



CASH MANAGEMENT: GHANAIAN RURAL BANKS' PERSPECTIVE

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ABSTRACT

Rural banking is quiet prevalent in Africa perhaps Ghana. Current research shows that its existence has contributed immensely to the rural community development in the country, hence its description as the financial engine for a country's growth. Knowing its relevance to the development of a country, and it not being a full fledge bank, there is the need to conduct an empirical study to examine its financial "modus operandi" specifically cash management mechanisms. Therefore the main objective of this paper is to investigate rural banks cash management policies in Ghana using float management techniques, collection techniques, disbursement control and investment of idle cash as its main variables. Questionnaire was used to collect data from one Rural Bank and SPSS was used to analyze the data. The study found that, the collections and disbursements activities of the rural banks do not create any float; that disbursements are always higher than collections; that the difference between collections and disbursements is very significant; that there is no relationship between collections and disbursement. The practical implication of the findings are discussed.

Keywords: Cash management, Cash Collection, Cash Disbursement, Rural Bank



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1. INTRODUCTION AND THE RESEARCH CONTEXT

According to Agyire-Tettey and Kusi (2006), before the financial sector reforms, most rural banks had accumulated high non-performing assets as a result of poor loan repayments. The rural sector of Ghana is characterized by low production, so many of the rural people, peasant farmers, remain poor and find themselves in the poverty cycle. In an attempt to boost production, particularly in rural agriculture, the Bank of Ghana introduced a reform in Rural Credit Policy in 1985, in the form of Mandatory Sectoral Allocation of Credit to ensure that 50% of rural bank credit went to support agricultural production.

However, the general uncertainty and stagnation in small-scale agriculture as well as the few inaccessible markets, as a result of poor infrastructural development in the rural areas, adversely affected production, income generation, distribution and marketing. These, in turn, resulted in the borrowers' inability to meet their loan repayment obligations, thus contributing to poor assets quality. Consequently, in 1992, 18 rural banks were declared distressed as they were insolvent and could not meet the withdrawal claims by depositors (Agyire-Tettey and Kusi 2006). This is attributable, partly, to ineffective management of cash.

Agyire-Tettey and Kusi (2006) posit that, though the rural banks had made remarkable strides in the field of mobilization of savings and the provision of credit facilities, problems that had emanated from the operations could culminate into bankruptcy; thus resulting in yet another failure at the provision of rural credit facilities.

Again, Dr. Acquah, the governor of the Bank of Ghana noted in his keynote address at the Ghana Banking Awards, 2006, that the supervisory effort of the central bank was being re-directed towards how well banks assess their risks and how actively they were managing those risks and their capital thereby minimizing systemic problems for the entire banking system.

This paper advances the notion that rural banking in Ghana is not making significant impact in the banking industry. This is because it was reported that the rural banks' contribution to the total domestic deposits of the banking system as at the 4th quarter of 2004 remained 9.1% (BoG Q B 2004).

The question that emanates from this discussion is: How do rural banks manage their holdings of cash with particular reference to their collection techniques, disbursement

control and their investment of surplus cash? For rural banking to survive the current competition in the banking industry, it is important for researchers to look into how these banks manage their cash. The purpose of this study, therefore, is to examine the cash management policies and techniques of rural banks in Ghana and suggest ways by which rural banking cash management can be improved significantly. This study limited itself to Adonten Community Bank only owing to time constraint. The bank was chosen because it is a bank located in a rural area where the inhabitants are mainly farmers. Data collection was also limited to 2005 since the data was not only current but also readily available.

2.0 REVIEW OF RELEVANT PRIOR LITERATURE

2.1 RURAL BANKING

The term "rural bank" first appeared in the banking vocabulary of Ghana in 1976 when the first rural bank was opened at Nyarkrom in the Central Region of Ghana, by which time, no law in Ghana had defined the term rural bank (Addeah 1989). According to Addeah (1989), a rural bank is a body incorporated under Ghana's Companies Code whose name includes the word "bank" and which is licensed by the Bank of Ghana to carry on specified banking business which principally includes:

The acceptance of money from the public on either deposits account or current account; repayment of such monies on demand by cheque or otherwise; collection of customer's cheques; lending of money; financing commerce; industry and agriculture through short, medium and long-term loans and advances; provision of safe custody for customers' valuables; investing part of customers' deposits in economic activities that promote local socio-economic development; and any other service authorised by the bank's regulations .

Therefore, to this study, a rural bank is a public limited liability company under the Companies' Code, located in a rural community as a unit bank to mobilize savings and provide lending to the rural population, maximize shareholder value and engage in economic activities to ensure both social and economic development of the rural community in particular and the nation in general (Agyire-Tettey and Kusi 2006).

According to Addeah (1989), two main differences exist between rural banks and all other banks in Ghana. First, rural banks do not have branches like the other banks. Rural banks operate as unit banks because they are not supposed to have branches. They are independent companies whose registered offices located in the rural areas are the same as their headquarters. This means that a rural bank is not the branch of any other bank, not even the central bank.

The second difference lies with the scope of their services to customers. Rural banks concentrate their business on domestic banking whilst the other banks deal with both domestic and international banking. This means that rural banks do not deal in foreign currency, travellers' cheques, international money transfer, letters of credit, etc.

A classification of rural banks using the capital adequacy ratio (CAR) of 6% indicated that out of the 120 rural banks, 102 were found to be satisfactory whilst 18 were found to be mediocre (BoG Q B 2004). This shows that the rural/community banks continued to double their financial intermediation efforts in 2004.



Total assets of the industry grew by 12.6%. This growth was reflected in all its components; cash and bank balances rose by 25.7%, investments in bills and bonds grew by 11.6% and loans and advances by 0.5%.

In the 4th quarter of 2004, it was noted that rural/community banks slowed down on lending activities and increased their cash holdings in anticipation that there would be increase in cash withdrawals by customers during the Christmas season.

It is also important to note that the rural bank's compliance with the statutory reserve requirements remained high. As at the 4th quarter of 2004, primary reserves of the rural/community banks showed an excess of 9.6% over the mandatory minimum requirement of 13%. The secondary reserve ratio also recorded an excess of 24.2% above the mandatory requirement of 30%. In the 4th quarter of 2004, the banking industry as a whole mobilized ₱14,923.5 billion in total domestic deposits, of which the rural banks contributed ₱1,357.3 billion representing 9.1%.

2.2 CASH MANAGEMENT

Cash management, according to Watson and Head (1998), is concerned with optimizing the amount of cash available to the company, by maximizing the interest earned by spare funds not required immediately and by reducing any losses caused by delays in the transmission of funds. The basic objective in cash management is to keep the investment in cash as low as possible while still operating the firm's activities efficiently and effectively, (Ross et al. 2004). To Engler (1978), the goal of cash management is to minimize the investment in cash while at the same time protecting the firm against sudden, unforeseen cash drains. Pandey (2004) also says that cash management is concerned with the management of: Cash flows into and out of the firm, cash flows within the firm, and cash balances held by the firm at a point of time by financing deficit or investing surplus cash. The question that arises from the discussion above is: Does a firm's collection and disbursement activities create float?

In most cases the firm's book balance is different from its bank balance. The reason is that any time the firm writes a cheque for payment, it quickly reduces its book balance by that amount. However, until the cheque is presented to the bank for payment, the bank will not know anything about that cheque so the firm's bank balance will still be the same. The difference between the available or bank balance and the book or ledger balance is called the float, and it represents the net effect of cheques in the process of clearing (moving through the banking system), (Ross et al. 2004; Brealey et al. 2004).

Ideally, a company gains as a result of the payment float and loses as a result of collection float. The Net float available to the firm is the difference between payment and collection float (Brealey et al. 2004). Thus: Net float = payment – collection float.

If the net float is positive, then the firm's disbursement float exceeds its collection float and its available balance exceeds its book balance. If the available balance is less than the book balance, then the firm has a net collection float. A firm should be concerned with its net float and available balance more than its book balance. This will help the financial manager to keep lower cash balance at the bank and invest the surplus cash in marketable securities (Ross et al. 2004)

2.3 FLOAT MANAGEMENT

According to Ross et al. (2004), float management is concerned with controlling the collection and disbursement of cash. The objective in cash collection is to speed up collections and reduce the lag between the time customers pay their bills and the time the cash becomes available. Also, the objective in cash disbursement is to control payments and minimize the firm's costs associated with making payments.

All the authorities consulted such as Brealey et al. (2004); Brealey and Myers (2003); Brigham and Houston (1999) agreed with Ross et al. (2004). However, Pandey (2004) and Engler (1978) were silent over float management. Total collection or disbursement times are made up of mailing time, processing delay, and availability delay. That is the time it takes to mail a cheque; the time it takes the company to process the cheque after it has been received; and the time it takes the bank to clear the cheque and adjust the firm's account. Therefore, speeding up collections involves reducing one or more of these components, and slowing down disbursements involves increasing one or more of them.

2.4 Cash collection

How a firm collects from its customers depends on the nature of the business. For example, in a business such as a restaurant chain, most of its customers will pay with cash, cheque or credit card at the point of sale and this eliminates mailing delay. Normally, the funds would be deposited in a local bank, and the firm would have some means of gaining access to the funds (Ross et al. 2004).

However, where bills are paid with cheques that arrive through the mail, then all the three components of collection time become relevant. The firm may choose to have all the cheques mailed to one location, or the firm may have a number of different mail collection points to reduce mailing times. Also, the firm may run its collection operation itself or might hire an outside firm that specialises in cash collection for a fee. The firm may also use the preauthorized payment, where the payment amount and payment dates are fixed in advance. When the date agreed upon comes, the amount is automatically transferred from the customer's bank account to the firm's bank account to eliminate collection delays. Firms that have "on-line" terminals use the same approach (Ross et al. 2004).



2. 5 Controlling collection

The two main techniques used to speed up collection are concentration banking and the lockbox system (Ross et al. 2004).

In concentration banking, customers in a particular area make payments to a local branch office rather than to company headquarters. The local branch office then deposits the cheques into a local bank account. Surplus funds are periodically transferred to a concentration account at one of the company's banks. (Ross et al. 2004; Brealey et al. 2004; Engler 1978).

According to Brealey et al. (2004), concentration banking reduces float in two ways. First, since the branch office is closer to the customer, mailing time is reduced. Second, since the customers are local, the chances are that they have local bank accounts and therefore the time taken

clear their cheques is also reduced. Also, cash accumulated can be invested in interest-paying assets through a single transaction.

Bank charges for rendering this service are higher than just receiving cheques and processing. Payment for these services often comes in the form of higher compensation balances being required. When the average payments are small, this method of reducing float is not possible. Therefore, the company should undertake a cost-benefit study in addition to marketing feasibility study to be sure of the best location for a lockbox installation, considering the geographical distribution of customers, the size of the average payment, the size of funds to be released for investment, and the investment opportunities open to the company. Often, concentration banking is combined with the lockbox system.

2. 6 Controlling disbursements

Engler (1978) argues that for efficient cash management, the firm must not only try to slow the disbursement pattern but also use common sense to pay its bills. If a firm has multiple banking relations, management must make sure that all surplus funds are withdrawn periodically and utilized in some form of marketable securities. If the firm is given a discount on its accounts payable of 2/10, net/30, it should try to take the 2% discount within the ten-day period. If this is not possible, the firm should pay on the 30th day. If it pays before that time, it is not deriving any benefit and is foregoing the opportunity of maximizing available cash.

Engler (1978) continues that one technique that firms use is the use of drafts to pay bills. Unlike a cheque, a draft is not payable when the supplier receives it. It has to be sent to the supplier's bank, the bank must present it to the issuer for acceptance. Once accepted, the firm will deposit the money to cover payment of the draft. With this system, the firm does not have to worry about a cheque clearing when there are insufficient funds, for the cheque has to clear first with the financial manager. Also, this technique slows down the cash disbursement pattern by several hours or even days.

Ross et al. (2004) continue with two systems for efficiently managing the disbursement process: the zero-balance account and the controlled disbursement account. With a zero-balance account, the firm in cooperation with its bank maintains a master account and a set of sub-accounts. When a cheque written on one of the sub-accounts must be paid, the amount needed is transferred from the master account. The key is that the total amount of cash held as buffer is smaller under the zero-balance arrangement, thereby freeing up cash to be used elsewhere. With the controlled disbursement account, all payments that must be made in a given day are known in the morning. The bank informs the firm of the total and the firm transfers the amount needed. Brealey et al. (2004) add that apart from maintaining a zero-balance account, a firm can use remote disbursement as another technique. With this technique, a firm pays its supplier on time but with a cheque written on a far distant bank. In this case, it may take some days before the cheque is presented for payment.

What about electronic transfer, is it cost effective? In the developed countries, the use of cheques is on the decline. Consumers now use credit card or debit cards to make payments instead of cheques. In the case of companies, payments are increasingly made electronically. Electronic payments are relatively few in number and accounts for only about 14% of business-to-business payments. However, they constitute the majority of transactions by value.

3. THE RESEARCH METHODOLOGY

First of all, this study is a case study. Information was gathered primarily from two sources: primary source and secondary source.

Primary source: the researcher prepared a questionnaire for management to fill. The bank manager took the questionnaire and discussed all the questions with the researcher in the presence of the Accountant. He then gave the questionnaire to the Accountant to fill in the necessary figures required. Afterwards, the researcher interviewed the project officer for clarification on matters that arose from the responses the manager and the Accountant provided. Secondary source: information was also gathered from textbooks, scholarly magazines, journals and the Internet to help the researcher get new insight into the topic.



Secondly, this study focused on the management of the bank because management was responsible for the day-to-day running of the bank and therefore, had access to the information the study required. The sample was made up of the Manager, Accountant, and the project Officer.

Thirdly, the study used non-probability sampling, precisely the purposive sampling technique to pick the sample for the study because not all the employees of the bank had access to the information required.

Fourthly, this study used a questionnaire as the research instrument so that the respondent would have ample time to look for answers to the questions. The questionnaire was made up of both closed and open-ended questions. The closed-ended questions were used to guide respondents as to what information was required. The open-ended was to allow the respondents to freely express themselves. Later on, the researcher augmented the process with an interview schedule for the sake of clarification.

4.0 ANALYSIS AND DISCUSSION OF RESULTS

4.1 Float and Its Management

First of all, this study's first objective was to examine rural banks' float management techniques. The study found that there was no difference between ledger balance and available balance. The ledger balance was equal to the available balance. The management of the bank, precisely, the Manager and the Senior Accountant explained that the bank did not consider a cheque received as something of value until the cheque was cleared. Until the cheque was cleared, the bank did not treat that cheque as cash. Therefore, to them, the ledger balance was the same as the available balance. This means that the bank's net float is zero, implying that their collection activities are effective.

The result of this study, therefore contradicts the general assertion that disbursement and collection activities of a firm create disbursement and collection floats. This paper advances the notion that in rural banking cash management, float is always zero.

4.2 The Relationship between Collections and Disbursements

The second objective of this study was to examine the relationship between collections and disbursements for 2005.

The first step was to compare collections and disbursements as shown in Fig 1. below

FIG. 1

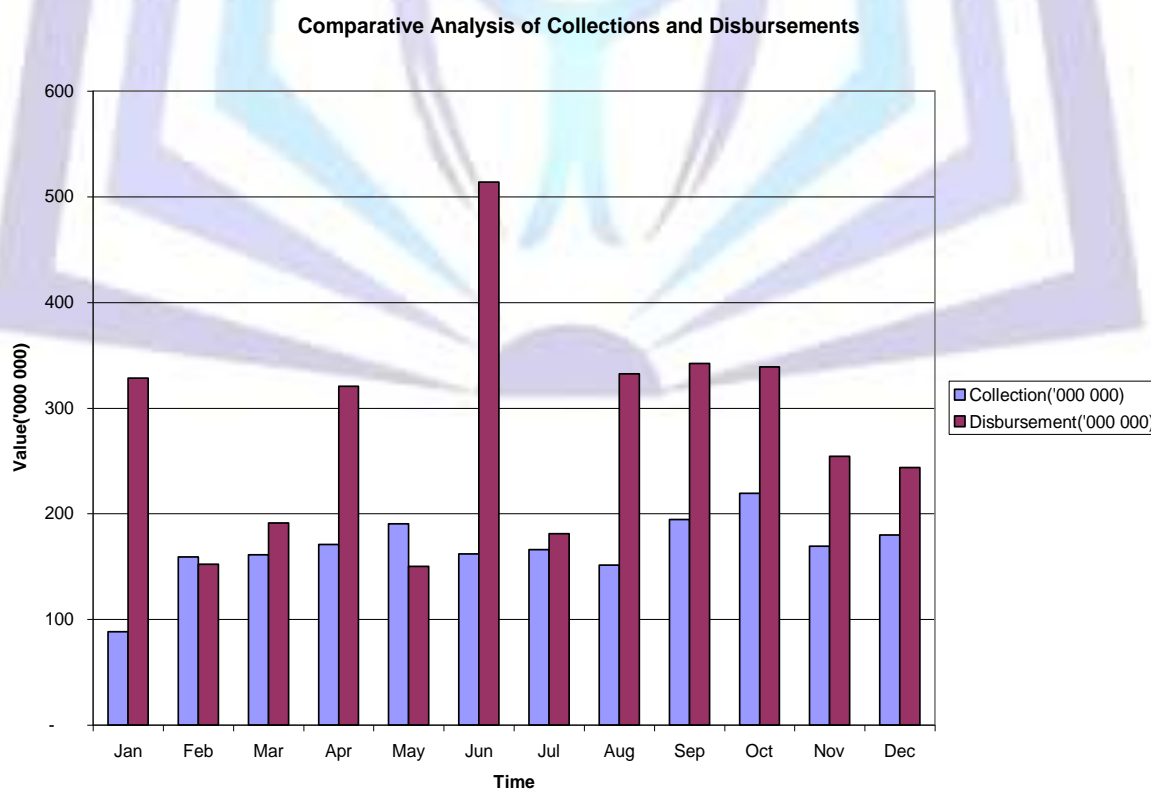




Fig 1 is a summary of the comparative analysis of collections and disbursements. From the Fig, it can be seen clearly that disbursement was very high in January, comparatively higher than collections. However disbursement decreased sharply in February while collection increased steadily the same month, so in February, collection stood higher than disbursement. Then disbursement rose steadily, going higher than collections in March and April and decreased sharply again in May, with collection standing higher than disbursement in the same month. Disbursement then rose to its peak in June and decreased gradually up to December. Collections on the other hand rose steadily in July, August and October and decreased slowly in November and December. Generally, the figure shows that disbursements were relatively higher than collections in 2005. The next task was to perform a percentage analysis of collections and disbursements as shown in Fig 2 below.

Fig. 2

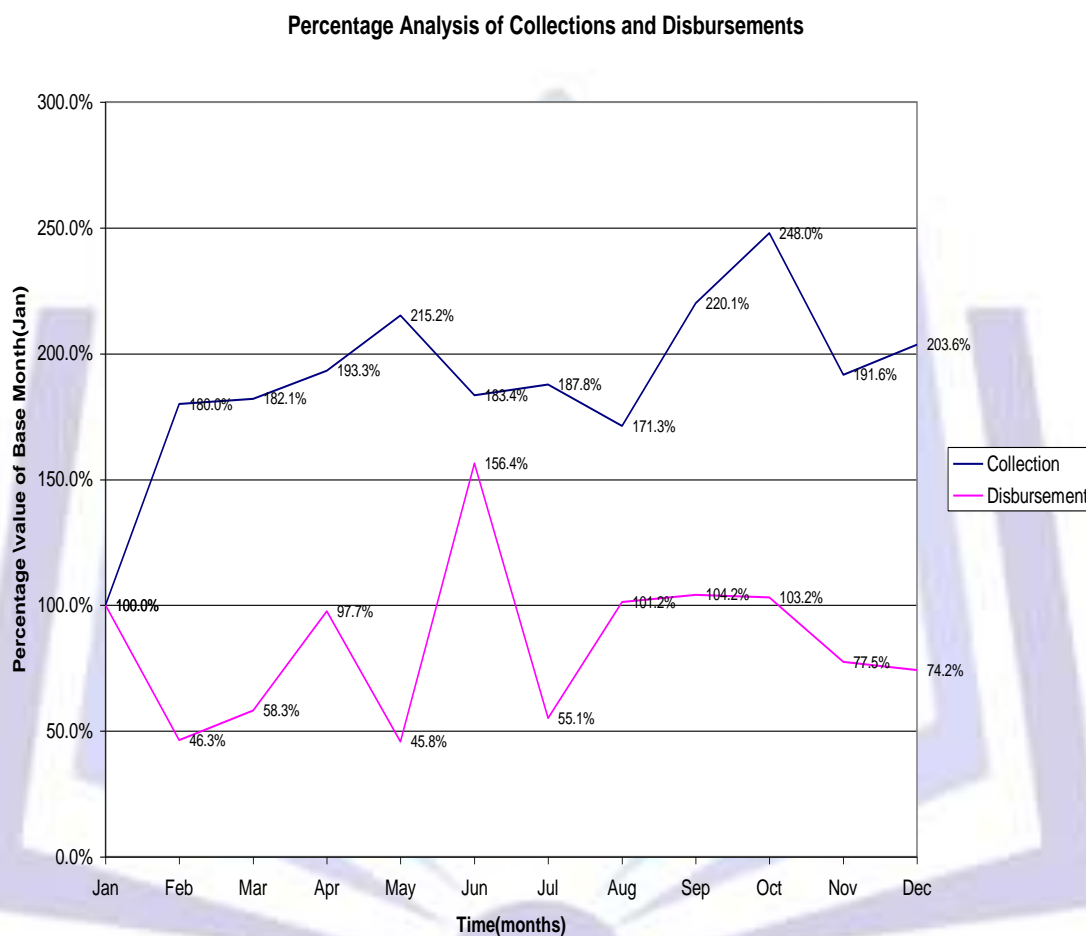


Fig 2 also shows the percentage analysis of collections and disbursements. The analysis shows that although disbursements were higher almost always than collections, the rate of increase in collections was higher than that of disbursements.

In February, collections increased at a rate of 80% while disbursements decreased at the rate of 54%. Generally, the rate at which collections improved continued to rise and got to its peak in October where it hit 148% over January's performance. Disbursements suffered a rise and fall, with its highest rise of 56.4% in June, fell sharply below the January figure and rose steadily again in August, September and October. In November and December, however, the rate dropped below the January rate. Therefore, in terms of percentage analysis, collections rate was almost always higher than that of disbursements.

Ideally, collections should be higher than disbursements so that the firm would have enough cash to finance its operations and invest the surplus to maximise shareholders value. This explains why Brealey et al (2004) put forward that steps should be taken to speed up collections and slow down disbursement. However, this idea does not hold in rural banking cash management.



An interesting question one may ask is that: "Is there a relationship between collections and disbursement? This leads to a test on collections and disbursements to ascertain the relationship between the two variables, which is the focus of the next section

The Fig. below is a scatter diagram suggesting that there is no relationship between collections and disbursements. However, this display of no relationship has to be confirmed in a test of significance.

Relationship between Disbursement and Collections

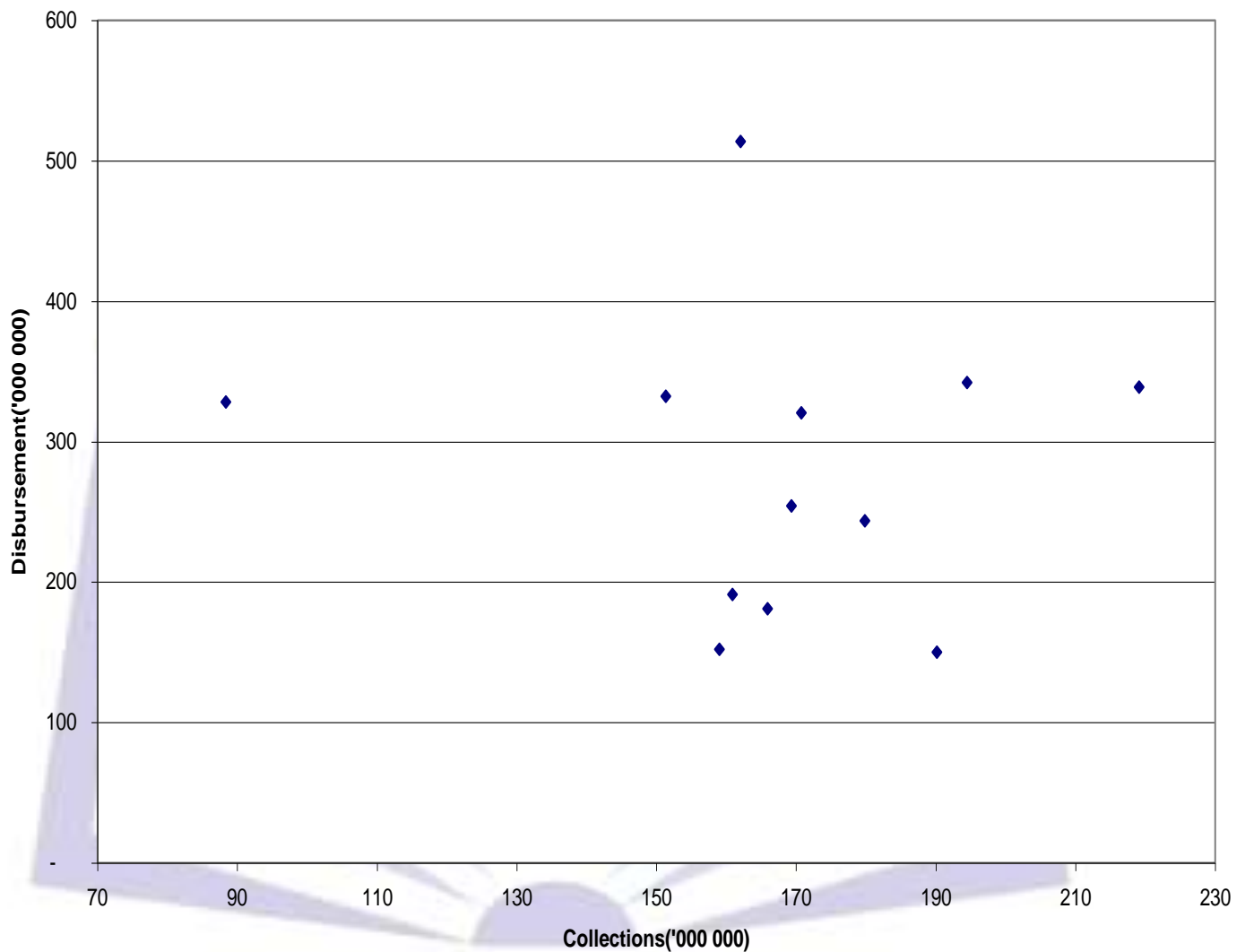


Fig. 3 Relationship between collections and disbursements.

The T-test conducted on collections and disbursement as found in table 1 (b and c) at page 47, confirms that there is no relationship between collections and disbursements. The paired samples statistics shows a mean of 167.6158 and a standard deviation of 31.24787 for collections; and a mean of 279.0283 and a standard deviation of 105.07515. At a significant level of 0.05, the paired sample correlation displays a correlation of -.075 and a significance figure of 0.816, confirming that there is no relationship between the two variables.



Frequencies

Statistics

		Collections ('000 000)	Disbursements ('000 000)
N	Valid	12	12
	Missing	0	0
Mean		167.6158	279.0283
Median		167.6450	287.5250
Skewness		-1.194	.738
Std. Error of Skewness		.637	.637
Kurtosis		3.794	.829
Std. Error of Kurtosis		1.232	1.232
Minimum		88.36	150.30
Maximum		219.10	513.59

Table 1 a

T-Test

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Collections ('000 000)	167.6158	12	31.24787	9.02048
	Disbursements ('000 000)	279.0283	12	105.07515	30.33258

Table 1 b

Paired Samples Correlations

		N	Correlation	Sig.



Pair 1			
Collections ('000 000) & Disbursements ('000 000)	12	-.075	.816

Table 1 c

One may also want to know whether the difference between collections and disbursements is significant or insignificant. Here, **the paired samples test** also reveals that, there is a significant difference between collections and disbursements. However, management should not ignore this difference because the difference is very significant. That is the implication of the significant figure, 0.005 as shown in Table 1d below.

Paired Samples Test

	Paired Differences					T	Df	Sig. (2-tailed)
	Mean	Std. Dev.	Std. Error Mean	95% Interval Difference	Confidence of the			
				Lower	Upper			
Pair 1 Collections ('000 000) - Disbursements ('000 000)	-111.4	111.860	32.29	-182.5	-40.3	-3.450	11	.005

Table 1



4.3 The Cash Collection and Concentration Techniques

Concerning the bank's collection and concentration techniques, the following results were revealed. First, the bank uses scheduled repayment and the services of a task force in its collections. The bank's credit policy is that management has been empowered to approve loans up to 10million. If the loan application is between 10million and 20million, the board of directors has to approve it. However if the loan exceeds 20million, then ratification has to be sought from the Bank of Ghana.

With the scheduled repayment, the Project Department negotiates with the customer as to when repayment should start and end. The repayment period is between six months and two years. The bank does not give discount for early repayment of loan. The task force comes in on either of two reasons: (1) when the customer defaults in the repayment of the loan. (2) When the management of the bank realises that the customer has deliberately refused to repay by the instalment as negotiated.

Secondly, the bank uses other collection points apart from its main office to reduce mailing time. It also decreases the time to clear a cheque and adjust a customer's account. These techniques are in line with the cash management techniques approved by authorities of cash management such as Ross et al. (2004) and Brealey et al. (2004). Also, the bank uses Apex electronic transfer that is mainly a telephone system used to exchange information in the process of clearing a cheque. This is also a form of electronic funds transfer (Brealey et al. 2004).

Surprisingly, the use of concentrating banking and lockbox system as mentioned by the literature as techniques for speeding up collection is unknown in rural banking cash management.

4.4 The Cash Disbursement Control

Concerning the bank's disbursement activities, this study realises that the bank makes prompt payment or spot payment in its transactions. It also pays all its bills with cash only. This confirms the fact that disbursements float is zero. This also explains why disbursements exceeded collections in 2005. The result also reveals that the bank does not use any techniques in its disbursement activities. Therefore, the cost associated with operating the zero-balance account and the disbursement account in other banks is eliminated. However, because the disbursement activities of the bank are not controlled using any of the techniques discussed by Engler (1978), Ross et al (2004) and Brealey et al. (2004), the banks disbursements exceed collections.

This implies that if this trend, where disbursements always exceed collections continues, then in the near future the bank's working capital will diminish such that management will have to use its retained earnings or raise either debt capital or equity capital to finance its operations.

4.5 The Investment of Idle Cash

The fifth objective of this study was to evaluate the investment of surplus cash. Generally, a firm invests its temporary surplus cash in short-term securities to make more money Ross et al. (1996, 2004). Adonten Community Bank also invests its surplus cash in short-term securities. The reason for choosing Treasury Bills may be that: first, it has no default risk. Second, Treasury Bills are highly marketable, meaning that they can be converted to cash within a short time.

Another interesting issue that emerged from the data was that the bank invested some of its surplus cash in stocks or shares of another organisation. Temporary surplus cash goes into investment in a long-term security! This practice is inconsistent with the literature that temporary cash surpluses are generally invested in short-term securities (Brearley et al., 2004). However, the bank may have good reasons for locking surplus cash in a long-term security.

The bank's reason for holding cash is in line with the transactive motive, which is the need to hold cash to satisfy normal disbursement and collection activities associated with a firm's ongoing operations (Ross et al., 2004).

5.0 DISCUSSION,RECOMMENDATIONS AND CONCLUSIONS

5.1 Discussion

Firstly, float did not exist in rural banking cash management system. The collection activities did not create any float because the bank did not record cheques going through the clearing system as cash until they were cleared. Its disbursement activities also created zero float because it paid its creditors and bills with cash only and did that on the spot. This implies that their collection techniques are effective.



Secondly, from the bank's collections and disbursements for 2005, this study found that disbursements were always higher than collections except in February and May that collections went higher slightly than disbursements. This study realised that if this trend, where disbursement every month far exceeded collections, continued unchecked for a couple of years the bank's current asset would diminish, implying that the bank would have to use its retained earnings or raise either debt capital or equity capital to finance its operations. This has serious implications on the profitability of the bank's operations.

Third, it also came out that there was no significant relationship between collections and disbursements and that the difference between collections and disbursements was very significant. This means that if it is the policy of management that collections should be as high as disbursements, then the necessary steps should be taken to bring collections up. However, if it is management's policy that disbursements should be higher and above collections then the danger is that the bank could have liquidity problems in the near future.

Fourth, this study again found that the bank did not use any disbursement techniques in its disbursement activities. This is to say that the bank does not control or manage its disbursements. This partly explains why disbursements far exceeded collections in 2005

Fifth, the study also found that the bank invested part of its idle cash in shares, a long-term security. This implies that the bank locks up some amount of its surplus cash in a high-risk long-term security. Shares are not as highly marketable and liquid as the short-term securities such as Treasury Bills and Certificate of Deposits. Therefore, if it becomes necessary that the bank should turn its securities into cash to support its operations, it will have some difficulties. It may even lose some money because the market conditions at the time may not be favourable.

Apart from the main findings above, there are other findings and observations worth mentioning.

1. The bank has in place a well-defined credit policy.
2. The bank uses a scheduled repayment policy ranging from a minimum of six months to a maximum of two years. It also uses the services of an adhoc task force to aid in the collection of debt from defaulters.
3. The bank decreases mailing time by opening other collection points in its catchment areas, and also decreases the time it takes to clear a cheque and adjust the customers' account.
4. The bank does not give discount for early payments.
5. The bank also uses the Apex electronic transfer to speed up the cheque clearing process.
6. It holds cash for transactive reasons and invests surplus cash in Treasury Bills

5.2 Recommendations

With reference to the main findings that disbursements are always higher than collections and that the difference is very significant, there is the need for management of the bank to revisit its collections strategy or techniques to help raise collections in subsequent financial years. In the meantime, this paper provides two sets of recommendation; one for the management of Adonten Community Bank and the other for further research.

In rural areas such as the catchment area of the Adonten Community Bank, where there is a high percentage of the poor, the nature of banking transactions involves low values and high volumes. The rural folks have the capability to engage in micro savings and will require withdrawals at their convenience. However, the timing of these transactions does not necessary coincide with bank branch timings. In such a scenario, at times, it becomes a costly proposition for the rural people to forego a day's income and instead go to a bank branch during the day to carry out banking transactions. Therefore, the rural people require banking services that are available at their doorsteps and are also flexible in terms of the timing of undertaking the banking transaction in order to minimise the transaction cost of the customer. In light of this, the 'susu' collection approach should be reviewed and used as an innovation of low cost delivery channels.

Since the main activity in the catchment area is farming and the lack of adequate storage and other basic infrastructure leads to heavy losses to the farmers during bumper harvest, the government in collaboration with the rural banks should combine credit programmed with the provision of agriculture and marketing



facilities to minimise fluctuations in prices and stabilize the income of these farmers to help them repay their loans on schedule.

Those in top management, such as directors, bank managers and project officers, who use front men and relatives to obtain loans regardless of the person's financial strength, should be discouraged. Culprits should be legally sanctioned for violating banking laws in the granting of loans.

Adonten Community Bank in particular and rural banks in general should motivate the rural people to change their negative attitudes towards the repayment of loans through educational campaigns. Since traditional durbars are common in the rural areas, the banks can use them as platforms to educate the rural people. The motivation can also be through the institution of reward packages like farming inputs for those who settle their debts timely.

Owing to the looming danger of financial distress that usually hits rural banks, the central bank should increase its supervision of banks in Ghana to ensure that they perform according to standards set. The central bank should quickly advise where necessary and also deal drastically with the rural banks which go against the banking practices and laws. This will cause other banks to sit up.

Since the bank, Adonten Community Bank, has expanded its outreach by establishing agencies and mobilisation centres in the catchment area, it is time the bank computerised its operations. It is costly, but its benefits are far reaching. It is in this light that the current efforts being made by ARB Apex Bank Limited to automate about 510 branches of the rural banks ought to be encouraged.

In light of all these, employing efficient and skilled management and also ensuring the regular training of the manpower of rural banks in Ghana and Adonten Community Bank in particular to upgrade their knowledge in the operation of an efficient banking system should be encouraged. These skilled personnel should be retained through equitable reward so that they do not drift to the most prestigious banks. The central bank can establish a training school for the rural banks.

The bank should control its disbursement activities by:

- pruning down administrative cost
- ensuring zero tolerance for corruption

Management can sometimes make payments with cheques if the law does not prohibit it. This will enable the bank to take advantage of at least the six days float period when the cheque will be clearing to maximize shareholders value. In developed economies, even a day's float makes millions of dollars as profit.

It is very risky for the bank to invest temporary surplus cash in stocks. Stocks are not near-cash. It is more profitable and less risky for the bank to invest idle cash in near-liquid securities. The highly recommended short-term security for a rural bank like Adonten Community Bank is Treasury-bills. The bank should, therefore, sell its stock on the capital market and use the proceeds to invest in Treasury Bills only.

5.3 Conclusions

This paper set out to examine the cash management policies and techniques of rural banks in Ghana. The researcher focused on the float management techniques, collection techniques, disbursement control and investment of idle cash.

The researcher collected relevant data from the Adonten Community Bank, using a questionnaire (data on the bank's collections and disbursements covered the period between 1st January and 31st December of 2005). Having finished with the analysis of the data, the paper put forward the following arguments: that the collections and disbursements activities of the rural banks did not create any float; that disbursements were always higher than collections; that the difference between collections and disbursements was very significant; that there was no relationship between collections and disbursement.

These findings have serious implications on the bank's growth because the bank's working capital will soon diminish to the extent that management will have to use retained earnings or raise debt or equity capital to finance its operations.

Interestingly, the findings did not support an earlier assertion that collection and disbursement activities generally create float. In addition, the findings also sharply contrast the assumption that collections should exceed disbursements at all times.

The researcher believes that the greatest limitation of this paper is perhaps the use of only one rural bank; therefore, the findings may not be reflective of all rural banks in Ghana.



The researcher also believes that this paper is one of the first to examine the cash management techniques of rural banks in Ghana; therefore setting the pace for further research into rural banking cash management.

In conclusion, of all the attempts to provide rural credits, it is the rural banking scheme that has actually inspired sufficient banking consciousness in the rural areas. Though annual growth of rural banks was not encouraging in the first five years of its introduction, the rate of growth of rural banks has been spectacular of late, reflecting the fact that the concept of rural banking has caught on very well with the Ghanaian public in general and the rural people in particular.

It is therefore, equally important for researchers to direct their attention to finding out more on rural banking cash management. This is because cash management has become more sophisticated as a means of realizing the goal of minimizing the investment in cash because it is a non-earning asset, while at the same time protecting the firm against sudden cash drains. It is hoped that readers will appreciate the weakness of this study as a challenge for further research.

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