

The factors affecting to farmers' borrowings from informal financial markets: Special reference to Thambuththegama Divisional Secretariat

S.M.N.C. Samarakoon and T.K.G. Sameera

*Department of Accountancy and Finance, Faculty of Management Studies,
Rajarata University of Sri Lanka, Mihintale Corresponding author:
nadeesamarakoon1993@gmail.com*

Abstract

The purpose of this study is to investigate the factors effecting to farmers borrowings from Informal Financial Markets (IFMs) with special reference to Thambuththegama secretariat division. In the borrowing of informal financial institutions, farmers have to face various unfavorable conditions. But it is difficult to get them to know the banks and financial institutions and to switch them from informal lenders to formal lenders. Therefore, this study examines the reasons as to why farmers in rural areas borrow informal financial markets without considering a formal financial market. The three independent variables were used in the study as individual factors, household factors, and institutional factors and the dependent variable was the borrowing of farmers from informal financial markets. A self-administered questionnaire was used to collect data from 100 farmers representing the five Grama Niladari divisions. The results of correlation and regression analysis confirmed that farmer's individual and household factors have a significant effect on IFMs. Moreover, institutional factors have no significant effect on borrowings from IFMs. These results show that households rely on informal borrowings, especially when they face with income shocks. It is therefore proposed that formal credit should be extended to rural areas, in particular to small-scale farming households. Policymakers should also consider improving access to extensions through establishing branches and expanding the staff of the financial institutions in the remoter rural area. There is a need to design innovative credit programs targeting specifically poor and small farmers. Formal financial institutions should provide more convenient lending facilities, which would increase household confidence in the use of formal credit.

Keywords: *Informal financial markets, borrowing, individual factors, household factors and institutional factors.*