
The Role of First Microfinance Bank in Financing Agriculture: The Case Study of District Naushahro Feroze, Sindh, Pakistan

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Abstract:

This research was carried out in District Naushahro Feroze, Sindh, Pakistan to examine the role of first microfinance bank financing in agricultural activities. A multistage technique was adopted to select (151) farmers from five villages each of three talkuas. Primary data were collected using structured questionnaires. Simple descriptive statistics such as Means, frequencies and percentages were applied to analyze the data. The results show that, majority (46.4) % of the respondents were within the age range of 20 to 30 years, while

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39.7 % of the respondent had primary education. 37.1 % of the respondents complained of high interest rate on loan obtained from the first microfinance bank as a main problem and 32% of the respondents complained of less amount disbursed. Based on the findings, the study recommended that agricultural credit for the small farmers should be disbursed on timely, interest rate should be reduce so as to enable small farmers acquire credit and pay back easily.

Key words: Micro-Credit, Agriculture, Sindh, Pakistan

INTRODUCTION

The major of Millennium Development Goals (MDG) is the obliteration of poverty. For the aims to be achieved economic sectors such as manufacturing sector and Agriculture sector need to be enhanced (FAO, 2004).Agricultural productivity is low in developing countries especially in Pakistan due to less use of inputs along with several problems such as lack of modern farm technologies, shortage of irrigation, lack of credit and so on. Microfinance banks are the main source of formal credit which providing financial support to poor rural households in developing countries like Pakistan, India, Bangladesh, Nigeria, etc. In Pakistan, there are six microfinance banks like as The first microfinance bank Ltd, Khushali Bank, Pak-Oman microfinance bank Ltd, Tameer microfinance bank Ltd, Network microfinance bank Ltd, and NRSP microfinance bank Ltd are operating at the country level. Thus, these microfinance banks have been supplying credit in order to increase income of small scale farmers and agricultural output. Production loan is specified for agriculture inputs consisting of fertilizers, seeds, and pesticides e.tc. The development loans were supplied for purchase of agriculture equipments i.e. tractors, threshers, trolley, spray machinery and installation of tube wells, etc. Government of Pakistan made favorable agricultural credit policies to small farmers by

extending credit to them on easy terms and conditions as well as protect them in case of crop failure by natural disaster (Hanif *et al.*, 2004). The timely availability and easy access of credit small farmers can be purchased the required inputs like as improved seed varieties, fertilizers, insecticides and modern farm machineries for farm operations and increase agricultural output (Abedullah *et al.*, 2009, Saboor *et al.*, 2009, Magsi *et al.*, 2014 and Chandio *et al.*, 2015). The impact of institutional credit on agricultural productivity was found positive and significant (Zubairi, 1989, Sohail *et al.*, 1991, Qureshi and Shah, 1992, Waqar *et al.*, 2008 and Chandio *et al.*, 2016). Ibrahim *et al.* (2007) observed that informal credit market in Ethiopia was the major supply of credit in urban and rural areas. The study concluded that by reducing transaction cost and bureaucracy in the disbursement of credit will increase agricultural productivity. Lopez Garcia and Puente, (2012) applied Probit model to analyze Spanish small firm-level data. The researchers found that small firms generate employment opportunities and their access to credit increase the firm's size and improve the welfare of the peoples. According to (Nudamatiya, 2010 and Chandio *et al.*, 2015) found that microfinance has a positive impact on the income of rural households.

THE FIRST MICROFINANCE BANK LTD (FMFB) IN AGRICULTURE

The First Microfinance Bank Ltd, Pakistan (FMFB-P) was established in 2002 as a nation-wide microfinance bank, licensed by the State Bank of Pakistan. Moreover, FMFB operates in all provinces of the country such as Sindh, Punjab, KPK, Balochistan and Gilgit-Baltistan, with a strategic aim to reach out those who are unable to receive adequate financial services, throughout the country, in rural as well as urban areas. The FMFB enables its clients to strengthen their

entrepreneurial base and build financial, physical and human capital to secure their future. FMFB-Pakistan operates through a network of 136 locations encompassing 84 branches, 6 POLs (Points of Link), 10 PBs (Permanent Booths) and 36 Pakistan Post outlets in all over the country. During the past 12 years, FMFB-Pakistan has a cumulative disbursement of over PKR 34.3 billion to more than 1.5 million borrowers with a deposit base of PKR 8.75 billion. According to Microwatch, FMFB-Pakistan constitutes more than 20% of the total market share of the total deposit of Microfinance banks in Pakistan, as of December 2014. Majority 68% of population lives in the rural areas of Pakistan, whereas women constitute more than half of the population living in poverty. More than 35% of FMFB-Pakistan's borrowers being women entrepreneurs and more than 65% of the borrowers are residing in the rural areas. The FMFB offers a range of financial services including Deposits, Loans such as Agriculture financing, Dairy Financing, Health Insurance, Children's education, Remittances, and Cash management services. (Annual Report, 2014). The aim of this study is to examine the impact of microcredit in agricultural financing: Evidence from Sindh, Pakistan.

MATERIALS AND METHODS

In order to conduct the field survey of district Naushahro Feroze, Sindh, Pakistan, we have applied a multistage random sampling technique to collect the data. At first stage the District Naushahro Feroze is comprised on five Talukas such as Moro, Naushahro Feroze, Bhiria, Kandiaro and Mehrabpur. At second stage three Talukas were selected like as Moro, Kandiaro and Bhiria. At final stage five villages from each Talukas were randomly selected and from each village 10 microcredit beneficiaries were personally interviewed. Primary data were collected through a well-designed detailed questionnaire in order to collect socio-economic characteristics

information i.e age, education, farming experience, land holding, household size, source of income, and access to credit facilities. The collected primary data were analyzed with the help of (SPSS), in order to get desired results of descriptive statistics.

RESULTS AND DISCUSSION

An analysis of the results of this study are comprised over socio-economic characteristics of the respondents is presented in table 1. The results indicate that 46.4 % most of respondents between the age group of 20 to 30 years, while 34.4% of the respondents were between the age of 31 to 45 years .Whereas, 11.9% were below the age range of 20 years and 7.3% were belonged above 45 years. Age of farmer plays an important role in accessing farm credit in rural areas. According Kaino, (2005) found that age has a positive and significant impact on access to agricultural credit in rural areas.

High education level of farmer does not improve only the efficiency but also improve their capability to understand and adopt new farming techniques and methods (Olaguniju and Adeyemo, 2007).Moreover, table 1 also shows that 39.7 % of the farmers have primary (5 years) of education while 33.8 % of respondents have middle (8 years) of education. Whereas, 14.6 of farmers were illiterate and only 11.9% of respondents had metric (10 years) of education.

On the basis of farming experience, the farming skills and practical knowledge which a farmer ascertain during the number of years spent in production activities, improvement in the farming activities of a farmer can be observed. Commonly it is assumed that farmer who has more farming experience might be more efficient in agricultural activities (Olaguniju and Adeyemo, 2007). The table 1 also revealed that the majority 47.7 % of farmers had 11 to 20 years of farming experience, while 40.4 % had farming experience of 21 years and above

whereas, only 11.9 % of farmers had farming experience up to 10 years.

Furthermore, table 1 indicate that the households size of respondents and it is revealed that, majority (35.8%) of the respondents have family size of 5-8 people,32.5% have family member of less than 5 people in their households. Whereas, 20.5% of farmer have family size of 9-12 people while only 11.3 % of farmer have household size of 13 members and above. This implies that more household size more supply of labour force participation in carrying out farm operation activities and hence increasing effect on agricultural output.

Table-1. Frequency and Percentage Distribution of Respondents by their Socio-economic Characteristics

Socio-Economic Variables	Frequency	Percentage %
Age		
below 20	18	11.9
20 to 30	70	46.4
31 to 45	52	34.4
above 45	11	7.3
Total	151	100.0
Education Level		
Illiterate	22	14.6
Primary	60	39.7
Middle	51	33.8
Matriculation	18	11.9
Total	151	100.0
Household size		
less than 5	49	32.5
5 to 8	54	35.8
9 to 12	31	20.5
13 and above	17	11.3
Total	151	100.0
Farming Experience		
Up to 10	18	11.9
11 to 20	72	47.7
21 and above	61	40.4
Total	151	100.0

Source: Field Survey, 2016

Distribution of Credit Volume

Table 2 shows that majority (42.4%) of the farmers received loan amount Rs.20,000 while 23.8 % of farmers took loan amount Rs.15,000. Whereas, 22.5% of the respondents borrowed credit Rs.25,000 and at least 11.3% of the respondents were borrowed credit more than Rs.30,000 respectively.

Table-2 Frequency Distribution of Loan Amount Disbursement

Loan amount	Frequency	Percentage%
15000	36	23.8
20000	64	42.4
25000	34	22.5
more than 30000	17	11.3
Total	151	100.0

Source: Field Survey, 2016

Distribution Purpose of Loan Taking

Table 3 reveals that most of 39.1 % of the farmers lending credit for the purpose of purchase fertilizers in order to increase agricultural output while 25.2% of the respondents borrowed credit for the purchase of pesticides and herbicides. Moreover, 18.5 % of the respondents borrowed credit for the purchasing of improved seed varieties in order to increase their crop productivity. Whereas, 13.2% of the respondents borrowed credit for the operating their own business and only 4.0 % of the respondents borrowed credit for other agricultural activities such as animal feed, purchase of farming tools and for social ceremony e.tc.

Table-3 Distribution Purpose of Taking loan

Purpose of loan taking	Frequency	Percentage%
Seeds	28	18.5
Fertilizers	59	39.1
Pesticides	38	25.2
Own business	20	13.2
Others	6	4.0
Total	151	100.0

Source: Field Survey, 2016

Utilization of Appropriate Credit

Table 4 indicates that most of 81.5 % of the farmers appropriate utilized the credit for the purchase of farm inputs like as seeds, fertilizers, pesticide, herbicides, farm machinery and so on. Thus, 18.5 % of the farmers did not appropriate used due to many number of dependents, irresponsibility or poverty.

Table-4 Frequency Distribution of Appropriate Utilize of Credit

Appropriate use of credit	Frequency	Percentage%
Yes	123	81.5
No	28	18.5
Total	151	100.0

Source: Field Survey, 2016

Problems of Accessing Credit to Small Farmers

Table 5 shows that various problems faced by small scales farmer in accessing credit from institutional sources. Majority 37.1% of farmers faced the problems of high interest rate; this may sometimes depress farmers to borrow credit from financial institutions while 32 % of the farmers faced the problem less amount of loan. Moreover, 15.2 of respondents complained of delay in approval of loan disburse. Timely availability of credit is most important because small scales farmer can be purchase their farm inputs, farm capitals in order to increase agricultural productivity. Other problem includes banks demand for collateral, 7.9% of the respondents complained about collateral problem and only 7.7% of the farmers reported that banks does not given applied loan amount.

Table-5 Problems Accessing Credit from Formal Sources

Problems	Frequency	Percentage%
High interest rate	56	37.1
Collateral	12	7.9
Delay in approval	23	15.2
Less amount	48	32.0
Not given applied amount	12	7.7
Total	151	100.0

Source: Field Survey, 2016

CONCLUSION AND RECOMMENDATIONS

The main purpose of this research was to investigate the role of first microfinance bank in financing agricultural activities in Sindh, Pakistan. The results of socio-economic characteristics of the respondents such as age, education, household size and farming experiences shows that majority 46.4 % of the farmers were between the age group of 20 to 30 years while about 39.7 % of the respondent had primary education level. Whereas, (35.8%) of the respondents have family size of 5-8 people in their households and 47.7 % of the farmers had 11 to 20 years of farming experience. Based on the findings of this research, it shows that 37.1 % of the respondents complained of high interest rate. While, 32% of the respondents complained of less amount disbursement. Therefore our study suggested that credit for small scales farmers should disbursed on time to enable farmers use it appropriately. Interest rate is very high and must reduce so as to enable small farmers obtain and pay back loan on time.

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