

ISLAMIC AND CONVENTIONAL AGRI-FINANCING IN PAKISTAN

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Abstract

The purpose of this paper is to find out the financial agri-products that have been offered to farmers in Pakistan by different Islamic financial institutions (banks) and conventional banks as well. This research paper will discuss the financing facilities in agriculture sector provided by the Islamic Banks and Conventional Banks in Pakistan. All agricultural financial products that are offered by all financial institutions will explain in detail. The main purpose of these agri-financial products is to facilitate the farmer to develop and manage their agricultural projects. We used documents analysis of financial institutes as a methodology in this research paper and we have also conducted some personal interviews with the managers of the some selected Islamic Banks and Conventional Banks.

Key words: agri-financing, agribusiness, Islamic Banking, Pakistan

INTRODUCTION

Pakistan is an agricultural country and agriculture sector is one the largest sector with highest contribution in Pakistan's economy. Agriculture is the second largest sector in Pakistan; it contributes 21 % of Gross Domestic Product (GDP), and by providing 45 % employments to labor force in Pakistan agriculture sector is the stands largest employer (Economic Survey of Pakistan 2012). In Pakistan 62 % of total population is directly or indirectly connected with agriculture sector as a source of income and livelihood. Finance has influential role in the agriculture sector; and Pakistani agriculturists are frequently lacking the agri-credit which is essential to perform the agricultural activities. The State Bank of Pakistan (SBP) is aware that for sustainable growth in agricultural sector; agricultural credit is essential; SBP putting all their efforts for the enlargement

and encouragement of agri-credit in Pakistan at reasonable rates.

Despite its so much importance for society and country the Agriculture sector showing decline growth in the past twenty years, according to the Federal Bureau of Statistics the overall growth rate and performance of agriculture is decline as Table 1 show the decreasing the pattern of agriculture growth over the past twenty years.

Table 1. Past Growth & Performance of Agriculture sector in Pakistan

YEARS	PERCENTAGE
1960-69	5.10
1970-79	2.40
1980-89	5.40
1990-99	4.40
2000-10	3.20

Source: Federal Bureau of Statistics

Adams and Fitchett (1992) disclosed that the cash constraint is always related with agriculture sector. Historically, financial institutions are reluctant to lend to small farmers due to their inability to provide collateral, higher default risks and high transaction costs associated with small loans. Coleman (2006) recognized that the higher interest rates in agricultural loans are not suitable solution of the agri-credit problem.

India has offered subsidized interest rates in the agricultural credit to farmers. The study of Binswanger et al (1995) finds that the income and the agricultural productivity of the farmers has increased as the financial institute's incased the formal agri-credit.

A study (Diagne and Zeller, 2001) in Malawi revealed that the financial institutes (Saving banks, Rural Banks and Cooperative Societies) are giving loans to those households who has diversified income and diversified assets portfolios; and these households when decided to approach the financial institution for loan they don't gave importance to the interest rate.

The main purpose of the agri-credit in Pakistan is to hire the labor, purchasing inputs and fertilizers. A study conducting on the performance of ZTBL found that with the increase of 10 % in agri-credit; there is only 1% change in the productivity and production cost (Khandkar and Farooqee, 2003).

Van Zyl et al (1995) observed that in the developing countries the informer lenders are playing a fundamental role in the stipulation of agri-credit households. More than 33 percent of total funds that has been exploited in informer credit dealings originally came from the formal sources of credit. The informal credit markets charged almost 19% interest rate; on the other hand formal lending markets charged only average 14 to 15 percent interest rate (Aleem, 1990).

The research work (Bhalla, 1976) in the district Haryana (India) finds that the agricultural labor workers scrounge the spending items from the shopkeepers and they repaid their loan through providing the labor work to landlords less than the market wage rates. The local shopkeeper adjusted their accounts with the

landlords by purchasing the agri-products later sold it back to the labor workers.

Overall the literature review finds that farmers can increased their agricultural efficiency, income and productivity; if they received agri-credit timely. Because of the formal credit unavailability the farmers guided towards the informal credit lenders (private brokers and money lender) which incriminate not only more interest rate than in the formal market but also tie the agri-farmers to trade their agri-crops to them at lower market rates.

MATERIALS AND METHODS

For this research paper we have selected one Islamic and four conventional banks offering agri-financing in Pakistan; the name of these banks: Meezan Bank, Bank Alfalah Limited, Bank of Punjab (BOP), Habib Bank Limited (HBL), United Bank Limited (UBL).

The data has been collected mainly from the websites of these banks and some data collected through personal interview.

We used documents analysis (DA) of financial institutes as a methodology in this research paper and we have also conducted some personal interviews with the managers of the some selected Islamic and Conventional Banks.

In this section we will discuss the financing facilities of each financial institute for agricultural purpose; their products and its specification; the mark-up rate and mode of financing are the main points.

Meezan Bank

The first Islamic agri-financing in Pakistan is provided by the Meezan Bank; the largest Islamic bank of Pakistan. Meezan bank facilitate their agri-customers with fully Shraiah compliant agri-financing. Meezan Bank under the Marabaha financing agreement will sell the seeds and pesticides to their agri-customers.

The Meezan Bank is scheduling to enlarge the range of agri-financing facility to over the Pakistan and Bank has already made a wide-ranging Agri-Financing Policy in which the detail of all procedures of this agri-scheme is mention.

Following Islamic agri-products are offered by Meezan Bank:

-Meezan Tractor Aasaan

Objectives: To complete the necessary requirement of Tractors for farmers.

Tenure: 3 to 5 Years

-Meezan Agri Aasaan

Objectives: To provide agri-financing options to farmers on a fast track source with utmost alleviate and ease.

Tenure: 1 to 2 Years

-Meezan Fasl Aasaan

Objectives: To supply agri-financing to farmers for purchasing of input after the specific date in future farmer will provide the supply of goods.

Tenure: Max. 18 months

Bank Alfalah

Bank Alfalah providing all types of agri-financing (Bank Alfalah Zarie Sahulat) to farmers and corporate entities that has been engaged in Agricultural sector e.g. (production, marketing, processing, and exporting). Bank Alfalah observed following eligibility criteria while lending agri-finance to farmers. These guidelines are given by State Bank of Pakistan (SBP). The applicant is an individual /entity must full fill following criteria for getting the agri-credit from Bank Alfalah.

-The applicant must not be defaulter of any financial institute in Pakistan.

-The agri-credit applicant must have to provide appropriate securities and agri pass book which has been acceptable to the any bank.

-The applicant must be a Pakistani.

-Age should be in between 18 to 65 (age relaxation to upper limit can be given).

-Additional criteria can be enforced on each application basis (State Bank of Pakistan).

Bank Alfalah's Agri-Scheme offers agri-finance facilities to both activities (farming and non-farming) production and agri-project expansion purpose as well. Bank Alfalah is offering wide range of agri-products to the farmers to increase their agricultural income and production (Bank Alfalah Official Website).

-Alfalah Paidawari Agri-Scheme

-Alfalah Musalsal Agri-Scheme

-Alfalah Tractor and Transport Agri-Scheme

-Alfalah Machinery & Equipment Agri-Scheme

-Alfalah Aabpaash Agri-Scheme

-Alfalah Islah-e-Araazi Agri-Scheme

-Alfalah Poultry Agri-Scheme

-Alfalah Dairy & Livestock Agri-Scheme

-Alfalah Fisheries Agri-Scheme

-Alfalah Silos/ Storage Agri-Scheme

-Alfalah Marketing Agri-Scheme

-Alfalah Agri Industrial Agri-Scheme

-Alfalah Bills /Guarantee Agri-Scheme

-Alfalah Lease Agri-Scheme (Bank Alfalah Official Website)

The tenure of all of these financing products is 3 to 5 years and the mark-up\interest rate is in between 14 to 15 percent.

Bank of Punjab (BOP)

The Bank of Punjab has first bank in Pakistan to provide some innovative agri-products to farmers. BOP providing wide range of agri-financing which follow as under.

-Kissan Dost Running Finance Facility

To provide short-term agri-facility to the self cultivators/resident farmers i.e. owner or tenant or owner and tenant, for the purchase of farm inputs (Seeds, fertilizers, pesticides, fungicides etc).

This is running finance facility and farmer must have up to 50 Acres of land. The rate of mark-up is 18 % and maximum limit of the loan is 2,000,000.

-Kissan Dost Lease Finance Facility

The scheme has been designed to provide financial assistance to farmers for purchasing of agri-machinery/implements.

The farmer should have minimum 5 and maximum 50 Acres of land to apply this facility. The maximum total amount of loan is 10 Million and 18 % is the mark-up rate. The tenure of the loan is 3 to 5 years,

-Kissan Dost Green House Finance Scheme

To encourage the farmers to establish the Green Houses in order to increase the productivity and meet the growing demand of vegetables at affordable prices.

Type of Green Houses: Metallic or Bamboo construction. To get this facility the farmer must have some suitable land to establish the Green House.

The maximum amount for Green Houses is Rs. 25 Million and 18 % is the mark-up rate.

-Kissan Dost Livestock Development Scheme.The main purpose of the Kissan Dost Livestock Development scheme is to encourage the dairy farmers to establish the dairy farms to meet the growing demand of dairy products at reasonable rates.

For the eligibility the farmer should have some past experience of the dairy farming. The maximum amount of the loan is Rs. 50 Million and 18 % is the mark-up rate. The tenure of the loan is 5 years.

Habib Bank Limited

Habib Bank Limited has the largest branch system in Pakistan and more than 800 HBL branches have providing the agri-financing to the farmer across the Pakistan. HBL's vast branches network ensure that the farmers of rural areas have easily excess the agri-financing facilities. HBL is providing the agri-financial services through the specialized department name as ZaraiBanking. ZaraiBanking providing the small scale loans (Small Farmers) as well as large scale institutionalized loans to expand the economic and agricultural growth of the country.

The agricultural finance facility provided by HBL ZaraiBanking facilitates the agri-farmers to put these loans to purchasing the quality seeds, pesticides, agricultural machinery and fertilizers etc. The agri-financing of HBL offering these agri-products: Crop Inputs, Farm Implements, Tobacco, Tractors/Agricultural Vehicles, Livestock, Fish Farming, Poultry, Group Lending.

The tenure of these loans are between the 1 to 3 and 3 to 5 years. The rate of mark-up is 18 to 20 percent.

United Bank Limited (UBL)

United bank is the 2nd largest bank of Pakistan (in terms of branches) is providing the agricultural credit facility to the farmers in all over the Pakistan; especially in the rural and remote areas. UBL offers two types of agri-loans i.e. Farms loans and Non farm loans. UBL's agri-financing is accessible to the farmers for all kinds of crops across Pakistan. The main objective of agri-financing is to assistance to the farmers for the

purchasing Agri Inputs i.e. Seeds, Pesticides, Fertilizers, hiring of labor etc.

Forms loans are further divided into the two categories:

-Production Loans: NIACF (Revolving Credit Scheme) and NIADF (Demand Finance Production);

-Development Loans: Land Development, Equipments and Machinery; Tractor & Vehicle Finance

Non forms loans are divided into three sub categories i.e.: Fisheries Financing, Poultry Financing, Livestock Financing.

RESULTS AND DISCUSSIONS

The above mention materials of these agri-financing schemes (Islamic and Conventional) we can easily interpret that there is lack of Islamic agri-financing facility in Pakistan; Meezan Bank is the only Islamic bank to offer Islamic agri-products to in Pakistan. This study was concerned to role of Islamic and conventional banking in agriculture development so the data gathered through primary source. Our population of interest was all the bank holders in Pakistan. Islamic banking increases the satisfaction level of farmers because they are trying to avoid Riba (Interest) and Islamic banking already working under this approach with these practices. There is an extensive discussion in literature on the influence of Islamic banking in agriculture sector for examples guidelines provided by State Bank of Pakistan about Islamic modes and practices which can help farmers in their agriculture activities. The mark-up rate of most of the Conventional Banks is in between the 15 to 20 percents; but when we interviewed some bankers (with some of the bankers we have personal relations) and we got to know that mostly banks charges 23 to 28 percent rate of interest in agri-loans products.

CONCLUSIONS

Agricultural is the back bone of the economy of the country and but in under-devolved countries e.g. Pakistan the farmers are always short of finances and due to unavailability of

agri-loans, the used low price and lower quality seeds and in consequences the production and growth of the farmer are also lower and per acre yield of the agri-land also on lower side. This study identified the factors affecting the relationship between the Islamic & Conventional Banking and agricultural growth in Pakistan. This paper finds that the role of banking in the agricultural sector is affected by different variables like need of working capital, terms of financing, irrigation system, and effective use of finance, change in technology, low and uncertain yield and target price changes.

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