

Significance of Agricultural Finance in Agricultural and Rural Development of Pakistan “A Case Study of Qambar Shahdadkot District”

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Abstract

The purpose of this study is to investigate the significance of agricultural finance on agricultural and rural development of Pakistan. The study was based on primary data; the data was collected from Borrowers and Non Borrowers of agricultural finance from district Qambar shahdadkot, Sindh Province of Pakistan. Borrowers of agricultural finance include formal and non formal sources of finance. The results shows that the total revenue of Agricultural Finance borrowers was 76000 rupees while the non borrowers agricultural revenue was 61750 rupees and the variable cost for agricultural finance borrowers was a little bit high then non borrowers as 41652 and 34342 rupees respectively, it was because of availability of capital, the farmers who borrowing agricultural finance and providing inputs on time and in proper were getting better production. Most of the farmers agreed that agricultural finance was helpfull for improving living standard useful for household and rural development; it facilitates farmers in use of agricultural inputs on time and getting best agricultural production.

Keywords: Agricultural Finance, rural development, Borrowers and Non Borrowers, total revenue, total cost, Variable costs, capital.

Introduction:

The Agriculture sector continues to play a central role in Pakistan's economy. It is the second largest sector, accounting for 20.9 percent of the Gross Domestic Product (GDP) in 2014-15 and is a source of livelihood of 43.5 percent of rural population. Increased agricultural production and high crops yield is essential for food security which make the farming systems less vulnerable to climate change. To make agriculture more effective in supporting sustainable higher economic growth trajectory and reducing poverty in Pakistan, a policy framework needs to be anchored coupled with favorable socio political climate, adequate governance, and sound macroeconomic fundamentals. The prime focus of the government is on high value agriculture including horticulture, livestock and fisheries. Concerted efforts are being made to improve farm level practices and developing linkages of farmers with markets and industry based on new technologies, ideas and future pathways for sustainable growth of agro industry. Nearly 62 percent of the country's population resides in rural areas, and is directly or indirectly linked with agriculture for their livelihood. The Agriculture sector's strong linkages with the rest of the economy are not fully captured in the statistics. While on the one hand, the sector is a primary supplier of raw materials to downstream industry, contributing substantially to Pakistan's exports, on the other, it is a large market for industrial products such as fertilizer, pesticides, tractors and agricultural implements. (Economic survey of Pakistan 2015)

The potential role for agriculture in development is to reduce poverty and drive growth for countries whose economies are agriculture-based. Growing population size requires agriculture growth compatible to meet required level of food. The change in consumption pattern with a change in per capita income level requires more proteins containing diet. The transition of agriculture from traditional to modern farming techniques is based on adequate availability of inputs like certified seeds, balanced use of fertilizers, mechanization, and agricultural finance. Agricultural finance plays an important role in enhancing the agricultural productivity in developing countries like Pakistan. Finance is the back bone for any business, more so for agriculture which has traditionally been a nonmonetary activity for the rural population in Pakistan. Rural credit, though not a direct tool of production, can help break the vicious circle of 'groweat-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. (Saeeda Habib 2015)

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. (Muhammad Khalid Bashir and Muhammad Masood Azeem 2008)

The use of credit facilities would therefore translate to higher resource employment and capacity utilization, increased output and income, and reduce poverty 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 and consequently a reduction in their poverty and food insecurity levels (Olagunju, 2007).

Sources of agricultural Finance in Pakistan

The agricultural credit/finance system of Pakistan consists of informal and formal sources of credit supply. The informal sources include friends, relatives, commission agents, traders and private moneylenders etc. Presently, the formal credit sources are comprised of financial institutions like Zarai Taraqiati Bank Limited (ZTBL)—formerly known as Agricultural Development Bank of Pakistan (ADBP), Commercial Banks, and Federal Bank for Cooperatives. Recently some non-government organizations (NGOs) are also advancing agricultural credit to the rural communities Iqbal M., Munir A and K Abbas (2003).

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 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. These sources play a vital role in our rural economy, especially for meeting the consumption requirements of thousands of small farmers along with fulfilling the need for irrigation water, hiring of farm power, cost of fuel etc. Mark-up tends to vary from product to product and also by type of borrower as well as lender. On the average, the mark-up is estimated to be 25 percent. In the case of fertilizer it is 29 percent while for the pesticides it comes around 35 percent. High mark-up charged on pesticides sold on credit is mostly due to rather unholy alliance between the manufacturers and traders/dealers. The case studies suggest that pure money lending is on the rise with quite exploitative interest rates ranging from 48 percent to 120 percent per year (Irfan M. et al, 1999).

Agricultural finance is an essential part of the process of uplifting of agriculture and rural economy. Agriculture finance is systematically institutionalized for small farmers, agricultural development cannot 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 need of time that financing agencies come up to help them in undertaking the improved farm practices.

Review of literature

Dong et.al. (2010) observe that production inputs, farmers' capabilities and education cannot be fully employed under credit constrained situation. Based on a survey of 511 households from Heilongjiang Province of Northeast China and employing endogenous switching regression model, they conclude that agricultural productivity in the study area can be increased by 31.6% with the removal of credit constrained situation. The study further shows that productivity and income of the credit unconstrained farmers are higher than the credit-constrained farmers.

Ayaz and Hussain (2011) observe that credit availability to farmers is much more important than any other factors to improve the resource use efficiency in agriculture sector. Their study is based on the 300 cross section sample farmers from Faisalbaad District of Pakistan. By employing Stochastic Frontier Production Analysis (SFA), they conclude that credit to agricultural sector has more constructive and significant impact on the farmers' technical efficiency than other factors like farming experience, education, herd size and number of cultivation practices.

Maqbool Hussain Sial et al (2011) investigate the role of Institutional Credit on Agricultural Production: A Time Series Analysis of Pakistan. Result shows that agricultural production is influence by all the explanatory variables in the model. R^2 value shows that 96% of the total variations in the agricultural production are explained by independents variables. All the variables are significant and according to expectations. Agricultural credit is positively related to agricultural production and explores the thing that one percent increase in institutional credit will increase agricultural production by sixteen percent. The coefficients of institutional credit, farm gate water availability and cropping intensity was higher than Iqbal et al. (2003). Dummy variable is significantly negatively related to agricultural production, which shows that uncertainties like droughts; floods etc will decrease agricultural output.

Duy (2012) has analyzed the impact of agricultural credit on farm productivity taking a sample of 654 farmers from Mekong Delta region of Pakistan by using quintile regression and Stochastic Frontier Analysis(SFA) techniques. The study concludes that technical efficiency and rice yield were positively influenced by access to credit, education level and farm technology. It also demonstrates that access to formal credit sector had a larger effect on rice production than access to informal credit.

Noonari.S et al (2015) analyzed Impact of Credit on Agricultural Productivity: A Case Study of Zarai Taraqiati Bank Ltd (ZTBL) Loans in District Kashmore at Kandh Kot, Sindh Pakistan. study estimated constraints faced by the farmers in acquisitioned source. It found that the credit has a positive impact on the agricultural productivity and loanee farmers have more gross margins than non loanee farmers. Now the problem is to remove the constraints which small farmers are facing in this regard and then improve the utilization of the credit amount as planned at the time of disbursement in agriculture production process following findings were found. A major proportion i.e.40.8% of the farmers belonged to young age group (36-45 years). It was found that majority of the respondents had low level of education in the selected area. More than 51.7% of the respondents had 6-10 acres of the land holding. A huge majority 95% of the respondents had knowledge about the agricultural credit scheme of the ZTBL Bank. More than 56.75 of the loanees' farmers avail credit facilities for the first time from the ZTBL bank. A large majority 63.3 of the farmers were not satisfied with the interest rate charged by the banks. It was found that a large number of farmers mutualized the credit amount. About 66.7% farmers got agricultural credit facility from bank without facing any problem. Result indicates that average cultivated area in case of loanee farmers is higher than non-loanee farmers. It was conclude that the loanee farmers had more cost of production as compare to non loanee farmers. Results of regression analysis indicate that credit had very normal impact on agricultural productivity as limiting factors is the proper utilization of loan mount in agricultural sector.

Objectives

- To analyzes the structure and trends of Agricultural financing in study area.
- To analyzes the impact of Agricultural finance on agricultural productivity and rural development in study area.
- To explore the problems related to agricultural finance and agricultural production.

Methodology

The study was based on primary data collection; primary data was collected for accomplishing the objectives of the study. The data was collected from Borrowers and Non Borrowers of agricultural finance in district Qambar shahdadkot, Sindh Province of Pakistan. Borrowers of agricultural finance include formal and non formal sources of finance. The study focused on the financing and its impact on agricultural production, household income and rural development. The total costs were including land inputs and land tax, labor inputs, capital inputs and marketing costs.

A comprehensive and well designed questionnaire was prepared for data collection, selected borrowers and Non borrowers of agricultural finance which were interviewed to collect the data. To accomplish the objectives the specific analytical techniques were used. The proposed analytical techniques are farm cost and production analysis. The results of this study were provided socioeconomic condition of respondent, total costs of production and returns of borrowers and non borrowers of agricultural finance, purpose of finance and its impact on household rural development and the problem regarding agricultural finance.

Results

To accomplish the objectives of the study, different analyses techniques were used to analyze and find out the results. The results consist, agricultural production, financing and the farmer's views according to agricultural finance as useful and helpful for agricultural and rural development.

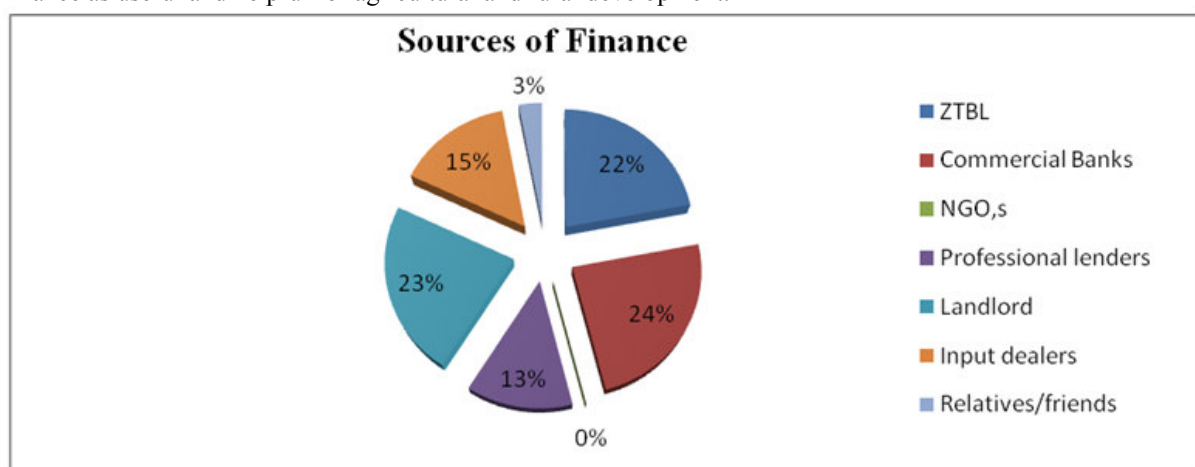


Figure 1: Distribution of respondent according to sources of finance

Figure 1 shows the sources of financing in study area, about 24 percent of respondents taking finance from commercial banks, 23 percent from landlord, 22 percent from Zarai Taraqiati Bank Limited (ZTBL), 15

percent of respondents taking finance from input dealers, 13 percent from professional lenders, while only 3 percent of respondents taking finance from relatives and friends

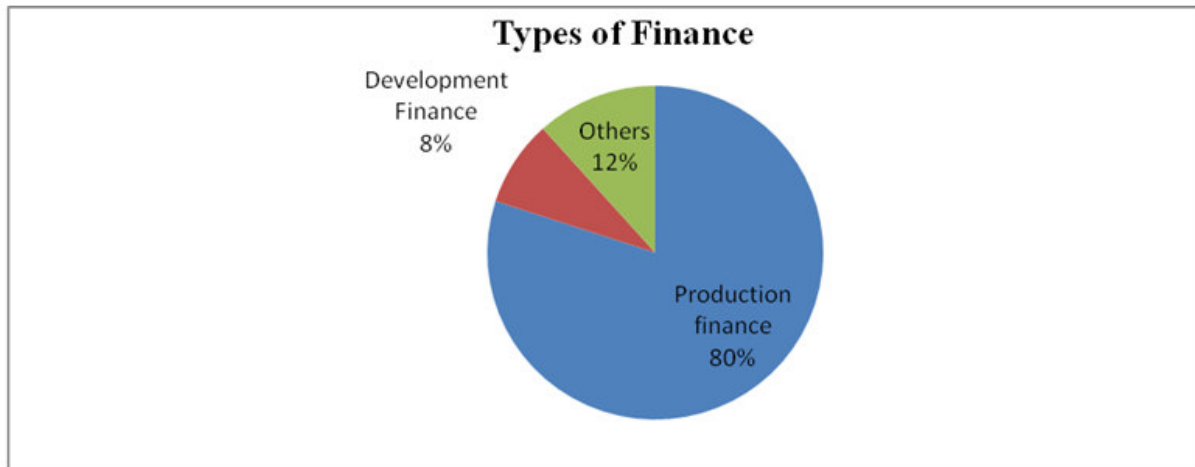
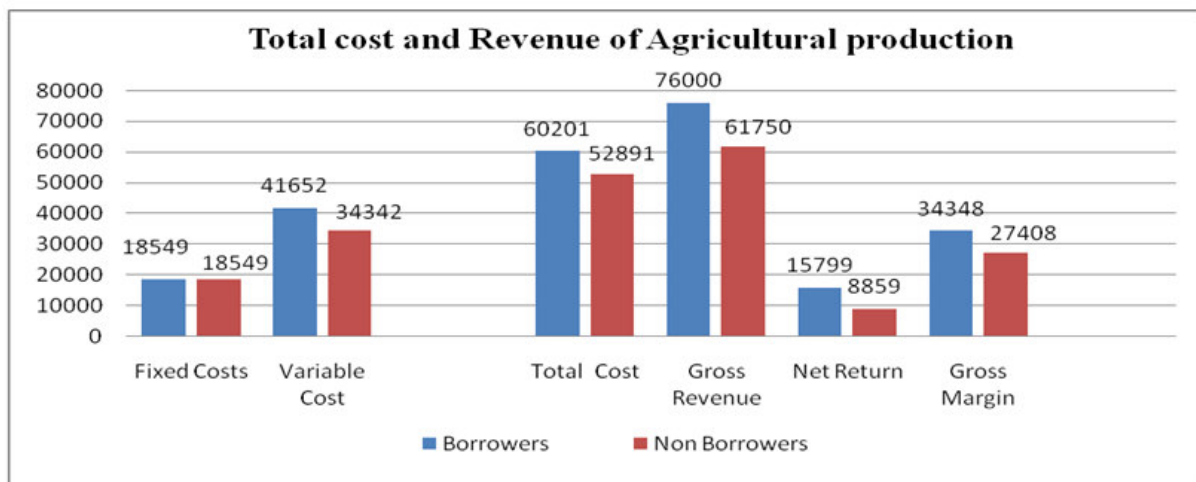


Figure 2: Percentage distribution of the respondent regarding their finance type.

Figure 2 shows that majority of the respondents 80 percent were getting productions finance i.e purchase of inputs etc, 8.33 percent were getting development finance i.e development of new business etc, 11.67 percent of respondent getting finance for other purposes i.e, household expenses.

Figure 3: Agricultural production total cost and total revenue of Borrowers and Non borrowers of Agricultural finance.



The Agricultural production based on use of inputs timely and properly, for usage of inputs the capital is very important so those farmers who do not have capital they could not use inputs timely. Here the agricultural finance plays a lot of role for purchase of inputs and used on time to get high agricultural production and revenue.

Figure 3 shows the total revenue of Agricultural financing borrowers was 76000 rupees while the non borrowers agricultural revenue was 6750 rupees and the variable cost for agricultural finance borrowers was a little bit high then non borrowers as 41652 and 34342 rupees respectively it is because of availability of capital, some farmers borrowing agricultural finance and providing inputs on time and in proper way to get better production.

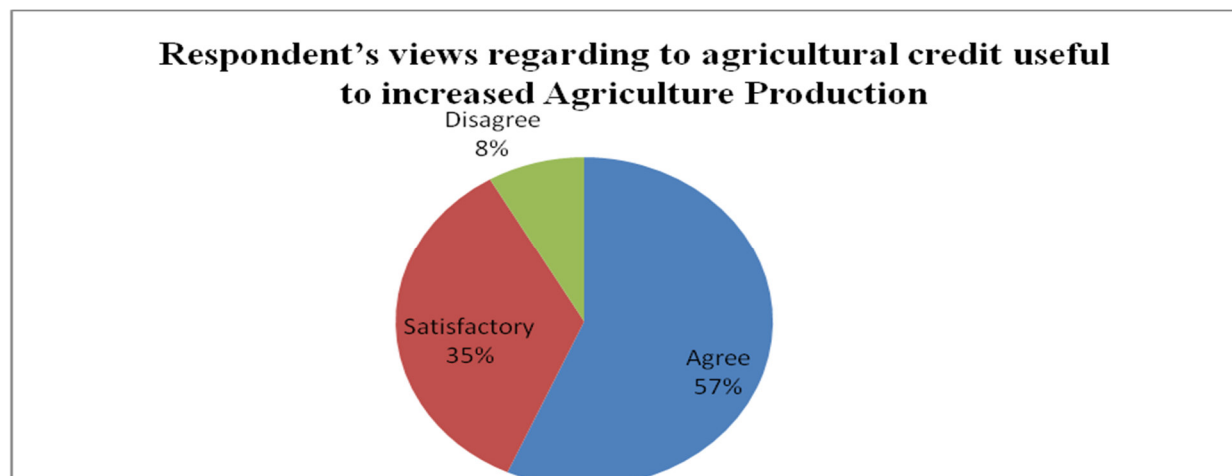


Figure 4: Respondent's views regarding to agricultural finance useful to increased agricultural production.

Figure 4 shows the views of respondents with regards to Agricultural finance as a source to increased agricultural production. It describes that 57 percent of respondents agreed that Agricultural finance is useful for increased agriculture production. 35 percent of respondent's satisfied from the effect on the agricultural production; while only 8 percent of respondents disagreed about the Agricultural finance have positive effect on agricultural production.

1.4 Respondent's views regarding Agricultural finance is useful for household living standard

The views of respondent's with regarding to Agricultural finance were useful for improving household income, useful for improvement in living standard, it was useful to access better education and health and it enables to better access on nutritional diet in study area. The results describes that 31 percent of respondents agreed that Agricultural finance was useful to improve household income, 25 percent of respondent's views that the agricultural finance was enables to better access to nutritional diets; 16 percent of farmers views that agricultural finance was useful for improvement of living standard; 15 percent of respondents views that Agricultural finance enables to access on better education and 13 percent of respondents perceive that the Agricultural finance have positive role and enables farmers to access on better health.

Table 1: Distribution of respondent's facing difficulties regarding Agricultural finance.

Problems regarding to agricultural finance	Percentage
Documentation and lengthy process of Institutional sources of credit	21
High interest rate	18
Not easy to access of finance	15
Very difficult for recovery	22
Non availability of assets for security	24

The farmers were also facing difficulties in getting agricultural credit facility from the all sources i.e. government institutions or banks, as well as Non institutional sources of finance. It was analyzed that about 21 farmers said that procedures and documentation of finance are very lengthy while getting finance from institutional sources, 24 percent of respondents told that we do not have access on finance due to non availability of assets for security, 22 percent of respondents told that it will very difficult for us to get back finance on time with interest. Moreover, 18 percent of respondents complained about high interest rate, and 15 percent of respondents said that we do not have easily access on finance.

Discussion

It was assumed that agricultural finance has positive impact on the agricultural and rural development. The agricultural financing system of Pakistan consists of informal and formal sources of finance/credit supply. The informal sources include friends, relatives, commission agents, traders and private moneylenders etc. Presently, the formal financing sources are comprised of financial institutions like Zarai Taraqiati Bank Limited (ZTBL) formerly known as Agricultural Development Bank of Pakistan (ADBP), Commercial Banks, and NGO,s. The general objective of the present study was the impact of agricultural finance in agricultural and rural development in study area. A total of 60 respondents consist of 30 borrowers and 30 non borrowers of agricultural finance were selected as sample size.

The results of the present study shows that the total revenue of Agricultural finance borrowers was 76000 rupees while the non borrowers agricultural revenue was 61750 rupees and the variable cost for agricultural finance borrowers was a little bit high then non borrowers as 41652 and 34342 rupees respectively it is because of availability of capital, some farmers borrowing agricultural finance and providing inputs on time and in proper

way to get better production. The views of respondent's with regarding to Agricultural finance were useful for improving household income and useful for rural development. The results describes that 31 percent of respondents agreed that Agricultural financing was useful to improve household income, 25 percent of respondent's views that the agricultural finance was enables to better access to nutritional diets; 16 percent of farmers views that agricultural finance was useful for improvement of living standard; 15 percent of respondents views that Agricultural finance enables to access on better education and 13 percent of respondents perceive that the Agricultural finance/finance have positive role and enables farmers to access on better health.

Conclusion and suggestions

Agricultural production is based on proper and timely use of inputs timely, for usage of inputs the capital is very important so those farmers who do not have capital they could not use inputs timely and reduces agricultural production. Here the agricultural finance plays a vital role for purchase of inputs and its use on time to get high agricultural production and revenue.

The results shows that the total revenue of Agricultural finance borrowers was 76000 rupees while the non borrowers agricultural revenue was 61750 rupees and the variable cost for agricultural finance borrowers was a little bit high then non borrowers as 41652 and 34342 rupees respectively it is because of availability of capital, some farmers borrowing agricultural finance and providing inputs on time and in proper way to get better production. Moreover the results shows that most of the farmers agreed that agricultural financing was useful for improving living standard helpful for household and rural development, it helps farmers to use of agricultural inputs on time and getting best agricultural production. It is concluded that agricultural finance enables farmers to get best agricultural production by providing timely inputs required agricultural production.

For Production of any crop four major factors of production are used i. e land, labour, capital, and management. Capital is an important factor for the production of any commodity to get good production, for best agricultural production it is very necessary to use of inputs on time as crops required, poor farmers mostly do not have capital to fulfill the crop inputs requirement on time, so the agricultural financing is very good source to help the farmers for fulfilling crop requirements on time, but the many of farmers do getting help from that source, it is due to many problems in getting agricultural credit such as Documentation and lengthy process of Institutional sources of credit, High interest rate, not easy to access of finance, Very difficult for recovery, Non availability of assets for security. For sustainable agricultural and rural development government and other organization should take steps for help of farmers such as easily access to agricultural financing with less interest rate. For sustainable rural development following strategies should be adopted.

- There is a need for Agricultural financing programs through which farmer's access easily to agricultural financing.
- Farmers paying very high interest rates, policy makers should ensure that the farmers get as much credit as they need at a subsidized interest rate.
- Getting credit from institutional sources has been felt by most of farmers due to very difficult procedure, this procedure should be simplified and made farmer friendly.
- Agricultural financing helps farmers to enhance the agricultural productivity by timely use of inputs. Farmer's friendly agricultural credit services should be provided to improve agricultural and rural development.
- Recovery of agricultural finance is difficulty for farmers, facilities such recovery in different installments should provide to help the farmers in recovery.

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