

IMPACT OF AGRICULTURAL LOANS ON THE LIVELIHOOD OF THE FARMING COMMUNITIES IN BALOCHISTAN

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Abstract

This thesis examines the impact of agricultural loans on farming communities in Balochistan. Based on a survey of 111 respondents, it analyzes demographic profiles, loan accessibility, utilization, and challenges. Findings reveal a predominantly male farming population, many using loans to expand farmland, purchase machinery, and acquire fertilizers. While loans have improved access to inputs, boosted production, and supported economic growth, barriers such as high interest rates, complex procedures, and collateral requirements remain significant. Participants also voiced concerns over repayment burdens and external agricultural risks. The study underscores the need for targeted financial solutions, government support, and financial literacy programs to strengthen sustainable agricultural development in the region.

Keywords: Agriculture, Farmers, Loan, Balochistan, Challenges

1. INTRODUCTION

Agriculture is critical in Pakistan's economy, employing a large share of the labor force and contributing significantly to GDP. However, the sector remains vulnerable to domestic and external shocks, affecting economic stability and livelihoods. The government has implemented policies promoting food security to address these challenges, notably through agricultural loans for inputs such as seeds, fertilizers, and equipment. While modern farming practices require substantial investment, access to formal credit—via banks, microfinance institutions, and NGOs—remains limited for smallholders, who often rely on informal loans from family or private lenders.

Under the State Bank of Pakistan's guidance, institutions like the Zarai Taraqiati Bank Limited (ZTBL) and commercial banks provide formal credit. Despite these efforts, smallholders face barriers, including small landholdings and a lack of collateral. Recognizing their importance, the State Bank allocates a significant share of credit to small farmers to improve productivity and food security.

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Agricultural finance is essential for adopting technology, improving resource use, and reducing poverty. While credit enhances yields and enables investment in inputs and mechanization, gaps between credit demand and supply persist. Recent research explicitly explores the differential impact of short-term and long-term loans on wheat productivity in Sindh, underscoring the need for tailored credit policies.

With its potential for high-value crops like pistachios, almonds, and apricots, Balochistan faces unique challenges: water scarcity, poor seed quality, limited loan access, and weak agricultural extension services. Only 61% of farmers reportedly have access to credit, limiting investments and leaving large areas uncultivated. Recent national consultations have emphasized the need for scientific reforms and value-added strategies in southern Balochistan, with districts such as Washuq, Panjgur, Khuzdar, and Gwadar identified for targeted development. Through the National Development Council and related initiatives, the government is prioritizing interventions to enhance agricultural productivity and rural livelihoods in the region.

2. LITERATURE REVIEW

Raza et al. (2023) highlighted the importance of food safety within the framework of monetary resilience, emphasizing its function in national defense and overall economic strength. The study uses multiple regressions and logistic analysis to explore factors influencing farmers' access to Pakistan's Food Security and Agricultural Credit (FSAC) services. Primary data were gathered from Khyber Pakhtunkhwa and South Punjab districts, focusing on socioeconomic characteristics and FSAC accessibility, along with secondary data from official sources. The research underscores the importance of financial literacy among farmers and rural financial actors, aiming to expand literacy efforts through strategic interventions and educational initiatives. Future work includes expanding the sample size for broader regional representation and assessing FSAC and Financial Literacy Index (FLI) status nationwide, with collaborative efforts from government agencies and financial institutions seen as crucial to improving community financial literacy (Raza et al., 2023).

Chandio et al. (2018) examined the critical role of agricultural credit in modernizing agriculture and fostering rural economic development. In Pakistan, government policies aim to enhance farm production and food security through formal agricultural credit channels, including ZTBL, commercial banks, and cooperatives. Their study assessed the impact of short-term loans (STLs) versus long-term loans (LTLs) on wheat productivity in small farms in Sindh, using primary data from 180 wheat growers across three districts. Descriptive analysis revealed key characteristics of wheat farmers and highlighted the positive influence of formal agricultural credit on production levels. Findings emphasized the importance of STLs in

improving wheat productivity, recommending active promotion by formal credit providers and interest rate subsidies to sustainably boost yields and rural welfare (Chandio et al., 2018).

Chandio et al. (2017) emphasized agriculture's pivotal role in Pakistan's economy, where around 60% of the population depends on agricultural activities for their livelihood. Although the sector contributes over 20% to GDP and employs 43.5% of the labor force, it faces challenges like water scarcity, rising input costs, and energy shortages. Limited access to agricultural credit further hinders small-scale farmers from adopting new technologies. Based on secondary data from sources like the Economic Survey of Pakistan and Agricultural Statistics, their study analyzed agricultural credit types, sources, and importance. Findings suggest that credit is crucial for agricultural development, but growth is hindered by high default risk and insufficient guarantee systems. The study recommends simplifying credit processes, raising farmer awareness through media, and establishing Village Township Banks to ease small farmers' financial constraints (Chandio et al., 2017).

Chaiya et al. (2023) underscored the importance of Pakistan's agriculture sector, which contributes 26% to GDP and engages 45% of the labor force, directly or indirectly supporting 67% of the population. To mitigate internal and external shocks affecting agriculture, the government has implemented policies such as providing agricultural credit for farm inputs. Despite these efforts, challenges persist regarding credit scope, utilization, and outcomes. This research, focusing on Khyber Pakhtunkhwa's Mardan district with a sample of 343 agricultural households, explored credit influence, utilization patterns, and potential misuse. Findings show that effective credit use significantly improves crop productivity, underscoring the need for banks and government agencies to monitor and prevent misuse (Chaiya et al., 2023).

Zulfiqar et al. (2021) highlighted the rural sector's vital contribution to Pakistan's economy, particularly in GDP and employment. Their study in South Punjab examined factors affecting access to agricultural credit, analyzing data from 250 farmers using econometric methods. Significant differences were found between credit users and non-users, except in off-farm income. Recommendations include simplifying loan processes, improving financial literacy, and establishing rural credit facilities to support agricultural growth (Zulfiqar et al., 2021).

Khan and Khan (2019) conducted a study in the Mardan district to examine the impact of ZTBL credit on Desi Tenda production. Conducted across three tehsils—Mardan, Katlang, and Thakht Bai—the study surveyed 69 squash growers out of 260 ZTBL beneficiaries. Data was analyzed using paired t-tests focused on production, investment, and return variables. Results showed Desi Tenda yields per hectare increased significantly after credit, from 2,452 kg to 4,574 kg—a 63% rise—with a t-value of 15.587 and a p-value of .000, confirming the

substantial impact of credit on yields. The study aligned with prior research showing a positive link between credit and increased vegetable acreage. Challenges identified include insufficient loans, complex collateral, poor seed quality, inadequate water, and volatile market prices. Recommendations included tailored loan packages, better irrigation, low interest rates, farmer skill development, improved marketing systems, and government price stabilization (Khan & Khan, 2019).

Kaya and Kadanali (2021) highlighted the continued importance of the agricultural sector, even as its share in economic development declines. In Turkey, the agricultural landscape includes 37.7 million hectares of agricultural land, 17.2 million cattle, and 46.1 million sheep. Modern agricultural practices are essential for economic progress and increase farmers' financial demands. Agricultural loans are critical investment tools, supporting farmers' cash needs and promoting rural development. The study explored the relationship between agricultural production and loans in Turkey from Q1 2003 to Q4 2018, analyzing data from the Central Bank of Turkey using time series methods. Results revealed a long-term association between agricultural loans and production, with deposit banks, especially Ziraat Bank, having the most substantial impact, followed by development-investment and participation banks. The study found mutual causality between loans and production and called for proactive banking policies to enhance financial inclusion among farmers (Kaya & Kadanali, 2021).

According to Mohsin et al. (2022), expanding the agricultural economy is vital to revitalizing rural communities. Growth in agricultural total factor productivity depends heavily on the availability of agricultural loans. The "Guidance on Financial Services for Rural Revitalization," jointly issued in 2019 by several Chinese institutions, recommended improving internet finance in rural areas. This study integrates Opiela's model with the FinTech Credit (FTC) scale and enterprise risk tolerance, using data from 31 Chinese provinces between 2009 and 2017. Results show that as the FTC scale increases, the share of agricultural loans rises, though at a diminishing rate. These findings have important implications for economic policymakers, particularly in credit management and related financial sectors (Mohsin et al., 2022).

3. METHODOLOGY

The area of study encompassed the vast expanse of Balochistan, and data collection was facilitated through a combination of open-ended and close-ended questionnaires aimed at gauging the benefits of agricultural loans. One hundred eleven farmers from diverse districts were randomly selected for interviews, ensuring a representative sample. During these interviews, participants were presented with a series of questions from the questionnaire

covering various aspects of the advantages of agricultural loans. Subsequently, the gathered data was meticulously tabulated and subjected to rigorous analysis using advanced statistical techniques facilitated by the Statistical Package for Social Sciences (SPSS). The findings were synthesized into a comprehensive final report.

This survey was conducted physically and online, ensuring broader outreach and inclusivity. By employing a dual approach, researchers could engage with a diverse range of farmers, accommodating different preferences and accessibility constraints. Through physical interviews and online questionnaires, the study maximized participation and data collection efficiency, thereby enhancing the robustness and reliability of the research outcomes.

The survey was conducted through a rigorous face-to-face interview, engaging with farmers across various villages to ensure a comprehensive representation of the study population. Researchers meticulously selected participants from diverse geographical locations within the target region by adopting a systematic sampling strategy. Each face-to-face interview session was structured to gather detailed insights into the farmers' perspectives, experiences, and practices regarding the subject matter under investigation. Through personalized interactions, researchers elicited valuable qualitative and quantitative data directly from the participants, fostering an environment conducive to open communication and information exchange. This methodological approach facilitated the collection of rich, contextually relevant data, enabling a deeper understanding of the studied phenomenon. Furthermore, the face-to-face nature of the interviews fostered trust and rapport between the researchers and the farmers, thereby enhancing the validity and reliability of the collected data. By adhering to rigorous scientific protocols and methodologies, the survey ensured robustness and credibility in its findings, ultimately contributing to the advancement of knowledge in the agricultural research field.

The online survey was conducted utilizing Google Forms, a widely recognized and extensively utilized digital platform for data collection in scientific research endeavors. Leveraging the accessibility and convenience offered by online methodologies, participants were provided with a structured questionnaire accessible via the Internet. This facilitated a streamlined process for data collection, allowing respondents to complete the survey at their convenience, irrespective of geographical constraints or time limitations. Using Google Forms ensured standardized data entry procedures and enhanced data integrity through built-in validation mechanisms. Moreover, the digital format of the survey enabled efficient storage and organization of collected data, minimizing the risk of errors associated with manual transcription. By harnessing the capabilities of online platforms like Google Forms, researchers

could optimize the efficiency and effectiveness of the data collection process, ultimately contributing to the rigor and reliability of the scientific inquiry conducted.

4. RESULTS AND DISCUSSIONS

The open-ended and closed-ended questionnaires were conducted among approximately 111 people, both males and females. This survey included the following results.

Table 4.1: Summary of Survey Results (n = 111)

Section	Item / Response	Frequency	Percent
Demographics	Male	95	85.6%
	Female	16	14.4%
Age	18–25	31	27.9%
	26–35	32	28.8%
	36–45	24	21.6%
	46–55	24	21.6%
Occupation Designation	Agricultural entrepreneur	19	17.1%
	Agricultural laborer	28	25.2%
	Especially	4	3.6%
	Farmer	30	27.0%
	Other	30	27.0%
Years in Agriculture	1–5 years	43 + 4	42.3%
	6–10 years	29	26.1%
	Less than 1 year	21	18.9%
	More than 10 years	14	12.6%
Agricultural Loan	No	61	55.0%
	Yes	50	45.0%
Loan Purpose	Expansion of farmland	6	5.4%
	Others	6	5.4%
	Purchase of machinery/equipment	24	21.6%

	Purchase of fertilizers/pesticides	40	36.0%
	Purchase of seeds	34 + 1	31.5%
Reasons for Not Taking Loan	Complex application	21	18.9%
	High interest rates	12	10.8%
	Insufficient collateral	6	5.4%
	Lack of awareness	42	37.8%
	Lack of trust	14	12.6%
	Others	15	13.5%
Financial Institution	Government bank	41	36.9%
	Microfinance institution	9	8.1%
	Not applicable	39	35.1%
	Private bank	22	19.8%
Loan Application Experience	Neutral	15	13.5%
	Not applicable	43	38.7%
	Somewhat easy	27	24.3%
	Very difficult	26	23.4%
Challenges in Loan Access	High interest rates	41	36.9%
	Lack of collateral	14	12.6%
	Lengthy approval	22	19.8%
	Others	34	30.6%

4. CONCLUSION

This thesis proposal unravels the intricate interplay between agricultural loans and rural economies' vitality. It illuminates the crucial role of affordable and timely credit in fueling the agricultural sector's growth and development. While recognizing this potential, the research acknowledges the multifaceted challenges hindering farmers' access to loans, including the lack of collateral, limited financial literacy, and bureaucratic application processes.

This study aims to be a beacon of insight, contributing significantly to the existing

knowledge base by delving deep into these barriers. It will employ a triangulation of research methods, including interviews with farmers, surveys, and case studies of lending institutions and agricultural experts. This comprehensive approach will illuminate the multifaceted nature of the problem from various perspectives.

The anticipated findings hold immense potential to empower policymakers, financial institutions, and other stakeholders with a nuanced understanding of the critical issues in agricultural lending. This newfound knowledge will pave the way for developing targeted interventions designed to improve the availability and accessibility of agricultural loans. Specifically, the identified solutions and recommendations encompass financial literacy programs, loan guarantee schemes, microfinance initiatives, and streamlined application processes.

Beyond enriching the academic discourse on agricultural finance, this research aspires to make a tangible difference in the lives of rural communities. By facilitating greater access to credit for farmers, it envisions boosting agricultural productivity, alleviating poverty, and fostering sustainable economic development. Ultimately, this study aspires to be a bridge, connecting academic knowledge with real-world solutions and contributing to a future where rural economies thrive, empowered by the transformative power of accessible credit.

In summary, this thesis delves into the critical realm of agricultural loans and their profound influence on rural economies. A thorough examination of existing literature underscores the pivotal role that affordable and timely credit plays in fostering the growth and prosperity of the agricultural sector. However, many challenges, such as the absence of collateral, limited financial literacy, and convoluted loan application procedures, impede farmers' ability to secure these essential financial resources. The proposed research seeks to enhance our understanding of this complex issue by scrutinizing the specific barriers farmers face in accessing agricultural loans and proposing potential solutions to surmount these challenges.

This study aims to garner valuable insights from farmers, financial institutions, and agricultural experts using interviews, surveys, and case studies. The comprehensive nature of this approach will contribute to a nuanced understanding of the problem, shedding light on the multifaceted aspects that hinder farmers from accessing the necessary financial support. Anticipated findings from this research can potentially enlighten policymakers, financial institutions, and other stakeholders about the key issues in agricultural lending. Furthermore, the identified solutions and recommendations are poised to guide the development of targeted interventions, aiming to enhance the availability and accessibility of agricultural loans.

This research's overarching goal is to advance the academic discourse on agricultural finance and translate theoretical insights into practical implications for real-world implementation. Enabling greater access to credit for farmers is envisioned to catalyze agricultural productivity, alleviate poverty, and contribute substantively to the overall economic development of rural areas. This study aspires to catalyze positive change, fostering an environment where agricultural loans catalyze sustainable rural development and economic progress.

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