



THE ROLE OF RURAL BANKS IN AGRICULTURAL DEVELOPMENT IN GHANA. A CASE STUDY OF AVENOR RURAL BANK IN AKATSI DISTRICT

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Keywords

Agricultural Development, Credit, Ghana, Micro Credit, Poverty, Policies, Rural Banks,

Abstract

This article examines the operational policies of the rural banks in making credit facilities available to small-scale farmers, to assess the contribution of the rural banks towards agricultural development in their areas of operation, to identify the credit beneficiaries of the rural bank and assess the adequacy of the credit, to examine the demand and use of agricultural credit in the study area, to offer suggestion and make recommendations that promote effective credit operation.

1 Introduction

Agriculture is the mainstay of the Ghanaian economy (Tetteh, 1994: 3). According to Diaw 1981, various governments of Ghana have always included the development of agriculture in their development plans. They have recognized that agriculture development is a pre-requisite for effective take-off in the country's economy. However, very little has been made to make this conception a reality. This has led to food shortage in Ghana (Ibid).

The Problem Statement: The rationale behind the Rural Banking Scheme established in 1976 is to make credit available to about 80 percent small-scale farmers in Ghana. This is due to the diagnosis of the problem of lack finance to procure the necessary inputs to increase production. This scheme was to help farmers increase output which will alleviate poverty, increase income, ensure food security and eradicate hunger and provide raw materials to feed local industries.

Nevertheless, according to GPRS I, about 59 percent of the small-scale farmers are susceptible to poverty, hunger, vulnerability and exclusion and as well as the Ghana's overdependence on import of food crops which would have been produced by these farmers etc. This has motivated this research to identify the roles that these rural banks are playing in making credit available to these farmers and possible to make recommendations for a vibrant credit delivery to increase the productivity of these farmers to alleviate poverty leading to the attainment of middle-income status by 2015.

The objectives of the study were; to examine the operational policies of the rural banks in making credit facilities available to small-scale farmers, to assess the contribution of the rural banks towards agricultural development in their areas of operation, to identify the credit beneficiaries of the rural bank and assess the adequacy of the credit, to examine the demand and use of agricultural credit in the study area, to offer suggestion and make recommendations that promote effective credit operation.

2. Literature Review

The review of agricultural policies in Ghana has shown that there has not been any serious attempt at improving agriculture in Ghana because the modernizing capabilities of the peasant farmers have not been recognized.

During the colonial period, serious attention was focused on cash crops and cocoa to feed the home country of the colonial regime. Efforts at food production were therefore, minimal.

After the independence, the new government, obsessed by the deterministic view of economic history, saw modernization in mechanization and industrialization- including the industrialization of agriculture. Alien techniques of production were implanted in the domestic economy, and the results have been disastrous for Ghana.

The NLC/Busia regimes could not break away from Nkrumah's socialist orientation and continuity rather than change characterized policies from February, 1966.

The NRC adopted full swing to command economy. They believed in "operations" and "ad hoc"-measures which were not to find a lasting solution to the food problem. They only aggravated the food situation in the country.

The PNP, under Dr. Limann, had been drowned in a web of inconsistency. It is even hard to believe that agriculture is the top priority of the government. In many case the 2-Year agriculture program had gone the way others had gone before it. The food problem is still with Ghana, perhaps in worse forms.

The NDC, under Rawlings, has been radical. It was influenced by the global economic trends and it aimed at correcting the post setbacks.

Although all these plans have aimed at increasing agriculture productivity, they have merely been national place broken into different sectors of the economy. All attempts at food production have been piecemeal

and never really directed at the roots of the problem. What is said or written is actually different from what is done.

A quest for prudent policies to resuscitate the sector has resulted in the creation of The National Investment Bank and Agricultural Development in 1963 and 1965 to assist in the modernization and/or mechanization of agriculture in the country. However, collateral security constraint small-scale farmers who form the 80% of the agricultural sector and resulted in food shortage, collapse of industries, hunger and poverty.

The small-scale farmers are left to the mercy of informal sources of credit (friends, relatives, landlords etc) who grant them short term loans that are economically unviable to increase output. The farmers may or may not pay interest depending on the level of relationship between them. Where they have to pay interest, it is very high.

This had mooted the establishment of Rural Banking Scheme in 1976 to make credit available to these small-scale farmers in Ghana. These banks do not request collateral security but form co-operatives for farmers cultivating between one to three acres of land, producing specific crops and using traditional technology of farming.

In the light of this, poverty, hunger, food importation, misery, collapses of industries due to inadequate raw materials still persist.

3. Data Analysis and Discussion of Results

Data from the field were collected from the primary and secondary sources. Depending on the resources available to the researcher, all the beneficiary farmers were interviewed to understand the situation on the ground to improve credit delivery and agriculture development in Ghana. The data obtained were analyzed using mainly descriptive techniques and statistical tables.

Table 3.1 CreditDistribution to Small-Scale Farmer

Credit Institution	Year	Credit to Agriculture GH¢	Credit to Small-Scale Farmers GH¢	Applicants	Beneficiaries	Percentages
Avenor Rural Bank	2005	68,546.45	68,546.45	300	250	83.3
	2006	66,983.20	66,983.20	320	203	63.4

Source: Author's Field Survey, April 2009.

Table 3.3 Times Spent in Receiving the Loan

Time Spent in Receiving Loan	No. of Respondents	Percentage
Within one Month	170	83.74
Within Two Month	33	16.26
Total	203	100

Source: Author's Field Survey, April 2009.

Table 3.4 Credit Disbursement

Purpose	No. of Respondents	Percentage
Purchase Inputs	14	6.90
Hire labor	78	38.42
Purchase Inputs/ Hire labor	28	13.79
Pay loans from other sources	53	26.11
Support Family	30	14.78
Total	203	100

Source: Author's Field Survey, April 2009.

Table 3.7 Crop Cultivated by the Farmers

Crops Cultivated	No. of Farmers	Percentages
Maize, Cassava and Vegetables	93	45.80
Maize and Cassava	48	23.64
Groundnuts and Maize	26	12.80
Cassava and Groundnuts	8	3.94
Vegetables	11	5.42
Groundnuts	17	8.40
Total	203	100.00

Source: Author's Field Survey, April 2009.

4. Findings and Recommendations

It was identified that the Avenor Rural Bank disburse the entire loan earmark for particular year to the farmers. However, the bank satisfies only 83.3 percent and 63.4 percent of the applicants in 2005 and 2006 financial years respectively. According to the project officer, the reduction is due to low rate of recovery (i.e. 3.45) for the 2005 financial year. However, the farmers' complaint of late receipts of the loan and lack of storage facilities which compelled them to sell the produce at uneconomic prices which led to low income, low investment and low savings.

The bank is advised to learn from the operation of the Atwima Rural Bank and allow the farmer to use their farms as collateral to access the loan and pay it at the end of every crop season. The bank should provide the farmers with storage facilities if affordable to store the produce to attract high prices in the market before selling them. Should it be expensive, the bank should buy the produce from farmers and store them for sale when the produce attracts high prices.

The study also revealed that the loans are inadequate to meet the production cost of the farmers. The inadequacy of the loan according to the Project officer is due to the regulation of the Bank of Ghana to grant 38 percent of the total deposits as loan and use 52 percent of the deposits to buy government shares and bonds and the 10 percent for reserves.

In 1981, Diaw recommended that the rural banks should take into account the advantages of providing credit in kind for purchased inputs. This would relieve the small holder of further transactions with which he may be unfamiliar and provide the bank with some assurance that the credit is used for the purposes intended. This credit must be timely as it will prevent the farmers from diversion and loss.

Subjecting the problem to critical analysis, it is recommended that the economy and lifestyle of Ghana is dependent on agriculture. It is the major employer of her population; contribute massively to her foreign exchange, supplier of food and raw materials for the population and industries, provider of import substitution to solve the balance of payments situations in the country. However, the performance of this sector is inhibited by finance even though there are institutional sources of credit from the commercial and development banks; they are not readily made available to the small-scale farmers who produce the bulk of the country's food requirements.

In 1976, the initiative that was adopted to bring credit to the doorpost of these small-scale farmers in the rural areas to increase agricultural productivity is establishment of the rural banks.

This study was carried out with the main focus on assessing the role of Avenor Rural Bank in making credit available to small-scale farmers in the study area for agricultural development. Problems were identified and recommendations were made to promote credit delivery and agriculture development in Ghana.

Finally, for agriculture to make any meaningful improvement in Ghana, government policies aimed at promoting the sector should be handed out to the rural banks to implement.

Acknowledgement

The author is grateful to all the respondents to the questionnaires, the authors of secondary data and the

Global Scientific Journal for accepting to add our work to their journal to showcase of findings to the world. This research was funded by the author.

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