

**AN ANALYSIS OF RURAL FINANCE MARKET,
THE SHARE AND STRATEGIES OF
DIFFERENT PLAYERS
2017**



PLANNING AND RESEARCH DEPARTMENT

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EXECUTIVE SUMMARY

The study throws light on rural finance market of Pakistan. The rural financial market in Pakistan can be seen as composed of two broad segments, i.e. the informal and formal. The formal sector constitutes banks regulated by State Bank of Pakistan while informal sector mainly comprises of Aarthis. Financial institutes make up 57% of agri.credit supply. It is assumed that remaining 43% credit is provided by informal sector. Aarthis charge much higher than banks. However, they offer an array of services at convenience of farmers. In a country like Pakistan, agriculture finance is a service of utmost importance and closely related to the continued progress of the country, as agriculture continues to play a central role in the economy.

The principal source of rural finance policy in Pakistan is the State Bank of Pakistan (SBP). Commercial Banks are charging farming community up to 18% markup despite the historically lowest 5.75pc policy rate of the State Bank of Pakistan (SBP). ZTBL charges 12.50% mark-up on production loan while its Kissan Assan Karobar scheme has the lowest mark-up i.e. 8.25 %. Aarthis charge much higher than banks however, they offer an array of services at convenience of farmers.

Among financial institution, Micro Finance and Islamic Banks showed remarked performance by achieving their credit disbursement target i.e. 114.13 billion and 112.06 billion respectively during the year 2016-2017, while the five major commercial banks achieved 100.61 percent agri. credit disbursement against assigned targets by SBP. ZTBL disbursed an amount of Rs. 92.451 billion with an achievement of 90.20 percent during the period July-June (2016-2017).

1. INTRODUCTION

Rural finance, as defined by the World Bank (WB Report-2004), includes a range of financial services such as savings, credit, payments and insurance to rural individuals, households, and enterprises, both on farm or non-farm, sustainable basis. It includes financing for agriculture and agri-business. Credit is the back bone to start any type of business activity. More or so far agriculture is the main source of lively hood of small and poor people of the country's rural areas. Credit is necessary for capital formation, diversified agricultural production and efficiency in agricultural resource-use, in the face of excruciating poverty in the rural economy where farmers are the major players.

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. For the transformation of subsistence agriculture to commercialized one, credit is a leading factor. Agricultural credit, in reality, is an integral part of the process of modernization of agriculture and commercialization of the rural economy. Due to small holdings, low crop yields and small income there is very little saving among the majority of the farmers of Pakistan. Therefore, it is the need of time that credit agencies come up to help them in undertaking the improved farm practices.

The rural financial market in Pakistan can be seen as composed of two broad segments, i.e. the informal and formal. Traditionally, friends and relatives, village shopkeepers, traders, commission agents etc. have remained a major source of agricultural credit. These sources generally lend for short periods and charge an exorbitant rate of interest. Such loans are given to tide over bad periods and as such are meant for consumption purposes. Loans are also made available for buying seasonal inputs where cash is essentially required. These sources are both inadequate and non dependable. No comprehensive data is available on the amount of credit advanced by informal credit sources. As such it is difficult to find solid evidence regarding the relative share of these sources in the total credit supply. However, few reports and some other rough estimates show that the formal credit sources have been able to meet only 57% percent of the total credit requirements of the farming community and it may be assumed that the remaining

43% is being met by informal sources of credit. In the formal sector, banks, credit cooperatives and public sector organizations provide intermediation between borrowers and depositors or borrowers and the government. The institutional providers of financial services are many and varied, including public and private; regulated and unregulated firms those primarily providing long-term finance and those providing working capital for example Cooperatives, Zarai Taraqati Bank Limited (ZTBL), Domestic Private Banks and Commercial Banks.

2. HISTORICAL BACKGROUND

Pakistan is basically an agricultural country, and finance has been needed for its rapid development. With a view to meet this basic need the Agricultural Development Finance Corporation was set-up in 1951, and was entrusted with the task of providing financial facilities for the development of agriculture Poultry , Animal Husbandry, Fishery , Forestry and Dairy Farming. Later on Agricultural Development Bank of Pakistan was also established in September 1957, under the Agricultural Development Bank Act. The Bank was established to provide credit in cash or in kind, warehousing and storage facilities to agriculturists, cooperative societies and other bodies, of which the majority of members are agriculturists. As the functions of the Agricultural Development Finance Corporation and Agricultural Development Bank were similar and since both were working with capital provided by the Government, they were merged into one organization known as Agricultural Development Bank of Pakistan on February 18th 1961.

On December 14, 2002, the Federal Government converted the Agricultural Development Bank of Pakistan (ADBP) into Zarai Taraqati Bank Ltd (ZTBL). The new corporate structure redefined the Bank as a single public limited company with an independent Board of Directors. The restructuring of the former ADBP was being carried out with the aim to uplift the agriculture and rural sector by raising farm productivity, streamlining the institutional credit and increasing the income generating capacity of the farming community. Zarai Taraqati Bank Limited (ZTBL) was registered under the Companies Ordinance 1984, and all assets, liabilities and proceedings were transferred to and vested in Zarai Taraqati Bank with effect from December 14, 2002.

About 50 years earlier, agricultural sector was not considered as a commercial sector for economic development however during the last 50 years this sector has been realized as a major productive sector of Pakistan's economy. Almost 61% population is living in more than 50,000

villages in Pakistan. ZTBL serves around half a million clients annually and has around one million accumulated account holders and a wide network in the country.

With the introduction of Banking Reforms in 1972, several institutional and policy changes were made with the objective of more equitable distribution of bank credit among various sectors and groups. Agriculture sector was also a beneficiary of these policy reforms. In exercise of the powers vested in the State Bank of Pakistan, under Section 25 of Banking Companies Ordinance 1962, effective from 1st December 1972 an Agricultural Loans Scheme was introduced. In the absence of adequately developed specialized institutions for this sector, commercial banks, with their large network of branches, were inducted in mandatory agricultural financing under this Scheme.

Agricultural Credit Advisory Committee (ACAC) observed that the agricultural credit disbursed by Nationalized Commercial Banks was being diverted to non-agricultural purpose and the position of recovery of these loans was not satisfactory. It was also felt that the solution of the problem lay in expansion of supervised credit scheme. It was decided that NCBs should, in future, disburse agricultural loans under a Model Scheme, which would be developed by Pakistan Banking Council. The Pakistan Banking Council, in consultation with NCBs and some agricultural credit experts prepared a draft model scheme for agricultural credit. The State Bank of Pakistan approved the Scheme and advised the Pakistan Banking council to allocate territorial jurisdictions to Nationalized Commercial Banks for implementing the Scheme. The allocation of territorial jurisdiction among the Nationalized Commercial Banks was made on Tehsil wise basis in consultation with banks. Due to lack of trained and qualified staff the Scheme was implemented under a phased program and it was planned to cover all tehsils under the scheme by the 31st December 1990. The Supervised Agricultural Credit Scheme was revamped significantly in April 2001 on the initiatives of commercial banks under the leadership of Muslim Commercial Bank Limited. It was decided to withdraw the restrictions on commercial banks for making disbursements only within their respective territorial jurisdictions, i.e., Union Councils/Town Committees allocated to them. On 2nd August, 2001, under Section-25 of Banking Companies Ordinance 1962, fourteen new Domestic Private Banks were inducted in the Agricultural Loans Scheme and indicative targets were allocated to them for the year 2001-02. The salient features of the Agricultural Loans Scheme and amendments made from time to time have been conveyed to banks through ACD's Circulars, issued from 1972 till date.

3. RURAL FINANCE POLICY & REGULATIONS

The principal source of rural finance policy in Pakistan is the State Bank of Pakistan (SBP). However, policy pronouncements also emerge from time to time as part of donor financed projects. This is especially true in case of programmes which provide budgetary support to the Government of Pakistan and append a policy agenda as a condition for release of funds. In such cases, the policy agenda is driven by the donor in discussions with the government. The Ministry of Finance has played a marginal role in formulation of policy. At the Federal level the Ministry of National Food, Security and Research (MNFSR) policy role is limited to providing policy inputs through special committees formed for the purpose. After 18th amendment in constitution agriculture is a provincial subject. However, Provincial Government's have played virtually no role in framing rural finance policy in Pakistan. However, sometimes there are declarations made by political leaders at the provincial level that can have an impact on provision of financial services in rural areas but this role is limited.

State Bank of Pakistan has always taken keen interest in providing credit facilities for agriculture, both through the development of credit institutions as well as through providing credit lines to the development banks and incentives to Commercial Banks. It is laid down in Section-8 (3) of the State Bank of Pakistan Act, 1956 that the State Bank shall create a special Agricultural Credit Department with the following functions: -

- To maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Federal Government, Provincial Governments, Provincial Cooperative Banks and other banking organizations.
- To co-ordinate the operations of the Bank in connection with agricultural credit and its relations with the Provincial Cooperative Banks and any other organizations engaged in the business of agricultural credit.

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commercial banks, with their large network of branches, were inducted in mandatory agricultural financing under this Scheme.

3.1. Loan Categories

In order to protect the interest of the small farmers, the Agricultural Loans Scheme, under Section 6(A) – Grant of loans to be in specified ratio (Government of Pakistan, Finance Division No. SRO-859(1)/73 dated the 16th June, 1973 read with Section 5 of Act No. XLII of 1973) and Loans for Agricultural Purposes Rules, 1973, guarantees that agricultural loans granted by banks to farmers shall be diversified to achieve the following ratios: -

Land owners having land not exceeding subsistence holding	70%
Land owners having land, exceeding subsistence holding, but not exceeding economic holding	20%
Land owners having land exceeding economic holding	10%

3.2. Size of Land Holding

Details of size of land holdings for various categories of farms in different provinces are given as under: -

Name of Province	Subsistence Holding	Economic Holding	Above Economic Holding
Punjab	Up to 12.5 Acres	Above 12.5 Acres to 50 Acres	Above 50 Acre
NWFP	Up to 12.5 Acres	Above 12.5 Acres to 50 Acres	Above 50 Acres
Sindh	Up to 16 Acres	Above 16 Acres to 64 Acres	Above 64 Acres
Baluchistan	Up to 32 Acres	Above 32 Acres to 64 Acres	Above 64 Acres

3.3. Prudential Regulations of State Bank of Pakistan for Agri. Financing-2014 (Summary)

1. Banks/DFIs would prepare a comprehensive agriculture financing policy duly approved by their Board of Directors
2. Banks/DFIs will ensure that the applications for agriculture financing are processed expeditiously in accordance with the Agricultural, Commercial and Industrial Purposes Act

1973. The decision for grant/ decline of credit must be conveyed to the borrower in writing within 10 working days of receiving of application.

3. Exposure Limits -for a single person and group effective from 31-12-2012 and onward would be in accordance to issued and approved exposure limits by state Bank of Pakistan.
4. Banks/DFIs shall not provide unsecured/clean financing facility in any form of a sum exceeding Rs 1.0 million (Rupees one million only) to any one person.
5. The banks/DFIs are allowed to grant relaxation up to one year in repayment schedule, to their borrowers who have been adversely affected due to certain unforeseen and unexpected factors like weather, availability of water, etc. which are not under the control of the farmers. Such relaxation may be granted on case-to-case basis or en-block to the borrowers in the affected area.
6. Where the agricultural loans have been extended for specified purposes, the banks/DFIs are encouraged to ensure that the loans have been utilized for the same purposes for which they were obtained.
7. For enhancing any credit facility or considering proposals for any exposure (including renewal, enhancement and rescheduling/restructuring), Banks/DFIs should consider:
 - Due weightage to the credit report of the borrower and his group obtained from Credit Information Bureau (CIB) of State Bank of Pakistan.
 - Obtained information of the borrower as outlined in the BBFS (Annexure I-A for corporate borrowers and Annexure I-B for individual borrowers).
 - The Banks/DFIs should take into account the total indebtedness of the borrower and his disposable income.
8. In order to facilitate the recovery efforts, banks/DFIs are allowed to undertake cash collection/recovery at places other than their authorized places of business.
9. Banks/DFIs are strictly prohibited to undertake any sort of adjustment lending (adjusting the existing loan with a fresh loan) to avoid classification or meet allocated targets for agriculture financing.
10. All guarantees issued by the banks/DFIs shall be fully secured and the bank must be satisfied with regards to the underlying transaction and the collaterals.
11. Banks/DFIs should evaluate performing and non-performing portfolio for risk assessment and where considered necessary, any loan account including performing account, should be

classified and the category of classification determined on the basis of time based criteria should be further downgraded.

12. Since agricultural loans are self-liquidating at the end of the growing cycle from the proceeds of the product sale, therefore, the maturities of these loans shall coincide with the production cycle for the product being financed.
13. Loans for farm development can be extended for 1 to 5 years. Whereas the tenure of financing for machinery/equipment should not be allowed for more than the useful life of machinery/tool. However, all such loans should be allowed for a maximum period of 5 years.
14. The banks/DFIs would ensure that the tractors financed by them remain insured at all times during the tenure of the loan. Banks/DFIs are also encouraged to arrange insurance of all other machinery and equipment financed by them to protect their interest.
15. The maximum tenure for livestock financing would be five years (including grace period).
16. Besides all familiar and generally acceptable securities, the banks/DFIs at their own discretion can accept livestock as an exclusive or partial security for livestock financing.
17. Due to the relative ease with which livestock can be moved, lack of formal mechanism for transfer of title and ownership and volatility of livestock values, banks/DFIs shall, in all cases where livestock has been accepted as primary/sole security, conduct periodic inspections, at least twice a year.
18. Since the financing requirement of livestock sector is of both short-term (working capital) as well as of long term loans, therefore, the loans to this sector are categorized under both the working capital and the development or long term loans.
19. The Board of Directors of the bank/DFI shall approve a credit policy prescribing a minimum current ratio and linkage between borrower's equity and its total financing facilities from all financial institutions.
20. Banks / DFIs shall, as a matter of rule, obtain a copy of financial statements duly audited by a practicing Chartered Accountant, relating to the business of every borrower who is a limited company or where the exposure of a bank / DFI exceeds Rs.10 million, for analysis and record.

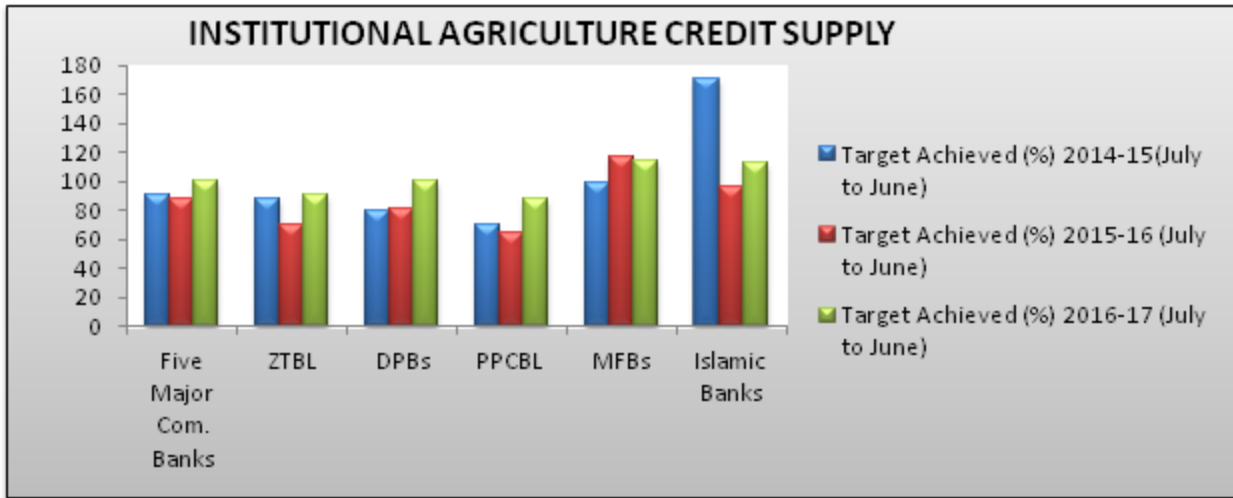
4. SALIENT FEATURES OF INSTITUTIONAL AGRICULTURE CREDIT SUPPLY

Institution wise, Micro Finance and Islamic Banks showed remarked performance by achieving their credit disbursement target i.e. 114.13 billion and 112.06 billion respectively during the year

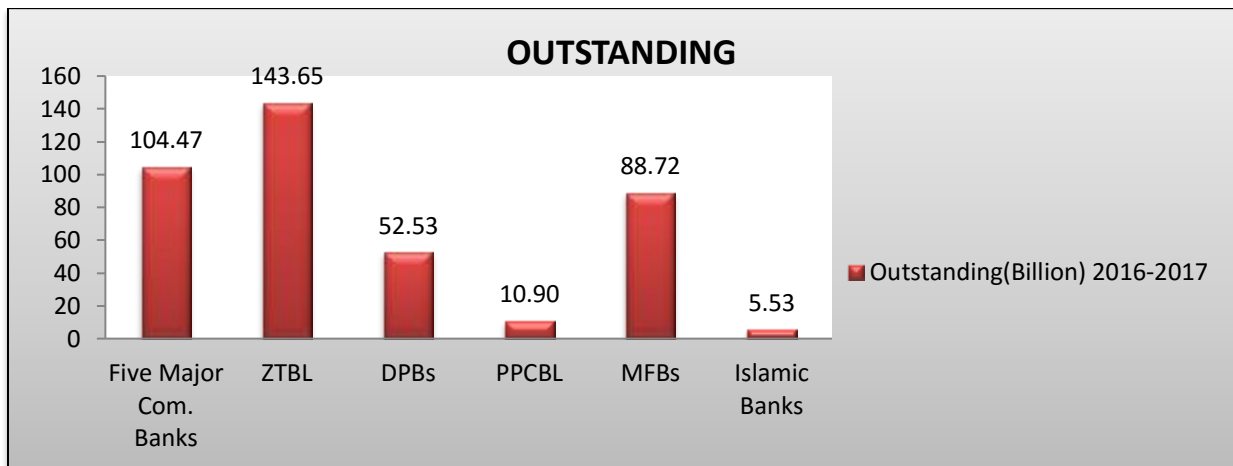
2016-2017, while the five major commercial banks achieved 100.61 percent agri. credit disbursement against assigned targets by SBP. ZTBL disbursed an amount of Rs. 92.451 billion with an achievement of 90.20 percent during the period July-June (2016-2017). Details are given in the following tables.

(Rs. in Billion)												
Banks/Players	Target	2014-15(July to June)			Target	2015-16 (July to June)			Target	2016-17 (July to June)		
	2014-15	Disbursed	Target Achieved (%)	% Share in Total Disbursement	2015-16	Disbursed	Target Achieved (%)	% Share in Total Disbursement	2016-17	Disbursed	Target Achieved (%)	% Share in Total Disbursement
Five Major Commercial Banks	252.5	229.287	90.81	52.1	305.7	269.598	88.19	52.86	340	342.068	100.61	48.556
ZTBL	90	78.672	87.41	17.88	102	71.302	69.9	14.02	102.5	92.451	90.20	13.123
DPBs	115.5	91.125	79.2	20.7	131.8	106.838	81.05	20.95	139.6	139.061	99.59	19.739
PPCBL	11.5	8.097	70.41	1.84	12.5	7.947	63.58	1.55	12.5	10.880	87.04	1.544
MFBS	28.2	27.822	98.8	6.3	40.1	46.744	116.5	9.166	94.4	107.702	114.13	15.288
Islamic Banks	2.3	4.751	170.31	1.08	7.9	7.53	95.93	1.47	11	12.326	112.06	1.750
Total	500	439.754	87.95	100	600	509.96	87.95	100	700	704.488	100.64	100.000

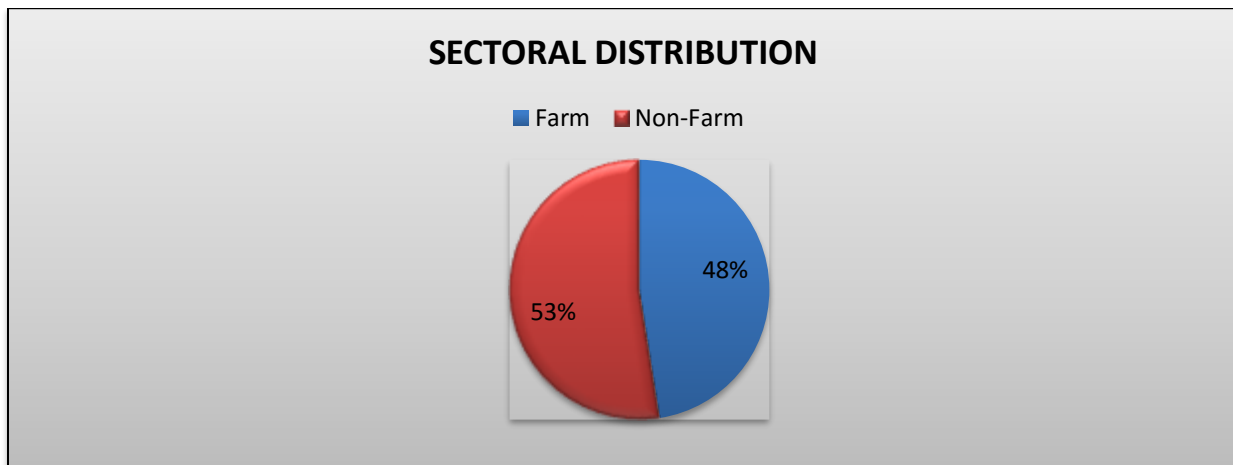
Graphical Representation:



Outstanding Position of Agri. Credit:



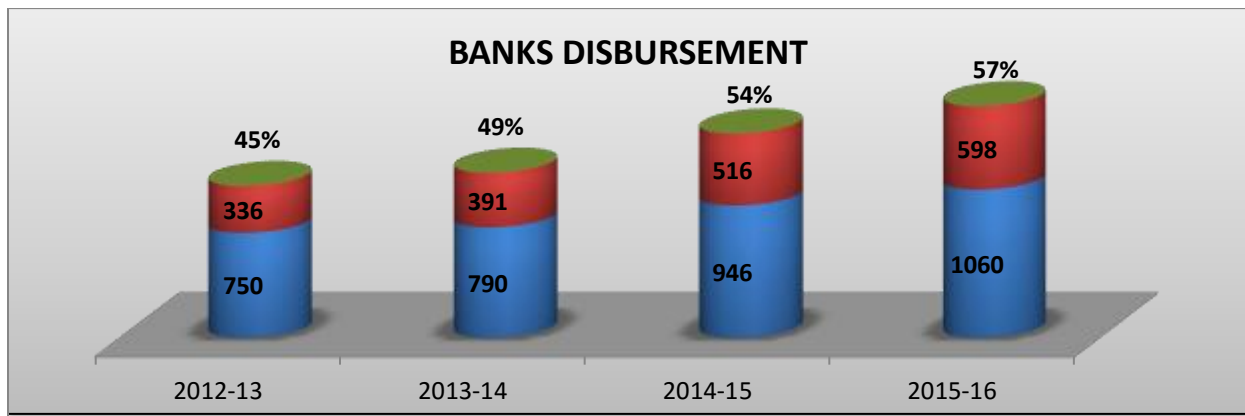
Sector and Holding wise Agri. Credit Distribution:



Agri-Credit Demand vs. Supply

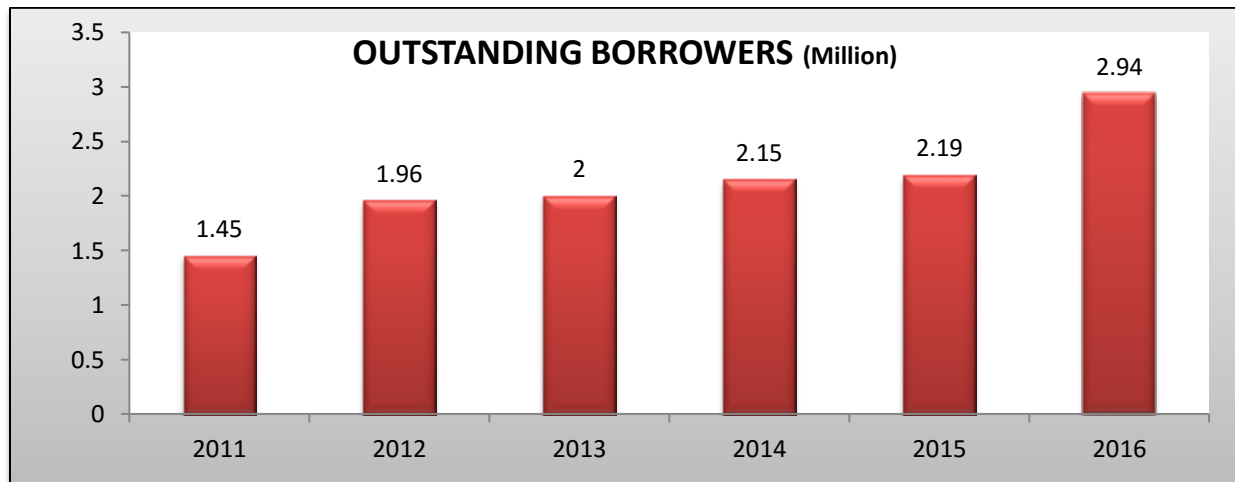
Demand for agri-credit is increasingly being served by formal institutions by providing Rs 598.3 billion against the demand of Rs 1060 Billion (57%) in year 2015-16.

Rs. in Billion			
Year	Demand	Supply	Req. Met
2012-13	750	336	45%
2013-14	790	391	49%
2014-15	946	516	54%
2015-16	1060	598	57%



Trend of Agri. Borrowers

Disbursement of agri-credit has increased resulting in the increase in the number of outstanding borrowers in Pakistan.



Segment-wise and Sector-wise Infection Ratio

The infection ratio of agri. loan is much less than that of industrial and consumer loans in the banking sector.

Sector	Infection Ratio	
	CY 15	CY16
Agriculture Sector	13	12.9
Agribusiness	8.5	7.6

Sowing and Harvesting Times of Important Crops and its linkage with Recovery

The normal times of sowing and harvesting of various crops in different provinces as conveyed by Ministry of National Food, Security and Research are given as under however these times do not match with the recovery time of the loan because some banks recover their loans on quarterly basis while others recover on biannually and annually basis.

Name of Crop	Normal Time of Sowing				Normal Time of Harvesting			
	Punjab	Sindh	NWFP	Baluchistan	Punjab	Sindh	NWFP	Baluchistan
Wheat	Oct/Nov	Sept/Nov	Oct/Nov	Sept/Nov	May/June	April/June	May/June	April/June
Cotton	May/June	April/June	April/May	-	Oct /Dec	Sep/Dec	Oct /Dec	-
Rice	June/July	June/July	June	June/July	Oct/Nov	Sep/Nov	October	October
Sugar-cane	Feb/Mar	Feb/Mar & Sep/Oct.	Mar & Sep/Oct	Feb/March	Nov/Mar	Oct/April	Nov/March	Nov.
Tobacco	Jan/Mar	September	Nov/Dec & Mar	May	June	Oct/Nov	May/June & Sep/Oct	Oct /Dec

5. FORMAL CREDIT MARKET

5.1. Zarai Taraqiati Bank Limited (ZTBL)

Zarai Taraqiati Bank Limited (ZTBL) (formerly known as ADBP - Agricultural Development Bank of Pakistan) is the largest public sector Specialized Financial Development Institution in Pakistan and came into being through ADB Ordinance 1961. Zarai Taraqiati Bank Limited

(ZTBL) was incorporated as a public limited company in 2002 under Companies Ordinance, 1984. The bank provides agriculture credit and banking services to farmers across the country. The bank continues to remain the largest public sector agriculture development financial institution in the country. ZTBL has a limited banking license which restricts the institution from undertaking broad range of banking business. The bank has applied for commercial banking license to the State Bank of Pakistan (SBP); however no decision has yet been made with regards to the same.

ZTBL having the largest network of 460 branches and 32 zonal offices is the only specialized financial institution for agriculture sector in Pakistan, catering to the credit needs of farmers for the production, development purposes and modernization of agriculture through field force of Mobile Credit Officers who deliver credit with technology at the doorstep of the farmers.

The Bank's financial products range from the basic credit facility for seeds, fertilizer, tube well, tractor, harvester and other attachments, to the loans for latest technologies of solar tube well, biogas units, covered horticulture, hay packing units, vegetable/fruit dryers and milk chillers.

The Bank has been playing an instrumental and proactive role in modernization of agriculture, boosting productivity and enabling growers, particularly the landless poor and small land owners to increase their farm productivity and income. ZTBL alone is serving approximately 0.358 million farm families annually. The Bank has disbursed Rs. 1,170,204.534 million since inception up to 31.12.2016 which also includes financing of 584,468 tractors and 157,222 tube-wells. While meeting the demand for mechanization, attention was also concentrated towards the provision of more credit for livestock, dairy farming, poultry farming, fish farming and small godowns for self-storage.

5.1.1. Agri. Loan Schemes of ZTBL

Scheme Name	Collateral	Loanable Items	Maximum Sanction Limit	Rate of Markup
PRODUCTION				
Sada Bahar Scheme (SBS)	Agri. land mentioned in Agri. Pass Book.	Inputs i.e. seed, fertilizer and, pesticides/ insecticides/ labor charges etc. Working capital for Poultry, Dairy, Fishery	Rs.0.500 million per borrower/party	14.00% p.a.

		and Orchards		
Awami Zari Scheme (AZS) Farm and Non-Farm Credit	Tangible Securities	Inputs-Seed, fertilizer, pesticides /insecticides /POL /labor charges etc.	Rs.0.700 million per borrower/party	14.00% p.a.
Kissan Dost Scheme (KDS)	Tangible properties	Seed, fertilizer, pesticides & other etc. The financing would be for one season crops i.e. either Rabi or Kharif.	Rs.0.700 million per borrower/party.	Special rate of 12.5% p.a.
Govt. of Punjab Mark-Up Free Agri. E-Credit Scheme for Small Farmers	All types of tangible securities/properties acceptable to the Bank including agriculture land under Pass Book System/digitalized/e-Pass Book.		The maximum loan limit for the scheme is Rs. 325,000/- per borrower/party for input/production loan which would be provided in three (03) installments on seasonal basis. Bifurcation of the same is given below:- For Rabi crops upto Rs. 25,000/- per acre For Kharif crops Rs. 40,000/- per acre.	Mark-up of loans under the scheme will be charged by ZTBL @ 12.50% p.a. Mark-up subsidy by Govt. of Punjab would be provided for 05 years on timely repayment of loan. The loan for first two years would be free of Mark-up whereas for the third, fourth & fifth year the borrowers would bear 4%, 8% & 12 % Mark-up cost respectively.
Kissan Assan Karobar Scheme (KAKS) for landless farmers against the deposit saving accounts /TDR	The deposit will be held under lien during the currency period of loan. TDRs placed with ZTBL for said purpose will also be lien marked and kept under lock & key after entering into safe Deposit Register (ACF-46). Deposits kept in saving account as well as TDRs under Banks lien will only be released after complete adjustment of loan liability.	For Rabi and Kharif crops & inputs	Maximum 75% financing with a cap of Rs. 500,000/- against deposit with ZTBL by the farmer himself or through third party deposit under Bank's lien.	8.25% p.a.

DEVELOPMENT				
Financing for "Hay Packing"	The loan would be secured against all types of securities acceptable to the Bank as per its standing instructions	Hay Packing Machine	Under the scheme, maximum financing limit is upto Rs. 1.500 million per borrower/party.	14.80% p.a.
ZTBL financing to Service Provider (SP)/ Crop Production Companies (CPCS)	1-Registered mortgage of property/ land and other tangible securities acceptable to the Bank. 2-Post dated cheques from concerned Service Provider/Crop Production Company (CPC) for repayment of loan/loan installments. 3-Continuous Guarantee of Service Provider/Crop Production Companies & Personal Guarantees of all Directors of the Company that the property will stay un-encumbered during the tenure of guarantee.		Up to the tune of Rs. 25 million.	14.80% p.a.
Warehouse Receipt Financing Scheme	The loan under the scheme would be secured against securities:- Electronic Warehouse Receipt (EWR) issued by Pakistan Mercantile Exchange (PMEX)/Pledge of Stock/Personal Guarantee of the depositor/borrower up to the marked-up amount.	Warehouse Receipt	Rs.1.000 million per borrower/party.	Special rate of 12.5% p.a.
Camel Rearing Scheme	All Tangible securities acceptable to the Bank owned by the borrowers as per policy of the Bank.	Camel	Rs.1.500 million per borrower/party.	14.80% p.a.
Agri. Financing Scheme for Cut flower	All tangible properties owned by the borrowers as per policy of the Bank.	Cut Flowers	Rs.1.500 million per borrower/party.	14.80% p.a.
Karachi Package	Tangible properties and all other acceptable form of	Fisheries, Dairy, Poultry Farming, Feed	Rs.1.500 million per	14.80% p.a.

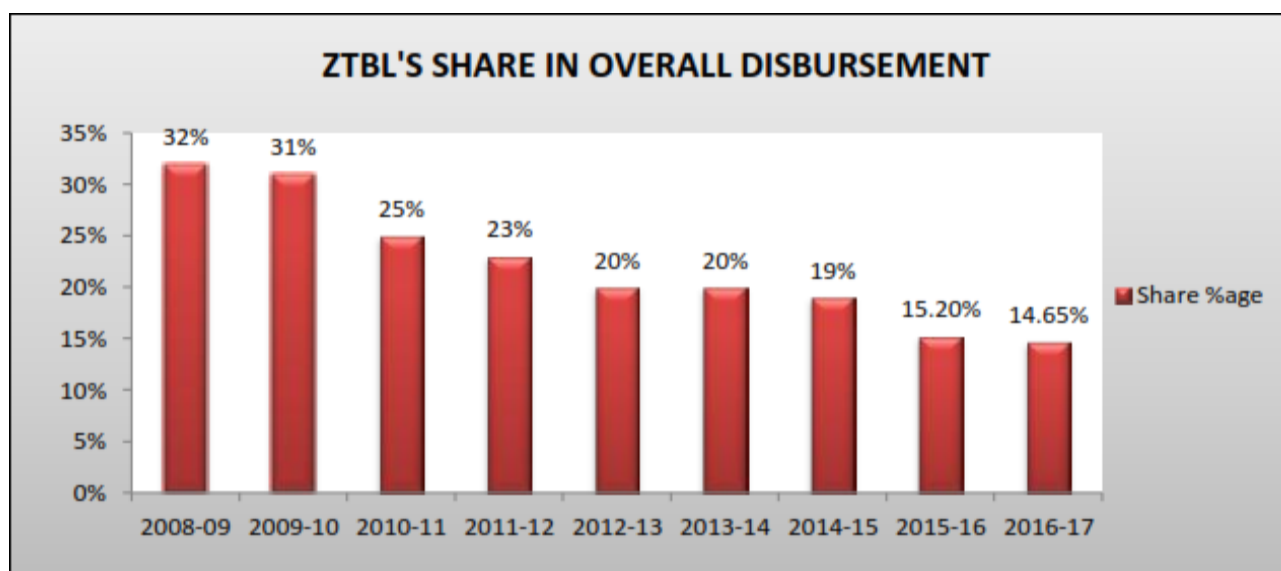
	securities	Mill, Horticulture, Vegetable raising, Nursery, Orchards, Covered Horticulture, Cut-Flowers, Ornamental Plants, Agri-Machinery for Irrigation Schemes & Milk Collection Centres	borrower/party.	
Special Scheme for Gilgit-Baltistan	Tangible properties and all acceptable forms of securities	<p><u>Trout Farming:</u> Keeping in view scarcity of productive land in Gilgit-Baltistan, the existing requirement of land for fish pond has been relaxed from minimum 4 acres and maximum 10 acres to minimum 01 Kanal and maximum 08 Kanal. The maximum limit of the loan is Rs.1.500 million per borrower/party.</p> <p><u>Yak Farming:</u> Animals reared for both meat & milk purposes have ample demand in the local market. The loan limit for Yak animal has been refixed as Rs.1,25,000/- per head. The loan limit for Calf of Yak animal has been fixed as Rs.40,000/- per head. Working capital for Yak animal has been fixed as Rs.10,000/- per head.</p> <p><u>Seabuck Thorn Cultivation:</u> Various precious items like oil, jam and jelly are produced from the seeds of Seabuckthorn plant. It is grown on small scale but has cultivation potential in the area with scope for foreign exchange earnings. Loan limit has been fixed as Rs.52,000/- per acre.</p> <p><u>Hybrid poplar</u> Loan limit has been fixed Rs.1,20,000/- per acre.</p>		14.80% p.a.
Asan Qarza Scheme	Tangible properties owned by the borrowers as per policy of the Bank. In case rural youth have no security their parents/family member's property can be accepted as a co-applicant.		Rs.0.200 million per borrower/party.	14.80% p.a.
Khawateen Rozgar Scheme	As regards security, tangible properties owned by the borrowers and in case of its non-availability, parents/family member's property can be accepted as a co-applicant. Personal		The maximum loan limit per borrower/party for secured loan is Rs.0.200 million and for surety loan upto Rs. 25,000/-	14.80% p.a.

	surety/guarantee may also be accepted as per standing instructions of the Bank.		per borrower/party.	
Khushk Ratab Scheme	The loan is secured against all types of tangible securities/properties acceptable to the Bank. In case of its non- availability, parents/family member's security can be accepted as a co-applicant		The maximum loan limit per borrower/party is Rs.0.500 million.	14.80% p.a.
Soghat-e-Shireen Scheme	The loan is secured against all types of tangible securities/properties acceptable to the Bank. In case of its non- availability, parents/family member's security can be accepted as a co-applicant		Rs.0.500 million per borrower/party.	14.80% p.a.
Tahafuz-e-Ajnas Scheme	All tangible securities acceptable to the Bank		Rs.0.500 million per borrower/party.	14.80% p.a.
Shamsi Tawanai	All tangible securities acceptable to the Bank		Rs.0.500 million per borrower/party.	14.80% p.a.
Tahafuz-e-Samar	The loan is secured against all types of tangible securities/properties acceptable to the Bank and personal surety up to Rs.25,000/- only. In case of its non-availability, parents/family member's property can be accepted as a co-applicant.		Maximum loan limit per borrower/party is Rs.0.500 million.	14.80% p.a.
Red Meat Financing Package	Tangible properties owned by the borrowers as per policy of the Bank.		Rs.1.500 million per borrower/party.	14.80% p.a.
Tawanai Bachat Scheme(Biogas Unit)	Tangible properties owned by the borrowers and in case of non availability parents/family member's property can be accepted as a co-applicant.		Maximum loan limit is Rs.0.750 million per borrower/party.	14.80% p.a.
Tobacco Barn Financing	Tangible properties owned by the borrowers and in		Rs.0.400 million per	14.80% p.a.

Scheme	case of non availability parents/family member's property can be accepted as a co-applicant.		borrower/party.	
Financing of Milk Chilling Unit	Tangible properties owned by the borrowers as per policy of the Bank.		Rs.1.500 million per borrower/party.	14.80% p.a.
Rural Development Scheme	Tangible properties.		Rs.1.500 million per borrower/party.	14.80% p.a.

5.1.2. ZTBL's Share in Country's Agri. Credit Disbursement

(Rs. in Billion)			
Year (July-June)	Disbursement	Total Agri. Disbursement	Share %age
2008-09	75.1	233	32%
2009-10	79	248.1	31%
2010-11	65.4	263.1	25%
2011-12	66.1	293.6	23%
2012-13	67	336	20%
2013-14	77.9	391.3	20%
2014-15	95.8	515.9	19%
2015-16	90.98	598.3	15.20%
2016-17	75.76	517.1	14.65%



5.2. Agriculture Financing Products & Schemes of Major Banks:

PRODUCT/SCHEME	FEATURES
NATIONAL BANK OF PAKISTAN	
<p>NBP Kissan Dost</p> <ul style="list-style-type: none"> • NBP Production Loan Scheme • NBP Micro Loan Scheme • NBP Development Loan Scheme • NBP Tractor Loan Scheme • NBP Tubewell Loan Scheme • NBP Agri-Implements Loan Scheme • NBP Irrigation Equipment Loan Scheme • NBP Water Channel Construction Loan Scheme • NBP Farm Transport Loan Scheme • NBP Biogas Plant Loan Scheme • NBP Construction of Godowns and Storage Loan Scheme • NBP Sulphuric Acid Generators Loan Scheme • NBP Fisheries Loan Scheme • NBP Construction of Fish Pond Loan Scheme • NBP Fish Boat Loan Scheme • NBP Livestock Farm Loan Scheme • NBP Loan Scheme for Purchase of Livestock Heads • NBP Livestock Clinic Loan Scheme • NBP Livestock Forensic Laboratory Loan Scheme • NBP Motor Cycle Loan Scheme • NBP Milk Processing Loan Scheme • NBP Milk Chilling Loan Scheme • NBP Poultry Farming Loan Scheme • NBP Cold Storage Loan Scheme • Integrated Pest Management Loan Scheme • NBP Silk Husbandry Loan Scheme • NBP Beekeeping Loan Scheme • NBP Forestry Development Loan Scheme 	<ul style="list-style-type: none"> • Markup rate is 15.5% p.a. • Finance facility is also available for landless farmers. • Financing available against Pass Book, Residential / Commercial property, Gold ornaments and paper security. • Loan facility on revolving basis for three years (renewable on yearly basis without obtention of fresh documentation and approval).
NBP Kissan Taqat-Dairy Farm Scheme	
HABIB BANK LIMITED	
<p>HBL ZaraiBanking HBL ZaraiBanking provides loans to small-scale land owning farmers as well as large institutionalized and alliance based finance, enhancing agricultural harvest and, in turn, economic output of the country.</p> <p>Financing Products and Features HBL ZaraiBanking enables farmers to invest in premier quality seeds, fertilizers, pesticides, agricultural</p>	

<p>implements and non-farm setups through its various product programs.</p> <ul style="list-style-type: none"> ● Crop Inputs Crop specific finance for purchase of Agri inputs such as seed, fertilizer, pesticide and other related inputs. ● Farm Implements Finance available for purchase of farm implements & machinery like combined harvester, sprayers, ploughs, tube wells and other crop-related tools/implements. ● Tractors/Agricultural Vehicles Finance available to individual farmers, self-employed tractor operators, providing the option to select vehicles from a range of different manufacturers ● Livestock: Finance available for feed, medicines, raw material, raising charges and other related activities. ● Poultry: Finance available for all poultry related activities including poultry farm construction / equipment, hatchery plant & machinery, poultry feed, poultry medicines, composite feed production, poultry processing and other related activities. ● Fish Farming: Finance available for inland fish farms as well as deep-sea fishing. This includes procurement of boat, fish locating equipment, nets & ropes, ice maker, fish farm water solution, hatchery construction/equipment, purchase of medicines / feed and other related activities. ● Group Lending: Joint finance facility for a group of farmers with small land holdings for working capital requirement. ● Tobacco: Finance available to farmers engaged in the cultivation of tobacco crop. 	
MUSLIM COMMERCIAL BANK	
<p>Shadabi Plan Shadabi Plan caters the financing needs for production activities on the farm which mainly include seed, pesticides and fertilizers along with provisions for miscellaneous expenses like payment of electricity & diesel bills of tubewells, maintenance expenses for tractors and the like items as per list of Eligible items.</p>	<ul style="list-style-type: none"> ● Financing requirement is ascertained for a period of three years ● Limit is sanctioned for three years on revolving basis with one time documentation subject to annual clean up along with markup. ● Mark up is charged on the limit amount utilized by the farmer
<p>Khushali Plan Under Khushali Plan loans/finances are allowed for farm/non-farm credits which include fixed investments/working capital requirements. Amount of</p>	<ul style="list-style-type: none"> ● Short, medium and long term financing facilities are extended ● The repayment is scheduled on the basis of farmer's convenience on annual/ biannual

<p>finances sanctioned depend upon the credit requirement and collateral. Financing for land leveling/development, heavy equipments, agriculture machinery, vehicles/transport for agri purpose are covered under this scheme.</p>	<p>basis.</p>
<p>Tractor Finance To boost up the mechanized farming in the country, Tractor Finance Scheme is introduced to offer specialized services to farmers. Under this scheme, there is no requirement of minimum land holding because of multipurpose use of tractor for agriculture cum commercial. However, the repayment capacity and potential use of tractor will be evaluated at the time of loan processing.</p>	<ul style="list-style-type: none"> • All types & makes of tractors either locally manufactured or imported can be financed • Tractor is financed for a period of five years or earlier as per farmers choice • Installment is on biannual basis. • Comprehensive insurance is required to be intact during the tenure of finance • Tractor will be jointly registered in the name of the borrower and the bank. • Tractor will remain hypothecated in banks favour till the loan is repaid in full • Security/collateral will be required as per bank policy.
<p>Abiari Finance Under the Abiari Finance (Irrigation Finance), financing facilities for tube well, other wells, irrigation systems of all types including sprinklers are covered. The purpose is to facilitate the farmers in overcoming the shortage of water for cultivation/plantation since water is essential requirement for crops.</p>	<ul style="list-style-type: none"> • The requirements may differ from farmer to farmer. • Evaluation/assessment of finance will be made on case to case basis. • The finance will be for a period to be determined on the basis of assessment • Repayment of the loan will be on biannual basis or linked with crop cycle • Three quotations will be required in case of machinery to be installed
<p>Grower Finance Grower Finance is a unique way of financing registered/(bonafide) growers/farmers of sugarcane, cotton and rice(mills). The special characteristic is that the financing facilities are extended to farmers against the Mill/Factory guarantee. Fixed/floating charge may be created on the Mill's assets and the loan is disbursed directly to the growers. This finance is short term in nature but the tenure may extend to eighteen months in case of growers of sugarcane.</p>	<ul style="list-style-type: none"> • The grower should have his account opened in MCB Branch • The BOD of the Mill should pass a resolution for financing request addressed to MCB Bank • The charge over the assets of the company is created • KYC requirements are complete • Growers crop is hypothecated • Repayment of the loan is linked with crop harvesting
<p>Dairy and Meet Finance The plan is aimed at promoting the Dairy sector & meat production in the country. The farmers are extended financing facilities to purchase dairy animals for milk and for the establishment of animal fattening stations to increase meat production on commercial lines, thus enabling the farmer to create more income.</p>	<ul style="list-style-type: none"> • The amount of loan is assessed on the basis of the purpose for which loan is required • The repayment of loan may be scheduled in installments on monthly, quarterly and half yearly basis • The cash flows to be routed through MCB

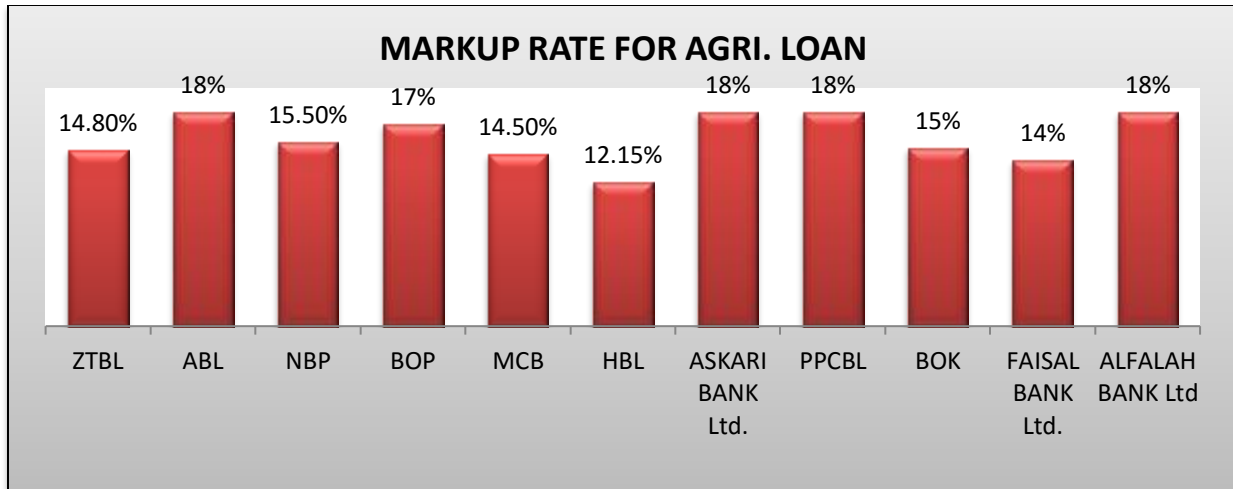
	<p>Bank account</p> <ul style="list-style-type: none"> • The animals are comprehensively insured till the repayment of the loan • The animals financed are hypothecated in banks' favor • Farmers supplying milk to Milk processing units like Nestle's are covered.
<p>Murghbani Finance Murghbani Finance covers extensively all requirements of the poultry industry with focus on facilitating the farmers. We offer financing facilities of all types of activities in the value chain starting from establishment of poultry farms infrastructure to all requirements in the process till the final out put including marketing of the same by the farmers.</p>	<ul style="list-style-type: none"> • All farmers engaged in non-farm activity of poultry financing are encouraged to avail financing facilities. • The loan requirement & tenure of finance depends upon the purpose and life of the project • Comprehensive insurance has to be arranged by the borrower where possible • The intending borrower should be able to offer adequate security acceptable to the bank along with Hypothecation of stock.
<p>Baghbani Finance Baghbani Finance aims at facilitating the farmers engaged in horticulture by extending credit facilities covering the entire range of related activities. The proposals are assessed keeping in view the market potential and repayment capacity based on the cash flows of the activity. The farmers are extended all type of credit facilities required to produce fruits & vegetables of better quality. The repayment of the loan is as per farmer convenience or linked to crop cycle and timings of cash flows. Facilities like running finance, working capital requirements, infrastructure development, machinery & equipment, irrigation etc are all covered under this finance. Progressive farmers are specially encouraged.</p>	<ul style="list-style-type: none"> • The farmer/applicant should be having an account with our branch • The purpose/project should be viable • Should meet all documentation formalities • Should be experienced to handle the project • The loan requirement & tenure of finance depends upon the purpose and life of the project • The intending borrower should be able to offer adequate security acceptable to the bank • Comprehensive insurance has to be arranged by the borrower where possible
<p>Mahigeri Finance Mahigeri Finance caters to the credit needs of fish farmers covering entire range of activities including marketing of their produce. The loans are of short, medium and long term depending upon the purpose. Financing for value addition process by the fish farmers is also covered.</p>	<ul style="list-style-type: none"> • All farmers/Fishermen engaged in non-farm activity related to fisheries are encouraged to avail financing facilities • The loan requirement & tenure of finance depends upon the purpose and life of the project • The intending borrower should be able to offer adequate security acceptable to the bank • Comprehensive insurance has to be arranged by the borrower where possible

ALLIED BANK LIMITED	
<p>Haribhari Agri Revolving Credit This financing facility is designed to facilitate Agricultural Farmers in obtaining Agriculture Production Loans to meet working capital needs of Agriculture farming.</p>	<ul style="list-style-type: none"> • Credit availability for 3 years on Revolving basis • Loans can be extended against one or more security options, details below: <ol style="list-style-type: none"> 1. Agriculture Land 2. Urban Property 3. Liquid Securities • Markup will be charged on amount utilized / withdrawn (outstanding debit balance) • Free Crop Loan Insurance facility for farmers cultivating up to 25 Acres in Punjab, KPK & Sindh and 32 Acres in Balochistan, growing Wheat, Rice/Paddy, Cotton, Sugarcane & Maize
<p>Tractor Financing This financing facility is designed to facilitate Agricultural farmers in obtaining Agriculture Development Loans (Term Finance) to purchase brand new Tractor at competitive markup rates.</p>	<ul style="list-style-type: none"> • Tenure of the loan: 3 to 5 years • Land under cultivation should be 15 Acre minimum • Minimum land ownership should be 5 Acre for one tractor • Maximum one tractors can be financed per farmer • Repayment in half yearly installments (Principal with Mark-up) • Insurance of Tractor • Loans can be extended against one or more security options, details below: <ol style="list-style-type: none"> 1. Agriculture Land 2. Urban Property 3. Liquid Securities 4. Hypothecation
<p>Agriculture Finance Dairy Farming Financing under this Product category will be provided to the established running dairy farms to expand their businesses by developing new farms/sheds, purchase of Animals, and fulfill their daily working capital requirements.</p> <p>Two types of financing will be extended to dairy farmers, under this product category:</p> <ol style="list-style-type: none"> 1. Working Capital Finance – Dairy Farming 2. Development Finance – Dairy Farming 	
<p>Agriculture Finance Poultry Farming Agriculture Finance for Poultry Farming facility is designed</p>	

<p>to cater the financial requirements of the farmers associated with Hatchery and/or Poultry Farming i.e. Broiler & Layer Farming (except Breeder Farming) sector(s). The Bank will provide two type of financing facilities to the established farms based on purpose under each segment.</p> <ol style="list-style-type: none"> 1. Working Capital Finance – Poultry Farming 2. Development Finance – Poultry Farming 	
UNITED BANK LIMITED	
<p>UBL Cotton Ginning Loan UBL Cotton Ginning loan is available for Small & Medium Enterprise (SME) customers. It's exclusively designed for cotton ginning units. Company can be a Sole Proprietorship, Partnership and Private Limited companies and will be available for purchase of fresh crop of phutti / raw cotton from the growers and open market.</p>	<ul style="list-style-type: none"> • Financing facilities available up to PKR 100 Million • Running finance (Pledge / Hypo), Term Loan and Guarantee facilities • Minimum 3 years of respective business experience
<p>UBL Rice Husking Loan UBL Rice Husking loan is available for Small & Medium Enterprises (SME) customers. It's exclusively designed for rice husking units. Company can be a Sole Proprietorship, Partnership and Private Limited companies and will be available for purchase of fresh crop of paddy from the growers and open market.</p>	<ul style="list-style-type: none"> • Financing facilities available up to PKR 75 Million • Running finance (Pledge / Hypo), Term Loan and Guarantee facilities • Minimum 3 years of respective business experience

5.2.1. Markup Rate of Different Banks on Agri. Loan

The SBP has maintained the policy rate at 5.75pc since May 2016 — a rate at which it provides liquidity or lends money to the commercial banks that they use as a base rate. The banks are generally expected to charge their customers slightly higher interest rates on the basis of the SBP policy rate after calculating their overhead expenses and risk coverage. However, Commercial Banks are charging farming community up to 18% markup despite the historically lowest 5.75pc policy rate of the State Bank of Pakistan (SBP). ZTBL charges 12.50% mark-up on production loan while its Kissan Assan Karobar scheme has the lowest mark-up i.e. 8.25 %. Mark-up charged by different banks for agri. loan is given below.



5.2.2. Revolving Credit Scheme

Revolving Credit Scheme was introduced in 2003 by State Bank of Pakistan in consultation with banks. Under the scheme, banks can provide finance for agricultural purposes on the basis of revolving limits for a period of three years with one-time documentation. The borrowers are required to clear the entire loan amount (including mark-up) once in a year at the date of their own choice. Multiple withdrawals are allowed and the borrowers are also allowed to make partial repayments. Only the amount utilized by the borrower will attract mark-up. This facility can be availed by the farmers just like “running finance”. The limits under this scheme are automatically renewed on annual basis without any request or fresh application.

The credit limits under Revolving Credit Scheme are available to the farmers for full one year i.e. covering both the crops in a year. To save the farmers from stress sale of their crops, they are required to clear their account only once in a year at a date indicated by the borrower and mutually agreed with lending bank.

5.2.3. Authorization for Provision of Agri. Credit

All banks can provide agricultural credit to Farmers / growers under their financing policy. SBP does not restrain any bank from providing agricultural credit. However, under the Agricultural Credit Scheme, indicative targets are given to 21 banks on annual basis. These include; two specialized banks (ZTBL & PPCBL), five major commercial banks (ABL, HBL, MCB, NBP & UBL) and 14 domestic private commercial banks; 1) Askari Com. Bank, 2) Bank Al Habib, 3) Bank Al-Falah , 4) My Bank, 5) Faysal Bank, 6) Habib Metropolitan Bank, 7) PICIC Com.

Bank, 8) KASB Bank, 9) Prime Com. Bank , 10) Saudi Pak Com. Bank, 11) Soneri Bank, 12) Bank of Khyber, 13) Bank of Punjab and 14) Standard Chartered Bank (Pakistan).

5.2.4. Lending Rate

Since July 28th 1997, State Bank of Pakistan has removed cap on the minimum lending rates to be charged by the Commercial Banks on agricultural financing. The cap on maximum lending rates was removed in October 1995. Banks are now free to charge the mark-up from the borrowers, on the competitive basis determined under market forces. Monetary policy rate and KIBOR are used as indicative rate and banks use them to set their respective lending rates. State Bank of Pakistan had provided credit lines to ZTBL, PPCBL and SME Bank on the prevailing Government T. Bill rates in the past however the funding ceased some couple of decades back. In the recent past the monetary policy rate has been reduced significantly, however the banks have reduced their markup rate slightly. Commercial banks have to disburse their Mandatory Credit Targets allocated to them from their own sources/deposits.

6. INFORMAL CREDIT MARKET

Farmers are the mainstay of the rural credit markets and are the resource-poor segment of society whose expenditures exceed their income. In order to meet this shortage, they take loans from different sources as well as in different forms such as cash or in kind and sometimes have to bear the heavy cost of such loans. Landless people borrow for consumption purposes from moneylenders and have to pay a very high interest rate mostly from informal sources.

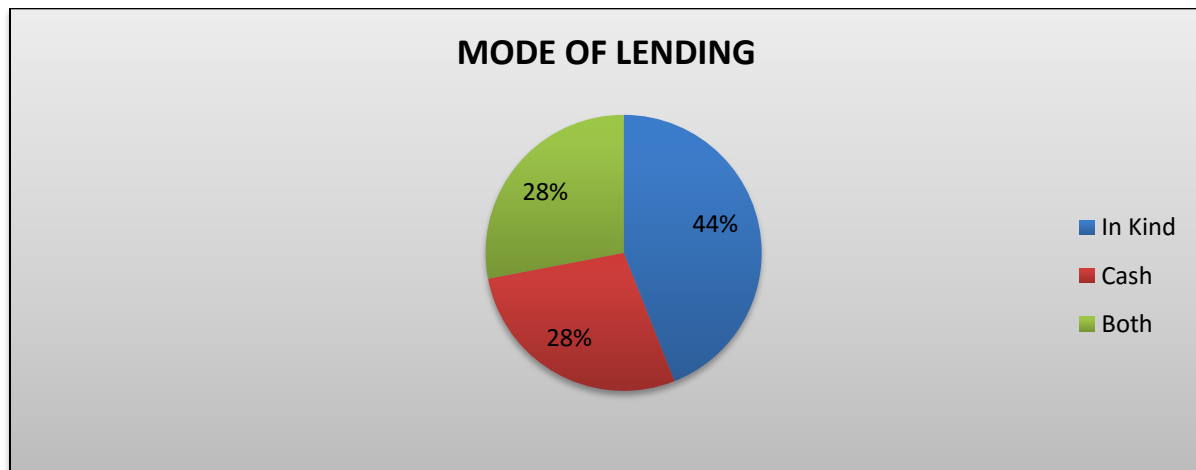
Some of the reasons for preference towards informal borrowing are;

- Easy & quick availability
- No documentation involved
- No collateral
- Easy repayment
- Low transaction cost

The personal relationships preclude the need for collateral. People borrowing in cash from moneylenders present social collateral for borrowing. In case of default aarthis, commission agents and input dealers allow some relaxation in payment to the extent of waiting for the next crop season for genuine reasons.

6.1. Moneylenders (Pakka Aarthis)

Aarthis lend mostly to businessmen in rural areas as there are fewer chances of default. According to an estimate 25 percent Aarthis lend to agriculturists. Moneylenders usually advance loans after scrutinizing borrowers in order to avoid willful default. With an average number of 2 to 3 villages (in Punjab) under the ambit of the money lenders (according to some earlier researches), they have some basic information about the credibility of the borrowers because they belong to the same community. In such cases, their personal experience of money lending along with the market credibility of the borrower come into play. Loans are advanced both in kind as well as cash: indeed, many of them also lend against jewellery as collateral for a fixed period. Many of Aarthis get the borrower to sign an agreement - either on plain paper or an affidavit - which lists the terms and conditions of the loan. The cost of the transaction, if any, is borne by the borrower like cost of stamp paper and photocopy etc.



Due to heterogeneous nature of money lending a multitude of interest rates is employed by the Aarthis. These moneylenders working in rural areas have differentiated their money market with respect to the type of borrowers and have different terms and conditions for each. For those with household and consumption needs, they usually advance loans against some surety or a guarantor and charge a very high interest rate; calculated in percentage terms, this is usually between 10 to 12.5 per cent per month. To businessmen and agriculturists, on the other hand, moneylenders advance loans on soft term at interest rate of one to 4.16 per cent per month. Irrespective of the type of borrower, the average annual interest rate being charged by moneylenders comes to 55.2 per cent or 4.60 per cent per month.

The recovery procedure is also different for household and business loans. A regular payment of interest is a pre-requisite of consumption loans and the principal amount may be returned if the borrower discontinues taking the loan. In agricultural/business loans, however, the normal procedure is that repayment plus interest on the borrowed amount is made at the completion of the sale of the produce. This takes usually two to three months. Another difference is that if businessmen/agriculturists are not able to repay their loans in time - for reasons such as a failure in business or the crop - moneylender wait a while for recovery, even perhaps till the next crop season.

The usual recovery means available to aarthi are:

1. Social Pressure for recovery
2. Sale of Collateral
3. Non-payment of crop purchased.

Input Credit Rates charged by Aarthi	
Inputs	Premium charged on 6 Month Credit
Dap Fertilizer	25%
Urea Fertilizer	25%
Cotton Pesticides	30%
Maize Pesticides	30%
Rice Pesticides	40%
Wheat Pesticides	25%

Annual Interest Rates on Inputs				
	Cotton	Maize	Rice	wheat
Implicit rate of return	52.4%	50.4%	51.0%	50.0%
Commission charged to borrowers on sale of crop	3%	6%	5.75%	4%
Annualized total interest charged by Aartis	61.9%	71.48%	80.7%	67.1%

6.2. Commission Agent (Kacha Aarthi)

Commission agents play an important role in rural informal credit markets because they have links with input dealers and farmers and provide a meeting place in which to facilitate deals between buyers and sellers. These commission agents also advance loans to farmers along with sale of their produce on a commission basis. Like moneylenders, commission agents also belong to the agricultural community and usually own land also. Commission agents usually charge an

average percentage of 2 to 3 from farmers/sellers, In order to sustain their relationship with farmers, commission agents apparently do not charge them a fee. Instead, they tack on the amount to the price of the input at the time of its sale. Commission agents are responsible for receiving payment from the buyers of the farmer's produce and after deducting their commission rate, if any, the remaining amount is returned to the farmers/sellers of the commodities. As the expenditures of farmers increased they invented new methods of fulfilling their credit needs by borrowing agricultural inputs from one commission agent and selling crop to the other. Through this method, they are able to extend the payback period. While some commission agents have stopped issuing loans to farmers owing to this behavior, others have benefited as their business volume has increased.

Commission agents also charge an interest on the loans issued to the farmers, with the rate being greater for pesticides than fertilizers. The interest rate amounts to 14.00 to 15.50 per cent if calculated on an annual basis depending upon the transaction.

As for the times when farmers are unable to pay their loans in time due to crop failure or some other natural calamities, commission agents have to wait perhaps for the next crop season in order to recover the money they are owed.

6.3. Input Dealers

Input dealers are pivotally positioned in the agricultural input market because farmers have to purchase most of their agricultural inputs from them. Input dealers do business on cash as well as on credit basis. In the latter case, dealers charge an additional price from the borrowers. Farmers either directly contact input dealers or go through their commission agents for the purchase of agricultural inputs. An input dealer caters to approximately 75 borrowers in cotton-wheat zone of the Punjab province because of the pesticide business in that area and his business reach is in 8 to 10 villages according to a study.

Input dealers sometimes deal directly with farmers but they generally prefer to sell inputs to farmers on behalf of commission agents. In such situations commission agents who receive their payment from farmers at the end of the crop season, pay dealers themselves after a week or two. Input dealers usually trade in pesticides/insecticides, fertilizers, seeds and diesel in the rural areas. Different inputs are given on credit for different periods of time and thus have different interest rates, but in order to remove the difference in time period, they have been calculated on an annual basis, the average rate being 25.81 per cent, while the range is between 2.2 per cent to

74.2 per cent. The reason for such a low percentage of interest is that there are some dealers who hawk more than one input to one farmer and charge more on some - usually pesticides - while other inputs such as fertilizers are sold on a no-profit-no-loss basis. In this way, borrowers need only deal with one input dealer for all their requirements. Usually input dealers prefer to give local or generic inputs on credit, mostly in pesticides, because they receive more commission. The table below shows the annual interest rate being charged by input dealers on different inputs.

Annual Interest Rate Charged by Input Dealers on Inputs	
Input category	Annual interest rate (%)
Fertilizer	23.74
Diesel	29.13
Pesticides	32.00
Poultry feed	40.91
Average	31.44

The reason for the high interest charged on pesticides compared to fertilizers is that it is used heavily on the cotton crop during the months of June and October. Indeed, pesticides are booked in advance by pesticide dealers and that means more commission. For selling on credit basis, on the other hand, pesticide dealers charge a certain amount over and above the maximum retail price. Input dealers mostly recover their loan amount at the end of the crop season through cash or kind as the case may be. In case of payment in kind they take over the borrower's produce which they sell through commission agents. After deducting the commission fee and their due loan amount, the excess amount is paid back to the farmer.

7. STRATEGIES OF PLAYERS IN RURAL FINANCE

Mobile Credit Officers (MCOs) of ZTBL visit the farmers regularly to ascertain the credit needs of the farmers and ensure its availability at their doorsteps and also provide technical help for different crops. In HBL, same duty is performed by Agriculture Finance Officer (AFO). Presently in ZTBL credit delivery is being made on Cash through Mobile Credit Officers (Supervised Credit Scheme).

Interest rates of the aarthis & Banks other than ZTBL & HBL are comparatively on higher side. Agri-financing is only a small chunk of major commercial bank's portfolios and major part of their income is generated from financing to other sectors and a multitude of banking services.

ZTBL finances purely for farming while other banks include agribusiness & industry in their agri-loan portfolio.

7.1. Core Advantage of Different Players

ZTBL	Major Banks	Aarhi
<ul style="list-style-type: none"> • ZTBL having the largest network of 460 branches and 32 zonal offices is the only specialized financial institution for agriculture sector in Pakistan, catering to the credit needs of farmers for the production, development purposes and modernization of agriculture through field force of Mobile Credit Officers who deliver credit with technology at the doorstep of the farmers. • ZTBL alone is serving approximately 0.358 million farm families annually. The Bank has disbursed Rs. 1,170,204.534 million since inception up to 31.12.2016 which also includes financing of 584,468 tractors and 157,222 tube-wells. 	<ul style="list-style-type: none"> • Offering a broad range of deposit accounts, including checking, savings, and time deposits, and extends loans to individuals and businesses. • They have the most extensive branch networks extending into both the rural and urban areas of Pakistan. This provides them with a competitive advantage over other banks. • There are advanced ATMs being deployed by these banks, which have features like cardless transactions (through biometric or thumb prints identifications). • Financing – debt (capital market instruments & straight loans) and equity (public & private) • Full range of advisory services i.e. consultancy, financial restructuring etc. • Liability products • Working Capital Finance • Trade finance and other related services 	<ul style="list-style-type: none"> • Aarhi operates from the commodity market. • Aarhi is involved in functions such as picking of crop (large farmers), storage, transportation, auction process, rate determination. • Aarhi takes immediate decision when a farmer approaches him. While Aarhi’s decisions are motivated by profit, the comfort level of farmer makes him indispensable • Aarhi is his own boss so he can bend his rules according to circumstances. • Aarhi normally does not require documentation and any security. • Aarhi extends support to farmer not only in farming but also in routine daily life requirements.

8. KEY ISSUES AND CHALLENGES

Demand Side	Supply Side
Lower productivity and higher cost of input-ineffective extension services	Inadequate bank infrastructure, however, existing infrastructure under utilized
Lack of post harvest management and marketing	Higher intermediation cost affecting scalability
Client Faith Sensitivity	Non-performing loans
Deficient collateral	lack of adoption of innovative and Digital Financial Solutions
Farmers financial literacy	

9. POLICY RECOMMENDATIONS

The following recommendations are put forward which need urgent attention of both governmental agencies and financial institutions to utilize the agricultural credit in an efficient way so that farmers may get maximum profits and their living standard be improved.

- To increase the accessibility of small and marginal farmer to formal agricultural credit through commercial banks.
- The procedure for obtaining loan should be made simple in terms of time, acceptance of security, documentation and disbursement of loan so that farmers feel easy and may avail it.
- Regular supervision and monitoring is necessary so that the credit be used for the right purpose. For this purpose the financial institution should develop sound tracking and monitoring system and by paying regular visits to the farmer's field.
- The rate of interest should be made lower on agriculture credit, because it often affects the repayment behavior of the farmer.
- In case of any natural calamity or failure of crop, the period of repayment should be extended at the convenience of the borrowers.
- Media should be used for the awareness of farmers about the key role of credit, which it has in agriculture production.
- New and specialized banks should be established to provide easy agriculture loan to the farmers.

- Group financing system should be introduced and promoted, as it reduces the chances of default due to social cohesion.
- Political intervention should be curbed in financial institutions in order to disburse agri credit in the right direction.
- Credit should be provided on time because in agriculture timing is crucial; otherwise delay will not help farming community to get maximum benefits from the credit.
- Provincial Agriculture departments and ministry of agriculture should educate the farmers to produce only those crops that have demand in the market. Banks should provide credit to farmers according to the demand of the crop in market and importance of crops.
- The recovery process of the credit should be simple.
- The banks should target and advance loans to small rural farmers, as they are the marginalized section of the society. In fact banks can reserve special quota for small farmers.

10. SUGGESTIONS FOR IMPROVING ZTBL'S LENDING STRATEGIES

Rural finance is a form of credit specifically intended for the requirements of the agriculture sector. Ranging from mortgage assistance to land development and farming equipment, these credit plans are a significant aspect of rural and semi-urban support. In a country like Pakistan, farming finance is a service of utmost importance and closely related to the continued progress of the country, as agriculture continues to play a central role.

- In Pakistan over 65% of the total population resides in villages and gain their livelihood from the farm and other rural based economic activities. Approximately more than 80% of the villagers do not have formal banking account. But finance is not absent there. Just the sources of supply are informal like moneylenders. In order to address the issue of financial exclusion, ZTBL needs to develop innovative distribution mechanisms for financial services (branchless banking) encompassing mobile money (mobile phone-based payment services) as well as agent banking (banking transactions through third parties).

- Financial literacy of the farming community is important and can be disseminated broadly and sustainably by the Bank, by organizing seminars & trainings, launching media campaigns, associations and informal local groups in rural places.
- ZTBL can play its due role in providing finances to the rural population by simplification of operational procedures in credit administration to reduce cost and modification of the terms of financing under most policy initiatives, such as interest rates, eligibility criteria, legal rights, etc, to enhance access.
- ZTBL must continually make changes to remain competitive, responding to the demands of its customers, ZTBL should reform its product line and provide an array of savings and credit products for a wide range of income-generating activities in rural areas.
- Recoveries must be incentivized.
- Recent advances in communication technology affect rural banking in two key ways. First, by facilitating electronic payment systems and branchless banking, this technology can significantly slash transaction costs for both service providers and consumers. Second, using portable smart technology to establish identification and monitor clients can significantly alleviate information asymmetries and help improve repayment rates.
- Cell phone-based payment service can serve clients, enabling them to remit money, make bill and loan payments and use banking services.
- The Bank can bring diversification and expansion in its portfolio by providing loans to the farming community for non-agricultural and productive activities as well as “social” and consumer expenses e.g. personal loans.
- In Pakistan most of the farmers are either marginal farmer or land less farmers producing crop by taking land lease from the affluent people. So, sometimes it is extremely difficult for the marginal farmers to get access to credit as the credits are not collateral free. In order to cater the needs of the marginal farmers, the Bank can go into Micro financing and lending to a group of farmers.
- Many farmers are reluctant to pay interest as it is prohibited in Islam therefore the Bank may introduce Islamic products and services to cater the needs of such farmers as its competitors have already done so.
- The bank can start leasing & renting of agriculture implements in order to retain its borrowers.

- Bank can ensure the utilization of input loan extended to the farmer by introducing prepaid cards credited with input loan amount. Farmers can go to the registered suppliers of the agri inputs and make transaction through that card thus insuring the usage of quality seeds and original fertilizers. In this way, the quality of the farm produce will not be compromised.
- An SMS alert service can be started that will remind the farmer of his due payment date and amount a week before reaching the due date of recovery.
- Recovery schedule should be revised so that it may match the cash generating cycle of the farmers in order to bar him from spending the money that can be timely recovered otherwise keeping in view the consumption oriented spending style of the villagers.
- The Bank needs to launch a proper media campaign in local newspapers and television channels as well as on national television about its products and agri. loan schemes in order to target the potential clients.
- In order to avoid litigation and long term court procedures, the Bank may approach Alternate Dispute Resolution agencies and make out-of-court settlement with the other party and recover the maximum possible loan amount.
- The Bank may encourage farmers to diversify crops and procure insurance to avoid dependence on a single crop and to protect against crop failure and weather-related risks.
- The Bank should ensure that there is market demand for the crops. Loans should be made only for crops with reliable buyers that have already been contracted.
- The major competitors of the Bank are extending credit to agriculture sector including agri businesses while ZTBL, being a specialized bank, is providing 99.9% loan for purely agriculture purposes. However, the Bank has an opportunity to increase its market share and keep pace with commercial banks by acquiring commercial banking license and thus expanding its operations.
- In spite of it being highly profitable, less attention is given to provision of credit to livestock sector. ZTBL can benefit from this opportunity to pay attention to this sector, earn profit and enhance its credit portfolio.
- Learning from the role of Aarathi in rural market, the bank can provide a few more services under one ambit like lending in cash, lending in kind, providing linkages with procurement agencies and storage houses and providing extension services.

- The Bank may fill the gap in agri demand by financing the value chain that is from farm to mouth. It may place a special focus on livestock in order to augment its effort of credit expansion.

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