Small Farmer Credit in Ghana in the 1970s: A Case in The Politics of Labelling.

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The need to channel bank credit from its concentration on short term self liquidating commercial loans to the directly productive sectors of the economy has been cherished by all post colonial Ghanaian governments. Since agriculture contributes over 50% of GDP, it has been expected that this will mean greater credit to agriculture. This longing is not unique, commonalities in colonial banking has ensured that it is shared by many other developing countries. Thus, Von Pishcke has been able to model a general pattern in the creation of special financial ir stitutions to meet the perceived shortcomings of inherited financial systems.footnoteVon Pischke, J. D. "The Political Economy of Specialized Farm Credit Institutions" in *World Bank Working Paper*, No. 446, 1981, Washington In Ghana, it was not until the 1970s that formal sector agricultural credit assumed significant proportions. When it did, it did so in a very dramatic way. For instance, analysts of different persuasions agree that a rapid increase in bank credit was the single most important factor in the remarkable rise of capitalist/commercial rice farming in Northern Ghana in this period[1] There was another,though less glamorous change in agricultural credit in Ghana in the 1970s. This was the development of lending programs targeted on small farmers. The Agricultural Development Bank and the Ghana Commercial Bank have had small farmer lending schemes since 1969 and 1976 respectively. With a view to stemming the flow of financial resources from urban to rural areas and in the same breath to increase lending to small farmers, the Bank of Ghana, the central bank, has since 1977, been promoting "Rural Banks", single unit banks based in small urban centres.

In this paper we trace the origins of the small farmer credit schemes and their relationship with the ordinary agricultural credit portfolio. Employing concepts from the work of Bernard Schaffer and his associates, we explore this instance of state intervention by concentrating on the agencies involved rather than the supposed beneficiaries and on the methods used in its sustenance rather than its outcome as such. The aim is to underline the political nature of

[1] As examples Bates, R. *Markets and States in Tropical Africa: The Political Basis of Agricultural Policies*, University of California Press, 1981 pp.56-58, Hart, K. *The Political Economy of of Agriculture in West Africa*, Cambridge University Press, 1982, p.73

the "implementation" of these schemes. It is argued that the small farmer scheme legitimised the process of bank credit expansion in general. This paper might show that beside the imputation of sheer corruption or patrimony which many writers rightly make, a more important conclusion to be drawn from the recent history of agricultural credit in Ghana is the hegemonical tendency of the Ghanaian state.

As to the structure of the paper, the next section will provide general information on Ghana's financial system and the relevant political conditions and also specify the the conceptual borrowings we make. Section 2 contains the case discussion of the Small Farmer scheme and the discussion in Section 3 faces the general conclusions mentioned above.

1

It is well known that the typical instruments of monetary policy such as open market operations and even manipulation of the interest rate structure have not been very effective in Ghana because of the smallness of the monetized sector of the economy, even though the latter has deepened rapidly.[2] Nonetheless, Ghanaian governments have continually attempted to use monetary policy instruments in the acheivement of their objectives.

Legislation establishing a new central bank was introduced a day before independence. The bank was soon endowed with full powers necessary for the pursuance of monetary policy including the power to float Ghanaian government securities from February 1960 and to create fiduciary issue from April 1961. With Ghana's abandonment of the sterling exchange standard at the end of that year, what one writer has called "monetary decolonisation"[3] was

[2]For a consideration of the historical trend in monetization see, Szereszewski, R. *Structural Changes in the Economy of Ghana 1891–1911*, Weidenfeld and Nicolson, 1965, Chapter 5. and Killick, T. *Development Economics in Action: A Study of Economic Policies in Ghana*, Heineman, 1978 PP. 70 and 92. On the limits of monetary policy see Killick, T. "The Possibility of Economic Control"in Birmingham, W, I Neustadt and Omaboe, E. N. (eds.) *A Study of Contemporary Ghana. Volume One - The Economy of Ghana*, George Allen and Unwin, 1966, pp.430–437. and Brookins, O. T "Economic Structure and the Conduct of Monetary Policy: Lessons from Ghana's recent economic history" *Rivista Internazionale di Science Economiche e Commerciali* 25, 1978: 254–264.

[3]Mensah, A. "The Process of Monetary Decolonialisation in Africa, *Utafiti*, 4, 1, 1979,

quite complete. With regard to the internal distribution of power, a revision of the legal framework for banking in 1970 saw the central bank assume considerable control over the commercial banks. In short, by the beginning of the 1970s, a fairly effective machinery had been established for state intervention in what money market that existed. Of course the nature of such intervention was a function of existing political conditions as well as the proclivities of the regimes in power.

The Progress Party government of Dr K. A. Busia which was in power in 1970 enjoyed stating its belief in liberalism wrought large. Politics was overshadowed by negotiations on external debts largely left by the Nkrumah regime. Indeed, as put by a member of Busia's government, "post Nkrumah Ghana ... had to surrrender its sovereignty over economic policy determination".[4] In particular the government's fiscal operations had to appear proper to its foreign creditors. The military government which overthrew Busia's government in 1972 set out to restore a more commandist economy. The constraint of maintaining regular fiscal operations was in large measure removed with the repudiation of part of the external debts and the unilateral reschudling of the rest. This opened the way to big increases in government expenditure, resulting in the effective reduction of monetary policy to a mere extension of the regime's fiscal policy.

For the distribution of of credit between sectors, manipulation of the interest rate structure is one of the most important policy instruments available. Up to 1973 this had been set by the Bank of Ghana in support of governments' policy objectives, but in that year the Acheampong regime introduced legislation that left the determination of interest himself), to the lasting resentment of the Bank of Ghana.[5] Trends in interest rates for the relevant years are set out in the table below. Interest rates for agricultural loans are set below the normal lending rates. The big reduction of in these rates in 1972 was one of the first measures undertaken in support of the Acheampong regime's "Feed Yourself" agricultural campaign.

45–63.

[4]Ofori-Atta, J. "The Stagnation Crisis in Ghana: A Call for Pragmatism", *Universitas*, (Legon), 6, 2, 1975, p. 18.

[5]*Bank of Ghana (Amendment) Decree*, NRC Decree No. 225,1973

Table 1: Interest Rates, 1970–1980 (End of Period, % per annum.)

	(1) Bank Rate	(2) Commercial Banks' Savings Deposit Rate	(3) Commercial Banks' Lending Rate	(4) Lending Rate For Agriculture	(5) Consumer Price Index
1970	5.5	3.5	6.5–10	–	100
1971	8	7.5	11 –14.5	12.5	109
1972	8	7.5	11–14.5	6	120
1973	6	5	9–10	6	141
1974	6	5	9–10	6	167
1975	8	7.5	9–10	8.5	217
1976	8	7.5	10.5–12.5	8.5	339
1977	8	7.5	10.5–12.5	8.5	732
1978	13.5	12	16.5–18.5	13	1272
1979	13.5	12	16.5–18.5	13	1957
1980	13.5	12	16.5–18.5	13	2938

Sources: *Bank of Ghana Annual Reports*, 1970–1978 and Unpublished Records of the Bank, *Economic Survey*, Central Bureau of Statistics, Accra, various issues.

It can be calculated from columns 4 and 5 that this rendered the real interest rates on such loans negative. Moreover, maintenance of the preceding commercial banks' borrowing rates meant that they automatically made a loss on agricultural loans. This signals that the Bank of Ghana was not party to this reduction. This view is reinforced by the interest rate adjustments made in August 1973 which reduced the Bank of Ghana's rediscount and the commercial banks' savings deposit rates. The anomaly of automatic losses was thus removed but at the price of the profits of the central bank and the public's incentive to save. But, after all this, the interest spread for the banks, especially for agricultural credit was still very narrow. The 42% increase in interest on agricultural loans in 1975 was made only after the first oil crisis had shocked the regime into some modicum of financial responsibility, in this instance, by its own revealing explanation, into "activating interest rates as a means of economic management"[6] The rates established remained essentially unchanged till the deposition of Acheampong in July 1978 when the new regime allowed the Bank of Ghana to increase rates generally,[7] This structure was maintained till the end of the decade inspite of two different governments and a 131% increase in the consumer price index.

The point here is that the negative real interest rates ensured that recipients of bank loans in general, and agricultural loans es-

[6] *Budget Proposals for Financial Year 1975/1976*, Ministry of Finance, 1975, p.21.
[7] *Budget Statement for 1978/1979 Financial Year.* paragraph 66.

pecially , were subsidized by savers (and the state, which, as we shall see provided specific fundig for on lending to agriculture.) Thus access to bank credit carried considerable advantages. The regime had its share of benefits as the diseconomy of agricultural lending required that it continually hector the banks to increase their lending to agriculture. This , then, was not a market situation, it was a case of administered allocation and agricultural credit moved from being supply led to demand following. Herein lies the special pertinence of Bernard Schaff r's legacy. The public management of scarcity was at the centre of Schaffer's work but I cannot summarise its full scope, we may cite that by his colleague, Apthorpe.[8] I want to draw on the aspects of his work which bear on a general perception of state/society processes. Labelling theory, which is a narrower counterpart of Schaffer more well known access theory, is more directly trained on the general activities of the state.[9] Ordinarily taken as an act of designation, labelling is widely practised and is indeed a prerequisite for communication. All labels abstract from wider features and their basis(es) may be scientific, as in "man" and "woman" or judgemental, as in stereotyping ethnic groups and in "small" farmers. The issue, as Wood points out is not whether labelling occurs, but whose and which labels persist, this touches on the exercise of power and labels are indeed central in political discourse. Schafferian Labelling Theory postulates that due to the way in which problems requiring attention and policy are constitued and defined, rules and access are frequently set in pretendedly apolitical ways, issues which raise few opportunities for conflict are put on the policy agenda This way , specific classifications are presented as having universal validity, strengthening the ideologies of those who exercise the powers of

[8] "The most characteristic Schafferian theme in public administration and development studies is: the shape and consequences of the institutional encounters of the state and in its bureaucratic concerns with services and other allocations of official provision." Editorial Introduction in *Public Administration and Development*, 6, 4, 1986, (Special Issue: Institutions and Policies: Essays on Bernand Schaffer's Grammar of Official of Official Provision).

[9] As far as I am aware Schaffer did not publish directly on Labelling Theory as it will be described below. He was involved in the project when he met his sudden death. The basic statement is thus that contained in Geoff Wood's introduction to the Special Issue of *Development and Change*, 16, 3, 1985 in his honour (also published as a book by Sage, 1986.) in which the links between access theory and labelling theory is discussed on pp.366–367. See also Wood, G. "Don't Give Them my Telephone Number: " *Public Administration and Development*, /bf 6, 4.

definition. Indeed, as Schaffer is said to have put it, labels are "a shadow across reality which can have useful disquises."[10] Specifically, it is postulated that this is an important means available to states for ensuring preferred allocations of resources and services. The point in all this, from my point of view, is that we are offered a dynamic perspective from which to examine state action which avoids the stock reductionism of thinly veiled functionalist theories of state building as well as mode of production centred theories of the "post colonial state".

2

Here we shall first outline the way in which the small farmer credit schemes operate and then trace the long standing justification of its principles, we shall then move on to analyse the origins of these schemes.

All the small farmer schemes operate as group schemes. Unlike in Zimbabwe, where Bratton found various forms of small farmer group lending schemes,[11] the group schemes in Ghana all have a similar design. The groups are, more often than not, formed expressly for the purpose of borrowing from the banks.[12] Officially the local agricultural extension officer is supposed to help the banks decide eligibility but this does not appear to have been enforced in practice. The major operative requirement is that the groups "elect" a small executive which acts as an intermediary with the bank. The loans are issued "jointly and severally" to the group through their executive. That is, the group as a whole has to ensure repayment. If even a member of a group fails to pay, all members in the group are disqualified from receiving loans in subsequent years. The extension of loans through groups has been notably effective. In the first place, the banks have been able to extend

[10] Cited in Wood, G. "Labels: A Shadow Across Reality. An Introductory Note" *Development and Change*,,**16**, 3,1985.

[11] Bratton, M. "Financing Small Farmer Production: A Comparison of Individual and Group Credit Schemes in Zimbabwe", *Public Adiministration and Development*, **6** , 2, 1986: 115–132.

[12] In few instances, loans have been given to participants in officially sponsored agricultural programmes such as the "Maize Package" and "Cocoa Rehabilitation" schemes operated by the ADB for farmers in the Ghana/FAO/UNDP "Increased Farm Production Through Fertilizer Use Project" and Ghana/IBRD Eastern Region Cocoa Rehabilitation Project.

their scale of operation without worsening their unit transaction costs. The groups' executives perform a lot of the loan making operations,from group formation to loan retrieval. Thus in one region the ADB was able to extend loans to 32,000 small farmers with a field staff of only 26.[13]. Loan repayment is also better with the group schemes, with the ADB, the rate for the small farmers' group scheme was 85% whereas individual loans had a repayment rate of 75%, for 1978 the Ghana Commercial Bank reported repayment rates of between 90 and 100 %.[14]

The banks have received and given themselves praise for the introduction of the small farmer schemes. Their fair reception in the scholarly literature has been noted above. For the banks, an official chronicle of the ADB for instance, reads:

> From 1969 when ADB started granting loans to the small farmers ... several thousands of hectares of various food crops have been put under cultivation by small farmers through out the country ...
>
> ... the Bank can claim with pride that it has reached several thousands of farmers who only a decade ago could not even dream of obtaining bank loans ...[15]

Before examining these claims it will be helpful to look, however briefly, at the history of formal sector agricultural credit in Ghana for predilections developed from it were very significant in the constitution of the present small farmer credit schemes in the 1970s.

Initial concern with agicultural credit centred on cocoa farming which had at the turn of the century rapidly become the most important economic activity. The fear was that in the rush to expand cocoa farms, many farmers had become indebted to "money lenders" (often thought to be larger farmers and or local traders) and that in the exercise of credit agreements money lenders had taken over many cocoa farms in which they exhibited little interest apart from harvesting the ripe pods. In short, agricultural indebt-

[13]Clapp and Mayne Inc.- ADB/MIDAS, *Small Farmer Training Advisor - Overall Final Report*, 1982, p.10.

[14]Opoku Owusu and Tettteh *op. cit.*, and *Ghana Commercial Bank Annual Report for 1977/1978.*

[15]Agricultural Development Bank, *A Review of Operations Over a Decade, 1965–1975.* pp.14–15.

edness was seen as a clear threat to the very survival of the cocoa industry.[16] It now known that the extent of this indebtedness was considerably exaggerated, due to the, let us say it, ignorance of the "soft" colonial state.[17] Anyway, legislation was introduced in 1918 and again in 1941 which sought to tightly control the operations of moneylenders, predictably with little success.[18] In 1950 the colonial government established an Agricultural Loans Board but this managed to extend only two loans before it was liquidated three years later, as an authority in the field put it: "the Board spent 18 months trying to define its policy"[19]

This leads us to the first Nkrumah government established in 1951. By his own account, Nkrumah assumed all the fears of the colonial government on agricultural indebtedness.[20] A Cocoa Purchasing Company (CPC) was established to perform the functions stipulated in its name as well as the agricultural credit function of the Agricultural Loans Board. The latter assignment was to make the CPC one of the most controversial public institutions in Ghana's history. Suffice it to say here that a commission of enquiry into its affairs found various instances of corruption, that it was dissolved in 1957 but that its functions were taken over by the United Ghana Farmers Cooperative Council, an "integral wing" of Nkrumah's party.[21]

The point I want to make with this sketch is that the dramatic and fundamental way in which the issue of agicultural credit was introduced on the Ghanaian policy agenda has given it a markedly scientistic bend; the conclusion often deduced from this history, that small farmers need to be delivered from usurious moneylen-

[16]See Howard, R. *Colonialism and Underdevelopment in Ghana,* Croom Helm, 1978, pp.195–197 for a digest of contemporary official opinion.

[17]See, Green, R. H. and Hymer, S. H. "Cocoa in the Gold Coast: A Study in the Relations between African Farmers and Agricultural Experts", *Journal of Economic History*, **26**, 1966, p. 308, for an assessment of the evidence.

[18]For a consideration of these laws see Date Bah, S. K. "Legislative Control of Freedom of Contract", in*Essays in Ghana Law*, Ekow Daniels and G. R. Woodward (eds.) Supreme Court Centenary Publication, Accra, 1976.

[19]Degraft-Johnson, J. C. *African Experiment: Cooperatives, Agriculture and Banking in British West Africa,* Richard Clay and Co. Ltd., 1958, p.152.

[20]*Ghana: the Autobiography of Kwame Nkrumah*, Thomas Nelson and Sons, 1957, Chapter 22.

[21]See, Austin, D. *Politics in Ghana. 1946–1960* Oxford University Press, 1964, pp.341–344. and Beckman, B. *Organising the Farmers:Cocoa Politics and National Development in Ghana.* Scandinavian Institute of African Affairs, 1976, Chapter 3.

Table 2: Small Farmer Loan Portfolio of the Agricultural Development Bank.

	(1) No. of Groups	(2) No. of Participants	(3) Loans Given Under Scheme C '000	(4) Total of Loans given by ADB C ' 000	(5) (3) as % of (4)
1969	23	268	230	3,070	7.5
1970	109	1,270	696.9	4,530	15.4
1971	290	6,316	1,523.5	8,441	18
1972	285	7,895	1,715.8	28,470	1.7
1973	501	10,534	4,202.6	17,823.3	23.6
1974	876	17,380	6,138.5	14,661.1	41.9
1975	1,238	43,878	8,498.7	21,069	40.3
1976	3,403	74,278	11,358	32,276	35.2
1977	4,200	53,154	16,780	44,224	37.9
1978	4,350	46,001	24,383	37,938	64.3
1979	4,783	49,928	29,700	42,868	69.3
1980	5,062	63,081	48,503	67,441	71.9

Source;*Agricultural Development Bank Annual Report*, various issues.

ders has been accepted as a policy goal with litle argument. With in policy circles, the question has always been the means to achieve the said goal. But the goal itself forecloses certain options, for instance, the possibility of linking the formal and informal financial markets. Inspite of the continued demonstration of the mistakenness of the strong negative views held on the informal financial markets, they have proved very sturdy. [22]

It is in this ideational context that the ADB claims and the new small farmer credit schemes as a whole have to be examined. Data relating to the ADB's scheme are displayed in the table below. The ADB claim that it had "reached" several thousands of small farmers" can be accepted, to a point. As shown in column (2) of Table 2, the number of farmers who receivee loans showed a clear incremental tendency. However the bank regularly exaggerates its its acheivement. For instance, an employee and former employee of the bank have claimed that the sheme had reached 15.7% of the population of small farmers by 1980, but their claim is based on a cumulation of the number of farmers who received loans over the period,[23] since many farmers were in the scheme for more than a year, the claim involves a considerable degree of double count-

[22]For more recent research see Roy Southworth, V., W. O. Jones & S. R. Pearson, "Food Crop Marketing in Atebubu District: Ghana." *Food Research Institute Studies*, bf 17, 2, 1979 pp. 175–179. and Nyanteng, V. K. "The Farmer Trader Relationship: Is There Exploitation? *The Ghana Farmer*, 28, 1, 1978, pp.7–10.

[23]Opoku Owusu, K. and W.Tetteh,"An Experiment in Agricultural Develpment: the Small Farmer Group Lending Scheme in Ghana (1969–1980)", *Savings and Development*, bf 6, 1, 1982. p.76

ing. Moreover, the bank's "reach" was not very effective. Loans advanced under the scheme covered a small fraction of the small farmers' costs. A study conducted in the late 1970s estimated that in general the banks' loans covered only one-eight of the total costs of small farmers.[24]

On the whole, however, the banks should not be denied their praise. There is some worth in celebrating what is afterall, a major departure for them. Furthermore, the schemes have had some unintended beneficial consequences. For instance, Mikell found that in the Sunyani area, the ease with which ADB groups were formed enabled several women to form groups, which were still according to her, one of the few opportunities for womens' economic independence.[25]

Indeed, the aim of this paper is not to centre criticism at the banks' level. Criticism of the small farmer schemes is not based on the assumption that they were conspiratorally designed. Rather the seeming naturalness of the strategies constitute a strength of the scheme. We concentrate on the banks as part of the state apparatus

The ADB's small farmer scheme was initiated because of a combination of financial difficulties of the bank and proddings from the Ministry of Agriculture. In the bank's stylized accounts, the scheme is often presented as having been initiated to solve the problems of the small scale farmers, but deeper reading of even these accounts abundantly shows that it has always been prudentially inspired. The first loans which were given under the scheme in 1969 were for the "Maize Package" scheme, which as noted above was in support of an offically sponsored project. The small farmer scheme was then under the designation "Special Development Projects". The significance of this label was that the loans were made to develop particular crops, that is, the fact that the maize farmers were small scale was largely incidental. Indeed the authors of the bank's *Annual Report* for 1969 describe the Special Development Projects only as "a cost saving device" and in any

[24]Kodjo, S. N. *Financing the small Farmer in Ghana*, M.B.A. Thesis, University of Ghana, 1979, p.49.

[25]Mikell,G."Filiation, Economic Crisis and the Status of Women in Rural Ghana", *Canadian Journal of African Studies*, 18, 1, 1984. p.214

case stated their preferred strategy for agricultural development very clearly:

> If agriculture in this country is to develop ... then more and more of the educated and progressive farmers should be encouraged and assisted financially to utilize to the full all available scientific methods of agriculture.[26]

The scheme was reffered to as a "small farmer" scheme only from 1972, and then only because the bank began direct investments in agricultural projects which it called "Special Projects" - too close to "Special Development Projects"! In fact the official name then given the scheme was the "Commodity Credit Scheme", emphasizing the primacy of the commodity for which the credit was given rather than the social standing of the recipient.

Cost saving was crucial to the bank for financially it was very insecure. From its formation in 1965 its shareholders have been the Bank of Ghana and the Government of Ghana. A signficant part of the former's initial shareholding was in the form of equipment, for the new bank had operated for about a year as one of its departments. On its part, the government did not pay its shareholding till May 1966, and then in government bonds which were not marketable for four years.[27] Inspite of an increase of C (edi) 8 millions or 152% in paid capital by 1971 and the extension of about C 2 millions in special loans, the financial constraint remained to the end of that year.

With the emergence of the Acheampong regime in 1972, the bank's financial crisis was solved, for some time. The paid up capital of the bank was increased by C 5.2 millions, equal to 40% of its previous value, the highest increase at this point in time. More importantly, the ADB was granted a loan of C 20 millions for onlending to state corporations engaged in agriculture, as well as small farmers. In fact the ADB was, initially, to a large extent, merely a disbursing agency for these loans. Allocation decisions for the bulk -C 15 millions - which were to be given to state corporations were made by the central agency in charge of the regime's

[26] *Agricultural Development Bank Annual Report for the Year ended 31 December 1969*, p.31

[27] Agricultural Credit and Cooperative Bank (original name of ADB) *Reportof the Directors for the 17 month period ended 31 December 1966*

"Operation Feed Yourself" programme. But the bank fully handled the C 5.23millions allocated to small farmers, this accounts for the big expansion in these loans in 1973. Indeed even the loans given to state corporations soon entered the normal loan funds of the ADB as only a fraction of the corporations' repayments were relent to them and also strict rules of disbursement enforced by the ADB ensured that not all the earmarked credit could be utilized by the corporations in the first place.[28]

All the same, the high inflation in the country, and the quite high default rate on ADB loans combined to erode the working capital of the bank almost as rapidly as it was built up. USAID, which has been a benefactor of the bank since its inception, has calculated that whereas the ADB's nominal loan funds for the small farmer scheme grew by 37% each year, in real terms the growth rate was only 2%. Overall the ADB was estimated to be decapitalizing at the rate of 14% each year.[29] The assumptions underlying these calculations may have given them some upward bias, especially as their purpose was to negotiate a higher shadow price for aid items brought into the country by USAID, the "counterpart funds" from which were given to the ADB to augment its working capital. The point remains, nonetheless, that by the late 1970s the Acheampong regime's solution to the financial problems of the ADB had petered out. In the banks *Annual Report* for 1978, it was lamented, perhaps a bit belatedly, that the bank faced "perennial financial resource problems" the major response to which had been the adoption of "a strategy for high turnover of ... available loanable funds". Herein lies the explanation of the remarkable growth in importance of the small farmer loan scheme in the bank's loan portfolio. As mentioned above, all the loans under this scheme are short term, as such it fitted the requirements of the bank very well. Lest I appear to sucumb to of reductionism, let me add that the corporate view of the bank on the way to develop Ghanaian agriculture hadn't changed significantly, in the special publication marking its tenth anniversary, the Managing Director wrote:

[28]The ADB's main demand was that none of the loans be used in paying wages and salaries, except for one corporation, this was successfully enforced. In the end just C 10.4 millions of the loans earmarked for the corporations was utilized, *Report on the OFY-State Agricultural Corporations Loans, February 1972–July 1973*, ADB, August 1973.

[29]*MIDAS II Project Handbook*, USAID, Accra, 1980, Annex IV-A, pp.5–7.

> While encouraging the broad spectrum of small farmers financialy to the advantages of the new technology in agriculture and share its benefits, we are not unaware of the fact that the small farmer is slow to change and that the ultimate solution of our food problems rest with a relatively few large scale efficiently operated commercial farms using modern scientific farming techniques.[30]

This view was reflected in the loan allocations of the bank around this time. In The aggregate the share of loans given to small farmers expanded quite impressively between 1973 and 1977, and phenomenally thereafter. However, it will also be noticed that the that the number of such loans generally grew at a quicker pace. Thus by 1976 the average size of small farmers' loans had **declined** by about 57% of its value three years before. On the other hand, the bank's record shows that individual, that is bigger sized, loans loans on average increased by 17% in the same period. In addition, the bank attempted to to implement its vision of agrarian revolution through direct investment in various large scale agricultural projects. These were usually joint ventures with local as well as foreign investors. By the end of December 1980, the bank had invested a total of C 22.8 millions - C4.4 as equity and C 18.4 as loans - in 25 such ventures. However, the bank did not even have the expertise to participate in these ventures. On these "Special Projects", an enquiry into the bank in 1980 made the following remarks:

> ...most projects have failed, a drain on the ADB ...in some cases ...[the bank] was more interested in projects benefitting individuals than the bank.[31]

Indeed, the then Managing Director told the committee that it was a mistake for the bank to have gone into such enterprises in the first place.[32] The increase in the proportion of loans given to small farmers was, then, out of mere prudence; the bank was spreading its risks as far as possible. Loans to large farmers were

[30] "Foreword" *A Review of Operations over a Decade, 1965–1975*, ADB, 1975.

[31] *Report of the Committee of Inquiry Into Specified Banks*, Vol.II, ADB, Government Printer, Accra. (Chairman: J. Azu-Crabbe.), para. 215

[32] ibid. para. 304

not encouraged because apart from the fact that they tended to be for longer periods of time, they were more expensive due, among other things, to the preparation of separate feasibility reports, and as noted above, the higher rate of default on such loans.[33]

How did the wider political context affect the increase in the small farmer component of ADB'S loan portfolio? The first point that must be made is that the ADB's capitalization problems, which we have argued were the most important reason for the said increase were to a great extent caused by the Acheampong regime's expansionary fiscal operatioins which sent inflation galloping, (but also increased the state's control of resources).

More directly, the interest rate policy of the regime cut out a source of relatively independent funds for the ADB. In 1968 the bank started accepting deposits from the public with a view to increasing its agricultural lending capacity. From ₵ 63,400 in the initial year, total deposits lodged with the bank increased to ₵ 8 millions in 1974, ₵ 90.4millions in 1978 and ₵ 195.8 millions in 1980.[34] As a proportion of the bank's loan portfolio, these deposits increased from 8.1% in 1970 to 68% in 1976. However the narrow interest spread on agricultural loans did not allow the bank to use this facility in the way intended. In 1973 the bank began an overdraft facility for its depositors, this has become the main way in which the deposits it mobilizes are used. Most of the deposits used are for non agricultural purposes though in the latter 1970s the bank started giving overdrafts for agriculture. On the whole the bank was increasing drawn into commercial banking but this did not greatly help its primary responsibility of assisting the agricultural sector.

The Acheampong regime's main interest was that credit to agriculture as a sector be increased. Evidence suggests that members of the regime intervened directly in the allocation of credit. A report prepared by the ADB's Public Relations Officer on its natinal operations found it necessary to cite a particular region where

[33] Using concrete examples from the bank's loan files, an employee of the bank has argued that the failure of the bank's big farmer loans was often due to the weakness of the bank's project appraisal procedure. See, Addo, S. K. *Some Neglected Issues in the Economic Analysis of Agricultural Project Management in Ghana*, M.A.D.E. Thesis, A.N.U., 1978, Chapter 2

[34] *A Review of Operations Over a Decade, 1965–1975*, p.31 and *Agricultural Development Bank Annual Report for the Year Ended December 31 1982*, p.13.

"...the regional commissioner (political head) does not want to dabble in banking. He sends every application he receives to the Branch Manager and leaves it at that".[35] In February 1977, the regime dismissed the Managing Director of the bank because his "attention to applicants request for assistance in the prosecution of the "Operation Feed Yourself" and "Operation Feed Your Industries" [key agricultural programmes of the regime] had been anything but satisfactory".[36] Such political pressure was more likely to be exerted on behalf of large scale producers. In fact the immediate case for which the Managing Director was dismissed involved an influential businesswoman.[37] Thus, it will ordinarily be expected that the increasing proportion of bank's loans given to small farmers belied the effectiveness of such pressures. However, the issue was not so simple. In the first place the regime itself was profundly pragmatic on the organisation of agricultural production, from the mid seventies it started canvassing the idea of developing small scale agriculture alongside large scale "scientific" farming. Moreover, all state-owned enterprises, such as the ADB indeed was, were under constant pressure to opererate profitably. The increased allocation of funds to the small farmer scheme best met all these purposes. As we have seen, it was profitable for the bank; it involved a greater number of farmers; and the bank's research department put great effort into calculating, unremittingly over optimistically, the acreages of various crops cultivated due to the scheme

The pressure to increase loans to agriculture was even harder on the commercial banks which had access to much bigger loan funds, but over the years had lent sparingly to agriculture. The Ghana Commercial Bank (GCB), which is fully state owned was particularly vulnerable. After the Acheampong regime had changed its charter, the GCB made direct investments in agriculture, notably in the Development Leasing Company -an agricultural machinery hiring concern- which was very instrumental in the promotion of extensive rice farming in Northern Ghana. By the mid 1970s,

[35] Anson Lawson, C. *A Window on the ADB*, ADB, September 1977, p.47.

[36] Republic of Ghana, *Year of Action. 13 January 177–12 January 1978*, The Office of the Press Secretary of the Supreme Military Council, 1978, p.78.

[37] Ocquaye, M. *Politics in Ghana, 1972–1979*, Tornado Publications, Accra, 1980, p.40.

however, large scale rice farming was rapidly losing its innocuous frontier conquering appeal. Of prime importance, in terms of national politics, the rice industry moved from being a clear plus for the regime to a challenge. The big rice farmers resorted to smuggling after they failed to get the government to increase the price they received for their paddy rice.[38] In effect, a concentration on rice was no longer a safe way to respond to thew regime's "green revolution" call. Alas, the GCB was confused about its role in agriculture. Its dilemma was well rotrayued in an editorial in its house journal. The Bank's stand had been adjudged the best at the main agricultural show for the Northern sector in 1976, but its victory "had received mixed feelings ... some wondered whether it was hollow".[39] The GCB then began a diversification of its lending. In fact it was that it will overwhelm the ADB in its agricultural lending role that led the latter to deploy its Public Relations Officer on the study mentioned above. It is in the light of this competition agricultural credit custom that that the GCB small farmer scheme introduced in February 1976 has to be seen. The GCB was keen to project its involvement, it insisted that farmers under the scheme join a "Commerbank Farmers Association". Through its involvment in the import-export business, it often managed to import scarce agricultural inputs which were distributed through its "associations". This way the bank actively applied itself to to reinvigorating potato growing in Ghana.[40] The exotic nature of the crop served the Bank well for in the 1970s it was largely unchallenged in its promotion. Thus, in August 1977 the Managing Director of the Bank was able to lead its farmers to the Head of State "to show him samples of their first harvest", whereupon the Head of State congratulated them for being able

[38] See Rothchild, D. "Comparative Public Demand and Expectation Patterns: The Ghana Experience", *African Studies Review*, **22**, 1, 1979, pp. 127–128, for an overview of this conflict.

[39] "Editorial", *Commerbank News*, **8**, 3, 1976.

[40] This was promoted on a significant scale during the second world war when large numbers of Allied Forces and auxillaries were stationed in Ghana but fell off soon thereafter because in traditional Ghanaian cuisine, potatoes are treated as a delicacy. The Faculty of Agriculture at the University of Ghana has recently had the mixed fortune of developing a fast growing variety of the crop, the problem now is to convince the populace to accept it as a major part of their meals, Professor E. V. Doku, "Crop Improvemet in Ghana", Inaugural Lecture, University of Ghana, March 1986.

"to break new ground".[41] Organisationally the GCB scheme is an imitation of the ADB scheme. This can be seen from the bank's short description:

> Under the scheme, short term unsecured credit facilities are made to small farmers to improve or increase the production of rice, groundnut, ... Farmers known to each other in an area are grouped together to form an associationn ø... Members can obtain credit either in cash or or in kind.[42]

The number of farmers in the scheme increased from 41,251 in June 1978 to 54,194 at the same time in 1979. Thus in this period it eclipsed the ADB scheme in terms of numbers. This may have been so for the size of credit given as well, for the GCB is known to give larger loans to its group farmers.[43] The GCB did not suffer financial constraint to the extent that the ADB did, it lent to agriculture directly from deposits lodged with it by the public. It was able to do this because its other operations were much larger, but also it circumvented the narrow interest spread on agricultural loans by giving some loans under the scheme as overdrafts,[44] which are charged at the normal rate.

The Rural Banks are a much more innovative institution, designed by the Central Bank for the exigencies of Ghana's financial situation in the 1970s. The central bank has 50% of the shareholding in all of them, the other half has to be raised by the inhabitants of the locality in which it is established. The central bank sets firm rules for their credit allocation; it has determined that 50% of their total loan portfolio should be given to small agriculture, 30% to rural industries and 20% to other sectors. In addition, their interest charges are about 2 percentage points below the normal level. By the end of 1979 12 Rural Banks had been established, in that year they mobilized between themselves C 9 millions in deposits, had

[41] Republic of Ghana, op. cit. p.192.

[42] Ghana Commercial Bank, *Quarterly Economic Review*, **3**, Nos. 3 & 4, 1980, p.4

[43] Gyekye, L. O."The Role of the Group Lending Scheme in food Production in Ghana: an Appraisal", Paper presented at the Conference on Food Self-Sufficiency in West Africa,Institute of Statistical Social and Economic Research, University of Ghana, 1–3 May 1984. The aggregate figure could not be firmly established because the GCB keeps details of its loan portfolio secret.

[44] See, Ghana Commercial Bank Annual Report, 1976/1977, p.

assets totalling C 14.5 millions and extended C 4.4 millions worth of loans. Officials of the Bank of Ghana affirm that these banks, by and large abide by the prescribed allocations.[45] By canvassing deposits in addition to their extension of credit, as well as their very locality, the Rural Banks, compared to the ADB and the GCB, are in a much better position to engender sustained development. The latter do not seriously canvass deposits in the rural areas. For the ADB we have seen that it could not use such such deposits for agricultural credit anyway. In 1978 the GCB was refusing deposits even in the urban areas.[46]

The 1970s were then years of great expansion in formal sector agricultural credit to small farmers. Between the three organisations discussed here, approximately C290 millions was extended to small farmers, as defined by the various banks, in these years. This was about 30% of commercial banks' credit given for agriculture in the the period. The remainder was shared between public corporations and private firms and individuals with a major preponderance towards the latter, but there is little doubt that both categories received more than small farmers, though the latter contributed the vast proportion of agricultural production. Even more interesting, from the viewpoint taken here, the bank's publicists emphasized their involvement in small farmer credit although even the ADB did not acheive a mainly small farmer portfolio till 1978 and the GCB did not acheive this at all. It has been argued here that the large proportion of ADB loans allocated to its small farmer scheme was a prudential response to its economic circumstance rather than a principled backing for small farmers. The origins of the GCB small farmer scheme has been similarly traced to the bank's corporate needs, especially as an image enhancer. We have indicated our confidence in the Rural Bank experiment and noted its expansion.

[45] Interviews Rural Banks Unit of the Bank of Ghana, March 1986, as with the data cited above.

[46] *The Mirror*, Accra, 8 August 1978.

3

The preceding section sought to show that small farmers were a convenient target group for the banks. As credit is so partible, it was easy to demonstrate 'concern' for the small farmer in tandem with greater fidelity to large producers. Works which detail the expansion of bigger agricultural loans in the period under study have been cited above. Thus elaboration of this point need not detain us here. Suffice it to note that on this score the efforts of even political opponents were applauded.[47] We may now sample perception of the role of agricultural credit in this period. One of the most memorable perspectives on bank credit in Ghana was provided by the late Imoru Egala, minister in Ghana's first all African cabinet and "founding father" of the Peoples National Party (PNP), the successful claimant to Nkrumah's political legacy within Ghana. In the 1979 election campaign, when asked by a BBC reporter, "Do you consider yourself a socialist party?", he repiled:

> ...our background ...is socialist, there is no doubt about that. *What we lack is capital to work with.* ...What the party believes is not any -isms, or anything. Our people are hungry ...they want food ...clothing ...shelter. If they can get these things then other -isms can come afterwards.
>
> ...you see some of our people call Ghanaians capitalists ...I dont see any capitalists in Ghana. *They are all living on overdrafts* ...we are all background socialists ...all the parties. [Emphases added].[48]

Thus, to this important politician, lack of capital was a constraint on state action but access to finance capital did not seem to him to signficantly affect the position of individuals in society. Both of his premises were to be violently overturned by the first Rawlings uprising of June 4 1979. The new leaders promised that morally superior ideas could compensate for the shortage of capital in greas-

[47] For instance, in the heat of the Union Government campaign, the state-owned *Ghanaian Times* which fanatically championed the idea, published a glowing feature on a farm complex owned by K. Appiah-Menka, an outspoken critic of the Union Government idea. See, *Ghanaian Times*, 25 January 1978.

[48] Cited in *West Africa*, 14 April 1979.

ing the steering power of the state. On the other hand, unfair access to finance capital was recognised as a crime. In their "declaration of assets" many of the soldier-politicians showed that they had received massive agricultural loans from the banks, of which the ADB was the leading benefactor in the 1970s.[49] From then, criticism of the alloction of bank credit was standard fare in public commentary. This was well summarised by a leading newspaper columnist: people

> ... have taken the banking institutions in this country to task for throwing the ethics of the profession to the dogs ... after 1972 there was a general stampede to the banks
>
> This is a free country. What has been going on in the banks is robbery pure and simple.[50]

This led the PNP government to appoint the Azu Crabbe Committee of Enquiry into the state-owned Banks. It is a demonstration of the effectiveness of the banks' rationalisations that they scurried out of this relatively unscathed. The committee had to wind up its activities prematurely primarily due to strong criticism of the banking industry.[51] The public expression of this pressure was itself very strident:

> The banks stand central to the success or failure of our endeavours in attracting the necessary capital for the exploitation of [our] resources. Unfortunately the majority of these institutions are so desolate and disorganised ...
>
> The major cause of the disarray is the ongoing probe ... We have made our position clear on this matter over and over again, and at the risk of overrepeating ourselves, we stress that the present probe is unnecessary and a complete waste of resources and time.[52]

[49] the assets declared to the investigatory organs of the new government were published in the em Daily Graphic and *Ghanaian Times*.

[50] Kofi Akumanyi in *Daily Graphic*, 22 Decmber 1979.

[51] Interview, Dr. V. Narh, Former Secretary to the Committee, Accra, April 1986.

[52] "Editorial", Journal of the Ghana Institute of Bankers, 1, 2, 1981

Even for those investigations it was allowed to make, the humbled committee restricted itself to the clearest violations of laid down procedure. Accordingly, in the case of the ADB, inspite of strong criticism of its management, its policy on credit allocation was essentially endorsed, the problem was put down to what Schaffer would have considered a well worn "escape hatch" - poor implementation!. The banks themselves had long encouraged the view that they were involved in mere implementation. Just before their fall from grace, it was argued in an official publication of the GCB thus:

> ...it is the government with its political power and control over the allocation of resources that has the overriding influence in shaping the direction of agricultural credit policy.[53]

This is only partly true. Even if we take the regime's known inteferrence in the allocation of credit, the banks were still left with assigning a significant amount of resources for which responsibility must rest with them. The fact is that their technocratic vision of agricultural revolution was much nearer to that of the politicians than they thought. The banks' illusion is not surprising, as Schaffer would have put it, "self awareness" is scarce within policy circles.

More worrying is the way in which academic social science, wittingly or no, generally sustains this view. As has often been noted, the devaluation of politics in development policy analysis is very widespread. Inspite of his stated purpose of tracing "the political origins" of African agricultural policies (which focuses considerably on Ghana), even Bates, in his influential application of public choice theory [54] is quite askance, and in the end is far more economistic than politicist, as Kohli has commented:

> There is something too neat and tidy about Bates political analysis for it to be fully convincing. Everything in this analytical framework falls into place: social actors have specifiable interests; the actors know their interests

[53] Ghana Commercial Bank, *Quaterly Economic Review* 2,2, April-June 1979.
[54] Bates, R. op. cit.

> the political elite pursues policies that serves is own interests; and those of the society's powerful; and those left out of these arrangements either cannot oppose them or are repressed. Is the political world really all that simple and straightforward?[55]

Let us note, however, that this question must be asked of radicals as well. From a Marxist-Dependency perspective, Hansen interestingly arrives at a prescription similar to Bates's, but of course in different terms:

> To think that one could build up a rural capitalist class from the petit-bourgeosie presently located in the bureaucracy, the army or the distributive sectors of the economy is a socio-economic illusion. This can only be done from the ranks of the farming community but so long as they do not have any influence or control over the state agencies responsible for making available the capital for such purpose it is difficult to see it happening.[56]

What unites these two otherwise different writers is their espousal of an almost wholly **responsive** theory of the state. The image of the state is of a passive arena where holders of well formed interests compete. Then state is, then,optimally a microcosm of civil society. As it were, people need to be in and of the state to affect it, and indeed, as it is now being entrepreneurially promoted, to be affected by it. As an ideal, this way of arguing is very agreeable, but it is not difficult to see that it may not fit, at least, the African experience. The thrust is essentially millennarist.

The state in Ghana type societies is cardinally **activist**. Its power lies as much in the authority it wields as in the way it extracts and allocates resources. It may then be that development policy analysts need to immerse themselves in the means, beneficial and otherwise, whereby states sustain themselves.In short, some kind of critical theory. In this instance, with the benefit of what we must properly call Schafferian critical theory, we have

[55]Kohli, A. *Comparative Politics*, p.236.

[56]Hansen, E. "Public Policy and the Food Question in Ghana", *Africa Development* (Dakar), 6, 3, 1981. p.113.

examined how an obviously inequitable allocation of finance capital was presented in very savoury ways. It is hoped that this has allowed a more direct appraisal of aspects of the state apparatus in operation. We have emphasized the significance of the role of ideas, since these can be more readily changed than a, direct presence, so to speak, in the decision making arena, we also hope we have made a case for a bias for hope.