

Government Policy Regarding Agricultural Loans and Its Impact upon Farmers' Standards of Living in Developing Countries

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Received: May 27, 2011 Accepted: June 03, 2011 DOI: 10.5296/jpag.v1i1.687

Abstract

Orientation-This empirical research explores the impact of agricultural loans provided by the Government on the standard of living of the small farmers in developing countries where the Pakistan is taken as a case.

Purpose – The aim of the researchers in this endeavor is to identify the role of agricultural loans provided to the small farmers in the developing countries and the outcomes of these loans with respect to the standard of livings of the farmers.

Design/ Methodology- Researchers have interviewed the 300 small farmers who are all the clients of an agricultural bank (ADBP) and collect the primary data. Data was analyzed in terms of percentages and researchers investigate the impact of credit facility on the purchasing patterns of these small farmers.

Findings- Researchers analyzed the consumption patterns of the farmers in 4 sectors i.e. Structure of households before and after availing the credit facility, Change in consumption of electricity and electronic appliances, Change in education of farmer's child, Transportation and assets and change in food and health. Research results indicate that there is increased trend in all of these 4 sectors after availing the credit facility by the small farmers.

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Practical implications- Current research may be use by the other developing countries to investigate the role of agricultural loans on the well being of their farmers. It also elaborates the role of agricultural banks in enhancing the standard of living of the farmers.

Keywords: Agricultural loans, economic well being, farmers, developing countries.

1. Introduction

In the 21st century, developing countries are striving for their survival whereas the developed countries have entered in the world of progress and prosperity because of technological advancement. The third world countries are suffering from the shortage of food, shelter; health facilities and lack of education etc. People in developed countries are enjoying the luxuries of life. Agriculture is one of the greatest assets not only in the economic development of a country but also plays vital role in for increasing of GDP which results in the improvement of the people's standard of living in developing countries such as Pakistan.

Agriculture is the backbone of Pakistan's economy. It facilitates the increasing population with food products and the core raw material and inputs required by the domestic industries. Farmers use their own savings or they avail loan facilities through banks. The basic cause of development in all developed countries such as United Kingdom, United State of America, Canada, Germany and France is extensive use of credit. Eastern economies also favor the extensive use of this instrument for increasing output which boost standard of living of farmers and economic growth. The economy of Pakistan is predominantly agrarian in character. Despite of speedy growth in other sectors, agriculture is still the largest sector contributing 25 percent towards the Gross Domestic Production (GDP). About 67.5 percent of total population of the country lives in rural areas and agriculture is the main source of their livelihood. According to one of the estimates agriculture sector has engaged about 44 percent of total labor force and its direct and indirect share in annual exports of the country is around 70 percent (Government of Pakistan, 2002).

The agriculture sector is multi-segmental. Farmers are not in a position to use high quality seeds because majority of our farm community is comprised of subsistence, improved farm



implements due to the lack of finances available to them and sufficient fertilizers. Low per acre productivity in our agriculture and lack of finance is one of the main reasons for this. Therefore largely depends on the availability of finance and credit facility available to the farmers in their respective areas (ADBL, 1996) for the matter of enhancing agricultural productivity.

Standard of living is an important issue in economically developed, under developed and poor countries. According to Howard R (1941) wealth, culture, luxury, assets, health, transportation and food are the variables which measure the standard of living.

The major objective of the study is to assess the impact of agricultural loans on the living standard of small farmers in the developing country (Pakistan). We can get to the said objective indirectly by examining empirically the impact of different inputs on agricultural productivity translated into income of the farmers. Besides income from the land, farmers may also be earning income from other sources. We make the assumption that the extra-land income is insignificant because income drawn from the land is the principal source. Agricultural credit is supposed to enhance agricultural productivity and thus income leading to improve standard of living of the small scale farmers. Simply because agricultural productivity depends upon a number of inputs — water availability, high quality seed, sunshine, fertilizer, weather conditions, input-output price differential, land tenure system, use of agricultural implements, labour content. The use of all these inputs depends on income of the farmers. Due to many factors, small farmers do not enjoy high level of income or standard of living. We assume that standard of living crucially depends on income. They need credit to keep the body and soul together. Therefore, it is abundantly obvious how credit plays a dominant role in the life of the small farmers.

2. Review of Literature

Howard R (1941) highlight that standard of living consists of behavior which is common and we conform to cultural norms. Both activities are observable and subjective goals are embraced in the concept. It implies a configuration of social activities which shows characterizes the group. Some forms activity can only be imputed from possession of goods, services, and convert behavior can only are inferred by expression. Standard of living is not a

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living and include in their acquisition.

congeries of random behavior of isolated persons, the existence of inconsistencies in behavior but it emphasize a relatedness of behavior so definition in behavior does not refuse .nor may standards be undestroyed in term of male overt activities done by alone; activities serve him in the realization of human values if they must be related to the adequacy. The meaning of these instruments to individual together with the overt behavior use determine standard of

Meyer.L (1990) criticized the main factors regarded measuring and analyzed the impact of loan on developing countries. The main purpose of this discussion was to highlight the obstacles that are faced but developing countries in case of agricultural loan, he has pointed out the 1973's aid spring review of poor parent loan, the detailed review of programs in various developing countries represented the first major event when serious doubts were raised about such programs but the critical review was held late in the 1970's and raised a question about strategies and results .one major issue was that the research was unsuccessful for the vast range of production, consumption and investment activities undertaken by a major rural household. It is very tough to point out the true impression of credit that is giving for the production of farm due to the wrong information about the farm house. The second issue which she discussed that, agricultural credit is not only for the purpose of production but it can also be sued for multipurpose and students have been held on difference between non borrowers and borrow and found good result. The third was interest rate which is very important in the case of loans .she has used the new qualitative and theoretical methods to show new contemporary impression of loan on developing countries and another noted that during cheap credit, the permanents employment increased more then contractual. In a second paper counter and web model tried to find and now different farms approaches to production and for consumption and its effectiveness on productivity, but they explained their relation which their attributes of variable .After discussion she concluded the farmers who don't access to the credit are those who have loan because interest and small peasant productivity has effected, and out of 37% peasants note that they have lower significant financial recourse. khandker.R at al., (1999) explained that the loan which had given to small land holders are more affected and suitable then the land lords. The Asian development bank of Pakistan



which gave more facilities and credits to the land lord then the small land lord although the impression of loan small holder is more benefit then the large holders. It also played the very important role in the development of the life style of the poor parents and decreased their poverty also. The objective of their research was to examine the impression of form loan in Pakistan's rural areas especially to the poor parents giving by ADBP. Shaidur said that loan has giving to the poor parents who have their own lands are more effective and it also help to decreased the poverty in the rural areas. Both formal and informal loans are important but parents always try to get formal loans because informal loan schemes are dangerous and highly risky. Khandkar and Faraqee both these researchers examined the effectives of ADBP credit by collecting data from the vast the sample size of household survey, for this purpose they use two stage method. After their research they concluded that ADBP loan has good affect on household welfares and the other factors. They also concluded that the land lords get more ADBP'S loans and they miss use it, therefore, it decrease the productivity of parents.

Iqbal.M at al., (2003) mentioned that the financial institutional credit had good impression on agricultural outcome in Pakistan. They had sort out that variously used agricultural devices and the progress of science and technology play an important role in the betterment of agriculture. The main purpose of their research was to find out the effect of institutional services in the field of agriculture, as they seen that poor peasants were unable to have goo collection of money and financial services provide them good opportunity for better production. They examined all kinds of institutional loani-e-formal and informal. Their research based on the information which they collected from government publication and the bank record of ZIBL / ADBP. Better agricultural production based on water resources, hardworking people, fertilized land and financial strength. or the observation of their collected information they used **cobb-Douglas** Production which observed by OLS method. They concluded that agricultural financial loan has significant role in good production and the availability of water is also very important. There is a deep relationship between financial services and agricultural GDP. They suggested to commercial banks and the other financial institution that they should give loan to poor peasants. There should also be remedy for the



farmer's loss in the production as insurance policy etc.

Sjah (2005) explained the improving small producer's standard of living of Lombok Indonesia. This study analyses the effect of loan provision on farming activities and suggests strategies for increasing livelihood of agricultural producers in Lombok, Indonesia. Study based on two periods of survey conducted in Central Lombok, where the current **KKP** government loan scheme has focalized to agricultural producers, sample was taken from villages, representing various repayment rates of government loan. By face to face data was collected, with farmer's semi-structured interviews who had made use other sources of agricultural loan, and with key informants. Result of this study shows that credit used by farmers in Lombok had little noticeable impact on improving agricultural income (5%). And on production (11%) and on This marginal impact of loan use may be related to the current loan provision system in which loan is made available in limited income and intended for a single purpose.

Olagunju.I.F (2007) studied that tormenting poverty, based on suburb areas, is a big problem, because agriculture is a main resource of development in Nigeria observations told that in the village areas mostly famers are poor, they have less income to use scientific methods, so that get low production than standard level. He tried hard to judge the basic problems and then to suggest the solutions that how they tackled out the financial problems. The basic purpose of this study or research is to find out socio – economic differences among two kinds of farmers i.e. the credit holder and the former without loan. His research is specifically about the production of sweet potatoes' said that good production of food would reduce the level of poverty among farmers. The frequency division and percentages method were used to analyze the socio – economic qualities of the two groups while double log, semi –log and linear production functions were fitted to compare efficiency between two groups. The data, analyzed by these methods, was collation from 5 zones. He collects primary data from 60 respondents which were used credited and 80 were without credit. After analyzing data he concluded that the farmers having credit have more output than non credit farmers. The poor peasants without credit could not use good scientific methods and good hired labor, they have small cultivated areas. He examined that the 20% farmers without credits cannot use even



tractors while 50% with credit can use tractors and other technologies. At last he suggested that such economical policies should be made which ensure the provision of loan for peasants.

3. Hypothesis

The hypothesis of the study is about the impact of agricultural loans on the standard of living of small farmers.

H0 = Credit facility has impact on the standard of living of small farmers.

H1= Credit facility has no impact on the standard of living of small farmers.

4. Methodology

The empirical analysis of farmers in this study is based on the primary data from developing country's small farmers. For these purpose clients of an agricultural bank called as agricultural development bank of Pakistan (ADBP) has been surveyed. In August 2010, households were questioned, the survey covered 300 households, the heads of the household were questioned for information, and heads of household being clients of ADBP, were selected from the year of 2009, 15 % of total clients randomly for analysis. In this study we analyze the impact of credit facility given by ADBP (agricultural development bank of Pakistan) for the production enhancement in agriculture and to help the poor farmers which has indirect impact on the standard of living of small farmers. We define the farmers on two grounds in our study.

First, the farmers who have up to 12.5 hectare land are considered to be living on Subsistence level. Second the farmers who have 25 hectare land, considered to be living on Economic level. The methodology describes the relationship between the loan facility provided by the Agricultural banks (ADBP) and standard of living of small farmers. The variables explained the variation in standard of living of small farmers in the Pakistan. We use tables in descriptive analysis to prove the said hypothesis.

5. Data Collection

The empirical analysis in this study is based on the primary data collected from Pakistani farmers. Data were collected with the help of municipal administration and ADBP. In August 2010, 300 households were interviewed. The heads of the household were questioned for



information, and heads of household were clients of ADBP. They were selected from the year 2009, 10% of total clients were selected randomly for analysis. In this study we analyze the impact of credit facility given by ADBP for the production enhancement in agriculture and to help the poor farmers which has indirect impact on the standard of living of small farmers. According to (Vogt,1978) agriculture sector depends highly on loan more than other sectors of economy due to seasonal change and changing trend—from subsistence to commercial farming—credit may provide—them opportunity—to earn more money and improve farmers standard of living.

The required information was collected through a comprehensive, well-designed questionnaire and the same was pre-tested. The questionnaire contained basic information about farm inputs, household items, education, house renovation, transportation, assets, food, farm saving and farm income and other questions related to this study.

Because of time and cost constrains, it was not feasible to collect the data from a large sample of farmers in Pakistan. Based on municipal administration data, using as the base, we could interview only three hundred formers. Through the sample size is not large enough vis-à-vis total population; the responses provided sufficient information that we needed for our purpose. We must make it abundantly clear that we did not select the households and farmers meeting the standard requirements of drawing random samples due to the constraints mentioned before. We observed tremendous similarity in responses and therefore, our analysis based on our collected data is certainly reliable. It was also noted that even had we drawn sample of farmers according to standards procedure of drawing samples, we would not have got significantly different responses. Therefore, we do expect that we would get reasonable and dependable results having bearing on the objective of this study. Though farmers differ in land holding, we confine our analysis to farmers who possessed small tracts of land because this class of farmers is desperately dependent on credit to make the both ends meet. However, we have also provided analysis for farmers who owned large tracts of land that we call economic holdings comprising 25 hectors and above.

6. Descriptive Analysis and Empirical Results

We provide the descriptive analysis in order to get insight about the impact of credit on living

standard.

We present descriptive analysis in the form of Tables

Table 6.1 Characteristic of loan of ADBP and its clients.

Items	12.05(hectors)	25 hectors	Total
	(Subsistence Level)	(Economic Level)	
Literate Farmers	11%	25%	36%
Full time farming	65%	23%	88%
Part time job	10.33%	2.33%	12.66%
Seasonal	20%	25%	45%
Utilization	25%	15%	40%
How many time	13.33%	10.00%	23.33%
credit avail from ADBP			
(more than one)			
Land owners	59%	41%	100%
Not spend amount	5.66%	1.66%	6%
on the purpose credit availed.			
Land on contract	16.66%	4.66%	37.66%

Source: Survey

This table explains different features related to farmers and loan taken from ADBP. The tables explain that 65% of total farmers related to subsistence level were involved in full time farming which has no other activity than cultivation; their live hood is totally dependent upon agriculture.

Among farmers which were involved in full time farming 23% were related to Economic level. Among farmers which were involved in farming and having some other activities as well as 10 % related to subsistence level and 2 % related to economic level which shows only 12 % of the total farmers were involved in the part time job activities. Among the total sample of



farmers 59 % land owner related to subsistence level and 40% were from Economic Level .The farmers who cultivated land on Lease (theka) were 21 % among the total sample size. Among total No of sample only 10 % farmer's availed credit more than once from the former of Economic level only 13 % from subsistence level avail this facility more than once and other farmers availed first time credit from ADBP. So total 23 % of total farmers availed the credit facility more than once where as other 77 % farmers took the loan first time. Among the total sample size 94 % of people spent the agricultural credit for agricultural purpose, only 06 % farmers spent the agricultural credit purpose other than agricultural purpose.20 % farmer from subsistence level and 25 % from Economic level farmers were spending their credit on seasonal purpose.25 % farmer from subsistence level and 15 % from Economic level farmers were spending their credit on seasonal purposes. So from the 100 %, 55% farmers borrow the seasonal loan and 40 % take the loan for utilization.

Table 6.2 Structure of households before and after availing the credit facility.

Items	12.05 hector	25 hectors	Total
	(Subsistence Level)	(Economic Level)	
Rooms	6.00%	1.66%	07.66%
Kitchen	4.00%	2.66%	6.66%
Bath	26.33%	16.33%	42.66%
Renovation of houses	33.33%	20.33%	53.05%

Source: Survey

To analyze the impact of loan facility from ADBP on the standard of living, to analyze the house condition, No of Rooms, Bath and Kitchen were selected and checked the change before credit and after credit. The above mentioned table shows that 6% farmers from subsistence level and 1.66% from economic level have increased their rooms,04% farmers from subsistence level and 02.66% from economic level have increased their Kitchen, 26.33 % farmers from subsistence level and 16.33 % from economic level have increase their Baths.

There were some house hold who have not constructed new Rooms, Baths and Kitchens but repair / renovate their houses by cements ,paint ,etc .So 33% from subsistence level and from economic level 20% formers improved/ renovate their houses so total 53.05% farmers



improved renovate of their houses.

Table 6.3 Change in consumption of Electricity and electronic appliances.

Items	12.05.hectors	25 hectors	Total
	(Subsistence Level)	(Economic Level)	
Fridge	10.66 %	4.66 %	15.33 %
Swing machine	6.33 %	2.33 %	8.66 %
Desert cooler	12.33 %	4.33 %	16.66 %
TV	16.66 %	6.33 %	23.00 %
Washing machine	5.66 %	3.00 %	8.66 %
Fans	16.33 %	9.33 %	25.66 %
Total-luxury/facility	11.33 %	18.33 %	29.33 %
increase			
Electricity	17.00 %	19.33 %	36.33 %

Source: Survey

The farmers who owned 12.5% hectares land increase 10.66% of fridge, the impact on swing machine observed little because almost formers have already because it is an important need so 6.33% Swing machine, 12.33 % Desert cooler, TV 16.66%, Washing machine 5.66%, 16.33 % Fans and 11.33 % Total luxury/facility increased.17% farmers are burning more units of electricity after availing loan.

The farmers who owned 25 hectares land increased 4.66 % of fridge, 2.33%Swing machine, 4.33% Desert cooler, TV 6.33%, Washing machine 3%, 09% Fans and 29.33% Total luxury/facility increased. The electricity units were checked of the same months of two different years were checked so 19.33% farmers were burning more units of electricity after availing loan.



Table 6. 4 Change in Education of Farmer's child, Transportation and Assets

Items	12.05 hector	25 hectors	Total
	(Subsistence Level)	(Economic Level)	
Edu of child	15.66%	13.33%	29 %
Cycle	4.66%	2.00%	6.66 %
Bick	10.00%	2.66%	12.66 %
Public Transport	23.66%	15.33%	39.00 %
Total Transport	23.66%	15.33%	39.00 %
Assets	20.33%	20.66%	41.00 %

Source: Survey

The farmers who owned 12.5 hectares land increase 15.66% in Education of child, the farmers shift their children from Government school to Private Schools. In the transportation 4.66% Cycle and 10 % Bick, and 23.66 % Public Transport increased. It was also asked to farmers that have you think that you're Total Transport, food and Assets increased? Some farmers replied positively according to their answers Transport increased by 23.00 % and 20 % Assets increased.

The farmers who owned 25 hectares land increase 13.33 % in Education of child, 2.00 % Cycle, and 02. % Bick, 15 % and Public Transport, and farmers accepted that their Total Transport increase 15 %, and 20% Assets increased. (Saeed at al, 1996) says that the importance of the facility of loan can be observed by input expenditure per hectare—are significant high for farmers with credit, regardless of the farmers assets high expenditure and demand of credit lead to high improvement of credit.



Table 6. 5 Change in Food and Health

Items	12.05 hectors	25 hectors	Total
	(Subsistence Level)	(Economic Level)	
Meat	37.00%	20.66%	57.66%
Milk	7.66%	0.33%	7.93%
Vegetables	14.00%	3.00%	17.00%
Total increase in food	37.00%	24.33%	61.33%
Health	21.33%	10.33%	32.00%

Source: Survey

Increase in milk is small because farmers already availing the sufficient/ required quantity of milk .So there is not a big difference before credit and after credit.

We have examined empirically how credit has caused changes in consumption pattern and thus having impact on living standards meeting the basic objective of the study. Because there is increase in consumption patterns after availing the loan facility so it can be concluded that agricultural loans have positive impact on standard of living of small farmers.

7. Conclusion

In this research primary data was has collected from developing country (Pakistan) with the help of Municipal Administration of Pakistan and ADBP. Small farmers were divided on two grounds.

Farmers on subsistence level.

Farmers on economic level

Formers on subsistence level owned 12.5 hectors of land and former living on Economic level have owned 25 hectors of land. The variables of farmer's standard of living are house, food, health, children, education, electricity consumption, transportation, and assets of the farmers. The impact of agricultural loans in improving the standard of living of small farmer was checked by Descriptive Analysis.



It was concluded that the agricultural credit facility provided in developing country had an impact in improving standard of living. But it was also concluded that the credit was not having the same impact on all the variables of standard of living the food consumption of farmers had positive relationship with the credit, when farmer avail credit facility by ADBP the increases in out put leads to increase in income, their food consumption also increased, food is a basic need of the farmer so response to food is more positively than other variables of standard of living. Therefore, we have shown that agricultural credit plays an important role in raising the agricultural productivity that translated into income does raise the consumption expenditure implying rise in living standard. We have noted difference for both categories of farmers in terms of agricultural productivity as well as consumption patterns. And this difference is more pronounced and obvious for small farmers than for economics holdings. Therefore, it is concluded that credit carries greater importance, despite adverse effects, for small-farmers. In this respect agricultural loans are playing a dominant role by providing credit to small-farmers

8. Recommendations

- The credit facility should be available on time otherwise the delay in the completion procedure for taking loans will be occurred and the farmers not get maximum profit regarding their plans.
- For getting maximum output and improving the welfare of farmers, polices of agricultural banks should be flexible and rate of interest should be less for small then large farmer's because small farmers hardly acknowledge their basic need.
- When loan is sanctioned the entire land is mortgaged irrespective of loan amount which hinders farmers from acquire additional loan. Therefore there should be coherence, between amount of loan and value of land mortgaged against it.
- Because of common illiteracy of farmers in developing countries, agriculture sector can't give maximum profit using old technique. Agricultural banks should give the credit to farmers according with the importance of crop, as the farmers who are illiterate don't know the suitability of land for crops. Due to illiteracy, they can't get maximum profit by credit as compare to literate farmers. The government should



suggest farmers support education programme which should guide them to increase productivity which lead to increase in standard of living of farmers.

Pesticides firms and fertilizer companies must establish laboratories where land sample
can be checked them agriculturist suggest what type of fertilizer is useful for this land
and which fertilizer can give maximum profit. This could be turn have a significant
impact on the output which lead to increase in income because of this farmers will
improve the standard of living. Agricultural banks should give the credit to farmers
according the importance of crops.

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