The Pakistan Development Review
30 : 4 Part II (Winter 1991) pp. 1029 – 1037

Some Operational Issues and Institutional Constraints in Lending to Small Farmers

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The small farmer, as is apparent from this term, is one who does not have enough land to produce more or his family labour is scarce, or he is using outdated modes of cultivation or his family feels a compelling need for cash income from non-farming pursuits because of strict adherence to the traditional cropping pattern. As such, it is because of this typical socio-economic environment that limits the possibility of raising his standard of living through the harnessing of available limited resources to its maximum in a skillful manner. However, there is quite a difference of opinion about the definition of what is a small farmer. Usually, he is taken to be synonymous with a poor farmer.

A notable feature of the agrarian scene in Pakistan is the predominance of small holdings. Small farmers, defined as those with landholdings upto 5 hectares constitute 74 percent of the total number of farmers in the country, though the area commanded by them is only 34 percent of the total cultivable area. As against Pakistan, in India small farmers are those who own holdings upto 5 acres (or 2.02 hectare) constituting 69.9 percent of the total number of farmers in the country, though the area commanded by them is only about 21 percent of the total area.

The area of this size in Pakistan is adequate, from the viewpoint of income and productivity, to support life at subsistence level. As per information gathered from the field and evidence from research studies the average income derived from 12.5 acres (5 ha) land, varies from 7000 to 16000 rupees and for land holdings of 25 acres (10 ha), it varies from 19,000 to 25,000 rupees, depending on farm practices carried out and the level of improved inputs used. This is the average income which is earned by an extended family consisting of six members.

Among the characteristics peculiar to small farmers as conceived are: (i) a high proportion of land devoted to food crops; (ii) a low proportion of output marketed (a higher proportion retained for family consumption); (iii) a more diverse crop portfolio; (iv) greater aversion to risk; (v) a greater scarcity of cash

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and capital resources; and (vi) more abundant family labour than other large farmers. It is a misconception to view farmers as inefficient, tradition-bound, unresponsive to economic opportunities or unwilling to adopt new ideas and technologies or to view the small farm sector as unproductive and stagnant. These characteristics are important in assessing the appropriate means to raise the productivity of small farms. The average yield of small farmers compared with those of progressive growers and the national and international average yields of major crops can be seen in Table 1.

Table 1

Comparison of Average Yield of Traditional and Progressive Growers with that of National and International

(kg/ha)

	Pakistan Average			International Average	
	Traditional Growers	Progressive Growers	National Average	Asia	World
Wheat	1552	2942	1835	2135	2217
Rice	2245	3835	1632	3289	3921
Cotton	1075	2088	511	1281	1431
Sugarcane	48404	93274	38810	55051	60056
Maize	1304	2519	1272	2595	3686

OPERATIONAL ISSUES AND CONSTRAINTS

Farming has become a complex business and requires careful planning for successful operation. The adoption of a single new practice may change the whole business. An improved cropping system for example, may mean the adoption of a diversified pattern in farm enterprise, which in turn may require replanning for judicious use of capital resource. This requires a budget that will help in fitting enterprises and farming methods together into a profitable unit. Thus, today we consider agriculture no more a mode of life rather a mode of business. Thus credit which is considered to be the dire need of the present time, is the key element in the modernization of agriculture. Credit not only helps in removing financial constraints but it also provides incentives to growers for adopting new techniques and practices with new aspirations and horizons, provided it is properly delivered. As such, the credit facilities are integral to the process of rural development. In the commercialization of agriculture, credit serves as an important element in the process of improving the level of productivity as well as living conditions, particularly of small farmers. The other reasons why priority needs to be given to small farmers in respect of advancement of credit are:

- Small farmers are the largest body of the farming community. Are more unproductive due to scarcity of land and capital resources. Their potential can be developed by developing ingredients and skill to use these for creating more marketable surpluses through credit on being the main accelerator;
- They lack access to financial resources to adopt the modern agricultural techniques required for increasing agricultural production;
- That with the help of credit, diffusion and adoption of appropriate technology among small peasants can become possible;
- That they cannot get credit economically from private sources;
- The fact is that the capital required for adopting innovative farm techniques relied on appropriate technology either comes from farmer's own savings or through borrowing; and
- Agricultural credit thus comes to be regarded as an essential input in the modern technology package.

Thus credit is an indispensable input for the growth of an agriculture sector. It is required for the adoption of technological means and other long-term investment aimed at increasing productivity of the farm and cropping intensity. In order to reach small farmers, a change in approach is required. The major institutional operational issues and constraints in availing institutional credit by small farmers as studied from the field are:

OPERATIONAL ISSUES

Accessibility

For small farmers, who are less mobile, it is difficult to visit bank branches located in urban or semi-urban areas. As such, the branch office approach has not always been effective in meeting the needs of the small farmers. The introduction of Supervised Agricultural Credit Programme (SACP) in Pakistan is yet to be studied as its implication is still doubted?

Technology Transfer Coupled With Credit

Credit plays an instrumental role only when it is advanced in time to real prospective borrowers equipped with development ingredients. The small farmers have meagre income to invest on improved devices. The chances for further investment also diminish because of low saving. The supply of timely credit alone can ensure procurement of appropriate technology resulting in enhanced productivity and income.

Reliance on Project Appraisal Rather than the Usual Collateral

In case credit is advanced based on proper evaluation of the project then its chances of misutilization will be diminished greatly. Further, if conventional procedures such as lending against collateral are applied then there will be less chance of availing credit according to the real needs. There is need for providing credit under group guarantee.

Scrupulous Regard for Seasonal Timings

Timing can be critical when credit is provided in kind. It is essential that inputs be made available when needed. Since small holders can seldom store their produce adequately, delivery at too early a date often results in losses. The timely delivery of credit can alone ensure the price of produce specially for meeting social consumptive needs.

Crop Insurance

Insurance offers protection against a chance occurrence. Thus as crop insurance is part of the institutional infrastructure essential for the development of agriculture therefore to encourage farmers to adopt new practices and to minimize risk, there is need to explore the possible role of crop insurance.

To Recognize the Need for Supervision and Control of Borrowers

People with no knowledge of financial practices cannot readily understand and conform to procedures and regulations of lending institutions. They need instruction and supervision. Payment and repayment can be made easier for most small borrowers, if they are scheduled to meet the liquidity shortages and surpluses of the borrowers as they arise. If this is done, supervision even of large groups, can be manageable.

Flexible Lending Conditions

We consider that for the convenience of farmers, it is desirable to establish flexible lending conditions. This applies particularly to the rescheduling of loans in times of crop failure or other unexpected events. Such relaxation will encourage more rapid acceptance of the credit programme by the agrarian community.

Continuity of Contact

The default in amount occurs because loaning is done without adequate planning or taking into account past experience. For this it is important that a continuous customer-banker relationship is created between the borrowers and the bank. Besides, continuity of services is essential to establishing responsible borrower behaviour.

Cost of Lending to Large Numbers of Small Borrowers

In order to establish viable programmes, financial costs have to be kept in view. If these aspects are given proper weightage in forming a credit strategy then credit can promote more economic development for the weaker section of agrarian society.

Major Constraints

A sample survey to find out major institutional constraints that small farmers faced in availing credit facilities based on Toba Tek Singh and Sukkur area was carried out by the Economic Research Department of ADBP during the year 1986. In all 40 loanees and 40 non-loanees selected on a stratified random basis in each selected area were interviewed. The major constraints that small farmers faced as revealed from this study by both loanee and non-loanee small farmers as reproduced can be seen in Table 2 below.

Among constraints of a general nature as revealed were the illiteracy; strict social values; lack of publicity and the lack of infrastructure.

Table 3 reveals the reasons for not availing credit from institutional sources as deduced from the province-wise survey carried out by the Applied Economics Research Centre, University of Karachi/Peshawar and the Punjab Agricultural Research Institute, Lahore on the initiation of the Ministry of Food, Agriculture and Cooperatives, Islamabad in 1986.

Table 2

Major Constraints Reporting of Both Loanee and Non-loanee Farmers

	Nature of Constraints	Loanee Farmers Reporting(%)	Non-loanee Farmers Reporting(%)
1.	Difficulty in Preparation of Pass Book by Revenue Department	87.5	17.5
2.	Lack of Proper Guidance	82.5	30.0
3.	Difficulty in Obtaining Pass Book	68.6	–
4.	Delay in Supply of Ingredients	45.0	–
5.	High Transaction Cost of Credit	37.5	25.0
6.	Insufficient Cash Loans	37.0	–
7.	Insufficient Purpose-wise Loans	25.0	40.0
8.	High Rate of Return	20.0	25.0
9.	Indifferent Attitude of Staff	17.5	–
10.	Delay In Disbursement	12.5	–

Table 3

Major Reasons for not Availing Institutional Credit

(Percent)

Reasons	Punjab		Sindh		NWFP		Balochistan		Pakistan	
	Small	Large	Small	Large	Small	Large	Small	Large	Small	Large
Lack of Information	19.2	10.2	44.9	–	16.4	14.0	27.3	7.2	27	10.5
Non-availability	31.7	31.1	37.7	43.8	43.6	24.0	7.3	13.9	30.1	28.2
Complicated Procedure	24.6	29.1	27.9	13.7	34.2	26.0	25.5	9.3	28.1	19.5
Sufficient Won Funds	11.2	13.1	1.3	30.1	5.8	36.0	38.2	27.9	14.1	26.8
Illegal Gratification	11.3	13.1	–	–	–	–	–	–	11.3	13.1
High Transaction Cost	11.6	11.2	25.3	13.7	–	–	29.1	–	22	12.5

MAJOR RECOMMENDATIONS

- For further improvement in the delivery of Agricultural Credit and removing major constraints that small farmers face, the following recommendations, as suggested by different respondents during the sample survey, are made;
- It is suggested that value of land as per PIU need to be brought to the level of market price. It is necessary as the value of land has enhanced manifold;
- In order to avoid the collateral problem, a group loaning system needs to be introduced. This is necessary as small farmers and the landless poor, including women, are facing difficulty in obtaining loans to an extent necessary for bringing development;
- There is a need for publicising salient features of credit facilities for various purposes through circulating leaflets in national and local languages and programmes broadcast on radio and television;
- Efforts should be made to develop those industries and services for which local material and skill is available to create effective demand and ensure fair price of produce;
- The loaning to small farmers and landless labourers is still doubted which needs realistic policy to be evolved;

  Loaning procedures still need to be simplified for the convenience of farmers and for better delivery of credit;
- In order to achieve real development there is need for linking credit with supply of ingredients; and
- Supervised Agricultural Credit Programme still needs to be introduced in its true spirit. The advancement of timely loans equipped with supply of development ingredients and impartation of technical know-how which are prerequisites of a supervised credit programme need to be implemented.

Comments on
"Some Operational Issues and Institutional Constraints in Lending to Small Farmers"

The author has presented a useful survey of the problems faced by the small farmer in obtaining credit from institutional sources. The authors distribution of emphasis, however, on various components of the survey is such that the main theme gets out of focus. He uses up four typed pages to clarify the concept of the small farmer. In his own words, "small farmers, in Pakistan, are defined as those with landholdings from 12.5 acres to 25.0 acres". Unless something has been missed in typing, the definition as worded is incomprehensible. Does the definition exclude those having less than 12.5 acres from the category of small farmer? Or does it mean that all those who have holdings upto 25 acres are small farmers? In either case, it is not a definition which would meet unqualified acceptance in Pakistan. Appropriately, the author should have qualified his definition after a careful review of the concept as used by the National Commission on Agriculture, the Agricultural Prices Commission, the Five-Year Plans and by various economic research institutes and universities in Pakistan.

Under the heading 'Operational Issues', which constitutes the major theme of the paper, no references have been given. Incidentally, what the author calls "operational issues" and "innovative devices" are listed as "principles" or "guidelines" in a World Bank Sector Policy Paper. After reading the World Bank document, one is struck by the close resemblance between what the World Bank reported in 1975 and what the author is reporting in 1991, and yet there is no reference to the World Bank's publication.

Under the heading "Major Constraints Faced by the Loanees" the author lists many constraints which have been presented in a cursory manner and no diagnostic analysis has been made of the nature of problems faced by the small farmer. The recommendations which cover orly one page suggests no remedies for these constraints. The recommendations which are vague do not reflect any deep study or reflection. For instance, one of the major recommendations reads as follows, "The loaning to small farmers and landless labourers is still doubted by many which needs realistic policy to be evolved".

The conclusions arrived at by the author are too general and do not fit in with the main theme of the paper. The author, however, deserves credit and encouragement for having made an attempt to highlight the problems of the small farmers in this august forum of the Pakistan Society of Development Economists.

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