

# Role of institutional credit on agricultural production in Pakistan

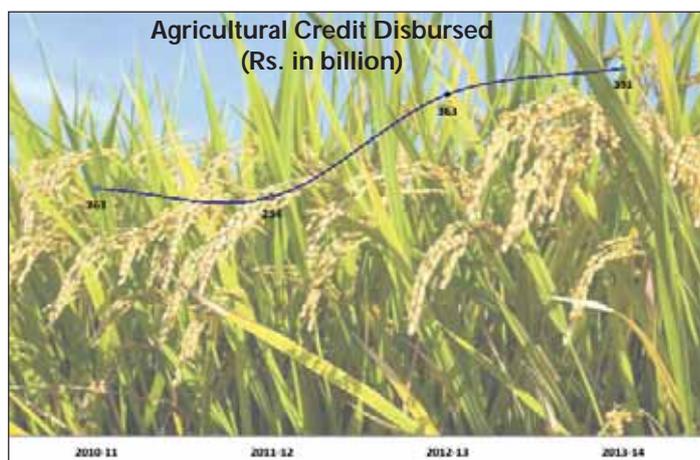
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Pakistan's agriculture sector involves 43.7% of labour force that produces their own food needs and ensures availability of food for the rest of nation and value-added activities. The potential role for agriculture in development is to reduce poverty and drive growth for countries whose economies are agriculture-based. Growing population size requires agriculture growth compatible to meet required level of food. The change in consumption pattern with a change in per capita income level requires more proteins containing diet. The transition of agriculture from traditional to modern farming techniques is based on adequate availability of inputs like certified seeds, balanced use of fertilizers, mechanization, and agricultural credit.

Pakistan is blessed with abundance of natural and human resources; fertile lands, mountains and lakes, variety of seasons, one of the best irrigation systems of the world and a relatively more pro-

ductive agriculture sector. Production of important crops are given in Table-1

Agricultural credit plays an important role in enhancing the agricultural productivity in developing countries like Pakistan. Credit is the back bone for any business, more so for agriculture which has traditionally been a nonmonetary activity for the rural population in Pakistan. Rural credit, though not a direct tool of production, can help break the vicious circle of 'grow-eat-grow' by removing financial constraints and accelerating the adoption of new technologies. Credit facilities are thus



the integral part of the process of commercialization of the rural economy. The introduction of easy and cheap credit is the quickest way to give boost to the agricultural production. Therefore, it was the prime policy of all successive governments to meet the credit requirements of the farming community of Pakistan.

In line with the government priorities for development of agrarian economy, State Bank of Pakistan (SBP) has been striving for engaging the food security challenges in wake of various initiatives to support the government's objectives and goals.

At present 31 Commercial, Microfinance Banks and Islamic Banks with around 3,950 agriculture designated branches are facilitating farmers by extending agriculture credit throughout the country. The agriculture lending banks comprising of 19 Commercial banks, 2

Table 1: Production of Important Crops

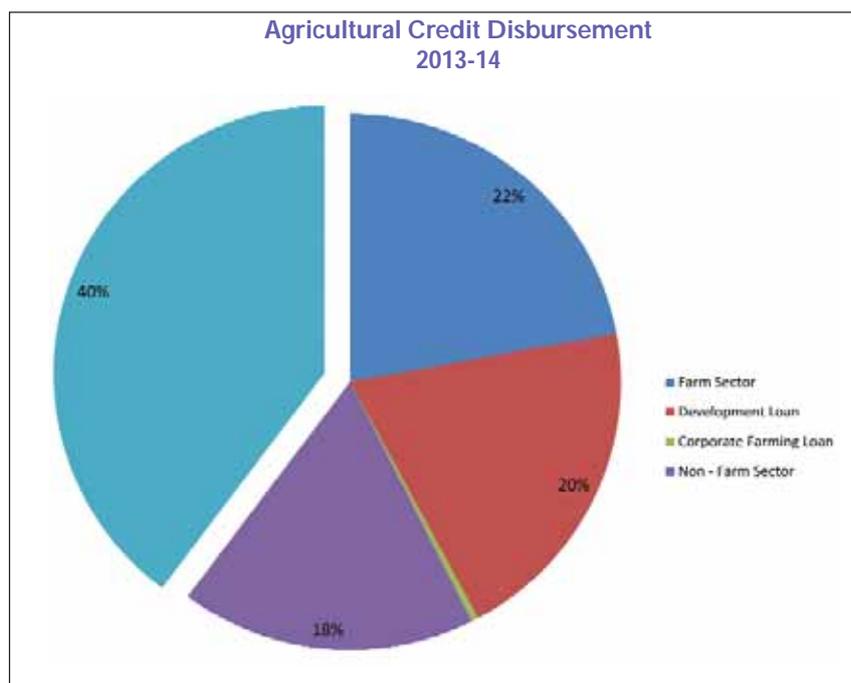
Crop	2010-11	2011-12	2012-13	2013-14
(000 Tonnes)				
<b>Food Crops</b>				
Wheat	25,214	23,473	24,211	25,286
Rice	4,823	6,160	5,536	6,798
Maize	3,707	4,338	4,220	4,527
<b>Fibre Crops</b>				
Cotton	11,460	13,595	13,031	12,769
<b>Other Crops</b>				
Sugar Crops	55,309	58,397	63,750	67,460

Source: State Bank of Pakistan Annual Report 2013-14.

specialized banks (ZTBL, PPCBL), 7 Microfinance Banks and 3 Islamic Banks which are engaged in providing development loans to farming community for agriculture activities including growing of crops, livestock, poultry, fisheries, orchards, forestry, nurseries, apiculture and sericulture.

Total agricultural credit disbursed from various banks increased from R. 263.02 billion in 2010-11 to Rs. 391.35 billion in 2013-14, thus showing an average increase of 12.2% per annum. During the year 2013-14, the banks have disbursed agricultural credit Rs. 391.35 billion. The disbursement is 16% higher than Rs. 366.10 billion disbursed during the last year. The outstanding portfolio of agriculture loans has increased by Rs.3.34 billion (13%) i.e. from Rs.256.98 billion to Rs.290.35 billion at end June, 2014 as compared to same period last year.

The disbursement data reveals that five major commercial banks as a group disbursed agriculture credit of Rs.22.80 billion only from Rs.172.83 billion during the last year, thus showing decline of 87%. Amongst specialized banks, ZTBL disbursed only Rs. 8.81 billion against Rs.67.07 billion during the last year, thus showing decline of 87%, while PPCBL disbursed agricultural credit Rs. 195.49 billion during the year 2013-14. The fourteen domestic private banks collectively disbursed agricultural credit Rs.84.81 billion contributing 22% in total credit, further, seven Microfinance Banks as a group disbursed agriculture loans of Rs. 77.92 billion against Rs. 18.77 billion during the



year 2012-13, thus showing an increase of 135%. Bank-wise disbursements of agricultural credits are given in Table-2

State Bank of Pakistan (SBP) in its policy to encourage banks to lend loans to individual farmers added a corporate guarantee as eligible securities/collateral that will allow banks to provide unsecured financing up to a maximum of Rs 1,000,000.

Small farmers dominate agricultural landholding patterns in Pakistan, where financial exclusion remains alarmingly high. Farmers, particularly the small landholders are facing problems in accessing finance from the banking sector due to their inability to provide collateral acceptable to banks.

The Central bank introduced contract farming that assumes an extensive number of arrangements along the value chain link small-scale farmers to some type of market as a way to supporting them to become successful independent commercial farmers in the long term in a developing country context. The farmers can be linked to markets by either formal or informal contracts as a result of some type of arrangement with a buyer who adds value to the raw commodity in some way (processing, storage, and marketing). Contract Farming is being adopted in many developing countries including India, Thailand, Indonesia, Malaysia, Vietnam, Philippines and Cambodia. The Contract Farming is also being practiced in Pakistan for the production of Sugarcane, Maize Tobacco, Potato, Rice, etc.

**Table 2: Disbursement of Agricultural Credit (Million Rupees)**

Banks	2010-11	2011-12	2012-13	2013-14
DPB's	50,187	60,876	69,130	84,813
MFB's	--	12,115	18,770	77,920
ZTBL	65,361	66,068	67,068	8,809
PPCBL	7,162	8,520	8,304	195,488
5 CB's	140,312	146,271	172,833	22,796
IB's	--	--	--	1,527
Total	263,022	293,850	336,105	391,353

Source: State Bank of Pakistan Annual Report 2013-14.

**Note:**

5CBs: 5 major Commercial Banks (NBP, HBL, UBL, MCB, ABL.)

DPBS: Domestic Private Bank - 5CBs

MFBs: Micro Finance Banks Included Since July-2011

IBs: Islamic Banks included Since July-2013

### References

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