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The Role of Informal Agricultural Finance in the Development of Local Farming in Khyber Pakhtunkhwa (Pakistan): A Critical Analysis

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Abstract

This paper scrupulously discusses the informal sources of agricultural finance, and recommends ways how their intended objectives can be achieved judiciously. Seven dimensions of informal finance are identified by the farmers, particularly of those who belong to rural areas, as reasons for their inclination towards utilizing informal agricultural financing i.e., low interest rates, ease of procedure, low transactional cost, flexible repayment periods, and avoidance of securities, collaterals, and documentation. Three other dimensions are reconnoitered by the money lenders, such as, lenders' knowledge of local farming requirements, easy accessibility of agricultural credit for local farmers, and their knowledge about farmer's economic conditions. The article endorses the viability of such sort of financing for the expansion of agriculture, particularly, in rural parts of the Khyber Pakhtunkhwa. The quantitative research technique has been followed for the issue under investigation.

Keywords: Informal Sources, Formal Sources, Agricultural Finance, Financial Institutions, farmers, Agriculture, Rural Areas, Local Farming

1. Introduction:

Despite the significant growth made in agricultural financing, all stake holders including farmers, organizations, and academic institutions have joined hands for the introductions of new dimensions and practices in order to make agriculture more fruitful and in line with the modern needs of society. Researchers are also contributing positively to this important area. The work force catering this sector includes both poor and elite classes; however, the poor class is significantly more in numbers as far as local farming is concerned. Timmer, Falcon and Pearson (1983) explain that, “Farmers are remarkably diverse people, ranging from near-subsistence peasants in India and Guatemala, to corporate businessmen in California and Sao Paulo.” The case of Pakistan varies little where the wide majority of farmers has a low socio-economic status and, therefore, lives below poverty line (Malik & Nazli, 1999). The KPK’s (Khyber Pakhtunkhwa) rural farmers are facing, like other farmers of developing countries, meager economic conditions, and therefore, cannot take the envisioned benefit from their agricultural activities. They are, thus, frequently in need of funding at different phases of the harvesting cycle to accomplish various agricultural requirements. These requirements can be met, indeed, over the convenience of a financing facility through one of two sources i.e. informal sources and formal sources. The informal sources are very traditional in nature and have existed in the province (KPK) since the country’s independence in 1947. These sources are typically provided by relatives, friends, neighbors, local moneylenders, village shopkeepers, traders, and commission agents (Bashir & Azeem, 2008). The formal sources in Pakistan (particularly in KPK), on the other hand, are highly organized and generally provided by conventional banks, or conventional and Islamic financial institutions. These sources also include, in a broad sense, non-governmental organizations (NGOs) and some international bodies.

During the last two and half centuries, many had written about agricultural finance; discussing both formal and informal institutions that could provide financial support and assistance for the expansion of agriculture. These initial works, however, were predominantly related to informal sources of funding, such as, personal loans between family and friends; as these were more prevalent among farmers for several reasons. First, farmers were familiar with these sources being part of their customs. Second, farmers had a favorable predisposition toward these sources as they were more flexible in terms of repayment schedules (Schaefer-Kehnert & Von Pischke, 1986). Third, the majority of these loans were initially advanced on a non-interest basis and, therefore, did not place an added burden on the farmer. Fourth, such loans required very simple procedure for their disbursement. This led to the availability of loans at the time when it was precisely needed by a farmer, predominantly, at the beginning of a season to buy basic agricultural inputs. However, such works, mentioned above, were not comprehensive in many aspects. For instance, most of them were related to some particular aspect of informal agricultural finance rather than its whole structure and mechanism. Similarly, research was largely conducted in the perspective of developed countries’ agriculture and, hence, was not beneficial for agriculture in developing countries. Additionally, such research works were conducted by scholars who were not familiar with actual practices of informal financing and, therefore, relied mostly on theoretical approaches in their scholastic works. Moreover, their works predominantly discussed the negative aspects of informal agricultural finance, and lacked a balanced approach to the practice. The present work strives to avoid these defects and, instead, follow very realistic and balanced approach for the discussion of informal agricultural finance.

The purpose and objective of the present work is to point out that informal financing sources have existed in the Pakistani farming community, particularly in rural KPK, for a long time; to analyze the role of informal financing sources in the development of the agricultural sector (particularly in local farming of KPK); to investigate different dimension of informal agricultural financing from both borrower's and lender's perspective, primarily, in local farming perspective; to point out the merits of informal agricultural financing and recommend suggestions for its further improvement; and to advise formal financial institutions to consider the development their financing mechanism and techniques in a way similar to that of informal financing.

The present work, however, has certain limitations. The work is purely done in the context of rural areas of KPK and, therefore, the farmers' and lenders' responses, portrayed herein, cannot be generalized for informal financing sources; existing in other parts of Pakistan. This feature, though providing general guidelines, may limit the viability of the present work for other researchers, considering work on the same issue. In addition, the role of informal agricultural financing in the development of rural agricultural sector is discussed here more, comparatively, than its role in the development of urban agriculture. There are two reasons for this tendency; firstly, the majority of farmers in Pakistan (nearly 62%) live in rural areas and, most agricultural activities are conducted therein (Farooq, *Pakistan Economic Survey 2009-10).* Secondly, the availability of formal sources of financing in urban areas is abundant thereby; reducing the demand and reliance on informal financing. Farmers' financial needs, therefore, both for crop and non-crop activities in the rural areas, are largely fulfilled by informal sources.

2. Literature Review

There are some distinguished research contributions, provided by experts of the field, on informal sources of agricultural financing. Among these, the work of Luc Tardieu (2005) is very significant because various spectrum (characteristics) of informal financing are thoroughly analyzed; with supporting evidence from actual incidents. Quartey, Udry, Al-hassan, & Seshie (2012) also agree with the same.

According to Lawal and Abdullahi (2011) farmers in rural areas count on mainly on informal sources of financing; as it has a great impact on agriculture production, above all, on local farming. They conducted an empirical study where the primary data was collected through the use of a structured questionnaire that sampled farmers who had secured loans from informal sources. Their analysis of the collected data confirmed that informal resources have a very positive impact on agricultural production. Nevertheless, the results of their work cannot be considered generalizable for making agricultural financial policies in other countries. The rationale is that such research has been conducted on the basis of data that was collected from a particular locality (for example, the area of Kawara State in Nigeria).

A vital input to the literature on agricultural financing, illustrating the standing of informal sources in the enrichment of agricultural production, is provided by two of the most prominent agricultural economists, Owuor & Shem (2012). They verify that securing formal credit is almost impossible, exclusively, for small farmers and, consequently, they rely, mostly, on the least regulated informal sources. Other reports on agricultural financing have the same view (Africa Progress2010). These informal sources provide loans to small farmers; predominantly on group basis. They empirically establish that this type of lending has a noteworthy effect on the rate of production. The data, provided by 401 respondents (180 borrowers and 221 non-borrowers), further reveal that 20% of such loans are used for non-productive activities, which frustrates the intended purpose of these credits.

The informal sources of agricultural finance play an essential role in the development of agriculture activities in the rural areas of a country as compared to its urban areas. Lack of accessibility of rural farmers to formal credit is the most important reason for this situation. Comparatively to this, informal financing is more accessible in nature. However, this is not the sole reason responsible for farmers' tendency towards informal lending. There are many other reasons in the line. The research work of Turvey & Kong (2010) discusses the trust and strength of informal lending in rural areas of China. Their study reveals that two thirds of the farmers, they surveyed, borrow from informal sources (i.e. friends and relatives). Other researchers, on the other hand, established that these loans are very flexible in term of repayment, have a very low interest rate and, therefore, are favored by farmers over more formal sources (Schaefer-Kehnert & Von Pischke, 1986). Turvey & Kong (2010) also ascribe this to the strong community's trust; found in these rural areas. Because of this trust, 97% of the credit is repaid.

Some scholars opine that extending credit through informal sources is less risky and, therefore, the informal lenders do not hesitate to advance such loans to local farmers. The research of Guirkinger (2005) is quite noteworthy when she explains this connection. She claims that in case of default, the lender usually does not resort to the court of law for the recovery of the loan, but instead, solves the issue through private negotiation. Often social forces are used for the same purpose. Due to strong and efficient social connectivity, the borrower is compelled to pay the loan as agreed.

3. Methodology

The present work is based on quantitative research techniques where descriptive methodology has been used in the theoretical part, followed by its testing through quantitative analysis. The portion of the information presented, therefore, has been secured from secondary data; including books, printed and online journals, web resources, and newspapers. However, the online and printed journals are employed more for the collection of relevant information as compared to other secondary sources. The second part, on the other hand, contains responses of both farmers and lenders regarding different dimensions of informal finance. This is intentionally done for the purpose of maintaining reliability of various statistics, figures, data, facts, and records that are used for the derivation of results and conclusions. Descriptive analysis of informal agricultural finance been performed, however, available literature was not enough to gather different dimensions of informal agricultural finance in Pakistan. In order to cope with this issue, quantitative analysis has been carried out to expose its multiple dimensions. Population of research comprised of three districts of Khyber Pakhtunkhwa (K.P.K) province namely; Swat, Deer and Malakand, as most of the farmers in K.P.K province belong to these areas. Questions regarding multiple dimensions of informal finance were interrogated from 245 farmers and 165 lenders- enough to represent overall population.

4. A Realistic Approach to the Merits of Informal Sources of Agricultural Finance (Pakistani Perspective):

As referenced earlier, the majority of farmers in Pakistan employ informal financial sources for the fulfillment of their agriculture requirements. This propensity stems from the following merits of informal sources of agricultural finance.

4.1 Good Knowledge of Local Farming Requirements

In Pakistan, informal credit is typically provided by relatives, friends, money lenders, and tradesmen (Manig, 1996). Other scholars agree that these informal lenders have ample knowledge about basic agricultural requirements of local farming (Bashir & Azeem, 2008). As an outcome of this knowledge, they provide adequate funds to the local farmers for the fulfillment of their requirements. The formal sources, on the other hand, are deficient in this regard. For instance, Zarai Taraqiati Bank Limited (a leading and specialized bank for the development of agriculture and its sub sectors) and other commercial banks provide small loans in agriculture credit. Ahmad Kaleem (2007) has the same view.
The State Bank of Pakistan also recognizes this fact;

> "In Pakistan, agricultural credit market consists of formal and informal providers of credit. Formal lenders are: specialized banks like Zarai Taraqiati Bank Ltd. (ZTBL) and Punjab Provincial Cooperative Bank Ltd. (PPCBL) and…………………" (Handbook on Best Practices in Agri/Rural Finance, 2009).

A comprehensive picture of formal lending, for the years 2007-8 to 2012-13 can be seen from the following table for further elucidation.

Supply of Agriculture Credit by Institutions Rs. In Billion

Year	ZTBL	Commercial Banks	PPCBL	Domestic Private Banks	MFBs	Total	
						Rs. Billion	%Change
2007-08	66.9	94.7	5.9	43.9	0.0	211.6	-
2008-09	75.1	110.7	5.6	41.6	0.0	233.0	10.1
2009-10	79.0	119.6	5.7	43.8	0.0	248.1	6.5
2010-11	65.4	140.3	7.2	50.2	0.0	263.0	6.0
2011-12	66.1	146.3	8.5	60.9	12.1	293.8	11.7
2011-12 P	37.8	107.6	6.0	37.3	8.5	197.4	-
2012-13P	38.0	123.7	5.4	51.0	13.0	231.0	17.0

Source: State Bank of Pakistan
P: Provisional (July -Mar)

Table 1: Supply of agriculture credit by institutions

The Zarai Taraqiati Bank Limited has greatly decreased its share in agriculture lending over the last few years. For example, it has provided Rs. (in Billion) 66.9, 75.1, 79.0 for the fiscal years 2008-09 and 2009-10, respectively. However, in 2010-11 and 2011-12 the total amount for agriculture credit dropped to Rs. (in Billion) 65.4 and 66.1, respectively. This is an alarming situation; where a reduction of its share is not expected from a specialized agricultural financing institution. However, the bank has introduced new schemes, particularly for local farming, that are very beneficial for lower class farmers.

4.2 Easy Accessibility for Local Farmers

Another benefit of informal agricultural finance is easy accessibility. The farmers mostly belong to the same area where the informal sources are available and, therefore, face few barriers. The term “accessible” has two meanings in the present situation. First, it suggests that such informal sources are not far from the residence of local farmers and, therefore, long distance travel is not required. Second, it signifies that the loan can be secured from these sources at any time. Moneylenders, friends, relatives, and commission agents can be contacted even at dusk or dawn. In Pakistan, this accessibility is increasing due to a number of religious reasons. For instance, farmers and moneylenders usually offer prayers five times a day in the mosque where they can easily transact agricultural credit. According to researchers, some of the informal sources are more accessible than others. For instance, friends and relatives are much more accessible sources as compared to money-lenders and commission agents (Jan et all, 2012).

4.3 Knowledge about Farmer’s Economic Conditions

The most important aspect of informal finance is that the credit providers know the economic condition of a farmer, who approaches them for the loan facility. Therefore, they do not face any complication regarding the credit worthiness of a farmer- an essential character in order to reduce the risk of default. As the farmers and informal source providers are, by and large, living in the same locality or, at least, in the same village, the collection of information, regarding farmers’ financial abilities, is not a difficult or time consuming activity.

4.4 Low Transaction Cost

Irfan et all (1999) argue that "the dominance of informal credit has been attributed to various factors; the most important of which is the low transactional cost. (Wahid & Rehman, 2014)." Transactional cost has a direct relationship with the rate of interest, i.e. if the transaction cost is high then the rate of interest goes up and vice versa. Therefore, any cut in transactional cost, consequently, reduces the rate of interest correspondingly. Khandker, Shahidur and Faruqee, (2001) have the same view. These scholars also discuss the reasons behind such small transaction costs. For example, in their view, transactional cost in informal finance is usually free from collaterals, duration, and size of the advanced loan. The low transaction cost of informal credit has also been recognized by the State Bank of Pakistan (Executive Summary, 2011). Manig (1996), while discussing the importance of the informal market for the development of rural areas, has highlighted that the transactional costs, including the lenders' and borrowers' direct transactional costs, are always lower in informal credit than that of formal credit. He adds that transactional cost include the expense of information supply, enquiry, negotiation, agreement, control, risk and insecurity assessment, guarantee, control and enforcement of agreements as well as the regulation of conflicts (Manig (1996). All these expenses, or majority of them, are usually not applicable in informal credit and, therefore, the transaction costs drop. Such a feature is missing in the formal credit system; where too many additional expenses are created for all the previously mentioned services. Nabeel Goheer (1999) highlights the inexpensive nature of informal finance (particularly in rural areas of Pakistan) by admitting the low transactional cost involved.

4.5 Mostly Free of Interest

Informal finance, as already mentioned, is generally provided by moneylenders, commission agents, relatives, friends, and neighbors. The moneylenders and the commission agents charge high interest rates from their customers because they started such a business for the purpose of earning a profit. At times their level of charging high interest rates goes beyond conceivable limits and breaches the confines of exploitation. Kadidia Konare (2001) has the same view. When a loan is taken from other informal sources such as relatives, friends, and neighbors, terms and conditions to repay the loan, become flexible with no interest rates. There are several reasons for this. First, lenders have a close social relationship with the debtors (i.e. blood relations, neighbors, friends) and, hence, do not ask for any interest. Second, they advance the loan on the philosophy of 'reciprocity' where they provide loan facility to others at the time of need- with the understanding that the others will do the same when they are in need. This phenomenon is technically called 'Reciprocity Based Social Relations'. Adnan Qadir (2005) elucidates,

> "Lending and borrowing among relatives, neighbors, friends and other socially close lenders are very common for financing needs, especially for consumption-smoothing purposes. Such transactions have the advantage of being collateral-free and, in most cases, free of interest as well………………."

of the reasons, answering, why traditional financial institutions in Pakistan find it difficult to open branches in rural areas of the country. The State Bank of Pakistan acknowledges the same (Handbook on Best Practices in Agri/Rural Finance, 2009). The literature reveals that zero percent interest rates have become a major problem for financial institutions. Even a well-developed country like China faces similar problems in rural parts of the country. Turvey & Kong, (2010) argue that,

> "…informal borrowing amongst farmers, household friends, and relatives in rural areas is incredibly, strong and culturally directed. … Furthermore, the interest charged amongst friends and relatives is for the vast majority zero percent. This could be problematic. The socially beneficial interest rate that could be charged by MFIs' is where the marginal benefits as a function of household income or wealth equal the marginal costs".

Informal finance, then, is preferred by farmers because it is a less expensive and culturally relevant option as compared to formal financing. This is quite natural since it is not possible for a farmer, who is not in a position to fulfill basic agricultural requirements, to pay high interest rates to a financial institution.

4.6 Easy Procedure

The easy procedure followed in informal finance is another rationale for its success in agriculture financing, particularly in rural parts of the country. The reason is that such financing facility is mostly provided by moneylenders, commission agents, friends, relatives and neighbors who are living in the same locality of the borrowers. Irfan et all (1999) use the term "Geographical Proximity" to describe informal finance. Wahid & Rehman (2014) suggest that the informal system of finance has a very simple and straight forward procedure having the following four steps.

1. Informal request directly from the farmer or through a relative (asking the creditor to provide the required loan).
2. Time framework presented by the creditor for the advancement of the loan (usually consisting of 2 -3 days).
3. Advancement of the loan directly by the creditor or through an agent (normally a farmer from the same locality) to the farmer.
4. Repayment of the advanced loan at a time which is, in most cases, not mutually settled but understood.

These easy and simple terms make informal financing popular among the farming community. Because of the simplicity of this process, the State Bank of Pakistan has advised financial institutions to follow simple procedures when advancing a loan to a farmer. However, this advice is followed neither in letter nor in spirit by conventional banks, and they continue to employ complicated procedures for advancing loans. Some scholars suggest that financial institutions can learn financing techniques from informal sectors. For instance, they could follow simple procedures, reduce many requirements, and open branches that are accessible to towns and villages of farmers. Tatiana Nenova, Cecile ThioroNiang, and Anjum Ahmad suggest that,

> "The formal sector could learn a lot from and partner with informal providers – their services are perceived as being more geographically accessible, less complex, with fewer requirements, and easier to understand" (Nenova,2009) .

There is an obvious need for conventional financial institutions to revise their policies, specifically, related to financing agriculture both in crop and non-crop activities.

4.7 Adjusting to Changing Circumstances:

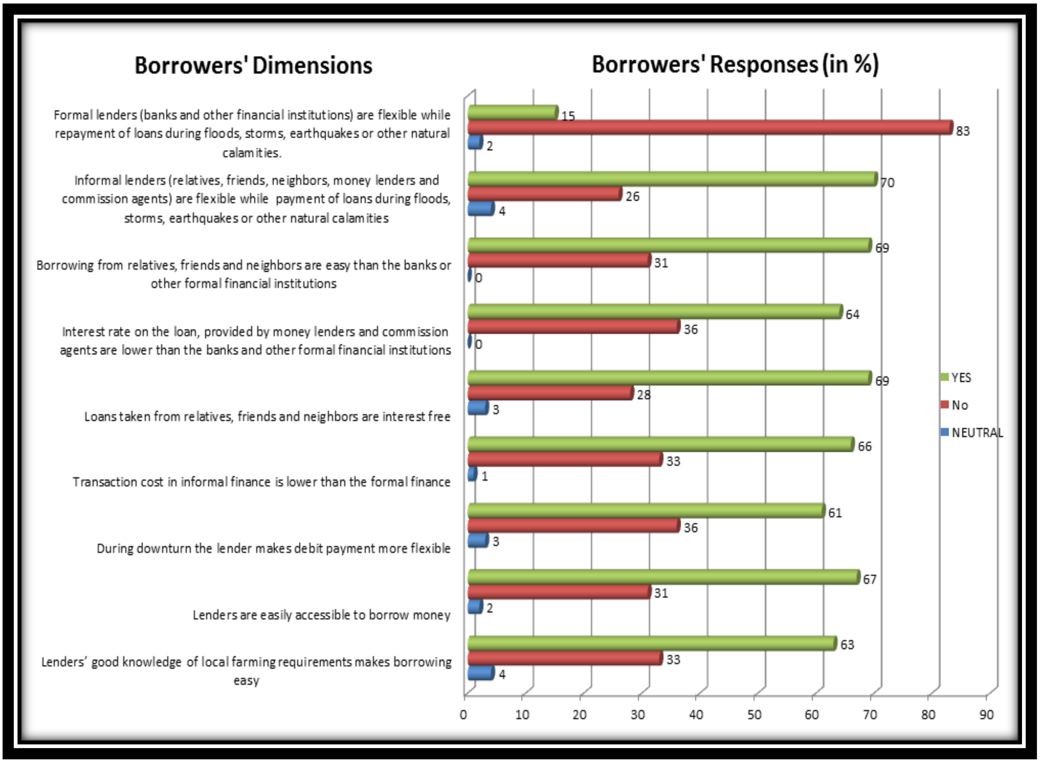
Agricultural financing poses challenges for policy makers of conventional banks and other financial institutions due to the risks that are involved. These risks include droughts, floods, hail storms, earthquakes, mudslides and a multitude of other natural mishaps (Gulaid, 1995). These risks vary with time and region; however, many risks are common in all agriculture sectors of various countries. Before financing agriculture and its subsectors, the decision making authorities of financial institutions question the risks, demands, reliability, feasibility reports etc. from experts. However, the informal finance providers do not require the same inquiries as they are mostly residents of the same area, having knowledge of all natural risks. Therefore, they are flexible as far as loan recovery is concerned at the time of natural disaster and mishaps. In addition, they cannot be cheated by habitual non-payer farmers who declare natural risks as a major cause for default of payments. This distinctive feature of informal finance increases the recovery rate and makes informal agribusiness more viable. Zoetelief (1999), also argues that informal finance is flexible in adapting to changes, is convenient, and has a high recovery loan and client friendly nature. Ashok Gulati and Seema Bathla feel the same way regarding informal financing in India (Galati &Bathla, 2002). Being very flexible, the majority of farmers prefer informal financing over formal financing as they find the previous more suitable for the perilous nature of agriculture. While taking loans from conventional financial institutions, farmers are frequently stressed by the repayment within the time, prescribed in the loan transaction. This immense pressure psychologically disrupts agricultural activities which could lead to, in case of a difficult harvest, a decrease in production rate. The informal finance, on the other hand, is mostly provided by the relatives or neighbors and friends who always stand ready to extend the repayment time at any sign of difficulty. Elheraika (2003) also discusses the same flexible and adjustable feature of informal lending in his work.

5. Findings and Interpretation of Results

5.1 Farmer's Dimension

Farmers from three districts of Khyber Pakhtunkhwa (K.P.K) province namely Swat, Deer and Malakand were approached to understand the contribution of informal finance in agricultural sector of Pakistan. The following results are derived from the collected data.

Fig.1 Farmers' Dimensions



a) Good Knowledge of Local Farming Requirement

According to the farmers, lender's awareness, regarding the local farming requirements, is very productive in nature. A large number of respondents i.e., almost 63%, agreed that lender's awareness assists in borrowing agricultural informal credit, 33% believed that it didn't matter, while 4% remained neutral.

b) Easy accessibility for local farmer

Majority of the respondents i.e. 67% acknowledged that they have easy accessibility to lenders for borrowing money, 31% farmers denied this fact, while 2 % remained neutral on the issue.

c) Knowledge about Farmer's Economic Conditions

Data in fig.1 illustrates that 61% respondents acknowledged the flexibility of informal lenders as compared to banks and other formal financial institution, 36% respondents did not feel that way, while 3% remained neutral to the query. The interviewing made it evident those 36% respondents; who did not agree to the question; did so mostly due to commission agents and money lender's philosophy of profit maximization, though they believed relatives, friends and neighbors to be very accommodating and flexible during down turn and recession.

d) Low Transaction Cost

A large percentage of respondents i.e., nearly 66% favor the notion that informal finance offers low transaction cost as compared to formal finance, 33% feel no difference in transaction cost and 1% remained neutral regarding the issue.

e) Mostly Free of Interest

This dimension is divided into two parts; one part comprises the data of agricultural loan taken from relatives, friends and neighbors while the other contains the data of loan taken form money lenders and commission agents. Sixteen nine (69%) respondents believed that loans taken from relatives, friends and neighbors are interest free, 28% respondents did not agree to this fact, while 3 % remained neutral. While in the latter case, majority of farmers had pointed out that money lenders and commission agents charged exploitative interest rates.

f) Easy procedure

One of the basic reasons behind the prevalence of informal agricultural financing in rural area is its easy borrowing procedure. Borrowers and lenders mostly reside in close proximity. This fact facilitates direct requests and requires short documentation; makings borrowing simple and easy. Data represents that 69% of farmers agreed that informal finance entails easy procedures, while 31% of farmers believed otherwise.

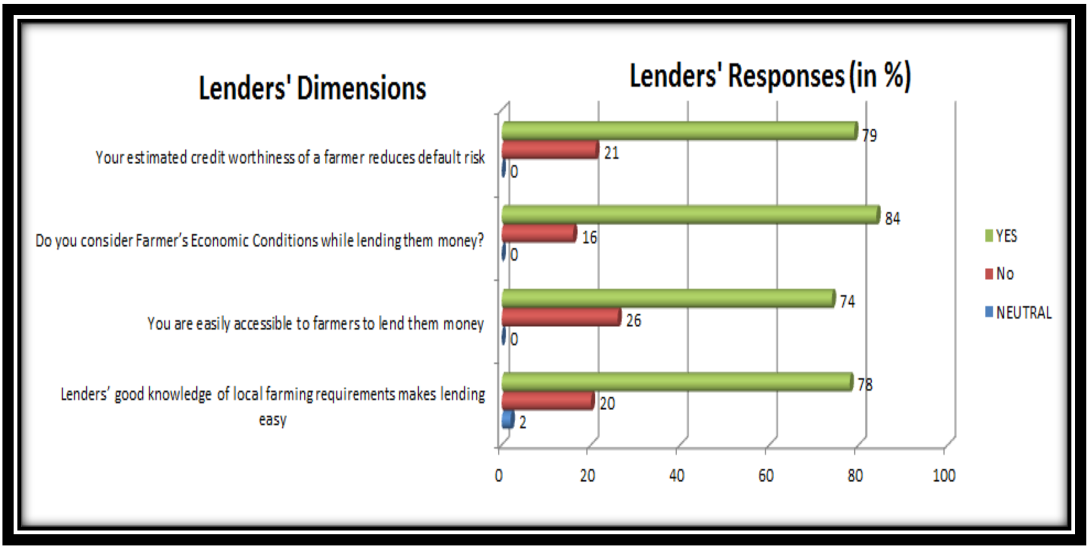
g) Adjusting to changing circumstances

In order to understand the tendency of lenders to make repayment more flexible during natural disaster and misshapen, lenders are divided into two groups; first group comprises informal lenders (i.e. relatives, friends, neighbors, money lenders and commission agents), and the second one contains formal lenders (i.e. banks and other formal financial institutions). A large proportion of respondents, i.e. almost 70% agreed that informal lenders are more flexible during floods, storms and other tragedies, while 26% respondents precluded the same fact. In second dimension, 15% responded that formal lenders are flexible, 83% responded against it while 2 % remained neutral.

5.2 Lender's Dimension

Besides inquiring from farmers, three dimensions were also inquired from lenders to understand their point of view while lending money to farmers.

Fig.2 Lenders' Dimension



a) Good Knowledge of Local Farming Requirement

Informal finance is usually provided by lenders who reside in the same locality as farmers and are mostly aware of the local farming requirements. On the other hand, formal financial institutions generally located faraway from farmers, and therefore, having lack the familiarity with farmer's requirements. When asked, 78% of informal lenders acknowledged that good knowledge of farmers' requirements is indispensable for effective financing, 20% of the lenders believed that understanding of local farming requirements is not much fruitful while making lending decisions, while 2% remained neutral.

b) Easy accessibility for local farmer

Timely and easy accessibility of lenders is another important dimension of informal finance, signals its supremacy over formal finance. Data represented that 74% lenders had the opinion that they were not easily accessible to farmers, while 26% responded on the other way.

b) Knowledge about Farmer's Economic Conditions

Two different questions were asked from informal lenders to understand their awareness about borrower's economic condition, followed by the contribution of such awareness in repayment of debt. First interrogation was regarding lenders' consideration of farmers' economic condition while lending money. Data depicts that lenders are most conscious about borrower's credit worthiness. For instance 84% lenders considered farmers' economic condition more critical in lending while 16% responded in contrast to this. Second inquiry was based upon outcomes of lenders' estimated credit worthiness of borrowers. Results are very encouraging to the effect that 79% of lenders responded that their estimated credit worthiness of farmers reduces default risk while 21% believed that repayment is not dependent upon farmer's credit worthiness at all.

6. Conclusion

The informal sources have existed in rural areas throughout history, having their own merits for the development of agricultural sector, both for crop and non-crop activities. For example, the informal credit providers have sufficient knowledge about basic agriculture requirements of local farming and, therefore, provide adequate funds to the local farmers for the fulfillment of such requirements. Similarly, informal agricultural finance is easily accessible, owing to their proximity, meaning there by that moneylenders, friends, relatives, and commission agents can be contacted any time from dusk to dawn for the provision of a loan. Additionally, credit providers know about the credit worthiness of a farmer who approaches them for the provision of loan facility. The transactional cost in informal finance is normally very low, owing to the fact that such financing is usually free from information supply, enquiry, negotiation, agreement, control, risk and insecurity assessment, guarantee, control and enforcement of agreements as well as the regulation of conflicts. This characteristic keeps the rate of interest to a very low and acceptable level. Being provided mostly by relatives i.e. friends and neighbors; terms and conditions to repay an informal finance loan are mostly flexible and interest free. Being residents of the same locality, the informal financing providers know about the natural mishaps and catastrophes that occur in their vicinity, and as a result, provide relaxation to the farmers in terms of repayment's schedule. In some serious cases, particularly when the agricultural production is fully damaged, the credit is usually waived off. All these characteristics are tested through quantitative techniques where a questionnaire is developed for stake holders, both farmers and lenders. The results confirm, sternly, all those physiognomies that are mentioned in the theoretical structure of the present work. For instance, in case of good knowledge regarding farmers' requirements, almost 63% has approved that lender's awareness assists in borrowing money. The lenders, on the other hand, have established the same view. On similar way, Majority of the respondents i.e. 67% has acknowledged that they have easy accessibility to lenders for borrowing money. Majority of lenders i.e. 74%, on the other hand, have the same judgment. Additionally, 66% farmers favor the notion that informal finance has low transaction cost, followed by the same opinion of lenders. The minimum interest rates (or zero interest rate) in informal finance (particularly provided by friends, relatives and neighbors) is also approved by majority of farmers i.e. 69%. The easy procedure, which is an important feature of informal finance, is confirmed by majority of farmers i.e. 69%. After the assertion of various characteristics of informal financing, at ground level, it is suggested that the government has to take some immediate steps for further development of such source of financing, particularly in rural areas of the country. For instance, the government has to give a legal cover, to informal agricultural financing, from various aspects through proper legislation. In addition, some incentives can be announced, for instance in taxation, primarily to those money lenders and commission agents, who are actively involved in the provision of agricultural credit. An administrative support should be provided to them in case of farmers' intentional default.

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