



**FINANCIAL INCLUSION IN GHANA:
HOW HAS THE USE OF AKUAFO CHEQUES
INTRODUCED COCOA FARMERS TO BANKS?**

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ADWOA MENSIMA MACNALLY-BOATENG

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Members of the Examining Committee:

Dr. Georgina M. Gomez (Supervisor)
Dr. Erhard Berner (Second Reader)

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This document represents part of the author's study programme while at the Institute of Social Studies. The views stated therein are those of the author and not necessarily those of the Institute.

Inquiries:

Postal address:

Institute of Social Studies
P.O. Box 29776
2502 LT The Hague
The Netherlands

Location:

Kortenaerkade 12
2518 AX The Hague
The Netherlands

Telephone: +31 70 426 0460
Fax: +31 70 426 0799

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List of Acronyms

AAMC	Akuaf Adamfo Marketing Ltd
ABL	Adwumapa Buyers Ltd
AfDB	African Development Bank
AFI	Alliance for Financial Inclusion
AGL	Armajaro Ghana Ltd
ARB	Association of Rural Banks
BoG	Bank of Ghana
BUSAC Fund	Business Sector Advocacy Challenge Fund
CMB	Cocoa Marketing Board
COCOBOD	Ghana Cocoa Board
FAO	Food and Agricultural Organisation
FCL	Federated Commodities Ltd
GCCSFA	Ghana Cocoa Coffee and Sheanut Farmers Association
IFAD	International Fund for Agricultural Development
KKL	Kuapa KoKoo Ltd
LBC	Licensed Buying Company
OLAM	OLAM Ghana Ltd
PBC	Produce Buying Company
RFSP	Rural Financial Services Project
TGL	Transroyal Ghana Ltd

Abstract

Financial inclusion is a developmental policy, which is increasingly gaining importance in many countries in the world because it can bring many welfare benefits. The World Bank estimates that globally about 2 billion working adults do not use formal financial services. It is to help address this phenomenon that the World Bank Group and a coalition of partners in 2015 made commitments to help promote financial inclusion, and accelerate universal financial access by the year 2020. Arguably, extending an individual's access to finance is the first step towards building an enhanced standard of living. More importantly, financial inclusion is key in upgrading the living conditions of poor farmers and other vulnerable groups such as women and the youth. In Ghana, many more people live in rural areas than in cities. Thus, an increased growth of the rural market will ultimately lead to a growth in the national economy. It is for this reason that extending financial services and lending opportunities to rural households is essential. Literature on the importance of financial inclusion indicate that factors such as levels of income, inequality and literacy move closely with levels of human development. This study endeavours to bring to the fore the impact that the availability of basic or low cost bank accounts to cocoa farmers in rural areas of Ghana can have in promoting the use of banking services in particular, and financial inclusion in general.

Relevance to Development Studies

Countless research work on financial inclusion point out that extending access to financial services is key in the fight against poverty. In many sub-Saharan African countries, women are less likely than men to have a bank account, and hence less likely to borrow from a formal financial institution. Consequently, rather than saving money in a bank they depend on storing cash under the proverbial mattress. It is an undeniable fact that in some cases banking outlets may be few or just unavailable in rural areas, but sometimes, low income earners think their levels of income does not qualify them to operate bank accounts. This research paper aims to contribute knowledge to the development agenda of providing financial access to men and women to enable them save money, access a credit facility or carry out any other transaction to enhance their financial lives.

Keywords

financial inclusion, cocoa, Akuafu cheque, rural banks, farmers, rural areas

Chapter 1

Cocoa farmers and the use of Akuafu cheques

One common characteristic of farming in many African countries is that most farmers practise small-scale subsistence farming. Thus, income earned is relatively low. These farmers therefore do not operate bank accounts in order to save or access a loan facility.

Ghana's economy is heavily dependent on earnings from the export of cocoa. According to the Ghana Cocoa Board (COCOBOD), the cash crop generates approximately US\$2.0 billion in foreign exchange annually. This represents a significant contribution to government revenue. It is for this reason that the availability of reliable financial services in rural areas to support cocoa farmers who need access to credit as well as other banking services is vital for the growth of the national economy.

Many parts of rural Ghana, until the establishment of rural banks did not have access to financial institutions. Most commercial banks often operate in big towns or rural locations with large cocoa farms or mining companies. Thus generally farmers, particularly small-scale farmers, do not operate bank accounts. Apart from the fact that this may be due to lack of access to banks and/or the high cost of financial services, in some cases the farmers themselves prefer to receive cash rather than cheque as a form of payment for their produce. Without easy access to banking facilities, payment for farm produce by cheque is perceived as a form of inconvenience as it may take the farmers several days or in some cases, weeks to have access to the cheque proceeds.

The use of Akuafu cheque (or farmers' cheque) in the payment of cocoa farmers who opt to be paid through an account rather than cash, has introduced farmers to the formal banking system. This is quite significant, particularly in a country where generally farmers do not use banks. To be paid by this method, a cocoa farmer must necessarily have a bank account. The use of Akuafu cheque

has therefore resulted in the opening of bank accounts in rural banks by many cocoa farmers who reside in the rural areas.

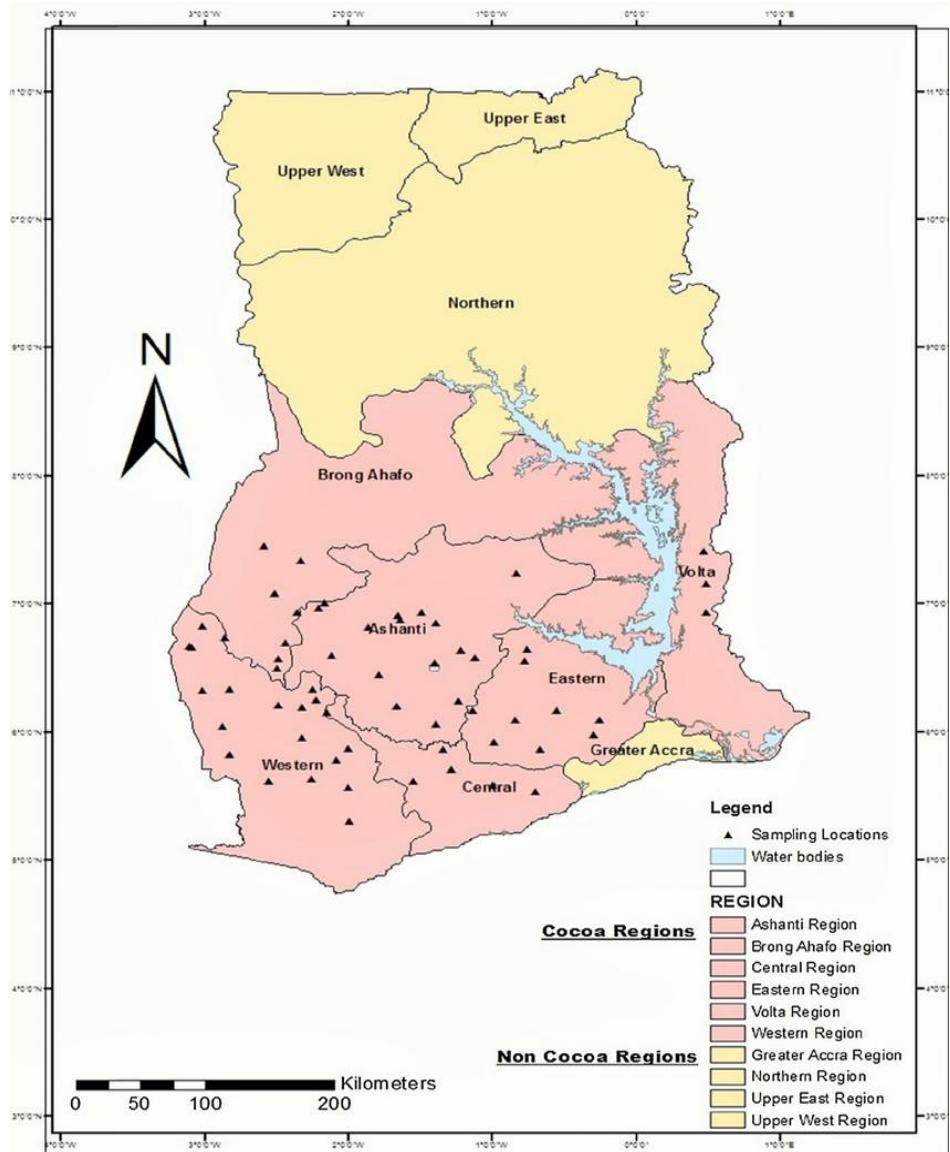
The first rural bank in Ghana called the Nyakrom Rural Bank was established in 1976. The underlying concept behind the establishment of the rural bank was that it operates as a unit bank. Factors which limited the ability of these unit banks to operate in remote parts of the country at the time were the lack of infrastructural facilities such as electricity, access roads and assurance of an adequate market for its services to enable the bank break-even at the minimum. Others were ineffective management, inexperienced board members who did not have the required banking and financial knowledge, low financial literacy and the lack of a relatively safe and secure premises in which the bank could carry out its operations. Consequently, even some large-scale cocoa farmers whose farms were in rural parts of the country without banks received payment for their produce in the form of cash.

Even though most farmers practise small-scale subsistence farming and therefore often receive low incomes, the situation is different with regards to cocoa farmers. This is mainly because cocoa, which is a cash crop, comes with relatively high earnings for the farmers. It has been observed over the years that the cultivation of cocoa has led to a steady decrease in the poverty rate among cocoa farmers from a high of 60.1 percent in 1991/92 to 23.9 percent in 2006 (Coulombe and Wodon, 2007).

Rural banks are permitted by the Central Bank to open branches in economically viable locations that fall within thirty kilometres of its head office. This is as a result of the fact that the initial objective of limiting the rural bank's ability to branch out affected its profitability. Some rural banks collapsed because of their inability to break-even especially if the rural area where they were established did not have enough economic activities to support the bank's operations.

Map 1 below is a map of Ghana showing the cocoa growing regions.

Map 1: A map of Ghana showing the cocoa growing regions



Source: <https://www.researchgate.net>

1.1 What is an Akuaflo cheque?

Akuaflo cheque means farmers cheque and the term Akuaflo was adopted to distinguish Akuaflo cheques from the ordinary cheque leaflets that are issued by commercial banks to their customers. Akuaflo cheque was introduced in Ghana by COCOBOD in the 1982/83 cocoa season. Under this method of payment, farmers were issued with an Akuaflo cheque by cocoa purchasing clerks against

a general account for cocoa farmers in a participating commercial or rural bank called the Akufo Account in return for cocoa beans.

1.2 Research problem and objectives of the research

In many sub-Saharan African countries including Ghana, farmers do not operate bank accounts. In most cases, the main reason for this is the lack of access to banking institutions. In Ghana, promoting financial inclusion is considered the responsibility of state owned financial institutions. However, it is important that banking institutions in the country (whether privately owned or publicly owned) take a lead role in promoting financial inclusion. In particular, regulators of financial institutions must lead the way in introducing legislation that will require the institutions they regulate to extend their operations to as many corners of the countries in which they operate as possible, rather than targeting economically viable towns and cities only.

There are a number of studies on usage of banking services in sub-Saharan Africa. However, relevant data relating to Ghana often do not indicate specifics on access and/or the use of bank services by farmers in particular, as well as the extent of financial inclusion. This study therefore aims to contribute to existing literature that will draw the attention of policy makers to the fact that if a satisfactory level of financial inclusion is in place in any community, it boosts financial intermediation and encourages the culture of savings.

The overall objective of this research is to examine the extent to which financial inclusion has been enhanced among cocoa farmers by the use of Akufo cheques. To address the indicated objective, the study intends to find out whether cocoa farmers, be they literate or illiterate, who did not have access to any form of financial services in the past are now able to open bank accounts not only in commercial banks but also in rural banks to cash Akufo cheques. In addition, the study hopes to find out whether other banking services such as the ability to access to a loan facility or make savings are now available to farmers as a result of opening a bank account.

1.3 Research question and sub-questions

In order to address the overall objective, this study seeks to address the following research question and sub-questions:

In what ways has the use of Akuafio cheques as a form of payment for cocoa farmers enhanced financial inclusion of rural farmers in Ghana?

Sub-questions:

- What banking services do farmers use and for what? Has farmers' accessibility to basic banking services been narrowed?
- In what ways do banks attract cocoa farmers?
- What role do rural banks play in enhancing financial inclusion in unbanked locations of Ghana?

1.4 Research Methodology, Data Collection Methods and Analysis

The initial plan for the collection of primary data for this research was to obtain responses to a questionnaire via email from thirty rural banks in Ghana on their role in the use of Akuafio cheque as a means of payment for cocoa farmers. However due to the lack of feedback from the selected rural banks, a different method for data collection, namely a telephone interview and a questionnaire were adopted. These new methods were selected because they offered the researcher an opportunity to obtain feedback directly from selected respondents.

1.4.1 Selection of researchers and study areas

A questionnaire designed by this researcher was administered by ten research assistants in each of the cocoa growing regions of Ghana. The lead research assistant who is a graduate student in Accra contacted nine other colleagues who come from the selected cocoa growing regions, namely the Western, Central, Ashanti, Brong Ahafo, Eastern and Volta regions of Ghana. Being natives of the selected areas, it was expected that contacting farmers in communities there would be relatively informal. Some form of informality is often necessary to get rural farmers to freely express their opinions in their local language with a research assistant they see as one of them. In most cases, informality makes

the farmers more hospitable. As natives of the selected areas, the research assistants knew how to access the relevant farmers in order to obtain reliable data in a fast and cost-efficient manner.

1.4.2 Data collection methods

The focus of this research is the extent to which the use of Akuafu cheques as a means of payment for cocoa has opened up farmers' access to basic banking services, particularly in rural parts of Ghana. To gather primary data on the use of banking services for this study, a telephone interview and questionnaire were used. A telephone interview was used to obtain information from the office manager of the Ghana Cocoa Coffee and Shea-nut Farmers Association (GCCSFA). Questions asked centred around the role of the Association in promoting financial inclusion among farmers and meetings they (Association) regularly have with farmers and on behalf of farmers with key stakeholders in their industry such as COCOBOD, Licensed Buying Companies, the Banking Association and government. Other issues touched on were the availability of financial services to farmers, and challenges of cash crop farmers (particularly cocoa farmers).

A questionnaire was administered on one hundred cocoa farmers from the six cocoa growing regions of Ghana. In the collection of data, both large scale and small-scale cocoa farmers were selected as respondents using the snowball sampling method. Emphasis was placed on cocoa farmers who had willingly approached rural banks to open accounts in order to receive payment by Akuafu cheque. The method for the selection of respondents is important because it should be possible to make representations that relate to the population from the results obtained from a sample. One advantage of snowball sampling technique is that it needs fewer workforce compared to other sampling methods. In addition, the referral process of this method makes it possible to reach respondents that it may have been difficult to reach. Again, it is a relatively cost-efficient process. In the collection of data, this method was good in terms of cost and accessibility of farmers since the research assistants were natives of

the research areas, and therefore knew how to access the relevant farmers for reliable data in a fast and cost-efficient manner.

This researcher did not have direct control over the selection of respondents and therefore does not claim that the selected sample is a full representation of cocoa farmers in Ghana. In addition, the respondents were selected based on their willingness to participate in the survey. Consequently, the possibility that some particular categories of cocoa farmers projecting one objective or another may have been selected as respondents cannot be ruled out entirely. Nevertheless, the choice to interview respondents from all cocoa growing regions in Ghana was to ensure that different perspectives about accessibility to banking services and Akuafco cheque as a means of payment for cocoa produce were obtained.

In Ghana, the distribution of rural banks across the country is not dependent on cocoa production only, but the existence of other viable economic ventures. For example, as at March 2016 the highest cocoa producing region (Western), had thirteen rural banks whilst the second largest cocoa producing region (Ashanti) had twenty-six rural banks. The lowest cocoa producing region (Volta) had twelve rural banks. Thus, the researcher expected to see some regional differences in terms of how far cocoa farmers had to travel to access banking facilities to cash Akuafco cheques. These regional differences are discussed further in Chapter five of this study where the research findings are analysed.

It is worthy of note that a cocoa farmer is relatively better off in terms of monetary income when compared to a typical Ghanaian subsistence farmer who grows vegetables, fruit crops or other perishable agricultural products on a small scale. These categories of farmers do not usually have bank accounts. To enable the researcher obtain feedback that can be used to determine the extent to which financial inclusion has been enhanced as a result of the use of Akuafco cheque in the payment of cocoa farmers, a close-ended questionnaire with options for the respondent to select from was used. This method was adopted be-

cause it makes interpretation easier. The questionnaire is attached to this paper as Appendix 1.

1.4.3 Data Analysis

In order to obtain in-depth information about the use of banking services by cocoa farmers, the collected data were categorised in terms of the profile of the cocoa farmers, the operation of bank accounts and the use of banking services by cocoa farmers. Others were the use of bank accounts for Akuafio cheque payments, the savings and borrowing behaviour of cocoa farmers as well as the general views of cocoa farmers of bank services. This categorisation helped in generating the tables used in this study, address aspects of the research questions and provide explanations for the trend of affairs observed.

1.5 Organization of the study

This paper comprises seven chapters. The first chapter focuses on the introduction, research objective and questions as well as limitations of the study. Chapter two looks at the Akuafio Cheque system and the role of licensed buying companies. Chapter three is centred on the conceptual and analytical framework of financial inclusion. Chapter four examines the concept of rural banking and the role of ARB Apex Bank. Chapters five and six analyse the results of data gathered for this research paper. The final chapter, Chapter seven, is the concluding chapter.

1.6 Limitations of the study

Starting with the limitations of the data collection method, it is worth mentioning that with snowball sampling method the researcher does not have much control over who is selected. This is mainly because a respondent who is interviewed relies on previously selected ones. This means that if a large-scale farmer was interviewed, it was very likely that he would identify another large-scale farmer who could be interviewed. The same situation could occur if a small-scale farmer was interviewed. Thus one may not be able to fully guarantee that the sample selected is a full representation of all cocoa farmers.

Even though all selected respondents for this research had been previously informed about the impending visit of the research assistants, some of them still left for their farms on the scheduled interview dates without any notification that they will not be available. Thus, new appointment dates had to be scheduled, and additional funds and time committed for the re-visits. Again in some regions, convincing farmers to participate in the research project was slightly challenging. This according to the farmers was because they had previously participated in some research projects without observing any change in the problems they had been promised their participation would help to solve. Accordingly, this researcher will endeavour to communicate aspects of the research findings relating to the benefits of financial inclusion and the use of banking services to the GCCSFA to enable the Association educate its members on a wider scale.

Another limitation worth mentioning is that the selected sample of one hundred respondents used in this research was the largest number that this researcher could afford given the time available for the collection of primary data for this research. Therefore as previously indicated, the researcher does not claim that the number of selected respondents used in this research is a full representation of cocoa farmers in Ghana.

Despite the limitations encountered, it is the researcher's view that the issues raised about the use of banking services and financial inclusion in general will contribute in creating a policy recommendation that will enhance the use of Akuafem cheque, particularly with small-scale cocoa farmers. It is expected that the issues raised will also help in solving some of the problems currently hindering various attempts aimed at achieving financial inclusion. Apart from the use of primary data, information used in this research is complimented by the use of secondary data from sources such as COCOBOD, academic journals, the World Bank and the International Cocoa Organisation.

Chapter 2

The Akuafu Cheque System and the role of Licensed Buying Companies

This chapter discusses the Akuafu cheque system and how it works. This is followed by a review of Licensed Buying Companies (LBCs) and the role that they play in Ghana's cocoa industry.

2.1 The Akuafu cheque system

Prior to the introduction of Akuafu cheques in Ghana, COCOBOD was responsible for the purchase, marketing and export of cocoa products produced in Ghana, and cocoa farmers were paid by cash. The use of cash as a means of payment for cocoa farmers came with its own advantages and disadvantages. One advantage was that farmers got instant access to their funds. On the other hand, some farmers (particularly illiterate farmers) were cheated and paid less than what was due them. The purchase of cocoa as well as payment of famers was done through agents of the COCOBOD called cocoa purchasing clerks who were given cash to buy cocoa directly from farmers. This method of payment was however prone to abuse by the purchasing clerks as some of them either diverted the money they had been given for the purchase of cocoa into private accounts, paid the farmer less than what was actually due them or just absconded with the funds. As observed by Vigneri and Santos (2009), the Akuafu cheque system was introduced as a way of limiting cases of cheating by purchasing clerks and to improve the availability of credit in the rural areas.

According to the COCOBOD, the lack of motivation for farmers to enhance cocoa production led to a sharp fall in the output of cocoa beans from 450,000 tonnes in the 1960s to an average of 159,000 tonnes in the 1983/1984 cocoa season. In an effort by government to revamp the cocoa sector and encourage cocoa production to appreciable levels, a number of actions were taken among

which was the introduction of Akuafu cheque for the payment of cocoa farmers. As expected, the use of Akuafu cheques in the payment of cocoa farmers drastically reduced the problems associated with cash payments. Purchases from farmers were made through cocoa purchasing clerks under the supervision of COCOBOD, and this continued for a period of ten years until the liberalisation of the cocoa sector and introduction of private licensed buying companies in 1992.

In order to receive payment by Akuafu cheque, a cocoa farmer must have a bank account. Thus the introduction of Akuafu cheque in the 1982/83 cocoa season led to the establishment of many rural banks in Ghana, particularly in the 1980s. According to Nair and Fissha (2010), between 1980 and 1984 as many as 86 rural banks were established, bringing the total number to 106 by the end of 1984. As observed by Nair and Fissha (2010), one of the main reasons for this massive growth was the introduction of Akuafu cheque as a means of payment in cocoa growing areas of the country. Another reason for the rapid expansion was that the rural banking network was used to transfer and pay out salary as well as pensions to workers and retirees living in the rural areas. (Addo and Kwarteng (2012)).

2.2 How does an Akuafu cheque work?

The use of Akuafu cheque in paying cocoa farmers requires that the beneficiary open a bank account. Whereas opening an account in a commercial bank involves satisfying much more stringent requirements, cocoa farmers (whether literate or illiterate) can also open accounts in rural banks by providing a passport picture, an identity card and/or two guarantors to confirm the identity of the farmer. Most cocoa farmers in rural parts of Ghana are therefore able to open bank accounts in rural banks to receive payments for their cocoa produce through the Akuafu cheque.

However, if the farmer's output is small and there is no bank within his catchment area to enable him receive payment by cheque without stress, he will opt to be paid by cash. In Ghana, rural banks have measures in place that enable

potential illiterate customers to open and operate a bank account. Thus a cocoa farmer's level of education does not necessarily prevent him from operating a bank account. It is often for reasons of convenience when farmers choose to be paid by cash. As observed by Vigneri and Santos (2009), there are instances where the bank branches in the farmer's local area experience regular liquidity problems. Where problems of this nature prevail, farmers logically opt to be paid by cash. Nevertheless, whilst acknowledging the right of a farmer to choose how he wants to be paid for his cocoa produce, the GCCSFA has often received complaints from some large-scale farmers about the theft of produce from their cocoa farms by farm labourers who directly sell the cocoa beans for cash. Therefore, COCOBOD has been called upon severally to put measures in place to ensure the full implementation of the use of only Akuafø cheque in the payment of cocoa farmers.

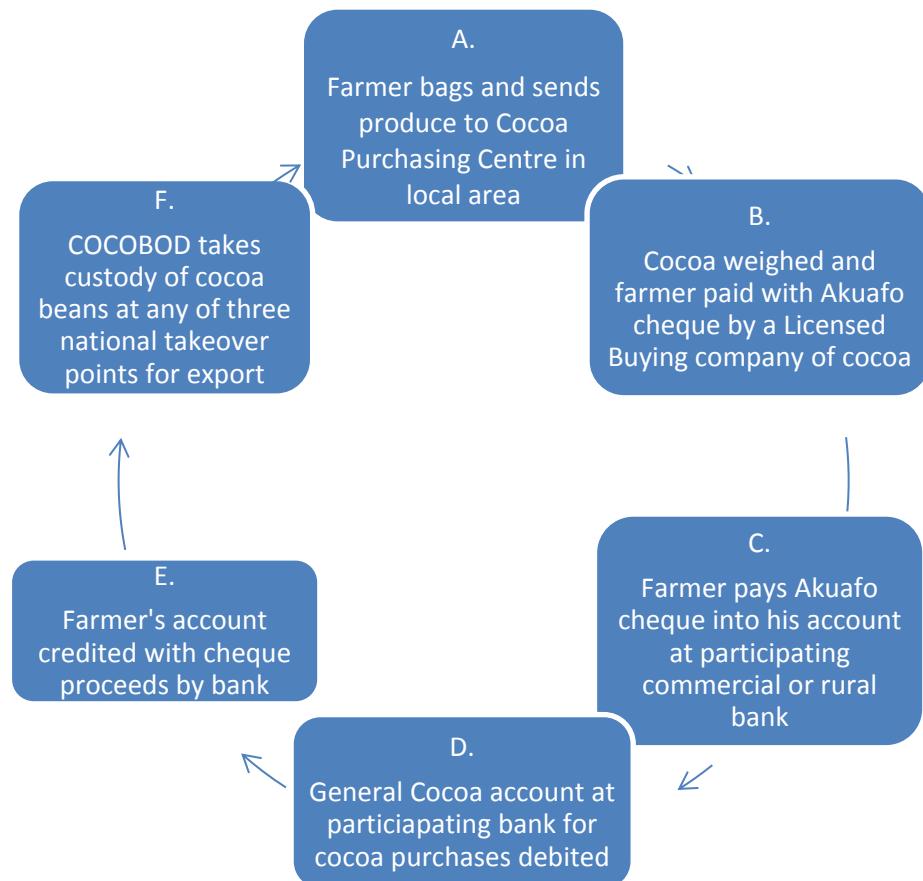
At a stakeholders meeting on Cocoa Payment Systems organised by the Business Sector Advocacy Challenge Fund (BUSAC), the National Chief Farmer indicated among others that "...the current cash payment had brought a lot of challenges to the farmers and had rather enriched the buying agents while the farmers were made poorer". (www.ghanabusinessnews.com). Again, he stated that the cash payment system made it quite easy for caretakers of cocoa farms to steal some bags of cocoa beans to sell for ready cash. He finally added that with the use of cheques, farmers obtained benefits such as getting the real value of the cocoa prices and payment of bonuses on time since proper records of actual quantity sold were readily available to COCOBOD.

In response to the concerns of the farmers, the representative of COCOBOD indicated that they (COCOBOD) wished the Akuafø cheque system was the main mode of payment to farmers because going to the bank makes the activities of farmers more structured, enables them cultivate the culture of savings and also gives them access to soft loans. He, however, explained that with the liberalisation of the cocoa sector, some form of competition regarding who gets what from farmers had been introduced in the purchase of cocoa and the ability

of a licenced buying company to offer the farmer ready cash sometimes makes it attractive for the farmer to offer the company his produce.

Figure 1 below shows the cocoa purchasing cycle with Akuafio cheques from when the farmer bags and sends his cocoa to a Purchasing Centre in his local area up to when the produce is exported.

Figure 1 - Cycle of purchase of cocoa beans with Akuafio cheque



**Source: Own elaboration*

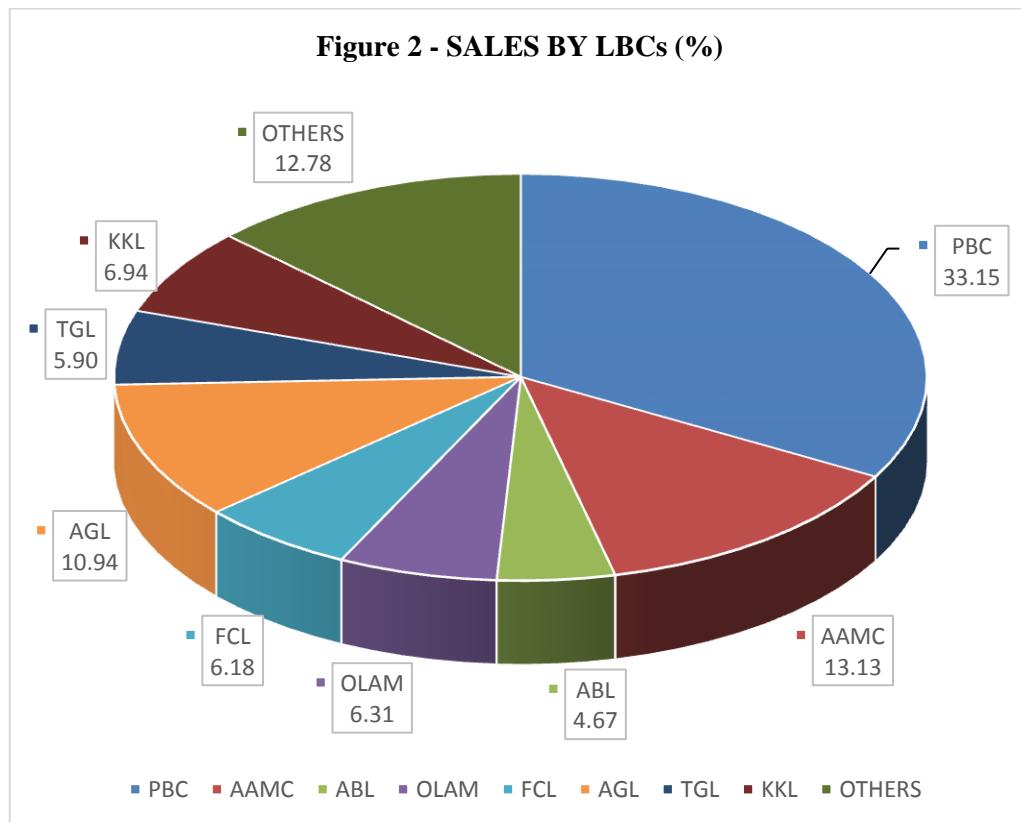
2.3 Cocoa purchases and the role of Licensed Buying Companies

In 1992, Ghana embarked on a partial liberalisation of the cocoa sector by introducing some form of competition in the purchase of cocoa. Privately owned buying companies were licensed to compete with the Produce Buying Company (PBC) in purchasing cocoa from farmers. Prior to this, PBC as a subsidiary of COCOBOD had monopoly in buying cocoa from farmers. According to Essegbe and Ofori-Gyamfi (2012), the legal framework for the introduction of

competition in the internal marketing of cocoa was provided for in a set of Regulations and Guidelines for the Privatisation of the Internal Marketing of Cocoa. As observed by Teal and Vigneri, (2004) and Teal and Maamah (2006), structural reforms in the cocoa sector resulted in the doubling of cocoa output in Ghana, reaching a high of 773,389 tonnes in 2010/2011 (COCOBOD).

LBCs play a key role in the internal marketing of cocoa in Ghana. For every cocoa season, all LBCs use the price set by the Producer Price Review Committee of COCOBOD in consultation with the Ministry of Finance, farmers' representatives as well as other business groups operating in the cocoa sector. According to the Annual Report of COCOBOD for the year ended 30 September 2014, as at the end of the 2013/14 cocoa crop year there were thirty-two LBCs in Ghana and together they purchased 599,087 tonnes of cocoa representing 66.85% of the declared total cocoa purchases of 896,220 tonnes. Figure 2 below shows the performance of LBCs during the 2013/14 season.

Figure 2 - Sales of LBCs with a minimum market share of 4.5% of total cocoa exports during the 2013/14 season



*Source: COCOBOD

According to COCOBOD, for the 2013/14 cocoa crop season, the leading buyer of cocoa was PBC Ltd. with a market share of 33.15 percent. Akuafio Adamfo Marketing Ltd (AAMC) and Armajaro Ghana Ltd (AGL) followed in second and third places with market shares of 13.13 percent and 10.94 percent respectively. Other LBCs that sold at least 4.5 percent of total cocoa purchases for the 2013/14 crop year were Kuapa KoKoo Ltd (KKL - 6.94 percent), OLAM Ghana Ltd (OLAM - 6.31 percent), Federated Commodities Ltd (FCL - 6.18 percent), Transroyal Ghana Ltd (TGL - 5.90 percent) and Adwumapa Buyers Ltd (ABL - 4.67 percent). As can be observed from Figure 2 above, eight LBCs together accounted for 87.22 percent of total cocoa purchases. Twenty-four other LBCs together bought 12.78 percent of total cocoa purchases.

Currently, PBC Ltd is the only LBC that operates in all cocoa producing villages in Ghana. Between 2002 and 2004, the number of LBCs buying cocoa at the village level in Ghana increased by 30 percent (Vigneri and Santos, 2009). Cocoa farmers in Ghana have different reasons for buying from one LBC or the other. Whilst some choose particular LBCs because they offer cash payments for cocoa, others stick to a LBC because it provides credit facilities. According to Vigneri and Santos (2009), the Centre for the Study of African Economies of Oxford University conducted a survey involving 441 cocoa farmers in 25 villages across the top three cocoa producing regions in Ghana (i.e. Western, Ashanti and Brong Ahafo regions) to find out the main reasons why farmers opt for a particular LBC. The study was done between 2002 and 2004, and it involved nine LBCs. Table 1 below shows the key indicators for the choice of LBC by farmers.

Table 1 - Key Indicators for main LBCs: 2004 – 2004

LBC	Number of villages where LBCs were active		Number of times LBC was chosen as first outlet		Main reason for choice (% of farmers reporting as 1st reason)
	2002	2004	2002	2004	
PBC	25	25	274	260	Pay cash (32%) – Accountability (20%)
Kuapa Kokoo	22	25	70	61	Pay cash (47%) – Provide credit (18%)
Olam	12	23	11	27	Pay cash (47%) – Provide credit (16%)
Armajaro	10	20	9	27	Pay cash (56%) – Provide credit (25%)
Cocoa Merchants	12	9	12	8	Pay cash (25%) – Provide credit (20%)
Federated Commodities	15	10	16	13	Pay cash (45%) – Provide credit (14%)
Transroyal Ltd.	9	4	5	3	Pay cash (38%) – Provide credit (13%)
Adwumapa Buyers Ltd.	17	25	27	28	Pay cash (42%) – Provide credit (20%)
Akuafu Adamfo Marketing Company	6	23	1	10	Pay cash (45%) – Provide credit (27%)

Source: Vigneri and Santos (2009:9)

Table 1 above shows that for some farmers it is not all about being offered credit facilities or the mode of payment, that is, being paid instant cash for their produce that makes them opt for a particular LBC. In the above survey for example, PBC had 20 percent of cocoa farmers choosing to sell to the company because in their opinion they were accountable. Other LBCs were chosen because they provided credit facilities. In addition, farmers who opted to be paid by cash had their choice met by the LBCs.

The liberalisation of Ghana's cocoa sector in the early 1990s re-energized productivity in the sector as privately licensed LBCs competed to attract cocoa farmers to sell their produce to them. The liberalisation also led to the deepening of links between LBCs and rural banks where cocoa farmers had accounts in an effort to ensure that farmers who were paid by Akuafu cheque had access to their money without difficulty. In addition, for some LBCs that offered farmers credit facilities, one of the conditions that the farmer had to meet was to have access to a bank account.

Chapter 3

Financial Inclusion – Conceptual and Analytical Framework

Introduction

Beginning with a look at the concept of financial inclusion, this chapter continues with a further look at why people need access to financial services as well as why the lack of financial access is a problem. The final part of the chapter focuses on analytical framework of measuring financial inclusion.

3.1 Concept of financial inclusion

The concept of financial inclusion is important in many developing countries including Ghana for several reasons. In the first place, an all-inclusive financial system helps to lessen the presence of other informal sources of loans which often take advantage of the critical need for credit of people who do not have access to formal financial systems. Secondly, when individuals have a safe place to save part of their earnings it enables them build up savings for use when needed. The availability of reliable financial services in rural areas of Ghana is essential for the growth of the economy of the country since a greater percentage of the population of the country reside in the rural area. In addition, access to financial services is a necessary factor in improving the living conditions of rural and/or poor farmers. In many cases, the growth of the economy is dependent on the growth of rural markets in the country and this can partly be achieved if a greater percentage of rural households have access to financial resources to fund the growth of their livelihoods.

Financial inclusion plays a vital role in the long-term economic growth of every country. Thus the extension of financial services to various segments of the society must not be for business reasons only, but also as a form of social responsibility. Without access to formal financial services, vulnerable and other disadvantaged groups will have to borrow from informal sources at exorbitant

interest rates in order to meet their entrepreneurial, housing, educational and health requirements. Some global developmental institutions have taken up the mantle of promoting the extension of financial services to vulnerable groups such as the poor, women and the youth. The World Bank for example has a database called the Global Financial Inclusion Database (Global Findex) which contain relevant indicators that measure, among others, how adults save, borrow and make payments. For Ghana, the Global Findex (2014) indicates that only 34.6 percent of people aged 15 years and above have an account in a financial institution. This indeed is an indicator of the need to enhance financial inclusion in Ghana.

3.2 What is financial inclusion and/or financial exclusion?

In many developing countries including Ghana, people living in the rural areas including the poor and marginalised have to deal with moneylenders if they need a credit facility. This is inspite of the well known fact that individual moneylenders can be unreliable. In a Policy Paper released in 2010, The Alliance for Financial Inclusion (AFI) describes financial inclusion as “a multi-faceted concept with a number of nuanced components, all or some of which may be relevant to the specific country agenda” (AFI Policy Paper, 2010:04). The concept of financial inclusion and/or exclusion comprises components that may differ from one country to another. Another perspective of financial inclusion is given by Dev (2006:4310) who defines financial inclusion “as delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups.” In most cases, the ability of an individual to access a loan facility from formal financial systems is a key aspect of financial inclusion. However, other financial services such as savings, insurance and remittance facilities are key in promoting financial inclusion.

Financial inclusion stands in clear contrast to financial exclusion, which is where financial services (in terms of access to credit from formal institutions) are either not affordable or available to low income communities. In general terms, financially excluded persons refer to low income individuals or vulnerable social groups who lack access to credit despite their urgent need for credit

facilities as well as other forms of financial services. Financial exclusion mostly results from problems such as the lack of access, prices and conditions that the poor may find difficult to meet, as well as self-exclusion by individuals who may have negative perceptions about providers of financial services. Lack of access is usually where parts of the society are excluded because they are in remote areas. Price exclusion happens when the financial services are offered at prices that are unaffordable to rural parts of the society. Lastly, in some cases, some individuals such as illiterate members of the society may exclude themselves from accessing financial services due to misinformation and/or ignorance about steps they can take to benefit from financial inclusion.

One characteristic of financial exclusion is the inability of some members of the society such as women and the youth to access formal financial services. Leyshon and Thrift (1995:312) describe financial exclusion as “referring to those processes that prevent poor and disadvantaged social groups from gaining access to the financial system”. Again according to Sinclair (2001:4), “financial exclusion means the inability to access necessary financial services in an appropriate form. Exclusion can come about as a result of problems with access, conditions, prices, marketing or self-exclusion in response to negative experiences or perceptions”.

The causes of financial exclusion differ from country to country. Within the financial development context of Ghana, Osei-Assibey (2009:208) describes financial exclusion as “a situation where the majority of individuals, households, enterprises as well as communities have no engagement whatsoever with mainstream formal financial institutions”. There is no doubt that the most basic forms of financial services are usually provided by banks and therefore the availability or unavailability of banks in all parts of a country will have an influence on the extent of financial inclusion or exclusion of residents of these areas.

In Ghana, most farmers do not have access to or use banks because these institutions may not be available within their localities. Even though there have

been many attempts over the years to bring organised financial services to the poor and other vulnerable groups at affordable cost, lending systems continue to be rigid. In certain instances, before a farmer can access a loan he has to build up savings to a determined limit, and this cannot be utilised. Cases such as this discourage or unable the poor and marginalised from gaining access to credit facilities and slows down efforts aimed at improving financial inclusion.

Farmers and owners of small enterprises in rural areas need access to financial services at affordable cost since this is important for transforming their living conditions. One of the aims of financial inclusion is “drawing the unbanked population into the formal financial system so that they have the opportunity to access financial services ranging from savings, payments, and transfers to credit and insurance”. (Hannig and Jansen (2010:1)). In as much as commercial banks in Ghana may perceive financial inclusion as both a business opportunity and part of corporate social responsibility, rural banks which are mainly set-up to address the financial needs of residents of rural areas can play a key role in deepening financial inclusion by extending their services to communities where levels of income are low. Often, when rural farmers are able to access credit facilities at reasonable cost to support their farming activities and make some savings, they eventually come out of poverty.

3.3 The role of rural banks in boosting financial inclusion and promoting access to credit facilities in unbanked locations within Ghana

Even though financial exclusion persists in most parts of the world, more people in developing countries and sub-Saharan Africa in particular face financial exclusion. It is for this reason that the causes of financial exclusion must be properly identified in order that effective financial inclusion measures can be developed to address them. Apart from contributing to improve financial inclusion in rural areas of Ghana, rural banks are usually the only banking institutions that extend branches to unbanked locations of Ghana without cocoa, gold or other mineral resources. In addition, rural banks act as channels for the disbursement of poverty alleviation funds funded by the government of Ghana. Such poverty alleviating programmes provide cash and health insurance for

extremely poor households across the country. An example of such poverty alleviation fund is the Livelihood Empowerment Against Poverty (LEAP) programme, which was launched in 2008. Many rural dwellers have been able to access this fund and also loan facilities from rural banks to cover basic needs such as costs of a health emergency, payment of school fees or initial capital for a small family business.

It is sometimes argued that certain categories of people who are financially excluded go through such circumstances partly on voluntary basis. However, according to Demirguc-Kunt *et al* (2015) there is not enough evidence to support this argument. The authors argue that only four percent of adults who do not have a bank account say they do not have an account because they do not need it. Again, 26 percent of adults who do not have accounts point out that other factors such as inadequate funds and high cost of maintaining a bank account keep them away. What this means is that given the circumstances where these barriers are absent, this group of people will request for a bank account in order to save some money or access a credit facility.

3.4 Why do people need access to financial services and why is low access to banks a problem?

Many households in sub-Saharan Africa lack access to financial services. According to Kimenyi, M., and Ndung'u, N. (2009:1), “a large proportion of households in developing countries lack access to financial services, which impedes economic growth and development. A large body of evidence shows that access to financial services, and indeed overall financial development, is crucial to economic growth and poverty reduction. Yet in sub-Saharan Africa, only 1 in 5 households have access to financial services”. Informal financial services, particularly lending, which is usually provided by individual moneylenders in most sub-Saharan African countries are usually associated with high transaction costs. This is because of the absence of traditional banks in most communities or the long distances to bank branches, which ultimately increase the costs of doing business with the banks. An essential aspect of fi-

nancial inclusion, however, is delivering financial services at affordable cost to low income parts of the society.

According to the Consultative Group to Assist the Poor (CGAP, 2009), about 2.5 billion people worldwide do not have access to savings accounts and other formal financial services. United Nations (UN) initiatives on financial inclusion broadly describe its key objectives as providing access to a broad range of financial services such as savings, credit, insurance and remittance at a reasonable cost. Low access to banking services may be perceived as a problem to the society because access to financial services plays a critical role in the development process of every country by enabling economic growth and reducing the level of income inequality. In Ghana, deepening financial inclusion will enhance the ability of the poor to save, borrow to undertake various forms of entrepreneurial activities, build assets and generally improve their living conditions. The inability of the poor to access financial services has an adverse effect on growth and poverty reduction. This is one of the reasons why the Bank of Ghana championed the establishment of rural banks “to stimulate saving habits and to ensure that sufficient and timely credit, at reasonable rates of interest, is made available to as large a segment of the rural population as possible”. (Bank of Ghana, 2007).

Financial exclusion in Ghana is a multi-faceted problem, and mostly emanate from barriers that are put up by financial institutions. Factors such as regulatory constraints, prohibitive market factors and geographical/physical and connectivity barriers contribute to the exclusion of farmers and many other people from accessing banking services. The barriers indicated above are briefly discussed below:

- Regulatory constraints

It is widely believed by researchers that regulation is indirectly restricted to the already banked population and therefore it does not facilitate further inclusion. In some cases, the regulatory framework imposed by a financial regulator actually limits the capacity of financial institutions to attract new customers. In Ghana, the strict application of Know Your

Customer (KYC) rules by commercial banks (a requirement of the central bank) in the opening of accounts has resulted in limited access of some categories of customers to the services of commercial banks.

- Prohibitive market factors

There are instances where potential customers of banks are unable to obtain the services they require because they are excluded by factors such as lack of credit record, high transaction fees for basic services, and conditions that require them (customers) to maintain high minimum account balances.

- Geographical/physical and connectivity barriers

Traditionally, many people access financial services in physical branches of banks of their choice. However, in Ghana some financial institutions close down branches particularly in rural areas with the excuse of cutting cost. Even though with the advent of technology, innovative solutions such as accessing banking services without being physically present at a bank branch are available, these are unreliable in areas where problems with network outages or insufficient data security persist. This therefore reduces the effectiveness of the provision of financial services.

It is worthy of note that ensuring financial inclusion does not necessarily mean that providers of financial services will assume levels of risks and/or costs in deciding where or who to offer services to. The key intervention required is for policy initiatives that are aimed at eliminating all forms of barriers to accessing a broad range of financial services. Promoting financial inclusion is not only about including previously excluded people and the poor into the formal financial system, but more importantly, assigning to traditional financial institutions the role of reaching out to the unbanked in society.

3.5 Analytical Framework - Measuring financial inclusion

Promoting financial inclusion in any community comes with advantages such as mobilising deposits at relatively lower costs to financial institutions, particularly banks, as well as enhancing the ability of individuals and enterprises to

access credit facilities. Various studies link access to financial services to levels of development, and analyse what specific components to measure to assess the impact of financial inclusion. In many instances, the objective of measurement of financial inclusion is not only to achieve a particular overall objective but also to gauge the extent to which financial inclusion has been enhanced in the specific research area.

Generally, the level of human development in most countries is closely linked to the levels of financial inclusion since the ability to make savings and access a loan facility from a reliable source at a reasonable rate of interest determines whether a prospective entrepreneur can undertake the business venture that he/she intends to. Financial inclusion is not only regarded by policymakers as important to ensure equity and inclusive growth, but it is also seen as a global objective with several dimensions. However, measuring the extent of financial inclusion may differ from one country to another as there are no accepted measures to enable one compare the extent of financial inclusion in different locations (Chakrabarty, 2012). It is to ensure some form of uniformity in the measurement of financial inclusion that Chakrabarty (2012) recommends that the parameters for assessing any improvements are defined in an objective manner. The author mentions four suitable indicators:

- a) Firstly, that the indicator should comprise information on access to (that is the supply of), usage of (that is the demand for) financial services as well as the extent of coverage and penetration. Measuring the definite use of financial services and the availability of credit facilities for poor households is of importance as well.
- b) Secondly, understanding the obstacles for financial inclusion and how they can be assessed is key.
- c) Thirdly, deepening financial inclusion is not only about getting more people to open accounts but more importantly getting them to use the services that the financial institution offers. It is through the use of the financial services that the effectiveness of financial inclusion measures can be determined.

- d) In view of the fact that different countries may come up with different yardsticks for the measurement of financial inclusion, it is important that internationally acceptable benchmarks are developed and used.

The Alliance for Financial Inclusion (AFI) in its Policy Paper (2010) argues that in as much as financial deepening (that is expanding credit and financial flows) has an important link with economic growth, financial inclusion (which measures the proportion of people with access to formal financial services) has been proven to be a viable means for poverty alleviation, since it helps policy makers in developing appropriate measures needed to achieve the objectives of financial inclusion. As observed by Beck and Demirguc-Kunt (2008:393), policymaking helps to “focus the attention of policymakers and allow them to track and evaluate efforts to broaden access”. This suggests that to enhance financial inclusion it is not only important to describe the concept, but also develop suitable means of measuring it. AFI gives four common ways by which financial inclusion can be measured. They are access, quality, usage and welfare. Below is a closer look at the four lenses:

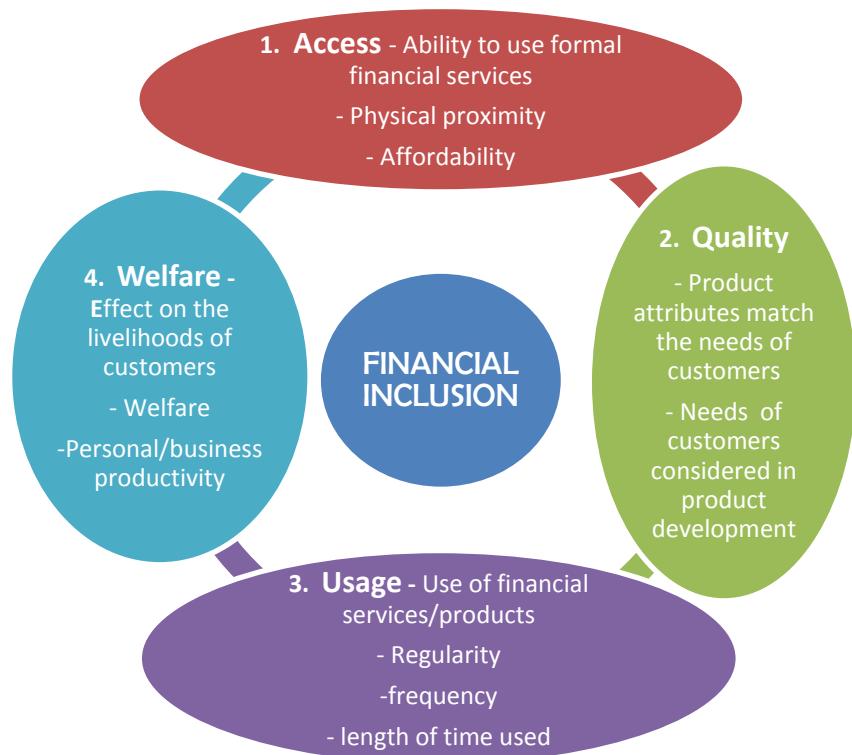
- a) Access - having access to financial services mainly has to do with whether customers are able to overcome the barriers that they may encounter in trying to open a bank account such as cost and closeness to a bank branch in order to benefit from the services provided by banks. In Ghana, physical proximity of bank service points in rural communities in particular is one factor that continues to hinder the drive towards improving financial inclusion as in some cases farmers travel over twenty kilometres to access a bank branch. Also if a bank develops infrastructure in a community in order to open a branch, the cost is passed onto customers resulting in costly financial services. As observed by Porteous (2005), high fixed costs can entangle a small bank and hamper supply of services. Inaccessible and/or costly banking services results in preference for the use of cash as well as a banked population, which is far less than the potential bankable population.

- b) Quality - this has to do with whether the services being provided by a bank branch in a particular community are actually what the customers want. In other words, for a farming community the question will be how important the services are to the farmer. In most farming communities basic banking services such as ability to access a loan, make savings or use a remittance service are what customers require. The needs of customers may therefore have to be considered in product development.
- c) Usage - this measure of financial inclusion emphasises the banking services that customers use on a regular basis over a period. The regularity or frequency at which a customer uses the bank account is important because it helps in determining whether the customer has been fully integrated in the banking system. According to Osei-Assibey (2009), there are some customers who can be described as “under-banked” in that although they have bank accounts they either do not use it or make minimal use of it. In Ghana, some rural banks sometimes threaten to close the bank account of cocoa farmers because it remains inactive until biannual payments for cocoa are due. For farmers who travel long distances to receive payment, they often withdraw all their earnings at a go when paid to cut travelling costs to the bank. The length of time an account is used is however important when measuring financial inclusion.
- d) Welfare - this component measures the impact on the wellbeing of customers as a result of using a financial service. Yet, measuring this component of financial inclusion is sometimes problematic because changes or improvements in the consumption pattern of consumers cannot always be attributed to the fact that the consumer now has access to a bank account or other financial services. It may be necessary to ascertain whether the customer’s improved lifestyle is because of for example, increased income, or any other factor. In its Policy Paper (2010), AFI indicates that it is necessary to gather data about this component of financial inclusion from the point of view of the user of the financial service.

It is worthy of note that the objectives of financial inclusion are multidimensional in nature. According to Serrao et al (2012), there is no unanimity among experts on the particular characteristics to use in measuring financial inclusion. Components such as access, quality, usage and impact all have various pointers that a researcher may use to measure financial inclusion and this can be influenced by the nature of activities of the beneficiaries being considered.

Figure 3 below shows a summary of the components for measuring financial inclusion discussed above.

Figure 3 - Components of measuring financial inclusion



Source: AFI Policy Paper 2010:05

Chapter 4

Concept of rural banking and the role of ARB Apex Bank

The contribution of banks is vital in promoting economic development in every country. This is particularly so in rural areas where majority of the population may not be able to accumulate savings up to the limit required to establish a business venture and reap the requisite profits. It is for this reason that banks intervene by mobilising deposits and lending same out to borrowers. Over the years, intervention by the banking sector in rural parts of Ghana has been done mainly by rural banks whose shareholders are mostly from the areas where the rural banks are located. This chapter looks at how rural banks are established in Ghana, the role of ARB Apex Bank and the part that rural banks play in narrowing farmers' accessibility to banking services.

4.1 How are rural banks established?

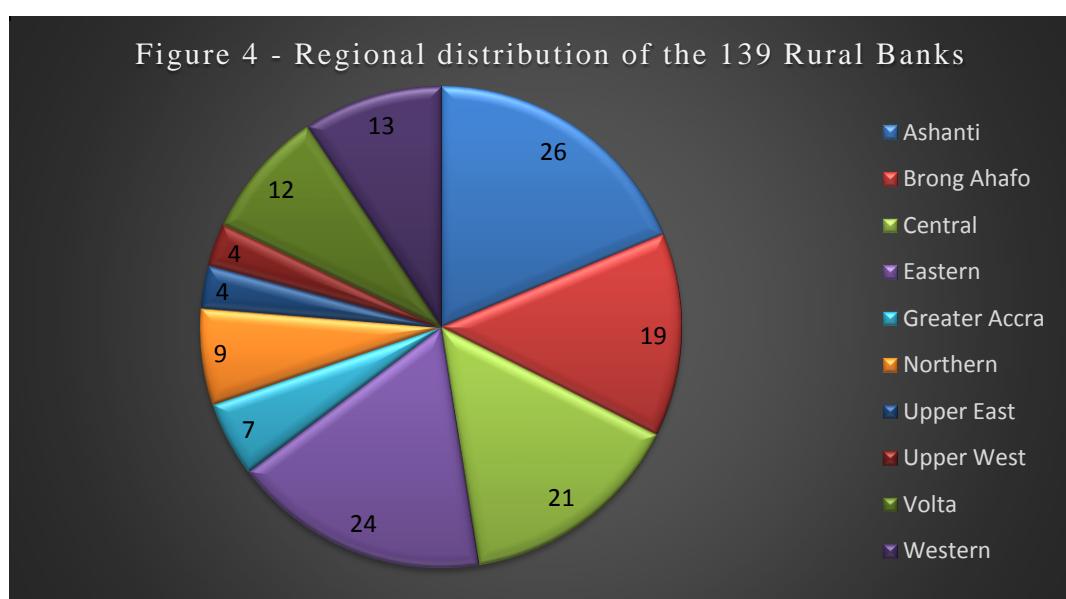
In Ghana, rural banking is simply described as the process of providing banking services to rural dwellers or persons who live and work in rural areas. The backbone of Ghana's economy is agriculture and many people engaged in this venture reside in the rural areas. However, in most cases the only source of credit for persons engaged in agriculture in rural areas of Ghana are primarily moneylenders who charge very high interest rates for the loans they give to borrowers (Aryeertey, 1994). Thus, many farmers are unable to increase their output, earnings and their standard of living. It is to address the problem of the unavailability of institutional credit in rural areas to support economic activities that the concept of rural banking was introduced. The first rural bank in Ghana was established in a farming community in 1976.

Concerning how much shares an individual or a corporate body can own in a rural bank, the Central Bank prescribes that shares of individuals and corporate bodies in a rural bank must not exceed 30% and 50% respectively of the total shares. The reasoning behind these limitations is to prevent the concentration

of ownership of a rural bank in the hands of one corporate body or individual. According to Nair and Fissha (2010), at the beginning of the concept of rural banking, the Bank of Ghana (BoG) by policy contributed to the capital of every rural bank. Whilst shareholders of the bank held 67 percent, BoG held 33 percent. Thus the Central Bank had representation on the board of rural banks to guide the formulation of policy.

According to the International Fund for Agricultural Development (IFAD 2008), by the end of 2008 rural banks were providing a greater percentage of formal financial services in rural areas of Ghana. The number of rural banks in Ghana then was 127 and together they had 421 branches. As at the end of 2015, the number of rural banks had increased to 139 and collectively their total assets of GHC2,551.48 million (approximately US\$671.44 million) represented 3.4 percent of the total assets of the banking industry in Ghana (Bank of Ghana, 2015). As at March 2016, the 139 rural banks were operating 651 branches throughout the ten regions of Ghana (www.arbapexbank.com). Figure 4 below shows the regional distribution of rural banks as at March 2016. Map 2 shows the map of Ghana indicating the ten regions, each of which has a branch office of ARB Apex Bank.

Figure 4 - Regional distribution of rural banks as at March 2016



*Source: ARB Apex Bank

Map 2 - Map of Ghana indicating the ten regions, each with a branch office of ARB Apex Bank



*Source: mapsofworld.com

4.2 What is the ARB Apex Bank and what is its role?

The Association of Rural Banks (ARB) Apex Bank Ltd was granted a banking licence in 2001 to “holistically address the operational bottlenecks of the rural financial sector with the aim of broadening and deepening financial intermediation in the rural areas.” (www.arbapexbank.com). The Bank of Ghana has delegated part of its supervisory functions over rural banks to the ARB Apex Bank. It is regarded as a “mini” central bank for rural banks who are its shareholders. Some of the supervisory functions of ARB Apex Bank as captured by Nair and Fissha (2010) are as follows:

- i. Maintain the primary cash reserves of rural banks based on the relevant rules.

- ii. Monitor and supervise rural banks in accordance with the relevant rules.
- iii. Lend to rural banks experiencing short-term liquidity problems.
- iv. Provide specie movement services to the rural banks.

ARB Apex Bank also acts as an intermediary in implementing projects sponsored by either the Government of Ghana, The World Bank, International Fund for Agricultural Development (IFAD) and the African Development Bank in collaboration with the rural banks. For example, through the Rural Financial Services Project (RFSP) which was implemented between 2000 and 2007, the ARB Apex Bank was equipped for capacity building of rural banks.

ARB Apex Bank plays an intermediary role in the cocoa buying activities of rural banks. Currently, eleven Licensed Buying Companies channel funds for the purchase of cocoa to rural banks through the ARB Apex Bank. This according to Apex Bank has improved the delivery time and supply of cash to the rural banks that buy cocoa, thus contributing to the smooth operation of the Aku-afu cheque system.

Inspite of its contribution to the improvement in the performance of rural banks, the ARB Apex Bank continues to grapple with some challenges. Firstly, there is no sustained funding provided by the government of Ghana to the institution. As the institution is owned by the Association of Rural Banks, they are its principal contributors or source of funding. Yet still, the Bank of Ghana assists the Apex Bank in implementing some of its projects aimed at strengthening the capacity of rural banks.

4.3 Has farmers' accessibility to basic banking services been narrowed?

Prior to the introduction of the concept of rural banking in Ghana, banking institutions were simply not present in many rural areas. The situation was particularly so in areas where no viable economic activity such as cocoa/coffee farming or gold/diamond mining was undertaken. These are some of the main

economic activities that attract commercial banks to open branches in rural areas. Although some farmers of crops that are mostly consumed within the borders of Ghana still lack access to affordable credit for their farming activities, the introduction of the concept of rural banking has helped to narrow famers' accessibility to loan facilities. Illiterate farmers who previously had no chance of operating a bank account because they could not sign a mandate form/signature card are now able to make savings and access other basic banking services in rural banks by thumb printing the required forms. Thus to some extent the gap in rural farmers' accessibility to basic banking services has been narrowed, albeit on modest levels. Again, the social and economic conditions of rural farmers have been enhanced as their ability to borrow from rural banks has in some way helped in financing economic activities in rural areas and reducing poverty.

The concept of rural banking and the introduction of Akuaf�示例 cheques have both enhanced financial inclusion among cocoa farmers in rural parts of Ghana, even though a lot more needs to be done. Whilst recognising the role rural banks play in improving usage of bank services by farmers, it is important to indicate that some barriers to account usage still exist. Examples of barriers often reported by potential customers are physical distance, high cost and hostile bank staff. In order to enhance farmers' accessibility to financial services, banks in Ghana may as part of their social responsibility, include in their business strategies proposals to extend banking services to financially excluded communities.

Chapter 5

Location and economic activities of study areas

5.1 Characteristics of the study areas

In Ghana, cocoa production takes place in the forested parts of the country where rainfall is between 1,000-1,500 millimetres per year. Six regions namely Western Region, Brong-Ahafo Region, Central Region, Eastern Region, Ashanti Region and Volta Region are within the forested parts. Cocoa purchases for the main crop season begins in October of each year whilst a smaller mid-crop season begins in July. COCOBOD is the national institution responsible for the export of cocoa.

The Western region is the highest cocoa growing region of the country. The region covers an area of approximately 23,921 square kilometres and has close to 75 percent of its vegetation in the high forest zone of Ghana. Agriculture is the major occupation in the region as approximately 58 percent of the population are farmers. Some of the major cocoa growing areas are Sefwi-Wiawso, Juabeso-Bia and Bibiani. The Brong-Ahafo region covers an area of approximately 39,557 square kilometres of Ghana. The southern part of the region lies in the forest zone whilst the northern part of it lies in the savannah zone. Some of the major cocoa growing districts of the region are Bechem, Dormaa, Berekum, Goaso and Nkrankwanta. The Central region occupies an area of 9,826 square kilometres of Ghana and lies within the moist semi-equatorial zone. Agriculture is the main occupation of the region as it employs 52 percent of the population. Major cocoa production areas are Assin, Twifo-Hemang, Lower Denkyira and Upper Denkyira.

The Eastern Region of Ghana covers an area of 19,323 square kilometres. Agriculture and related works employs about 55 percent of the population. The region lies within the wet semi-equatorial zone and its vegetation is suitable for different crops including cocoa. The Cocoa Research Institute of Ghana at

Akim Tafo is in the region. The Ashanti region occupies 24,389 square kilometres of the land area of Ghana and lies within the wet semi-equatorial zone. As with the other regions, the main economic activity is agriculture including animal husbandry. The Sekyere East and Ahafo Ano South Districts are major cocoa growing areas in the region. The Volta region is located along the southern half of the eastern border of Ghana and occupies an area of about 20,570 square kilometres of the total land area of Ghana. Most of the residents of the region are engaged in agriculture including the cultivation of cocoa particularly within the districts of Hohoe, Jasikan, Kadjebi and Nkwanta.

5.2 Regional distribution of research assistants and questionnaires

As indicated in Chapter 1, questionnaire was the main method used in gathering primary data on the use of banking services for this study. Research assistants and questionnaires were assigned to the various regions based on the latest available data (2009/10) from COCOBOD on regional cocoa purchases.

The details are shown in Table 5 below:

Table 5

Region	Number of research Assistants	Number of questionnaires
Western	4	55
Ashanti	2	18
Brong Ahafo	1	9
Central	1	9
Eastern	1	8
Volta	1	1
Total	10	100

5.3 Demographics of selected respondents

Tables 5.3.1 to 5.3.6 below give details of the demographics of the selected respondents.

Table 5.3.1 – Region

Region	Respondents	%
Western	55	55
Ashanti	18	18
Brong Ahafo	9	9
Central	9	9
Eastern	8	8
Volta	1	1
Total	100	100

Table 5.3.2 - Age

Age	Respondents	%
Under 35 years	18	18
35 – 44 years	32	32
45 – 54 years	30	30
55 – 64 years	15	15
Above 65 years	5	5
Total	100	100

Table 5.3.3 - Gender

Gender	Respondents	%
Male	87	87
Female	13	13
Total	100	100

Table 5.3.4 – Education

Highest level of education	Respondents	%
No education	14	14
Pre-high school	32	32
High school graduate	46	46
Tertiary	8	8
Total	100	100

Table 5.3.5 – People living within your household

People who live within your household	Respondents	%
Under 5 years	11	11
5 – 9 years	15	15
10 – 14 years	19	19
15 – 19 years	35	35
Above 20 years	20	20
Total	100	100

Table 5.3.6 – Marital status

Marital status	Respondents	%
Single	17	17
Married	46	46
Separated	15	15
Divorced	10	10
Widowed	12	12
Total	100	100

5.4 Categorisation of questionnaire

The questionnaire used in gathering primary data on the use of banking services for this study has been grouped into six categories as follows:

- Category A (Questions 1 and 2) – relate to the profile of the cocoa farmers. These questions were asked to enable the researcher assess whether a large-scale or small-scale farmer was more likely to have an account. Generally, large-scale farmers are those with more than five acres of cocoa farm while small-scale farmers have less than five acres of cocoa farm.
- Category B (Questions 3, 4, 5 and 6) – relate to operation of bank accounts by cocoa farmers. These set of questions were asked to enable the researcher assess whether or not cocoa farmers operate bank accounts, and reasons they may have for not operating one.
- Category C (Questions 7, 8, 9 and 10) – relate to the use of bank services. For cocoa farmers with accounts, these set of questions were to find out whether they had the account only to receive payments for cocoa or they were taking advantage of other bank services available.
- Category D (Questions 11, 12, 13 and 14) – relate to the use of bank accounts and Akuafio cheque payments. The essence was to show the extent to which the use of Akuafio cheque encourages bank usage.
- Category E (Questions 15, 16, 17, 18 and 19) – relate to savings and borrowing behaviour of cocoa farmers. These set of questions are to assess how usage of bank accounts has enabled cocoa farmers to access loan facilities.
- Category F (Questions 20 and 21) – relate to general impressions of cocoa farmers of bank services. These questions were to find out whether cocoa farmers would encourage use of banks by family members.

Chapter 6

How deep is financial inclusion among cocoa farmers? - A detailed analysis of the study results

6.1 Telephone interview with GCCSFA on its role

To begin with, the office manager of GCCSFA indicated that one of their key responsibilities is to negotiate with COCOBOD for the provision of items such as spraying equipment, insecticides and fertilisers at subsidized prices for farmers. Also, the Association plays a part in negotiations with COCOBOD and Ghana's Ministry of Finance for periodic increases in the producer price of cocoa and other cash crops as well as bonuses and incentives. Some other activities of GCCSFA that he highlighted include the following:

- Run a welfare programme for all farmers.
- Conduct surveys among farmers on projects that COCOBOD intends to implement.
- Organise advocacy programmes about the proper distribution of fertilisers and other farm inputs in order to avoid middlemen who often cheat the farmers.

Concerning the use of Akuafø cheques, the manager indicated that in general large-scale cocoa farmers were in favour of its use as a form of payment compared to small-scale farmers. Furthermore, some small-scale cocoa farmers often complained about the long distances they had to travel to access a bank branch to cash relatively small amounts of money. He acknowledged though that with the opening of branch offices by several rural banks in cocoa growing areas in the last three years, the issue of long distances to access banking facilities was gradually being addressed.

Regarding the challenges of cocoa farmers, the manager indicated that it is their wish that the producer price of cocoa in Ghana would be increased on a

consistent basis to match the prices in countries in the sub-region in order to prevent smuggling by some cocoa farmers. Another challenge, which the manager said had come to the fore in the last few years, was the issue of illegal mining of gold on cocoa farms known in the local parlance as “galamsey”. He indicated that increasingly, these illegal small-scale gold miners were enticing some cocoa farmers with attractive sums of money as compensation when traces of gold deposits were discovered on their farms. Consequently, the farmers were selling off their cocoa farms in return for amounts of money far higher than what they receive as cocoa farmers. He therefore stressed the need for government to formulate a policy that would prohibit mining concessions on cocoa plantations across the country, a situation which deprives many Ghanaians of their livelihoods.

On the question of the role the GCCSFA has played in enhancing financial inclusion among cocoa farmers, the manager acknowledged that there is still a lot that the Association needs to do. Essentially, more banks ought to extend their services to rural communities where cocoa is grown, and encourage farmers to open bank accounts in order to have access to loans at reasonable interest rates. He also indicated that in some cases, obtaining a loan for agricultural purposes was somewhat difficult because farmers lacked the required collateral that banks often demand. Thus, on the issue of the role the Association had played in promoting financial inclusion among farmers, it came to light that much more had to be done in this area.

6.2 Analysis of responses from questionnaire

In this section, the responses of cocoa farmers to the questionnaire are assessed to clarify the extent to which financial inclusion has been enhanced among cocoa farmers in rural parts of Ghana. It is worth mentioning that the level of literacy in any society in some ways influence the level of financial inclusion. Generally some form of education, irrespective of the level attained, can positively influence levels of financial inclusion. In the survey conducted for this research paper, 46 percent of the farmers interviewed had been educated up to high school level. A further 32 percent had ended their education at various

other levels up to high school. For the farmers who indicated they had bank accounts, they also mentioned that they had in one way or another benefitted from the added advantages that come with having a bank account. These include the opportunity to save and/or access a loan facility to enhance one's agricultural business, or for personal reasons such as bereavement, payment of children's school fees or the acquisition of household items.

6.2.1 Categories of questions

Category A (Questions 1 and 2) - Profile of cocoa farmers

Q.1 How long have you worked as a cocoa farmer?

Table 6.2.1

Region	More than ten years		Less than ten years		Total number of respondents
	Respondents	%	Respondents	%	
Western	42	76.4	13	23.6	55
Ashanti	15	83.3	3	16.7	18
Brong Ahafo	5	55.6	4	44.6	9
Eastern	6	66.7	3	33.3	9
Central	6	75.0	2	25.0	8
Volta	1	100.0	0	0	1
TOTAL	75		25		100

Q.2 Will you describe yourself as a large-scale cocoa farmer or a small-scale cocoa farmer?

Table 6.2.2

Region	Large scale farmer		Small scale farmer		Total number of respondents
	Respondents	%	Respondents	%	
Western	40	72.7	15	27.3	55
Ashanti	13	72.2	5	27.8	18
Brong Ahafo	6	66.7	3	33.3	9
Eastern	7	77.8	2	22.2	9
Central	5	62.5	3	37.5	8
Volta	1	100.0	0	100.0	1
TOTAL	72		28		100

Responses to this category of questions indicate that in all the regions, all or majority of the cocoa farmers interviewed were large-scale farmers. Specifically, 72 percent were large-scale farmers whilst 28 percent were small-scale

farmers. 75 percent of those interviewed had been cocoa farmers for more than ten years.

Category B (Questions 3, 4, 5 and 6) – Operation of bank accounts by cocoa farmers

Q.3 Do you have an account with a commercial or rural bank or any other type of formal financial institution?

Table 6.2.3

Region	Yes		No		Total number of respondents
	Respondents	%	Respondents	%	
Western	50	91.0	5	9.0	55
Ashanti	14	77.8	4	22.2	18
Brong Ahafo	6	66.7	3	33.3	9
Eastern	7	77.8	2	22.2	9
Central	5	62.5	3	37.5	8
Volta	1	100.0	0	0	1
TOTAL	83		17		100

Q.4 How far are you to a branch office of a bank or another type of formal financial institution?

Table 6.2.4

Region	Less than 10 km		Up to 20km		More than 20 km		Total number of respondents
	Respondents	%	Respondents	%	Respondents	%	
Western	10	20.0	32	64.0	8	16.0	50
Ashanti	2	14.3	8	57.1	4	28.6	14
Brong Ahafo	1	16.7	3	50.0	2	33.3	6
Eastern	2	28.6	4	57.1	1	14.3	7
Central	1	20.0	4	80.0	0	0	5
Volta	0	0	1	100.0	0	0	1
TOTAL	16		52		15		83

Q.5 Please indicate from the following one or more reasons why you do not operate a bank account.

Table 6.2.5

Region	Banks are too far away	Bank services too expensive	Lack of documents	I don't feel welcome	Total number of respondents

	Respon- dents	%	Respon- dents	%	Respon- dents	%	Respon- dents	%	
Western	2	40.0	1	20.0	2	40.0	0	0	5
Ashanti	1	25.0	1	25.0	1	25.0	1	25.0	4
Brong Ahafo	2	66.7	0	0	1	33.3	0	0	3
Eastern	1	50.0	1	50.0	0	0	0	0	2
Central	2	66.7	1	33.3	0	0	0	0	3
Volta	0	0	0	0	0	0	0	0	0
TOTAL	8		4		4		1		17

Q.6 Please indicate the type of account you are operating currently

Table 6.2.6

Region	Current		Savings		Both cur- rent and savings	%	Total number of respondents
	Respond- ents	%	Respond- ents	%			
Western	35	70.0	8	16.0	7	14.0	50
Ashanti	7	50.0	4	28.6	3	21.4	14
Brong Ahafo	3	50.0	2	33.3	1	16.7	6
Eastern	4	57.1	2	28.6	1	14.3	7
Central	3	60.0	1	20.0	1	20.0	5
Volta	1	100	0	0	0	0	1
TOTAL	53		17		13		83

For this category of questions, data gathered on the operation of bank accounts by cocoa farmers revealed that large-scale farmers tend to open bank accounts as compared with small-scale farmers. This is partly because due to larger production outputs, large-scale farmers receive higher earnings and therefore opt for payment through a bank account. A little over 70 percent of those who were operating bank accounts were large-scale farmers. In Chapter 2 of this study, it came to light that both COCOBOD and the GCCSFA had received calls from large-scale farmers in particular to fully implement the use of only Akuafio cheques for the payment of cocoa. However, this has not been possible because due to the comparatively lower amounts that they earn, small-scale cocoa farmers often prefer to be paid in cash rather than by cheque. This is particularly so if there are no bank branches within the farmer's catchment area. The lack of bank branches and access to finance in rural communities is frequently given as one of the reasons why poor people remain poor. Studies by Banerjee

and Newman (1993), Aghion and Bolton (1997) as well as Banerjee (2001) for example, all point out that access to finance is vital in empowering people to improve their productivity in order to exit poverty. For this study, majority of the cocoa farmers interviewed were operating bank accounts in order to receive payment by Akuafø cheque.

In the survey conducted on the use of banking services, an average of 79.3 percent of respondents had bank accounts, whilst an average of 20.7 percent did not have bank accounts. Majority of the farmers (average of 62.7 percent) indicated that the closest bank branch from their residence was up to twenty kilometres away, whilst an average of 18.1 percent had access to banks that were more than twenty kilometres away from their residence. For farmers without bank accounts, apart from the lack of banks in their communities an average of 24 percent lacked the documents needed to open an account, whilst an average of 6 percent said they did not feel welcome. This shows that some potential customers are financially excluded because of either illiteracy and/or the hostile attitude of bank staff.

The introduction of Akuafø cheques did not entirely stop farmers from choosing to be paid cash. For the average of 30 percent of farmers who lacked required documentation or did not feel welcome at banks, they continued to receive payment by cash. In addition, as observed by Vigneri and Santos (2009), some farmers opted for cash payment because bank branches in their local area experienced regular liquidity problems. In some other cases, it was the payment of cash which attracted farmers, especially small-scale farmers, to particular LBCs. In Table 1 of Chapter 2 for example, at least nine LBCs were chosen by farmers as first outlets to sell their cocoa to mainly because they paid cash. In addition, they provided credit facilities to cocoa farmers.

As it has been done in some developed countries, there may be the need for some policy response or specific legislation by central banks in sub-Saharan African countries that sets out minimum standards for basic bank accounts in order to reduce financial exclusion. For example in 1996, the German Bankers

Association introduced a voluntary code which makes provision for an ‘every-man’ current account that offers basic banking services. Likewise, in the United Kingdom there is a Banking Code which requires banks to inform customers about the availability of a basic bank account as well as its suitability for them. The country also instituted a Financial Inclusion Taskforce in April 2005 to monitor access to basic banking services. In Canada, a legislation passed in 2001 obliges all banks to open accounts for citizens irrespective of their employment status, and with minimum identification requirements. These minimum standards for basic bank accounts suggest that there can be different levels of inclusion for different categories of customers.

Even though COCOBOD indicates its preference for the Akuafio cheque system as the main mode of payment to farmers, the company also acknowledges that the ability of an LBC to pay farmers ready cash sometimes makes it attractive for them to offer the company their produce. In addition, as shown in the data collected for this study the size of farm influences a farmer’s choice of payment method. In Ghana, one factor which accounts for some farmers remaining financially excluded is that they reside in remote areas of the country. As banks require some form of basic infrastructure to operate, remote locations without such facilities often remain financially excluded.

In Table 6.2.5, one is able to assess the different levels of exclusion faced by some cocoa farmers. 47 percent (average) of respondents said they were not operating an account because banks were too far away. This points to financial exclusion resulting from issues regarding accessibility to bank branches. It is possible in some cases for banks to develop infrastructure in a community in order to open a branch there, but invariably, the cost is passed on to customers resulting in costly financial services and lack of customer interest. As observed by Porteous (2005), high fixed costs can entangle a small bank and hamper supply of services. In some rural parts of Ghana, cost of financial services is one factor which keeps small-scale cocoa farmers and other prospective customers away.

Still on Table 6.2.5, 23 percent (average) of respondents remained financially excluded because bank services were too expensive. In Chapter 3 of this study, we observed that one reason which keeps poor and disadvantaged groups financially excluded is cost. If banks are within reasonable reach but the cost of operating an account is high, a small-scale farmer for example will prefer to obtain payment by cash. As captured by Beck *et al* (2005), access to financial services ought to be differentiated from the use of financial services since one can have access to banks and not use the services because of issues of cost. The authors observe that in discussing how far banking services have been extended in any community, the two issues of access and actual use must be clearly differentiated.

On the subject of financial exclusion based on gender, it is worthy of mention that in general female cocoa farmers may operate bank accounts. However, for the cocoa sector in particular the role of women is most prominent during the harvesting and drying of cocoa beans.

Regarding the types of account farmers had, 63.8 percent (average) were operating current accounts, whilst 15.7 percent (average) had both current and savings accounts. As indicated in Chapter 3, when individuals have a safe place to save part of their earnings it enables them build up savings for future use.

In the continued effort to increase financial inclusion, some rural banks have put measures in place to enable illiterate farmers operate accounts. To address the issue of lack of required documentation, most rural banks in Ghana allow prospective illiterate customers who desire to open an account to submit two passport sized pictures, and thumbprint both the account opening and mandate forms. This is after their identity and personal details have been confirmed by either a bank staff or a respected community member who knows them personally. Thus it can be argued in some cases that, cocoa farmers who do not operate an account fail to do so out of choice or preference to receive payment by cash.

Category C (Questions 7, 8, 9 and 10) - Usage of bank services

Q. 7 How often in a month is money deposited into your account?

Table 6.2.7

Region	More than three times a month		Once or twice a month		No money deposited		Total number of respondents
	Respondents	%	Respondents	%	Respondents	%	
Western	8	16.0	20	40.0	22	44.0	50
Ashanti	3	21.4	3	21.4	8	57.2	14
Brong Ahafo	1	16.7	2	33.3	3	50.0	6
Eastern	1	14.3	4	57.1	2	28.6	7
Central	2	40.0	2	40.0	1	20.0	5
Volta	0	0	1	100.0	0	0	1
TOTAL	15		32		36		83

Q.8 Please indicate the type of deposit that is usually made into your account

Table 6.2.8

Region	Personal savings		Wages/payment for cocoa		Total number of respondents
	Respondents	%	Respondents	%	
Western	15	30.0	35	70.0	50
Ashanti	5	35.7	9	64.3	14
Brong Ahafo	2	33.3	4	66.7	6
Eastern	3	42.9	4	57.1	7
Central	1	20.0	4	80.0	5
Volta	0	0	1	100.0	1
TOTAL	26		57		83

Q.9 Over the past 12 months, have you received money into your account from any source for the sale of your cocoa beans?

Table 6.2.9

Region	Yes		No		Total number of respondents
	Respondents	%	Respondents	%	
Western	50	100.0	0	0	50
Ashanti	14	100.0	0	0	14
Brong Ahafo	6	100.0	0	0	6
Eastern	7	100.0	0	0	7
Central	5	100.0	0	0	5
Volta	1	100.0	0	0	1
TOTAL	83		0		83

Q.10 How often in a month is money withdrawn from your bank account?

Table 6.2.10

Region	More than three times a month		Not more than once or twice a month		Total number of respondents
	Respondents	%	Respondents	%	
Western	20	40.0	30	60.0	50
Ashanti	6	42.9	8	57.1	14
Brong Ahafo	3	50.0	3	50.0	6
Eastern	2	28.6	5	71.4	7
Central	1	20.0	4	80.0	5
Volta	0	0	1	100.0	1
TOTAL	32		51		83

This category of questions was to find out whether farmers were taking advantage of other bank services available apart from receiving payments for cocoa. As can be observed from Table 6.2.9, since the farmers were receiving payment by Akuafu cheque, they all indicated that they had received money into their account for the sale of cocoa over the past 12 months. The accumulation of capital is key in promoting economic growth, and a positive savings culture of individuals can help in achieving this. 43.4 percent (average) of the respondents said no money was deposited into their account in a month. This comprises respondents from all the regions except Volta Region. This is separate from Akuafu cheque deposits. As observed by Akaah *et al* (1987), majority of rural dwellers rely on informal savings associations to make savings. This is either because of the low nominal interest rates on bank deposits when compared to the rate of inflation, or instances of fear of savings account records being unnecessarily investigated by government officials. Indeed, this state of affairs persisted in Ghana in the 1980s when the country was under military rule. Akaah *et al* (1987) suggest that for banks to succeed as effective savings channels, they ought to reflect the banking needs of the rural population that they serve.

Even though the data on bank usage for this study show that some form of deposit went into the account of an average of 56.6 percent of farmers at least monthly, the survey also reveals that a chunk of such deposit (68.7 percent) came in the form of payment for cocoa. 31.3 percent represented personal sav-

ings. This may be interpreted to mean that the farmers encountered some barriers to their full use of bank accounts. In Chapter 4 of this paper, it came to light that even though rural farmers' accessibility to basic banking services had been narrowed, some barriers to usage of bank accounts persisted. As observed by Demirguc-Kunt and Klapper (2012), examples of barriers often reported by potential customers are physical distance, high cost and lack of required documentation. The author however notes that there are some barriers to usage of bank accounts that may be overcome by the implementation of appropriate policy decisions. When these barriers are limited or eliminated, bank usage among rural farmers may be enhanced.

Category D (Questions 11, 12, 13 and 14) - Akuafio cheque payments

Q.11 How have you received payment for cocoa over the past one year?

Table 6.2.11

Region	Direct payment by cash		Payment into a bank account		Through a mobile phone		Total number of respondents
	Respondents	%	Respondents	%			
Western	10	20.0	40	80.0	0	0	50
Ashanti	3	21.4	11	78.6	0	0	14
Brong Ahafo	2	33.3	4	66.7	0	0	6
Eastern	3	42.9	4	57.1	0	0	7
Central	1	20.0	4	80.0	0	0	5
Volta	0		1	100.0	0	0	1
TOTAL	19		64		0		83

Q.12 After payment of your income do you usually withdraw all the money right away or you withdraw the money over time as you need it?

Table 6.2.12

Region	All the money right away		Over time as needed		Total number of respondents
	Respondents	%	Respondents	%	
Western	28	56.0	22	44.0	50
Ashanti	6	42.9	8	57.1	14
Brong Ahafo	3	50.0	3	50.0	6
Eastern	3	42.9	4	57.1	7
Central	2	40.0	3	60.0	5
Volta	0	0	1	100.0	1
TOTAL	42		41		83

Q.13 Which of the following statements best describes the account through which you receive payments for cocoa?

Table 6.2.13

Region	First account opened mainly to receive payment by Akuafu cheque		Had an account before receiving income into it		Had an account but opened another one for Akuafu cheque payments		Total number of respondents
	Respondents	%	Respondents	%	Respondents	%	
Western	30	60.0	14	28.0	6	12.0	50
Ashanti	10	71.4	3	21.4	1	7.2	14
Brong Ahafo	4	66.6	1	16.6	1	16.6	6
Eastern	5	71.4	2	28.6	0	0	7
Central	5	100.0	0	0	0	0	5
Volta	1	100.0	0	0	0	0	1
TOTAL	55		20		8		83

Q.14 Have you received payment of bonuses into this account from the Ghana Cocoa Board over the past year?

Table 6.2.14

Region	Yes		No		Total number of respondents
	Respondents	%	Respondents	%	
Western	50	100	0	0	50
Ashanti	14	100	0	0	14
Brong Ahafo	6	100	0	0	6
Eastern	7	100	0	0	7
Central	5	100	0	0	5
Volta	1	100	0	0	1
TOTAL	83		0		83

The above set of questions is to demonstrate the extent to which the use of Akuafu cheque encourages bank usage. One of the aims of the introduction of the Akuafu cheque was to introduce banking in the rural communities of Ghana. In Chapter 2 of this study, we observed that the Akuafu cheque system was introduced as a way of limiting cases of cheating by purchasing clerks and improving access to credit (Vigneri and Santos, 2009). This is particularly important in rural communities of Ghana where small-scale farmers are, and literacy levels are low. An average of 77.1 percent of cocoa farmers interviewed said they were receiving payment into a bank account by Akuafu cheque. This group of farmers therefore avoided cases where purchasing clerks paid them less or just absconded with their funds. In order to enhance steps being taken to

promote financial inclusion, is important that the remaining 22.9 percent (average) of cocoa farmers interviewed who were not receiving payment into a bank account are educated on the benefits of operating a bank account. Financial education will undoubtedly enhance financial inclusion.

About half (an average of 50.6 percent) of the farmers interviewed said they usually withdrew all their money right after payment. This is where rural banks, as institutions owned and controlled by the local communities, can instil the banking culture of savings among rural populations. As observed in Chapter 4 of this study, shares of individuals and corporate bodies in a rural bank are limited to 30% and 50% respectively. This is to encourage and enable local residents to become shareholders of rural banks operating in their communities. Indeed in some rural banks, one of the conditions for approval of loans above a certain limit is for the customer to buy shares in the bank. The underlying reason is that part ownership motivates borrowers to endeavour to repay their loans in order for the bank to remain in business. The Grameen Bank in Bangladesh which provides credit to the rural poor to improve their economic conditions is an example of a bank where majority of the shares are owned by its borrowers. According to Hossain (1988:9), “seventy-five percent of the shares are owned by the bank’s borrower shareholders and 25 percent by the government”. In Ghana, Annual General Meetings of rural banks usually serve as useful platforms for the sale of shares to community members, and education of shareholders and customers on the use of bank services, as well as the benefits of financial inclusion.

In Table 6.2.13, an average of 66.3 percent of the respondents who were receiving payment by Akuafø cheque were operating their first account. In all the regions, more than half of the respondents interviewed had opened an account for the first time. Thus to some limited extent, the use of Akuafø cheque had enhanced financial inclusion among cocoa farmers. Nevertheless, financial inclusion involves much more than just operating an account. As observed by Demirguc-Kunt *et al* (2015:2) “financial inclusion, at its most basic level, starts with having a bank account. But it doesn’t stop there-only with regular use do

people fully benefit from having an account". Access to other basic services such as loans and savings accounts are what will improve account usage. In Chapter 3 of this study, the AFI in its Policy Paper (2010) suggests that the frequency of use of an account by a customer is important because it helps in determining whether the customer has been fully integrated in the banking system or not. Non-usage or minimal use of a bank account results in "under-banked" customers (Osei-Assibey, 2009).

In Table 6.2.14 all respondents had received payment of bonuses from COCOBOD through their bank account over the past year. As observed in this study, according to COCOBOD, the process of bonus payment is easier and quicker for cocoa farmers with bank accounts since records of their total sales are easily verifiable having been paid through a bank account.

Category E (Questions 15, 16, 17, 18 and 19) – (savings and borrowing behaviour of cocoa farmers)

Q.15 Over the past one year have you saved or set money aside in a bank account or an informal savings club?

Table 6.2.15

Region	Yes		No		Total number of respondents
	Respondents	%	Respondents	%	
Western	33	66.0	17	34.0	50
Ashanti	11	78.6	3	21.4	14
Brong Ahafo	3	50.0	3	50.0	6
Eastern	4	57.1	3	42.9	7
Central	3	60.0	2	40.0	5
Volta	0	0	1	100.0	1
TOTAL	54		29		83

Q.16 Over the past one year have you borrowed from your bank?

Table 6.2.16

Region	Yes		No		Total number of respondents
	Respondents	%	Respondents	%	

Western	45	90.0	5	10.0	50
Ashanti	12	85.7	2	14.3	14
Brong Ahafo	6	100.0	0	0	6
Eastern	5	71.4	2	28.6	7
Central	5	100.0	0	0	5
Volta	1	100.0	0	0	1
TOTAL	74		9		83

Q.17 State your reason for borrowing from your bank?

Table 6.2.17

Region	To expand my co-cocoa farm		For personal reasons		Total number of respondents
	Respondents	%	Respondents	%	
Western	47	94.0	3	6.0	50
Ashanti	9	64.3	5	35.7	14
Brong Ahafo	4	66.7	2	33.3	6
Eastern	5	71.4	2	28.6	7
Central	3	60.0	2	40.0	5
Volta	0	0	1	100.0	1
TOTAL	68		15		83

Q.18 How long did you have to wait after your loan application to obtain approval?

Table 6.2.18

Region	Up to one week		Two to three weeks		More than one month	Total number of respondents	
	Respondents	%	Respondents	%	Respondents		
Western	3	6.0	42	84.0	5	10.0	50
Ashanti	3	21.4	9	64.3	2	14.3	14
Brong Ahafo	1	16.7	3	50.0	2	33.3	6
Eastern	1	14.3	5	71.4	1	14.3	7
Central	1	20.0	3	60.0	1	20.0	5
Volta	0	0	1	100.0	0	0	1
TOTAL	9		63		11		83

Q.19 How will you describe the process of obtaining a loan from your bank?

Table 6.2.19

Region	Easy		Slightly difficult		Difficult		Total number of respondents
	Respondents	%	Respondents	%	Respondents	%	

Western	11	22.0	31	62.0	8	16.0	50
Ashanti	3	21.4	11	78.6	0	0	14
Brong Ahafo	1	16.6	4	66.6	1	16.6	6
Eastern	1	14.3	5	71.4	1	14.3	7
Central	2	40.0	3	60.0	0	0	5
Volta	0	0	1	100	0	0	1
TOTAL	18		55		10		83

This category of questions reveal that as a result of opening an account primarily for Akuafu cheque payment, cocoa farmers now had the added advantage of borrowing for both business and personal use at reasonable interest rates compared to borrowing from individual money lenders. An average of 82 percent of farmers indicated they had borrowed from their bank over the past year to expand their cocoa farm, whilst 18 percent had borrowed for personal reasons. Again, an average of 65 percent of farmers were now setting money aside as savings either in the bank or with an informal savings association, an indication of one positive effect of financial inclusion. In some parts of Ghana, there is the belief that poor people do not save, and are not creditworthy. However according to Khandker (2000), loan repayment rate among poor borrowers is higher than among the non-poor. In some developing countries including Ghana, microfinance institutions are now important channels for voluntary savings and micro-borrowing. This has gradually reduced instances where the poor borrow at exorbitant rates from informal sources.

In Chapter 3 of this study, we observed that an all-inclusive financial system helps to lessen the presence of informal sources of loans which take advantage of people's need for credit. Secondly, access to a safe place to save enables one build savings for use when needed. We observe from Table 6.2.17 that majority of the farmers who were borrowing were doing so to expand their cocoa farms. There is no doubt that farmers need financial resources to adopt technology innovations. However, just as the opportunity to borrow at a reasonable rate is important, it is equally important that borrowers will be able and willing to repay their loans. According to Smith (2001), from the lender's point of view, "lending involves two risks, namely, that the borrower will be unable to

repay (the use made of the funds is less productive than anticipated perhaps due to unfavourable weather or lower market prices) or that they will be unwilling to repay (opportunistic behaviour due to asymmetric information)”.

Regarding the waiting period for loan approval, majority of the farmers (average of 76 percent) said they had to wait up to three weeks to obtain approval for loans. An average of 11 percent said they obtained approval in a week. This category of farmers were large-scale farmers who could easily access overdraft facilities because of their high account turnover. The remaining 13 percent of respondents said they waited for over a month to obtain loan approval. For first time borrowers, rural banks undertake strenuous background checks before approving the facility, and this can contribute to delays in the loan approval process. Based on the waiting period of different cocoa farmers to obtain loan approval, 22 percent (average) described the process of obtaining a loan from the bank as easy, whilst 66 percent (average) said it was slightly difficult. The other 12 percent (average) of respondents described the process as difficult. In many low income countries, the loan approval process tends to be long and difficult because the borrower has to bear costs related to a technical assessment of his/her farm operations. As observed by Adams and Nehman (1979:166), “in many cases, the largest and most important transaction costs are the borrower’s time and travel expenses involved in the loan transaction. Many small and new borrowers are required to visit the formal lender a number of times to negotiate the loan, withdraw portions of the loan, and make repayment”.

Despite the waiting period for loan approval, all the cocoa farmers interviewed maintained that the opportunity to borrow from a bank was far better in terms of cost than borrowing from individual moneylenders. They therefore expressed satisfaction about the services being provided to them at their various banks. In as much as easy access to loans is key in promoting financial inclusion, it is important that lending risk be widely spread by banks to avoid lending mismatches. As observed by Mehrotra and Yetman (2015:92), “it is important to distinguish between structural financial deepening, leading to a widening pool of borrowers, and an unsustainable lending boom that sees a

smaller number of borrowers amassing large debts". In effect in promoting financial inclusion, management of banks must ensure that disproportionate credit expansion is prevented.

Scholars of financial inclusion argue that a crucial ingredient of the concept is not just for poor rural individuals and households to have bank accounts but rather for them to be able to access the benefits that go with operating an account. Such benefits include borrowing and saving. If an account in a financial institution remains idle or dormant, it does not benefit its holder in terms of being able to access a loan facility for some productive venture. Also, an idle account rather imposes unnecessary cost on the institution maintaining it. Thus, policy efforts aimed at deepening financial inclusion to empower the poor and marginalised must go hand in hand with the actual and beneficial use of the finance being made available.

Category F (Questions 20 and 21) – (general impressions about bank services and encouraging its use by family members)

Q.20 How will you assess the services provided to you at your bank?

Table 6.2.20

Region	Very good		Satisfactory		Poor		Total number of respondents
	Respondents	%	Respondents	%	Respondents	%	
Western	12	24.0	33	66.0	5	10.0	50
Ashanti	3	21.4	8	57.2	3	21.4	14
Brong Ahafo	2	33.3	4	66.7	0	0	6
Eastern	2	28.6	4	57.1	1	14.3	7
Central	1	20.0	4	80.0	0	0	5
Volta	0	0	1	100.0	0	0	1
TOTAL	20		54		9		83

Q.21 Will you encourage any of your family members to open a bank account?

Table 6.2.21

Region	Yes		No		Total number of respondents
	Respondents	%	Respondents	%	

Western	50	100	0	0	50
Ashanti	14	100	0	0	14
Brong Ahafo	6	100	0	0	6
Eastern	7	100	0	0	7
Central	5	100	0	0	5
Volta	1	100	0	0	1
TOTAL	83		0		83

This category of questions was to solicit some form of feedback from the cocoa farmers on how they would assess the services provided them by the banks. Even though 24.1 percent (average) of the respondents described the bank services as very good, majority of the respondents (average of 65.1 percent) said the services were satisfactory. However, 10.8 percent (average) of respondents described the services being provided as poor. In order to assist rural banks to improve customer services, there may be the need for the ARB Apex Bank to organise training seminars on a regular basis for its members and their staff.

On the question of whether they would encourage use of banks by family members, the farmers interviewed indicated that given the added benefits that receiving payment by Akuafio cheque through a bank account had offered them, they would encourage their family members to open bank accounts.

6.3 Chapter Conclusion

This chapter has looked at financial inclusion among cocoa farmers with a critical analysis of the data collected via questionnaire on the use of banking services by cocoa farmers. The analysis has revealed that more education on the importance of savings ought to be done on a continued basis to encourage farmers to save rather than withdrawing all what is paid them in one go. Some of the farmers interviewed indicated that even though they were not saving with the rural banks where their accounts were, they were members of informal savings club of farmers in their communities. Thus to some extent they understood the importance of setting money aside for future use.

In sum, it can be reasonably argued that through the use of Akuafio cheques the gap in cocoa farmers' accessibility to basic banking services has been nar-

rowed and financial inclusion expanded, albeit on moderate levels. Again to some reasonable extent, the social and economic conditions of rural cocoa farmers have been enhanced as the availability of loan facilities from rural banks has facilitated the financing of economic activities in many rural parts of Ghana.

Chapter 7

Conclusion

The financial sector in every country plays a key role in facilitating financial inclusion and this is no different from what pertains in Ghana. More than 50% of Ghana's population live and work in the rural areas of the country. Thus, when majority of the residents of the country are able to access financial services or operate bank accounts, it goes a long way in alleviating poverty since households and small businesses are able to save and access loans for both personal and business ventures.

Promoting financial inclusion is one socio-economic agenda that the Central Bank and indeed the government of Ghana seek to achieve. The Central Bank supports and equips rural banks to ensure that they operate on a sustainable basis. Again, the Bank has progressively promoted policies that encourage financial institutions to expand to parts of the country without financial access in order to reduce inequality in income levels and promote economic growth. When individuals and firms are able to access credit, it enables banks to expand as well as diversify their loan portfolios.

This paper has explored the extent to which the use of Akuafio cheque as a means of payment for cocoa farmers has enabled previously unbanked cocoa farmers, some of whom are illiterate, to open bank accounts and use other banking services. To some extent, it is the establishment of rural banks in the rural parts of Ghana which has facilitated the operation of bank accounts by these farmers, since the requirements for opening an account in most rural banks are less stringent than in a traditional commercial bank. The study showed that financial literacy and the opening of more bank branches in rural areas were key in increasing financial inclusion. As revealed in the data gathered on the use of banking services by cocoa farmers, at least an average of 66.3 percent of respondents interviewed were operating their first bank account mainly to receive payment by Akuafio cheque. The use of Akuafio cheque had

therefore opened up farmers' access to banks, hence enhancing financial inclusion.

Yet still, an area for further reflection is the role of regulation in enhancing financial inclusion. One question for reflection is does the assurance of regulation alone protect bank customers? The essence of financial regulation is to protect depositors' funds and investors, and promote stability in a country's financial system. As observed by Klomp and de Haan (2012:3197), "the worldwide financial crisis following the failure of Lehman Brothers in September 2008 has highlighted the importance of adequate bank regulation and supervision". Again, one basic purpose of regulatory policy is to make supervisory bodies stronger to enable them enforce prudential rules (Brownbridge, 1998). This is particularly essential to ensure that unsophisticated users of financial services such as majority of rural bank customers are protected.

In rural parts of Ghana where many people remain unbanked for various reasons, and bank customers are unsophisticated, one way of ensuring that customer deposits are protected is through regulation. This is primarily because depending on how deposits mobilised by banks are employed, there is always a potential risk of loss. Differences in country specifics point to the fact that prudential measures that will work effectively in one country may not necessarily work in another. Nevertheless in Ghana, financial institutions that are regulated are often perceived as relatively safe. In a study conducted by Pasiouras et al (2006) in 71 countries, the authors noted that some level of bank regulation does have a key influence on a bank's rating.

One of the hindrances to financial inclusion is poor regulation. It is for this reason that effective monitoring measures must be in place to, among others, allow institutions to adopt new technologies that can benefit the poor, safeguard the country's financial system and protect bank customers. The Centre for Global Development's Financial Access Task Force Report (2016) advocates regulatory measures that promote financial inclusion. Firstly, it recommends open and fair competition among financial institutions since this results in the

development of different products and services at reduced costs to enable prospective customers to be financially included. Secondly, it recommends a level playing field for different institutions that offer services that pose the same level of risk since this allows for reliable consumer protection and improves financial inclusion. Finally, it advocates for know-your-customer rules that enable financial institutions to know who they are dealing with. This is important for financial inclusion because financial institutions will in most cases only lend to customers that they know and can easily trace.

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Appendices

Appendix 1 - Questionnaire on the use of banking services by cocoa farmers

Category A (Profile of the cocoa farmers)

1. How long have you worked as a cocoa farmer?
 - a) More than ten years
 - b) Less than ten years
2. Will you describe yourself as a large-scale cocoa farmer or a small-scale cocoa farmer?
 - a) Large-scale (more than five acres of farmland)
 - b) Small-scale (up to five acres of farmland)

Category B (Operation of bank accounts by cocoa farmers)

3. Do you have an account with a commercial or rural bank or any other type of formal financial institution?
 - a) Yes
 - b) No (if No go to question 5)
4. How far are you to a branch office of a bank or another type of formal financial institution?
 - a) Less than 10 kilometres
 - b) Up to 20 kilometres
 - c) More than 20 kilometres
5. Please indicate from the following one or more reasons why you do not operate a bank account.
 - a) Banks are too far away
 - b) Bank services are too expensive
 - c) I don't have the required documentation
 - d) I don't feel welcome
6. Please indicate the type of account you are operating currently
 - a) Current
 - b) Savings
 - c) Both current and savings

Category C (usage of bank services)

7. How often in a month is money deposited into your account?
 - a) More than three times a month
 - b) Not more than one or two times a month
 - c) No money deposited in account
8. Please indicate the type of deposit that is usually made into your account.
 - a) Personal savings
 - b) Payment for cocoa produce
9. Over the past 12 months, have you received money into your account from any source for the sale of your cocoa beans?
 - a) Yes
 - b) No
10. How often in a month is money withdrawn from your bank account?
 - a) More than three times a month
 - b) Not more than one or two times a month

Category D (Akuafio cheque payments)

11. How have you received payment for cocoa over the past one year?
 - a) Direct payment by cash
 - b) Payment into a bank account by Akuafio cheque
 - c) Payment through a mobile phone
12. After payment of your income do you usually withdraw all the money right away or you withdraw the money over time as you need it?
 - a) All of the money right away
 - b) Over time as needed
13. Which of the following statements best describes the account through which you receive payments for cocoa?
 - a) This was your first account, and it was opened so you could receive payments by Akuafio cheque into it
 - b) You had this account before you began receiving income into it
 - c) You had a bank account before but you opened another one for the purpose of receiving Akuafio cheque payments.
14. Have you received payment of bonuses into this account from the Ghana Cocoa Board over the past year?

- a) Yes
- b) No

Category E (savings and borrowing behaviour of cocoa farmers)

- 15. Over the past one year have you saved or set money aside in a bank account or an informal savings club?
 - a) Yes
 - b) No
- 16. Over the past one year have you borrowed from your bank?
 - a) Yes
 - b) No
- 17. State your reason for borrowing from your bank?
 - a) To expand my cocoa farm
 - b) For personal reasons
- 18. How long did you have to wait after your loan application to obtain approval?
 - a) Up to one week
 - b) Two to three weeks
 - c) More than one month
- 19. How will you describe the process of obtaining a loan from your bank?
 - a) Easy
 - b) Slightly difficult
 - c) Difficult

Category F (general impressions of bank services and encouraging its use by family members)

- 20. How will you assess the services provided to you at your bank?
 - a) very good
 - b) satisfactory
 - c) poor
- 21. Will you encourage any of your family members to open a bank account?
 - a) Yes
 - b) No

Appendix 2 - Interview Guide (GCCSFA)

1. Generally, what are some of the ways in which the Association supports cocoa farmers in Ghana?
2. Is there continuous interaction with government on the key challenges of farmers?
3. Any comments about interaction with other important stakeholders (e.g. in the case of cocoa farmers, interaction with COCOBOD, licensed buying companies, representative Banking Association etc)
4. What are the main challenges of farmers (particularly cocoa farmers in Ghana)?
5. What is your view about the availability of financial services to cocoa farmers in Ghana?
6. In what ways do you think the Association can promote financial inclusion among cocoa farmers (both small-scale and large-scale) in Ghana?