

Socioeconomic Impacts of Micro Credit on Farming Communities of Laghman Province, Afghanistan

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ABSTRACT

Agriculture sector plays an important role in Afghanistan's economy. The development of agriculture sector required adequate finance. Microfinance can provide financial support in suitable term and condition. Microfinance impacts on the socioeconomic status of the farming communities. So, this research was conducted to study the impacts of the microfinance in the study area. The data was collected from **120 farmers, 60 users' and 60 non users' of micro credit** through personal interview. The results of the study were showed that the farming communities were used **micro credit** for the agriculture purpose, and were obtained **micro credit** from various formal and non-formal institutions. It was also observed that **micro credit** has had positive impacts on the income, education, recruitment, expenditure, self-confidence and decision-making ability of borrows' in the study area. It was also found that the formal sources could not provide sufficient loan amount, with suitable terms and conditions. It is suggested to policy makers to provide adequate loan based on Islamic rules for the farming communities.

Keywords: *Microcredit, socioeconomic, Laghman, micro credit borrowers, farming communities*

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1. Introduction

The Agriculture sector is the key sector for the development of Afghanistan's economy. About 70 per cent of the people engaged in agriculture sector. Its provide 23 per cent of the gross **domestic** products (GDP) [1]. Agriculture sectors provide partial and full employment both on farm and off farm for the 40 per cent of the national workforce and about 50 per cent of the households at least part of their income [2]. The production and the productivity of this sector is very low [3], because of low investment in the individual level and the government level. In many African countries credit increased the use of capital-intensive technologies which improved the labor productivity in agriculture sector [4]. Investment in agriculture sector increased productivity and decreased poverty [5]. Financial institutions play a vital role in the **sustainable** development of agriculture [6]. They provide three segments of finance, large scale (\$ 250,000+), SME's (\$ 25,000-250,000) and microfinance up to \$ 25,000 [7]. According World Bank Afghanistan Review, Afghanistan agriculture sector has potential in three sub sectors for the economic development, first irrigated wheat, second horticulture and third livestock [8].

According to Moahid and Maharjan in Afghanistan, farming communities obtained agricultural credit from various formal and informal sources, and gave suggestion for the expanding of the formal credit to remote areas [9]. Agriculture finance helped farmers in

providing inputs on time and were getting high production, through which improved the living standards of farmers and helpful for rural development [10]. Microfinance increased the income level of households [11]. Financial institutions also support agribusiness, Ferdousi studied the effectiveness of microenterprise loans, the results of the study showed that the microenterprise loans were increased the income and innovation level of enterprise, the study suggested that institutions have increased the amount of loans and provided business skills training for the increasing of income [12]. According to Kerti microcredit have had positive impacts on the economic status of enterprise such as income levels, stocks thus improved the education and health level of entrepreneur's [13].

Mega Nathan and Arum gam studied the social and economic impacts of self-help groups, which were provided microfinance services for the women, the study found that the income, savings, expenditure, loans and living standards of the participants were very high[14]. Used of microfinance in study area were improved the economic status of households such as improvement in the saving habit, access to credit, increased income and expenditure level and the decision making, improved status and self-confidence, participation in community based programs were the social impacts[15].

Basically, in Afghanistan farming communities used informal and formal sources for the credit. Formal sources are commercial banks and non-bank financial institutions, which are providing formal agriculture credit for the farming communities and agribusiness sectors [16]. Therefore, the present study was carried out in the title of socioeconomic impacts of microcredit on farming communities of Laghman province, Afghanistan. The research found, first sources of microcredit, second use of microcredit by farming communities and third the socioeconomic impacts of the micro credit in study area.

2. Material and Methods

Laghman province's Mehterlam and Qargha-E- districts were selected for the study. Which, the farming communities of selected districts are engaged in market-oriented agriculture, and they used formal and informal sources of credit for the agricultural activities. 60 credit users purposively **and 60 non users randomly** were selected. Primary data was collected through structured questionnaire during the year 2019-2020 and secondary data were also used.

For the analysis of different statements, the 5 Likert scale was used, such as **1 for strongly unfavorable, 2 for unfavorable, 3 for neutral, 4 favorable and 5 for strongly favorable**. The score of the respondents were weighted as:

- Total weighted score of a respondent= $1*SU+2*UF+3*N+4*F+5*SF$
- Mean and standard deviations were used to establishing the statistical significance of the results.

Table-1

Weighted scores were further categorized to compare the socioeconomic status of borrowers' and non borrows'.

Possible Range of Weighted Scores	Score Classification	Category
60-300	Less than 120	Strongly unfavorable
	120 to 180	unfavorable
	=180	Neutral
	180 to 240	favorable
	More than 240	Strongly favorable

3. Result and Discussions

Laghman province has enough water and micro climatic conditions which are more suitable for cultivation of all crops and especially for horticultural crops. The farming communities of Mehterlam and Qargha- E districts are more diversified farmers. Mainly they produce vegetables and fruits for the national and international markets, which are more capital intensive. During the production period formal and informal sources of financial institutions provide microcredit for the farming communities. Microcredit impacts on socioeconomic status of the borrowers in all over world, which have been analyzed through many studies. According to Ting et al. [17] microcredit increased income level of borrowers in the villages through job creation, women employment, generation of various economic activities, which clashed the social status of users such as improved user's household education, women's status, and overall family living standards. Microcredit provides the opportunity to invest on the children's education, through which growth the social status of the family [18]. According to Pathak and Gyawali microcredit had improved the socio-economic empowerment, use of internal resources and generation of self-employment. The result found that the household invested the amount of microcredit on livestock and agricultural based business and other small scale business through which increased job opportunities [19]. The study showed that the

microcredit increased the income level of the farmers, therefore improved their living standards and increased self-confidence of the farmers [20].

The findings and results of the present study were discussed as follow:

• Socioeconomic status of the borrowers:

Purposively sampling technique was conducted for the study, we found that all the users of the credit were male. About (24-50 years) was the average age of the respondents and 45 per cent farmers of the study area were educated. The average farm size of the respondents was about 5.5 Jereeb and it indicated that the 75 percent of the respondents have had about (200,000-500,000 Af) per annual income from agriculture and livestock, and vegetables were cultivated **as main crops** by the respondents. It was revealed that majority of the respondents lived in the joint family system and they provided the agriculture workers from their family.

• Source of Credit

Vegetables were the main cultivated crops in the study area. **Farmers** during production periods need financial support. It's depicted from the study that the credit needs of the farmers were provided through formal and informal sources, but they did not adequate and convenient for the users.

Table 2 summarized that the 55 percent of the respondent were used informal sources as source of agriculture credit and respect were used formal sources. Lack of proper information about formal credit, religious belief and unavailability of proper schemes were the main constraints against use of formal source of credit.

Table 2
Sources of agricultural credit

Source of finance	Frequency	Percent	Cumulative Percentage
Informal source	33	55	45
Formal source	17	45	100
Total	60	100	-

• Socioeconomic impacts of microcredit

The table 2 summarized the characteristics of the households such as role of microcredit in rural credit, compatibility of schemes, diversification of economic activities, enhanced the income level, increased the expenditure level, acquisition of household assets, improvement of house, role of household in decision making, increasing of self-confidence **and** improvement of children's education. Finally, the results of the study were revealed and discussed.

The results of study are shown that borrowers and non-borrowers were accepted that the microcredit both formal institutions and informal institutions were played an important role in the finance of rural credits; in the case of borrowers' the total weighted score is about 236, the mean score of aggregate responses is 3.93 with standard deviations 1.33, and in case of non-borrowers the total weighted score is about 209, the mean score of aggregate responses is 3.48 with 1.4 standard deviations. About the existing microcredit schemes, it was found that the existing microcredit were not adequate according to their needs and requirements. It was observed that microcredit played an important role in the diversification of economic activities of users compared to non-users. Farmers started Vegetable cultivation, livestock production and other agribusiness activities with support of microcredit. Based on users of microcredit, total weighted score was 222, 3.70 mean and 1.25 standard deviations. It means that microcredit was increased job opportunities in the rural area. **It** was further observed that microcredit have had positive impacts on the income level of farmers.

It is a general rule that level of expenditure has a direct relation with level of income. As a microcredit were expanded the income level, so the borrowers' have had more expenditure on farm technologies, consumption, house assets...etc. The total weighted score of the statement was 219; the mean score of aggregate responses was 3.65 and 1.16 standard deviations in case of usage of microcredit. It means that microcredit **was** played a significant role in the expenditure level.

Microcredit has been impacted on the housing system of users' such as change in latrine construction, drinking water, electricity, and source of energy compared to non-users. The total weighted score was 202; the mean score of aggregate responses was 3.37, with 1.31.

Microcredit has improved the farmers' children education, the total weighted score of the respondents was 214, the mean score was 3.57, with 1.21 standard deviations of borrowers of microcredit, followed by the total weighted score 178, aggregate mean score

2.97, with the 0.60 standard deviations of non-borrowers. In society the respondents' self confidence level has increased, they found their real status, because of their jobs, income, housing system and education level. The decision making ability of the borrowers' have increased. They can easily decid about the purchaing of food, household investments, children's education compared to non users.

Table 3
Socioeconomic status of microcredit users' and non-users'.

Factors	Microcredit Users			Microcredit non users		
	Total Weighted Score	Mean	Std. Deviation	Total Weighted Score	Mean	Std. Deviation
Microcredit plays an important role in rural credit.	236	3.93	1.33	209	3.48	1.40
Existing microcredit schemes are according to your needs and requirements	152	2.53	1.29	141	2.43	1.17
Diversification of economic activities	222	3.70	1.25	159	2.65	1.41
Income level increased	227	3.78	1.22	174	2.90	1.42
Expenditure level increased	219	3.65	1.16	164	2.73	1.38
Acquisition of household assets	218	3.63	1.26	163	2.80	1.26
Housing improvement	202	3.37	1.31	162	2.70	1.36
Improved children's education	214	3.57	1.21	178	2.97	0.64
Increased self confidence level	212	3.53	1.48	169	2.82	1.28
Role of household in decision making	209	3.48	1.25	168	2.82	1.36

4. Conclusion

The Agriculture sector is the key sector for the development of Afghanistan's economy. About 70 per cent of the people engaged in agriculture sector. Its provide 23 per cent of the gross domestic products. Investment is required for high production. So farmers need adequate finance. Formal and informal institutions provide finance for agriculture sectors. This research was conducted to study the socioeconomic impacts of microcredit in Mehterlam and Qargha-E districts of Laghman province, Afghanistan. For the collection of data 60 users of microcredit were selected purposively, 60 non users of microcredit were selected randomly. Formers were obtained financial support from formal and informal sources. It was found that the formal sources did not provide adequate loan, so farmers more were relied on informal sources. Microcredit was played an important role in the financial support of farmers, through which enhanced the job creation opportunities, income level, expenditure level, children's education level, self confidence level and overall decision making ability. So it can be concluded that microcredit have **had** impacts on the socioeconomic status of borrowers'. Finally, policy maker should provide the microcredit schemes according to the needs and requirements of the society.

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