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Factors Influencing Farmers' Adoption of Agricultural Credit as a Risk Management Strategy: The Case of Pakistan

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Abstract

Agriculture yield is the main source of income in all agricultural operations. It is indispensable for farmers to ascertain and then manage production risks. Agricultural credit plays an important role in farm management. **It is used around the globe, and particularly in Pakistan, as an ex-ante and ex-post risk management strategy by famers. However, there is limited literature available on the adoption of agricultural credit as a risk management strategy in post floods disasters.** The purpose of this paper is to study the impacts of socio-economic factors on the adoption of agricultural credit as risk management strategy by farmers in Pakistan. This study incorporates explanatory research design to investigate the causal relationship between the dependent (binary) and independent variables. Data were collected through survey and checklist from 168 farmers in the study area. Probit model was employed to explore the said relationships. Risk perception, risk attitude and access to credit were calculated for each individual and used as independent variables along with other socio-economic factors. Results from probit estimation showed that overall model was a good fit, most of the socio-economic factors were found significant. Experience, education, risk perception of heavy rains, income, distance and access to credit sources had positive relationship with the adoption of agricultural credit.

1 Introduction

World agriculture is confronted with uncertain risks and inconsistent climatic conditions such as temperature and rainfall (Azam-Ali, 2007; Wang et al., 2009), which makes farming a risky enterprise (Hardaker et al., 1997). Production, marketing and financial risks are the key

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