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1. Introduction

Poultry is an important sub- sector of agriculture. It has great potential and can play a significant role in the national economy by contributing towards food security of the country, reducing pressure on demand for mutton and beef and earning of foreign exchange. The poultry industry has contributed enormously to food production by playing a vital role in the domestic economy. Its contribution to meat production is 20 percent. It has proved to be a profitable business and is a good source of cheap, palatable and nutritious food protein. Poultry has around 1.1% share in national GDP, 4.8% in agriculture GDP, and around 1.5 million people are connected with this field, while investment in poultry trade is around Rs.125 billion. Modern poultry farming, being an easy and relatively cheap method of raising the dietary standards of people, therefore, plays an important role in meeting the nutrition needs for the population at large in Pakistan.

Poultry produce is being developed through commercial farming and rural poultry farming. The commercial poultry farming sector is a classic example of private sector enterprise with a phenomenal growth of 40 to 50 % per annum. The Government is providing incentives to poultry sector for growth of poultry industry, in the form of duty free import of poultry vaccines, feed additives and coccidiostats used in poultry feed, 12 laboratories which were established in the wake of Avian influenza in the poultry concentrated area and central laboratory at Islamabad. In addition to this, special poultry zones are being established and the Government has given incentives to Thai investment CP Group to set up breeder farms and feed mills in the country. The incentives have resulted in establishment of infrastructure comprising of 285 hatcheries with a capacity to produce 600 million, day old chicks per annum, 141 feed mills with a capacity of producing 4.7 million tons of compound food per annum and 19,154 poultry farms with the capacity of producing 100 million broilers.

Notwithstanding this huge infrastructure and vital role of poultry sector in our dietary plane, there is vast potential to invest in poultry industry as per capita consumption of poultry meat is increasing at the rate of 4% per annum. However, the disbursement of credit to this sector during 2006-07 was only Rs.12.9 billion or 7.6 % of total agri loan viz. Rs 169 billion disbursed during the year. One of the main reasons for low disbursements to poultry sector is lack of awareness/ familiarity of commercial of banks with the sector. Therefore, for capacity building of banks, major classification of the sector along with guidelines for financing poultry sector have been developed by SBP in consultation with banks, MINFAL, Pakistan Poultry Associations and other stakeholders. Banks can benefit from the guidelines to tap the sector that promises high returns to poultry farmers, banks and the economy as a whole.

2. Poultry Industry

The poultry industry can broadly be divided into the following sectors:

- Hatchery sector

- Poultry farming sector

- Feed sector

2.1. Hatchery Sector

Hatchery sector is the backbone of poultry farming as it provides day old chicks to the poultry farms. Hatchery is a place where eggs are placed in incubators for 21 days and day old chicks sold to the farming sector. Establishing a hatchery requires huge investment as compared to other sub-sectors of the poultry. It needs the purchase of quality imported incubators ranging between Rs.1.5 million to Rs.3.0 million. Although there are relatively cheap locally manufactured incubators available in the market, their efficiency is low. Small hatcheries can be established with 1-2 incubators, medium hatcheries comprise of 3-20 incubators, while large hatcheries consist of more than 20 incubators.

2.2. Poultry Farming Sector

Rearing of poultry birds / chicks for meat and eggs is classified as poultry farming. The investment required for establishing a poultry farm is quite low as compared to other sub-sectors of poultry. However, it is labour intensive and requires investment for working capital mainly for the purchase of feed, chick, vaccination, etc. Poultry farming can further be classified into following three categories:

2.2.1. Breeder farming

The eggs used in hatcheries to produce broiler and layer chicks come from the parent flock /grandparent of selected breeds and farming of such breeds for the production of eggs is called breeder farming. Breeder farms require relatively high level of investment for the import of parent flock/ grandparent of best breed and farmers need to have better technical skills and know- how as compared to other sub-sectors of poultry farming.

2.2.2. Layer Farming

Layer birds are raised for the purpose of eggs production. These birds produce eggs for normal consumption. One layer bird in a year produces 250-280 table eggs under an average management condition. For first 16 weeks the farmer needs to spend money on feed and maintenance and receives no return on his investment during this period. For next 10-12 weeks however, he recovers his total running expenses incurred on the flock. The farmer starts making profit after 6 months of successfully running the layer flock.

2.2.3. Broiler Farming

The most common form of poultry farming is broiler farming i.e. rearing of day old chicks for meat. It requires low level of investment as well as low technical know – how as compared to other sub-sectors of poultry farming. The usual process is to buy day old chicks, feed them for 6-8 weeks before their marketing / selling. A typical table meat bird weighs nearly 2- 2.5 kg and consumes feed about 4 kg. Therefore, the profit / loss in broiler farming can broadly be assessed by subtracting the cost incurred on purchase of day old chick and feed from the market price of broiler chick.

2.3. Feed Sector

Feed is one of the major expense items in poultry farming which constitutes about 60 to 70 percent of the total cost. In broiler and layer farming quality, of feed is very important. The birds need a balanced diet in right quantity for a disease free growth. In order to make balanced and disease free feed more than 100 ingredients are used. This feed is made in the feed mills. Feed mills require huge investment for development of infrastructure, machinery, raw material, labor and electricity etc. Bigger mills have a production capacity of 18 to 54 tons feed per hour, small mills produce 1 to 4 tons feed per hour.

3. The Guidelines for Financing

In view of the importance of poultry industry to the economy and to exploit its untapped potential, the guidelines have been developed to enhance flow of formal credit to the poultry sector. These guidelines are aimed at assisting and facilitating banks to penetrate in the poultry sector by rigorously financing poultry related activities. Banks may adopt the guidelines in the present form or with some adjustment to suit their organizational & operational needs and market characteristics, subject to compliance with SBP Prudential & other Regulations for agricultural financing.

The main objectives of Guidelines are:

- To facilitate banks in developing internal expertise & products for poultry financing.
- To encourage & facilitate financial sector to provide needed working capital and term finance to poultry sector.
- To encourage farmers to adopt modern and efficient poultry farming techniques.
- To encourage increased poultry meat/ poultry food production for local consumption.
- To promote export of poultry meat/ poultry food and its processed products.

4. Eligibility of the Borrower

Individuals and all types of legal entities engaged in poultry related activities or desirous to establish new broiler, breeder, hatcheries or layer farms having sufficient knowledge and relevant experience are eligible to draw loans under poultry farming. As per Prudential Regulations, agriculture financing shall not include loans to traders and intermediaries engaged in trading/ processing of agriculture commodities. Such lending would fall under Corporate/ Commercial Banking or SME financing. However, agricultural financing can be extended to entities (including corporate firms, partnerships, and individuals) engaged in farming activity as well as processing, packaging and marketing of mainly 75% of their own agriculture produce. Financing facilities may be extended provided the bank is satisfied with the capacity of the borrower /sponsor to manage and run the farm subject to the following conditions.

- Borrower should be a holder of computerized NIC while usual requirements for corporate clients would apply.
- Borrower should not be a defaulter of any bank / financial institution. This condition may be relaxed in case the bank is satisfied with creditworthiness of the borrower and that the earlier default was circumstantial and not willful.

- Bank is satisfied and comfortable with the farmer and guarantors (where ever applicable) identity, character, reputation and creditworthiness.

It is advisable that bank should have detailed understanding and information about the borrower, his capacity to effectively use and repay the loan from the projected cash flows, and / or any other possible income streams.

5. Types of Financing

Poultry farmers need financing facilities to meet daily expenses i.e. working capital requirement and long term investment for purchase of incubators, generators and feeding lines machinery, farms equipments and construction of sheds etc. The guidelines discuss both types of financing (i.e. working capital & term finance.) for hatcheries, breeders, layers, broilers farms, and feed mills.

5.1. Working Capital Financing

To meet day to day expenses of poultry farmers, banks can provide working capital finance on revolving basis to cover the following :-

- Purchase of feed, birds/ day old chicks, feed raw material.
- Vaccination, vitamin and other medication for poultry birds, saw dust, wood, coal, medicines, water filter cartages.
- Over head expenses i.e. labor, utility bills, Cost of fuel for generators & vehicles, transportation etc.
- Utensils for poultry bird feed etc.
- Low cost durables like utensils for water/ feed, chick guard, spray pumps, fumigants, weighing machines, tubs, water nipples, laying nets, PVC pipes & crates etc.
- Packing & Storage material for cold storage where applicable.
- Any other item required to meet day to day expenses for running poultry farm

5.2. Term Financing

The term finance facilities can be provided for the following purposes:

- Feed mill construction package.
- Feed mill equipment package.
- Feed mill storage solution.
- Farm construction for broiler, layer & breeder farm, hatchery construction
- Equipment for farm & hatchery
- Transport vans - eggs and poultry carrying van, distribution vehicles such as motorcycles, pickups etc.
- Silos (concrete & steel)
- Deep freezers.
- Control sheds automatic drinkers /tube feeders, generators, ventilators, table/ breeder eggs storage refrigeration plants.
- Slaughtering & de- feathering machine
- Any other item required for the establishment of poultry industry

6. Fixation of Loan Limits and Repayment Terms

The limit amount may be assessed by bank on the basis of financing request, appraisal or feasibility report. Banks should undertake due diligence and market survey to assess the prices of equipments, vehicles and all those goods which a bank can finance for poultry farmers. Detailed parameters recommended for poultry financing are given in the following tables:

6.1. Financing for Working Capital

Purpose	Indicative Financing / Loan	Mark-up repayment	Maximum period
Broiler/Hatcheries/Feed Mills/Processing & Feathering Units			
<ul style="list-style-type: none"> • Broiler, layer and breeder farm overheads including rent of the shed, purchase of day old chicks, feeds, labor wages, feed raw material, utility bills, vaccination, medication and health care etc. Low cost durables like utensils for water/ feed, chick guard, spray pumps, fumigants, weighing machines, tubs, water nipples, laying nets, PVC pipes & crates etc. • Cost of fuel for generators & vehicles, transportation etc. • Packing & Storage material for cold storage where applicable. • Cost of eggs. 	Maximum 90 days working capital needs	Quarterly/ Half yearly.	Limit to be extended for one year or Revolving credit facility for three years subject to mandatory clean up of entire liabilities (both Principal and mark up) three times in a year for broilers and once for breeder/ layer farm in a year. Salient features of Revolving Credit Scheme are: <ul style="list-style-type: none"> • Credit limit for three years • One time documentation • One time sanction/approval. • Cash/ chequing facility. • Multiple withdrawals and partial repayments allowed.
Breeder/ Layer Farm			
<ul style="list-style-type: none"> • Raw materials and other working capital requirements. • Any other item required for day to day expenses. 	Maximum 180 days working capital needs	Half yearly.	-do-
To finance against receivable deferred bills issued by reputed companies accepted to banks.	80% of deferred bills (in order to cover both principal and accrued mark up)	Mark up & Principal through realization of deferred bills	Each deferred bill's amount to be cleared within 90 days of financing or discounting.

6.2. Term Financing

Purpose	Indicative Financing / Loan	Installment Frequency	Maximum Period
Broiler/Layer/ Hatcheries/ Feed Mill/Processing & Feathering Units			
<ul style="list-style-type: none"> Electricity Generators (To be allowed for poultry farms having more than 5000 Birds & breeders having more than 1000 Birds) Refrigerators for table egg storage. (To be allowed for poultry farms having more than 1000 Birds) Cost of construction of cold storages and related machinery and fixtures for storages of poultry products. 	Maximum 80 % of purchase price/cost (average of at least 3 quotations , where applicable)	Half yearly	Up to 5 years including grace
<ul style="list-style-type: none"> Purchase of Pickups / Trucks for transportation of chicken, meat, eggs & raw material from farm to market.(To be allowed for poultry farms having more than 5000 Birds and for layer having more than 1000 Birds) 	Maximum 80 % of purchase price / cost (average of at least 3 quotations, where applicable)	Half yearly	Up to 5 years including grace period
<ul style="list-style-type: none"> Purchase of construction of permanent poultry farm structure including sheds, godowns, labour quarters and office blocks etc. Temperature control system, equipment, feeding lines and related machinery for the establishment of fully automated environmentally controlled sheds or up gradation of conventional farms. Purchase of hatchery machine (Incubators) and materials involved in construction of hatchery farm. Feed mill construction package. Feed mill equipment/ machinery package. Feed mill storage Solution. Any other item required for the establishment of poultry industry. 	Cost should be assessed by banks evaluator. Maximum 80% of actual cost (average of at least 3 quotations, where applicable)	Half yearly	Up to 5 years including grace period

7. Mark up

- Banks shall determine mark up as per instructions contained in BPD circular No. 1 dated 21st January, 2004.
- Banks shall not charge any penalty on early repayment or adjustment of loans by the borrower.

8. Security, collateral and insurance

8.1. Security, collateral

- Personal surety

- Hypothecation/mortgage of assets e.g. incubators, feed mill machinery, generator & refrigerators etc.
- Mortgage of rural, urban or commercial property and/or
- Pledge of SSC/DSC, lien on bank deposit, bank guarantee and/or;
- Pledge of gold and Gold jewellery and /or
- Individual/Group Guarantee (maximum per person exposure as mentioned in PRs for agriculture regarding personal guarantee).
- Any other tangible collateral security acceptable to bank.

Collaterals and Margin Requirement

Collateral	Margin Requirement
Charge/ Mortgage of agricultural land & rural , urban or commercial property	<ul style="list-style-type: none"> • 20% of value assessed at PIU value or average of last 3 year sale price in case of agricultural land. <p style="text-align: center;">Or</p> <ul style="list-style-type: none"> • 30% of force sales value assessed by the evaluator approved by the PBA.
Pledge/ Lien of SSC /DSC , etc Lien on bank deposits	<ul style="list-style-type: none"> • 0 % of current redemption value, covering principal and 6 months mark up.
Pledge of gold and gold ornaments.	<ul style="list-style-type: none"> • 25% of valuation by the bank's approved gold smith. (Mark to market annually)
Individual /Group /NGOs guarantee	<ul style="list-style-type: none"> • Should provide coverage to principal along with one year mark –up. • Maximum exposure shall be in accordance with the Prudential Regulations for Agriculture Financing.
Pledge of Raw Materials/ Finished goods etc	<ul style="list-style-type: none"> • 20% on value assessed at cost price.
Hypothecation of stocks of raw materials, feed, medicines and other moveable assets etc.	<ul style="list-style-type: none"> • 20% of the cost
Any other security acceptable to banks.	<ul style="list-style-type: none"> • As per bank's policy/ scheme

*Market value of land would be assessed by the PBA approved evaluators and accompanied by ACO/ branch manager by visiting the site and collecting necessary information about the land.

8.2. Insurance

The hypothecated poultry stock and equipments should be comprehensively insured from reputed insurance company or group of companies. There should be a special condition in the insurance policy which should cover the risk of disease “avian influenza”. It is advisable that banks

should sensitize and educate their borrowers about the crucial importance of having an insurance cover and should make insurance an integral part of their respective poultry financing products.

9. Documentations

Following documents or formalities must be completed:-

- Bank account in the name of intending borrower before applying for the finance facility.
- Standard Application form (SBP format) in Urdu along with borrower and his/ her father / husband name in English (for feeding in computer with correct spelling) duly completed, should be obtained. Signatures /thumb impression of the applicant, guarantor and witnesses (where required) and verified by the branch manager.
- In case of poultry farming on agriculture land, a certified copy of Khasra Girdawari/ copy of field book/ Form VIII A Fard Jamabandi or Form VII and VII A (for land owners of Sind Province) should obtain and where sheds are on lease, lease agreement of poultry sheds should be obtain.
- Technical Feasibility and financial viability reports as per requirements of the banks.
- Bank charge may be created on the agriculture land through passbook system with the revenue Authorities and a charge creation certified Schedule –II is obtained wherever applicable.
- Registered or equitable mortgage of rural/urban property or earmarking of Banks deposits or pledge of FSC/SSC/Regular income certificates/other financial instruments or pledge of gold, silver and gold and silver ornaments wherever applicable.
- In case of financing against vehicles, plant & machinery etc. joint registration/ hypothecation/ charge on assets.
- Letter of agreement-cum-guarantee (IB-7) from the borrower.
- Appraisal report in the applicant and credit report of the guarantors must be prepared by the bank before finance is sanctioned.
- SBP credit information report should be obtained.
- In case of indirect financing to poultry farmers, continuing guarantee and charge on fixed /current assets of the meat processing units and deferred payment bills of confectionaries, hotels, motels and restaurants should obtain. All these indirect financiers will provide a list of their bonafide poultry farmers or farms along with their computerized NIC numbers and addresses. Finance would be disbursed in the account of indirect financiers for onward disbursement to their bonafide poultry farmers or farms. The indirect financiers will be responsible for repayment of loan as per terms and conditions agreed between the bank and the indirect financier.

Completion of documentation shall be the responsibility of ACOs or branch /regional managers.

9.1. Special Precaution

Banks should ensure that a verifiable system is in place on the following precautionary measures to be carried out by the borrower/ farmer: -

- Fortnightly inspection should be done in case of broiler farms and monthly inspection for the layer and breeder farms by an independent veterinary doctor recognized by H.E.C. (or

banks trained officer) and inspection report submitted to the bank. Necessary action should immediately be taken if required in the light of inspection report.

- Bio-security of the poultry farm.
- Before the induction of each new flock, farm conditions should be verified.
- Adequate cleaning and disinfection program is in place.
- Vaccination against contagious diseases.
- Periodic diagnosis and care of birds.
- Removal of microbial load on trucks and equipment by washing and disinfecting at critical times.
- Appropriate handling of waste and dead birds to minimize the transfer of disease.

10. Loan Monitoring System

Effective loan monitoring and tracking system are critically important for ensuring quality of the loan portfolios. Banks must develop sound and reliable loan monitoring and tracking system for desirable growth of credit in the poultry sector.

11. Recovery of Loans

First recourse for the bank to recover its loans is the borrower and business's cash flows. An effective monitoring system, follow-up and frequent interactions with the borrowers are critical for ensuring recovery of loans. The traditional correspondence and letter/notice based recovery mechanism will not be successful in loans. However, in case of delinquent borrowers, the following recovery process may be initiated:

- Persuading borrowers / guarantors through personal contacts.
- Issuance of legal notices.
- Persuasion of Recovery in accordance with Recovery and Finance Ordinance 2001.
- Filing recovery suits in Banking Tribunals/High Courts.
- Any other legal remedies available to the bank.

12. Compliance with Prudential Regulations

Bank shall ensure that financing to poultry sector is being made in compliance with the SBP Prudential Regulations for agriculture financing, including classification of non-performing loans.
