Ghana's rice farmers need finance for new technologies, but banks don't trust them

By Philip Tetteh Quarshie and Evan Fraser

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New farming technologies have the potential to improve livelihoods and food security in sub-Saharan Africa. Better seed varieties, soil fertility practices and pest management can all increase productivity. A United Nations Development Programme report says growth in the region's agriculture is more effective than other economic sectors when it comes to ending hunger and reducing poverty.

Source: Suwit Gaewsee-ngam © 123RF.com

Steps have been taken over decades to enhance farmers' access to improved seeds and technologies that are essential to stimulate agricultural transformation on the continent. The efforts were at both local, national and regional levels by government and donors.

But studies continue to show that the adoption rate of modern technologies is low among the region's farmers. This situation has resulted in poor agricultural productivity, high-levels of food insecurity and rural poverty. Over 65% of the households in sub-Saharan Africa are mainly smallholder farmers, many are poor and vulnerable.

Smallholder farmers in the region have a common problem. They tend to lack access to the finance they need to adopt modern technologies. Finance could be in the form of loans or credit.

Using the case of rice farming in Ghana, we conducted a study to understand the challenges smallholder farmers face in accessing loans. We wanted to find out if this was preventing them from adopting modern technologies, and whether these technologies would improve their productivity and incomes.

We found that banks and financial institutions don't trust smallholder farmers. They relay their mistrust by, for example, requesting outrageous collateral, a high sum of savings capital, and a high-interest rate for agriculture loans. There are also usually long delays in accessing any funds.

We suggest mechanisms to improve access to finance that would help farmers produce more rice.

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Our research

We interviewed 100 smallholder rice farmers in the Shia-Osuduku district in the Greater Accra region of Ghana. In focus group discussions and interviews, we asked about access to credit and loans, and how this influenced their use of modern production technologies.

We focused on rice farmers because rice is the second most important food crop in Africa. Rice is also a significant source of income for rural farmers. In Ghana, rice is the second most important cereal and is fast becoming a cash crop for many farmers. Rice demand in Ghana is projected to grow at a compound annual growth rate of 11.8%.

At the moment, most rice farmers are planting old rice variety seeds using broadcast seeding. These give poor yields compared to those using modern technologies. Such technologies include new rice varieties, a high-capacity thresher for rice, a mobile application called RiceAdvice that provides tips on rice farming, mechanical weeders that could reduce labour in rice production, and localised farmer advice for nutrient management.

These farmers are optimistic that if they can access these technologies, they will obtain better yields and improve livelihoods but said during a focus group discussion:

> “ *We are poor farmers and cannot afford these technologies unless we get some financial support from government or we get loans from banks to invest in these technologies.* ”

Another farmer said:

> “ *If you are lucky and you get money from the bank on time, and you invest it in modern technologies, you are sure of a good yield.* ”

Our study revealed that the greatest obstacle to access loans from banks and village savings companies by farmers is the inability of smallholder farmers to pay back loans when the harvest fails or they suffer post-harvest crop losses. A situation that is likely to be reduced to near zero when farmers adopt modern rice technologies that have been proven to be climate-smart as well.

These financial institutions, usually village savings and loan group, microfinance companies or rural banks don’t trust that farmers will be able to repay loans. So they use certain tactics to avoid granting loans. For example they are unwilling to share information about innovative financial products. Or they insist on farmers having huge amount of saving capital before borrowing. Some financial institutions demand outrageous collateral and multiple guarantors for credit. Others impose high interest rates beyond the 31% average interest rate set by the Bank of Ghana in 2017.

Some institutions erect unnecessary bureaucratic delays to process loans for smallholder farmers.

Microfinance companies and rural banks are more willing to approve credit facilities and loans to non-agricultural sectors than to smallholder farmers. Nevertheless, our study shows that farmers who invest in modern technologies such as improved seeds and fertiliser see an increase in yields and household income, and are able to pay back their loan on time.

Overall, 88% of the rice farmers interviewed said their inability to adopt modern technologies to improve productivity and achieve household economic well-being was connected to their lack of access to loans to invest in these technologies.

What we recommend

To improve smallholder farmers' access to loans, government must provide support for the sector. It can introduce agriculture insurance policy systems to reduce the risk of non-payment of loans if harvests fail. This is essential to addressing mistrust by financial institutions of smallholder farmers.

Smallholder farmers should also develop a saving culture and join farmer group associations for collective bargaining for loans from financial institutions.

Innovative solutions such as a warehouse receipt financing system that allows farmers to deposit their harvest in a certified warehouse and then be issued with a document called warehouse receipt that they can use to access loans from financial institutions, would address two barriers: lack of savings and lack of collateral and guarantors.

The banks and other financial institutions must employ innovative ways to reduce the bureaucracy in processing loan facilities. They should make more effort to educate farmers about their processes and requirements to acquire loans before the onset of the rainy season. This is critical to enable smallholders to prepare adequately before applying for credit.

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