TOPIC - THE IMPACT OF RURAL BANKING ON RURAL FARMERS IN GHANA: A CASE STUDY OF THE PREMIER RURAL BANK

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Abstract- This study examined the impact of rural banking on rural farmers in Ghana. The convenient sampling procedure was used to select thirty (30) farmers and four workers at the rural bank studied for the research. Regression analysis was the major statistical tool used to analyze the data collected from the rural bank using SPSS and Microsoft Excel software for the analysis. From the research, it was found out that the higher the interest rate, the lower the demand for loans. Though this did not depict in the secondary data collected from the Premier Rural Bank. In addition, high interest rates cripple infant farmers. That is, higher interest rates tend to have an adverse effect on the development or growth of the farmers or businesses in Ghana since they depend very much on availability and accessibility to funds at reasonable or favourable rates. Lack of credit education and collateral poses a problem to the farmer.

Key Words- Rural Banking, Farmers, Interest rates Regression Analysis

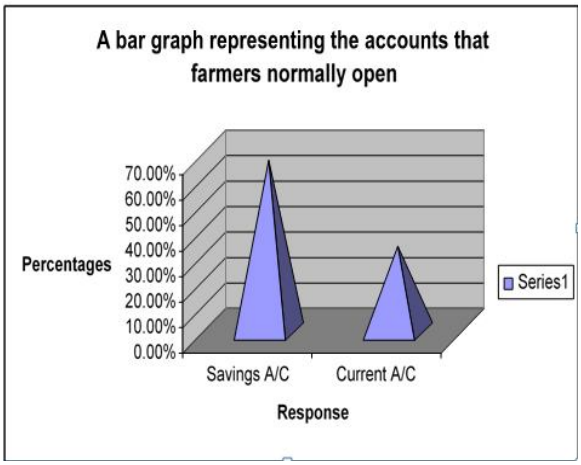
I. INTRODUCTION

The advent of rural banking dates back to the early 1970s where commercial banks, credit unions, money lenders andSusucollectors had persisted to be the major operators in therural financial market (AsieduMante 2011). Kwapong (2004) is of the opinion that, theinstituting of rural banks was verynecessary sincecommercial banks were resolute to range their networks to most of the countrysideswho were much involved in agriculture.

Ghana, like other sub-Saharan countries, has traditionally experienced low productivity, low-income levels, low domestic savings, unemployment, and malnutrition. In 1976, the Ghanaian government, through the Bank of Ghana, established Rural Banks to channel credit to productive rural ventures and promote rural development. Rural development is a strategy intended to improve the economic and social life of the rural poor (World Bank 2015). Rural credit has been used in Ghana to enable the poor to weather shocks without selling the productive assets the poor need for protection against future shocks (FAO 2014).

In an attempt to alleviate some of these potential problems, several institutional and non-institutional sources of rural credit have been made available to Africans. It is hoped that, in the long term, credit will enable the poor to invest in agricultural and non-agricultural productive assets, to adopt new technologies and farming methods, and to minimize environmental degradation. Rural credit has been used in Ghana to enable the poor to weather shocks without selling the productive assets the poor need for protection against future shocks (FAO 2014).

According to the Moshi Conference (1969), the purpose of rural development is "a rise in the standard of living and favourable changes in the way of life of the people concerned." However, there is some anecdotal evidence that many beneficiaries of Rural Bank credit are salaried workers, whose likelihood of loan repayment is believed to be better than that of the small-scale rural producer. There is also some evidence that loan recipients use the credit for purposes other than those for which the loans are intended.



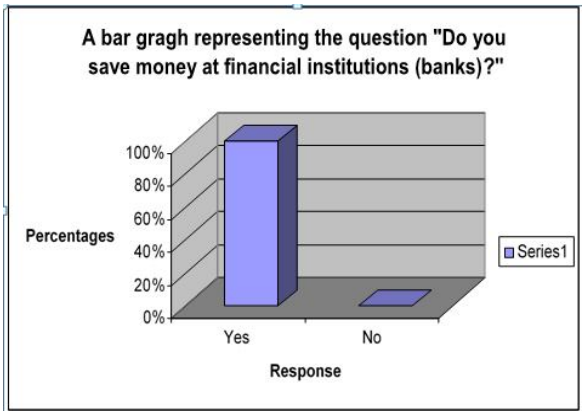
More farmers in the rural areas do have problems in dealing with the rural banks or the credit unions. Some of these problems include preparing viable business proposals and collateral securities that the banks do demand. Meanwhile, the majority of the farmers are not well educated in order to plan or write their own business proposals. In addition, it becomes very difficult for farmers to secure loans because of the collateral securities demanded by the banks. Some of the banks even look at the scale of the farm before granting loans.

The most alarming problem that the farmers do face is the high interest rates or bank charges. It is very difficult these days for the farmers to borrow money from the rural banks because of the high interest rates. Most of the farmers do even end up by selling their lands or assets in order to pay the loans they have borrowed.The researcher seeks to examine the impacts of rural banking on rural farmers;

(i) to find out the importance that rural banks have on farmers at Abokobi.
(ii) to find out the impact of rural banks on the rural farmers.
(iii) to find out whether rural banks help all the category of farmers in the rural areas.

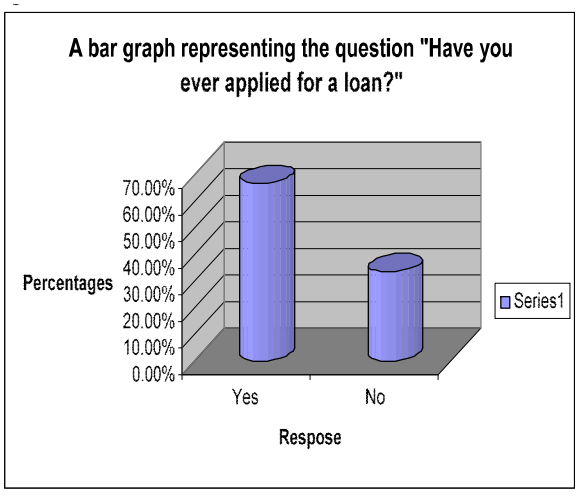
II. FINDINGS AND DISCUSSIONS

The target population were farmers in the Abokobi area, specifically, experienced farmers from the area. The convenient sampling procedure was used to select thirty (30) farmers for examination. The research revealed the following.
This study examined the impact of rural banking on rural farmers in Ghana. It was found out that all the farmers do save their monies at the financial institutions.

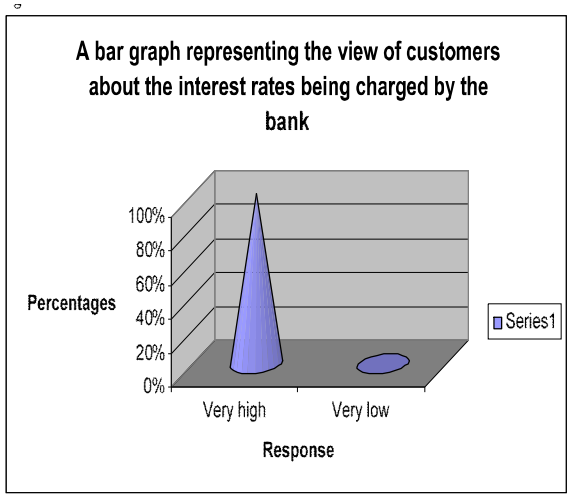


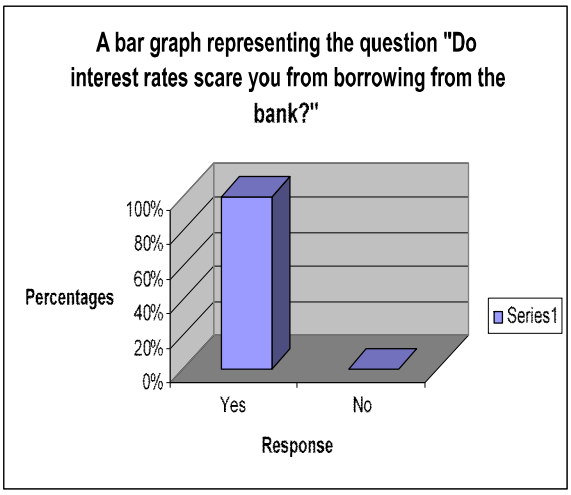
In addition, the major type of account they do open is a Savings Account. 66.7 percent of the farmers have applied for a loan before.

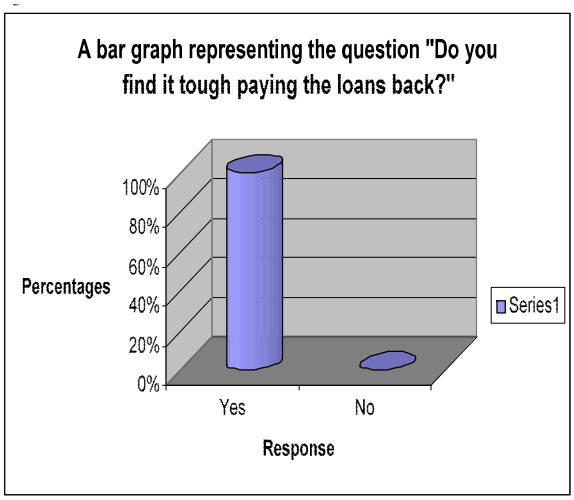
Again, 33.3 percent did not make an attempt to apply for a loan because of the fear ofhigh interest rates.



Some of the requirements needed to borrow money include a viable business proposal or a business plan, at least two guarantors who are salary workers and collateral securities. The reason why the banks do ask for these items was identified as a waytoprotect the interest of the bank. It was also topropel customers' commitment to the payment of the loan.
In this regard, respondents perceived the interest rates to be higher for the small or peasant farmers to cope with. It was revealed that most of these farmers who borrowed money from the bank, found it difficult to pay back the loans. This resulted in the sale of their assets and the collapse of their farms.





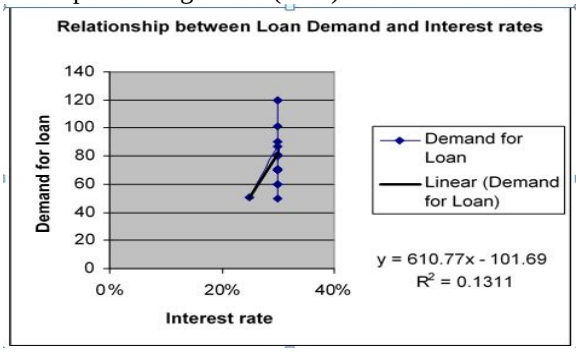


Furthermore, the regression analysis showed that there was no specific relationship between the interest rate and the demand for loan.

The major difficulty facing the banks include the rise of non-performing loans especially to the non-formal sectors such as traders and farmers.

Concisely, factors determining interest rates of these banks are:

- the forces of the supply and demand for credit and
- Inflation (cost of living).
- The bank of Ghana Prime Rate.
- Non-performing Loans (NPL) ratio.



CONCLUSION AND RECOMMENDATIONS

The findings of this study show that, the higher the interest rate, the lower the demand for loans. In addition, high interest rates cripple farming businesses. That is, higher interest rates tends to have an adverse effect on the development or growth of farming or businesses in Ghana since they depend very much on availability and accessibility to funds at reasonable or favourable rates.

RECOMMENDATIONS

Based on the findings of the research, the following suggestions or recommendations are made:

- The banks should intensify the education it gives to its loan clients especially the farmers. This will ensure that clients are taken through properutilization of credit, record keeping and saving habit and also inform the clients about the need to avoid the diversification of credit for otherpurposes other than the purpose for which the credit was secured.

- The Banks should review their credit policy to adequately cover advances to rural farmers. This will help the farmers to overcome the loan collateral challenge.

- In addition, The Prime Rate charged by the central bank should be reduced and maintained to allow the other financial institutions to also reduce their interest rates.

- Farmers should be educated on how to establish, manage, sustain and expand their farms.

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