

## **The Rural People Attitude and Tendency Toward Utilize Rural Credit Funds: A Case Study of Tehran Province (Iran)**

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**Abstract:** In order to come up with the capital necessary for production, farmers and producers of agricultural products tend to utilize their own savings or loans secured from formal and/or informal financial/credit institutions. Rural Credit Funds, which have been set up in the past two decades are amongst resources utilized by farmers and rural producers. In order to set up and expand these funds, better understanding of rural peoples' attitude and tendency about these funds are fundamental, which justifies scientific studies in this regard. So, this field-study has undertaken to survey attitudes and inclinations of people of rural communities in Tehran Province towards rural credit funds scheme. The statistical population of this study included the rural people in Tehran Province. Furthermore, random sampling has been used according to Morgan's table. Collection of data is done through interviews with 130 rural people in Tehran Province and also by completing the respected questionnaire. The findings show that rural people have a rather deep and proper understanding about rural credit funds scheme. Besides more importantly, is the fact that they view their attitude tendency for participation in these funds scheme very positively. In the opinions of people interviewed, the existing financial and credit funds have performed rather well in the fields of: rate of membership dues, amount of loans allocated, method of repayment of loans, number of allocated loans, and also the management and overseeing of these funds. The findings also reveal that factors such as domicile of rural people, distance of domicile from towns/cities and the nearest branch of Keshavarzi Bank, and also annual income of farmers are important factors in their attitude and tendency to utilize services of rural credit funds.

**Key words:** Agriculture sector % Rural credit fund % Credit % Financial resource

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### **INTRODUCTION**

Rural financial and credit funds have been favored by politicians and planners of agricultural affairs as effective institutions in providing financial and credit services which lead to expansion and development of rural and agricultural activities [1]. In the past two decades, establishing rural credit funds have been viewed by majority of countries, especially the third world countries as a mean for securing needed capital and credit for rural producers [2]. The same holds true for Iran, in which establishing and expanding rural credit funds is accomplished by collecting small capitals of farmers and producers. This important accomplishment not only creates spirit of cooperation in rural areas, but also plays an important role in alleviating financial needs of rural people and also expansion of agricultural production activities [1-2].

Chamon and Prasad [3] concluded that younger and older rural Chinese households have relatively high

saving behavior rate. This motive for saving among them increase with expectation of a rising private burden of expenditures on housing, education and health care. Brata [4] by conducting a research on rural industry at a sub-district in Yogyakarta-Indonesia (Bantul) concluded that, in the situation where other financial sources were limited, the own capital is very important for rural industries. Based on this study, banking institution just gives little attention on the rural households saving ability and they save in financial assets in non-bank institutions. This study also found that household saving was determined by household's income, both of education level and sex of the industry holders and varieties of industries [3-4].

The study reveals that the economic impact of the programme on women is very weak because of the non-availability of credit. This worsened the credit of the programme which has challenged women's trustworthiness [5]. Another study on rural finance and micro-finance development in south-east and East Asia

showed diverse potential that formal and semi formal financial institution –agricultural banks, micro finance banks, micro finance NGOs, financial co-operatives and other indigenous financial systems- have to reach out to the rural people of respected nations. They concluded, to develop effective rural financial systems, some policy implications are drawn, such as reforms of agricultural banks, adopting of market based policy framework, development of retail capacities of micro finance institution, progressive establishment of legal and regulatory framework for micro finance, improvement in governance of indigenous financial systems, and the importance of saving mobilization [6].

The main purpose of this study is to investigate attitude and tendency of rural people towards rural credit funds scheme, which are set up to provide financial and credit services needed by rural producers. The specific aims of this study know personal, economical and family backgrounds of rural people in the under-study areas, having better understanding about attitude and tendency of rural people towards rural credit and financial funds and evaluating effective factors leading to the attitude and tendency of rural population towards these institutions.

## **MATERIALS AND METHODS**

This research is a descriptive and analytical study, which tends to describe special traits of rural population and their attitude and inclinations towards regional credit funds by considering relations among independent and dependent variables. The information for the study was collected by face-to-face interviews and also by completing related questionnaire.

The statistical population included all rural population of villages in Tehran Province, which after sampling Firouzkooh, Damavand, Ray, Pakdasht and Islamshahr regions were chosen as the samples. For population sampling, random sampling was utilized according to Morgan's table and total of one hundred thirty rural persons from the above mentioned regions were selected for interviewing and completing the questionnaire. Finally, the SPSS 11 software was utilized to analyze the data.

## **RESULTS AND DISCUSSION**

**Personal Background of Participants in the Study:** As it was mentioned before, the participants in this study were rural people residing in five regions of Firouzkooh, Damavand, Ray, Pakdasht, and Islamshahr. Among one hundred fifteen responding participants in the study who

were interviewed and filled out the questionnaire, thirty five persons or 30.4% were from Firrozkooh, forty one persons or 35.74% were from Damavand, eighteen persons or 15.7% were from Pakdasht, fifteen persons or 13% were from Ray, and six persons or 5.2% were from Islamshahr. The distribution of participants based on their gender represented eighty five persons or 73.9% male and thirty persons or 26.1% female of which ninety six persons or 83.5% were married and nineteen persons or 16.5% were single.

The distribution of participants based on their education showed that more than fifty percent of them had guidance school or primary education, which represents a rather low education level of majority of the participants. The median or average age of participants in the study was forty year and the average age of fifty percent of the participants was under forty year. Just shy of fifty five percent of the participants declared animal husbandry, 60% percent declared cultivation, 22.6% declared orchard related activities, 6.1% declared handicrafts, 12.2% declared livestock products, 10.4% declared labor related activities, and 5.4% declared trading as the most important source of their income.

Analysis of the responses of the participants in the study to the question that “what do you do with your or your family income?” showed that eighteen or 43.9% spent their income for different affairs of living such as wedding costs for children, traveling to religious cities, purchasing appliances, other undisclosed affairs and unprecedented events, 31.7% invested their income in agriculture related productions such as cultivation, animal husbandry, orchard and handicraft related activities, and 17.1% spent their income to buy land, house, vehicle, and 4.9% saved their incomes in the bank or used them to repay loans, and finally 2.4% declared that they spend their income on charity related activities.

Analysis of responses of one hundred fourteen participants to the question that “where do you turn to if you need money?” showed that seventy five persons or 65.8% would turn to different commercial banks; especially Keshavarzi(Agriculture) bank for loans, thirty persons or 26.3% of the responding population would turn to relatives and family members, five persons or 4.4% of the responding population would turn to interest free credit and financial institutions, two persons or 1.7% of the responding population would turn to family funds and also wholesalers and intermediaries to solve their financial needs.

**Attitude of Rural Population Towards Credit and Financial Funds:** In order to evaluate the attitude and rate of tendency of participants in the study towards credit

and financial funds, six related questions were devised. These questions were designed to also evaluate participants' opinions on saving, necessity of establishing rural credit funds scheme, effects of acquired loans from rural credit funds for production related activities, attitude and tendency of relatives and friends of participants in becoming members of rural credit funds, overcoming financial difficulties by securing loan from rural credit funds, and encouraging family members to become members of these funds[7-9].

The distribution of responses of participants in the study to the question regarding the importance of saving for families showed that out of total of one hundred eight responses, forty five persons or 41.7% considered the importance of saving to be very high, twenty nine persons or 26.9% of the participants consider it as moderate, and only eight persons or 7.4% consider it to be low or very low. Overall 65.9% of the participants considered the importance of saving to be high or very high. This shows the importance of saving for the families of participants in the study.

The distribution of responses regarding the necessity of establishing rural credit funds showed that, out of one hundred eight responses, fifty seven persons or 52.8% considered it to be very high, thirty nine persons or 36.1% considered it to be high, eleven persons or 10.2% considered the necessity of establishing a rural credit fund in their village to be medium, and only one person or 0.9% of the responding population considered it to be very low. This finding represents that majority of the participants acknowledge the necessity of such credit and financial funds in their villages.

The distribution of opinions of participants regarding the necessity of acquiring loans from these funds in expanding their production activities showed that, out of one hundred seven responses, forty five persons or 42.1% considered the necessity to be very high, forty eight percent or 44.9% considered it to be high, eight persons or 7.5% considered it to be medium, and only six persons or 5.6% of the responding population consider this necessity to be low or very low. This finding shows that the responding participants in the study consider the necessity of acquiring loans for expanding production related activities from credit and financial funds to be remarkable.

Of one hundred six persons responding to the question regarding the rate of tendency of relatives, friends, and family members for membership in these credit and financial funds, eighty two persons or 77.4% considered it to be very high, seventeen persons or 16% considered it to be average, and only six persons or 19.8% considered it to be low or very low. The findings

regarding this question show that rural people in the understudy area favor establishing credit and financial funds in their areas.

The distribution of opinions of participants regarding the effectiveness of loans acquired from rural credit funds in alleviating and/or solving their financial difficulties showed that, out of one hundred responses twenty nine persons or 29% considered it to be very high, thirty four persons or 34% considered it to be high, twenty seven persons or 27% considered the effectiveness of loans in alleviating their financial difficulties to be medium, and only ten persons or 10% of the responding participants considered the effectiveness of loans to be low or very low. As it can be seen, total of 63% of the responding participants rated the effectiveness of loans acquired from rural credit funds to be very high to high. It can also be concluded that the participants believed in the effectiveness of loans in solving their financial problems, which can be taken as an indication of rural peoples' wish for establishing and/or expanding such rural credit funds.

The distribution of opinions of participants regarding the rate of encouragement of other members of family for membership in rural credit funds reveals that out of one hundred two responses, forty four persons or 43.1% believed it to be very high, thirty eight persons or 37.3% of the participants believed it to be medium, and only eight persons or 7.9% of the participants tended to consider it to be low or very low. Again, the results support the idea of importance placed by the participants on establishing funds in their villages and encouragement of members of family for membership (Table 1).

Evaluation of effective factors relating to the attitude of rural people towards rural credit funds scheme shows that among the participants there is a meaningful difference of 0.05 based on the domiciles of the participants. In other words, the populations of Islamshahr, Damavand, Firouzkooh, and Ray regions were more inclined towards rural credit funds scheme than the populations of Pakdasht region and rural people residing in Pakdasht had the lowest tendency/inclination towards these rural credit funds scheme (Table 2).

Based on the findings of this study, the attitude of rural people, based on their marital status and gender, towards rural credit funds does not reveal any significant differences. In other words there are not any meaningful differences among singles, married, males, and females towards rural credit funds scheme. Comparison of attitudes of rural people towards rural credit funds scheme based on different income sources such as animal husbandry, cultivation, orchard related activities do not reveal meaningful differences. In other words, the source of income of rural people does not play an important role

Table 1: Results obtained by tabulating the answers of the participants

Questions posed to the participants	Mean	Std. Deviation
Importance of saving for families	3.95	1.10
Necessity of establishing rural credit funds scheme	4.40	0.75
Importance of loans acquired from rural credit funds in production activities	4.21	0.88
Rate of tendencies of family members, relatives, and friends of participants for membership in rural credit funds	4.03	0.96
Effectiveness of loans acquired from rural credit funds in alleviating and/or solving financial difficulties	3.78	1.06
Rate of encouragement of other members of family for membership in rural credit		
Funds scheme by the participants in the study	4.15	0.95

Table 2: Comparison of some statistical findings for different understudy regions

Region	N	Mean	Chi-square coefficient	Coefficient of meaningfulness
Firouzkooh	33	51.33	10.39	0.03
Damavand	35	53.83		
Ray	12	45.08		
Pakdasht	11	24.36		
Islamshahr	5	53.80		
Total	96			

Table 3: Correlation among independent variables and tendency of rural people towards rural credit funds scheme

Independent variable	r	Sig.
Distance of village of domicile to/from city	0.28	0.007
Distance of village of domicile from the		
Nearest Keshavarzi Bank branch	-0.23	0.02
Number of members of family	0.11	0.31
Number of children	0.12	0.26
Age	0.19	0.07
Education level	-0.10	0.35
Status of meeting life's needs with		
Present income	-0.90	0.35

in their attitude and tendency towards rural credit funds scheme and furthermore peasants with different sources of income almost share the same attitude towards these funds.

The relationship between independent variables and attitudes of rural people towards rural credit funds shows that there is a positive and meaningful relationship between distances of domiciles to cities and dependent variable. In other words, with confidence of over 99% it can be stated that the more the distances of places of domicile of rural people to/from cities and as the result less accessibility to financial and credit institutions, the more positive their attitude towards rural and regional credit funds scheme. There is also a negative and meaningful relationship between distances of domiciles of

rural people to the nearest Keshavarzi Bank; as the most important accessible source of financial and credit in rural areas. In other words it can be said that with the probability of over 95%, the more the distances of domiciles of rural people to the nearest Keshavarzi Bank, the less positive the attitude of rural people towards rural credit and financial funds scheme. The reason for this could be lack of familiarity of rural people about the advantages of acquiring loans due to the inaccessibility of lending institutions (Table 3).

## CONCLUSIONS

The history of securing finances in Iran's villages and rural areas reflects that although Keshavarzi Bank and some other commercial banks operate in rural areas, a considerable portion of financial resources needed by rural people and rural agricultural producers is met by informal entities with rather unacceptable and improper conditions. The Rural credit and financial funds are amongst financial and credit institutions which play important role in meeting financial needs of members in investing schemes while promoting spirit of cooperation among rural people.

The findings of this study reflects a rather high positive attitude of rural people towards these financial and rural funds in a way that majority of participants in the study realize the importance of saving, also acknowledge the necessity of establishing rural credit and financial funds, and furthermore view loans secured from these funds as very important and necessary in their production endeavors and alleviating their financial needs and difficulties [9-11].

## ACKNOWLEDGEMENT

This research project was supported by the Tehran Jihad-e-Keshavarzi organization. We would like to thank Mr. Akbar Foroozesh and Mr. Yousef Hashemi for research assistance.

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