

## Agricultural Credit Program

Report Date: October 2002

Field Survey: August 2001

### 1. Project Profile and Japan's ODA Loan



Site Map: Nationwide program



Site Photo: Tractor loan sub-borrower with his tractor

#### 1.1 Background

The agriculture sector of Pakistan is the mainstay of its economy. In FY 1989/90, it accounted for 27% of GDP and 51% of the labor force; the percentage share of agricultural produce, including manufactured goods made of agricultural products, amounted to nearly 90% of exports. The Seventh Five-year Plan (FY1988-1993) set a target of providing Rs130 billion in agricultural finance for farmers. The Government put emphasis on strengthening and expanding institutional lending for agriculture because traditional informal lending accessible to the farmers had not been effective in increasing farm income and agricultural production.

#### 1.2 Objectives

To finance medium- and long-term loans to small farmers under the General Credit Scheme of the Agricultural Development Bank of Pakistan (ADBP), and thereby contribute to the expansion of agricultural production and, ultimately, to the enhanced welfare of Pakistan's small farmers.

#### 1.3 Project Scope

(A) Provision of loans for eligible Sub-projects:

\*Eligible Sub-projects:

- (1) Procurement of farm tractors
- (2) Procurement of other farm implements
- (3) Private minor irrigation
- (4) On-farm development

\*Eligible borrowers:

Farmers whose land holdings in irrigated areas total no more than 5.1 ha (applicable figures for Sindh and Baluchistan are 6.5 ha and 10.2 ha, respectively; all figures can be double for rain-fed areas)

\*Conditions for Sub-loan:

-Lending Rate:

For procurement of farm tractors and locally manufactured farm implements: 8% p.a.

For other schemes: 12.5% p.a.  
 -Repayment terms: pre-determined repayment terms, between 18 months and 8 years

\*Percentage of finance from Yen Loan<sup>1</sup>:

-Procurement of farm tractors:		66%
-Procurement of other farm implements:		62%
-Private minor irrigation:		62%
-On-farm development:	Female :	Up to 2.5ha 25%
		Over 2.5ha 71%
	Male:	Up to 2.5ha 64%
		Over 2.5ha 87%

(B) Consulting services for the implementation of the project

#### 1.4 Borrower/Executing Agency

The President of the Islamic Republic of Pakistan/Agricultural Development Bank of Pakistan (ADBP)

#### 1.5 Outline of Loan Agreement

Loan Amount/ Loan Disbursed Amount	10,000 million yen 9,993 million yen
Exchange of Notes/ Loan Agreement	January 1992 March 1992
Terms and Conditions	
Interest Rate	2.6 % p.a.
Repayment Period (Grace Period)	30 years (10 years)
Procurement	General Untied
Final Disbursement Date	March 1995

## 2. Results and Evaluation

### 2.1 Relevance

The National Commission on Agriculture (NCA) published, in March 1988, its report on the nation's agriculture development strategy; in the report, NCA recognized that there was great potential for small farmers to improve productivity as they had had only limited access to modern farming practices and technologies. The government's Seventh Five-Year Plan focused on improving efficiency in the application of modern inputs and in the transfer of modern farming practices. The Five-Year Plan also stated the need for agricultural credits in the amount of Rs.130 billion. These agricultural policy objectives indicated a major role for the nation's Agricultural Development Bank; as a matter of fact, ADBP accounted for 66% of all the institutional agricultural credit in Pakistan in FY89/90. That share jumped to 93% for medium- and long-term lending<sup>2</sup>. The objective of this project was to enable ADBP to continue implementing medium- and long-term loans under its General Credit Scheme to the Small Farmers of

<sup>1</sup> ADBP concluded loan agreements with the World Bank in June 1990 for US\$150 million and with the Asian Development Bank in December 1990 for US\$150 million. Both banks were providing funds to ADBP for the same program as the Yen Loan intended to finance. The percentage ratios of finance of the Yen Loan were determined so as not to allow ADBP to draw more than a total of 95% of the funding for each sub-loan scheme from the then identified outside funding sources including the Yen Loan.

<sup>2</sup> This level of shares did not change much thereafter in the '90s fluctuating in the range from 47% to 67% for the overall lending and in the range from 88% to 97% for the medium/long term lending. The actual percentages in FY99/00 were 62% for the overall lending and 90% for the medium/long term lending.

Pakistan.

This objective was still relevant to the country's overall development plan at the time of evaluation. The Government identifies lack of credit for small/medium farmers as one of seven major issues in the agriculture sector for the period 2001-11, and makes a point to ensure availability of agricultural credit, especially to small and medium farmers. The total agricultural credit requirement from 2001 to 2004 is estimated to be Rs.526 billion<sup>3</sup>. Small farmers (those working on up to 10.2 ha) constitute 93% of the total farming community in Pakistan. ADBP continues to cater to this segment of the agriculture community<sup>4</sup>.

## 2.2 Efficiency

### (2.2.1) Project Scope

There were no changes made to the scope of the project with regard to provision of loans, for eligible Sub-projects except in the conditions of Sub-loans. The lending rate charged on each loan from ADBP to the borrowers, except for loans used for purposes other than the purchase of farm tractors and locally manufactured farm implements was 12.5% per annum up to June 1992 and 13.5% from July 1992<sup>5</sup>. Those for the purchase of farm tractors and locally manufactured farm implements, the lending rate was reduced for political reasons from 12.5% to 8% effective in January 1992, but this rate was increased successively by September 1993 up to 13.5%, compatible with the rates of other types of Sub-projects. In October 1995, ADBP announced another increase of half percentage point in its lending rates charged on all the loan cases, and 14% lending rate became applicable regardless of the types of Sub-projects. The maximum repayment period was extended in December 1992 for the tractor loans from 8 years to 10 years.

A consultant was retained in 1994 to assist ADBP in carrying out a study on impacts of the Sub-loans financed by the Yen Loan on the borrowers.

### (2.2.2) Implementation Schedule

The Yen Loan was to partially finance medium- and long-term lending to small farmers through ADBP's General Credit Scheme. ADBP's estimated disbursements<sup>6</sup> of medium- and long-term lending for FY1991-92 was Rs7,760 million, out of which Rs3,291 million was to be directed to the small farmers. However, a total of only Rs1,342 million was actually disbursed to the small farmers, in 23,165 loan cases. A further decline followed in FY 1992-93; the disbursed amount fell to Rs980 million, in 13,086 loan cases (see table 1). This slower-than-estimated disbursement can be attributed to over-optimistic estimations and the enormous crop damage that was caused by record rainfall and flooding in the summer of 1992.

Table 1: Medium and Long term Loan Disbursements to Small Farmers (Unit: Rs million)

Fiscal Year	Total		Tractors		Farm Implements		Minor Irrigation		On-farm Development	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
91-92	23165	1,342	1208	334	910	123	1979	148	19068	737
92-93	13086	980	1327	425	822	80	1166	86	9771	389
93-94	25234	2,631	4041	1,377	884	119	1018	102	19291	1,033
<b>Total</b>	<b>61485</b>	<b>4,953</b>	<b>6576</b>	<b>2,135</b>	<b>2616</b>	<b>322</b>	<b>4163</b>	<b>336</b>	<b>48130</b>	<b>2,160</b>
%	100%	100%	11%	43%	4%	6%	7%	7%	78%	44%

Source: ADBP

<sup>3</sup> Government of Pakistan, Planning Commission, "Ten Year Perspective Development Plan 2001-11 and Three Year Development Program 2001-04," Chapter 19, Islamabad, Sept. 1, 2001.

<sup>4</sup> In addition to the schemes supported by the Yen Loan, ADBP has other financing schemes to support small farmers, landless and women. They are for income generation and poverty alleviation; namely, Rural Credit Program, Small Scale Enterprises, Micro Credit Scheme, and Credit to Women Program. Also instrumental in channeling production (short term) loans for small and subsistence farmers is One Window Operation, the feature of which is the direct supervision by the Chief Executive of the ADBP and Heads of Board of Revenue of the area, in other word, a transparent system of credit delivery.

<sup>5</sup> Treasury bill rates were 12.5% for 1992, 13.0% for 1993, 11.3% for 1994 and 12.5 for 1995.

<sup>6</sup> Estimates for FY1992-93 were Rs8,775 million of medium and long term lending, and Rs3,721 million for the Small farmers.

Since medium- and long-term loan disbursements to the Small Farmers did not increase as estimated, the cumulative total Yen Loan disbursement at the end of FY1992-93 fell short of the commitment by 23 percent. Consequently, a portion of the medium- and long-term lending to the small farmers made by ADBP during FY1993-94 was partially financed by the Yen Loan. The disbursement from the Yen Loan was completed as scheduled in March 1995.

### (2.2.3) Project Cost

The actual amount of loan disbursement at the loan closing date was ¥9,971 million (Rs.2,126 million) for Sub-project financing and ¥21 million for the consultant. The amount of Sub-project financing was almost the same as the original estimate (¥9,939 million) in terms of Yen, but it was substantially more than the original (Rs1,690 million) in Rupee terms. This increase in Rupee terms is explained by appreciation of Rupee against Yen.

## 2.3 Effectiveness

### (2.3.1) Agricultural Production

A sample survey<sup>7</sup> was carried out in February and March 1994 on the small farmers who borrowed from ADBP. According to the survey, the average total area these farmers cultivated increased after they received the loans for all four Sub-project types. Farmers who borrowed money for tractors noted the largest increase, 5.6 acres on average, from 15.7 to 21.3 acres. Farmers who borrowed for irrigation also increased cultivable areas by substantial margins, on average from 7.8 to 10.2 acres for winter and from 7.7 to 10.9 acres for summer season cultivation.

Table2: Cultivable Farm Land Area and Cropping Intensity (1994 Survey)  
(Unit: Area in Acres)

Loan Type	Winter			Summer			Total Cropping % Ratio
	Avg. Area Cultivable	Avg. Area Cropped	Cropping % Ratio	Avg. Area Cultivable	Avg. Area Cropped	Cropping % Ratio	
<b>Tractors</b>							
Before Loan	15.7	12	77	15.7	12	77	153
After Loan	21.3	17	80	21.3	17	80	160
<b>Implements</b>							
Before Loan	13.4	11	83	13.9	11	83	161
After Loan	14.9	13	87	14.9	12	80	168
<b>Irrigation</b>							
Before Loan	7.8	6	77	7.7	5	65	142
After Loan	10.2	7	68	10.9	10	91	161
<b>On-farm Dev.</b>							
Before Loan	6.8	6	88	7.1	6	85	173
After Loan	7.5	6	80	7.6	6	79	159

Source: Impact Study Report, December 1994

The size of land area cropped also increased for those farmers who used their loans to obtain tractors, irrigation or implements. But the area cropped of those farmers with loans for on-farm development did not change. The farmers who obtained loans for irrigation increased seasonal cropping intensities from 65% to 91% in summer due to a doubling of the area cropped. The high level of seasonal cropping intensity in general -- about 80% -- should be noted; these figures are consistent across seasons and are very similar among the four types of sub-projects, except for irrigation in winter. The majority of farmers were, regardless of the type of sub-project they undertook, consistently cropping a very high percentage, about 160 % or more over the year, of their cultivable land.

<sup>7</sup> The sample size was 352, out of a total population of 35,586 Small Farmers who borrowed money through medium- and long-term loans partially financed by the Yen Loan in FY1991/92.

There was an increase in yield for most summer and winter season crops<sup>8</sup>; the range varied from 11% to 38%, with the exception of the potato, which decreased. The 1994 survey report attributed the increases to timely sowing, timely use of water, a significant increase in water use, harvest at optimum times and, for many farmers, the ability to make more effective use of fertilizers, pesticides and herbicides. Average crop production per farm also increased considerably: basmati paddy by 43%, sugar cane by 140%, cotton by 39%, maize (grain) by 86%, maize (fodder) by 28%, wheat by 51% and fodder (winter season) by 35%. These increases were a combined result of increases in the area of land cropped and in yield.

Table3: Cropped Area, Total Production and Yield by Type of Crop (1994 Survey)

Type of Crop	No of Farmers		Avg. Area in		Avg. Total Prod. (kg)			Avg. Yield. (kg/ha)		
	Before	After	Before	After	Before	After	% increase	Before	After	% increase
<b>(Summer)</b>										
Paddy-Basmati	82	82	4.7	5.9	4880	7000	43	2620	2950	13
Paddy-Irri	43	43	6.3	5.7	8080	8480	5	3210	3740	17
Sugar Cane	131	131	1.9	3.9	41000	98000	140	54800	63100	15
Cotton	159	159	8.1	9.5	6180	8600	39	1910	2270	19
Maize(Grain)	58	58	2.3	3.1	18500	34400	86	1990	2740	38
Maize(Fodder)	241	241	1.9	2.2	17200	22200	28	22200	24800	11
Potato	21	21	1.9	3.8	12400	24600	98	16700	16300	-3
Vegetables	61	61	1.4	2.2						
<b>(Winter)</b>										
Wheat	344	344	7.2	9.1	6800	10300	51	2360	2840	20
Fodder	239	239	1.9	2.1	20000	27000	35	26600	32600	22
Vegetables	72	72	1.6	2.4						

Source: Impact Study Report, December 1994

An interview survey<sup>9</sup> was conducted during September and October 2001, to determine the effects of the loans on a sample of small farmers. The results of this survey confirmed, to a large extent, the findings of the 1994 sample survey. They showed that average total cultivable area of land per farm increased by 17%, from 13.0 to 15.2 acres, and that of irrigated land by 27%. The area of land cropped, on average, increased in both summer and winter seasons and the resulting yearly total area cropped per farm increased from 20.8 to 25.7 acres, a 23% increase. The levels of annual cropping intensity reported by the farmers were quite similar to the findings of the sample survey, about 165%.

Table 4: Land Holding and Utilization per Farm (2001 Survey)

Items	Before Loan	After Loan	% Increase	
Avg. Total Operational Area (Acres)	13.6	15.9	16	
Avg. Irrigated Cultivated Area (Acres)	9.9	12.6	27	
Avg. Total Cultivable Area (Acres)	13.0	15.2	17	
Avg. Area Cropped in Acres	Winter	10.1	12.4	23
	Summer	10.7	13.2	24
	Year	20.8	25.7	23
Cropping Intensity (%)	Winter	78	82	
	Summer	82	87	
	Year	160	169	

Source: JBIC

<sup>8</sup> The figures were those pertaining to the 1992-93 season, which was after the loan, compared to the 1990-91 season.

<sup>9</sup> The number of interviewed farmers was 100; ten borrowers were selected from each of the ten randomly selected branch offices of ADBP. Years of loan disbursement were mainly FY92-93 and FY93-94. The size of loans ranged from Rs.6000 to Rs.354000 with the average of Rs.106819 and the median of Rs.45320. One fourth were tractor loans, 21 were for minor irrigation (18 were tube well), and 54 were on-farm development (47 were dairy development). 41 respondents reported that they had more than 5.1 ha of cultivable land before the loan, but the eligibility might have been confirmed because of the collective land holding by the family members, i.e. per capita was OK, or the location of their land being in rain-fed area, etc.

The 2001 survey found relatively modest increases in yields (kg/ha), however, compared to the findings of the 1994 survey: wheat by 11%, rice by 10%, sugar cane by 2%, cotton by 4% and fodder (summer) by 3%. Nonetheless, increases in production (kg) were noticeable; rice by 66%, sugar cane 21%, fodder (summer) by 24%, cotton 10% and wheat by 11%. In addition, some interviewed farmers reported increases in the number of dairy cows, the area of orchard and the area of land cropped to vegetables. Respondents intensified farming activities, as can be seen in the increases in area cropped and livestock head counts, and achieved gains in yield. The surveyed farmers not only increased their agricultural production substantially, they also succeeded in maintaining higher levels of production 6-7 years after the sub-loan disbursements.

Table5: Cropped Area, Total Production and Yield by Type of Crop (2001 Survey)

Type of Crop / assets	No of Farmers		Avg. Area in		Avg. Total Prod. (kg)			Avg. Yield. (kg/ha)		
	Before	After	Before	After	Before	After	% increase	Before	After	% increase
(Summer)										
Rice	42	42	7.9	12.0	11900	19700	66	3760	4120	10
Sugar Cane	31	30	4.6	5.7	83300	104500	21	45200	46000	2
Cotton	34	32	7.0	7.9	4000	4690	10	1430	1490	4
Fodder	63	62	2.4	2.9	28500	35800	24	30100	30900	3
Vegetables	16	16	1.0	2.2						
(Winter)										
Wheat	80	78	9.0	9.3	11800	13400	11	3250	3620	11
Fodder	66	66	2.3	2.8	27800	34100	23	29900	30200	1.0
Orchards	23	23	3.3	4.2						
Dairy Cows	89	89	2.2	5.0						

Source: JBIC file

## 2.4 Impact

### (2.4.1) Farm Income

The 1994 sample survey also reported on the income levels of beneficiary farmers before and after receiving the loans (see Table 6). The percentage increase in average net farm income was over 100% for those farmers farming areas of 5.1 ha or less. Farmers who received loans for the purchase of a farm tractor achieved the greatest increases, both in amount of money (average net, Rs62,192) and in percentage increase (119%). Those farmers with loans for irrigation attained percentage increases of 85%, on average, and loans for on-farm development raised incomes by 72%.

Table 6: Average Net Farmer Income Before and After Loans (1994 Survey)

Farm Size/Loan Type	No. of Farmers	Before Loan (in Rs.)			After Loan (in Rs.)			Change in % Before and After		
		Total Income from Farm	Net Farm Income	Net Farmer Income	Total Income from Farm	Net Farm Income	Net Farmer Income	Total Income from Farm	Net Farm Income	Net Farmer Income
0 to 2.6ha	108	46430	23905	50695	124789	48117	78360	169%	101%	55%
2.6 to 5.1ha	123	83484	38120	47076	197835	86145	97265	137%	126%	107%
5.1 to 6.5ha	69	119577	55793	74576	262368	95880	121214	119%	72%	63%
6.5 to 10.1ha	34	136475	57476	74652	251570	96788	119358	84%	68%	60%
10.1 to 12.9ha	8	204748	82661	105561	326487	120602	152252	59%	46%	44%
12.9ha	10	311342	114780	154220	508946	183085	245425	63%	60%	59%
Tractors	115	123924	52328	68660	296547	114520	133682	139%	119%	95%
Implements	50	124305	54008	64898	213088	90271	105507	71%	67%	63%
Irrigation	48	69131	35297	59989	134630	65218	101214	95%	85%	69%
On-farm Development	139	65759	32167	52631	150733	55257	79237	129%	72%	51%

Source: Impact Study Report, December 1994

Overall, the interview survey of 2001 confirmed this upward shift, but there were differences by sub-loan (see Table 7). The percentage increase in the average net farm income of the farmers with loans for minor irrigation was 242%, from Rs.115000 to Rs.394000. Farmers who got tractors reported an 82% increase in their net farmer income while those who engaged in on-farm development noted a 44% increase.

Table 7: Average Net Farmer Income Before and After Loans (2001 Survey)

Farm Size/Loan Type	No. of Farmers	Before Loan (in Rs.)			After Loan (in Rs.)			Change in % Before and After		
		Income from Farm	Net Farm Income	Net Farmer Income	Income from Farm	Net Farm Income	Net Farmer Income	Income from Farm	Net Farm Income	Net Farmer Income
Tractors	24	228081	123343	124843	378098	213089	226839	66%	73%	82%
Farm Implements	2	221025	153025	171025	249500	174500	198500	13%	14%	16%
Irrigation	20	168661	115236	136836	510800	394425	421225	203%	242%	208%
On-farm Development	52	216624	114599	136836	319587	164459	175367	48%	44%	28%

Source: JBIC file

In light of the fact that the CPI nearly doubled from 1992-94 to 2001, increases less than 100 % increases over that 7-9 year period may not appear impressive. Nevertheless, the national average net farm income of farms in the small farmers bracket (under 10.1ha) only increased<sup>10</sup> from Rs.25000 to Rs.48030, over the period from 1991-92 to 1998-99. Furthermore, the respondents to the 2001 interview survey confirmed that the number of permanent laborers they hired increased by 58%, from 81 to 128, and casual laborers doubled from 199 to 397, a clear sign of expansion of farming activities. With regard to farmers' behavior after the loans: 69 said they let family members see a doctor when necessary; 67 responded they let their children go to school / university; 36 rebuilt their house; and 19 improved their kitchen. In addition, in comparison with the data provided by ADBP on 1998-99 average household net income and net farm income of farms in the small farmers bracket, taking into consideration those changes as well as the reported increases in production and expansion of the related production bases, one could infer that as far as the survey findings were concerned. Based on these indicators, it is clear that the goal of the project was achieved; the beneficiary Small Farmers enhanced their net farm income through increased farm production achieved by improving their farming practices combined with acquisition of additional area of farm land and/or livestock.

#### (2.4.2) Gender and Environment

The ADBP has tried to overcome traditional socio-economic and cultural constraints preventing women from becoming borrowers by introducing a cadre of female mobile credit officers<sup>11</sup>, who deliver a package of technology and credit at the doorstep of the female borrowers. However, as the loans under the project could only be given for medium- and long-term against the collateral, the majority of the rural women with no mortgage to offer could not benefit much<sup>12</sup> from this project.

Regarding the environment, ADBP, as a matter of policy, decided in 1995 to require all sub-borrowers to plant at least ten trees per acre on the boundary of development areas (areas being brought under cultivation) and communicates this condition to farmers at the time the sub-loan is sanctioned. Tree planting is compulsory and is subject to check by the ADBP field officers. Besides this, according to ADBP, there have been no reports that any environmental impacts of sub-projects are observed.

<sup>10</sup> Data provided by ADBP

<sup>11</sup> There were 24 female mobile credit officers at the time the 2000 annual report was printed, promoting Credit to Women Program. During FY2000, Rs57 million, or 0.23% of the total, was disbursed to 1,562 women borrowers through female mobile credit officers.

<sup>12</sup> A Sub-project type, on-farm development, has statistics categorized by sex. Disbursement to female borrowers accounted for 2%, at most, of each of the annual total amounts of disbursement by ADBP for on-farm development from FY1991-92 to FY2000-01. In FY2000, Rs3.3 million was disbursed from the revolving fund account to 83 female borrowers.

### (2.4.3) Agricultural Produce Export and Import Substitution

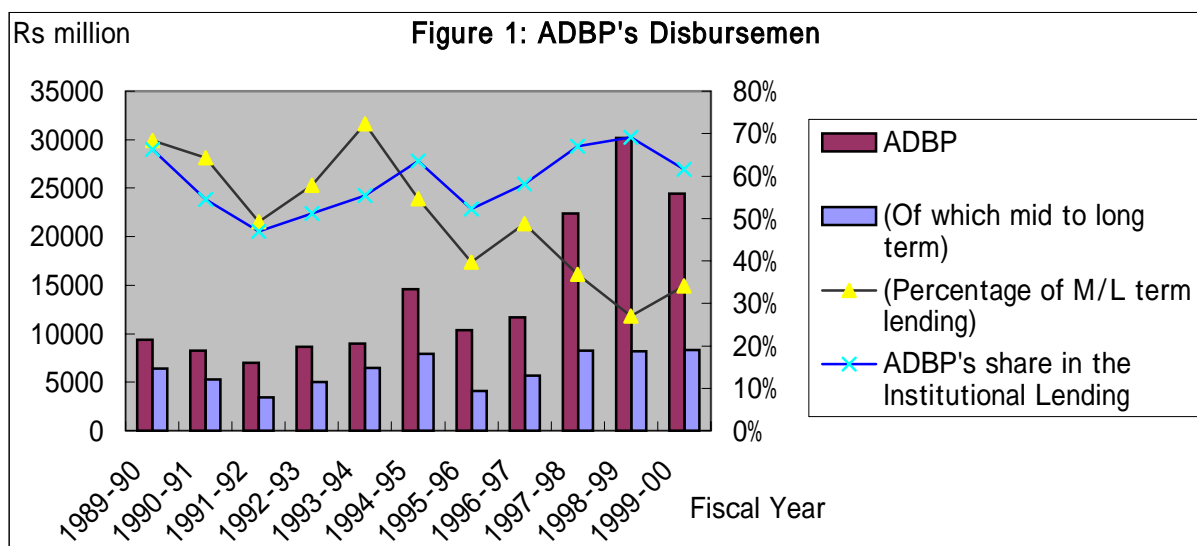
Rice is by far Pakistan's most important export item of agricultural produce in money terms; generally speaking, it accounted for 5-7% of annual total export value in rupees over the period from FY 1991 and FY 1999-2000, except for two years, FY 1992 and 1993. Annual export quantities from 1991 to 2000 ranged from 1.5 million to 2.0 million tons. The national production of rice increased 63 percent over the same period, from 3.2 million to 5.2 million tons, making substantial increases in domestic consumption possible. In keeping the quantity level of rice export while meeting increasing domestic demands for rice, the medium- to long-term loans of ADBP for the Small Farmers played a part as seen in the preceding sections by expanding the area of farm land cropped to cotton and fostering an increase in yields. Cotton, including all processed cotton products such as fabrics and garments, is the engine driving Pakistani exports. The production of cotton did increase consistently in the 1990's, ADBP's loans for the small farmers played some part in supporting cotton production.

Although wheat production increased in the 1990's, Pakistan has not achieved self-sufficiency in wheat. The share of wheat consumed domestically that is imported exceeded 10% in the '90s, although it went down below 10% in 1999-2000. The medium- to long- term loans ADBP for the Small Farmers contributed to increases in production. Edible oil is a major import item, accounting for about 5-10% of total import expenses. As there were not many medium- to long- term ADBP loans made for Small Farmers who cropped oil seeds, the contribution in this area was rather limited.

## 2.5 Sustainability

### (2.5.1) Sustainability of Executing Agency

Total loan disbursement by ADBP decreased from Rs9,390 million in FY 1989-90 to Rs6,996 million in FY 1991-92. The share of ADBP in the institutional agricultural lending in Pakistan likewise decreased from 66% in FY 1989-90 to 47% in FY 1991-92. It took six years for ADBP to restore its share to 1990 levels, which it has subsequently maintained, but not increased. Declines in medium- and long-term lending were particularly remarkable, dropping from Rs6,414 million in FY 1989-90 to Rs3,447 million in FY 1991-92, some 46%. Figures for FY 1992-93 improved to Rs4,993 million, a trend that continued until FY 1994-95. However medium and long term lending as a percentage of total annual disbursements declined throughout the late 1990's, having peaked at 72% in FY 1993-94.



Source: ADBP

A computerized credit system was developed in May 1980. This system was replaced in 1986/87 with the current system, which the ADBP staff developed; it consists of a mainframe at the headquarters and a terminal minicomputer at each of 10 regional offices. With an increase in data processing needs, the existing system falls short of meeting the management requirements. An assessment of the information requirements and subsequent redesigning / upgrading of the existing system is urgently needed.

The financial statements carried in the serial annual reports show the total amount of loans, net of provision, increased by nearly 50%, from Rs33,957 million to Rs50,131 million, over the 6-year period



from 30 June 1990 to 30 June 1996. As ADBP could collect only a very modest amount<sup>13</sup> of deposits, the amount of borrowing increased by more than 60% from Rs31,287 million to Rs50,529 million to counterbalance this increase in loans. ADBP received loans from two major sources: the State Bank of Pakistan and foreign loans re-lent by the Government. During that 6-year period, the State Bank provided loans to ADBP in the amount of more than the net increase in the borrowing; thus allowed ADBP to replace all the borrowings from the commercial banks outstanding as of 30 June 1990. The foreign loans increased from Rs6,226 million to Rs10,545 million, or 69% and about half of this increase was from the Yen Loan. ADBP appeared to have expanded its loan portfolio in early 1990's with the backing of the Government in conjunction with the State Bank.

This expansion in the early 1990's, however, was associated with costs to ADBP; they were revealed in the financial statements for FY1997-98 when ADBP undertook major clean-up of balance sheets incurring losses of the size nearly twice the paid-up share capital by making provisions against non-performing loans in the amount equivalent to 13% of the total amount of loans then outstanding. During this financial year, ADBP nearly doubled the amount of total disbursement<sup>14</sup>. As a result, the amount of loans net of provision remained virtually unchanged while the borrowings increased by Rs7,763 million, or 15% of the balance of the previous year but the amount of foreign loans showed a meager increase of Rs235 million only.

The amount of loans classified as non-performing was made public for the first time in the financial statement of FY1997-98; it was in the amount of Rs36,249 million or 49% of the total balance of the loans. This percentage ratio exceeded 50% in the financial year ending 30 June 2000 in spite of the substantially higher levels of disbursement and of recovery efforts in the years following FY1997-98. As of 30 June 2000, 72% of the outstanding balance of loans, net of provision, was accounted for by those loans with maturities of more than one year, and 53% were by those with over five years.

In sum, the current state of operations of ADBP as a provider of directed finance would be sustainable as long as, and only if, the Government continues to support it at any cost.

#### (2.5.2) Sustainability of Two Step Loan (TSL)

The sustainability of TSL depends on the recovery of sub-loans. ADBP, however, could not compile the data needed to calculate recovery indicators, such as arrears ratio or portfolio infection, on the sub-loans that were partially financed by the Yen Loan. That was due to the closures of client accounts, of which the balances had been fully repaid, and to the limited maneuverability of computerized database.

The following is piecemeal information regarding the recovery of Sub-loans financed partially by the Yen Loan:

The 1994 sample survey also collected information on the payment performance of loans disbursed during FY1991-92. At the time the survey was conducted, all of the loans had been extended at least 1.5 years previously; in other word, all borrowers surveyed should have paid at least one principal installment by the date of the survey, even in cases with a one-year grace period. In FY1991-92, the cumulative total amount disbursed by ADBP in the form of medium- and long-term loans to small farmers was Rs1574.1 million. Of this principal, Rs399.8 million was due to be recovered by the ADBP by the date of survey. The amount actually recovered was Rs299.9 million. As there were loans that had been rescheduled (a total amount of Rs12.0 million), the percentage of recovery was 77%, if the rescheduled amount were deducted from the total amount due.

The interview survey conducted in September/October 2001 also revealed a lackluster recovery performance; 40 respondents kept accounts open with ADBP as of 30 June 2000, although their loans were more than 6 years old and the original terms granted should have expired by that date in 27 of the 40 cases. A total of 64 percent of the original principal extended to the 40 respondents remained outstanding at the end of FY1999/2000. This rate was commensurate with figures at branch offices that were queried.

The ratio might be exceptional<sup>15</sup>. The borrowers who kept accounts open were poor performers

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<sup>13</sup> The amounts were less than 4% of the total amount of liabilities both as of 30 June 1990 and as of 30 June 1996.

<sup>14</sup> This doubling of the disbursement by ADBP did not result in the corresponding increase in its share in the institutional agricultural lending because other institutions also increased their own levels of disbursement, an evidence of concerted efforts exerted under the guidance of the Government.

<sup>15</sup> There are 346 branch offices as of end of FY1999/2000 and the sample number of branches was just 10, or 2.9%. The total of the original disbursement to those with accounts still not closed with the sample 9 branches (1 was omitted) amounted to Rs.231 million, or 6.4% of the sum of total mid/long term loan disbursements to the Small farmers in FY1992/93 and FY1993/94.

and they represented only a small portion of the entire population. This rate of recovery, however, formed a puzzling contrast to the rosy picture of production and income achievements painted by the borrowers that were interviewed. As a matter of fact, 18 out of 45 respondents who said they would have investments in equipment or irrigation even if loans from ADBP had not been available still had outstanding principal of 65%. For some, 100 % of the original was still outstanding.

The average recovery ratio of less than 80% was low but there was a view<sup>16</sup> that it was not very discouraging when compared with the relevant figures in the other financial institutions in Pakistan. The management of ADBP, nonetheless, kept keen eyes on the recovery of money due. The recovery by amount showed a steady increase in the six years up to FY1999-2000. As a matter of fact, an Rs30 billion was recovered during FY1999-2000, up 17% over the previous year. However, the overall rate of recovery<sup>17</sup> for FY1999-2000, 54 percent, was not impressive at all. ADBP explained in its annual report that the low figure was due to extremely low recovery in agribusiness projects, 5.0% in FY1999-2000. Recovery under agricultural credit, in which medium- and long- term loans fall, was 62%, which was almost at the previous year's level. The agricultural credit recovery rate of current dues<sup>18</sup> during FY1999-2000 was 74% as against 72% of the overall recovery of current dues.

### (2.5.3) Revolving Fund

Cash flows in the revolving fund account were provided as shown below. A couple of messages were clear: all the return flows from the sub-loans were loaned out for eligible sub-projects, under the same terms as the original scheme; the volatility of annual volume of repayments was unbelievably<sup>19</sup> high; and there were no repayments made out of the account to the Government of Pakistan who on-lent the Yen Loan to ADBP.

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Chances were those with accounts still open represented a substantial portion of the original borrower population.

<sup>16</sup> The sample survey report of 1994 quoted figures published in the minutes of the Agricultural Credit Advisory Committee held on 4 July 1993 and that of the Industrial Credit Advisory Committee held on 15 July 1993. Having compared the figures of ADBP with those of the relevant institutions, the report concluded that the recovery ratios of the ADBP were generally very good when compared with other financial institutions in Pakistan.

<sup>17</sup> The rate of recovery is the ratio of total recovery over the sum of net current dues and net past dues.

<sup>18</sup> The recovery rate of current dues is the ratio of current due amount recovered to the amount of current dues net of rescheduled, written off and remission.

<sup>19</sup> Unbelievable because the outstanding balance remained constant and accordingly dues should be constant if there were not much change in the terms and conditions, which had not been the case.

Table 8: Statement of Revolving Fund Account

Years	Opening Cash Balance	Cash Inflow			Cash Outflow Loans to Sub-borrowers	Loan Balance Outstanding with Sub-borrowers
		From the Yen Loan	Repayment from Sub-loan Borrowers	Total		
1991-93	0	1,477,394	330,414	1,807,808	1,762,363	1,431,949
30-06-94	45,445	610,622	310,291	966,358	447,892	1,569,550
30-06-95	518,466	38,325	483,533	1,040,324	1,040,324	2,126,341
30-06-96	0	0	630,420	630,420	630,420	2,126,341
30-06-97	0	0	360,917	360,917	360,917	2,126,341
30-06-98	0	0	643,817	643,817	643,817	2,126,341
30-06-99	0	0	519,528	519,528	519,528	2,126,341
30-06-2000	0	0	800,316	800,316	800,316	2,126,341
30-06-2001	0	0	938,721	938,721	938,721	2,126,341
Total		2,126,341	5,017,957	7,708,209	7,144,298	

Source: ADBP

#### (2.5.4) Advisory Assistance of ADBP

The interview survey of 2001 showed that 85 out of 100 respondents came to know of the ADBP loan as a result of a visit from an ADBP Mobile Credit Officer<sup>20</sup>. The Mobile Credit Officers seemed to have followed up with the borrowers well, as 94 interviewees replied that they had received advisory assistance from ADBP in areas of production techniques and marketing. Respondents were almost unanimous (92 out of 93) in endorsing the ADBP, commending its advisory assistance as informative and helpful. 45 respondents were firm on their determination as to the investment they had intended regardless of the availability of loan from ADBP raising fund through property/assets selling or obtaining loans from commission agents, while 52 said they would not have made any investment if ADBP loans had not been available. ADBP will continue to be instrumental in modernizing agriculture, increasing farm production and raising farm income, but with relatively lower share of medium- and long-term lending in terms of annual flow of funds.

#### (2.5.5) Developments regarding the role of ADBP

The National Economic Council chaired by the President of the Republic approved the Ten Year Perspective Development Plan 2001-2011 and Three Year Development Programme 2001-04 in June 2001. The Ten Year Plan identified four locomotive sectors that would lead the process of economic revival in the medium-term and then acceleration of the growth rate, to realize the true potential of the economy. These sectors are agriculture, small and medium enterprises, information technology, and oil, gas and coal. In this connection, the emphasis<sup>21</sup> was notable that was given to ADBP in the Interim Poverty Reduction Strategy Paper, which was discussed by IMF and World Bank in December 2001 and considered to provide a sound basis for the confessional assistance of IMF and World Bank. There it went as follows<sup>22</sup>:

“In order to increase the flow of credit to the agricultural sector the role of Agricultural Development Bank is being enhanced. A new management of the Bank and its Board of Directors has

<sup>20</sup> Mobile Credit Officers, provided with motorcycles, deliver services to farmer clients of 10 to 15 villages they cover. Their services include supply of not only credit (from identification to recovery), but also technical knowledge and inputs, all at the doorsteps of the farmers. They count 1459 as of the end of June 2000 and this number was 1487 at the end of June 1990.

<sup>21</sup> Another public finance corporation that was given renewed role in the Strategy Paper was Small Business Finance Corporation to be merged with Regional Development Finance Corporation to form a bank exclusively catering to the needs of small and medium enterprises.

<sup>22</sup> The Government of Pakistan, “Interim Poverty Reduction Strategy Paper,” November 2001., Chapter Four, Paragraph 44.

been appointed with complete autonomy of operations and management. SBP has directed ADBP to give as much credit to the agricultural sector as can be absorbed by the farming community. This is an unprecedented move aimed at enhancing the flow of credit to the agricultural sector.”

This move of the Government caused concern among the IMF/World Bank staff who reviewed the Strategy Paper; they expressed in a joint staff statement<sup>23</sup> their concern about the proposed activist role of the state in financing priority sectors, and pointed out, as examples, the Agricultural Development Bank and the Small Business Finance Corporation. On the other hand, it was well known that the Asian Development Bank was discussing restructuring with ADBP , with a view to enabling ADBP to become fully viable and independent. The direction of new developments was obviously not for sustaining the operations of ADBP as they had been, but most probably for transforming ADBP within a period of time as short as practical into a financially viable institution that would be capable of mobilizing resources in the private sector in the form of equity as well as debt.

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<sup>23</sup> Staffs of IMF and IDA, “Interim Poverty Reduction Strategy Paper --- Joint Staff Assessment,” November 15, 2001, Paragraph 14.

### Comparison of Original and Actual Scope

Item	Original	Actual
(1) Project Scope		
Sub loan	Farm tractors Farm implements Minor irrigation schemes On-farm development	As planned As planned As planned As planned
Consulting services	-Advice for farmers on marketing & production -Training for ADBP staff -Development of post evaluation system -Development of revolving fund management	-Impact Study
(2) Implementation Schedule		
Sub-loan first-round disbursement from ADBP	1991.7-1993.6	1991.7- 1994.6
Consultancy Services	In the first 2 years	1993.10-1994.12
(3) Project Cost		
Foreign currency	31million yen	21million yen
Local currency in PRs	7,015million Rupees	4,958million Rupees
(Local currency expressed in ¥)	41,248million yen	23,203million yen
Total	41,279million yen	23,224million yen
ODA Loan Portion	10,000million yen	9,993million yen
Exchange Rate	1Rs = 5.88 yen (Rate used for appraisal)	1Rs = 4.68 yen (Weighted average from March 1992 to June 1994)

## **Independent Evaluator's Opinion on Agriculture Credit Program**

**Rana Sarwar, Independent Evaluator**

Lending to poor is a serious and complicated obsession. Without proper social mobilization, it becomes a nightmare for both the borrower and the lender. Although all four sub-projects in question were in line with the needs and priority of target groups and they met the national development plans and strategies, hence there are mixed reactions on the benefits and serious concerns on implementation.

In case of tractors, the loan directly increased the income of small farmers by increasing the production of their crops. It also provided additional source of income for renting machinery to other farmers. Development of irrigation and other on farm developments helped in water conservation and increase in per-acre yield. The improved earnings ameliorated the social status of small farmers. In a labor intensive agriculture economy, the use tractors had a negative impact i.e. the displacing small farmers and agriculture labor and increase in the level of rural unemployment.

The purchase of agriculture machinery through the Agriculture Credit program no doubt helped in enhancing the efficiency of agriculture sector. The increase in the use of machinery and inputs strengthened the middle and large landholders at the cost of lower per capita income for the small farmers. Over three years working with the small farmers rights organizations\* and the recent research findings revealed that the so called "one window operation" is just a slogan and the window is never within the common man's reach. To reach at the window the farmers had to pass through complicated and cumbersome formalities\*. For a small farmer an institution simply means a chain of decision-makers to discourage him to exercise his right. Before reaching to the ADBP "Window" the farmer has to pay countless visits to land revenue collection officer for fresh loan eligibility certificate no matter he has got that certificate for other purposes two or three months back.

The evaluation report while painting a gloomy picture of implementation of the project also calculated a 23% shortfall of loans to small farmers and admitted a political influence in disbursement of loans. The politicians' infect, got these loans for themselves using small farmers credentials, making the actual shortfall even more than 50%.

The agreed lending rate 8-12% for different categories officially raised to 14%. The farmers in addition to this paid 15 to 18 percent for explicit and hidden charges (explicit charges includes loan fee 1%, documentation fee 2%, accounts opening fee 1%) and hidden charges ranging between 5-10 % of loan amount-(under table money for bank staff and other officials). The small farmers actually paid around 30% of the total amount of loan. In number of cases

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- \* The South Punjab based organisation Union of Small Farmers (USF) actively working in District Vehari, Khanewal and Bahawalpur, the Village Friends Organisation (VFO) working in tehsil Mianchannu in Khanewal, the Green Circle Organisation (GCO) working in Tehsil Depalpur district Okara and Kissan Bachao Tehreek (KBT) Sargodha. The VFO, KBT and GCO are member of national network of farmer organisations called Sustainable Agriculture Action Group (SAAG) Pakistan and WTO-Watch Group Punjab. The author has been actively working with all above mentioned organisations.
  - \* Each time the farmer applying for loan has to go to Patwari to certify his claim for possession of land, besides the fact that he is holding that land since his birth.

**tractors were never purchased or the purchased tractors were sold at lower prices to meet some other needs.**

The small farmer mostly preferred for non-institutional credit because of simple procedures and prompt delivery in cash or kind, as he needed. No doubt the interest rate is higher than the official rate institutional credit. The time spent and procedural kickbacks always put him at the same position. Bank staff enjoyed exclusive discretionary powers for loan recovery irrespective of the crop failure or other losses to the growers. The non-institutional sources in this respect are flexible and accommodate human considerations.

### **Lessons learned**

- 1: Proper social mobilization is a must for lending to poor and small entities
- 2: Lending should be done to groups (co-operatives) instead of individuals
- 3: The implementation agency should not have discretionary powers and the borrower should be treated as partner.
4. Local Government institutions be involved in credit programs for farmers. This will ensure lending to feasible projects, proper utilization and on-time recovery of loans.
- 5: Procedures and formalities should be simplified and implemented properly. A unified Matrix of procedures and formalities should be adopted.
- 6: Transparency and judicious disbursement of loans through community involvement
- 7: Loans should be linked with other development activities of the borrower group, including there past performance. It should not be only commercial activity.
8. Ignoring social mobilization mostly effecting sustainability of development objectives.