Factors Affecting Delay in Agricultural Loan Recovery among Small Scale Farmers in Sahiwal Region Pakistan

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Abstract: *Effective utilization of agricultural credit effects repaying behavior of farmers and in turn leads towards non-performing loans (NPLs). The NPLs decrease profitability of banks and decrease financial credibility and motivation of farmers. This paper aims to determine the factors which may influence delay in loan repayment among small scale farmers in Sahiwal zone, Pakistan. Proportionate random sampling technique has been adopted by which 110 defaulters were randomly selected from 11 branches of Zarai Taraqiati Bank (ZTBL), which is a leading agriculture development bank of Pakistan. In addition, 30 credit officers were selected from each branch of ZTBL. The primary data was collected through survey of credit officers and small-scale borrowers using structured questionnaires. Finally, the data was summarized using descriptive statistics. The results indicate that input prices, non-farm expenses, high interest rate, loan beneficiary is different, Bank's SAM policy are major reasons of bank default among small scale farmers. The findings are important for banks management and those involved in policy making related to effective utilization of agriculture credit and reduction in NPLs in agriculture sector in Pakistan.*

Keywords: Agricultural credit, loan default, small scale farmers, Pakistan.

Introduction

Agricultural credit plays major role in economic sustainability and growth for farming community and major share of GDP depends upon agriculture. Modern agricultural techniques can be implemented through proper financial support to farming community. Agriculture is one of best contributor to GDP in developing countries and Pakistan is one of them. According to (Economic Survey of Pakistan 2014-15) Agriculture is source of 43.5% livelihood of rural population and 20.9% accounted for GDP. According to Mehmood, Ahmad, and Anjum (2012); Afolabi (2010) reported that agricultural credit playing major role to farming community for purchasing inputs, seeds, paying different charges like irrigation, buying fertilizers and pesticides etc. whether its institutional credit or non-institutional credit.

Under Pakistani scenario, agricultural credit not fully utilized for agricultural purpose as major share of agricultural loan used for litigation purpose, marriage ceremonies, land

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ownership, child education and also for political purpose due to farmer's poor financial condition. Therefore, agricultural loans fail to change the financial conditions of small-scale farmers and further debt burden increases and becomes NPL for banks.

Different studies like (Bashir, Mehmood, & Hassan, 2010; Kohansal & Mansoori, 2009; Wongnaa & Awunyo-Vitor, 2013; Ntiamoah, Oteng, Opoku, & Siaw, 2014) reported that high interest rate, prices of inputs, delay in disbursement, less loan than required, distance from bank's branches ,climate conditions, loan amount more than requirement, elements of bribery, non-farm expenses, level of education, misutilization, farming experience ,willful defaulters, change of residence, political influence of borrowers, loan beneficiary is different and death of borrower.

Most of commercial banks didn't willing to lend agricultural credit to small scale farmers as SBP defines that farmer having land ownership up to 12.5 acres of land in Punjab province will considered as small-scale farmer. But as SBP defines agricultural credit to all banks including Islamic, micro finance, commercial and specialized banks. It becomes their responsibility to lend agricultural credit to farming community but major share of agricultural credit to small scale farmers lent by ZTBL (Zarai Taraqiati Bank Limited). So, purpose of this paper is to reveal factors affecting delay in loan repayment among small scale farmers and for this purpose loanees and credit officers selected for survey questionnaire belongs to Zarai Taraqiati Bank Limited (ZTBL) previous known as Agriculture Development Bank of Pakistan (ADBP).

Materials and Methods

Instead of having paramount importance of this problem under investigation, only loanees of ZTBL Sahiwal zone selected due to resource limitations and time constraints. Universe of problem confined to sahiwal zone under this study. Sahiwal zone consist of eleven branches of ZTBL and 10 defaulters selected for survey questionnaire through defaulter list of borrowers. Whereas three credit officers selected from each branch and Proportionate random sampling technique used for data collection. Two well-structured questionnaires designed and out of which one questionnaire used for defaulter's related questions and other for credit officers. Data collected through questionnaire summarized through using descriptive statistics. Descriptive statistics used for meaning understanding of large data into easy, simple and more understandable way.

Results and Discussion

Two types of questionnaire used in this study, one used for defaulters which consist of external questions like prices of inputs, delay in disbursement, higher rate of markup, loan sanctioned less than required, poor follow up by credit officers, litigation problems, distance form bank's branches, higher number of dependent family members, non-availability of proper market, non-farming expenses, higher rate of commission agents. Whereas credit officer's related questionnaire consists of default due to misutilization,

change is residential address of borrower, political approach of borrowers, willful defaulters, death or accident of borrower, loan beneficiary is different, non-arrest powers, Bank's SAM policy and hectic justice system.

Questions Related to Defaulters

Respondents ownership area depicts that they are small scale farmers as 53 respondents have less than 3 Acers of land, 46 defaulters having land ownership 4 to 6 Acers , 6 respondents having ownership of 7 to 9 Acers and only 5 respondents having ownership 10 to Acers of land. Mostly defaulters having age of 41 to 55 years. Most of the defaulters have taken dairy farming loans instead of inputs loan or tractor loan. 49% defaulters having farming experience of 6 to 10 years. 63.60% defaulters are non-educated. 95.5% respondents are male and only 4.5% are female.

Table 1
Indicate Reasons Due to Farmers Delayed in Agricultural Loan Repayment

Serial No.	Default Reasons	Frequency	Percentage
1	Input Prices	80	73%
2	Interest Rate	76	69%
3	Higher number of dependent family members	70	64%
4	Non-farm expenses	62	56%
5	Climate conditions	58	53%
6	Litigation Problems	48	44%
7	Higher rate of commission agents	46	42%
8	Non-availability of proper market of sale	39	35%
9	Distance from Bank's branch	32	29%
10	Loan sanctioned less than required	24	22%
11	Follow up by Credit officers	20	18%
12	Delayed in disbursement	17	15%

Majority of defaulters reported that they are unable to pay due to higher rate of inputs as 73% defaulters agreed and (Mehmood et al., 2012) narrated that higher prices of inputs causing agricultural loan default in Pakistan. 69% respondents said that due to higher rate of interest, they are unable to pay back borrower amount as Afolabi (2010) narrated that higher interest rate causes default in agricultural loan repayment. 64% defaulter said that due to higher number of dependent family members, they are not in a position of pay back loan amount. Nawai and Shariff (2012) described that due to higher dependency and interest rate, borrowers are not in a position to pay back agricultural loan. 53% defaulters said due to higher non-farm expenses lead towards non- repayment of loan as Katula and Gulati (1992) described that non-farming expenses lead towards non repayment. 53% said that climate conditions effect their repayment and due to climate change they become defaulter as Gornall et al. (2010) described that climate conditions play major role in repayment of loan timely. 44% defaulters said that litigation problem causes default in agricultural loan repayment as Ajetomobi and Binuomote (2007) reported that litigation causes default in small scale agricultural loan.42% defaulters said that commission

agents charge higher commission rate while selling agricultural raw products. 35% defaulters said that due to unavailability of proper market for selling agricultural products causes default in agricultural loan repayment by small scale farmers. 29% defaulters said that distance from bank's branch causes loan default as Arene (1992) described that distance from source of money causes default in loan repayment. 22% defaulters responded that cause of loan default was due to less sanctioning of loan as required. 18% defaulters responded that follow up by bank's credit officer plays vital role in recovery of loan disbursed and 18% of defaulters agreed that follow up by bank's employee can recover loan. Addae-Korankye (2014) described that follow up by bank's staff paly crucial role in recovery of loan. 15% of defaulters stated that loan default was cause of delayed disbursement. Kohansal and Mansoori (2009) described that delayed disbursement causes loan default.

Questions Related to Credit Officers

Credit officers having powers of disbursement and they evaluate borrowers before disbursing loans to them. Data have been collected from thirty credit officers and out of thirty, twenty-two officers having more than ten-year experience whereas five officers having experience of six to nine years and three have up to three-year experience. Twenty officers having graduation degree, nine having master's qualification and one has above than master level degree.

Table 2
Indicate Reasons as Described by Credit Officers Due to Farmers Delayed in Agricultural Loan Repayment

Serial No.	Default Reasons	Frequency	Percentage
1	Loan beneficiary is different.	27	90%
2	Non-arrest powers.	24	80%
3	Bank's SAM policy.	22	73%
4	Willful defaulters.	18	60%
5	Mis-utilization.	16	53%
6	Political approach.	12	40%
7	Hectic justice system.	10	33%
8	Death or accident of borrower.	8	27%
9	Change of residential address of borrower.	4	13%

According to credit officers, Non-arrest power plays vital role in default as clients know that credit officers have no arrest power then they become relaxed and didn't pay loan. Similarly, Default reason is loan beneficiary is different which means borrowers draw loan from bank's on name of passbook or land owner whereas other person taking loan actually. 73% employee stated that SAM (Special Asset Management) policy of bank encourage to become defaulter to clients as after expiry of three years loan become SAM loan and client has to pay principle amount only. According to them willful default is also a reason as some people willingly didn't want to repay loan. Mis-utilization is cause of default as clients take loan and spend on different purposes like construction of house, child education, litigation purposes etc. Hectic justice system is cause of default as clients

know that court will decide case after long time and up to that time, they enjoy loan amount without any markup. 27% officers said that death or accident is cause of default and 13% said that change in residential address is also client's default reason. Nawai and Shariff (2012) described different reasons of agricultural loan default as delayed disbursement, death or accident, misuse of loan and change of residential or business address.

Recommendations

Suggestions being offered here for bank's policy department, credit officers and for Govt. agencies to maximize output by proper utilization. So that farmers can get utmost profit and recovery of loan disbursed can also be improved. A number of policy interventions from banks' side can be introduced such as that field officers should ensure proper utilization of agricultural loan; field or credit officers should ensure that loan beneficiary is same person who is getting loan; arrest powers should be given for increasing recovery mainly in SAM cases; markup rate should be decreased, and Govt. should subsidize agricultural loan; new branches should be open at rural areas. More such interventions include: proper markets should be opened for selling of agricultural products. So that commission agent commission can be abolished, and farmers get maximum profit; timely and required disbursement should be made; field officers follow up should be increase for increasing recovery; clients using strong political background for obtaining loan should not be entertained; bank's SAM policy should be reviewed.

To sum up, agriculture is major contributor to GDP and source of livelihood of major population of rural areas in Pakistan. So, agriculture credit policies should be made for agricultural growth and also in favor of financial institutions which lent to farming community.

Conclusion

Agricultural credit provides valuable and easily accessible tool for farming community which can be used for economic growth and to alleviate poverty. However, unproductive use of agricultural loan such as using loan amount for personnel purposes like marriages, misutilization, litigation purpose and other reasons like different beneficiary of loan, SAM policy, Non-arrest powers also cause of loan default which resultantly increase NPL (Non-Performing Loan) and decrease profitability of bank.

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