

## **AGRICULTURE: STARVING AS A CONSEQUENCE OF SHRINKING FORMAL CREDIT**

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The economy of Pakistan is heavily dependent on agriculture. This sector is dominated by small and medium farmers, who are toiling at the lowest rung of economic ladder and hence have a very small income base and saving potential to invest in farming business from equity, which makes it imperative that outside finances be provided to make sure the participation of these farmers in the development process. There exists a huge gap between requirements and disbursements of credit and it is widening over time. The participation of the small and medium farmers in the formal rural credit market is limited, causing lopsided development in the farming sector.

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**Key words:** agricultural credit, development process, GDP, inequality, lopsided development

### **INTRODUCTION**

A strong agricultural base is a necessity for the growth and development of our economy. More than 50% of the national income is contributed by agriculture and allied sectors. Moreover, it provides employment and livelihood to almost 70% of country's population, and the raw material to all the major industries (Economic Survey, 1997-98). There is no denying the fact that industrialization is necessary for economic development, yet agricultural development is an elixir for overall development process. For sustained industrial development is required the market for its products and the continuous flow of raw materials. That makes imperative the development of agricultural sector, being the largest market for final goods and at the same time the biggest source of raw materials for the industry, otherwise it can drag the growth of the whole economy.

Capital is one of the basic requirements for development in every sector of the economy and agriculture is one of those. The economic utilization of factors of production (land, labour, capital, entrepreneur) and to enhance their productivity, the farmers need finances. The average Pakistani farmer has hardly any equity to invest and achieve effective improvement in the productivity of these factors of production, which is becoming imperative due to mounting pressure of population and the increasing demand for raw materials.

The land in the country is limited and its supply is fixed and there exist substantial inequalities in the distribution of operational holdings and operational area (Gill and Mustafa, 1997, 1998) and the agrarian structure is dominated by the small and medium size

farms (GOP, 1990). The economies of these small farmers are exposed to floods, disease and pest attacks and price fluctuations. The meager surplus they generate is not enough to provide them a hedge against these calamities and its reinvestment into the farming business is almost impossible. During a slight distress period, these small and marginal tillers of the soil along with rural labourers become vulnerable.

The rural scene is changing very fast and the process of transformation in the farming sector involves increased use of inputs. Since the majority of farmers have subsistence or below subsistence economy that push them to rely on outside help for the acquisition of these inputs, to be able to reap the benefits of new technologies. The overall observation is, that such type of facilities are only accessible to the large and influential farmers and the small and medium farmers continue to suffer in the wake of low investment, low productivity, resulting in low income and negligible savings and thus remain on the lower rung of the rural community causing frustration and income inequalities among different farm-size groups. Thus the only way left is to provide financial assistance to these small tillers of soil to be able to participate in the development process.

Farmer's entire capital is locked up in land and stock which is not readily available to them because the returns on investment in agriculture cannot be realized quickly, so they need finances to meet cultivation expenses or to effect improvements on the farm. Moreover, there is a big gap in agriculture business between sowing and the final disposal of output after harvest, during this period they have to make all types of expenses. Since the expenditure

and income pattern in agriculture business is such that expenses are a continuous process and income is seasonal, thus almost all the time farmers face the paucity of funds, which seriously affect their farming operations (Muniraj, 1987). It was also observed that the shortage of agricultural credit continues to be a limiting factor in the modernization and growth of production in agriculture (Anonymous, 1988). Consequently the present study was undertaken to highlight the increasing gap between the estimated requirements and the finances disbursed by the credit institutions to the farming community.

### MATERIALS AND METHODS

The research is based on the analysis of the information available from government documents, independent research by individual social scientists regarding different aspects of agricultural credit, poverty and loan distribution patterns. Rural household survey is used to substantiate the available information. Data regarding credit, used in this paper, come from the Economic Survey (1997-98) of Pakistan, published by the Ministry of Finance, Government of Pakistan.

### RESULTS AND DISCUSSION

The gap between the demand for and supply of credit is very wide. To precisely determine the total requirements of the rural sector in general and of farming community in particular is very difficult and at the same time the defining of the trend of credit requirement curve becomes a real hard task. However, the National Commission on Agriculture after careful analysis, recommended that by 2000, we should yearly inject at least 20% of the GDP generated in the agricultural sector in the form of agricultural credit in the farming business (Anonymous, 1988). As reported by this commission, the agricultural credit during the decade from 1976-77 to 1986-87, the peak period of the commercial bank loaning, the amount of agricultural credit provided by different institutional sources increased by nine times and was 13% of the GDP generated by agricultural sector in 1986-87, while this percentage was mere 3.9% in 1976-77.

During the period from 1987-88 to 1997-98, the ratio of the institutional credit as a proportion of sectoral GDP of Agriculture has declined from 10% in 1987-88 to 4% in 1997-98. Table 1 shows that during this decade the total credit disbursement increased just by 0.5 times. The other striking inference we can draw from the table is that the share of ADBP in total credit disbursement had almost doubled, while the share of commercial banks declined continuously,

whereas the contribution of cooperatives stayed constant with a slight increase in the later years of the decade. The above situation is contrary to the recommendations of the Agriculture Commission. The commission categorically stated in its report that in cases where the propensities to save are low, recourse to credit becomes the only option to meet the required investment to bring about the increase in productivity as well as production. Agricultural credit has thus come to be regarded as an essential input in the modern technology package. However, present shortage of agricultural credit is still a limiting factor in the modernization and growth of production in agriculture. We still have to go a long way to improve the supply of credit to agriculture.

Table 2 shows that there exists a huge gap between credit required and credit disbursed. This gap is increasing over time, and considering its volume, no single agency is capable of bridging the gap. The burden should not be transferred to ADBP and Cooperatives. These institutions need to be strengthened and other institutions, particularly commercial banks, should supplement the efforts in filling the credit gap. Deficiencies are not only in the quantum of agricultural credit but also in qualitative terms, and over time the situation is becoming worse. The participation of the small and medium farmers in the formal rural credit market is limited, causing lopsided development in the farming sector and has created inequalities and frustration among the various economic groups in the rural areas (GOP, 1985; Anonymous, 1988; Mustafa and Gill, 1998 and Malik, 1999). Along with limited access to credit, farmers often come across the complex procedures of loaning, unnecessary documentary requirements and delayed disbursement.

**Conclusions:** Farmers need external finances in the wake of low productivity, low saving and vulnerability of their economies to floods, disease and pest attacks and price fluctuations. Moreover, their income is seasonal and expenditures are continuous; the capital is locked up in land and stock and returns on investment cannot be realized quickly. All these factors compel them to rely on outside finances. There exists a huge gap between requirement and disbursement of credit in the agriculture sector, which is widening over time. Whatever amount is disbursed, is not equally and easily accessible to the small and medium farmers. There is a need for manifold increase in the disbursement of institutional credit, which is not possible for a single agency to achieve, therefore a

# Agricultural credit

Table 1. Disbursement of agricultural credit from 1987-88 to 1997-98 (Million rupees)

Year	Agri.GDP current factor cost	ADBP	Taccavi	Cooperati ves	Commere- cial banks	Total credit	Ratio of total credit to Agri. GDP
1987-88	156375	7716	9	3020	5174	15920	10.18
1988-89	184074	8667	25	2731	3054	14477	7.86
1989-90	197441	9390	57	815	3629	13890	7.03
1990-91	233130	8324	56	3017	3517	14915	6.40
1991-92	282374	6996	56	3247	4179	14479	5.13
1992-93	297814	8643	51	2978	4526	16196	5.44
1993-94	357924	8989	-	2621	4063	15674	4.38
1994-95	437034	14575	-	3757	4041	22373	5.12
1995-96	491791	10339	-	3803	5045	19187	3.90
1996-97	544809	11687	-	3431	4429	19548	3.59
1997-98	659965	15528	-	4161	3617	23328	3.53

Source: Economic Survey, 1997-98.

Table 2. The gap between estimated requirement and supply of credit (Million rupees)

Year	Agri.GDP current factor cost	Total credit disbursed	Credit required as 20% of Agri. GDP	Gap
1987-88	156375	15920	31275	15355
1988-89	184074	14477	36815	22338
1989-90	197441	13890	39488	25598
1990-91	233130	14915	46626	31711
1991-9~	282374	14479	56465	41986
1992-93	297814	16196	59563	43367
1993-94	357924	15674	71585	55991
1994-95	437034	22373	87407	65034
1995-96	491791	19187	98358	79171
1996-97	544809	19548	108962	89414
1997-98	659965	23328	131993	108665

Source: Economic Survey, 1997-98.

multi-agency approach is recommended and along with the existing institutional arrangements, the creation of regional rural banks can help in generating savings and activating the efficient loaning process. Moreover, the loaning procedures need to be simplified with minimum documentation to overcome the delayed disbursement, and to ensure the participation of small and medium farmers.

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