

AGRICULTURAL LOANS SCHEME

State Bank of Pakistan takes keen interest in providing credit facilities for agriculture, both through the development of credit institutions as well as through providing credit lines to the development banks and incentives to Commercial Banks. It is laid down in Section-8 (3) of the State Bank of Pakistan Act, 1956 that the State Bank shall create a special Agricultural Credit Department with the following functions: -

1. To maintain an expert staff to study all questions of agricultural credit and be available for consultation by the Federal Government, Provincial Governments, Provincial Cooperative Banks and other banking organizations.
2. To co-ordinate the operations of the Bank in connection with agricultural credit and its relations with the Provincial Cooperative Banks and any other organizations engaged in the business of agricultural credit.

Prior to 1972, Commercial bank's lending to agriculture was nominal. Bulk of credit to this sector was being provided by the Agricultural Development Bank of Pakistan (now ZTBL). With the introduction of Banking Reforms in 1972, several institutional and policy changes were made with the objective of more equitable distribution of bank credit among various sectors and groups. Agriculture sector was also a beneficiary of these policy reforms.

In exercise of the powers vested in the State Bank of Pakistan, under Section 25 of Banking Companies Ordinance 1962, effective from 1st December 1972 an Agricultural Loans Scheme was introduced. In the absence of adequately developed specialized institutions for this sector, commercial banks, with their large network of branches, were inducted in mandatory agricultural financing under this Scheme.

Agricultural Credit Advisory Committee (ACAC) in one of its meetings observed that the agricultural credit disbursed by Nationalized Commercial Banks was being diverted to non-agricultural purpose and the position of recovery of these loans was not satisfactory. The Committee also felt that the solution of the problem lay in expansion of supervised credit scheme. It was decided that NCBs should, in future, disburse agricultural loans under a Model Scheme, which would be developed by Pakistan Banking Council. The Pakistan Banking Council, in consultation with NCBs and some agricultural credit experts, prepared a draft model scheme for agricultural credit. The draft scheme was considered by ACAC in its meeting held on 2nd July, 1986. ACAC set up a sub-committee to examine the Scheme, which examined the draft Scheme and submitted its report on 6th August 1986. The State Bank of Pakistan has since approved the Scheme and advised the Pakistan Banking Council to allocate territorial jurisdictions to Nationalized Commercial Banks for implementing the Scheme. The allocation of territorial jurisdiction among the Nationalized Commercial Banks was made on tehsil-wise basis in consultation with banks. Due to lack of trained and qualified staff the Scheme was implemented under a phased program and it was planned to cover all tehsils under the scheme by the 31st December 1990. In the first phase, w.e.f 1st October, 1987 it was introduced in 107 tehsils- 30 tehsils each in Punjab and NWFP, 37 in Sindh and 10 in Baluchistan. The second phase of the scheme was started in February, 1989 and 223 more tehsils were included in the Scheme. The Supervised Agricultural Credit Scheme was revamped significantly in April 2001 on the initiatives of commercial banks under the leadership of Muslim Commercial Bank Limited. It was decided to withdraw the restrictions on commercial banks for making disbursements only within their respective territorial jurisdictions, i.e., Union Councils/Town Committees allocated to them. On 2nd August, 2001, under Section-25 of Banking Companies Ordinance 1962, fourteen new

Domestic Private Banks were inducted in the Agricultural Loans Scheme and indicative targets were allocated to them for the year 2001-02.

Agricultural Credit Estimates

The targets of agricultural loans were set by the National Credit Consultative Council (NCCC) and were based on the recommendations of the Agricultural Credit Advisory Committee (ACAC). ACAC was set up in 1972 to assess credit requirements of the agriculture sector in order to assist the NCCC in the preparation of the Annual Credit Plan and to consider the ways and means for improving the disbursal and recovery of agricultural credit together with suggesting measures for the strengthening of institutional framework of agricultural credit.

The ACAC, with the assistance of Committee of Experts appointed by it, evolved a methodology for the preparation of estimates of agricultural credit requirements. First devised in 1973-74, the methodology was subsequently revised in 1978-79, 1983-84, 1989 and lately in 2001. Cash requirements for production loans were estimated on the basis of total acreage of land under various crops and the cost of inputs for each crop in each province, and the estimated personal savings of various categories of farmers in terms of size of holdings. On the basis of recommendations, made by committee of experts in its revised methodology report 2001, the ACAC approved that the effective demand for bank credit as percentage of total cash requirements for seeds, fertilizers and pesticides would be 95%, 60% and 40% for small, medium and large farms respectively as against the 90%, 60% and 40% for small, medium and large farms respectively given in the earlier report of 1989. These calculations took into account the saving capacity of various categories of farmers, lending capacity of credit agencies and other relevant factors. In these calculations, it was assumed that all the farmers do not need credit to their full entitlements. This would make it possible for credit agencies to meet genuine credit needs of each farmer in full. This report would be useful to Provincial Governments for calculating their cash and credit requirements for farm and non-farm sector. It also provides useful information to banks to identify and meet genuine credit needs of farmers. Finally, farmers can benefit from information regarding the items eligible for the agricultural credit.

The salient features of the Agricultural Loans Scheme and amendments made from time to time were conveyed to banks through ACD's Circulars, issued from 1972 till date. However, to facilitate the banks/ stakeholders, the latest status of the Agricultural Loans Scheme in a comprehensive form is given as under:

Loan Categories

In order to protect the interest of the small farmers, the Agricultural Loans Scheme, under Section 6(A) – Grant of loans to be in specified ratio (Government of Pakistan, Finance Division No. SRO-859(1)/73 dated the 16th June, 1973 read with Section 5 of Act No. XLII of 1973) and Loans for Agricultural Purposes Rules, 1973, guarantees that agricultural loans granted by banks to farmers shall be diversified to achieve the following ratios: -

- | | |
|---|-----|
| i) Land owners having land not exceeding subsistence holding..... | 70% |
| ii) Land owners having land, exceeding subsistence holding, but not exceeding economic holding..... | 20% |
| iii) Land owners having land exceeding economic holding..... | 10% |

Eligibility

Finance can be provided to all categories of farmers (owner, owner-cum- tenant and tenant). The commercial banks will not reject any application for agricultural loan except for the following valid reasons that must be recorded in writing:

- ?? The applicant is not a genuine farmer.
- ?? The applicant's name does not appear in the Revenue records.
- ?? The applicant is a defaulter of the banking system.
- ?? The applicant is unable to produce proper securities/sureties/passbook.
- ?? Credit proposal in excess of entitlement.

Small Loans for Agriculture

The Agricultural Loans Scheme was introduced with effect from December 1st, 1972. The definition of small loan for agriculture, amended from time to time is as under:

- i) Bank loans and advances etc. given to farmers with holding upto 25 acres for meeting their agricultural production requirements for the purpose of Mandatory Credit Targets (23-03-1978).
- ii) All loans to farmers who were exempted from payment of land revenue (farmers with land holding of upto 25 acres of irrigated land and 50 acres of un-irrigated land) were treated as small loan for agriculture (26-09-1978).
- iii) Bank loans and advances given by the banks to farmers holding land upto 12.50 acres for meeting their agricultural production requirements were treated as small loans for the purpose of Mandatory Credit Targets (20-08-1979).
- iv) Loans and advances including bills purchased and discounted whether clean or secured, given by the banks to the farmers holding land not exceeding the "subsistence holding" as defined for various Provinces by law for meeting their agricultural production requirements, were treated as small loans for the purpose of Mandatory Credit Targets (09-02-1980).

(The data for small loans is collected from the Banks through statement 'S' as per Annexure-I).

Size of Land Holding

Details of size of land holdings for various categories of farms in different provinces are given as under: -

Name of Province	Subsistence Holding	Economic Holding	Above Economic Holding
Punjab	Up to 12.5 Acres	Above 12.5 Acres to 50 Acres	Above 50 Acres
NWFP	Up to 12.5 Acres	Above 12.5 Acres to 50 Acres	Above 50 Acres
Sindh	Up to 16 Acres	Above 16 Acres to 64 Acres	Above 64 Acres
Baluchistan	Up to 32 Acres	Above 32 Acres to 64 Acres	Above 64 Acres

Areas to be covered.

The Agricultural Loans Scheme has been designed to cover entire Pakistan with no restriction of territorial jurisdiction.

Surety / Security Required For Agricultural Loans

1. Surety

The limit of Agricultural Loans against two credit worthy sureties acceptable to the bank in lieu of mortgage of land is Rs.100,000/= per farmer per year. However, total guarantee of one guarantor should not in any case exceed Rs.500,000/= excepting a Processing Unit.

2. Security

Agricultural credit can be availed against security of agricultural land by creating charge under the passbook system. Bank can accept agricultural land as security on the basis of the realizable value /forced sale value, instead of accepting only agricultural land as security on the basis of market value or PIU. The value of per PIU has been fixed at Rs. 400/-by the Government of Pakistan, Finance Division (Internal Finance Wing), under Notification No. F.3 (6) IF/89 dated the 17th December, 1999.

Loan Payment in Cash/ Kind

Banks are allowed to provide agricultural loans in cash or in kind at the choice of borrowers to make them able to purchase inputs at the Bargain Price from the market.

Multiple/Revolving Limit of Agricultural Loans

Bank can provide running finance for agricultural purposes on the basis of multiple/revolving limits for period of three years in addition to demand finance (single disbursement) under the Supervised Agricultural Credit Scheme. Banks are now allowed to renew the limits automatically not only on 100% adjustment of the previous loans but also in case of partial adjustments if these are regular advances. Banks will not ask for any fresh document at the time of each renewal.

Lending Rate

Since July 28th 1997, State Bank of Pakistan has removed cap on the minimum lending rates to be charged by the Commercial Banks on agricultural financing. The cap on maximum lending rates was removed in October 1995. Banks are now free to charge the mark-up from the borrowers, on the competitive basis determined under market forces. State Bank of Pakistan is providing credit lines only to ZTBL and PPCB on the prevailing Government T. Bill rates in the market. However, as the mark-up rates in the market have been reduced significantly, accordingly banks have also reduced their mark-up rates in line with market forces and the benefit of such reduced mark up rates is being passed on to the borrowers. Commercial banks have to disburse their Mandatory Credit Targets allocated to them from their own sources / deposits.

Normal Sowing And Harvesting Times of Important Crops in Different Provinces.

The normal times of sowing and harvesting of various crops in different provinces

as conveyed by Ministry of Food, Agricultural and Livestock are given as under:-

Name of Crop	Normal Time of Sowing				Normal Time of Harvesting			
	Punjab	Sindh	NWFP	Baluchistan	Punjab	Sindh	NWFP	Baluchistan
Wheat	Oct/Nov.	Sept/Nov.	Oct/Nov.	Sept/Nov.	May/June.	April/June	May/June	April/June.
Cotton	May/June.	April/June	April/May.	-	Oct/Dec.	Sep/Dec	Oct/Dec.	-
Rice	June/July.	June/July.	June.	June/July.	Oct/Nov.	Sep/Nov.	October.	October.
Sugar-Cane	Feb/Mar.	Feb/Mar & Sep/Oct.	March & Sep/Oct.	Feb/March	Nov/Mar.	Oct./April.	Nov/March.	Nov.
Tobacco	Jan/March	Sept.	Nov./Dec.& March	May.	June.	Oct/Nov.	May/June & Sep/Oct.	Oct/Dec.

Indicative Per Acre Credit Limit For Major Agricultural Crops

The indicative per acre credit limit for major agricultural crops is given as under:-

- | | | |
|-----|-------------|--------------------------|
| (1) | Sugarcane | Rs. 8,000/- |
| (2) | Paddy | Rs. 4,500/- |
| (3) | Wheat | Rs.4, 000/- [?] |
| (4) | Cotton | Rs.6, 000/- |
| (5) | Potato | Rs.11, 000/- |
| (6) | Tobacco | Rs.9, 000/- |
| (7) | Other Crops | As per actual cost. |

[?] *The indicative per acre credit limit for “Wheat” to be enhanced up to Rs.5, 000/-if threshers are borrowed/rented in by the farmers for the crop. Moreover these limits are only indicative limits for the purpose of guidance of the banks. However, banks may provide finance over and above/lesser limits to the borrowers depending upon actual assessments at the time of lendings.*

Mandatory Credit Targets

1) SBP’s power of fixing targets and penal deposits

State Bank of Pakistan is authorized to determine the policy in relation to advances to be followed by the banks in general or by any bank in particular. In accordance with the above powers, the SBP has been prescribing mandatory credit targets for NCBS/ABL/MCB/UBL on yearly/ half- yearly basis since 1972.

The targets allocated to commercial banks are advised on six monthly basis with the ratio of 40:60 i.e. 40% for the first half and 60% for the second half. Under Section 25(4) of Banking Company Ordinance, SBP is authorized to penalize the banks asking them for keeping special deposits with SBP for such an amount and on such terms and conditions as may be laid down by SBP in this behalf. Thus any short fall in meeting such targets had to be deposited with SBP with interest free account. However net penal deposits remaining with SBP for six months will be refunded to the banks even if the short fall in Mandatory Credit Targets remains un-met. (The data for monitoring of the

targets is collected from the banks as per statement 'T'-Annexure-II and another statement -Annexure-III).

**2) Distribution of Mandatory Credit Targets
into Production and Development Loans.**

Banks are now free to extend development loans to farmers other than small farmers up to 50% of their targets (Main Agriculture) subject to the condition that they shall ensure to make financing of the remaining 50% of their mandatory credit targets to small farmers for production/crop loan. The data in respect of Disbursement & Recovery on half yearly/yearly basis through 'X & 'Y' statements, monthly and cumulative position of Disbursement & Recovery through statements 'D' and 'R' for monitoring the disbursement & recovery position holding-wise, purpose-wise and province-wise as per Annexure- IV-VII.

**3) Agricultural Credit Facilities Covered
under Mandatory Credit Targets.**

1. Leasing financing facilities to the farmers under the scheme for tube wells, tractors, harvesters, etc.with the banks for availing agricultural credit if these are free from all encumbrances.
2. Equity participation by banks in corporate agricultural farm units.
3. Financing by the banks for export of agricultural products by farmers/marketing companies to be a part of agricultural financing on items like raw cotton, cotton yarn, mutton and beef, wool and animal hair, fish other than frozen and preserved, foodstuff for animals, all grains, fertilizer crude, oil seeds, nuts and kernels, live animals, etc., without refinance from SBP on subsidized basis.
4. Non-fund based facilities extended by banks for Corporate Farming.
5. The credit that is disbursed by banks for processing of crops other than major crops (viz. Wheat flour mills, Cotton ginning factories, Sugar mills, Rice husking mills etc.) and polishing and grading of fruits.
6. The commercial bank's lending to micro credit institutions, recognized NGO and Rural Support Organization.
7. The commercial bank's financing to ZTBL for onward lending to farmers. This also includes inter bank lendings (participating banks) for onward financing for agricultural purposes as defined in the Scheme.
8. Agriculture loans by banks for export of fruits, vegetables, poultry, livestock, dairy farming and tobacco marketing.
9. The commercial bank's lending to farmers through discounting of deferred payment vouchers of Tobacco, Sugarcane, and processing units.
10. The financing made by banks against mortgage of any property rural or urban, earmarking of deposit, lien on Defense Saving Certificate (DCS), Special Saving Certificate, Gold and Silver Ornaments, if such credit is obtained by the farmers for agricultural production only.

11. There is no restriction on the banks to provide agricultural loans to the farmers having/below subsistence holding i-e Punjab & NWFP (upto 12.5 acres), Sindh (upto 16 acres) and Balochistan (upto 32 acres) for purchase of new/old tractors subject to completion of required formalities. (The data for tractor financing is collected from banks as per Statement-TGLQ (Annexure-VIII).
12. The credit provided by banks to farmers/growers/other private sectors for construction of cold storages/godowns/silos and other structures for storage of agricultural produce at a debt equity ratio of 60:40 at normal lending rate. The data for this item is collected from banks as per Statement-TGLQ (Annexure-VIII) on monthly basis.
13. The financing made by banks to leasing companies for providing agricultural equipments/machines on leasing/rental/hiring basis to the growers / farmers. The data for this item is collected from banks as per Statement-TGLQ (Annexure-VIII) on monthly basis.
14. The credit provided by banks for processing of high quality seeds to Seed Processing Units. The data for this item is collected from banks as per Statement-TGLQ (Annexure-VIII) on monthly basis.
15. The financing provided by banks for preparation and installation of steel / metal capsules for storage of all agricultural produce.

4) Eligible Items for Agricultural Credit.

The list of the eligible items for agricultural credit under Agricultural Loans Scheme is attached as Annexure-IX.

GUARANTEE

Bonafide losses incurred by the banks due to non recovery of an agricultural loans made under the scheme, as proved to the satisfaction of SBP, would be guaranteed up to 50% in terms of Section 17 D (2) of the State Bank of Pakistan Act, as amended by the State Bank of Pakistan (amendment) act, 1972. These loans would be qualified for bonafied losses subject to fulfillment of the following conditions:

- I. Loans have been given strictly in accordance with the provision of the scheme.
- II. All formalities required prior to the sanction and disbursement have been meticulously observed; and
- III. All efforts for recovery of loans including legal remedies available to the banks have been exhausted.

(Presently this facility is provided only to big five commercial banks to which Agricultural Credit Targets are given on mandatory basis rather than voluntary basis.)

Other provisions of the Agricultural Loans Scheme shall remain + unchanged.

List of Annexures

- I-IX. Details of incoming statements (province/area-wise) required from banks for monitoring purposes and List of Eligible Items.

Details of Annexures

(Details of incomings statements (province/area-wise) required from banks for monitoring purposes and List of Eligible Items)

- I. Statement 'S'-monthly statement of agricultural loans qualifying for State Bank Guarantee at the end ofmonth/year.
- II. Statement 'T'-monthly statement regarding credit targets on the last working day ofmonth/year.
- III. Disbursement of agricultural credit by commercial banks for the month of month/year.
- IV. Statement 'X'-Agricultural Loans disbursed on half yearly (July-December) and yearly (July-June) basis..... month/year.
- V. Statement 'Y'- showing the position of recovery of agricultural loans during the period on half yearly (July-December) and yearly (July-June) basis..... month/year.
- VI. Statement 'D'- showing the position of disbursement of agricultural production and development loans for the month of(month & year).
- VII. Statement 'R'- showing monthly & commulative position of recovery of agricultural loans for the month commulative period, i.e., from July to year.....
- VIII. Statement-TGLQ showing province-wise data of financing for purchase of tractors, construction of wheat storage (silos and other wheat storage areas), finance provided to the Leasing Companies by the Banks for the purpose of providing agricultural equipments/machines on leasing/rental/hiring basis to the farmers and finance provided to the farmers/borrowers for purchase of high quality seed processing units during the month of(month & year).
- IX. List of Eligible Items for Agricultural Credit.