



Tropentag, September 17-19, 2013, Stuttgart-Hohenheim
“Agricultural development within the rural-urban continuum”

Determinants of Farmers Participation and Credit Constraints in Agricultural Finance Programs: Evidence from Nkoranza Districts of Ghana

COLLINS ASANTE-ADDO, JONATHAN MOCKSHELL, MANFRED ZELLER

University of Hohenheim, Inst. of Agricultural Economics and Social Sciences in the Tropics and Subtropics, Germany

Abstract

Since 2005 was declared as the international year of microfinance, there has been renewed interest in making rural finance accessible to farmers. Yet, agricultural finance especially for smallholder farmers is still lacking in developing countries. Financial institutions consider smallholder farming as risky, low returns from farm output, untimeliness of loan repayment, high transaction cost and existence of poor infrastructure in rural areas where farmers reside. Microcredit plays a vital role in agricultural development and poverty alleviation. Increasing microcredit to farm households especially the poor can contribute to enhancing agricultural production and improving incomes. However, farmers' access to rural finance partly depends on their participation in credit programs of micro finance institutions. This paper examines farm households' reasons for joining and not joining microcredit programs. It further determines the factors influencing farm households' participation and probability of being credit rationed by microcredit programs. The analysis is based on a survey of 150 farmer households in the Nkoranza districts of Ghana using a structured questionnaire. The study used Garrett Ranking Technique to analyse farm households' reasons for joining or not joining microcredit programs. The probit and Heckman probit model with sample selection were also used to identify the factors influencing farm households' participation and their probability of being credit rationed by microcredit programs respectively. The results show that farmers joined microcredit programs mainly to get loans for agricultural purposes and to mobilise savings. The fear of loan default was the major reason that prevented some households from joining. Female headed farmers, farmers with higher education and those in cooperatives were more likely to participate in microfinance programs. The results also reveal that wealthier households and farmers in cooperatives were less likely to be credit constrained. This study therefore recommends the need to encourage farmers to undertake alternative livelihood activities to boost their income. Also implementing literacy programs to educate farmers with no or less formal education and encouraging them to join cooperatives will enhance their participation in agricultural finance programs.

Keywords: Agricultural finance programs, credit constraints, farmers participation, Ghana