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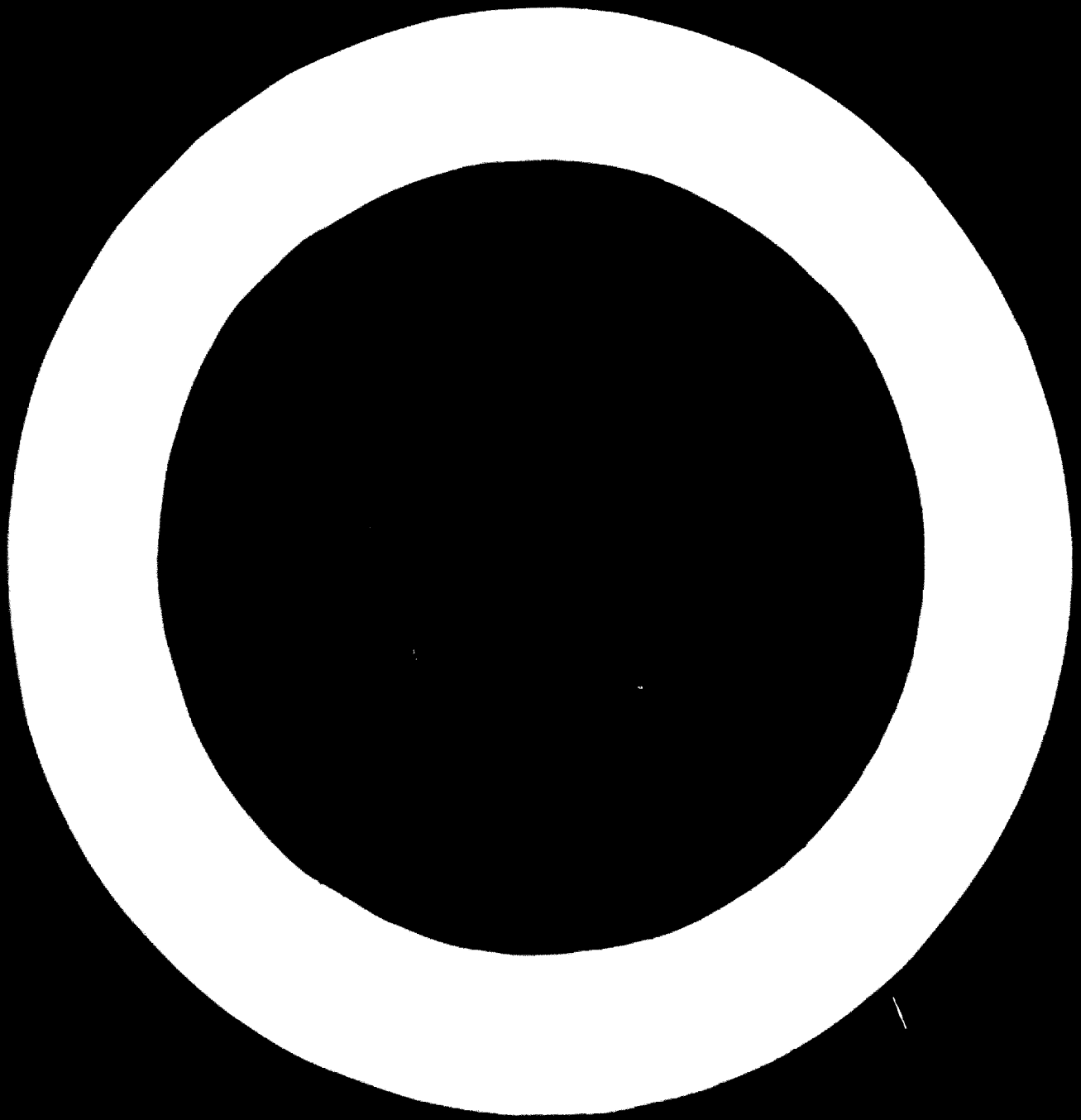
Vienna, 2 - 28 November 1970

THE GHANA COMMERCIAL BANK

1/ This material has been prepared as a background for the Workshop on the basis of information supplied by the Deputy Controller, Ghana Commercial Bank, Mr. D. Ayim Amoako. The aim is to present factual information describing the provisions of Ghana as a basis for discussion of the subjects to be considered by participants. The views and opinions expressed in this paper are based on the author's original paper and do not necessarily reflect the views of the secretariat of UNIDO. This document has been reproduced without formal editing.

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THE ORGANISATION OF THE GHANA COMMERCIAL BANK & HOW IT HELPS TO APPRAISE REQUESTS FOR INDUSTRIAL FINANCE

The Ghana Commercial Bank formally the Bank of the Gold Coast was established in 1953 to help indigenous businessmen who the two foreign banks, Standard Bank of West Africa and the Barclays Bank had not considered creditworthy.

From a humble beginning with only one small branch in Accra the Bank has grown to be the largest Commercial Bank in Ghana with a net work of 55 Branches.

The Bank has a share capital of NQ13, 000, 000 all the shares are owned by the Government of Ghana. It is therefore controlled by the Government through the Ministry of Finance and Economic Planning.

The Ghana Commercial Bank is under the control of a Board of Directors all of whom are appointed by the Government. Day to day administration is however in the hands of the Managing Director who is assisted in this regard by the Deputy Managing Director, Chief Manager (Domestic), Chief Manager (Foreign) and the Chief Inspector, the various Departments in the Head Office are under the control of the above Chief Officers of the Bank.

At Regional levels there are the Regional Managers who supervise the banking activities of the Branch Managers and also guide and advise them when necessary. Hitherto the Bank had restricted its activities to commercial banking. Recently the need has arisen that the Bank should extend its activities to provide medium term loans for industries and also to convert certain overdraft facilities which had been granted for short periods to medium term loans a maximum period of 5 years.

The Development Financing Unit was formed to handle these medium term loans.

Requests for medium term industrial finance are either submitted by customers direct to the Unit or through the Banks Branches.

The Unit is one of the Head Office Departments under the Chief Manager (Domestic). It is headed by a Controller who is assisted by his Deputy and a team of Project Analysts.

Applications submitted for consideration have to pass through a screening committee comprising of the Controller and his Deputy, whose job is to select the projects which they think the Bank will be willing to finance. The applicants whose applications are selected for study are given application forms to complete and are invited for interview by the Project Analysts.

The completed forms together with the following documents:

- i) Memorandum & Articles of Association
- ii) Certificate of Incorporation
- iii) Certificate to commence Business
- iv) Audited Balance Sheet or Statement of Affairs, have to be submitted to the Project Analysts in charge of the particular project.

Status report are obtained on the applicant companies as well as the Directors of those companies. Where a company is already operating the Analyst visits the company. These are some of the things that he checks:

- i) the number of machinery in use
- ii) their respective ages
- iii) frequency of breakdown
- iv) number of people employed.

Where a new factory is to be established the Analyst checks the following:

- i) the permission of the Ministry of Industries to establish the factory.
- ii) the location of the factory

Information on all aspects of the project are collected by the Analyst to enable him to write his report.

These are some of the points that the report usually cover:

- 1) Type of organisation - whether manufacturing, service, or trading concern.
- 2) Availability of raw materials
 - i) Whether raw materials will be obtained locally or imported
 - ii) Whether raw materials are by-products or finished products of another local company.
 - iii) How long it takes for orders to arrive
 - iv) Warehousing facilities - considering the rate of production, the maximum, minimum and re-ordering levels.
- 3) The type of plant and machinery in use and additional requirements.
- 4) Personnel - the technical and administrative, their qualifications and experience.
- 5) The Market Report - showing a projected demand for the product, availability of substitutes, a statistical report on import of the product for about 3 years.
- 6) Financial Analysis showing how the required loan is to be used and the pay "back" period through the use of a cash flow analysis.

Completed feasibility reports are sent to the Controller of the Unit and his Deputy for final checking before they are distributed to the members of the Management Committee. Advance copies of reports are sent to the members of the Management Committee for study before meetings.

This Committee consists of the Managing Director, the Deputy Managing Director, the Chief Manager (Domestic), the Chief Manager (Foreign) and the Chief Inspector.

The Controller and his Deputy are always invited to meetings to answer questions and explain various technical points in the report to the Committee.

The Committee's decisions on these loans go before the Board of Directors for final approval at the Board's fortnightly meetings.

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**HOW THE REQUESTS FOR FINANCING ARE APPRAISED
INCLUDING FACTORS CRITERIA & TECHNIQUES SUCH
AS CREDIT WORTHINESS**

There are two main types of financing namely temporary overdraft facilities which are required by customers for a short period to help them over a lean period and medium term loans which are required for a maximum period of five years. These medium term loans are granted to industrial organisations for the purpose of expansion, setting up new industries, or acquiring old established industries.

The overdraft facilities are normally granted to trading concerns in some cases to purchase raw materials to fulfil a pending contract or to pay wages and salaries for a specific period.

To decide on an application for an overdraft facility a report is presented to the Management Committee, a Committee of all the Bank's Departmental heads which decides on applications for financial help from customers, by the Manager of the Branch through which the application is channelled. This report embodies the purpose of the loan, the turnover of the customer for a period of say six months, the security offered and the repayment period. Reports submitted on overdraft facilities are not as elaborate as they are for medium term loans.

Applications for medium term loans are sometimes channelled through the various Branches to the Development Financing Unit or sent direct to the Unit. Projects are examined in relation to the economic priorities of the country.

In a developing country like ours a list of priorities has been drawn up to cover industries which are required at the initial stages of our development. These factors are highlighted in every feasibility report and the Committee's decision on financing an industry is usually based on the level of priority it is given in the country's development programme.

The purpose of the loan and its likely benefit to the country is an important feature that should be portrayed by the feasibility report to the Management Committee. This aspect of the report is very important for the reason that it will avoid duplication of investment, and will help the Bank to concentrate on the areas of production which will benefit the general economy of the country.

Security: Usually a banker lends against security such as properties, guarantees and indemnities as a form of insurance available in the background against unexpected development which may occur to jeopardize the safety of the loan. On purely grounds of expediency, a banker may decide to grant a loan without security to maintain a valuable connection or to support a deserving case. The security may be inadequate but the confidence in the borrower and his trade prospects may outweigh such defects. Where a security is accepted it must have certain basic attributes to make it appealing. Some of the attributes are that the value of the security must be easily ascertainable, reasonably stable over a number of years and must be easily realisable.

Feasibility Reports: The question of the security is only considered after a feasibility report has been able to convince the Management Committee of the soundness of the customer's project.

By the use of projected financial statements the report should reveal to the Committee the suitability of the loan, and source of repayment. This is one of the main factors which help the Committee to decide on an application.

Availability of Raw Materials: As it is the policy of the Ghana Government to conserve foreign exchange, established industries which use local raw materials are encouraged. The question of availability of raw materials is another factor which the Committee considers when appraising an applicant's request for industrial finance.

Plant & Machinery: The expected life of the plant and machinery is related to the duration of the loan as it may be a bad policy to give a five year period loan to purchase plant and machinery whose working life is only three years.

Market: The demand for the product, in other words the market potentialities. The class of people who will use the product must be considered. Availability of substitutes. The nature of demand for the product whether it is seasonal or throughout the year. If the demand is seasonal how long will it last and what the factory will be doing during the slump period. If distribution of the product is going to be done by the organisation through its own sales outlets, how much extra cost will be incurred by the organisation is another factor which is considered.

Credit Worthiness: The credit worthiness of the customer is ascertained by obtaining references from other financial institutions. This is a factor which is treated as important as the Bank will not like to deal with customers who are adjudicated bankrupt or customers with past histories who have been declared by other financial institutions as not creditworthy.

Past Business Performance: If a customer or any of the Principal Officers/Directors of a company have failed in any venture reasons for the failure is another factor which is considered when appraising an application.

If the loan required is to be used to take over an existing business, historical records on the operations of the organisation are used to prepare financial analysis which serves as a guide line for decision making.

Management: The feasibility reports on the various projects show the qualification of the existing management, this is a yardstick used to determine whether the existing management has the requisite know-how. The signing of a management agreement with suppliers of machinery and equipment or people with experience in similar organisations is made a condition of the loan if the Managers lack the requisite know-how.

The Committee's decision on whether or not to sanction an application is not influenced by the amount involved but by the feasibility report and its contents.

The Ghana Commercial Bank is concerned as much with the effectiveness of the loan granted as with its repayment. This concern is demonstrated by close supervision of the loan through the Post Finance Section of the Development Financing Unit.

The responsibility of the Post Finance Section commences when the borrower has satisfied all the conditions precedent to disbursement of the loan.

When loans are granted regular reports on technical and financial aspects of the organisation are submitted by the Post Finance Section of the Development Financing Unit for the study of the Management Committee. Specialists such as Accountants and Engineers of the Development Financing Unit conduct regular inspection of the projects which have been financed by the Unit and seek to appraise the Management of the Enterprise and offer technical and financial advice as appropriate. The purpose of the routine inspection is to ensure effective use of the loan and to enable the Unit to detect difficulties in the project as early as possible so that advice and assistance may be given where and when needed.

Where the loan is required to take over an existing organisation this Section supervises the disbursement of the funds by seeing to it that payments are made direct to the vendor.

Where the loan is required to set up an entirely new project, the Section supervises disbursement of funds by seeing to it that all payments are made direct to the contractor constructing the factory, such payments are made against certified complete jobs. In cases where plant and machinery are to be purchased locally, proforma invoices are obtained from the suppliers and all payments are made direct to the suppliers on the instruction of the Post Finance Section. In some cases loans granted for working capital are supervised by the Post Finance Section by instructing the Branches where transactions are performed not to honour any cheques issued by the customers until they are so instructed by the Post Financing Section of the Development Financing Unit. The main duties of this Unit may be summarised as follows:

- 1) To supervise the pre-production operations of each customer from the construction of the factory to the start of production. This action will help the Bank to determine whether the loan acquired is used for the purposes for which it is intended such as construction of factory buildings and financing working capital requirements.
- 2) To follow up and review the production plan with a view to drawing the Management's attention to any necessary remedial steps which may be taken to ensure the continued successful operation of the project. Production plans are drawn to cover the proposed production activities of the organisation and figures for the preparation of the projected profit and loss accounts are based on this plan, this action of controlling the production plan will help to check deficiencies in production which may throw the projected figures out of gear.
- 3) To provide advisory services to borrowers from time to time in the Management, Financial and Technical areas of their operations.
- 4) To analyse and comment on quarterly or annual reports and returns submitted.
- 5) To arrange accounting services on fee basis, to borrowers who are not in a position to employ qualified book-keepers and accountants.

When loans are granted the borrower is called upon to submit a schedule of plan for the implementation of the project. This should cover such facets as the date of commencement and completion of development works, dates of ordering delivery and installation of machinery and equipment and expected date of commercial production.

The Section ensures that the planned target dates are adhered to and where this is not possible due to unforeseen circumstances, it revises the schedule in consultation with the borrower.

Where the construction of the factory buildings form part of the project it is the responsibility of the Post Finance Section to ascertain that the building is constructed in strict accordance with the approved drawings. Progress report indicating the stage reached is submitted from time to time for the information of the Management Committee. This report should show the amount spent on the project and whether the undisbursed portion of the loan will be enough to cover the remaining cost of construction.

A monthly trial balance is prepared by the customer. In cases where it becomes apparent that an expenditure item in the trial balance shows a higher incidence of expenditure compared with that of the previous months then recourse to sources beyond the record to ascertain the reason becomes necessary.

It is imperative that borrowers who have been granted facilities by the Unit maintain up-to-date accounting records and it is the duty of the Post Finance Section to ascertain that this is done.

In some cases, a member of the Development Financing Unit is appointed to represent the Bank on the Board of Companies to which substantial amounts have been granted.

Where purchases are made overseas the Bank arranges Letters of Credit in favour of the Overseas Suppliers on behalf of the customer.

The above controls are necessary in order that the loan granted will be used for the purpose for which it has been granted, and that the money will be profitably employed.

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DESCRIBE THE INDUSTRIAL BANKING
ACCOUNTING SYSTEM AS OBTAINED IN GHANA

Apart from the normal deposits and payment transactions which are conducted at the Branches the whole accounting system is centralised in the Head Office.

When a loan is granted to a customer a loan Account is maintained in the Head Office Ledger - this account always shows a debit balance. This balance is equal to the aggregate of all the outstanding balances in the loan registers. Entries covering loans granted and repayment of such loans will pass through this account.

When disbursement of loan is made through the Branches a loan A/c (Development Financing Scheme) is debited and a corresponding credit is made against Branch for A/c of customer through Branch Transfer.

The interest element of the transaction is debited to the loan account and credited to Interest in Suspense A/c. Development Financing Scheme.

When disbursements of the loan is to be made under the supervision of the Unit, the accounting procedure will be the same as the one above except that:

- a) the amount approved will be credited to a new current account to be opened in the name of the customer, transfers will be made from the new account to the customers ordinary A/c. as and when necessary.

Interest Account:

Two interest accounts are opened namely:

- 1) Interest Account (Development Financing Scheme)
- 2) Interest in Suspense account (Development Financing Scheme)

When a loan is made available to a customer the total interest payable on the loan is credited to the interest in suspense account Development Financing Scheme and debited to the loan account Development Financing Scheme.

On payment of any instalment the interest portion is credited to the interest account (Development Financing Scheme) and debited to the Interest-in-Suspense Account (Development Financing Scheme). (These are memorandum entries).

On full disbursement of loan approved:

- a) The total amount of interest on the approved loan is worked out for the whole period of the loan. This interest is worked on diminishing balance. The interest is added to the loan to obtain a figure representing total loan and interest.
- b) Where a moratorium is granted working of interest is based on this period.

EXAMPLE

| | |
|--|---------------|
| Amount of loan approved | N\$4,000 |
| Interest for 5 years @ 7½% on reducing balance | 8,250 |
| Total loan and Interest | 48,250 |
| Half yearly instalment: | |
| Loan | N\$4,000 |
| Interest | 825 |
| | 4,825 |

| | |
|--|-----------------------|
| 1) Debit loan A/c (Development Financing Scheme & Credit Branch for A/c. of customer through Branch Transfer | N/4,000 40,000 |
| ii) Debit loan A/c (Development Financing Scheme) & Credit Interest in Suspense A/c. (Development Financing Scheme | 8,250 8,250 |

Accounting Procedure on Receipt of Instalment:

- a) On receipt of the credit advice covering the standing order:
- i) The account of the Branch responding to the advice is debited with 4,825
& the loan account Development Financing Scheme is credited with 4,825
 - ii) Interest in Suspense A/c. (Development Financing Scheme) is debited with 825
& Interest Account Development Financing Scheme is credited with 825
- b) By the time all the instalments (10 in this example are received).
- i) The loan account will have been credited back with N/4,825 x 10 i.e. N/48,250 which is equal to the original debt and the interest.
 - ii) The Interest-in-Suspense A/c. will have been debited with N/825 x 10 i.e. N/8,250 the total amount of interest originally credited to this account.
 - iii) The Interest account will have been credited with N/825 x 10 i.e. N/8,250 total interest on the loan actually received.
- c) If the balance on any loan account is paid before the due date:
- i) The account of the Branch responding to the advice is debited with the full balance being paid and credited to the loan account.
 - ii) The interest-in-suspense account is debited with the interest portion of the amount paid, and the interest account is credited with the portion of the interest due.
- The account of the Branch originating the entry for A/c. of the customer is credited with the part of the interest not payable but has already been credited to the Interest-in-Suspense A/c.

EXAMPLE

Taking Example 1

If the full balance is repaid after the 8th instalment

| | | |
|--------------------|---------------------|-----------|
| Total paid to date | N/4,825 x 8 | N/ 38,600 |
| Balance left | N/48,250 - N/38,600 | 9,650 |

When the balance is repaid when the 9th instalment is due the customer will lose interest on the 9th instalment but may be credited back with interest on the 10th (last) instalment).

Accounting Entries:

| | |
|--|------------------|
| i) Debit Branch (responding to the entry) ^{and} credit loan A/c. with | N/ 9,650 |
| ii) Debit Interest in suspense A/c. ^{1050.} | 9,650 |
| Credit Interest A/c. ^{825.} | 4,650 |
| Credit Branch for customers A/c. | 825 |

HEADS OF AGREEMENT

Between

GHANA COMMERCIAL BANK
(hereinafter called 'the Bank')

And

.....
(hereinafter called 'the')

I. AMOUNT & TERMS OF LOAN

The Bank undertakes to grant to the for the purpose/purposes and subject to the terms and conditions hereinafter set out financial facilities amounting to (hereinafter called 'the Loan').

II. PURPOSE OF LOAN

1. The loan is to be utilized

2. The undertakes to use the loan solely and exclusively for the and not to use any goods purchased out of the loan otherwise than in carrying out the
ca

III. DISBURSEMENT OF LOAN

For the purpose of making payments out of the loan the undertakes to follow the under-mentioned disbursement procedure:-

1. Local Purchases

The may submit pro-forma invoices for payment direct to suppliers or receipted accounts for reimbursement

2. Overseas Purchases

The Bank shall arrange letters of credit in favour of overseas suppliers on behalf of the but the shall be responsible for clearance of goods on arrival.

All such payments shall be debited to the..... Loan Account but bank and other normal charges on promissory notes or letters of credit shall be paid by the on demand.

IV. REPAYMENT OF LOAN FEES AND THE BANK'S EXPENSES

1. No disbursement of the loan shall be made until the commitment and investigation fees provided for under the foregoing sub-clauses of this Clause have been paid in full by the

2. The shall within a period of years (including a moratorium of years(s) on capital repayments only commencing from the date of first disbursement in accordance with the provisions of this Agreement) repay the principal of the loan together with interest thereon at the rate of by equal instalments.

3. During the said moratorium on capital repayments the shall pay on demand interest at the said rate of on disbursed portions of the loan,

4. All charges expenses and costs (including bank charges and the charges of the Bank's legal advisers) in anyway incurred by the Bank in connection with or relating to this transaction including investigation of title to immovable properties if necessary, preparation and stamping of documents shall be borne and paid by the.....

V. SECURITY

The loan shall be secured by:

(a) a first legal mortgage of the freehold and/or leasehold properties of the together with all buildings plant and machinery erected thereon

(b) a floating charge over all other assets of the.....
..... (existing and future)

2. The repayment of each instalment as well as the total amount of the loan shall be guaranteed by the

VI. REPRESENTATIONS

The represents and warrants that it is in a position with regard to the relevant provisions of the Company's Code, 1963, validly to exercise borrowing powers and that it has power to borrow the amount of the loan.

VII. CONDITIONS TO BE FULFILLED BY THE..... PRIOR TO DISBURSEMENT OF LOAN

1. The shall furnish to the Bank in manner satisfactory to the Bank the guarantee of the directors mentioned in Clause V.2 hereof.
2. The shall deduce and prove good title to the freehold and/or leasehold properties referred to in Clause V.1 (a) hereof.

VIII. TERMS WHICH ARE TO APPLY UNTIL LOAN IS FULLY REPAYED

1. The undertakes that it will carry out and conduct its business with due diligence and efficiency and in accordance with sound commercial standards and will keep the Bank informed by submitting quarterly operating statements in a form acceptable to the Bank.

2. The shall keep in close touch with the Bank on the progress of its business and, to this end,

- (a) The agrees that the Bank may from time to time inspect goods purchased out of the loan and the sites, works, etc. of the project.
- (b) The shall provide the Bank with all such information relating to the project and the operation of the business as the Bank shall from time to time request and the shall promptly upon preparation transmit to the Bank its audited balance sheets and profit and loss accounts and shall give the necessary explanations.
- (c) The shall promptly inform the Bank of the happening of any event likely to affect the profits.
- (d) The shall permit any authorised officer of the Bank or qualified practising accountant authorised by the Bank to examine its books and shall provide all necessary facilities to enable such officer or agent of the Bank or any technically qualified person chosen by the Bank to report on the business at any time.

3. Except with the prior consent in writing of the Bank the shall not

- (a) make any loan to or give any guarantee or credit (other than normal trade credit to or for any company or person
- (b) sell or dispose of any of its assets and properties
- (c) make any payments to the shareholders by way of distribution or profits or return of capital or otherwise enter into arrangements for the payment of management fees directors' drawings and other

4. The shall insure and keep insured against loss or damage by fire and such other risks as the Bank may require such of the assets of the Company as are of an insurable nature and shall cause notice of the Bank's interest thereon to be indorsed on the policies and shall deliver the policies to the Bank for custody.

IX. PROVISIONS REGARDING AMENDMENT SUSPENSION AND CANCELLATION

1. Access by the to the use of the loan may be suspended or terminated by the Bank

(a) upon failure of the to carry out any of the terms and conditions of these Heads of Agreement;

(b) if the shall take or permit to be taken any action or proceedings whereby any of its properties shall or may be liable to be assigned or in any manner transferred or delivered to any receiver assignee liquidator or other person whether appointed by the or otherwise such property shall or may be distributed among creditors of the ;

(c) if any extraordinary situation shall make it improbable that the will be able to perform its obligations under these Heads of Agreement.

2. The right of the to draw upon the loan shall continue to be suspended until the event which gave rise to such suspension shall have ceased to exist to the satisfaction of the Bank or until the Bank shall have notified the that the right to draw upon the loan has been restored, whichever is earlier.

2. If any of the events described in sub-clause 1 hereof shall happen the Bank may by notice in writing to the terminate the right of the to draw upon the loan. Upon such notice being given the undisbursed amount of the loan shall be cancelled.

3. Notwithstanding any suspension or cancellation pursuant to sub-clauses 1 & 2 above all the provisions of these Heads of Agreement shall continue in full force and effect for the benefit and protection of the Bank's interest.

4. If default shall have occurred in the payment of any instalment or any other payment required under these Heads of Agreement or in any of the events mentioned in sub-clause 1 above, or in the observance of any of the provisions hereof, the Bank may at its option declare the loan or any part thereof then disbursed together with interest due thereon to be

immediately payable and upon such declaration the security constituted by Clause V hereof shall become enforceable, anything in these Heads of Agreement to the contrary notwithstanding.

5. These Heads of Agreement contain the main terms as they have been agreed in principle but are subject to amendment in the light of any matters which may emerge before execution of the necessary legal documents and to the due fulfilment of the formalities required to implement them to the satisfaction of the Bank.

Date this day of 19

SIGNED for and on behalf of

)

.....)

)

in the presence of)

.....

Managing Director

SIGNED for and on behalf of

)

THE GHANA COMMERCIAL BANK)

)

in the presence of)

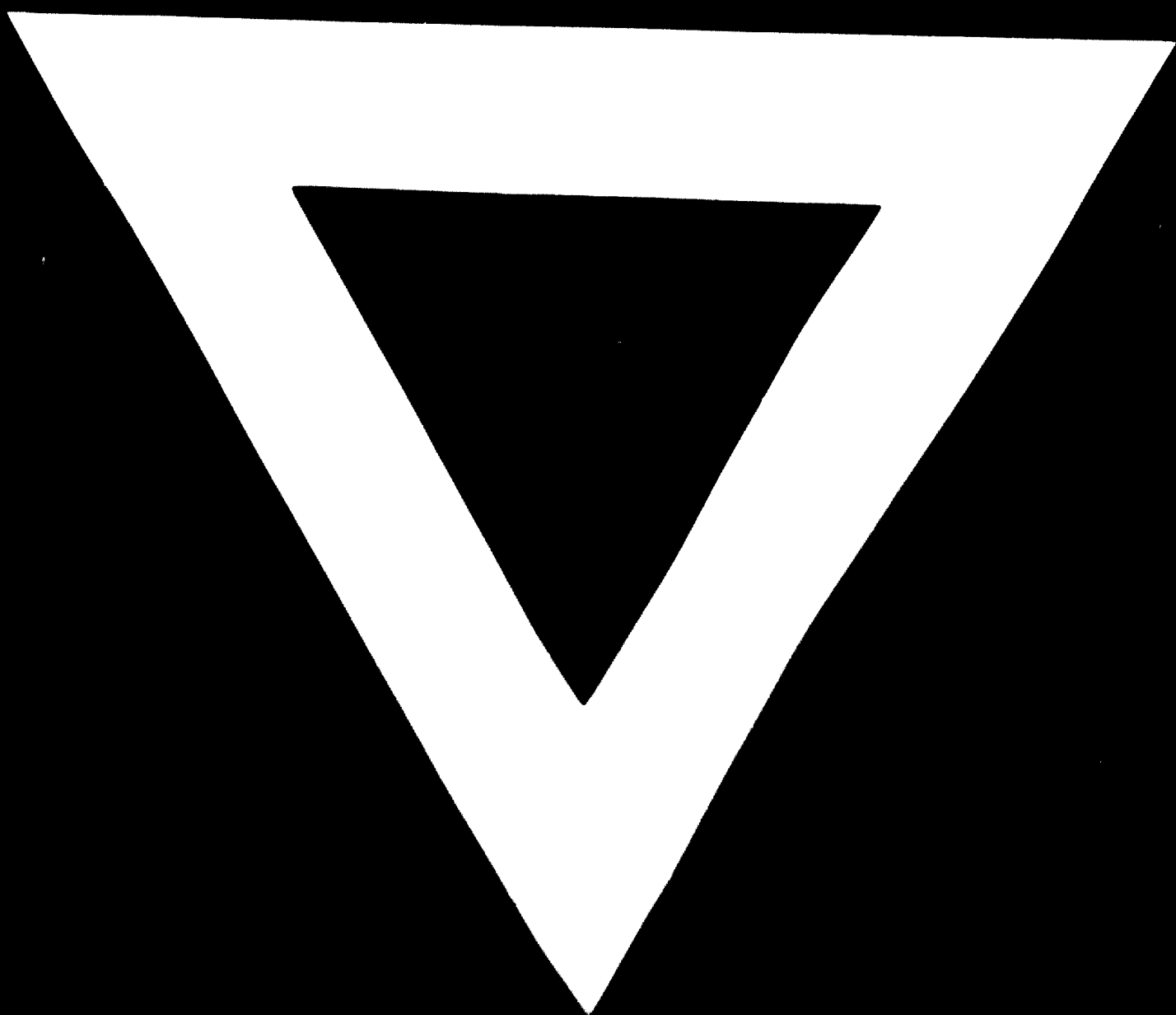
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Controller

Development Financing Unit





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