

REVIEW OF PAST LITERATURE ON AGRICULTURE CREDIT IN RURAL AREA OF PAKISTAN

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ABSTRACT

The review was conducted in December, 2009 in Pakistan. The aim of the review was that to examine 25 agriculture credit studies impacts in rural area of Pakistan; i) to observe the short fall and success in the field ii) to study the monitoring cell of the institution to what extent they are working properly in the project areas iii) suggestion and recommendations for further improvement. All studies results were reviewed and finally concluded that agriculture credit not only developed the farming but also furnished every sector of the economy positively while tight monitoring cells induction in the project areas is required for control of bribery. Through this cell exact communication, auditing, and check up of the credit will be processed. Mistake and error will be omitted in time. Miss utilization of the fund will be controlled on the spot while benefit cost analysis will be processed before credit approval.

Key Words: Critical Review, Agriculture Credit, Rural Area of Pakistan.

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INTRODUCTION

In spite of agriculture shift toward industrialization, agriculture is still the largest sector of the economy, with significant impacts, on socio-economic condition of the people. It contributes to the livelihood 44.7% of the labor force, 21.8% to GDP and about 60% to the foreign exchange earnings. Agriculture is the not only source of food and fiber of the 170million people of Pakistan but also the major supplier of the raw material and labor force to manufacturing and services sector. No strategy of economic development can be realized without sustain and broad based agriculture development (GOP, 2008-09).

Pakistan is endowed with diversified climate and soil, hardworking men power, huge irrigation and agricultural research system that give competitiveness and edge to our farmer, over these competitors in international market (Khan, 2001). However, the agriculture performance of Pakistan (e.g.; agricultural productivity, production, consumption, exports, diversification and quality of agricultural products) remains below as compare to developed countries. Agriculture, the main stay, of the country is total in disarray due to a number of problems. A number of problems i.e, lack of proper technology, improved agronomic practices, crop management techniques, timely availability of water and modern inputs, marketing and supportive infrastructure, raising production cost, volatile year to year prices and supply of credit (Ahmad and Battece, 1997).

The majority of our farm community consists of subsistence farmer who are not in a position to use high quality seeds, sufficient fertilizers and improved farm implements due to the lack of finances available to them. Lack of finance is one of the main reasons for low per acre productivity in our agriculture. The matter of enhancing agricultural productivity therefore depends on the availability of finance and credit facilities available to the farmers in their respective areas (Ahmad, 2007).

Agricultural Credit

Every modern business is operated on own capital or borrowed capital. Similarly, farming also requires capital. The need for farm credit in increasing production and effective utilization of farm resources is quite clear. Agricultural credit is an important financial support that a small farmer can get in order to bridge the gap between his income and expenditure in the field. Agricultural credit is an essential ingredient in the growth strategy of agricultural sector. Farming not only requires credit in the form of improved seeds, fertilizer and modern implements but also requires liquid capital for financing the harvesting, haulage of produce and other similar farm

operation also (Iqbal, *et al.*, 2003). Agriculture credit is a social necessity for agriculture development in Pakistan. The concept of such credit should be clearly understood by policy makers and bankers. Agriculture credit is seemed as the only way of eliminating the two major problems of Pakistan's rural economy. Firstly, the persistently poor income of small farmers due to low per acre yield and secondly, perpetual losses encountered due to no recovery of credit. Agriculture credit gave to farmers an independent economic and social identity (Anka, 1992).

Anjoum (1973) stated that the Agricultural bank of Pakistan had not met the credit requirements of agriculture sector in Peshawar Tehsil. He found that 72% borrowers obtained credit as package of mix inputs. However the recovery position was found satisfactory. The author suggested an effective supervised credit system in order to meet the requirements of agriculture in the project area. Khan (1981) found several measures to improve the flow of formal credit to agricultural sector, the situation was still unfavorable. The study reported that various problems are associated with formal credit system and recommended large number of measures for system improvement but still the situation is out of the control. The reason is the political interruption in banking system which affect all the activities of the banker.

In Pakistan, there are two major sources of agricultural credit, institutional and non-institutional source. The institutional sources include Zari Tarkiati Bank Limited, commercial banks, cooperatives and domestic private banks while the non-institutional credit suppliers include friends, neighbors, and professional money lenders are the main source of credit in the country (Idress and Ibrahim, 1993). Government of Pakistan attaches high priority to ensure the timely availability of credit to the farmers for achieving higher production. Credit requirements of the farming community have shown an increasing trend over the years. Therefore, government has enhanced agricultural credit allocation from Rs.42852 Millions in 1998 to Rs.151860 Millions in 2009. Institutional credit to the farmers is being provided through Zari Taraqiati Bank Limited (ZTBL). Commercial Banks, Cooperatives and Domestic Private Banks. The agriculture loans extended to the farming community during in the country are given in Table I.

Table I Supply of agricultural credit by institutions (Rs. In million)

Year	ZTBL	Commercial Banks	Cooperatives	Domestic Private Bank	Total Amounts	% Change
1998-99	30176.00	7236.00	5440.00	-	42852.0	28.3
1999-00	24423.90	9312.50	5951.2	-	39687.6	-7.4
2000-01	27610.00	12055.00	5124.2	-	44789.2	12.8
2001-02	29108.00	17486.10	5273.7	578.5	52446.3	17.1
2002-03	29270.20	22738.6	5485.4	1424.5	58918.7	12.3
2003-04	29933.07	33247.45	7563.54	2701.80	73445.86	24.6
2004-05	37408.84	51309.78	7607.82	12406.82	108732.91	48.0
2005-06	47594.14	67967.40	5889.49	16023.38	137474.40	26.4
2006-07	56473.05	80393.18	7988.06	23976.16	168830.45	22.8
2007-08	66938.99	94749.29	5931.45	43940.92	211560.66	25.3
2008-09	45399.87	74364.60	3538.89	28557.24	151860.60	9.6

Source:- Govt. of Pakistan 2003-04, 2007-08, 2008-09.

In agriculture, all categories of farmers need credit, small and marginal farmers need most. They constitute the majority of farming population. They are multi-occupational, productive and efficient. They are good re-payers of loan. They generally have inadequate access to productive assets and very insignificant access to formal source of credit. As a result, they pass through a process of losing their scanty resources and joint the pool of poor people. Access of small and marginal farmers to micro credit can significantly help them to avoid sliding down the poverty ladder. Providers of the micro credit have not generally addressed the credit need of the small and marginal farmers because of their priority of funding to the poor and because of some perceived problems which include, among others, (a) risk of investment in agriculture; (b) Seasonality of agricultural production; (c) poor loan repayments performance of agriculture lending; and (d) technical nature of agriculture production system. As far the institutional credit is concerned, the small and landless farmers find it very difficult to avail it due to lack of availability of collateral and complex procedure to be followed. There is, therefore, a dire need to start a credit program to benefit the maximum number of poor communities without any complicated collateral system (Ahmad, 2007).

Given its importance to national economy, almost all governments gave high priority to raise agricultural productivity and hence farmer's income. Credit is the back bone for any business and more so for agriculture which has traditionally been a non monetary activity for the rural population in Pakistan. Agricultural credit is an integral part of the process of modernization of agriculture and commercialization of the rural economy. The introduction of easy and cheap credit is the quickest way for boosting agricultural production. Therefore, it was the prime policy of

all the successive governments to meet the credit requirements of the farming community of Pakistan. Agriculture as a sector depends more on credit than any other sector of the economy because of the seasonal variations in the farmers returns and a changing trend from subsistence to commercial farming. Credit may provide them opportunity to earn more money and improve their standard of living (Abedullah *et al.*, 2009).

The funds for lending are provided by the state Bank of Pakistan at 2% below the bank rate. The credit increase the agriculture productivity while some productivity go directly to consumers and the remaining stuff go to agro-based industries for manufacturing of other items. The industries generate the employment and solve the problem of unemployment of the country. The productivity of agriculture and agri-business control both food and general inflation. They improve the income level and purchasing power of the people. Without food, survival of life on the earth is impossible. The agriculture failure is the failure of the world, so agriculture plays a back bone role in economic development of Pakistan. Seeing to its scope and importance the author selected the above topic for his study. The main objectives of the study are: i) to observe the short fall and success in the field through review of past literature ii) to study the monitoring cell of the bank to what extent they had worked properly in the project areas through literature iii) suggestion and recommendations for further improvement.

MATERIALS AND METHODS

The study was based on secondary data which were obtained from published books and Journal. The universe of the study is Pakistan but due to lack of time and resources 23 studies were selected for critical review on random basis from sampling frame in December, 2009. Muhammad and Shah (1981) found that the loaning system of credit institution was not based on the actual need of the farmers. He further stated that the structure of the society was such that resourceful farmers succeeded more than their requirements while non-influential farmer did not achieve something according to their requirements. Ansari (2001) reported that crop productivity could be increased through the introduction and promotion of innovative agricultural technology. Farmers are looking towards financial sources for taking loans on easy terms so as to increase their agricultural productivity.

Waqar, (2002) reported that due to proper utilization of credit, the monthly income and monthly savings of all the respondents have been increased. As a whole 73 percent of increase was observed, in monthly income of the respondents. Employment opportunities have also shown an upward trend in the target area. The credit program has also brought a positive effect in the living standard of the beneficiaries of micro-credits. Muhammad, (2003) as a result of the study on "An investigation into effectiveness of micro credit program of AKRSP in District Gilgit" showed improvement in cropping patterns, crops yields, composition of livestock herds, natural resources of the area and living condition of the people due to the program of AKRSP. The results showed that average monthly income of recipient households had increased from Rs.8696 to 10,085 while area under traditional crops like wheat and maize had decreased and area under cash crops e.g. vegetables had increased. He suggested to other parts of the area recovery of loan should be linked with the stream of income of recipients.

Khan (1986) studied the Korean type credit system for the establishment of agro-based industries to absorb rural employment especially small farmers and women and to improve delivery system of inputs which is the need of the farmer in the project area. It was further suggested that the crops and livestock insurance policies should be introduced in order to reduce the risk of borrowers and lenders. Malik (1989) stated that the importance of institutional sources of credit had increased as compared to the non-institutional sources for farm sector. Despite the increase, importance of institutional sources of credit, the small and tenant farmers have slighter "access" to the institutional credit... He concluded that this problem was frustration with the passage of time. It was obvious that the small farms credit scheme has not worked in the past.

Kamdar (1989) reported the results of a survey in District Nawabshah Sind Province, Pakistan, with the primary focus on the terms and conditions of agricultural credit contracts. In the agricultural sector of Pakistan, especially in Sind the terms of agricultural credit in the informal money market are generally interrelated with the output market imperfections in market get reinforced by its linkage in another market(s). This adversely affects the farmers and turns the marketing channels in favor of moneylender traders, which robs producers of their freedom in decision making at the time of sale of their output. Economic constraints faced by the producers push them into unequal relations of mutual dependence with agricultural traders. In this way agricultural trade dominates agricultural production and hence overall agricultural development.

Zuberi (1989) observed that the consumption of fertilizer increased from 283.2 nutrient tons in 1970-71 to 1511.70 nutrients tons in 1985-86 while credit disbursed from the same period among farmers through institutional sources increased from Rs.158.38 million to Rs.11174.00 million. Over 70 percent of this credit was allocated to the

purchase of seeds and fertilizers. Despite an increase in the use of seed and fertilizer technology, per hectare yield in Pakistan was still lower than the other developing countries in the region. He therefore, concluded that seed and fertilizer technology, though highly desirable techniques (and without which the green revolution would not had occurred) did not result in higher yields of different crops. Hence, the author suggested additional inputs for improvement in productivity. So he strongly recommended that any strategy designed to increase productivity in the agricultural sector must include investment in human capital, particularly in primary and secondary education.

Qureshi and Shah (1992) studied rural credit policy in Pakistan. They reported that formal credit has expanded at a higher rate but the relationship between the credit and the agriculture value added was found below the expectation the leading institutions to attract women borrowers. It also described the moves by such institutions to increase their loan coverage and saving mobilization by strengthening linkages with the formal financial sector. Mohiuddian (1993) examined "the recognition of credit as a powerful instrument for the alleviation of poverty in developing countries". He analyzed the factors affecting the loan repayment of both borrowers and institutions in Pakistan. The factors affecting borrower, s negligence were the success of subsequent loans. The results showed that no independent variables were significant in explaining variations in the default rate.

Anka (1992) discussed the historical perspective of agricultural credit in Pakistan: credit policies and procedures, namely regarding credit allocation, loan security and sanctioning as well as mark-up rates; institutional arrangement, and the development of lending programmers; and factors affecting loan repayment. Measures are suggested to tackle the program of loan recovery. These include the drawing of a list of defaulters for futures references, and introduction of group lending schemes. He argued that supervised credit is social necessity for agricultural development in Pakistan and without credit agriculture productivity multiplication is impossible. Idress and Ibrahim (1993) examined the role of agricultural credit in the development of agriculture. The study identified the relationship between farmer's income levels, and their attitude toward adopting new farm technologies. The data for the study were collected from 12 union councils in district Kark. The result showed that out of the total 120 sampled farmers, 75 percent had adopted improved practices after receiving agricultural credit. The study also found diversity in the money saving behavior of the farmer, based on their educational levels. The study showed that farmer adopted improved implements, farm manure and commercial fertilizers after receiving the credit.

Malik (1993) used data from two large national surveys conducted by the Agricultural Census Organization in 1983 and 1985 and attempt to answer questions like , who were the lenders?, who were the borrowers?, what were the consequences of the market structure?. The paper reached to conclusion that access to credit was important in the process of agricultural growth and rural development. The evidence showed that the structure of the overall rural development. The evidence showed that there had been a remarkable increase in formal credit in Pakistan and that the structure of the overall rural credit market had changed. However, access to subsidized formal credit was declining for the small and tenant farmers. The paper concluded that the declining access implies that governmental schemes of subsidized credit were not attaining their stated objectives. Khan (1994) reported that there was growing use of ADBP, federal Bank for Cooperatives and other Commercial Banks to provide rural credit for the benefit of rural society. It was concluded that more careful screening of applicants prior to giving credit would reduce the non-payment and after the credit had been given more pressure on those who were able to do so but were unwilling to do so should secure a greater level of repayment.

Himayatullah (1995) examined that between 1980 and 1995 institutional credit of the sector had registered an averaged annual growth rate of above five percent. The positive change in agriculture credit was accompanied by the establishment of the new financial institutions and the adoption of the credit policies to increase their flow of credit for the sector in general and for small farmers in particulars. He further stated that despite all the efforts of the government of Pakistan, the institutional credit was not reaching to any influential small farmers while resourceful farmers were getting more than their requirements. He also stated that non availability of adequate credit was a big problem of farmers. Majority of who were poor, illiterate and hence reluctant to accept new ideas or technology. The problem that needs serious attention on the part of policy markers. The existing credit system was found unsound and defective which needs restructuring and revitalization so as to the benefit of credit may be trickled down to the target group.

Khan (1996) highlighted a number of innovative programs in Asia's developing countries, which showed remarkable success in reaching the poor while at the same time maintaining high repayment rates. He recommended that credit was seen as one of the most powerful instruments for alleviating poverty in rural area. Kabeer *et al.*, (1996) argued that poverty can be conceptualized as the product multiple and frequently inter locking forms of institutional exclusion, He also presented a comparison of the efforts of government and non government agencies to

compensate for this institutional failure through alternative credit programmed in order to draw out some key lessons for policy makers, AKRSP (1997) reported that small farmer's ability to purchase new inputs and increased agricultural production has been made possible through process of both group and individual lending of credit and saving section.

Jabber (2000) investigate the role of AKRSP in agriculture and livestock development in selected villages of Tehsil Gilgit. The study showed improvement in animal health, livestock productivity and increase in the population of livestock, due to program of AKRSP. In addition the study found that AKRSP had positively contributed to agriculture and livestock development in project area. Abid (2001) evaluate the effect of micro credit in the rural communities in Shakanrdara lachi tehsil district kohat. He found that most of the respondents in the study area availed credit for enterprise business, while 33% for live stock trading. In the enterprise sector out of the total 24% failed while 76% got succeed in their respective field. The study suggested that there should be regular monitoring and follows up of the loans is necessary. This would help avoid using the loans for consumption. Proper vaccination program might help the communities in livestock production.

Ansari (2001) reported that crop productivity could be increased through the introduction and promotion of innovative agricultural technology. Farmers are looking towards financial sources for taking loans on easy terms so as to increase their agricultural productivity. Hassan (2001) examined the role of AKRSP in the development of agriculture. The study emphasize on those development activities crop yield. The study revealed that the introduction of agricultural technologies made a significant effect on the production of various crops and the major increase was noted in the production of cash crops.

Shahid (2002) examined "The impact of micro credit intervention for enterprises development by NRSP in District Sialkot" presented that respondent showed satisfaction about micro-credit scheme stated by NRSP. He also reported that this scheme has a positive impact on monthly income of the sampled respondents which in turn had improved their living standard. He recommended the size of the loan should increase for further enhancement of their income. He also suggested that other parts of the province, so that other people could benefit from such types of scheme. Waqar, (2002) reported that due to proper utilization of credit, the monthly income and monthly savings of all the respondents have been increased. As a whole 73 percent of increase was observed, in monthly income of the respondents. Employment opportunities have also shown an upward trend in the target area. The credit program has also brought a positive effect in the living standard of the beneficiaries of micro-credits.

Muhammad, (2003) as a result of the study on "An investigation into effectiveness of micro credit program of AKRSP in District Gilgit" showed improvement in cropping patterns, crops yields, composition of livestock herds, natural resources of the area and living condition of the people due to the program of AKRSP. The results showed that average monthly income of recipient households had increased from Rs.8696 to 10,085 while area under traditional crops like wheat and maize had decreased and area under cash crops e.g. vegetables had increased. He suggested to other parts of the area recovery of loan should be linked with the stream of income of recipients. Arif, (2001) examined the effects of Micro Credit disbursement by ADBP on Agricultural production in three selected villages in District Attock. He studied the effect of micro credit on cropping intensity, wheat and vegetable production and the factors that make obstacles in obtaining credit from ADBP. All respondents utilized the credit to get inputs, which increased cropping intensity. The most notable increase was observed in the wheat production. Where as change in vegetable production was found in one village. Due to proper utilization of credits, the income of the sampled respondent increased, however two third of the total respondents were not satisfied from security procedure due to its time consumption and unnecessary delay in loan disbursement process. As a whole the study states that credit has made a positive impact on both the crop and vegetable production.

Abedullah, *et al.*, (2009). revealed that credit supply improved the income of livestock growers more than 100% and it is clearly defining the role of credit in livestock sector. It not only helps to enlarge the economies of size but also helps to increase the productivity of livestock sector from the available resources. The role of family labor is found to be even more critical than credit. Hence, expansion in livestock sector could help to absorb the unemployed and untrained rural labor at their door steps which could help to mitigate the migration process of untrained rural labor towards cities.

RESULTS AND DISCUSSION

Pakistan is an agriculture country and highly based on agriculture commodities. Pakistan 68% population depend on agriculture. Majority farmers are very poor and can not afford their field costs. The Govt. has given due attention to this sector and arranged institutional sources for provision of credit and has increased the credit supply

year wisely. In 1998-99 the total credit supply by all banks in Pakistan was 42852 million while in 2008-09 151860 million even as the difference was 109008 million. So the difference was so high but not according to population and inflation. In different era in different regions the Govt. has supplied the credit in different range but in different regions the results were different and criticized by social scientists. Punjab covered 84% of the whole agriculture credit of Pakistan and the other all province share were 16% (Dawn-Business; March 30, 2008) so it is the great differences among the provinces. Due to high supply of credit the speed of agriculture growth was higher than the other provinces. According to Muhammad and Shah (1981), the loaning system of credit institution was not based on the actual need of the farmers and influential farmer and provinces obtained more than non-influential farmers and provinces. Khan argued and stress that Korean type credit system only play pivotal role in agro-based industry multiplication and generation of employments for farmer and women. Malik (1989) proved that institutional sources of credit played better role than non-institutional sources for farm sector development. Zuberi (1989) told that fertilizer and seed provision can only the best sources which increase the productivity of the farmer. Mohiuddian (1993) considered that credit was a powerful instrument for the alleviation of poverty in developing countries. Idress and Ibrahim (1993) checked the role of agricultural credit in the development of agriculture. They told that credit supply increase inputs and modern technology application in the field.

Khan (1994) reported that there was growing use of ADBP, federal Bank for Cooperatives and other Commercial Banks to provide rural credit for the benefit of rural society. Himayatullah (1995) examined that between 1980 and 1995 institutional credit of the sector had registered an averaged annual growth rate of above five percent though credit is a good source for farmers productivity multiplication. Khan (1996) focused that credit was seen as one of the most powerful instruments for alleviating poverty in rural area. AKRSP (1997) discussed that credit provision can only speed up the growth of agricultural productivity. Abid (2001) found that most of the respondents in the study area availed credit for enterprise business, while 33% for live stock trading. In the enterprise sector out of the total 24% failed while 76% got succeed in their respective field and suggested for regular monitoring and follows up the loans for avoid the loans for consumption. Ansari (2001) reported that crop productivity could be increased through the introduction and promotion of innovative agricultural technology. Waqar, (2002) reported that due to proper utilization of credit, the monthly income and monthly savings of all the respondents had been increased. Muhammad, (2003) discussed that AKRSP in District Gilgit" showed improvement in cropping patterns, crops yields, composition of livestock herds etc. AKRSP results showed that average monthly income of recipient households had increased from Rs.8696 to 10,085 while area under traditional crops like wheat and maize had decreased and area under cash crops e.g. vegetables had increased. He suggested to other parts of the area recovery of loan should be linked with the stream of income of recipients. Shahid (2002) examined "The impact of micro credit intervention for enterprises development by NRSP in District Sialkot" presented that respondent showed satisfaction about micro-credit scheme stated by NRSP.

Arif, (2001) examined the effects of Micro Credit disbursement by ADBP on agricultural production in three selected villages in District Attock. He studied that proper utilization of credits can only speed up the economic growth of the studied area. Abedullah, *et al.*, (2009). revealed that credit supply improved the income of livestock growers more than 100% and can solved the problems of livelihood in the project area. After reviewed it was concluded that credit play crucial part in development of agriculture, employment generation, standard life stipulation, self respect and choice servitude etc. The credit not only improved the agriculture productivity but also raised the purchasing power of the farmer. The credit where may be spent, increased the demand of the commodities in the project area while demand boost the investment of the producer and generate the employment which enhance the income level of the people and diminish the poverty in the project area while finally they build up the GDP and economic growth of the country, although give prosperity in the project area. The monitoring cells were found fragile and un-proper in the project areas since the bank did not achieve the specific target according to their objectives. It was also estimated that resourceful farmer received the loan easier than the small farmer for their requirement. The credit scheme has enlarged the out put of the economy nicely while made differences among the farmer community highly because small farmer benefited less than the influential farmer in the project area. The study further elaborated that credit not only increased the income level of the communities but also increase social welfare in the project areas and technological practices in Pakistan. The livestock sector presentation was found excellent than the crops while the cash crops and fruits performance was observed better than the other crops. The field experts have not analyzed the positive and negative aspects of the credit in an organized ways and represent the results unbiased in 23 studies. The bank staff also involved in corruption and made the environment unfavorable. The political interruption had made the environment unfavorable for credit distribution and extremely anxious the credit program implementer in the project area.

CONCLUSION AND RECOMMENDATIONS

The study concludes that the credit not only solve the problems of food crisis but also increase the economic growth, saving, employment, and industries etc in the country. The following recommendations are made: Short term and long term loans problems solutions is required for the improvement of the farmer. A special quota of credit for small farmer is necessary. Farmer schooling is needed in the project area. Short run and long run benefit cost analysis before loan provision is compulsory. Fairness among the small and resourceful farmer is essential for project implementation. Qualified monitoring cell availability in the project area is required for the loan supervision. Research wing in the bank is compulsory for evaluation of their activities. Scientific tools for measurement of benefits are required. Supervise credit Scheme in the project area is required for further improvement. Obstruction of the politician in credit implementation is required. Budget of credit or loan may be increased according to population and inflation increased

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