

A green tractor with a yellow implement is working in a field of green crops. The tractor is moving from right to left, and the implement is digging up the soil. The sky is clear and blue. The text is overlaid on the left side of the image.

**BRINGING THE
CORPORATE
SECTOR TO SERVE
THE FARMER:
HBL ZARAI**

Bringing the corporate sector to serve the farmer: HBL Zarai

How can the nationwide reach of a leading financial house be brought to serve the farmer? HBL Zarai is a new business model that takes multiple services to the farmer with a panoply of solutions, corporate linkages, and the prospect of higher incomes.

HBL Zarai, a non-financial subsidiary of Habib Bank Limited (HBL), epitomizes an innovative approach in Pakistan's agricultural sector. Established with the aim to integrate corporate expertise, financial resources, and a leading bank's established network, HBL Zarai aims to address the multifaceted challenges faced by Pakistani farmers. This case study explores how HBL Zarai has leveraged its breadth of interfaces with the agricultural sector to provide comprehensive solutions, enhancing farmer productivity and profitability.



HBL Zarai Burewala Dera

Context and Purpose

HBL launched HBL Zarai to extend beyond traditional banking services and directly impact the agricultural sector. Agriculture is Pakistan's largest industry by employment, yet it remains undercapitalized and under-served by the corporate and financial sectors. HBL Zarai's inception is rooted in the belief that the corporate sector's intervention is crucial for realizing the potential of Pakistan's agriculture. This initiative originally signified a shift from considering agriculture as a mere CSR activity to integrating it into HBL's core business strategy. Today, this initiative that was born inside HBL's core business has become a separate entity with its own business model.

Dominated by small landholdings, farmers often face difficulties in accessing credit and markets. Traditional banking systems have not adequately catered to these farmers due to the lack of collateral and high risk associated with agricultural loans. At the HBL Zarai *Dera* established at Burewala, a group of farmers shared that the general consensus toward formal banking procedures and protocols among the farming community was that of an entity best avoided. Engagement with the banks typically involves undue delays and fatigue for farmers. Recognizing these challenges, HBL Zarai aims to bridge the gap by providing holistic support that goes beyond mere financing.

The traditional mandi system, dominated by “aarhtis” or middlemen, has long been the primary channel through which farmers sell their produce. While this system offers immediate cash, it comes with significant drawbacks. Aarhtis often exploit farmers by offering low prices for their crops and charging high-interest rates on informal loans. This exploitative relationship has kept many farmers in a cycle of debt and poverty, unable to break free and achieve financial stability.

Agricultural lending by banks in Pakistan is only 3% of their private sector lending portfolio, compared to an estimated 19% in India and 21% in Bangladesh. Traditional bank loans in Pakistan are secured against the farmer’s land and crop. However, crop failures lead banks to commence default proceedings, whereas the aarhti, despite their notorious practices, maintains high customer loyalty and outstanding collections from farmers. In fact, in focus groups, farmers often defend their aarhti’s due to their deep-rooted relationships. Despite their influence, aarhti’s lack the capability to enhance productivity or investment, limiting farmers’ growth potential. This is where outfits like the HBL Zarai *Dera* (farmer service center) come in. HBL Zarai introduces a cash-flow financed model that addresses both on-farm activities and the off-take process, reducing farmers’ dependence on aarhti’s while easing access to agricultural financing at an unprecedented level. By delivering transparency and fairness, HBL Zarai cultivates trust within the agri-economy, a sector historically plagued by mistrust. With its access to HBL’s nationwide coverage, HBL Zarai effectively connects various value chains, advancing the agricultural agenda on a national scale.

HBL Zarai’s operational model

HBL Zarai’s model is centered around the Zarai *Deras*—agricultural hubs established in key farming districts. The HBL Zarai *Dera* is a one stop shop for farmers of nearby villages for the full gamut of their cropping season needs. At present, having kicked off its first *Dera* at Burewala, the HBL Zarai *Deras* are focused on rice, maize and cotton in Burewala, maize, rice and potato in Sahiwal, and potato, maize and rice in Pakpattan. The *Deras* offer the following services:

- **Agronomic Advisory:** Agronomists stationed at the *Deras* offer guidance to farmers throughout the cropping season. This includes advice on fertilizer application, pest control, crop rotation, and the use of high-yield seed varieties.
- **Financial Services:** Farmers can open bank accounts, access credit facilities, and receive same-day payments for their produce, addressing the liquidity constraints that traditionally plague small farmers. HBL Zarai’s financial services are designed to be inclusive, offering products tailored to the unique needs of the agricultural sector.
- **Sale of farmer’s harvest:** HBL Zarai acts as a primary buyer for the farmers’ outputs, offering competitive prices and immediate payments, which are rare in the conventional mandi system. By aggregating the produce and selling directly to processors, HBL Zarai hopes to eliminate the need for intermediaries, ensuring farmers receive a fair price for their crops. This direct procurement model also ensures traceability and quality control, benefiting both farmers and buyers. This is perhaps the most difficult pillar of HBL Zarai’s business model as emerged in the last wheat season.
- **Supply Chain Management:** The *Deras* also function as centers for managing the supply chain of

agricultural inputs. They stock essential items such as seeds, fertilizers, and pesticides based on crop plans developed from historical data. This ensures that farmers have timely access to the inputs they need, reducing the dependency on local intermediaries who often sell substandard products at inflated prices. While stocking inventory in this manner does present a degree of risk for the Dera, the certainty communicated to the farmer that the Dera will cater to any farming need that may arise is valued more.

- **Mechanized Services:** Partnerships with companies that provide farm machinery-based services like Jaffer Brothers/Garibsons and Guard facilitate access to farm mechanization, enhancing farming efficiency. Farmers can rent machinery for planting, harvesting, and other farming activities at subsidized rates. This mechanization not only increases productivity but also reduces labor costs and the time required for farming operations.
- **Digital Solutions:** HBL Zarai leverages agri-tech to provide weather forecasts, crop monitoring, and market information to farmers. Through mobile apps and SMS services, farmers receive timely updates that help them make better decisions regarding planting and harvesting. Digital tools also enable better record-keeping and financial management, helping farmers build credit histories and access larger loans in the future.
- **Management Approach:** The structure of the Zarai model revolves around placing the farmer at the core of its success. From a management standpoint, this is guaranteed by making farmer profitability a key performance indicator for each district's Dera team. This way, a primary goal of HBL Zarai is to enhance farmer yields. Initial pilots revealed a 20% increase in yields and a 100% increase in small farmers' incomes. This success has been validated by independent assessments, including a study by researchers associated with Princeton University.

Scaling up the model

Expanding the model to other regions requires significant investment and coordination. HBL Zarai plans to overcome this through strategic partnerships and leveraging its first-mover advantage. The establishment of more Deras in collaboration with agricultural universities and research institutions will facilitate wider reach along with ensuring a competent and capable crop of agriculture experts, agronomists and managers in the coming years. Having the vice chancellor of the University of Agriculture Faisalabad on its board signals the type of partnerships HBL Zarai is invested in.

Navigating the regulatory landscape to establish a non-financial subsidiary required considerable effort. HBL engaged intensively with the State Bank of Pakistan and the SECP to get the necessary approvals. Ongoing compliance with regulatory requirements remains a challenge, but HBL Zarai's operations have set a positive precedent.

HBL Zarai's model showcases how a corporate entity can effectively engage with the agricultural sector to bring about substantial improvements in productivity, financial inclusion, and farmer welfare. This initiative demonstrates the potential of private sector-led development in transforming Pakistan's agricultural landscape, offering a replicable model for other regions and sectors.