

**ADBP – STATE BANK’S EXPERIENCE**  
**M. ASHRAF JANJUA**

**Introduction**

Agricultural Development Bank of Pakistan (ADBP) was established in 1961 through the merger of the then Agricultural Development Finance Corporation and Agricultural Bank of Pakistan, to provide credit to agriculture and allied disciplines. Since its inception, ADBP extended credit to individuals as well as to corporate bodies engaged in agriculture. The bank has been the largest and premier source of contributing over half of the institutional agricultural credit in the country. It provided credit and technical package to about 2.4 million farmers. The bank’s Supervised Agricultural Credit has spread throughout the country with a team of 1441 Mobile Credit Officers monitored by 354 branches and 51 Regional Offices. The pioneering role of ADBP in mechanization of agriculture is on record. Financing of tractors and tube-wells on easy terms has directly helped in increasing cultivated areas and cropping intensity. To enhance the availability of agricultural credit on relaxed terms and at the doorsteps of small and subsistence farmers, Kissan Banking Windows have been established over the country since 1<sup>st</sup> July, 1994. This has met to some extent the credit needs of poor agriculturists. Introduction of Awami Tractor Scheme for landless, small farmers and the rural poor has also been launched. In short, the ADBP has played a pivotal role in advancing credit and technology to agricultural sector of Pakistan.

**1. Operations**

In recent years annual credit disbursement of ADBP has been around Rs.30 billion. From 75% (1996-97) to 93% (2001-2002, up to May, 2002) of these loans have gone to small farmers including landless and those owning land up to 25 acres. However, recovery position has not been satisfactory. During the past four years recovery of the past recoverable dues has been 25% while that of current recoverable dues has been 71%, giving an average percentage of 55.5. In recent years there has been marginal improvement in recovery but broadly the recovery effort has been far from satisfactory.

As of end June, 2001 ADBP’s total lending portfolio was Rs.93.97 billion, out of which Rs.48.6 billion or 51.72% were non-performing loans (NPL). Defaulted loans were 29% of the portfolio. Another dimension of this less than satisfactory performance is the age profile of recoverable dues and stuck-up loans. As of end-June, 2001, loans which were due for four years or more amounted to 23.5% of the stuck-up loans including 14.5% of the production loans and 42.5% of the development loans.

As regards the financial cost etc., real cost of funds has been as follows:

<u>End-June</u>	<u>Cost (%)</u>
1997	5.7

1998	3.42
1999	3.87
2000	6.32
2001	5.36

This is the average of total borrowings, loans, deposits, i.e. average financial cost. The spread i.e. difference between income, loans and advances and cost of funds has been calculated at 8.54% by ADBP and 7.86% by State Bank of Pakistan. ADBP has calculated the cost of funds as under:

Average financial cost	5.68%
Administrative expenses	3.75%
Cost of provisioning against Bad and stuck-up loans	5.82%
<b>Total cost:</b>	<b>15.25%</b>

The above cost calculations, whether we look at the spread or at the intermediation cost as worked out by ADBP, hardly make any institution viable. It is these areas of resources and their cost, management of funds, lending and recovery etc. which indicate the State Bank's concern and the need for restructuring in the ADBP.

## 2. An Appraisal

Since its inception in 1961 the ADBP has been involved in lending to agricultural sector. However, its performance in terms of achieving its objectives including, in particular, effective and productive use of its resources needs much to be desired. For one, the ADBP has operated and developed the image of a disbursing agency to the exclusion of making much effort for resource mobilization. Its deposit mobilization has been nominal. This neglect of resource mobilization from the market and easy access to borrowing from the State Bank, which stopped for past few years, has given the bank a sense of complacency. The bank's virtually exclusive preoccupation of disbursement has been a very costly venture. Very frequently it sought re-schedulement and/or capitalization of its dues to the State Bank. Also, to maintain the debt-equity ratio of 7:1 the State Bank contributed towards equity of the bank although improvement and efficiency in its performance, as a condition for such contribution, was never up to the mark. A substantial amount of loans from the State Bank was rescheduled by the Central Board of Directors of the State Bank on 20th July, 1999. The conditions specified in the Memo of Understanding signed between the State Bank and the ADBP on 20th July, 1999, provided for some action on the part of the ADBP, largely remained unimplemented. The fate of State Bank's inspection reports has not been much different. The inspectors' recommendations in such reports have not been complied with to a significant extent.

All this unsatisfactory performance has resulted from the virtual absence of an accountability mechanism and lack of effective monitoring by the Government of Pakistan which appointed the Presidents, Members of Board of Directors and senior management staff of the bank. The appointment of members of the Board of Directors has been treated as a mere formality. Quite a few members of the Board have been Government officials. State Bank's association with the ADBP's Board has produced no positive results: the presence of a Director from the State Bank

was interpreted as State Bank's approval of ADBP's policies. More importantly, after the death of Mr. Jamil Nishtar, the authorities have not taken serious interest in the appointment of Presidents of ADBP. More specifically, since June, 1988 i.e. period of 14 years, no less than 13 Presidents or Acting Presidents have been appointed, giving average tenure of a little over a year. In fact, with the exception of Mr. Javed Talat, who was President for about a year and 8 months, most of the Presidents have been for less than a year. The Government has also put some senior staff members in the bank as temporary and expedient measure. All this has shown that the Government did not give due priority to the role of the ADBP.

A major concern of the State Bank has been income, expenditure, defaulted and non-performing loans as reflected in the following table:

**(Rs. in million)**

i) Total Income	8858	9321	9621	10000
ii) Total Expenditure	12680	7561	9337	10458
iii) a) Administrative Expenses	1841	1995	2255	2613
b) As % of Total Expenditure	12%	26%	24%	25%
iv) Total Loan Portfolio	75011	87278	91396	93272
v) a) Provision/Interest Suspense	9135	10271	12908	13328
b) As % of Total Loan Portfolio	12%	12%	14%	14%
vi) a) Interest Suspense Account (Non-recoverable or Doubtful)	13694	14738	16034	16674
b) As % of Total Loans	18%	17%	18%	18%
Total: ( v + vi )	22829	25009	28942	30002
vii) Defaulted Loans	27%	27%	29%	29%
viii) Non-Performing Loans	48%	48%	51%	52%

Provisioning and balances in interest-suspense account have been increasing over years and reached Rs.30 billion as on 30th June, 2001, which was about 32% of the total portfolio of Rs.94 billion. It is unlikely that ADBP would take a turn around unless it reduces its administrative expenses, provisioning and interest-suspense account balances by focusing efforts on recovery of overdues and defaulted loans.

Another area of concern is the common man's perception of ADBP. A common man's view is that the interest rates charged to a borrower do not include the underhand money that is paid. To improve the image of the bank, ADBP established an Inspection and Complaints Department along with 9 field units directly under the supervision of the Chairman. The aim of the department is to check corruption and malpractices in the operations of the bank. According to the bank's sources, independent and transparent inquiries are conducted and the delinquents are taken to task. However, it is too early to make any judgment on these arrangements. It appears that the malpractices are too embedded to be effectively addressed by conventional monitoring.

### **3. Restructuring of ADBP**

The restructuring of ADBP is already under way in collaboration with the Asian Development Bank. Our view is that at its present level of efficiency and accountability, poor monitoring of its operations, virtually exclusive dependence on borrowings from the State Bank, unsustainable

level of non-performing loans and prohibitively high expenditure on administration, the bank would not be a viable institution in the long run. Important elements of restructuring should be:

- i. Putting in place a strong and transparent accountability mechanism including a possible association of private sector with the bank;
- ii. Government interference should be reduced to the minimum;
- iii. Operations of the bank should be transparent, corrupt elements must be dealt with strong hands;
- iv. Chairman of the bank should be allowed to complete his tenure and the management should have a measure of autonomy.
- v. Issues of governance need to be reconsidered.
- vi. There is need for review of human resource policy.

### **Borrowing/Repayment of SBP Loans and Intermediation Cost of Funds**

(Rs. in million)

<b>Year</b>	<b>Borrowed from SBP</b>	<b>Rate (%)</b>	<b>Repayment made to SBP</b>	<b>ADB Markup</b>	<b>Cost of Borrowing</b>	<b>Intermediation Cost</b>
1	2	3	4	5	6	7 (5-6)
1960-61	35	3	-	6.00	-	-
1961-62	20	3	-	6.50	-	-
1962-63	25	3	-	6.50	-	-
1963-64	56	3	-	6.50	-	-
1964-65	40	3	-	6.50	-	-
1965-66	45	3	-	6.50	-	-
1966-67	61	3	-	6.50	-	-
1967-68	55	3	-	6.50	-	-
1968-69	-	-	30	7.00	-	-
1969-70	10	3	-	7.50	-	-
1970-71	59	3	4	7.50	-	-
1971-72	-	4	24	7.50	-	-
1972-73	35	6	1	7.50	-	-
1973-74	305	6	37	9.50	5.95	3.55
1974-75	348	7	151	10.50	6.12	4.38
1975-76	403	7	99	10.50	6.33	4.17
1976-77	511	7	39	11.00	7.33	3.67
1977-78	468	8	298	12.00	7.43	4.57
1978-79	342	8	423	11.50	7.43	4.07
1979-80	391	8	390	11.50	7.00	4.50
(From 7-12-79)	357	4	-	-	-	-
1980-81	800	4	397	11.00	6.00	5.00
1981-82	1,000	4	351	11.00	5.24	5.76
1982-83	1,460	4	457	11.00	4.75	6.25
1983-84	2,375	4	587	11.00	4.40	6.60
1984-85	3,266	4	910	12.00	4.22	7.78
1985-86	4,349	4	1,480	12.00	4.15	7.85

1986-87	4,856	4	2,703	12.00	4.13	7.87
1987-88	5,292	5	2,893	12.00	4.53	7.47
1988-89	6,294	5	3,921	12.00	4.81	7.19
1989-90	6,233	6	4,820	12.00	5.31	6.69
1990-91	6,070	6	148	12.50	5.50	7.00
1991-92	1,940	6	184	12.50	5.65	6.85
1992-93	4,420	6	239	13.50	5.75	7.75
1993-94	6,,279	6	4,702	13.50	5.81	7.69
1994-95	4,328	6	142	13.50	5.85	7.65
1995-96	2,886	6	-	14.00	5.86	8.14
1996-97	2,091	6	-	14.00	5.86	8.14
1997-98	3,905	6	-	14.00	6.27	7.73
1998-99	2,000	6	-	14.00	6.10	7.90
1999-2000	-	-	-	14.00	5.95	8.05
2000-2001	4,947	10	1,435	14.00	6.14	7.86