

Factors influencing Tea Farmers' Decisions to Utilize Sources of Credit in Nyaruguru District, Rwanda: A Multivariate Probit Regression Analysis

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Credit access is among key determinants to increase level of tea production and income of small scale-farmers in Rwanda and its demand has been increasing with the time. Accessed credit help farmers to meet costs of farm inputs such as fertilizers, seedlings and labour as well. Factors to access credit have been discussed in various studies, and despite the fact that credit seekers obtain credits only when they are eligible by complying with the requirements such as the interest rate to pay, tea farm size and collateral of the lending institutions. However, available findings have missed information on how farmers choose a potential source of credit to utilize and inducing factors. This article tries to understand other side of credit seekers' decisions leading to choosing a particular source of credit and the determinant factors. A survey was conducted to 358 tea growers selected randomly in two cooperatives that operating in Nyaruguru district. A multivariate probit model was used to examine factors influencing tea households' decisions to choosing source of credit. Borrowing from formal source (commercial banks) increased if borrower was having collateral asset (85.5%), interest rate (85.0%) large size of tea plantation (24.8%) and household composition (10.5%). Using informal sources increased if a farmer looked for small size of credit (83.2%), participated in technical trainings (76.9%) shared credit product (46.9%), while a farmer was less likely to use informal sources if his/her farm size (39.9%) and household income (29.2%) were small. However, combining sources of credit was used by farmers as a safeguard strategy to acquire desired loan. A government policy which aims to increase productive investment should emphasize integrating agricultural loans in financial system targeting small holder farmers through their organizations where they can relax credit constraints.

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