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MARKET RESEARCH IN RURAL AREAS - BASRAH

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Market Research in Rural Areas Basra Region

Executive Summary

In March 2004, the Agriculture Reconstruction and Development Program in Iraq (ARDI), a USAID funded initiative aimed at supporting the agriculture sector in the country, conducted a market research study in the southern governorate of Basra. The study covered over 10 villages around Basra town and interviewed 150 rural households.

The purpose of the research is to better inform ARDI's role in facilitating rural finance. The study looked at assets, incomes, expenses, past debt and future borrowing needs in order to inform potential credit providers as to product development and credit methodologies.

The major findings of the study are:

- Rural households are likely to own their own land and homes. While most do not own farm equipment, most households do own some animals, primarily cows and some chickens, which they mainly raise for household consumption.
- Rural households have limited incomes that just cover basic household consumption above and beyond the food they obtain from the national food distribution program. Incomes are generally insufficient beyond this and few households are able to save.
- Most rural households rely on multiple sources of income, and farm related income is not necessarily the most significant income source for a typical household.
- Nearly all households rely on free food from the Public Distribution System (PDS) as their main food supply. This is supplemented by their own production as well as some purchases from the market place. Some food insecurity is evident as many households are buying food with borrowed funds. Approximately 26% of the households interviewed often buy food on credit from shops, while 40% indicated that they buy food with borrowed funds from family and friends.
- Borrowing is a common practice in rural areas, primarily from informal sources of financing such as family and friends. Additionally, some households buy food on credit from shops. Few have ever borrowed from formal sources such as the Agriculture Cooperative Bank.
- The need for financing is high, although the amounts requested, which average just under \$4,500, are far beyond the typical rural households' capacity to repay. Affordability issues as well as lack of experience with formal credit providers caution against large loans to the rural poor.

The report concludes with some recommendations to credit providers that may be targeting rural areas.

Background

This report is prepared as a supporting document to the work of the Agriculture Reconstruction and Development Program in Iraq (ARDI). One of ARDI's roles is to facilitate rural finance in the country. ARDI is currently in the process of advising the Ministry of Agriculture on a national strategy for agriculture, including rural finance covering support to both producers (farmers) as well as agri-enterprises. This paper looks at the demand side of the equation among rural households.

Due to the years of neglect under the Saddam regime, the southern region of Iraq is considered one of the poorest regions of the country. Rural market research was initiated in the South first as this is likely to be the area of focus for ARDI particularly in the first year of the program, although similar market research may be undertaken elsewhere in the country.

The study focused on the region around Basra town. Initially the aim of the research was to explore all southern governorates, however, due to security issues, this was revised and only villages where interviewers felt secure to travel were included.

Methodology

A survey of 150 rural residents in the surrounding villages around Basra town was undertaken during the week of March 7, 2004. The research utilized a standard questionnaire, which was developed in English and translated into Arabic. Six individuals affiliated with the College of Agriculture at the University of Basra were hired to conduct the interviews with rural residents. More than 10 villages were visited during the course of the research, some as far as one hour north of Basra town. Data analysis was undertaken utilizing a statistical software package.

Enumerators were instructed to interview any individuals residing in the villages, regardless of whether they were farming. This was done in order to capture the overall economic activity occurring in rural areas, including both on-farm and off-farm activities. In numerous cases, families had land but were not farming it due to a variety of obstacles such as irrigation, inputs, or other issues. Thus this survey captures both farmers and non-farmers residing in rural areas. Of those directly responding to the survey, 42.7% identified their primary employment as farmers, 18% identified themselves as government employees, 14.7% were self-employed, 5.3% were unemployed and the remaining were students or worked in the private sector.

Description of Sample

The majority of respondents interviewed were male (90%) and married (81%). Most respondents were literate (66%), although a smaller number (22%) were illiterate and had no formal education. Formal education varies widely with 27.3% of the sample only completing primary school, 13% completing middle school and 19% completing secondary school. Approximately 10% of the sample completed university. The mean age of the respondents was 44 years old. In addition to formal schooling, 10% of the sample had training in mechanics. Other types of training indicated included computers (2.7%) and medical training (2.7%).

The majority of households (63%) indicated that the husband was the head of the household while 22% indicated that the parents were the head of the households. As many extended families reside together, this is not an unusual finding. In only one case was a female the head of the household. Rural areas in the south are known for the traditional gender roles and these results support this generalization. In most cases, women refused to speak to an interviewer if the husband was not present. Given these traditional gender roles, reaching women directly through finance will be challenging, particularly if on-farm activities are the main priority.

The size of the households ranged from 2 to 45 members, with a mean of 12 members.

Surprisingly, the vast majority (98%) of the sample indicated that they obtained their main source of news and information from the television. Many also indicated the radio (64%) as an additional source. A negligible number indicated other sources such as newspapers or family members.

Assets

The overall findings on assets of the households reveal that in most instances the rural areas surrounding Basra have a certain level of asset wealth. Most households own their own homes and have some land holdings, animals and other assets.

- 1. House:** Most families (94%) interviewed lived in an house (rather than an apartment) that they owned (83%). A small minority rented their homes either from commercial sources (3%), from subsidized sources (1%) or from their employer (1%). Other forms of arrangements were also identified (7%) and a small number of families (5%) were residing with extended family members. The majority of respondents (51%) reported their home to be in poor condition, 48% reported their home in good condition, while only 1% reported their home in excellent condition. Over 95% of sample has been residing in the same location for more than 5 years.
- 2. Land:** A large majority (71%) of the sample owns its land. Of those who own land, only 5% lease it to other farmers. Of those who do not own their land, 40% are sharecroppers, 11% are using private land with free access, 5% are leasing the land from a private source, 3% are getting free access from the state, 8% are leasing the land from the state and the remaining either don't know or have another arrangement.

The mean amount of land owned is 14.72 donum¹ (min 1, max 200, standard deviation 32.57), while the mean amount farmed is approximately half of this at 7.71 donum (min 0, max 200 donum, standard deviation 25.68).

- 3. Vehicles:** Only 24% of the sample owns a vehicle.
- 4. Animals and equipment:** Table 1 below provides the detailed breakdown of responses regarding animals and equipment ownership. As can be noted, the most common animals owned are cows and poultry. Holdings for cows are relatively modest with a mean of just over 2 cows per household. The total value for cows was estimated at just under \$1,000. Poultry represents the second most common type of animal owned by rural households, with over half of the families interviewed raising chickens. On average, the typical holding for poultry was just under 13 chickens per household.

With regard to farming equipment, very few households owned large equipment, with the most common holding being harrows. Water pumps were also a common holding with 43% of the sample owning a diesel water pump.

Table 1: Ownership of Animals and Farm Equipment

Animals and Equipment	Freq	Percent own	Mean quantity	Mean Value (ID)	Mean Value (USD)
Cows	68	45	2.4	1,462,807	\$975.20
Water Buffaloes	2	1.3	2	775001	\$250.00
Goats	3	2	8.33	281250	\$187.50
Sheep	31	20.8	8.53	764956	\$509.97
Poultry	83	55.3	12.66	39664	\$26.44
Water Pumps – diesel	65	43.3	1	503,679	\$335.79
Water Pump - electric	22	14.7	1	238,235	\$158.82
Plow	2	1.3	1	7,500,000	\$5,000
Trailer	3	2	1	2,000,000	\$1,333
Harrows	108	72	2.81	31,530	\$21.02
Plastic sheeting	6	4	N/A	N/A	N/A
Pipes for drip irrigation	5	3.3	N/A	N/A	N/A
Sprayer	28	18.7	1.15	121,764.71	\$81.18

Incomes and Expenses

While the rural areas may be relatively secure with regard to asset holdings, the situation is far worse from a perspective of cashflow. Monthly expenses for the typical household were reported as \$234.46 (min \$30, max \$1,333, std deviation \$190.23). At the same time, the mean monthly incomes were reported as \$218.90 (min \$3.33, max \$2,000, std deviation \$220.25). The income households need to meet basic household needs was identified as \$365.55 (min \$33.33, max \$2,000, std deviation \$344.41). This is over \$130 more than what a typical household is currently earning. The majority of households (78%) reported that their monthly household incomes were insufficient to meet their basic needs.

It should be noted that income figures are often either overstated or understated depending on how the respondent perceives the survey. Thus most figures are not considered to be accurate representations of household incomes. However, most households report within a range or "band of truth." That is, it is likely that households misrepresent their true incomes somewhat, but that this is within a reasonable range, either above or below, their true income.

Expense figures are often a better indicator of income levels. Thus given that the expenses reported are only slightly above income levels reported, it could be assumed that most household incomes reported are reasonably close to the true figures.

Sources of Income

To assess affordability of credit, the survey aimed to explore all household sources of income, and thus interviewees were asked about the various working members of the household and where they were employed. The three most common sources of income for a household were government or public sector employment self-employment and farm related income. Very few households relied on private sector employment or daily labor. Again, it is likely that individuals did not report accurately on all of their sources. The survey asked two different sets of questions regarding incomes sources and the figures did not correspond in most cases. In particular, many households seemed to understate their farm-related incomes and were uncertain how to categorize government employment. Furthermore, in one set of questions self-employment emerged as the most common household income source and in another set it was relatively equal with other sources.

Nonetheless, the important issue this brings to the fore is the fact that few households rely on only one source of income and that farm income is often complemented by either government employment or self-employment. Thus programs interested in the overall well being of rural households should consider both on-farm and off-farm activities.

With regard to the types of farming activities in which rural households are engaged in the Basra region, the vast majority cultivates date palms (66%) and vegetables (49%). Additionally, raising poultry is also a significant activity for many households (34%). A breakdown of all of the reported activities is presented in Table 2 below.

Respondents were asked whether the output produced was used for household consumption and if so, how much of the total production was used at the household level and not sold in the market place. As can be noted from Table 2 below, a significant amount of production is used for the household itself. This is particularly true for any dairy or poultry related production. Although the sorghum household usage is also high, the number of respondents is not significant and thus it is not sufficient to draw conclusions from this finding.

With regard to off-farm activities, the majority reported "other" which in most cases referred to public sector employment. Retail trade and services were the other types of activities in which rural households are engaged.

Table 2: Farming Activities

	Freq	% Yes <i>(Total valid responses)</i>	% for household consumption
Date palms	99	66%	60%
Vegetables	73	48.7%	51%
Poultry	51	34%	85%
Dairy	19	12.7%	85%
Sheep rearing	13	8.7%	51%
Cattle breeding	11	7.3%	66%
Fruit	10	6.7%	53%
Wheat	5	3.3%	30%
Barley	5	3.3%	43%
Sorghum	2	1.3%	100%
Rice	0	0	0

Table 3: Off-farm Activities

	Freq	% Yes <i>(Total valid responses)</i>
Other	1	17.5%
Retail trade	16	11.1%
Service	15	10.3%
Fishing	9	6.2%
Food processing	7	4.8%
Production	5	3.4%

The mean number of household members that were reported to be involved in agricultural production was reported as 1.91 (min 0, max 15, standard deviation 2.13). The mean number of household members engaged outside of agricultural production was reported as 1.24 (min 0, max 6, standard deviation 1.19). These figures are considered to be under reported, as there seemed to be inconsistencies in the results obtained. For example, many households had identified that they had members working in the public sector, but then reported that they had no household members working outside of agriculture.

Savings

In addition to incomes and expenses, the survey also asked several questions regarding savings. This is done as a check on income and expense figures reported as well as to assess the faith in available banks or other financial intermediaries where deposits are kept in rural areas. A small number of respondents (15%) reported that they are able to save on a monthly basis. The mean amount of monthly savings that a household is able to save is \$63.89 (min 0, max \$333.33, standard deviation \$75.44).

With regard to what households do with savings should they have any, 30% indicated that they would prefer to buy equipment if they had extra cash. A slightly smaller number would just keep the money at home (25.6%), or buy additional food for the household (11.5%). Very few indicated that they would store the savings in a bank (5.1%).

Assistance

Generally, few households receive assistance from outside sources other than food from the Public Distribution System (PDS). Nearly all rural households (97.3%) receive food distributions from PDS. Interestingly, 60% of these respondents say it is the main source of food for their families. Most households must supplement food obtained from the PDS and food they grow for their own consumption with purchases of food in the

market. Only 8.4% of households do not buy other food from the market. Most households (41.3%) buy less than 25% of their total food consumption from the market, while 30.8% buy between 26-50% of their total food consumed from the market.²

With regard to other forms of assistance, only 6.8% of respondents receive any other assistance, which is normally offered from family or mosques. Furthermore, 5.7% acknowledged receiving remittances from abroad.

Credit History

Very few farmers have credit histories with the Agriculture Cooperative Bank³ or any other formal lender. While 59% of respondents have borrowed in the past, the majority (95%) borrowed from family, friends and neighbors. The average loan size in past borrowing was only \$148 and the outstanding balances on these past loans average \$187.

A very large number of respondents (41.1%) who borrow do so on a monthly basis while 25.6% do so once every 3 months. This is a relatively high frequency of borrowing and is perhaps an indication of the limited cashflow issues noted earlier. Table 4 below gives the most common uses of borrowed funds. Of note is the fact that over 40% of those who borrow regularly do so for buying food for the household. Borrowing for food is yet another indication of limited incomes that cover basic household needs.

The second most common use of borrowed funds is buying inputs for agricultural production. The fact that loan funds are used for investment purposes is a relatively positive indication and demonstrates that many households perceive the need for investment in order to increase household incomes. It may also be an indication that some households can afford to do so and are not solely in need to supplement household basic consumption.

Table 4: Reasons for borrowing in the past

	Frequency	% yes
Buy food for the HH	46	40.7%
Invest in agricultural production	41	36.3%
Buy clothes	30	26.8%
Invest in small enterprise	26	22.8%
Save for emergencies / events	18	16.2%
Save to pay off debts	6	5.4%
Pay for school fees	1	0.9%

Given the relatively high prevalence of past borrowing, it is interesting to note that the majority (65.7%) of those who borrow indicate that they have difficulty in repaying debts.

Of the 6 respondents who had borrowed from the Agriculture Cooperative Bank, 66% had fully repaid their loan (4 respondents). Regarding the services obtained, 3 of the 6 respondents indicated that they did not like the services offered. The reasons provided were that the procedures were cumbersome, staff were not good, or "other." As the sub-sample of those with experience from the Agriculture Cooperative Bank is so small, these findings cannot be considered in any way conclusive. However, it is not uncommon for state banks to have worse customer services than private banks and some training and technical support to improve systems and services is likely needed.

In addition to borrowing from family and friends, 36 respondents (26.1% responding to this question) indicated that they bought food on credit from shops or the market. 85% of these individuals do so at least every month, while an additional 38% do so weekly. On average, households buy \$36.20 on credit from shops. The outstanding debt for food consumption is \$54.78, indicating that their balances are accumulating over time.

Only 11 respondents (or 8.7% of valid responses) reported buying agricultural supplies on credit. Of those who buy on credit, 97% reported to having done so from private supply stores and not the government agriculture supply sources. On average, loan amounts from supply stores were \$307.27, with \$110 of this still outstanding.

Future Borrowing Needs

The majority of respondents (128 out of 150) or 85.9% of the sample indicated that they would borrow if they had the opportunity to do so. In many instances, interviewers had to clarify that this would be a formal source of finance and not just from family and friends. Thus the perceived need for credit is quite high.

The mean loan amount identified was \$4,462.34 (min \$167, max \$33,333, standard deviation \$5,257).

- 1. Uses of the loan:** Respondents identified crop production and animal husbandry as the main uses of the loan.

Table 5: Overall uses of the loan

	Freq	%
Crop production	76	52%
Animal husbandry	75	50%
Off-farm business	24	16%
Fix / buy house	24	16%
Buy land	16	10.7%
Other	11	7.3%
Other HH Exp	7	4.7%

When asked to provide more specific details as to the use of the loan, respondents identified vegetables and fruit as the main crops to cultivate and cows, sheep and poultry as the main type of animals they were interested in purchasing.

Table 6: Crop production loan uses

	Freq	%
Vegetables	80	53.3%
Fruit	41	27.3%
Other	13	8.7%
Barley	11	7.3%
Wheat	8	5.3%
Rice	2	1.3%
Sorghum	3	2%

Table 7: Animal husbandry loan uses

	Freq	%
Cows	67	44.7%
Sheep	44	29.3%
Poultry	31	20.7%
Water Buffaloes	6	4%
Goats	2	1.3%
Other	1	0.7%

2. **Source of credit:** Despite the fact that most households rely heavily on family and friends for their existing loans, the majority are interested in borrowing from the Agriculture Cooperative Bank (57.3%) or another state bank (10%) rather than from family and friends (13%). As noted earlier, many individuals wanted clarification to the question regarding future credit and would only answer positively to that question if the source of credit were a formal source and not family or friends.

3. **Guarantees:** The majority of farmers can offer either their home (43%) or their land (30%) as collateral for the loan. An additional 14% prefer to offer guarantors. The survey asked a series of questions regarding groups and associations in an attempt to understand the potential for group lending or other types of associations linked to credit or marketing. The responses were interesting. Many respondents answered these questions as though the survey was gauging their political interests. This is due to the fact that many cooperatives and farmer's groups were indeed political under the former regime.

Only 37% of respondents were interested in participating in credit cooperatives and 37% were interested in group lending. However, 67% of the sample was interested in farmer's associations (marketing organizations).

It should be noted that these questions were cursory and not a lot of detail was provided to the respondents as to the types of associations or the meaning of group lending. To fully understand the issues related to these types of structures, it would be necessary to hold focus groups with select individuals to explore the issues at greater length.

4. **Repayments, loan sizes, and loan terms:** With regard to monthly repayment, households seem to recognize their limited cashflows and thus have identified very small monthly repayments. The largest number of respondents (36.7%) can afford to pay less than \$25 per month, while only 17.2% can afford to repay between \$25 and \$50 per month. Thus over 50% of the sample interested in credit can afford to pay \$50 or less per month.

There is a direct relationship between loan sizes and repayments. The higher the monthly repayments, the higher the loan amount can be. Given the monthly repayment range of between \$25 and \$50, the maximum loan size that should be considered is approximately \$500, assuming a 1-year loan term.

The longer the loan term the riskier the loan. Thus, programs that aim to be prudent, particularly in the early stages when they are trying to establish a solid track record, should consider shorter loan terms. Assuming a 6-month loan term, the maximum loan size would thus be approximately \$250. Approximately 22% of those responding indicated that they could afford between \$51 and \$100. These individuals would in turn be able to afford loans up to \$1,000 (if 12 month terms) or \$500 (if 6-month terms).

It is understood that loans will mostly be utilized for productive uses⁴ and thus it can be assumed that households will earn additional income to their current earnings. However, given the existing situation in southern Iraq, where families barely cover existing expenditures, it is prudent to assume only marginal increases in incomes available for loan repayment. It would be rational behavior for rural households to increase expenditures on meeting household needs as incomes increase, thus the proportion of income available for loan repayment will continue to be proportionally limited, despite income increases.

5. **Fears:** Many farmers, although wanting to borrow, had some hesitation in doing so. Fear of not being able to repay was the main reason indicated for this hesitation by 18.7% of the sample. An additional, 6.7% of respondents indicated that they would be hesitant to borrow since they had never done so before. Another 2% indicated that they had no form of collateral and an additional 2% did not want to do so for religious reasons.

Implications of Findings for Microfinance Programs in Iraq

The findings of this survey point to many needs and challenges in rural areas in the south of Iraq. The role for credit providers is to tailor their products to meet the conditions identified. It is in this light that practitioners

speak of “meeting demand” with appropriate systems, requirements and loan parameters. At the same time, credit providers should aim to mitigate the risks that are evident in the market and among their potential clients. The following observations and recommendations aim to offer best-practice experience from lending to poor rural areas in other countries.

Credit culture exists – A very important positive element found in this survey is the fact that there is a tradition and history of borrowing and that there are no cultural or religious barriers to credit. While some individuals did indicate that they do not like to borrow or that they would not borrow if there were interest charges, the majority is familiar with borrowing and would not hesitate to do so if the opportunity arose.

Collateral is not a major constraint- As most rural residents own their homes and have some land, pledging either of these as collateral was not a major constraint as perceived by rural residents. On the other hand, there may be issues faced by institutions that aim to foreclose on property or land should clients not repay, particularly since houses and land values will be significantly larger than the loan balances outstanding. Programs may want to consider lending against other types of assets that are valued closer to the loan size.

Group lending was developed precisely to address the collateral constraints faced by the poor, both rural and urban based. Group lending allows for clients without physical collateral to use “social collateral” as a substitute. In southern Iraq, where collateral is not a constraint and where the experience with groups (farmer’s unions and credit cooperatives) was political under the previous regime, it may be difficult to implement group lending programs. Thus programs interested in such methodologies are advised to conduct pilot tests before rolling out the methodology to various branches and locations. The same caution is advised for any form of credit programming based on group activity, such as credit cooperatives.

The interest in marketing associations, on the other hand, is high and programs may want to explore linkages that may exist between these associations and access to finance.

Affordability is a concern – While there is indeed a significant amount of borrowing taking place whether from informal sources such as family and friends or credit from shops for food purchases, there is some concern regarding households’ cashflows and disposable incomes and their ability to absorb additional debt. As noted earlier, incomes are insufficient to meet basic household needs. Savings are few and far between. Debts are mounting for many rural households. Thus programs need to ensure that clients are not further indebted at levels that are unsustainable. Thus when determining the loan parameters such as loan sizes, terms and repayment frequencies, programs should package loans that balance their own need to maintain high standards of portfolio quality with products that are affordable to clients.

When affordability is discussed, many **incorrectly** assume that this means loans should have low interest rates or that the loan terms should be long in order for the monthly repayment to be small. This is not what is implied. Rather, years of experience from around the world have proven that best practices related to credit for vulnerable clients, such as those in the south of Iraq, include the need to ensure affordability of the loan. This has been best achieved through limiting the size of the loan, utilizing short loan terms to limit risk and starting with monthly repayment to instill credit discipline. The main aim under such a system is to allow clients to slowly increase household incomes to progressively afford larger loans over time. One loan is insufficient to meet any person’s financial needs and thus programs should aim to build financial institutions that can continue to serve the ongoing financial needs of rural households, one step at a time.

Start with standard, simple loan products - Given the profile of the potential rural clients and their desired loan usage, programs should offer standard products for the most common uses identified. These were fruit and vegetable cultivation and cows, sheep and poultry for dairy, meat and egg production. Although many households consume a substantial percentage of their agricultural goods, increasing production would allow them to reduce market purchases of these items thus freeing some of their household income and /or increasing their sales of these goods in the market place and in turn their household incomes. The net effect is increased disposable income, and in turn improvement in their cashflow and their ability to repay the loan.

Given the much higher risk associated with balloon payments, it is advised to limit this option for repayment and instead focus on regular monthly repayments. Given the desired activities (eggs, milk, chicken, some vegetables), as well as the fact that households have multiple sources of income, monthly repayment encourages greater discipline and programs that require regular repayment (as opposed to balloon repayment) often have better portfolio quality. As programs gain confidence in certain clients based on their credit worthiness and history, it may be appropriate to extend credit with balloon payment options which are better suited for certain crops and for cattle and sheep raising.

Gender issues will need to be addressed directly – The southern region of Iraq is relatively conservative and gender roles are traditional. Few women are engaged in market-based activities, although women may be involved in actual farm production.

Programs with a mission to serve both men and women equally will need to tailor their products so that women are included. This may entail offering loan products that are more attractive to women and less attractive to men. For example, while many men dislike group lending, many women in traditional societies prefer this form of lending, as they do not have sufficient collateral.⁵

Furthermore, the group structure gives them an opportunity to work with other women and to gain their support in their income generation activities. In some cultures, it is also desirable to offer a different product for women so that women are not perceived as competing with men. Thus in southern Iraq, it may be less threatening to male relatives if there is a special program or initiative for women. This study did not explore the many issues related to gender in the south and it is advised that programs conduct focus groups with both men and women to explore these issues at greater length.

(Footnotes)

¹ 1 Donum is equivalent to ¼ hectare or 2,500 square meters.

² The question was related to the value of food consumed and not the quantity.

³ Only 2.2% reported borrowing from the Agriculture Cooperative Bank.

⁴ It is also understood that money is “fungible” and can be used for multiple purposes. It is common for a portion of the loan to be directed for non-productive purposes. It is difficult to limit the use of loans and the associated costs of ensuring proper usage outweigh the benefits. Programs normally monitor clients periodically and this is considered sufficient deterrent for flagrant misuse of loan funds.

⁵ Inheritance laws under Islam favor male offspring with women receiving ½ that of their male siblings. In Iraq, the legal system is a mix of Islamic, Ottoman, British and other systems. It is not clear as to what is practiced in different regions of the country. Under Ottoman law, inheritance is to the male head of household and women are bypassed completely.