

The Accessibility of Credit Facilities among Small-Scale Farmers

**A Case Study of Fiaseman Rural Bank Limited at Prestea/Huni-Valley District
in Western Region of Ghana**

KNUST

By

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DECLARATION

I hereby declare that this submission is my own work towards the MBA (Finance) and that, to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University, except where due acknowledgement has been made in the text.

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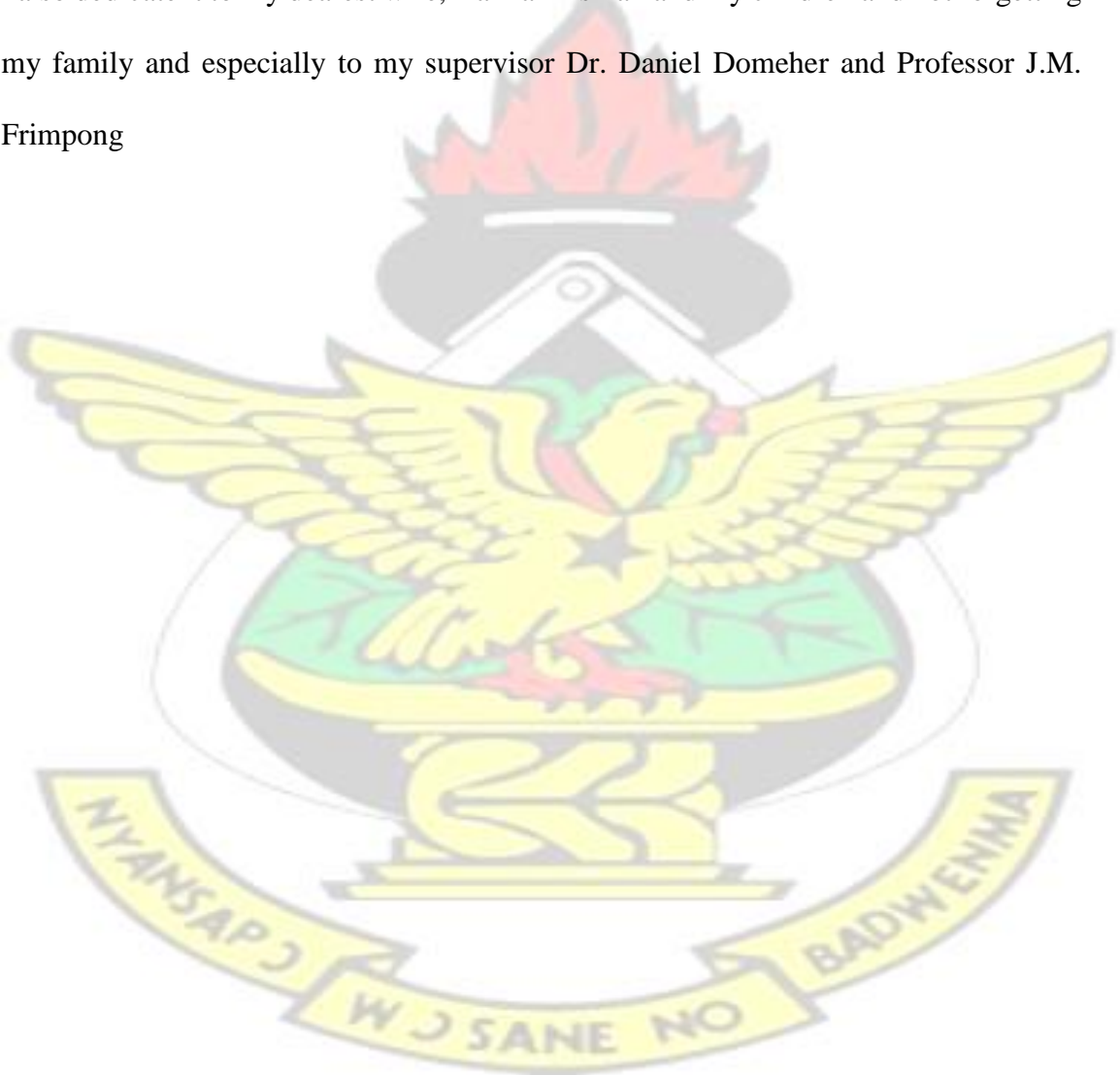
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DEDICATION

This piece of work could not have been successful without the mighty hand of God. I therefore dedicate it to God Almighty, the Son Jesus Christ and the Holy Spirit.

I also dedicate it to my dearest wife, Hannah Asmah and my children and not forgetting my family and especially to my supervisor Dr. Daniel Domeher and Professor J.M. Frimpong



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ABSTRACT

The study investigates the accessibility of credit facilities among small-scale farmers of the Fiaseman Rural Bank Limited in the Prestea/Huni-Valley District in the Western Region of Ghana. The study used primary data obtained from one hundred and twenty (120) farmers and twenty-five (25) management members of Fiaseman Rural Bank through the use of structured questionnaire. Awareness of credit facilities among small-scale farmers interviewed was high among respondents however; several factors hindered their accessibility to these credit facilities. High interest rate charges limited farmers' access to loan whilst high risk associated with agriculture was the highest constrain faced by the Fiaseman Rural Bank Limited in granting loans to farmers. Loan size of less than 500 Ghana Cedis was mostly granted to small-scale farmers. The empirical result from a Probit regression model showed that marital status, family size, interest rate, income of household head and the value of collateral were the major factors influencing farmers' access to credit. Marital status, family size and the value of collateral positively affects credit accessibility whilst interest rate and income of household head influences credit accessibility negatively.

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CHAPTER ONE INTRODUCTION

1.0 Background of the Study

The agricultural sectors play a vital role in the socio-economic development process of most countries. This is particularly true in the case of developing countries where the majority of the population depends heavily on agricultural production and its related activities for their livelihoods. The daunting challenge confronting most developing countries is their ability to provide the food supply requirements of their people without devoting a greater percentage of their foreign exchange earnings to food imports. There is therefore a relationship between agricultural development and the socio-economic development of developing countries Bronya, (1990). The fact that modern agriculture is also consider as capital-intensive and highly market oriented also raises the critical issue of finance. The financial sector of every country (especially the banking industry) is the main source of credit facilities for most farming activities Bank of Ghana Report, (2005).

Historically, agriculture has been largely neglected by policy-makers, economists and planners in many developing countries on the assumption that, all or most of their available resources should be devoted to the development of industry Ellis, (1992). However, various researches by Agricultural Development Bank (ADB) has shown that, development is not likely to occur if agricultural productivity is not increased to enhance industrial growth. Agricultural progress is normally a pre-requisite for industrial development because it meets the increasing food needs of the nonagricultural sector, provides incomes for patronizing industrial goods, supplies the needed raw materials by the industries at reasonable prices and hence conserving hard earned foreign exchange that would have gone into importation of these raw materials

Agricultural Development Bank ADB Annual Report (2007). Finally, it would permit the production of export crops as a source of foreign exchange needed for self-sustaining economic development. Thus, it is truly clear that, under all circumstances, increasing agricultural productivity would help achieve economic development and a self-sustained economic growth.

Ghana's economy, like those of many developing countries is predominantly agricultural (agrarian) economy. Agricultural production therefore plays a crucial role in either accelerating or retarding Ghana's economic growth Institute of Statistical, Social or Economic Research ISSER Report, (2008). The entire population depends on food produced by the small-scale farmers. There has been low productivity in the agricultural sector the small-scale farmers in Ghana use or employ primitive tools in production and hence their farm sizes hardly exceed three (3) acres. Out of the total agricultural output, the small-scale farmers who live in the rural area and form about 80% of the rural population in Ghana produce 70% of the country's food consumption. It could be asserted that, Ghana's economy depends greatly on agriculture in general and upon small-scale farmers in particular Agricultural Development Bank, (2005).

Meanwhile, credit facilities for small-scale farmers have remained grossly inadequate for many years in spite of various governmental and other measures designed to improve the condition Bank of Ghana BoG Report, (2005).

For instance, in 1979, out of Ghs 961,591.00 total advances made by commercial banks to all sectors of the economy. Only Ghs 9,639.00 which is about 9% of the total loan went to agriculture sector and even nearly all of this was taken by relatively large commercial farmers located within the urban areas (Bank of Ghana, 2005). As a result, to fulfill their financial needs, the small-scale farmers more often than not, fall prey to

the local money lenders whose interest rate are high and are mostly calculated on compound interest and hence exploit the farmers Bank of Ghana (2005)

In an attempt to alleviate the hardships of these small scale farmers and increase agricultural production to improve the country's balance of payment deficit, farmers' co-operatives and other associations were formed with the view of providing credit and other facilities to the farmers ADB (2007). However, these measures have not achieved any appreciable success in providing dependable and adequate sources of credit for the small-scale farmers. This is because, most of the small-scale farmers are scattered over mostly inaccessible rural areas, making it quite difficult to group the farmers into co-operative societies to ensure that, they benefit from this credit facility. The government, realizing the urgent need for agricultural credit, established a number of development banks geared towards financing and improving rural agriculture Bank of Ghana, (2007). The Agricultural Development Bank (ADB) was established in 1965 to finance agriculture in the hands of small- scale farmers. Even though, the bank is playing a creditable role in agricultural financing, it has so far succeeded in reaching only a small fraction of our small-scale farmers. Fund mobilized by ADB, like the other commercial banks were transferred to the cities and large towns for investment in sectors like commerce and housing thus leaving the rural communities short of investment funds Hug, (1989).

It was in the light of the above facts that, the Bank of Ghana, in 1971 sponsored a research into finding ways and means to ensure that, local savings in the rural communities were utilized for the needs of those communities. In this regard, a nation-wide research by the Bank of Ghana in 1971 into the credit needs of smallscale farmers,

fishermen and industrialists was conducted. Consequently, the study recommended the establishment of the rural banking scheme which is the Bank of

Ghana's answer to a long-term search for a suitable institutional arrangement for providing credit facilities for rural dwellers.

Rural or Community Banks are thus, unit banks that essentially provide banking services to rural dwellers in specified areas. To ensure that, the rural banks serve the interest of the local people, the ownership, management control and the general operations of the bank are vested in the people of the area. The manifestation of external involvement is only seen at the establishment of the bank when the Bank of Ghana identifies an area where the bank is to be established.

It is expected that, since rural banks are owned, managed and operated by local people, familiar with the area and the needs of its dwellers, they will adopt a more effective and realistic measure towards fulfilling the credit requirements of the area. Moreover, they will be in a good position to identify and judge the credit worthiness of borrowers which in turn will help reduce the need for collateral security.

The first rural bank was established in July, 1976 at Agona Nyarkrom, a food and cash crops growing area in the Central Region of Ghana. By the end of 1983, the number has increased to Seventy (70). Currently, the number of rural or community banks in Ghana had risen to 135 Bank of Ghana, (1979).

Furthermore, commercial banks do not view small-scale farmers and rural business as potential customers because their credit needs are so small, and it is expensive to service such customers in scattered and remote communities. The fact that many of the farmers

are also illiterate is seen as an added problem by bank staff, who must spend time explaining the meaning of financial documents Bank of Ghana report: (2001).

The rural banks which are the most important formal financial institutions which would have helped these farmers are now going in for purposes which do not promote rural agricultural development. The farmers therefore resort to money lenders whose rate of interest was usually high or abnormal Robinson, (2001). Thus, the need for rural banks became apparent in the late 1960s when all the credit needs of the farmers were not being met. The problem being investigated is, to find out whether the rural banks are meeting the credit needs of these small-scale farmers in their areas of operation.

1.1 Problem Statement

Agriculture is the major economic activity of the rural population of Ghana. Although, previously the main sources of income for the people of the area were agriculture, but currently there are various illegal mining activities (galamsey) and more licensed mining industries in the various areas.

In spite of the numerous mining activities in the area, the farming activities are still dominating most in the areas. This agricultural activities has been hampered by a number of problems, among these is lack of credit facilities to small-scale farmers Atta Bronya, (1971).

Credit facilities for potential and small-scale farmers have remained inadequate for many years in spite of various policies taken by the past and present governments to improve the situation Bank of Ghana, (1979).

Micro credit system has been developed in response to the needs of small- scale farmers and rural entrepreneurs, who otherwise would not have access to finance. Without money, it is not possible to purchase the inputs that are required to establish business

or improve productivity. Small-Scale Farmers seldom have little title to the land they farm and therefore have no security or collateral for the loan since crops and livestock are not considered adequate for the loan.

Expanding the availability of credit facilities has been widely used as a policy to accelerate agricultural development (Binswanger and Khandker, 1995: ADB, 1998; World bank, 2000). It is traditionally employed as a tool for providing the priority sectors with access to production inputs and enabling production to be increased Llanto, (1993).

Moreover, it is believed that expansion of credit program will have beneficial effects on the agricultural production of smallholders and rural incomes because credit could facilitate the purchase of costly inputs and the adoption of alternative crops Zeller et'al, (1998). Small-Scale Farmers need production capital, a scarce resource, to improve their production. The provision of credit can encourage the farmers to use modern technologies, and procure inputs for farm use, thus bring them to a higher level of productivity and increasing their incomes Llanto, (1987). As such increase in household incomes are much needed for improving food security and eventually will come from the grains in agricultural productivity through better technology and more productive crops. Therefore, farm households' access to financial facilities is important in influencing farm production and income Zeller et'al, (1998).

Concerns with providing accessible and appropriate credit systems for small-scale farmers in developing countries have been growing for many decades. This is because appropriate credit systems could cater for the financing needs of the small-scale farmers in the rural areas Yaron, (1992). Most researchers have recognized that increased access by small-scale farmers to production resources like credit is needed for increasing food production and thus deserves particular attention Zeller et'al,

(1998).

In Ghana for decades the task of rural credit was primarily seen to be promoting agricultural production by providing credit facilities to farmers, hence it has been an important role in the development of the sustainable interventions through appropriate credit schemes is being conducted to improve the living conditions and quality of life of small-scale farmers in the rural areas World bank, (2000). However, such efforts and interventions are often hindered by problems, which then contribute to the failures of some rural credit programs. Such credit programs are not sustainable because of the failure and collapse of several rural banks, which are due to poor management and lack of good governance Yaron et'al (1997). The demands for funds by intended beneficial farmers in most developing countries were neglected in the design and implementation of past agricultural credit programs which caused their failure (clar de Jesus and Cuevas, 1988).

1.2 Research Aims and Objectives

1.2.1 Aims

The aim of this researcher is to continue try to analyse and better understand problems and issues in accessing credit facilities in general and the situation of small-scale farmers in particular. It is critical to assess the characteristics of agricultural production strategies among small-scale farmers in order to have a greater understanding of the factors that determine their access to credit facilities. The empirical research has shown that borrowing constraints prevent small-scale farmers in developing countries from adopting high-return innovations such as irrigation systems and modern varieties Blackman, (2001). In this research an attempt was made to explore and understand the perceptions of small-scale farmers concerning credit facilities and to collect information in order to be able to propose an appropriate credit system for them. This allows small-

scale farmers voice their needs and ideas as to the relative role of credit facilities in the context of agricultural production and livelihood strategies.

Specifically, this research was conducted to explore the awareness of, and challenges both farmers and financial institutions encountered in the course of accessing and granting credit facilities, and the factors influencing farmer's access to credit facilities in the district.

1.2.2 Objectives

The objectives of this study are;

- To find out farmers awareness of credit facility of Fiaseman Rural Bank Limited.
- To identify the challenges faced by farmers in accessing credit facilities from Fiaseman Rural Bank Limited.
- To identify challenges faced by Fiaseman Rural Bank Limited in granting credit to farmers.
- To evaluate the factors influencing farmers' access to credit facilities in the district.

1.3 Research Questions

It has been argued that income of small-scale farmers can be improved if credit facilities are given for relevant farm inputs and proper storage facilities. In harmony with the purpose of the study, answers would be sought to the following questions:

- What is the awareness of farmers about credit facilities of Fiaseman Rural Bank Limited?

- What are the challenges faced by farmers in accessing credit from Fiaseman Rural Bank Limited?
- What are the challenges faced by Fiaseman Rural Bank Limited in granting credit to farmers?
- What are the factors influencing farmers' access to credit facilities in the district?

1.4 The Significance of the Study

The study is to find out the extent to which the Fiaseman Rural Bank Limited has helped in meeting, the financial needs of small-scale farmers in their area of operation, examine the awareness of credit facilities in the area, determine the problems encountered by both farmer's and financial institutions in the course of accessing and granting credit to small-scale farmers regarding credit facilities in the area, determine factors that influence farmer's access to credit facilities in the district and explain policy implications regarding future access to credit facilities.

The results of the study may give guidance to policy makers and Bank of Ghana as to how to assist small-scale farmers with regards to financial problems. Thus, more rural banks could be established to increase agricultural output. By so doing, economic development will be speeded up in the rural areas in particular, and in Ghana in general. This piece of work will add up to the existing stock of literature on rural banking which would be of importance to bankers and students; especially, those reading BSC, BBA, BA on Money and Banking as a course in Economics, MBA Finance students and those who want to research into a similar topic.

1.5 Scope and Limitation of the Study

1.5.1 The Scope of the Study

The study covers the whole institution of Fiaseman Rural Bank Limited in Prestea/Huni-valley District in the Western Region of Ghana, but due to financial and other constraints, all the agencies cannot be covered or captured. The study is concentrated on the Head office (Bogoso), Abosso, Huni-Valley, Damang agencies only.

The study will be concentrated on these four agencies which are selected at random for economic and convenience sake. The management and some of the staff were not initially ready to release any information to the researcher. Even though, the study deals with credit facilities, it limits itself to special reference to small-scale farmers.

1.5.2 The Limitation of the Study

The primary limitation of the study are the financial and time constraints were the major factors which forced the researcher to focus on only four communities within the district.

Moreover, the sample size which was limited to only one district given the short time allotted for fieldwork. As such, the research reflects the experiences of farmers in the study area, which may vary from those in other communities within the district and the region as well as in the other parts of the Country.

Another limitation of this research relates to construct validity and reliability. Because of the subjective nature of the qualitative data, it is difficult to apply conventional standards of reliability and validity Babbie, (2001). The researcher also has no control

over the variables, as they are based on human behaviors and natural influences and applied in the real context of where they are, not like the experiment which is conducted under controllable conditions in a laboratory.

1.6 The Thesis Outline

The study is organized in five (5) chapters. The first chapter covers the background, statement of the problem, the purpose / objective(s) of the study, research questions, and the significance of the study, the scope and limitation of the study as well as the organization of the study. Chapter two (2) covers the literature reviews and it will base on related topics; the theoretical and empirical literatures from various sources whereas. The third (3) chapters dealt with the environment and socio-economic settings of the area of the study, sample of respondents and sample procedure, the methodology or instrument used in the administration of the instrument. The fourth (4) chapter covers the presentation and analysis of data, the impact of the bank on the small-scale farmers through the accessibility of credit facilities and also the problems the bank faces. The prospects of the bank will be dealt with in chapter five (5); the discussion on the findings will also be studied. The chapters were also covered with the suggestions base on the findings of the study and the implications for future research. The summary and conclusion part on this chapter were discussed.

CHAPTER TWO

LITERATURE REVIEW

2.0 Overview

In developing counties, greater proportions of the population live in the rural areas. In

Ghana, about 63% of the total populations are rural dwellers Central Bureau of Statistics, (1986). These people live in a vicious cycle of low income. According to the 1993 statistics survey, as reported by Dr. Oti Boateng-government statistician about 90% of the rural dwellers live far below the poverty line. It has also been felt that lack of credit facilities in the rural areas has contributed to the low income in the rural areas. This therefore, calls for financial institutions, which will help mobilize savings in the rural areas and grant them in a form of credit to the farmers. This issue has caught the attention of many writers, press houses and radio commentators in their studies. The literature review therefore takes an analytical approach to the various contributions that have been made by various personalities and institutions both domestic and foreign on the finance of farmers. Such an exercise will cover the overview of chapter; types of rural credit; both the theoretical and empirical literatures of the various endeavors of the rural banking system, features and objectives of rural banking in Ghana; problems of rural banking systems in Ghana; vise-a-via agriculture productivity of the people in Prestea/Huni-Valley District in Western Region of Ghana and the summary.

2.1 Theoretical literature

The need for credit (cash and kind) for rural development is something that cannot be overlooked. This explains why accessibility of credit facilities has been one of the most popular type of state intervention in the agricultural sector. Ideas about rural credit in developing countries are predicted on various theories about rural household behaviors and the working of market in economics. One of such models was by Frank Ellis (1998) in his book.

2.1.1 Agricultural policies in developing countries

Agricultural policies in Developing Countries which was written in 1992. The model concerns the savings, borrowing and investment behavior of the household irrespective of the type of financial market the household faces. According to Frank, the farmers most at time have no resources to save and it even, they have anything at all, and their potential to save is very low. This situation, accordingly, does not enable them to have access to credit so as to channel it into investment. The theories presuppose that before anyone can make a viable investment, there should be savings. With savings one will have access to credit. This implies that, investment has a direct relationship with credit. Thus, if the farmer is given credit, he can use it to expend his/her agriculture activities. Besides, with the use of the credit in hand, the farmer can increase his/her productivity and for that matter his income levels. This will in the long run or invariably, improves the standard of living of the farmer. The theory also implies that, an efficient and appropriate rural financial institution can tap the rural resources into savings and channel them into investable funds Frank, (1992).

2.1.2 Formal and informal sectors

Frank (1992) defined credit as a sum of money in favor of the person to whom control over it transferred. He maintained that credit itself, if not capital, can be used, among other things, to make investment. To Frank, credit may be formal or informal. The informal sector is made up of largely of individuals (traders, landlords or farmers) who lend money as business. They are traditionally characterized as being usurious and in position of considerable power due to lack of competition, although some well dispute that Yaron, 1992; Poulton et'al (1997). Formal credit channels are those bound by the

large regulations of a country and they include private banks, stateowned banks and registered co-operative Frank Ellis, (1992).

According to Smith and Thompson (1991), credit may do a private good in the sense that, it is excludable and subtract able, but these attributes are not necessarily sufficient to make it attractive to private suppliers. This is because; the credit market combines the problems of imperfect information and risk.

2.1.3 Issue of collateral for loans

In developing countries, these risk drivers, especially from the legal framework for loan recovery and securing collateral Yaron, (1992a). Risk aversion in the private sector leads to the accessibility of credit only to those with better access to collateral or particular ties to lenders. The implication here is that, any financial institution wants to make sure that credit issued is recovered. This is why Frank (1992) said that, a typical device for selecting borrowers is to demand that borrowers provide some collateral for the whole or a portion of the loan. To him, this might be in a form of a plot of land, a piece of equipment or a draft animal, usually a bullock.

Credit has always had a special place in the mainstream thinking of agriculture development. In the 1950's and the early 1960's, it was considered to be the key instrument for breaking the "vicious cycle" of low incomes in the rural area. However, in that period, emphasis was placed on the market oriented farmers and the commercial agriculturist rather than the rural dwellers. From mid-1960's, however, the target had been on the rural dwellers, especially on the rural farmers. The aim of targeting this group is to improve the efficiency of farmers and to solve the exploitation or monopolistic behavior of private money lenders Frank Ellis, (1992).

2.1.4 Government subsidies to small-scale farmers.

To enable rural farmers and entrepreneurs to obtain credit, there has been an argument that government should subsidize rural credit. However, Yaron (1992) pointed out that subsidized loans often end up in the hands of the relatively rich people with broader economic interest. He cited an example of two World Bank, OECD studies on Mexico, Pakistan and the Philippines, which found out that, of the Bank funds provided in these countries, only 25-50%, was estimated to have added to agricultural development. He therefore suggested that, instead of providing credit itself at subsidized rate and thereby reducing the opportunities for the development of a functioning private credit system, the public sector should focus on reducing the risk that individual leaders face.

This, therefore, calls for a sustainable financial scheme, which should not rely on external source or subsidies. To this, Frank (1992) maintained that, in order to achieve sustainable rural credit, some countries have set up rural credit scheme. The objective of this is to make rural credit not reliant on ever increasing subsidies to cover losses and not dependent, forever on foreign donors. The implication here is that, there is the need for self-sustaining rural financial system. This means that, there should be savings mobilization in the rural areas to ensure rural financing. This means that, the people in the rural areas should mobilize their own savings, which will serve as the bedrock of rural financing. This means minimal government intervention and because of this, Diana Carney (1998) has observed that donors, both North and South-based NGO's are funding co-operative credit institutions which rely on savings mobilization. Some, such as Bennin's rural saving and loans or Bank for Agricultural and Agricultural Co-operatives (BAAC's) scheme of Bangladesh, are outside the public sector entirely, whilst other such as Ghana's Rural Banks have minority government participation.

The generation of funds from savers is considered a key feature of self-sustaining credit institution. It is felt that, a strong saving base reduces the reliance on external funding. Also, savers and borrowers are after the same people at different points in time in the community thereby reducing information cost of transactions. Again, it is considered that, people tied to an institution for both saving and borrowing are less likely to default Frank Ellis, (1992). This means that, because the institution that is set up to mobilise savings belong to the people of the community, there is the less likelihood that, they will default in payment. Yaron (1992_a) therefore, cited an example of a successful credit scheme in Indonesia and Thailand where over a very short period of time, it has been possible to finance lending largely out of voluntary rural savings.

From the foregoing analysis, therefore, it can be said that, in order to achieve sustainable credit scheme for rural agricultural development to ensure a balance between urban and rural development, there must be a self-sustaining credit scheme, which calls for saving mobilization within the community.

2.2 Empirical Literature

The empirical review exercise, which to a very large extent, adds more weight to the theoretical literature has been carefully analysed from journals, textbooks, pamphlets and Newspapers accounts .It should be noted however that, these materials have been systematically arranged in line with the following;

- i. The problems of credit acquisition by the farmers
- ii. The extent to which effective Rural Banking system could mobilize rural resources into savings and channel it into investible funds.
- iii. The need to finance agriculture and for that matter, the farmers by financial agencies and the government.

Talking about the need for credit, both in cash and in kind for rural development, Kofi Atta Bronya (1990) has observed that, the financial system is very crucial in accelerating the rural development and that credit is very much more than just one impute especially in an economy which is getting monetized and commercialized but has not yet developed into an integrated national market. To him, harnessing the banking system for development has long been recognized in Ghana and various ways and means have been sought and tried on how to harness banking to support agriculture so that food and raw materials for manufacturing could be produced in abundance to feed the people. Also, Dr. Agama, in his address to the chartered institute of Bankers at their 1995 annual dinner, observed that, the need for credit facilities is highly felt in the rural areas since they form the main foundation upon which any meaningful economic development programme can be based.

Again, in talking about the importance of credit to rural development, Opoku Afriyie (1984) observed that, the scarcity of credit is considered as one of the disincentives and obstacles to efficient and rapid agriculture development Brown C.K, (1986).

In the same vein, Owusu Acheampong (1986) also observed that agricultural credit could play a very important role in rural development. What he meant here was that, for rural development to be accelerated there must be a credit scheme to support agriculture which is the main form of occupation in the rural areas.

What all these writers seem to suggest is that, for rural development to be achieved through the activities of farmers, there must be rural credit in the form of both cash and kind.

However, according to a survey by Aluko (1982) and quoted by Ukue (1993), the most common source of credit for rural farmers has been the non-institutional or the private

sector credit which Frank Ellis (1992) called the informal sector. This means that, financial institutions, which Frank (1992) called the formal sector are not much prepared to grant credit to the rural dwellers, hence, they resort to the non-institutional source of credit which constitute 78% of the total credit. Institute of Statistical, Social and Economic Research (ISSER report, 1992). This may be due to the fact that, either the people have lost confidence in the institutional credit scheme or that the traditional banking institutions are not prepared to offer credit to the rural dwellers.

As observed by Peirson et'al (1990), the establishment of credit scheme involves the following:

- i. the company's preparedness to offer credit
 - ii. the standard to be applied in the decision to grant credit to customers
 - iii. how much credit should be granted to a customer, and
 - iv. what credit terms should be offered?
- This means that, the decision to grant

credit is taken by the financial institution

A staff writer of the People's Daily Graphic (May 11, 1995) observed that, people are not having satisfaction from the traditional banks, especially the desired rate of returns on whatever investment they have made with banks. Most of them are small time severs who need a little money to turn themselves around but do not get from the Banks. Bank customers need to provide collateral securities to be able to obtain loans to do whatever projects they intend undertaking. Hence farmers are not able to make big time investment to enable them get the collateral the banks require. This observation has also been made by Musa (2000). To him, credit institutions granting loans require collateral security which the small- scale farmers may not have and this limits their loans acquisition.

In some instances, bureaucratic procedures in the acquisition of credit from the financial institutions drive the farmers away. It is to solve these problems that the rural bank concept came into being. According to the ISSER, report (1992), it is to improve the credit source for farmers and rural entrepreneurs that, the Rural Bank system was introduced in Ghana in 1976. According to the same report, the establishment of rural banks has led to a decline in the proportion of commercial and secondary banks' loans and advances since 1985. This means that, the rural bank system in Ghana is gradually becoming a sustainable source of rural financing. This observation buttresses Frank Ellis' (1992) observation that sustainable rural credit is that one that is generated from rural savings mobilization. This is why Atta-Bronya (1990) observed that, the challenges facing the rural banking system is to make the people living in the rural areas have confidence in the rural banking system for all their monetary transactions.

However, by March, 1991, data from the Bank of Ghana showed that out of the 122 existing rural banks at that time, 98 had become distressed and were not able to refund depositors money on demand. Bank of Ghana had to come to the rescue of these banks. As at January, 1994, Bank of Ghana, had used the tax payers money to pay to depositors of the distressed Rural Banks an amount of ₵611 million in order to preserve the confidence of the depositing public in the rural banks Atta-Bronya, (1997). This observation shows that, the rural banks have not lived up to expectation and therefore, in order to serve as an instrument of rural development, a lot has to be done by these banks.

This means that, if the rural banks are not well organized to cater for the needs of farmers, capital needed for rural development will be transferred from the rural areas to the urban areas by the traditional commercial banks. The refusal of these banks to grant credit facilities to the rural dwellers may be attributed to the low level of repayment of

credit granted to them. This low level of repayment can also be a reason why some of the rural banks have become distressed. For the banks to continue granting loans to the farmers there must be a good recovery system. This requires good administrative work on the part of the banks and better understanding on the part of the borrowers or rural dwellers.

It is because of this that Lele (1983) asserted that, the credit delivery and recovery and therefore, its administration to both the lender (banks) and the farmer (borrower) have been beset with problems which have given the agricultural sector and for that matter small-scale food crop farmers a headache in organizing credit programmes. According to Beckett (2004), the primary cause of low repayment is that farmers spend large proportion of their incomes on semi luxury items like school fees, religious activities, imported food stuffs and clothing. This means that loans granted to the rural dwellers are not used as intended but rather used for other secondary matters which show why there is low credit recovery among the rural dwellers. Therefore, a good recovery performance required the credit institutions should have legal tools which would permit them to take rapid action against defaulters as observed by Cleaver (1998). Koomson (1999) also pointed out that, a short repayment period encouraged grant payment. Also, to Udry (1990), informal sanctions can be used to persuade individuals to repay loans. It is in the view that, this financial handicap has been a threat to the socio – economic development of most rural communities. Dampare-Buadu (Daily Graphic September 24, 1997, p7).

The Agricultural Development Bank (ADB) in their Book “Agricultural credit progress in Ghana” (1975) commented on the concept of Rural Banking in Ghana as follows; Despite the fact that Ghana’s economy was heavily dependent on Agricultural sector, with small-scale farmers contributing about 90% of all agricultural output, the small-

scale farmers' aid to agricultural sector was left to the exploitative money lenders to further worsen the plight of the small scale farmers. Attempts to alleviate the plight of these farmers and increase agricultural production were done through the formation of co-operations and other associations such as credit union and money lenders, to provide credit and other facilities. Unfortunately, such measures did not achieve any significant result. In an attempt to assist the agricultural sector, the Agricultural Development Bank (ADB) was established in 1965 which was originally a unit of the Bank of Ghana to assist farmers. Its performance over the past have only affected a small portion of the farmers. It was further regrettable to note that, ADB even behaved like the commercial Banks which provided a variety of services to serve the interest of large and medium size enterprise and resource based companies. The small-scale farmers were generally neglected and left to the mercy of informal sector intermediaries like money lenders, "susu" operators, who charge a high rate of interest. Even commercial Banks tap resources from the rural areas and channel them into trading and other activities in the urban areas, thus neglecting the rural community. This was because commercial Banks found it risky and unprofitable to lend to rural communities who engage in small-scale activities.

The commercial banks which mobilized all available savings in the country devoted about 10% of their loans portfolio to agriculture and nearly, all this was taken up by relatively large commercial farmers. The indications were that, the Banks would not change their style of lending in the foreseeable future, mainly because they have found their present operations sufficiently profitable without getting involved in Rural lending which required more work and involve high risks.

2.3 Features and objectives of Rural Banks.

Awosika (1983) in his book “Rural Banking in Nigeria” defined rural banks as unit banks. This means that the banks have no branches rather; they can have agencies situated in their area of operation. These agencies operate under the parent bank which opened it.

The Bank Act 1970, Act 339 defined rural banks as private banks organized in the rural communities for the purpose of specializing in the extension of credit to farmers and other entrepreneurs. Most of the rural bank’s shareholders are local people who have helped build the capital base. Each rural bank is an individual bank and survives solely by its own viability. Rural Banks, like any other financial institution, have specified goals and among the goals are the followings;

- a. mobilizing savings in their catchments areas.
- b. providing credit facilities to customers especially rural farmers.
- c. Initiating projects that will promote socio-economic development in the area they operate.
- d. To maximize operational profit.
- e. Giving training and technical assistance to both customers and staff.

The Bank of Ghana’s rural development supervises all the operations of rural banks and provides technical support.

From these definitions, it is possible to say that rural banking are private banks established with the main aim of providing credit and other assistance to the rural communities.

Ukwu, (1998) in the book “Rural Development in south Africa” stated that, among the means of achieving rural development was the use of credit institutions. Although there are wide range of national commercial bank which see to the credit needs of people in

the society, unless rural banking is organized to take special needs of the rural economy into consideration, the proliferation of rural branches on commercial banks can only increase the siphoning of rural savings to the urban areas.

Again it is observed that there are a lot of savings in the rural areas which could be mobilized for financing production and thereby increase income. However, a lot of these savings are being channeled to urban centers.

A statement issued by the Bank of Ghana in 1990 revealed that, there is a lot of net flow of banks funds from the rural areas to the urban areas. Loans, which could have helped rural farmers to maximize their productivity, are diverted.

The weight attached to each of these functions at any time depends on the objective of government policy and this in turn depends on the level of economic development of the country and the structure of the rural economy. Rural banks provide credit facilities mainly to the rural areas at relatively low rate of interest. La Anyere (1985) commenting on Rural development said that, there was evidence that the use of credit facilities could bring about production increase and this as well as increase income in the agricultural sector of rural economies through investment and provision of capital to the agricultural sector (Daily Graphic, August 10, 1985, p 16).

Murray (1975) in his book “Agricultural Finance” asserts that credit makes it possible for farmers to take advantage of new machines, improved seeds, fertilizers, etc. and thus enabling them to operate their terms on a more profitable basis. Credit can therefore be seen as an important factor in developing the productive capacity of small-scale farmers in order to raise the income of farmers.

It could be deduced that the most critical factor in Ghana’s rural farming situation is credit and not land. With credit, the unproductive traditional farming using simple tools

and implements can be transformed into modern techniques of farming using more sophisticated capital equipment and other essential inputs. With credit, farmers can buy and use essential inputs such as fertilizers, improved seeds, insecticides, weedicides, and pesticides. The crucial point is that with credit, the farmer can increase his productivity which in turn would ensure greater farm output and increase income.

With respect to developing countries, rural banks are established to supply credit to farmers and also to improve the social and economic conditions of rural banking system to help improve the living standard of the rural dwellers and to provide employment. The rural banking system was a conscious effort at improving the well-being of rural people in their environment. Besides, rural banking scheme was a means of raising income through increasing production and productivity (Ment R. P. (1966), Commercial Bank Operations, 5th edition).

This could be realized by involving the rural people in planning, implementing and monitoring of rural development process. In addition, the rural banking scheme is also an attempt at narrowing or eliminating social bias through income distribution.

Essentially, rural banks are expected to address the needs of rural communities more than any other bank in terms of credit facilities to enhance rural production. Fiaseman Rural Bank Ltd like any other rural bank was established to discharge the role of providing finance for farmers in general and small-scale farmers, merchants, and industrialists residents in the Bank's catchments areas. And also engage in activities that can provide social and economic development in the area.

If rural banks have been established to give credit to farmers to increase their productivity and income, then there is the need for them (Rural Banks) to have field

officers in the other to monitor the activities of the farmers who receive or benefit from such assistance.

These officers should work hand in hand and get close with agricultural extension officers deployed at the various districts by the central government. This assertion was confirmed by the concluding remarks of the Governor of the Central Bank of Nigeria, institute of Bankers held on the 23rd March, 1993. According to the governor, the various credit guidelines issued by the central Bank since 1972 was designed to lead banks to channel the bulk of their credit operations to those sectors of the economy which would produce increase supply of foodstuffs, housing and industrial products. He said, the rate compliance had been quite impressive but nevertheless, there was no room for complacency.

Dr. E. N. Tackie Otoo, Western Regional Chairman of Rural Banks, Commended the invaluable role rural banks in the development of a country (Daily Graphic May 15, 1998 page 15). According to him, the establishment of rural banks particularly in rural areas has immensely improved the life style of the rural dwellers. He was happy that the bank had, through the granting of “soft” loans brought joy and relief to many families in the rural areas.

The desire of rural banks to increase deposit and also extend credit to its customers has been the campaign of most rural banks in Ghana. This was however, announced by Nana Asare Broni, Chairman of the Board of Directors of Badu Rural Bank Limited in Wenchi District in Brong Ahafo Region at the tenth annual general meeting of the shareholder at Badu. According to him, the Bank increased its deposit from ₵193 million to ₵ 471 million in 1997 after vigorous savings mobilization campaign (Badu Rural Bank Limited Annual Report 1998). He said that the Bank granted ₵150 million

as loans to its customers, most of whom were farmers. He also announced that the bank had signed a loan agreement with Bank of Ghana to participate in the small holder credit input of the supply and marketing project to enable the bank to provide credit facilities to its customers.

Hon. Alhaji Aliu Mahama, the former Vice president of Ghana in (2005), challenged the banks to develop new products, which were responsive to the needs of the country's predominantly agricultural and informal economy. This was when he launched the 40th anniversary celebration of ADB. He stressed; "Agricultural financing must not be seen as an enclave activity and therefore, left to specialists banks like ADB alone". Alhaji Mahama said the large agro rural economic structure and the introduction of universal banking called for the need for the banks to have an obligation to move from relatively safe investments in Government boards' formal sector employee loans and blue chip companies.

They must rather concentrate on more support for medium and small scale activities in farming, post-harvest, warehousing, processing, packaging, distribution and marketing. (Ghana Today, 6th October, 2005)

2.4 Problems of the Rural Banking System.

Rural banking has had their shares of problems. Agama (1996) catalogued some of the problems as lack of skilled and good quality staff, financial maladministration and fraud and irregularities on the part of some staff and directors, weak internal controls and accounting systems, irregular submission of prudential returns and the absence of an effective apex body to provide technical service to rural banks. These problems have necessitated the need for the closure of some rural banks (Daily Graphic, February 6, 1996).

By June 1994, 19 rural banks which had become distressed were closed down Owusu (1995). It is therefore relevant to note that in this attempt to bring the banking system to the rural folks, the Rural Banks in Ghana face numerous problems in their operation. Most of such difficulties liquidity problems in their operations of granting credit or unable to grant credit or render their services effectively to the deserving customers (Ghana Today, 2nd June 2002).

Dali, (1996) in his book “Financial Institution Assistance to the Small-Scale Farmers in Ghana” stressed that, the performance of rural banks in terms of loans recovery is disappointing. From 1986 to 1990, she said, the average recovery rate was around 41.1% meaning that the defaulting rate was around 58.6%. This implies that customers demand for funds through borrowing and withdrawal of deposits cannot be met on time.

William (1989), commenting in his book “Informal credit market and its implications for Financial Policy” on “the mishap” of Rural Banks said that, there were crucial factors influencing credit repayment rates in a number of Rural Banks. He urged that if more trained people were employed by rural banks, each expert would have helped to ensure efficient recovery.

In an article on the topic “Ten years of rural banking in Ghana” observed by the Bank of Ghana, which was published in 1987, it was stated the problem that characterized many Rural Banks was mismanagement of resources by Board of Directors and staff of these banks.

Through employment of experts is a laudable idea, one sees a problem with it, that is, will the Rural Banks be able to pay these experts?

Focusing our attention on the attitude of rural folks, Acheampong (1986) had this to say, “The institutions (Banks) in Ghana are facing the problem of misapplying their borrowed credit facilities for purposes other than those for which the loans were granted. This problem has put some farmers before court and others have had their property sold to offset what they owed the bank” (Ghana Today, 2000).

So far the researcher have noted that among the problems, the most prevailing ones are lack of skilled staff, mismanagement and fraud on the part of management and the inability of farmers to pay back the loan in time.

Although the Rural Banks were set up to fill the vacuum created by the lack of credit facilities in the rural area, there is a gap with respect to the effect of credit schemes on Rural Banks on production and income of small-scale farmers and rural people as discovered in this literature review.

2.5 Summary.

Credit is essential for agricultural development and is a often a key element of agricultural modernization. It has been primarily been seen as promoting agricultural production and increasing income to farmers. However, access to credit is limited in rural areas and the majority of poor small-scale farmers are excluded from credit systems.

The rate of obtaining loans from the formal financial institutions in the developing countries by rural borrowers is low due to the complicated and lengthy procedures that overwhelm the poor and uneducated farmer-borrowers. In other cases, credit problems which have restricted them from borrowing include commodity-specific credit, lack of participation in planning agricultural credit programmes, lack of or inadequate,

financial institutions in the rural areas, and late releases of loans which led them to borrow from the informal sources.

Determining the problems and the credit needs of small-scale farmers are important considerations in designing appropriate credit systems for them. The design of credit products should be based on clients' demands and needs. Designing appropriate rural financial systems for small-scale farmers is an adequate financing strategy. A thorough understanding of the small-scale farmers' credit awareness and factors that influence access will assist policy makers to make better decisions in designing appropriate credit systems for them. There is, however, limited information to enable understanding of the farmers awareness and factors that influence credit regarding access to credit. Thus gap in the literature prompted this research.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter focuses on the techniques and methods used by the researcher to carry out the study. It comprises the population, sampling procedures and techniques, data collection and tools as well as method of data analyses.

3.1 Profile of the Bank

Fiaseman Rural Bank Limited was established in 18th January, 1983. It has its head office at Bogoso in the Prestea/Huni-valley District in the Western Region of Ghana.

However, the Fiaseman Rural Bank Limited has nine (9) agencies at Bogoso, Prestea, Tarkwa, Abosso, Ateiku, Huni-valley, Asankrangwa, Tamso and Damang. Accordingly, the bank has seven (7) members.

Board of Directors for which they are elected at the Annual General Meeting (A.G.M) from among the shareholders. The bank has vision to be the best rural bank in the Western Region and Ghana as a whole.

Besides, the bank was established with clearly stated objectives which include the following;

1. To serve the need of the people, making credit available to inhabitants who are predominantly farmers, hence to mobilize the untapped in the district and channel them to small-scale farmers who produce the bulk of agricultural produce and other informal business.
2. To improve credit facilities this hitherto has become a problem to rural folks in their operations.
3. To help develop communities in which rural banks operate through understanding economic activities.

The bank performs the following functions among others to ensure the fulfillment of its established objectives:

- a) **Accepts deposits:** The banks helps mobilize savings in the catchment areas through accepting deposits, that is, it serves as a safe keeping place at the rural folks to keep their moneys. By proving a safe keeping place at the farmers door step; it is in a way saving the rural folks their time and danger which they would have incurred if they had come to the cities themselves.
- b) **Giving advice:** The bank helps in increasing the production level by providing expert and technical advice to the farmers with regard to their mode of operations.

- c) **Inputs supply:** The banks helps by providing farm inputs to farmers on credit to enable them expand their level of operation and later pay for. However, it also helps the operations of Akuafo cheque system effectively in order to sustain the interest and confidence of farmers in the production of large produce.
- d) **Granting loans and overdraft:** The bank grants loans and overdraft to farmers to reduce the problem of inadequate capital needs by them for large scale production and also to help the farmers to acquire the needed and necessary farm inputs for their farming activities.

However, since the research work is of the more concern in provision of credit facilities, the procedures through which loans or credit facilities are extended to customers by the banks with special reference to Fiaseman Rural Bank Limited were outlined. The bank uses the customers' profile in determining whether the customer would be able to pay back the loan and the degree of risk associated with the loan. Besides there are no magic formula for the bank to use in assessing the probability that a customer would not pay back the loan.

3.1.1 The Fiaseman Rural Bank Credit Service

The following features of this credit provider were collected through an interview with the branch manager, loans officers of the Rural Bank. To describe better the process and requirements for obtaining loans, the mechanism is diagrammed and described below.



Plate 3.1 The Fiaseman Rural Bank Limited Branch in Huni-Valley

The Fiaseman Rural Bank Limited offers agricultural loans to the farmers in the District with 14% per annum interest rates.

3.2 Research Design

The Research design adopted for the collection and analysis of data will be a case study of the Fiaseman Rural Bank Limited. A Case Study design entails the detailed and intensive analysis of a single case. Stake (1995) indicates that a case study research is concerned with the complexity and particular nature of the case in question.

3.3 Population and Sample Size

The main target for the study covers the various branch managers, loans officers, other bank staffs and the small-scale farmers from the various selected agencies of Fiaseman Rural Bank Limited in the Prestea/Huni-Valley District in the Western Region of Ghana. The reason for selecting these groups of people for the study based on the need to ascertain the perception of different small-scale farmers in the district towards the impact of the Fiaseman Rural Bank on financing small-scale farmers in this area. From this population, a sample of respondents was selected. A total of one hundred

and forty-five (145) respondents which comprises of one hundred and twenty(120) farmers and twenty-five (25) management members of Fiaseman Rural Bank Limited.

3.4 Sampling Procedure

The simple random sampling technique was employed in the study. Thirty (30) small scale farmers each were randomly selected from four communities namely Bogoso, Abosso, Huni-valley and Wasa Damang. However, the communities were purposively selected due to the presence of branches of Fiaseman Rural Bank Limited in these communities. The simple random sampling technique was further used to select the management members from the four branches.

3.5 Source of Data and Method of Data Collection

Both primary and secondary data was used to achieve the objectives of the study. A primary source of data provides first-hand testimony or direct evidence concerning a topic under investigation. Primary data were obtained directly from the field through the administration of questionnaires and face-to-face interview. The face-to-face interview helped to explore further issues beyond the loan default. A questionnaire is regarded as series of questions, each one providing a number of alternative answers from which the respondents can choose. Questionnaires generate data in a very systematic and ordered fashion White, (2000). Questionnaires therefore constitute a very important instrument for collecting data. Once the questionnaire is designed, pilot tested and amended, the sample is selected and this is used to collect the data. The questionnaires used in this research involved a mixture of open-ended and closed ended-questionnaires which were administered to farmers and key management of Fiaseman Rural Bank Limited.

Secondary data enabled the work to be solidly grounded in academic perspective. Secondary data are data collected for some other purpose frequently for administrative reasons Osuala, (2001). They are data previously collected and assembled for some projects other than the one at hand Sigmund, (2003). Secondary data was obtained from textbooks, internet (articles, previewed books, journals, definitions and so on) and newspapers on the subject area as well as annual reports published by the bank.



Plate 3.2: An interview with a farmer in the district who obtained credit facilities from Fiaseman Rural Bank Limited

A farmer was hired to assist the researcher with the interviews, facilitating entry into the farmers' houses to key local knowledge. The distance between farm households and the climatic condition limited the number of interviews which could be completed in the day. The farmer was a great help in locating farmer-respondents because of his familiarity with the area.

3.6 Method of Data Analysis

The analysis of data comprised the examination of all data with primary and secondary sources to check for relevance and reliability. The analysis of data gathered was done in two facets, first by collating quantitative responses with Statistical Package for Social Sciences (SPSS) analytical tools and Microsoft Excel as well as examining and evaluating qualitative answers from respondents. The data gathered were also edited using Microsoft word, coded and presented using graphs, charts and tables.

Descriptive statistics such as mean, mode and median as well as tables and graphs was used to organize and summarize the data as well as analyze objective one, likert scale was used to analyze objectives two and three.

Descriptive statistics such as mean, mode and median as well tables and graphs was used to organize and summarize the data as well as analyze objective one, likert scale was used to analyze objectives two and three.

$$Y = \alpha + \beta x_i + \varepsilon_{iss}$$

The empirical model is specified as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \beta_{10} X_{10} + \beta_{11} X_{11} + \beta_{12} X_{12} + \beta_{13} X_{13} + u$$

Where;

Access to credit (Y) = Whether or not a farmer has received credit or not (measured as a dummy, 1 if a farmer has receive credit and 0 if a farmer has not receive credit). This is the dependent variable.

X_1 = Age of client (measured in years). It is argued that older borrowers are wiser and more responsible than younger borrowers. On the other hand younger borrowers are argued to be more knowledgeable and more independent. Hence age might have a positive or negative effect on farmers to access.

X_2 = Gender (measured as a dummy, 1 for male and 0 for female). It is hypothesis that males are able to deal with the rigors of farming compared to females and will have a higher access to credit for expansion.

X_3 = Marital status (measured as a dummy, 1 for married and 0 for single). Farmers who are married may use their loans in meeting the needs of their families; hence lenders may choose to grant farmers who are single.

X_4 = Level of education (measured in years of schooling). Higher educational levels enable borrowers to comprehend more complex information, keep business records, conduct basic cash flow analysis and generally speaking, make the right decisions on farms. Hence borrowers with higher levels of education may have high access to credit.

X_5 = Family size (measured in number of members of farmer's family). There is a possibility of loans diverted to unintended purposes because of many responsibilities resulting from meeting the needs of many members of the family. Hence farmers with large family sizes may have higher loan default rates. This would consequently limit their access to credit. The expected sign for the coefficient of this variable is therefore negative.

X_6 = this is a dummy variable which refers to whether or not a farmer had contact with extension agents during the farming season. Farmers who had contact with extension

agents are expected to have more information and training which will help them to locate available formal and informal credit institutions. Therefore it was hypothesized that extension visits would positively influence credit access.

X₇ = farm size is measured as the total land size cultivated by the farm household. The larger the cultivated land size the more likely the farmer is to have access to credit. This is because most lenders demand for collateral and the farm land could be used for this purpose to increase the likelihood of accessing loan.

X₈ = Loan size, that is the amount of loan obtained by farmers (Gh¢). According to Rabo *et al.*, (2001), small loan size that seems inadequate for meaningful farm work tends to be easily diverted for non-farm activities. It was hypothesized that farmers who require large amount of credit are likely to have access rather than those who require relatively small amounts of loans. The expected apriori sign for the coefficient of loan size was therefore positive.

X₉ = There is a negative relationship between interest rate and access to credit Amonoo *et al.*, (2003). This Implies that as the rate of interest increases, farmers' access to credit reduces. Interest rate is hypothesized to have a negative sign in this study.

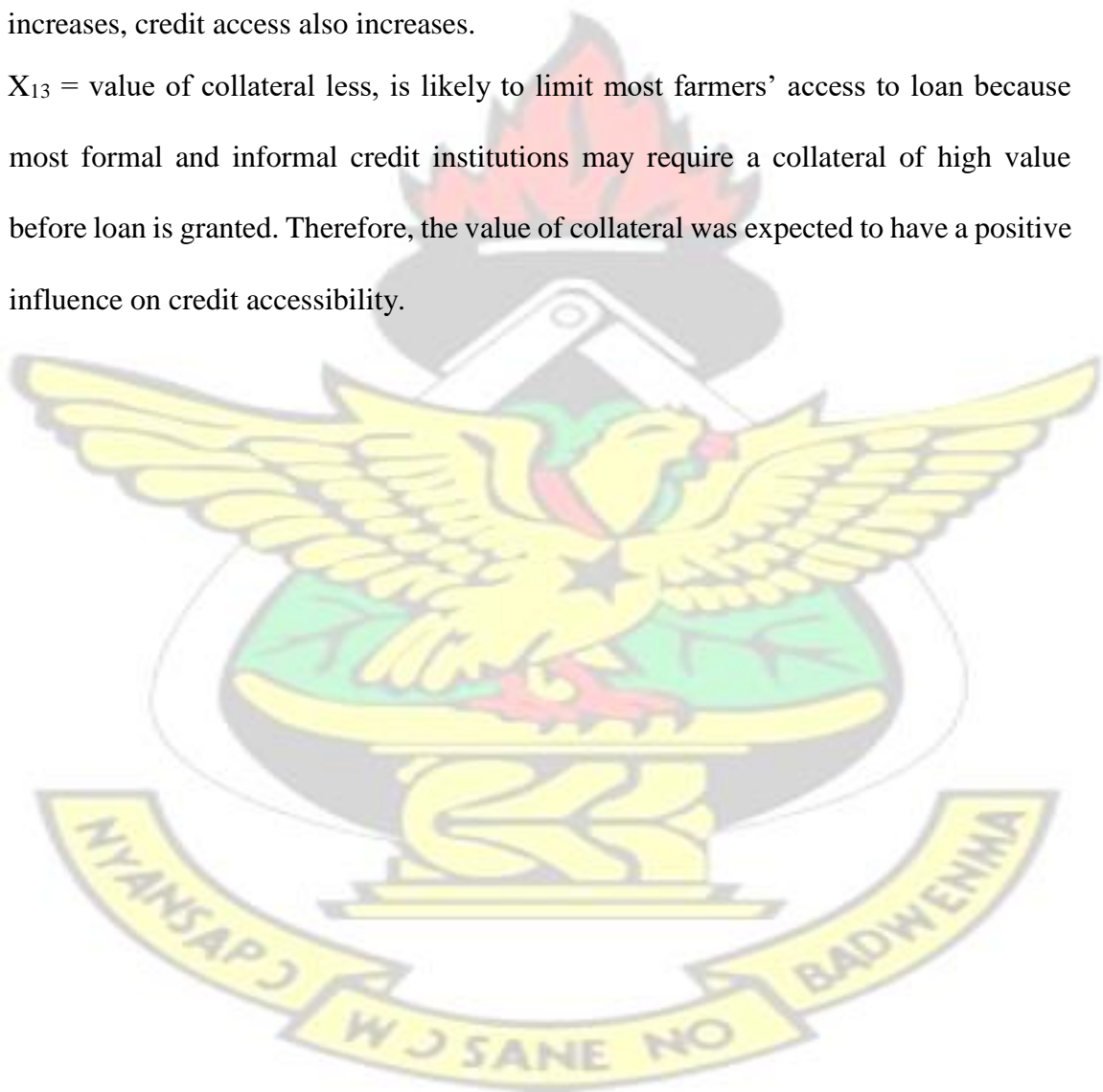
X₁₀ = Number of extension visits (measured in number of times within an agricultural period). Extension programs to train and educate farmers on some issues such as financial management and group formation to aid access to credit will enable farmers acquire credit.

X₁₁ = Years of experience in farming (years). Farmers who have been in business for a long time are expected to be more successful with their activities because they have

more experience than those who just started. Thus experienced farmers may have high access to credit.

X_{12} =income of household heads is measured as the total income of the farmer for the year. Farmers with higher annual income are more likely to be able to sustain their family members well and may not have to supplement family expenditure with the credit they have obtained. It was therefore hypothesized that as farmer's income increases, credit access also increases.

X_{13} = value of collateral less, is likely to limit most farmers' access to loan because most formal and informal credit institutions may require a collateral of high value before loan is granted. Therefore, the value of collateral was expected to have a positive influence on credit accessibility.



CHAPTER FOUR

PRESENTATION OF DATA AND ANALYSIS

4.0 Introduction

This chapter discusses the findings from the study. It presents the descriptive analyses on the socio-economic characteristics of the respondents as well as the problems faced by both the bank and farmers in granting and accessing loans respectively. The factors influencing farmers' access to credit are also discussed in this section.

4.1 The Research Area

The research was conducted in four areas in the district; they are Bogoso, Huni Valley, Aboso and Damang which are all located in the Prestea/Huni-Valley District.

The district is one of the newly created districts which was carved out from the then Wassa West District Assembly and has its Headquarters at Bogoso. It was formally inaugurated on 29th February, 2008. Prestea/Huni-Valley district is mining towns situated about 33 Kilometers east of Tarkwa. It shares boundaries on the North West with Wassa Amenfi East District, on the South West with Mpohor Wassa East District, on the West with Axim Municipal Assembly, on the South with Tarkwa Nsuaem Municipal Assembly and the North by Wassa Amenfi West District Assembly. The District covers an area of about 1376 sqkm and lies within the South Western Equatorial Zone.

Bogoso serves as the administrative capital of the Prestea/Huni-Valley District Assembly. It has a natural geographic advantage of concessions of both Gold and Economic trees like mahogany, wawa, odum, sapele among others. This has earned it

about four (4) mining companies currently. The objective of developing the town came into focus in 1957 where all political parties used Bogoso as their constituency center.

Bogoso was chosen as the District capital due to its location and to unite people of different backgrounds, beliefs and norms. Moreover, it was to be an integrated sociocommercial and industrial community. The District has a concentrated forest reserve of gold. Its mining success is undisputable.

The topography of the area is generally undulating with few scarps ranging between 150m to 300m above sea level.

Soils in Prestea/Huni-Valley are composed of sand, black and clay, humus, gravels and stone. On the other hand, soils in the District are deep and open and acidic in many places due to heavy leaching of bases from the top because of high rainfall, humidity and temperatures. The acidity of the soil reduces the availability of phosphorus, calcium and magnesium. Generally, levels are suitable for the cultivation of vegetables and major crops like cassava, cocoyam, maize and yam.

However, the soil supports the growing of perennial crops like cola-nuts, cocoa, rubber, oil palm and among others.



Plate 4.1 A Diversified Rubber Farm in the Prestes/Huni-Valley District in Western of Ghana

The climate of the district is in the Rain Forest Zone of Ghana. It enjoys a wet equatorial climate. The rainy season is usually from March to July (major season) and from September to November (minor season). The number of rainy days in the district did not change very much between 2009, 2010 and 2011 but increased quite dramatically in 2012 and 2013. The highest amount of rain is experienced in March to July and October to February as the dry season. The rainy season has an important effect on the environment in creating watersheds, large expanse of stagnant water bodies, deep trenches and gullies as well as leaching the nutrient content of the soil. Temperatures in the district are high all year round with significant daily and seasonal variations. The annual average temperatures range between 26 °C and 30 °C in the major season.

The vegetation in the district falls within the rainfall belt with the height of trees ranging between 15-40 meter high. The forest is full of climbers and lianas, which are able to

reach into the upper tree layer. Economic trees include mahogany, Wawa, odum and sapele among others.

4.1.1 Sources of Income of Farmer-Respondent

A total of 120 farmers were interviewed, 30 from each selected community. Cocoa farming is the main source of income in the district, with oil Palm, rubber, cassava as the second, third and fourth respectively, produced by the farmers. Other cash crops include; maize, vegetables and fruits trees. However, only a very few farmers produce livestock and poultry for income purposes- these are mostly for their own consumption.



Plate 4.2 A Cocoa Farm of a Farmer-Borrower in Prestea/Huni-Valley District

Most of the farmer-respondents have been farming for 10-25 years. Among the 120 respondents, two years is the shortest time for farming while 30 years is the longest.

Carpentry, mason, teaching, fish vending, trading, small “Bogua-bogua” (variety) stores, illegal mining, legal mining and government employment were among the non-

farm and off-farm sources of income of the farmers in the research area. A few respondents have sources of income from remittances abroad.

4.2 Socio-Economic Characteristics

This section gives a brief discussion of the socio-economic characteristics of the respondents used for the study.

4.2.1 Gender of Farmer-Respondents

Majority of the respondents (62.5%) were males where as 37.5% of them were females (Figure 4.1). This articulates that the majority of the farmers are males and it can be inferred that this is so due to the laborious work involved in farming. This study also revealed that gender is significant variable; it was found to be important influential factor. This means that male farmers are associated with reduced levels of credit constraints compared to their female counterparts, this result being similar to that obtained by Ornonona et' al.(2010). They explain that male farmers' scale of production are higher than that of their female counterparts and hence are favored by lenders in terms of credit allocation.

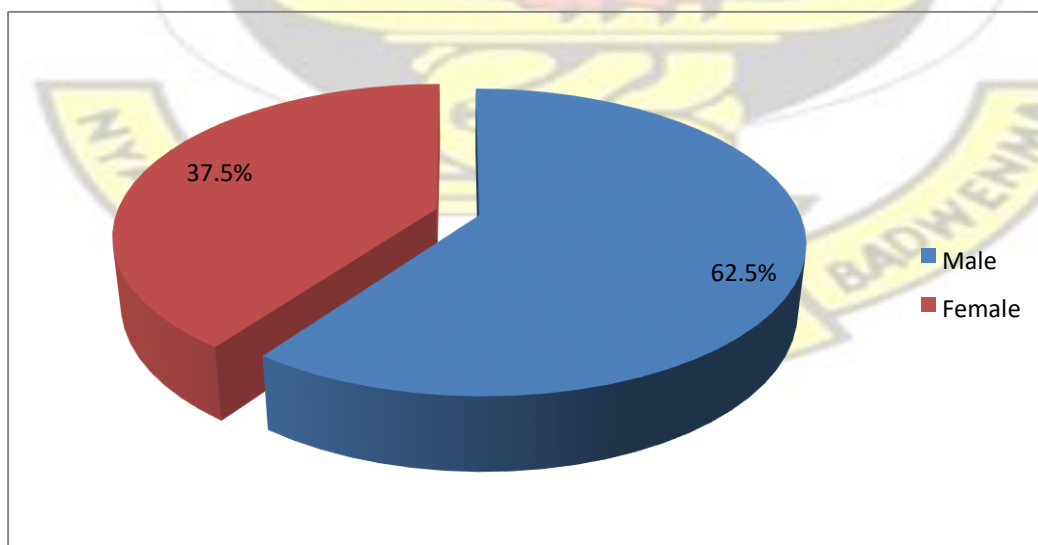


Figure 4.1: Gender distribution Source:
Field survey, 2014.

4.2.2 The Ages of Farmer-Respondents

The modal age group of the respondents was above 50 years (33.3%), followed by 41-50 years (31.7%), with few others (20.83%) falling within the age categories of 31-40 years and 20-30 years (14.17%) as shown in figure 4.2 below. The spread of age category is evident that the farming is normally done by the aged in the district which is a true reflection of a typical Ghanaian agriculture.

The mean age of 55.7, gives a true reflection of the modal age group of above 50 years with a minimum age of 21 and maximum of 73 years can further be explained that most of the farmers are in their late-fifties and may not actively work to repay the loan received. The age of respondents was found to be very influential when investigating about factors that influence credit constraint condition of small-scale farmers in the study area. The result indicates that the higher the age of the farmers or the older they become, the greater the likelihood of being credit constrained. This might be because the younger farmers are still agile and more receptive to new technologies and activities that will generate income. An additional year to the age of the farmer will increase the probability of the farmer being constrained.

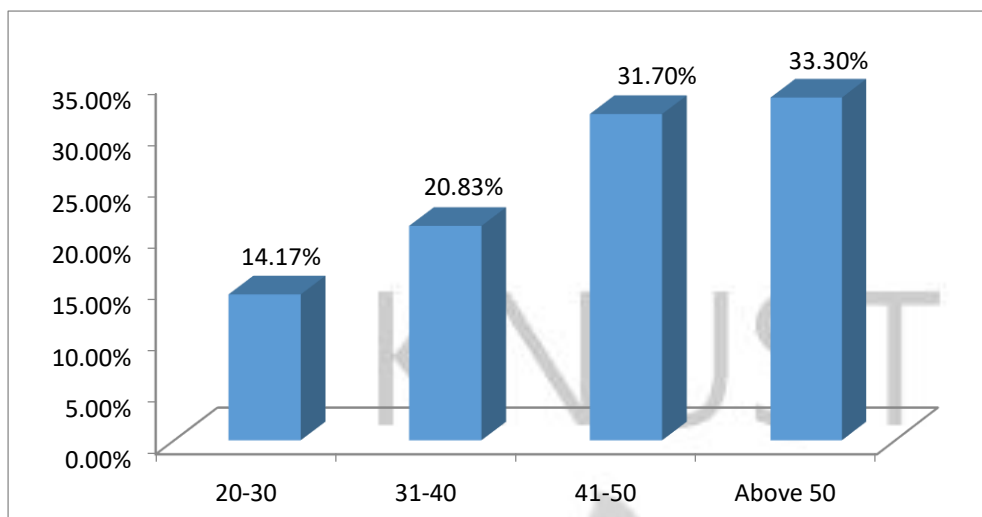


Figure 4.2: Age distribution in years

Source: Field survey, 2014

4.2.3 Marital Status of Farmer-Respondents

Majority (66.3%) of the respondents interviewed are married where as 17.5% of them being single with a few of them being divorced (10.2%) and widowed (6.0%). This can be concluded that, most of the farmers are married and it may have an influence on their accessibility of credits from financial institution as shown in figure 4.3 below. Marital status was found to have a positive influence on the probability that a farmer had access to credit. This implies that as one marries, the likelihood of having access to credit increases. It is believe that individuals who are married are more likely to be stable and lenders are likely to view them as more reliable and responsible such that they are less likely to be credit constrained. Hence marital status of the farmerrespondents is important in influencing demand for credit facilities as compare to those farmers who are not married.

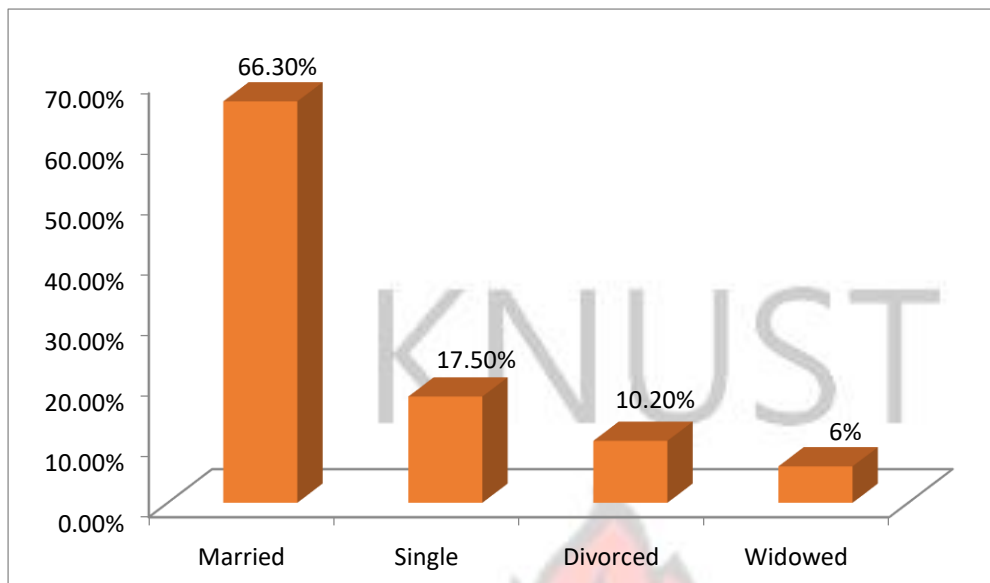


Figure 4.3: Marital Status distribution

Source: Field survey, 2014

4.2.4 Educational Level of Farmer-Respondents

The results indicate most of respondents had no education (31.66%). 26.66% out of the 120 respondents interviewed had attained primary education, 21.67% attained education up to the (Junior High School) JHS, 9.17% had education up to Senior High School (SHS) and a few 6.67% and 4.17% of the respondents had vocational and college education respectively. The demand for credit is normally influence by farmer's level of education. There is a higher relationship between farmer's demand for credit and his/her level of education. It was believed that farmer's decision to demand credit improves with increased level of education as they able to understand and follow policies and procedures of these financial institutions. In a related study by Bee (2007) found level of education to be significantly related to demand for credit in Tanzania. The implication of these results is that financial institutions in the study area do not target illiterate farmers and that majority of those who have benefited from their credit

had some formal education. It can be concluded that most of the respondents have received formal education as shown in figure 4.4 below.

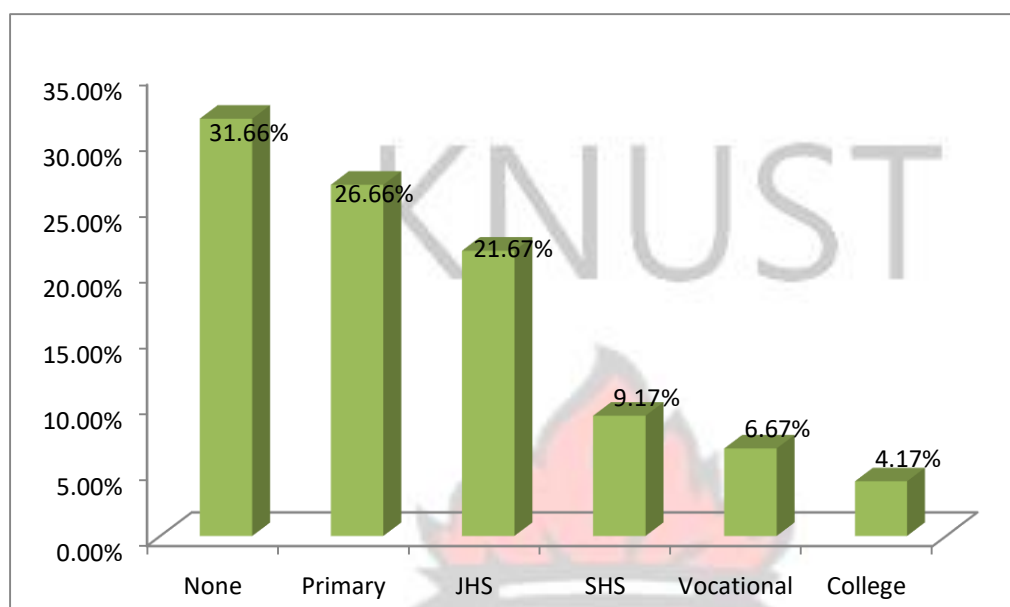


Figure 4.4: Distribution of educational level of respondents Source: Field survey, 2014.

4.2.5 Farm size of Farmer-Respondents

Out of the 120 farmers interviewed, majority (67.5%) have farm size greater than 1 hectare followed by 16.67% with farm size between 0.5 and 1 hectare and a few (15.83%) with farm size less than 0.5 hectare (Figure 4.5). The size of farm land owned by a farmer has an influence on the accessibility of credit from a credit institution since it is normally used as a form of collateral for granting out loans. Farm size has a negative and significant relationship with the probability of a farmer being credit constrained. This is because lenders use farm size as an indicator for scale of operation and revenue and consequently farmers' repayment capacity. Lenders therefore tend to offer credit to farmers with larger farm sizes. Alternatively, farmers with larger farm sizes may earn higher revenue and may not need credit, leaving them unconstrained. A hectare increase in farm size would decrease the possibility of a farmer being credit constrained.

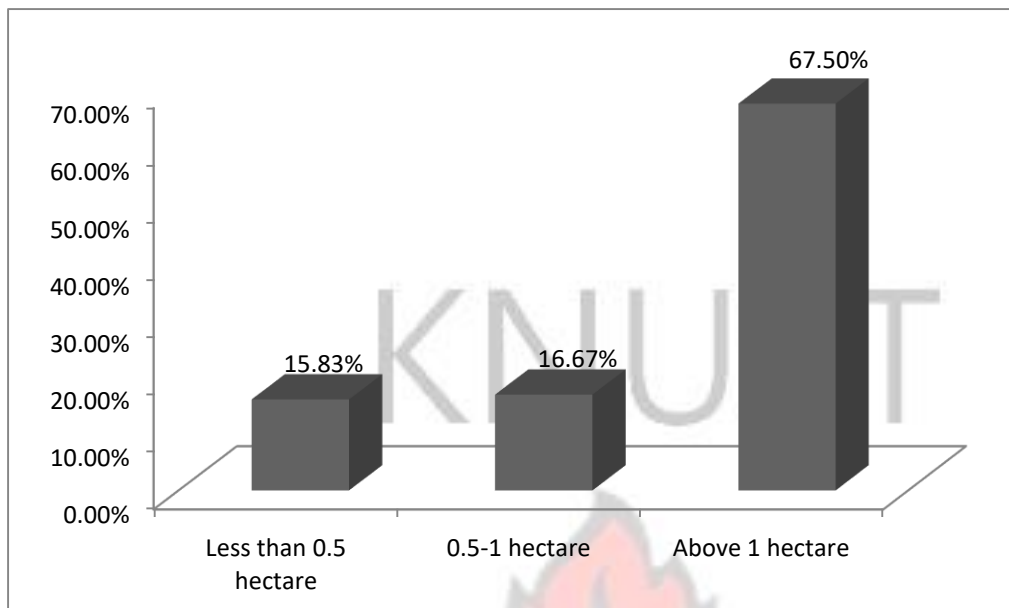


Figure 4.5: Distribution of farm size by respondents

Source: Field survey, 2014.

4.2.6 Farm Tenure of Farmer-Respondents

Majority (52.5%) of the respondents owned their farm land where as 25.83% of the farmers interviewed had a share tenant arrangement on their farm land with 21.67% out of the 120 farmers interviewed having both owner and share tenant arrangement (Figure 4.6). The farmers with a share tenant arrangement share their proceeds with the owners of the land in certain proportions (with most of it being a 50-50 arrangement) where as those with both owner and share tenant arrangement owns certain portion of their farm land and share cropped certain portion of the remaining farm land.

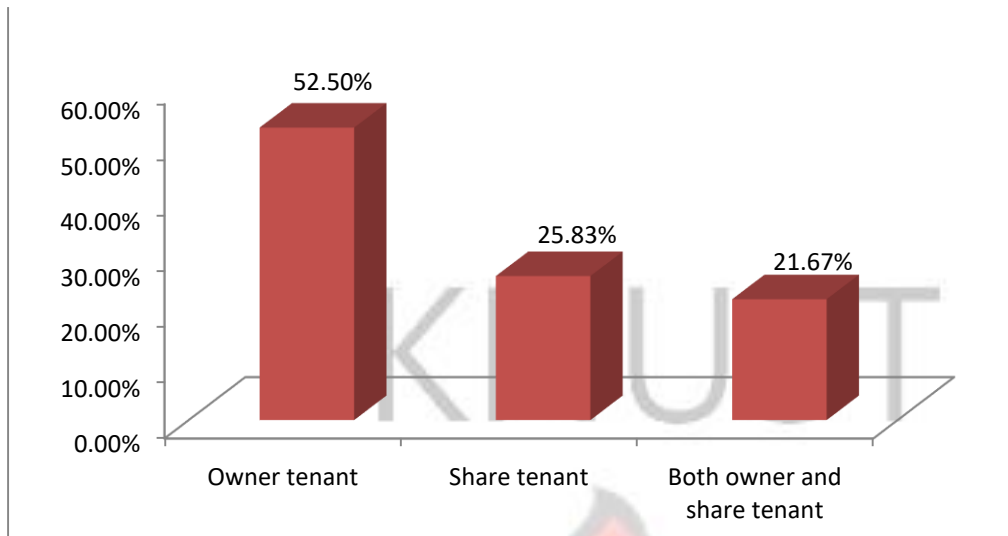


Figure 4.6: Distribution of farm tenure of respondents

Source: Field survey, 2014

4.2.7 Number of Years of Farming

Majority of the farmers have been into farming over 35 years (65.83%) followed by 19.17% , 9.17% and 5.83% being into farming for 26-35 years, 16-25 years and 1-15 years respectively with a minimum and maximum of 10 years and 58 years respectively. The study revealed that farming experience has significant positive effect on output for farmers but insignificant effect on the productivity of the creditconstrained farmers. This finding suggests that experience is less likely to contribute to output if the farmer is credit-constrained. It can be inferred that the farmers are very experienced in farming as shown in figure 4.7 below.

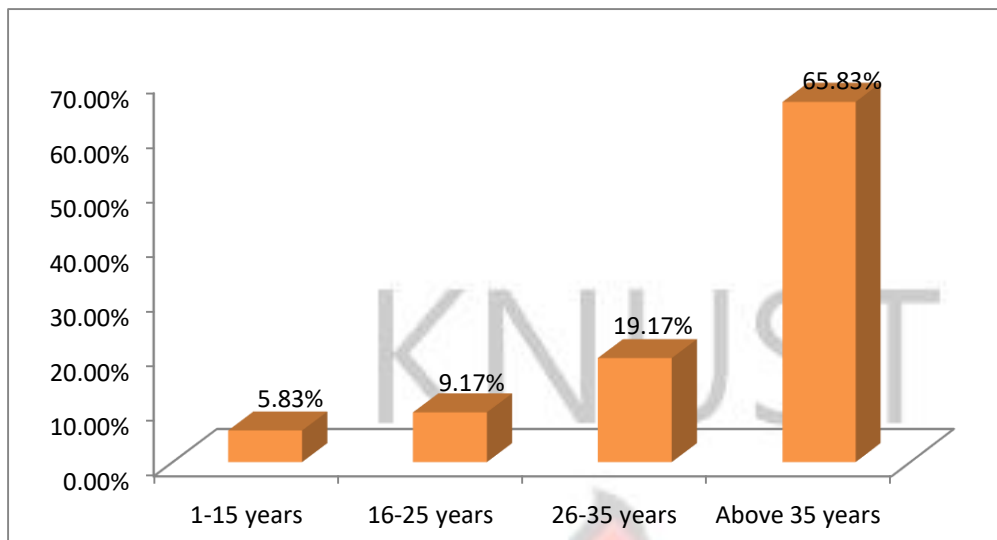


Figure 4.7: Years of farming by respondents.

Source: Field survey, 2014

4.2.8 Family Size of Respondents

Majority (59.97%) of the farmers interviewed had a family size greater than 15 members followed by 36.67% with a family size between 11 and 15 where as 15% of the farmers with a family size between 6 and 10 persons and 8.3% having a family size between 1 and 5 persons in (Figure 4.8). The number of persons per the respondent's household as a proxy for family labour exhibit different effects on each group. The number of persons household has positive effects but is insignificant for other farmers. Thus, family labour contributes to crop productivity of farmers. This study also confirms the findings of similar studies by Nuryartono et'al (2005) and Feder et'al (1990).

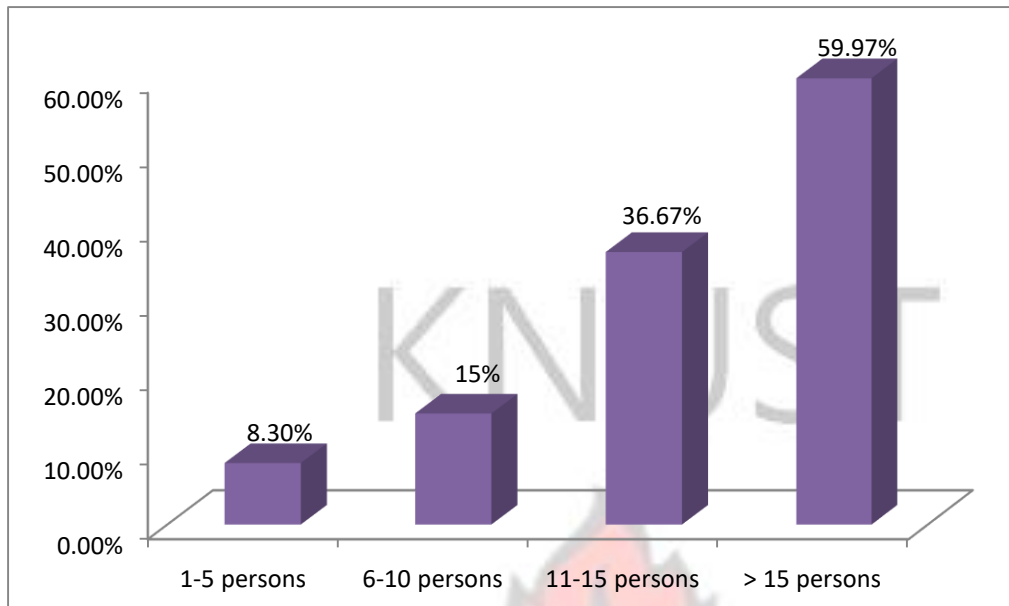


Figure 4.8: Distribution of family size by respondents Source: Field survey, 2014.

4.2.9 Number of Extension Visits

Majority (61.67%) of the farmers received between 1-3 visits from extension agents where as 29.17% and 9.16% out of the 120 farmers interviewed received 4-6 and greater than 6 extension visits respectively (Figure 4.10). The number of extension contacts may have an influence on farmer access to credit as one of the areas they educate farmers on financial management. The study further revealed that access to extension services has a positive effect for farmers. One explanation for this is that some farmers may not have funds to implement recommendations of made by the extension officers; therefore, access to extension services would have a positive and significant effect on the productivity of farmers. Despite this, in a focus group discussion, about 38.33% of the farmers reported not having regular access to an extension services. Discussion with the Ministry of Food and Agriculture district director of the study area revealed that the district does not have enough extension officers for all the operational areas.

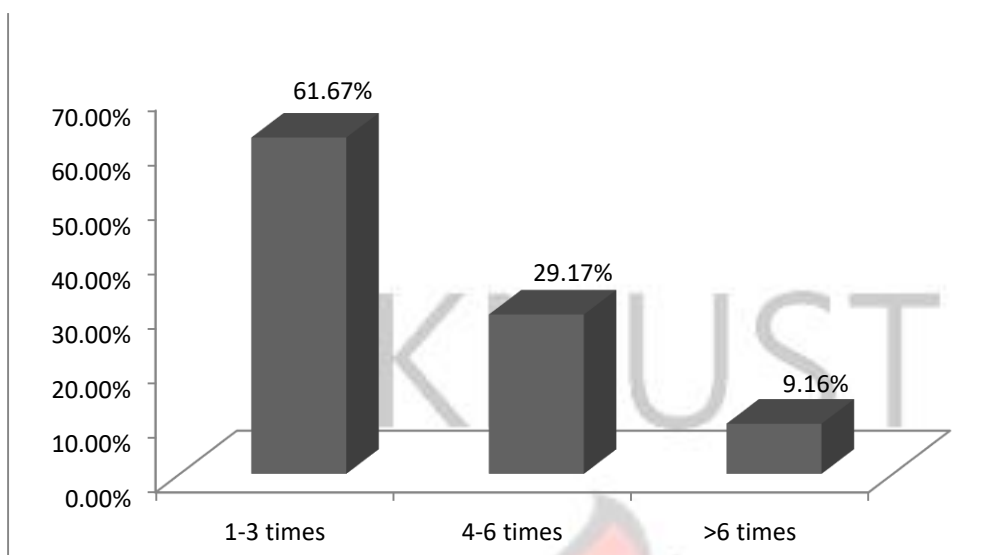


Figure 4.9: Number of extension visits to respondents Source:

Field survey, 2014.

4.3 Awareness of credit facilities in the district

Out of the 120 farmers interviewed, almost all (93.3%) of them indicated they were aware of credit facility in financial institutions for farmers with only a few (6.7%) indicating they had no idea financial institution had such facility for farmers (Figure 4.11). Out of the 93.3% of the farmers who indicated they were aware of the credit facility of the bank, about 60.7% of them said they have applied for credit from the bank before and the remaining indicated they had never applied for credit. Those few farmer-respondents who said they were not aware because they do not attend association meetings and they are not interested in knowing about the credit facilities in the lending/financial institutions. Five (5) of the respondents further elaborated that they are already old and less educated so they are contents to borrow from the traders instead of banks. They are also share tenant and have no collateral to give so they did not explore the possibilities of borrowing from financial institutions/ sources. For those

farmers-respondents who are aware, some of them attended the association meetings and heard from neighbors and friends about credit facilities in the lending/institutions.

In the research area, the available credit providers were made known to the farmersrespondents through information disseminations and meetings conducted by local government, seminars conducted by credit providers, association meetings, neighbors, relative and friends. However, even if these efforts were being undertaken to inform the farmers, but based on the results of the interview only very few farmers in the research area attend the credit programmes,' seminars and association meetings.

The awareness of credit services is relatively important for credit available in a certain community. Provision and strengthening of awareness about various credit services influenced the farmers in their credit access (Singh, 2001). This can be attributed to the fact that the farmers can not readily obtain credit if they are not aware of the contented borrowing from financial sources within the research areas available credit facilities in the area. The results revealed that there were (6.70%) farmer-respondents who are not aware because they do not want to attend the association and community meetings. So they are just contented borrowing from informal sources within the research areas.

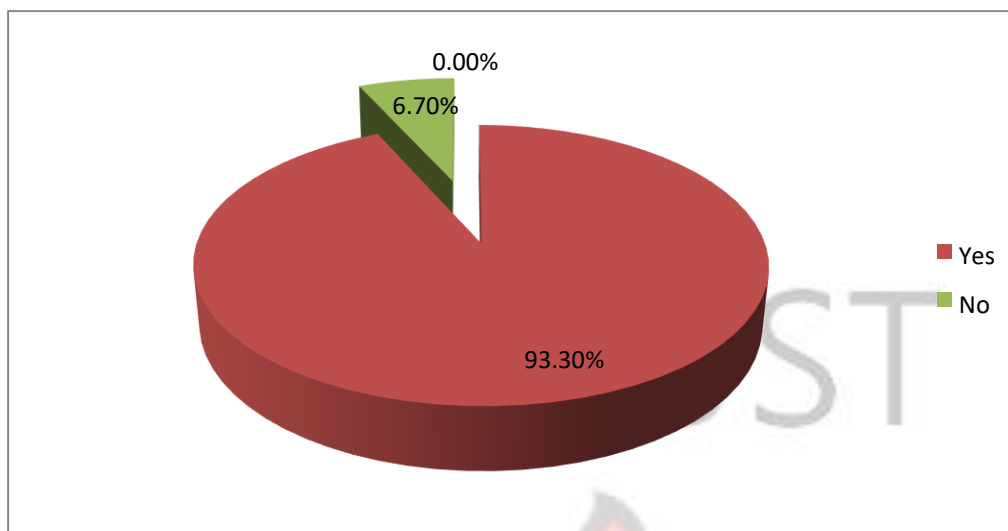


Figure 4.10: Awareness of credit facility by respondents

Source: Field survey, 2014

4.3.1 Proximity of the Financial Institutions of the Farmers

Majority of farmers interviewed (68%) said they are far from financial institutions and they have to cover more distance before getting access to credit facilities which is preventing them from acquiring loan facilities, whilst few farmers constitute (32%) said they are closer to financial institutions. Distance to the nearest financial institution (proximity) had very high relationship with demand for credit facilities. This imply that the shorter the distance to the financial institution the greater the likelihood of farmer demanding financial credit. Therefore increasing availability of financial institutions resulting in easy access has greater likelihood of increasing demand for credit facilities. This observation supports the result of a study by Zeller (1994) and Bee (2007) on demand for financial credit which indicated that proximity has higher relationship with demand for credit

4.4 Number of Times Benefited from Loan Facilities

Most of the farmers have benefited twice (40.0%) from credit facilities from the bank followed by 35.0%, 17.5% and 7.5% of the farmers who have benefited once, thrice

and more than thrice respectively from the credit facilities from the bank as depicted in figure 4.11 below.

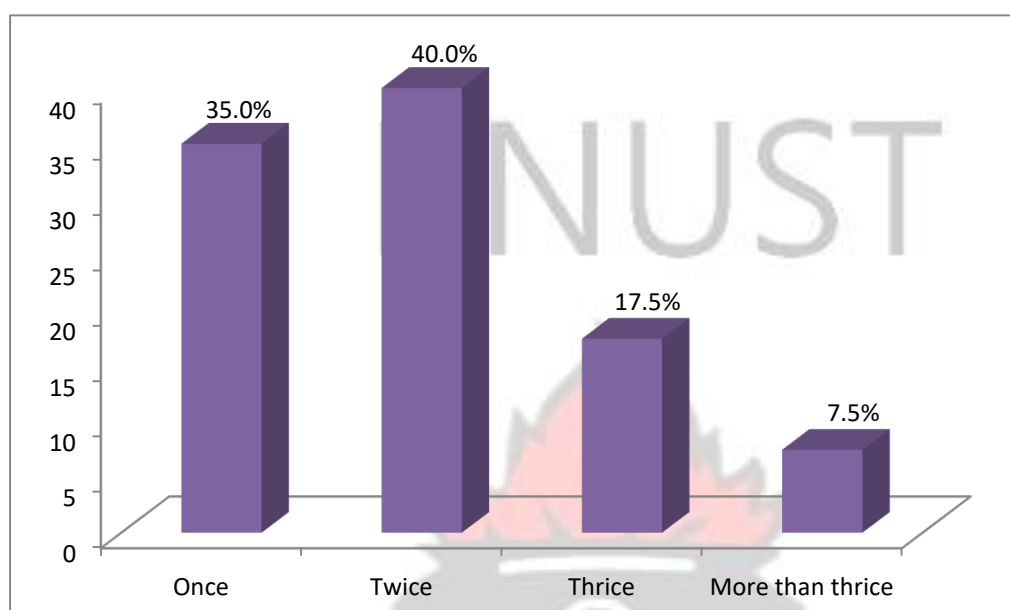


Figure 4.11: Distribution of number of times benefited from credit by respondents

Source: Field survey, 2014.

4.5 Size of Loan

The results show that majority (79.41%) of the farmers received less than 500 Ghana Cedis loan size followed by 14.71% and 5.88% receiving between 500 and 1000 Ghana Cedis and more than 1000 Ghana Cedis respectively as indicated in figure 4.12 below. The minimum amount of 300 and a maximum of 2000 Ghana Cedis were granted. This can be concluded that the bank mostly grants loan to farmers with minimum amounts compared to farmers with huge sums of money or farmers normally request for minimum amount of credit. Loan size, that is the amount of loan obtained by farmers (Gh¢). According to Rabo *et al.*, (2001), small loan size that seems inadequate for meaningful farm work tends to be easily diverted for non-farm activities. It was

hypothesized that farmers who require large amount of credit are likely to have access rather than those who require relatively small amounts of loans.

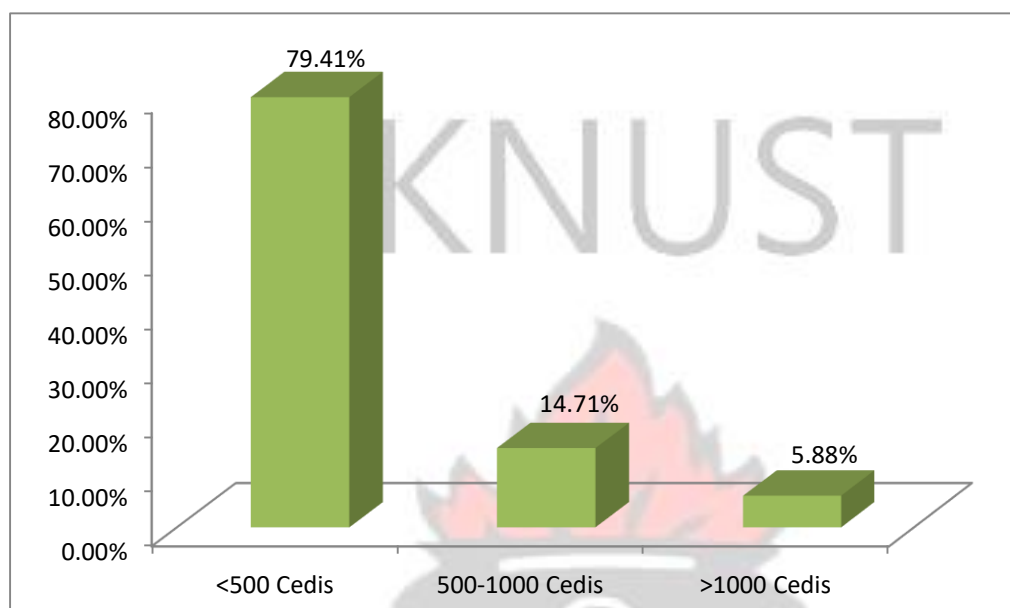


Figure 4.12: Distribution of size of loan received by respondents

Source: Field survey, 2014

4.6 Challenges faced by farmers in accessing credit from Fiaseman Rural Bank Limited

The study identified and ranked some of the challenges faced by farmers in accessing loans from FRBL and the results are presented in table 4.2 below. For the farmers interviewed, high interest rates on loan is a very pressing challenge. 95% of the farmers interviewed agree that the interest rate that FRBL charge on their loans is very high. This is confirmed by several findings (Robinson and Kolavalli, 2010; Aryeetey, 1996; Adu-Dapaah and Oppong-Konadu, 2002) that high cost of borrowing remains a dominant constraint to small-scale farmers in Ghana. The study revealed that interest rate has negative significant in the demand of credit in both formal and informal financial institutions in the research area. This implies that high interest rate demanded

by the financial institutions prevent farmers from accessing credit facilities in their institutions. However, when interest rate are low more small-scale farmers access credit facilities in order to expand their farm activities, hence high productivity.

The study also revealed that the second most pressing challenge affecting the farmers in accessing loans from FRBL is the cumbersome procedure they have to go through. Patronage of financial institutions by the farmers is negatively affected by their availability or presence within the research area, cumbersome procedures for opening accounts and loan application procedures. Thus farmers' access to financial services from various financial institutions can be improved through establishment of more branches and agencies in other communities within the district, and streamlining procedures for accessing their services. The low patronage of financial institution was attributed to tedious operational modalities and the inability of these financial institutions to offer enough agricultural credit to small-scale farmers

This is followed by unrealistic terms and conditions that the farmers would have to meet in order for them to access loan from FRBL.

Also, lack of collateral limits most of the farmers to access loan from FRBL. 48.4% of the farmers interviewed agree that they lack the collateral requested by FRBL. 15% of them are indifferent while 36.7% of them do not disagree that they lack the collateral required by FRBL. Farmer-respondents with collateral securities have positive chance of acquiring bigger loan from financial institutions as compared with farmer-respondents without collateral securities. The study conducted also revealed that farmer-respondents without collateral securities are less likely to acquire credit facilities applied for and even when given, they are most likely to receive less amount lower than what they have applied for.

Lastly, 41.7% of the farmers interviewed agree that FRBL normally reduce the amount of loan they apply for, 43.3% of them disagree with this proposition while 15% of them remain indifferent. The study on reduction of amount of loan requested by small-scale farmers revealed that, the higher the loan amount, lower the probability for default. This is because with higher loan amount the farmer would be able to purchase all the necessary inputs to increase productivity and consequently increase earnings which can be used to repay the loan required. This result is in contrast with the findings of Sharma and Zeller (1997) which examines repayment performance beneficiaries of group-based credit programmes in Bangladesh. However, it supports the finding by Jimenez and Saurina (2004) who found repayment to be positively correlated with loan amount. Increasing the amount of loan offered to the small-scale farmer by one Ghana Cedis decreases the likelihood of loan repayment default by a certain percentage.

Table 4.1 Challenges faced by farmers in accessing credit from FRBL

| 1 = Strongly agree 2 = Agree 3 = Indifferent 4 = Disagree and 5 = Strongly Disagree | | | | | | | |
|---|----|----|----|----|---|------|-----------------|
| Challenges | 1 | 2 | 3 | 4 | 5 | Mean | Rank |
| High interest rates | 64 | 50 | 2 | 4 | 0 | 1.55 | 1 st |
| Lack of collateral requirement | 26 | 32 | 18 | 38 | 6 | 2.71 | 4 th |
| Cumbersome procedures | 32 | 52 | 12 | 24 | 0 | 2.2 | 2 nd |
| Unrealistic Terms and conditions | 34 | 30 | 28 | 26 | 2 | 2.4 | 3 rd |
| Reduction in loan amount requested | 26 | 32 | 18 | 38 | 6 | 2.9 | 5 th |

Source: Authors' computation, 2014

4.7 Challenges faced by Fiaseman Rural Bank Limited in granting credit facilities to small-scale farmers in the study area.

The study further identified and ranked some of the challenges faced by Fiaseman Rural Bank Limited in granting out credit to small-scale farmers. For the management interviewed, high risk in agriculture is a very pressing challenge. 80% of the management interviewed agrees that the risk associated with agricultural production is high as farmers in Ghana do not have any form of insurance for their farms. This challenge is expected to have negative relationship with probability of loan repayment default. Types of crops grown in the district by small-scale farmers have different level of risks and return, consequently loan repayment. Type of crops grown determines whether the small-scale farmer will be able to repay the loan or not. Farmers who cultivate cash crops have 95% lower likelihood of loan repayment default as compared to their counterparts who do not cultivate cash crops. This is attributed to the fact that farmers who cultivate cash crop are commercially oriented and produce for market hence tend to earn higher income which support loan repayment. The study also revealed that the second most pressing challenge affecting FRBL in granting loans to farmers is rate of loan default by farmers. The research attested that farmer's engaging in other income generating activities always pay their loans. Small-scale farmers who engaged in other income generating activities are less likely to default in loan repayment because they can use the money from income generating activities to support loan repayment. Again, the loan repayment period also influence loan default. One month increase in loan repayment period decreases the likelihood of loan repayment default by a certain percentage. This gives an indication that the probability to default is lower the longer the repayment period. This is due to the fact that with longer repayment period farmers do not sell during the glut period. They could store their produce and wait for better price which increase earning and their repayment capacity. The finding supports the argument that cash flow in part determines the debt-servicing capacity of

borrowers Ledgerwood, (1999). This is followed by perception of farmers about credit as their share of the national cake.

Some small-scale farmers perceived the loans given to them as a gift from Government, hence loan default. Majority of them divert the loan acquired for other purposes like paying of children's school fees, expenditure on funerals, weddings etc. instead of using the loan acquire for its intended purpose which will help recoup the loan, but rather use it for purposes that cannot bring back the loan hence loan default. Also, the unfaithfulness of farmers when time is due for them to repay back their loans. 80% of the management interviewed agree that the high rate of default on agricultural loans out of the total loan portfolio makes it difficult for them to grant loans to farmers. 76% of them also agree that farmers normally perceive loans from financial institution as a gift from the government and therefore do not find any need to repay the loan as shown in table 4.3 below.

Table 4.2 Challenges faced by FRBL in granting credit to farmers

| 1 = Strongly agree 2 = Agree 3 = Indifferent 4 = Disagree and 5 = Strongly Disagree | | | | | | | |
|---|----|---|---|---|----|------|-----------------|
| Challenges | 1 | 2 | 3 | 4 | 5 | Mean | Rank |
| Staffing problem | 2 | 1 | 2 | 5 | 15 | 4.5 | 6 th |
| Lack of logistics | 7 | 3 | 1 | 1 | 13 | 3.4 | 5 th |
| High risk in agriculture | 15 | 5 | 2 | 2 | 1 | 1.76 | 1 st |
| Loan default | 13 | 7 | 1 | 2 | 2 | 1.92 | 2 nd |
| Unfaithfulness of farmers | 10 | 7 | 1 | 4 | 3 | 2.3 | 4 th |
| Perception of farmers about credit as their share of the national cake | 12 | 7 | 1 | 2 | 3 | 2.08 | 3 rd |

Source: Authors' computation, 2014

4.8 Factors influencing farmers' access to credit

Table 4.4 below shows the results of the probit regression model estimates on the factors influencing farmers' access to credit. Among the thirteen variables fitted into the model, five were statistically significant. These include; marital status, family size, interest rate, Income of household head and the value of collateral.

Marital status was found to have a positive influence on the probability that a farmer had access to credit and is significant at 1% level. This implies that as one marries, the likelihood of having access to credit increases by 0.2385. It is believed that individuals who are married are more likely to be stable and lenders are likely to view them as more reliable and responsible such that they are less likely to be credit constrained. Hence marital status of the farmer-respondents is important in influencing demand for credit facilities as compared to those farmers who are not married.

Household size was statistically significant at 5% with a positive coefficient. This suggests that farm households with a larger family size have high probability of being credit constrained. Larger family size would account for higher expenses as compared to relatively small household size, and thus a high possibility of defaulting as loans can be diverted to household up-keep instead of using loans for business as intended. This result is consistent with the findings of Oyedele et al., (2009) who revealed that credit beneficiaries with more household members were more credit constrained. The study also revealed that as household size increases, expenditure on food and other household needs also increase. The higher expenditure tends to make borrowers more resource constrained and may affect loan repayment. It is thus expected that as household size increases the loan repayment default will also increase.

Interest rate was also significant at 1% and negatively influences credit access among small-scale farmers. The negative marginal effect of -1.7426 indicates that as interest rate increases by one unit, the probability that a farmer would have access to credit reduces by 1.7426. The study attested that high interest rate was one of the factors that influence demand for credit in the research area. This high interest rate charged by financial institutions influence farmers demand for their services. Farmers who perceive lending rate to be high are less likely to demand credit facilities as compare to counterparts who perceive lending rate to be low.

Income of household head variable was found to be significant at 1 % and influence farmer's access to credit negatively. This finding is contrary to that of Akram et al., (2008), who found out that farmers with high income levels may significantly depress the probability of being credit constrained because such individuals are able to sustain their families well and may not have to supplement family expenditure with credit obtained and would therefore be able to pay back loan. Hence, bank officials and other informal money lenders will be willing to grant such farmers high amount of credit because they would be able to repay the loan.

The value of collateral variable was statistically significant at 1% and the positive value of the marginal effect implies that, as farmer's collateral in securing loan increases by a unit, the probability of having access to loan increases by 1.7827. This result is in line with the result of a similar research conducted by Santo and Guce (2001). They revealed that accessibility of credit among small-scale farmers is directly proportional to the value of collateral. Again, farmer's household asset is estimated as the sum of the resale value of household or domestic assets measured in

Ghana Cedis (Ghc). This is used as a proxy for farmer-respondent's wealth status in line with Rahji and Fakayode (2009). It is expected that the higher the value of the assets, the more likely farmers will use credit facilities as these assets can be used as collateral to secure loans which would support income generation, and consequently savings. Therefore, household assets is expected to have a positive effect on demand for credit facilities in the financial institutions in the district.

Table 4.3 Factors influencing farmers' access to credit

| Variable | Coefficient | Marginal Effect | P>Z |
|-----------------------------|--------------|-----------------|----------|
| Age | -0.0287 | -0.0086 | 0.859 |
| Gender | 0.3092 | 0.0927 | 0.402 |
| Marital status | 0.7960 | 0.2385 | 0.010*** |
| Educational level | -0.0756 | -0.0226 | 0.263 |
| Family size | 0.4713 | 0.1412 | 0.041** |
| Extension visits | -0.0064 | -0.0019 | 0.986 |
| Farm Size | 0.0055 | 0.0017 | 0.883 |
| Loan size | -0.0000 | -0.0000 | 0.408 |
| Interest rate | -5.8150 | -1.7426 | 0.000*** |
| Frequency of loan | 0.6837 | 0.2049 | 0.140 |
| Experience | 0.0003 | 0.0000 | 0.897 |
| Income of Household head | -6.1019 | -1.8286 | 0.000*** |
| Value of collateral | 5.9488 | 1.7827 | 0.000*** |
| Constant | 5.6985 | | 0.104 |
| Number of observation = 120 | | | |
| Wald chi2 (13) | =747.67 | | |
| Prob> chi2 | =0.0000 | | |
| Log Pseudo likelihood | = -42.092712 | | |

*** and ** denotes level of significance at 1% and 5% respectively.

Source: Field survey, 2014

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of findings, relevant policy recommendations based on results of this study and suggestions for future research.

5.1 Summary of Findings

The main aim of this study was to investigate the accessibility of credit facilities among small-scale farmers of the Fiaseman Rural Bank Limited in the Prestea/Huni-Valley district in the Western Region. The main target for the study covered farmers' awareness of credit facility of Fiaseman Rural Bank Limited, challenges faced by farmers in accessing credit from Fiaseman Rural Bank Limited, challenges faced by Fiaseman Rural Bank Limited in granting credit to farmers and also to evaluate the factors influencing farmers' access to credit. A total of a hundred and forty-five (145) respondents which comprises of one hundred and twenty (120) farmers and twentyfive (25) management members of Fiaseman Rural Bank Limited were interviewed. Both primary and secondary data sources were used to achieve the objectives of the study.

Quantitative data gathered were analyzed using the SPSS analytical tools and Microsoft Excel and presented using graphs, charts and tables. Descriptive statistics such as mean, mode and median were also used to organize and summarize data. The likert scale was used to analyze challenges faced by both farmers and the Fiaseman Rural Bank Limited in accessing and granting credit respectively. The probit model was used to analyze the Factors influencing farmers' access to credit.

The results on the socio-economic characteristics of respondents showed that majority of the farmers were males, comprising 62.5%. It can be inferred that this is so due to the laborious work involved in farming and therefore more men were involved rather than females. It was evident from the age spread category that farming was normally done by the aged in the district which is a true reflection of a typical Ghanaian agriculture. Level of education which was expected to positively influence farmers' access to credit, was low as most of respondents (31.66%) had no formal education.

Awareness of credit facilities among small-scale farmers interviewed was high. Out of the 120 farmers interviewed, almost all (93.3%) of them indicated they were aware of credit facility in financial institutions.

Majority (79.41%) of the farmers received less than 500 Ghana Cedis loan size followed by 14.71% and 5.88% receiving between 500 and 1000 Ghana Cedis and more than 1000 Ghana Cedis respectively. This implies that either the bank mostly grants loan to farmers with minimum amounts or farmers normally request for minimum amount of credit.

High interest rate charges on loans turned out to be the most pressing challenge faced by most farmers in accessing credit from the Fiaseman Rural Bank Limited and 95% of the farmers interviewed agree to that.

Cumbersome loan procedures was ranked as the second most important constraint to credit access followed by unrealistic terms and conditions and then lack of collateral requirement. Reduction in loan amount requested was reported to be the least factor affecting farmers' access to credit from Fiaseman Rural Bank Limited.

From the bank's perspective, High risk associated with agriculture and Staffing problem were the most and least constraint faced in granting credit to farmers respectively. Among the variables fitted into the probit model, marital status, family size, interest rate, Income of household head and the value of collateral were statistically significant.

5.2 Conclusions

The study has been conducted in the field of accessibility of credit facilities among small-scale farmers in the Prestea/Huni-Valley District in Western Region of Ghana. It has opened up investigations into the awareness of farmers about credit facilities of Fiaseman Rural Bank Limited.

The study also gives fresh insight about various challenges faced by both small-scale farmers and Fiaseman Rural Bank Limited in the course of accessing and granting of credit to farmers in the research area and its effect on farm productivity. The factors that influence farmers' access for credit was analysed.

Out of the 120 farmers interviewed, almost all (93.3%) of them indicated they were aware of credit facility in financial institutions for farmers with only a few (6.7%) indicating they had no idea financial institution had such facility for farmers (Figure 4.11). Out of the 93.3% of the farmers who indicated they were aware of the credit facility of the bank, about 60.7% of them said they have applied for credit from the bank before and the remaining indicated they had never applied for credit. Those few farmer-respondents who said they were not aware because they do not attend association meetings and they are not interested in knowing about the credit facilities in the lending/financial.

For the farmers interviewed, high interest rates on loan is a very pressing challenge. 95% of the farmers interviewed agree that the interest rate that FRBL charge on their loans is very high and that high cost of borrowing remains a dominant constraint to small-scale farmers in Ghana. The study revealed that interest rate has negative significant in the demand of credit in both formal and informal financial institutions in the research area. This implies that high interest rate demanded by the financial institutions prevent farmers from accessing credit facilities in their institutions. However, when interest rate are low more small-scale farmers access credit facilities in order to expand their farm activities, hence high productivity.

The study also revealed that the second most pressing challenge affecting the farmers in accessing loans from FRBL is the cumbersome procedure they have to go through. Cumbersome procedures for opening accounts and loan application procedures. Thus farmers' access to financial services from various financial institutions can be improved through establishment of more branches and agencies in other communities within the district, and streamlining procedures for accessing their services. The low patronage of financial institution was attributed to tedious operational modalities and the inability of these financial institutions to offer enough agricultural credit to smallscale farmers.

This is followed by unrealistic terms and conditions that the farmers would have to meet in order for them to access loan from FRBL.

Also, lack of collateral limits most of the farmers to access loan from FRBL. 48.4% of the farmers interviewed agree that they lack the collateral requested by FRBL. Farmer-respondents with collateral securities have positive chance of acquiring bigger loan from financial institutions as compared with farmer-respondents without collateral securities. The study conducted also revealed that farmer-respondents without collateral

securities are less likely to acquired credit facilities applied for and even when given, they are most likely to receive less amount lower than what they have applied.

Lastly, 41.7% of the farmers interviewed agree that FRBL normally reduce the amount of loan they apply for, 43.3% of them disagree with this proposition while 15% of them remain indifferent. The study on reduction of amount of loan requested by small-scale farmers revealed that, the higher the loan amount, lower the probability for default. This is because with higher loan amount the farmer would be able to purchase all the necessary inputs to increase productivity and consequently increase earnings which can be used to repay the loan required. Increasing the amount of loan offered to the small-scale farmer by one Ghana Cedis decreases the likelihood of loan repayment default by a certain percentage.

For the management interviewed, high risk in agriculture is a very pressing challenge. 80% of the management interviewed agrees that the risk associated with agricultural production is high as farmers in Ghana do not have any form of insurance for their farms. This challenge is expected to have negative relationship with probability of loan repayment default. It is agreed that types of crops grown in the district by small-scale farmers have different level of risks and return, consequently loan repayment. Farmers who cultivate cash crops have 95% lower likelihood of loan repayment default as compare to their counterparts who do not cultivate cash crops.

The study also revealed that the second most pressing challenge affecting FRBL in granting loans to farmers is rate of loan default by farmers. The research attested that farmer's engaging in other income generating activities always pay their loans. Smallscale farmers who engaged in other income generating activities are less likely to default in loan repayment because they can use the money from income generating

activities to support loan repayment. This is followed by perception of farmers about credit as their share of the national cake. Some small-scale farmers perceived the loans given to them as a gift from Government, hence loan default. Majority of them divert the loan acquired for other purposes like paying of children's school fees, expenditure on funerals, weddings etc. instead of using the loan acquire for its intended purpose which will help recoup the loan, but rather use it for purposes that cannot bring back the loan hence loan default.

Also, the unfaithfulness of farmers when time is due for them to repay back their loans. 80% of the management interviewed agree that the high rate of default on agricultural loans out of the total loan portfolio makes it difficult for them to grant loans to farmers.

The result from the probit regression model estimates on the factors influencing farmer access to credit show socio-economic characteristics such as.

Marital status, farmers who are married may use their loans in meeting the needs of their families; hence lenders may choose to grant farmers who are single.

Family size (measured in number of members of farmer's family). There is a possibility of loans diverted to unintended purposes because of many responsibilities resulting from meeting the needs of many members of the family. Hence farmers with large family sizes may have higher loan default rates. This would consequently limit their access to credit. The expected sign for the coefficient of this variable is therefore negative.

There is a negative relationship between interest rate and access to credit Amonoo *et al.*, (2003). This Implies that as the rate of interest increases, famers' access to credit reduces. Interest rate is hypothesized to have a negative sign in this study.

Income of household heads is measured as the total income of the farmer for the year. Farmers with higher annual income are more likely to be able to sustain their family members well and may not have to supplement family expenditure with the credit they have obtained. It was therefore hypothesized that as farmer's income increases, credit access also increases.

Value of collateral, is likely to limit most farmers' access to loan because most formal and informal credit institutions may require a collateral of high value before loan is granted. Therefore, the value of collateral was expected to have a positive influence on credit accessibility.

5.3 Policy Recommendations

Results from the probit model showed that, the value of collateral was statistically significant with a positive. According to Field and Torero (2004) the value of collateral increases with ownership rights, thereby improving credit access and vice versa. This implies that farmers with low value collateral will have limited access to credit. It is therefore recommended that the Fiaseman Rural Bank Limited require less collateral from farmers to help improve the credit accessibility of small-scale farmers.

High risk in agriculture was found out to be the most predominant challenge faced by the Fiaseman Rural Bank Limited in granting loan to farmers. Education positively and significantly influences loan accessibility and repayment Akpan *et al.*, (2013). However, about 31.66% of respondents interviewed in this study had no formal education. Small-scale farmers who borrow from the bank should be trained and given technical advice on the risk associated with agriculture in order to help reduce loan default rates among small-scale farmers and thereby improving their accessibility to credit from the bank.

According to Amonoo *et al.*, (2003), there is a negative relationship between interest rate and access to credit. This study also revealed that high interest rate charged on loans was a hindrance to most small-scale farmers in accessing credit from the Fiaseman Rural Bank Limited. Hence, lowering interest rates is recommended to increase the poor and small-scale farmers' demand and access to credit.

5.4 Suggestions for Future Research

It is also suggested that future research should investigate into details the type of collateral required for specific loans by banks before granting loans because in this study, it was revealed that the value of collateral positively influence credit access.

Future research should be carried out on different rural banks in different locations as the results of this study is limited to only the Fiaseman Rural Bank Limited and Prestea/Huni-Valley District in the Western Region of Ghana.

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APPENDIX

KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF ACCOUNTING AND FINANCE

TOPIC:

ACCESSIBILITY OF CREDIT FACILITIES AMONG SMALL-SCALE

FARMERS: A CASE OF FIASEMAN RURAL BANK LIMITED IN

PRESTEA/HUNI–VALLEY DISTRICT IN THE WESTERN REGION OF

GHANA.

This questionnaire is aimed at finding out the credit accessibility of credit facility to small-scale farmers by the Fiaseman Rural Bank Limited in Prestea/Huni–Valley District, Bogoso in the Western Region. All responses are however going to be treated as confidential. Please, provide appropriate responses in the spaces provided and tick () where appropriate.

SURVEY QUESTIONNAIRE FOR FARMERS AND OFFICIALS FROM FIASEMAN RURAL BANK LIMITED

SECTION ‘A’. Respondents Profile/ Characteristics

1. Name of respondent
2. Sex: Male [] Female []
3. Age (years):
4. Marital Status: Single [] Married [] Divorced [] widowed []
5. Highest Educational Attainment: None [] primary [] JHS [] SHS [] vocational [] college []

6. Number of household members:

7. Average annual household income (Gh Cedis).....

Below 5,000 [] 5,000-15,000 [] 15,000- 25000 []

25000-35,000 [] above 35000 []

SECTION 'B'. Respondents Farm Profile/ Characteristics

8. Farm Size (hectares)

9. Farming experience in years.....

10. Farm Tenure: owner tenant [] share tenant [] both owner and share tenant []

11. Number of extension visits.....

SECTION 'C'. Small-Scale Farmers Awareness of Credit Facilities in the District.

12. Are you aware of institutions giving credit facilities to small-scale farmers in the area? Yes [] No []

13. What is the distance of the nearest lending/financial institutions? (In kilometers)

1-5 [] 6-10 [] 11-15 [] 16-20 [] above 20 [] don't know []

14. Have you ever benefitted from any loan facility of the bank?

Yes [] No []

15. If yes, how many times have you benefitted?

16. How much did you last received as loan from the bank?

once [] twice [] thrice [] above thrice []

17. Do you have any special training or have you attended any workshop on farm management? Yes [] No []

18. If yes to question 6 above, what was the training about?

Production [] marketing [] farm risk management []

Others (specify).....

19. Were you deprived of adequate credit when you applied for loan?

Yes [] No []

20a. Were you required to provide any form of collateral before loan was granted to

you? Yes [] No []

20b. if yes, what was the value the collateral required?

.....
.....
.....

21. Do you have any outstanding loan to service? Yes [] No []

22. How much does the financial institution charge as interest rates on loans applied?

.....

**SECTION 'D'. The Supply and Demand side perspective on the Challenges
faced in accessing and granting of credit services in the District**

23. Why did you borrow from the financial/lending institutions in the area? More
favorable terms [] easier formalities (i.e. short period and less application fees) []
little emphasis on collateral [] flexible payback (i.e. longer repayment period) []
above 20 [] easier to get a loan [] lower interest rates []

others

24. Are you a member of any farmers association? Yes [] No []

25. How many days do you need to receive loan from financial institutions after

application has been submitted?

Please rate the following challenges faced in accessing credit (farmers only)

| Challenges | Strongly agree (1) | Agree (2) | Indifferent (3) | Disagree (4) | Strongly Disagree (5) |
|------------------------------------|-------------------------------|----------------------|----------------------------|-------------------------|--------------------------------------|
| High interest rates | | | | | |
| Lack of collateral requirement | | | | | |
| Cumbersome procedures | | | | | |
| Unrealistic Terms and conditions | | | | | |
| Reduction in loan amount requested | | | | | |

26. What are the requirements for obtaining a loan from the credit you offer to small-scale farmers?

.....

27. What is the maximum amount that the farmer can borrow?

.....

28. What rate of interest do you charge?

.....

29. How long do you allow you borrowers to repay the loans?

.....

30. How do you collect the payments from the loans?

.....

.....

.....

31. How long does it take a prospective borrower to receive his/her credit after he/she has applied?

Please rate the following challenges faced in granting loans *(for management only)*

| Challenges | Strongly agree (1) | Agree (2) | Indifferent (3) | Disagree (4) | Strongly Disagree (5) |
|---------------------------|---------------------------|------------------|------------------------|---------------------|------------------------------|
| Staffing problem | | | | | |
| Lack of logistics | | | | | |
| High risk in agriculture | | | | | |
| Loan default | | | | | |
| Unfaithfulness of farmers | | | | | |

SECTION “E” The Factors that Influence Farmers’ Access to Credit in the District.

The following variables will be use to find the Coefficient and the Marginal Effect of the various farmer’s in the district.

| Variable | Coefficient | Marginal Effect | P>Z |
|---------------------|-------------|-----------------|-----|
| Age | | | |
| Gender | | | |
| Marital status | | | |
| Educational level | | | |
| Family size | | | |
| Extension visits | | | |
| Farm Size | | | |
| Loan size | | | |
| Interest rate | | | |
| Frequency of loan | | | |
| Experience | | | |
| Income | | | |
| Household head of | | | |
| Value of collateral | | | |
| Constant | | | |

