



A socio-cultural analysis of smallholder borrowing and debt in southern Ethiopia



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ABSTRACT

This paper combines qualitative and quantitative research methods in an exploratory study of borrowing and debt in rural southern Ethiopia in order to understand the complexities of the rural finance system and frequency of borrowing and debt in rural, smallholder settings. By comparing geospatial location in relation to access to infrastructure, markets and services within a single agroecological setting, we explore the ways in which these factors influence the frequency of borrowing, sources, amounts and interest rates involved, as well as the duration and extent of borrowing and debt. We find great variation amongst the communities studied, highlighting the importance of the localized nature of borrowing and debt and identify barriers and opportunities that will support the (re)adjusting of policies and programs that would enable smallholder households to overcome cycles of borrowing and debt, and build assets.

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1. Introduction

In rural Africa, financial savings beyond the short-term is seldom practiced among smallholder farming households (Cull et al., 2013). In rural communities, this is due, in part, to limited access and availability of formal banking options, which constrains their opportunities for savings and capacity to cope with shocks (Salami et al., 2010). Similarly, smallholder farmers in rural Ethiopia have little to no financial savings and very limited access to financial services (Amha, 2011). According to governments (GoE, 2010), international bodies (World Bank, 2013), non-governmental organizations (Chiche and Kelemu, 2012; Chemonics International, 2006) and researchers (Gecho, 2014; Handino, 2014; Tesfamariam, 2012) the lack of financial savings is attributed to a poor saving culture, and therefore programs focus on behavior change communication and education. This research contributes to studies of rural debt, by demonstrating that a primary barrier to income savings, or asset building broadly, is chronic debt. Krishna (2010), for example, identified that debt can be a primary cause for a family becoming poor within the five countries he studied, and Scott (1985) has shown that rural debt can result in the loss of land and can create a situation of (semi-) permanent

indebtedness, for which households struggle only to repay interest for entire lifetimes. Some analyses of debt, savings and lending have contributed to an improved understanding of socio-cultural contexts and their impacts on individuals, households and communities (Case et al., 2013; Gray and Dowd-Urbe, 2013; Guerin et al., 2013; Mohanty, 2005). Yet, debt has received only limited attention by governments, development organizations and researchers and is a key knowledge gap within the existing literature generally, and specifically within Ethiopia. This exploratory study aims to contribute to wider understandings of smallholder borrowing and debt, while shedding light on the dynamics of smallholder debt in rural southern Ethiopia.

In the following sections, we contextualize smallholder debt from relevant literature that explores these issues from a socio-cultural perspective. The second and third sections provide background on the study site and methodology. The fourth analyzes the findings of smallholder debt in rural southern Ethiopia. This data provides new knowledge on the extent, type and frequency of smallholder debt for Ethiopia. Renowned Ethiopian sociologist and agrarian reform expert Dessalegn Rahmato has commented that smallholder debt in Ethiopia has received almost no attention (Rahmato, personal communication, 25 June 2015). To date, there are only anecdotal reports referencing the challenges of debt, and studies about informal loaning and saving from the perspective of loaning networks (Aredo, 1993; Caudell et al., 2015). As a key objective, this paper analyzes the complexities of the rural finance

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system and frequency of borrowing and debt in rural, smallholder settings. Our review of the literature on smallholder debt indicates that studies of this kind are under-represented in the Ethiopian context, particularly regarding the extent, reasons and sources of debt, as well as the interest rates and frequency of loans. This research seeks to contribute new insights into these notable gaps. This paper does not propose to capture all of the complexities of rural financial systems, the frequency of borrowing and the impact of debt in rural, smallholder settings, rather it offers an assessment of the extent, frequency and sources of borrowing. We hope that this research will provide useful groundwork and encourage further research on related subject areas.

2. Context

Pro-poor lending schemes, such as microfinance, have been largely viewed in the literature as a mechanism enabling individuals and families to overcome poverty. However, there has been limited attention given to the role of borrowing and debt. Continued attention and research focus on the unmet credit demand, suggested to be in the billions of dollars, for smallholder farmer financing (ISF, 2013). Embedded within the reports advocating for the financial inclusion of smallholders there is a recognition that farmers are borrowing money and that interest rates can be extremely high, which may result in long term debt. Yet, there is limited understanding of its extent. Research findings are influenced by what is measured, who participates in the measurement, the location of the study and the time of year when data is collected (Chambers, 1995). Negative or unintended outcomes may result with the selection, and exclusion of some metrics over others (Cochrane and Thornton, 2016). In many cases, policymakers seemingly neglect to account for the impact of debt as part of poverty alleviation, and it is rarely included in assessments and household surveys.

Wilson (2009: 84) argues that policies and programs designed to support farmers “must be understood in the context of long-term indebtedness”. However, there is insufficient information available about smallholder borrowing and indebtedness to adequately do so, particularly in the Ethiopian context. Research from other countries sheds light on the processes of debt in smallholder settings. Social obligations can be significant contributors to debt, as found in diverse settings such as India (Krishna, 2010), Samoa (Thornton et al., 2010) and South Africa (Case et al., 2013). In the latter study, it was found that approximately one quarter of funerals were paid for with loaned money, a costly ceremony with socio-cultural expectations attached to it (Case et al., 2013). The failure to meet such expectations may have negative long-term social consequences. Other researchers find that debt may be taken on for other ceremonial purposes, such as weddings in India, which are used as a means to increase social status (Bloch et al., 2004). Although the work of Case et al. (2013) greatly informed the discussion on debt and ceremonial activities, other communities have socio-cultural practices that reduce indebtedness, such as gifts from guests and neighbors (Ainsworth and Over, 1997; Stover and Bollinger, 1999). While these large, one-time and costly ceremonial events have attracted attention in the academic literature, there has been much less research conducted on the everyday costs of life and livelihoods that push farmers and households into debt. The gravity of debt and indebtedness cannot be under valued; it has resulted in the loss of land and livelihood, and has contributed to smallholders taking their own lives (Mohanty, 2005).

Gray and Dowd-Urbe (2013), as well as Thornton et al. (2010), discuss debt as a differentiating factor amongst community members, along with the social, political and economic changes that have led to the need for borrowing. Both works highlight the degree

to which different levels of indebtedness exist within households and contextualize the processes contributing to them. Within the farming context of Burkina Faso, it was the poor who were most indebted and more frequently borrowed, whereas the relatively wealthier avoided falling into debt largely as a result of their social capital, receiving support from wealthy members of cooperatives to which they belong (Gray and Dowd-Urbe, 2013). In contrast, farmers in Thailand with more land and resources were found to have more debt, as they required greater capital to invest in their land and because lenders found them more credit worthy (Nuansoi, 2013). Analysis of debt in Latin America showed that farmers struggle to overcome debt in the long term, yet the exact causes are debated and have not been subjected to systematic research (Bacon et al., 2014; Wilson, 2010). These diverse experiences emphasize the complex, localized nature of rural financial systems.

A detailed study conducted in rural south India identified the important role of positionality with regard to access, cost and use of debt and the implications of caste, class and location (Guerin et al., 2013). The authors argue that debt cannot be understood simply as a financial matter, but is primarily a social transaction that occurs within existing socio-cultural, political and geospatial settings. Guerin et al. (2013) suggest that policies will only be appropriate, relevant and targeted when the local circumstances of social interactions and processes shaping debt are understood. Just as debt is shaped by “unequal and contested structures and relations” at the macro-level (Fridell, 2013: 1492; Soederberg, 2013), these processes also exist at the micro-level within rural agricultural settings, about which much less is known.

Other than the important contributions from Gray and Dowd-Urbe (2013) and Guerin et al. (2013), few studies have centered around understanding the extent, size and frequency of smallholder debt in rural farming communities, the reasons for borrowing, the sources of loans and the interest rates charged. However, when debt is included, the inappropriateness of policy and programs is apparent (Guerin et al., 2013). In other words, the barriers to saving and asset building reflect the diversity and nuance required in order to make effective and targeted policy and programs (Gray and Dowd-Urbe, 2013). This paper further demonstrates the importance of including detailed analyses of smallholder debt, and offers specific insights into the manifestation of debt in rural southern Ethiopia. The findings could contribute to a more informed policy discussion in Ethiopia, particularly as the government-run micro-credit banking system expands throughout the country. As an exploratory study, this paper does not seek to offer recommendations for policy and programming, rather it seeks to provide a baseline set of data for which future research can expand and around which policy makers and program designers may draw insight to ensure their services are appropriate and effective.

3. Location of study

Ethiopia is an agricultural economy and over 80% of the population is rural (CIA, 2015). The nation is comprised of regional-states and administrative cities, the most populous of which are Oromia, Amhara and Southern Nations, Nationalities and Peoples (SNNP) regional-states, which together account for four-fifths of the entire population (CSA, 2007). The SNNP region is unique in the Ethiopian context, as it is home to areas of the country with the highest rural population density. All twelve of the rural districts that have population densities above 500 persons per square kilometer are located in the SNNP regional-state (CSA, 2007). Unlike the relatively rain-secure highlands and rain-insecure eastern lowlands, the central SNNP region experiences much more volatile rainfall, which poses significant challenges for smallholder farmers who rely

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