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Types, Sources and Importance of Agricultural Credits in Pakistan

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ABSTRACT

In Pakistan the agricultural sector have been playing a vital role in increasing agricultural productivity and income of the rural households. In this sector, agricultural credit requirements have increased over the time due to several problems including rising prices of main agricultural inputs, shortage of water and poor irrigation systems. The purpose of this study was to review previous studies and examine the types, sources and the importance of agricultural credits in the country. Secondary data have been obtained Economic Survey of Pakistan and Agricultural Statistic of Pakistan**.** The results of this study showed that the institutional credit plays a significant role in the development of the agriculture and ultimately the development of the economy. Results further revealed that there is a positive correlation between credit supply and the augmentation of agriculture produce in the country. Furthermore, the literature exposes that both financial institutions and farmers are facing issues, such as risk of loan recovery, and limited information about the credits, etc. Therefore, the study recommended that the government of Pakistan should establish new Village Township Banks (VTBs) in rural areas which will be a useful financial mechanism to solve the problems of farmers.

KEY WORDS: Institutional sources of credit, Agricultural credit, Agriculture sector, Pakistan

1.INTRODUCTION

Agriculture is backbone of Pakistan's economy, where nearly sixty percent of its population lives in rural areas which are depending on agricultural activities for their livelihood. The total geographical area of Pakistan is 79.61 million hectares, where about 22.08 million hectares are cultivated, while about 23.01 million hectares are uncultivated (GOP, 2015). Agriculture is the major sector of the national economy contributing more than 20 percent to GDP and absorbing 43.5 percent of the labor force. The sector provides raw materials to the agriculture-based domestic industries and it is the main source of export earnings for the country. This sector comprises four subsectors such as livestock, crops, fisheries and forestry. During 2014-15, the overall sector recorded a positive growth of 2.9 percent. In short, a positive growth rate of 1.0 percent of crop production, 4.1 percent for livestock, 3.2 for forestry, and 5.8 percent for fisheries (GOP, 2015; Rehman et al., 2016a). In several aspects, the agricultural sector of Pakistan is facing rarer challenges in terms of credit, such as the shortage of water, increased prices of major agricultural inputs, seeds, fertilizers, pesticides and shortages of electricity (Chandio et al, 2016; Magsi and Atif, 2012). However, due to less availability of agricultural credit facilities, the small scale farmers are facing more difficulties in adopting new technologies to increase their agricultural productivity (Faridi et al 2015; Rehman et al., 2016), even though there is more growth potential in this sector (Mengal et al. 2014; Magsi, 2012). Credit plays an important role in improving agricultural productivity, therefore, timely availability of credit facilities allows farmers to purchase major agricultural inputs and modern agricultural technology for carrying out farm operations (Saboor et al, 2009).Lack of credit and finance is one of the main causes of poor agricultural productivity in our agricultural sector. The problem of increasing agricultural productivity, consequently, largely depends on the availability of credit facilities to the small and marginalized farmers in their respective areas (Arif, 2001). In order to overcome these problems, agricultural credit is provided to small farmers as the extreme growth and economic development efforts are intensified. Based on the above background present situation, the main purpose of this study is to evaluate the agricultural credit types, sources and its importance in the country.

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2. METHODOLOGICAL CONSIDERATION

To evaluate the types, sources and the importance of agricultural credits in Pakistan, In order to investigate the agricultural credit types, sources and its importance in Pakistan, secondary data was used in this study. The data was obtained from the Economic Survey of Pakistan, Agricultural Statistic of Pakistan, books, previous publications and internet sources. It was very difficult to collect the data from the field survey due to limited of time and financial constraints; therefore, we have obtained the data from the different internet sources. Nonetheless, this study will be useful for policy makers, researchers and students.

3. RESULTS AND DISCUSSION

3.1. Agricultural Credit Types and Sources of Credits

In this subsection we have provided following agricultural credit types being credited in Pakistan, non institutional and institution sources of credits to the agriculturists.

3.1.1 Agricultural credit types

There are three agricultural credits types are provided by all institutional sources of credit in Pakistan (Fayas et al, 2006; Rehman et al., 2015)such as (1) short term credit scheme is being provided for the purchase of farm inputs like improved seed varieties, fertilizers, pesticides, etc. Where the duration of this credit scheme is 18 months maximum. Furthermore, (2) medium-term credit scheme provides for the purchase of cattle, modern implements and improvements in water courses, etc. The period of this medium-term loan scheme is 1 to 5 years. Whereas, (3) long-term credit scheme is provided for the purchase of tube wells, reclamation of land, building, purchase of machinery, farm implements and the period of this scheme is period 5 – 7 years(Iqbal et al, 2003, Kabir et al, 2006).

3.1.2Non Institutional sources of credit

Non institutional credit market has playing an important role in rural areas of Pakistan since ancient times (Shehla et al, 2007).Non institutional credit sources have numerous advantages in providing better services at inferior cost than institutional sources of credit. In rural areas of Pakistan landlord farmers have better access to institutional source of credit as compared to small farmers and the majority of small farmers depend on non institutional sources of credit (Chandio et al, 2016). Similarly, the non institutional sources of credit contain money lender, shopkeeper, landlord, aria, input supplier and commission agents(Jan et al, 2012). The input supplier, commission agent and aria deliver lending for consumption as well as for production purposes and in return gets repaid majority of benevolent in terms of input. Whereas, landlords and commission agents force the small farmers to sell the produce to them, which generally is purchased at low rates as compare to market price (Chandio et al, 2016).The non institutional lenders including (friends, relatives, etc) have numerous benefits over the institutional sources of credit. The non institutional sources of credit lenders individually know the borrowers very well. Security has required for proceeding the loans (Nouman et al, 2013).

3.1.3 Institutional sources of credit

In Pakistan, for the agricultural sector development and growth about 3,900 designated agricultural sector branches are providing financial support to improve agricultural productivity and farmer income and offer agricultural credit (Khandker and Faruqee, 2003). The main sources of agricultural credit are 26 banks, with five commercial banks including Allied Bank Limited (ABL), Habib Bank Limited (HBL), Muslim Commercial Bank (MCB), National Bank of Pakistan (NBP) and Union Bank Limited (UBL), two specialized banks, ZTBL and Corporative Bank Limited. On the other hand, fourteen domestic private banks, five microcredit banks, also provide farmers with agricultural activities of several types of agricultural credit like crop cultivation, livestock, poultry farming and fish farming (Jan et al., 2012). These institutional sources of agricultural credit have been playing a key role in providing financial support to the agriculture sector and rural households in Pakistan. Working under the State Bank of Pakistan, ZTBL Bank offers a number of special loan programs, including production loans, development loans, agricultural loans, off-farm Income generating loans and cottage industry loans. In order to enable farmers to buy modern inputs and technologies to improve agricultural productivity and improve their living standards. According to Khandker and Faruqee (2003), these loans scheme are not cost effective due to enclosed risk.

3. 2. Agricultural credit demand in Pakistan

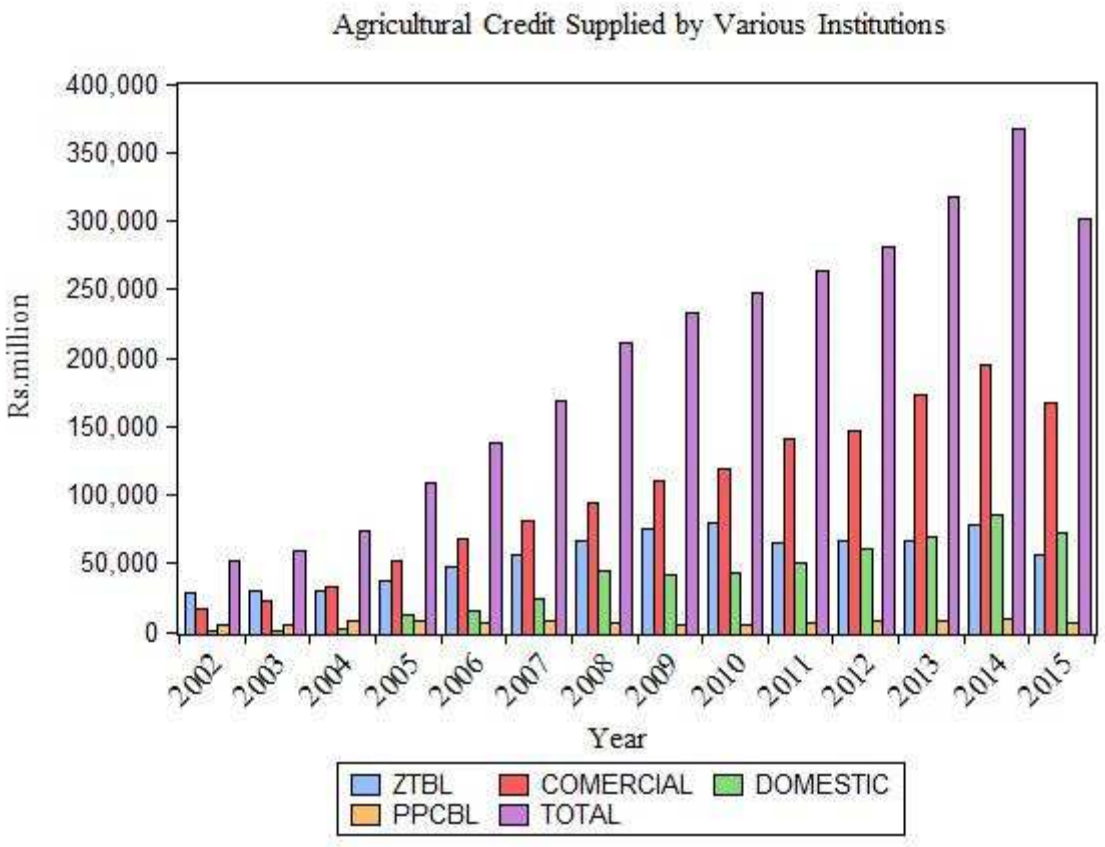
The results of this section provide a review of the performance of the agricultural sector, essence and agricultural lending and their impact in the country.

3.2.1 Performance of agricultural sector

The agricultural sector of Pakistan grew at the rate of 2.7 percent in 2013-14, slightly up to 2.9 percent due to the positive growth of its sub-sector in 2014-15(GOP, 2015). During, 2014-15, the contribution of crops was about 25.6 percent in the overall agriculture, where livestock, fisheries sub-sector has contributed about 56.3 percent and 2.1 percent respectively (GOP, 2015; Rehman et al., 2016b). The agricultural productivity has been increased since a decade due to various types of financial institutions of agricultural credit flows. These financial institutions like ZTBL, Cooperative Banks, Commercial Banks and NOGs playing a key role in raising agricultural productivity and also raising the living standard of farmers in Pakistan.

3.2.2 Credit disbursement in the country

Like other business activities, agribusinesses also need capital for their business. Timely provision of agricultural credit leads to the introduction of modern technology, make full use of the main inputs to improve agricultural productivity (Chandio, et al. 2016; Magsi, 2012). Consequently, credit is an important component for modernization in agriculture (Mengal et al. 2014; Iqbal et al, 2003). The rapid increase in the demand for agricultural credit over the past few decades has been increased due to higher agricultural input prices (Ahmed and Gill, 2007).Institutional and non institutional financial credit markets in rural areas are playing an important role in developing countries such as Pakistan. The non institutional financial credit market consisting relatives, friends, private debt, input suppliers and shopkeepers. In addition, the institutional financial credit markets include professional banks like the ZTBL previously known as Agricultural Development Bank of Pakistan (ADBP), commercial banks and cooperatives (Jan et al., 2012). These institutional financial sources deliver credit for the growth and development of agriculture sector. The contribution of these institutional financial associations are increasing day-by-day as given in figure 1.



Agricultural credit having more value when it moves from traditional agriculture to modern agriculture (Abdullah et al. 2009).However, small farmers have quiet small land holdings, low income and small savings. In Pakistan, agricultural productivity is low due to the existence of certain problems, such as credit, less timely availability of

less used inputs, and lake of extension services (Sheikh et al, 2016). Therefore, small farmers need credit to raise agricultural productivity and income (Chandio et al, 2015).

3.2.3 Current Situation of Agricultural credit in Pakistan

The agricultural sector is the backbone of Pakistan's economy. With the passage of time the need of agricultural credit has been increased due to rising prices of primary inputs like fertilizers, hybrid seeds and biochemical (Chandio et al, 2016). In 2014-15, the state Bank of Pakistan allocated indicative agricultural credit to Rs 500 billion rupees to 20 commercial banks, two professional banks, four Islamic banks and seven microcredit banks to provide financial support for the growth and development of agriculture sector. The target of agricultural credit disbursement by 2015 was 31.5 percent higher as compare to last year. The total target 500 billion rupees of agricultural credit disbursement have distributed to several banks, 252.5 million rupees to five commercial banks, 90.0 billion rupees to Zarai Taraqiati Bank Limited (ZTBL),115.6 billion rupees to fifteen domestic private banks,11.5 billion rupees to Punjab Provincial cooperative Bank, 28.2 billion rupees to seven micro-finance banks and 2.3 billion rupees to four Islamic banks for this year. Furthermore, the agricultural loans disbarment of five commercial banks Rs, 167.4 billion, which is higher as compare to last year's loan disbursement in the agriculture sector. The contribution of five major commercial banks, UBL 76.7 percent, NBP 55.3 percent, HBL 75.3 percent, and MCB 80.5 percent have achieved its annual target, whereas, the 45.2 percent annual target achieved by ABL(GOP, 2015).

In addition, under the two specialized banks ZTBL was disbursed 56.2 billion rupees against its annual target of 90.0 billion rupees. The ZTBL 62.4 percent has achieved its annual targets of agricultural loan disbursement. Whereas PPCBL was disbursed 5.9 billion rupees against its target of 11.5 billion rupees and 50.9 percent had achieved its annual target of loan disbursement in July-March 2014-15(State Bank of Pakistan, 2015).

Furthermore, under the fifteen Domestic Private Banks, Faysal Bank have achieved its annual target of loans disbursement 81.1 percent, JS Bank 64.8 percent, Silk Bank 48.8 percent, Soneri Bank 50.6 percent, Bank of Khyber 90.4 percent, Sindh Bank have achieved its annual loan disbursement 56.3 percent, Bank Al Habib and Bank Alfalah 54.9 percent, Silk Bank 48.8 percent , Summit Bank 46.8 percent, Askari Bank and Bank of Punjab 40.9 percent have achieved each of their annual targets of agricultural credits disbursement respectively in July-March 2014-15. However Standard Chartered Bank has already surpassed its annual target of 2.5 billion rupees by disbursing 3.8 billion rupees during July-March 2014-15.Whereas, under the seven micro-finance banks, category, seven micro-finance banks as a group has agricultural loan disbursed 20.7 billion rupees against their annual target of 28.2 billion rupees ,while under Islamic Mode of Financing, four Islamic banks jointly have agricultural credit disbursed 3.7 billion rupees against their targets of 2.3 billion rupees. The government of Pakistan has made different credit schemes aimed at increasing agricultural productivity and increasing income in rural households. However, most programs did not succeed for several reasons, including the major agricultural inputs and high interest rates and other price increases etc.(Iqbal et al, 2003).

3.2.4 Impact of Agricultural credit on Agricultural Productivity

Modern agriculture is an important for the growth and economic development of the country. The use of advanced technology is possible when growers are providing financial facilities to purchase agricultural inputs (Sjah et al., 2003). According to Ahmad and Gill (2007) provide a evidence that institutional credit distribution by commercial banks had a significant impact on the economy of Pakistan. On the other hand, Obilor (2013)found that institutional credit of commercial banks has positive impacts on agricultural development. In Pakistan, some researchers have found a positive and significant impact on the supply of institutional credit, seeds, inorganic fertilizers and water, on agricultural output (Zuberi, 1990, Sohail et al, 1991, Iqbal et al, 2001, Waqar et al, 2008, Ahmed, et al, 2015, Chandio, et al, 2016).Similarly, Jan and Manig (2008) found that credit disputation by ZTBL has a significant and positive impact on field crops production and farmers income. Similarly, Abedullah (2009)stated that flexible and easy access of agricultural credit is the finest way of raising farm productivity. Meanwhile, Bashir et al. (2010)explored the impact of institutional credit on wheat productivity in the Lahore region was investigated using the Cobb-Douglas production function (CDF) and found that credit had a positive effect on wheat productivity. The results show that credit improves the socioeconomic conditions of rural households. Study further reveals that the productivity of wheat can be increased as if fully invested as seeds, land preparation, modern technology and usage of fertilizer when wheat is cultivated and farmers have access to credit.

Bashir et al. (2007) attempted to explore the impact of formal credit on the output of the Faisalabad area for sugarcane crop using measured data from 114 loanee and non-loanee farmers. The results of the study show that institutional credit has a positive effect on the yield of sugarcane. Ahmed et al. (2015)have analyzed the impact of agricultural credit on wheat productivity in district Jhang, Pakistan by using field survey of 160 beneficiaries and non-beneficiaries farmers. The Cobb-Douglas production function was used to analyze the data. The results show

that agricultural credit has a positive and important effect on wheat productivity. Chandio et al. (2016)have explored that impact of institutional credit on agricultural output in Pakistan by using secondary data from the period of 1996-2105.An econometric, Ordinary Least Square (OLS) method was applied to analyze the data. The results show that institutional credit has a positive and significant impact on agricultural output.

4. CONCLUSION AND RECOMMENDATIONS

To evaluate the types, sources and the importance of agricultural credits in Pakistan, this study was based on secondary data which obtained from Economic Survey of Pakistan and other different sources. From the results of this study, credit is considered to play an important role in agricultural development. In Pakistan, agricultural credit in rural areas includes both institutional and non institutional sources of finance, but the growth of these sources has been limited by a number of factors, including high risk of default, inflexibility in schedule of loan repayment, limited information about credit, inadequate guaranteeing system. Based on the results of the study, the following recommendations were made;

(1) The procedure for getting credit should be made simple and flexible so that small farmers may benefit it.
(2) Electronic and print media should be used for farmers to awareness the importance of agricultural credit.
(3) The government of Pakistan should set up new Village Township Banks (VTBs) in rural areas, which will be a useful financial mechanism to solve the problem of small farmers.
(4) The government of Pakistan should introduce new types of credit schemes such as in kind through Khushhali Bank Limited on low interest rates as it will be easy to access small farmers to increase agricultural productivity.

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