

The Role of Financial Institutions in Export Financing in Ghana

Mr. Fosu Adarkwah

EMBA - GIMPA, GHANA, Designation; Lecturer

Capt Eric Ahudey (Rtd)

Qualification; BA Political Science and Psychology - University of Ghana
MSc Supply Chain, Management - Coventry University (UK), Designation; Lecturer

Frederick Joe Santuoh

Qualification; MBA (General), - KNUST, MA (Bilingual Translation – UCC, Designation; Lecturer

Christian Service University College
School of Business, P O Box 3110, Kumasi - Ghana

Abstract

The study on the role of financial institutions in export financing in Ghana, aims to determine the economic policy finance as well as their effectiveness on the export business. It also hopes to ascertain the problems encountered by the financial institutions in export production finance. Further, to examine the prospects of export financing in Ghana, and to ascertain the extent to which oriented industries benefit from export financing. Various literatures and theories were reviewed so as to have a good knowledge background on the research topic. The study adopted the method of primary data (questionnaires) to elicit information from the respondents. The study considered a total of 200 questionnaires and a sample size of 150 respondents were selected for the purpose of the research work. The study made useful findings and recommendations.

1.0 INTRODUCTION

The activities of financial institutions in export financing play a significant role in the growth and development of the Ghana export market. Financial institutions are organizations which deal basically in money. Two export finance specialists from First Washington Associates visited Ghana for two weeks in October 1991 to assess the need for export finance. Interviews were held with exporters and with representatives of Ghanaian financial institutions, including Commercial Banks, Merchant Banks, Export Finance Company (EFC), Discount Houses, Bank of Ghana (BOG), as well as Ghana Export Promotion Council (GEPC) and other government organizations, to ascertain their views on the export finance needs of the role of the financial institutions for an effective export financing in Ghana and how they might be implemented.

Exports from Ghana have remained relatively constant in U.S. dollar terms during the 1986-1990 periods. Traditional products such as cocoa, timber, minerals and energy, have dominated Ghanaian exports, but Non-Traditional Exports (NTEs) have increased rapidly and represent a growing share of the total exports, rising from 3.2% (US\$24 million) in 1986 to 7% (US\$62 million) in 1990. Processed and semi-processed goods represent a growing share of NTEs (53% in 1990), while the share of agriculture has declined from 75% to 46%. This paper with regards to the above statement wishes to examine the role of financial institutions in export financing in Ghana.

2.0 STATEMENT OF PROBLEM

Ghanaian exports are sold primarily to industrialized countries (73% and 44% in the last two years), in particular the European Community. The next largest regional markets are the ECOWAS countries. A total of 1,729 exporters exported 163 products in 1990. Less than 350 or 20% of exporters had sales exceeding US\$10,000 in 1990, and only about 70 exporters shipped goods valued in excess of US\$100,000. The latter accounted for over 92% of all NTEs in 1990. In most of the major NTE products, a few exporters (1-12) dominate in terms of shipments.

Secondly what really instigated the research was due to the fact that although several research studies have delve into the export financing, not a single research has been carried out on the role of financial institutions in export financing in Ghana.

3.0 AIMS AND OBJECTIVES OF STUDY

The main aims and objectives of this study include;

1. To study the modalities adopted by export that need export assessing
2. To determine the economic policies finance and their effectiveness on the export business.
3. To ascertain the problems encountered by the financial institutions in export production finance.

4. To examine the prospective of export financing in Ghana.
5. To ascertain the extent to which oriented industries benefited from export financing.

4.0 STATEMENT OF RESEARCH HYPOTHESIS

- HO: Export financing does not have prospect in Ghana.
HO: Modalities are not adopted by financial institution in assessing goods for export.
HO: Financial institutions in export financing in Ghana does not encounter Problems.
HO: Export oriented financial institution has not affected financial industries to an extent.

5.0 EXPORT FINANCE SERVICE IN GHANA

In Ghana, several public and private commercial banks, three merchant banks and one specialized export finance institution offer financing services to exporters. The specialized export finance institution, the Export Finance Company (EFC), has been in operation for about 16 months, and only makes short term export loans. There are no specialized government programs to provide export loans, guarantees or insurance to non-traditional exporters, similar to those operated in many developing and industrial countries. However, short and medium-term funding or guarantees not specifically designed for exporters are available from several other programs operated in the BOG.

Bank credit for the export trade reached less than 4.5% of total bank credit in 1990, a lower level than in 1987. This credit is less accessible and higher priced for exporters who must purchase imported inputs. Commercial banks and merchant banks are basically very conservative. Pre-shipment loans for exporters are usually considered in the same manner as domestic short-term loan facilities. Few bankers' acceptances are created and none are being rediscounted. Liquid collateral for at least 100% of the loan is required, and no bank does non-recourse post-shipment financing. Maturities on borrowings are quoted at 90 to 180 days, and interest rate ranges from 21% to 30% per annum, yielding the banks a spread of about 5% over the cost of funds. NTE customers are only a small percentage of banks' customers, and it appears that only the largest and strongest NTEs are using the banking system to finance NTEs. While all the commercial banks indicated interest in financing non-traditional exporters, it was believed that most NTEs would find it difficult to qualify for loans, other than from EFC.

6.0 EXPORT FINANCE COMPANY IN GHANA

The export finance company in Ghana was established in 1990 as a limited liability company like totally private sector companies, the EFC is owned by four private insurance companies, three public insurance companies and the GEPC. EFC offers direct loans of 90-180 days in cedis to non-traditional exporters for specific transactions evidenced by confirmed export orders or export letters of credit. The procedures employed by the EFC to grant loans are quite straight forward and well designed to allow for timely processing of credit requests. Informal sector exporters are required to establish banking relationships. In 14 months of active lending operations EFC has made loans totaling GHS 6,739.5 million (US\$ 17.7 million) for a wide variety of export products. A total of 834 transactions to 375 exporters were financed. EFC estimates about 50% of its loans support exports within the region, with an average transaction size of GHS10-15 million, with a loan term of 180 days. EFC stated that about 80% of its portfolio is current and that the remaining 20% is past due up to 180 days, but expects past due amounts to be paid. Absent an aging of receivables and an evaluation of the quality of receivables, the potential for repayment or loss associated with past due accounts cannot be evaluated. EFC operates with a total staff of 16 persons. The Managing Director and key professional staff are seconded from the BOG to EFC. A manual accounting system is maintained and accounts are audited annually. Shareholders initially capitalized EFC at GHS120 million (US\$ 315,800) or GHS15 million (US\$39,500) per shareholder. Shareholders have agreed to double their capital contributions. The EFC was profitable for the first eleven months of operation. The main source of loan funding support has been export finance bills issued on EFC's behalf by the Treasury, which carry the guarantee of the BOG. At June 30, 1991, EFC had GHS 2.384 billion in export finance bills outstanding, and in addition had GHS1.340 billion outstanding to the Bank of Ghana and GHS 200 million outstanding to the Ministry of Trade and Tourism (MOTT). EFC is fully utilizing its available resources, and realizes that additional resources are needed, in both equity and lower cost, longer term financing. EFC was highly leveraged at 19:1 as of June 30, 1991. The infusion of an additional GHS120 million of capital will improve that ratio to 12:1, but will not allow for substantial increases in activity without further additions to capital. EFC charges a spread of only 2% over the cost of obtaining funding through export bills. EFC considers this insufficient to compensate for risk and build reserves, but EFC's generally high borrowing rates make greater margins unfeasible from the borrowers' perspective at this present time.

7.0 OTHER EXPORT FINANCE SERVICES

Several tied aid credits from the Organisation for Economic Co-operation and Development (OECD) countries

are available for purchase of equipment to support export production. In addition, the BOG operates refinance and guarantee programs that provide general support. These have not been particularly effective. Insurance companies have offered domestic credit insurance, but no longer are actively doing so due to high loss experience and absence of sufficient reinsurance. Two discount houses operate which intermediate investment of funds among financial institution and the BOG.

8.0 THE ROLE OF COMMERCIAL BANK IN EXPORT FINANCING IN GHANA

The delivery of export finance services by commercial banks to traditional or non-traditional exporters must be viewed in the context of the restructuring of the banks under the Financial Sector Adjustment Program begun in 1988. Since then, each of the commercial banks has experienced sweeping changes in organizational structure, management and operating procedures. Statements of Financial Positions have been massively restructured as non-performing assets, primarily from State Owned Enterprises (SOEs), were removed. Additional adjustment was made with the substitution of Government bonds for non-performing private sector loans, which each bank was required to turnover to a wholly Government-owned agency, the Non-Performing Assets Recovery Trust (NPART). Simultaneously each bank has been re-evaluating its lending policies and practices based upon a strict regimen of back-to basics accounting, auditing and credit analysis.

The changes in the aggregate Statement of Financial Position of the commercial banking sector can be seen in Table 9. As intended by the restructuring, capital and reserves increased as a percentage of total assets and loans, from 9.8% and 23.9% as of year-end 1988 to 12.6% and 40.7%, respectively, as of year-end 1990. Total assets grew by GHS 163.5 billion, or 71%, since 1988, but loans increased only by GHS 23.2 billion, or 25%, over a comparable period. Liquid assets, in the form of cash and securities, expanded from 22.3% to 35% of total assets. Examination of loan to deposit ratios shows a similar trend, that is, loans represent only 57.7% of deposits in 1990 compared to 80% in 1988. In short, the banks appear to be risk averse.

8.0 RESEARCH METHODOLOGY

The methodology adopted was designed in a way to enhance easy data collection from targeted respondents as regards to the role of financial institutions in export financing in Ghana. The research method adopted is the survey method. According to Osuala, in a survey research a sample chosen from a large and small population is studies to ascertain the frequency, distribution and introduction of sociological and psychological variables. Surveys are conducted at a single point in time which data collection is computed in a short time as possible usually in single year. The data collected from the sample selected at the point in time was used to descriptively compare the distribution of the variables. In large population so as to make inferences of what is obtainable in the large population.

AREA OF THE STUDY

In relation to the study, the researchers focused on the financial institution in report financing in Ghana.

POPULATION OF THE STUDY

The population of this work is the staff of bank of Ghana the number of staff is 100 and as such the population used for the study is 100 workers.

SAMPLE AND SAMPLING TECHNIQUE

A sample size 80% staff of bank of Ghana was randomly used for the purpose of the study. The sample size was derived as follows.

$$n = \frac{n}{1+N(e)^2}$$

Where N = sample size
N = The population
E = allowable error 5% or 0.05

Subsisting value

$$N = \frac{100}{1+100(0.5)^2}$$
$$N = 80$$

INSTRUMENT FOR DATA COLLECTION

This research work relied on both primary and secondary sources of data

PRIMARY SOURCE

It involved the use of questionnaire and oral interviews. re administered and oral interview were conducted to financial managers.

SECONDARY SOURCE:

This source dealt with information from sources such as text books, journals, unpublished

materials and other writings, relevant to the study.

VALIDATION OF THE INSTRUMENT

In accordance to the project audience, the research questionnaire was properly administered critically by the supervisor before distribution to the public with personal visitation for interview.

DISTRIBUTION AND RETRIEVAL OF THE INSTRUMENT

Out of the thirty (30) persons who were served questionnaire for interview from both the exporting section, and finance department only twenty eight (28) were retrieved.

METHOD OF DATA COLLECTION ANALYSIS

The data collected from the respondent were analyzed using chi-square calculated using the test of hypothesis. Chi-square test is always one tail test. The χ^2 distribution is unimodal and right skewed, although the skewness became smaller as degree of fraction increase. If the expected and the observed frequencies exactly agree, the test statistics (χ^2) would be zero. This is used to determine whether there is any significant difference between the observed and expected theoretical frequencies obtained from a distribution. Chi square can be defined as the sum difference between observed and expected frequencies. This can as will be defined as

$$\chi^2 = \frac{(O-E)^2}{E}$$

Where O = Observed frequency

E = Expected frequency

The O, which represents the observed frequency, is the number of responses state down, while E is expected frequency = (Row) (Column) Grand total O-E = the absolute value or deviation between frequencies.

$(O-E)^2$ The deviation squared E and weighted.

$(O-E)^2 = \sum$ of the deviation E Square and weighted.

DEGREE OF FREEDOM

One of the greatest vital features of the chi-square distribution is the degree of freedom. This may be defined as the element that determines precisely which chi-square distribution applies in a given case. In chi-square table, the table of freedom (DF) is calculated as $(DF) = (R-1) (C-1)$ Where R = the number of row in the table Where C = the number of row in the column in the same table

ANALYSIS

Data for this study was collected by means of questionnaires and interview. The researchers collected 200 copies of questionnaires distributed to the bank of Ghana administration. Only one hundred and sixty copies were collected out of the number. It was realised that ten out of the questionnaires distributed were not properly filled. Hence, only one hundred and fifty copies were left for analysis.

9.0 DATE PRESENTATION AND INTERPRETATION

In this chapter, data collection for the purpose of ensuring research quantities posed was presented and analyzed. The findings were presented according to research questions.

FINDING AND DISCUSSION OF FINDING QUESTIONNAIRES DISTRIBUTION

No. Distribution 80	No. Returned 80
---------------------	-----------------

SOURCE: FIELD SURVEY, 2017 QUESTION 1

What do you regard as export finding?

Options	Frequency	% of response
Transition between contribution	39	48.75
Financial support towards exportation	41	51.27
Total	80	100%

Sources: field survey 2017

From the above table, 39 questionnaires out of 80 that were distributed supports export financing to be transaction between countries while 41 regard as exportation. Hence, the percentage 48.75% and 51.25% given a hundred with the frequency.

QUESTIONS 2: Does financial institution have anything to do?

Options	Frequency	% of response
Not	50	100%
Not always	30	37.5%
Total	80	100%

Sources: Field survey 2017 Table 4.4

Some individuals and paratactic are of the view that the financing presented above did not carry out

obligations as expected. This is represented in the data above as 48.75%. But some firm disagree that financing institutions are the heart of the export financing in the above, it is 20%.

QUESTION 3

What factor did you think that has been binding export financing Ghana?

Options	Frequency	% of response
Government policy and environment	46	57.5
Distress banks	24	30
Poor responses by the public	10	12.5
Total	80	100%

Source field; 2017

Table 4.5

57.5% accepted government policy and environment as factor that is capable of hindering export finance in Ghana while 30% believed that hindrances are due to distressed bank. From the table above the public has very little effort to hindrance in export financing 12.5%.

QUESTION 4

Options	Frequency	% of response
Yes	40	60
No	19	13.75
Partially	21	26.25
Total	80	100%

Sources: Field survey 2017

TEST OF HYPOTHESIS

This section deals with the testing of hypothesis. A hypothesis is a conjectural statement of the relationship between two or more variables. Hypotheses are always declarative sentence form and they relate either generally or specifically, variables to variables. They are guides for the investigator in the entire process of research work.

The statistical technique considered here is chi-square. In the responses to question 13.75% the responds showed that financial institution using short, medium and long term facilities and the growth of export financing this shown that the hypothesis number one and two are the correct on and there expected a true.

Therefore, question three on the null hypothesis is rejected. The testing of the hypothesis formulated is hypothesis1.

Ho: financial institution plays no t role in export financing.

Hi: financial institution plays important role to Ghana exporters to complete favourables

Note: Question one relevant to this hypothesis see the table below.

Options	Frequency	% of response
Yes	29	58
No	21	42
Total	50	100%

The information in the above table is now arranged to show the following.

Observation frequency (O) Expected frequency (E) Deviation (O-E)

Deviation squared (O-E)²

Deviation squared weighted

$\frac{(O-E)^2}{E}$

E

Chi-square calculation (counting only)

Option	O	E	O.E	(O.E) ²	O.E
Yes	59	50	9	81	1.62
No	21	50	29	841	16.82
				X ²	18.44

Calculated chi-square

(X²) cal = $\frac{(O-E)^2}{E}$ =18.44

E

Critical value of x² at 5% = 6.5

DECISION RULE

Reject the null hypothesis if x² calculated is greater than x² tabulated and accept the alternative since the computed chi-square is greater than the critical value, the null hypothesis are rejected and alternative accepted. Therefore, we conclude that financial institution significantly influence the value of export.

HYPOTHESIS 11

Ho: The financial institution does not play any significant role in export financing.

Hi: financial institution plays important role to Ghana exporters to complete favourable

Note: Question 3 is relevant to this hypothesis.

TABLE

Options	Frequency	% of response
Yes	56	70
No	24	30
Total	80	100%

TEST THROUGH STATISTICS

$$\text{Chi-square with 95\% confidence level and 5\% significant zero level } X^2 = \frac{(O-E)^2}{E}$$

$$R = T$$

Calculation of expected value

$$100\% = 50\%$$

$$D.F = (R-1) (C-1)$$

$$(2-1) (2-1)$$

$$1.1 = D$$

TABLE:

Chi-square calculation (continuance)

Option	O	E	O-E	(O-E) ²	(O-E) ²
					E
Yes	100	50	50	2500	50
NO	50	50	O	O	O

$$X^2 = 30$$

The critical value of x^2 at 5% = 3.841. Decision since the computed chi-square is greater than the critical value (3.841) the null hypothesis is rejected and alternative is being accepted, then the volume of export is significantly influence by financial institution.

10 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The following summarizes all of the study. After a lot of deliberations the study identified some of the main challenges faced by export financing as in the statement of the problem. All these were buttressed by other discussion headings such as the scope and limitation of study as well as the objective of the research work.

Nevertheless, all these were also discussed effectively and covered under literature review. Methodology of data collection was also thoroughly discussed. The chapter essentially dealt with the methods which were adopted by the researchers in collecting data and how the data was analyzed. Also included were sample size and population. A thorough analysis was then carried out and findings well noted.

An adapt study also revealed the role of corporate bodies in facilitating export in Ghana as well as problems of export finance.

CONCLUSIONS

In conclusion, there is the need for a growing interest in export financing by the bank and other financial institutions. There has also been assistance in supporting Ghana's effort in reshaping the economy through export financing. The various moves to finance and promote exports are coupled with the offer or exports incentives. This could be seen in the setting up of the export promotion council's prescribed section credit allocation and the promulgation of the export incentives and miscellaneous provision degree duties. However, it is expected to yield dividend but in view of lack of adequate positive response, it is important to promote export of goods.

RECOMMENDATION

Based on the findings and other observation in the entire study, the researchers made the following recommendation. It is assumed that when fully implemented, it would not only aid financial institutions in achieving their co-operate objectives and traditional functions but will also help in achieving a balanced economic growth.

However, there is also the need to embark on vigorous production of goods and services for the export to scale promotion drive. Nonetheless, there is a high demand from neighboring communities are unable to be

satisfied. It is therefore imperative for much to be done in terms of quality improvement, rather than on the real scale promotion aspect before the countries large export potential can become realized. When this is done, it will boost the businesses of the bank and other financial institutions. This is because the long delay in cheque clearing procedures is a major problem which increases the cost of export for a successful exporter financing operation. Hence, Banks should expatiate the granting of loan facilities to make it readily available and on time. They should scrutinized and put in series of control measures so as to improve the quality of Ghana export commodities. It is therefore important to for the governments give assistance like subsidies and all other kind of encouragement so as to reduce the cost of local processed goods. Furthermore, a sound monetary policy, guideline should be design to encourage the bank to step up export financing.

BIBLIOGRAPHY

Ade, t. Ojo & wole A ,(1982) *Banking and Finance in Ghana*. Bedfordshire, Graham Burn.
 Abuakar.A. (25TH MAY, 1984) *Development lending promoter Banking*.
 Asuzu, C.C.N (1995), *Element of Banking in Ghana for Tertiary Institution; Ekwulobia: Theo Onaruka & sons Publishers CBN (1990/1991)*.
 Chizea K. (21ST MAY, 1984), *World Bank of Finance*.
 Eboh E. (1983) *Bank and industry in Depressed Economy the Billion Central Bank of Ghanan*. Vol. 8. no. 4, p.12
 Nzeri U.C.(1985), Two phases of Banking programme in Ghana.
 Nwankwo G.O. (1980), *The Ghana Financial System*, Lagos Macmilian press Limited.
 Obo D.O (1983), *Effect of Rural Banks on the operation of NNB Limited*.
 Olalusi F. (1980) *Introduction and Banking in Ghana*.
 Ibadan Published by University printing press Limited. Umahej (1985) “*Monetary and Banking System in Ghana*”
 Benin, Idi Publishers Limited business Concord, Vol.2, No. 1 p.6 OKO Journal of Business studies Vol.1, p.24.
 Bank News April, June Vol. 5 No.26

QUESTIONNAIRES

- 1.what do you regard as export financing?
 - i. Transactions between countries
 - ii. Financial support towards exportation

- 2.Does financial Institution have anything to do with export financing?

Yes No Not always

- 3.To what extents have Institution participated in export financing?`
 - a. Provision of short term finance
 - b. Provision of medium term finance
 - c. Provision of long term finance

- 4.Are there legal provision for fund raising or financing exportation?

Yes No

- 5.If yes, what are the sources?

- 6.What factor do you think that has been hindering export financing in Ghana?
 - a. Government policy and environment
 - b. Distressed banks
 - c. Poor response by the public

- 7.What are the problems encountered by the financial institution in export product.
 - a..... b.....
 - c.....

8. What are the modalities adopted by the financial institutions in assessing goods for the export.
a. b.
c.

9. Does Government support financing?
a. Yes No Partially

10. What effort did the government make to encourage export financing?
a. b.
c.

11. If number “a” is yes, his effective, have there effort been?
a. b.
c.

12. To what extent has the export oriented industry be finance by financial institution?
a. b.
c.

13. Are there prospects to expertise financing in Ghana?
Yes No No always

14. If yes, what are the prospects of export financing in Ghana?
a. b.
c.

15. How can export financing improve in Ghana?
a. b.
c.

16 Of what importance has export financing has been to the country?
a. It will help diversity foreign exchange and revenue based.
b. It helps Ghana exporters to complete favourable.