

Examining the Performance of Rural Financial Institutes under Socio-Economic Influence of Large Landowner: Case Study of Sindh, Pakistan

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Abstract

This study seeks to presents empirical evidence on overwhelming influence of land ownership patterns over the access of agriculture credit in Sindh, Pakistan. The data presented revealed overpowering influence of land ownership patterns and socio-political elite on over formal lending. Review of the literature identified land ownership patterns are skewed, however, there is majority of small farmers in the country. The secondary evidence suggests that small landowners possess one third of agricultural land in Sindh. Study also highlighted corruption as one of the major causes along with collateral credit limit and methods for recovery. In light of the findings of the study, policy implications for government, corporate managers, bankers and small and large land owners are discussed in results and discussion section.

Key words: Land ownership patterns, agriculture lending, formal credit institutions, non-governmental organizations.

Introduction

This article seeks to evaluate the performance of formal lending institutions in relation to land ownership patterns, the social environment, and political influence over access upon lending facility of formal financial institutions e.g. banks. Besides, this article also provides a comparative analysis of the performance of non-governmental organizations (NGOs) and the banks. At first, general review of land ownership patterns in study area has been made with focus on rationale of land reforms introduced in the country. Lastly, accessibility over lending is linked with land ownership patterns and

subsequent influence sociopolitical elite which is proportional to the size of land owned by the farmers. Bigger the land ownership more the sociopolitical influence and access over banks credit facility.

Land Ownership Patterns

Pakistan is a country with productive small-scale farms and a small number of land holding communities. Distribution of landownership has remained skewed with less than one percent of the farmers consisted of more than 25 percent of the total agricultural land available for cultivation. Nevertheless, the absenteeism has contributed little to production but extracted as much as possible from the sharecroppers who cultivate the land (GOP, 2007). On the other hand, about 65 percent of the farmers hold 15 percent of the farmland in holdings of about two hectares or less. Approximately 50 percent of the farmland was cultivated by tenants, including sharecroppers. Additionally, large number of landless rural inhabitants worked as agricultural laborers. Farm laborers and many tenants have remained extremely poor, undernourished and remained in sharp contrast to the wealth, status, and political power of the landed elite (SBP, 2008).

At the time of independence, Pakistan had large scale princely states and they were largely owned by influential landlords. As most of the land was owned by few hands, it was not possible to supervise and cultivate all land for them, therefore, land was given on lease to managers and they were known as land operation operators. According to Bins, Wanger and Fedder (1993) about 50 percent crop land was cultivated by tenants (i.e operational owners). The land was further distributed among share croppers with broadly input and output ratio of some 50:50. The full time land owners and most of the tenants also cultivated through daily wage labors, especially the crops that had long terms crop cycle for example orchard and sugarcane. During the decade of 50s, serious attempt was made to reduce the negative factor of those who don't have land e.g., absenteeism and rent seeking through land reforms. The purpose of these reforms was to provide access over vital resources. It is argued that since the introduction of land reforms in 1950s to date aimed to allot agriculture land to landless peasants (i.e., equitable access by majority of poor peasant is debated and criticized since the inception of the philosophy of land reform of

50s). Table 1 shows that 81 percent of the farmers own less than 5-acres amount to 39 percent of the total area owned. 12 percent farmers having medium size land holding (5 to 10) percent occupy only 21percent of total area. Whereas, remaining 7 percent of the farmers who have the land holding between 10 acres to sixty acres control / own 40 percent of the area.

Table 1: Distribution of Farm Land in Different Categories

Size of Farms (ha)	Percentage of Number	Percentage of Area
Less than 0.5	13	1
0.5 to 1.0	14	3
1.0 to 2.0	21	8
2.0 to 3.0	16	10
3.0 to 5.0	17	17
Total Small Farms	81	39
5.0 to 10.0 (medium)	12	21
10.0 to 20.0	5	16
20.0 to 60.0	2	14
Large farm 60.0	0.3	10
Total large farms	7	40

Source: Khan M H 1998 Public Policy and River Economy of Pakistan, Vanguard Book.

Credit is an important instrument in enabling farmers to acquire command over the use of working capital, fixed capital and consumption goods. In the wake of the Green Revolution, credit requirements have increased for both inputs for crop production and farm investment. The small farmers, with a limited ability to finance investment, are the logical target group for loans advanced by the credit institutions. In view of the large credit requirements for lumpy investments, large farmers also need to be serviced by the credit system. Due to the important and increasing role of the non-farm

sector as a source of employment in rural areas, the need to cater to credit requirements of this sub-sector has also been a motive factor for the reorientation of the rural credit system in Pakistan.

Credit institutions vary considerably with respect to their sources of funds. The commercial banks depend entirely on their deposits. All other institutions, though not barred from deposit mobilization, have depended on refinancing from the State Bank of Pakistan and/or foreign financial institutions. The ZTBL has borrowed extensively from the World Bank, the Asian Development Bank, and the International Fund for Agricultural Development and the State Bank of Pakistan. The Federal Bank for Cooperatives has depended exclusively on the State Bank of Pakistan. The failure to mobilize deposits is partly due to the policy of financial suppression adopted in Pakistan but largely due to abundant and cheap refinancing facilities made available to the credit institutions by the government. Strict limits on the rate of interest on deposits of different kinds and the availability of financial instruments offering high returns like Defense Savings Certificates explain poor deposit mobilization by commercial banks. Availability of cheap refinancing facilities as a part of the credit planning exercise by the State Bank of Pakistan has discouraged the Cooperative Societies and the ZTBL in their efforts to mobilize deposits from their clients (Qureshi, 1993). In summary, the policy approach to rural credit specifies an explicit relationship between formal credit and input use or credit and fixed farm investments. Institutions specialize in financing particular credit needs. However, a careful review of the literature on the subject suggests that there acute shortage of research undertaken to address the relationship of formal credit facility with the ownership of the agriculture land. Consequently, this research seeks to evaluate formal credit facility and land ownership patterns with special reference to socio-political influences that allegedly tilt the loaning to big farmers.

Results and discussion-Access to Rural Credit

Table 1 showing distribution of credit by tenure, size of farm and type of credit throws up an interesting picture. The data indicates that the average inequality in the distribution of credit measured by the Gini coefficient increases in the case of all tenures excepting owner-cum-

tenant households between 1973 and 1985. However, the share of the small farmers in different types of credit increases with the sole exception of owner-cum-tenants category in whose case the share in institutional credit drastically falls from 2.28 percent in 1973 to 0.36 percent in 1985. The extent of average inequality for the institutional credit is higher than for the non-institutional credit for all categories except tenants. In both years, the extent of average inequality is high relative to the inequality in distribution of operated area. Most importantly, it should be noted that the share of institutional credit going to small, medium and large farms in each of the two years diverges sharply from the prescribed shares. Small and medium farmers get much less than what is due to them (Qureshi et al., 1984).

The distribution of credit shown in Table 1 is decomposed in two measures of proportion of households with access to credit and average borrowings per borrowing household. Table 2 shows the pattern and changes in the credit widening. It is interesting to note that despite and impressive rate of increase in institutional credit the proportion of cultivators with access to such credit increases from 1.98 percent in 1973 to only 5.95 percent in 1985. The credit widening is related positively with the size of farm and this is so for each kind of tenure category. The average inequality in access to credit is high for each year and has risen between the two years. The small farmers have also experienced an increase in access to institutional credit between the two years. The magnitude of increase in access is, however, much larger for large than small farmers.

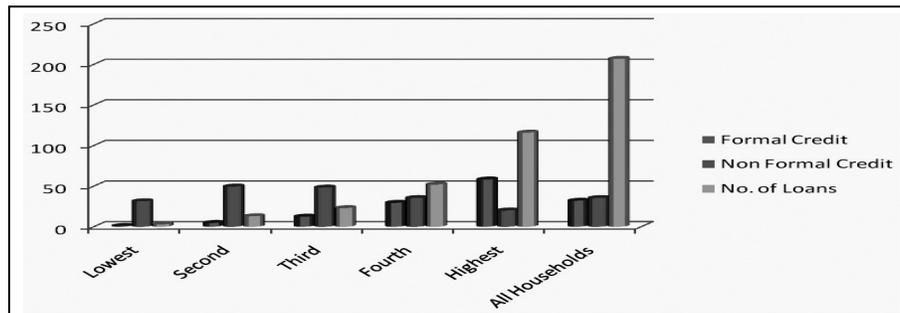
The credit deepening measured by the amount of credit per borrower is shown in Table 3. In the case of the institutional credit, average inequality is high for each year and it increased sharply between 1973 and 1985. The credit deepening is noticed in each category and it increases with the size of farm. Between years, the credit deepening has increased sharply. In the case of non-institutional credit, the average inequality falls through time for owners and tenant households. In the case of all cultivator households, the average inequality falls from 0.589 in 1973 to 0.507 in 1985. In nominal terms, the amount of borrowings per borrower increased between 1973 and 1985.

Table 4 presents information on the importance of institutional sources in total credit for 1973 and 1985. Despite an increasing importance of the institutional credit, the non-institutional credit is still the dominant source of credit as institutional credit in 1985 is only 31 percent of total credit for the category of all cultivators. The importance of the institutional sources increases with the size of farm for each type of tenure. Table 3 presents three farm size dimensions for 1973 and one for 1985. These dimensions are (1) percentage of farm numbers; (2) percentage of production; and (3) percentage of operated area. Comparing the shares in the credit reported in Table 4 with each type of farm size dimension indicated above, one can evaluate the extent to which, on the country-wide basis, the objectives of increased and equitable distribution of institutional credit have been achieved. The comparison shows a failure to achieve the objective of an equitable distribution of credit judged according to either of the criterion indicated above as the share of the small farms in the institutional credit is less than their share according to each of the yardstick. The failure of the government policy at the implementations stage needs an explanation. The extent to which the production loans advanced by the commercial banks and cooperative societies have reached the intended beneficiaries has been studied by many, including Sarwar et al. (1986) and Qureshi (1984). In the case of the commercial bank credit, it has been shown that commercial banks' records show that banks have met the mandatory targets for loans to small farmers. The prevalence of proxy loans, family loans and splitting of loans between the owners and tenants leads to a situation where large farmers obtain a much larger share of production loans than shown in the bank's books.

In the case of the cooperative credit, the ground level reality is different than the government's intentions. It has been shown by Sarwar et al. (1986) that out of 75 sample cooperative societies in Punjab only 3 percent were genuine. One-man societies at 64 percent and family societies at 33 percent accounted for the bulk of cooperative credit. The dismal situation was known by of the cooperative department which was understaffed and did not do its job of inspection and auditing. Corruption was found to be a pervasive phenomenon. The reasons for small farmers not benefiting from the

production loans are not hard to find. Funds earmarked for such loans are limited, and as pointed out previously, low priced. In view of large claimants, the credit has to be rationed. Access to land is extremely unequal as is apparent from Table 5. The social and political power within rural areas follows the pattern indicated by the distribution of land. The cost to commercial banks of servicing small farmers is higher than is the case for large farmers. The large farmers and the bank officials collude with the net result that bulk of the credit is appropriated by the non-eligible group. The same story is repeated for the cooperative credit. The rural credit policy may be well intentioned but has floundered, in practice, as it has ignored the distribution of economic and political power in rural areas. Financial institutions face considerable disincentives to implement the reforms imposed on them from above. The under-pricing of credit for the small farmers did not benefit the small farmers as larger farmers managed to get more than what they would have attempted to receive if the credit was priced higher at its opportunity cost (Economic survey of Pakistan, 2008).

Table 5: Distribution of Formal Credit by Land Size



Source: State Bank of Pakistan Annual Report 2007-08

The total agricultural credit supplied by Institutions has increased from 73.4 billion (2002-2003 and 2003-2004) to rupees 138.6 billion in the year 2007-2008 (July-March) but as percentage change, it has almost remained same with the exception of the 2004-2005 where it increased to 48 Present. As it will be seen from the Table 5 that lowest 20 percent of the farmers have received a very negligible amount (i.e. is 1.05 percent).

Table 6 shows the lowest 20 percent received only 1.05 percent of the total institutional credit; whereas the highest 20 percent got 58.36 percent out of the non-institutional sources. The lowest 20 percent got 67.51 percent and the highest 20 percent got 21.54 percent. As far as the credit from friends and relative is concerned lowest 20 percent received 31.4 percent and highest 20 percent got 21.10 percent. This clearly indicates that the lowest 20 percent gets only negligible percentage that is 1.05 percent from the Institutional sources and depends almost wholly on non-institutional sources such as friends and relatives.

Table 7: Reasoning Problem while seeking loan both from formal and informal Institutions N=225

S. No.	Reason	Frequency	Percent
1.	Social Collateral	12	55
2.	Accessibility	35	16
3.	Corruption	174	77
4.	Others	2	1

Source: Survey Data 2005/06

Accessibility of Small Farmers to Credit- in%

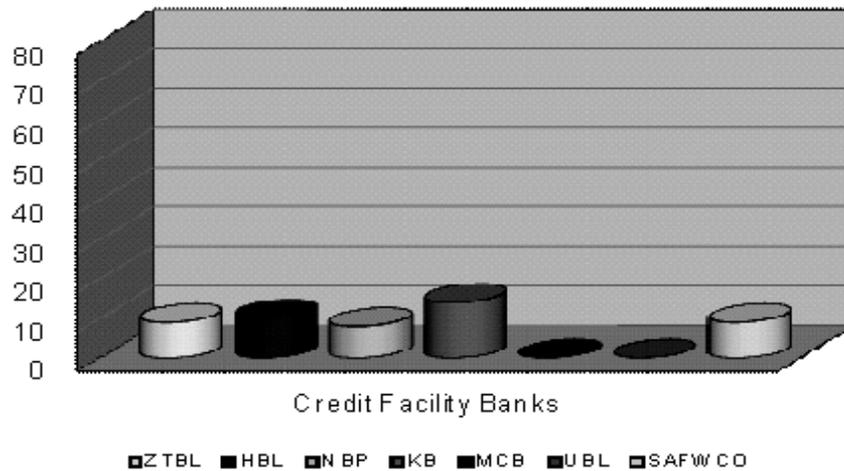
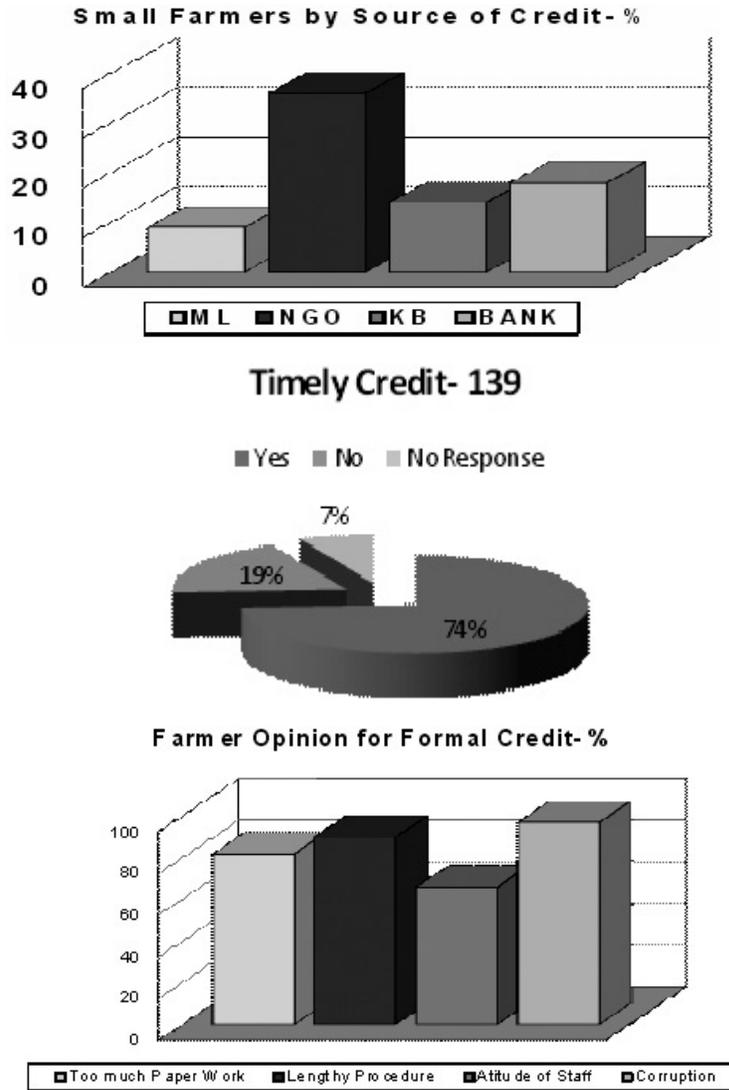


Figure 4.3 and 4.4 reveal extent of accessibility by NGO (i.e. SAFWCO) and other public institutes. SAFWCO is markedly performing well to date compares to institution as depicted in figure 4.5. It is observed that the NGOs have substantially less screening, processing and other cost that combined together are also known as transaction cost. The 98% farmers reported that there was no physical collateral required by the NGO for lending.



Conclusion

Article presented empirical evidence on overwhelming influence of land ownership patterns over the access of agriculture credit in Pakistan. The data revealed that land ownership patterns along socio-political elite have significant influence over formal lending. Land ownership patterns are skewed in nature small farmers comprised majority. Yet they own one third agricultural land in agrarian society in Sindh. In order to break the scenario, political influence by large farmer especially in terms of seeking vital inputs i.e., formal credit in early 1950s till to date, most of these attempts under these land reforms have failed to create any significant impact on land ownership patterns. The article reviewed some other factors that underpin the access over formal credit for formal credit. It highlighted corruption as one of the major causes along with collateral credit limit and methods for recovery.

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