

## **Agricultural Credit in Pakistan : Constraints and Options**

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### **Abstract**

**Agriculture sector is the single largest contributor to the national income (GDP) contributing nearly 21 percent to the GDP and provides employment to nearly 43 percent of the workforce and supplies raw material to the industrial sector (notably textile industry) of Pakistan. Credit is an important tool for getting the inputs in time increasing thereby the productivity of the farms particularly those of small ones. The current study was designed to investigate the problems faced by the farmers while getting the loan. It was found that the small farmers faced a lot of problems in getting and returning the loan which must be removed to get better results and hence improving the quality and quantity of the agricultural products.**

**Key words:** Agriculture, credit, Pakistan

### **Introduction**

Pakistan is blessed with abundance of natural and human resources; fertile lands, mountains and lakes, variety of seasons, one of the best irrigation systems of the world and a relatively more productive agriculture sector. Despite the speedy growth in other sectors, agriculture is still the single largest sector contributing nearly 21 percent to Pakistan's national income (GDP) and employing nearly 43 percent of its workforce. It also supplies raw material to Pakistan's industries, notably textile industry, the largest industrial sub-sector of the economy. As much as 66 percent of country's population living in rural areas is directly or indirectly dependent on agriculture for its livelihood (GOP, 2006-07).

Credit is the back bone for any business, more so for agriculture which has traditionally been a non-monetary activity for the rural population in

Pakistan. Rural credit, though not a direct tool of production, can help break the vicious circle of 'grow-eat-grow' by removing financial constraints and accelerating the adoption of new technologies. Credit facilities are thus the integral part of the process of commercialization of the rural economy. The introduction of easy and cheap credit is the quickest way to give boost to the agricultural production. Therefore, it was the prime policy of all successive Governments to meet the credit requirements of the farming community of Pakistan.

Credit is necessary for capital formation, diversified agricultural production and efficiency in agricultural resource-use, in the face of excruciating poverty in the rural economy where farmers are the major players. The use of credit facilities would therefore translate to higher resource employment and capacity utilization, increased output and income, and poverty reduction in the rural economy, especially among the farmers and be helpful to increase the food production which would lead to an improvement in the welfare of the farmers (Olagunju, 2007).

For the transformation of subsistence agriculture to commercialized one, credit is a leading factor. Agricultural credit, in reality, is an integral part of the process of modernization of agriculture and commercialization of the rural economy. However, in spite of considerable efforts to streamline, reinforce, expand and institutionalize the agricultural credit system the achievement falls short of proclamations, policies and programs. Unless agriculture credit is systematically institutionalized for small farmers, agricultural development can not be materialized. Due to small holdings, low crop yields and small income there is very little saving among the majority of the farmers of Pakistan. Therefore, it is the need of time that credit agencies come up to help them in undertaking the improved farm practices.

The rural financial market in Pakistan can be seen as composed of two broad segments, i.e. the informal and formal. Traditionally, friends and relatives, village shopkeepers, traders, commission agents etc. have remained a major source of agricultural credit. These sources generally lend for short periods and

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charge an exorbitant rate of interest. Such loans are given to tide over bad periods and as such are meant for consumption purposes. Loans are also made available for buying seasonal inputs where cash is essentially required. These sources are both inadequate and non dependable. No comprehensive data are available on the amount of credit advanced by informal credit sources. As such it is difficult to find solid evidence regarding the relative share of these sources in the total credit supply. However, few reports and some other rough estimates show that the formal credit sources have been able to meet only 50 percent of the total credit requirements of the farm sector and it may be assumed that the rest are met by informal sources of credit (Irfan et al., 1999). Formal / institutional credit to the farmers is being provided through Government (Taccavi Loans), Cooperatives, Zarai Taraqiati Bank Limited (ZTBL), Domestic Private Banks and Commercial Banks.

Government considers it an important instrument for achieving higher production and attaches high priority to ensure its timely availability to the farmers. Credit requirements of the farming community have shown an increasing trend over the years.

The study in hand was designed to know the problems of farmers relating to the credit and their possible out come.

**Methodology**

Keeping in view the paramount importance of the study, it should have been conducted throughout the country but on account of scanty time and financial constraints, it was confined only to Faisalabad district. The district was divided into six zones and from each zone two villages were randomly selected. Table 1 shows the zones and the selected villages;

**Table 1. Zones and randomly selected villages**

Name of Zone	Villages
Chak Jhumra	109 JB and 113 JB
Jaranwala	630 GB and 652 GB
Samundri	442 GB and 474 GB
Tandalianwala	411 GB and 609 GB
Theekriwala	74 JB and 76 JB
Dial Garh, Millat Road	156 RB and 186 RB

According to Dixon and Massey (1969) any set of individuals or objects having some common observable characteristics constitute a population. The present study was designed specially to focus the problems faced by the farmers with respect to credit availability, utilization and its repayment. For the said purpose United Bank Limited (UBL) was selected as a representative of the commercial banks on the basis of its last year’s credit disbursement in Faisalabad district.

Time and cost are usually the limiting factors in social research. It is, therefore economical to base the study on sample rather than to study the whole population. A sample refers to small representative of a large whole (Goode and Hatt, 1952).

There are two basic requirements of a good sampling procedure. First, it must be a representative and second, it must be adequate.

A list of borrowers of United Bank Limited (UBL) was obtained from the respective branches for the selected villages. It was intended to select five loanees from each village. However, in one of the selected villages (74 JB), there were only two loanees. The number of the sample respondents was, therefore, reduced from 60 to 57. An interview schedule was used for the collection of required data. The data were then analyzed using the statistical technique like percentages.

Percentages

Percentages were calculated using the following formula;

$$P = \frac{n}{N} * 100$$

where,

P = Percentage

n = number of observations in a particular group

N = total number of observations

**Results And Discussion**

Many constraints were reported by the loanees in obtaining the loans. Table 2 reveals the situation of problems of loanees regarding the borrowing. The table shows that 61.4 percent of loanees were of the view that banks’ procedure was lengthy and cumbersome. About 77 percent of the loanee respondents reported that the interest rate was too high. As for as the cooperation of banks’ staff is concerned, 45.6 percent of the loanee farmers were not satisfied with the behavior of concerned officials. About 72 percent of loanees complained that they did not get the loan in time. Security and surety problems were faced by 54.4 percent of the loanees whereas about 28 percent respondents said that the repayment procedures were rigid while according to about 35 percent of loanees it was too rigid.

**Table: 2 Constraints faced by the Loanees**

Sr. #	Constraints	Percentage of Loanees
1	Lengthy / cumbersome bank procedures	61.4
2	High interest rate	77.2
3	Cooperation of banks' staff	45.6
4	Loan is not provided in time	71.9
5	Security Problems	54.4
6	Repayment terms are rigid + too rigid	63.2 (28.1 +35.1)

It was also observed that the loan taken for the production purposes was misused by a number of sample farmers either for the sake of consumption, marriages or repayment of the loan taken from the informal sources or even to cover up the legal costs of family or other disputes.

In table 3, about 78 percent of the farmers were of the view that the loaning procedure which the banks are following must be simple, easy and time saving. A good majority of loanees (95.2 percent) suggested that the interest rate should be decreased and possibly the Islamic mode of financing / loaning must be observed by the banks. 55 percent farmers said that the banks' staff should be polite and cooperative. It

was also suggested by the farmers that the loan must be provided in sufficient amount when it is needed, (81 percent). 62 percent of the respondents said that the collateral should be waived off or it should be reduced to its minimal level. About 70 percent farmers were in favor of easy repayment methods like increased number of installments, in case of natural calamities the installments may be delayed without extra interest etc and 93 percent of them demanded that technical assistance must be provided by the bank and trained and qualified bank staff must guide them not only technically but also in making the economic feasibilities.

**Table: 3 Options pointed out by the Loanees**

Sr. #	Options	Percentage of Loanees
1	Simple procedures	77.8
2	Low interest rate / Islamic way of financing	95.2
3	Improved cooperation of banks' staff	55
4	In time provision of loan	81
5	No / minimal collateral	62
6	Easy repayment terms	69.3
7	Technical help from the bank	93

Keeping in view the above mentioned problems faced and options given by the farmers followings are the suggestions to improve the credit utilization and minimize the problems hence increasing the productivity of the agricultural sector;

1. An appropriate amount of loan may be provided at the time when it is needed otherwise the loan may be misused and recovery would become difficult.
2. In case of any natural calamity the Bank should revise the repayment schedule at the convenience of the borrowers.
3. To avoid the misuse of the loan and to provide technical and economic know how, supervised credit schemes must be revived and restructured.
4. In order to avoid the problem of high interest rate the lending institutions may introduce interest free lending on the basis of partnership, that is, Musharka / Muzarba.

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