

Assessment of farmers' access to informal credits in Baraki Barak district of Logar province – Afghanistan

Sediqullah Hammas*

Lecturer, Department of Agriculture Economics and Extension, Logar University, Afghanistan

*Corresponding Author: sediqullahhammas281@gmail.com

Arshad Khalili

Graduate of Agriculture Economics and Extension Department, Logar University, Afghanistan

Abstract

Planting and harvesting crops requires capital and money at all times. Farmers can't prepare all this money themselves, they are inevitably using formal and informal sources of credit to better advance agricultural affairs. The present study aimed to determine farmers' access to informal credits in Baraki Barak district of Logar province. This research is descriptive - cross-sectional in terms of data collection and applied in terms of purpose. For conducting the research, the primary data was used. The data were collected by survey using a questionnaire, as a simple random sample. Research findings show that the majority (more than 76%) of farmers use informal credits. Farmers receive the highest amount of credit from relatives and friends, local shopkeepers, non-agricultural institutions and local merchants, respectively. The earned credits are mostly used in agricultural affairs and use a small amount for non-agricultural purposes and livelihoods.

The researchers recommend conducting research on the effects of informal credits on farmers' morale, sense and confidence, Investigate the effects of informal credits on crop yields and the use of informal credits by age groups, A study on how farmers can use informal credits effectively and get maximum benefit from them.

Keywords: Agriculture, Baraki Barak District, Credit, Farmers, Informal credits and Relatives & Friends.

1. Introduction

Agriculture has played an important role as a productive sector in human history (Baluch, 2019). Afghanistan is a less developed country where agriculture plays an important role in its economy. It Forms 23% of gross domestic product (GDP). About 70% of the country's population resides in rural areas, and agriculture is the main focus of their livelihood. In addition, the agriculture sector provides income for 44% of the country's households (Central Statistics Organization, 2017). However, productivity in the agricultural sector is very low. For example, wheat yield, which is the main crop of the country, is only 2210 kilograms per hectare (Central Statistics Organization, 2019). Compared to other countries, it is much less. In addition, subsistence agriculture dominates the agricultural sector of Afghanistan. More than half of households produce mainly for their consumption (World Bank, 2018). Credit is more important in its necessity and in order to strengthen and grow the economy. Because the implementation of economic activities and increasing the level of production of a country requires huge investments, which cannot always be prepared by producers alone, and therefore must be borrowed from the capital of others (Fazl and Akbarzad, 2020). Since 2002, Afghanistan has sought to expand access to financial services to foster economic growth and create secure livelihoods in the urban and rural areas. Since then, agricultural strategies and programs include agricultural credits as the main driver and enabler of the development of the agriculture sector (Ministry of Agriculture, Irrigation and Livestock, 2016). Like other developing countries, in the agriculture sector, credits in Afghanistan are obtained from both formal and informal sectors (Dodyal and Rasikh, 2017). In most developing countries, formal credit institutions have not been able to respond adequately to the demand for agricultural credit (Manig, 1990). According to (Guirking, 2008), in developing countries, the informal credit market is the first feature of the rural credit market that has attracted constant attention in development economics. Hussein (2009) reported that formal credit reaches only 8% of all households in Afghanistan, of which only 20% is provided for agricultural and livestock purposes. However, the low coverage of formal credit is not only due to the insufficient credit initiatives of the government and enterprising individuals, but there are also problems on the farmers' side. For example, farmers' low literacy and few resources, which makes them unable to meet the criteria for using formal credits. Therefore, informal sources of credit remain the main option for poor farmers in Afghanistan. Access to informal credit significantly increases agricultural productivity (Sekyi et al., 2020). Access to financial resources is a prerequisite for agricultural development.

However, coverage of formal credits for agriculture in Afghanistan is low. Most cash-deprived farmers rely on informal credit sources to obtain inputs and smooth consumption, and easy availability is the main reason for using informal credit (Masaood & Maharjan, 2020). In Afghanistan, research on farmers' access to informal credit is scarce and there is a research gap. Ascertain farmers' access to informal credit is an important issue. Based on this, the present research was conducted with the aim of identifying the access of farmers of Baraki Barak district of Logar province to informal credits and to find out from which sources they get these credits. Also, in this research, it has been determined for what purpose the farmers use the informal credits obtained. Research in this field can help us to better understand the economic situation of farmers and their dependence on informal credits. This understanding can help us in providing appropriate policies and programs to support farmers and develop the agricultural sector.

2. Materials and method

Logar province is located 60 kilometers south of Kabul, the capital of Afghanistan. In the north, Logar province is border with Kabul, in the east with Nangarhar province, in the southeast with Paktia, and in the west with Wardak and Ghazni provinces (RRERS, 2006). Its area is 4568 square kilometers and its population is 449812 people. Baraki Barak district is located in the western part of Logar province of Afghanistan. This district borders Wardak Province from the west and northwest, Pol - e – Alam city from the north and east, and Kharwar and Charkh districts from the south. Its main products are grains, legumes, vegetables and various fruits (National Statistics and Information Authority, 2023). The Baraki-Barak district of Logar province is one of the fertile districts where various products are produced in different seasons of the year. The main occupation of most of the residents of this district is agriculture and livestock and the climate is favorable for the production of crops. The climatic conditions of the region are harsh and with a large temperature difference throughout the year, the minimum temperature in winter drops even to -20 degrees Celsius and in summer it reaches 35 degrees Celsius. (UNDSS, 2007). This research is descriptive-cross sectional in terms of data collection and applied in terms of purpose. For conducting this research, the primary data was used, which was collected by survey method and using a questionnaire in 2023. The total sample was 80 people and a probability sampling method, especially simple random sampling, was used. Questionnaires were distributed to male farmers in Baraki-Barak district. The collected data was analyzed with SPSS 22 software.

3. Results

The results derived from the investigation can be outlined as follows:

Table-1: Shows the amount of credit used by farmers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Credit Usage	65	81.3	81.3	81.3
	Non Usage of Credit	15	18.7	18.7	100.0
	Total	80	100.0	100.0	

Table 1: The table shows that 81.3% of farmers in the researched area use credit and the remaining 18.7% do not use credit.

Table 2: The amount of formal and informal credit sources use by farmers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Non Usage of Credit	15	18.7	18.7	18.7
	Formal Sources of Credit	4	5.0	5.0	23.7
	Informal Sources of Credit	61	76.3	76.3	100.0
	Total	80	100.0	100.0	

Table 2: Among the 81.3% of farmers who use credit, 5% use formal sources and the remaining 76.3% use informal sources of credit. The reason why more people use informal sources is the easy conditions for obtaining credit, lack of guarantee and ease of repayment.

Table-3: Use of informal sources of credit by farmers

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Local Merchants	2	3.3	3.3	3.3
	Non-Agricultural Institutions	11	18.0	18.0	21.3

Local Shopkeepers	17	27.9	27.9	49.2
Relatives and Friends	31	50.8	50.8	100.0
Total	61	100.0	100.0	

Table 3: 50.8% of farmers get credit from their relatives and friends, which is the largest number, 27.9% from local shopkeepers, 18% of farmers get their credit from non-agricultural institutions. Non-agricultural institutions are institutions that give credit to farmers on the condition that they sell their products to them at the time of harvest, and the least number of farmers, 3.3%, get credit from local merchants.

Table-4: Objectives of obtaining informal credits

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid				
Buying food in the seasons when the product is not harvested	11	18.0	18.0	18.0
Land Rent	2	3.3	3.3	21.3
Advancement of farm affairs from planting to harvesting	45	73.8	73.8	95.1
Agricultural Investment	3	4.9	4.9	100.0
Total	61	100.0	100.0	

Table 4: According to the findings of the research, 73.8% of farmers use credits to advance the affairs of farms from planting to harvest, 18% to buy food in the seasons when crops are not harvested, 3.3% to pay land rent, and 4.9% of farmers take credits for agricultural investments.

4. Discussion

When the supply of formal credit is insufficient, the informal credit market is used (Chaudhuri & Gupta, 1996). The (Rahimi & Mir, 2008) research shows that informal financial resources in villages have different functions besides giving credits, one of which is providing daily needs and advanced agricultural affairs. Farmers received about 27% of credit from their friends and relatives, 1.6% from local merchants and 10.8% from non-agricultural institutions. (Otunaiya, 2007) Research shows that 68.3 % of farmers use informal credits.

In addition, the farmer's education level, age, experience, farm size, hired labor and marital status are the main factors that determine the use of informal credits. More than 92% of farmers rely on informal sources to finance their agricultural production, processing and marketing. And 33 % of farmers get credits from their relatives and friends, 20 % from non-agricultural institutions, and 2.5 percent from merchants. Implicitly, the cooperative society plays an important role in providing credits to small business owners, including farmers. Family and friends are important sources of informal credit available to farmers (Egbo et al., 2021). Hussein (2009) reported that formal credit reaches only 8% of all families in Afghanistan. (Kjiln & Pain, 2007) documented that informal credit is a significant source of access to capital that helps households cope with unforeseen events or opportunities in Afghanistan. Informal credit has helped farmers in Nigeria to earn more income (Yusuf et al., 2014). In urgent needs, cash is a simple and fast method, the most attractive feature for participants. Typically, relatives and friends are the first source of credit that families turn to when faced with income shocks or unexpected events. Free interest rate, fast delivery, duration and flexible payment schedule are the characteristics of family and friend's credit (Dat, 1999). 19.9 % of informal credits are used for agricultural activities, 6.2% for non-agricultural activities and 15.7% for living expenses (Truong et al., 2020). The (Ukwuaba et al., 2021) research shows that 60% of people use informal credits, of which 56.7% are obtained from friends and relatives. Also, 76.7% are used for agricultural affairs and the rest for other purposes. According to the above statements, the research results of (Otunaiya, 2007), (Egbo et al., 2021), (Hussein, 2009) and (Ukwuaba et al., 2021) confirm the result of the current research based on the widespread access of farmers to informal credits (table 2). The research finding that most of the informal credits are provided by friends and relatives is confirmed by the results of (Egbo et al., 2021), (Ukwuaba et al., 2021), (Rahimi & Mir, 2008) and (Dat, 1999), (table 3). The findings of the research that the most credits are taken for the advancement of farm affairs from planting to harvest are confirmed by the research results of (Truong et al., 2020), (Egbo et al., 2021) and (Ukwuaba et al., 2021), (table 4).

5. Conclusions

Considering the findings of the research on farmers' access to informal credits, we conclude that, in the conditions of Afghanistan, there are no enough formal lending centers with easy and sufficient conditions. Therefore, most farmers are forced to take credits from informal sources on easy and free-interest terms to manage their livelihood and advance their farm affairs.

The findings of the research indicate that 81.3% of farmers use credit. 76.3 % of farmers in the region under research use informal credit. Farmers take the largest amount of credit from their relatives and friends, which amounts to 50.8%, 27.9% from local shopkeepers, 18% from non-agricultural institutions, and the least amount from local merchants, which is 3.3%. Also, 73.8% of farmers use credit to advance their farm affairs from planting to harvesting, 18% to buy food in seasons when products are not harvested, 4.9% for agricultural investments, and the lowest number, 3.3% for the purpose of paying land rent.

6. Recommendations

- It is suggested conducting research on the effects of informal credits on farmers' morale, sense and confidence.
- Investigate the effects of informal credits on crop yields and the use of informal credits by age groups.
- A study on how farmers can use informal credits effectively and get maximum benefit from them.

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