

AN INVESTIGATION OF THE SOURCES AND USE OF AGRICULTURAL LOANS

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Keeping in view the meagre economic position of the farmers, it is not fully possible for them to avail themselves of the needed inputs in time and adopt the mechanized farming at their own. They have to rely on loans obtained from banks and other sources. This study was undertaken to look into the sources and use of agricultural loans by farmers by seeking their opinion. The data were collected from 125 randomly selected farmers of 5 villages in Thekriwala Markaz. The analysis of data collected with the help of interview schedule revealed that majority of the farmers preferred non-institutional sources and they not only faced problems in getting loans but also complained against the high interest rate.

INTRODUCTION

In case of majority of the small farmers whatever they produce, is mostly consumed by their families, leaving behind a meagre surplus. So they are unable to meet the gross requirements of finance for production and development purpose from their own available resources. Hence improving their productivity and income is a matter of great priority for a developing nation like us. There is nothing new in saying that credit is one of the vital inputs for enhancing the productivity and income particularly that of small farmers and is an essential ingredient in the growth strategy of agriculture sector.

The sources of credit are classified as institutional and non-institutional. In the former are included the ADBP and the commercial banks. Akhtar (1986) in this respect also found that the banks advanced loans to the owners particularly the large ones. The tenants have to rely upon the non-institutional sources, the primary among these is their landlord. The banks in question have a standard procedure and the amount of the loan advanced is also fixed

depending upon its prospective use by the farmer and the guarantee he can provide.

In the rural sector, loans from non-institutional sources are quite common. Punjab Economic Research Institute (1985) indicated that in most parts of Sindh province the non-institutional sources of credit were very common. This is more true of landless tenants. These loans can be small or big depending upon the need of the loanee and the attitude of the lender. For the loans that are obtained informally, one has to be selective with regard to one's friendship and kinship ties. The loan taken from a non-institutional source is quickly available and does not have a fixed time limit for its return. Nevertheless, it is not very encouraging because it jeopardizes an individual's self esteem in his community.

The objective of this paper is (a) to make a 'short comparison of farmers' preference for the source from which they have taken loans, and (b) to determine the relationship of the size of landholding of the farmers with the amount and use of the loan drawn by him for agricultural purposes.

MATERIALS AND METHODS

The study was conducted in tehsil Faisalabad. A multi-stage random sampling technique was employed. Two union councils were randomly selected out of 11 in the Thekriwala Markaz. Five villages were again selected randomly and from those a list of loanee farmers was prepared. Of this list, 125 farmers were picked up by using lottery method. The data were collected with the help of an interviewing schedule. In order to test the significance of association between the variables, Chi-square test was used.

RESULTS AND DISCUSSION

Opinion was sought from all the farmers regardless of the fact that they had got the loan from an institutional or a non-institutional source. The comparison is shown in Table 1.

Table 1 reveals the sourcewise preference for borrowing from different sources. The data indicated that 42.4% of the farmers preferred institutional lending agencies due to the timely provision of credit while 59.2% preferred non-institutional sources of credit.

Table 2. Distribution of respondents with regard to difficulties faced in getting loan from institutional sources

Difficulties	Owner (n = 89)	Tenants (n = 36)
Lengthy/cumbersome bank procedures	36.80	69.44
Amount of loan very small	67.42	86.11
High interest rate	58.40	66.67
Loan 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 1. Distribution of respondents with regard to sourcewise preference of farmers for credit

Reasons for preference	Institutional (n = 125) (%)	Non-institutional (n = 125) (%)
Timely provision	42.40	59.20
Easy procedure	45.40	79.20
Sufficient amount	34.40	52.80
Security not required	-	100.00
Interest free	-	54.40

Regarding easy procedure, 45.4% preferred the institutional agencies while a large majority of the farmers, i.e. 79.2% preferred the non-institutional sources. A majority of 52.8% of the farmers preferred non-institutional sources because these could provide them amount sufficient for their needs, while only 34.4% could satisfy their needs with the loan provided by the institutional sources. Hundred per cent of the farmers preferred non-institutional sources due to the fact that security/sureties were not required, while 54.4% preferred because it was interest free.

It is evident from the data that the magnitude of preference for the institutional loans is very low. The reasons are given in Table 2.

The variables for which associations were worked out and their levels of significance are given in Table 3.

Values of Chi-square reveal a highly

Table 3. Variables and associations among them

Variable	Value χ^2	df	Level of significance
Landholding vs amount of production loan	17.25	3	$P < 0.01$
Landholding vs use of loan	13.84	3	$P < 0.01$
Landholding vs preference for source of credit	2.14	1	$P < 0.01$

There were many constraints faced by the farmers in obtaining loan from institutional sources. These constraints were not so severe in case of owner-cultivator as were these for tenants who are the most neglected segment of the farming community. Table 2 shows that 36.80% of the owners and 69.44% of the tenants pointed out that bank's procedure of loaning was lengthy and cumbersome. Regarding the loan limit, 67.42% of the owners and 86.11% of the tenants were not satisfied. According to them, the amount of loan was too low. Majority of the respondents (58.40% owners and 66.67% tenants) pointed out that interest rate of lending institutions was high. As high a proportion as 50% of the tenants faced the problem of surety and security in borrowing as compared to only 16.80% of the owners. Many farmers were not satisfied with the repayment terms of lending institutions. Thus, 36.00 of owners and 44.44% of tenants reported that the repayment terms of lending institutions were too rigid.

Table 2 clearly indicates that most of the problems were faced by a much higher percentage of tenants, while this category of farmers seemed to be the most deserving for getting agricultural credit.

significant relationship between the size of land holdings and the amount of production loan received by the respondents. It can be stated from the observed values that those with larger land holdings had obtained greater amount of production loans. Also, the Chi-square shows a highly significant relationship between the size of land holdings and the use of loan received by the respondents. The observed values show that those with smaller land holdings had bought seed and fertilizer in much less quantity than those possessing larger areas of land. The calculated value of Chi-square at 5% level of probability reveals a non-significant relationship between the size of the land holdings and preference for the source of credit.

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