



Tropentag, October 6-8, 2009, Hamburg

“Biophysical and Socio-economic Frame Conditions
for the Sustainable Management
of Natural Resources”

Factors Affecting on Loan Repayment Performance of Farmers in Khorasan-Razavi Province of Iran

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Abstract

There is no doubt about the crucial roles of credit in economic development. Agricultural household models suggest that farm credit is not only necessitated by the limitations of self-finance, but also by uncertainty pertaining to the level of output and the time lag between inputs and output. Recent studies show the growth rate of investment in agriculture is less than other economic sector. So financing agriculture is one of the most important factors to develop rural areas in developing countries. Banking system payment is a way of financing. Generally, credit accessibility is important for improvement of quality and quantity of farm products so that it can increase farmer's income and reduce rural migration. In the other hand, Lending is a risky enterprise because repayment of loans can seldom be fully guaranteed. Generally In spite of the importance of loan in agricultural production, its acquisition and repayment are fraught with a number of problems especially in the small holder farming. It is reported in empirical studies that large rate of default has been a perennial problem in most agricultural credit schemes organised or supported by governments. Most of the defaults arose from poor management procedures, loan diversion and unwillingness to repay loans. For this reason, lenders devise various institutional mechanisms aimed at reducing the risk of loan default (pledging of collateral, third-party credit guarantee, use of credit rating and collection agencies, etc.). This study investigated the factors influencing on repayment behaviour of farmers that received loan from agricultural bank by using a logit model and a cross sectional data of 175 farmers of Khorasan-Razavi province in 2008. Results showed that loan interest rate is the most important factor affecting on repayment of agricultural loans. Farming experience and total application costs are the next factors, respectively.

Keywords: Agricultural bank, credit, logit model, marginal effect