Agricultural Credit in Sindh: Issues and Recommendations

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Abstract: The importance of agriculture to the economy is seen in three ways: first, it provides food to consumers and fibers for domestic industry; second, it is a source of scarce foreign exchange earnings; and third, it provides a market for industrial goods. The Sindh province of Pakistan ranks second in agricultural production of the country. The crises in this key sector of the economy are on the rise since 1990’s. Presently, the province is facing serious crises such as: speedy land degradation, declining water resources, inadequate supply of seed, fertilizers, pesticides, slow process of mechanization, poor infrastructure, ill-conceived agriculture marketing, taxation policies, environmental, cultural hurdles and constraints in institutional credit system. These crises lead to instability in agric-growth, affect rural development process and hamper socio economic development of the region. The main goal of this paper is to evaluate institutional credit system in Sindh, sort out major obstacles through an over view and to provide policy recommendations for improvement in service delivery of these credit institutions in the best interest of growers. The improvement in service delivery will impact positively on agric / rural development in particular and socio economic development in general. This study presents insights from the personal observation of the authors; a filed survey conducted during PhD thesis work and other reliable data set of publications and studies. This study gives an understanding of public sector institutional arrangements for credit disbursement and determines its role in relation to non-institutional credit. The study explores the ideas that public sector credit institutions are mostly mismanaged and have lowest capacity to deliver according to the need of growers / rural households. Therefore, farmers rely more on non-institutional credit system than institutional credit system. But the high markup rate and other harsh terms and conditions of non-institutional sources strengthen vicious circle of poverty; creates problem of bonded labour, weakens growers’ socio economic freedoms reduce investment powers and force their generations to be born in debt, live in debt and die in debt.

Key words: Agricultural credit, Institutional credit, Non-Institutional credit, Micro credit

INTRODUCTION

1. Background:

The developed agriculture requires newly developed high yield varieties of quality seed, proper and timely use of chemical fertilizer & pesticides and mechanized farming. The adoption of alternative pest management strategies as followed by developed nations to produce environmental safe production for their growing demand in the world markets is also a pre-requisite for environmental betterment and sustainable development. The infrastructure development and improvement in marketing chains are interlinked with each other and work as part and parcel for agricultural and rural development process and also reduce the time barred cultural methods of cultivation. The poor infrastructure and marketing facilities reduce the grower’s performance,
keeping them out of market and reducing the opportunities of agricultural capital gains. The time barred collection system and incident of tax on small growers are giving rise to poverty in rural areas, inflicting heavy loss on the government and affecting reinvestment process for further development. These input/output issues i.e. improved seed, chemical fertilizer, pesticides, mechanization of farms, infrastructure development and marketing elements are interconnected with each other and their main objective is only to increase production or per acre yield which is about 6 times less in Sindh than developed farming of the world. On the other hand, better marketing facilities are required to sell their product to earn right price for maximum return and both increase in per acre yield and efficient markets access bring greater changes in growers’ capital gains, steady growth in the sector that accelerates development process. Such a poor access to these modern inputs is mostly due to low availability and utility of credit due to weak rural financial markets, dependence on non institutional credit sources and mismanagement in intuitional credit system. The public sector investment in rural areas through development programs, private investment in rural financial markets and improvements in institutional credit system is essential for agriculture and rural development of the region.

2. Methodology & Data:
The descriptive analysis method has been used in the study including findings of specific group study of the growers conducted in district Nausharo Feroze and Nawabshah is also used to strengthen the hypothesis and personal observations of the author due to practical association of the author with farming at district Naushahro Feroze, a central cropping zone of Sindh. The paper is based on my Ph.D thesis “Major Obstacles in Agriculture Development of Sindh and their Remedies”. The data of the State Bank of Pakistan, “Rural Credit Study” 2002, conducted by AERC and agriculture statistics of Pakistan 2006-7, ministry of food, agriculture, fisheries and livestock (MINFAL) government of Pakistan is used in the study.

3. Agricultural Credit:

The word credit means "A financial facility which enables a person or business to borrow money to purchase" (1). In agriculture sector, farmers need cash or financial assistance to cultivate their lands in better way. Increasing cost of living and agricultural inputs reduce their purchasing power. Hence, they need financial support by different means.

It is a general perception that Sindh tenants are born in debt, live in debt and die in debt. The above observation points to the gravity of problems towards the financial position of small tenants. “The availability of credit is a key prerequisite for the farmers, for their production as well as their post harvesting requirements. The farming community of the region is provided credit through the following two ways; (I) Institutional Credit (II) Non- Institutional Credit” (2).

**I. Institutional Credit:**

Main sources of institutional credit in Sindh are as follows.

A. Zarai Tarquatee Bank Ltd. (ZTBL) (formerly ADBP).
B. Commercial Banks.
C. Sindh Provincial Cooperative Bank.
D. Taccavi loans by Sindh Revenue Department.
E. Micro Finance

**A. Zarai Tarquatee Bank Ltd:**

Agriculture Development Corporation was established in 1961, renamed in Late Bhutto’s period as Agriculture Development Bank of Pakistan (ADBP), presently, called (ZTBL). The aims and objectives of the bank ever since its establishment entail granting loans to any person or organization who is interested in agricultural development or marketing agricultural goods, purchase of tractor, implements, seeds, fertilizer, tube wells and other agricultural related machinery. It provides loans on the basis of ‘Pass Book’. The process of obtaining Pass Book is very tedious, it takes three to four months and one has to pay huge amount in bribe to the Tapedar, concerned Mukhtiarkar & other officials of Sindh Revenue Department. Secondly, for the field work at farms level, bank mobile credit officers come into contact with the farmers to scrutinize their required documents and ensure physical verification of the land. Interestingly, the farmers narrate pathetic tales that they are compelled to pay 10% to 20% of their credit amount in bribe to the concerned bank officials for a favorable note for credit sanction.
B. Commercial Banks:
The Commercial Banks rank second largest source of institutional credit. These banks provide short term, seasonal and development loans to the growers. The above loans are provided to small farmers having eight acres of land or so.

The loans are utilized for irrigation / cultivation purposes and for the purchase of seed, fertilizer, pesticides and other agricultural tools to enhance production. Of late, the commercial banks seem to have lost interest in agricultural credit. The security of two guarantors, requirement of the pass book, higher interest rate and short term loan period are the main hurdles in seeking agricultural credit. The commercial banks seem to benefit only big land lords and politically influential persons as compared to small growers and common peasants and tenants. These banks sound reluctant to offer farm loans mainly because of the difficult recovery issues due to law and order situation in far flung rural areas.

C. Sindh Provincial Cooperative Bank:
This forum of business was established in Sindh in 1919 as Mercantile Cooperative Bank. It was an old source of farm credit in the region. In 1956, it was re-established as Cooperative Bank to enhance cooperative credit system. The bank obtained various loans from the State Bank of Pakistan through federal cooperative bank and operated under the supervision of the Sindh government cooperative department. But due to bureaucratic hassle, slow process and fake registration of societies, the bank has become non-existent practically. The bank has not sanctioned any amount of credit since 1990-91.

D. Taccavi Loan:
The provincial revenue department allocates Taccavi loan to provincial budget. The loans are given to the farmers in emergencies such as earth quake, flood, fire and other natural calamities. The utility and importance of Taccavi loans seem to wane gradually due to following two reasons i.e. initial survey work and distribution of loan at the mercy of revenue officials. Due to rampant corruption in this department, the deserving farmer(s) can not benefit from Taccavi loans and this loan is usually distributed among revenue officials’ favorites, political affiliated individual(s) and the rest of the loan goes to their own bottomless pockets. Secondly, the farmers consider this kind of loan as a gift or relief. They are not serious in re-payment. Therefore, this source of loan seems to have lost its usefulness. This kind of credit has also not been disbursed since 1993(3).

E. Micro Credit:
More recently, the government has introduced micro credit banking in Pakistan in 2000, i.e. the Khushhali Bank (KB) in public sector and in several in private sectors besides extending support to non-governmental organizations (NGOS) for operation after the successful story of Grameen Bank of Bangladesh. In this regard a few micro financial institutions (MFIs) and micro finance banks (MFBs) have also been allowed by the State Bank of Pakistan to operate in the field. Of these, some operate at country and some at province and district level but they will take time to reach grass-roots level. “In Pakistan, the micro finance sector comprises seven full –fledged micro finance banks and about a dozen micro finance institutions (MFIs) which are making steady progress. But their capital base and deposits can not meet credit needs of 40 million workable populations living below poverty line” (4). The moment, the micro credit institutions start operating without socio-political influence of big feudal and bureaucratic hassle and reaching grass- roots level with participatory approach, common people /small growers and tenants will start reaping benefits of the above mentioned system.

It is to conclude that Sindh Provincial Cooperative Bank and Taqavi loan system practically sound non-existent today and micro financing system is in its initial stages. So only two intuitions i.e. ZTBL and commercial banks disburse agricultural credit in rural Sindh for agricultural prosperity with several problems to the farming community. At national level, Sindh agriculture credit share is also shrinking sharply. “Sindh is gradually losing its share in agricultural credit which is being attributed to the limited availability of farmers’ passbooks, the lack of cooperation by the provincial revenue departments to verify these books, issuance of bogus passbooks and closure of the Sindh Provincial Cooperative Bank. From a 21 per cent share in the national credit disbursement in 2000-01, Sindh’s share, dropped to a mere 11 per cent in 2005-06.”(5).

The total farm credit disbursement in Pakistan stands at 14968.46 million, the share of Sindh in 1990-91 stood at 3099.08 million, 20.73%. In 2000-01, the amount of 44479.09 million was disbursed in the country and the share of Sindh stood at 9464.73, 21%. In 2006-07, the total amount was 141635.25. The share of Sindh was 15279.50, 10.78%. The data shows a steady decline in the share of farm credit of Sindh province which needs urgent attention of the researchers and policy makers. There are also increasing trends in short term credit from 73% to 99%.0 during 1990-91 t0 2006-07 which is considered as production loan. But in
medium term and long term development loans, there are steady decreasing trends as mentioned in table 1.

It is also described that medium term share in 1990-91 stood at 18.3 % but in 2006-07 it stood at only 4%, long term credit was 33% in 1990-91 and decreased as 0.6% in 2006-07 as mentioned in table 1.

The table 2 also indicates decreasing trends in long term credit given by commercial banks from 27% to 5% during 1990-91 to 2006-07 with increasing trends in short term loan from 73% in 1990-91 to 97% in 2006-07. These short term loans are more beneficial for small growers but are mostly misused in consumption during emergency, land disputes, marriages, and other social and cultural festivals according to the findings of specific group study.

The State Bank of Pakistan funded a rural credit study in 2002, to evaluate the most obvious reasons for not borrowing institutional credit. This study is based on national level. Followings are important evidences concluded in the study that 8.7% of farmers do not borrow institutional credit due to complicated and lengthy procedure, on religious ground 1.7% no collateral available 16.1%, no reason to borrow 54.9%, don’t like asking for loan 14.9% and other reason 3.8% as mentioned in Table 3. The composition of rural occupational pattern seems to be changing; reflecting a shift towards non-agricultural activities as the non-institutional source is greater than institutional.

It is an important finding of the study that “the non-institutional credit is about 83 % of all borrowing from friends, relatives, Land lords etc and institutional loans by ZTBL, commercial banks, cooperative banks and taccavi loans stand at about 4%”(6). They prefer informal institution to avoid formalities. Gender bias in having access to rural credit is evident from the fact that the males on average have more than four times higher access to loans in relation to females. However, the males borrow over 91 % of the total amount of loans. Nearly two-thirds of the loans are borrowed for consumption purpose. At the individual level, within the rural households, however the access to credit was extremely limited.

There is a little difference in our specific group study and AERC report. In our findings, the growers believe that corruption is first obvious reasons for not borrowing agric-credit, no collateral available is second problem of revenue, pass book is third reason due to law of inheritances and obstacles of revenue department lengthy procedure is fourth high interest rate is fifth, religious ground sixth and nominal women participation is less than one percent.

Keeping in view the diversification of rural income generation possibilities and hence of credit needs, such limited pattern of borrowing is quite alarming. Despite higher rate of interest charged by the informal sector, the easier access to loans serves as the overwhelming criteria for converging or assigning preference to informal sources over formal sources. The benefit of easier access may be considered by the borrowers as exceeding the perceived benefits of low nominal rate of interest. It is concluded that the farmers of Sindh due to less income and several obstacles in institutional credit are unable to spend their money, mobilize their energies for the development of agriculture and economic development in Sindh.

Table 1: Term-wise Position of Agricultural Credit Advanced by Zarai Tarqiati Bank Limited (Ztbl) in Sindh

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (Million Rs)</th>
<th>Short Term % age</th>
<th>Amount (Million Rs)</th>
<th>Medium Term % age</th>
<th>Amount (Million Rs)</th>
<th>Long Term % age</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>814.87</td>
<td>48.5</td>
<td>307.51</td>
<td>18.3</td>
<td>556.63</td>
<td>33.2</td>
</tr>
<tr>
<td>1991-92</td>
<td>867.88</td>
<td>60.1</td>
<td>261.59</td>
<td>18.1</td>
<td>314.52</td>
<td>21.8</td>
</tr>
<tr>
<td>1992-93</td>
<td>817.89</td>
<td>50.2</td>
<td>270.93</td>
<td>16.6</td>
<td>541.01</td>
<td>33.2</td>
</tr>
<tr>
<td>1993-94</td>
<td>694.76</td>
<td>35.4</td>
<td>649.7</td>
<td>33.1</td>
<td>620.16</td>
<td>31.6</td>
</tr>
<tr>
<td>1994-95</td>
<td>1665.27</td>
<td>54.6</td>
<td>454.36</td>
<td>14.9</td>
<td>929.05</td>
<td>30.5</td>
</tr>
<tr>
<td>1995-96</td>
<td>1042.9</td>
<td>72.4</td>
<td>92.82</td>
<td>6.4</td>
<td>304.40</td>
<td>21.2</td>
</tr>
<tr>
<td>1996-97</td>
<td>1330.33</td>
<td>63.1</td>
<td>517.13</td>
<td>24.5</td>
<td>261.79</td>
<td>12.4</td>
</tr>
<tr>
<td>1997-98</td>
<td>2521.38</td>
<td>69.6</td>
<td>554.66</td>
<td>15.3</td>
<td>548.86</td>
<td>15.1</td>
</tr>
<tr>
<td>1998-99</td>
<td>3910.74</td>
<td>78.5</td>
<td>406.87</td>
<td>8.2</td>
<td>663.72</td>
<td>13.3</td>
</tr>
<tr>
<td>1999-00</td>
<td>3998.82</td>
<td>83.5</td>
<td>411.27</td>
<td>8.6</td>
<td>380.70</td>
<td>7.9</td>
</tr>
<tr>
<td>2000-01</td>
<td>4331.10</td>
<td>80.0</td>
<td>467.31</td>
<td>8.3</td>
<td>664.67</td>
<td>11.7</td>
</tr>
<tr>
<td>2001-02</td>
<td>4739.47</td>
<td>80.8</td>
<td>467.55</td>
<td>8.0</td>
<td>657.88</td>
<td>11.2</td>
</tr>
<tr>
<td>2002-03</td>
<td>3956.11</td>
<td>83.6</td>
<td>311.95</td>
<td>6.6</td>
<td>463.74</td>
<td>9.8</td>
</tr>
<tr>
<td>2003-04</td>
<td>3579.21</td>
<td>84.7</td>
<td>264.09</td>
<td>6.2</td>
<td>386.51</td>
<td>9.1</td>
</tr>
<tr>
<td>2004-05</td>
<td>4677.98</td>
<td>89.9</td>
<td>240.7</td>
<td>4.6</td>
<td>288.08</td>
<td>5.5</td>
</tr>
<tr>
<td>2005-06</td>
<td>5758.73</td>
<td>95.9</td>
<td>118.27</td>
<td>2.0</td>
<td>125.53</td>
<td>5.5</td>
</tr>
<tr>
<td>2006-07</td>
<td>6994.29</td>
<td>99.0</td>
<td>26.00</td>
<td>0.4</td>
<td>45.31</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Source: Agricultural Statistics of Pakistan (MINFAL) Islamabad 2006-7pp 155-156.
II. Non-institutional Credit:

The above kind of credit is provided by relatives, friends, retails, brokers, local commission agents and land lords and money lenders. It is easily borrowed to meet short term needs. The interest rate charged by these people is not fixed but it varies from time to time and place to place in the region. The failure of public sector credit institutions created a mess for rural households and also created a class of money lenders in rural Sindh with harsh terms and conditions. Several cases are reported daily in print and electronic media that they charge 100% interest on principal amount and in some cases they have the client or his family members kidnapped till the final payment. They purchase their land, livestock and crops in advance on half price.

The issue of bondage labour is also the creation of this system. In this case, the landlord sets a trap in the shape of loans, consequently the farmers land in being bonded laborers. According to statement of an NGO official working on bondage labour that about 2 million tenants are bonded labour in Pakistan and in Sindh this figures hovers around 0.5 million. “It is observed that Tenants locally known as (Haris) are in debt in the most areas of the country and they do work against credit, many of those living in the lower district of Sindh have restricted moment and freedom because of caste and vulnerability”(7).
The non-institutional credit system also gives birth to a number of socio economic ills in the rural society and can be considered as obstacle to economic development of the region. The study of agric credit finds that the farmers especially small ones and tenants avoid taking institutional credit. The farmers of the less developed countries/areas like Sindh-Pakistan also mainly relay on non-institutional credit because of the following important reasons.

I. No requirement of Pass book and other guarantees.

II. High percentage of interest rate apart from bribe received by concerned officials of institutional credit organizations due to institutional mismanagement

III. Lack of complete information about sources of institutional credit system due to illiteracy of rural masses.

IV. Hegemony of big land lords and influential persons on credit institutions or those persons who are very close to those in the power corridors.

V. Timely availability, no security and documents required in Non-Institutional Credit

VI. Lack of micro credit institution in the region

4. Findings:

- Most important area of concern is the low availability and utilization of Agriculture Credit in Sindh as mentioned in table 1 and 2. There is decreasing trends of long term development loans. The short term loans are more beneficial for small growers but mostly misused in consumptions during emergency, land disputes, marriages, and others social and cultural festivals according to findings of specific group study.

- The consumptions of non-institutional source are greater than institutional due to closer down of Sindh Provincial cooperative bank and Taqavi loan and limited access of micro financing institutions.

- The non-institutional credit is about 83% of all borrowing from friends, relatives, Land lords etc and institutional loans by ADBP, commercial banks, cooperative banks and taccavi loans stand at about 4%. They prefer informal institution to avoid formalities.

- The gender bias in having access to rural credit is evident from the fact that the males on average have more than four times higher access to loans in relation to females. However, the males borrow over 91% of the total amount of loans. Nearly two-thirds of the loans are borrowed for consumption purpose.

- At the individual level, within the rural households, however the access to credit was extremely limited. Keeping in view the diversification of rural income generation possibilities and hence of credit needs, such limited pattern of borrowing is quite alarming.

- Despite higher rate of interest charged by the informal sector, the easier access to loans serves as the overwhelming criteria for converging or assigning preference to informal sources over formal sources.

- The benefit of easier access may be considered by the borrowers as exceeding the perceived benefits of low nominal rate of interest. Finally it is concluded that the farmers of Sindh due to less income and several obstacles in institutional credit are unable to spend their money, mobilize their energies for the development of agriculture and economic development in Sindh.

5. Conclusion & Policy Recommendations:

- The malpractices & difficult procedure of institutional credit force growers to relay on non-institutional credit sources.

- The majority of growers depend on non credit institutions, friends, relatives, land lords, village merchants etc and money lenders at local level. Institutional credit beneficiaries are very small in proportion. They are mostly small growers and tenants receive fewer shares in credit distribution.

- It is also concluded on the basis of specific group study in the field and personal observations of the author that kick backs commission system in ZTBL, difficult system and fewer shares of commercial banks in agric-credit affects investment process.

- Closer down of Sindh Provincial Cooperative Bank for the last two decades, corruption and nepotism in Taccavi loans given by Revenue Department during natural calamities /emergency also create hurdles in the institutional credit.

- The little awareness, lack of information and illiteracy of small growers and tenants continue to stand in the away of institutional credit.

- The poor performance of public sector credit institutions created a mess for farmers / rural households. The situation strengthens non-institutional credit system that generates rural poverty due to creeping rate of interest and others harsh terms and conditions imposed by local money lenders.

- The issue of bondage labour is also the creation of this non –institutional credit system. In this case, the
landlord sets a trap in the shape of loans, consequently the farmers land in being bonded laborers. The system also gives birth to a number of socio economic ills in the rural society and can be considered as obstacle to agricultural and socio economic development of the region.

Keeping in view of the above there is need to policy reform in credit institutions which is neglected sector since long as admitted in World bank recently published report that “Agriculture has served as a basis for growth and reduced poverty in many countries, but more countries could benefit if governments and donors were to reverse years of policy neglect and remedy their underinvestment and misinvestment in agriculture” (8).

Following are the significant policy recommendations for institutional credit system improvement for the welfare of the growers, agriculture / rural development of the region which is pivotal for economic development of the country.

• Land records, which are presently handled manually and are available at district level, should be computerized and be made available at even provincial and federal level. This may help to create a database and will eliminate two main problems first lengthy procedure of documentations and second no collateral available for farm credit as mentioned in columns one and three of table 3.

• The system should be simplified; check & balance of sanctioned loans must be ensured in order to avoid misuse of the loans. The credibility of institutional credit system should be restored.

• The recovery system should be soft; corruption in credit institution office should be checked.

• The Agri Credit card system for growers, live stock owners and fishermen should be introduced by all commercial, and Agricultural Development Bank. There is a vast market in rural areas for the said purpose and it may bring about a great change in rural masses and facilitate purchase of inputs for cultivation.

• In the institutional level, cooperative bank should be reopened and reorganized for agricultural prosperity at union council level by mutual cooperation of professional bankers and farmer organizations.

• The insurance of crops, livestock and inland fish farms should be introduced; it will fight the fear among growers, provide cover during calamities and reduce the rate of rural poverty and also extend economic activities in rural markets.

• Adoption of Micro Finance Strategy: Micro finance has great importance as a tool of poverty alleviation and social mobilization especially in rural areas. This mode of credit access to financial services enable poor farmers to increase their household income, build assets and reduce their vulnerability to impediments that are so much a part of their daily life during harvesting period for input demand i.e. seed, fertilizer, pesticides, hiring of tractor and others implements.

• Anderson & L. Locker defines three common characteristics of micro credit. “First, micro credit extending credit to very poor farmers to promote micro enterprise activity, which may increase production and consumption activities and in turn change the demand for common pool resources (CPRs) and the technology for their use. Second, micro credit programs often focusing on women who are the primary users of CPRs in many developing countries. Finally, micro credit often employing group meetings and group lending techniques, potentially building human capital and strengthening the social capital of the community” (9).

• The concept has lately introduced as micro credit banking in Pakistan i.e. Khushhali Bank in public sector and few others in private sector, after the successful story of Grameen Bank of Bangladesh led Dr Muhammad Younis, a Noble laureate. These all need more time to reach out to the needy at gross root level. It is very important to mention here that this concept of finance may not only enhance agricultural development in rural areas but also poverty alleviation in non agric-sector of rural and urban areas.

• The Sindh Government is going to establish a Sindh Bank in next financial year. In the first phase it will be established at district level and in second phase at taluka level.

• It should operate with micro finance section in the short-term for rural households. Sindh government should establish a separate bank, Sindh Micro Finance bank for the above mentioned objectives at provincial level and bank operation may be enhanced at union council / village level with joint venture of private sector and technical support of international organizations in the long-term.

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