

Lecture # 37**Role of financial Institutions in Agriculture Sector****Which banks are authorized for providing agricultural credit to farmers/growers?**

All banks can provide agricultural credit to Farmers / growers. SBP does not restrain any bank from providing agricultural credit. However, under the Agricultural Credit Scheme indicative targets are given to 21 banks on annual basis. These include; two specialized banks (ZTBL & PPCBL), five major commercial banks (ABL, HBL, MCB, NBP & UBL) and 14 domestic private commercial banks; 1) Askari Com. Bank, 2) Bank Al-Habib, 3) Bank Al-Falah , 4) My Bank, 5) Faysal Bank, 6) Habib Metropolitan Bank, 7) PICIC Com. Bank, 8) KASB Bank, 9) Prime Com. Bank , 10) Saudi Pak Com. Bank, 11) Soneri Bank, 12) Bank of Khyber, 13) Bank of Punjab and 14)Standard Chartered Bank (Pakistan).

Who is eligible for agricultural credit from the banks?

Any individual (farmers/livestock farmers, fishermen, fish farmers), corporate firms, cooperative societies/self help groups under-taking livestock related activities, fish catching/ processing /packing companies and fish exporters having sufficient knowledge and relevant experience are eligible to draw agricultural credit from banks.

Are the traders and intermediaries engaged in trading/processing of agricultural commodities eligible for agricultural credit?

Loans to entities exclusively engaged in processing, packaging and marketing of agricultural produce shall not fall under agricultural financing and would be covered under commercial or SME financing. However, agricultural financing can be extended to entities (including corporate farms, partnerships and individuals) engaged in farming activity as well as processing, packaging and marketing of mainly their own agricultural produce, provided 75% of the agriculture produce being processed, packaged and marketed is being produced by the abovementioned entities themselves.

How can a person get agricultural loan from banks?

Applicant must be a genuine farmer/tenant. For this purpose a farmer's name must appear in revenue record and a tenant should establish this fact through a government acknowledgement or the applicant must be handling Non-Farm activities like livestock, poultry, dairy farming, fishery, forestry or firms/ cooperative societies/self help groups undertaking agriculture related activities.

The borrower should be holder of computerized N.I.C in cases of individuals.

The borrower should not be a defaulter of any Bank/Financial Institution. This condition may be relaxed in cases where the bank is satisfied with the creditworthiness of the borrower and that the earlier default was circumstantial and not willful.

Applicant must produce proper securities / sureties / passbook or other collaterals acceptable to the banks.

If one brother was declared defaulter, do the banks provide loan to other brothers?

Every individual could be separately considered for grant of loans if he had credit worthiness and separate landed property.

For what purposes the banks provide Agricultural Credit?

Agricultural credit is provided by banks for complete value chain of activities such as production/crop loans i.e. in-puts (seed, fertilizer, & pesticides etc.), development loans (tractors & tube wells, agricultural machinery / equipments / implements etc.), corporate farming, marketing, cold storage (godowns) on farm & off farm, silos, processing of crops (other than major crops), fruits & vegetables, grading, polishing, packing, transportation and exports of agricultural goods etc.

Agricultural credit is also available for non-farm sector such as poultry, livestock, dairy farming, forestry and fisheries, apiculture, sericulture, floriculture, horticulture, etc.

There is no provision of financing for procurement of fruits/crops under the list of eligible items for agricultural credit such lending would be covered under commercial or SME financing.

What types of loans are provided to farmers/growers by banks?

Banks are providing three types of loans; short-term (upto 18 months), medium-term (1.5 years to 5 years) and long-term (5 – 7 years). While short-term loans are provided for working capital, medium and long-term loans are given for developmental requirements such as improvement and development of land, purchase of tractors and other agricultural machinery / equipments / implements related to farm and non-farm sector, etc.

Why the mark-up rate of Agricultural Credit is higher than the mark-up rate of Commercial/Industrial Credit?

In the post financial sector reforms era, banks' markup rates are not fixed for different sectors but are based on their cost structure and risk profile of the borrowers and the sector. Banks are required to use KIBOR as a bench mark for determining pricing of their loans.

Our farming community is generally unaware of different agricultural loan schemes/products. What efforts have been made by SBP for awareness of the farming community?

For awareness building of the farmers, SBP has published pamphlets, brochures/book-lets containing information about different agricultural credit schemes/products in Urdu and English as well as in all regional languages and these publications have been distributed to the stakeholders including farming community.

Besides, SBP has been arranging special outreach training programs since 2003 in different cities of Pakistan for the banks, Agriculturists, Nazims, Chambers of Agriculture and representatives of Farmers' Associations. SBP officials along with banks' representatives also undertake field visits across the country especially to make the farmers aware of loaning facilities available and various schemes & new products of banks.

Banks are vigorously going for car leasing business. Can't such facility be extended to farming / rural community by providing agricultural machines/equipments / implements including tractor on leasing, hiring, rental basis?

SBP has already allowed banks to extend leasing facilities to the farmers under the scheme for tube wells, tractors, harvesters etc. These machines/equipments / implements are also available to the farmers on hiring, leasing and rental basis through Leasing Companies.

Whether lease holders of orchards are eligible for agriculture loans from banks?

Yes, lease holders of Orchards are also eligible to avail loan under Agricultural Credit Scheme

Is there any limit for agriculture financing?

No, there is no limit on agricultural loans; however, the loan limit amount is assessed by the ACO/branch manager on the basis of financing appraisal or feasibility report, etc.

Do the bank branches functioning in remote areas have sufficient information about the schemes for agricultural financing?

Guidelines on different financing schemes and other instructions issued to banks are communicated to banks with the instructions to send the same to all concerned branches. In addition to this, SBP has published brochures about different loan schemes which were translated into Urdu and regional languages and distributed among stakeholders including ACOs/MCOs of rural branches of banks. Moreover, special outreach and training programs organized in collaboration with commercial banks create awareness among the

farming/rural community of agri-financing facilities they can access and also to enhance the capacity of commercial banks in agricultural & rural finance by providing training to local agricultural credit officers of the banks.

What areas are covered under the Agricultural Loans scheme?

The Agricultural Loans Scheme has been designed to cover the entire Pakistan including AJK with no restriction of territorial jurisdiction. Any farmer / grower can avail bank credit from any designated branch of banks throughout Pakistan as per his choice. Likewise banks are also free to provide credit to any farmer through out Pakistan subject to completion of required formalities.

What types of sureties / securities/collaterals are acceptable to the banks for providing agricultural credit to farmers/growers?

Agricultural land under the pass book system, urban/rural property, commercial property, Defense Saving Certificates, Special Saving Certificates, Gold & Silver Ornaments, personal surety, hypothecation of livestock and other assets e.g. motor boats / fishing trawlers, etc. are generally accepted by banks as collateral.

Is mark-up rate fixed by SBP on agricultural loans?

SBP does not fix any maximum/minimum mark-up rate to be charged on agricultural loans. Banks' mark-up is based on their cost structure and risk profile of the borrowers and the sector. However, for benchmarking, Karachi inter-bank Offered Rate (KIBOR) is used by banks for the purpose.

What is “Revolving Credit Scheme”?

Revolving Credit Scheme was introduced in 2003 in consultation with banks. Under the scheme, banks can provide finance for agricultural purposes on the basis of revolving limits for a period of three years with one-time documentation. The borrowers are required to clear the entire loan amount (including mark-up) once in a year at the date of their own choice.

Multiple withdrawals are allowed and the borrowers are also allowed to make partial repayments. Only the amount utilized by the borrower will attract mark-up. This facility can be availed by the farmers just like “running finance”. The limits under this scheme are automatically renewed on annual basis without any request or fresh application.

Is the credit facility under “Revolving Credit Scheme” available only on seasonal basis i.e. one crop only?

The credit limits under Revolving Credit Scheme are available to the farmers for full one year i.e. covering both the crops in a year. To save the farmers from stress sale of their

crops, they are required to clear their account only once in a year at a date indicated by the borrower and mutually agreed with lending bank.

Is there any system/procedure under which farmers can get agricultural loans at their doorsteps?

Mobile Credit Officers (MCOs) and Agricultural Credit Officers of banks are visiting the farmers regularly to ascertain the credit needs of the farmers and ensure its availability at their doorsteps and also provide technical help for different crops.

Whether landless farmers/tenants can avail agricultural credit under Revolving Credit Scheme?

Yes, agricultural credit under Revolving Credit Scheme can be availed against personal surety, guarantee or any other collateral acceptable to banks.

Are farmers who had availed any concession or remission under Government relief package announced from time to time, eligible for fresh loans?

Yes, borrowers who have availed concession under any scheme notified by the government or concerned bank/DFI in the light of guidelines issued by SBP may be eligible for fresh financing.