

## INSTITUTIONAL CREDIT MANAGEMENT IN AGRICULTURE SECTOR: A COMPARATIVE STUDY OF THREE MAJOR INSTITUTIONS

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### ABSTRACT

This paper addresses the main issue of institutional credit management and the contribution of three major institutions viz. Agricultural Development Bank of Pakistan, Cooperatives and Commercial Banks in the major agricultural sector of Pakistan economy. This paper makes use of existing literature on the subject and the secondary data available. The data are analyzed through vertical analysis technique. The results of the present study indicate tremendous fluctuations in the institutional credit in Pakistan and inadequate branch network of the institutions in rural areas which needs urgent attention of the government and the management of the institutions under the present study.

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### INTRODUCTION

Agriculture is the largest sector of the economy of Pakistan. In many ways it sets the trend for its performance. It has contributed 24% of GDP and accommodated 47.54% of employed labour force during the year 1994-95. It is the single largest source of foreign exchange earnings. (Pak.Eco. Survey; 1994-95:9). Agriculture provides livelihood to nearly 72% of the population directly or indirectly. The majority of farmers are living on small farm units and have no additional source of income. The higher birth rate further intensifies the pressure on agriculture and thus reduces the income which is already very meager. The excessive pressure of population on land, the small farm units and no source of additional income, force the agriculturist to look for loans. Sub-Division and fragmentation of holdings, lack of improved methods of cultivation, weather risks like those of droughts, frosts, heavy rains etc. adversely affect the crops, thus farming becomes un-economic and the borrowing inevitable.

Marketing conditions for agricultural products is another problem. Due to disorganized marketing system, lack of appropriate infra-structure and the typical role played by the in-

intermediaries, the farmers can not sell their produce at the right time, at the right place at the right price. As such the money yield of farmers is low. This state of affairs forces them to look for loans/credit in times of financial stringency.

Credit has a wide range of uses in agriculture. It is needed by the farmers for production, marketing and consumption even if no organized effort for the development of agriculture is under way. However, in an economy going through a process of development greater provisions of credit will be needed for the purchase of inputs, livestock and implements. (Viqar and Rashid; 1984: 159). Credit has been defined as the temporary transfer of assets or wealth from a man who has to a man who has not (Galbraith; 1972:195). To give credit is to finance directly the expenditure of others against future repayments. Credit plays a crucial role in financing the present day agriculture. It removes the financial limitations of the farmers in applying the desired level of inputs for optimum production targets. Thus, agricultural credit is transfer of capital for its better use as capital is considered the life-blood of all the economic activities. It may be defined as the existing stock of wealth used for production of goods and services, which includes all of those which if acquired today aid us in producing tomorrow (Blaisdellger; 1972: 407).

The credit requirements of the farming community have been continuously rising as a result of increase in price of agricultural inputs, farm machinery and allied activities related to farming in addition to the factors discussed above. In spite of these facts the agricultural sector has shown remarkable improvement in its growth during the year 1994-95 as compared to the previous year. There have been encouraging increase in the production of Wheat, Soyabean, Basmati Rice and Gram (Pak.Eco.Survey 1994-95:9).

Keeping in view the limited resources of small farmers, institutional credit is provided to them by the government at a concessionary markup rate. Production loans are provided on the basis of actual crop requirements rather than a flat assessment on acre basis. In order to cope with the increasing demand, almost all the credit disbursing agencies have adopted a liberal credit policy.

Institutional credit to the farmers is being provided by three major credit agencies viz. Agricultural Development Bank of Pakistan, Co-operatives and Commercial Banks. Of these the ADBP provides the largest share of credit followed by Commercial Banks and Co-operatives.

A chronic complaint about institutional credit has been its bias towards big farmers. According to a relevant study of the World Bank, "It was common to find out that 70 to 80% of small farmers in developing countries virtually have no access to institutional loans. Likewise, in Pakistan also the credit agencies offer their facilities mostly to those farmers who are development oriented and own 25 acres or more land" (Chanavarkar; 1977: 665-671).

However, a brief history alongwith performance appraisal of those institutions is not out of place to mention here.

#### METHOD OF STUDY

There are various methods of conducting research studies. For example according to Zikmund (1991: 6) research study is the systematic and objective process of gathering, recording and analyzing data for aid in making decisions. Similarly Emory (1994: 17) terms research as an inquiry carried out to provide information for the solution of the problem, while Polansky (1974: 2) refers research as a systematic investigation intended to add available knowledge in a form that is communicable and verifiable.

However, for the present study investigation has been made through existing literature, secondary data and its analysis under vertical technique.

#### MAJOR CREDIT INSTITUTIONS IN PAKISTAN

1. Agricultural Development Bank of Pakistan (ADBP)
2. Commercial Banks.
3. Co-operatives.

*1. Agricultural Development Bank of Pakistan (ADBP)* is the main credit supplier to the agricultural sector in the country. It was established under ordinance No.IV of 1961 on 18th February through the merger of Agricultural Development Finance Corporation (1952) and the Agricultural Bank

of Pakistan (1957). The bank provides credit facilities to the agriculturists for purposes like seeds, fertilizers, pesticides, tractors, implements, tubewells, horticulture, forestry, fishery, animal husbandry, poultry farming, dairy farming, bee-keeping, sericulture, cottage industries and agri-business in rural areas (ADBP, Planning Department; 1986: 1).

The ADBP mostly depends on the State Bank of Pakistan for its borrowing. However, credit from International Financing Agencies like IDA (IBRD) IFAD, Asian Development Bank and specially the World Bank is also obtained in order to increase its funds (Khawaja; 1985: 96-97).

The sole aim of ADBP is to modernize agriculture for which technology for agriculture has been inscribed as motto. For achieving this, four major objectives have been identified (Rana; 1985: 8).

- # Sound Loading only;
- # Substantial Increase in Lending through supervised credit;
- # Emphasis on small farmers; and
- # Broad technology spread.

2. *Commercial Banks* were inducted into the field of agriculture credit under the banking reforms act of 1972. Before 1972, Commercial Banks in Pakistan did not take any interest in agriculture except for the financing of trading in agricultural products. The State Bank of Pakistan introduced an agricultural loans scheme making it mandatory for commercial banks to provide loans to the farmers on the security of land, crops, or other fixed assets including personal surety. Their task was further facilitated by guarantee given by the State Bank of Pakistan covering upto 50% of their bonafide losses in agricultural financing. The entry of commercial banks in this field was accompanied by a number of innovative efforts like supervised credit scheme and mobile banking in rural areas (Viqar and Rashid; 1984: 165).

The Banks since then, are providing loans to the farmers for meeting their short and medium term requirements. The loans are advanced to the farmers against the security of land, crops, fixed assets and even on personal security. Commercial Banks disburse agricultural credit for the purchase of inputs, cattle, tractors, dairy farming, installation of tube-

wells, etc. Banks provide loans under the supervised credit scheme and outside the supervised credit scheme. The State Bank of Pakistan gives guarantee of losses upto 50% of the loans advanced to the farmers. In addition to this, the State Bank of Pakistan gives refinancing facility to the banks for covering larger commitment of funds.

3. *Cooperatives* credit through cooperatives is the oldest system in our country. This was considered the best system as the farmer could avail the credit in his village provided and supervised by his own people. In the early days the requirements of the farmers were limited. No technology was available. Agriculture was not a commercial enterprise. It was just a way of living. The cooperative movement was in fact developed to overcome the problems of poor members of the society to save them from the clutches of the private money lenders and the exorbitant interest rates being charged by the private money lenders. Soon after independence, Cooperative Banks were engaged in commercial business to fill the gap created by the closure of a large number of branches of commercial banks with their Head Office in India. This weakened the services provided by Cooperative Banks to the Cooperative Societies. They could neither provide adequate funds to the cooperatives which were the only local level institutions nor technical know-how which is an important ingredient of an effective credit system.

To streamline and regulate the working of Cooperative Banks and to ensure supply of adequate funds for the development of agriculture, Federal Bank for Cooperatives was established in 1977. One Cooperative Bank was allowed to operate at Provincial level. The Cooperative Societies, affiliated with the Central Cooperative Banks were allowed to become direct members of the Provincial Cooperative Banks. Under this system FBC provides funds to the Provincial Cooperative Banks which on their turn meet the credit needs of the members of affiliated societies (Rana; 1985: 7).

TABLE: 1.1

LOAN ADVANCED BY THREE MAJOR CREDIT INSTITUTIONS IN THE  
AGRICULTURAL SECTOR OF PAKISTAN (1972-73 TO 1993-94)

(Rs. in Millions)

Year	ADBP	Cooperatives	Commercial	TOTAL
1972-73	168.80	42.02	85.70	296.52
1973-74	415.81	144.22	286.40	845.80
1974-75	395.50	81.54	520.90	997.94
1975-76	532.19	91.83	808.10	1432.12
1976-77	638.77	45.74	959.40	1643.91
1977-78	430.53	206.24	1277.50	1914.27
1978-79	416.94	263.71	1381.10	2061.75
1979-80	711.55	601.23	1537.20	2849.98
1980-81	1066.62	1128.25	1816.13	4011.00
1981-82	1557.38	1100.80	2436.10	5094.28
1982-83	2310.43	1414.93	2338.36	6063.72
1983-84	3131.68	1449.89	3770.76	8352.33
1984-85	4167.91	1567.60	4544.42	10279.93
1985-86	5307.86	2048.53	5324.59	12681.03
1986-87	6031.15	2494.75	7313.10	15839.00
1987-88	7716.08	3020.28	5174.52	15910.88
1988-89	8667.52	2730.71	3054.10	14452.33
1989-90	9389.86	815.07	3629.53	13834.46
1990-91	8323.95	3017.45	3517.59	14858.99
1991-92	6996.44	3247.01	4179.56	14423.01
1992-93	7985.25	2928.00	4526.54	15439.79
1993-94	8702.01	2621.49	4063.30	15386.80
<b>Total</b>	<b>85063.59</b>	<b>31061.34</b>	<b>62544.90</b>	<b>178669.83</b>

Source: Economic Survey, Statistical Supplement 1993-94, Government of Pakistan, Finance Division, Economic Advisor's Wing, Islamabad. (Page 78).

TABLE: 1.2

INSTITUTION-WISE VERTICAL ANALYSIS OF LOAN DISBURSEMENT  
IN THE AGRICULTURAL SECTOR OF PAKISTAN (1972-73 TO 1993-94)

Rs. in Millions

Year	ADBP %	Cooperatives	Commercial	% of total lending by all three institutions
1972-73	0.198	0.135	0.137	0.166
1973-74	0.488	0.464	0.458	0.473
1974-75	0.465	0.263	0.833	0.559
1975-76	0.625	0.296	1.292	0.802
1976-77	0.750	0.147	1.534	0.920
1977-78	0.506	0.664	2.042	1.071
1978-79	0.490	0.849	2.208	1.154
1979-80	0.836	1.936	2.458	1.595
1980-81	1.254	3.632	2.904	2.245
1981-82	1.830	3.544	3.895	2.851
1982-83	2.716	4.555	3.739	3.394
1983-84	3.681	4.668	6.029	4.675
1984-85	4.899	5.047	7.266	5.754
1985-86	6.240	6.595	8.513	7.097
1986-87	7.090	8.032	11.693	8.865
1987-88	9.071	9.724	8.273	8.905
1988-89	10.189	8.791	4.883	8.089
1989-90	11.040	2.624	5.803	7.743
1990-91	9.790	9.715	5.624	8.316
1991-92	8.225	10.453	6.682	8.072
1992-93	9.387	9.426	7.237	8.642
1993-94	10.230	8.440	6.497	8.612
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

## ANALYSIS

Table 1.1 and 1.2 indicate that the agricultural credit provided by ADBP from 1972-73 to 1979-80 was not encouraging enough in comparison to Cooperatives and Commercial Banks. The percentage share of ADBP which was 0.198 in 1972 rose only to 0.836 in 1980. Whereas the Cooperatives rose from 0.135 to 1.936 and Commercial Banks from 0.137 to 2.458 during the same period. From early 80's to mid 80's there was an increasing trend of lending among all the three institutions rising their share from 1.254 to 4.899 (ADBP), 3.632 to 5.047 (Cooperatives) and from 2.904 to 7.266 (Commercial banks) respectively. Here again commercial banks have an increasing share towards agriculture credit followed by Cooperatives and ADBP. From mid 80's to 1990 the period shows a remarkable increase in the credit share of ADBP which rose from Cooperatives which reached 9.724 in 1987-88 fall down to only 2.624 in 1989-90. Similarly commercial banks which had an increasing trend right from their induction in agriculture credit from 1972 and rose to the tune of 11.693 in 1986-87 started declining and reached 5.803 in 1989-90.

The early 90's again show some fluctuations in the lending practices of all the three major institutions. The ADBP came down from 11.040 to 8.225 in 1991-92, whereas Cooperative's share jumped up from 2.624 to 10.543 in 1991-92. The Commercial banks share continued decreasing from 11.693 to 6.497 in 1993-94. However, the comparative study of all the three lending institutions reveals that from 1972-73 to 1993-94, ADBP's contribution towards agriculture credit is more followed by commercial banks and cooperatives. The reason may be that the ADBP is the institution which was established only to help out the agriculture community of our country.

## CONCLUSIONS AND RECOMMENDATIONS

On the basis of above study the following conclusions and recommendations are made in the following order:

(i) The present study indicates that the agricultural lending from 1972-73 to 1993-94 has undergone tremendous fluctuations in the institutional credit in Pakistan.

For reducing the fluctuations in agri-credit lending, a consistent policy needs to be formulated by all the three major institutions to avoid the untimely shortages of credit availability to the growers.

(ii) Commercial Banks emerge to be the major source of loaning to the agriculturists alongwith ADBP.

There seems a strong case for commercial banks to expand credit facilities to the agriculture sector to boost up the country's economy.

(iii) Establishment of extensive branch network of commercial banks in rural areas is inevitable for the convenience of small farmers.

There appears a strong need for the establishment of extensive branch network of commercial banks in rural areas to benefit small farmers at their door step.

(iv) There seems general agreement about inadequate branch network of ADBP also in the far-flung areas of the country resulting in inconvenience to the small farmers who can not reach the big cities.

The branch network of ADBP needs to be expanded at Town Committee level across the country and to be made approachable to cater to the credit requirements of small farmers as well on top priority basis as ADBP is the main institution to provide agricultural credit in the country.

(v) Cooperatives are the oldest system of agricultural credit in our country. Their performance has shown some progress after the establishment of the Federal Bank for Cooperatives but no significant contribution in relation to other major agri-credit institutions appears to have been made as investigated during the present study. There appears a strong need for the cooperatives to broaden the base of their network and credit share so as to reach the roots of our agri-community throughout the country.

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