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The Role of Financial Intermediation in Alleviating Poverty in Ghana: The Case of GCB Bank Ltd

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Abstract
Poverty is a major challenge that confronts most developing countries including Ghana. Economists believe that the problem of poverty can be tackled through various measures. The main objectives of the study are to explore the role and challenges of financial intermediation in wealth creation and poverty alleviation that face GCB Bank Ltd and also to find ways by which financial intermediation may be improved. The researchers adopted disproportionate stratified sampling. The sample size of 210 was made up of 14 zonal management executives/staff of GCB corporate/SME Banking Division and branches, 50 corporate/SME clients of GCB Bank Ltd, 146 retail clients of GCB Bank Ltd. Interviews and questionnaire were used as data collection instruments. The study revealed that efficiency in capital allocation, income generation, enhancement in private sector productive and Job creation are some of the roles through which financial intermediation alleviates poverty in Ghana. On the other hand, the management of GCB Bank Ltd enumerated various challenges such as high default rate, high bank minimum capitalization, High inter-bank interest rate, failure of interest rates to conform to low policy rates especially in the short – run and the absence of an effective credit reference bureau. Finally, the study proposed, that the best ways to improve financial intermediation are by expanding branch network; constant maintenance of systems, advancing more credit facilities to the informal sector; improving on the use of information technology; and pegging bank interest rate to the policy rate.
Keywords: Poverty, GCB Bank Ltd, Financial intermediation

1. Introduction

Financial intermediation is a general name for the mechanism by which financial institutions, (such as banks or building societies) channel funds from depositors to borrowers (Sloman and Wride, 2009). Poverty is the state of lack of a certain amount of material possession or money. There are two types of poverty namely absolute poverty and relative poverty. Absolute poverty or Destitution refers to ones inability to afford basic human needs, which commonly includes clean and fresh water, nutrition, health care, education, clothing and shelter. Relative poverty on the other hand, refers to lacking a usual or socially acceptable level of resources or income as compared to others within the society or country (Sloman and Wride, 2009). However, by the use of the word "poverty" in the study, the researchers are referring to both absolute and relative poverty. In recent times Ghana's financial sector has gone through various changes. A vibrant financial sector thrives on proper structure and functions well in a conducive legal environment. Hence, the introduction of the "Banking Act 2004" and the "Universal banking concept". The universal banking concept enables Banks to out step their boundaries, to serve not only the sectors of the economy specified in their constitution of establishment but also others. Since 2003, universal banking has replaced the three-pillar banking model (which categorizes banks under development, merchant and commercial banking). Therefore a commercial bank with universal license is allowed to compete not for only retail funds but also wholesale deposits. Financial intermediation is assuming a critical role in the economic development of most countries. In developing countries like Ghana where the capacities of the central government (through the public and civil sectors) to generate wealth for people through job creation is very much limited, the role of Financial intermediaries assuming this very important role in wealth creation and poverty alleviation cannot be taken for granted.
The focus of the study were to;

- Identify the various financial intermediations provided by GCB Bank ltd to institutions and individuals.
- Examine the impact of financial intermediation on poverty reduction.
- Determine he challenges that GCB Bank ltd face by providing financial intermediation.

According to Incoom (1998), financial intermediation is a mechanism whereby funds are channeled from lenders to borrowers through a go-between. In every economy, there are bound to be some economic units whose investment or expenditures exceed their own incomes and those whose investments and expenditures fall short of their incomes. Incoom (1998) termed the former deficit economic units and the latter, surplus economic units. He further explained that economic progress and wealth is achieved by efficient redistribution of temporary free resources of the surplus units to meet the temporary needs of the deficit units. Alternatively, these economic units may lend and borrow directly, according to him. He also called this phenomenon, 'financial disintermediation'. He identified various financial intermediaries in Ghana which include:

- Banks
- Building Societies
- Credit Unions
- Insurance Companies
- Collective Investment Schemes.

Incoom (1998) identified two (2) forms of financial intermediation in Ghana. He called the first one 'bank financial intermediation' and the second 'non-bank financial intermediation'. He explained that 'bank financial intermediation' involves banks acting as medium for channeling funds from lenders to borrowers while 'non-bank financial intermediation' involves other financial institutions (apart from banks) who channel funds from lenders to borrowers such as building societies and insurance companies. Incoom (1998) identified three (3) functions of financial intermediation namely maturity transformation, convenience- denomination and risk transformation. The publication revealed that the mechanism of maturity transformation refers to the reconciliation of terms (that is the period covering the loan agreement). It explained that Borrowers usually desire to borrow long-term in order to take advantage of the productivity of funds, whereas lenders prefer to lend short-term in order to avoid loss of liquidity for long periods. It pointed out that financial intermediation reconciles such opposing time preferences by means of Maturity Transformation and that Maturity Transformation involves borrowing short and lending long. It stated that this is made feasible because depositors do not withdraw their funds all at once, but in bits at different times. The publication termed the collection of savings to meet the borrowing needs of customers as 'convenience-denomination'. It further explained that Savings are usually in relatively small amounts, but the amounts which customers desire to borrower are relatively large and that by aggregating a large number of small deposits, financial intermediaries are able to satisfy demand for large loans. According to the same publication, the third function of financial intermediation as 'risk transformation'. It defined risk transformation as converting risky investments into relatively risk-free ones or lending to multiple borrowers to spread the risk. It referred to the third function of financial intermediation as "pooling of risks". It also mentioned that by pooling risk, financial intermediaries make large number of loans, most of which would be safe and a few bad and that setting few losses against large number of profitable loans, financial intermediaries are able to make overall gain. Merton (1993) gave an improved version of the functions of financial intermediation. He outlined the functions of financial intermediation as:

- Providing payment systems for exchange of goods and services.
- Providing ways to transfer economic resources through time and across geographic regions and industries.
- Providing ways to manage uncertainties and control risks.
- Providing price information that helps coordinate decentralized decision-making in various sectors of the economy.
- Providing ways to deal with the asymmetric-information and incentive problems when one party to a financial transaction has information that the other party does not.

1.1 Poverty

Haughton and Khander, (2009) viewed poverty as a pronounced deprivation in well being. They explained that the conventional view links well-being primarily to command over commodities, so that the poor are these who do not have enough income or consumption to put them above some adequate minimum threshold. They added that this view sees poverty largely in monetary terms. According to them the broadest approach to well-being (and poverty) focuses on the capability of the individual to function in society and that the poor often lack key capabilities; have inadequate income or education, feel powerless or lack political freedoms. Wikipedia (2014) defined poverty as the state of one who lacks a certain amount of material possessions or money. It also identified two kinds of poverty namely Absolute poverty and Relative poverty. According to Wikipedia (2014) absolute poverty refers to ones lack of basic human needs (such as food, shelter, clean and fresh water, nutrition, health care, education and clothing), and defines relative poverty as a state of ones lack of socially acceptable level of resources or income as compared with others within a society or country. Shah, (2011) of "Global Issues" fame emphasized that poverty is the state for the majority of the world's people and nations. He intimated that the poverty rate is so alarming such that:

- Almost half the world (over 3billion people) lives on less than $2.50 a day.
- Gross domestic product (GDP) of the 41 heavily indebted poor countries (567 million people) is less than the wealth of the world's 7 richest people combined.
- Nearly a billion people entered the 21st Century unable to read.
- One billion children live in poverty, 640 million live without adequate shelter, 400 million have no access to safe water, 270 million have no access to health services and that 10.6 million died in 2003 before they reached the age of 5.

Phillips, (2011) emphasized that one way of measuring poverty is by using the income approach. However Meyer and Sullivan (2012), a National poverty centre research affiliate and a Notre Dame economics believe that to measure poverty strictly by income fails to accurately reflect people's true economic circumstances. He further added that income alone ignores the effects of things like the earned income tax credit, Medicaid, food stamps and housing subsidies.

1.1.1 Poverty in Ghana

Ghana has been lauded as a remarkable economic success story in Sub-Saharan Africa. After a decade of robust economic growth, and following a recent review of its national accounts, Ghana attained middle-income status in 2011, well in advance of its 2015 Millennium Development Goal. The country is also on track to cut poverty in half and attain a solid level of domestic food security by reducing malnutrition among the general population. The Government's efforts towards achieving these goals have made the country an attractive destination for project funding from the international donor community (UNDP-HDR, 2010).

Ghana's success story has not touched its entire population. While successive, freely elected governments can lay claim to cutting poverty almost in half since the 1980s; poverty reduction has slowed in recent years. Moreover, far too many people — even those who are employed — are still subsisting on less than US$1.25 a day, and the poverty-rate gap between rural and urban areas is still quite large, with almost four times as many people living below the poverty line in rural areas (39.2 per cent in 2004–06) as in urban areas (10.8 per cent in 2004–06) (World Bank, 2011). National growth did not translate in poverty reduction in the North. The number of poor in the three regions constituting Northern Ghana — covering 40 per cent of Ghana's land area — climbed by 900,000 between 1992 and 2006. In the South, the number of poor declined by 2.5 million during that same timeframe. Moreover, each one of the specific regions constituting Northern Ghana — Upper West, Upper East, and Northern — has a poverty story of its own to tell. Poverty in Upper West is still the most pervasive — at 88 per cent — a level that has not changed in 20 years. Poverty in Upper East, which at 70 per cent is the next highest level of poverty, actually deteriorated in the past 20 years. And poverty in Northern Region, with the third highest level in the country at 52 per cent, is actually at the same level Ghana was countrywide in 1990/1991. Poverty is not the only measure of deprivation that shows stark South-North differences — social development indicators are also consistently worse in the North than in the South. For example, Upper West shows by far the highest level of infant mortality, underage 5 mortality, and acute respiratory infection among children under age 5, among other indicators (Ghana Statistical Service, 2008)

1.2 Financial intermediation and economic growth

A policy paper from the Department for International Development (2004) stated that its mission is to contribute to the achievement of the millennium development goals and the elimination of world poverty. The paper emphasized that achieving the millennium development goals will require rapid and sustained growth in developing countries like Ghana. It pointed out that, now that it is widely accepted that the private sector is the engine of growth, governments must work to create the right enabling environment for private sector development. According to the DFID 2004 policy paper, by facilitating transactions and making credit and other financial products available, financial intermediation is seen as a crucial "building block" for private sector development, economic growth and poverty reduction. The paper outlined five (5) important roles that financial intermediation plays in achieving economic growth. These roles include savings mobilization, risk management, acquisition of information, monitoring borrowers and facilitating exchange. According to the DFID policy paper published in 2004, by mobilizing savings for productive investment, and by facilitating capital inflows and remittances from abroad, financial intermediation has a crucial role to play in stimulating investment in both physical and human capital and hence increasing productivity, national income and reducing poverty. The paper mentioned that the mobilization of savings is perhaps the most obvious and important role of the financial sector. It added that the provision of savings facilities or transaction bank accounts enable households to store their money in a secure place, and allows this money to be put to productive use (that is, lend to individuals or enterprises to finance investment, thus encouraging capital accumulation and promoting private sector development, economic growth and reducing poverty. McKinnon (1973) explained this with an illustration of a poor farmer who cannot afford a particular investment out of his savings – he needs to borrow in order to buy some piece of farm implement (that is, to invest in "new technology") which would increase his productivity, and enable him to earn a higher income thereafter. Thus by mobilizing savings, and hence increasing the availability of credit, financial intermediation facilitates investment in new technologies across the economy, increasing overall productivity and reducing poverty. The paper also mentioned that savings mobilized may also be available to finance investment in education or health, and can thus promote the accumulation of human capital (De Greogorio, 1996). Thus the paper concludes that savings mobilization can have a significant impact on growth by increasing investment, productivity and human capital thereby reducing poverty. In the DFID 2004 policy paper, financial intermediaries were seen as playing two roles in risk management, namely liquidity risk management and risk diversification. According to the paper Many projects or enterprises require a medium to long-term commitment of capital whereas most savers prefer to have the option to draw on their savings, or move them into another investment opportunity, should the need arise. Banks and other financial intermediaries combine many households' savings and because savers usually would not all want to withdraw their money at the same time; this allows financial intermediaries to simultaneously provide medium to long-term capital for investment and liquidity for savers (Levine, 1991). By doing so, they help to ensure that capital is allocated to the best projects, even if they require long-term financial commitment (Bencivenga and Smith 1991). King and Levine, 1993 mentioned that Risk diversification can also increase technological change and that the ability to diversity risk through financial intermediation by investing in many different innovation-based enterprises may make investments in otherwise prohibitively risky enterprises possible. So by making more capital available to innovators, financial intermediaries that facilitate diversification may also increase technological change and thus economic growth and poverty reduction. Greenwood and Jovanovich, (1990) identified another role of financial intermediation in economic growth as information acquisition. They indicated that Individual savers are unlikely to have the time or capacity to collect, process and compare information on many different enterprises, managers and market conditions before choosing where to invest. According to them the high information costs may prevent capital from flowing to its highest value use. In addition, they will be less keen to investment in activities about which they have little information. So they explained that the creation of financial intermediaries such as banks, who will collect this information on behalf of many investors, and share the cost of doing so between them, will improve resource allocation and increase investment. King and Levine (1993) buttressed this assertion by adding that intermediaries can facilitate selection between projects on the basis of informed judgments about expected returns, thus weeding out the weakest projects and ensuring that capital is allocated optimally. Bencivenga and Smith, (1991) mentioned that another role played by financial intermediation in economic growth is the monitoring of the performance of enterprises on behalf of investors who would not otherwise have the resources to do so individually. They revealed that by exercising corporate control financial intermediaries help to ensure that investors receive returns that properly reflect the enterprise's performance (that is, ensures they are not being defrauded by the firms managers as a result of lack of information), and creates the right incentives for the managers of the borrowing enterprise to perform well.

Vega (1994) identified the role of financial intermediation in achieving economic growth/poverty eradication as follows:

- Allowing transfer of purchasing power from uses with low marginal rates of return to those with high marginal rates of return.
- Contributing to more efficient inter-temporal decisions about savings, asset accumulation and investment.
- Permitting a less costly management of liquidity and accumulation of stores of value; and
- Helping individuals to manage economic risks.

1.3 Empirical evidence of the relationship between financial intermediation and economic growth.

According to the DFID, 2004 policy paper a large body of evidence now exist to support the theory relating to the strong linkages between financial sector development and economic growth. A seminal study was undertaken by Goldsmith (1969) using data on 35 countries from 1860 to 1963. He found evidence of the relationship between economic growth and financial sector development over long periods; in that periods of rapid economic growth (or low rate of poverty) have often been accompanied by an above-average rate of financial sector development. Many other technically superior empirical analyses of this issue have been undertaken since then, most of which provide further evidence of the positive relationship between "improvement in financial intermediation" and "economic growth and poverty reduction". For example, King and Levine (1993) studied 80 countries over the period 1960 to 1989, controlling for other factors affecting long-run growth, examining the capital accumulation and productivity growth channels separately, and using various different measures of the level of financial development. They found evidence of a strong, positive relationship between the various financial development indicators and economic growth (or low rate of poverty). They claimed the sizes of the coefficients implied financial intermediation is strongly linked to economic growth. According to King and Levine (1993) their results suggest that a country that increased the level of financial intermediation in the economy from the mean of the slowest growing 25% of countries to the mean of the faster growing 25% of countries would have increased its per capital growth rate by almost one per cent a year as the difference in average growth between these two sets of countries was about 5 per cent per annum over the 30 years period the analysis covered. This they claim implies that the financial sector development alone might explain around 20% of the growth difference between these two sets of countries. Bethlehem and Vardoulakis (1997) also confirmed the theory of the strong positive connection between financial intermediation and economic growth. They emphasized that financial sector under-development or low level of financial intermediation may leave a country in "poverty Trap". They argue that because of increasing returns to scale in the financial sector, a vicious circle can be created, where low levels of financial intermediation results in only a few market players. The lack of competition results in high cost, leading to low real deposit rates and hence low saving, which in turn limits the amount of financial intermediation. They argue that financial sector under development can therefore be a serious obstacle to growth and poverty alleviation, even when a country has established other conditions necessary for sustained economic development. They find evidence of this in relation to education attainment. They find that countries with a high level of educational attainment, but low level of financial intermediation are trapped at a relatively low standard of living compared to those countries with similar level of educational attainment, but a more developed financial sector.

1.4 Financial intermediation, productivity and capital formation

Levine (1997) reiterated that financial intermediation by acquiring information and reducing administrative and transaction cost, can affect economic growth/poverty level through two channels namely

- Productivity
- Capital Formation

With regard to the first channel, it is generally argued that financial intermediaries by facilitating risk management, identifying promising projects, monitoring management, and facilitating the exchange of goods and services, can promote efficient capital allocation leading to total factor productivity improvement (Levine, 1997). For example, financial intermediation provides a vehicle for diversifying and sharing risks, inducing capital allocation with implication for economic growth/poverty reduction (Greenwood and Jovanovich, 1990). Diamond & Dybvig (1983) argue that household facing liquidity risks prefer liquid but low-yield projects to illiquid but high-yield ones, while financial intermediaries, through pooling the idiosyncratic liquid risks, would like to invest substantial portion of their funds into illiquid but more profitable projects. Bencivenga and Smith (1991) argue that financial intermediaries, by eliminating liquidity risk, channel households' financial savings into illiquid but high-return investment and avoid premature liquidation of profitable investments, which favour efficient use of capital, promoting economic growth and poverty reduction. The impact of financial intermediation on poverty reduction/economic growth through the second channel – capital formation is ambiguous. Tsuru (2000) argues that financial intermediation could affect the savings rate, and then capital formation and economic growth/poverty reduction, through its impact on four factors namely:

- Idiosyncratic Risk
- Rate-of-return Risk
- Interest Rates
- Liquidity Constraints

By reducing idiosyncratic risks and relaxing liquidity constraints, financial intermediation might lower the savings rate and induce poverty. By reducing the rate-of-return risks through portfolio diversification, financial intermediation might negatively or positively influence the savings rate, depending on the risk aversion coefficient (Levhari and Srinivasan, 1969).

1.5 Challenges financial institutions face in providing financial intermediation

According to Rozycki (2006), micro finance provide poor families, individuals and entrepreneurs with small loans also known as micro loans to help them engage in productive activities and grow their tiny businesses or micro enterprise. However she did not hesitate in pointing out some of the major challenges facing the industry. According to Rozycki (2006), poor regulatory frame work; lack of coordination and collaboration; poor institutional linkage; inappropriate institutional arrangement and lack of specific policy guidelines are the major challenge facing the industry. According to Ledgerwood (2006) her survey revealed various challenges and failures of micro finance institutions such as:

- Targeting a segment of the population with less business opportunities and who are less productive and therefore productive credit is of no use to such people.
- Lack of supportive policy framework.
- Failure to manage their funds adequately enough to meet cash needs and as a result are confronted with liquidity bottlenecks.

She also added that the replication of successful models has at times proven difficult for MFIs due to differences in social context and lack of local adaptation.

1.6 Mechanism to improve financial intermediation

Recent development in growth theory has stimulated renewed interest in the interactions of financial intermediation and economic growth/poverty reduction. While most of the existing literature analyze the risk sharing function of financial intermediaries, Singh (1997) focused on the asset valuation activity of banks. Following the early contributions of some authors, an endogenous growth model is presented, in which financial intermediaries increase the amount of accumulated capital, improve the mobilization of savings and enhance the efficiency of resource allocation. As in Greenwood & Jovanovich (1990) and King and Levine (1993), banks are shown to be able to improve on lending efficiency by evaluating projects. Unlike the models presented by these authors, the banks' evaluation capacity is not assumed to be exogenous. The ability of banks to gather information needed to undertake this evaluation is linked to proximity and the notion of geography may thereby be introduced. A link between proximity and faster growth rates can thus be shown to be consistent with the observations of historians such as Cameron (1967). Furthermore, Singh (1997) proved that a bank can improve the efficiency of its lending by widening its branch network. A very limited branch network would thus affect negatively the economic growth rate and poverty reduction, as Cameron (1967) cited in the case of France in the 19th century. By contrast, relaxing regulations limiting the setting up of branches would promote faster growth and poverty reduction, as Javaratne & Strahan (1996) observed in the case of the United States of America. The size of the financial sector is therefore not the only important variable, its structure and the distribution of it is deposit matter likewise.

2.0 METHODOLOGY

2.1 Research design and approach

Cresswell (2007) admitted the significance of demonstrating research design and approach as an effective and efficient strategy to augment the reliability and validity of social research. Research approach refers to the procedures and plans for that study beginning with wide claim to detailed methods of data collection, analysis of data, summarizations and interpretations. In research approach and design, descriptive research can be used in ascertaining information with respect to current status of a particular phenomenon to address "what exist" thus conditions or variables in a particular situation. (Yin, 2002). The study embarked on descriptive and exploratory approaches to find information about a particular phenomenon. Description research focuses on individual variables and on relations between variables. In principle, descriptive research is not aiming at forming hypotheses or development of theory. It is about describing how reality *is* (Jong and Voordt 2002). Burns and Grove (2003) define exploratory research as research conducted to gain new insights, discover new ideas and/or increase knowledge of a phenomenon. The researchers used the "Outreach" method in measuring the role of financial Intermediation in alleviating poverty. The outreach measures the relationship between financial services and poverty reduction, and it is based on the core principles of modern economics, namely "consumer sovereignty". Consumer sovereignty concept states that the user of (financial) products and services is the best judge of the benefits of these products and services relative to costs of acquiring them. In the outreach approach the focus is on analyzing whether those who were reached with financial services were poor indeed poor by some measure and whether their standard of living improved after receiving financial services such as loans.

2.1.1 Population

Wiersma (1986) defines population as the totality of all members that possess a special set of one or more common characteristics that define it. The population for the study was chosen from GCB Bank Ltd, Kumasi zone. GCB Bank Ltd was chosen for the study because it is currently the biggest bank in Ghana in terms of assets, number of branches, array of products and services and finally the number of customers. The bank is also doing very well on the Ghana Stock Exchange. Today, GCB is the widest networked bank in Ghana with 157 branches, 15 agencies and over 231 ATMs. It has correspondent banks in the United Kingdom, Germany, United States of America and in West Africa. These facilitate smooth transactions for clients businesses abroad. The researchers used four (4) GCB branches to select the sample thus Kumasi Main branch, Jubilee House branch, Ahinsan branch and Sefwi Wiaso. These branches were selected on the premises that they are located in an industrial, farming and commercial area.

2.1.2 Sample

Sampling is the statistical process of selecting a subset of a population of interest for purposes of making observations and statistical inferences about that population (Bhattacherjee, 2012).A sample on the other hand is a segment of the population selected to represent the population as a whole (Neville, 2007). Ideally, the sample should be representative to allow the researchers to make accurate estimates of the thoughts and behaviour of the larger population. The researchers adopted disproportionate stratified sampling for selecting respondents for the questionnaire. A sampling method in which the size of the sample drawn from a particular stratum is not proportional to the relative size of that stratum (Oxford Dictionary of Business and Management, 2014). The reason is that there are different subgroups within the population that may affect the variable of interest to the researchers. On the part of the employees, purposive sampling was further used to select those employees because they had the needed information. Purposive sampling techniques are primarily used in qualitative (QUAL) studies and may be defined as selecting units (e.g., individuals, groups of individuals, institutions) based on specific purposes associated with answering a research study's questions. Maxwell (1997) further defined purposive sampling as a type of sampling in which, ‘‘particular settings, persons, or events are deliberately selected for the important information they can provide that cannot be gotten as well from other choices’’. Out of a study population of 460 people, sample size of 210 respondents was chosen. The sample size was determined using the Sample size determinant (Krejcie and Morgan, 1960)

$s = X2NP(1-P) \div d2(N-1) + X2P(1-P)$.
s = required sample size.
$X2$ = the table value of chi-square for 1 degree of freedom at the desired confidence level (3.841).
N = the population size.
P = the population proportion (assumed to be .50 since this would provide the maximum sample size).
d = the degree of accuracy expressed as a proportion (.05).
The breakdown of the sample population is as follows:

- 14 zonal management executives/staff of GCB corporate/SME Banking Division and branches.
- 50 corporate/SME clients of GCB Bank Ltd.
- 146 retail clients of GCB Bank Ltd.

2.1.3 Data collection procedure

Prior notice was given to the management executives of the corporate and SME clients selected for the interview. The aim was to give them ample time to prepare for the interview. However, the retail clients of GCB Bank were considered to be less formal in their dealings. Hence, they were not given prior notice before the questionnaires were issued to them. After the data had been collected, the researchers edited them to ensure that they were completed. Coding and classification followed to ensure sufficient analysis to determine particular outcomes. The collected data were statistically analyzed using the Statistical Package for Social Sciences software (SPSS) and MS Excel. SPSS was chosen because, it is the most used package for analysing survey data. Besides being the most used package, the software has the advantage of being user friendly (Mugenda, 2003)

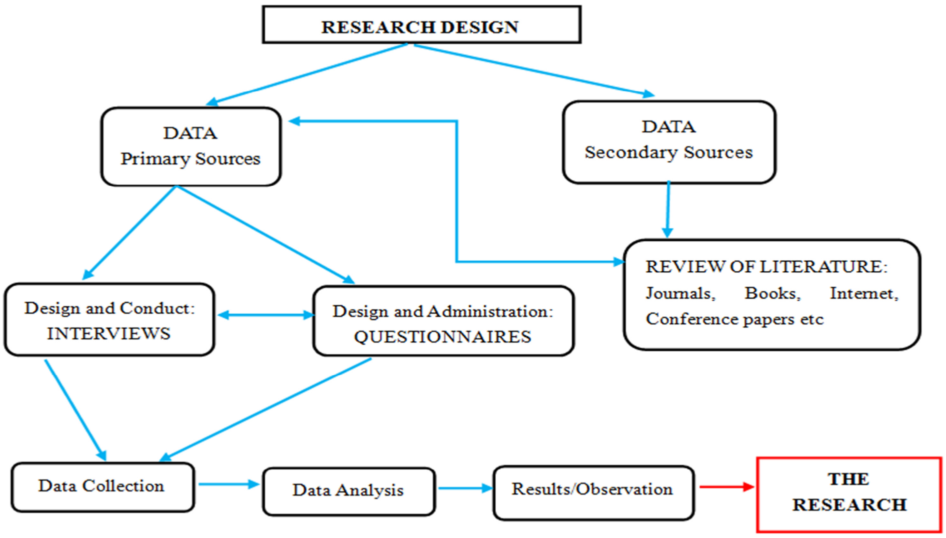

Figure 1: Research flowchart

3.0 RESULT

3.1 Financial intermediation service at GCB Bank Ltd

The first objective of the study was to identify the various intermediation services provided by banks in Ghana to their corporate, SME and retail clients. The bank and its clients (retail, corporate and SME) outlined various banking services. These services can be categorized as shown in Table 4.1.

Table 3.1 services provided by banks in Ghana

	SERVICES
1	Accepting of Deposits
2	Overdraft facility on current accounts
3	Financial advisory services
4	Facilitating risk management
5	Identifying and financing promising projects- Venture Capital
6	Loans – Personal Loans, short-term loan, medium terms, long term loans.

3.2 Examine the impact of financial intermediation on poverty reduction.

The second objective was to examine the impact of financial intermediation on poverty reduction. In line with this objective, 146 retail customers were assessed based on the 'basic needs approach'. By this approach, one is considered poor if he/she is unable to afford some basic necessities. The basic indicators used for this aspect of the survey include;

- Income level
- Shelter
- Food – (Balance diet)
- Water

The respondents' level of poverty was assessed before and after getting access to financial intermediation. Their responses are illustrated in table 3.2 and 3.3

Table 3.2 Standard of living prior to patronizing financial services

Statement	Average Score	Decision
At least your income provides the necessities.	2.2	Disagreed
You have comfortable Shelter.	2.5	Agreed
You are able to afford a balanced diet.	1.5	Disagreed
You are able to afford portable water.	1.8	Disagreed

N= 146

Table 3.3 Assessment of standard of living after patronizing financial services

STATEMENT	AVERAGE SCORE	DECISION
At least your income provides your basic necessities	3.8	Agreed
You have comfortable a shelter	4.1	Agreed
You are able to afford a 3 square meal balanced diet	4.1	Agreed
You are able to afford portable water	3.8	Agreed

N= 146

The likert scale (that is Strongly Disagree, Disagree, Neutral, Agree, Strongly Agree) was used in the questionnaire and the responses were rated 1,2,3,4,5 respectively. All the retail respondents agreed that before they had access to financial intermediation, their standard of living was poor. This is illustrated in tables 3.2 where the average scores are very low ranging from 1.8 to 2.5. However, most retail respondents also agree that after having access to financial intermediation their standard of living did improve. This is illustrated in tables 3.3 which show high average scores also falling within 3.8 to 4.1. Furthermore, the corporate and SME clients of GCB Bank Ltd were also assessed to find out the impact of intermediation on the development of the private sector which has the effect of increasing national income and reducing poverty. Almost all the respondents agreed that financial intermediation indirectly reduces poverty through the promotion of efficient capital allocation, reducing transaction cost, increasing the mobilization of savings for investment and productivity enhancement. This is illustrated in table 3.4

Table 3.4 Positive effects of financial intermediation of Corporate & SME Clients

Statements	Average Score	Decision
Financial Intermediation reduces information cost.	4.1	Agreed
Financial intermediation promotes efficient capital allocation.	4.1	Agreed
Financial intermediation reduces transaction cost.	4.1	Agreed
Financial intermediation enhances private sector productivity.	4.3	Agreed
Financial intermediation mobilizes savings for investment.	4.3	Agreed
Financial intermediation increases the rate of return on savings.	4.3	Agreed
Financial intermediation provides a vehicle for diversifying and sharing risk.	4.1	Agreed

The average scores of 4.1 to 4.3 suggest that financial intermediation plays an important role in the development of the private sector (that is corporation, companies and SMEs). Eventually the development of the private sector reduces poverty through job creation and enhancement in national income.

The management and staff of GCB Bank Ltd admitted and enumerated various challenges the bank encounter in the processes of advancing financial intermediation to customers. These were made known to the researchers during the various interview sessions with two staff from each of the four selected branches thus Branch manager and Credit Officer. Again the researchers interviewed six staff Zonal Corporate/SME Banking Division.

Table 3.5 Challenges identified by the management and staff of GCB Bank Ltd (Bank Zonal Executives and Branch Managers)

Challenges	Frequency (%)
High default rate	10 (71%)
High bank minimum capitalization	10 (71%)
Lack of reliable customer data base such as data from credit reference bureau	13 (93%)
High corporate Tax reducing banks profitability and ability to reinvest for expansion	10 (71%)
Embezzlement, scam and fraudulent activities reducing customers investments/savings and banks profitability	12 (86%)
High inter-bank interest rate	10 (71%)
Failure of interest rates to conform to low policy rates especially in the short – run	11 (79%)

N= 14

The final objective of the study was to identify ways of improving financial intermediation so as to enhance its impact on poverty alleviation. Table 3.6 and 3.7 illustrates the responses obtained from customers (retail, SME and corporate clients) and managers of the banks respectively.

Table 3.6 Ways of improving bank financial intermediation to clients as identified by some bank clients

Strategies	Frequency (%)
Expanding branch network.	180 (92%)
Simplifying processes and procedures to enhance service delivery and easy access to credit.	101 (52%)
Deploying more bank staff to hasten service delivery and to reduce turn-around time.	138 (70%)
Constant maintenance and reliable back – ups to ensure ATMs and other bank systems are always up and functioning.	159 (81%)
Employing and retaining competent/ constant retraining of existing bank staff.	83 (42%)
Tailoring bank products to suit customers taste.	95 (49%)
Investing more in the informal sector especially in the agricultural sector	173 (88%)
Banks ensuring that they peg their interest rate to the policy rate.	170 (87%)
Giving long term loans to the manufacturing sector especially those in the rural areas.	156 (80%)

N=196

Table 3.7 Strategies to improve financial intermediation from the perspective of Zonal Corporate/SME Managers, Branch Manager and Credit Officer

Strategies	Frequency (%)
Lobby for policy-makers to establish a credit reference bureau	8 (57%)
Employ and retain highly competent staff so as to improve service delivery and reduce rate of default	11 (78%)
Improve on internal checks and control so as to avoid embezzlement.	13 (93%)
Push the central bank (Bank of Ghana) to ensure that the other banks peg their interest rate to the policy rate through say moral suasion and/or regulation	9 (64%)
Lobby policy – makers to reduce corporate tax so as to enable banks plough back profit for expansion and widening branch network	12 (86%)
Improve service delivery through the use of information – communication technological	13 (93%)

N= 14

Majority of the bank clients (both retail and corporate customers) suggested that the best ways to improve financial intermediation are by expanding branch network; constant maintenance of systems, advancing more credit facilities to the informal sector; improving on the use of information technology; and pegging bank interest rate to the policy rate. Table 3.7 also suggests that the management of GCB and the other banks strongly support the use of the following strategies to improve bank financial intermediation:

- Improving internal checks and control
- Employing, retaining and retraining competent bank staff.
- Improving service delivery through the use of information technology.
- Lobbying government and policy-makers to establish a credit reference bureau and also to reduce corporate tax.

The data gathered so far clearly shows that banks in Ghana offer extensive range of services which has improved the living standards of those able to access them. Respondents were also of the view that the development of financial sector indirectly reduces poverty through diverse ways such as efficiency in capital allocation; the mobilization of savings for investment and job creation. They identified major challenges both internally and externally that limited the development financial sector and suggested various remedies including government intervention, internal checks and improvement in information and communication technology infrastructure among others.

4.0 Conclusion

The study revealed that most personal (or individual) clients of the banks had their lives improved after getting access to bank services. By accessing credit facilities their incomes were enhanced and as a result were able to afford basic needs such as portable water and a balanced diet. Another major findings of the study as revealed by the banks and their corporate and SME clients is that financial intermediation perform various roles such as efficient capital allocation, reduction in transaction cost, reduction in information cost, enhancement in private sector productivity and mobilization of savings for investment, which leads to private sector development, economic growth and poverty alleviation. In line with the first objective, the study revealed that the Ghana's banking sector has a myriad of services offered to individual, SME and corporate clients. The services include deposit taking, investment and credit facilities. It was realized from the study that financial intermediation perform various roles in the economy such as income generation, efficiency in capital allocation and enhancement in private sector productivity. The study further revealed that these financial intermediation roles have positive impact on poverty alleviation. The study unearthed various challenges facing the banking sector in Ghana. Notable among these challenges from the perspective of the banks are high minimum capital requirements, high corporate tax, high loan default rate and the absence of an effective credit reference bureau. However, from the perspective of the recipients of banking services some of the major challenges facing Ghana's banking sector include poor turn-around time, poor service delivery, high interest, incompetent staff, poor information and communication technology and limited branch network which in turn limit accessibility. The survey also threw more light on the strategies that can be adopted to enhance financial intermediation in Ghana. Some of major strategies as revealed by the study to enhance financial intermediation include, expanding branch network, improving bank ICT infrastructure, investing more in the informal sector and employing more competent bank staff. Based on the findings it can be concluded that financial intermediation plays a major role in alleviating poverty in Ghana through:

- Provision of capital for business expansion - both entrepreneurs and companies has access to credit facilities for business growth and expansion.
- Job creation and income generation.
- Efficiency in capital allocation as banks are able to identify and invest in areas which would yield the most.

However, the ability of these roles to alleviate poverty in Ghana is limited to a larger extent by challenges such as limited access to financial services, high interest rate, high default rate, high minimum capital requirement, and absence of credit reference bureau, the demand for security by banks as key pre-requisites for accessing credit, poor service delivery and poor ICT infrastructure. None the less, there are strategies to improve financial intermediation, some of which include expanding branch network, improving bank ICT infrastructure, investing more in the informal sector and employing more competent bank staff.

Based on the foregoing findings, the following policies and strategies are recommended so as to improve and strengthen financial intermediation towards economic growth and poverty reduction: The problem of limited access to financial services especially by the poor in Ghana requires a new focus on ways to encourage and remove barriers to wider formal sector provision. This means that a regulatory reform is needed to allow greater attention to be paid to incentives and regulator space (or flexibility) so that banks can expand by opening more branches thereby making their services more accessible. For instance the government of Ghana can provide incentives (Say, tax – cuts) to banks who expand their operations geographically especially to rural Ghana where access to financial services is very limited. Besides, future review of banks' minimum capital requirements should be flexible enough to prevent the situation where the few existing banks would fold-up because of their inability to satisfy the minimum capital requirement. The Government of Ghana and the Central Bank should speed up arrangements for the opening of a national credit reference bureau and empower the few private credit reference bureaus so as to enable banks obtain cheap but reliable information on customers and potential customers credit ratings. The establishment of this all important state asset would help banks to minimize losses arising as a result of bad loans and enable them charge reasonable interest rates. The establishment of an effective and efficient credit reference bureau may reduce banks demand for security as requirement for accessing credit facility. The Central Bank (That is, Bank of Ghana) in performing its supervision and regulatory role must impose on banks to adopt more "information and communication technology" in their operations in order to hasten service delivery and to reduce turnaround time. It is also recommended that GCB Bank and the other banks in Ghana create a platform to showcase their services especially to the large unbanked population who reside in the rural areas. One way of doing this is by organizing financial and investment fairs at the doorstep of these rural folks. These fairs would afford banks the opportunity to interact with the banked and unbanked population to know their needs and tailor their services to suit them.

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