

Investigating research works on factors affecting farming households' accessibility to bank credit

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Abstract

The paper studies scientific works related to domestic and international farming households' accessibility to bank credit to have the most general view on the status of loans as well as factors affecting farming households' accessibility to bank credit. In addition, the authors will point out the knowledge gaps in the studies as a basis for completing more issues in the work being done by the authors.

Keywords: bank, farming household, credit, factor

1. INTRODUCTION

In the world, depending on the level of development of financial products and capital markets of each country, farming households will have the opportunity to access various capital sources from banks, credit funds, financial institutions and individuals, etc. During the research process, the authors found that in countries which are interested in agricultural development, there are many opportunities to borrow from various sources of funds with diverse credit packages. Farming households' accessibility to credit in developing countries is currently facing more difficulties from capital, credit limits, loan terms and formal credit for loans by not only commercial banks such as Vietnam Bank for Agriculture and Rural Development (Agribank), Vietnam Bank for Social Policies (VBSP), Vietnam Association of People's Credit Funds (VAPCF), but also political organizations - society and unions. Capital sources, loan sales and credit balance have been increasing in recent years. Additionally, the number of people having access to credit capital has also expanded. Although there have been certain successes, compared to the overall credit level of the economy, the credit level for the agricultural and rural sector is still low and failing to meet the development needs and objectives of the region. Farmers - those who are "hungry for capital" still face many difficulties in accessing the formal credit. Therefore, they still depend on the informal credit network in the countryside. What factors affect farming households' accessibility to bank credit in Vietnam and around the world? What is the main research method to analyze this problem? What is the knowledge gap in studies? These questions will be addressed by the authors in the content of the article.

2. INTERNAL FACTORS AFFECTING FARMING HOUSEHOLDS' ACCESSIBILITY TO BANK CREDIT

Up to now, there have been researches in the world related to the issue of farming households' accessibility to bank credit. However, most of these researches are only separately studied. Studies on farming households' accessibility to bank credit mainly focus on two aspects, namely the factors affecting the access to credit capital and the ability to access credit capital between commercial banks and households and the impact of external factors. In the following studies, the authors mainly focus on studying the factors affecting the ability to access credit capital:

By a quantitative model with the Tobit regression function, Duong and Inzumida [1] concluded that the main factors affecting the bank credit amount of households is the positive impact including the total area of arable land, the value of cattle, the proportion of the dependents and the amount of loan. The negative effect is the household's reputation. However, in this study, the authors do not mention the level and economic conditions of the household head because credit institutions often want to lend to those who have enough information, are reliable and able to use their capital efficiently and repay their debt. In Diagne Manfred Zeller's study [2] and Tran Ai Ket's study [3], by OLS regression analysis, the authors analyzed and indicated that the source of the household's asset formation is much more important than the total value of their assets or the amount of land held by the household. The source of asset formation is considered a determinant of the households' access to formal credit. In particular, the value of land and cattle in the total value of household assets can affect household's access to formal credit. In analyzing Heckman's model, Nguyen Quoc Oanh, Pham Thi My Dung [4], Thong Quoc and colleagues [5] have identified factors affecting access to bank credit of agricultural farms with positive impact factors such as age, education level of the farm owner, ratio of actual implementation area, commercial credit, income, farm production costs, procedures for loan, the amount of financial credit obtained, ethnicity, household owner's experience, and agricultural services. These are also important factors that have positive effects and increase technical efficiency in agricultural production. However, to clarify the impacts of these factors, Vu Tu Bang (2014) [15] investigated 223 farming households and used the EFA model to find 5 groups of factors, namely problems in production customs, asset and income conditions, banks, social organizations, scientific and education levels of the head of household. After that, the author uses the Binary logistic model to assess the level of impacts of these factors on farming households' ability to access credit and proposes some solutions.

Similarly, in the study by Nathan Okurut [13], the author clearly analyzed the ability to access informal and formal credit. The ability to access formal credit is also subject to strong coordination by gender, age, number of family members, education level, expenditure and race. However, for the informal credit market, the access to credit is positively affected by the number of household members, household expenditure and rural location. Meanwhile, factors that have a negative impact on access to informal credit are men, rural location and poverty. In fact, farmers have a great need for credit for both production and consumption purposes. Nguyen Thi Thu Phuong [6] stated that people are interested in credit but in fact they do not apply for a loan due to production risk concerns and fear of bank refusal to lend. This problem has occurred in both borrowers and non-borrowers in all well-off, medium and poor household groups, but it is particularly popular for poor households. Satisfaction of credit demands (actual amount of credit borrowed against demand) has an important impact on agricultural production.

Studying the determinants of farmers' credit needs and the supply of agricultural banks in the eastern region of Ghana by using Logit and Tobit, Akudugu et al. (2012) [15] collected data from 250 farmers (135 males and 115 females) representing households in 5 Eastern districts of Ghana. The authors used 12 independent variables. The results show that the age of farmers, gender and politics are the main determinants of farming households' credit needs, while crops, farm size and savings are the main determinants of credit supply of agricultural banks. However, in this study, the authors have not mentioned how factors such as credit history and credit demand affect lenders and borrowers. The research has only focused on lenders who are agricultural banks, and has not gone deeply into the capital users and considered how loans affect income and life of households, thereby leading to the ability to raise production loans by banks in the future. An analysis by Dzadze P. et al (2012) [16] has pointed out the contributing factors (limiting or increasing) farming households' access to official credit in Abura-Asebu Kwamankese district, central Ghana. The study was conducted on 100 credit granting units in 5 communes of this district (Abura, Abakrampa, Asebu, Edumfa and Nyamebekyere). The model consists of 11 independent variables, namely gender of the household's head, farming experience, participation in agricultural extension, saving habits, distance to the bank, farm size, farmer organization members, credit needs, education level, guarantee by salary and credit history. The regression results show that the relationship between participation in agricultural extension, education level and saving habits have a significant positive impact farming households' ability to access formal credit. However, these studies have not yet investigated the factor of production capacity, one of the important factors affecting the ability of commercial banks to provide credit.

Summary of previous studies on factors affecting farming households' accessibility to bank credit

Factors	Duong & Inzuma	Diagne	Oanh	Thong Quoc	Dung	Ocorut	Phuong	Akudugu	Dzadze
Gender						+			
Area of arable land	+		+						
Value of farming production	+	+				+			

Number of household members	+					+			
Amount of loan	+								
Household's prestige	-								
Land value		+							
Age			+			+		+	
Education level			+						+
Commercial credit			+						
Income			+						
Production cost			+						
Loan procedure			+						
Number of credit				+	+				
Ethnicity				+	+	+			
Experience				+	+				
Agricultural service				+	+				
Level of satisfaction							+		
Politic situation								+	
Savings habit									+
Contact with agricultural expansion									+

(Source: Compiled by the authors)

3. EXTERNAL FACTORS AFFECTING FARMING HOUSEHOLDS' ACCESSIBILITY TO BANK CREDIT

When analyzing the determinants of credit needs in rural households, O.L. Balogun and S.A. Yusuf [7] affirmed that the factor of social capital and the attributes of financial institutions significantly affect the access to available credit. Therefore, manufacturers need to pay more attention to policies about improving the living conditions of households. This can be seen as a condition for promoting social capital. Research by Ammar Siamwalla and colleagues [9], Meyer and Nagarajan (1992) [10] and Rural Financial Markets in Asia: Policies, Paradigms, and Performance (2000) [11] concluded that rural credit depends on characteristics of the rural financial market and needs government intervention, namely high transaction costs, lack of security assets, hence lending rates for rural areas are higher than urban areas. In the study "Some issues on credit policy for production households", Mr. Nguyen Van Thanh [12] pointed out that many people and households still do not have access to loans with a reasonable interest rate. Potential factors in the production of households, the situation of "good crop, low price and vice versa" often occur with key products; production and business activities of farmers depend heavily on weather factors, purchasing and processing facilities, etc., which significantly affect the life and repayment capacity. This leads to limited credit efficiency for economic restructuring. Planning in many localities in general and development of industrial parks in particular is ineffective. The rate of leasing land and premises in many industrial parks is low. There have been no specific measures to create a premise to expand bank credit to economic sectors, including rural households. The linkage between 5 parties (producers, banks, purchasing enterprises, enterprises processing and exporting or consuming agricultural and aquatic products; enterprises supplying breeds, animal food, fertilizers, veterinary drugs or plant protection drugs, scientists) is not rigid. At the same time, another problem is the consumption, which means that the output of the producers is unstable. Vuong Quoc Duy (2013) studied "The role of credit access in rice production efficiency of households in the Mekong Delta, Vietnam" [17]. This study focuses specifically on the impact of formal and informal credit on production levels and production efficiency with the use of the SFA Random Limit Analysis and QR Hierarchy Models. The results of this study have some significances, especially for access to credit. They have shown that access to formal credit has a greater impact on rice production efficiency than the approach of informal credit. Further expansion of the rural credit system can enhance and contribute to increased rice production and efficiency in the Mekong Delta. The author has studied the ability of rural households to access credit that can be improved by establishing more

branches of the banking community in rural areas, creating plans to overcome problems of farmers, small farming households and those who lack collateral by shortening the processing time of loan procedures and other requirements. Credit awareness and the establishment of farmer organizations (such as cooperatives or credit unions) can play a leading role in increasing farmers' access to credit. Similarly, savings programs should be developed and enhanced in the surveyed area, which will encourage farmers to save and reinvest. In this study, the author mainly focuses on the effectiveness of accessing financial resources. There are no assessments on factors affecting access and assessing a specific field of rice production to have a picture of rural production as well as to have certain assessments on the situation of accessing bank credit of households in one region.

In his study, Dr. Nguyen Thanh Binh proposed solutions based on practical research to enhance access to credit for agriculture and rural areas as below:

- Review the lending process, reduce unnecessary paperwork, create favorable conditions for the agricultural and rural areas to access the bank's capital.
- Develop a reasonable credit guarantee mechanism coupled with the strong deployment of science and technology for rural agriculture.
- Diversify investment capital sources for rural agriculture.
- Provide clear policies for customers who are granted credit.

Currently, there is a strong development in the collective economic sector in which the core is cooperatives; most of them have small scale of operation, low charter capital, limited human resources, finance, administration and management and lack of feasible production and business plans. Additionally, lending to high-tech production projects is still limited due to the lack of effective models of agricultural development and high-tech applications. There has not yet been a service system for developing high-tech agricultural applications. Although the assets formed from projects on agricultural land for main agricultural activities (greenhouses, net houses) are highly invested, a certificate of asset ownership on land is not granted, making it difficult for banks to evaluate and mortgage collateral for loans. Studying this factor is also an open issue for further research.

4. CONCLUSION

Studies have shown that farming households' access to credit is limited. They have mentioned part of the rationale, methods and factors affecting access to credit. However, these studies are carried out in different scope and time, and mention different aspects. International and Vietnamese research projects often focus on assessing the situation of farming households' credit loans from one side (either the money demand or money supply). Few documents have had a combination of factors from three parties affecting the ability of farmers to borrow credit, especially factors of macroeconomic policies affecting their accessibility. Furthermore, the analysis method is quite simple and the solutions are not very intensive. Moreover, the use of analytical models in related studies is not very prominent. OLS, Tobit models or the influential factors presented are lacking. Due to the characteristics of natural conditions and socio-economic conditions in different countries and provinces in Vietnam, the factors and the extent of their influences on credit growth for farming households also different. During the study, the authors will carry out the research: "Access to bank credit of farming households in Thai Nguyen province" which adds some issues not mentioned by the scientists as below:

- 1) Evaluate the situation of accessing credit capital of farming households in Thai Nguyen province.
- 2) Investigate factors affecting the ability of farming households to access bank credit in Thai Nguyen province from three groups of factors: farming households, banks and macro policies.
- 3) Use Binary logistic regression analysis method, EFA exploratory factor analysis method, CFA confirmatory factor analysis method and Stata software to process data to assess the impact of supply and demand for credit.
- 4) Propose some suitable solutions to the local socio-economic characteristics as well as the current development.

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