**[Fintech and farmers](https://www.dawn.com/news/1644223/fintech-and-farmers)**

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THE government has announced a series of plans for farmers and small and medium enterprises since it came to power in 2018. These include the National Agriculture Emergency Programme, the Kissan Credit Card in Punjab and a new State Bank scheme for SMEs which aims to provide up to Rs10m — without collateral.

Why is the government so keen (or desperate) for credit to reach Pakistan’s farmers and SMEs? The reason is simple. Policymakers are aware of the acute need of finance for sectors such as agriculture and SMEs. And they know that institutional credit doesn’t reach these two vital sectors of the Pakistani economy. The finance minister had indicated earlier that it was not in the banks’ DNA to provide financing — even to sectors like housing in large urban centres, let alone to farmers and SMEs. So one can question the viability of these plans.

Supply-side (where official policies aim at greater productivity and efficiency in the economy) government plans have not worked over the last 70 years and will not work this time either if the goal is to transform Pakistan’s agriculture. There is an agriculture emergency, in the government’s view, but farmers don’t need favours; instead, they need a level playing field and a policy vision that works.

Policymakers’ poor knowledge of farming reminds me of a rice-growing farmer friend in Badin district who had guests from Karachi. They were unable to distinguish between a paddy grain and a rice grain. At times I feel our policymakers are unaware of even the basics of agriculture. Perhaps this is the reason they rely on bankers as conduits for finances to reach the farmers. Perhaps it is a big ask for our policymakers to think beyond banks and government departments. It is up to them to realise that policies have to actually enable those they are directed at and the government has to facilitate businesses.

Agriculture is too risky for bankers and perhaps they are not wrong when they say as much.

Pakistan has over 50 million acres of land under cultivation. Around 40m acres constitute the canal command areas and the rest are located in the riverine areas and mountain valleys. Back-of-the-envelope calculations reveal that just the running finance market for crops is over Rs2 trillion. As institutional sources of finances hardly exist, farmers rely on informal arrangements and money lenders and middlemen (arthis) to access finance. Damage to farm economics is not only wrought by extremely high interest rates. These lenders actually control what farmers plant and how they plan their crops.

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Besides, only a minuscule percentage of the overall financing for agriculture has been disbursed in recent times. The consumptive nature of Pakistan’s economy can be gauged from the fact that banks provided Rs308 billion for car financing in 2020-21. It would be interesting to see to what extent tractors (and machinery) were financed by the banks in Pakistan, compared to car financing.

Agriculture is too risky for bankers and perhaps they are not wrong when they say as much. When you don’t know how to drive a car, it is risky to bring a car onto the road, even if the vehicle is brand new and unlikely to give mechanical trouble. This observation applies to bankers in general and agri-bankers in particular. The latter are like chauffeurs with six-digit salaries but who don’t know how to drive!

Agriculture is so important for our economy that central bank legislation (State Bank of Pakistan Act ,1956) mentions agri-credit as one of its main functions. I think the policy babus should give up forcing bankers to extend lending for agriculture and look for modern technology-/ platform-based options for agri-financing in Pakistan.

The best option is peer-to-peer lending (where loans can be taken directly from willing individuals without having to resort to the services of the middleman or traditional lender) which is happening all over the world. Peer-to-peer lending had been popular in the subcontinent and was widely used in British India including in Sindh, before partition. In the current digital age, peer-to-peer lending has gone global and many players are using digital platforms for financing and transferring payments. Peer-to-peer lending will help those who need finance and those who have surplus finances. Here banks have a vested interest in thwarting efforts to boost this form of lending in Pakistan.

Pakistani farmers and SMEs should have options to avail local as well as international peer-to-peer lending opportunities. Local peer-to-peer lending should be liberal in nature with market forces deciding the terms of business, including interest rates. However, to avail international lending, central bank regulations would be necessary. These regulations should be simple and mainly relate to the currency risk as borrowing farmers cannot be exposed to the vagaries of the exchange rate. The lenders can easily hedge exchange risks which will cover currency variations. It is believed that given the steep interest rates paid by rural borrowers and the glut of savings in the global economy, there can be a good case for farmers to avail international finance if the central bank and policymakers craft a vision to allow such a facility with enabling regulations.

Some might think that farmers benefiting from overseas peer-to-peer lending is a far-fetched idea when even local financial institutions are unwilling to fund agriculture. But then, it is important for policymakers to realise that there is massive progress in money transfer and payment services, and that an entire new industry called fintech (financial technology) has emerged over the last decade or so.

Even more impressive is the development and application of satellite technology for monitoring and big data for agriculture and food production. It is technologically possible for an investor, in Karachi or in New York or elsewhere, to monitor a farm he has invested in on a daily basis. Certainly, new business models would be needed but it all hinges on the vision of our policymakers.

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