

A Study of Socio Economic Constraints in the Flow of Agricultural Credit with Special Reference to Small Farmer in District Faisalabad

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Abstract

Credit is said to be an effective tool to bring out sustained growth in the agriculture sector. Credit is said to be the key element in the modernization of agriculture. Not only can it remove a financial constraint but also provides the incentive to adopt new technologies that would otherwise be more slowly accepted. Credit institutions should have proper coordination among themselves. It would be very useful to exchange research studies and field experience amongst the three types of institutions (Financial institution, Government, and Loaned) . A system of exchange of district-wise list of loaned and defaulters in order to avoid the chances of multiple financing may be initiated. The present study was conducted to find out the flow of agricultural credit by different lending agencies to the farming community, the constraints in the flow of credit to small farmers and to suggest measures for improvement. In addition to the primary data, secondary data of agricultural credit, advanced in Pakistan, during previous years, by different lending institutions, has also been included. To collect the information from small farmers five villages of District Faisalabad were selected and 125 loaned farmers.

Key words: Constraints, Agricultural credit, Small farmers.

Introduction

The economy of Pakistan is predominantly agrarian in character. In spite of the speedy growth in other sectors it is still the single largest sector contributing towards the GDP, provides employment to the labour force and its direct or indirect share in annual exports of the country is of the order of 70 percent. The development of agriculture, therefore, assumes highest importance in the overall developmental activities (Pakistan Economic Survey, 2001-02).

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For the transformation of subsistence agriculture to commercialized agriculture, credit is a key factor. In fact, credit facilities are an integral part of the process of modernization of agriculture and commercialization of rural economy. Unless agricultural credit is systematically institutionalized for small landowners and tenants, agricultural development not is materialized. Due to smallholdings and low crop yields and small income, there is very little saving among the majority of small farmers in Pakistan. The Government in the past had entrusted many agencies to fulfill their financial requirements.

In order to improve the agricultural credit situation in the country the following suggestions are made. There exist a big gap between credit needs and its supply from institutional sources and the bulk of the credit requirements is still being met by the non-institutional sources. The agricultural credit thus needs to be institutionalized and expanded for bringing coherence in the demand and supply of funds in agricultural sector. Though the credit institutions have already taken steps from time to time to simplify the procedure, however consistent with safety of funds, further measures should continue to be taken in this regard. It is suggested that the number of application forms and their contents should be reduced either by deletion or necessary amalgamation into a consolidated Performa. The provincial government should ensure the speedy and regular issuance of passbooks.

The advanced technologies comprising of improved seed, fertilizer, plant protection measures etc. needed for agricultural operations should be made available at the doorstep of the farmers. Steps should be taken to ensure the proper utilization of credit for the improvement of farm production because at times, it is doubted that the inputs received are diverted towards purposes other than that they were issued. It is suggested that timely credit should be made available to small farmers.

Credit institutions should have proper coordination among themselves. It would be very useful to exchange research studies and field experience amongst the three types of institutions (Financial institution, Government, and Loaned) . A system of exchange of district-wise list of loaned and defaulters in order to avoid the chances of multiple financing

may be initiated. The study is mainly to focus the following objectives:

1. To find out the source wise flow of agricultural credit in Pakistan.
2. To evaluate the operational mechanisms to disburse credit to small farmers from various lending institutions.
3. To find out the problems of small farmers in obtaining credit from various institutional sources.
4. To find out the constraints of the lending institutions in the flow of agricultural credit to the small farmers.

Methodology

The importance of this study calls for a much wider jurisdiction such as the national level. (Elfor, 1973). But due to the limitation of time and finance the study is confined only to district of Faisalabad ad-constituting suburbs. According to the agricultural point of view, district Faisalabad is the most fertile area and true representative of developed and semi-developed regions of Pakistan, especially of the Punjab province.

A multi stage random sampling technique was employed. At the first stage, one suburb Thekrewala, selected randomly. At second stage, two and at the third stage, five villages were selected.

Discussions

Distribution of the Respondents with Regard to Obtaining Loan During the Last Crop Season from Institutional Sources and Distribution of the Respondents with Regard to Receiving the Loan in Time or Not. It was observed that 65.60 percent of the respondents obtained loan from commercial banks during the last crop season, 29.60 percent obtained loan from ADBP, and only 4.80 percent of the respondents obtained loan from the other sources. The reason for the majority to get loans from commercial banks may be their nearness from the villages. It also that increase 72 percent of the respondents were those who had received the loan in time while 28 percent respondents did not receive the loan in time because of illiteracy, ignorance and some crude attitude of the bank people and etc.

Distribution of the Respondents with Regard to the Use of Loan from Institutional Sources revealed that the use of purchased loan from institutional sources. It shows that 12 percent of purchased loan used for the purpose of seed, 57.60 percent used for the purpose of fertilizer, 14.40 percent for implements and 1.60 percent for pesticides, 4.80 percent for seed and fertilizer, 1.60 percent for seed and pesticides, 1.60 percent for fertilizer and implements, 2.40 percent for fertilizer and pesticides, 0.80 percent for seed, fertilizer and implements, and 3.20 percent of

purchased loan and used for seen fertilizer and pesticides. It may conclude that the respondents in study had fewer trends towards fertilizer from institutional sources.

There were many constraints faced by the farmers in obtaining loan from institutional sources. These constraints were not so sever in case of large farmers as these were for small farmers especially for tenants who were the most neglected segment of the farming community. Results revealed the situation with regarding to the constraints faced by different categories of farmers regarding their borrowing from institutional sources.

Different suggestions were put forward by the loanee farmers with respect to the difficulties, faced during the process of obtaining credit from institutional sources. Results provide details about the suggestions of respondents regarding different aspects of agricultural credit disbursement.

It was exposed that 85.6 percent of respondents suggested that there should be simple and easy lending procedure. A heavy majority of the farmers (54.4 %) said that there must be reduction or elimination of interest. 45.6 percent of the respondents pointed out that the credit should be timely provision. Commercial banks were included in the field of agricultural credit in 1972. The total credit disbursement thus increased from Rs. 296.82 million in 1972-3 to Rs.14452.33 million in 1988-89.

Table 1: Distribution of the respondents with regard to obtaining loan during the last crop season.

Source	N	Percent	Categories	N	Percent
Commercial Banks	82	65.60	Yes No	90 35	72.00 28.00
ADBP	37	29.60			
Other Sources	6	4.8			
Total	125	100.00	Total	125	100.00

The share of production loans during the period under study was found to be 32 percent in total credit disbursement. Majority of the respondents that is 46.40 percent were illiterate. The major portion of the respondents (67.20%) cultivated their land only by bullocks, because they had less income and low savings. Mostly the farmers received the loan from commercial banks (65.60%). Majority of the people thought that land and personal sureties were more preferable than the gold and standing crops. The trend of respondents to purchase fertilizer was greater than the seeds and agri.- implements. 28 percent of the sampled farmers did not receive the loan in time. During the course of study many constraints were found to-be-faced by the farmers in obtaining the loan from institutional sources and they were not satisfied with the procedure of lending institutions.

Table 2: Distribution of the respondents with regard to the use of loan from institutional sources

Purpose	N	Percent
Seed	15	12.00
Fertilizers	72	57.60
Implements	18	14.40
Pesticides	2	1.60
Seed + Fertilizer	6	4.80
Seed + pesticides	2	1.60
Fertilizer + Implements	2	1.60
Fertilizer + Pesticides	3	2.40
Seed + Fertilizer + Implements	1	0.80
Seed + Fertilizer + Pesticides	4	3.20
Total	125	100.00

Table 3: Distribution of the respondents with regard to problems/difficulties faced in getting the loan from institutional sources.

Problems / Difficulties	Owner (n=89)	Tenants (n=36)
Lengthy/cumbersome bank procedure	36.80	69.44
Loan limit is small	67.42	86.11
High interest rate	58.40	66.67
Bank staff is not cooperative	28.00	58.33
Cash loan is discouraged	57.30	55.56
No choice for utilizing the loan	24.80	41.67
Loan is not provided in time	10.11	28.00
Security/surety problems	16.80	50.00
Repayment terms are too rigid	36.00	44.44

Table 4: Distribution of the respondents with regard to farmers suggestions for improving institutional credit system

Suggestions	N	Percent (N=125)
Simple and easy lending procedure	107	85.6
Reduction or elimination of interest	68	54.4
Timely provision	57	45.6
Credit provision in cash	52	41.6
Loan limit should be high	47	37.6
Loan should be provided at door-step	42	33.6
Relaxation in repayment	74	59.2

Conclusion

Farmers generally belong to a cadre that is not economically well and the situation becomes more worsen when we saw the degree of uncertainty and volatility in their productivity and earning. So they always have a need of some financial assistance. The process of obtaining finance must be simple and easy. Subsequently Government must eliminate the rate of interest by keeping the volatility attached to this field under consideration. Government may give some special package to small farmers to make the farming completely automated and more productive.

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