

meet expenses. Credit lending occurs throughout the year in the form of small commodity loans and during the rainy season in the form of relatively large cash and commodity loans which are used to obtain food and farm inputs. While the commodity loans are available from village merchants, the larger cropping season loans are also taken from other holders of liquid capital, such as big farmers, animal breeders, truck owners, and women who brew mariisa. The high interest rate, that is characteristic of the type of credit-lending that is commonly termed sheel, is owing to the nature of the credit market in the rural areas. The demand for credit-- particularly during the cropping season which lasts four months--is high because the only other source of income for poorer families is to hire their labor to work in others' fields, which means that they must neglect their own. Seen in this light borrowing is a substitute for hiring out labor. In addition to high demand other reasons for a high interest rate are the general scarcity of disposable cash during the cropping season (the big farmer and merchant must hire labor to work their extensive lands) and the fact that in the rural community the person who has money to lend (siid al-guruush) is relatively scarce. High demand for credit and low supply along with imperfect competition among potential credit-lenders all contribute to high interest rates. Add to this the consideration that loans are fairly frequently defaulted and the reason for the high rate of interest is even more clear.

Compensating Strategies

1. Although farmers are concerned about how lenient a creditor will be when a loan is made, they are even more concerned that a reliable source of credit be available if and when they need it. Generally, a farmer cultivates close relationships with one or more wealthy persons in his village whom he can approach in time of need. The shopkeeper is a frequent source of credit because the relationship can be built into the customer's role. When the farmer buys goods on credit from the shop and conscientiously repays the loan, this forms a basis of trust on which the merchant can make the larger cropping season loans. Kinship bonds are frequently involved when farmers appeal for loans.

Recommendations

Farmers could benefit from a government program that would extend credit at lower rates of interest provided that the program is self-financing. Experience with credit programs in other countries indicates that this type of program should avoid the temptation to sweeten its services with hidden government subsidies. An interest rate that exceeds the rate of inflation and repays the cost of the program's operation would seem to be essential. Even on such modest terms we suggest that it would be possible to provide credit to farmers less expensively than merchants now do. Such a program would encourage rural creditors to lower their rates. Since the exchange relationship between merchant and farmer is multi-stranded, many farmers would still prefer to borrow from