

## The Access of Women to Agricultural Credit in Rural Pakistan: Challenges and Prospects

This policy brief has been prepared based on the paper, *“Loans, Wealth Creation and the Socio-Economic Situation of Agricultural Women in Pakistan”*, which is written as a part of ACIAR project DP/2016-028-*Creating Wealth in Smallholders Farms through Efficient Credit Systems in Pakistan*<sup>1</sup>

### Key messages

- Social capital and networking influence the ability of the women to obtain loans and other resources for agricultural development.
- Many women and their families with agricultural activities on smallholdings appear to be trapped into chronic poverty due to financial disadvantages.
- Government or NGOs’ support could provide information related to agricultural techniques that can improve the effectiveness of the loans to improve the livelihood of women and their families.

Credit in developing countries enables the expansion of smallholders’ opportunities to increase their farm productivity and profitability (Duflo, et al., 2006, Fakudze and Machehe, 2015). Despite the increase in sources of formal and informal agricultural financing in recent years, smallholders still have limited access to credit in developing economies. Although the capacity of women to find new business opportunities is well documented (Naudé, 2011), for a variety of reasons it is difficult for women in small-scale

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agriculture to obtain credit or even to ask for it. It is therefore crucial to identify what are the conditions that enable the provision of loans to women in rural farming communities.



### Background

The goal of this study was to obtain insights into demand-side credit issues faced by women involved in small-scale agricultural activities and the implications of credit supply for their ability to engage in entrepreneurial activity and wealth creation. This study was conducted in four villages of the Khairpur District of Sindh Province in Pakistan. District Khairpur is located in upper/northern Sindh on the left bank of the Indus River. The majority of people in the district are directly or indirectly dependent on agriculture for their survival. Focus group interviews with women from four villages Gagri, Faizabad, Abdul Kareen Solangi and Sanwalo Khan Jamali were conducted to investigate barriers to access agricultural credit. To obtain comparative insights, two groups were chosen that had taken loans and two groups that had not. However, only one of the groups, Gagri, had taken a loan for agricultural purposes.

### Is ownership important?

This study clarified two important aspects of the dynamics of small-scale credit in developing countries. First, male ownership of the land does not impact negatively upon the accessibility to women of micro loans. Second, it also became clear that the use of land as collateral for the purpose of securing agricultural loans appears to have been over emphasised in the literature. Lenders were

more likely to consider the ability (and the willingness) of a borrower to repay the loan in full and in a timely fashion, regardless of collateral.

### Social networks and agricultural loans for women

It was found that social community networks influenced the ability of women to obtain loans and other means for agricultural development. When women formed connections with other women who had successfully obtained credit, they were also more likely to be successful with their application. However, it was also observed that poverty reduced the level of the availability of resources (time and money) to engage in social networks. Conversely, as the degree of poverty of these households decline, the chances of social networks being formed for this purpose, rises.

#### Women Constraints to Credit Access

- Absence of profitable opportunities for agricultural investment or knowledge concerning these opportunities
- Low level of social capital and networking among the agricultural women
- Existence of high lending risk given their economic restrictions
- Low level of awareness of possible sources of finance
- Difficulties in servicing debt, especially in the early stages
- Difficulties in establishing creditworthiness
- High rates of interest and service charges

### Dynamics of social capital and networks

This study also tried to understand the dynamics of the creation and development of localised aspects of social capital between the lenders and borrowers. It was shown that the past credit history of the borrowers and trust in their credit worthiness are fundamental for the establishment of women's social network. All members of a social network are expected to co-operate to provide mutual advantages to each other. Perceptions about how much potential members of a social network can be trusted to co-operate with one another

influences whether or not a social network is likely to be established. Once an effective social network is formed, it can be extended or utilized for a widening range of purposes, as evidenced by the Gagri village case. However, a strong case exists for taking into account 'good' governance, as far as economic growth is concerned. This should include (to the extent possible) an allowance for the codification of the law and its enforcement.



### Financial constraints

**Cash flow problems** - One crucial factor that can influence the decision for a lender to provide credit is cash flow constraints. Repayment of the loans is required over a comparatively short period of time. This can create a cash flow problem (in particular, for innovative projects) because it usually takes a while before many investments in agriculture provide an adequate cash flow to service loans. In general, the poorest agriculturalists have little or no capacity to draw on other sources of income or assets to service as debt if the cash flow from a financial agricultural investment is insufficient to cover the instalments agreed to for debt repayment.

**Short-term loans versus long-term loans** - Loans made to women in households with little agricultural land are relatively short term, for example, for periods of 1-2 years. Long-term loans, which might increase agricultural wealth, are rare. This is perhaps due to insufficient collateral of borrowers to cover the bigger long-term loans, should they default.

**Creditworthiness** - The main criterion adopted by lenders for giving loans to the

women who participated in the focus group discussion appears to be their creditworthiness. Timely repayments of previous loans usually establish this. However, it can be difficult for first-time borrowers to obtain a loan. In some cases, this can be overcome by having a surety or sureties. Some group loans contain an element of this type of insurance.

**High cost of borrowing** - Women's reluctance to take loans is also an indicator that higher loan repayments can be a deterrent for the poor women. Given the poor socio-economic conditions in the two villages, women did not seem interested in loans due to high cost of borrowing and their ability to repay. In a third village, there was interest in taking a loan for agriculture if the women could be advised how to increase their returns from agriculture.

### Policy recommendations

Local governments should support and provide information that can help the women smallholders to increase their agricultural returns by:

- Encouraging the formation of social networking among women smallholders to create more opportunities for collective action in obtaining credit
- Raising their awareness of techniques and methods that would increase their agricultural profitability, especially when credit is provided so that improved profitability can service the loan
- Developing partnerships between credit providers and extension services can enable the adoption of better farming techniques as a condition of the loan.

### Further Information

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