positive relationship from 1957 to July 1961 between the London Bank Rate and local deposit rates.

However, it is rather difficult to determine the link between London Bank Rate and local advances rates. For one thing, available data show separate rates for advances according to the type of security. The absence of data showing the volume of advances per type of security prevents weighting. Thus on the assumption that most advances were secured against some form of stock in trade we have shown on the graph a curve showing interest rates on advances so secured. This shows a weaker link between local advances rates and the London Bank Rate. It would thus appear that the link was stronger in the case of deposit rates.

The deposit rates presented in Table 25 were first influenced locally by the Ghana Commercial Bank which started its savings bank business in August 1959 with interest on savings deposits at 3% and thus compelled the expatriate banks

GHANA: INTEREST RATES OF COMMERCIAL BANKS AND THE LONDON AND LOCAL BANK RATES 1957-63



Source: Bank of Ghana and Bank of England reports

FIG 4.6

to raise their prevailing rate from 2½% to 3%. In the first quarter of 1961 the Ghana Commercial Bank again raised its rate on savings deposits to 3½% to which the expatriate banks did not respond. At the end of 1964 the ½% differential was still being maintained.

The complete stability in both deposit and lending rates was partly the result of the severance of automatic linking of local rates to United Kingdom rates by the operation of the exchange control regulations, and partly the result of the Central Bank's instructions to the commercial banks.

The Bank of Ghana first announced its Re-discount rate in February 1960 simultaneously with the introduction of local Treasury Bills. Throughout 1960 and the first half of 1961 the Ghana Bank Rate itself was tailored to changes in the London Bank Rate. The autonomy of the Ghana Bank Rate seems to have been secured effectively only by the exchange control regulations. From September 1961 to the end of 1964 the Ghana Bank Rate was stabilized at 4½% (the Bank Rate was raised to 7% early 1966). It would therefore appear that the stability of the commercial bank rates from mid-1961 was influenced by the Ghana Bank Rate.

However, the connecting nexus would hardly be of economic origin. For one thing the commercial banks were not known to have borrowed from the Central Bank to any significant extent. The combined effect of the need for commercial bank participation in Government deposit financing and the need to keep low the burden of public debt servicing dictated a margin

between the Re-discount Rate and the Discount Rate at a level which could hardly be regarded an penal. On the other hand re-discounting facilities at the Central Bank on the cocoa bills would in practice be expected to be on very soft terms because of the special arrangements under which the cocoa bills were employed. Rediscounting terms on both Treasury Bills and commercial bills did not necessarily reflect conditions in the credit market or in the economy generally. By and large it is true to say that money costs in Ghana during the period under review were managed rates.

CHAPTER TWO

THE MONETARY AUTHORITY-1

From 1913 to 1957 Ghana was on the currency board system of monetary arrangements sharing the services of the West African Currency Board with Nigeria, Sierra Leone and the Gambia now all independent countries after varying periods of colonisation. On 1st August 1957 the currency board was replaced in Ghana by a central bank, the Bank of Ghana whose statute was enacted early in March 1957.

In this chapter, the first of two on the monetary authority we will outline briefly the main features of the West African Currency Board, examine the changeover to a central bank and, lastly, outline and discuss briefly developments in constitution arrangements on central banking from 1957 to 1964.

Section A

The West African Currency Board

The origin and modus operandi of the West African Currency Board have been widely covered in the literature and therefore only a brief summary is required in this study(1)

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(1) For a complete history see J.B. Loynes, op.cit. The following are a few of the many references:- A. Adomakchy, op.cit., *op.cit.*, G.M. Clauson, "The British colonial currency system", Economic Journal, April 1944; J.Mars in "Mining, commerce and finance in Nigeria" (ed: M. Penham), London 1948; Special Correspondent, "Monetary systems of the colonies - The West African Currency Board", The Banker, August 1948, H.A. Shannon, "The modern colonial sterling exchange standard," IMF Staff Papers, Vol.2, 1951-52; Sir Cecil Trevor, op.cit.; Newlyn and Rowen, op.cit., Chap.2 Ida Greaves, "Colonial monetary conditions", Colonial Research Studies, No.10, H.M.S.O. 1953;

The West African Currency Board was appointed by the British Colonial Secretary on 21st November, 1912 and the Board first issued its currency for circulation in the constituent territories on 26th June 1913 after due legal processes had been carried out by the governments of the territories.(1)

Unlike most of its counterparts elsewhere in the colonies the West African Currency Board was based in London. Throughout its existence its members were appointed by the Colonial Secretary and were drawn from the Crown Agents for the Colonies, the Bank of England, the Colonial Office and, until 1942, the Bank of West Africa. Viewedin retrospect it is interesting to note that not a single member who served on the Board was an African. (Indeed, the U.K. Departmental Committee whose Report led to the formation of the Board did not consult a single African opinion).

The function of the Board was a simple one. It issued West African currency on demand in any of the constituent territories against sterling prepaid in London. Similarly, it redeemed its currency on demand paying back in London an equivalent amount in sterling. In practice, the Board dealt directly with the commercial banks.

In these operations the Board had no discretion whatsoever: neither in the issue and redemption of its currency liabilities nor in the rate at which it exchanged West African currency for sterling and vice versa. The exchange rate was fixed by the Colonial Secretary (in a sense the British Government) in whom lay the power to change the parity. The parity remained

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(1) A. Adomakoh, op cit.

throughout the history of the Board at one West African pound to one pound sterling.

In 1950 (the beginning of the period under review), the Board was charging a commission of ½ per cent on issues and redemptions of its currency. This commission either side of parity dated back from March 1924 and stood unchanged at the time of Ghana's withdrawal from the Board in 1957, notwithstanding a provision for a maximum charge of ¾ per cent in the final constitution of the Board drawn up in 1949.(1) It may be useful to state at this point that the Bank of Ghana has retained these charges up to the time of writing.

In Ghana as in all the other constituent territories (with the minor exception of the former Southern Cameroons where a sub-centre was opened in 1948 under the management of Barclays Bank) the Bank of West Africa was the currency agent to the Board. Towards the end of its business in Ghana the Board had three major currency centres in Ghana: in Accra, Sekondi and Kumasi, with few other smaller sub-centres. The relatively larger number of centres had, of course, been arrived at gradually. More centres were opened i in addition to the original one in Accra as the demand for currency increased and the frontiers of the money economy

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(1) See J.B. Loynes, op. cit., Appendix III. Commencing with a commission of ¾ per cent either side of parity in 1913 the Board raised its charge for the issue of sterling drafts (that is, redemption) to 1¼ per cent in 1914 following a trade recession in West Africa which led to a high level of redundancy and consequently of currency redemptions. From the end of 1919 issues were charged ½ per cent and from March 1924 redemptions were subject to the same commission. Ibid, pp. 19-20.

advanced further from the main centres of regular commercial intercource.

In addition to the currency agency held by the Bank of West Africa, a currency officer was appointed in each territory. Usually, as was the case in Ghana, he was the local Accountant-General. The main functions of the currency officer were to supervise the actual physical issue of currency upon telegraphic instructions from the Board and to receive notes and coins presented for redemption which he then notified to the Board in London thus enabling the Board to pay out the equivalent in sterling. The actual custody of local currency stocks was vested in the Bank of West Africa for which service it received a modest fee from the Board.

Both the Currency Officer and the Currency Agent were passive agents working to rules in whose formulation they played no vital role except for the little bits of advice on which their expertise in local conditions entitled them to a hearing.

In the original recommendations of the Departmental Committee it was envisaged that the minting of coins and the printing of notes (both of these activities carried out in the United Kingdom) were to be financed by the West African governments concerned, who were also to enjoy part of the profits on the Board's operations. In practice the Board's operations were financed, whenever necessary, by its bankers the Midland Bank (known at the time of the establishment of the Board as the London Joint Stock Bank).

However, in January, 1920 the Board began to distribute part of its earning to governments of the constituent territories. This became a regular practice from then on. The 'dividends' received by the Ghana (Gold Coast) Government and the other West African governments are presented in Table 26. Table 27 shows the receipts of the Ghana Government in relation to the total public revenue for each year during the period under review when Ghana was served by the Board.

On the whole Ghana Government income from this source formed in each fiscal year only a small proportion of total revenue, although in the years 1950-51, 1957-58 and 1958-59 the proportion did exceed 1 per cent. However, total disbursements from the Board to the Government of Ghana for the whole period 1919-20 to 1960-61 came to a substantial sum of £G 11.8 million including £G 3.5 million additional to the customary annual disbursements, which was paid to the Government in 1960-61 from the accumulated surplus of reserves over currency liabilities.

We now turn to a brief account of the assets of the currency board. We are particularly interested in the assets held against currency liabilities. The Board's assets other than those held against currency liabilities, and the capital surplus consisted of unissued stocks of notes and coins kept mainly in the West African territories.

The Board maintained against its currency liabilities

Table 26

Amounts Distributed to the West African Governments by the West African Currency Board, 1950-62

£G'000

Year of payment	Ghana (Until 6.3.57 the Gold Coast)	Nigeria	Sierra Leone	The Gambia	Total
1919-20	34	53	6.5	6.5	100
1949-50	129.7	236.4	24.4	9.4	400
1950-51	282.7	403.0	45.4	18.8	750
1951-52	324.2	424.0	38.0	13.8	800
1952-53	161.8	213.2	19.2	5.9	400
1953-54	309.2	433.4	41.8	15.6	800
1954-55	354.5	576.1	50.5	19.6	1,000
1955-56	403.7	537.2	45.5	13.6	1,000
1956-57	398.1	543.6	45.1	13.2	1,000
1957-58	780.2	1,101.4	93.6	24.8	2,000
1958-59	1,564.0	2,172.0	212.0	52.0	4,000
1959-60	579.6	2,562.7	895.3	75.2	4,110
1960-61	160.0	1,570.0	670.0	100.0	2,500
1961-62	-	535.4	821.5	143.1	1,500
Total regular payments 1919-20 to 1961-62	8,344.6	15,148.1	3,554.6	712.7	27.760
From Reserves					
1960-61	3,503.1	5,959.3	-	-	9,462.4
1961-62	-	53.6	-	-	53.6
Total payments	11,847.7	21,161.0	3,554.6	712.7	37,276.0

Note: Differences between totals and the sum of parts are the effects of rounding.

Source: J.B. Loynes, op.cit., Appendix 1, pp 37-8.

Table 27

Ghana: Receipts from W.A.C.B.[a] And Total Government Revenue, 1950-61

Ghana Government fiscal year[b]	£G'000		%
	Total central government revenue[c] (1)	Income from W.A.C.B. (2)	Ratio of (2) to (1) (3)
1949-50	18,100	129.7	0.7
1950-51	20,852	282.7	1.4
1951-52	38,832	324.2	0.8
1952-53	42,034	161.8	0.4
1953-54	48,163	309.2	0.6
1954-55	80,200	354.5	0.4
1955-56	52,473	403.7	0.8
1956-57	49.416	398.1	0.8
1957-58	59,831	780.2	1.3
1958-59	66,620	1,564,0	2.3
1959-60	70,136	579.6	0.8
1960-61[d]	83,228	160.0	0.2

(a) W.A.C.B = West African Currency Board.

(b) The financial year of the W.A.C.B. ended on 30th June, whilst Ghana Government fiscal year varied after 1955-56 from April-March to July-June in 1960-61.

(c) Excludes receipts from loans but includes grants.

(d) Income from W.A.C.B. in 1960-61 excludes the special receipt from reserves in that year (see Table 26.)

Sources: Column (1) - Economic Survey (of Ghana), 1964, Table I, p.114.
Column (2) - As for Table 26.

a hundred per cent minimum sterling reserve.(1) In the practice the Board, as was also true of other British colonial currency boards did aim at sterling reserves in excess of its outstanding currency liabilities. This is illustrated in Table 28.

Table 28

Balance Sheet of the W.A.C.B., June 30, 1950.

	£'000
Assets	
1. Investments at market prices	65,058
2. Amount on deposit	6,000
3. Cash on hand and at banks	661
4. Silver coin in currency centres, at face value	5
5. Suspense account	11
	71,735
Liabilities	
1. West African currency in circulation at face value	66,277
Less market value of silver in coins	636
	65,641
Surplus of assets over liabilities	6,094

Source: Report of the West African Currency Board, 30.6.50.

(1) In the early days the position was slightly different. According to the original constitution drawn up in 1912 the Board was charged to hold against the silver coinage a reserve of gold and securities with provision for the Colonial Secretary to fix the minimum proportion of gold from time to time. The Colonial Secretary approved a 50 per cent minimum gold reserve in 1913. When the Board began a note issue in 1916 its constitution as amended in 1915 provided for a note guarantee fund to be held partly in silver or gold specie, that is legal tender cash, but no gold backing was specifically required. (See J.B. Loynes, op.cit., p.25). Even before the final constitution of 1949 (in which there was no reference to a gold reserve) the reserve was principally held in sterling as, indeed, the gold reserve requirement was interpreted operationally as gold sovereigns indistinguishable from sterling.

For the purpose of determining the size of the sterling reserve normally maintained to ensure redemption of currency we should disregard Items 4 and 5 on the assets side. The former was not a sterling asset and the latter may be presumed to be a pre-committed fund earmarked for administrative and other operational costs. In other words we take Items 1, 2 and 3 on the assets side to represent the assets normally available to meet redemptions of currency. Similarly on the liabilities side we should take account of the full face value of issued or (from the point of view of the Board) circulating currency.

On the basis of these hypotheses, in mid-1950 the excess of sterling over issued currency was £5.4 million or 8.1 per cent of the total currency liabilities. The preservation of such a surplus margin was said to be characteristic of practically all the colonial currency boards averaging about 10 per cent for all currency boards examined by one writer in 1951.(1)

The rationale of this kind of surplus was in the main the need to hedge against possible capital depreciation of the currency reserve assets. This would, of course, relate to the value as determined on the London capital markets as distinct from the effects of depreciation in the external value of sterling. As noted earlier the value of the West African pound remained unchanged in terms of sterling.

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(1) See H.A. Shannon, op.cit.,

A depreciation of sterling in terms of non-sterling external currencies led automatically to an equivalent depreciation of the West African pound in terms of those currencies.(1)

However rationalized there could be no doubt that in time the currency reserve assets represented a substantial excess over the amount of currency ever likely to be redeemed for sterling.

The 1949 constitution of the West African Currency Board required in Regulation II that "The Board may invest its funds in sterling securities of the Government of any part of His Majesty's dominions, or in any such manner as the Secretary of State may approve."(2)

There was no direct ruling in this or earlier regulations against the Board investing in the securities issued by Governments of the West African constituent territories. Up to 1957 when Ghana withdrew from the Board there had not been any investments in the securities of any of those governments. An explanation of this is partly afforded by a disclosure in 1944 that according to a ruling by the Secretary of State a Currercy Board might invest its funds in U.K. sterling securities and securities of British Dominion and Colonial Governments except in loans issued by its own Government or

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(1) One writer aptly described the colonial currency board system as "branch of satellite systems of sterling whose major movements follow those of the United Kindgom as inevitably as the movements of the planets follow those of the sun", Special Correspondent, "Monetary systems of the Colonies - Part I", The Banker, July 1948.

(2) See J.B. Loynes, op.cit., Appendix 111, p.42

Governments.(1)

In December 1954 the Colonial Secretary authorized a small fiduciary issue but the West African Currency Board did not make use of this until 1957 when it first acquired the non-sterling security of a constituent territory, namely Sierra Leone, amounting to £1 million which was increased to £2 million in 1958.(2)

That the Board did not utilize this provision earlier may be explained in terms of the policies of the Governments concerned. But it should be noted that even before December 1954 these governments could have sought capital by issuing loans locally or in London, although any such loans could not have been subscribed by the Currency Board. As other currency boards were permitted to invest in the securities of colonial governments other than theirs a considerable proportion of currency board funds were in fact repatriated to the colonies as a whole.(3) How far each particular colony

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(1) G.M. Clauson, op.cit.

(2) This was a contrast to the position of the Southern Rhodesia Currency Board which by the Southern Rhodesia Act No. 2 of 1947 was permitted to hold the locally registered stocks of its constituent territories to a maximum of 20 per cent of currency liabilities. See R.A. Sowelem, "Monetary and financial developments in the Federation of Rhodesia and Nyasaland, 1952-63", Unpublished Ph.D. Thesis, University of Leeds, 1966. p.9.

(3) A very recent account states that "the currency boards were collectively very much in the market for colonial governments securities issued in London...." See W.F. Crick, "Commonwealth banking systems," Oxford, 1965, p.4.

benefited from this depended on its own financial needs and circumstances.(1)

From the account above it is clear that during the period of the currency board there was no monetary authority resident in Ghana nor could the West African Currency Board be regarded as the monetary authority in a policy sense. The actual monetary authority was the Colonial Secretary and, in an ultimate sense, the British Government.

Of course, it must be added that from 1951 when internal self-government began in Ghana some measure of control over internal monetary arrangements could have been exercised locally. Such a possibility may be said to have been illustrated by the indication in 1951 to establish a local institution to issue a separate currency for the Gold Coast. However, no serious decision affecting monetary arrangements was taken until the decision in 1956 to establish a central bank. Such apparent inaction may be interpreted as partly due to the rapid advancement to Independence so that the existing arrangements became largely transitional and partly because the new (local) political authorities had considerable political unrest to attend to in the few years preceding Independence.

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(1) Prior to Independence the Gold Coast (Ghana) Government raised very little loan capital in London. Up to 1957 the last such Gold Coast loan issued in London was a 4½ per cent 1960-70 Stock issued in 1931.
See Anthony Rudd, "Ghana and the sterling area", The Banker, March 1957.

Section B

THE CHANGE TO CENTRAL BANKING

The idea of establishing in Ghana a monetary institution to function partly as a central bank was first expressed in 1948 by the late Dr. J.B. Danquah (See Chapter One, Section B).

The next canvassing for a local bank of issue took place in 1951 when Sir Cecil Trevor (See Chapter One Section B) was invited to the country to examine, inter alia, the question of setting up a national bank that would combine commercial banking with the functions of "a reserve bank." As stated in Chapter One Sir Cecil recommended the establishment of a national (that is, predominantly state-owned) commercial bank, but he did not consider the time "ripe for the formation of a fully-fledged Central Bank of Issue".(1) In his judgement if a central bank were to be able "to operate the currency and credit system of a country to its (the country's) advantage, it is essential that all the flexible instruments necessary to an advanced economy should be available in the form of a Government Securities Market, a Bill Market, a Stock Exchange, banking and insurance systems."(2)

A second obstacle which he saw in the way of a central bank (although probably he considered it a minor one) was the difficulty of providing immediately suitable premises

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(1) Sir Cecil Trevor, op.cit., para 153
(2) Ibid, para 100.

to house a fully-fledged institution. Thirdly he raised the question of obtaining the necessary trained staff.(1)

Furthermore Sir Cecil Trevor argued that a separate Bank of Issue for the Gold Coast would entail maintaining reserves in the form of external securities and gold. While he did not say anything further about the external securities component of a currency reserve, he considered it a waste that gold (which is mined in the country) should be taken out of the mines "merely to bury it again in the Bank's vaults." He argued that the country's output of gold was a credit factor in the external account, enlarging the means at its disposal for consumption and development which advantage would be lost if the Gold Coast was to build up a currency reserve of gold.(2)

The Trevor Report was followed a year later by another investigation into problems of finance and development in the Gold Coast.(3) In the Report issued after this investigation the authors argued as follows about the Currency Board arrangements.

> "It is clear that the Currency Board system will become less satisfactory as time goes on: there is a case for anticipating the difficulties. .... a move towards a managed currency, at a time when there is no financial stringency, would make it possible to gain considerable experience in monetary operations before the new institutions were faced with acute problems. When such problems do

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(1) Ibid, para 101
(2) Sir Cecil Trevor, op.cit., para 153.
(3) See D.Seers and C.R. Ross, "Report on financial and physical problems of development in the Gold Coast," Government Printer, Accra 1952, pp 87-91

> arise, they will be met by a system that is capable of dealing with them".(1)

Later writers, while recognizing the difficulties in a central bank using as weapons of control the traditional measures developed in the advanced countries, nevertheless found other practical reasons for establishing a central bank in an underdeveloped economy. Supporting arguments were advanced in terms of a central bank's role in fostering sound indigenous banking, agricultural credit and the development of a money market.(2)

These alternative views clearly represented different approaches to the question of central banking in pre-Independence Ghana than did the views of Sir Cecil Trevor. We can now discuss briefly the main arguments put forward by Sir Cecil Trevor as weighing against the establishment of a central bank.

Even if one did not wish to question the need for money and capital markets in an economy such as the Gold Coast was in the early 1950's, one could point to the role which a central bank could play in the development of such institutions as itself a strong basis for the establishment of a central bank.

On the question of a central bank maintaining a currency reserve in external securities and gold Sir Cecil's point was clearly erroneous. A newly established central bank seeking to maintain external assets against its currency liabilities could, given the necessary legal processes,

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(1) Seers and Ross Ibid, p.90, footnote (1).
(2) See Newlyn and Rowan, op.cit., pp 275-6.

merely take over the foreign exchange assets of the commercial banks, offering in exchange local Government securities or interest-bearing deposits at the central bank. For a country that was already on a currency fully backed by foreign exchange assets there was clearly no difficulty involved. As it actually happened in 1957, all that the new central bank had to do was to redeem the monetary liabilities of the Currency Board outstanding in the country, in exchange for sterling according to the existing regulations pertinent to redemptions.

Also untenable was the waste allegedly implied in a gold reserve. The holding of any form of money means a sacrifice of real consumption and investment. Both gold and foreign currency assets are international media of payment albeit that the monetary role of a foreign currency asset is wider the greater is the degree of convertibility. As media of payment the holding of gold and other foreign exchange assets imply equally a sacrifice of imports. Moreover, as Zambia has recently shown any country holding convertible reserves can exchange them for gold.

One strange thing was Sir Cecil's implied suggestion that the adoption of a national currency meant losing the advantage of belonging to the Sterling Area. As Seers and Ross pointed out, this was equivalent to saying that countries already having national currencies such as Australia New Zealand and India did not enjoy full membership of the

Sterling Area.(1)

It is doubtful whether the new political leaders of the Gold Coast (under the leadership of Dr. Nkrumah) sympathised with Sir Cecil Trevor's line of reasoning. As stated earlier, that a Bank of Issue was not immediately established could be ascribed to a rapid pace towards Independence which, among other things, involved political unrest demanding the attention of the political authorities.

On 5th April 1955, about two years before Independence was formally granted, Mr. K.A. Gbedemah then Minister of Finance announced in the National Assembly the Government's intention to issue a national currency. The solution as the Government saw it then was to add an Issue Department to the Ghana Commercial Bank to be distinct from the Banking Department. Preparations were actually made within the Ghana Commercial Bank for this purpose. In September, 1955 agreement was reached with a London firm for the printing of the new notes which were to be signed by the Ghana Commercial bank and the Minister of Finance. However, the idea was abandoned, followed by a Government decision in 1956 to set up a separate central bank to be known as the

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(1) D. Seers and C.R. Ross, op.cit., p.89.
This kind of argument has since been expressed in other quarters. One writer argued that the replacement of the Currency Board by a central bank would create new risks to which the (British) commercial banks might react by raising charges; that it was reasonable that "an independent monetary position should end the trustee status of colonial government loans in the London market."
See Ida Greaves, "Colonial trade and payments," Economica, February 1957

Bank of Ghana.(1)

At the last phase of the process of setting up a central bank in Ghana the Government was faced with considerable dissension within the country. In particular it may be useful to refer to the speeches of an Opposition front-bench spokesman:-

> "The establishment of the Central Bank (of Ghana) is only a luxury. It is not dictated by any sound principles of finance. The only justification that can be advanced for the establishment of a Central Bank is probably considerations of national pride"(2)

To Mr. Owusu a Central Bank in Ghana would merely satisfy prestige consideration for the nation and, probably, for the Government. Mr. Owusu could not see how the proposed Bank of Ghana intended "to get any deposits at all either by commercial banks or by anyone else" if it would not pay interest on deposits. He argued that it was obvious "a person would not like to deposit his money, and certainly the commercial banks would not like to deposit their reserves with the Central Bank, if no interest will be paid thereon."(3) On the basis of this obviously faulty reasoning he (unsuccessfully) suggested the deletion of that section in the Bank

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(1) Since 1957 the idea of amalgamating the Bank of Ghana and the Ghana Commercial Bank has been raised more than once. Actually, before the end of 1958 the Government took a definite decision on this and it was known in official cricles that a Bill to amalgamate the two banks was to be introduced in Parliament in July 1959. However, as before, the plan was dropped. Later in this chapter we will examine briefly the case for and against the combination of central banking and commercial banking in one institution.

(2) Mr. Victor Owusu, Gold Coast Legislative Assembly Debates, 1956-57, Vol.3. column 710.

(3) Ibid.

of Ghana Bill empowering the Bank to be banker to other banks in Ghana.

A Central Bank does not normally deal with the general public; obviously Mr. Owusu's distinction between central and commercial banking was not particularly sharp. Moreover, commercial banks' deposits at a Central Bank do not normally earn interest. Such deposits are maintained primarily for the purposes of effecting inter-bank clearing and the banks' financial dealings with the Government. At any rate, central bank regulation of its deposit liabilities to commercial banks is recognized as a major weapon of monetary administration in an underdeveloped economy. Moreover, in ordinary circumstances central bank deposit liabilities to commercial banks form a substantial part of the latter's ordinary cash reserve and there was no reason to suppose that the banks would expect the Central Bank to pay interest on reserves ordinarily held idle by themselves. Viewed in retrospect, the basic position which the Bank of Ghana has come to occupy in the country's economic administration (See Chapter 3) is an adequate refutation of any assertion that the Bank derived its justification mainly from considerations of national pride.

Before we turn to examine the laws that governed central banking in Ghana from 1957 to 1964 we will recount briefly developments in central banking objectives as embodied in the statutes of the relatively newer central banks.

Nowadays it is no longer necessary to discuss the rationale of central banking in an under-developed country

not endowed with the institutions of the advanced countries. It is generally accepted in academic circles that underdeveloped countries require central banks for reasons peculiar to themselves.(1) Moreover, with varying degrees of success central banks in many underdeveloped countries are evolving various special techniques of general economic controls akin to those that engage the attention of their counterparts in developed nations.

When at the International Financial Conference held in Brussels in 1920 (convened by the League of Nations) every country was urged to establish a central bank, the conferring delegates saw in the central bank the machinery for curbing the natural extravagance of governments.(2) Since then devastating wars and severe economic recessions have contributed to the development by the long-established central banks of weapons for combatting both inflationary and deflationary pressures. Even so the predominantly negative function of a central bank as implied in the spirit of the Brussels Conference still prevails in traditional central banking attitudes.

By contrast, in underdeveloped countries central bank statutes have tended to confer upon them a positive role.

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(1) See R.S. Sayers, "Central banking after Bagehot", Oxford University Press, London 1957, Chap. 9; E. Nevin, op.cit., pp 22-44; J.K. Horsefield, "Why a central bank", The Fund and Bank Review, Vol. II, No. 3, September 1965 pp. 159-66.

(2) See J.K. Horsefield, op.cit.

Already, before World War II the proliferation of positively charged central banks that one sees today was becoming discernible. In 1924 the statute of the Central Bank of China required the Bank "to develop industry, to stabilize commerce, to render financial help to the public and to encourage international trade".(1) Similarly, in New Zealand the Reserve Bank Amendment Act of 1936 made it the general function of the Reserve Bank to give effect to the monetary policy of the Government, as communicated to the Bank by the Minister of Finance.(2) Again, under the Bank of Canada Act, 1934 the Bank was charged with responsibilitity for a detailed array of economic matters, among them to mitigate fluctuations in the general level of production, trade, prices and employment.... and generally to promote economic and financial welfare of the Dominion.(3) About three decades later, in May 1962 in submissions to the Royal Commission on Banking and Finance a representative of the Bank of Canada interpreted these functions to include, among other things, the promotion of a sustained economic growth at high levels of employment and efficiency.(4)

The central banks established after World War II are in their statutory objectives examples of the deviation from traditional central banking objectives. Thus the Bank of Ceylon has among its objectives the promotion and maintenance of production, employment and real income; the

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(1) J.K. Horsefield, op.cit.
(2) Ibid
(3) W.F. Crick, op.cit., p.39
(4) W.F. Crick, op.cit., p.39

encouragement and promotion of the full development of productive resources of Ceylon.(1) Two other examples, though modestly inscribed, are provided in the objectives of the central banks of Nigeria and Malaysia where among the usual objectives of regulating money and credit for stability the banks are required to promote a sound financial structure.(2) As will be shown presently, the statutory objectives of the Bank of Ghana have changed radically from the traditional form enshrined in the original law of 1957 to a detailed listing of objectives in the current law enacted in May 1963.

With the newer central banks positively committed to a role of aiding the process of development there is even greater danger now that the extravagance of governments may become even more pronounced. This gives rise to various questions. In particular the question arises as to whether the central bank of an underdeveloped country should be subservient to the government or whether the relationship should be one of complementarity. Answers to this and other pertinent questions provide the shape and complexion of a particular country's central bank.

In the following section we examine developments in constitutional arrangements affecting central banking in Ghana from 1957 to 1964.

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(1) H.A. de S. Gunasekera, "From dependent currency to central banking in Ceylon, "Bell and Sons, London 1962, p.265.
(2) W.F. Crick, op.cit., p.41. On Nigeria see also G.V. Brown, "The evolution of banking power in West Africa," The Bankers' Magazine, March 1966, pp.171-4.

SECTION C

Developments in central banking constitutional arrangements

The Bank of Ghana was established by the Bank of Ghana Ordinance 1957[1] finally passed on 1st March five days before the formal attainment of Independence. The Bank was given all the usual trappings of a central bank: sole right to issue currency, banker to the Government and other resident and non-resident banks, and the issue and management of loans raised by the Government.

In 1961 the Bank of Ghana Amendment Act[2] altered few of the original provisions affecting largely the composition of currency cover assets. In May 1963 the original law as amended in 1961 was replaced by the Bank of Ghana Act 1963[3] which introduced far-reaching changes in the Bank's constitution. In the rest of this chapter we examine and discuss briefly the important aspects of central banking constitutional provisions over the period 1957-64.

Principal objects.

Under the Bank of Ghana Ordinance 1957 the Bank's principal objectives were stated as:

> "to issue and redeem bank notes and coin; to keep and use reserves and to influence the credit situation with a view to maintaining monetary stability in Ghana and the external value of the Ghana pound; and to act as banker and financial adviser to the Government"(4)

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(1) Ordinance No. 34/1957
(2) Act No. 84/1961
(3) Act No. 182/1963
(4) Bank of Ghana Ordinance, 1957, section 5.

The law of 1963 required of the Bank of Ghana, in addition to the objectives as under the law of 1957 specifically,

> "to regulate and direct the credit and banking system in accordance with the economic policy of the Government"(1)

In addition the 1963 constitution empowered the Bank to propose to the Government measures likely to have a favourable effect on the balance of payments, price movements, the state of public finance and the general development of the economy and monetary stability.(2) Finally, as under the 1957 Ordinance, the Bank of Ghana Act 1963 vested in the Bank power

> "to do all such things as are incidental or conducive to the efficient performance of its functions under this or any other enactment"(3)

Thus as stated in the previous section the Bank of Ghana Act 1963, in contrast to the provisions of the 1957 Ordinance, conformed to the post-war pattern by detailing out central banking objectives which differed from the simpler formulations of the early central banks and by making the Bank of Ghana legally subservient to the Government on policy matters.

Relations with the Government

The 1957 constitution left the Bank legally independent of the Government in all matters of policy. Apart from the fact that the Government, through the Prime Minister

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(1) Bank of Ghana Act, 1963, section 3, subsection (c).
(2) Ibid, section 3, subsection (e)
(3) Ibid, section 3, subsection (f)

and the Minister of Finance, was responsible for the appointment of directors, the Government had no other statutory influence on the Bank. Once appointed the Board of Directors were free to operate the Bank within the framework of the law. The Government had no consultative rights other than in the appointment by the Bank of auditors of its own accounts,(1) and in the determination of the forms, designs, weight and composition of coins, and denominations of the monetary unit.(2)

It may, of course, be argued that in practice the Government could control the Bank's policies through the members whom it appointed to the Board. For example, the official (as distinct from the political) head of the Ministry of Finance was made an ex officio member of the Board.

However, the law did not allow the Government an entirely free hand in the choice of the other directors. All the directors including the Governor and Deputy Governor were to be persons of recognised standing and experience in financial affairs. Secondly, members of the Legislative Assembly and salaried government officials (other than the official head of the Ministry of Finance) were barred by the law from becoming directors of the Bank. Thus the Government was considerably limited as to whom it could appoint to a directorship of the Bank. Moreover, even if the Government succeeded in appointing some persons likely to be amenable to its wishes, the fact that voting

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(1) Bank of Ghana Ordinance, 1957, section 45
(2) Ibid, section 20.

rights were unweighted (but for a casting vote vested in the Chairman of the Board of Directors) implied, at least in theory that direct Government control over the policies of the Bank was considerably limited. The inference to be drawn from this is that under the Bank of Ghana Ordinance 1957 the Bank was the Monetary Authority in Ghana.

By contrast, under the Bank of Ghana Act 1963 much closer relations came to exist between the Bank and the Government.

First, as mentioned earlier in this Section the Bank was required to direct the credit and banking systems to accord with the economic policy of the Government. Secondly, the Government was not inhibited in any significant sense regarding the type of persons eligible or not eligible for directorship of the Bank save the repetition of the previous law's provision that the Governor and Deputy Governor were to be persons of recognized financial and banking experience.(1) Thus Members of Parliament and other members of the Government's Party could be appointed directors of the Bank.(2)

Thirdly, various forms of control and consultative rights were vested in the Government through the Minister of Finance. The prominent ones are stated below.

1. The Minister could request the Bank to guarantee a loan granted to the Government or to any person in Ghana by

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(1) Bank of Ghana Act, 1963, Section 6.
(2) Generally, the senior personnel and directorships of many public corporations and state enterprises were drawn from various ranks of the Government's Party.

a foreign institution.(1)

2. The Minister may in consultation with the Board take decisions relating to the exchange rate of the monetary unit in relation to external currencies.(2)

3. The Bank was required to consult the Minister in the prescribing of asset ratios to the commercial banks for the purpose of credit regulation and the promotion of sound banking.(3)

4. The Minister, in consultation with the Bank, was given the power to prescribe by legislative instrument the maximum borrowing and lending rates as well as commissions payable or chargeable by commercial banks and other financial institutions.(4)

Thus under the Bank of Ghana Act 1963 the Bank and the Minister of Finance constituted the Monetary Authority.

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(1) Bank of Ghana Act, 1963, section 24, subsection (1). The law did not specify whether "foreign institution" meant a resident foreign institution or one actually resident abroad. However, a distinction was important as a non-resident creditor would most probably require a security - when the Bank gave any such guarantee - an asset realisable in convertible foreign currency and therefore a lavish use of this provision could in effect reduce the level of the Bank's free and convertible foreign exchange reserves.

(2) Ibid, section 25. This provision itself should be pointed out as in effect a correction of a deficiency in the 1957 Ordinance which did not state the repository of power to change the external parity of the monetary unit. It could, however, be argued that having been tied to sterling the parity of the Ghana pound would follow changes in the external parity of sterling. In this case the British Government would be the body responsible for determining the external currency value of the Ghana pound.

(3) Ibid, section 29

(4) Ibid, Section 56.

Policies affecting vital areas of monetary administration were to be determined jointly by the Bank and the Minister of Finance. In terms of the law the Bank was no longer independent of the Government in all the essentials of central banking.

The concept of an independent central bank is, of course, largely theoretical as in practice most central banks are required to assist the policy of the Government not fight against it. In the words of a prominent Governor of the Bank of England the central bank has "the unique right to offer advice even to the point of nagging; but always of course subject to the supreme authority of the Government."(1) Thus the need to integrate central bank policy with the broad economic policy of the Government has long been an accepted creed. In spite of this the central banks of advanced countries generally retain a special status which implies a considerable degree of freedom from political authorities in matters which are more than daily technical operations.(2)

The large area of governmental influence on central banking policy allowed in the Bank of Ghana Act 1963 in theory did not remove the unique status of the central bank within the context stated in the previous paragraph. In practice it is the attitude of the Government which gives meaning to the status of the central bank. In the light

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(1) Lord Montagu Norman in Royal Commission on Indian Currency and Finance 1926. Quoted in R.S. Sayers, "Modern Banking," 5th Edition, p.65.
(2) See R.S. Sayers, ibid.

of the monetary and general financial chaos which occurred in Ghana from 1963 to the present day it would appear that the Government reduced the Bank of Ghana to the position of an ordinary department of government.

Administration.

The administration is vested in a seven-member Board of Directors including a Governor and Deputy Governor. The Governor and in his absence the Deputy Governor is the Chairman of the Board. Under both the laws of 1957 and 1963 the Governor and Deputy Governor were made the only full-time directors, responsible for the day-to-day business and administration of the Bank, and answerable for their actions to the Board.

Under the 1957 Ordinance the Governor and Deputy Governor were to be appointed by the Governor of the Gold Coast[1] on the recommendation of the Prime Minister.

The five ordinary (or part-time) directors were to be appointed by the Minister of Finance with the approval of the Governor of the country[1]

The membership of part-time directors was to be entirely separate from any other interests with which they were ordinarily connected. Their presence on the Board was not to be regarded as a representation on the Board of their

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(1) The Ordinance of 1957 was passed on 1st March 1957 when technically Ghana was still a colony and the name had not formally been changed from the Gold Coast to Ghana. From the 6th March 1957 the Governor's functions with regard to the Bank were exercised by the Governor General until 1st July 1960 when the latter post was abolished following the adoption of a Republican constitution.

own private interests.(1)

The Ordinance barred from becoming directors (both full-time and part-time) anyone who was,(2)

1. A member of the Legislative Assembly
2. A director, salaried official or shareholder of any other bank, and
3. A salaried Government official, except that during the first nine years of operations the official head (Principal Secretary) of the Ministry of Finance could be appointed as a part-time director.

These provisions could be interpreted as designed to preclude from directorship of the Bank persons directly involved in politics or directly subject to the control of politicians. Thus the provision regarding the appointment of the Principal Secretary of the Ministry of Finance could be looked upon as a direct Government representation on the Bank. We should also note the diffusion of responsibility for the appointment of directors between the Governor (in practice the Governor-General) the Prime Minister and the Minister of Finance.(3)

Under the 1957 constitution the Governor of the Bank and Deputy Governor were to hold office for five years and were to be eligible for reappointment. There was, however,

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(1) Bank of Ghana Ordinance, 1957, section 11, subsection (3).
(2) Ibid, section 12.
(3) In practice the Prime Minister as head of the Government was likely to have the final word in all these appointments. But the tripartite arrangement in theory, at least, implied a broad basis for the appointment of directors thus reducing the possibility of any one person appointing his special favourites regardless of other considerations.

a provision that the first Deputy-Governor should hold office for only three years after which he could be re-appointed.(1)

In addition, as mentioned earlier, all seven directors were to be persons of recognized standing and experience in financial and related affairs. At meetings of the Board all members were to exercise equal voting rights with a casting vote residing in the chairman.(2)

When the Bank of Ghana Act, 1963 was passed the national constitution had itself changed with the adoption of a Republican Government. Consequently the Governor and Deputy Governor were to be appointed by the President of the Republic on the recommendations of the Minister of Finance, in whom resided the power to appoint the other five directors.

However, the 1963 constitution differed from the original law in two important respects.

First, the law did not specify any particular kinds of persons as ineligible for appointment as directors save for the possible interpretation of Section 8 which prescribed the conditions under which a member would cease to hold office. Under Section 8 a member would cease to hold office on grounds of bankruptcy in his own private affairs, conviction on a felony, serious misconduct in relation to

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(1) Inevitably both the first Governor and Deputy Governor had to be expatriates. Thus this provision was intended most probably to enable the appointment of a Ghanaian Deputy Governor after the first three years of operation by the Bank.
(2) Bank of Ghana Ordinance 1957, section 14.

duties and suspension or dismissal from a profession on disciplinary grounds. These could, by implication be adopted as guidelines to the appointment of directors. The significant point, however, is that under The Bank of Ghana Act 1963 politicians as such could be made directors of the Bank.

Secondly, whereas the law of 1957 indicated that each of the part-time directors was to be a person of known financial experience etc., the law of 1963 was silent on this matter.

The differences stated above were at once an element of flexibility and a potential danger. By 1963 political trends were such that the possibility of the Government appointing political supporters to positions demanding primarily less of political experience but more of other specialisation were becoming a matter of considerable concern.(1)

Capital and Reserves

The Bank of Ghana Ordinance 1957 stated an authorized capital of £G1 million all of which was to be subscribed and paid fully by the Government. The Bank was to pay specified proportions of net profits into a General Reserve Fund (paying the remainder to the Government) until the Fund was equal to twice the amount of the authorized capital. After that the whole of the net profits was to be paid to the

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(1) In Chapter 3 we will examine briefly the use which the Government made of its powers of appointing directors of the Bank.

Government.(1)

The 1963 constitution raised the authorized capital to £G10 million to be taken up from time to time by the Government. Unlike the 1957 constitution which was silent on the subject of changes in the authorized capital, the law of 1963 stated that the capital "may be increased from time to time."(2) Even so the 1963 constitution did not specify who was to initiate proceedings for an increase.

On the distribution of profits the Act of 1963 retained essentially the same formula as under the previous law with only one difference. The Government was to be paid the whole of the net profits after the Reserve Fund equalled paid-up capital as opposed to authorized capital as under the law of 1957.(3)

The high level of authorized capital relative to that stipulated in the original constitution indicated that the political authorities expected the Bank to undertake a much higher volume of business in the future. As stated in a Report of the Bank the increase was "in anticipation of the expanded role which it (the Bank) will play in the future and the consequent possible expansion in its assets."(4)

By 1963 the political authorities were firmly committed to a planned programme of industrialisation in which the Bank of Ghana would be required to play an important role.

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(1) Bank of Ghana Ordinance, 1957, sections 7-8.
(2) Bank of Ghana Act, 1963, Section 4.
(3) Paid-up capital has since 1957 remained at £G1 million. Thus up to now the new formula on the distribution of net profits has not made any practical difference.
(4) Bank of Ghana, Annual Report, June 1963, p.8.

Currency system.

There have been important changes in the conditions of issue, redemption and parity of the Bank's currency liabilities.

Under the Bank of Ghana Ordinance 1957 the parity of the Ghana pound (changed to the cedi in July 1965) was fixed in terms of sterling on a one to one basis.(1)

The Bank was required to issue and redeem currency on demand against sterling immediately delivered in London, and subject to an exchange charge which the Bank could vary within a statutory limit of "fifteen shillings for every hundred pounds", that it to say $\frac{3}{4}$ per cent.(2)

A fiduciary issue not exceeding £G12 million at any time was permitted against Government of Ghana Treasury Bills and securities.(3) To put it another way, the Bank was required to hold against its total outstanding currency liabilities a full cover of assets in sterling, and locally issued debt of the Ghana Government to a maximum of £G12 million. Of the local assets at least £G6 million were to be maturing within two years, and the remainder with a maximum maturity period of twenty years.(4)

There was a strict separation of the issue and banking departments of the Bank. To obtain local currency the banking department was required to observe the same procedure

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(1) Bank of Ghana Ordinance, 1957, section 18.
(2) Bank of Ghana Ordinance, 1957, section 25, subsection (1)
(3) Ibid, section 28, subsection (1)
(4) Ibid, section 28, subsection (2)

as any other member of the public, that is, submit to the issue department in exchange the specified assets against which the latter was permitted to issue local currency. The required assets were.(1)

1. Sterling balances, gold coin or bullion.
2. United Kingdom Treasury Bills maturing within ninety-three days.
3. Bills of exchange maturing within three months denominated in sterling and payable in the United Kingdom.
4. Sterling securities of, or guaranteed by, the United Kingdom Government and maturing within five years.
5. For a maximum period of two years from the commencement of operations, the notes and coins of the West African Currency Board which the Bank replaced.
6. As noted above, the locally issued (that is payable in Ghana currency) ninety-three days Treasury Bills and securities (see above) of the Ghana Government. These were also the type of assets which the issue department was permitted to hold against its currency liabilities.

The assets of the issue department were available to meet only the liabilities of that department including currency held in the banking department.(2)

It should be noted that the Bank of Ghana as established and operated under the 1957 constitution retained several features of the Currency Board in the arrangements regarding the issue and redemption of currency. These were:

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(1) Ibid, section 28, subsection (1)
(2) Bank of Ghana Ordinance, 1957, section 28, subsection (3)

1. The issue and redemption of local currency on demand against sterling.
2. The provision for only a limited fiduciary issue implying that the bulk of the currency reserve assets was to be held in sterling.
3. The adoption of an upper limit of $\frac{3}{4}$ per cent exchange charge on issues and redemptions as was the case under the Currency Board from 1949.

The amendment of 1961 introduced a few but significant changes in the composition of currency reserve assets.

First, instead of bills of exchange payable in sterling the issue department was simply required to hold bills of exchange drawn on any place outside Ghana and payable in convertible currency.

Secondly, in the place of sterling securities of, or guaranteed by the United Kingdom Government the 1961 amendment substituted securities of any foreign Government expressed in convertible currency.

The Bank of Ghana Amendment Act 1961 introduced two other novelties into the external securities component of the currency reserve assets.

First, whereas the principal enactment required that the external securities (U.K. Government sterling securities) held against currency liabilities should be maturing within five years, the amendment was silent on the question of maturity. On the one hand this allowed the Monetary Authority some discretion in the use of the currency reserve fund

with the implication that longer-dated external securities could be held against currency liabilities. On the other hand the discretion to invest the currency reserve fund in longer-dated securities could be said to have been introduced at an inopportune time. It was not likely that securities with more than five years to run would appeal to the Bank's authorities. By 1961 it was clear that Ghana's trade balance was likely to remain adverse for some time to come with the implication that the period of increasing external reserves was over. The prospect for the future was one of decreasing net external assets. In these circumstances it was essential that external securities held against the currency liabilities should be on the short end of maturity so as to minimize the risk of capital loss should it become necessary to liquidate security holdings.

The relaxation of the original law to allow for non-sterling external securities was itself a necessary hedging against possible devaluation of sterling. But this does not explain why the amendment made it possible, in theory at least, to invest the currency reserve fund in external Government securities with more than five years to mature. It is the author's opinion, albeit tentative, that one probable explanation of this could be found in the Government's increasing political commitments in Africa. For, by this change of policy the Bank could exchange its sterling assets for the long-term debt of any other African Governments expressed in any convertible currency including that of the borrowing country.

Secondly, while retaining the original ruling that the total of such foreign Government securities should not exceed 50 per cent of the total currency reserve assets the amendment contained a novel provision that the 50 per cent limit was not to apply to foreign securities held for the financing of agricultural produce or the marketing of crops.

This provision heralded a change in the method of financing the purchase of cocoa from producers. For, it enabled the Cocoa Marketing Board to finance the 1961/62 cocoa crop by funds raised from the Bank of Ghana against the security of sterling securities, without an infringement of the 50 per cent limit on external Government securities in total currency reserve assets.

The Bank of Ghana Act, 1963 abolished the existing law as amended in 1961, and introduced many changes in the laws governing the issue of currency and the corresponding currency reserve assets.

The parity of the Ghana pound was expressed in terms of gold (2.488828 grams of fine gold) instead of sterling.(1) The severance of the link between the Ghana pound and sterling was demonstrated further by permitting the issue department to hold foreign exchange assets of all kinds. The only specified sterling assets were notes, coin and bank balances.(2)

The strict separation of the issue department from the rest of the Bank was removed, implying a considerable discret-

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(1) Bank of Ghana Act, 1963, section 14.
(2) Ibid, section 15, subsection (2)

ion in the use of foreign exchange resources held within the Bank. For one thing the issue department was not, under the 1963 constitution, specifically required to issue currency to the banking department only against specified assets. For another, the assets of the issue department were made available to meet currency liabilities as well as any disposal of assets by the Bank.(1)

The limit of foreign securities (medium and long-term) in the currency reserve assets was lowered from 50 per cent to 40 per cent.(2) Again, as under the previous constitution as amended in 1961 the 40 per cent limit was to exclude any such securities held in connection with the financing of agricultural produce.

In place of a total fiduciary issue of £G12 million the 1963 constitution fixed the fiduciary element as a proportion of total outstanding currency. The limit was fixed ordinarily at 40 per cent, with a provision that the Minister of Finance could by legislative instrument raise the limit to 60 per cent.(3)

Under the pre-1963 constitution not more than £G6 million of locally issued currency reserve assets was to be in Government debt maturing within a period of over two years. The 1963 constitution changed this radically.. The meximum maturity of any Ghana Government security so held was fixed at twenty years. This incerased tremendously

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(1) Ibid, section 15, subsection (4), para (b)
(2) Ibid, section 15, subsection (2), para (e)
(3) Ibid, section 15, subsection (3)

the extent to which currency could be printed to the Government to finance long-term projects. It also meant that the Goverrment could excharge a larger amount of its locally issued debt for external securities held by the issue department. In all the currency reserve regulations introduced in 1963 increased the possibility of the Bank lending to the Goverrment at long term and to a greater volume.

"Media of payment" or money supply was given a legal definition in the 1963 constitution, to consist of currency in circulation plus demand deposits with banking institutions, excluding currency held by the banking institutions and the demand deposits of the Government and of banking institutions.(1) In addition the law provided that,

> "If on any particular day the total amount of media of payment exceeds by 15 per cent or more the total amount of media of payment which have been in existence at any time during the twelve months immediately preceding that day, the Board shall forthwith make a report to this effect to the Minister specifying the causes which in their opinion have led to that situation and their proposals to the Minister as to the steps to be taken in view thereof."(2)

These two legal specifications introduced important rigidities in a constitution which generally allowed a considerable margin of discretion in monetary administration, compared to the earlier constitution. We will discuss these regulations in the concluding pages of this Chapter.

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(1) Bank of Ghana Act, 1963 section 22, subsection (2)

(2) Ibid, section 22, subsection (1)
This provision has been interpreted by the Bank as "a further check on excesses inherent in the raising of the fiduciary issue". Bank of Ghana, Annual Report June 1963, p.9.

Lending to the Government

It was shown in the preceding subsection that under the current constitution (dating back from May 1963) the Bank of Ghana can hold outstanding Government debt to an amount corresponding to 40 per cent ordinarily and 60 per cent if the Minister so directs by way of the fiduciary issue. This represents a considerable potential increase over the position under the previous constitution where the limit was £G12 million. Under the current regulations total outstanding Government borrowing by way of the fiduciary issue could exceed £G12 million so long as the total currency in circulation outside the issue department exceeded £G20 million.

In addition the Bank was required in both constitutions to lend to the Government in the form of Ways and Means advances. Under the current law such advances are limited to 10 per cent of estimated budget revenue as laid before Parliament in respect of the Government's financial year. The percentage may, however, be increased to 15 per cent if the President of the Republic so requests.(1) Under the 1957 constitution the limit was 10 per cent of budget revenue.

In addition to the media described above, under both

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(1) Bank of Ghana Act, 1963, section 37.
Ways and Means advances are essentially overdraft facilities used by the Government to cover temporary cash deficits especially during the second and third quarters of the calendar year when Government revenue receipts are at the ebb. Ways and means facilities were first utilized in 1961 and since then have become a regular feature of fiscal arrangements.
It must be noted that the limits referred to daily positions. Also the law (both 1957 and 1963) did not specify whether estimated budget revenue included receipts on both current and loan accounts.

the constitutions of 1957 and 1963 the Government could borrow from the Bank through provisions allowing the latter to purchase securities of the Government. Under the Bank of Ghana Ordinance 1957 the limit of total holdings of Government securities (other than on account of the issue department) was fixed at six times the capital of the Bank.(1) This limit could be interpreted to include Ghana Government financial instruments held by the Bank as collateral against advances.

The current constitution imposed no such limits. Moreover, in the current law the Bank's transactions in securities are regarded partly as a means of influencing the monetary situation in the manner that central banks in advanced countries deal in open-market operations. Thus the Bank is empowered to buy and sell not only the securities (short and long-term) of the Government but also other fixed-interest securities realisable in Ghana currency. In this respect the Bank is now permitted, after consultation with the Min... to issue its own securities and sell or purchase them.(2)

Other customers of the Bank

According to the Bank of Ghana Act 1963 the Bank can buy, discount and rediscount specified instruments in transactions with "individuals, public institutions or bodies corporate whether private or public." It is also allowed to grant advances against specified financial instruments to

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(1) Bank of Ghana Act, 1957, section 37.
The law did not state the relevant definition of capital which could either be paid-up capital or the sum of paid-up capital and reserves.
(2) Bank of Ghana Act, 1963, section 35.

these broad categories of customers.(1)

This provision does not by itself imply that the Bank can keep accounts for individuals and the various bodies listed above. On the other hand it or any other provision of the law does not preclude the Bank from carrying out normal commercial banking operations.

Whilst private individuals and bodies cannot be compelled to keep accounts with the central bank, public bodies are in a different position since they are directly subject to the authority of the Government. Thus from the point of view of monetary control it is significant that the Bank of Ghana is not expressly precluded from being banker to public institutions. For, the credit base of commercial banks can be lowered or expanded in accordance with the dictates of monetary policy by shifting the accounts of the public sector between the commercial banks and the central bank.(2)

Control over the banks

Prior to the enactment of the 1963 constitution central bank statutory powers of control over the financial system was limited to control over the commercial banks.

In the Bank of Ghana Act 1963 some limited powers of control were extended to cover non-banking financial instit-

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(1) Ibid, section 28.
(2) This is obviously a simplification. The significant point is that the Bank of Ghana Act 1963 does not preclude the Bank from undertaking normal commercial banking operations. The 1957 Ordinance differed in not specifically providing for credit dealings between the Bank and the private sector other than the commercial banks.

ions mainly in the form of powers to request information. These involve rights to examine their books, and report to the Governor findings and proposals for correcting irregularities.(1)

With regard to the commercial banks the position is quite different. The current constitution gives the Bank wide powers of control the main features of which are summarized below.

1. The Bank has power, in consultation with the Minister of Finance, to prescribe for a commercial bank "liquid assets of a specified amount and composition." The amount of such assets may be fixed "either as a certain percentage of all deposit liabilities....or in any other manner." The Bank may also fix different percentages for different classes of deposits or assets.(2) Failure to comply with prescribed asset ratios is punishable by payment of interest on the deficiency to be determined by the Bank and the Minister.(3) It is also an offence for a bank deficient with regard to specified assets to make fresh advances while the deficiency lasts.(4)

2. The Bank has power, with the prior approval of the Minister to direct banks to refrain from increasing particular kinds of credit as specified by the Bank.(5)

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(1) Bank of Ghana Act, 1963, section 31.
(2) Ibid, section 29, subsection (1)
(3) Ibid, section 30, subsection (1)
(4) Ibid, section 30, subsection (2)
(5) Bank of Ghana Act, 1963, section 33.

3. The Bank may also fix the minimum amount of the paid-up capital and of the balance of undistributed net profits which a bank shall hold as a percentage of the total amount of its assets.(1)

4. As mentioned earlier, the Minister of Finance in consultation with the Bank may prescribe commercial banks' maximum borrowing and lending rates.(2)

5. The Bank has consultative rights on the establishment, closure, change of capital and merger of banks.(3)

The powers outlined above are much wider in scope and detail than was the case under the Ordinance of 1957.

In the first constitution the Bank's powers of control over commercial banks were mainly powers to prescribe separate asset ratios one in relation to demand deposits and the other in relation to time (and savings) deposits. More important, the Bank had no discretion in the type of assets to be so prescribed. The 1957 constitution laid down in detail the kind of assets and the Bank's discretion could only be exercised in the amounts and ratios of the assets. The current constitution does not specify any particular assets.

In conclusion to these constitutional developments on central banking we will discuss briefly three points of fundamental importance. They are (a) the significance of rules and discretion in central banking operations; (b) the

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(1) Ibid, section 34
(2) Ibid, section 56
(3) Ibid, section 32

relationship between the central bank and the Government and (c) the conduct of commercial banking business by a central bank.

a) First, we should discuss the legal definition of money supply in the Bank of Ghana Act 1963 (see above), and the provision calling for action when the money supply rises by over 15 per cent over the amount on any day within the preceding twelve months.

Since the ultimate significance of the supply of means of payment devolves on its potential effect on the real goods market we cannot disregard the importance of savings deposits held essentially as transactions balances. While admitting that it is impossible to separate out what portion of savings deposits is so held we can, nevertheless, legitimately query a statutory definition of means of payment which conforms to definitions conventionally adopted in the advanced countries. Moreover, the definition given in the law has itself been the subject of academic polemics in the advanced countries. To specify <u>legally</u> assets or liabilities which constitute the money supply in an economy which has obviously not settled down to stable processes and habits was ill advised.

If we interpret the 15 per cent rule as constituting the signal for policy action similar criticisms can be advanced against the ruling. Even admitting for the moment the need for such a statutory ruling it is debatable whether the money supply was the appropriate criterion to legislate as a signal for monetary action. The money supply itself

can be a misleading basis for action. If a rule was to be stipulated it would have been more appropriate to relate the need for policy to some other index such as the rate of increase in the price level or, more significant for an underdeveloped economy, to the size of convertible foreign exchange reserves in relation to expected demand for foreign exchange. It is generally agreed that a rapidly rising price level and/or a rapidly declining foreign exchange position are disruptive of an orderly and desirable pattern of economic growth.(1) Moreover, as noted earlier, the two statutory provisions discussed here introduced rules into a constitution which generally, unlike the central bank law of 1957. allowed a considerable measure of discretion in monetary administration.

In some advanced countries, notably the U.S., academic opinion has tended to differ on the subject of whether monetary policy should be administered on legally stipulated rules or on the basis of executive discretion. Should human judgment and discretion determine the proper course of action in the light of the central bankers' views of economic conditions, or should a set of rules or formulas be established which automatically indicate the direction of monetary

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(1) One economist has written in relation to East Africa that "it is the state of foreign exchange reserves rather than inflation which is the important criterion of monetary policy," W.T. Newlyn, "Monetary systems and integration" Reprint from The East African Economics Review, June 1964. In a dependent economy to emphasize the money supply as the major criterion of monetary policy could be described as a case of misplaced concreteness.

policy under different circumstances.

An early view on the subject of rules versus descretion was generally in favour of rules on the grounds that rules would diminish uncertainty.(1) A contemporary keen supporter of rules is Professor Milton Friedman. Professor Friedman's major objection to discretionary administration by the monetary authority is that the independence of the monetary authority depends too much on accidents of personality, disperses responsibility, obstructs appraisal of performance and gives too much scope to the misdirected preoccupation of bankers with how policy affects interest rates and credit availability rather than how it affects the quantity of money.(2)

Contrary to the above views other authors have expressed serious doubts about the propriety of rules in any complex set-up where relationships are not demarcated in any simple manner. One author concludes that it is better to have no fixed rules and to tolerate the blunders of descretion than to accept blindly a rule based on faith or simple deductive analysis.(3) More recent doubts against central banking by rules have been based on the difficulties of legislating rules which can be effective guidelines to policy. In particular there is doubt about the choice of rules and the

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(1) See H.C. Simmons, "Rules versus authority in monetary policy," Journal of Political Economy, February, 1936.
(2) M. Friedman, "Should there be an independent monetary authority", in "In search of a monetary constitution" (ed: L.B. Yeager), Harvard University Press, 1962. Chapter 8.
The reference to quantity of money is, of course, a reflection of Professor Friendman's stand as an epitomy of the resurrected Quantity Theorist.
(3) See W.A. Morton, "Human judment and central banking", American Economic Review, May 1951.

theoretical justification for any particular choice of rules.(1)

The controversy is relevant to a developing country not only in the context of rules stipulated in terms of some index such as the quantity of money, but also regarding the degree of discretion allowed to the central bank executives in such matters as currency reserve assets and the basis of control over the banking system.

In a developing country where central banking and indeed monetary management is a recent experience there would seem to be a strong case for legislated rules and specifications as opposed to executive judgement. However, it is the author's opinion that given the abilities of the central bank's executives, it is necessary that the monetary authorities should not be hampered by rigid rules and detailed statutory specifications. Central banking itself is at an experimental stage and legislated rules might not encourage a broad and original approach to monetary administration.

(b) During the period under review (and indeed up to the time of writing) the Bank of Ghana was in a curious position with regard to the extent of its relationship with the Government in matters of policy. On the one hand the Bank of Ghana Ordinance 1957 allowed the Bank to function largely independent of the Government. At the same time the constitution did not allow the Bank's executives any range of discretion. A central bank which operates under

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(1) Jacob Viner, "The necessary and the desirable range of discretion to be allowed to a monetary authority", in L.B. Yeager (ed), op.cit., Chapter 9.

a regime of statutory regulations cannot be said to operate independently of the Government since such rules are legislated by the Government and therefore likely to reflect mostly the policy of the Government. On the other hand, the current constitution enacted in 1963 while allowing a large room for policy formulation requires that in many important areas of policy the Bank should take decisions jointly with the Minister of Finance.

The close relationship between the central bank and the Government as provided for in the Bank of Ghana Act 1963 - almost to the point of making the Bank subservient to the Government - reflects the Government's commitment to building a large public sector in industry and agriculture. (Following the overthrow of the Government in February 1966 this policy is now clearly in the balance). It would appear therefore that the Bank of Ghana came to be regarded conceptually as part of the state machinery for the achievement of this policy.

Nevertheless, as argued earlier, even a central bank so conceived should be allowed considerable room to initiate, and advise on, monetary and general economic policy independently of the political authorities.

c) The question of combining commercial banking and central banking in one institution has been discussed at some length in the literature and only a brief discussion is required here.(1)

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(1) See R.S. Sayers, "Central banking after Bagehot; "Ch.9.

As mentioned earlier this idea has been raised several times in Ghana.

While admitting the need to establish a central bank in a developing country Professor Sayers, in the work cited below, has suggested also that in its early years the central bank of such a country can undertake ordinary commercial banking operations. This would help speed up the spread of banking services and thus the banking habit; and help create the environment in which a central bank can be most effective in monetary and credit controls. In the Ghanaian context we should add that such a plan would provide vital information about the indigenous business sector who must inevitably be encouraged to play a more significant role in the country's trade and industry. It would also enable the central bank to demonstrate at least to new, say, indigenous banks the banking standards that would serve as its criteria for dealing with commercial banks.

There are, however, strong arguments against the idea of a central bank carrying out commercial banking. A very important argument is that the idea implies the odd situation of one department of the central bank controlling the other half on equal terms with the other commercial banks. This kind of situation, unless the two departments were kept visibly distinct, would give rise to suspicion among the other banks. Since commercial banks would need to maintain non-interest bearing deposits with the central bank the ordinary commercial banks could argue with dissent that they would

be providing the central bank with resources for competing against them. The important element of moral suasion in the central bank's armoury of control over banking operations might have to be replaced by compulsion in an atmosphere already fraught with dissent and non-co-operation.

In Ghana, the Government had established in 1953 the Ghana Commercial Bank on state capital for the express purpose of filling what was believed to be a wide gap in the banking system. Therefore it was unnecessary to amalgamate central banking and commercial banking in one institution.

One writer has suggested that the plans since 1957 to amalgamate the Ghana Commercial Bank with the Bank of Ghana arose "to some extent (from) the difficulties the Ghana Commercial Bank has experienced."(1) It is difficult to argue about this view because the discussion in Ghana on the subject was confined to official and political circles only.

However, having taken the decision to establish a separate central bank it was wise to maintain the status quo. This would leave the central bank the opportunity to concentrate on laying down the foundations for dealing with the complex economic system that was likely to emerge in the near future in a country committed to a rapid pace of economic development.

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(1) E. Jucker-Fleetwood, "Money and Finance in Africa", Allen and Unwin, 1964. p.61. op. cit., p.61

CHAPTER THREE

THE MONETARY AUTHORITY - 2.

The Bank of Ghana commenced operations on 1st. August 1957. Until 1962 the Bank was mainly concerned with currency administration and other basic central bank functions arising from issues and management of a growing public debt. From 1962 the Bank became more deeply involved in the general economic administration of the country. This is reflected in the growth and complexity of its administrative structure and, more important, in the structure of its assets and liabilities.

In this Chapter we shall first describe briefly the personalities who held the highest executive posts in the Bank; secondly, we will describe the departmental structure of the Bank so as to bring out the position of the Bank in relation to the general economic administration of the country and lastly we will analyse briefly the assets and liabilities of the Bank over the period 1957-64.

Executive personalities

Mr. Albert Eggleston, O.B.E., Managing Director of the Ghana Commercial Bank from its inception in 1953, was appoirted the first Governor of the Bank of Ghana in 1957. Mr. D.F. Stone, formerly of the Bank of England, was appointed first Deputy-Governor.

Mr. Eggleston retired in the first half of 1959 after

serving only two years of the normal five-year term. Whether or not his early retirement was voluntary one cannot say.

He was succeeded on 3rd July by Mr. Kessels from the Deuscle Bundesbank (Frankfurt) to which Bank he returned on his retirement from the Bank of Ghana in 1962. Like his predecessor, Mr. Kessels did not serve out the full five-year term provided for in the then prevailing constitution. Again, as in the case of Mr. Eggleston, it is not known to the author whether Mr. Kessels' earlier retirement was voluntary. For one thing it is possible that each of the first two Governors was appointed for less than the full term of office stipulated in the Bank's statute. However, the author was unable to obtain any specific information on this question.

Earlier, in 1960 on the retirement of Mr. D.F. Stone from the post of Deputy-Governor he was succeeded by Mr. Amoako-Atta the first Ghanaian to serve as executive director of the Bank. Later in 1962, following the retirement of Mr. Kessels the first Ghanaian Governor was appointed. He was Mr. W.M.Q. Halm.

In May 1964 Mr. Amoako-Atta became a Member of Parliament and was appointed Minister of Finance, and Mr. Halm became a member of the last parliament appointed in 1965. He was made Minister for Economic Planning which post he held until the overthrow of Dr. Nkrumah's Government in February 1966.

We should note a few points of interest regarding

the appointments outlined above. The non-Ghanaian top executives of the Bank were men with long experience in financial administration. In the cases of Mr. Stone and Mr. Kessels their experience had been acquired in central banks; whilst Mr. Eggleston had served for many years on the Imperial Bank of India (now State Bank of India) and immediately prior to his appointment as Governor had been the chief executive of the Ghana Commercial Bank.

By contrast, the Ghanaian executives were in a different position. Mr. Amoako-Atta had been previously involved in commercial banking for a long time having moved from one of the expatriate banks to be one of the foundation staff of the Ghana Commercial Bank. In spite of this considerable banking experience Mr. Amoako-Atta was, to all intents and purposes, a politician of high standing in the Government party. Mr. Halm, on the other hand was primarily a politician not known to have possessed previous experience in finance on any significant level. Prior to his appointment as Governor of the Bank he had been Ghana's Ambassador to the United States.

The present encumbents of the posts of Governor and Deputy-Governor represent a return to the initial position when the men at the helm of the Bank were technical men rather than politicians. In the early part of 1965 the Chief Statistician of the Bank was appointed Deputy-Governor and towards the end of 1965 Mr. Albert Adomakoh was made Governor of the Bank. The latter had previously been Secretary to the Bank and at the time of his appointment

was director of the Bank and Managing Director of the National Investment Bank.

This account should not be interpreted as implying that the appointment of technicians to top executive positions on the Bank as opposed to politicians necessarily implied the technically equipped men were in a better position to resist unwise political influence. In pre-coup Ghana it was very doubtful that any high officer whose position depended on the Government or President in one sense or another ever boldly resisted political influence on grounds of conviction. However, it was essential that those at the helm of the Central Bank should be in a position to understand the economic consequences of the Central Bank's policies and actions.

Departmental structure.

At the end of 1964 there were eleven departments within the Bank. The early ones were the Issue, Secretary's, Banking (from July 1963 known as the Chief Accountant's Department), Internal Audit, Research and Investment Departments. The functions of each of these departments stard out clearly in their names, and only a brief account is necessary.

The Research department contains the Bank's pool of economists and statisticians who publish the Annual Report and Quarterly Economic Bulletin, both publications which give a comprehensive analysis of general economic, and monetary developments. The Investment Department is

responsible for the issue and administration of Government loans raised locally or abroad. From July, 1961 the Department was entrusted with administration of the Government's Compulsory Savings Scheme, otherwise known as National Development Bonds, itself discontinued from October 1963.

To the initial departments were later added five more departments in response to developments arising within the Bank itself or in Government economic policy. These were the Exchange Control Department, the Foreign Department, the Banks Examination Department, the Notes Verification and Destruction Department and the Rural Credit Department. The fourth-mentioned department is self-explanatory and does not require further comment.

The functions of the Exchange Control Department and the Foreign Department were related. The former administered the Government's exchange control regulations which function became more complicated as the scope of the regulations widened and foreign exchange resources declined further. The latter was charged with management of foreign exchange resources, recording of clearing accounts arising from the Government's bilateral trade agreements with the so called trade-pact countries (mainly China, East European countries and a few other African countries). The establishment of the Foreign Department was itself an immediate response to the centralisation of all foreign exchange assets held by residents in the Bank of Ghana in August 1963. The Department thus came to occupy an important place in the

Bank especially as the assets of the issue department were no longer separate from the general foreign exchange assets of the Bank. Through this centralisation of foreign exchange assets and their management it was possible to incorporate a foreign exchange plan in the national budget of 1965.

The Banks Examination Department was established in 1963 following the enactment of the Bank of Ghana Act 1963 which gave the Bank wide powers of control over commercial banking operations. As noted in Chapter One credit control regulations were actually published in April 1964 and this department is charged with the follow up of the regulations to report on compliance by the banks.

The Rural Credit Department was established in April 1964 to provide loans for the development of agriculture, fishing, and handicrafts in accordance with the Government's expressed desire for expansion in these three areas of the primary sector of the economy. It also stemmed partly from a desire to alleviate the alleged high incidence of rural indebtedness within the unorganized credit market. Originally intended as the embryo of an Agricultural Development Bank the Rural Credit Department was converted into such a bank in 1965 with strong links with the Bank of Ghana.

Other aspects of the Bank's operations deserve mentioning.

First, the Bank demonstrated a versatility in its staff training programme which should augur well for the future efficient organisation of the economy. An essential

part of the training programme was the attachment of senior and other less senior staff to foreign central banks and the International Monetary Fund. Countries where such attachment and observation courses were provided are: the United Kingdom, West Germany, Czechoslovakia, Hungary, Poland, the United States of America, Pakistan, India, the Philippines, the United Arab Republic and the Sudan.(1) Clearly this is a motley group of countries with diverse economic ideologies and stages of economic development and therefore there is the inherent danger of serious clashes of thought in the central bank. But there can be little dispute that in a new country a diversity of thinking could finally lead to a healthy balance of ideas to constitute the foundations of development.

Secondly, towards the end of the period under examination there was a very close relationship between the Bank and other departments and bodies of the Government.

The Bank was participating actively in the preparation of the Annual Budget, offering advice intended to help trim the budget into feasible form. It is, however, debatable whether such advice was adopted by the Government.

The Bank was involved in a search for a suitable preparation of the balance of payments that would have practical meaning in the context of Ghana's circumstances. For this objective the Bank received the help of an expert released by the International Monetary Fund in 1964 for a

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(1) Bank of Ghana, Annual Reports.

twelve-morth period to institute appropriate machinery for the preparation of the balance of payments. This was clearly an important operation as even in the advanced countries there is some controversy about the manner in which the external account should be drawn up.(1) For a country where foreign firms export raw materials entries shown in the external account could be quite dubious. For example how reliable could be the returns submitted to the statisticians by a foreign firm that exports raw materials directly to its parent company in the United States or Western Europe.

The Bank was represented on the Capital Investments Board. This is a body which examines applications by foreigners to invest in Ghana, to ensure that the proposed investment tallies with the Government's economic policy, and also determines terms for the exemption of foreign firms from taxation, their entitlement to various other concessions and guarantees for the repatriation of profits.

While Mr. Halm was Governor of the Bank he was also Chairman of the Foreign Exchange Committee to which applications for foreign exchange permits are submitted for approval. He was also a member of the State Planning Commission.

Thirdly, the Bank has increased the number of major currency depots from three in July 1958 when it introduced

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(1) See Paul Host-Maden, "Assymetries between balance of payments surpluses and deficits", IMF Staff Papers, Volume 9. 1962.
Also Christopher McMahon, "Sterling in the sixties", Oxford University Press, 1964. Chapter. 1.

its own currency to nine at the end of the period under examination. In addition it maintained a number of smaller currency depots all of which, together with eight of the larger ones, were managed in agency by the Ghana Commercial Bank. The initial three currency centres were distributed in the same way as were the three principal currency centres operated by the West African Currency Board in Ghana towards the end of its relationship with Ghana. They were in Accra, Kumasi and Takoradi a pattern which described roughly a triangle over the southern half of the country. By contrast, the Bank of Ghana operates a major currency centre in each Region of the country. As noted in Chapter One this development aided immensely the spread of banking offices into semi-rural communities and was a contributory factor to the lowering of the banks' internal transfer charges

Developments in the assets and liabilities of the Bank of Ghana

Liabilities.

The liabilities of the Bank of Ghana are presented in Table 29

Over the period shown in Table 29 the Bank's paid capital remained at £G1 million notwithstanding the increase in the authorized capital from £G1 million (as provided for in the Bank of Ghana Ordinance 1957) to £G10 million in the Bank of Ghana Act 1963. Thus changes in the capital

Table 29

Liabilities of the Bank of Ghana Sept. 1957-Sept. 1964[a] £G Million

	Currency			Capital Accounts			Deposits					
	Outside the Bank	In banking dept.	Total (1) + (2)	Paid capital	General Reserve Fund	Total (4) + (5)	Government	Banks	Other	Total 7 + 8 + 9	Other liabilities	Total liabilities[b]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1957												
Sept	-	-	-	1.0	-	1.0	0.2	0.5	0.4	1.1	-	2.1
Dec	-	-	-	1.0	-	1.0	1.6	-	0.2	1.8	-	2.8
1968												
Mar	-	-	-	1.0	-	1.0	1.9	-	0.1	2.0	-	3.0
June	-	-	-	1.0	-	1.0	1.7	1.1	0.2	2.9	-	3.9
Sept	17.0	0.4	17.4	1.0	-	1.0	1.9	2.3	0.1	4.3	-	22.7(22.3)
Dec	27.6	0.4	28.0	1.0	-	1.0	1.5	1.4	0.4	3.3	-	32.3(31.9)
1959												
Mar	24.3	0.4	24.7	1.0	-	1.0	1.6	1.3	0.6	3.6	-	29.3(28.9)
June	25.0	1.0	26.0	1.0	0.1	1.1	2.2	5.0	0.7	7.9	0.1	35.1(34.1)
Sept	28.4	1.1	29.5	1.0	0.1	1.1	1.3	7.1	0.2	8.7	n.a	39.8(38.7)
Dec	38.6	0.5	39.1	1.0	0.1	1.1	1.3	2.3	0.9	4.6	-	44.8(44.3)
1960												
Mar	30.3	0.7	31.0	1.0	0.1	1.1	1.4	2.1	1.4	4.9	-	36.9(36.2)
June	28.0	0.5	28.5	1.0	0.2	1.2	2.1	1.1	1.2	4.4	-	34.1(33.6)
Sept	n.a	n.a	n.a	1.0	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a
Dec	47.7	0.8	48.5	1.0	0.2	1.2	2.0	3.1	1.9	7.0	0.1	56.8(56.0)
1961												
Mar	40.4	0.5	40.9	1.0	0.2	1.2	2.4	0.8	2.6	5.8	-	48.1(47.6)
June	33.6	0.7	34.3	1.0	0.6	1.6	4.7	1.5	1.2	7.4	0.3	43.6(42.9)
Sept	31.8	0.7	32.5	1.0	0.6	1.6	9.6	1.8	2.0	13.4	0.2	47.7(47.0)
Dec	47.8	0.3	48.1	1.0	0.6	1.6	3.2	1.6	1.9	6.7	0.1	56.5(56.2)
1962												
Mar	46.0	0.6	46.6	1.0	0.6	1.6	4.7	4.0	2.5	11.2	0.1	59.5(58.9)
June	38.1	1.1	39.2	1.0	1.0	2.0	12.9	3.8	1.8	19.6	0.1	60.9(59.8)
Sept	34.1	0.7	34.8	1.0	1.0	2.0	3.3	3.5	2.4	9.2	0.3	46.3(45.6)
Dec	54.2	0.9	55.0	1.0	1.0	2.0	4.4	5.0	4.7	14.1	7.9	79.1(78.2)
1963												
Mar	43.4	0.6	44.0	1.0	1.0	2.0	5.2	5.4	4.1	14.7	7.7	68.4(67.8)
June	41.0	0.8	41.8	1.0	1.2	2.2	4.7	7.1	3.4	15.2	11.1	70.3(69.5)
Sept	38.3	-	38.3	1.0	1.2	2.2	24.5	5.0	8.2	37.7	12.6	90.7
Dec	53.5	-	53.5	1.0	1.2	2.2	4.2	4.7	8.8	17.7	16.5	89.9
1964												
Mar	50.3	-	50.3	1.0	1.2	2.2	6.4	3.9	4.8	15.1	18.3	85.9
June	47.0	-	47.0	1.0	1.4	2.4	6.8	7.9	4.4	19.0	31.2	99.6
Sept	46.0	-	46.0	1.0	1.4	2.4	7.8	13.4	4.5	25.7	38.3	112.5

(a) Figures not available for fourth quarter of 1964.
(b) Figures in brackets exclude currency held in the Banking Department
n.a = not readily available.

Source: Bank of Ghana Reports and Balance Sheets.

position were due exclusively to amounts credited annually to the general reserve fund from net profits.

The Bank introduced its currency on 13th July 1958 and begun on the same day to withdraw the currency of the West African Currency Board outstanding in the country. At the end of June 1960 the total amount of West African currency withdrawn from circulation in Ghana was £G26.1 million. This exceeded the estimated circulation (including bank holdings) by £G0.6 million. Withdrawn notes exceeded the estimated note circulation by £G2.4 million.(1)

From the lowest amount of £G17.4 million on 30th September 1958 the Bank's currency liabilities increased tremendously in the course of the period under review. Growth rates are not very useful because of the strong element of seasonal fluctuation in issued currency.

It will be seen from Table 29 that separate currency statistics are shown for currency net of the Bank's own holdings and a separate column showing currency held in the Central Bank's own banking department for most of the period. Column (3) is the summation of both items. Correspondingly total liabilities of the Bank as presented in the Bank's statistical returns included for most of the period currency held in its own banking department.

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(1) Bank of Ghana, Annual Report, June 1960 p.6. The excesses over estimated circulation were most probably due to unrecorded net movement of currency into Ghana from the other territories which shared the services of the West African Currency Board with Ghana.

However, in practice we do not need to include the Bank's holdings of its own currency among its liabilities. Therefore the figures shown in brackets in Table 29 (column 12) represent total liabilities (all items) minus the Bank's holdings of currency issued to the banking department. There was, however, a theoretical justification on the part of the Bank for showing currency held in its banking department among total liabilities. Under the Bank of Ghana Ordinance 1957 the issue department was legally separate from the banking department with statutory obligations on the issue department to hold one or more of specified assets against currency issued to the banking department. In other words, like everyone else, the banking department was required to surrender resources in order to acquire local currency. This argument is reflected in the fact that from the end of June 1963 following the enactment of the Bank of Ghana Act 1963, which abolished the strict separation of departments, the Bank's balance sheet and statistical returns did not include among liabilities the currency held in the banking department.

Whether or not one disregards currency held in the banking department it is clear from Table 29 that the currency liabilities followed a marked seasonal pattern. On the basis of the quarterly figures it can be seen that the peak occurred in December, whilst the trough occurred in either June or September.

The realisation of the peak in December again reflects the dominance of cocoa in the economy. Generally December is the peak of the purchases of cocoa from producers. Usually for most of the period this was reflected in the seasonal fluctuations in the money supply the peak of which occurred in December. However, in the last two years of the period the money supply though remaining high in December actually reached its peak in the early months of the immediately ensuing years in contrast to the currency liabilities of the Bank of Ghana. The difference was explained by commercial bank holdings of currency to relatively higher amounts in that month due to delays in the cocoa season.

During the cocoa harvesting season (which begins around October) the commercial banks acquire more currency from the Bank either to finance directly the purchases of cocoa or to meet cash withdrawals associated with immense economic activity in this period. From about March, depending on how far the cocoa season is extended into the ensuing calendar year, currency flows back to the banks as the economy adjusts to equilibrium, and the banks in turn return currency to the Bank of Ghana. Prior to mid-1961 they would acquire in exchange sterling assets delivered

London or simply exchange the Bank's currency liabilities for its deposit liabilities leaving the banking department of the Bank of Ghana to make its own necessary adjustments with the issue department. With the imposition of

exchange control the banks could no longer exchange currency with the central bank's sterling assets except for transactions purposes which do not add to the banks' external assets. From mid-1961 the seasonal reflux of currency to the central bank was associated with increases in the central bank's deposit liabilities to the commercial banks.

This initial position was followed by various adjustments culminating in a decline in central bank deposit liabilities to the commercial banks but an increase in central bank deposit liabilities to the Government, matched by increases in the Government's indebtedness to the commercial banks. This process was generally reversed during the period of intense economic activity from October to about February or March, again depending on whether the cocoa season started early or late. During this period the banks generally acquired more currency by liquidating their holdings of short-term Government debt.

In spite of the seasonal fluctuations in the central bank's currency liabilities the upward trend shows clearly in Table 30 A simple tabular illustration of the under-

lying upward trend is shown in Table 30 where figures for particular quarters are compared over successive years.

Table 30

Bank of Ghana Currency Liabilities,(a) 1963-64

(End of quarter).

	End of March	End of June	End of Sept.	End of Dec.
1958			17.0	27.6
1959	24.3	25.0	28.4	38.6
1960	30.3	28.0	n.a	47.7
1961	40.4	33.6	31.8	47.8
1962	46.0	38.1	34.1	54.2
1963	43.4	41.0	38.3	53.5
1964	50.3	47.0	46.0	71.4

(a) Currency held outside the Bank of Ghana
Source: as for Table 29

The Bank's deposit liabilities fluctuated considerably reflecting the operations of its major customers, the Government and the commercial banks.

Movements in government deposits responded mainly to the Government's fiscal operations up to the end of 1959. From February 1960 Government deposits were influenced principally by its debt operations following the introduction

of Treasury Bills. Secondly, commencing in the second half of 1961 the Government made considerable use of normal overdraft facilities available through the mechanism of ways and means advances from the Bank of Ghana. In addition to normal overdraft operations of the Government at the Central Bank, the Government's indebtedness to the Bank through the Bank's acquisition of Treasury Bills and other securities reached high levels in the period 1962-64. Thus fluctuations in Government deposits reflected essentially its credit and debit transactions on both current and capital accounts. The exceptionally high level of Government deposits at the end of September 1963 arose from a peculiar transaction. The Government acquired foreign exchange assets of several public and quasi-public institutions offering in exchange its own debt on similar terms but payable in local currency The Government then exchanged the foreign exchange assets for deposits at the Central Bank, part of which was used to retire debts to the Central Bank.

"Other deposits" consists of various items: internal reserves against contingencies, deposits of international institutions such as the International Monetary Fund, deposits due to public institutions from budgetary and other Government allocations each of which could not be itemized from the available data.

"Other liabilities" is a miscellany of items mainly contra accounts, and the result of special financial arrangements between the Government and the Bank. The huge expansion in "other liabilities" from December 1962 reflects

the Bank's increasing involvement in the Government's general capital operations. In particular, we should note the very high level of this item from June 1963 bearing in mind the fact that the Bank of Ghana Act 1963, enacted a month before, provided for the Bank's deep involvement with Government financial arrangements.

A very high proportion of "other liabilities" was made up of the contra accounts: letters of credit opened in respect of imports (that is, liabilities under documentary credits), guarantees given by the Bank on behalf of the Government and Government obligations under long-term external credits. Table 31 illustrates the tremendous importance of these items in the last two years of the period under examination.

Table 31

Bank of Ghana: Contra Accounts (Liabilities) 1962-64

(End of June). £G Million

	1962	1963	1964
Liabilities under guarantees	-	7.1	12.4
" " Long-term external credits	-	3.6	7.9
" " documentary credits	-	0.5	10.4
Total	-	11.2	30.7

Source: Bank of Ghana, Balance Sheets.

Assets.

The assets of the Bank of Ghana over the period 1957-64 are presented in Table 32. The assets have been itemized as far as made possible by availability of reliable data.

As in the case of liabilities important changes in the structure of assets occurred mainly towards the close of the period under examination.

It will be recalled from Chapter 2 that the Bank of Ghana Ordinance 1957 permitted holdings of West African currency against the Bank's own outstanding currency liabilities for a period of two years from the date on which the Bank introduced its currency. Thus from 13th July 1958 all West African currency not converted into sterling was held by the Bank as stipulated in the law. After June 30th 1960, two weeks before the scheduled time, both the Bank's previous holdings of West African currency as well as additional presentations were transferred to the Banking Department to form part of the Bank's holdings of foreign currency. There was no question of the West African currency being sterilized in the Banks possession because the currency was still in active use in other parts of West Africa. Moreover, the amounts held by the Bank were very small in relation to the potential demand for both trading and other personal purposes.

The Bank showed in its accounts separate assets held against currency liabilities even after May 1963 when it

Table 32

(End of Period) Assets of the Bank of Ghana, 1957-64[a] £G Million

	Currency Cover Assets						Other Assets							
	W.A.C.B. Notes and coin	Gold	Sterling accounts and Treasury and other bills	U.K. Govt. securities (maturing within 5 years	Ghana Govt. Treasury Bills and securities	Total	Cash	Ghana Govt. Treasury Bills	Ghana Govt. Securities and other bills	Balances abroad and Treasury Bills	Loans and advances	Fixed assets	Other assets[b]	Total Assets
1957														
Sept														2.1
Dec														2.8
1958														
Mar														3.0
June														3.9
Sept	0.1	-	17.2	-	-	17.4	0.4	-	0.03	3.8	-	—	0.4	22.7
Dec	0.1	-	27.9	-	-	28.0	0.4	-	0.02	3.1	-	0.7	0.08	32.3
1959														
Mar	0.04	-	17.8	6.8	-	24.7	0.4	-	0.01	3.3	-	—	0.2	29.3
June	n.a.	n.a	n.a	n.a	-	-	-	-	-	-	-	n.a	0.2	n.a
Sept	0.06	-	22.7	6.8	-	29.5	1.1	-	0.07	8.3	-	0.6	n.a	39.8
Dec	0.01	-	27.3	11.8	-	39.1	0.5	-	-	4.3	-	0.7	0.3	44.8
1960														
Mar	0.03	-	19.1	11.8	-	31.0	0.7	0.1	-	3.8	-	0.7	n.a	36.9
June	0.02	-	16.8	11.6	-	28.5	0.5	0.2	-	3.8	-	0.6	0.5	34.1
Sept	-	-	-	-	-	-	-	-	-	-	-		-	n.a
Dec	-	2.0	34,9	11.6	-	48.5	0.8	0.7	0.03	5.3	-	0.6	0.9	56.8
1961														
Mar	-	2.0	30.3	.8.7	-	40.9	0.5	1.2	0.04	3.0	1.2	0.6	n.a	48.1
June	-	2.0	20.9	11.4	-	34.3	0.7	1.3	2.0	3.7	-	0.5	1.1	43.6
Sept	-	2.0	8.1	16.3	6.1	32.5	0.7	0.1	0.05	6.9	6.5	0.5	n.a	47.7
Dec	-	2.0	2.1	37.8	6.2	48.1	0.3	0.3	0.3	1.0	3.0	0.5	2.8	56.5
1962														
Mar	-	2.0	2.5	34.6	7.5	46.6	0.6	0.1	0.3	2.0	3.8	0.5	5.4	59.5
June	-	2.0	5.7	24.1	7.4	39.2	1.1	2.6	0.4	7.9	8.0	0.4	1.2	60.1
Sept	-	2.0	3.6	18.0	11.2	34.8	0.7	1.2	0.4	7.8	0.4	0.4	0.7	46.3
Dec	-	2.0	2.3	39.3	11.4	55.0	0.9	5.8	0.4	5.1	-	0.4	8.3	79.1
1963														
Mar	-	2.0	0.1	31.9	9.9	44.0	0.6	3.4	0.4	6.4	5.0	0.4	7.9	68.4
June	-	2.0	3.3	24.5	12.0	41.8	0.8	2.0	0.3	7.0	6.0	0.4	11.8	70.3
Sept	-	2.0	7.9	17.3	11.0	38.3	-	7.0	0.6	8.4	15.0	0.4	12.6	90.7
Dec	-	2.0	16.5	22.2	12.8	53.5	-	6.9	0.7	8.3	-	0.4	16.5	89.9
1964														
Mar	-	2.0	11.9	24.4	12.0	50.3	-	2.9	0.3	10.4	-	0.4	18.0	85.9
June		2.0	3.2	27.6	14.2	47.0	-	-	6.6	6.3	7,0	0.4	32.3	99.6
Sept		2.0	n.a	n.a	n.a	n.a	-	n.a	n.a	n.a	14.0	0.3	45.0	112.5

(a) Breakdown of totals not available for September 1957 to June 1958, and September 1964. Figures not available for December 1964.

(b) "Other Assets" is a miscellany of items, mainly contra accounts (see text).
Parts may not add to totals due to effects of rounding.

Source: As for Table 29.

Table 33

Percentage Distribution of Currency Cover Assets, 1958-64

(End of period).	Gold %	Sterling assets (a) %	Total foreign exchange asset %	Local assets %
1958 Dec.	Nil	100.0	100.0	Nil
1959 Dec.	"	100.0	100.0	"
1960 June	"	100.0	100.0	"
Dec.	4.0	96.0	100.0	"
1961 June	5.8	94.2	100.0	"
Dec.	4.2	83.0	87.2	12.8
1962 June	5.1	75.9	81.0	19.0
Dec.	3.6	75.6	79.2	20.8
1963 June	4.8	66.6	71.4	28.6
Dec.	3.7	72.3	76.0	24.0
1964 June	4.2	65.5	79.7	30.3

(a) Includes negligible amounts of West African Currency Board notes and coin up to June 30th 1960.

Source: as for Table 29

could be said that it was not positively required to do so. The distinction drawn between assets held against currency liabilities and other assets served primarily to illustrate adherence to statutory requirements regarding the asset cover of the currency liabilities.

On the basis of the calculations in Table 33 the

Ghana pound could be said to have been heavily backed by foreign exchange up to the end of 1963 after which the ratio fell below 70 per cent.

However, even if one can understand the publication of separate currency cover assets before the end of June 1963 as a statutory obligation one cannot so easily understand the continuation of this practice after that date. If the purpose was to show convertibility of the Ghana pound then, of course, the authorities chose a very misleading statistic. For, quite apart from the fact that from July 1961 various payments restrictions were imposed, there can be no doubt that the percentage of convertible assets to currency liabilities tells nothing about the real extent of convertibility. The question of convertibility should in an approximate sense be related to total payments commitments in the economy including those of the Central Bank and the Government. To be approaching realism what is required is some kind of formula which should embrace the expected balance of trade including debt servicing.

Assumptions about convertibility which are based on the ratio of convertible assets to currency liabilities are clearly erroneous. In time all kinds of expansionary forces, such as Government cash deficit operations, endanger convertibility to such an extent that even a modest degree of convertibility can only be sustained under a regime of restrictions.

We may now comment briefly on the asset structure

maintained by the Bank.

The Bank first issued currency against local securities in July 1961 when the Issue Department acquired £G6.1 million of Ghana Government Treasury Bills and locally registered stocks. This amounted to half the total fiduciary issue permitted under the Bank of Ghana Ordinance 1957. Earlier there had been smaller holdings of Government Treasury Bills and securities in transactions not involving the fiduciary issue. The Bank came very close to the fiduciary limit in the third and fourth quarters of 1962.

Practically all the foreign exchange assets of the Bank consisted of various sterling assets: balances on deposit and liquid balances with the Bank of England, call money and United Kingdom Government Treasury Bills purchased on allotment or on the open market, and United Kingdom Government securities. Thus the Bank continued to hold practically all foreign exchange assets in sterling despite the provisions of the 1961 Amendment Act which permitted the Bank to hold assets denominated in any convertible currencies. In all, the Bank's foreign investment policy remained the same throughout the period under study. In the period 1958 to the end of June 1961 a larger proportion of the foreign exchange assets consisted of liquid and semi-liquid sterling balances and other short-term sterling assets. From the second half of 1961 sterling securities maturing within five years composed a higher proportion of these assets. No specific reasons can be ascribed to the

Table 34

Bank of Ghana: Distribution of Gross Assets other than Fixed Assets and "Other Assets"

(Averages of quarterly figures) £G.M.

	Total	Foreign exchange assets including gold and W.A.C.B. notes	Domestic assets
1959	37.1	36.4	0.7
1960	41.3	40.3	1.0
1961	47.1	39.5	7.6
1962	56.3	40.2	16.1
1963	63.9	40.3	23.6
1964	81.7	39.1	42.6

Source: as for Table 29
Also other Bank Reports

pattern described here other than a surmise that up to mid-1961 Ghana's currency was fully and freely convertible and therefore it was necessary to keep foreign exchange assets on the short end of maturity.

Abstracting from fixed assets and the miscellany of items labelled together as "other assets" it will be seen from Table 34 that from 1962 local assets came to form an increasing proportion of total assets as defined here. On the basis of the averages of quarterly figures presented in Table 34 domestic assets actually exceeded foreign exchange assets in 1964.

The increases in the volume of domestic assets as well as their proportional share in total assets reflected increasing Central Bank lending to the Government through purchases of the latter's securities (including Treasury Bills), and ways and means advances. In addition to direct Government debt, from 1963 the Bank held among its domestic assets bills issued in connection with cocoa financing. The Bank discounted large amounts of such bills for the Ghana Commercial Bank to whose order they were drawn by the Cocoa Marketing Board on its own marketing subsidiary the Cocoa Marketing Company. At the end of 1963 and 1964 the value of such bills held by the Bank amounted to £G14.5 million and £G33.9 million respectively.

Bank of Ghana interest rates.

The Bank first announced its Re-discount Rate in February, 1960 when Treasury Bills were first introduced from the time of the Bank's establishment.
From then up to the end of 1964 the Rediscount Rate was kept at $\frac{1}{8}$ per cent above the Discount Rate on Treasury Bills.

The Discount Rate itself followed closely movements in the London discount market buying rate on Treasury Bills from February 1960 to mid-1961. Thus the Bank's Re-discount Rate was during that time changed up and down with changes in the London Bank Rate. The principal reason for this was given in Chapter One, namely that the local Re-discount Rate in so far as it was kept at a

definite margin above the Discount Rate on local Treasury Bills had to be at a level sufficiently close to London rates in order to encourage investment in Ghana Government Treasury Bills.

From mid-1961 the conditions described above were no longer applicable and the Discount Rate itself was fixed at a level high enough to encourage the commercial banks' continued support for local Treasury Bills and at the same time to avoid an unduly high burden on Government debt servicing.

From July 1961 to the end of 1964 the Re-discount Rate was pegged at $4\frac{1}{2}$ per cent.

CHAPTER FOUR

Non-Bank Financial Institutions.

Over the period under review the financial system of Ghana was dominated by the monetary institutions. The development of the non-banking sector of the financial system was at only a very modest stage at the end of the period. This Chapter is devoted to an examination of the three main non-banking financial institutions which existed at the end of 1964; the Ghana Savings Bank, the First Ghana Building Society and the National Investment Bank. In 1960 the Ghana Commercial Bank absorbed a small Co-operative Bank whose operations before the merger has not received a separate study in this work due to a general lack of the necessary data. Other institutions, the Guarantee Corporation, the Government Mortgage Loans Scheme and the Industrial Development Corporation failed in the course of the review period. These have been briefly examined in Chapter Six.

A.

The Ghana Savings Bank.

The Ghana Savings Bank acquired its current name from the 20th June, 1962 having previously been known oficially as the Post Office Savings Bank. The current name will be used in this study wherever this will not entail serious inconvenience.

The Savings Bank is the oldest financial institution in Ghana. The first branches were established in Accra and Cape Coast by Ordinance on 1st January, 1888 under the control of the Gold Coast Government Treasury. By the Savings Bank Transfer Ordinance, 1904 it was placed under the control of the Post Office

as from 1st January 1905. From then it remained part of the Department of Posts and Telecommunications.

The central administration was vested in the Controller of the Savings Bank housed with his staff in premises of the General Post Office in Accra. The day-to-day business is conducted by the Postmaster General's Department through postal offices scattered throughout the country. The Ghana Savings Bank is and has always been a Government institution.

The Bank has in the past utilized the services of two external bodies: the local Accountant-General's Department in Accra and the Crown Agents in London. The former administered the accounts of the Bank and the latter were responsible for the Bank's business in London, particularly its investments on the Stock Exchange. Investment plans communicated first to the Accountant-General were passed on to the Crown Agents who purchased, redeemed or sold specified or unspecified investments according to instructions received from the Accountant-General.

The pre-1962 constitution permitted a maximum of one-third of total assets to be invested in local instruments. In practice, the Bank's local assets consisted only of cash and commercial bank deposits the aggregate of which was well below the maximum permissible.

As a Government institution the Savings Bank had claim on the Consolidated Fund to meet operating deficits. This provision was utilized during most of the review period when the annual balance of deposit transactions was frequently negative.

The status of the Bank was changed considerably by the

Savings Bank Act, 1962 (No. 129 of 1962) the main features of which are given below.

While retaining the over-all administration under the Director of Post and Telecommunications, the Bank was brought under the influence of the Minister of Finance[1] in several important aspects of its policies and operations. The Minister's approval is required in the closure and installation of Savings Bank facilities at any postal office in the country.[2] The Minister has power - with the prior approval of the President - to determine the rate of interest payable on deposits.[3] The Minister has power to direct the investment of funds surplus to operational requirements,[4] including reinvestment of existing assets.[5] In addition, the Minister may make regulations, by legislative instrument, affecting various aspects of the Bank including the appointment of an Advisory Board, limits on and forms of deposits, and deposits and withdrawals by minors, trustees, charitable institutions and[6] women etc.

The services previously performed by the Crown Agents are now vested in the Bank of Ghana. In line with directions from the Minister the Bank of Ghana is to invest the funds of the Savings Bank primarily in securities of the Ghana Government

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1. According to the law the Minister responsible for the Savings Bank, in practice the Minister of Finance.
2. Savings Bank Act, 1962, Section 3.
3. Ibid, Section 7.
4. Ibid, Section 9, subsection (1).
5. Savings Bank Act, 1962. Section 9.
6. Ibid, Section 15.

or, with the Minister's approval, in any other securities.[1]

Finally, as under the previous arrangements, cash deficits on current operations are chargeable on the Consolidated Fund in the form of advances at interest as paid by the Bank to creditors on deposit accounts. Any such advances are, in theory, intended to be obtained pending the receipt of funds by way of investment liquidations, investment income or additional deposits. Conversely, at the close of its financial year an excess of current income over expenditure is to be paid into the Consolidated Fund provided that after such a payment "the assets of the Bank.....shall exceed the liabilities by not less than fifteen per centum of the liabilities to depositors".[2] Since in aggregate assets must equal liabilities the former can exceed the latter where liabilities as used here exclude reserves, for example. Unless interpreted in some such manner this provision appears enigmatic. The law itself is silent on the subject of Reserves. Thus the operation of a Reserve Fund would derive from unobligatory expediency and therefore amounts so held would not necessarily be classifiable under liabilities. However, if the interpretation above is valid, then under this provision the Savings Bank must pay to the Government the amount by which total assets exceed deposit liabilities by 15%.

Two of the provisions outlined above require brief discussion. In the first place, although up to the end of 1964 the Accountant-General's past relationship with the Bank was retained it would appear that the law transferred this function to the

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1. Ibid, Section 9.
2. Ibid, Section11.

Bank of Ghana.

Secondly, the provision for re-investment of the Bank's investment is an unusual provision which can be explained by a hypothesis (later actually put into practice) that the Government wanted the Bank to shift from foreign securities to local assets. But an active use of this and the general powers of direction reposed in the Minister would clearly diminish vastly the exercise of initiative within the Bank. For there would be a perpetuation of buying, selling and maturing of Treasury Bills and other debt of the Government. In such a setting it would probably be simpler to channel all Savings Bank funds directly into Government funds with interest due to depositors being paid over to the Savings Bank by the Government as the need arose each half-year or year.

Objects.

The Bank was established for the basic purpose of absorbing small savings throughout the country to which is connected the still more fundamental objective of cultivating thrift and encouraging the mass of the people to exchange their savings for the debt of organised institutions in contrast to the risky habit, common in economically backward countries, of keeping savings in the form of unproductive currency.

From discussions with a senior official of the Bank the impression was gained that the Bank did not encourage commercial establishments to invest with it because such establishments had easy access to commercial banks. But a second explanation may be offered. From the beginning of its operations the Bank's

deposit rate was stabilized at 2½%. Until 1959 so far as interest rates were concerned the Bank would be largely competitive with the commercial banks. From the second half of 1959, however, its pegged rate was ½% less than the minimum paid on savings deposits by the commercial banks. Even if one made the debatable assumption that the ordinary Ghanaian saver was not interest-rate conscious, a similar assumption about a sophisticated commercial establishment would be clearly unrealistic.

It seems to be generally true that the authorities of the Bank have, over the years, been particularly concerned with the small private saver. Thus, a senior official of the Bank told the author, they have been content with witnessing an increase in the habit of thrift among the general population. A meaningful measure of increased thrift requires reference to a number of variables which we cannot go into in this work. But even if one measures thrift by the level of savings, as far as the Bank is concerned, the view quoted above would hardly be borne out by the statistics of the Bank's operations.

Savings Bank Offices

As noted earlier, the daily business of the Bank is performed through postal offices by Postmasters and Postal Agents. It is therefore the largest single savings institution in terms of numbers of offices. More significant, it is very widely represented with offices in very remote parts of the country in response to the post-1950 vast expansion of the general communication network. Table 35 presents the number of postal

offices at which Savings Bank facilities were available over the period 1949-50 to 1963-64.[1]

The number as at the end of March each year

Table 35

Number of Savings Bank Offices, 1950-64.
(As at 31st March)

1950	216
1951	232
1952	249
1953	272
1954	293
1955	312
1956	338
1957	355
1958	365
1959	394
1960	416
1961	423
1962	436
1963	451
1964	466

Source: Ghana Savings Bank, Accra.

rose consistently from 216 in 1950 to 466 in 1964. At the end of March 1950 the number of Savings Bank offices was twelve times the number of commercial bank branches in mid-1950. Notwithstanding a higher acceleration rate in commercial bank branch expansion, at the end of March 1964 the Ghana Savings Bank operated over twice as many offices as were operated by all the commercial banks at the end of 1964.

Table 35 does not tell the full story of the process of expansion in the numbers of Savings Bank offices, as the Bank's history has been marked by fairly frequent closure, withdrawal

1. The author is indebted to Mr. A.R. Sowah, Controller of the Ghana Savings Bank who promptly sent by air mail statistics required to fill gaps in the material initially obtained on the Bank.

and restoration of savings facilities at various postal offices. In recent years, during 1961-62 27 offices were closed or withdrawn; in 1962-63 facilities withdrawn from 13 postal offices were restored later in the same year. In all between March 1961 and the same month in 1964 Savings Bank facilities were reinstated or newly established in 60 places.[1]

The alternations of closures and restorations of Savings Bank facilities may be construed as on the one hand an indication of some fundamental difficulties encountered by the Bank in its bid to spread its services on a nationwide scale, and on the other hand, a consciousness of the long-run pivotal role of an institution of its kind in the development process. As regards the difficulties, it is difficult to isolate any specifically factual considerations due to a lack of the necessary information. But a few tentative explanations may be offered.

The Savings Bank meets a part of the salaries of Postmasters and Postal Agents who handle its business in the individual offices. To this must be added other current expenditures. Thus the cancellation of services may be attributed to failure of net deposits to justify the operational costs.

However, as noted earlier, the frequent reinstatement of withdrawn services would appear to evidence official recognition that the rationale of expansion in the services of such an institution should be sought outside short-term profitability. There is a strong case for extension of savings bank facilities wherever the frontiers of the exchange economy advance.

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1. Ghana Savings Bank, Annual Reports.

In this respect, it is interesting to note that of the 60 postal offices to which savings facilities were restored, or newly established between 1961 and 1964, all but one were in small towns and villages with an average mid-1960 population of probably less than 3,000.

The postal offices apart, the Ghana Savings Bank offers savings facilities through the medium of Mobile Savings Banks. At the end of 1964 there were, nominally, seven such banks. The first was introduced on the 1st March, 1944, the second in 1945-46, four more in 1948-49 and the seventh in 1949-50.

The Mobile Savings Bank operates in the more remote parts of the country where savings facilities are not available in the ordinary way. The visits of the vans are usually timed to coincide with market days and are preceeded by advance information communicated to the respective village chiefs. Actual business is heralded by lectures and other propaganda conducted by Postal and Social Welfare officers and through film shows provided by the Information Department of the Government.

On a Mobile Savings Bank deposits are accepted to any amount whilst demand withdrawals are limited to £G10 per account.

Not all seven Mobile Banks were in service in any given year as from 1960. During 1961-62 only 4 of the stock of 7 were on the road; 3 did not operate throughout the following year, and of the remaining 4 only one operated during the first three months of that financial year; finally, in 1963-64 4 of the vans were off the road for the whole year whilst the remaining 3 were in service only for a few months.[1]

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1. Ghana Savings Bank Reports and information supplied directly to the author by the Controller.

In all these cases the Mobile Banks were withdrawn from service because of frequent breakdowns intensified by a general scarcity of spares which the maladministered import licencing brought in its wake from around 1962.

Table 36 shows comparative figures on business carried out on the Mobile Savings Banks.

Table 36

Transactions on Mobile Savings Banks. 1954-5 to 1963-4.

1st April to 31st March.	New Accounts No.	Deposits £G	Withdrawals £G.
1954-55	1,601	10,550	494
1955-56	2,172	11,221	514
1956-57	2,323	15,443	965
1957-58	1,492	11,344	1,533
1958-59	1,139	7,901	652
1959-60	574	3,917	454
1960-61	938	3,015	215
1961-62	489	1,714	264
1962-63	471	2,162	95
1963-64	337	681	27

Note: All figures are "flows" in the financial year.

Source: Ghana Savings Bank, Accra.

It must be pointed out that no direct connection exists between deposits or withdrawals and new accounts. Deposits, as withdrawals, would be to the credit and debit of new accounts within a given year as to old accounts.

It can be deduced from Table 36 that the impact of the Mobile Savings banks was on the decline from 1960. This was partly attributable to the inactivity of the vans from 1960. As fewer vans showed up and at greater intervals of time their

volume of business would naturally tend to decline. Moreover, the fact of fewer visits by the savings vans could have led to a lull in the enthusiasm of the communities served. These hypothetical explanations apart, the decline in the Bank's business on mobile savings vans could have been due to the extension of postal offices and with them savings bank facilities to the remoter places previously plied by the mobile banks. In a sense it might be said that in the latter years of the period under examination the Mobile Savings Bank was becoming redundant.

Procedure on Savings Bank transactions.

Until 1961 each customer of the Savings Bank was limited, to £G500 additional deposits per year and to an aggregate of £G5,000. The discontinuation of these rather puzzling limitations was said to have followed representations by the management to the Government. Probably a major factor behind the abolition of the limits was the increasing competition offered by the commercial banks whose post-1960 branch development was directed into places where previously the Savings Bank had been the sole institution represented.

Withdrawals could be made at the counter, by telegram or by post. By 1964 withdrawals at the counter were subject to a limit of £G10 at a time and those by telegram to a limit of £G40 whilst those by post were not subject to any limit. Any of the three modes of withdrawal was officially allowed only once in a period of fourteen days.

In addition to the minimum interval of fourteen days which must elapse between withdrawals there were a few other limitations

Thus a day's prior notice was required in respect of withdrawals exceeding £G10. Amounts in excess of £G10 actually required the sanction of the head office in Accra. Three months prior notice was required in the case of amounts exceeding £G1000.[1]

"Accelerated" service was provided at the headoffice of the Bank to depositors who called personally for withdrawals involving sums in excess of £G10. For such "accelerated" service a fee of two shillings was debited to the customer's account before he encashed his deposit or part of it as the case might be. A charge of one shilling and sixpence was also made on telegraphic withdrawals. Lastly, one special advantage of the Savings Bank was that credit and debit transactions were permitted in any Savings Bank office.

The account given above of rules affecting drawings on deposits which in comparison with the rules of the commercial banks were frequently regarded as cumbersome did in fact represents a considerable modification of earlier regulations.

In 1951 Sir Cecil Trevor reported that deposits were withdrawable on demand (that is, at the counter without prior notice additional to the normal interval of fourteen days) to a limit of £G3 at a time. Telegraphic withdrawals were subject to a limit of £G20, whilst the Controller had power to demand a month's notice in respect of withdrawals in excess of £G200.[2]

Investment policy

Prior to the 1961-62 financial year the local assets of the

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1. The Controller of the Savings Bank had power to rescind or modify this condition in individual cases.
2. Ibid, para.126.

Savings Bank comprised only cash on hand and bank deposits maintained for current payments including operational expenditures and depositors' cash requirements. The aggregate of such local assets formed a negligible proportion of total assets. Investments were almost exclusively various sterling securities of the British and other Commonwealth and Colonial Governments as well as securities of various public corporations and municipalities of the United Kingdom.

The description of investments as at the end of March 1962 is presented in Table 37 which, as it refers to the year in which local investments other than income-earning bank deposits were first acquired, includes local Treasury Bills to the value of £G50,000. As on that date local investments (abstracting from negligible bank deposit accounts) amounted to only about 1.1% of total investments. Similarly, on the 31st March, 1963 with local investments as clarified above remaining at £G50,000 and total investments at £G4.4 million (face value) local investments again amounted to only 1.1% of the total. Until the 1961-62 financial year the Bank's entire financial assets consisted of sterling securities, a relatively small amount of cash resources and small amounts due from sundry debtors.[1] Thus the ratio of local assets of all kinds to total assets was far below the 30% maximum allowed by the pre-1962 (June) constitution.

In several ways local Treasury Bills, with immediate and non-penal marketability guaranteed by the Central Bank, provided investment opportunities suitable for a Savings Bank whose annual net deposit business had been negative almost continuously

1. Ghana Savings Bank, Annual Reports.

Table 37

GHANA (POST OFFICE) SAVINGS BANK INVESTMENTS AS AT 31ST MARCH, 1962

Description of Stock	*Period*	*Rate %*	*Face Value*			*Book Value*			*Middle Market Price*
			£G	*s.*	*d.*	£G	*s.*	*d.*	
Australia (Commonwealth of) Registered Stock	1961–66	3½	45,078	3	4	45,078	3	4	89½
Australia (Commonwealth of) Registered Stock	1965–69	3½	115,194	2	6	115,194	2	6	82½
Australia (Commonwealth of) Registered Stock	1970–75	2½	45,756	5	3	45,000	0	0	64½
Australia (Commonwealth of) Registered Stock	1965–67	3	18,989	10	4	18,989	10	4	86½
Australia (Commonwealth of) Registered Stock	1961–64	4	20,000	0	0	20,000	0	0	97
Belfast Corporation Registered Stock	1963–66	2¾	2,697	10	11	2,687	8	7	88½
Birmingham Corporation Registered Stock ..	1957–62	3½	1,375	0	0	1,375	0	0	100
Bristol Corporation Registered Stock	1960–70	3½	4,420	7	9	4,420	7	9	81½
British Electricity Guaranteed Stock	1968–73	3	7,969	1	2	7,520	18	11	75
British Electricity	1967–69	4½	7,152	10	1	6,821	14	0	91½
British Guiana Inscribed Stock	1975–80	3	117,712	15	11	117,712	15	11	53½
British Guiana Inscribed Stock	1966–68	3	20,618	11	2	20,000	0	0	73½
British Transport Guaranteed Stock	1968–73	3	48,426	18	11	48,426	18	11	75
Cardiff Corporation Registered Stock	1966–71	2½	6,245	18	10	5,785	6	1	74½
Ceylon Inscribed Stock	1959–64	3	15,167	6	7	15,167	6	7	88½
Ceylon Inscribed Stock	1965	4½	10,000	0	0	10,000	0	0	88*xd*
Consolidated Loan Stock	1957 or after	4	29,465	9	2	29,465	9	2	63
Cyprus Government Inscribed Stock	1969–71	3½	14,000	0	0	14,000	0	0	72½
East Africa High Commission	1966–68	3½	177,688	9	7	177,688	9	7	63
Essex County Registered Stock	1957–62	3½	5,500	0	0	5,500	0	0	99
Exchequer Stock	1966	5½	37,290	4	11	37,290	4	11	100
Federated Malaya States Inscribed Stock ..	1960–70	3	143,058	0	1	135,517	8	1	79½
Federation of Malaya Inscribed Stock	1974–76	3	79,718	17	0	79,623	16	5	70½
Funding Stock Registered	1966–68	3	354,602	8	8	291,226	15	1	85½
Hull Corporation Registered Stock	1960–70	3½	40,690	14	1	40,690	14	1	81
Ipswich Corporation Registered Stock	1964	3½	2,000	0	0	2,000	0	0	94½
Jamaica Inscribed Stock	1968–73	3½	48,487	17	11	48,274	18	11	71
Kenya Inscribed Stock	1961–71	4½	1,221	0	6	1,211	11	3	67½
Kenya Inscribed Stock	1965–70	2½	43,719	2	8	41,000	0	0	56½
Kenya Inscribed Stock	1973–78	3½	89,676	19	7	89,260	15	2	49
Kenya Stock	1971–78	4½	50,000	0	0	50,000	0	0	59
London County Consolidated	1962–67	3	45,470	6	9	45,468	1	0	87
Middlesex County Corp Red "A" Stock	1960–70	3½	1,250	0	0	1,250	0	0	81½
New Zealand Stock	1956–71	5	6,793	16	2	6,793	16	2	91
New Zealand Stock	1960–64	3½	27,033	8	0	27,033	8	0	95
New Zealand Stock	1962–65	3½	20,640	4	9	20,640	4	9	90½
New Zealand Stock	1966–68	3	142,202	2	7	142,202	2	7	82
Nigeria Inscribed Stock	1966–71	2½	352	16	7	352	16	7	68½
Nigeria Inscribed Stock	1975–77	3	10,000	0	0	10,000	0	0	64½
Nigeria Inscribed Stock	1964–66	3½	20,618	11	2	20,000	0	0	87½
Northern Rhodesia Inscribed Stock	1963–65	3	1,831	17	11	1,776	18	9	82
Northern Rhodesia Inscribed Stock	1970–72	3½	103,252	19	6	103,252	19	6	62
Palestine Guaranteed Stock	1962–67	3	4,180	11	3	4,180	11	3	87
Plymouth Corporation Registered Stock	1957–62	3¼	3,500	0	0	3,500	0	0	99½
Savings Bonds	1955–65	3	200,495	10	1	200,495	10	1	93½
Savings Bonds	1960–70	3	974,531	16	7	974,531	16	7	80
Savings Bonds	1965–75	3	843,238	10	11	843,238	10	11	71½
Sierra Leone Inscribed Stock	1968–70	3½	20,965	0	4	20,965	0	4	67½
South Africa (Union of) Inscribed Stock	1953–73	3½	2,000	0	0	1,930	0	0	70
Swansea Corporation Registered Stock	1955–65	3	6,212	1	11	5,500	0	0	91½
Swansea Corporation Registered Stock	1963–66	3	12,847	5	11	12,847	5	11	88½
Trinidad Inscribed Stock	1965–70	3	3,200	0	0	3,200	0	0	71½
Trinidad Inscribed Stock	1967–71	3	183,758	11	5	179,200	9	1	69½
Uganda Inscribed Stock	1966–69	3½	36,505	11	11	33,912	4	1	64
Uganda Inscribed Stock	1955–65	3½	15,723	12	9	15,723	12	9	85
War Loan	1952 or after	3½	40,624	3	3	40,614	12	4	56
			£G4,331,152	6	8	4,245,544	16	3	
Ghana Treasury Bills			50,000	0	0	49,508	6	8	
			£G4,331,152	6	8	4,295,053	2	11	

Source: Annual Report of Ghana Savings Bank. Report 1962. App.1.

from 1954.

Until the second half of 1963 the Bank's sterling assets were not part of the national convertible reserves and therefore liquidation of sterling assets in favour of local assets would represent an effective addition to local capital resources. This would amount to the Bank backing its deposit liabilities by assets which enable other domestic sectors to increase their consumption or real investment.

However, that the Savings Bank did not voluntarily take advantage of the availability of local Treasury Bills or securities on which earnings were higher than on its sterling investments may be explained in terms of a general decline in the market value of its sterling securities. For fair comparison of the two alternatives it would be an oversimplification to compare the rate of return on foreign investments calculated on original cost with the rate of return in Ghana on, say, Treasury Bills.

Assume a sterling security at original cost of £G100 and bearing interest at 3%. Assume further that Ghana Government Treasury Bills bear interest at 4%. Assume finally that current interest rates in the United Kingdom rise to 6% so that the price of the sterling investment falls to £G50. In this hypothetical example, if the Bank were to sell its sterling assets at the current U.K. rates and to invest the funds realized in local Treasury Bills it would, in fact, be losing on the transaction. For, whereas it would get only £G2 on £G50 in Ghana it would still get £G3 for each £G50 market value of sterling securities.

Thus there would be complications in a shift by the Savings Bank from sterling to local assets given the current market value of the ~~latter~~ former vis-a-vis the rate of return on the latter.

When such a shift actually took place it was by compulsion. By a Parliamentary resolution on 27th June, 1963 each public authority and corporation was required to transfer its foreign exchange securities to the Bank of Ghana.

Thus the sterling securities of the Savings Bank were replaced in August 1963 by Compensatory Stocks of the Government bearing the same face value and terms as the original investments. Compensatory Stocks held by the Savings Bank were to be purchased by the Bank of Ghana when the Savings Bank required extra liquid balances. In any such repurchase the price was to be the market value of the particular original security current on the London Stock Exchange.[1]

Analysis of deposit transactions

Table 38 shows in respect of deposits and withdrawals for the period 1950-51 to 1963-64 the number of transactions, gross annual totals and the average values. Numbers of deposit and withdrawal transactions rose annually in the first half of the period but declined generally from 1956-57 and 1957-58 respectively. Gross deposits and withdrawals were each subjec t to annual fluctuations but, again, the trends over the period were generally downward, as were the annual average values.

In 9 out of the 14 years 1950-51 to 1963-64 annual withdrawals exceeded annual deposits. Over the whole period the

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1. Ghana Savings Bank, Annual Report 1964, p.4.

Table 38

Annual Deposits and Withdrawals, 1950-51 to 1963-64

(1st April to 31st March)	Number of deposits in the year '000	Number of withdrawals in the year '000	Gross deposits in the year £GMillion	Gross withdrawals in the year £GMillion	Average value of deposits £G	Average value of withdrawals £G
1950-51	308	196	2.3	1.8	7.60	9.10
1951-52	320	215	2.1	1.8	6.70	8.40
1952-53	343	228	2.0	1.9	5.85	8.80
1953-54	326	235	1.8	2.0	5.65	8.45
1954-55	330	241	1.8	2.1	5.45	8.85
1955-56	363	247	1.9	1.8	5.10	7.20
1956-57	376	253	1.9	1.9	4.05	7.55
1957-58	336	269	1.6	2.0	4.85	7.75
1958-59	325	241	1.6	1.8	4.90	7.40
1959-60	327	237	1.5	1.7	4.45	7.25
1960-61	354	224	1.8	1.6	4.95	7.15
1961-62	261	239	1.3	2.0	4.90	8.20
1962-63	249	214	1.2	1.5	4.65	6.95
1963-64	279	211	1.3	1.5	4.55	7.15

Source: Ghana Savings Bank, Accra.

net balance on yearly transactions averaged -£G77.6 thousand. The necessary data are presented in Table 39. Over the period there was a net outflow of funds in each year.

Table 39

Net Balance on Annual Transactions, 1950-51 to 1963-64.

1st April to 31st March	Gross flow of deposits in the year £GMillion	Gross flow of withdrawals in the year £GMillion	Excess of deposits(+) or withdrawals(-) £GMillion
1950-51	2.3	1.8	0.5
1951-52	2.1	1.8	0.3
1952-53	2.0	1.9	0.1
1953-54	1.8	2.0	-0.1
1954-55	1.8	2.1	-0.3
1955-56	1.9	1.8	0.1
1956-57	1.9	1.9	(Minus 13,000)
1957-58	1.6	2.0	-0.4
1958-59	1.6	1.8	-0.2
1959-60	1.5	1.7	-0.3
1960-61	1.8	1.6	0.2
1961-62	1.3	2.0	-0.7
1962-63	1.2	1.5	-0.3
1963-64	1.3	1.5	-0.2

Note: ~~discrepancies~~ differences between totals and the sum of parts are the effects of rounding.

Source: Ghana Savings Bank, Accra.

The general results of the developments outlined here were by the end of the period a fall in total (outstanding) deposit balances, a rise in the number of accounts and a fall in the average value of account. These are shown in Table 40. The number of accounts rose consistently for each year shown in Table 40 whilst the average value of account exhibited a consistently declining trend.

At this point it may be useful to compare the position of the Ghana Savings Bank with its Nigerian counterpart, the

Table 40

Outstanding Deposit Balances, Number of Accounts and Average Value of Account, 1950-51 to 1963-64.

End of March	Total deposit balances excluding interest £GMillion (1)	Total deposit balances including interest £GMillion (2)	Number of Accounts '000 (3)	Average Value of Account (2) ÷ (3) £G (4)
1951	4.6	4.7	338	13.35
1952	5.0	5.1	366	14.0
1953	5.2	5.3	397	13.4
1954	5.2	5.3	426	12.45
1955	5.0	5.1	456	11.2
1956	5.2	5.3	488	10.85
1957	5.3	5.4	522	10.35
1958	5.0	5.1	547	9.35
1959	4.9	5.0	572	8.8
1960	4.8	4.9	592	8.25
1961	5.0	5.2	622	8.3
1962	4.5	4.6	641	7.15
1963	4.3	4.4	664	6.55
1964	4.1	4.2	691	6.1

Note: discrepancies are due to rounding.
Source: Ghana Savings Bank, Accra.

Nigerian Post Office Savings Bank whose financial year was identical with that of the Ghana Savings Bank.[1]

1. The author is indebted to Mr. K.J. Woolmer who sent from Zaria (Northern Nigeria) the figures quoted on Nigeria.

At the end of March 1964 total deposit balances including interest held by the Nigerian Post Office Savings Bank amounted to £N3million compared with £G4.2million for the Ghana Savings Bank. On the same date the number of accounts maintained with the Nigerian institution was 330,661 compared with 691,000 in Ghana. Under the plausible assumption that in Nigeria as in Ghana each depositor was allowed only one account these figures mean that in Ghana over 10% of the population had accounts against some ¾% in Nigeria. These comparisons (obviously crude because of the much larger number of commercial banks in Nigeria) may provide some indication of how widespread the Savings Bank is in Ghana.

We will now discuss briefly the general falling trends in the business of the Ghana Savings Bank as outlined above.

The combined effect of declining total deposit liabilities and a rising number of Savings Bank offices produced a fall, over the period, of deposits per office. This probably meant rising costs per account. Viewed in a static sense the decline in average value of account has serious implications for the earning capacity of the Bank.

One may advance the tentative argument that holders of small accounts would also be individuals not likely to add substantially to their credit balances by reason of a general low level of income. Theoretically, it is highly probable that in so far as they belonged in the low income brackets such customers were more severely affected by the rapidly rising cost of living in the last four years of the period. Thus the implied

Table 41

Deposits Per Savings Bank Office, Selected Dates

End of March	Total deposit balances including interest £G'000	Number of Savings Bank Offices	Deposits per Office £G'000
1951	4,683	232	19.7
1956	5,295	338	15.7
1960	4,893	416	11.8
1964	4,207	466	9.0

Source: Based on Table 35 and Table 40.

high propensity to draw on deposits would dictate a need for the Bank to maintain higher cash balances in relation to deposits. This would exert a contractive influence on income-yielding investments.

The Bank's creditors, in the circumstances described above, would include a substantial number of people whose deposits one could hardly expect to be stable or to show a significant inclination to rise. This point recalls the finding by Sir Cecil Trevor in 1951 that Savings Bank deposits were operated extensively as current accounts. In a sense the concept of Current Account, as normally understood in banking vocabulary may be said to derive its actual meaning in the attitude of the depositor. In Ghana it is quite probable that a substantial number of individuals who operate small savings accounts are attracted primarily by the security afforded to their money by the vaults of a bank. Thus the rules governing intervals between withdrawals may be cited as the major barrier to the operation of many small deposit accounts as Current Accounts.

For illustration it would be illuminating to know what proportion of small savers draw on their deposits in order to cancel debts which may have been acquired during the interval that one had, of necessity, to await the subsequent withdrawal day. In other words to put matters baldly, in a country such as Ghana a movement to small accounts does not seem to offer a favourable prospect for a savings bank.

From 1961 the Savings Bank faced greater competition from the commercial banks in more areas of its branch system. In the circumstances therefore one may theorize that a substantial addition to the number of creditors would come from the rural areas not covered by commercial banks. With the expansion in the communications network it is possible that the resulting closer contact of the rural communities with urban standards of living may have reduced the general propensity to save of the rural sector.

Such theoretical possibilities apart, a few other practical factors must be mentioned as having exercised a downward pressure on the Bank's deposits and general business.

Throughout the 1950's the Bank counted among its largest customers Local Councils and other similar bodies who later withdrew part or the whole of their substantial deposits[1], mainly to invest in Local Treasury Bills or to carry out development projects. The withdrawal of such large depositors meant that the Bank lost one group of its major creditors whose balances were more likely to be reasonably stable.

Also among the important customers lost by the bank might

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1. Ghana Savings Bank, Annual Report 1962, p.3.

be Ghanaian traders. As the latter's business grew they may have required financial accommodation from time to time which the Savings Bank could not meet; not being a lending institution in the ordinary sense of the term.

In all as an expanding section of the community came within reach of alternative uses of savings (commercial bank debt Treasury Bills) bearing higher returns this has posed considerable disadvantages to the Bank's position.

In addition to the above factors, it is a frequent complaint that the mode of withdrawal is rather cumbersome involving in some cases identification by a third party. Uppermost among general public complaints is an alleged lack of civility on the part of Savings Bank clerks towards customers. The impact of such discourteous manners may have been less serious for the Bank's business in the days of few other banking facilities; but in the present stage of banking development any such discourtesy is clearly ill advised.

These peculiarities of the Bank have not escaped official notice. Both the Government Statistician in his annual "Economic Survey", and the Bank of Ghana in their Annual Reports have called for reform in the structure and regulations. We reproduce here as a matter of illustration two extracts from these sources:-

> ".....the commercial banks offer better services by way of a simple procedure for withdrawals which contrasts strongly with the rather cumbersome process of withdrawal adopted by the Post Office Savings Bank..."[1]

and "The persistent downward trend in Savings Bank accounts

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1. Economic Survey (of Ghana), 1962. p.91.

> can only be explained by the lack of dynamism shown by this institution in a period when total savings are rising."[1]

These quotations, though oversimplifications of the problems faced by this institution, nevertheless do sum up well the position and the call for reform.

The Ghana Savings Bank was set up to fulfil a dual purpose: to encourage thrift and mobilise savings from a wide section of the country. Until the commercial banking system spreads to the more remote parts of the country, the Savings Bank will, at least in concept, continue to occupy an essential place in the encouragement and mobilisation of savings.

Already the wide coverage of the Bank's facilities is an important first step towards the fulfilment of these objectives. The question which calls for comment is how one can reconcile the fact of increased savings facilities with the falling value of deposits.

A realistic answer should be sought in the short and the long run. Its long run impact can assume significant proportions As has been reiterated in this study the economy of Ghana is based predominantly on rural activity. A realistic plan to speed up the growth or diversification of the economy must necessarily involve a plan for greater output, from the rural (agricultural) sector. Thus the long-run possibilities for the bank are, in theory, immense.

In the short run, however, certain reforms are necessary to enable the Bank to realize its long run potentialities.

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1. Bank of Ghana, Annual Report, 1963, p.54.

Interest paid on deposits would have to be raised to a competitive level. Secondly, it is essential that the need for security against impersonation should not be pushed so far as to repel customers.

In a paper issued for limited circulation by an Officer of the Bank of Ghana two suggestions were offered for streamlining the procedure on withdrawals.[1] These proposals are (a) the fixing of a passport size photograph in a depositors passbook, and (b) the adoption of a "security word system" embracing the adoption by the depositor of a code word to be quoted by him at any time of withdrawal. These, it is suggested, would safeguard against fraudulent impersonation, and provide a basis for speeding up the process of withdrawal.

Each of these proposals involves serious problems. An imposter would only have to substitute his own photograph for that of the legal holder, albeit that this can be averted by means of official stamping on photographs. But the question arises as to who should bear the cost of the photograph. Clearly a potential customer with access to a commercial bank would not relish the thought of bearing this extra cost. Neither would it be feasible to maintain photographic equipment at every Savings Bank office, even if the Bank would be in a position to carry costs.

Similarly the "security word system" cannot be applied successfully without going to great expense. The most important

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1. M.K. Brenya (Bank of Ghana), "Raising the level of savings (typescript) October 1964, p.6.

attraction of the Savings Bank is the provision of withdrawal service at every branch office in the country, a practice not allowed by the commercial banks. Thus, if this special feature is to be retained then under a "security word system" code words would have to be transmitted to all Savings Bank offices together with the names to which they apply. This is obviously a most cumbersome process. The truth is that the request for a third party's identification of the depositor is most unnecessary and must be abolished.

It seems to the author that three measures of reform would be essential:

1. A general raising of interest rates offered to depositors.
2. The introduction of a variety of deposits and savings schemes with progressively higher interest rates for regularity of saving and length of period of deposit.
3. The institution of much closer links between the Savings Bank and the organisations concerned with the incomes and expenditures of potential savers. This would facilitate automatic voluntary deductions from wages or crop payments.

B.

The First Ghana Building Society

This is a brief section devoted to the organisation and operations of the First Ghana Building Society, the only institution of its kind in Ghana during the period under review.

Incorporated on 15th June 1956 after the Building Societies Ordinance, 1955 the Society was a joint venture by the Government and the private sector. Government participation took the form of share and deposit accounts. At the end of 1963 total

Government investment on various accounts amounted to some 50% of liabilities on share and deposit accounts.

Like its counterparts in other countries the Society collects savings from the public and grants loans to finance only one kind of capital formation, private dwelling houses.

Holders of Savings and Ordinary share accounts are members of the Society. By contrast holders of deposit accounts are essentially creditors with a prior claim on the resources of the Society with interest, in the event of liquidation. As a result Deposit accounts comprise the greatest proportion of aggregate deposits. Its special attraction is reinforced by the fact that investments on this account are withdrawable ordinarily at a month's notice and where large sums are involved at a notice of up to six months. The rate of interest is 4% per annum.

A Savings share account carries interest at 5% and is required to be maintained for a contractual period of five years. Interest is credited at 2% in the first four years the difference being added in the fifth year.

Ordinary share accounts carry interest at 4½%, mature in a contractual period and withdrawal in part (exact portions unspecified in sources of information) before maturity.

Taking aggregate deposit liabilities on all three accounts it would appear that the response of the general public has not been very active. The accounts of the Government and insurance companies together constituted over half total deposit liabilities in most of the years. With average annual deposits on all

accounts equal to £G906,000 over the period 1958-64 the investments of private individuals would average less than £G0.5 million.

Loans granted for the purchase or construction of houses carrying interest rate at 9% were determined on the basis of three factors: the value of the house (as estimated by Surveyors appointed by the Society), the applicant's income and age.

The maximum repayment period allowed was 20 years; at the age of 60 the borrower was required to have repaid the entire loan.

Normally the Society advanced not more than 80% of the price of the property. However, there were two circumstances in which it would advance up to 95%:

1. Where the applicant had life assurance policies to cover the excess over 80%, or
2. If there was a guarantee from an insurance company that they were ready to take on the excess over 80%.[1]

According to officials of the Society loans were made to anybody found suitable under the various criteria outlined above. It is, however, likely that in actual practice preference was given to holders of large accounts. Houses financed by the Society were properties with modern amenities. Apart from the obvious consideration that houses of good quality represent a more durable addition (abstracting from the case where a loan is to enable transfer of an existing asset) to the capital stock.

1. Such guarantees were accepted on the basis of investments of the insurance companies in the Society which would be debited to the relevant amount (the excess over 80% of the cost) to effect repayment.

this requirement was very important from the Society's point of view. The house on which money was advanced was usually the sole security against the loan and therefore the need to finance houses easily saleable in the event of default. The question of the percentage of bad debts and the subsequent realizability of security (that is mortgaged property) is of great interest to the development of a financial system.

Available information indicates that at the end of 1962 there were repayment arrears on 19 mortgages, out of a total of 556, amounting to approximately £G36,000. At the end of 1963 the number of mortgages on which repayment were in arrears was 21 out of 591 and the amount involved was approximately £G42,300. The outstanding debts amounted to 4.1% and 4.5% of total outstanding mortgages (see Table 44) at the end of 1962 and 1963 respectively. In each case the arrears were outstanding for over a year. This may be compared to the rate of bad debt of under 1% estimated for one of the commercial banks.

Table 42

Total Doposits (All Accounts), 1958-64

End of December	£G'000
1958	437
1959	800
1960	910
1961	981
1962	996
1963	1,050
1964	1,168

Source: Economic Survey (of Ghana), 1964, p.132.

Total assets; as reflected in total deposits, were relatively stagnant from 1959. These are shown in Table 43 which shows data available to the author covering 1958-63.

Table 43

Total Assets of the Building Society, 1958-63

End of December	£G'000
1958	521
1959	891
1960	931
1961	1,030
1962	1,060
1963	1,128

Source: First Ghana Building Society, Accra.

Table 44 shows the composition of assets in 1962 and 1963 for which details were made available to the author.

The general stagnation demonstrated in the annual growth rates of deposits and assets was further punctuated by declining profits. Net profits for the year ended 31st December were £G51,000, £G44,300 and £G44,100 in the three years 1961-63.

It would thus be reasonable to conclude that the Building Society has made little impact as borrower and probably as a lender.

One commentator has contended that in Ghana "the desire to acquire" is a major factor in household or the individual's budget decisions, and therefore the Society should lay emphasis on the individual's prospect of acquiring a house of his own by investing in the Society.[1] This argument which seems largely a valid interpretation of the social attitude to durable assets

1. M.K. Brenya, op. cit.

would not, of course necessarily lead to increases in savings for the nation as a whole in the short run. But from the point of view of the Society the adoption of such a scheme might raise the level of funds in the short run.

The Bank of Ghana, in its Annual Report of 1963 (pp.54-5) commented on the Building Society as follows:

> "The stagnation in the business of the Building Society could not be due to a decline in investments in real estate. Private housebuilding is proceeding at a very fast rate. Indeed it is one of the bye-effects of inflationary trends in this country that private Ghanaian investors find that..... the only way to hedge against further loss in real earnings on investments is to invest in private house building since expectations about rent are fairly high now."

The stagnation, therefore, was blamed on the lack of "a bold and imaginative plan to meet the current wishes of investors in real estate."

Table 44

Composition of Building Society Assets, 1962 and 1963.

(End of December) £G'000

	1962	1963
Mortgage loans	877.4	931.5
Investments (including interest)		
Ghana Government Securities & Treasury Bills	91.4	103.2
British Government Securities	24.6	24.6
British Colonial and Commonwealth Securities	10.0	10.0
Other Assets (approximate)	56.6	58.7
	1,060.0	1,128.0

Source: First Ghana Building Society, Accra.

It is not clear whether "investors" meant from the point of view of the Society, borrowers or lenders (depositors). One cannot say with certainty on which side lies the bottleneck: the demand for or supply of funds. At the end of 1962 the sum of gilt-edge securities and cash assets held by the Society constituted 14.8% of all mortgage assets and other financial assets (excluding internal staff loans etc. of small value). At the end of 1963 the ratio was 15.2%. Neither of these ratios does automatically indicate scarcity of supply or demand from the Society's point of view with regard to mortgages. For one thing we would need to know the unsatisfied demand for acceptable mortgage loans. For another the ratios would be high or low (indicating excess of supply or demand) according to the expected regularity or otherwise of repayments on mortgages and on the maturity distribution of its own debts to investors on all accounts.

There can be little or no doubt about the importance of prestige considerations, given the level of income, in the general psychology of the average Ghanaian as "the desire to acquire" argument seems to imply. The long-run prospect of schemes based on this national characteristic cannot be underestimated. However, "the desire to acquire" argument is a simplification indicating that housing is regarded as an asset which is in very inelastic demand relative to other assets with respect to relative prices of assets. Even if viewed in terms of owner-occupancy housing provides real income, and within the individual's scale of preferences if this can be obtained more

cheaply relative to other goods more will be purchased.

On the other hand, the comment quoted above from the Bank of Ghana Report is, in terms of orthodox theory, correct with regard to the relationship between inflation and marginal investment in real estate. But the exact connection with the stagnancy of Building Society assets and liabilities is not easy to establish. The concurrence of stagnation in Building Society assets and liabilities and the upward trends in real estate investment in the country as a whole shows that in Ghana investors in this kind of capital formation depend on their own savings.

Perhaps the short-run significance of the Building Society is that its establishment constitutes an important step towards the development of a broadly based financial system.

C

B. The National Investment Bank.

The National Investment Bank, officially opened for business on 15th June, 1963 was established on the 22nd March 1963 by the National Investment Act, 1963 (No. 163). In a sense it was a successor (not from the legal point of view) to the Industrial Development Corporation dissolved in 1962. At the end of 1964 it was one of two institutions (the other one being the Building Society) with the primary function of financing long-term fixed investment.

The objectives and statutory functions of the National Investment Bank present a somewhat complex picture indicating

a consciousness of the tasks of a development bank operating in the peculiar environment of a developing country. As will be shown, the details of its statute and bye-laws take it well beyond the realm of merely providing capital to would-be investors.

The major objective is to assist, financially and otherwise, in the establishment, expansion and modernisation of industrial, commercial and agricultural enterprises. It is called upon to advise and encourage small Ghanaian private businesses, and to provide the basis for bringing together local investment opportunities, capital and experienced management. Finally, it is expected to encourage and facilitate the participation of other internal and external capital in the enterprises with which it becomes connected in one form or another.[1]

The Bank is empowered to operate in all sectors of the economy: public, private and co-operative. With respect to the public sector it is required to channel as loans, funds allocated by Parliament and proceeds of loans raised locally or abroad, and specifically designated for investment in the public sector.

The following major among the functions of the Bank as laid down in its statutory constitution.[2] It is required to grant medium and long-term loans[3] with or without security, and to purchase or subscribe to shares or other securities of any

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1. National Investment Bank Act, 1963, Section 3.
2. National Investment Bank Act, 1963, Section 4.
3. These are defined in the "Particulars of the Bank" as of 3 to 15 years duration.

suitable enterprise. Secondly, it may transact all kinds of guarantee business. Thirdly, it may furnish managerial, technical and administrative advice and assist in obtaining services under these categories to industrial, agricultural and other enterprises. Fourthly, it is permitted to issue, accept, endorse, discount and re-discount bills of exchange and similar paper. It may underwrite new issues of stocks and other securities. Finally, the Bank is to undertake research and investigations into the technical feasibility of various kinds of project and enterprise.

The Bank is not to seek a controlling interest in any enterprise financed by it,[1] subject to a provision that it should reserve the right to ensure that the enterprises are efficiently operated, and that financial assistance is utilized for the original purpose.

On the basis of a statutory provision that the Bank is to diversify its investment structure the Bye-Laws impose the following limitations:-[2]

1. To invest not more than 10% of its paid-up share capital in either ordinary or preference shares of enterprises financed by it.

2. Not to invest any part of its borrowed (as distinct from equity) funds in ordinary or preference shares of enterprises

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1. From this it may be deduced that the Bank cannot hold over 50% of the equity capital in any particular enterprise. Thus where a particular enterprise cannot raise more than 50% of its capital requirements from its own or other external resources further investment by the Bank will have to consist of advances.
2. Bye-Laws, 1963, para.5.

financed by it.

3. Ordinarily, not to make loans or give guarantees for less than £G5,000 or, except in the case of operations in the public sector, for over £G100,000 in any one enterprise or group of enterprises controlled by a single interest.

4. Ordinarily, not to grant loans to, or guarantee, or invest in the shares of, enterprises of the same industrial activity to a total sum in excess of 10% of its entire funds.

5. Not to finance over 75% of a given project except within the public sector.

Furthermore, the Regulations state that the Bank is to operate within the framework of priorities and broad economic policies set down by the Government in its plans. Equity investment by the Bank would be made with a view to re-selling them to Ghanaian investors after due consideration to the interests of the principal investors in the enterprise concerned. On the re-sale of investments held in State-owned enterprises the Bank would obtain the prior consent of the Minister of Finance.

Capital, shareholders and administration.

The authorised capital of the Bank is £G10 million divided into 10 million Ordinary Shares of £G1 each.[1] 75% of the authorised capital is statutorily allotted to the Government and the remainder available for subscription by the general

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1. Power to raise the share capital is vested in the Board of Directors, on the prior approval of the Minister of Finance.

public, resident and non-resident.[1]

The Bank's statute guarantees to private shareholders a minimum dividend of 3% except in the first year of operations in respect of which no dividends were to be paid. A second statutory limitation on private shareholders' dividends is that while the general reserve fund stands at less than one-half of the share capital[2] annual dividends are not to exceed 5%.[3]

In accordance with provisions in the Bank's statute the Government paid £G2.5 million of its total subscription of £G7.5 million of the share capital on the establishment of the Bank. Of the remaining £G2.5 million open to subscription by other investors £G0.75 million was issued on 16th September,1963 and was reported to have been oversubscribed by £G50,000 by the end of the two-week period for which subscriptions were opened.[4]

As in mid-1964 the largest shareholder second to the Government was the Ghana Commercial Bank. The list of the other private shareholders as on the date noted above presented a considerable measure of confidence in the economic future of Ghana. There were a number of locally-based foreign firms and foreign firms actually based abroad.

Among the first group of foreign private firms were the United Africa Co. Ltd., Barclays Bank, Bank of West Africa and the Royal Exchange Assurance. In the second group were, among

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1. National Investment Bank Act, 1963, Section 5.
2. The law does not specify whether this refers to authorised or paid-up capital.
3. National Investment Bank Act, 1963, Section 6.
4. Annual Report, December 1963, p.10.

others, the Morgan Guaranty Trust Company of New York, Kaiser Engineers and Constructors of Oakland (U.S.A.) and the Union Carbide of the United States through its subsidiary in Ghana the African Manganese Co. Ltd.

The administration of the Bank is entrusted to a five-member Board of Directors. The official head of the Ministry of Finance is an ex officio member and the President is to appoint the Managing Director who must be the Chairman. The other three directors are appointed by the Minister of Finance, and two of these must be shareholders of the Bank.

Structure and operations.

Only a brief account is given here about the initial operations of the Bank as data relating to the last year in the review period were at the time of writing not yet available to the author. We are here concerned with the Bank's formulation of a framework for future operations[1], derived from the first Annual Report of the Bank as well as discussions between the author and senior officials of the Bank.

One of the first operations of the Bank was the establishment of a technical department known as the Development Service Institute. Its function is to conduct investigations and feasibility studies to provide a basis for the Bank's appraisal of applications for financial participation. It also carries out such studies for prospective investors who may not necessarily be customers of the Bank. Operationally the Institute is divided

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1. For a comprehensive account of similar institutions in other countries see William Diamond, op.cit; and Shirley Boskey, op.cit.
See also S.F. Schatz, "Development Bank Lending in Nigeria", Oxford 1964.

into industrial, commercial and agricultural sections.

In the first six months, that is from June to December 1963, the Bank received 303 applications for loans and other facilities ranging from very small amounts to surmount personal financial difficulties, to large loan requirements by State-owned enterprises. The bulk of the applications were subjected to the thorough examination which has so far been a distinguishing feature of this Bank in contrast to the practices of previous, now defunct, similar institutions established by the Government (See Chapter 6 ~~and Appendix~~).

According to the Bank's Report for 1963 only 27 of the original 303 applications satisfied the basic, non-technical standards of the Bank. The 27 applications were for a total financial assistance of £G8.5 million. One was for a loan of £G4.2 million, another for £G2.6 million; the remainder amounted to a total of £G1.6 million averaging £G65,000 and ranging in size from £G5,674 to £G499,000.[1]

These 27 applications were then submitted to the Development Service Institute for feasibility analysis to screen out those not likely to be viable propositions. Analysis of 16 applications was completed within the year. 9 of these for a total £G4.5 million were approved, 4 were rejected and the remaining 3 though not rejected were first considered to be cases for technical assistance from the Bank to improve on their operations. Three of the applications approved were from State-owned enterprises. For one of these seeking a loan of £G4.3 million the Bank arranged

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1. Annual Report, 1963, p. 11.

for external (that is, oversea) finance under Government guarantee.

It could be said that the major lesson learnt in the initial operations was that projects were not usually adequately thought out before applications were made to the Bank for loans. As a remedial measure the Bank subsequently commenced a system of independently undertaking investigations into possible fields for investment. In this way, it was hoped to have on hand a number of feasible projects which they could recommend to intending investors or for which they could seek out possible investors.

Some general comments incorporated in the original draft of this brief section seem to the author to have been made unnecessary by the change of government which took place in February 1966. Prior to the recent change of Government the official recognition of a private section as indicated in the bank's statute presented an opposite face to the general official attitude to private enterprise in the economy. It was not enough simply to establish an institution of this kind and expect that it would operate effectively on the basis of legislation and efficient management. The Government would be better advised to exercise control over itself and its political supporters in their pronouncements against private capitalists. During the last few years of the period under examination one got the impression that the Press (completely owned by the Government) were united in a crusade against private enterprise, especially Ghanaian private enterprise. In such an atmosphere a development

bank designed on paper to assist private enterprise would appear to be redundant.

A noteworthy feature of the National Investment Bank is the provision in its statute to act as a focal point for the development of a capital market in the sense of a flow of capital funds between industries and between savers and investors. The realization of this possibility is, however, a matter for the future.

CHAPTER FIVE

MONEY AND CAPITAL MARKETS

In the previous chapters we discussed or made references to various aspects of monetary and financial institutions which will now be consolidated into a general discussion of money and capital markets.

The volume of short-term marketable financial assets outstanding on various dates in respect of which data could be obtained are presented in Table 45. Separate columns are shown for Treasury Bills and commercial bills because except for the end of 1963 and 1964 it is not possible to sum the total outstanding of both kind of assets. Table 46 shows the volume of outstanding marketable internal medium and long-term instruments over the period 1959-64. All these were Government debt as explained in Footnote (a) Table 46. Private internal marketable instruments were not easily obtainable though it is very likely that if any the size would be very small because of the preponderance of foreign firms among that section of the business sector that operates on equity capital.

In a completely socialist economy (in ~~practical~~ communism terminology) financial institutions are part of the general economic plan and their existence is in an ultimate sense supervisory. With investment and working capital pre-determined from budgetary allocations, financial institutions are relegated to the role of ensuring equality of ex post demand for finance and ex ante planned distribution of funds. By

Table 45

Outstanding Short-Term Marketable Financial Assets, 1960-64

Ghana Government Treasury Bills		Commercial Bills	
Date	£GM.	Date	£GM
31/12/60	6	3	
7/3/61	8		
6/6/61	8	31/12/61	0.5
10/10/61	13	31/12/62	0.6
5/12/61	14	31/12/63	17.5
7/3/62	22	31/12/64	38.8
19/6/62	36.7		
18/9/62	36.7		
18/12/62	38.2		
19/3/62	38.2		
4/6/63	46.2		
20/8/63	36.2		
31/12/63	42.3		
30/4/64	43.8		
30/6/64	40.8		
31/12/64	51.7		

Source: Bank of Ghana, Annual Reports
Economic Survey, 1964 p.123.

Table 45B

Quarterly Values of Outstanding Internal Commercial Bills
£GM.

	1963			1964		
	Commercial Banks	Central Bank	Total	Commercial Banks	Central Bank	Total
March	0.5	-	0.5	8.4	15.5	23.9
June	0.4	-	0.4	2.5	10.5	13.0
September	3.6	-	3.6	3.8	5.1	8.9
December	3.0	14.5	17.5	4.9	33.9	38.8

Source: Bank of Ghana, Annual Report June 1964
Economic Survey, 1964 p.29 and p.137.

Table 46

Known Internal Medium and Long-Term Marketable Finance Assets(a) 1959-64

£GM.

		1959	1960	1961	1962	1963	1964
4% Stock	1968/73	0.5	0.5	0.5	0.5	0.5	0.5
3½% "	1969/74	1.0	1.0	1.0	1.0	1.0	1.0
5% "	1965/6	-		4.0	4.0	4.0	4.0
5% "	1967/92	-	-	-	1.0	1.0	1.0
5% "	1967	-	-	-	0.5	0.5	0.5
5% "	1973	-	-	-	-	0.2	0.2
5% "	1967/68	-	-	-	-	10.0	10.0
5½% "	1970/74	-	-	-	-	-	5.0
5% "	1969/70	-	-	-	-	-	3.0
3½% Compensatory Stocks		-	-	-	-	37.3	38.1
		1.5	1.5	5.5	7.0	54.5	64.3

(a) Exclude Cocoa Marketing Board loans to the Government on which the statistical sources do not indicate whether they are customer credits or shiftable assets.

Also excluded are National Development Bonds (or Compulsory Savings) and all other debt or assets which cannot ordinarily be disposed of prior to the maturity date.

Source: As for Table 45.

contrast the Ghanaian economy was dominated by private enterprise and hence our interest in the prospect for the development of institutions through which there can be a fluid channelling of funds between lenders and borrowers since unlike public enterprise the private sector does not rely directly on the public purse for investment and working capital. Moreover, even in the public sector there is no theoretical automatic dependence on the national budget; the extent of this depends on how centralised or otherwise is the control of the public sector.

On the whole one of the most serious gaps in the financial system of Ghana was the general absence of opportunity for switching assets both real and financial. To the knowledge of the author there is a near-complete absence of such institutions as pawn shops and dealings in second-hand goods (except in the case of cars) both being rudimentary media through which an individual can shift between assets or obtain resources to reduce liabilities.

The Money Market

As shown in Table 45, in the last two to three years of the period under examination there was a substantial volume of Treasury Bills and commercial bills within the monetary system. The only other form of money market asset (abstracting from securities on the short end of maturity), as one finds in the London money market, in which there was no significant development were the day-to-day call loans through which the London Clearing Banks make substantial

funds available to the London Discount Houses. The absence of call loans was probably due to the absence of discount houses in the economy.

By the end of the period under review what could be described as the money market in Ghana consisted of the outstanding volume of Treasury Bills and commercial bills drawn in respect of local cocoa purchases. The institutional base of the money market could be described as narrow, being limited practically to the Central Bank and the three commercial banks.

Except for the Treasury Bills which have become a permanent float the strong seasonal pattern of commercial bills did not permit that fluidity which is essential for a developed money market in view of the multi-dimensional significance of money markets as conceived in modern economies. Commercial bills were up to the end of the review period limited to the internal financing of cocoa. It may be useful to discuss briefly the emergence of the present marketable short-term assets.

The large volume of Treasury Bills in the domestic economy was basically the result of Government cash deficit operations. Even abstracting from the effects of deficit financing there is great scope for the use of Treasury Bills because of the importance of seasonal cocoa exports in the Government's revenue receipts. In such a situation if one disregards short-term foreign credits then the only alternatives to Treasury Bills as a means of closing temporary

cash deficits would be reductions in reserves, if any or resort to Central Bank advances namely Ways and Means. The special attractions of Treasury Bills are the dissipation of Government financing among various surplus units and the theoretical shiftability which it allows to asset holders. Treasury Bills therefore, are a necessary leverage for circumventing the seasonal shortage of funds whilst the bulk of Government revenue receipts continue to be seasonal.

An interesting theoretical question is whether the growing reliance on indirect taxes in recent years has the advantage of a more regular time pattern of finance compared with income tax, which in so far as it must include taxes on cocoa at all stages, is bound to be seasonally skewed whether or not collected PAYE. With respect to the future a positive answer to this question would depend crucially on there being a higher rate of growth in various forms of taxable money income relative to gross receipts from cocoa, and on the political strength of cocoa farmers vis-a-vis the incidence of taxation on them relative to other income earners. Whilst income from cocoa constitutes a substantial proportion of the disposable income of the household sector the replacement of direct taxation by indirect taxation (disregarding equity effects with which we are not concerned here) will not lead to any significant change in the regularity and time pattern of Government revenue receipts.

These arguments are relevant only where the Government's fiscal policy is to balance the budget. In conditions of

deficit financing based on the issue of debt in the domestic economy Treasury Bills are to be regarded as a regular feature of Government fiscal operations. This was the main ground on which the observed substantial float of Treasury Bills developed in Ghana from 1960.

The volume of commercial bills on the other hand is a function of the inter-industry payments mechanism and of the pattern of production over time in relation to the time-pattern of consumption.

In practical terms the use of commercial bills in Ghana in a substantial volume can be identified with the issues of cocoa bills which as shown in Table 45 assumed important quantitative dimensions only in the last two years of the period under review. Prior to the use of the cocoa bills, small volumes of commercial bills were known to have been used in respect of timber products at about the turn of the 1950's following the formation of a Timber Marketing Board to buy and export the produce of the smaller (mainly indigenous) logging firms.[1] But neither this nor other experiments - mainly a small volume of bills in respect of car sales - proved a permanent practice. In the case of the "timber bills" the failure was due to the general impotence of the Board arising partly from alleged irregularities in the

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1. Information supplied by bankers in Ghana. It is not clear from the sources of information whether the timber "bills" were discounted by the timber producers to the commercial banks or whether the banks bought the bills directly from the Board thus providing the Board with the finance to pay the producers. The evidence would seem to suggest the latter.

Board's internal practices.

It was shown in Chapter One that a good deal of the import trade in consumer goods is carried out through Sight and Acceptance Bills drawn on local importers by oversea suppliers. Payment for goods covered by Sight Bills is required to be effected immediately and the available evidence suggests that the banks stand ready to advance the necessary finance. However, it is most unlikely that Sight Bills would normally develop directly into money market assets although one could conceive of an intermediary ready to discount them directly or to purchase them directly on its own resources as do the commercial banks in Ghana, or from short-term loans implied from other intermediaries such as the Call Loans supplied on the London Money Market by the London Clearing Banks.

On the other hand, a money market was not doveloped from Acceptance Bills because firstly, as in the case of Sight Bills the commercial banks were generally ready to provide overdraft facilities to drawees and secondly because Acceptance Bills allow the drawee a time span within which the goods concerned can be sold to effect payment. Even where the banks do not provide the credit they would nevertheless be the only large recognised "name" which is usually necessary for an acceptance bill to be widely used.

With further reference to foreign trade transactions as a fulcrum for the growth of a money market several reasons may be advanced to explain the late usage of trade bills

in the export trade, considering the long history of export activity in the country. First, with regard to cocoa exports probably local banking resources would not have been adequate to support a large volume of discounting. It would have been necessary to bring in additional resources from abroad. Secondly, therefore, with major buyers resident in countries with well developed short-term credit markets there was less incentive to use locally denominated bills whilst such large world cocoa marketing centres as London and New York provided all the discounting facilities required. Thirdly, and perhaps more important the institutional framework was not sufficiently broad nor adequately developed to support a large volume of open-market credit instruments. Obviously, the liquidity aspect of trade bills commonly assured in advanced Western economies would have had no practical significance in a system devoid of a Central Bank or one adequately developed for this purpose.

It is necessary to clarify the last point further. The banks - the only financial institutions in Ghana relevant in this respect other than the Central Bank - would normally need some short term marketable assets in order to adjust their liquidity positions to short term fluctuations. This did not develop in many of the present developing countries partly because the banks were integral parts of larger international banks and partly because there simply was no suitable local short term earning asset. Thus it would not be true to argue that a bill market could not develop

in the absence of a Central Bank which was prepared to put an orderly basis to the market. What would be valid, however, is that in the absence of a Central Bank a bill market would be very restricted in its objectives and would not be likely to develop to any extent. Moreover, whilst the commercial banks dominated the credit system, until the modification, up to end-1964 largely theoretical, introduced with the establishment of the Central Bank the scope for flexible dealings in both trade and finance bills was rather limited. The pronounced similarity in the seasonal assets structure of all the banks would mean all banks acquiring or unloading the same kinds of assets at the same time.

All these arguments apart, the tardy development of a bill market can be ascribed to the fact that much trade was financed by overdrafts, which could have been in marketable debt form. This was, in fact, both a cause and an effect arising from the general underdevelopment of the financial system.

The above arguments explaining generally why a bill market did not develop on the basis of foreign trade transactions also apply to the fact that internal trade did not lead to the development of a bill market. However, with respect to the latter further causes can be identified in the structure of internal trade organisation.[1]

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1. For an early account of the organisation of internal trade which remains valid to the present see P.T. Bauer, "West African Trade" Cambridge University Press 1954, Chapter 1.

In Ghana the bulk of goods produced and sold locally consists of foodstuffs. There is virtually no participation in the sale of these by large trading firms, nor even by the small one-man shops. Foodstuffs are sold to the final consumer by small producers and petty traders (mostly women) who buy in relatively small quantities directly from equally small producers.

Wholesale dealers in all imported goods are usually large, mainly foreign, firms who are in a position to supplement deficiencies in their own resources by readily obtainable credit facilities from the domestic banking system or from foreign credit markets. On the other hand the indigenous retailers in imported goods even where they are not able to obtain overdraft facilities from the commercial banks are themselves offered credit terms by the large wholesalers.

Thus in the case of locally produced foodstuffs the use of trade bills is entirely discouraged by the small average size of stocks and the very large number of buyers and sellers leading to very small average size of transactions on both sides of the market. The established use of bank advances discouraged the development of a bill market in the internal trade in imported goods where numbers and size of stocks were probably of some consequence quantitatively, and where creditworthiness is relatively easier to determine.

We may now turn to a brief description of the money market in Ghana as constituted at the end of 1964. The institutional framework of the money market comprised the

commercial banks acting on their own or on behalf of their clients, and the Central Bank. Treasury Bills though developed to a float of substantial volume was held between these two groups of institutions with the bulk known to be held within the commercial banking system. But intermediate trading was probably negligible so that most Treasury Bill holdings would be largely liquidated only on maturity. Under the Credit Control Regulations introduced in 1964 Treasury Bills became one of various assets required to be held by the commercial banks. By the end of 1964 primary loanable resources within the commercial banking system as a whole showed signs of being strained. The Credit regulations actually classified Treasury Bills with cash and some part of ordinary commercial advances as liquid assets for the purpose of computing liquidity ratios. Thus if the low cash/deposits ratios of the last three years of the period continued after 1964 we could expect considerable shuttle operations by the commercial banks between Treasury Bills and ordinary advances or customer credits.[1] This

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1. At such a stage which is probably a prospect for the near future, the buying rates on Treasury Bills and other short-term instruments would indicate the relative costs of various other debt acquisitions.

In both the short and the long run the willingness of the banks to shift between open market credits and customer credits would depend on the interaction of the risks of capital loss vis-a-vis expected returns in money terms on customer credits. This borders on an aspect of the Availability Theory, one of the currently unresolved areas of monetary thought. In a system where prices of open market assets are flexible a special theoretical significance attaches to the ratio of such assets to lenders' total assets in relation to existing loanable resources vis-a-vis increased demand for customer credits. A rise in interest rates is said to depress lenders' supply curve downward because the capital

(contd. on page)

would constitute the beginning of active trading in short-term funds and thus create that fluidity which facilitate the multi-purpose functioning of similar markets in advanced economies.

It should be noted that the institutional base of the cocoa bills (the only form of commercial bills at the end of the period under review) was narrower than as described for Treasury Bills at the comparable date. The cocoa bills were held between the Ghana Commercial Bank and the Central Bank though there is no theoretical reason why either of these two could not sell such bills to the other commercial banks. More significant, however, is the fact that the cocoa bills were and will most probably continue to show wide seasonal fluctuation in volume.

(footnote contd. from page 258)

value of a liquidity hedge held in securities is reduced and lenders are said to be unwilling to acquire more private debt. Secondly, that even where lenders' own estimation of the yield on private debt was considered profitable they would be pinned in by the yield on government securities (short and longer-dated) and other open-market assets (we are assuming a situation where banks can only grant more advances by liquidating existing assets), which reduces the actual realisable market value of such assets.

On all this and other views on the Availability Theory see Joseph Ascheim, "Techniques of Monetary Control", The John Hopkins Press, 1961, Chapters 1 and 4; J.A. Galbraith, "The Economics of Banking Operations", McGill University Press, 1963, pp.55-60; J. Tobin, "A New Theory of Credit Control: The Availability Thesis", in "Money and Economic Activity" (ed. L.S. Ritter), Cambridge, Massachusetts 1962 pp. 167-71.

A survey in the United States on this subject concluded "The evidence appears to indicate that the 'lock-in' effect though it is far from being a universal influence, is an important one". Federal Reserve Bulletin March 1953, pp.219-26.

However, as composed by the end of 1964 the function of the money market as normally understood in the advanced countries of the West was very limited in scope. A money market in its sophisticated form has three basic functions. It allows the banks and other asset holders to redistribute their funds in order to maximise returns. This will be reflected of course, in changing costs of borrowing to different borrowers. Secondly, it facilitates the flow of short-term funds between lenders and borrowers. Thirdly, a developed money market provides the wherewithal to influence the cost and direction of short-term funds and consequently to regulate the level of economic activity. Up to the end of 1964 only the first function was partially applicable in Ghana. The prospect for the other functions which would become important both as a cuase and effect of the emergence of a more complex economic structure would require a greater diversity of money market instruments in a system of adequately integrated sub-markets.[1] In the short run the development of the money market will depend largely on the already established float of Treasury Bills and the orderliness implied in the readiness of the Central Bank to support reasonable stability in the capital values. Again, in the short run this should be coupled with reforms aimed at raising general standards of creditworthiness as a necessary vehicle for the attraction of various local forms of assets into the organised short-term credit market.[2]

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1. On all this see S.N. Sen "Central Banking in Underdeveloped Money Markets", Bookland Ltd., Calcutta 1952, Chapters 1 and 2.
2. On this see E. Nevin, op.cit., pp. 90-5.

A Capital Market

During practically all the period under review there were three major sources of investment capital: foreign borrowing, undistributed profits ploughed back into the private and public firms and various special lending schemes introduced under governmental auspices (on the latter see Chapter Six). In practice a considerable proportion of public investment was derived from locally issued longer dated Government securities which during the review period constituted the bulk of conceptually marketable medium and long-term securities of domestic origin. Both in theory and in practice it would be wrong to suggest that these securities constituted a capital market. Like the bulk of the Treasury Bills and the cocoa bills all Government securities were held by original purchasers pending maturity. What is more important, there was no means whereby the locally based indigenous agricultural and industrial sector could obtain capital resources save under the credit schemes described in Chapter 4 and Chapter 6. There was clearly a need for initiating facilities to enable issues of equity shares and similar industrial securities by intending investors to surplus units.

The main reason for the absence of even a moderately fluid market in long-term capital is to be sought in the general underdeveloped nature of the financial system, the small scale of indigenous enterprises which could also be an effect of the last factor, and the fact that large scale private

enterprise generally was dominated by foreign firms who sought investment capital from abroad and invested their savings on oversea capital markets.

In the advanced countries of the West the development of capital markets hinged on the multiplicity of financial institutions with mainly long-term liabilities. In Ghana life assurance business is very recent and the stock of policy values was believed to be negligible by 1964. Pension funds organised in both the public and the private sectors were either used directly as investment capital by the bodies concerned or were simply invested in oversea markets. Hire purchase firms qua hire purchase firms were completely absent from the Ghanaian economy. These factors are obviously basic to the absence of the most rudimentary form of dealings in equity and related instruments.

For the reasons given in the early part of this Chapter it is necessary to formulate plans for the eradication of this serious gap in the domestic credit system. Any scheme along these lines should necessarily embrace a number of institutions which normally would not participate in securities other than gilt-edged securities. Thus commercial banks, local authorities, trading and industrial enterprises and higher educational institutions - to give a few examples - could be encouraged to participate.

As noted in Chapter Four (Section C), the National Investment Bank appears to be the major institution around which a capital market can be most conveniently developed.

This is because of its statutory functions which are permissive of such an operation and because its internal organisational structure affords facilities for the technical advice and supervision which must necessarily accompany any attempts at economic reforms in developing countries.

Given these facilities, including the facilities for the technical evaluation of industrial projects, the National Investment Bank could become at once an underwriter of securities issued by firms which pass its feasibility standards, arrange for subscription by various prospective investors and arrange for the transfer of existing securities. The Bank as presently constituted is a viable focus for channelling into industry long term funds raised by it or by the Government from both local and oversea sources.

Any such operations must perforce be accompanied by measures designed to afford liquidity in the sense of instant salability without capital loss to both its own equity capital held by private investors and to the shares held by similar investors in enterprises allowed access to debt issues through the Bank's direct and indirect sponsorship. This would call for a substantial Government investment in the Bank comparable to the provisions made for a securities purchasing fund in the Central Bank of San Domingo to foster the growth of a market in Government securities, and later to provide a basis for Central Bank regulation of economic conditions

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1. See N.A.D. Macrae, "A Study of San Domingo's New Central Bank", The Banker, October 1948.
For a summary of various views on the manner in which long-term capital markets may be developed in the developing countries see E. Nevin, op.cit., pp. 95-101.

CHAPTER SIX

ORGANISATION OF SMALL LOANS

SECTION A.

Agricultural Credit

A General Survey of the Problems

Detailed information on the actual operation of agricultural credit in Ghana is difficult to come by. In the first place much of agricultural credit (to be clarified shortly) was operated in the unorganized market for funds based on the private money lender who would be a registered professional or simply another farmer of the same village relyirg on his own savings. There are no records of transactions carried out in this sector of the credit market except for summary findings from investigations - mainly official - into general problems of agricultural credit. Secondly, except in the case of the credit schemes operated under the Cocoa Purchasing Company (more on this later) documentation on official and quasi-official credit schemes is very limited and often not easily obtainable. The account in this Chapter is based on various reports dating back to 1918, and actual interviews with a few people involved in one way or another in the organisation of agricultural credit.

Generally, Ghanaian farmers' requests for credit were based on one or more of the following motivations.

1. For purely consumption purposes during the off-season

of cocoa.

2. To redeem cocoa farms previously pledged to a private money-lender in respect of previous credits.

3. To meet capital costs of new farms.

4. To meet the costs of litigation, social customs and in some cases expensive funeral rites.

Theoretically, provision of agricultural credit under goverrmental auspices was in connection with relief of farmers' indebtedness incurred for any of theother purposes listed above. The official organisation of agricultural credit directly for investment in agriculture assumed sizable dimensions only in the last year of the period under examination under the then newly constituted Rural Credit Department of the Bank of Ghana. Equally significant was the broader interpretation of agricultural credit adopted under that credit scheme involving the cultivation of crops in addition to cocoa, small scale fisheries as well as rural economic activity generally. Previously agricultural credit whether granted for consumption, investment or for the relief of indebtedness was invariably associated with cocoa usually referred to as the "cash crop" of the economy.(1)

In addition to the credits granted by the money-lender and under Government auspices various cocoa buying agents were known to have advanced money to cocoa farmers against the impending crop harvests. Most of such credits might be

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(1) The term "cash crop" limited to cocoa is clearly out-of-date as it usually meant export crop and carried the implication that all agricultural production other than for export was for subsistence purposes.

said to have been for any one or more of the basic purposes listed above as constituting the motivations of the farmers' demand for credit. It must be noted that credits derived from this origin would hardly contribute to the general indebtedness of farmers because repayments were secured simply by ensuring that a debtor-farmer sold his crop to the creditor firm and credits were deducted at source from the proceeds of the farmer's crop.

The reported perennial indebtedness of the cocoa farmer arose principally from very high interest charges on the loans obtained from private money-lenders estimated to be within the range 25 per cent to 100 per cent. In many cases the debtor's cocoa farm was pledged as security in a manner that amounted to a ceding of usufruct to the creditor. In the extreme case the creditor took control of the pledged farm dividing the annual value of produce into several parts: to defray expenses, to amortize the principal and interest and other operational incomes accruing to the creditor or debtor according to the agreement struck between creditor and debtor. Under these circumstances some pledged farms never left the hands of the creditor because he continually understated the actual yield and because with the debtor farmer obtaining little or no income directly from the farm he tended to get into further indebtedness. For these reasons the cocoa farmer was frequently cited as meriting credit schemes organized under Government sponsorship. Such schemes, it was

believed, would serve two major purposes. First, it would enable the farmer to break the injustices which he suffered at the hands of both professional and non-professional money lenders. Secondly, the farmer would thus be able to obtain some profits on his investments and hence have the inducement to invest in improvements and expansion to his farms in response to positive incentives.

The problem of agricultural credit was first brought to official notice in March 1918 by Chiefs of the Eastern Region in a request for a Government sponsored agricultural bank. This was followed by another deputation to the Government in 1925. In both cases the call for Government action was based on the need to alleviate the cocoa farmer's disconcerting rate of indebtedness.(1)

The Great Depression of the early 1930's brought about a calamitous fall in cocoa prices which intensified the indebtedness of farmers. Futhermore, it has been reported that unaware of the depressional spiral in which he was caught the farmer continued to borrow to supplement the decline in his money income.(2) The resulting difficulties gave birth to the creation of native organisations dedicated to the defence of farmers' interests.

The Legislative Council passed the Co-operative Societies Ordinance, 1931 borne out of the then official

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(1) See La Anyane, "Ghana Agriculture", Oxford 1963, p.179
(2) "In October 1930, when the main marketing season began the average f.o.b. value of cocoa was £33 per ton, and was falling repidly. By February, 1931 the f.o.b. value had dropped to £20 per ton as compared with £50 per ton in 1928." La Anyane, op.cit. p.101.

admission that a credit system for farmers would be effective only if based on co-operative societies in contrast to the atomistic structure of agricultural organisation which up to 1964 had only been modestly modified.

The second result of the sharp decline in proceeds from cocoa was an investigation in 1934 into problems of agricultural credit by Professor C.Y. Shephard of the Imperial College of Tropical Agriculture in Trinidad on invitation by the Government.(1) Professor Shephard reported that the farmer borrowed for extravagant expenditure on religious and social customs and that cocoa farms and land for cocoa cultivation were themselves frequently subjects for expensive litigation for which the farmer borrowed extensively thus increasing his indebtedness.(2) Professor Shephard stated that the cost of borrowing was very high and the debtor-farmer often obtained only one-half of the estimated value of the yield and that this created a disinterestedness on the part of the farmer in needed improvements to his farm. Professor Shephard did not consider the establishment of an agricultural bank as the suitable approach. Instead he recommended that the farmers should be organised under co-operatives through which would be channelled credit by the Government in real form instead

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(1) Professor Shephard's Report was published as Sessional Paper No. 1 of 1936.

(2) The farmer who borrowed to meet litigation costs would find his liabilities on debt account not matched by any assets if he lost his case and the farm or land in respect of which he litigated.

of outright cash.

Professor Shephard's investigation marked the beginning of a number of others all carried out at the initiative of Government. The findings followed lines generally similar to the main tenets of Professor Shephard. They generally laid emphasis on the need for Government credit to be channelled through co-operative societies. Among the novel features of subsequent findings were:

1. That the farmer should be given economic instruction to enable him to appreciate the effects and implications of costs of production expecially borrowing at exhorbitant rates of interest.(1)

2. That loans were sought to finance expenditure considered essential by the farmer and his family but which nevertheless they could not afford. That controlled low rates of interest would reduce the amount of loans the farmer could obtain because of the lender's lower incentive to lend. This, it was believed, would force the farmer to reduce his expenditure.(2)

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(1) Report of the Nowell Commission, 1938.
(2) The Becket Report based on a study of Akokoaso village in Ghana. For a fuller account of this Report see La Anyane, op.cit pp. 181-2. The idea that a low rate of interest would reduce the farmer's borrowing due to a low incentive on the part of the lender is, of course, a simplification based on the assumption that the lender's estimates of risks would remain unchanged if in fact the risk element was a major factor in the high interest rates charged by the private money-lenders. More important, there was hardly any means of controlling the pegged low rates. However, low interest rates combined with deliberate rationing under a Government credit scheme could reduce the general money rate of interest if the supply of loanable funds under the Government scheme was competitive with the overall supply of funds to the agricultural sector as then conceived. But not even this would necessarily reduce total borrowing by the farming community. Theoretically, lower borrowing rates could well increase the average borrowing per farmer in terms of the principal.

Post-1944 investigations into the subject of agricultural credit facilities reached conclusions of further special significance.

In 1944 the Havers Commission recommended that the Government should provide for short term credit facilities to farmers. As an essential prerequisite it was recommended that a system of registration of titles to land should be introduced to facilitate the provision of security against such loans. The Puckridge Committee appointed in December 1945 went further in their recommendation that there was an urgent need for the provision of long-term credit to enable farmers to expand cocoa acreage and to rehabilitate diseased ones. This Committee, like the Havers Commission, also drew attention to the need for a system of registration of titles to land.

One Report recommended that arrangements for the granting of credit to relieve existing indebtedness should be preceded by a scheme for the registration of debts.(1) This idea of registering debts though not easily practicable was nevertheless borne out of commendable vision. As will be shown later, subsequent attempts to provide credit for the retirement of existing liabilities to private lenders came up against many cases of fraudulent claims of indebtedness in some cases connived at by loans officers. The risks of such practices might have been reduced if the debts had been previously registered at the time that debts were contracted. However, one cannot pretend that the registration of debts would have been a simple matter. In

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(1) See La Anyane, op.cit. p. 184.

particular, with the high rates of interest that prevailed the co-operation of creditors would hardly have been forthcoming.

A Report by Mr. G.D. Paton in 1948 reached conclusions which were quite an anticlimax to the build-up of ideas which various previous Reports had brought about. Mr. Paton stated:

> "My considered view is that agricultural indebtedness qua agricultural indebtedness is non-existant, and that there is no case whatever for general measures for the relief of agricultural indebtedness."(1)

Presumably, Mr. Paton did not mean that there was no general indebtedness among farmers. For, this would be a wilful diseregard for impressive evidence amassed by previous investigators. What Mr. Paton probably meant was that farmers' indebtedness was not acquired directly in respect of their agricultural operations which would be partially true. Even so there could be no doubt that the reduction in farmer's disposable income net of heavy debt repayments affected their investment decisions in a manner that affected the overall economy and their own standard of living. Their relief from the vicious circle of perpetual indebtedness was therefore basic to long-run improvements in the economic conditions of the agricultural sector which then, as now, was the backbone of the economy. Mr. Paton's conclusion was clearly narrowly conceived and short-sighted.

Three important considerations would seem to the author to provide the rationale for breaking the farmer's heavy

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(1) G.D. Paton, op.cit.

reliance on the private money lender. First, while the bulk of agricultural credit was supplied by private money lenders it was unlikely that the authorities would be adequately informed about the factors that affected the farmers investment decisions. Secondly, private investment and its control with respect to volume, structure and terms are obviously of great interest to the authorities. These are all better controlled when organised in some central manner subject to similar conventions and conditions. Thirdly, an orderly development of the economy would necessarily need to be based on the growth and diversification of the agricultural sector. It was therefore imperative that farmers be lifted from the harsh and crude conditions of the unorganised loans market into the orbit of modern credit schemes where it would be possible to supplement credits with other operations aimed at improving agricultural techniques.

Actual Operation of Agricultural Credit

The first efforts to issue loans to relieve agricultural indebtedness date back to the late 1920's and were centred on Co-operative Societies engaged primarily in the marketing of agricultural produce.

It has been reported that Co-operative Society loans during the crop year 1933-34 averaged £2 per loan and that in 1936-37 the number of separate loans issued to farmers to enable redemption of mortgaged farms was 163 involving a sum of £3,676 or 32 per cent of the total amount of loans

issued by the Societies in that year.(1) This programme was rationalisd by the Co-operative Societies Ordinance of 1931 among whose provisions was that disputes arising from the Society's business should be settled by the Registrar of Co-operatives.

The data presented in Table 47 compiled from various sources indicate the progress made by Co-operative Societies with respect to the issue of loans to farmers (presumably only cocoa producers) from 1931 to 1956. Of a total amount of £2.25 million issued in loans by the Co-operative

Table 47

Co-operative Society Loans, 1931-56

(Selected Years)

Crop Year	Loans Issued £G	Loans Recovered £G
1931-32	865	494
1932-33	2,244	1,468
1933-34	3,712	3,302
1945-46	11,444	10,991
1946-47	15,566	16,261
1947-48	32,991	30,629
1948-49	66,013	62,257
1949-50	86,940	77,287
1950-51	110,626	107,774
1951-52	216,040	191,137
1952-53	294,166	269,635
1953-54	455.502	405,123
1955-56	562,037	413,138

Sources: Colonial Reports; La Anyane, Table 26

(1) For further details see La Anyane, op.cit. p. 186 ff.

Societies during the period 1945 to 1955-56 to their members the total outstanding in arrears at the end of March 1956 was £G290,579. Given the peculiar conditions of the average Ghanaian farmer this represented an appreciable measure of success in comparison with the first major credit scheme organised under Government auspices by the Cocoa Purchasing Company from 1953.(1)

In 1948 the Government passed the Agricultural Bank Ordinance aimed at establishing a bank to issue loans for relief of agricultural indebtedness. Once again as in the case of most of the previous investigations the emphasis was on this aspect of agricultural credit. Obviously the granting of credit for productive purposes in agriculture had to be preceded by a scheme to unfetter the farmer from his apparently perpetual debtor position. For the reasons stated earlier a credit scheme for agriculture was necessary per se quite apart from the need to relieve existing indebtedness. However, the proposed bank was a non-starter.

In 1952 an Agricultural Loans Board was set up. Between 1952 and 1953 a total of £G60,000 was given to the Loans Board from Government funds to be given out in loans to farmers at the interest rate of 2½ per cent per annum and over a maximum amortization period of twenty years.

In 1953 the functions of the Agricultural Loans Board were transferred to the Cocoa Purchasing Company. Invest-

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(1) The credit scheme organised by the Cocoa Purchasing Company will be shortly examined in some detail.

igations conducted later in 1956 into the operations of the Cocoa Purchasing Company as a result of legal-cum-political inquiries provide# the best documentary source of detailed information into the operation of agricultural credit and small loans schemes generally in Ghana over the period under review.

The agricultural credit scheme of the Cocoa Purchasing Company

The Cocoa Purchasing Company was incorporated as a limited liability company on the 27th June 1952 with an authorised share capital of £2 million all subscribed by the Ghana Cocoa Marketing Board which had been formed in 1947 for the principal purpose of stabilising the unit price paid to the cocoa producers. The original function of the Cocoa Purchasing Company (referred to hereafter as the C.P.C.) was to purchase cocoa from local producers as an agent of the Cocoa Marketing Board. Our interest in the C.P.C. commences in 1953 when there was established within it a Loans Agency as stated above.(1)

On the 23rd August, 1953 the C.P.C. accepted an invitation from the Cocoa Marketing Board to act as the latter's agent in the issue of loans to farmers.(2) Two types of

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(1) For the factual account on the C.P.C. Loan Agency the author is heavily indebted to the findings of a Commission (referred to here simply as the Jibowu Report) appointed in 1956 to investigate the operations of the C.P.C.

(2) This invitation followed upon a letter from Mr. K.A. Gbedemah to the Cocoa Marketing Board asking the latter to assume responsibility for the issuing of loans to farmers through agencies.

loan were envisaged: (1) for the relief of indebtedness and (2) for the expansion of area under cultivation.

Under (1) above loans were to be issued only in respect of debts legally enforceable.(1) Although a loan was required to cover the full amount of indebtedness it was also required that each loan should not exceed the annual income of the borrower. Each loan was to be liquidated within a maximum period of three years and was to be normally repayable in three equal annual instalments.

Under (2) above the following initial conditions were imposed by the Cocoa Marketing Board. The planned additional acreage in respect of which a loan was granted was not to exceed one-half of the area already under cultivation by the farmer concerned. The upper limit of each loan was not to exceed the annual income of the borrower. Lastly, each loan was to be repaid within a period of seven years: two-thirds of the repayments were to be concentrated in the sixth and seventh years.(2) The seven-year limit, it should be added, would enable the additions to the stock of cocoa farms to bear fruit.

The C.P.C. itself was to pay interest to the Cocoa Marketing Board at the rate of 2 to 4 per cent on the funds obtained from the latter for the discharge of its loans agency business. In turn the C.P.C. was to grant loans

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(1) Presumably this meant debts which were governed by written agreements.
(2) The Jibowu Report, Appendix 5, p.57.

at a rate of interest sufficient to meet operating costs and to provide for reserves against bad debts, but in any case not to exceed a limit of 10 per cent imposed by the Goverrment.

A few changes were subsequently made in these initial conditions. In a letter from the Ministry of Trade and Labour dated 15th August, 1955 the C.P.C. was notified of the Government's approval of the following changes in the conditions governing the issue of loans.(1)

First, the condition that the amount of a loan was not to exceed the annual income of the borrower was deleted. Secondly, with regard to loans issued specifically to enable the farmer to cancel his debts to the private money-lender, the maximum repayment period was raised from three to five years. Finally, at the initial stages the C.P.C. had been required to obtain the prior approval of the Cocoa Marketing Board in respect of a loan exceeding £150; this limit was raised to £1,500.

Applications for loans were in theory subjected to a rather lengthy procedure. The debtor-farmer was required to complete forms on which he stated the full extent of his indebtedness. This and other particulars were required to be approved by the Farmers' Group Committee of his village. The approved forms were then submitted to the local Receiver and on to the Area Supervisor and finally through the latter to the Loans Manager in Accra. The Loans Manager then detailed out a Field Inspector to report on the applicant's

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(1) The Jibowu Report, Appendix 6, p.58.

farm. The latter's report was followed by a visit by the Loans Manager to the applicant's village where he interviewed the Group Committee, the debtor-farmer (the applicant) and his creditor. Finally, when the Loans Manager was satisfied that all necessary conditions were complied with he approved the loan which was then paid to the debtor-farmer (applicant for C.P.C. loan) through the Area Supervisor from moneys remitted from Accra.

The applicant fulfilled the final condition for the receipt of the proceeds of the loan by preparing and signing a deed of pledge witnessed by two members of his family (in the Ghanaian sense). On the receipt of the funds borrowed he was required to cancel all his debts (that is, if the loan covered his debt fully), collect all the relevant documents from his former creditor and to hand them over to the Loans Manager. Thus, the loan granted by the C.P.C. was usually secured by the same property as was pledged to the previous creditor. As far as the C.P.C. was concerned repayment was, in theory at least, expected to be simpler because the borrower would almost certainly sell his annual cocoa crop to the company.

The processes described above were clearly arduous and were in theory designed to ensure that applicants for C.P.C. accommodation were genuine cocoa farmers and that they were actually in debt. However, it must be pointed out that this was no safeguard against bribery and corruption which are believed to have been the scourge of various measures introduced in Ghana under official auspices. One

could, not unrealistically, conceive of the applicant paying a bribe to every individual involved in his application's arduous journey to the final authorities. This in turn could lead to overstatement of the extent of indebtedness to ensure that in the final analysis the borrower received a sum adequate to cover his debt. Thus the farmer would become indebted to the C.P.C. for a sum in excess of his debts and the purpose of the scheme would be defeated.

The available information does not distinguish adequately between the two kinds of loans envisaged under the loans scheme, but the evidence suggests that the issue of loans was heavily weighted in favour of accommodation to enable farmers to substitute liabilities to private money-lenders for liabilities to the C.P.C.

Table 48 shows the amounts released by the Cocoa Marketing Board with Government approval to the C.P.C. for the issue of loans to cocoa farmers. The amounts of loans issued to cocoa farmers from 1953 to 1955 are presented in Table 49. These show that on the 2nd September 1955 total funds released by the Cocoa Marketing Board to the C.P.C. to be issued in loans to cocoa farmers amounted to £G2.8 million. On the same date total loans issued to date amounted to £G2.9 million including interest.

By 1956 total loans issued by the Company under the Loans Agency amounted to £G3,227,845 representing some 13,002 individual loans. The total number of loans entirely repaid by 1957 was 128 involving an amount of £G41,225.

Table 48

Funds Received by C.P.C. (Loans Agency) from the C.M.B. for Loans to Cocoa Farmers, 1953-55

Approximate date on which funds were received	Funds released to C.P.C. £G
29- 9-53	100,000
8-10-53	400.000
12-11-53	300,000
7- 9-54	200,000
14- 9-54	500,000
11- 6-55	400,000
2- 9-55	500,000
Total received up to 30-9-55	2,800,000

Source: The Jibown Report, p.21.

Table 49

C.P.C. (Loans Agency): Amounts Received from C.M.B. and Loans Issued to Date

Date	Amounts received from C.M.B. to date £G	Loans issued by C.P.C. to date £G
30-9-53	100,000	95,000
30-9-54	1,900,000	1,531,549
30-9-55	2,800,000	2,936,834

Source: The Jibowu Report, Appendix 11.

Thus in value terms the outstanding loans equalled 98.7 per cent of the total granted up to 1956. The whole of this did not necessarily represent arrears because there were basically two different types of lending each on separate repayment terms. The Commission inquiring into the affairs of the C.P.C. expressed doubt about the possibility of recovery of most of the loans outstanding in 1956. The Commission unearthed many irregularities in the operations of the Company, a fact which heralded the ultimate dissolution of the C.P.C. in 1958.

Of the £G2 million share capital invested by the Cocoa Marketing Board in the normal trading operations of the C.P.C. £G1.2 million was written off as bad debt and £G350,000 was recovered leaving a further capital loss of £G45,000.(1)

The sources of information stopped short of disclosing the fate of the amount of £G2.8 million handed out to the C.P.C. by the Cocoa Marketing Board to be issued in loans to cocoa farmers beyond the general statement that loans were still in the process of being recovered.

Apart from the familiar risks involved in the extension of cash credits to small scale peasant farmers, the failure of the C.P.C. arose principally from the disconcerting combination of factors that frequently foiled measures introduced under official auspices to deal with various economic problems in Ghana over the period under review. These were the priority accorded to partisan gains and sheer corruption on the part of some officers.

Political considerations undoubtedly weighed heavily in the appointment of the officers of the C.P.C. and in the distribution of loans. It would not be unrealistic to state that many borrowers were given the impression that they would not be seriously required to repay advances made to them - and all this for political reasons.

An influential member of the Government Party publicly interpreted the status of the C.P.C. as follows:

> "The Cocoa Purchasing Company is the product of a master brain, Dr. Kwame Nkrumah, and it is the atomic bomb of the C.P.P. (Convention People's Party)....the C.P.C. is part of the organisation of the C.P.P."(1)

In a letter from the Loans Manager to the Acting Managing Director (who later became Minister of Trade) of the C.P.C. dated 23rd December, 1953 the Loans Manager wrote:

> "As politicians, having the interest and solidarity of our Party at heart, we should always have in mind that we depend mostly on the farming community ....for our votes to ramain in power for a long time to enable us to carry out for a long time and successfully, what our gallant and noble leader (Dr. Kwame Nkrumah) has established for the farmers."(2)

These two quotations leave one in no doubt about the fact that the authorities of the C.P.C. regarded it their duty to win the farmers' votes for the Convention People's Party.

Furthermore, this was substantiated by the evidence exhibited before the Jibowu Commission that the Board of Directors of the C.P.C. approved on 20th April, 1956 various recommendations proposed by a Director who was also General

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(1) Mr. ~~Kwbo~~ Krobo Edusei, Gold Coast Legislative Assembly Debates, 3rd March, 1954, Column 1,223.
(2) The Jibowu Report, para. 69. Brackets are mine.

Secretary of the United Ghana Farmers' Council that an applicant for a loan should in addition to being a cocoa farmer also be a member of the Council which he headed.(1) The Council was a recent grouping of Co-operative Societies rivalled to the long-established Co-operative Societies. Later, after Independence it became the only recognized Co-operative movement, subsequently made a "wing of the Party."

The fusion of Party politics and the loans scheme meant that only a section of the farming community benefited from it even though the funds released for this purpose by the Cocoa Marketing Board were the savings of all cocoa farmers collectively. Most probably loans did not necessarily go where the need was greatest or the prospects of repayment favourable.

Moreover, the Police inquiries which preceded the sitting of the Jibowu Commission revealed irregularities of immense dimensions.

There were cases of application forms (in respect of requests for loans) being sold to intending borrowers. A police examination of 6,000 loans dockets (out of a possible total of 15,000), relating to four centres found the following other forms of irregularities.

1. Creditors of debtor-farmers to whom loans were granted to relieve indebtedness were not interviewed by the C.P.C. officials.

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(1) The Jibowu Report, para 32.

2. Fraudulent thumb-prints purporting to be those of members of Farmers Group Committees whose inital approval of the applicant's particulars were required by the Regulations. This indicated that those who obtained loans on such practices were either not indebted or in some cases were not cocoa farmers at all.

3. In some cases loans were paid out to applicants before the related applications were approved or recommended.

4. Applicants' farms were in many cases not inspected; false inspection reports were supplied.

Agricultural Credit Since 1957

After the liquidation of the Cocoa Purchasing Company the organisation of agricultural credit under governmental sponsorship continued in various forms. The need for a diversified agricultural sector continued to be an important factor. Moreover, the problem of agricultural indebtedness still prevailed. In 1957 a Committee on Agricultural Indebtedness appointed under the Ministry of Agriculture concluded in its Report that "perhaps three-quarters of the farmers of Southern Ghana and Ashanti are indebted in one form or another."

The tentative nature of this conclusion echoed the margin of doubt about the true extent of indebtedness among the agricultural community. Obviously, the time had come when the formulation of agricultural credit schemes should be directed at increasing productive capacity in the agricultural sector an integral part of which would be the encourage-

ment of agricultural diversification.

The extent to which this view prevailed in the organisation of agricultural credit could not be determined by the author. The Cocoa Marketing Board continued to be the principal source of funds operated this time through the United Ghana Farmer's Co-operatives Council. This organisation was also appointed the sole buying agent of the Cocoa Marketing Board from 1961. More important, the Farmers' Co-operatives was without doubt a political organisation with the responsibility of rallying the support of the farming communities for the Government. In its general personnel and the public pronouncements of all its senior personnel the Farmers' Council exhibited all the general characteristics of the Cocoa Purchasing Company.

By the end of 1964, an amount of £G437,000 transferred to the Farmers' Council to issue in loans to farmers had remained static because repayments had been nil.(1) Loans were also granted to other agricultural bodies on which there is a dearth of general information. We will therefore turn to consider the most recent institutional arrangements on agricultural credit, namely the Rural Credit Department

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(1) Information supplied by a senior official of the Cocoa Marketing Board. The view was also expressed that the Government might ask the Board to write off the corresponding asset as bad debt. The only obstacle seen in the way of such an eventuality was that since only a small section of the farmers benefited from the loans to write off the loans would amount to differential subsidy in favour of only the small section. The farmers might therefore grumble. This would appear to the author to be a sophisticated analysis which would be far from the realities of the Government's political power and machinery against disenters from its actions.

of the Bank of Ghana set up on April 1964 and converted - in accordance with the original plan - into an Agricultural Credit Bank in 1965.

About the time of Indpendence the Government established the Builders Brigade later renamed the Workers Brigade as a multi-purpose organisation whose general agricultural activities gradually emerged as the principal operation. In 1963 the Government formed the Ghana State Farms Corporation out of various smaller agricultural organisations within the public sector. Together these two organisations constituted the margin of commercial agriculture most immediately amenable to scientific techniques of production.

From its inception the Workers Brigade had obtained both investment and working capital requirements from the national budget. The State Farms Corporation was also similarly operated. By the end of the period under review the latter had not been in operation long enough to permit a fair judgment of its efficiency. However, it was legitimately feared that it might, like the Workers Brigade and other State-owned enterprises, become another subsidised commercial enterprise.

It was therefore the official policy to bring both State-owned agricultural organisations under external control by requiring them to purchase their general capital requirements from the then newly constituted Rural Credit Depart-

ment(1)

The Rural Credit Department as Constituted at the end of 1964 was designed to provide loans for the development of agriculture, fishing and handicrafts in line with the Government's expressed desire for expansion in these areas of the primary sector.

The Rural Credit Department differed from all other previous agricultural credit organisations in three significant senses. First, its policy was to grant advances for directly productive purposes. In other words the relief of agricultural indebtedness lay outside its scope of operations. Secondly, advances were made mainly to co-operative societies concerned with <u>production</u> as distinct from marketing Thirdly, wherever practicable loans were made in the form of equipment instead of cash except of course where advances were required to meet wage and salary payments.

In all, up to the end of 1964 credits granted to the farming sector were channelled through the United Ghana Farmers' Council Co-operatives which handled the initial processing of applications for advances. The Council also

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(1) Information supplied by the Manager of the Rural Credit Department. Two problems arose in relation to the Workers Brigade. Its initial objective was to provide employment and therefore this would raise the question of a realistic criterion of its efficiency. More significant, the Workers Brigade had shown a disconcerting versatility in its activities including political thuggery evidenced by its para-military structure. In the favoured position which the Brigade occupied within the Government's political machinery it could be overoptimism to envisage a high degree of control from the Credit Department.

It should, however, be added that this situation was probably modified following the recent political changes.

provided guarantees against the advances recommended by it. In this way the general difficulty of obtaining adequate collateral security was averted.(1) Finally, the Department provided the link between its lending procedure and the efficient use of advances by supervisory functions carried out through the use of the services of extension servicemen of the Ministy of Agriculture. Thus conceived it would appear safe to argue that this credit scheme was a vast improvement over all previous schemes. A more comprehensive analysis will, however, need to await the supply of statistical and other related information so far unavailable.

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(1) Whilst the Farmers Council remained with its heavy political trappings the maintenance of a sense of responsibility would ultimately depend on the Government's preparadness to insist on elimination of interference from the senior officials of the Council. Again, it would appear that the recent political changes have removed the fears expressed here, although it is probably too early to be confident about this.

SECTION B.

The Industrial Development Corporation

The Industrial Development Corporation (I.D.C.) was established in 1947 under the Gold Coast Industrial Development Corporation Ordinance[1] with objectives broadly similar to those of the National Investment Bank described in Chapter 4. In 1951 the law was supplanted by the Industrial Development Ordinance, 1951.[2] The latter was amended in 1956.

The original objectives of the I.D.C. were to establish and conduct any industrial undertaking, to promote, guide and assist in financing new industrial undertakings and the expansion and modernisation of existing industrial establishments.[3] These objectives were to be pursued through advances, subscription to shares and purchases of debentures. The 1951 Ordinance differed from the 1957 Ordinance in establishing a much closer relationship between the Corporation and the Government The Government was to guarantee any loans raised by the Corporation other than from the Government.[4] The provision for Government advances to the Corporation additional to the original Government subscription to the share capital was a novelty. Under the 1951 Ordinance in addition to Government holdings of the total share capital of £G100,000 the Government could make

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1. Ordinance No.38 of 1947.
2. Ordinance No. 22 of 1951.
3. Ordinance No. 38/1947, Section 4.
4. *or* Ordinance No. 22/1951, Section 8.

advances to the Corporation to a maximum of £G1 million outstanding at any time. This apart, the Government could grant temporary advances to the Corporation to a total of £G25,000 outstanding at any time. The Amendment of 1956 made no change in the form of the Corporation save the abolition of the post of Managing Director.

As at 31st March 1952 outstanding Government advances to the Corporation amounted to £G360,000;[1] it rose to £G1.4 million on 31st March 1956.[2] The balance sheet as at the end of June 1961 showed outstanding Government advances at £G8.8 million.[3] The Corporation was dissolved by the President (of the Republic) in 1962. Thus the last quoted figure would approximate the position of the Corporation with respect to Government advances at the time of its dissolution.

The operation of the Corporation was befogged with disturbing irregularities as pointed out in successive Auditors' Reports. These matters cannot be pursued in this study due to limitations of space.

From 1953 the Corporation operated as a holding company controlling directly and indirectly a number of industrial projects of considerable diversity. Each of these projects was turned into a separate public corporation when the Industrial Development Corporation itself was abolished.[4] The dissolution of the Corporation was not

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1. I.D.C. Report, 1951-52
2. I.D.C. Report, 1955-56
3. I.D.C. Report, 1960-61
4. For a list of such enterprises see Ministry of Finance (Ghana), Budget Statement 1965, Appendix I.

accompanied by any statement on its overall financial position, and at the time of investigations by the author the Corporation was still in the process of liquidation. It is however common knowledge that the enterprises operated by it were largely losing concerns.[1] Certainly, by 1961 the Industrial Development Corporation was in the hands of the Government's political supporters as happened in many public organisations outside the civil service. In this Section we will restrict ourselves to only the Small Loans scheme operated by the Corporation.

The Small Loans Scheme was established within the Corporation for the special purpose of assisting small Ghanaian industrial enterprises not incorporated as companies. In theory loans were given whenever feasible in the form of equipment at an interest of about 5 per cent on outstanding balances. Again, in theory, loans were meant to be issued against adequate collateral the nature of which did not seem to have been clarified in the Reports issued annually. It was also stated in the Annual Reports that small loans were followed up with technical advice the nature of which was not specified. At any rate the loans were dissipated among so many kinds of enterprises probably of such small average size that one wonders if the authorities had the necessary resources for useful technical advice.

On 4th January, 1961 the Board of Directors resolved that the functions of the Loans Department should be decentralised on a regional basis through the Regional Commissioners.

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1. Ibid, Chapter 3. Ministry of Finance, Budget Statement 1965. Chapter 3.

For this the Government issued to the Corporation a total of £G200,000 divided among the Regions at £G20,000 per Region and £G60,000 for the Accra District.

Table 49A shows the Regional distribution of small loans outstanding at the end of June 1960 and 1961. It

Table 49 A.

Regional Distribution of Small Loans, 1960 and 1961

Region	Outstanding Balance 30.6.60	£G'000 Outstanding Balance 30.6.61
Accra	182.7	287.5
Eastern	27.1	56.6
Volta	17.4	42.2
Western	19.9	40.8
Central	22.0	27.1
Ashanti	54.7	116.9
Brong-Ahafo	24.5	35.5
Northern	8.3	6.1
Upper	3.3	3.4
Total	360.0	616.1
Other Development Loans	54.0	113.2
	414.0	729.3

Source: I.D.C. Report 1960-61.

must be noted that the distribution of loans on a Regional basis was consciously carried out in the financial year 1960-61. Included in Table 49A is the item "Other

Development Loans" not classified under the Small Loans Scheme. Total outstanding loans under the latter increased substantially from £G360,000 in 1960 to £G616,100 in 1961 probably reflecting the effect of regional decentralisation referred to above.

Table 49B

Listribution of Small Loans by Industry
1959 and 1960 £G'000

	Outstanding Balance 30.6.59	Outstanding Balance 30.6.66
Cereal Processing	15.4	18.2
Bakery and Bottling	5.5	30.3
Engineering and Electrical	55.4	77.0
Bricks and Pottery	1.6	32.9
Printing	1.0	27.5
Woodwork and Sawmilling	35.4	54.8
Tailoring and Dressmaking	3.7	4.4
Shoemaking and Leathercraft	1.7	22.4
Other Trades and Crafts	45.6	81.2
Artisan Training	10.2	11.3
"Special Development"	53.7	54.0
	229.3	414.0

Source: I.D.C. Report 1960.

Table 49B above shows the industrial distribution of outstanding balances under the Small Loans Scheme as at the

end of the financial years 1958-59 and 1959-60 for which adequate breakdowns were available to the author. At the end of June 1960 the number of individual small loans granted by the Corporation totalled 285 of which 147 had been granted in the Accra District alone.

A detailed list of the types of economic activity for which loans were granted gives a picture of loans of small value covering a host of diverse activities. This is illustrated in Table 49C.

At the time of the Corporation's dissolution most of the small loans were heavily in arrears and it was commonly believed that recovery would by no means be easy. A surprising aspect of the Small Loans Scheme, as indeed of the Corporation's activities as a whole was the fact that the Government continued to make increasing funds available despite an early warning by the Auditors in 1951-52 about the likelihood of heavy arrears.

Several reasons may be suggested as having accounted for the failure of the scheme. First, the borrowers listed in Table 49C would be very largely small scale operators organising their business in conditions in no way modern. It would appear that the Corporation should have encouraged the merger of the various businesses with which ~~they~~ it had dealings. As argued at the end of Chapter One the key to a well-organised indigenous business sector lies in amalgamation of the numerous small operators. Secondly, it is very likely that political considerations featured prominently

Table 49C

Number of Small Loans According to Type of Business

Type of Business	No. of Loans	Type of Business	No. of Loans
Bakery	12	Juice Bottling	1
Battery Charger	1	Kente (Cloth) Weaving	7
Blacksmith	2	Knitting	1
Block Making	1	Laundry	1
Building Contractor	5	Lumber Contractor	1
Cabinet Maker	8	Meat Canning	1
Cattle Dealer	1	Mechanic (Unspecified)	5
Chop (Eating) Bar	15	Mineral Waters	5
Cinematograph	3	Pharmaceuticals	1
Cold Store	1	Photography	3
Corn Mill	36	Pottery	3
Craft (Unspecified)	1	Printing	5
Dental Mechanic	1	Radio etc Mechanics	5
Diamond Digging	2	Restaurant	3
Electrician	3	Rice Mill	3
Fishmonger	2	Rubber Stamps	1
Fitting Mechanic	5	Sand/Stone Contractor	31
Foodstuffs (Unspecified)	17	Saw Bench	2
Gold and Silver Smith	7	Dressmaking	11
Hairdresser	1	Tailoring	8
Hotel	9	Retail Trading	3
Ivory Carving	2	etc. etc.	
		Total	285

Source I.D.C. Report 1960

in the granting of loans. It may be fair to suggest that loans obtained by reason of one's political affiliation stood the least chance of being repaid. Readers familiar with Ghana over the period 1953-66 would readily agree with this suggestion. Together with this factor would also be the likelihood of considerable corrupt practices. Thus the decentralisation policy, which based the granting of Loans on the Regional Commissioners would only have intensified the likelihood of political consideration and corruption.

SECTION C

The Guranteee Corporation and the Mortgage Loans Scheme

Both the Gurantee Corporation and the Mortgage Loans Scheme were established under Government auspices for the purpose of granting loans and advances to the indigenous sector in connection with activities to be clarified shortly. In each case the Ghana Commercial Bank administered the day-to-day business under agency arrangements receiving a modest fee in return. Separate accounts were maintained in respect of each.

The Guarantee Corporation.

The Gurantee Corporation was set up in September 1954 on capital subscribed by the Government on the one hand and Ghanaian or African traders organised under the Ghana Chamber of Commerce.

The capital was divided into equal amounts of ordinary

and preference shares. The latter were taken up and paid for by the Government and the ordinary shares were to be subscribed by the traders. Up to 1957 the ordinary shares had been called up to half the nominal value. Thus in effect the Government contributed two-thirds of the effective, that is paid-up, capital which at the end of October 1956 amounted to £G375,000.[1]

The funds of the Corporation were to be used to assist Ghanaian traders in three ways:

1. by giving guarantees to the Ghana Commercial Bank in respect of short-term loans granted by the bank to the private shareholders of the Corporation.
2. by providing counter-guarantees to the Ghana Commercial Bank in respect of guarantees given by the bank to third parties on behalf of the shareholders.
3. by endorsing and discounting promissory notes made by shareholders in favour of the Corporation.

The funds of the Corporation were employed principally to assist traders importing from overseas; oversea suppliers were paid in full for goods supplied to the members. The guarantees or loans were originally for a period of six months, subject to renewal. But this was later considered too short a period to allow "a good turnover and proper planning...of supplies".[2] Accordingly the repayment period was extended to one year and later to three years.

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1. Source: J.W. Williams, op.cit.
2. T.O. Asare, op.cit.

Although the management of the Corporation was handled by the Ghana Commercial Bank the actual authorisation of guarantees was made by area committees elected by the shareholders in ~~that~~ given areas whose authorisations (in effect equivalent to guarantees) were made independently of one another. However, in the final analysis the liability for guarantees fell on the Corporation as a whole, even though the losses resulting from authorisations from one area were, in theory, required to be met by the group in that particular area.

By 1960 the business of the Corporation began to stagnate and the authorities of the Ghana Commercial Bank began to press for its removal into the Chamber of Commerce. The end result, however, was that the Guarantee Corporation was liquidated shortly afterward. Three reasons may be put forward as having occasioned the failure of this project

First, in 1960 there were said to be fewer Ghanaian firms or individuals importing goods directly. The corollary of this is that a number of the traders who had been members of the Corporation were able to obtain credit facilities from wholesalers in Ghana. Thus, regrettably, the very purpose of the Corporation, to improve the competitive position of the Ghanaian traders, was undermined as they once again came to depend on foreign importers for their supplies.

Secondly, some of the members of the Corporation simply lost their business. The peculiarities which tend to exert adverse effects on indigenous enterprise have

been amply discussed in Chapter One.

Thirdly, it appears likely that because the Ghana Commercial Bank was in charge of the actual management of the Guarantee Corporation it tended to pick up the cream of applications for credit and to shift the bad risks to the Corporation.

The Government Mortgage Loans Scheme

The Mortgage Loans Scheme was started in 1953 with capital provided entirely by the Government. At the end of March 1957 the Government had contributed a total of £G825,000 to the Scheme; by the end of 1960 the total amounted to £G1.1 million.

The purpose of the Scheme was to provide financial assistance to existing Ghanaian businesses and in some cases for the establishment of new enterprises. Loans were made on the security of house property at 7 per cent and originally for a period of three years. In 1960 the repayment period was extended to six years. Thus two advantages were derived from the Scheme. The interest charged was 1 per cent lower than the average rate charged by the commercial banks on overdraft facilities, and the three-year repayment period was longer than the commercial banks would normally permit.

The idea of this Scheme sprang principally from the peculiar problems of the indigenous business community vis-a-vis the lending policies of the commercial banks and the general absence of a capital market. The kind of

security which most of them were in a position to offer against loans was house property which was not usually acceptable to the commercial banks at that time. The Ghana Commercial Bank, itself set up to meet the credit needs of the indigenous business sector was precluded by its statute from lending on the primary security of mortgages. Thus the Mortgage Loans Scheme was another demonstration of the Government's efforts to encourage Ghanaian participation in the industrial organisation of the country.

As happened in the case of many such organisations established under Governmental sponsorship, the repayment of the loans was frequently in arrears. The position in 1960 was said by officials interviewed to give cause for concern. The increase in the duration of loans as stated above may have been a response to increasing difficulties on the part of borrowers to meet repayments. Obviously, the softening of loans would not be the right solution in such circumstances. The Scheme, technically still in operations by 1964 had in fact been inactive since 1961. Again information on recovery of outstanding loans is lacking and one might venture a surmise that the loans were either written off or would subsequently be treated as such.

It is worth noting that both of these schemes laid emphasis on the security which could be offered, rather than on the objectives, which were whether or not increased production would enable the borrowers to repay the loans.

The repayment capacity of borrowers depends basically not on the initial security offered, but on the use made of the loan in expanding producers' income. It was essential to shift the emphasis from the desire to arrest loan defaults by ensuring adequate security to an approach that would combine credit facilities with a study of the technical manpower needed to make use of the loans and on adequate technical supervision at all stages of their use. Credit facilities on their own are not the answer to these problems. As repeated in several places in this study, in the Ghanaian circumstances a necessary prerequisite is the development of larger industrial establishments.

CHAPTER SEVEN

Analyses of Developments in the Monetary System

In many respects the period under review divides roughly around 1960. Before 1960 the monetary system and general financial practices were subject to fairly stable relationships. From 1960 the economy of Ghana was subjected to many measures of experimental nature with the result that monetary and general financial magnitudes came under various transitional influences. Contraction, stability and expansion occurred in a somewhat erratic manner. Causal relationships, even where remarkably conspicuous did not necessarily provide a basis for generalisations of fundamental applicability.

In this Chapter an attempt will be made to analyse the monetary system in terms of what were or appeared to be basic developments over the period under review. The major developments, examined in detail in previous chapters, are summarised below:

1. The replacement of the Sterling Exchange Standard by a managed currency in 1961 heralded previously in 1957 by the establishment of the Central Bank.

2. By 1960 local credit operations supplanted foreign exchange accumulation as the main force behind net changes in the money supply.

3. The ratio of bank money in the money supply was on the ascendancy from 1961 and money supply itself expanded rapidly in the 1960's.

4. Towards the end of the period under review a combination of low cash reserves in the commercial banking system and an increasing proportion of illiquid assets in total assets presented quite a different picture from the earlier years of considerable excess banking resources.

5. Finally, in the last year of the period commercial banking activity was for the first time subjected tc Central Bank credit control regulations.

Section A

Implications of the Sterling Exchange Standard

Discussions on the British Colonial Currency Board System tended to focus attention on aspects of the currency system that were most significant at the time of writing. Thus the earliest writings emphasised the rationalization of the payments system introduced by the sterling exchange standard.[1]

Post-war writers viewed the operation of the system in a different perspective, and although the currency arrangements continued to be discussed in a descriptive manner, there was already emerging a body of thought that resulted from deeper analysis of these arrangements in terms of economic development and the growth of the financial system.

The early 1950's were years of considerable boom in exports due in part to the Korean War and the economies on the Sterling Exchange Standard were threatened with inflationary

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1. For a very early commentary see J.M. Keynes's review of the report of the 1912 Departmental Committee in Economic Journal, May 1913.
Many other references were given in Chapter 2.

pressures resulting from persistent large external surpluses whilst limitations of port and transport facilities led to shortages of supply in the real goods markets. This phenomenon seemed to lay bare the inadequacies of a monetary system devoid of any weapons for combatting externally induced disequilibria whereas the system itself was designed primarily to facilitate international transactions and thus aided the development of the economies into predominantly foreign-trade oriented economies.

Again, the post-war years saw an escalation of nationalism in most of the British colonies with its sudden release of economic and social aspirations and a subsequent pressing need for social and productive investment. Consequently, economists writing in the early 1950's devoted considerable attention to the possibility of reducing the statutory sterling backing of colonial currencies to make funds available for development expenditure. Two economists in particular, Newlyn and Rowan, were more specific in their view that a sterling reserve of 50% of the currency or even less would be "perfectly adequate for the maintenance of convertibility". There were, of course, contrary views; the whole question of the status of the sterling backing of colonial currency was the subject of a controversy from 1951 to 1954 between Arthur Hazlewood calling for changes and Ida Greaves defending the existing currency arrangements.

A few recurring views held sway in the discussions on the colonial sterling exchange standard in the post-war

contributions to the literature. These were:-

1. The inadequacy of the system in standing aloof of the internal economic ahd monetary conditions. From the point of view of the internal economy the system was criticised for being inflexible and rigid in its automaticity. The legal functions and actual operation made it a currency changer with no management functions whatsoever over general internal economic and monetary conditions.

2. That the neutral position of the currency board gave a great deal of power to the commercial banking system which by concentrating on the financing of foreign trade was partly responsible for the extreme dependence on foreign trade in colonial and ex-colonial territories.

3. That the operation of the Currency Board established an automatic link between the balance of payments and the money supply. In its simple form this meant that when the balance of payments was in surplus the domestic money supply increased to the extent of the surplus and when there was a deficit the money supply fell to the same extent. Thus the neutrality of the monetary authority did not permit the complementary use of monetary measures to support countercyclical fiscal policy. (In practice the influence of countercyclical fiscal policy was in typical colonies severely limited by the facts of low incomes and the dominance of politically powerful foreign firms).

4. The operation of the sterling exchange standard involved a cost to the domestic economy represented by the forgone

imports embodied in the sterling earnings sterilized as a backing for the local currency.

Colonial status itself was associated with several peculiarities which make it rather hazardous to identify the functioning of a particular institution with the existence or absence of any particular economic situation. Thus it would be a simplification to blame wholly on the operations of the Currency Board the absence of a well developed money or capital market. Nor can one even accept in its entirety the argument that the functioning of a Currency Board did not permit the institution of monetary measures for one objective or other. For one thing the replacement of a Currency Board by a national monetary institution did not immediately allow the effective use of monetary policy. For another, the existence of the Currency Board in Southern Rhodesia, for example, did not prevent the Government of that territory from issuing a directive to the commercial banks to curtail credit for non-essential imports in early 1952 to counteract the post-Korean import drain.[1] There can be no doubt that in a colony or a country that has only recently shed colonial status there are immense political and economic bottlenecks which make it hazardous to raise arguments against the sterling exchange standard on the basis of the established theories. It will therefore be more useful to bring out briefly the major limitations on

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1. See S.I. Katz, "Development and Stability in Central and West Africa", Social and Economic Studies, Vol. 5, 1956, pp. 290-1.

monetary developments arising from the operation of a neutral Currency Board in contrast to a Central Bank even though the influence of the latter cannot be significantly felt until the usual bottlenecks have been overcome.

Monetary policy is said to be of little effectiveness in underdeveloped countries because the traditional objective of monetary policy, namely the influencing of private investment is relatively unimportant in such economies.

A further implication of this fact is that public investment being so fundamental to the development of the infrastructure cannot be assigned the limited countercyclical role postulated under Keynesian employment theory. The Keynesian "public works programme" is a short-run measure which takes for granted a social and economic infrastructure adequately developed to support short-run growth.

Generally, in Ghana, as in many countries in a similar stage of development, the importance of credit of all types and lengths in consumption expenditure, working capital and fixed capital formation is very difficult to estimate. However, the indications are that there was a substantial volume of credit transactions in all these areas taken together, though they were nearly all very short term. What was needed therefore was an extension of these facilities along with moderating other social and economic obstacles. If monetary and credit policy is seen as an integral part of an overall economic and social policy rather than as an independent policy instrument there is certainly great scope

for it in developing economies.

It is the author's view that in a developing country where the commercial banks are the only important source of institutionalised credit the banks should be encouraged to be more than providers of seasonal or very short-term credit. They should move to a position nearer that of development banks. If the banks were to be encouraged to invest their funds in medium-term capital loans there was obviously a need for an institution with powers and resources to help them out of any liquidity crisis that might occur. The corollary of this is that such a monetary institution would have to exert its energies in the direction of encouraging improvements in business practices. In its unmodified form - as was true of the West African Currency Board - the Currency board system was not in a position to carry out either of these important monetary and related reforms.

Throughout most of the literature there is an expressed or implicit argument that under the system of rigid sterling-backed currency issues and low-levels of domestic credit operations by banks, money exerted very little impact outside the foreign trade sector and hence impeded the expansion of the economy from subsistence production into production for money exchange. Following upon this line of thought one writer[1] has reached a tentative conclusion that in Ghana from 1955 to 1959 (he could not obtain all the relevant data for the pre-1955 period) the process of

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1. Tony Killick, op.cit. in "A Study of Contemporary Ghana", Oxford, 1966 Chapter 13.

monetisation was hindered by a slow growth in the money supply and therefore by implication that the slow growth rate of money supply acted positively as a deflationary force. The basis of this conclusion was that in real terms the gross domestic product grew at a faster rate than the money supply: at 22% and 13% respectively.

The usefulness of such analysis is severely limited by several factors, For one thing, the low growth rate of the money supply relative to the gross domestic product could well mean an efficient use of the existing money balances. For another, the meaning to be attached to the gross domestic product is somewhat limited by the fact that it included a substantial proportion of estimated subsistence consumption (against which no money balances are held) whereas it excluded a considerable amount of production for money such as the output of various craftsmen and tradesmen.

These statistical problems aside, there is no simple relationship between money supply and the flow of resources from the non-monetized sector to the monetized sector. The factors which influence the expansion of the monetized sector relative to the non-monetized sector are many.[1] For long-run purposes it is more useful to measure monetization of an economy by reference to the resource allocation between the self-supporting sector and the monetized sector. An increase in the monetized sector may then be said to come

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1. For a comprehensive analysis of the forces which may influence expansion of the monetized sector see United Nations, "Enlargement of the exchange economy in Tropical Africa", New York, 1954, Chapter 1.
See also S. Ghosh, "Inflation in an underdeveloped economy", Calcutta, 1959, Chapter III.

about when the proportion of total resources of land and labour devoted to money-earning activities increases, with a corresponding decline in the proportion of resources devoted to subsistence activities. The extent of monetization depends on the balance of the push of forces driving resources from the subsistence sector and the pull of forces attracting subsistence sector resources into the monetary sphere. The former are generated by forces which make it difficult or impossible to obtain a livelihood through subsistence activities whilst the latter are related to the opportunities for economic improvement and the desire for the goods and services available in the money sector.[1]

Thirdly, the status of the sterling reserves held against currency issued under the Sterling Exchange Standard was the subject of much argument. The sacrifices of imports (for consumption and development) implied in the hundred percent sterling backing of local currency have been echoed in the statutes of the Central Banks which replaced the currency boards by providing for varying degrees of sterling (or foreign exchange) backing, in many cases considerably less than hundred percent. We will in the following paragraphs review briefly the main trends of views expressed on the subject.

The polemics probably arose from the findings of two writings published just before the turn of the 1940's. Writing about Nigeria Dr. J. Mars argued that increments

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1.See S. Ghosh, op.cit., p.18.

of the local currency circulation were virtually obtained at the expense of a commodity loan by Nigerian producers to London.[1] Mr. John Exter in his Report on the establishment of a Central Bank in Ceylon reached a similar conclusion namely that the sterling reserves were a "costly luxury" for an underdeveloped economy.

One writer in particular was prominent in taking a stand of uncompromising defence of the sterling exchange standard, namely Ida Greaves. She contended that "in no sense are they (the sterling currency assets of the currency authority) an overseas loan to this country (the United Kingdom)".[2] To this may be contrasted the argument by Arthur Hazlewood that "the sterling earnings which would otherwise be available for purchasing imports ... are tied up in the reserves of the currency authority".[3] To this Ida Greaves replied that holdings of the Currency Board's currency were available for purchases of local as of imported goods and services. In other words as with holdings of any form of money, holders of currency were merely showing their preference for money against real consumption.

An integral part of the arguments of Ida Greaves was that initially London funds preceded the distribution of Colonial income and therefore "to treat colonial income, saved or not, as creating the currency funds is to put the cart before the horse".[4] Among the "London funds" she

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1. J. Mars in M. Perham (ed.) op.cit.
2. Ida Greaves "Sterling balances and the colonial currency system", Economic Journal, June 1951.
3. Arthur Hazlewood, "Sterling balances and the colonial currency system", Economic Journal, December 1952.
4. Ida Greaves, ibid.

listed wages paid by British firms, colonial government disbursements to the militia, the police and public utility employees, and the expenditure of travellers in colonial territories.[1]

To this argument Arthur Hazlewood contended that irrespective of the source of the sterling funds that gave rise to colonial (as indeed countries on a full sterling exchange standard) currency expansion, once the currency was paid out to local producers and as long as the latter held on to the issued currency it was they who were "financing the currency expansion".[2] However, in this Arthur Hazlewood was again laying emphasis on exports as constituting the claim on imports a point which though generally true was not accurate for all times and for all the colonial territories.

Both sides of the argument were couched in considerable confusion. As B.M. Niculescu pointed out the answer to the controversy "is provided by the present-day treatment of currency issues as (normally interest-free) loans by currency-absorbing populations to currency issuing authorities".[3] The sterling balances of the Currency Boards were loans to the United Kingdom (and other dominions and colonies within the British Commonwealth) made possible by past and current savings on external account. When locally established institutions became the issuing authorities and chose to provide no foreign exchange cover for issued currencies the

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1. *Ibid.* Ida Greaves, op. cit.
2. Arthur Hazlewood, oplcit. Also by the same author "Sterling balances and the colonial currency system", Economica Journal, September 1954.
3. B.M. Niculescu, "Sterling balances and the colonial currency system: a comment", Economic Journal, September 1954. See also E. Nevin, op.cit., Chapter 1.

sterling balances would be taken over by the issuing authorities and could be used immediately for local investment or as loans to the governments.[1] In practice, of course, even if the national issuing authority did not have to hold foreign exchange (or sterling) assets specifically earmarked as currency cover it would have to arrange its assets in such a manner as to permit transactions in foreign currencies.

Dr. Niculescu's conclusion should be contrasted with the approach of one writer that "if Bank of England notes were used in circulation in place of the Board's notes ... these London balances would be wiped out."[2] But then even if Bank of England notes were used the question would arise as to what asset would need to be transferred to the Bank of England in order to obtain the latter's notes. If it was sterling then the situation is exactly the same. If it is some form of local debt then it is no longer a sterling exchange system and the argument referred to above would appear to be irrelevant.

A currency issuing authority (whether a Colonial Currency Board or a Central Bank) does not have to give up real resources or anything else in issuing currency. The question, however, is whether the economy as a whole gives up the opportunity of using foreign exchange for other purposes. To this the answer is simple and familiar: foreign exchange

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1. B.M. Niculescu, op. cit.

2. S.I. Katz. op.cit.
At the time of this writing (1956) notable examples of outright adoption of a foreign currency were provided by Leiberia and Panama, San Domingo having desisted from the use of the U.S. dollar in 1948. See E.A. Birnbaum, "The cost of a foreign exchange standard....." IMF Staff Papers Vol. 5, 1956-7, p.477. Also N.A.D. Macrae, op.cit.

does have to be given up. This foreign exchange comes from the current flow of exports of goods and services, a net capital inflow itself made up of new capital flows and of a switching of net foreign assets and liabilities such as when a commercial bank shifts from a foreign exchange asset into the monetary liabilities of the currency authority. It is not sufficient to establish how the person or unit obtaining the currency is affected (or the person actually giving up the foreign exchange, which is not usually the same thing) because it is the final result on the economy which requires determining. To this, however, no straightforward answer can be given.

Implied in the idea that the sterling reserve held against currency issues represented a sacrifice of real consumption and investment was a call for their reduction relative to the volume of currency to make funds available for development. As has been stated earlier Newlyn and Rowan estimated a 50% sterling reserve in the case of the African territories which they examined. Similar specifications regarding foreign exchange cover are to be found in various recent Central Bank enactments.

The reason for foreign exchange backing is undoubtedly to preserve exchange rate stability and to modify balance of payments crises. Even assuming a zero balance on capital flows a simplified basis for determining the adequate size of foreign reserve would be the level of money income and not currency issues. Realistically it has to do with the

expected absolute values, trend and fluctuations in exports, imports, net capital flows and the degree of restrictions and controls over each of these. Each of these is subject to diverse influences and effects so that the link between them and the money supply (in this respect the level of currency issued is irrelevant except in a very simple economy) is likely to be unpredictable. Thus it is somewhat pointless to make a general rule on currency backing for purposes of exchange rate stability.

As far as Ghana is concerned the 100% foreign exchange reserve (against issued currency) as under the Currency Board was probably as harmful in being so restrictive, as the current low ratio has proved to be fraught with instability and distortions. In the final analysis this is one area in which common sense should replace regulation.

Section B

The Balance of Payments, External Reserves and the Money Supply

For a long time the sterling exchange standard was criticized for automatically tying changes in the money supply to the balance of payments. Compared with the other criticisms of the Standard this particular criticism was unique in passing for a relatively longer time as a valid theory of the monetary conditions of countries on an automatic exchange standard with currency fully backed by foreign exchange assets.

Later writers have criticized this view on the ground that the banking system was not automatically hindered by

the sterling exchange standard from influencing the money supply by their internal credit operations and that in any case the earlier writers were vague about their concept of the balance of payments.[1] In particular it has been argued that earlier writers gave the impression that their concept of the balance of payments was one which excluded the balance on autonomous capital flows, thus concentrating on the balance on the current account.

There were certainly examples in the earlier formulation of the theory which were deficient in this respect.[2] One variation was that the balance of payments determined strictly the currency circulation.[3] Another variant, differing only slightly from the last, was that the whole money supply was responsive to the balance of payments due to negligible credit operations by the banks.[4] An integral part of the theory was that changes in the currency circulation were the one item that brought about equality between the positive and negative items of the balance of payments. By this was meant that changes in the sterling assets of the monetary system (currency authority and commercial banks) provided the compensatory finance to balance the external accounts.

Two aspects of these criticisms are here singled out

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1. See C.Y. Thomas, "The balance of payments and the money supply of a colonial monetary economy", Social and Economic Studies, March 1963; also Tony Killick, op.cit.
2. See H.A. Shannon, op.cit., In this article the writer definitely treats the balance on current account as the relevant balance of payments with corresponding changes in the currency circulation. The analysis is couched in terms of export earnings.
3. J. Mars, op.cit.
4. Newly and Rowan.

for examination in relation to Ghana; the extent to which the balance on the current account of the balance of payments was reflected in opposite changes in the external reserves of the monetary system and tho link between the balance of payments and the domestic money supply. But first we should comment briefly on the criticisms advanced against the theoretical conclusions of the early writers.

The early theory which was criticized by later writers was indeed in a broad sense a correct interpretation of the monetary conditions of the territories served by the colonial sterling exchange standard. When the early theory was couched in terms of the current account balance instead of the overall balance what the proponents were in fact saying was that by and large exports constituted the major source of money income and foreign exchange receipts. For most of the territories on the sterling exchange standard the considerable net inflow of foreign capital (including sterling capital) is a post-Independence phenomenon.[1] Secondly, in many such territories credit operations by commercial banks were, until relatively recently, subject to various real bottlenecks (abstracting from their own broad lending policies) which required time and changing political circumstances to reverse or modify. From this fact arose the implication in the earlier accounts that currency was the principal component of the money supply. In many cases empirical examination established this as a fact with the consequent implication that the ratio of changes

1. See A.K. Cairncross, "Factors in economic development", Allen and Unwin, 1962. Chapter 3.

in the money supply to changes in the sterling assets of the currency authority was not far from unitary.

Thus the achievement of the later writers is in the refinements to the theory which were needed to take account of later developments, and in drawing attention to the peculiarities of individual currency board territories which detracted from the universal validity of the early theory. In so far as recent writers have tended to review the early theory in terms of the conditions of recent times it might be said that they have laid criticism where it did not belong.

The balance of payments and changes in external reserves in Ghana

In Table 50 and Table 51 we present the balance of payments against changes in external reserves for the periods 1950-60 and 1961-64 respectively. The classification is less detailed for the latter period because available detailed data is characterized by considerable discrepancies.

In Table 50 the overall balance of payments has been taken as the total change in external assets. This procedure is adequate for the period covered in Table 50 as other forms of accomodating transactions became established only in the second period. From the point of view of balance of payments accounting the positive changes in reserves would be represented as negative entries or debits and negative changes would show as positive entries or credits. However, as these are changes in reserves positive and negative changes have been left as their usual

Table 50

Ghana: The Balance of Payments and Changes in External Reserves, 1950-60

£G Million

	Balance of payments	Changes in External Reserves						
		Currency Authority[a]	Commercial Banks	Total (2) and (3)	Govern-ment	C.M.B.[b]	Others[c]	Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1950	30.8	3.4	4.3	7.7	1.1	20.8	1.2	30.8
1951	23.8	2.2	-1.0	1.2	11.7	11.3	-0.3	23.8
1952	7.9	2.0	3.8	5.8	4.4	-2.4	0.1	7.9
1953	15.1	-1.0	3.5	2.5	4.2	4.9	3.4	15.0
1954	37.2	1.7	0.5	2.2	37.6	0.2	-2.8	37.2
1955	13.8	0.8	3.1	3.9	7.7	-3.1	5.3	13.8
1956	-18.3	2.8	-2.0	0.8	-8.4	-11.3	0.6	-18.3
1957	-18.4	-2.6	-1.0	-3.6	-14.3	-1.9	1.4	-18.4
1958	9.8	1.1	3.7	4.8	1.8	2.4	0.7	9.7
1959	-11.6	7.1	-3.6	3.5	-0.8	-14.9	0.6	-11.6
1960	-21.0	7.5	-4.3	3.2	-16.9	-6.8	-0.5	-21.0

Notes:- (a) Until August 1957 the Currency Authority was the West African Currency Board and since then the Bank of Ghana.
(b) Ghana Cocoa Marketing Board
(c) Local authorities, higher educational institutions and other public bodies other than the Cocoa Marketing Board.

Discrepancies are due to rounding.

Sources: Quarterly Digest of Statistics, June 1959.
Bank of Ghana Quarterly Economic Bulletin, June 1962.

Table 51

Ghana: Balance of Payments Accounts 1961-64

£G Million

	1961	1962	1963	1964
1. Balance on Current Account	-52.7	-28.3	-45.8	-32.6
2. Net change in Reserves of Official and Banking Institutions	75.0	1.6	24.5	9.3
3. Government Capital Transactions	-18.1	21.1	13.3	17.1
4. Net Private Capital Movement	-	6.8	11.1	9.6
Net Capital Account	56.9	29.5	48.9	35.9
5. Errors and Omissions	-4.2	-1.3	-3.1	-3.3
Net Balance on Capital Account	52.7	28.3	45.8	32.6

Differences between totals and the sum of parts arise from rounding.

Source: Central Bureau of Statistics, Economic Surveys.

signs.

From 1950 to 1955 the balance of payments was in overall surplus but although the monetary system (Currency Authority and commercial banks) was accumulating external assets these were lower in each of those years than the amount of the surplus. Similarly, in 1958 when the external account was restored into an overall surplus - after two successive years of deficits - the total net increase in the reserves of the monetary system was only £G4.8 million as compared to a surplus of £G9.8 million on the balance of payments. In 1956, 1957, 1959 and 1960 when there were deficits on the balance of payments the monetary system was adding to its external reserves except in 1957 when its reserves declined by £G3.6 million, even this substantially below the full amount of the deficit £18.4 million

These observations reflect the fact that the peculiar arrangements of an individual country were not taken.into account when the earlier writers built up models in which the balance of payments was made the automatic determinant of equivalent changes in the external assets of the monetary institutions from which followed their conclusion that the balance of payments brought about equal or parallel changes in the domestic monetary liabilities.

The existence of foreign-asset holders other than the Currency Authority and the commercial banks meant an absence of absolute parallelism between the balance of payments and the changes in the external assets of the traditional

holders of foreign financial assets, unless any such holdings were regarded as autonomous capital outflows. But any such treatment of external reserves held within the public and semi-public sectors would be largely conceptual as in practice the indications are that they were operated as one and the same reserve.[1]

Thus a deficit or surplus would lead initially to changes in the money supply if all domestic units banked only with local commercial banks. In that case the stage where the Cocoa Marketing Board, for example, decided to invest in sterling or to run down sterling would be a second and separate stage. However, as the units shown in Table 50 had direct dealings with abroad they thereby short-circuited the domestic banking system to a considerable extent.

The balance of payments for the period 1961-64 is summarized in Table 51. First, some explanation of the figures is called for. The item "errors and omissions", sometimes referred to as "the balancing item", probably accounts for net private capital outflows which has usually been poorly accounted for in the official statistics. Private capital movements have come within the grasp of the authorities only with the tightening of exchange control regulations. The non-identification of private capital movements could mean a serious misrepresentation of the true external reserve/liability position of the economy. To give a hypothetical illustration, suppose that a resident earns interest on external assets and keeps the interest

1. See Tony Killick, op. cit.

abroad (that is, reinvests the interest abroad) of which the authorities are not able to obtain any record. The overall balance of payments remains the same but there is an understatement of the balance on current account and a corresponding overstatement of the net balance on capital account.

In 1961 Government capital transactions showed one item on the credit side, namely £G11.4 million of suppliers credit. On the payment side Government capital transactions consisted of purchases of gold mines in Ghana (£G5.5 million), long-term loans to other African countries (£G10 million) and cocoa bills drawn on the London money market (£G14 million). In 1962 Government capital payments were virtually nil whilst receipts amounted to £G21.1 million consisting of an IMF loan (G5 million), suppliers' credits (£G12.4 million), pension funds (£G2 million) and balances on bilateral trade agreements (£G1.7 million). In 1963 and 1964 Government capital transactions settled down to only suppliers' credits and bilateral trade balances. Net credits on the former were £G11.5 million and £G16.0 million respectively[1] while net receipts on the latter account were £G1.7 million and £G1.5 million respectively.

On private capital movements the net inflows as entered in Table 51 represent principally re-investment of profits in Ghana. Foreign firms were in some cases unable to repatriate distributed profits due to the combined effect of tight exchange controls and depleted foreign exchange

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1. It must be noted that the suppliers credits were most probably understated due to unrecorded transactions.

reserves. Whether directly invested in real assets or held in financial assets such funds have been entered as capital receipts in the balance of payments.

According to the orthodox computation of the overall balance of payments the deficits of the last four years of the period would be equivalent to changes in the official and banking reserves. This, however, would not be an illuminating way of measuring the external disequilibrium indicated by the deficits (that is, negative savings) on the current account. To calculate the overall balance in this way would be tantamount to treating the suppliers' credits as autonomous capital credits and so would the IMF loan mentioned above. Viewed in this way we should exclude from autonomous capital inflow the retention of distributed profits (due to foreign residents) on the grounds that in so far as they are held in financial assets rather than real assets they represent financial balances whose continued retention in Ghana is induced by the continuing balance of payments deterioration. The retention of such funds in Ghana prevents the balance of payments from deteriorating to the full extent. So long as it remains in the domestic economy the accounting effect is neutral, but should it be exported (which we assume it would if the controls were loosened) this would be a negative entry in the accounts which would need to be financed by some other means. The growing importance of suppliers' credits in the external account also poses a further problem

of cpncept and interpretation of the external position. It indicates that as foreign exchange reserves have declined to an "irreducible" minimum, so to speak, to get an accurate measure of the balance of payments deficits one has to go beyond changes in external reserves and take a critical look at the changing position of the public external debt.

To summarise, throughout our period changes in external assets of the banks and the Currency Authority were never linked to the balance of payments in a unitary ratio.

The actual relationship between the balance of payments and the money supply is indeterminate a priori. In other words in an ultimate sense one cannot say that the balance of payments determines the money supply or vice versa. The two variables are interdeterminate. One therefore has to distinguish between an initial and final position. To clarify the processes involved we may postulate four extreme initial cases as regards the financing of an overall deficit ignoring foreign short-term credits.

1. Assume the public draw on their deposits whilst the banks finance the deficit by selling domestic currency to the Currency Authority. In this case the money supply falls the banks' net foreign exchange asset position is unchanged but both their deposit liabilities and currency decline to the extent of the deficit.

2. The public may pay in currency to the banks whilst the banks sell currency to the Currency Authority. In this case the money supply falls through a reduction in net

currency circulation. Commercial bank currency position remains unchanged and so is their net foreign exchange asset position.

3. Where the public draw on their own deposits and the banks finance the deficit by reducing their own net foreign exchange assets. Again, the money supply is reduced. The reduction in bank deposit liabilities is then matched on the assets side by a corresponding reduction in the banks net foreign exchange assets.

4. Where the public pay in currency to the banks and the banks finance the deficit by reducing their net foreign exchange assets. Again, as under all the other cases postulated above the money supply falls to the extent of the deficit. The change in the banks' position takes place within their asset structure. The decline in their net foreign exchange assets is matched by a corresponding increase in their domestic currency assets.

Subsequent to each of the processes analysed above the public may adjust their currency/deposits ratio position and the banks may also need to adjust their cash/deposits position, and the interaction of these factors would exert income effects through a change in the money/income ratio. The higher the public's <u>new</u> currency/deposits ratio the higher will be the banks' own new cash/deposits ratio, assuming previous equilibrium positions. It is clearly important what the banks regard operationally as cash which may include among domestic cash assets, net foreign exchange assets and

facilities available from oversea sources in the case of the British banks. The banks' ability to maintain the previous level of the money supply or to offset the deflationary effect, if any, of the balance of payments deficit would, given the state of their investible resources, depend on the availability of suitable investment opportunities which would in turn depend partly on supply elasticities in the short run.

A balance of payments surplus entails an excess of receipts over payments. Therefore the initial effect of a surplus on domestic monetary circulation depends on the manner in which the saving (on foreign account) is distributed among various classes of income recipients in the economy: households, firms and the Government. In Ghana the Cocoa Marketing Board, as a result of the practice of witholding part of the cocoa proceeds from the producers, came to hold large funds which were invested in sterling. Thus the whole of cocoa earnings did not necessarily accrue as income to cocoa producers. Ignoring capital flows cocoa earnings were the major constituent of external receipts. This means that a balance of payments surplus would be partly reflected in increased sterling assets of the Cocoa Marketing Board which did not increase the sterling assets of the monetary institutions and hence did not initially affect the money supply or total domestic financial assets to the full extent of the surplus.

One must perforce limit oneself to only a brief comment on the determination of the supply of and demand for banking

services.

The total potential supply of bank credit in Ghana is a function of several variables: interest rates, credit-worthiness in the economy and the policy of head office in the case of the international banks and the state of the balance of payments which, as discussed above, would either raise or lower the banks' net foreign exchange assets. Similarly, the demand for bank credit is a function of several variables: interest rate as compared to borrowers' own expected returns, creditworthiness etc. One cannot easily identify and quantify the influential key variables in either case. Thus a simple analysis in terms of cash/deposit ratios and the ratios of bank credit to money national income are not very helpful. The system could be said to have been fraught with rigidities and imperfections a viable analysis of which would require a full study of its own. In the following section we will simply examine the sources of changes in the money supply over the period under examination.

The sources of change in the money supply

In the advanced countries money supply is defined as the sum of currency held outside the banking sector and demand or current account deposits with commercial banks excluding deposits of the Government. As noted in Chapter 2 (page 174) this is also the definition stipulated in the Bank of Ghana Act, 1963.

With reference to Ghana the exclusion of Government

deposits leaves much to be desired. For one thing if we are to include bank credit to Government in the sources of changes in the money supply (as will be done in this study) then there appears to be no logical explanation for the exclusion of Government monetary balances from money supply. To include Government credit transactions among the sources of money supply but exclude Government deposits amounts to saying that proceeds from credits obtained by the Government are immediately transferred to the private sector. Similarly, foreign exchange conversions are partly the result of Government external receipts and payments on both current and capital transactions. Since all foreign exchange conversions are counted among the factors that affect the money supply there is no reason why Government deposits arising from the same sources should be excluded from the money supply.

The only rationale for the exclusion of Government deposits seems to be that Government expenditure is not influenced strictly by the level of Government money deposits. Much as this would be largely true it raises the question of what distinction can be drawn between the Government and the non-Government sector in this respect. Clearly the private sector can and does increase its expenditure beyond its monetary balances by acquiring liabilities. Ignoring foreign credits, a limiting constraint is imposed on the private sectors ability to increase its expenditure beyond existing monetary balances by the fact that such

liabilities must be financed within the same sector whose total resources are limited at any given time. But if we again ignore foreign credits this kind of constraint applies to the Government which cannot ordinarily obtain unlimited amounts of credits within the domestic economy. Similarly, both the Government and the private sector can increase their expenditure by the acquisition of foreign liabilities. The distinction between the Government and the private sector can at best only be in degree if one makes the plausible assumption that the Government's ability to add to its gross financial assets both domestically and abroad is greater. However, the tenuity of this distinction, in the opinion of the author, fails to provide a convincing basis for the exclusion of Government deposits from the money supply.

In addition to the issue raised above the conventional definition of the money supply itself is currently a subject of controversy ultimately centred on the question of what coverage should be given to monetary policy.

If the money supply can no longer be defined as the summation of not currency circulation (that is, issued currency held outside the banking system) and current account deposits held with the commercial banks, then one should include among the money supply the time and savings deposits in commercial banks and non-bank financial intermediaries. If this is so then, the arguement runs, monetary policy and regulations should be extended to cover the non-bank financial intermediaries whose debt is conceptually difficult

to distinguish in a watertight manner from the assets conventionally included in the money supply. Thus it has been contended that commercial banks shade into industrial banks, savings banks, building societies etc.[1] Naturally, the controversy is partly a question of which type of institution is a lender of other people's savings and which kind in its acquisition of assets brings about additions to ex ante loanable funds.[2]

For the purpose of this study our main interest centres on the doubts raised regarding the concept of money. The aspect of the controversy outlined above seems to relate to liquidity. Obviously, deposit accounts (time and savings deposits) can be drawn upon at the permitted intervals to effect transactions. Thus the argument seems to draw its strength from the fact that deposit accounts are nearly perfectly liquid, whatever way one looks at the concept of liquidity. Such deposits are not only close to maturity (that is, encashable date) but also when converted to perfectly liquid assets (currency and demand deposits) suffer no value depreciation except, of course, the general depreciation of value due to the instability in the goods market from which existing money balances are obviously not exempt. If, therefore, one looks at the supply of money as the supply of liquidity then we should include in the money supply time and savings deposits in commercial banks and similar debts of other financial institutions.

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1. R.S. Sayers, "Monetary thought and monetary policy in England", Economic Journal, December 1960.
2. For an early view in support of an equal treatment of non-bank financial institutions and commercial banks as creators of money see Gurley and Shaw, "Financial aspects of development", American Economic Review, September, 1955.
Also see W.L. Smith, "On the effectiveness of monetary policy", American Economic Review, September 1956.

An opposite point of view centres the definition of money on the "means of payment" function of money. According to this view an asset should be regarded as money if by drawing upon it there is no decrease in their aggregate or an increase in demand relative to supply in the market for loans.[1]

Quite apart from the fact that there is no easy answer to the controversy, in Ghana, (as in many countries in a similar stage of development with regard to the financial system) special peculiarities suggest a need for a separate analysis.

In Ghana where banking facilities though undergoing a tremendous rate of expansion are still not within the immediate reach of many the distinctions implied in the debate outlined above acquire a special significance. As mentioned in Chapter 1 the fact that low-income earners do not have access to chequing account facilities at the banks gives a special meaning to a part of savings deposits. It would not be precisely correct to regard currency and demand deposits as the only constituents of transactions balances within the private sector. If we invoke the usual assumption that low-income earners have a high average and marginal propensity to consume then it stands to reason that savings deposits held by the low-income group are held mainly as transactions balances rather than to take advantage

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1. W.T. Newlyn, "The Supply of Money and its Control", Economic Journal, June 1964.

of the income return on such deposits. Thus the size, source and receipt pattern of income, and accessibility to monetary and financial institutions all have their influences on the manner in which individuals hold their money balances and on the manner in which they operate such balances. An important facet of this is that since both the banking habit and banking facilities are not very widely spread a proportion of currency hoards is similar in concept to time deposits differing, though, in the sense that they are withheld from the organised loans market.[1] Furthermore, in Ghana as probably in many underdeveloped countries the use of cheques is largely confined to inter-business transactions. The use of cheques outside this sector is very little, a fact which is accentuated by the relatively large number of illiterate and rural populations and a generally small average size of transactions. Thus even when one talks of current accouht deposits as money (in the sense of a means of payment) one is, in fact, talking of the liquidity concept of money. In Ghana, outside of inter-business transactions (and of course, transactions between Government and the business sector and a limited group of the personal sector) current account deposits can be regarded as money only because they are readily convertible into currency.

Thus, viewed in a world-wide context the doubts raised in the literature about the adequate definition of money could be of immense significance. In this study total money

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1. For a brief account of various forms in which ex post savings may be held in an underdeveloped economy see Okware O Amogu, "Some aspects of savings in an African economy", Social and Economic Studies, Volume 5, 1956, p.202.

supply has been defined as the sum of currency circulation net of bank holdings and the demand liabilities of commercial banks and the Central Bank (from 1957) to both the Government and the private sector defined to include autonomous and semi-autonomous Government enterprises and institutions. It is clear from the arguments raised above that this definition can by no means be final. Its adoption rather indicates that as far as Ghana is concerned a better definition of money requires a full investigation which cannot be undertaken in this study.

In Table 52A and Table 52B are tabulated changes in the money supply and the sources of the changes.

The data on money supply presented in Table 52A are averages of end-of-month figures whereas the data on sources of money supply are annual series representing the position as at the end of December. Figures on time and savings deposits are also end-of-December series. Thus there is no unitary relationship between changes in money supply and the sum of the sources. A further caution should be exercised with regard to the money supply series. Between 1950 and 1957 the West African Currency Board revised estimates of currency circulation first as at June 30 1953 and again as at June 30 1956. The major statistical sources used for Table 52A show the old series up to the end of 1956 and a second series commencing in 1954 to agree with the revised estimates. The first series is subject to greater error whereas the second series provides figures for only

1954 onward. On the other hand if we use the old series up to 1953 and then use the second revised series from 1954 the greater margin of error indicated gives rise to a rather large decline between 1953 and 1954. In Table 52A the latter method has been followed and hence the observed decline in both currency circulation and total money supply in 1954.

In spite of the statistical limitations outlined here it may be reasonable to state that the validity of the conclusion from Table 52A is not seriously impaired.

In Table 52A and Table 52B an attempt has been made to calculate net bank creation of money by the banking system from the formula

$$Lp + Lg - Dt = Mb$$

where Lp bank credit to the private sector (including public inst.)
Lg bank credit to the Government
Dt time and savings deposits in commercial banks
and Mb net creation of money by the banking system.

Over the period 1950-57 total net increase in money supply due to bank credit was £G0.7 million equivalent to 5.1% of the total increase in money supply. On the other hand foreign exchange accumulation by the banking system furnished £G12.7 million of the total change in money supply of £G13.8 million for the period 1950-57, equivalent to 92% of the total.

It should be noted that the strong force of foreign exchange as a factor in the expansion of the money supply does not contradict the conclusion reached earlier that in Ghana the compensatory finance of the overall balance of

Table 52A

Changes in Money Supply and Sources, 1950-57 £G Million

	Compenents			Sources			Change in Time & Savings Deposits with Commercial Banks	Net change in Money Supply due to Bank Credit 5 + 6 - 7
	Change in currency circulation (1)	Change in Demand Deposits (2)	Change in Total Money Supply (1)+(2) (3)	Change in Oversea Assets of Monetary System (4)	Change in Bank Advances to Private Sector (5)	Change in Bank loans to Govt. (6)	(7)	(8)
1951	5.3	0.7	6.0	1.2	0.2	Nil	0.2	Nil
1952	0.7	0.2	0.9	5.8	0.4	"	0.4	"
1953	0.9	3.2	4.1	2.5	-0.7	"	0.8	-0.1
1954	-3.8	1.5	-2.3	2.2	0.3	0.1	0.6	-0.2
1955	0.4	0.1	0.5	3.9	1.7	Nil	0.8	0.9
1956	2.2	1.0	3.2	0.7	1.5	-0.06	0.8	0.6
1957	0.8	0.6	1.4	-3.6	0.4	-0.01	0.9	-0.5
1950-57	6.5	7.3	13.8	12.7	3.8	0.03	4.5	0.7

Note: Columns (2), (2) and (3) are averages of end-of-month figures. All other columns are as at end of December.

Sources: Central Bureau of Statistics, Quarterly Digest of Statistics, June 1959 Table 72, Table 61. Table 73 and Table 74.

Table 52B

Changes in Money Supply and Sources, 1958-64 £G Million

End of December

	Components			Sources				Time and Savings Deposits in Commercial Banks	Net Change in Money Supply Due to Bank Credit 5 + 6 - 8
	Change in Currency Circulation (1)	Change in Demand Deposits (2)[a]	Change in Total Money Supply 1 + 2 (3)	Foreign Exchange Conversions (4)	Bank Credit to the Private Sector (5)[b]	Bank Credit to the Government (6)	Capital and other Accounts (7)	(8)	(9)
1958	-	-	-	-	-	-	-	-	
1959	4.9	2.1	7.0	8.8	7.3	0.02	-6.5	2.0	5.3
1960	6.0	5.3	11.3	6.1	5.7	0	-3.5	1.8	3.9
1961	-0.3	4.9	4.6	-11.8	6.9	16.8	2.8	0.6	23.0
1962	4.0	12.9	16.9	-2.9	3.3	20.0	-1.1	4.0	19.3
1963	1.7	4.1	5.8	-16.1	23.2	7.2	0.3	4.4	26.0
1964	17.7	12.3	30.0	-5.9	18.6	27.6	-1.3	14.0	32.2
1958-64	34.0	41.6	75.6	-21.8	65.0	71.6	-9.3	26.8	109.7

Note: (a) Include demand deposits of Government in Commercial Banks and Central Bank.
(b) Includes public-corporations.

Sources: Based on Economic Survey, 1964 Table XII, p.129;
Bank of Ghana, Annual Report June 1964, Table XLIV, p.47.
" " " , Annual Report June 1963, Table XXXV, p.44.

payments was not fully reflected in the foreign exchange reserves of the monetary system. A juxtaposition of these two conclusions means that the state of the balance of payments affected strongly the domestic monetary circulation but not necessarily to the full extent of the balance of payments. Nor should this clarification be interpreted to mean that the balance of payments determined the monetary circulation. As stated earlier the relationship between the two variables is not one-sided.

In Table 52B are presented changes in the money supply and the sources of changes for the period 1958-64. The data relate to the end-of-year changes because reliable detailed information on the sources of change are available only on this basis. 1958 has been left blank to avoid the discrepancy embodied in deducing end-of-December figures from the 1957 level of the money supply which, as stated above, is the average of monthly figures.

Table 52B includes among sources of changes in the money supply the item "capital and other accounts". This item, not easy to explain in its entirety, is a miscellany of items comprising among others interest credited to deposit accounts, various capital reserves etc.

One significant development in the monetary system was the replacement of additions to the foreign exchange assets of the banking system (both commercial banks and the Central Bank) by domestic bank credit (again both commercial banks and Central Bank) as the main force behind expansions in

Table 53

Gross Credit by the Banking System, 1958-64 £G Million

End of Period	Credit to the Private Sector			Credit to the Government			Total Outstanding Bank Credit (3) + (6)
	By Central Bank (Cocoa Bills)	By Commercial Banks	Total	By Central Bank	By Commercial Banks	Total	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1958 Dec.	-	6.8	6.8	0.02	0.2	0.2	7.0
1959 Mar	-	6.9	6.9	0.02	0.2	0.2	7.1
June	-	7.4	7.4	0.04	0.4	0.4	7.8
Sept.	-	9.4	9.4	0.07	0.2	0.3	9.7
Dec.	-	14.1	14.1	-	0.2	0.2	14.3
Average			9.5			0.3	9.7
1960 Mar.	-	8.9	8.9	0.1	0.2	0.3	9.2
June	-	n.a.	n.a.	0.2	n.a.	n.a.	n.a.
Sept.	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Dec.	-	19.8	19.8	0.2	0.2	0.2	20.0
Average			14.4			0.3	14.6
1961 Mar.	-	19.3	19.3	2.4	5.3	7.7	27.0
June	-	15.8	15.8	3.5	5.3	8.8	24.6
Sept.	-	23.2	23.2	12.8	6.8	19.6	42.8
Dec.	-	26.7	26.7	9.8	7.2	17.0	43.7
Average			21.3			13.3	34.5
1962 Mar.	-	23.8	23.8	11.7	13.1	24.8	48.6
June	-	18.6	18.6	18.4	15.1	33.5	52.1
Sept.	-	17.6	17.6	13.2	21.5	34.7	52.3
Dec.	-	30.0	30.0	17.6	19.4	37.0	67.0
Average			22.5			32.5	55.0
1963 Marf	-	29.3	29.3	18.7	22.5	41.2	70.5
June	-	28.0	28.0	20.3	26.1	46.4	74.4
Sept.	-	30.4	30.4	20.3	21.6	41.9	72.3
Dec.	14.5	38.7	53.2	20.4	23.8	44.2	97.4
Average			35.2			43.4	78.6
1964 Mar.	16.3	31.5	47.8	15.2	26.4	41.6	89.4
June	11.4	29.1	40.5	27.8	31.5	59.3	99.8
Sept.	5.1	31.4	36.5	27.0	32.5	59.5	96.0
Dec.	33.9	37.9	71.8	31.2	40.6	71.8	143.6
Average			49.2			58.5	107.2

Note: Private sector includes public corporations and institutions.

Source: Central Bureau of Statistics, Accra.
Bank of Ghana.

the money supply from 1961 to 1964.

Over the period 1958-64 the money supply as at the end of December rose by £G75.6 million. There was a net loss of foreign exchange assets from the banking system to the tune of £G21.8 million. By contrast total net bank creation of money as explained above was about £G109.7 million or 144.3% of the total cumulative increase in money supply. In particular, attention must be drawn to the large increase in bank loans and advances from 1961 to 1964, and to the spectacular increases in the last two years of the period.

Table 53 shows quarterly figures on outstanding bank credit (commercial banks and the Central Bank) to the Government and the private sector. These data are further summarized in Table 54 to bring out clearly the amounts of bank credits to the Central Government on the one hand and the private sector on the other. Table 55 shows the amounts of credit granted by the commercial banks and the Central Bank respectively. In Table 56 are presented quarterly changes in outstanding bank credit to the private sector and the Central Government. In all these cases the private sector includes public bodies other than the Central Government so that data relating to the private sector as ordinarily understood are considerably overstated because as noted in Chapter One State-owned enterprises became very significant users of commercial bank credit in the last two years of the period under review. Public corporations, institutions etc., have been classified with the private sector because separate data were not readily obtainable.

Table 54

Distribution of Bank Credit Outstanding, Classified by Broad Groups of Borrowers, 1959-64 £G Million

Quarterly Averages

	Total Outstanding	To Central Government		To Private Sector	
		Amount	% of Total	Amount	% of Total
1959	9.7	0.3	3.1	9.5	97.9
1960(a)	14.6	0.3	2.1	14.4	98.6
1961	34.5	13.3	38.6	21.3	61.7
1962	55.0	32.5	59.1	22.5	40.0
1963	78.6	43.4	55.2	35.2	44.8
1964	107.2	58.5	54.6	49.2	45.9

(a) Average of first and last quarters.

Source: As for Table 53.

Table 55

Total Bank Credit Outstanding Classified by Lender, 1959-64. Amounts in £G Million

Quarterly Averages

	Total	By Commercial Banks	By Central Bank
1959	9.7	9.7	0.04
1960	14.6	14.6	0.2
1961	34.5	27.4	7.1
1962	55.0	39.8	15.2
1963	78.6	55.1	23.6
1964	107.2	65.2	42.0

Source: As for Table 53.

Table 56

Changes in Commercial Bank Credit to Private Sector and Central Government, 1959-64, £G Million

	End of Quarters	
	Private Sector	Central Government
1959 March	0.1	Nil
June	0.5	0.2
Sept.	2.0	-0.2
Dec.	4.7	Nil
1960 March	-5.2	Nil
June	n.a.	n.a.
Sept.	n.a.	n.a.
Dec.	n.a.	n.a.
1961 March	-0.5	3.1
June	-3.5	Nil
Sept.	7.4	1.5
Dec.	3.5	0.4
1962 March	-2.9	5.9
June	-5.2	2.0
Sept.	-1.0	6.4
Dec.	12.4	-2.1
1963 March	-0.7	3.1
June	-1.3	3.6
Sept.	2.4	-2.1
Dec.	8.3	2.2
1964 March	-7.2	2.6
June	-2.4	5.1
Sept.	2.3	1.0
Dec.	6.5	8.1

Note: Private Sector includes public corporations and institutions.

Source: Based on Table 53.

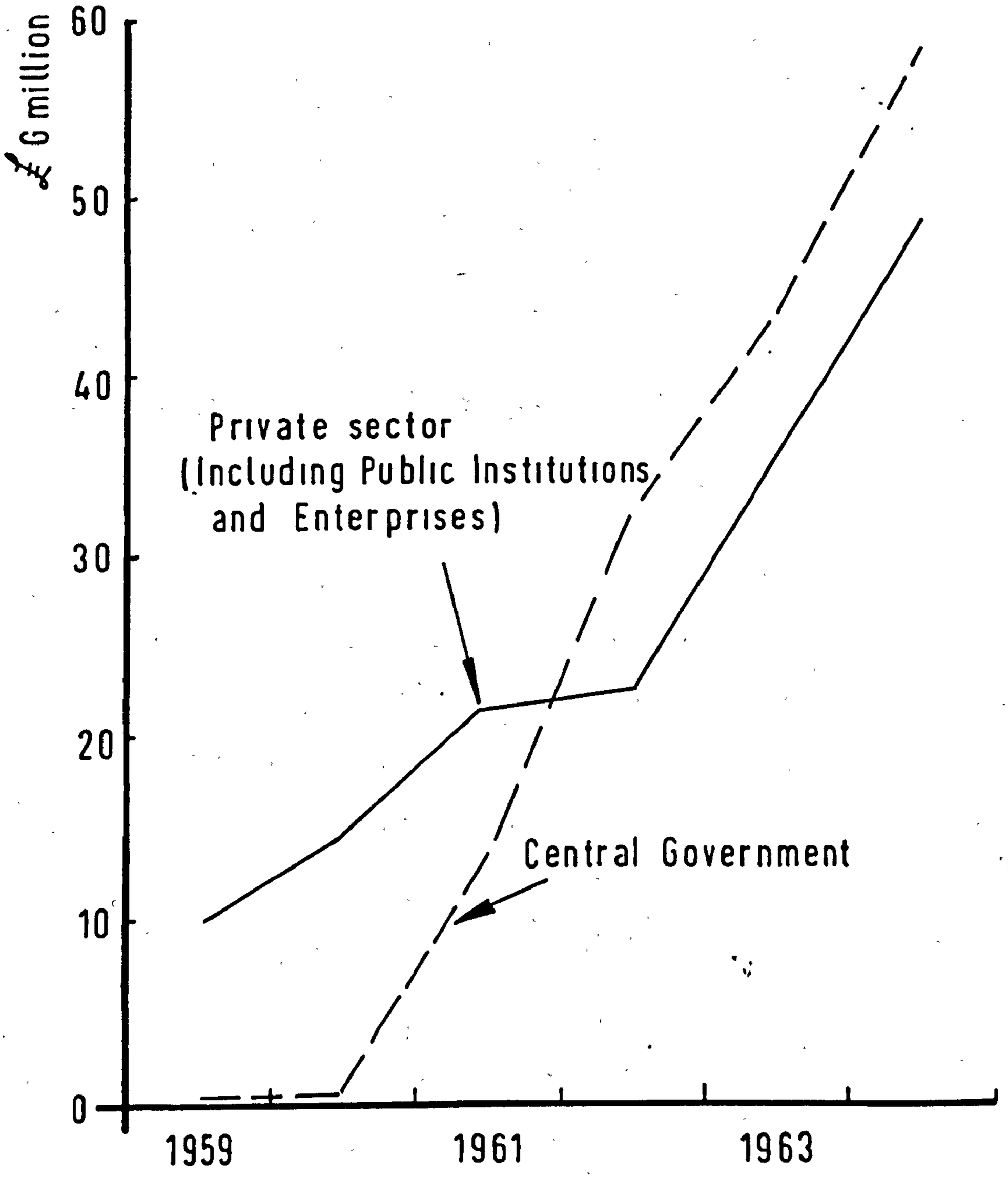
It must alsc be noted that bank credits cover all the various media through which commercial banks and the Central Bank acquire Government ahd private debt, in short, customer credits and open-market credits.

In terms of quarterly averages total domestic earning assets held by the banking system increased from £G9.7million at the end of 1959 to £G107.2 million at the end of 1964 (see Table 53). On the same basis of calculation Central Bank gross domestic earning assets rose from practically nil in 1959 to £G41.0 million in 1964, whilst commercial bank assets rose from £G9.7 million in 1959 to £G65.2 million in 1964. Central Government borrowing from the banking system increased from £G0.3 million in 1959 - 3.1% of the total - to £G58.5 million in 1964, equivalent to 54.6% of the total domestic earning assets of the banking system. Although credits to the private sector as explained above rose consistently in absolute terms from £G9.5 million in 1959 to £G49.2 million in 1964 the relative share in total bank credit declined from 97.9% to 45.9% respectively with a general downward trend.

The amounts of credit to the private sector as such most probably declined in both absolute and relative terms in 1963 and 1964 because as noted in Chapter One (page 109(b)) the State-owned industrial and trading enterprises were very important borrowers in those years.

Figure 7.4 illustrates clearly the higher level of credits to Government relative to other sectors from 1962.

OUTSTANDING BANK CREDIT TO CENTRAL GOVERNMENT AND THE PRIVATE SECTOR (INCLUDING PUBLIC INSTITUTIONS AND ENTERPRISES) 1959-64. QUARTERLY AVERAGES



Source: Based on table 53

FIG 7.4

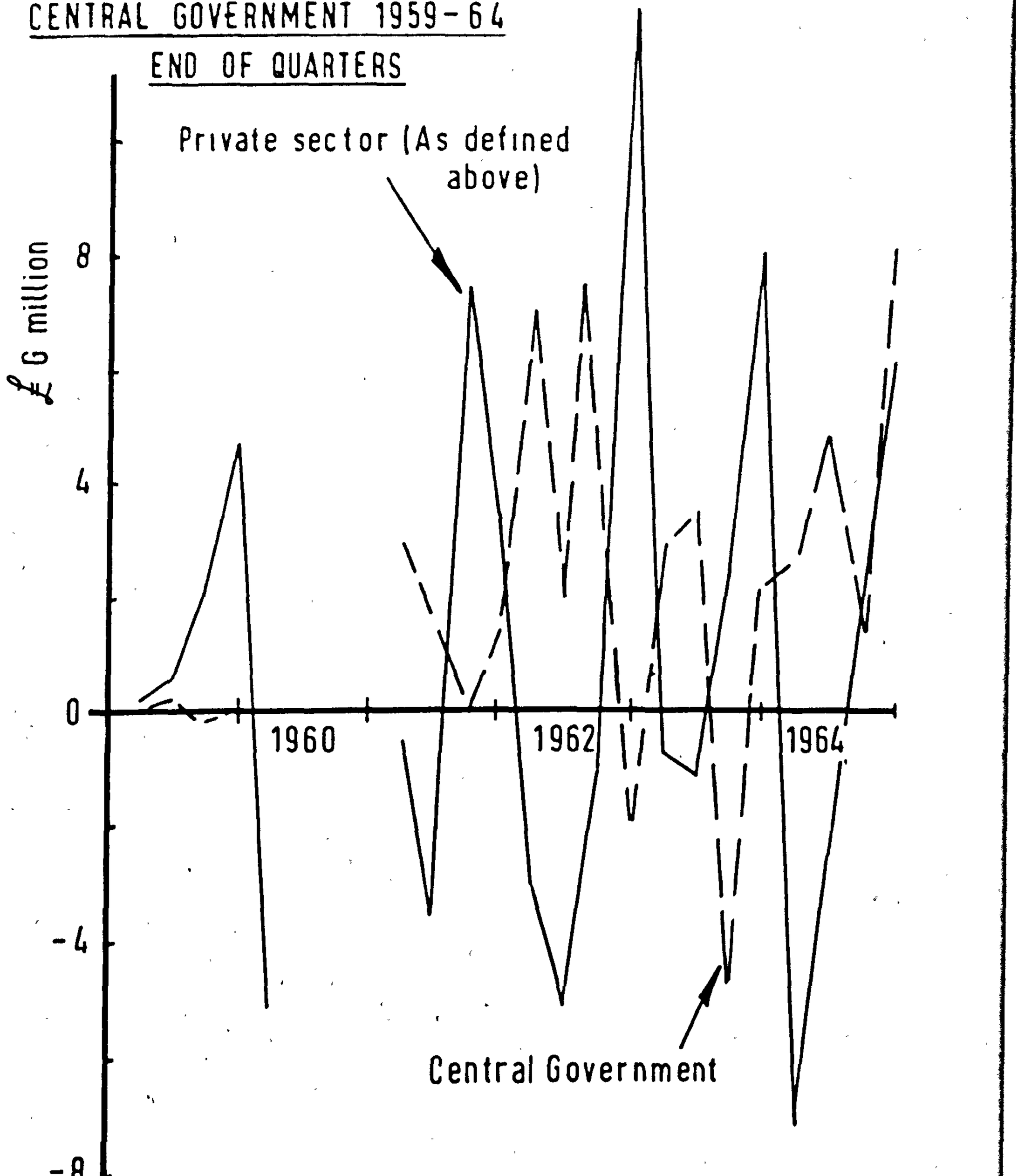
Again we must of necessity repeat that loans to the private sector as such are overstated ~~by~~ due to the inseparability of loans to the State-owned enterprises and other quasi-governmental bodies.

Changes in bank credit to the Central Government and the (crudely defined) private sector have been plotted in Figure 3.2. Credits to the private sector were subject to greater seasonal fluctuations because of the strong relationship between the cocoa season and the import and export trade. On the other hand changes in credits to the Government were positive in all but two quarters (December 1962 and September 1963).

With respect to commercial bank lending it should be noted that from 1962 to 1964 positive changes in credits to the Central Government were associated with negative changes in credits to the private sector. Thus in 1962 commercial bank credits to the private sector declined in the first three quarters to an average of £G3 million whilst in the same period the average increase in commercial bank lending to the Central Government was £G4.7 million. In December of that year credits to the Central Government fell by £G2.1 million whilst credits to the private sector rose by £G12.4 million over the end of September. In 1963 and 1964 this pattern was repeated in the first and second quarters of the year. The major deviation from this pattern was in December 1964 when credits to the Central Government increased by a higher amount than did credits to the private sector.

CHANGES IN COMMERCIAL BANK CREDIT TO THE PRIVATE SECTOR(INCLUDING PUBLIC CORPORATIONS AND INSTITUTIONS) AND CENTRAL GOVERNMENT 1959-64

END OF QUARTERS



Source: Based on table 56

FIG 8.2

The main explanation for this was the introduction of credit control regulations which required the commercial banks to hold Government stocks to the value of 18% of their deposit liabilities. Along with this may also be cited the effects of various restrictions on external payments.

Previously the commercial banks liquidated their holdings of short-term Government debt in the last quarter of the year to accommodate increased demand for advances from the private sector. In the rest of the year private sector debts were generally repaid, and currency flowed back to the banks thus providing the banks with liquid resources to be invested in local Treasury Bills.

It would be interesting to estimate the effects of large Government borrowing from the commercial banks on the supply of commercial bank funds to the private sector. Whilst commercial bank lending to the Government and the private sector were negatively correlated in response to seasonal financial requirements of the two sectors there was no serious problem. Commercial banks increased their lending to the Government at a time when effective demand for funds by the private sector was at its ebb and vice versa. However, a general theoretical discussion of the effects of large Government borrowing on the supply of funds to the private sector is not possible at this stage. Effective private demand for loanable funds came to depend not only on the borrower's ability to repay advances but also on the level of foreign exchange resources within the banking system.

Customers with ready access to bank advances were not always in a position to utilize such facilities because the necessary foreign exchange permits and import licences could not be obtained. Perhaps the best one can do at this stage is to draw attention to the tremendous expansion in bank lending and in particular to the Government by both the commercial banks and the Central Bank. This reflects the increasing economic role of the Government as investor in both long term capital projects and productive enterprises. In this respect we should notice the growth of the public internal debt in the last few years of the review period as shown in Table VI (Chapter Five) in the Introductory Chapter.

SECTION C

Analysis of the Money Supply

In the preceding section money was defined in the conventional manner with one important difference: the inclusion of Government deposits at both the Central Bank and the Commercial banks. Time or deposit accounts have been excluded notwithstanding the debate regarding the definition of money and for reasons given in the preceding section.

Table 57 shows money supply and its components for the period 1954-64. The period 1950-53 has been omitted because the available data are largely unrevised and form a rather unrealistic series with the revised estimates of 1954 and after.

As indicated in Footnote (a) to Table 57 data on 1958-64 are quarterly averages whilst those on 1954-7 are

Table 57

Money Supply, 1954-64(a)

£G Million

	Currency held Outside Banking System(b) (1)	Demand Deposits			Money Supply (1)+(4) (5)
		Commercial Banks (2)	Government deposits at Central Bank (3)	Total (4)	
1954	26.0	15.3	-	15.3	41.3
1955	26.4	15.4	-	15.4	41.8
1956	28.6	16.4	-	16.4	45.0
1957	29.4	17.0	0.9	17.9	47.0
1958	26.4	17.5	1.8	19.3	45.7
1959	28.7	20.2	1.6	21.8	50.5
1960(c)	37.3	23.6	1.7	25.3	62.6
1961	35.7	26.7	5.0	31.7	67.4
1962	39.3	33.0	6.6	39.5	78.8
1963	40.3	41.5	9.7	51.1	91.4
1964	49.6	52.5	6.1	58.2	107.8

Notes: (a) 1954-57 are averages of end of month figures
1958-64 are averages of quarterly figures.

(b) Currency circulation for 1954-57 are revised estimates. There could be errors arising from unrecorded movements of currency between Ghana and the other West African countries served by the West African Currency Board.

(c) Averages of two quarters (March and December)

Differences between totals and the sum of parts are the effects of rounding.

Sources: Bank of Ghana Reports and Economic Surveys.

monthly averages. The available data would not permit any closer basis without the risk of excessive non-comparability between the periods 1954-57 and 1958-64. It will be noticed from Table 57 that net currency circulation actually declined as between 1957 on the one hand and 1958 and 1959 on the other. This is clearly an unrealistic phenomenon brought about probably by the different bases of calculation and by the fact that in 1958 and 1959 two currencies - those of the West African Currency Board and the currency of the Bank of Ghana - were circulating together pending the complete withdrawal of the West African currency. Furthermore net currency circulation could be underestimated or overestimated because Ghana shared a common currency with three other West African countries (see Chapter Two, Section One) and there is every likelihood that currency movements across frontiers were not recorded to any significant extent.

Money supply as defined and calculated in Table 57 rose by £G5.7 million from £G41.3 million in 1954 to £G47.0 million in 1957, an increase of 13.8%. This was only a modest increase compared to a rise of £G62.1 million between 1958 and 1964 from £G45.7 million to £G107.8 million respectively, or a growth rate of 135.9%. Between 1961 and 1964 the money supply as defined in Table 57 rose by 59.9% from £G67.4 million to £G107.8 million.

In Table 58 we present the money supply of the public over the period 1954-64. Money supply of the public is defined to exclude Government deposits and as such is a

Table 58

Composition of the Money Supply of the Public

1954-64(a)

	Currency in Circulation	Demand Deposits(b)	Money Supply of the Public (1) + (2)	Column (1) as Ratio of Col. (3)
	(1)	(2)	(3)	(4)
1954	26.0	15.3	41.3	63%
1955	26.4	15.4	41.8	63.7
1956	28.6	16.4	45.0	63.6
1957	29.4	17.0	46.4	63.4
1958	26.4	17.5	43.9	60.1
1959	28.7	20.2	48.9	59.8
1960(c)	37,3	23.6	60.9	61.2
1961	35.7	26.7	62.4	57.2
1962	39.3	33.0	72.3	54.4
1963	40.3	41.5	81.8	49.3
1964	49.6	52.2	101.8	48.7

Note: (a) Figures for 1954-57 are monthly averages
" " 1958-64 are quarterly averages

(b) Exclude Government deposits at the Central Bank but include Government deposits in commercial banks which cannot be separated out from the available data.

(c) Average of end of two quarters.

Source: As for Table 57.

crude measure because Government deposits with commercial banks could not be separated out of total domestic demand liabilities of the commercial banks. It can, however, be safely assumed that Government deposits with commercial banks were both quantitatively and relatively small in value, and being characteristically volatile should be only minutely reflected in the averaged figures. Thus to a practical degree "the public" represents all domestic units but the Central Government.

Thus defined the money supply of the public showed practically the same pattern of growth as did total money balances of all domestic units including the Central Government. From £G41.3 million in 1954 it rose to £G46.4 million in 1957 representing a growth rate of 12.3%. On the other hand, between 1958 and 1964 the money supply held outside the Central Government (subject to the qualification made in the preceding paragraph) rose from £G43.9 million to £G101.8 million, an increase of 131.9%. Between 1961 and 1964 the money supply of the public rose by 63.4% from £G62.4 million to £G101.8 million. Significantly, the money supply of the public rose by about 25% in 1964 over 1963.

Table 58 also shows the ratio of currency to the total money balances of the public (Column 4). The cash/money ratio declined consistently from 1955 to 1964 with the exception of 1960 in which year the increase was most probably due to the huge weight of December. As explained in the previous Section the public's demand for currency usually

rises with the sale of the cocoa crop around December and the concentration of private sector expenditures in the Christmas period. In 1963 the ratio of currency to the money supply of the general public fell below 50% and in 1964 stood at 48.7%.[1]

In Table 59 is presented the ratio of the money supply of the public to total financial assets over the period 1958-64. The financial assets are here defined as money balances plus various deposit accounts held with the commercial banks, the Ghana Savings Bank and the Building Society. Thus defined financial assets of the public amount to what is usually referred to as the sum of money and quasi-money. This is to a large extent a tolerably accurate measure of financial wealth outside the Central Government. Although bonds and other securities (including Treasury Bills) are undergoing a rapid increase quantitatively a very high proportion of such financial instruments is known to be held in the banking system. Secondly, other forms of holding savings such as life assurance policy was known to be of very little quantitative value. Thus it can be safely assumed that the figures in Table 59 give a fairly accurate measure of financial assets held outside of the Government and the banking system. Lastly, in Table 59 all data have

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1. The relative maturity of a banking system may be measured by the extent to which its liabilities are used as means of payment in the economy. On the basis of this view one could regard the rising ratio of commercial bank liabilities in the public's money balances as indicating a growing maturity of the system. Of course, this conclusion itself rather tentative would need to be qualified by the earlier argument that the use of cheques is very much limited outside inter-business transactions.

been presented as at the end of December to allow comparability over the whole period.

Table 59 indicates a high proportion of perfect liquidity

Table 59

Ratio of Money Supply to Total Gross Financial Assets of the Public, 1958-64

	End of Period			
	Money Supply[a] £G Million	Deposit Accounts Held in All Financial Institutions[b] £G Million	Total Gross Financial Assets of the Public £G Million	Ratio of (1) to (2)
	(1)	(2)	(3)	% (4)
1958	51.1	14.9	66.0	77.4
1959	57.1	16.1	73.7	77.5
1960	67.1	18.6	85.7	78.3
1961	72.9	18.9	91.8	79.4
1962	81.6	22.6	104.2	78.3
1963	86.4	26.4	112.8	76.6
1964	120.9	33.3	154.2	78.4

Notes (a) Defined as in Table 58
(b) Deposit accounts held in commercial banks, the Ghana Savings Bank and the Building Society.

Sources: Bank of Ghana Reports
Economic Surveys

in the financial balances of the general public; the ratio of perfectly liquid assets to total gross financial assets ranged between 76.6% and 79.4% thus showing relative short-run constancy, and a high preference for perfect liquidity as against other financial assets. We may now turn to a

general theoretical analysis of the observations made in this Section with respect to the trends and composition of the money balances of the general public.

Monetary theory separates money balances into transactions, precautionary and speculative balances. Transactions balances are held against real goods and services and are thus related directly to consumption requirements and through it to the level of money income. Precautionary balances may simply be said to vary with the state of uncertainty, whilst speculative balances are temporary balances held against the possibility of changing asset prices. Thus expectations and risk considerations are very important facets of the theory of the speculative demand for money. The speculative demand for money is based on a complex of factors for a whole economy and for a particular group of investor-speculators In a simple form it implies that the willingness to invest cash balances will be small (and that consequently, idle balances will increase) when it is feared that due to a rise in interest rates capital losses may exceed interest gains.[1]

It is generally recognized that the speculative demand for money is of little importance in an underdeveloped economy because of the thinness and general underdevelopment of the market for securities. In Ghana there was, throughout the

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1. For recent appraisals of the theory of the demand for money see W.T. Newlyn, "Theory of Money" Oxford 1962, pp.38-63. and R.J. Ball, "Inflation and the theory of money", Allen and Unwin, 1964, pp.163-225.

period under review, no intermediate trading in securities. Thus, like deposit accounts in commercial banks and other financial institutions securities and Treasury Bills were, as now, fixed-yield and fixed-value assets.

In a recent study of the monetary analysis of underdeveloped countries with special reference to India, Dr. Prasad has analysed the speculative demand for money in terms of an additional variable, real commodities instead of the post-Keynesian analysis limited to bonds and other financial assets.[1] The relevance of this approach to Ghana is very limited because the analysis depends for its validity primarily on the existence of a substantial group of individuals and firms whose business is to speculate in commodity price changes. The existence of such a class depends on the extent of price flexibility both in terms of time and magnitude of flexibility. In an economy where there is considerable stable equilibrium in the goods market or where commodity prices are kept rigid by means of administrative decisions, the speculative demand for money induced by price expectations on the goods market loses much of its applicability. Where prices vary only to a small extent the gains to be made by holding on to commodities may not be significant. To make large gains in such a case a speculator would have to obtain a large turnover and this also increases the cost of storage and consequently reduces the margin of gain.

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1. Kamta Prasad, "The impact of money supply on the Indian economy, 1950-51 to 1963-64". Unpublished Ph.D. Thesis, University of Leeds 1966. A summary of this work was published in "The Journal of Economic Studies", Winter 1965.

Furthermore, the analysis demands for its validity a careful analysis of the classes of commodities to be included. In an underdeveloped economy a major proportion of the household budget is devoted to basic necessities and this means that food commodities occupy a major part of the eligible class of commodities to be included in the theory. Apart from the difficulty of drawing a sharp line between luxuries and necessities in the goods market, given such a distinction, the income and price elasticities of demand for "luxuries" vis-a-vis the slow growth in money incomes, indicates that an important factor likely to influence the demand for "luxuries" in the short run would be changes in the prices of necessities. Thus we are back again to the importance of necessities in the theory of the speculative demand for money in terms of commodity price changes.

The degree of upward changes in the prices of necessities which the authorities can permit acquires a political facet which needs to be taken into account in the application of the theory. Once we admit that the authorities will not favour sizable increases in prices of necessities then we can presume an inducement to hold stocks for speculative purposes when there are expectations of severe shortages of supplies as in the case of a climatic calamity. But obviously, under such circumstances the continuance in office by the political authorities depends crucially on how ably they implement price controls to prevent serious reductions in real balances or real income of the personal sector.

In Ghana speculative holdings of stocks may have occurred in the last two years of the period under examination when there were severe shortages of supply. Price controls were side-stepped by the rapid development of "black" markets. Even so the extent of speculation may have been considerably modified by the influence of limited foreign exchange resources. Therefore we may conclude that in Ghana for most of our period the speculative demand for money (as distinct from the transactions demand for money) was insignificant whether couched in terms of instability in the goods market or in the market for financial assets.

The transactions and precautionary motives for holding money, therefore, provide the fulcrum for a conventional analysis of the demand for money in Ghana.

The degree and organisation of specialisation within an economy is of key importance on the demand side. As an economy develops one would expect a larger proportionate rise in transactions demand. On the other hand the financial system becomes more sophisticated and this often means a decline in money/income ratios as money then becomes only one of many assets in which wealth may be held and therefore the demand for money becomes a complex function of many variables. This sophistication has generally been tardy in the case of Ghana although developing in recent years one would expect that Ghana would be able to take advantage of sophisticated credit system earlier than did the present advanced nations (relative to the stage of economic development. that is).

Generally, the size of transactions balances is related to the propensity to consume out of money income. The development of the theory of consumption indicates that despite the heavy dependence on income there are other factors to be taken into account.

The relevant definition of money income is no longer regarded by all economists as measured income. Professor Friedman has put forward (in the context of detailed statistical data in the United States) a theory of consumption based on permanent income.[1] In this theory income is divided into permanent and transitory income, and the individual's broad arrangement of income between consumption and savings depends on his permanent income. Before the emergence of the permanent income hypothesis there had been a challenge to the absolute income theory of consumption by the relative income hypothesis which found wide acceptability in the Deusenberry formulation that relative income is important within and between communities through increased awareness of the availability and usefulness of superior goods. Emulation of consumption patterns is therefore the central point of the Deusenberry thesis.

Over the short run one can expect a high degree of constancy in the ratio of income to average money supply in a given period. This is because of (1) the limited range and marketability of financial assets, (2) the low levels of income which make for a high propensity to consume out of

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1. M. Friedman, "A theory of the consumption function", Princeton 1957.

increases in money income, and consequently (3) the low level of net worth which is reinforced by the fact that the class of income recipients with a high ratio of savings to income are to a large extent non-residents whereas the social concept of the family is so wide and the obligations so far-reaching that the local Ghanaian capitalist class cannot simply be described as economically significant in this sense.

In Table 58 it was observed that the ratio of currency to the money balances of the public declined generally over the period 1955-64. There are various theoretical and practical considerations that influence the public's choice between currency and bank money.[1]

In theory, the choice between these two forms of money can be formulated in terms of costs. If bank money (demand deposits) yielded an income return, then given perfect knowledge and allowing for a short time-lag for effecting decisions the ratio of currency to money supply would represent an equilibrium position reflecting the estimates of wealth holders regarding the costs and advantages of holding money in the one or other form.

However, in Ghana bank money does not yield income but is rather subject to service charges and stamp duties in the form of the money costs of cheque sheets. Once we take account of this cost element the "exchange rate" between

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1.See P. Cagan, "The demand for currency relative to total money supply", Journal of Political Economy, August 1958.

currency and bank money is no longer one to one. The real value, to the owner, of bank money is less than the real value of the same nominal value held in currency. On the other hand charges on bank money may be said to reflect the risk involved in holding money in the form of currency. Viewed in this way the service charges become a sort of insurance premium which must be paid for the security involved in having money kept with a bank. There is, of course, a sort of psychic income implied in holding all money balances in currency, but this also assumes a significant probability of bank failures.

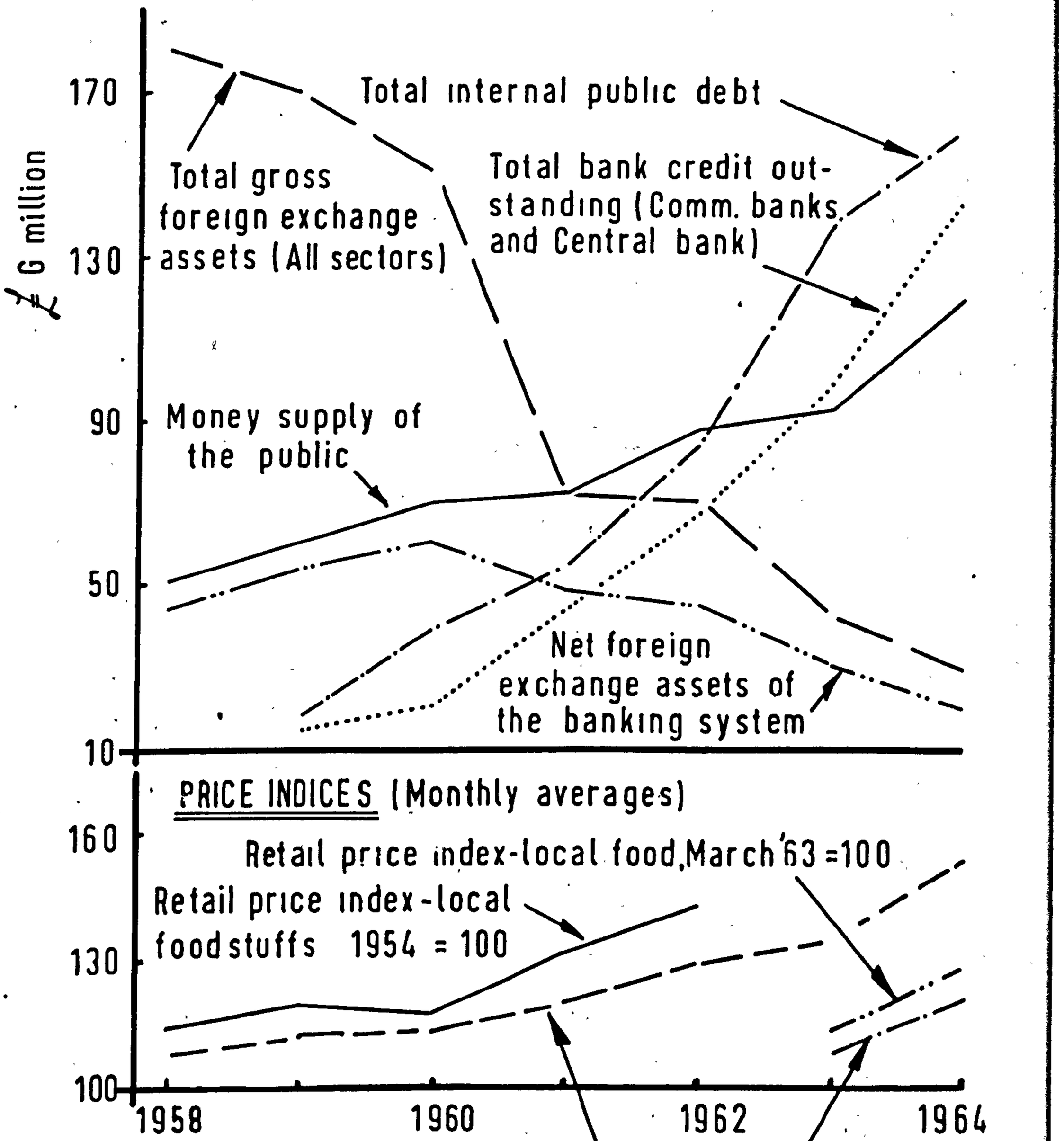
A realistic explanation of the observed relative decline of currency in the money supply of the general public must be sought in a variety of factors. Among these are the spread of banking and education, the advancement of economic development implying the growth of a larger business sector and, perhaps, some element of prestige attached to the possession of a bank account.

The Price Level

Two sets of price indices have been plotted in Figure 9.6. One for Accra and with 1954 as base year and a second series measuring movements in market prices of only locally produced foodstuffs and also based on 1954. The other set of price indices is based on a more recent survey carried out in 1961, has March 1963 as base and covers the whole nation.

The usefulness of the series based on 1954 is limited

MONEY SUPPLY, FOREIGN EXCHANGE ASSETS, BANK CREDIT, INTERNAL PUBLIC DEBT AND PRICE MOVEMENTS



Source: Central bureau of statistics, Bank of Ghana

FIG 9.3

by the fact that the extension of it into the latter part of the period assumes fixed tastes and expenditure habits over a period during which there has been considerable change in social and economic conditions. The more comprehensive indices based on March, 1963 are of little comparative use in being limited to only 1963 and 1964. However, both series give a picture of considerable price inflation from 1961 to 1964 in contrast to the earlier period characterized by general price stability.

The relative price inflation of the 1960's must also be seen in relation to price administration of increasing intensity supported legally on the Control of Prices Regulations, 1949 and various Executive Orders[1], all supplanted by the Control of Prices Act, 1962 (No. 113).

There are, of course, obvious and familiar limitations on the effectiveness of price administration. However, a fuller measure of the true price level as would be determined by free market forces may be sought in the price index of local food because in a country where the sale of foodstuffs by the weight is quite uncommon the prices of foodstuffs are by no means amenable to official administration.

Figure 9.# shows that on the basis of both the old and new series the index of market prices of local foodstuffs was higher in each year then the general retail price index. There is, of course, no straightforward conclusion that this shows the relative impact of price control on either of the two sets of price indices. It is merely intended

1. Control of Prices (Maximum Prices) Order, 1961 (E.I. 111) and the Control of Prices (Maximum Prices) (Amendment) Order, 1961 (F.I. 116).

to indicate the possibility that price control acted to hide the true force of inflationary pressures.

Neither can one relate the monetary expansion directly to the rising price level of the last four years of the period. The inflationary spiral of the period 1961-64 - most probably not adequately described by the published price indices - was caught in the web of a vicious circle involving a complexity of factors. The following would appear to describe fairly adequately the path of causation:

1. The emergence of an adverse current account balance in 1956 which but for a respite in 1958 continued on a rising scale to the present.

2. A rapid decline in the foreign exchange reserves of the banking system and of all resident units.

3. As a result of (1) and (2) the imposition of severe quantitative controls on imports in 1961, subsequently intensified by various administrative bottlenecks and continuing decline in foreign exchange resources.

4. From 1960 a considerable increase in publicly-owned industrial enterprises and other public capital projects.

5. Rising public expenditure - partly as a result of (4) above - was associated with increased domestic borrowing by the Government from the banking system.

6. Supply inelasticities affecting both imported and local factors coupled with outright mismanagement in public enterprises dampened the flow of domestic output.

These developments are illustrated in Figure 9.3 showing

the simultaneous occurrenco of declining foreign exchange resources and steeply rising money balances, bank lending and the internal public debt. For a developing country heavily dependent on foreign supplies these conditions constituted the classic basis for inflation and economic distortions.

Section D

Scope for Monetary Policy

The concept of monetary policy as normally understood and applied in advanced Western countries would hardly have had any scope in the Ghanaian context until the latter part of the period under review.

First, there were no marked swings in domestic income as usually identified in the literature with cyclical variations in export proceeds. A strong negative correlation between the volume of cocoa exports and the average unit price as obtained on the world markets tended to stabilize gross receipts from exports because of the large weight of cocoa in total merchandise exports. An additional factor was the practice of varying up and down, in accordance with world market prices, the price actually paid to the cocoa producer.

Secondly, until about 1960 the most needed investments were of long-term nature and these were necessarily the domain of Government.

Thirdly, even abstracting from the problems of supply inelasticities and diseconomies imposed by market conditions, there was practically no scope for influencing private

investment. This was due to the familiar limitations - underdeveloped money and capital markets and the fact that private investment was probably largely external.

Fourthly, there was until 1961 overall internal price stability, whilst the legal basis of the full sterling exchange standard combined with sizable international reserves to allay any problems of external disequilibrium.

Up to the end of the period under review there was no Banking Law in Ghana. From 1956 various drafts of a Banking Law were prepared in the Ministry of Finance but none of these reached the legislature because, in the opinion of the author, the influence of transitional economic and political forces was so overwhelming that it was difficult to decide on the form of a law that would have general validity.

The relative unimportance of non-bank financial institutions limits the usefulness of credit or general monetary control to the commercial banks. The Central Bank itself, in the last few years of the period, became a source of considerable money creation for Government financial needs. Control over Central Bank lending to Government would have amounted to calling upon the Government to desist from further deficit spending. Whether or not the Central Bank had the courage to do this one cannot say. All we know is that the Government continued to operate widening cash deficits and the result was inflation and further worsening of the balance of payments.

The attempt at credit control from April 1964 derived its origin from the Bank of Ghana Act 1963 (See Chapter Two, Section C). For, although the Bank of Ghana Ordinance 1957 empowered the Central Bank to control commercial banking via prescription of asset ratios these powers were generally unused save with respect to the requesting of information from the banks.

Until the establishment of the Central Bank there were two laws on the statute books which provided a legal basis for the regulation of banking. These were first provisions of the Companies Ordinance (Laws of the Gold Coast, 1954 Edition, Cap 193, Part 2, Sections 23-29) which specified minimum authorized capital of £G25,000 and a minimum paid-up capital of £G12,500 in the case of locally incorporated banks, and minimum paid-up capital of £G100,000 in the case of foreign banks incorporated overseas. The second means of regulation was embodied in the Money Lenders Ordinance, 1940 (Cap 176 of the 1954 Edition of the Laws of the Gold Coast) which fixed maximum lending rates at between 12.5% and 30% according to the type of security. Both regulations are not known to have been enforced, nor could their enforcement have exerted any significant impact. Maximum lending rates of the commercial banks hardly ever touched 12.5% and as for credit transactions on the unorganized markets they were and still are very difficult to control. Similarly, until about 1961 control over bank lending would have had little or no effect in a banking system dominated by international banks whose

local resources were by no means an adequate measure of their total potential resources.[1]

Thus during most of the period under examination monetary and credit policy might be identified with various administrative measures which would not be niversally regarded as monetary policy but which were very important in the context of an underdeveloped country. Thus, for example, might be considered the Central Bank's role in the development of commercial banking by the establishment of regional currency centres and by the provision of facilities for and supervision of bank clearing. Secondly, one should emphasize the laying down of the nucleus of a money market on the basis of the Central Bank's pledged support for the market in Treasury Bills - to which was later added substantial use of inland cocoa bills - by the offer of rediscounting facilities on soft terms. In a restricted sense it may be said that credit policy was revealed in the Government's establishment of a locally based commercial bank in 1953 thus broadening the base of the credit system. Even more significant was the limitation imposed by the Exchange Control Regulations of 1961 on the size of commercial bank foreign exchange assets. As extensively discussed in Chapter 2 this particular policy had far reaching effects on domestic monetary conditions. The near-revolutionary changes witnessed in the structure of bank assets during the 1960's were clearly predicated on the operation of Exchange Control against transactions with London.

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1. See E. Nevin#, op.cit. p.29.

In contrast to 1950-60 the period 1961-64 was fraught with serious economic problems a summary of which was attempted at the end of the last Section. Economic policies were dominated by the wishes of the political authorities which did not often bear much relationship to the real problems on hand. An analysis of the somewhat chaotic fusion of politics and economics will not be permitted here due to limitations of space.[1]

We shall limit this section to the analysis of the measures which the Central Bank adopted as a means of influencing monetary conditions and general economic problems. It was clear that the central objective of the Bank of Ghana was to direct credit into local productive or industrial enterprise as against pure commercial enterprise based largely on imports of consumer goods. In this the Central Bank was simply tuning its monetary policy to the declared economic policy of the Government. The Government policy was to provide a long-term solution to the worsening balance of trade by increasing domestic production of normally imported goods. It must be pointed out that the major obstacle to the achievement of this goal lay in the timing and the approach adopted. By basing domestic industrialisation on imported raw materials or semi-processed goods the external dependence of the economy was intensified as both domestic consumption and the level of employment came to depend crucially

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1. For a generally valid account and analysis of the chaotic fusion of politics and economics during the period 1961 to February 1966 see "Recent trends in Ghana", The Bankers' Magazine, March 1966 and "Ghana after Nkrumah", The Economist, August 6th 1966.

on the state of net foreign exchange resources. As we know from Section C of this Chapter foreign exchange resources declined further; and three elements featured prominently in the unsuccessful effort to preserve foreign exchange resources and internal price stability. These were: intensified quantitative restrictions on imports, mounting external liabilities, price administration and the final big stick - the Government's absolute powers against dissension from their economic policies and the expressed dissatisfaction with the results of their economic policies.

Does one therefore discuss the scope for monetary policy in terms of the declared objectives or does one look instead at the general results of the objectives, between which there was considerable dichotomy? In view of the limitations of space the discussion in this Section will be related to the objectives of diverting credit into domestic productive enterprise and of curbing inflationary pressures. But it must be made clear that domestic productive enterprise was dominated by the growing Government sector and the available evidence showed clearly that neither the Government nor the Central Bank achieved much significant control over the inefficiency that characterized Government enterprises.

The traditional weapons of monetary control - variations in Bank Rate and open-market operations - would have been ineffectual in the Ghanaian context during the period under review because of the thinness of the money market whilst a

capital market as such was non-existent. Both the Central Bank and the Commercial Banks were inclined to support the Government's financial needs by taking up as much of local Treasury Bills as their resources and internal policies would permit. Thus the Central Bank usually purchased the residue of Treasury Bill issues, subject theoretically to subsequent resale.

Rediscounting facilities in so far as they were used by the banks directly in respect of their own portfolios or on behalf of their customers were available at a pegged differential of $\frac{1}{8}\%$ above the Discount Rate on Treasury Bills. Similarly, the use of internal trade bills was based essentially on the Bank's readiness to discount such bills to allow a smooth process of cocoa purchases and was not known to have been regarded in any way as a measure of expansion or restraint.

Moral suasion had its effect mainly in the reduction of internal transfer charges of the banks. Although the banks were instructed not to raise their lending rates the effect of this was rather dubious. Maximum lending rates were stabilized (according to type of security) from 1961 but this did not necessarily have any bearing on credit conditions since for the most part the operational rates were not the published maxima or minima. It is also known that before formal control was initiated in April 1964 the Central Bank had intimated to the commercial banks the need to curtail advances for imports. That imports of consumer goods tended

to decline cannot necessarily be ascribed to such instructions as the effective limit to imports was the low level of foreign exchange resources rather than reduced availability of credit for imports.

The only measures of control which could be applied with some degree of success was the prescription of reserve requirements since in theory it allows both selective and quantitative credit controls necessary in an environment characterized by structural imbalance. Inflation and unemployment (or underemployment) of resources existed side by side and it appeared that the only measure likely to have some desired effects was the use of reserve ratios. The attraction of this method of control was increased by the closed banking system which the imposition of exchange control fertilized. For, with severe restrictions on foreign exchange payments both in theory and practice the international banks desisted from increasing their local resources by implying sterling from London.

In Ghana the only serious attempt at credit control took the form of reserve ratios. First, we will survey briefly the different bases of reserve requirements and then examine the nature of reserve ratios as actually applied in Ghana.

Basis for computing reserve requirements

Commercial bank reserve requirements may be stipulated in relation to assets or liabilities. In either case specific ratios (usually minimum ratios) may be required against overall totals or specific totals or terms of totals.

The adoption of total assets as the basis of reserve requirements is open to the major objection that it does not of itself assure a balanced growth. In an underdeveloped economy both couhtercyclical and growth measures would often involve some structural or inter-sectorial differentiation in monetary and general economic policy. For an underdeveloped economy the only advantage of this approach is the simplicity of administration and enforcement. The same arguments apply to the basing of reserve requirements on total deposit liabilities or overall liabilities including reserves.

With regard to deposits as the basis of a cash reserve ratio the United States features among the few countries that require separate legal ratios against Time and Demand deposits with the former the smaller of the two.

An important objection to this approach is that in a period of credit restraint the banks will be induced to encourage a shift in favour of Time Deposits.[1] The potential extent of this reaction is very much limited by the fact that basically it is the customer who determines how he wishes to hold his deposits. Moreover, since Time Deposits earn interest in comtrast to Demand Deposits a shift in favour of Time Deposits raises the interest cost of deposit liabilities which must be weighed against potential earnings from the resulting asset expansion. However, if we impute a theoretical

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1. M. Friedman quoted by Neil Jacoby, "The Structure and use of variable bank reserve requirements", in Banking and Monetary Studies (ed. Deane Carson) op.cit. p.231.

justification to the objection described above then clearly the imposition of a lower cash reserve against Time Deposits allows the holding of lower total reserves and thus constitutes a loophole in the event of credit restraint.

In the United States where differential reserve ratios are based on the contractual terms of deposits several arguments have been advanced in support of replacement by a uniform ratio applicable to total deposits. One variant of the argument is based on the fact that the liquidity argument for imposing separate ratios is not useful because bank managements are able to maintain adequate reserves against Time Deposits and therefore an excess of reserves against Time Deposits over the banks' own estimate of a safe amount is tantamount to sterilization of reserves not conducive to higher bank profitability. A second variant is that Time Deposits are not part of the active money supply and therefore to specify cash reserve ratios against them militates against the competitive position of commercial banks vis-a-vis other financial intermediaries.[1] These objections apart, the adoption of the differential cash ratios according to the contractual basis of deposits is open to the same serious objection that from the point of view of an underdeveloped economy it does not take account of structural or sectorial requirements in accordance with needed economic reform.

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1. Paper prepared by the American Bankers' Association for the American Commission on Money and Credit quoted by Neil Jacoby, op.cit. p.231.

An alternative approach suggested in certain United States quarters is that reserve requirements be based on deposit turnover.[1] The theoretical basis for this proposition is that the ratio of an individual banks' reserve requirements to total reserve requirements of all banks would be the same as the ratio of the expenditures on final product by that bank's depositors to total gross national product. The reserve requirement of a particular bank would thus be related to the annual income velocity or turnover of its deposit balances.

A further advantage claimed for this system is that the monetary effects of the reserve requirements work automatically exercising a brake to an expansion of monetary demand and the brake being eased automatically as turnover falls with a slowing down of business activity and reduction of interest rates.[2]

This plan is subject to several serious grounds for objection. A really meaningful size of deposit turnover can only be obtained as an ex post magnitude. Alternatively, however, observed velocity over a period may serve as the basis for determining the required reserve ratio. But this would be open to the drawback that conditions in any particular period may differ markedly from conditions in the base period.

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1. Neil Jacoby, op.cit. The author's proposal is actually a re-statement of a measure which had been used before outside the United States. Mexico tried it in the 1930's.

2. R. Goode and R.S. Thorne, "Variable reserve requirements against commercial bank deposits", IMF Staff Papers, Vol. 7, 1959-60 p. 9 ff.

Human judgement would have to replace what is basically postulated to operate automatically. Secondly, the rate of deposit turnover is not necessarily related in any simple way to income velocity of money or to transactions that the monetary authorities wish to control at any particular time. In a pragmatic sense, deposit turnover covers expenditures on both new and existing real and financial assets including speculative expenditures all of which will not evoke the same reaction from the authorities. Under the velocity reserve plan expenditure on imports of consumer goods and capital goods would come under the same measure of control and so - more important - would be expenditures on imports and domestic goods. This plan is deficient in being undiscriminating, and likely to entail considerable administrative complexities. Mexico experimented with a velocity reserve in the 1930's but abandoned it in 1941 because of immense administrative difficulties involved.[1]

The method which has gained considerable ground in underdeveloped countries is the relation of reserve requirements to specific groups of assets or selective credit controls.[2] The general effect of such measures is to direct resources into specific sectors which may be the public sector, or the private sector or particular divisions of any of these sectors. In a mixed economic system the distinction between private and public sectors may not be important and the objective

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1. R. Goode and R.S. Thorne, op.cit.
2. For a general discussion see P.G. Fousek, "Foreign Central Banking: the instruments of monetary policy", New York 1957 pp.57-81.

of monetary policy may be simply to channel credit into a particular industrial sector. The major drawback to selective asset ratios is the possibility that the ostensible purpose of a loan may differ from the ultimate use of borrowed funds. Even the use of selective credit controls may need to be supplemented by other measures. In the conditions of an underdeveloped economy the principal and most effective supplementary measure would be requests to commercial banks to submit loan applications above a certain minimum for Central Bank screening. The possible administrative delays apart, selective credit control has the greatest appeal in the conditions of an economy devoid of developed financial systems.

In addition to the alternatives discussed above another technique used in various forms in underdeveloped countries - mainly the Latin American nations - is the requirement of advance deposits against imports.[1]

The deposit may be held by the Central Bank or, if originally held by the importer's bankers may be subsequently transferred to the Central Bank. Or it may be held by the importer's bankers. The exact manner in which the deposit is held differs among individual countries. Similarly there are variations in the period for which the deposits are withdrawn from the use of the importer: it may be returned to the importer after action is taken on import licence, when goods are cleared through customs or after the final

1. For a detailed account specifying the use of this technique by various countries see E.A. Birnbaum and M.A. Qureshi, "Advance deposit requirements for imports", IMF Staff Papers, Vol. 8 1960-61; Jorge Marshall, "Advance deposits on imports", IMF Staff Papers, Vol. VI 1957-58, pp.239-57.
See also J.O.W. Olakampo, "Monetary management in dependent economies", Economica (New Series) November 1960.

transfer of foreign exchange payment for the goods concerned. Other specifications also differ among countries. Thus in some countries a smaller proportion of import value may be required in the predeposit requirement in respect of nonessential in contrast to several times the value of imports in other countries.

Originally introduced as a means of correcting balance of payments crises advance deposit requirements acquired the status of monetary control through the effect on the liquidity of the private sector under certain conditions. The liquidity of the commercial banking system is reduced by the transfer of the deposits to the Central Bank or by the sterilization of the deposits with the commercial banks if they are required to hold a large reserve - up to 100% against these deposits.

If the objective is to curtail liquidity of the banking system then it is essential to require the transfer of the deposits to the Central Bank. The alternative would be to impose a hundred percent reserve on the commercial banks against the deposits otherwise the liquidity curbing effect of the deposits would not be felt, as commercial banks can simply debit their loan account and credit the advance deposit account. This also implies that where the Central Bank is the depository the same sterilization is necessary to prevent a feeding back of reserve money into the banking system through increased Government expenditure resulting from Central Bank lending. Whether financed by bank advances or from the importers' own resources the liquidity effect on the

banking system is contractile. However, where banks are free to finance the deposits there is likely to result a shortage of credit to other sectors because of the generally preferred status of imports among banks. Besides, in a country like Ghana where the traditional destination of bank credit is imports the commercial banks might be quite willing to provide finance for predeposit requirements on imports. Since ultimately the deposits are returned to the importers concerned they provide a sure security against the advances.

It is rather improbable that importers will be able to provide the deposit requirements from their own resources. It is more realistic to presume that the deposits will be bank-financed under one guise or another even where commercial banks are forbidden to finance the deposits. The implied shortage of funds to other domestic sectors is clearly a serious drawback to the use of the advance deposits technique in a country which aims at directing resources to domestic productive sectors.

On the other hand, it is an effective way of transferring resources to the Government. But as stated above this reallocation of resources will be unwise in inflationary conditions unless Government expenditure will increase real output or provide a basis for short-run solution to inflationary pressures. Part of the question is political. The authorities may seek reallocation of resources in favour of the public sector for purely political reasons without any real evidence that the output of public enterprise will be

higher than the alternative use of the resources in the private sector. As happened in Ghana public enterprise proved to be largely inefficient.

Monetary policy in practice.

The structure of commercial bank assets came under direct legal regulations for the first time from 1st April 1964. The legal basis of the Credit Control Regulations derived from the Bank of Ghana Act, 1963 which gave the monetary authorities wide powers of control over the operations of commercial banks.[1] The Regulations are set out below.

1. Sight balances due to banks abroad (head offices, correspondents, foreign branches and subsidiaries) should be covered fully by foreign currency deposited with the Bank of Ghana.

The foreign currency cover may be interpreted generally as foreign exchange assets although the Regulation does not specify. It may also be presumed that sterling is in practice the required foreign currency (however defined) since basically foreign exchange transactions are conducted in sterling.

2. Unlike (1) above the banks are not obliged to hold specified assets against borrowing from banks abroad.

3. Each bank is required to hold liquid assets as a proportion of total deposit liabilities to customers amounting to 48% from 1st March to 31st August and 54% between 1st September and 28th February.

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1. See Chapter Two, Section C.

4. Within the liquid assets ratios as under (3) above there is a minimum cash reserve requirement of 8% consisting of till money, net balances with banks in Ghana and Current Account deposits with the Bank of Ghana. It should be noted that the 8% minimum cash/deposit ratio applies throughout the year.

Thus the non-cash element of the liquid assets ratios are 40% of total deposits liabilities between 1st March and 31st August and 46% between 1st September and 28th February.

Assets required to be held to satisfy these ratios are listed as follows:

(a) Government of Ghana Treasury Bills

(b) Approved agricultural loans

(c) Approved industrial loans, and

(d) A special deposit account ("L" Account) with the Bank of Ghana.

The "L" account is meant to be an accommodating item when the total of the other liquid reserve items is less than the required minimum.[1]

5. In addition to the liquid reserves specified above each bank is required to maintain with the Bank of Ghana in what is called the Special Deposit Account "B" deposits amounting to 5% of total deposit liabilities to customers.

6. Each bank is required to hold Government of Ghana stocks to an amount equivalent to 18% of total deposit liabilities.

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1. Bank of Ghana, Annual Report June 1964, p.77.

7. In addition to the quantitative controls listed above each bank is required to submit to the Bank of Ghana for prior approval all applications for advances above £G5,000 for purposes other than agriculture and industry.

8. Before opening a letter of credit in respect of imports of durable and non-durable consumer goods a bank is required to request a down payment of 15% of the value of imports.

On deposits maintained in the "L" and "B" accounts the Bank of Ghana pays interest at ¾% below Bank Rate.

The assets of commercial banks under the Credit Control Regulations are presented in Table 60 on a monthly basis computed from averages of weekly returns submitted to the Bank of Ghana as required by the Regulations.

The cash ratio exceeded the prescribed minimum of 8% in every month but August when the combined cash ratio was 7.5%. There is evidence that one of the banks found considerable difficulty in meeting the reserve requirements at the initial stagesbecause of its overloaned position.

The authorities were disposed to regard such difficulties as not unexpected problems associated with the introduction of rules into a system previously free to determine its choice of assets. For a meaningful appraisal of the effects of the reserve requirements on the banks' operations we would need to look at post-1964 figures because the first nine months for which statistics are available should be characterized by adjustments of various kinds.

Table 60

RESERVE REQUIREMENTS OF THE COMMERCIAL BANKS
Under Credit Control Regulations, 1964

Average of Weekly Figures

	£G Million														Percentage				
	Cash Reserves				Other Liquid Reserves						Total Reserve Requirements								
	Cash in Tills	Net Balance with Banks in Ghana	Current Account with Bank of Ghana	Total Cash Reserves (1+2+3)	Ghana Government Treasury Bills	Approved Agricultural Loans	Approved Industrial Loans	Special Deposit (L a/c) with Bank of Ghana	Total Other Liquid Reserves (5+6+7+8)	Total Liquid Reserves (4+9)	Special (B a/c) with Bank of Ghana	Ghana Government Stocks	Total Reserve Requirements (10+11+12)	Deposits (All Types)	Cash Ratio (4÷14)	Other Liquid reserve Ratio (9÷14)	Liquidity Ratio (10÷14)	Special Deposit (11÷14)	Government Stock (12÷14)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
1964																			
January	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
February	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
March	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
April	4.4	0.01	3.4	7.7	15.4	16.0	9.5	0.3	41.2	49.0	1.8	11.4	62.2	73.2	10.6	56.3	66.9	2.5	15.6
May	4.5	0.2	2.8	7.6	17.4	12.8	10.2	0.2	40.6	48.1	2.1	11.2	61.5	72.2	10.5	56.2	66.7	2.9	15.6
June	4.4	-	2.0	6.4	19.8	12.3	9.4	-	41.7	48.1	2.1	11.2	61.5	72.1	8.9	57.9	66.8	2.9	15.6
July	4.3	0.3	6.0	10.5	20.4	11.7	9.3	-	41.4	51.9	2.1	12.7	66.8	74.4	14.2	55.6	69.8	2.9	17.1
August	4.4	0.06	0.8	5.3	20.7	11.8	9.6	-	42.1	47.4	2.1	13.5	63.0	70.5	7.5	59.7	67.2	3.0	19.1
September	3.8	0.1	3.3	7.2	18.9	8.6	7.6	-	35.2	42.4	2.1	13.5	58.0	71.6	10.1	49.1	59.2	2.9	18.8
October	4.5	0.2	3.7	8.4	20.2	11.2	7.5	-	38.9	47.2	2.1	13.6	63.0	74.6	11.2	52.1	63.3	2.8	18.2
November	4.9	0.5	4.2	9.6	21.5	14.5	7.2	-	43.2	52.8	2.1	13.9	68.8	76.5	12.5	56.5	69.0	2.8	18.1
December	5.1	0.	5.5	10.8	24.8	13.4	7.4	-	45.4	56.2	2.3	13.9	72.3	80.1	13.5	56.6	70.1	2.8	17.3

Source: Central Bureau of Statistics, Economic Survey 1964, p.135.

Thus excesses of the liquid assets ratios above the legal minimum requirements were matched by the observance of lower ratios in respect of the "B" Account. Monthly ratios observed on the "B" Account averaged for the nine months, April-December, 2.8% as compared to the required minimum of 5%.

Also, the Government stocks ratio averaged over the nine-month period 16.2% compared with the required minimum ratio of 18%. As in the case of the cash reserve there is evidence in official records that one of the banks experienced considerable difficulty in meeting the requirement on holdings of Government stocks as a result of heavy commitments on advances. Such advances, complained the deficient bank, could not be reduced on both business and political grounds. Furthermore, in the initial months Government stocks were not available in the required volume. Indeed, the increased volume of Government stocks held by the banks was partly the result of further funding of Treasury Bills said to have been pressed for by the banks themselves.[1]

The Bank of Ghana Report for June 1964 provided official explanations for the Credit Control Regulations which are adopted here for a brief discussion of the regulations.

First, it was stated that by requiring the banks to deposit with the Bank of Ghana full foreign currency cover against sight balances due to banks abroad the objective was to "discourage the commercial banks from holding idle

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1. Bank of Ghana, Annual Report June 1964, p.6.

balances with banks abroad".[1] Conversely, therefore, it was reported that the non-stipulation of a reserve requirement against oversea borrowing was intended to encourage the commercial banks to bring in funds from abroad.

There appears to be some confusion here. Balances due to banks abroad are liabilities which may be indistinguishable in origin from borrowing from oversea banks. Thus it would appear to be paradoxical to impose a reserve requirement against balances due to banks abroad and at the same time state one's intention to encourage overseaborrowing. Moreover, one of the principal determinants of the banks' access to advances from oversea banks (in reality head offices of the international banks) is the ease with which repayment can be effected. Therefore in a regime of stringent restrictions on international payments it may be overoptimistic to expect that the banks will have any inclination to imply resources from oversea sources on any sustained scale.

Secondly, in imposing a higher liquidity reserve ratio in the cocoa season (September to February) the official explanation ran as follows:

> "The reason for this distinction is to try to reduce bank lending to the public, especially to the commercial sector, during the cocoa season when bank credit is usually high. This would reduce the high rate of expansion in money supply during the cocoa season."[2]

With the cash element of the liquidity reserve ratio fixed at the same level throughout the year the only effective

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1. Bank of Ghana, Annual Report June 1964 p.76.
2. Ibid, pp.76-7.

means of ensuring that the high liquidity ratio of the cocoa season will not lead to expanded credit is through Central Bank rejection of loan requests submitted for screening. But for the screening powers of the Central Bank a higher liquidity reserve would not lead to credit expansion only if the banks voluntarily or through inadequate demand for credit maintained a cash reserve higher than the legal minimum.

Furthermore, it is debatable whether restrictions on credits for commerce is an expedient measure in the cocoa season. Credit for commerce is almost synonymous with credit for imports. To restrict imports in the cocoa season would merely intensify inflationary pressures whilst the productivity of domestic industry remained largely at low levels.

Thirdly, it was stated that by making the Bank of Ghana the depository of the 15% down payment against imports of consumer goods expansion of the credit-creating base of the commercial banks would thus be prevented.[1] This, however, is a misrepresentation. Theoretically, the effect is not simply to prevent expansion but rather to contract the credit base initially whether the deposit is financed by bank credit or from the importers' own resources. As a means of discouraging imports the ultimate effectiveness of the advance deposit techqnique is predicated on preventing the commercial banks from advancing funds to importers to enable compliance with this regulation. In view of the preferred status of advances for imports, the only effective check against commercial

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1. Ibid, p.79.

bank financing of the "down payment" is provided by the screening powers of the Central Bank with respect to credits for purposes other than agriculture and industry.

Whether viewed as a means of curbing inflation, correcting the balance of payments or directing resources into desirable sectors the only sharp element in the Central Bank's armoury is the power to reject loan requests in excess of £G5,000. Even this must be weighed against the fact that the Bank's screening powers (though not necessarily final) relate to only credits for purposes other than agriculture and industry.

The overall ostensible objective of the Regulations was echoed in the following quotation from the Central Bank Report referred to above.

> "The function of monetary policy ..... is not only a stabilising one, but also, and perhaps even more important, that of promoting growth in the desired sectors of the economy.....the banking institutions should also provide some of the needs for medium-term loans for the directly productive branches of the economy. The banks have therefore been asked by making use of quantitative and selective controls, to practise a wider measure of discrimination in their lending activities in order to move away from their traditional short-term credits to traders into sustained medium and long-term finance for development."[1]

In actual fact stabilization and diversification of the economy of Ghana are two aspects of the same policy of modifying extreme dependence on foreign trade as an income generator and as a means to rising consumption standards. The crucial connecting nexus between stabilization and diversification is, however, the elasticity of supply in domestic industry

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1. Ibid, p.76.

and agriculture. That the controls failed to achieve either of the two objectives up to the time of the political changes may therefore be attributed to failure of domestic output to catch up with monetary expansion resulting not from credit for imports but from credit for financing domestic industrial operation.

Two interesting aspects of the Credit Control Regulations are the concept of liquidity implied in the composition of the liquid assets reserve ratio and the implied allocation of resources in favour of the public sector including the Government.

First, it is very unlikely that the commercial banks would themselves look upon the so called approved agricultural and industrial loans as liquid assets in the ordinary sense of the term. These are no different from the old classification Loans and Advances. If one makes the correct assumption that medium-term loans to industry and agriculture are classified under this category the phraseology of the Regulations would be meaningless. As customer credits their distinguishing feature is that unlike Treasury Bills, for example, they are not shiftable on the open market or to the Central Bank. In ordinary circumstances, therefore, the only room for manoeuvre left to the banks within the liquidity reserve ratio lies in their ability to manipulate their holdings of Treasury Bills and cash. Thus their effective liquidity ratio is overstated by the liquid assets ratio as specified by the Credit Control Regulations. In actual fact,

conceptually their liquidity ratio is not affected in any way by the Regulations.

Secondly, the nature of the credit control regulations reinforced what was already a noticeable trend from 1961, namely an increasing shift of commercial bank resources into the public sector defined as the Central Government, public authorities and state-owned industrial and agricultural enterprises. Apart from the requirement that Government stocks should constitute a minimum ratio of 18% to deposits it is plausible to assume - in view of the Government's rising cash deficit operations - that deposits in the "B" and "L" Account would normally be used to finance further acquisitions of Government debt. To this must be added the banks' investments in Treasury Bills which as the major single income-yielding liquid asset was bound to weigh heavily in the banks' choice of asset within the liquidity reserve category. Furthermore, domestic large scale manufacturing industry in particular, was heavily dominated by State-owned enterprises. It was therefore, reasonable to assume then, if not now, that a sizable proportion of assets classified as approved industrial and agricultural loans would in fact be loans to the public sector. The classifications listed in Table 60 were probably a mere renaming of existing assets, with a negligible exception.

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