

Is credit the devil in the agriculture? The role of credit in Pakistan's agricultural sector

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Abstract

The aim of this study was to use an econometric analysis to investigate the relationship between the agricultural gross domestic product (AGDP) and variables, such as total food production, cropped area, loan disbursed by ZTBL, cooperative loan and total loan disbursed by various institutions in Pakistan. Data were explored from 1960 to 2015; we used time series data collected from secondary sources, including the Pakistan Bureau of Statistics, Statistical Year Books and the Economic Survey of Pakistan. Data were analysed using the Phillips–Perron (P–P) test, and the results were interpreted using the Johansen Co-integration test. We found that total food production, loan disbursed by ZTBL and the total loan disbursed by various institutions had a positive and significant influence on the AGDP, whereas cropped area and cooperatives loan had a negative but insignificant influence on the AGDP. Based on our results, we suggest that the Government of Pakistan formulate and initiate new policies and funding schemes for the development and improvement of the agricultural sector.

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Keywords: Food production; Cooperatives; ZTBL; Agricultural GDP; Loan schemes

1. Introduction

As Pakistan is a developing country, the agricultural sector plays an important role in its economic development. Agriculture is the largest economy in Pakistan, accounting for 26% of its gross domestic product (GDP) (GOP, 2015–16).¹ Modern agriculture is a necessary for economic development. When farmers provide credit for the purchase of modern inputs, it is possible to adopt modern agriculture. Many developed countries have recognized the benefits of using modern agricultural technology. However, the use of modern agricultural technologies to increase agricultural production also increases farmers' financing needs. Easy and cheap credit is the fastest way to promote

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agricultural production. Credit is an important tool that provides emergency relief, such as the purchase of seeds, fertilizers and livestock.^{2–10} Agricultural credit is playing a key role in the crop production and use of industrial products in the agricultural sector. In the economy of Pakistan, the major sources of agricultural credit are Zarai Taraqiati Bank Limited (ZTBL), commercial banks and cooperatives.^{4–6,11,12}

Agricultural credit is considered the backbone for any business, and it has always been a non-monetary activity for the rural population of the Pakistan. Agricultural credit is an integral part of the process of commercialization of agricultural modernization and the rural economy. Easy and cheap credit represents the fastest way to improve agricultural production. Therefore, previous governments have always made it a priority to meet the credit requirements of Pakistan's agricultural communities. As a sector, agriculture depends on seasonal changes more than any other economic sector as farmers' purchases shift from commercial agriculture to basic necessities, like clothing and food. Credit may provide them with the opportunity to make more money and improve their living standards.^{7,8,13}

Agricultural credit is seen as one of the strategic resources of crop production, which has led to increase in the standard of living for our rural poor agricultural society. Therefore, it plays a significant role in economic development. There are two main sources of agricultural credit: informal and formal. Informal sources usually include commission brokers, input suppliers, village shopkeepers, friends and relatives. Out of these sources, credit from commission brokers, shopkeepers and input suppliers has been more detrimental to the rural poor. There is evidence that such loans further aggravate the effective rate of informal loans, making the loans too expensive for those living in rural poverty.¹⁴

The importance of credit availability can be illustrated by the fact that the input expenditure per hectare requires farmers to provide proof of credit, regardless of whether or not their level of asset is significantly higher than the credit they are seeking. High input spending may be related to higher productivity and growth. The impact of credit on the Pakistani institutions of agricultural production has been recognized as positive and significant.^{15,16}

In developing countries, the agricultural production is low, especially in Pakistan due to smallholdings, traditional methods of farming, poor irrigation facilities and low or misuse of modern agricultural technology.^{7,8,17} Low agricultural production often results in not enough income being generated or small incomes. Thus, it is necessary for credit agencies to come in and help farmers to apply and improve agricultural practices. Credit is an important tool for farmers to obtain in order to make use of their working capital, fixed capital and consumer goods¹⁸ Credit has vital role for increasing agricultural production; and the timely provision of credit allows farmers to purchase the necessary inputs and machinery for farm operations Saboor_et_al_2009.¹⁹

Loan disbursed by ZTBL, cooperative loan, total loan, total food crops production and total land used for crops in Pakistan from 1960 to 2015 are shown in Figs. 1–5 respectively.

2. Materials and methods

This study explored the relationship of the agricultural GDP with five independent variables in Pakistan over the period of 1960–2015. Annual time series data were collected from the Pakistan Bureau of Statistics, the Statistical Year Books and the

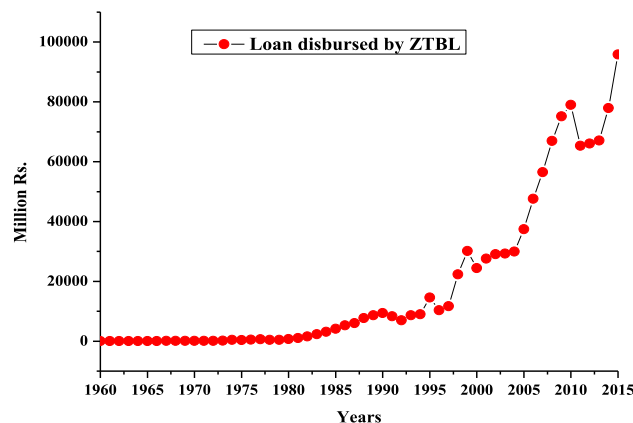


Fig. 1. Loan disbursed by ZTBL from 1960 to 2015.

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