

**APPLICATION OF NEW INSTITUTIONAL ECONOMICS (NIE)
APPROACH TO FINANCIAL INSTITUTIONS OF PAKISTAN:
INCIDENCE OF RENT-SEEKING BEHAVIOR IN
AGRICULTURE CREDIT**

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ABSTRACT

This study examined the performance of formal credit institutions that lend money for agricultural purposes. The study reviewed the performance of financial institutions their conduct of money lending with reference to rent-seeking and transaction cost. Study also investigated the small farmers' access to private lenders and NGOs as last resort. It is argued that the large farmers had significant access to formal lending who afford transaction cost whereas, the smaller farmers find private money lender or NGOs though they charge higher rate of interest. Findings suggest that formal financial institutions e.g. banks are less accessible to smaller growers and NGOs and private lenders credit facility is not big enough to purchase inputs. In light of the findings of the study some policy implications have been discussed in the last section.

INTRODUCTION

Agriculture is believed to be fundamental to industrial growth and it sufficiently provides foods for the nation. However, agricultural performance for past six decades has not been up to the mark. It can be argued that the agricultural policy remained inconsistent this could not offer sustainable development to the nation. Over past 64 years, the share of agriculture to economy has declined. The policy framework devised but remained unimplemented every time. This is largely due to a number of reasons for instance weak institutional structure, land fragmentation and high population growth rate. Consequently, agriculture sector has underperformed in the country (Smith, et.al., 1997). The lack of agricultural credit is identified by the economists as one of the major reasons for the underperformance of agriculture sector. The formal financial institutions e.g. banks

credit policy favors large farmers. Moreover, large Land owners influence credit institutions and secure loans for agriculture. The incidence of rent-seeking on the part of official is also reported which large agriculture growers afford as transaction cost. And the small scale growers and poor farmers seemed to be forced to opt for expensive credit facility from private money lenders and non-governmental organizations (NGOs) to buy raw-material and other agricultural inputs. Moreover, formal lending institutions seem supporting rent-seeking behavior as transaction cost which is only affordable by large growers.

In economics, rent-seeking is an attempt to obtain economic rent by manipulating the social or political environment in which economic activities occur which is also known as transaction cost. In economics especially with reference to NIE, a transaction cost is a cost incurred in making an economic exchange. For example, most people, when buying or selling stock must pay a commission to their stockbroker; that commission is a transaction cost of doing the stock deal. Similarly, large growers whilst seeking heavy loans from financial institutions afford huge sums as transaction cost. Similarly, when farmers apply for agriculture loan expects to pay sum of money to the bank officials for the approval of loan.

New institutional economics (NIE) is an economic perspective that attempts to extend economics by focusing on the social and legal norms and rules that underlie economic activity. NIE has its roots in two articles by Ronald Coase, "The Nature of the Firm" (1937) and "The Problem of Social Cost" (1960). In the latter, the Coase Theorem (subsequently so termed) maintains that without transaction costs alternative property right assignments can equivalently internalize conflicts and externalities. Therefore, comparative institutional analysis arising from such assignments is required to make recommendations about efficient internalization of externalities and institutional design, including Law and Economics. Its goal is to explain what institutions are, how they arise, what purposes they serve, how they change and how they should be reformed. In light of the NIE concept and transaction cost, this study seeks to explain how formal financial institutions involve in rent-seeking behavior which is justified by large growers as transaction cost to avail large loan facility. On the other hand, the small farmers who fail to afford heavy sums as

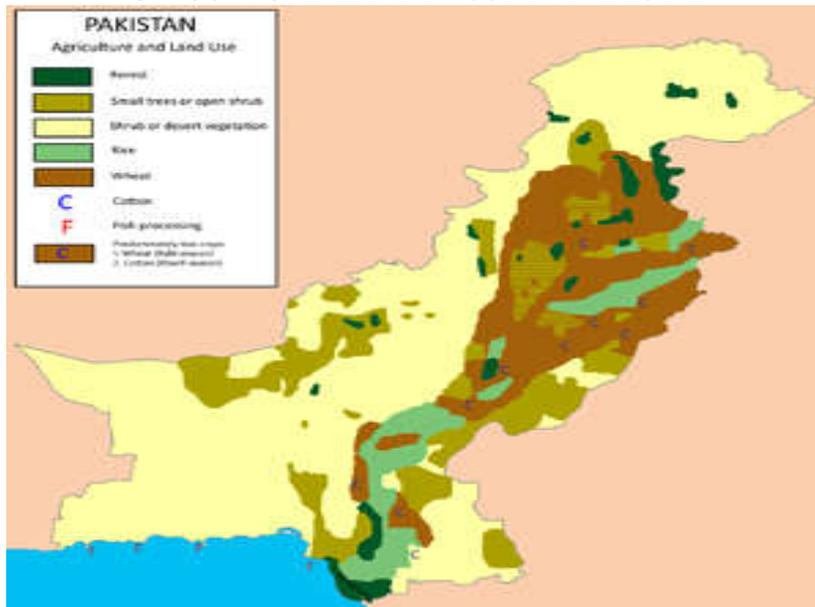
transaction cost opt for private lenders and NGOs and pay heavy interest rates.

LITERATURE REVIEW

Agriculture is said to be the primary source of raw material for industry and it sufficiently provides foods for any country. Pakistan's principal natural resources are arable land and water. About 25% of Pakistan's total land area is under cultivation and is watered by one of the largest irrigation systems in the world-*Indus River*. Pakistan irrigates three times more acres than Russia. Agriculture accounts for about 21.2% of GDP and employs about 43% of the labor force. In Pakistan, the most agricultural province is Punjab where wheat and cotton are the most grown. Whereas, Sindh province is famous for rice, wheat, sugarcane, mangoes, dates, olives and several other crops and fruits. The most important crops are wheat, sugarcane, cotton, and rice, which together account for more than 75% of the value of total crop output. Figure 1 below presents vast area of green and arable land spread over Punjab and Sindh provinces in the route of river Indus. Pakistan's largest food crop is wheat. In 2005, Pakistan produced 21,591,400 metric tons of wheat, more than all of Africa (20,304,585 metric tons) and nearly as much as all of South America (24,557,784 metric tons), according to the food and agriculture organization of (FAO) of United Nations Pakistan is expected to harvest 25 to 23 million tons of wheat in 2012.

However, agricultural performance in past six decades has not been up to its full capacity. Due to weak institutional structure, land fragmentation and population growth rate and limited credit support. Consequently, agriculture sector has underperformed in the country (Smith and Stockbridge, 1997). Economists prescribe lack of agriculture credit to the farmers and growers as major problem. Research evidence suggests that formal lending institutions seemed corrupt and are influenced by elite and larger growers. Formal financial institutions are influenced by rent seeking behavior. Consequently, information cost is varied and charged at different rates from resources poor to that of an influential borrower. That is profound reasons that poor and smaller farmers and growers have limited access to formal credit institutions e.g. banks.

FIGURE: 1
AGRICULTURE LAND IN USE IN PAKISTAN



Source: www.google.com.pk

Consequently, small growers and farmers find NGOs and informal creditors as lenders of last resort on heavy interest rates (Loader, 1996). In this case primarily the transaction cost is seen as an influence that forces the resource poor to opt for informal creditors who charge very high interest rates. Ronald Coase, Armen Alchian, Harold Desmsetz and Oliver Williamson promoted the concept of New Institutional economics, transaction costs and the property rights.

NIE, Transaction Cost and Formal Credit Institutions:

Ronald Coase-a British born American economist is regarded as the founding scholar of NIE concept and explained the model of transaction cost. He applied the concept in firms, their structure, conduct and performance. Coase (1937) explored the issue of individuals as well as group of people opting for deciding to start with sole entrepreneurship, partnership or corporation. He theorized that individuals choose to farm partnership or companies to produce. Whereas, Coase also explained that the transaction cost

is the cost that assists in estimating the cost of goods and services. In addition to that, there are number of other costs i.e. information cost, bargaining cost and enforcement cost. These costs potentially add into the cost of procurements of goods that farm procures. He suggested that the farms ideally tend to minimize those costs, so that they enhance the margin of profit by selling the product in the market. He turned the entrepreneur function that aimed to decrease the overhead cost and the transaction cost. Coase view size of firm correlates with the transaction cost. For instance larger, the size of firm, proportionally smaller would be the transaction cost. The organization structure and size of formal financial credit institutions tend to perform differently than that of informal credit institutions such as paddies and NGOs. It is believed that this could only work when the information cost is changed to a flat rate (North, 1990).

For instance, financial institutions are influenced by rent seeking behavior. Consequently, information cost is varied and charged at different rates from resources poor to that of an influential borrower. That is profound reasons that poor or smaller farmers and growers have limited access to formal institution. Therefore, the resource poor farmers switch to paddies and NGOs. Though, NGOs and paddies charge markedly higher interest rate, however, they have at least access to credit facility (Loader, 1996). In this case primarily the transaction cost is seen as an influence that forces the resource poor to opt for informal creditors. The minimum rent seeking at informal institutions provides access to informal credit.

In Coase's opinion, size of a firm in a market is important when it comes to transaction costs. For instance, when compared the size of formal with informal institutions, the formal institutions tend to have bigger size because of their paid-up capital, scope and scale of capturing market segment in the shape of borrowers. Hence rent seeking (transaction costs) has to put bigger impact over the market and make fewer better-off at the cost of larger population. Loader, (1996) explained that transaction costs are the bargaining cost. It is the cost that is incurred on acceptable agreement between buyer and seller. In his opinion transaction cost is the sum of function which is the distance between bid and agreement signing between two entities. According to Simon

(1955)¹ when market operates in uncertainty environment, the costs in acquiring information will be high. Under these circumstances the market operating agent is bound to take rational decision. According to him it was not only "maximization" but also "satisfactions". In the public financial market it is basically the aspiration level of borrower and if achieved, they will be happy enough with, and if they don't, try to change either their aspiration level or their decision. These "rules of thumb" are the utmost agents which can be achieved in the "bounded" and uncertain real world. Simon's theory of bounded rationality has emerged as an integral part of the "Institutional Economics". Williamson's (1985) "bounded rationality" to "opportunism" according to him self-interested behavior to acquire favor induces the market actor to act for taking relational decision in the market. He further explained that "bounded rationality" implies however that full agency contracts cannot be written up because not all contingencies can be foreseen. Furthermore, when there is "asset specificity" (defined as the factors specific to organization), then factor market disciplinary devices simply will not be available.

Effective Institutions: The formal credit institutions role in the development of a nation is like lifeblood. In past several decades attempts have been made to ascertain the role of institutions effectiveness, efficiencies and equity in the development (Gannage 1966; Basu, 1984; Myrdal & Numerous, 1968). Adelman & Morris (1967) found out significant correlation between the level of development and various social, political and institutional indicators. Similarly, Scully (1988) concentrated on the significance between institutional framework and economic growth leading to countries prosperity.

Ruttan & Hayani (1984) related institutions as synopsis of rules prevailing in the given society, or in an organizations; facilitations and co-ordination among managers of those institutions in providing access and fulfilling expectations were dependent upon how society works otherwise. They preferred collective action oriented societies over individualistic one. In both

¹ Simon introduced the concept of bounded rationality in Herbert Simon. A Behavioral Model of Rational Choice, 69 Q.J. ECON. 99(1955). Subpart I.A, infra, briefly traces its influence.

the sets of societies, initiations could operate differently. For example, the individualistic one would mean gains for oneself as in the case of formal lending institutions where large farmers intend to maximize benefits of having access over credit at the cost of denial or less access by the small farmers.

Matthews (1986)² defined characteristic of institutions and their ability to govern the relations among individuals and groups. Whether they are “voluntarily” accepted through custom or tradition, or enforced through an external authority and/or incentive system. To serve an institutional role these rules and constraints have to be applicable in social relations. North (1990) addressed the broad questions of social and economic development and stagnation, giving prominence to the role of institutions in fostering either development or decline of a nation. His analysis combined historical insights, economics and political economy, though his treatment of different levels of economic development is more stylized than detailed. He defined institutions as “the rules of the game” in a society, which guide and reduce uncertainty in human interaction.

Nugent (1989) and Wilkinson (1985) explained that the ability of predictability of institutions must be taken into consideration when it comes to decide their effectiveness. Bromley (1991) could be formal or informal. Formal institutions included a hierarchy of laws and policies, beginning with by laws and processing through national laws, policies and the national constitution, up to international laws and treaties. Informal institutions include social customs and conventions, which, because they are often deeply embedded in culture are much more resistant to change, than formal institutions, which can be overturned by a revolution, presidential edict, government policy change or the passage of a new law. Williamson (2000) argued that institutions are devised first and foremost to serve the needs of those who devise them and that they may or may not facilitate exchange.

To sum up, the formal credit organizations set of rules of

² In recognition of this, the profession has awarded six Nobel Prizes in this area: Kenneth Arrow, Friedrich Hayek, Gunnar Myrdal, Herbert Simon, Ronald Coase, and Douglass North.

governing, prepare framework, policies between members and non-members. Likewise, markets such as: stock exchanges, labor markets, wholesale markets or traditional markets are institutions because they embody rules and regulations. Similarly, cultural rules and codes of conduct are institutions in so far as they too can constrain the relationships between different individuals and groups. These can be described as the Non-governmental organizations and Paddys (Wilkinson 1985, Wallis & North, 1986). Further NIE suggests that the institutions are the ladder towards economic growth of any society. Nabli & Nugent (1989) concluded that new institutional economics explained transaction cost and collective action. In their opinion collective action was based on the level of political and economic involvement whereas, the transactions cost was the cost of seeking information about political and economic entities.

RESULTS AND DISCUSSION

A survey was conducted in villages of Sanghar, Nawabshah and Matiari districts to investigate formal and informal creditors reach out with reference to access to credit facility, interest rates charged and transaction involved. Findings show trends of inadequate flow of information makes money lender to take advantage by charging high interest rates. For example, informal money lenders fix the interest rate that suits them while setting the terms of loan on six months to yearly basis. However, in a situation where one village has more than one money lender that offers loan to villagers, in this situation cutoff line for interest rate is set jointly by all money lenders. This provides an opportunity to create some sort of cartel.

TABLE: 1
MONEY LENDING BUSINESS BY NUMBER OF YEARS IN
VILLAGE N=40

<i>S. No.</i>	<i>Mean</i>	<i>Minimum</i>	<i>Maximum</i>	<i>St. dev.</i>
1	20.4	15.3	22	17.6

Source: Survey Data, 2005

Approximately 79 percent of total money lenders reported that they were doing business of money lending in the same village for about 20 years (see table 2). This creates mutual trust on which the business has to flourish. In other words, larger the number of years of lending in the same villages creates higher confidence significant positive and mutual relationship villagers and the money lender.

TABLE: 2
INCIDENCE OF BAD DEBT IN THE PAST 20 YEARS N=40

<i>S.No:</i>	<i>No of Money Lenders</i>	<i>Frequency</i>
1	12	5
2	19	7
3	6	9
4	3	13
All	40	34

Source: Survey Data, 2005.

Approximately 89 percents of the total money lenders reported that small farmers over large farmers are preferred for lending money. Given that villages are remote in distance therefore, formal lending is not easily accessible to small farmers. Besides, the size of land is also a hurdle in terms of getting formal credit. About 89 percent of money lenders reported that interest rate charged is relatively high to that of formal sector (i.e., 20: 60 percent respectively). This is justifiable on account of the fact no collateral is required as compared to formal sector in the shape of pass books, processing hurdles, and hidden cost. About 11 percent of total money lenders reported that they were lending money to above subsistence level to large farmers.

Performance of Public Financial Institutions: Public Financial institutions are regarded as major source of credit to farmers. Agricultural credit disbursement has increased from Rs.45 billion in 2000-01 to Rs.212 billion in 2007-08. Financial institutions are striving to play effective role through financing agriculture, plans to increase further its credit to this sector with a particular focus on providing a wider range of products to small and medium size farmers. Various institutions are geared towards

new products to induce flexibility farmers: the *Haryali*³ scheme; and green tractor are some of the examples that aimed at attracting large farmers. Loan requirements are estimated by bank staff on the basis of borrower's total land holding under crops. The rate of input price is estimated on prevailing market rates. The effective demand for loan is projected upon total cash requirement for estimated inputs like seed, fertilizer and pesticides. The Loan is sanctioned against the requirements of farmers. The large farmers would receive up to 95 percent with 60 percent to medium size farmers and 40 percent for small size farmers.

TABLE: 3
CEILINGS FOR LAND OWNING COMMUNITIES

Province	Economic Holdings	Above Economic Holding
Punjab Up to 12.5 Acres	Above 12.5 Acres to 50 Acres	Above 50 Acres
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 64 Acres	Above 64 Acres

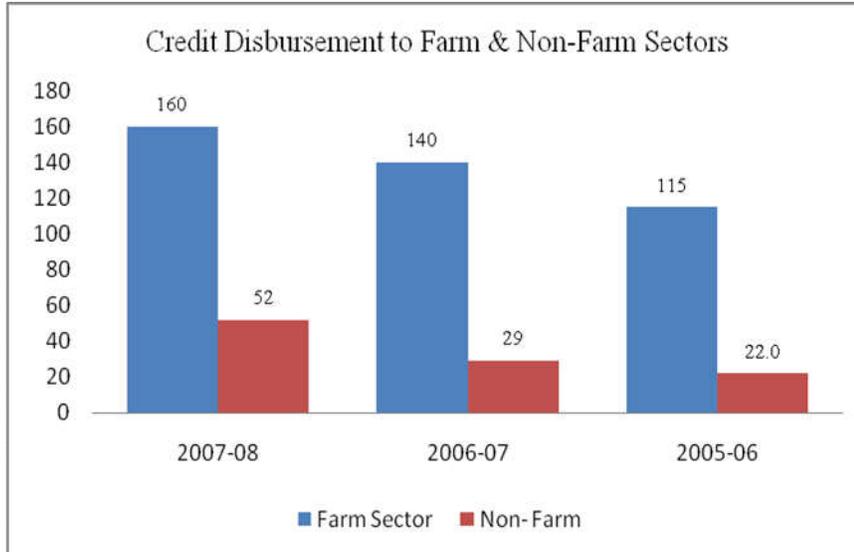
Source: Annual Report of State Bank of Pakistan, 2013

The mortgage is fixed at rupees a hundred thousand per farmers per year with total guarantee amount for an individual must not exceed rupees five hundred thousand. The loan could be received against agriculture land as security. Pass book of borrowers is prerequisite for confirming that he owns agriculture land. Banks accept agriculture land against security. It fixes value on the basis of the reliable value/forced sale value rather than only considering market value or Price Index Unit (PIU). State Bank of Pakistan has fixed (PIU) at rupees four hundred. Crop wise credit is given sugarcane Rs. 8,000; paddy Rs. 4,500; wheat Rs.4,000;

³ Haryali means green tractor scheme introduced by the Govt. for the small land owners to cultivate more land for high yield

cotton Rs.6,000; potato Rs.11,000; tobacco Rs.9, 000; other crops as per actual cost.

FIGURE: 2
CREDIT DISBURSEMENT TO FARM AND NON-FARM SECTORS



Source: Annual Report of State Bank of Pakistan, 2013.

Progress of Commercial Banks

The agricultural credit disbursement target was set for the year 2008-09 at Rs.260 billion against which commercial and specialized banks were able to disburse only Rs.166.34 billion in the same year. This is because they failed to meet the average monthly lending requirement of Rs.19.4 billion per month to meet this target. Local banks hardly meet up to 20 to 25 per cent of the country's agricultural loans demands with larger amount of information and hidden costs that could be termed as transaction costs. Table 4 shows domestic and private lending to agriculture over a period of ten years.

TABLE: 4
SHARE OF DOMESTIC (PRIVATE AND COMMERCIAL)
BANKS TO AGRICULTURAL CREDIT

Year	Domestic Private Banks	Commercial Banks	Total (Rs. Millions)	Percentage Share to Agriculture Credit	
	Rs. Million			Domestic Private Banks	Commercial Banks
1996-97	-	4429.43	19547.67	-	22.66
1997-98	-	6102.70	33392.30	-	18.30
1998-99	-	7236	42852	-	16.89
1999-00	-	9312.50	39687.60	-	23.46
2000-01	-	12056	44799.40	-	26.92
2001-02	592.80	17486.12	52314.49	1.13	33.43
2002-03	1421.11	22738.60	58915.27	2.41	38.60
2003-04	2701.80	33247.45	73445.86	3.68	45.27
2004-05	12406.82	51319.78	108732.91	11.41	47.20
2005-06	16023.38	67967.40	137474.32	11.66	49.44

Source: Annual Report of State Bank of Pakistan, 2013

Some studies suggested that small growers and farmers opted borrowed at 50 per cent interest rates from private lenders. Sample survey results indicate that 52 per cent of the farmers did not have a bank account. About 89.6 per cent of the farmers who responded to the survey said that they knew nothing about the different products being offered by banks for the farming community. Only 5 percent of total small landholders surveyed had obtained loans from banks, 54 percent of them had got loans from informal sources such as friends, family and input suppliers. No availability of passbooks, issues of fake passbook and non-cooperation of revenue authorities with the banks and borrowers, and non-automation of land record another problems that commercial banks must take into account while pursuing the broad based policy.

Money Lenders-Padhys: *Kanthy Wallahs*⁴ are small-scale traders who, unlike *padhys*,⁵ are not normally involved in supplying inputs or credit. They assemble small amounts of cotton which they sell either to *padhys*, or more commonly direct to cotton factories. During the Rabi season some *kanthy wallahs* also buy wheat, rice, chilies and peanuts. *Padhys* sale inputs required for growing cotton, such as seed, fertilizer and pesticide. They trade with both *padhys* and landlords (*zamindars*). However, many *zamindars* depend upon seasonal loans in order to secure the necessary inputs for cotton production. *Padhys* are commonly the providers of such loans, since very few small and medium sized *zamindars* are able to access credit from the formal banking sector. *Zamindars* also need pre-harvest finance for labour costs, loans to their tenants, subsistence, and one-off expenditures such as those relating to weddings, funerals, or medical treatment. For this, *padhys* are again an important source of credit finance.

Most lending by *padhys* is concentrated at the time of cotton planting - from mid-April to mid-May, when both seed and fertilizers are required - and in June and July when pesticide and further fertilizer applications are made. Not only are these the times of peak lending during the cotton season. They also represent the peak lending period in the year as a whole. The volume of lending by traders for wheat production is far lower than for cotton production. In the last couple of years the low price of wheat has reportedly been deterring growers from cultivating large amounts of wheat and thus reduced the demand for fertilizer during the Rabi season. Many small and medium sized *zamindars* only grow wheat for consumption purposes, and do not therefore have much cash surplus at the end of the Rabi. This intensifies the need for borrowing at the start of Kharif. At the end of the Kharif, on the

⁴ Their name derives from the Urdu word *kanta*, which means to weigh. Some locate themselves temporarily at strategic road junctions in the rural areas, often close to a teashop. Others own or rent more permanent premises in towns and villages.

⁵ *Padhy* is a Sindhi word that traditionally refers to the shop where seeds and farm produce are traded. The *padhy* wallah is the person who owns and runs the "shop". In most of the literature on agricultural marketing in Pakistan *padhy* wallahs are usually referred to as commission agents or *beoparis* (an Urdu word meaning trader). The term *arthy*, an Urdu word for commission agent is sometimes also used. In Sindh these terms are often considered to be synonymous, although the activities of the *padhy* generally extends far beyond what is implied by the English term "commission agent".

other hand, cash incomes from recently harvested cotton provide zamindars with ready finance for wheat production, thus reducing the need for large loans at this time.

It is argued that in a situation where a borrower contracts a money lender and bank officials, it is quite difficult to estimate amount of risk that the borrower carries on loan. Similarly, the nature of loan is such that it cannot be sold like other goods in the market. The Lender has to look at past history of the borrower before mutually agreeing upon a contract agreement. For Lender it is also important that he must know where the borrower intended to spend money. To ensure that borrower is a worthy of lending. The Lender spends major portion of his time before agreeing upon lending on screening. This may increase cost of lending as a means of screening cost. As, in most cases history of borrower are not documented, pooled and exchanged borrower lenders.

Non-Governmental Organizations: According to World Bank estimates there were an approximately 6,000 to 30,000 national NGOs in developing countries alone, while the number of community-based organizations in the developing world number in the hundreds of thousands and they are mushrooming with fast pace. Over the past decades, South Asian governments have taken various initiatives to create anti-poverty programs and NGOs have played very important role in terms of highlighting the development priorities and accordingly implementing with international donor money. The role played by NGOs towards development cannot be ignored. Especially, in the financial sector, the NGOs have worked for so many years. Their policy for capacity and capability enhancement targeting resource poor has proven to be exceptionally well. They aim at lending small loans with flexible terms and conditions to resource poor especially those who have little access to public institutions. NGOs in Pakistan and elsewhere in the developing world have underperformed given the amount and time they have been provided to accomplish development objectives. The succeeding section provides synthesis of activities of two leading NGOs in the research area. The National Rural Support Program (NRSP) and Sindh Agricultural and Forestry Workers Coordinating Organization (SAFWCO) have been in the development scene for some time. They have been engaged in almost all sectors of

development including education, forestry, water and sanitation, health along with micro lending.

National Rural Support Program (NRSP): In 1991, NRSP was registered under the Company Ordinance 1984 with major objective to contribute in rural poverty alleviation. The NRSP with subsistence professional staff operates in 32 districts of Pakistan including Kashmir. It focuses over the half million poor and destitute household. It has network of more than twenty nine thousand community organizations. These are the prime objective through which change in quality of life is gauged through activity by the NRSP. The NRSP is regarded as the largest organization of the country in relation to poverty reduction and rural change. It participates in capacity building, training, action research through supply input and establishment of infrastructure. It has a long history in investing on education sector, more recently it has involved itself in micro credit. The NRSP involved elimination of the poverty cycle and achieving sustainable development of rural people towards better quality of life. NRSPs major contribution in development has been its strategy to social mobilization. Social mobilization is conceived as a process through which people brought together for the purpose of the common goal i.e. eradication of poverty. The social mobilization process involves in creating grass root leadership, adequacy, capacity building and awareness of property rights. On the whole NRSP intend to monitor productive linkages that are essential for development of natural resources and human assets through a management process of continued training.

Luqman, *et.al.*, (2004) reported that these RSPs have a positive impact on the socio-economic condition of women living in rural areas of Pakistan. Similarly, NRSP (2010) reported that the credit program of NRSP allows women to access the credit facility to meet their basic needs effectively and also help in improving the social and economic condition of female community. The results show that microcredit is economically served as a better tool for empowering. Survey data reveals that 70 percent respondents were satisfied over the procedures adapted towards lending arrangements. The remaining 30 percent were critical over procedure of collateral as one of the prerequisites for seeking loan.

TABLE: 5
DISTRIBUTION OF LOAN BY PURPOSE

Purpose of loan	Cases	Percentage
Embroidery	10	10.00
Knitting	18	18.00
Development of Micro Enterprises	21	21.00
Agricultural purpose	19	19.00
Livestock/poultry rearing	42	42.00
Total	100	100.00

Source: Survey Data 2012.

TABLE: 6
RESPONDENT OPINION ABOUT LENDING BY NRSP

Impact	Great Extent		Some Extent		Not at All	
	Cases	%	Cases	%	Cases	%
Fulfillment of the purpose of getting credit	26	26.00	72	72.00	2	2.00
Income increases after getting credit	22	22.00	78	78.00	---	---
Purchase better food items after getting credit	4	4.00	70	70.00	26	26.00
Better clothing	39	39.00	51	51.00	10	10.00
House conditions becomes better	24	24.00	---	---	76	76.00
Improve health facilities	2	2.00	28	28.00	70	70.00
Help in reducing poverty	38	38.00	62	62.00	00	00.00
Enhancement of Business (i.e., agriculture, livestock or poultry)	59	59.00	24	24.00	17	17.00

Source: Survey Data, 2012.

It is mentioned that the repayment period depends upon the nature of the loan. For agriculture loans, it depends upon the maturity period of the crop. For instance, for wheat, cotton, chilies and other vegetables the duration of repayment is six months. For sugarcane it is for 12 months. Similarly, their payment period for

livestock varies from 12 to 24 months. Overall, 96 percent respondent reported that the repayment period was realistic in most cases. Remaining four percent suggested that the repayment period for livestock be increased, as there was too much pressure on borrowers to repay the loan. They also suggested option be given that other income be used rather than through loan utilization only. Moreover, 87 percent of total respondent reported that the amount of the loan was very small. For instance, the amount seemed insufficient even to cultivate two acres of sugarcane let alone to support other income generating activity, like the purchase of livestock etc. The amount of loan was even small when compared to credit offered by Local traders, moneylenders and alternative sources. The advantage of seeking lending from NRSP, they stated that formal institutions and moneylenders and traders charged very high interest rate. There seems to be a positive impact of the credit received and other services on borrower income. This is due in particularly from the timely use of inputs. According to sample farmers the advantage of NRSP lending was its reduction of too much dependence on the local moneylender/trader who charged high interest rates. It is argued that the microcredit cannot be considered as an effective tool for poverty reduction. The reason would be its size and quantum of loans. However, it could prevent descent into the poverty trap.

Sindh Agricultural and Forestry Workers Coordinating Organization (SAFWCO): SAFWCO was established in 1986 by a very small group of people. SAFWCO's area of concerned has been poverty and rural development. Operational area of SAFWCO district-wise includes Sanghar, Hyderabad, Matiari, Nawabshah, Mirpurkhas, Dadu, Thatta, Jamshoro, Khairpur, Tando Mohd Khan and Tando Allhayar. It intends to create an equitable and just society. It started its activities in Shahdadpur, District Sanghar, Sindh. It is regarded as a pioneering institute with focus on poverty alleviation like NRSP. SAFWCO also initiated social mobilization and targeted communities' organization at grass roots level. SAFWCO initially invested its resources on creating awareness about social forestry. At present, it actively participates on major areas of development such as education, health, infrastructure, social mobilization, human capacity building and lending micro credit to resource poor people. SAFWCO

believes in institutional building at grass roots level to support in bringing social change in the society. Hence a common platform that is created and owned by the poor is a pre-requisite through which the poor can make themselves part of development process. It has made social mobilization as core activity and entry point followed by different development interventions including social and physical service delivery projects, coordinating and networking while emphasizing on gender balance and good governance. The main aim of the program is to mainstream rural poor into socio-economic development and reduce their vulnerability (SAFWCO, 2012).

SURVEY RESULTS

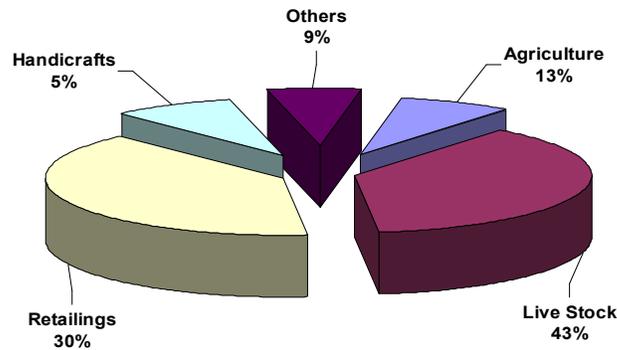


FIGURE: 4
SMALL AND MEDIUM FARMERS BY ACCESSIBILITY TO
AGRICULTURAL CREDIT CUMULATIVE PERCENTAGE OF
PAST FIVE YEARS (2011-2012).

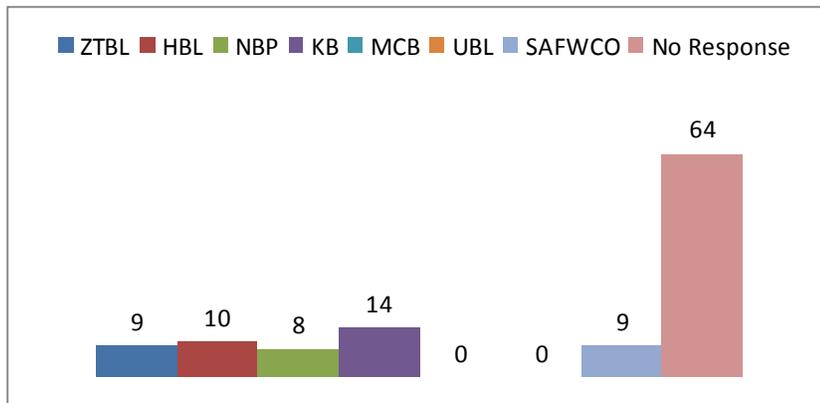
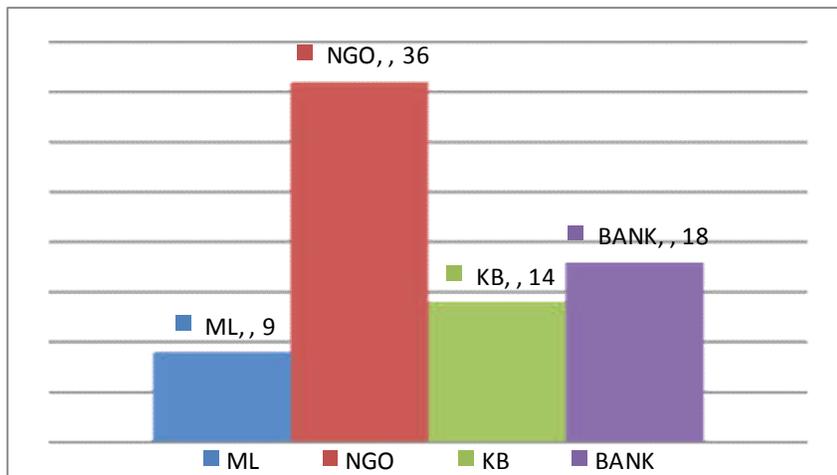


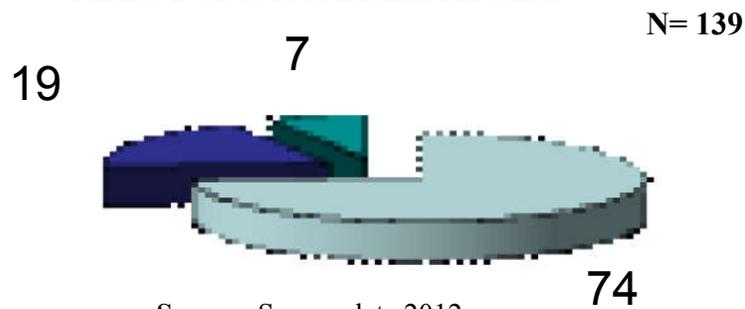
Figure 3 and 4 reveal extent of accessibility by NGO (i.e. SAFWCO) and other public institutions. SAFWCO is markedly performing well to date compares to institution as depicted in figure 5. It is observed that the NGOs have substantially less screening, processing and other cost that combined together are also known as transaction cost. The 98 percentage farmers reported that there was no physical collateral required by the NGO for lending.

FIGURE: 5
FARMER ACCESS OVER LENDING BY FORMAL & INFORMAL LENDING CUMULATIVE OF PAST FIVE YEARS- FARMER RECALL 2011-2012 N=139



Source: Survey data 2012.

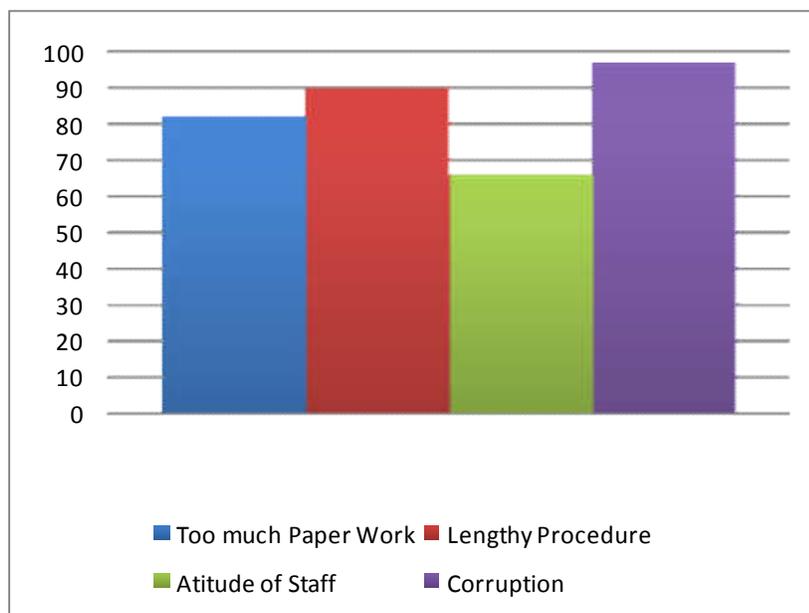
FIGURE: 6
RESPONSE TOWARDS INFORMAL CREDIT BY SAMPLE RESPONDENTS CUMULATIVE PERCENTAGE OF PAST FIVE YEARS 2011-2012 FARMER RECALL



Source: Survey data 2012.

Figure: 6 estimates farmer’s response about informal credit. Approximately, 74 percent respondents showed positive attitudes by the informal sector to small farmers.

FIGURE: 7
FARMER OPINION ON FORMAL CREDIT CUMULATIVE
PERCENTAGE OF PAST FIVE YEARS 2011-2012 FARMER
RECALL.

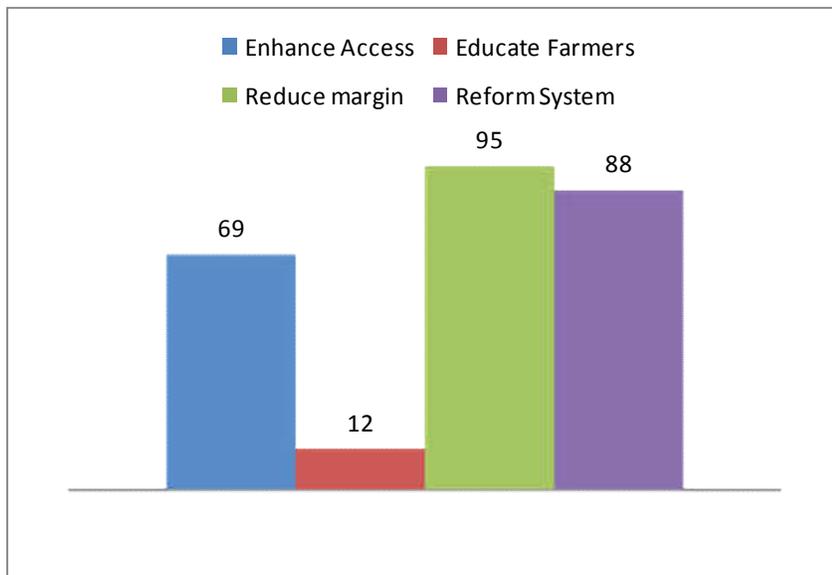


Source: Survey data 2012.

95 percent Sample responded that corruption was the major factor towards obtaining to get loan from the formal sector. Besides, there were some other factors such as too much paper work, lengthy procedure and unfriendly attitude of staff. Figure 7 and 8 indicate similar trend. The analysis on parameters, such as, formal lending policy, markup charged by formal and informal institution, process of application, farm size of holding and extent of hidden charges show some interesting findings. For example, land ownership patterns in Pakistan are highly skewed in nature and small proportion of farmers tends to own largest agricultural crop land. Data reveals that approximately 68 percent of land was owned by less than 20 percent of total farmers. This has

considerable impact on the equity and efficiency of the institutions. It could be concluded that the informal sector largely grows in size due to inefficiencies of formal sector.

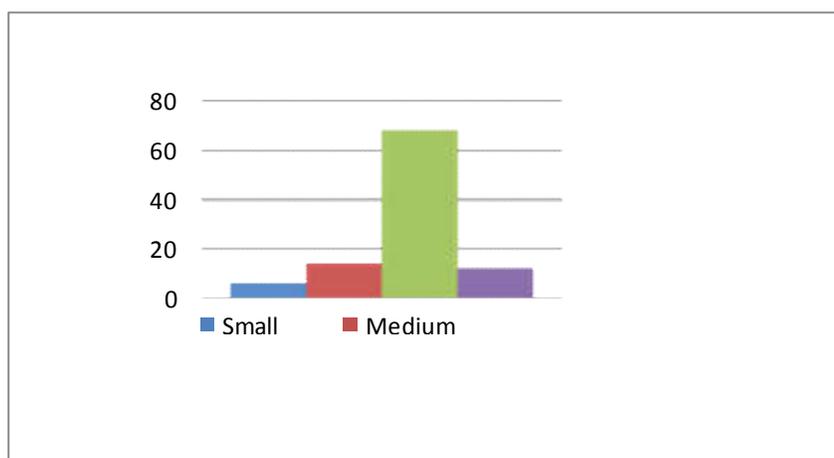
FIGURE: 8
FARMER RESPONSES TO REFORM ACCESS OVER FORMAL LENDING CUMULATIVE PERCENTAGE OF PAST FIVE YEARS-2011-2012 FARMER RECALL.



Source: Survey data 2012

The average inequality in access to credit is high and has risen for small farmers have also experienced an increase in access to institutional credit over past several years. The magnitude of increase in access is, however, much larger for large than small farmers. In the case of the institutional credit, average inequality is high and has risen sharply.

FIGURE: 9
FARMER’S RESPONSE TO FORMAL CREDIT CATEGORY
WISE PERCENT 2012



Source: Survey data 2012.

Research reveals that the small farmers were not able to benefit from credit facility as compared to large farmers who managed to get more than what they required. 87 percent respondents under small holding category reported that collateral, bureaucratic approach, corruptions and transaction costs were the major hurdles that prevented them from seeking formal credit. Data reveals statistical differences in crop incomes because of transaction costs borne by the respondents under both formal and informal lending institutions. For this, gross and net incomes of various crops: cotton, wheat, sugarcane, rice, were analyzed and the data showed that farmers in the formal lending category were charged 2 percent as transaction cost of total net incomes. In contrast, farmers seeking informal lending paid only one percent of net income.

CONCLUSIONS

This study examined the performance of institutions that lend credit for agricultural purposes under the pretext of NIE approach. The study reviewed the performance of public institutions, institutional structure, conduct for money lenders and the role of NGOs in lending credit to farmers for purchase of inputs required

to grow crops. It was concluded that the large farmers had significant access over formal lending with resources, whereas, the smaller farmers find private money lender or NGOs who charge higher interest rates. The performance of leading NGOs in the study area was surveyed and respondents suggested that NGOs are as lenders of last resort. As that money lender by NGOs was not big to purchase inputs. The respondent reported that the capital amount of loan by NGOs has increased to be more economically efficient. In light of the findings presented in this study some policy implications are highlighted. There appears a gap of availability of adequate information for growers regarding financial services being offered by banks. The size of farms is uneconomic and geographical distribution of agriculture credit is uneven. Physical infrastructure is under developed. Agriculture department has also not been able to disseminate research findings to farmers. The loan recovery through sale of agricultural land is almost impossible for banks. Market distortions by ZTBL due to lending lower than market rate. There is lack of absorption capacity of less developed provinces, Sindh, NWFP and Baluchistan. Farmers' limited access to the information of latest farming techniques. There is acute shortage of water, quality seed, and fertilizers. Government's support prices and timely purchase by PASCO and other public sector enterprises is ineffective implementation. There is lack of efficient farming practices and record keeping & financial knowledge of the farmers. There is strong need of providing farmers with awareness and education of banks' financial services and related information on crops.

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