

ANALYSIS OF AGRICULTURAL CREDIT AND CONSTRAINTS: EXPERIENCE OF PAKISTAN

Dr. Muhammad Aslam Memon

Assistant Professor, Department of Commerce,
Shah Abdul Latif University, Khairpur

Dr. Muhammad Ayoub Shaikh

Professor, Institute of Commerce, University of Sindh, Jamshoro

Abstract

Agricultural growth is primarily function of capital investment because it acts as carrier of improved technology. In Pakistan about 81% growers are below the subsistence holdings. The formal institutions (Public, Private and civil society organizations with the title of NGOs) have extended the credit facilities to the growers from Rs: 14,968 million to Rs.37,668 million during the period 1990/91 to 1999/2000. The procedure of disbursement of credit is so complicated that only small number of small growers gets loan facility from the formal institutions and the majority is neglected. By this way, the formal institutions hardly meet 34% requirements of the growers.

Introduction

Agriculture is the most important sector in the economy of Pakistan. It engages 44.8 percent of the total labor force and contributes 22 percent to GDP of the country. About 66% percent of the total population of the country lives in rural areas (Economic Survey 2005-06).

The development of agriculture, therefore, is essential for the growth of economy of the country. Agriculture in Pakistan has always been a way of life rather than a business and has suffered from stagnation due to low productivity arising from inadequate investment. Low investment is caused by low farm income, which follows in turn from low resource productivity completing the vicious circle somewhere and somehow. The only way to bring about an effective break through from such a state of affairs towards an upward movement is to find ways of increasing capital investment.

Transformation of traditional agriculture into modernized agriculture is crucially dependent on the adoption of new technology, which is embodied in modern inputs. These inputs are

relatively expensive and make the farmer increasingly dependent on the market (Dass Gupta, 1976).

In order to use them it is essential to have command over capital either in the form of personal savings or through borrowings. There is ample evidence in the case of Pakistan that savings in the agricultural sector are low and indeed are very low on small farms (PIDE 1980, Haque, 1979).

The investment capacity of the majority small growers is low due to poverty and hence the increased demand for current expenses and fixed capital requirements has to meet from institutional and non-institutional sources.

Irfan and Nazli (1999) have argued the need to provide large sums of institutional credit to small growers. In the same way Khan (1981) has pointed out that the credit is the bridge leading from subsistence to cash economy and eventually to invisible surplus.

Mukhtiar (1999) has examined that about 81% of the growers own land below the subsistence holdings. Their income is small comparatively family size are generally having no money or resource to meet farm input requirements. So, credit is needed by all the categories of growers in order to increase the productivity. Briefly, the need for agricultural credit is required by the growers as under:

- A. **Purchase of New Inputs:** The growers need finance for the purchase of new inputs such as seeds, fertilizers, pesticides, irrigation water etc. If the seeds of high yielding varieties and other modern inputs are made available to the growers, they can increase productivity not only of land but also of labor.
- B. **Purchase of Implements:** The growers for the purchase of cattle water pumping sets, tractors, threshers etc require credit. The use of appropriate machinery in land will increase production by growing more than one crop on the same piece of land at the same time.
- C. **Better risk management:** Credit enables the growers to better manage the risks of price fluctuations and weather etc. They can borrow money during bad years and pay back the loans during good years of crops:

a) Permanent Improvements in Land

Credit also helps the growers to make permanent improvements in land like sinking of wells, land reclamation, horticulture etc.

b) Better Marketing of Products

Availability of credit enables the grower to face price fluctuation in the market and sell its commodity when the desired prices are obtained

c) To Face Crisis

The credit is required by the growers to face crisis and emergencies. The crisis could be caused by the failure of crop, draught or floods or price fluctuations.

d) Balanced Development.

Agricultural sector generally remains neglected compared to industrial sector in our country. For balanced development, it is essential that credit should be provided at concessional rates to the agricultural sector so that it should also expand and help in the "takeoff" process of the country.

Sources of Agricultural Credit

Credit in the agricultural sector is available from two sources:

(a) Non-institutional sources (b) Institutional Sources.

(a) Non- Institutional Sources

In early years of Pakistan's history the main sources of agricultural credit were identified as relatives and friends, landlords, shopkeepers commission agents, cooperatives and public agencies (Akhtar, 1986).

Until 1947 village money lender was the main source of rural credit (Andrus and Muhammad, 1966). After independence with the migration of non- Muslims from this part of the country, the moneylender class disappeared from the scene and the rural credit was left wide open.

The local village shopkeepers, landlords, commission agents etc filled this vacuum. The informal sources are generally regarded as exploitative and undesirable for many reasons. Firstly the lender is usually indifferent of the use to the borrowed amount as such the system encourages borrowing for unproductive purposes.

However, it would be too simplistic to assume that all loans from non-institutional sources are utilized for consumption purposes.

Donald (1977) reported that 27 percent of informal credit in Pakistan was used for commercial and 73 percent for non-commercial purposes (Donald). Secondly, the rate of interest is very high or pre-conditions are put by the lender to growers that they would sell their output to him at minimum rate. In this way they are always under poor conditions.

According to study conducted by the Board of Economic Inquiry, Punjab in 1949 revealed that 16.1 percent loan facilities were extended by the Cooperatives and the Taccavi and 83.9 percent credit facilities were provided by the informal sources (Board of Economic Inquiry, Punjab 1957).

From the above discussion it is pointed out that meager share of loan was provided by the formal sources and the major share was given by the non formal sources. They extracted monopoly profits from the borrowers. As such need was felt to organize and develop the institutional sources of credit.

1. Institutional Sources of Credit

The major institutional sources of agricultural credit are as under:

(i) Agricultural Development Bank of Pakistan (ADBP)

The ADBP now converted in (ZTBL) is the main credit supplier to the agricultural sector in the country. It was established in 1961 by the merger of Agricultural Development Finance Corporation (ADFC) and the Agricultural Bank of Pakistan (ABP) (Khawaja and Malik, 1992).

The ZTBL provides rural credit to the growers through 51 regional offices 354 branches and 1441 credit mobile officers (MCOs). Each mobile credit (MCOs) in the supervised credit Scheme of the Bank is in charge of 10 to 15 villages. The ZBTL advances loans on the basis of land mortgage or on personal security. AS the operations of ZBTL has reached to 38500 village out of 45000 yet the number of growers availing of loan facilities (particularly the small growers) is small (Nasir and Hyder, 2005).

The ZTBL advances, short medium and long-term loans to the growers. The short term loans are given for financing, the cost

of raising, processing, and marketing of crops and other agro based industries. The medium term loans are provided for the purchase of agricultural implements, leveling of land and setting up of agro-based institutions.

The long-term loans are provided for the purchase of tractors, installing of tube wells, construction of warehouses, etc. Table 1 describes the term-wise position of agricultural credit advanced by the ZTBL and figure I, II, and III analyze the term wise position of loan disbursement among the growers.

Table - 1

Status of term wise credit by ADBP 1990 -91 to 1999-2000
(Rs: in million) (No of cases in 00)

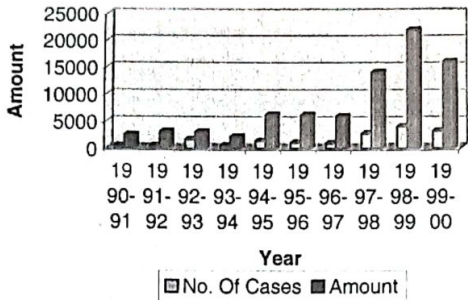
Year	Short-Term			Medium-Term			Long-Term			Total	
	No. of Cases	Amount	%	No. of Cases	Amount	%	No. of Cases	Amount	%	No. of Cases	Amount
1990-91	463	2498.37	30.4	258	1184.90	14.4	211	4535.12	55.2	932	8218.39
1991-92	505	3093.32	44.7	197	853.79	12.3	135	2970.18	42.9	837	6917.29
1992-93	1640	3017.00	35.3	153	747.88	8.8	185	4768.64	55.9	1978	8533.52
1993-94	536	2183.55	24.6	276	1687.66	19.0	255	5003.70	56.4	1067	8877.91
1994-95	1372	6197.52	43.0	270	1509.10	10.5	265	6692.99	46.5	1907	14399.61

1999-00	1998-99	1997-98	1996-97	1995-96
3185	3997	2716	984	1066
15965.99	21903.03	14020.55	5912.67	6122.45
66.1	73.3	63.4	51.2	59.7
210	214	361	190	88
1247.18	1359.05	2281.29	1808.84	522.26
5.2	4.5	10.3	15.6	5.1
267	223	140	122	176
6957.80	6624.45	5826.13	3841.52	3615.79
28.8	22.2	26.3	33.2	35.2
3662	4434	3217	1296	1330
24170.97	29886.53	22127.97	11563.03	10260.50

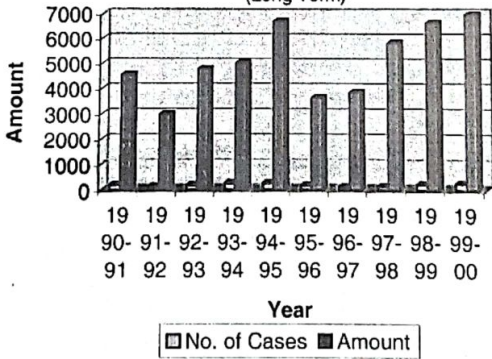
Sources: (i) Government of Pakistan (2003) Agricultural Statistics of Pakistan 2001/2002, Islamabad, p.169.

Table-1 analyses that the ADBP (Zarai Tarkiat Bank) has provided short term, medium term and long-term loan facilities to all the categories of growers. The short-term loans increased from Rs.2498.37 million to Rs.15965.99 million, medium term Rs.1184.90 million to Rs.1247.18 million and long term Rs.8218.39 to Rs.24170.97 million during the period 1990/91 to 1999/ 2000. In agriculture sector 81% small growers are engaged and their size of farm is below of the subsistence holdings. It is revealed from the table I that the loan facility has been increased by the ZTBL to small growers, but majority of them do not get benefit because of lengthy procedure of loan. Therefore, they prefer to get loan facility form the informal institutions. Such types of constraints do not improve their socio-economic condition.

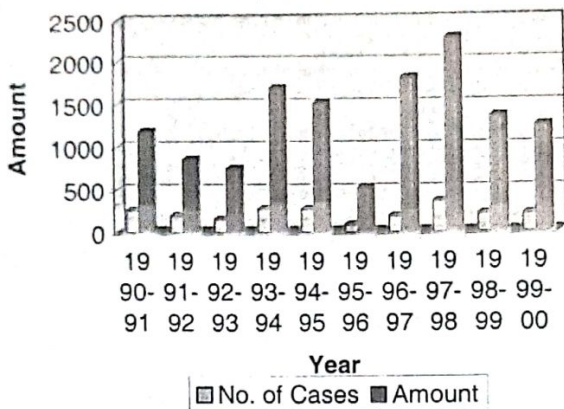
(Figure No.I)
Termwise Position of Agriculture Credit Advance
(Short Term)



(Figure No. II)
Termwise Position of Agriculture Credit Advance
(Long Term)



(Figure No. III)
Termwise Position of Agriculture Credit Advance
(Medium Term)



(ii) Commercial Banking credit.

Commercial banks were inducted into the field of agricultural credit under the Banking Reforms Act of 1972. These banks since then are providing loans to the growers for meeting their short and medium term requirements.

The loans are advanced to the growers against the security of land, crops, and fixed assets and even on personal security (Viqar and Rashid, 1984).

Commercial bank disburses agricultural credit for the purchase of inputs, cattle, tractors, dairy farming and installation of tube wells, etc. Banks provide loans under the Supervised Credit Scheme and outside the supervised Credit Scheme Interest free loans are advanced by the commercial banks. These loans account for nearly 50 percent of total production loans (Nasir and Hyder, 1998). This program was issued by the State Bank of Pakistan for providing short and medium term loan facilities to small growers by the Commercial Banks to meet their requirements. The scheme also envisages speedy disposal of loan applications by banks as well as security requirements for small amounts cases of loans are concerned.

To protect the banks against the risk of losses to which they would be exposed, the scheme also provides for credit guarantee arrangement under which the state bank will reimburse to commercial banks 50 percent of any bona-fide losses which they incur in the loans granted in terms of the schemes. Other measures were taken by the State Bank in order to streamline commercial banks financing of the agriculture sector are described ahead under the role of state bank of Pakistan.

The state bank also fixed mandatory targets for production loans by commercial banks to small growers and development loans to all types of growers. The definition of small growers for this purpose has undergone changes from time to time and as per the latest definition those growers are treated as small growers whose holdings do not exceed subsistence holding as defined for the four provinces by Land Reforms Regulations 1972 (Saeed, 2004).

The mandatory targets are allocated to individual nationalized banks keeping in view their size and resources. This is done to avoid any undue burden on them. It has been seen that the commercial banks have been inducted into agricultural financing in a planned and systematic manner to provide necessary credit facilities to the agro based sector for its sustenance and development.

The State Bank of Pakistan has always been cognizant of the need for continued viability of the banks and in its efforts to compulsorily involve the banks in agricultural financing. Since 1972 till 1999-2000, the commercial banks have provided loan facilities from Rs.85.20 million to Rs.9188.98 million (agriculture Statistics of Pakistan 2002-2003). The Table 2 and Fig: IV and V explain the term wise loans advanced to growers by the commercial banks.

Table - 2

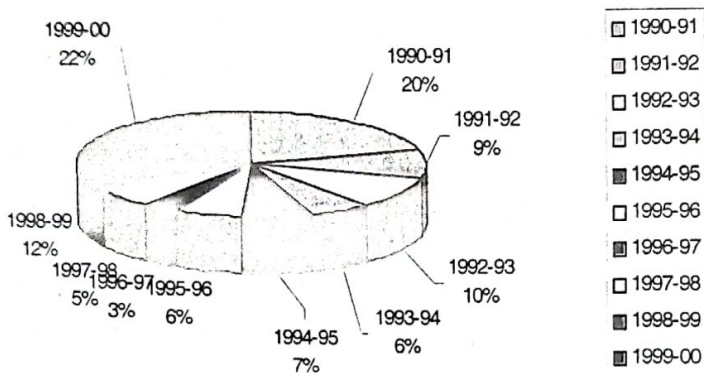
Term-wise Loans Advanced to Growers by Commercial Banks in Pakistan from 1990-91-1999-2000

Year	Short-Term		Long-Term		Total Amount
	Amount	%	Amount	%	
1990-91	3126.89	6.663923	734.90	20.2391	3861.79
1991-92	3242.30	6.909881	313.10	8.622755	3555.40
1992-93	3886.13	8.28199	356.25	9.811104	4242.38
1993-94	3711.00	7.908759	209.80	5.777879	3920.80
1994-95	3772.10	8.038973	237.60	6.54349	2009.70
1995-96	4787.50	10.20296	223.80	6.163439	5011.30
1996-97	3932.20	8.380173	125.30	3.450754	4057.50
1997-98	5456.27	11.62822	195.61	5.387088	5651.88
1998-99	6732.89	14.34891	420.56	11.5822	7153.45
1999-00	8275.38	17.63621	814.17	22.42219	9089.55

Source: Agricultural Statistics of Pakistan, 2001-2002, Islamabad, p.184.

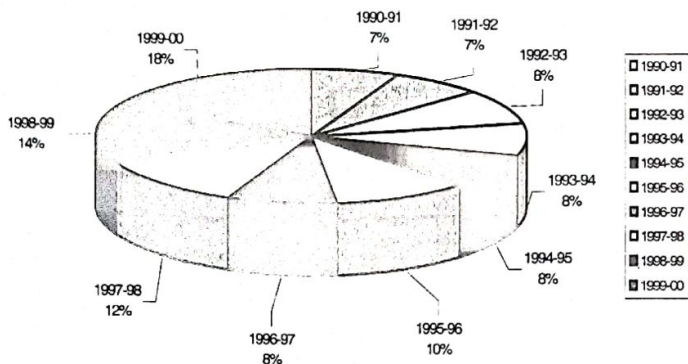
Table 2 indicates that the short-term loans have increased from Rs.3126.89 to Rs.8275.38 million and long term loans Rs.734.90 million to Rs.814.17 million during the period 1990/91 to 1999/2000, in this way the total amount from Rs.3861.79 million to Rs.9089.55 million were extended by the commercial banks.

(Figure No. IV)

Termwise Loans Advanced To Growers (Long Term)**(iii) Cooperatives**

The cooperatives are oldest institutional sources of farm credit in Pakistan. The performance of the cooperatives in the spread and utilization of credit to the small growers is not satisfactory. The loans are mostly utilized by big growers who have got their pocket societies registered with the Cooperative Department. Share of cooperative banks in the supply of total agricultural credit was 10% in the year 2004-05.

(Figure No. V)
Termwise Loans Advanced To Growers (Short Ter



(iv) Taccavi Loans

Taccavi loans are handled by the Provincial Revenue Department. Necessary funds are allocated for different areas each year in the provincial budgets. The Taccavi loans are primarily given to the growers for meeting emergencies such as flood, earthquake, famine, etc.

The growers take these advances in the spirit of gift or relief given in calamity hit areas and is not serious in repaying them. So this source is now occupying insignificant position in the disbursement of overall credit to the growers. Agricultural loans are being made available to the growers at low markup (Nasir and Hyder, 2005).

Progress of Agricultural Credit

Various institutions of agricultural credit are providing loan facilities according to the policies of the government. Table 3 and Figure - IV describes the progress of disbursement of agricultural credit.

Table - 3
Disbursement of Agricultural Credit by Institutions
From 1990-91 to 1999-2000

(Rs: million)

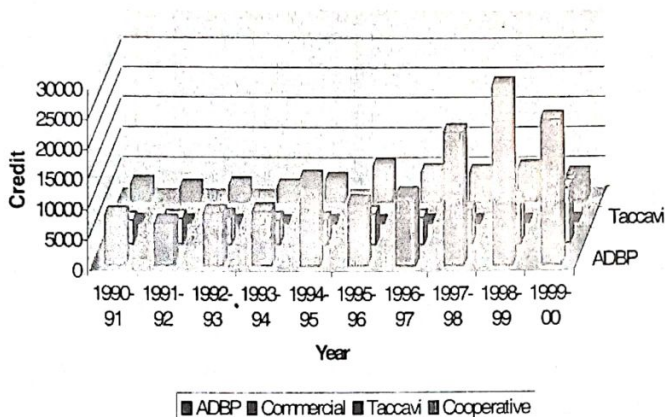
Year	ADBP	Commercial Banks	Taccavi Loans	Cooperatives	Total	% Change
1990-91	8218.40	3861.80	56.30	2831.96	14968.46	+11
1991-92	6917.28	4172.20	56.30	2279.26	14125.04	-06
1992-93	8533.52	4519.08	50.80	2721.81	15825.20	+12
1993-94	8877.90	4052.10	6.74	2432.52	15420.06	-03
1994-95	14399.61	4018.10	7.00	3553.34	21978.05	+43
1995-96	10260.50	5031.80	6.48	5923.16	21221.94	-03
1996-97	11563.03	4410.70	6.30	4919.81	20899.84	-02
1997-98	22127.97	5653.17	6.48	4722.93	32755.01	+56
1998-99	29886.53	7236.00	6.48	5439.97	42568.98	+30
1999-00	24170.97	9188.98	6.26	4301.61	37667.82	-13

Source: Government of Pakistan (2005), Agricultural Statistics of Pakistan 2004-2005, Islamabad, p.153.

It is revealed from the table No.3 that the loan facilities have been extended by the ZTBL from Rs.8218.40 million to Rs.24,170.97 million. The contribution of commercial banks towards agricultural credit has increased from 3861.80 million to Rs.9188.98 million, Taccavi loans decreased from Rs.56.30 million to Rs.6.26 million and cooperative loans rose from Rs.2831.96 million to Rs.4301.61 million to Rs.4301.61 million.

The overall agricultural credit facilities have increased from Rs.14968.46 million to Rs.37,667.62 million during the period 1990/91 to 1999/2000. But the progress of loan facilities could not meet the requirements of the growers in Pakistan and they still rely upon the non-institutional loans.

(Figure No.VI)

Disbursement of Agricultural Credit By Institutions**Analysis of Recovery of Loans**

The recovery of loans is essential. The table 4 and Fig: VII analyzes the recovery of loans. It is pointed out from the table that an average recovery of loans during the period 1990/91 to 1999/2000 stood 70%. The remaining 30 could not be recovered due to damage of crop by natural calamities because agriculture always depends highly on nature.

Table - 4

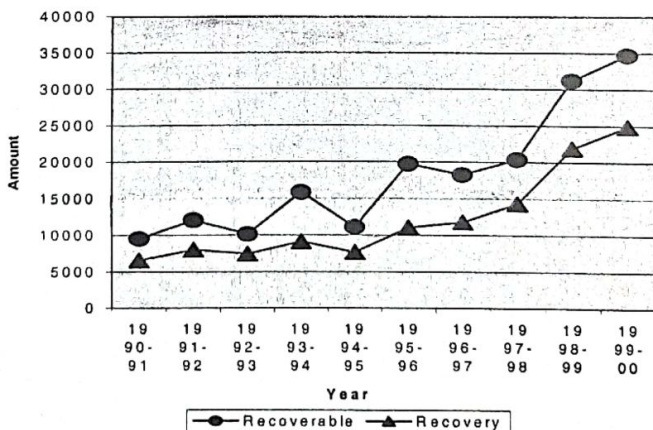
Recovery of Current Dues of Agricultural Loan in Pakistan
From 1990-91 to 1999-2000

(Rupees in Million)

Years	Recoverable	Recovery	Percentage of Recovery
1990-91	9537.066	6594.639	69.15
1991-92	12046.739	8007.985	66.47
1992-93	10159.326	7443.295	73.26
1993-94	15862.001	9106.730	57.41
1994-95	11107.123	7682.862	69.17
1995-96	19713.732	11049.330	56.05
1996-97	18241.346	11802.809	64.70
1997-98	20351.434	14328.898	70.06
1998-99	31193.455	21910.756	70.25
1999-2000	34685.891	24882.717	71.74
Average of Recovery			70.00

Source: Agricultural Credit Indicators 2000, Central Information Department, M.I.S. Division, ADBP, Islamabad, 2000, p.124.

Figure No. VII
Recovery of Current Dues of Agricultural Loan



Source: Agricultural Credit Indicators 2000, Central Information Department, M.I.S. Division, ADBP, Islamabad, 2000, p.124.

Analysis of Requirements and Disbursement of Loans

The formal institutions have continued to increase the quantum of loans for the transformation of rural economy as indicated in the table 5 and Fig: VIII. But such increasing loan facilities could not meet the requirements of the growers during the period 1990-91-1999-2000.

The loan facilities met the requirements of growers about 34% of purchasing input from the market. The remaining amount is arranged by the growers from the non-formal institutions which charge high rate of interest. Such circumstances can not improve the economic conditions of the growers in Pakistan. So they always remain in miserable conditions.

Table – 5

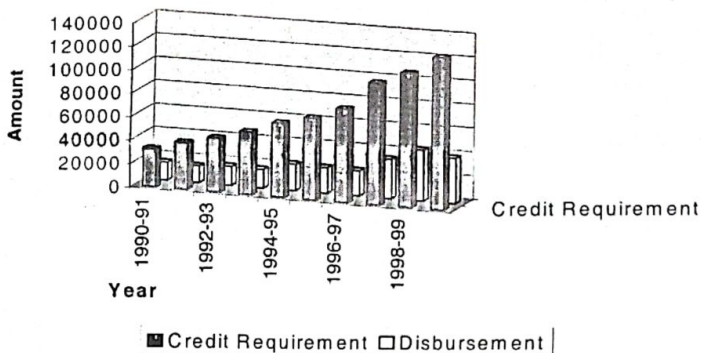
Loan Disbursements by Formal Institutions in Pakistan From 1990-91 to 1999-2000 (As per credit required by the growers)

Year	Credit Requirement (Rs.in million)	Disbursement by Formal Institutions	Percentage 3 as of a
1990-91	31952	14968	47
1991-92	39338	14125	36
1992-93	45636	15825	35
1993-94	52694	15420	29
1994-95	62202	21978	35
1995-96	68569	21222	31
1996-97	78451	20900	27
1997-98	102570	32755	32
1998-99	112827	42569	38
1999-2000	128110	37663	30
Total	609522	237430	340
Average	60925.2	23743	34

Sources: (i) Journal of the Institute of Bankers Pakistan, March 1999, Karachi, 64, Vol.55, No.1.

(ii) Government of Pakistan (2002) Agricultural Statistics of Pakistan, 2001-2002, Islamabad.

Figure No. VIII
Loan Disbursement And Requirements of Growers



Problems of Agricultural Credit

It is pointed out from the Table 5 that the shortage of agricultural credit both in quantitative and qualitative terms continues to be a limiting factor in the modernization and growth of agriculture production. The major problems, which are being met by the growers in the receipts of agricultural credit from formal intuitions, are as under

1. Less Flow of Credit to Small Growers

There are millions of small growers throughout the country. In spite of expansion of institutional rural credit, the gains have reached more to the big landlords wherein the small farmers have remained almost foreign from this facility. It is therefore, an urgent need that the credit should reach the small growers who are the backbone of agricultural sector.

2. Complicated Procedure for Advancing Loans.

At present, the procedure for advancing loans by institutional sources is quite complicated. The loans are advanced to the growers on the basis of passbooks, which contain the details of land owned by the growers. The procedure is quite complicated; therefore they find multiple hindrances in getting credit facility

3. Delay in the Disbursement of Credit

The procedure involved for advancing loans to the growers is cumbersome. Whosoever succeeds in completing the documents is entitled to receive loans. It has been observed that the disbursement of credit is delayed even after it has been approved. It is a serious problem, which the growers are facing these days. One window operation started by ZTBL has solved this problem to some extent.

4. High Markup Rate.

The markup charged by the various institutions on farm credit is high. The low-income growers cannot bear it. As regards the interest-free loans are concerned, they are not reaching the small deserving growers. These loans are being misused on large scale through proxy loaning, family loaning and paper loaning.

5. Amount of Bad Debts is increasing

The loans advanced particularly to the big landlords are not being repaid to the institutions. Since the big landlords have political influence, they therefore, manage to get them written off.

6. Reaching the Small Growers is Expensive

The financial institutions that provide rural credit avoid to advancing loans to the small growers. It is because of the fact that the procedure involved in advancing loans is confused, complicated and expensive.

These problems can be solved by reorganizing the formal institutions. In this way, the growers will get loan facilities on regular basis and their farm productivity will be increased which in return can improve the Socio-economic conditions of the rural people.

Conclusion

Agriculture is the backbone of the Pakistan's economy. It accounts 22% to GDP and engages 44.8% of the total labor force. This sector provides raw material to the industrial sector and also contributes 66% export earnings.

In Pakistan 81% growers are below the subsistence holding. So they can not save from their income. Realizing this problem, the government has setup Agricultural Development Bank

In 1961 and the Commercial Banks are also allowed to provide credit facilities to all the growers of the agricultural sector. These formal credit institutions have extended loan facilities from Rs: 14,968 million to Rs: 37,668 million during the period 1990/91 to 1999/2000. The disbursement amount by the formal institutions meets only 34% requirements of the growers. Therefore, they are still dependent upon the informal insinuations.

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