

IMPACT OF MICROFINANCE ON INCOME OF SMALL FARMERS IN DISTRICT DADU, SINDH

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ABSTRACT: *This study was conducted to investigate status of credit borrowed by farmers in Dadu district and impact of microfinance on revenues earned by the farmers of study area. Multistage method was used to select union councils, villages and households. A sample of 60 farmer respondents, including 20 farmers of sugarcane 20 farmers of wheat and 20 farmers of rice were selected randomly. Results highlighted that majority of farmers who borrow credit are of young age. Average age of sample respondents is 31 years. More than fifty percent of sample respondents (58.3 percent) receive agriculture credit from an nongovernmental organization (NGO) Thardeep Microfinance due to lower interest rate and on easy terms and conditions, while Khushali Bank and Microfinance Bank are source of agriculture credit only for 21. 7 and 20 percent sample respondents respectively. More than 84 percent respondents use credit for farming business while only 16. 3 percent farmers use credit for family expenses. Results highlight that per acre average revenue earned by sugarcane growers is higher as compared to rice and wheat growers although they average money borrowed by wheat and rice grower is higher. These results show that among three categories of sample respondents (sugarcane, wheat and rice growers) of study area who borrow money to invest in agriculture business sugarcane growers are getting higher benefit of borrowing money and investment in farming business.*

Keywords: Agriculture credit, farmers, sugarcane, rice, wheat, Sindh, revenues

1.

INTRODUCTION

Microfinance is defined as a financial service that provides microcredit to the extremely poor people for self-employment to generate income which facilitates them and their families [1]. Microfinance program has been dramatically increased in last two decades. Through this program income inequalities and poverty has been reduced and is applied successfully in many countries. Microfinance is the source of socio-economic development of poor and small scale business holders. It morally and ethically motivates a poor to work for self-employment. The loan is given to the poor's for generating project and expansion of business and its term and conditions are flexible and easy to understand. The expansion of loan is quick and fast as well as easy. Microfinance helps an individual to become independent economically and provides additional income generating activities [2]. Microfinance can help poor household to get marginal value comprising durable increases in income and consumption [3, 4]. Literature highlighted that microfinance can be an efficient tool for development of low income and rural societies [5]. Household's assets may increase due microfinance [6, 7, 8, 9, 10]. Microfinance can be utilized to provide productive resources to poor communities for example capital for buying land in order to ensure livelihood security for poor farmers. Participation of women in microfinance programs may develop experience and self-empowerment [11]. Development of microenterprise and microfinance may serve as a device which leads a positive significant social change and being a part to improve political and social status of women [12 Montgomery [13] examined that the amount of loan borrowed impact significantly on educational expenditure per child. Small credits enable poor people to have access to basic necessities

of life such as food, education, clothing and shelter. Micro credits also enhance ability of poor peoples to manage and face shocks during natural calamities such as flood, drought and other natural disasters. Vong [14] and Sulemana and Adjei [15] observed that there is positive relationship between microfinance and agricultural production resulted a significant impact on output ratio. Access to microfinance could view as in growth of the efficiency of farmers and contributing to elevating their livelihoods. It also increases the production through which farmer is able to reinvest its surplus amount to gain maximum profit [16]. At present microfinance is being used in development term. The word microfinance is taken from the Greek language, combination of two words micro means small and finance means credit, it means small credit; the main conception of microfinance is to improve the condition of rural as well as poor people through providing small credits. Microfinance is defined as a financial service providing loans to the poor and needy peoples on the basis of market-driven and commercial approaches [17]. Since last 20 years it is investigated that that there are different stakeholders such as; International organization, donor community, government and so many non- government organizations such as NGOs emerging toward promoting vibrant microfinance sectors. The main concept of microfinance is to empower people by providing loans to work on their own to get rid of poverty despite avoiding dependency. Microfinance institutions were introduced and viewed as alternative source of financial services in rural areas. It is believed that microfinance will enable smallholder farmers to easily access to credit facilities without collateral [18]. Globally in developing countries it is found that about 90 percent people still have lack of access to financial services from an organization or institution also for credit and as well as

saving purpose, usually for rural people because they have lack of resources so this facility may become most important for them. In term microenterprises this is clear that there is need for small capital but still it is very difficult to arrange that small quantity of capital therefore, these lacks of capital delay the development of microenterprise [19]. To set up the strong microfinance facilities in Pakistan, Khushhali bank was initially established in 2000 by Government of Pakistan. In 2001 microfinance institutions Ordinance was licensed under the supervision of the State bank of Pakistan (SBP) to regulate the microfinance. There is about 6 microfinance banks operating since last 6 years including Khushhali Bank Limited, Tameer Microfinance Bank Limited, The First Microfinance Bank limited and Pak-Oman Microfinance Bank Limited are operating at throughout the nation, while at the regional level, Network Microfinance Limited and Rozgar Microfinance Bank limited are functionalizing very well. Along with banks there are numerous organizations including rural support program, non-government organizations, commercial financial institutions and expert microfinance organizations are being the source of microfinance. In 1999 all non-bank microfinance were facilitated by Pakistan Poverty Alleviation Fund (PPAF) [20]. Microfinance network in Pakistan not only provides loan to rural/poor people but also for their prosperity it attempts to access and generate the new visions. Recently State Bank of Pakistan allowed microfinance banks to issue term finance certificates. According to the report World Bank witness that PPAF programs are accomplishing their goals in Pakistan. Day by day there is found an increase in borrowers from 60 thousand to 15 lacs and also 90 lacs people helped under microfinance from 111 districts of Pakistan throughout the country. Microfinance plays a vital role to reduce poverty that cannot be ignored. Microfinance identified as an anti-poverty device despite many difficulties [21]. Due to lack of productive resources farmers always need capital to invest in their farms but the information regarding the impact of microfinance on productivity of farm income is limited. It is very important to identify that whether the amount of loan of microfinance is utilized for enhancing agriculture productivity or not. This study will fill the gap of that information. The main goal of this study is not only to find out the mechanism of microfinance but also to find out that how it helps poor people to improve their living standards.

2. OBJECTIVES

Specific objectives of the study are as under:

1. To explore impact of microfinance on per acre revenue earned by the farmers of study area
2. To investigate the uses of microfinance in study area

3. METHODOLOGY

In this study both primary data was used. Primary data was collected from Dadu district. Multistage sampling method was used to select union councils, villages and households. A sample of 60 farmer respondents including 20 farmers of sugarcane 20 farmers of wheat and 20 farmers of rice were selected randomly. Initially, an informal survey of study

area was carried out in order to pretest the questionnaires to interview 60 respondents. The collected data was tabulated, analyzed and interpreted to meet the objectives of this study. The data was collected through personal or face to face contact to the respondents in study area.

4. RESULTS

This study was conducted to investigate status of credit borrowed by farmers in Dadu district, impact of microfinance on per acre revenue earned by the farmers of study area and the uses of microfinance in study area. Table number 1 shows summary statistics of sample respondents. Results highlighted that average age of sample respondents is 31 years with maximum age 45 and minimum 23. It shows that majority of farmers are young; while average years of education of sample respondents is only 6 years that show that education level of people who depend on microfinance for their farming activities is very low. Average number of family members of respondents household is 15 and average number of earning members is four. Average farm size of sample respondents of study area is 7.4 with average farming experience of 10.3 years.

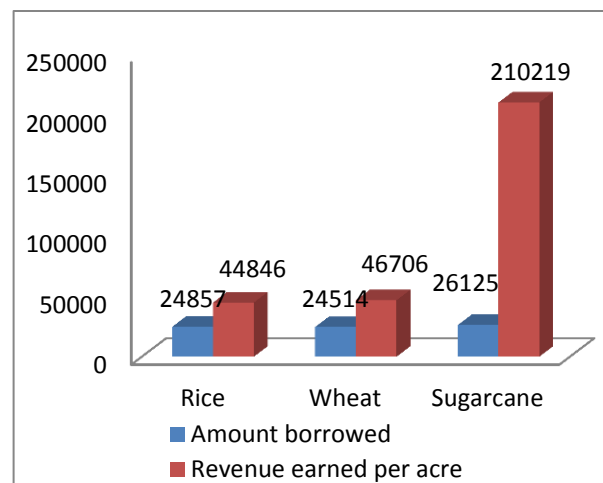


Figure 1.: Average amount borrowed and per percentage revenue earned by the formers of the study area

Table 1: Summary statistics of sample respondents

Variables	Minimum	Maximum	Average
Age (years)	23	45	31.77
Years of education	0	14	6.15
Family size	5	15	9.15
Number of earning members in family	1	4	2
Income per month	400000	10000	23217
Farm size	4	15	7.4
Farming experience	4	22	10.3

(Source of data = survey)

Table 2 shows source of credit and source of income of sample respondents. Data revealed that more than fifty percent of sample respondents (58.3 percent) receive agriculture credit from Thardeep microfinance due to

lower interest rate and on easy terms and conditions, while Khushali Bank and Microfinance Bank are source of agriculture credit only for 21. 7 and 20 percent sample respondents respectively. More than 84 percent respondents use credit for farming business while only16. 3 percent farmers use credit for family expenses.

Table 2: Source of credit and source of income of sample respondents

Sources of credit	No. of respondents	Percentage
Khushali Bank	13	21.7
Thardeep Microfinance	35	58.3
Microfinance Bank	20	20
Use of credit		
Use of credit in agriculture	50	83.3
Use of credit in family expenses	10	16.7

(Source of data = survey)

Survey results show that on average sample respondents borrow Rs. 24983 credit and on average they borrow money for three years, while average maximum number of years for borrowing money is 6 years. Sample respondents utilize Rs. 3700 and Rs. 24383 on average for Family/Education of children and invest in farming business respectively. On average yearly they borrow Rs. 24983 and repay Rs. 31022 (Table 3).

Results highlight that per acre average amount borrowed and revenue earned by sugarcane growers is Rs. 26125 and Rs. 210219 respectively and per acre average amount borrowed and revenue earned by wheat growers is Rs. 24514 and Rs. 46706 respectively. Per acre average amount borrowed and revenue earned by rice growers is Rs. 24857 and Rs. 44846 respectively (Figure 1).

Table 3 Borrowed, utilized and repaid amount of loan by sample respondents in study area

Particulars	Min.	Max.	Avg.
Amount borrowed (in rupees)	10000	40000	24983
Years of borrowing	1	6	3.2
Utilization of loan for Family/Education of children (rupees)	2000	5000	3700
Utilization of loan for Farming/Tillage, Seed, Fertilizer	10000	40000	24383
Amount of repay loan yearly (in rupees)	23200	49700	31022

5. CONCLUSION

This study was conducted to investigate status of credit borrowed by farmers in Dadu district, impact of microfinance on per acre revenue earned by the farmers of study area and the uses of microfinance in study area. Results highlighted that majority of farmers who borrow credit are of young age. Average age of sample respondents is 31 years with maximum age 45 and minimum 23; while average years of education of sample respondents is only 6 years that show that education level of farmers who depend on microfinance for their farming activities is very low but there are encouraging results which highlight that on average sample respondent farmers spend Rs. 3700 loan on education of their children along with the investment in farming business.

Study results also reveal that more than fifty percent of sample respondents (58.3 percent) receive agriculture credit from an nongovernmental organization (NGO) Thardeep Microfinance and due to lower interest rate and on easy terms and conditions, while Khushali Bank and Microfinance Bank are source of agriculture credit only for 21. 7 and 20 percent sample respondents respectively. More than 84 percent respondents use credit for farming business while only 16.3 percent farmers use credit fir family expenses. Results highlight that per acre average amount borrowed and revenue earned by sugarcane growers is Rs. 26125 and Rs. 210219 respectively and per acre average amount borrowed and revenue earned by wheat growers is Rs. 24514 and Rs. 46706 respectively. Per acre average amount borrowed and revenue earned by rice growers is Rs. 24857 and Rs. 44846 respectively. This show that per acre average revenue earned by sugarcane growers is higher as compared to rice and wheat growers although they average money borrowed by wheat and rice grower is higher. These results show that among three categories of sample respondents (sugarcane, wheat and rice growers) of study area who borrow money to invest in agriculture business sugarcane growers are getting higher benefit of borrowing money and investment in farming business

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